

# **LOAN DISBURSEMENT AND RECOVERY SYSTEM OF LUMBINI BANK LIMITED**

## **A THESIS**

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# RECOMMENDATION

This is to certify that the thesis

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Entitled

**Loan Disbursement and Recovery System**

**Lumbini Bank Limited**

Had proved approved by this Department in the prescribed format of the Faculty of Management.

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# VIVA-VOCE SHEET

We have conducted the viva-voice examination of the thesis

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**Loan Disbursement and recovery System**

**Of**

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the

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## **DECLARATION**

I hereby declare that this is entitled "**Loan Disbursement and Recovery System of Lumbini Bank Limited**" submitted to Nepal Commerce Campus, New Baneshwor, Kathmandu, Nepal / Faculty of Management, Tribhuvan University is my original work. This work has been carried out for the partial fulfillment of the requirement for the Master Degree in Business Studies (M.B.S) under the supervision of Dr. Sushil Bhakta Mathema and Madan Kandel of Nepal commerce campus.

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More over it is needless to say that to error is human and I am also no exception so I apologies for any errors and mistakes committed in this thesis work.

**Pabitra Timalina**

Kathmandu

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## **ABBREVIATIONS**

ABBS	Any branch Banking System
A.D	Anno Domini
B.C	Before Christ
B.S	Bikram Sambat
BOK	Bank of Kathmandu
C.V	Coefficient of Variation
C.B.S	Central Bureau of Statistics
C.D	Credit deposit
C.R.R	Capital Reserve Ratio
E.B.L	Everest Bank Limited
FNNCI	Federation of Nepal Chamber of Commerce
FY	Fiscal year
L & A	Loan and Assets
LLP	Loan Loss Provision
LTD	Limited
NABIL	Nepal Arab Bank Limited
NBB	Nepal Bangladesh Bank
NBL	Nabil Bank Limited
NEPSE	Nepal Stock Exchange
NGOs	Non Government Organization
NIBL	Nepal Investment Bank Limited
NPL	Non Performing Loan
NP	Net Profit
NRB	Nepal Rastra Bank
NSBL	Nepal SBI Bank Limited
PNB	Punjab National Bank
RBB	Rastriya Banijya Bank
S.D	Standard Deviation
TP	Total Provision
T.U	Tribhuvan University
TSA	Technical Service Agreement
WTO	World Trade Organization
VOL	Volume

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the study

Generally an institute established by law which deals with money and credit is called a bank. A bank simply carries out the work of exchanging money, providing loan, accepting deposit and transferring the money, when a bank performs multiple tasks the efficiency and effectiveness of work becomes weak. Hence, different banks are established for different purposes.

The development of all countries depends really on its economy strong economy plays vital role to lead the nation towards its development. To be the strong national economy there should be banking and financial transaction into that country. Moreover in developing country like Nepal there should be more financial institutions to make economy powerful.

In the beginning of 20<sup>th</sup> century financial management is also operating its transaction with the help of bank. Today financial institution are also playing vital role to develop the industry encourages people for saving and its main function is to provide loan on investment.

The main objectives of the bank are collecting of amount from public in a form of saving and providing short term loan for the development of industry trade and business to the ones in need.

The banks draws surplus money for the public who cannot use the money at the time and lends to the who give attend you use for productive purses. Bank lends the loan to the customers gain interest amount the bank draw the money from institutions or individual or people pay the interest amount by certain interest rate. Banking institutions collect scattered financial resources from the mass and interest them among those who are associated with the economic commercial and social activities of the country.

"The important of the banking as the nerve center of economic development cannot be over emphasized and it is said that bank which are the need of and great wealth of country have get to be kept very scared. Just as water for irrigating good banks are for the country's industry and trade." (Desai, 1967, 120)

Bank is resource for economic development that maintains economic confidence of various segments and expands credit to people. Bank means "A financial establishment for the deposit loan exchange or issue of money and for the transaction of funds." (Bhandari, 2002, 201)

"Bank assists both the flow of goods and services from the producers to the consumers and the financial activities of government. Banking provides the country with monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption & production in the economy. "(Bhandari, 2001, 211)

G. Crowther defines, " A bank is an institute which collects money from those who have it spare or who are saving it out of their income and lends this out to those who require it."

In summary, banking sector plays a vital role for the country's economic development so bank is a resource and invests such accumulated resources in the field of agriculture, trade commerce industry, tourism etc. Broadly, we can say banks draw surplus money from the people who are not using it at present and are hoarding for future and supplies loans to those are in position to use it for productive purpose. The profit maximization is the main objective of the commercial bank. Bank collects savings from customer and grants the commercial loans to the traders for production, transport and storage of commodities.

### **1.1.1 Limited Introduction of Lumbini Bank**

Lumbini bank limited is the first regional commercial bank in Nepal, Started its operation in 17<sup>th</sup> July 1998 at Narayangadh, Chitwan with Rs, 1300 thousands paid up capital. LBL is offering a wide range of banking solutions and services meticulously customized to the needs of the customers. LBL has passed 14 years of running period successfully 15 branches from where various financial services are providing for customers. LBL corporate slogan is "A trusted financial partner"

Bank is highly committed to assure of the standard and excellence in the services it offers towards obtaining new challenges and opportunities. Backed by state of the art technology and experienced professionals adopt in modern banking management to make banking simple fast and customer friendly.

#### **Focus**

- Sustainability and corporate social responsibility.
- To be a role model institute in responsible banking.
- Inscribed with stringent corporate Governance measures, whereby transparency, disclosure, institution norms and accountability have paramount importance in order to safeguard the trust and wealth of each and every stakeholders and customers.

- To adopt e-commerce strongly and developed the necessary internet banking modules.

## **Objectives**

- To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas.
- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost.
- To build and maintain a team of motivated and committed workforce with high work ethos.
- To provide excellent professional services & improve as a leader in the field of financial related services. To contribute to the overall social development of Nepal.

## **Principle**

1. "Services within 10 minutes"
2. "May I Help you"
3. "Quality on Everything we do and all the time"

## **Problems and Challenges**

### **1. Internal**

- To maintain the profit upon loan and investment as per the increment of interest rate upon the deposit.
- Human resources management
- Gradual growth of operational expenses

### **2. External**

- Narrowing down of opportunity and scope for investment
- Political instability
- Unhealthy competitions

## **Strategies**

- To adjust the interest rate as per the market condition.
- Employing skilled and efficient staffs with due emphasis on human resources management.
- To minimize unnecessary expenses through good operative system
- To focus upon the quality of loan and investment rather than quantity.
- To explore new scope for investment.

- Updating and improving the internal mechanism to cope with management drawbacks and vulnerability.
- Institutionalization of internal good governance.
- To enhance the quality of service and productivity.

## **1.2 Focus of the study**

Loan investment is the most critical factor in determining the strength of the risk assets and credit administration system. Bank loans contribute a lot to the growth of new business which ultimately improves country is a great value. Effective management of loan disbursement is essential for each and every bank.

Lumbini Bank Limited is one of the large commercial bank of Nepal. The study becomes very vague if its whole matter are analyzed so the focus is on loan disbursement recovery and outstanding. Each and every topic are fully tried to explain. But due to the native of data and lack of updated and necessary one only limited are presented differently. Loan investment refers supporting certain project with financial need. It is very essential for development for granting additional loan and for smooth running of business and motion. Loan that is committed to pay back is known as outstanding. This ratio is always supposed to be small. Whole study will be related with these topics.

## **1.3 Statement of the problem**

Commercial Bank is generating different new schemes for loans, which considered are the quality of loan portfolio mix of risk assets and credit administrations system. They are maintaining lower loan loss provision, which indicates good credit management. But performance on the credit is poor in the government banks and poor loan categorized diversification and risk analysis. Due to that amount of nonperforming assets is increasing

The major problem that banking sector is facing today has been due to high percentage of nonperforming loans, the major cause for which is non compliance of corporate government have come into light. Although this sector is comporting more professional and transparent than other sector, still there are some major problems, which need to overcome.

This study will try to analyze and examine the problems related to loan disbursement and recovery procedure of LBL. The problems of the study are as follows:

- What relationship exists between loan granting and repayment of LBL?
- What are the processes and criteria for granting loan in LBL?
- What are the taken to improve the lending and recovery procedure of loan disbursement?

#### **1.4 Objectives of the study**

The general objectives of these researches to analyze examine and interpret the loan disbursement and recovery practices and policies adopted by LBL. Before providing loan a bank always should evaluate the external condition or environment of industry business shown by the loan proponent, whether the business shown by the proponent is usable in the market or not, the proposal of loan proponent should not be approved though the requirements are fulfilled. To know the process of loan disbursement and recovery system of LBL and find out the problems is the main objectives of this study. This study is done with the objective of having practical knowledge to the theoretical knowledge studied in the books and to fulfill the requirements for the degree of master of Business studies.

The objectives of the study are as follows:

- To study and examine present loan disbursement process of the bank.
- To identify condition of loan disbursement and recovery system.
- To analysis the total loan investment recovery and outstanding of the bank.
- To regret and evaluate total performing and non performing loan of LBL.

At last the researcher should give some suggestions to the bank on the basis of findings of study.

#### **1.5 Significance of the study**

It is well known fact that development of any country depends upon its economic development. For economic development banking is taken as strong means. Banking development is a must for the development of a nation. Our country Nepal is known as developing countries. To make our country developed there should be more and more banking activities. Such as collecting surplus from rich

people invest that in business & productive areas and create the situation of employment for the people who are seeking for the job. Bank should disburse loan in those fields from where multi gain can achieve interest on time recovery on time due to loan many people should engage and can earn money to survive the daily life as well as to improve their living standard.

In the present context the study has large use it can be advisable for the related financial institution in loan and recovery system. Commercial banks provide short terms loan for one year period and long term loans for financing fixed assets for maximum of seven years with repayment on installment basis. This study may be useful to specific purpose. Similarly it will help to researcher's policy maker's institution and government agencies may be benefits from such a study.

## **1.6 Limitations of the study**

In the context of Nepal, problem of reliable data is the major problem for research study. There is considerable place for arguing about its accuracy and reliability. Every study has limitations due to different factors of institutions time period taken reliability of statistical of LBL with reference to loan disbursement and recovery procedure. The following points are determined as the limitations for the study.

- The study has done according to the information provided by the banks and not with the help of experience gained on actual working environment.
- All the information gathered through primary as well as secondary has assumed to be true and correct the accuracy of result and conclusion highly depends upon the reliability of these data.
- The focus has analyzed the data and information for 5 years. A consolidated trend for 5 years is not sufficient for the work and accurate projection.

## **1.7 Organization of the Study**

The study has been organized into five chapters each devoted to some aspects of the study of loan disbursement and recovery system.

The chapters are as follows:

### **Chapter One - Introduction**

It consist introduction part of the whole study. It has been sub divided into eight heads, background of the study focus of the study statement of the problem. Test of hypothesis objectives of the study significance of the study, limitations of the stuy and organization of the study.

### **Chapter Two - Review of Literature**

It has been sub divided into theoretical review and research review. It considers fundament concept and components of lending and collecting procedures of the bank and some work analysis and discussion already made in the field of banks in various planning periods and finally a brief review of previous research of works specially made in respect of disbursement and collection procedure.

### **Chapter Three - Research Methodology**

It has been sub divided into six heads which includes introduction research design population and sample nature and sources of data collection procedures financial and statistical tools used for study.

### **Chapter Four - Data presentation and Analysis**

This chapter is the main point of the study. It has included introduction of areas of loan disbursement, ratio analysis, graphical presentation, correlation analysis, trend analysis and miscellaneous analysis and major findings of sources are also presented.

### **Chapter Five - Summary, Conclusion and Recommendations**

This chapter is the final part of the study which has included the conclusion, findings and whole summary of the study.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

It is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researcher to develop through understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus a literature

review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remain to do.

After selecting the topic of the research, researcher should study different journals, periodicals, newspaper, published or unpublished bibliographies, books etc. to collect or gathering the information about the selected topic of the research. Literature review is one of the important parts of any research work for this research work, the literature review will be done under two categories the conceptual review and review of empirical study.

In course of preparation of research report, researcher will review as much as possible books, journals, prospectus, magazines, newspapers, articles and other available reports and case studies related to loan and disbursement policies of commercial banks and financial sector that will help on study similarly, the researcher will be searching through internet for more information and television programs related to economic development of commercial banks and concerned to banks will consult in researcher report writing.

## **2.2 Conceptual Review**

The chapter review of literature has included the review of concept and findings of previous research on the same field. Book journals and unpublished thesis are reviewed for this purpose. In this regard, basic academic course book on finance, recently published books specially related to this topic, some of the major research based journals and the related studies are reviewed.

Banks are regarded as one of the intermediaries to mobilize capital resources and channel them into productive sectors. Resources mobilization is, thus, assumed to be vital and challenging work in the present day world economy. But in this era of financial, economic and political liberalization the task is more complicated than before. Thus, there is a need of foreign investment in order to meet the standards to cope with the worldwide competition.

There has been substantial growth in commercial bank since 1990. The establishment of joint venture banks forced the other commercial banks to improve efficiency and to adopt modernization of new technology, new procedures and computerization systems. The existence of foreign joint venture banks has created an environment of healthy competition among the existing commercial banks. The increased competition forces the existing banks to improve their quality and extend

service by simplifying procedures and by training, motivation their own staff to respond to the new challenges.

The commercial banks are those banks that pool together the saving of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing short term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash credits and overdraft. Apart from financing, they also sender services like collection of bills and cheque, safe keeping of valuables, financing advising etc to their customer. (Vaidya; 2001; 38)

Commercial bank Act 2031 B.S. of Nepal has defined that "A commercial bank is one which exchange money, deposits money, accepts deposits, grants loans and performs commercial banking function and which is not a bank mean for cooperative agriculture, industries for such specific purpose." (Article 2(a) commercial bank Act 2031)

Sayers defined the banks as "Ordinary banking business consists of changing cash for bank and bank deposits for cash; transferring bank deposits from one person or corporate to another, giving bank deposits exchange government bonds the secured or unsecured promises of business to repay etc." (Vaidya; 2001, 20)

## **2.3 Overview of Loan Disbursement and Recovery System**

### **2.3.1 Loan Disbursement**

In present context, commercial banks are playing vital role of development of economy of the country. It performs various functions such as creation of money funds and credit acceptance of deposits forwarding of loans, transfer of money and various agency functions etc. A bank is the financial departmental store, which sender various financial services and recovery system of any bank plays important role in banking activities banks loans contribute a lot to the growth of new business which ultimately improves the economic health of the country.

Loan disbursement is the most critical factor in determining the strength of any bank. Primary factors can be considered are the quality of loan portfolio, mix of risk assets and credit

administration system. However advancing loan is one of their major functions. Normally, commercial bank's loan can be categorized into four groups namely overdraft cash credit direct loan and discounting bills of exchange. Loans and advances constitute a major portion of the assets of a commercial bank and the interest income earned from loans and advances is a major contributor to a bank's profit. If the loan assets of the bank turn out to be nonperforming or least liquid the bank cannot obtain the targeted return from loan and advances. Thus an effective management of loans is a must.

### **2.3.2 Loan Disbursement Procedure**

Loan is not granted only upon a personal or institutional request certain process rules and regulation must be fulfilled while loan is approved. Lending policy largely depends upon the management attitude and way of evaluating risk. The procedure to be followed while disbursing loan are as

- Person or organization willing to borrow loan must fill up the prescribed loan application form prepared by the bank.
- Supportive documents such as business proposal projected financial statement and certificate of Government registration must be presented with loan request application. In case of big project, feasibility reports is required
- Presented documents are studied, project site is inspected security is valued by concerned person and department. This is the main step decisions are taking at different factors into considerations.
- If the project seems technically feasible, economically viable, politically suitable and socially acceptable loan is sanctioned.

#### **2.3.2.1 Loan Approval**

Whenever a potential borrower comes to commercial banks to borrow fund the following steps are followed before accepting the loan proposal.

### **2.3.2.2 Loan application**

As already mention in loan disbursement procedure that person or organization should fill up the loan application form if wants to borrow loan from bank. This application contains a variety of information. Loan application must contain information regarding the following aspects

1. Introduction of business (either trading or industry)
2. Constitution of business (proprietorship or partnership or company)
3. Authorized issued and paid up capital
4. Address of factory go down and office
5. Detail of following business activities
  - a. Trading items/ raw materials
  - b. Sources of items or row materials
  - c. Name of the supplier(s)
  - d. Distribution network
  - e. Current and or expected sales turnover
  - f. Market demand
  - g. Profit and loss account of lost three years
  - h. Balance sheet of lost three years
  - i. Plan of future expansion
6. Other Necessary Information

### **2.3.2.3 Interview**

Interview helps in extracting and critical information that are not covered by a loan application. Borrowers cannot fill up every information in detail but through interview he/she can prescribe necessary information which are needed but in application mention in short.

### **2.3.2.4 Credit analysis**

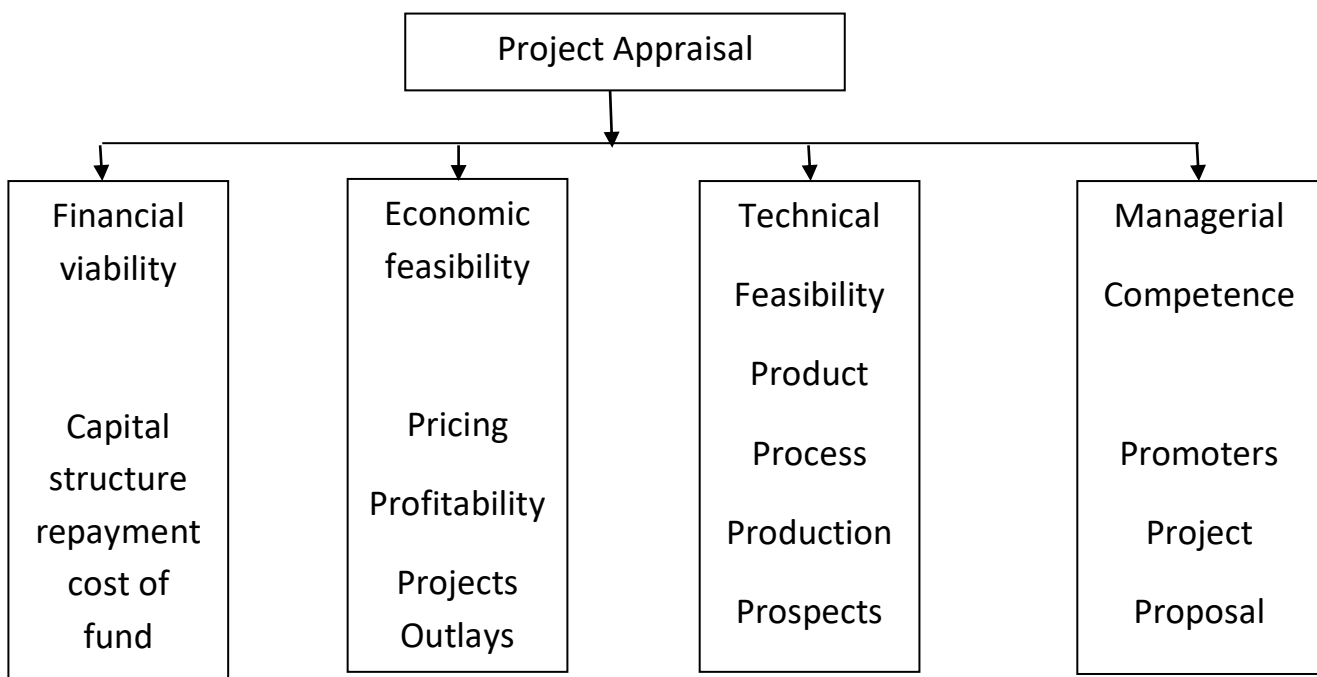
After interviewing the borrower bank wants to deliver loan the bank personnel carryout credit analysis. Credit analysis is mainly concerned with the riskiness of loan proposal various aspects such as loan repaying capacity of the borrower loan purpose securities offered by the borrower etc are analyzed and inspected. Credit analysis is most important aspect of loan approval process.

### 2.3.2.5 Project Appraisal

Bank generally carries out project appraisal before accepting medium and long term loan proposals. A project appraisal can simply be understood as a process of assessing the viability of projects to judge the soundness of loan proposals. The factors may differ as per the types of project. However, commercial banks generally consider the factors as summarized in the figure:

**Fig No. 2.1**

**Project Appraisal process**



Thus it is after appraising the projects from all corners the bank personnel comes to the conclusion that whether the amount lent for that particular project can be repaid safely or not. It is on the basis of this appraisal process that medium and long term loan proposals are accepted or rejected in banks.

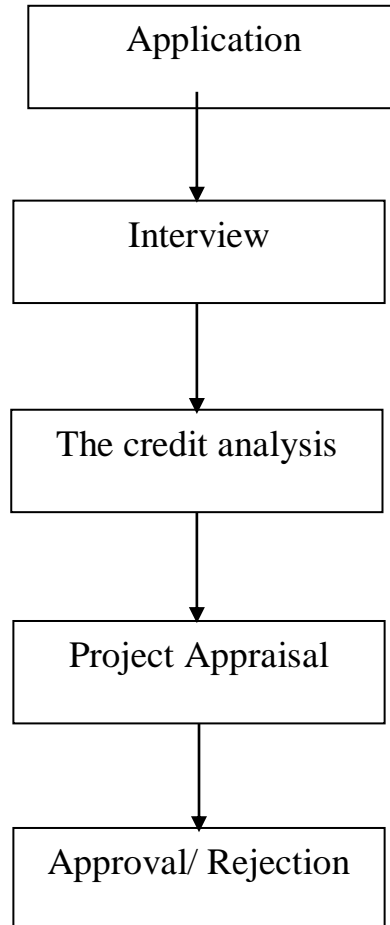
Finally upon the fulfillment of all necessary requirements the loan proposal is submitted to the approving authority for final decision. Banks sometimes approaches some reputed business or

organization with a request to take loans from bank because there is a tough competition in the banking sector which requires making market efforts for sustaining the business.

Loan approval process can be shown as below.

**Fig No. 2.2**

**Loan approval process**



**2.3.2.6 Loan Documentation**

Banks does not disburse the approval loan until all necessary documents have been obtained.

Generally commercial banks demands following documents.

- All companies are required to submit their board resolution authorizing to execute loan security documents with the bank to avail credit facility.
- Corporate guarantee should be supported by resolution of board of directors.
- Original certificates should be presented for verification while submitting this form.

- Salary certification must be in the office's letterhead having seal and must contain net salary of employment (permanent or contract). It should be signed along with the name and designation of the signatory.
- The bank can demand any additional documents at its own discretion.
- For commercial vehicles detail breakdown of the income from and expenses of the vehicle (scheme/in necessary)
- In case of swapping loan, loan statements from current bank a financial institution are required.

Bank never compromises with the required documents at any cost.

### **2.3.2.7 Loan Follow-up**

The loan follow-up can simply be understood as a post assessment of the approved loan. The bank personnel keep close contact with the borrowers to know the developments that may hinder the repayment of loan. If borrowers are in contact there is more possibility to recovery of loan on maturity.

### **2.3.3 Payment of Debt and Interest**

Banks collect principal and interest from the borrower on the basis of "Bullet Payment Method". A bullet payment method means the method in which interest is received on a quarterly basis and principal is received upon maturity. Bank charges interest on Ashwin end Poush end Chaitra end and Ashadh end.

### **2.3.4 Types of Loan**

Commercial banks provide different types of loan advances and trade finance services.

- Demand loan
- Hire loan
- Bridge gap loan

- Bills purchase and discounting
- Overdraft
- Vehicle loan
- Loan against gold
- Letter of credit
- Deprived sector loan
- Pledge loan
- Housing loan
- Export credit
- Term loan
- Guarantee

### **2.3.5 Credit Renew**

Bank provides the facility of renewal of loan to the borrowers based on the civilization of loan amount without any adverse record with regular internet payment and also if the bank is satisfied with the transaction of the borrower throughout the year.

### **2.3.6 Security**

Bank asks both primary and secondary security from the borrower. The securities are viewed on the various grounds such as possibility of marketability, valuation, validity, enforcement and other necessary economic consideration.

To sum up, it is found that all the aspects of loan management such as loan approval loan documentation loan disbursement loan follow up etc in bank have been paid proper attention.

## **2.4 Review of Rules, Regulation and Directives of NRB Regarding Loan**

Management of commercial banks various rules, regulations acts and directives are reviewed while preparing the concept of this study. Different types of directives which are issued for the commercial bank to manage the loan in the proper way. Obviously, these directives and actions towards the commercial banks by NRB are playing the great role for the analysis of loan management of the commercial bank.

#### **2.4.1 Supervision and Direction (BAFI003)**

The supervision and directions of NRB for commercial bank and while disbursing loan are as

- Adequate provision of core capital and subsidiary capital
- Loan classification and loan loss provision
- Financial source collection limit
- Compulsory stock and working capital management
- Provision on institutional good governance
- Provision on sector wise loan limit
- Provision on investment
- Provision on audit and audit committee
- Provision on accounting policy and financial statements.
- Provision on nonperforming assets
- Provision of effective monitoring follow up and supervision of loan utilization
- Provision on banks right sizing

#### **2.4.2 Directives relating to loan classification and Loan Loss provision**

Effective from fiscal year 2001/02, bank should classify outstanding loan and advance on the basis of aging of principle amount. Loans and advances should be classified into following four categories.

- a. Pass: Loans and advances whose principle amount is not past due and past due for a period up to 3 months shall be included in these categories. These are classified and defined as performing loans.
- b. Substandard: All loans and advances that are past due for a period 3 months to 6 months shall be included in this category.
- c. Doubtful: All loans and advances, which are past due for a period of 6 months to 1 year, should be included in this category.
- d. Loss: All loans and advances which are past due for a period of 6 months to 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having this possibility of even partial recovery in future shall be included in this category.

Loan and advances falling in the category of sub standard doubtful and loss are defined as non performing loan.

### 2.5.3 Provision of Loan Loss and Loan classification

The loan loss provisioning on the basis of the outstanding loans and advance and bills purchased as above should be provided as follows

**Table No. 2.1**

**Provision of Loan Loss and Loan Classification**

Classification of loan	Period of overdue	Loan loss provision
Pass/ good	Not overdue & overdue up to 3 months	15
Sub-standard	Overdue loan from 3 to 6 months	25%
Doubtful	6 to 12 month overdue loans	60%
Loss/ Bad	More than 1 year period overdue loans	100%

(Sources: www.nrb.org.np)

Loan loss provision set aside for performing loans is defined as general loan loss provision and loan loss provision set aside for non performing loan is defined as specific loan loss provision.

#### **2.5.4 Directives Relating to Loan Capital Adequacy Norms for Commercial Banks**

Maintenance of the minimum capital fund the capital fund is the sum of core capital and supplementary capital.

On the basis of the risk weight assets the banks should maintain the prescribed proportion of minimum capital funds as per the following time table.

#### **Proportion of minimum Capital Funds**

Table No.2.2

Time table	Core capital	Capital fund
For FY 2058/59	4.5%	9%
For FY 2059/60	5%	10%
For FY 2060/61	6%	12%
For FY 2061/62	6%	12%
For FY 2062/63	6%	12%

(Source: www.nrb.org.np)

#### **2.5.5 Directives Related to Interest Rates**

According to previous directives the differences between the interest provided and interest charged spread rate should not be more than 5%. These differences are calculated on the basis of the weighted interest to the directives of circular issued the requirements to maintain average interest spread at has been with draw from the time being.

#### **2.5.6 Directives to Cash Reserve ratio Requirements (CRR)**

To ensure adequate liquidity in the commercial banks, to meet the deposits demand for the cash at any time to inject the confidence in depositors regarding the safety of their deposited funds,

commercial banks are required to have maximum CRR. In this regards NRB has directed commercial banks to deposits in their own bank's vault. CRR has been reduced by one percentage point effective beginning of new FY.

### **2.5.7 Important Terminologies**

In this section of the study efforts have been made to clarify the meaning of some important term frequently used in this study, they are given as:

- Deposits: - Deposits are the collected money from the customer in current saving or fixed account. Bank has to pay certain interest for deposits. Deposits is the most important source of the bank for daily transaction of commercial bank, deposit is essential that is why it is the life blood of the bank. The deposit of a bank is affected by various factors like
  - ✓ Types of customers
  - ✓ Physical facilities of the bank
  - ✓ Management and accessibility of customers
  - ✓ Types & range of the services offered by the bank

In additional to the above, the prevailing economic condition exerts a decision on the amount of deposits the bank receives.

- Loan & Advances

Loan & advances and overdraft are the main sources of income for the bank. Granting of loan advances and overdraft depends upon the customers need. Customers can borrow loan from bank in low interest rate than unorganized money lenders. Due to limited resources and increasing demand for loans, there is some fear for those commercial banks and other financial institutions too. It may take preferential collateral while granting loans causing unnecessary botheration to the general customer.

- Investment of on Government Securities, Share & debentures

Commercial banks invest on government securities, share and debenture to earn some interest and dividend. This is secondary sources of income of the bank. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons, some of them are

- ✓ It may want to space its maturities so that the inflow of cash coincide with expected withdrawals by deposits of large loan demand of its customers.
- ✓ It may wish to have high grade marketable securities to liquidate, if their primary sources of reserves become inadequate.
- ✓ It may also be forced to invest because for loans have decreased of its most sufficient to absorb its excess reserves.

- Investment on the other companies share and Debenture

Due to excess funds but least opportunity to invest those funds in much more profitable sector and also to meet the requirements of NRB directives many commercial banks have to utilize their and non financial companies.

- Other use of funds

Commercial banks must maintain the minimum bank balance with NRB as prescribed by the bank. Similarly, they have maintained the cash balance in total currency in the value of the bank. Again a part of funds should be used for bank balance in foreign bank and to purchase fixed assets like land building furniture machineries stationery etc.

- Lending and Investment Procedures

The income and profit of the bank depends upon its lending procedures lending policy and investment of its fund in different securities. The greater the credit by the bank the higher will be prodigality. A sound lending and investment policy is not only perquisite for banks profitability but also crucially significant for the promotion of commercial saving of backward countries like Nepal.

Some necessities of some of the main characteristics for sound lending and the investment policies which must be considered by the commercial banks have been given by many authors as

- ✓ Safety and security
- ✓ Profitability
- ✓ Liquidity
- ✓ Legality
- ✓ Diversification
- ✓ Purpose loan diversification
- ✓ Tangibility

There is no possibility of economic development of a country without the development of banking system. So bank is taken as strong means for the economic development. To become a successful trade partner and to achieve economic development, development of a financial sector is a must. Here are some reviews of books regarding this subject.

Dr. Shyam Joshi and Dr. Hari Prasad Shrestha in the book "Principle of Banking and Insurance" mention the principle of sound investment policy of commercial bank. In this topic the authors identify the investment policy as profitability liquidity shift ability safety diversification of risks capital adequacy solvency social welfare etc.

Dilli Raj Bhandari in the book of Banking & Insurance (Principle & Practices) in banking sector or transaction an un availableness of loan management and its methodology (working method) is regarded very important. Under this management many subject matters are considered and thought for example there are subject matters like the party of loan flow loan administration audit of loan renewal of loan the condition of loan flow, the documents of loan flow, and the provisions of security the provision of the payment of the capital and its interest and other such procedures. This management plays a great role on healthy competitive activities. (Bhandari, 2003: 170)

Morris 1990 in his discussion paper on "Latin America's Banking System in the 1980's" has concluded that most of the banks concentrated on compliance with central bank rules on reserve requirements credit allocation (investment decision and interest rates. On the other hand analyzing loan portfolio quality operating efficiency and soundness of bank investment management has largely been overlooked he further adds that mismanagement in financial institutions has involved inadequate and over optimistic loan appraisal high risk diversification of loan portfolio and investment high risk concentration related parties lending etc are major cause of investment and loan that gone bad. (Source: Morris, 1990 "Latin America's Banking system in the 1980's)

Khan and Jain view in the book Financial Management," The type of relationship to be investigated depends upon the objective and purpose of evaluation. The purpose of evaluation of financial statement differs among various groups, creditors, shareholders, potential investors, management, government, labor leaders and so on interested in the results and relationships reported in the financial statements. For example short term creditors are primarily interested in judging the firm's ability to pay its currently maturing obligation".

## **2.7 Review of Thesis**

Bhim Bahadur K.C. 2008 conducted as a study, "A comparative study of loan investment and recovery of Nepal Bank Ltd & Agriculture Development Bank Ltd." finds that the commercial investment has increasing trend which shows that there is increasing demand of commercial credit. Short term loan must be largely distributed. This will help to small and local resource loan investment is largely affected by recovery status. So he has recommended that management should always adopt such that cure the customers to pay loan before due date. Liberal action and subsidy can be the schemed for this similarly the outstanding loan must be in decreasing trend. (K.C. 2008)

Ramala Bhattarai in her research work, "Lending policy of commercial banks in Nepal," explains that the effectiveness of lending policy is conditional by the development of a modern banking system in the country. For this the bank has to be able to utilize the ideal fund in productive sectors. She has concluded that the efficient mobilization of the fund more important than the collection of the deposit. (Bhattarai, 2009)

Bhesh Raj Mainali in his thesis, "Loan Investment & Recovery of Nepalese Commercial banks a comparative study of Bank of Kathmandu, Everest Bank Ltd and Nepal Bangladesh Bank explains almost all selected commercial banks have more than sixty percent of their assets in the form of loan and advances itself is the major income earning assets of commercial banks therefore management should be very much caution while investing loan. S "One bad loan can wipe out the profit from hundred good loans" before providing loan viability of business as well as financial status of borrower and their repayment capacity should be closely analyzes (Mainali, 2010)

Gopal Krishna Dulal in his Thesis "Loan disbursement & Recovery system of Nepalese Commercial banks (a comparative study on NABIL Bank, Everest Bank Ltd and Bank off Kathmandu," explain loan disbursement is mostly effected by recovery system so, management should always adopt such policies which sure the customers to pay loan back before due date supervision and inspection system must be strict un basis effective and efficient. It helps them to understand the importance of loan. (Dulal, 2010)

Yashoda Ghimire conducted as a study "Loan disbursement & recovery system of Nepalese Commercial Banks a comparative study on NB, EBL and BOK)" finds that deposits utilization is a big challenge of commercial banks. An utilized deposit brings additional costs to the bank therefore management always seeks to invest deposits in such project which maximizes the return, In the rate of achieving high return management should not forget the drawback of bad loan. Obviously they

have to provide loan to achieve long run sustainability but the quality of shown than nonperforming loan has brought direct impact in their profitability therefore there should be a tradeoff between risk and return. (Ghimire, 2009)

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research is a systematic method to finding out solution to a problem where as research methodology refers to various sequential steps to be adopted by a research in studying a problem with certain objectives in view. In other words, research methods, techniques and process applied in the entire aspects of the study. It is a sequential procedures and method to be adopted in a systematic study.

It has been clear that research methodology is a systematic and scientific method of identifying problems collecting facts, information tabulating and recording the data, setting hypothesis,

analyzing the facts and researching certain conclusion with a view of findings answers to the problems. In fact, research methodology is one of the crucial aspects of the thesis writing so the present chapter outlines the entire research methodology used and followed in this study.

In brief research methodology is the main part of the research work. It consists of the techniques of conducting research work which helps the research to find the exact its research objective effectively without any errors as far as possible. The main objective of this study is to evaluate the condition of loan disbursement and recovery systems of Lumbini Bank Ltd. A suitable and simple research methodology of the study has followed so as to fulfill the stated objectives as well as to make it easier in visualizing the total study clearly. This chapter includes research design. Population & sample, sources of data, Data collection techniques, Data analysis tools, Research variable and Research gap.

### **3.2 Research Design**

A research design is the conceptual structure with in which the research process is performed. It is the one more important section of research that guides the researcher in the process of research work that how, when, where with whom to conduct purposes research design hypothesis and to control variance.

Research design is the plan structure and strategy of investigation conceived to obtain answer to research question. The basic objective of this study is to evaluate the loan disbursement and recovery system of LBL. The research design of this study has been analytical as well as descriptive approaches to evaluate the loan disbursement and recovery system of LBL.

"Research design is needed because it facilities the smooth sailing of the various research operations thereby making research as efficient as possible yielding maximum information with minimum expenditure of efforts, time and money. Research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in their analysis, keeping in view the objectives of the research and the availability of the staff time and money. Research design in fact has a great bearing on the reliability of the results arrived at and bearing on the reliability of the results arrived at and as such constitutes the firm foundation of the entire edifice of the research work. " (Kothari, 1999,40)

"Thus a research design is a plan for the collection and analysis of data. It presents a series of guideposts to enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the research process. These steps include the selection of a research problem presentation of the problem formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentations, bibliography and report writing. Generally a common research design possesses the five basic elements as follows:

- Selection of problem
- Methodology
- Data gathering
- Data analysis
- Report writing

### **3.3 Population and Sample**

The term population used in statistics devotes the aggregate from which the sample is to be taken and the term "sample" is that part of the population which selects for the purpose of investigation. Population refers not only to people but the totality of all observations that have been selected for the study. Population is also known as universe. Sample refers to a part chosen from the population. Thus, in statistics, population means whole and the sample means the partly of the whole.

Nowadays, a number of commercial banks are emerging rapidly some have already established and other are in the process of establishment. Here all the commercial banks are population of the study and LBL has been selected as sample for the present study and only latest five years financial statements are analyzed. There are all total 31 licensed class a" commercial banks in Nepal.

**Table No. 3.1****List of 'A' class commercial banks with operation data.**

Class A: Commercial Banks				
S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. '00 Thousands)
1	Nepal Bank Ltd.	1937/11/15	Kathmandu	3804
2	Rastriya Banijya Bank Ltd.	1966/01/23	Kathmandu	3853
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	94375
4	Nabil Bank Ltd.	1984/07/16	Kathmandu	20298
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	24091
6	Standard Chartered Bank Nepal Ltd..	1987/01/30	Kathmandu	16102
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu	20000
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	18693
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu	20103
10	Everest Bank Ltd.	1994/10/18	Kathmandu	11196
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	13595
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi	13997
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan	13000
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar, Morang	13116
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski	16272
16	Kumari Bank Ltd.	2001/04/03	Kathmandu	14850
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa	16140
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	15610
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	15000
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	19223
21	Prime Commercial Bank Ltd	2007/09/24	Kathmandu	22457
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	18554
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	15175
24	DCBL Bank Ltd.	2008/05/25	Kamaladi, Kathmandu	19209

25	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu	16517
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	20000
27	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu	14000
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	16310
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	14000
30	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu	12000
31	Century Commercial Bank Ltd.	2011/03/10	Putalisadak , Kathmandu	10800

Source: [www.nrb.org.np](http://www.nrb.org.np)

### 3.4 Nature and Sources of Data

Data may be collected for a number of purposes and can be classified into many different groups. Needed information for statistics can be gathered through collection of data. Actually data are the raw materials for final statistical conclusions. There are mainly two types of data on the basis of collection procedures such as primary data and secondary data. Primary data are those fresh and original data, which are collected and recorded by the researcher. Any data that have been collected earlier for some purpose are secondary data for individuals who are using them.

The researcher has collected the data through primary as well as secondary sources. Primary data are collected based on questionnaire from executives and staffs of the related bank. Secondary data are collected from published journals financial statements, annual reports, brochures and research paper of LBL other sources of data, relating to this study are collected from central bank, newspaper, previous unpublished dissertations, research report and other publications web sites of concerned bank and other sites are also viewed to collect more information.

### 3.5 Data Collection Procedure

The study mainly has based on the secondary data. However, in some cases primary data also has been used. All other available published and unpublished materials concerning the study as well as some journals abstracts have also been used in the study. Especially the nature of data is secondary as the basic purpose of the study is to fulfill the requirements for the degree of MBS, TU. Data for the study have been collected from fiscal year (2063 to 2067). The problem of the study is related to loan disbursement and recovery of LBL. Statistical tools and financial tools are used to analyze the

to show the analysis of work data and to draw accurate conclusion. Data and information collected have been used in such a manner so that they could clear the pattern of loan investment and recovery to general public.

### **3.6 Data Analysis Tools**

#### **3.6.1 Financial Tools**

To evaluate the financial position and performance of any firm ratio is used as a key tool of financial analysis. "Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account." Financial analysis is the use of financial statements to analyze a company financial position and performance.

##### **a. Liquidity Ratio**

This ratio measures the liquidity of a firm. It measures the firm's ability to meet its short term obligation or its current liabilities. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligation, As a financial analytical tool following liquidity ratio has been used to come into the acts and finding of the study.

##### **b. Loans ad advance Portfolio**

To analyze the portfolio behavior of loans and advances of the bank for the study period, trends of loans and advance granted to various sectors of the economy for various purposes have been measured. Under this topic the following ratios have been studied.

- Priority sector loan to total loan ratio
- Deprived sector loan to total loan ratio
- Productive sector loan to total ratio
- Purpose wise loan classification

### **c. Profitability Ratio**

Profitability ratios are used to indicate and measure the overall efficiency of a firm in term of profit and financial performance. For better performance, profitability ratios of firm should be higher.

- Interest expenses to total expenses ratio
- Interest income to credit and investment ratio
- Return on total assets ratio
- Return on equity
- Return on loan and advance ratio
- Return on total working ratio
- Earnings per share

#### **3.6.1.1 Ratio Analysis**

Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is the part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's to it overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis. Even though there are many ratios, only those have been calculated which are related to the subject matter.

Following ratios have been computed and analyzed in this study.

#### **Loans and advance to Total Assets Ratio**

Total assets side of a bank is composition of different assets. Among them some generate income and some do not generate income. Among income generating assets loan and advances are the high income generating assets therefore management always tries to increases the portion of assets from

total portfolio. The ratio of loans and advances to total assets measures the volume of loans and advances in the structure of total assets. Loans and advances of commercial banks represent the major portion in total assets. The high degree of ratio indicates the good performance of the mobilizing its fund by way of lending functions, However in its reverse side, the high degree of risk. Thus this asset of banking business is regarded as risky assets. The low ratio indicates low productivity and high degree of safety in liquidity and vice versa.

This ratio is calculated as follows.

$$\text{Loan \& Advances to Total Assets Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}}$$

### **Credit Deposit Ratio (CD Ratio)**

CD ratio is most important tools to analysis the profitability of a bank. Since all depositors has to pay interest and if any deposit is not utilized in profit earning way it will decrease net interest income of the bank. CD ratio is the parameter which ascertains fund deployment efficiency of commercial bank. In other words this ratio is calculated to find out how successfully the banks are utilizing their total deposits on credit or loans and advances for profit generations purpose as loans and advances yield high rate of return. Greater CD ratio implies the better utilization of total deposits and better earning, however, liquidity requirements also needs due consideration. Hence management should always try to make better combination of risk and return. This ratio is calculated by dividing total credit by total deposit of the bank.

$$\text{Credit Deposit Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}}$$

### **Loan Loss Provision to Loan and Advances Ratio**

Loan loss provision to loan and advances shows percentage of loan is covered against the possible future loss due to nonpayment of loan. This ratio describes the quality of assets in the form of loan and advances that a bank is holding. Since there is risk inherent in loan and advances, NRB has

directed commercial banks to classify its loan and advances into different category and accordingly to make provision for possible loss. Loan loss provision signifies the cushion against the future contingencies created by the default of the borrower in payment of loan and ensures the continuous solvency of the bank. Since high provision has to be made for non performing loan, higher provision for loan loss reflects increasing non performing loan in volume of total loan.

The low ratio signifies the good quality of assets in the volume of total loan. It indicates how efficiently it manages loan and advances and make efforts to cope with probable loan loss. Higher ratio implies higher portion of NPL in the total loan portfolio. The ratio is calculated as follows.

$$\text{Loan Loss Provision Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Loan \& Advances}}$$

### **Non Performing Loan to Total Loan**

Total loan is divided in to two category performing loan and non performing loan. Nonperforming loan to total loan ratio determines the proportion of nonperforming loan in the total loan portfolio. Higher ratio implies the bas quality of assets of banks in the form of loan and advances. Hence lower NPL to total credit is preferred.

The ratio is calculated as follows.

$$\text{NPL to Total Loan \& Advances Ratio} = \frac{\text{Non Performing loan}}{\text{Total Loan \& advances}}$$

### **Total Provision to Non Performing Loan**

NRB has directed all commercial bank to provide provision for all types of loan and advances. Even performing loan needs to provide loan loss provision at the rate of 1% and 12.5%. This ratio determines the proportion of provision held to non performing loan. This ratio measures up to what extent of risk inherent in NPL is covered by the total loan loss provision. More than 100% ratio signifies that the bank is safeguard against contingencies that may create due to bad loans, where as

lower than 100% may create huge provision in coming future due to requirements of high provision to substandard loan and advances.

This ratio is calculated as follows.

$$\text{Loan Loss Provision to NPL Ratio} = \frac{\text{loan Loss Provision}}{\text{Non Performing Loan}}$$

### **Return on Loan Advances**

A net profit is amount recovered after deducting all kinds of liabilities therefore various ratios are calculated in relation with the net profit. Return on loan and advances ratio indicates how efficiently the bank has employed its resources in the forms of loan and advances. Net profit its resources in the forms of loan and advances. Net profit of a bank largely depends upon interest earn from loan and advances and there is positive correlation between effective utilization of loan and advances and net profit. This measures the bank's profitability with respect to loan and advances. Higher the ratios better the performances of the bank and vice versa.

This ratio is calculated as follows.

$$\text{Return on Loan advances Ratio} = \frac{\text{Net profit}}{\text{Loan and Advances}}$$

### **Interest Income to Total Loan Advances**

This ratio indicates how efficiency the bank has employed its resources in the form of loan and advances. It is the ratio of interest income which is obtained after the lending of deposit amount. This ratio measures bank's profitability with respect to loans and advances. Higher the ratio betters its performance of the bank.

This ratio is calculated as follows.

### **3.6.2 Statistical Tools**

Statistical tools to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows.

**a. Arithmetic Mean**

The sum of all the observations divided by number of observation is called arithmetic mean or simple average. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as.

$$\bar{x} = \frac{\sum x}{N}$$

Where:  $\bar{x}$  = Arithmetic mean

Where:  $\sum x = x_1 + x_2 + x_3 + \dots + x_n$  = sum of observation

N = number of observation

**b. Standard Deviation**

Karl Pearson first suggested standard deviation in 1893 A.D. as a measure of dispersion. Standard Deviation is an important and widely used to measure dispersion. A standard deviation is the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is denoted by the letter  $\sigma$  (sigma). Greater the amount of dispersion greater will be the standard deviation and vice versa. A small standard deviation means high degree of uniformity of the observation as well as homogeneity of a series. A large standard deviation refers low uniformity and homogeneity of the series. In this study standard deviation of different ratios are calculated.

$$SD (\sigma) = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Where,

$\Sigma$  = standard Deviation

$$\left(\frac{\Sigma x}{N}\right)^2 = \text{Sum of squares of Mean}$$

**c. Coefficient of Variation**

The Coefficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. A series with smaller C.V. is said to be less variable or more Consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as follows.

$$\text{Coefficient of Variation (C.V.)} = \frac{S.D}{Mean} \times 100\%$$

$$C.V. = \frac{\sigma}{\bar{x}}$$

**d. Correlation Coefficient and regression**

Correlation analysis is another important tool of statistic. It describes the relationship between variables and shows the degree of dependency of one variable with another variable. Correlation refers the degree of relationship between two or more variable. It determines the association between the variables. Two variables are said to be correlated when the changes in one variable result in change in other variables. Different model for correlation analysis has been formulated and we have used Karl Pearson Coefficient to determine the relationship between variables studied.

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of prediction of one variable on the basis of other variables. In other words, regression is that statistical tool with the help of which the unknown value of one variable can be estimated or predicts on the basis of known value of the other variable, assuming that the two variables are closely related. We can estimate the value of the one variable from the given value of another.

The analysis used to describe the average mathematical relationship between two variables is called simple linear regression analysis. Simple because there is only one independent variable and the relationship between the dependent and independent variables assumed to be linear. Prediction or estimation is one of the major problems in almost all spheres of human activity. The estimation or prediction of future production, consumption, prices, investment, sales, profits, income etc are very important to business or economist. Karl Pearson coefficient of correlation is calculated as follows.

Correlation Coefficient (r)

Where  $x = (x - \bar{x})$  ,  $y = (y - \bar{y})$

Or

$$r = \frac{N \cdot \sum xy - (\sum x)(\sum y)}{\sqrt{N \cdot \sum x^2 - (\sum x)^2} \sqrt{N \cdot \sum y^2}}$$

The relationship between the two variables can be measured either by graphical method scatter diagram or by numerical calculation method.

The numerical measurement of relationship between the two variables is denoted by the symbol "r" whose values arranges from -1

Interpretation;

If  $r = 0$ , there is no relationship between the variables.

If  $r = 0$ , there is negative relationship between the variables.

If  $r = 0$ , there is positive relationship.

If  $r = 0$ , the relationship is perfectly positive.

If  $r = -1$ , the relationship is perfectly negative.

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient, "r". The probable error (P.E) is defined by.

$$P.E. = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

Where,

$r$  = correlation coefficient

$N$  = Number of pair of observation.

### **Conclusion**

- i. If  $r < P.E.$  the value of  $r$  is not significant no matter how high value of  $r$  is i.e. there is no evidence of correlation between the variables.
- ii. If  $r > 6 P.E.$ , the value of  $r$  is significant i.e. correlation is significant.

## **CHAPTER IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Presentation of Data**

This section is presented to analysis the data available and interpret them in meaningful manner, while analyzing the data various statistical and financial tools have been applied. Data presentation and analysis is the most important part of this study or it the life blood of the whole thesis. All findings conclusion and recommendation are based on the result of analysis. This chapter contains the presentation analysis and interpretation of the available and relevant data of selected commercial bank LBL. Five years data period covering from 063/64 B.S. to 067/68 have been analyzed and interpreted as per research methodology defined in chapter three. The trend analysis of various aspects related loan disbursement in LBL is done.

#### **4.1.1 Areas Loan disbursement of LBL**

LBL has categorized its loan into two major segment such as retail segment and corporate segment. The types of loan under these segments are shown in the table No. 4.1

Retail Segment	Corporate Segment
Loan Against shares	Consortium finance
Education Loan	Deprived Sector Loan
Housing Loan	Export Import Loan
Hire purchase Loan	Mortgage loan
Loan against Bank guarantee	Overdraft Hypothecation
Loan against FDr	Term Loan
Loan against HMG securities	Time loan
Personal Loan	Tr loan
Priority sector loan	Working capital loan
	Construction loan

#### **4.2 Ratio Analysis**

Financial statements provide information about a firm's position at a point in time as well as its operation over some past period. Financial analysis is the process of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. Various financial ratios related to loan disbursement are presented and discussed to evaluate and analyze the performance of LBL. Financial ratios are calculated and data are analyzed with the

help of those ratios. Some important financial ratios are only calculated from the point of view of loan disbursement and recovery system. The ratios are designed and calculated to highlights the relationship between financial items and figures. It is a kind of mathematical relationship and procedures dividing one item by another. All these calculations are based on financial statements of LBL. The important and needed financial ratios, which are calculated for the purpose of this study are mentioned below.

#### 4.2.1 Loan & Advances to Total Deposits

Loan and advances to total ratio indicates of deposit utilized as lending. This ratio is also called current deposit ratio current deposit ratio is the most important to analysis the banks utilization of their deposit and to know the liquidity position of the bank. The core banking function is to take deposit and provide that money in the form of loan. For every deposit banks have to pay interest and if the deposit is not utilized fully it will hamper the profitability of the bank. Therefore higher current deposit ratio implies higher utilization of the deposit and low fund available to service depositor when they come for withdraw and vice versa 7.5% of current deposit ratio is assumed to be optimal in banking sector but there is an example of more than 100% current deposit ratio operated by Nepal Bangladesh Bank.

**Table No. 4.1**

**Loan & Advance to Total Deposits**

(NPR in Millions)

Fiscal year	Loan & advances	Total Deposits	Ratio(%)
2063/64	20214.58	23833.02	84.82
2064/65	24319.06	73806.98	32.95
2065/66	22443.54	24431.42	91.86
2066/67	22859.17	23009.13	99.35
2067/68	23086.53	25233.08	91.49
Mean			80.09
S.D.			24.07

C.V.			30.05
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Source: Appendix I (1)

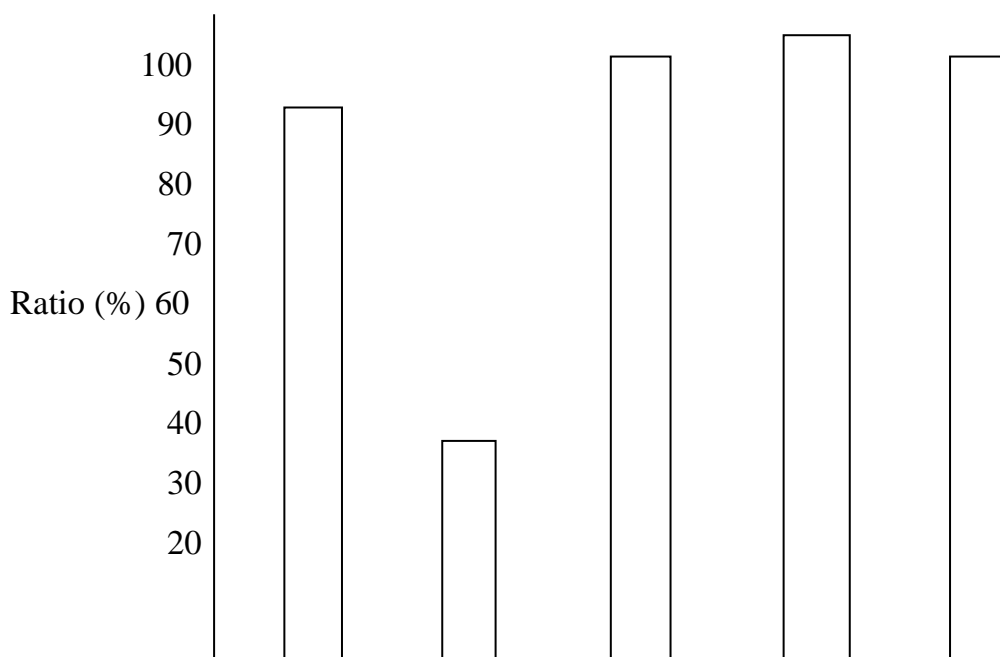
The above table shows the amount of loan & advances and total deposits of LBL for five year starting from fiscal year 2063/64 to 2067/68. From the above table it is clear that LBL has utilized its total deposits in maximum portion for loan & deposits as loan & advances nearly 33% but in the year 2066/67 it has provided 99.35% of deposits for loans. In the year 2065/66 and 2067/68 more than 91% of a total deposit is used for loans. Rations are calculated through appendix shows high for 4 years low for one year than recommended of 70%. These ratios indicate that bank has enough liquidity available.

Standard Deviation of LBL is 24.07% and coefficient of variation is 30.05%. This indicates LBL has highest variability in CD ratio.

In sum up we can say that LBL has utilized its depositor money optimally with considering the liquidity position of the bank. LBL has utilized its maximum portion of total deposits in lending from where it is earning interest in place of holding money in hand it shows that its liquidity management may not be in proper condition.

**Figure No. 4.1**

**Loan & Advance to total deposits**



10



In the above graph, portion of Loan & Advances in total deposits of LBL of Fiscal year 2063/64 to 2067/68 are presented through bar diagram. Through diagram, it is clear that the bank has utilized maximum portion of its deposits for loan & Advances only in the year 2064/65 nearly 33% of total deposits has used for loans.

#### 4.2.2 Loan & Advances to Total Assets

Loan and advances and bills purchase occupy the largest portion of the total assets of bank. Loan & advances directly generates income to the bank therefore it is essential to analyze this ratio. The more portion of loan and advances in total assets the more effective utilization of assets of the bank. Granting loan is a risky decision because each loan carries level of risk therefore loan and advances are also known as risky assets. Thus if loan & advances to total assets ratio is low it indicates low risk to management & low profitability & vice versa. LBL provides loan on different are like loan against share, Education loan housing loan, Mortgage loan time loan etc.

Total loan & Advances and total assets from 2063/64 to 2067/68 of LBL are presented through the following table & figure.

**Table No. 4.2**

**Loan & Advances to Total Assets (NPR in Million)**

Fiscal year	Loan & Advances	Total Assets	Ratio %
2063/64	20214.58	28776.36	70.255
2064/65	24319.06	28686.93	84.77%
2065/66	22443.54	31286.77	71.73%
2066/67	22859.17	31531.57	72.50%
2067/68	23086.53	34023.19	67.86%
Mean			73.42%
S.D.			5.89%

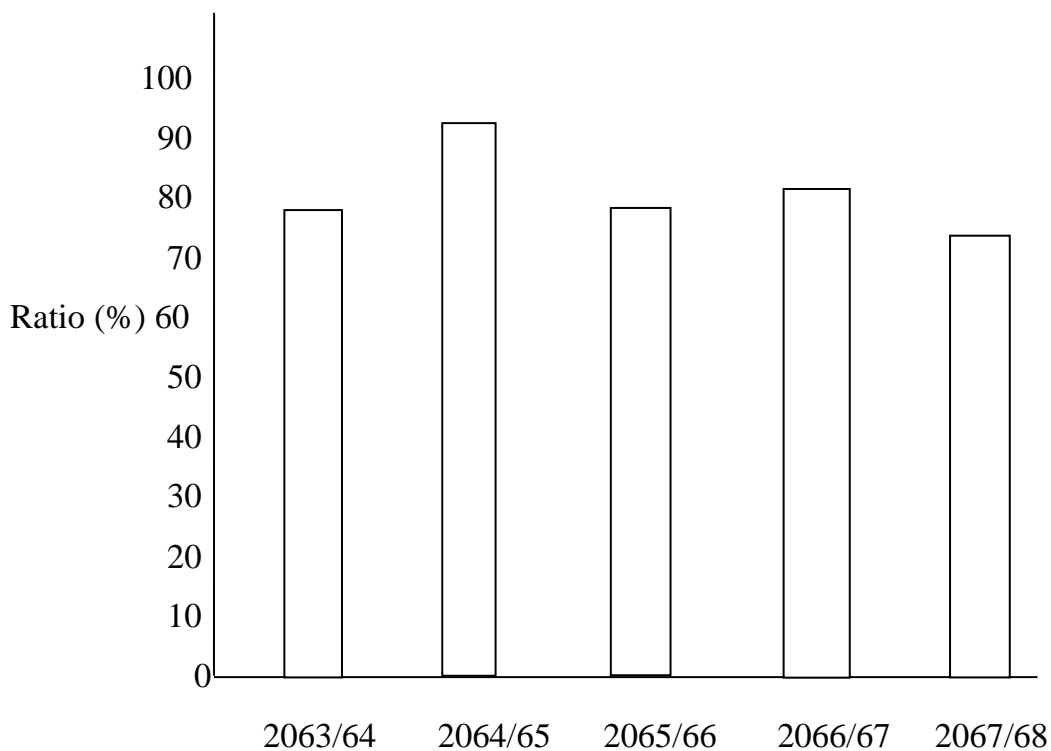
C.V.			8.02%
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Source: Appendix I(2)

Table shows that total loan & advances and total assets of LBL as well as the ratio of loan & advances to total assets. Almost in all the years, loan & advances to total assets of LBL is more than 70% except in the year 2067/68 which indicates higher portion in loan & advances obviously generates higher interest income and lower liquidity.

If we see the standard deviation & S.D. & coefficient of variation C.V. of LBL is 5.89% & 8.02% respectively. This means it has the highest variability in the portion of loan & advances in total assets.

**Figure No. 4.2**  
**Loan & Advances to total Assets**



The above diagram shows the portion of loan & advances to total assets of LBL for five years starting from fiscal year 2063/64 to 2067/68. LBL utilized more portion of assets in loan & advances. More than 60% of assets is used for loan & advances in every year.

### 4.2.3 Retail loan to corporate Loan

LBL has categorized its loan into broadly in two segments such as retail & corporate loan. Loan against sharpen education loan, housing loan, hire purchase loan, loan of against bank guarantee personal loan etc are in retail segment. In other hand, loan like mortgage loan, overdraft, term loan, time loan, TR loan etc are kept in corporate loan. Bank wants to provide maximum service for customer through lending procedure. It doesn't want to do partiality for customer may need loan in different areas so bank has prepared spectral rules, regulations and policies for getting loan for customer. Mainly the equality for loan for customer is the main purpose to categorize total loan into retain and corporate segment.

**Table No. 4. 3**  
**Retail loan to corporate Loan**

NPR in Million

Fiscal Year	Retail Loan	Corporate Loan	Ratio (%)
2063/64	8085.83	12128.75	66.67%
2064/65	9241.24	15077.82	61.29%
2065/66	9426.29	13017.25	72.41%
2066/67	10286.63	12572.54	81.82%
2067/68	9003.75	14082.78	63.93%
Mean			69.22%
S.D			8.48%
C.V			12.25%

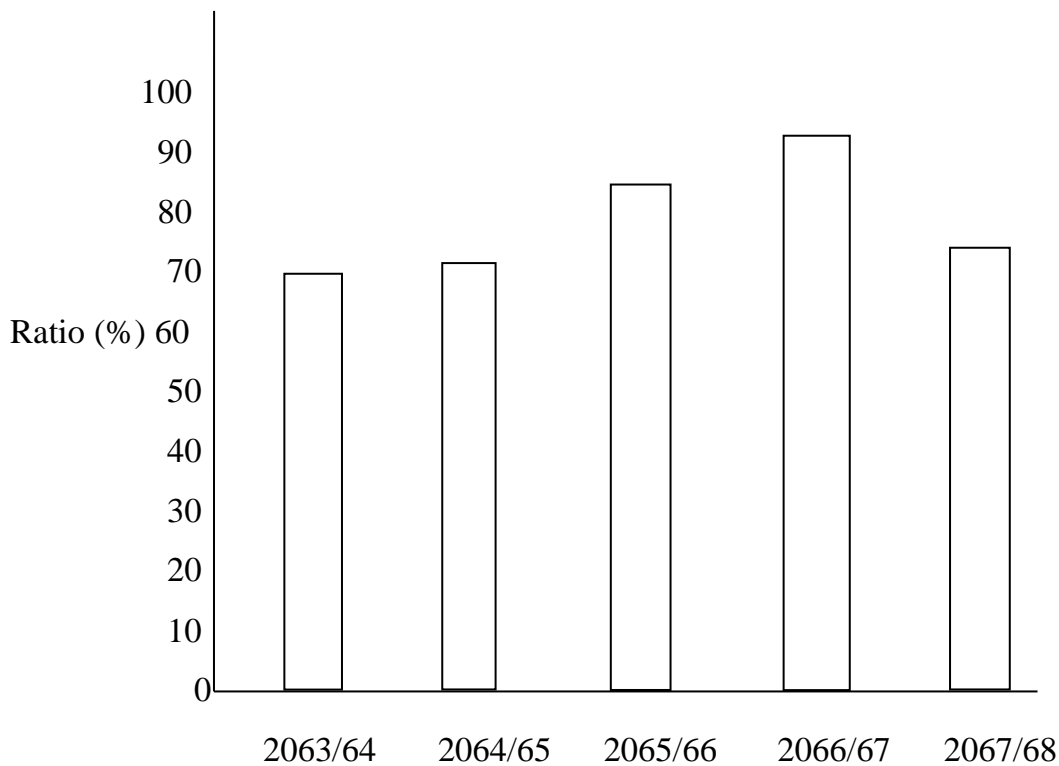
Source: Appendix I (3)

The above table presented the portion of retail loan to corporate loan of LBL for five years starting from fiscal year 2063/64 to 2067/68. Retail to corporate loan ratios is more than 60% every year.

From the table it is clear that in the fiscal year 2066/67, the ratio is maximum 81.82% and lowest ratio in the fiscal year 2064/65 which is 61.29%. LBL provides higher loan in corporate segment than retail segment.

Standard deviation and coefficient of variation of the ratio of retail to corporate is 8.48% and 12.15% respectively.

**Figure No 4.3**  
**Retail loan to corporate Loan**



The above diagram shows the portion of retail loan to corporate loan of LBL for five years starting from fiscal year 2063/64 to 2067/68. LBL ratio of retail to corporate is always higher than 60%. In three fiscal year such as 2063/64, 2064/65 and 2067/68, the ratios are in between 60 to 70 % and

remaining two fiscal year ratios are more than 70 % From the graph, it is clear that loan for retail is always lesser than loan for corporate.

#### 4.2.4 Loan Loss provision to Loan and Advance

Loan loss provision to loan and advances shows the percentage of loan is covered against the possible future loss due to nonpayment of loan. Since there is risk inherent in loan and advances into different category and accordingly to make provision signifies the cushion against the future contingencies created by the default of the borrowers in payment of loan and ensures the continuous solvency of the bank. Since high provision has to be made for non performing loan, higher provision for loans loss reflects increasing nonperforming loan in volume of total loan. The low ratio signifies the good quality of assets in the volume of total loan. It indicates how efficiently it manages loan and advances and make efforts to cope with probable loan loss. Higher ratio implies higher portion of NPL in the total loan portfolio.

The ratio is calculated as follows.

**Table No.4.4**  
**Loan Loss Provision to Loan and Advances (NPR in Million)**

Fiscal year	Loan Loss Provision	Loan and Advances	Ratio (%)
2063/24	1175.2	20214.58	5.81%
2064/65	1244.9	24319.06	5.11%
2065/66	1437.5	22443.54	6.41%
2066/67	1493.7	22859.17	6.53%
2067/68	2241.6	23086.53	9.71%
Mean			6.65%
S.D			1.58%
C.V			23.76%

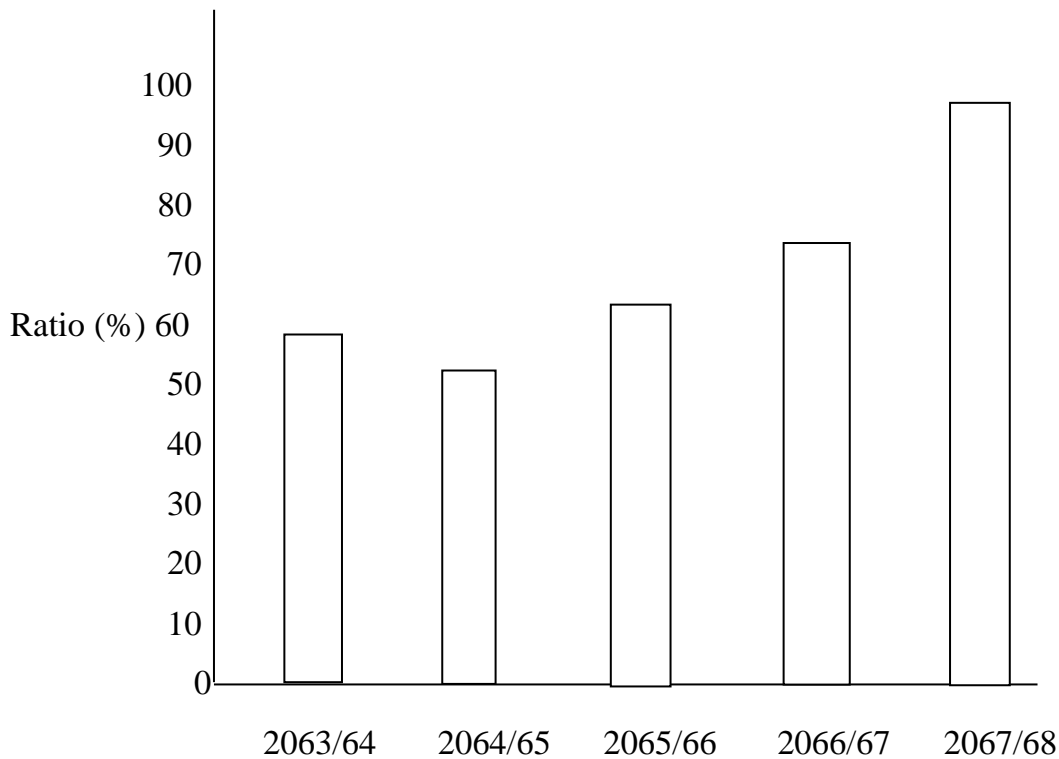
Source: Appendix I (4)

The above tables present the ratio of loan loss provision to total loan and advances of LBL from fiscal year 2063/64 to 2067/68. From table, it is clear seeing that average ratio of loan loss provision

to total loan and advances are 6.65%. In the fiscal year 2067/68, there is the higher ratio which is 9.71% and in the other hand, in the fiscal year 2064/65, ratio is low which is 5.11%, efficient management of loan loss provision on its loan and advances make better effort to recover probable loan loss. From the table, it is clear that loan loss provision ratio is in increasing trend which means it is not the sign of well management and good for bank.

Standard deviation of the ratio of loan loss provision to total loan and advances is 1.58% and coefficient of variation (C.V) is 23.76% LBL should manage loan loss provision effectively.

**Figure No. 4.4**  
**Loan Loss Provision to Loan & Advances**



The above simple bar graph shows the portion of loan loss provision to total loan and advances of LBL for five years starting from fiscal year 2063/64 to 2067/68. LBL has the ratio 9.71% which is average ratio of five years. Decreasing trend of loan loss provision in total loan in recent years but LBL has increasing trend of loan loss provision.

#### 4.2.5 Non performing Loan to Total Loan and Advances

Bad debt and non performing loan do not have same meaning they have some fundamental differences in their meaning. Nonperforming loan can be debt but bad debt cannot be non performing loan. Non Performing loan represents that which remain unpaid after loan due date.

NRB has directed the commercial banks to classify their total loan portfolio into two category, performing and non performing loan. Nonperforming loan to total loan ratio determines the proportion of nonperforming loan I the best quality of assets of banks in the form of loan portfolio and lower ratio implies good quality of loan. Hence lower NPL to credit ratio is referred Amount of nonperforming loan in million is shown below in the tabulated form below of the selected bank starting from fiscal year 2063/64 to 2067/68. The ratio is calculated as follows.

**Table No.4.5**  
**Non Performing Loan to Total Loan and advances**

(NPR in Million)

Fiscal Year	NPL	Loan & Advance	Ratio
2063/64	923.81	20214.58	4.57%
2064/65	963.03	24319.06	3.96%
2065/66	1149.1	22443.54	5.12%
2066/67	996.66	22859.17	4.36%
2067/68	1415.20	23086.53	6.13%
Mean			4.83%
S.D			0.75%
C.V			15.53%

Source: Appendix I (5)

The above table exhibits the ratio of Nonperforming loan to total loan & advances of selected bank LBL for the five year starting from 2063/64 to 2067/68. From the above table it is clear that

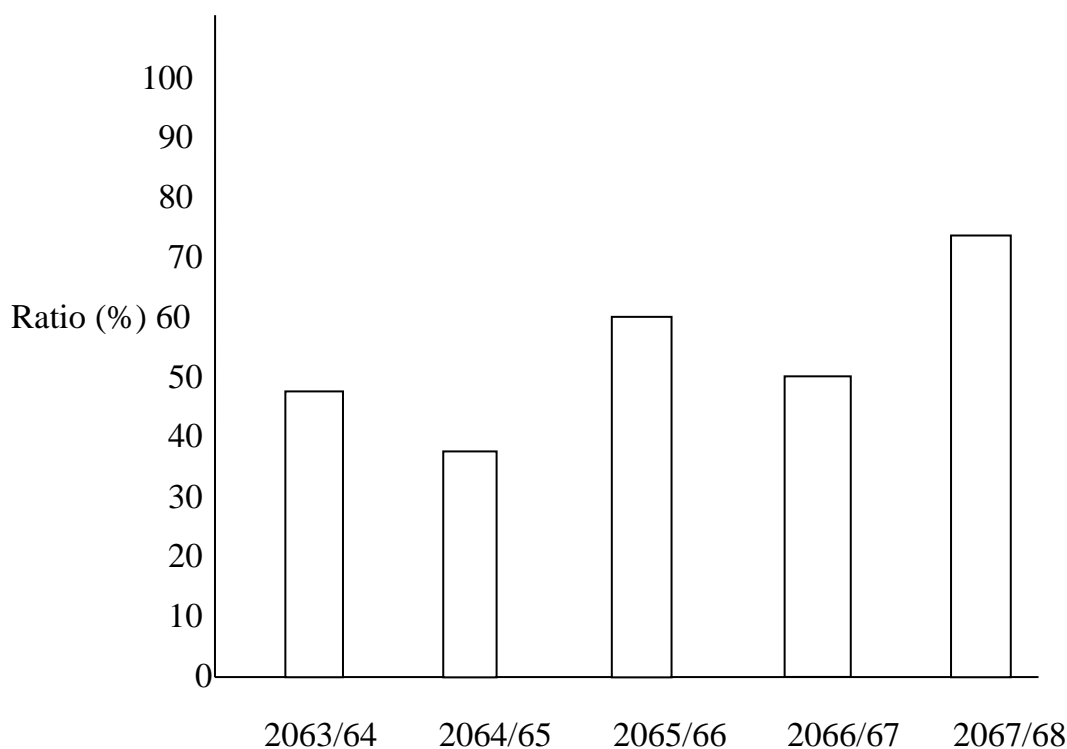
Nonperforming loan of LBL is not constant. In the year 2063/64, its ratio is just 4.57% and in the next fiscal year 2064/65 the ratio is decreased to 3.96% but again in the third fiscal year the ratio is increased to 5.12%. In the fourth fiscal year again it is decreased to 4.36% and in the fiscal year 2067/68, it is again increased to 6.13%

The above table shows the higher nonperforming loan of LBL. LBL has not maintain the average nonperforming loan to total loan & advance

Ratio of Standard deviation (S.D) and coefficient of variation (C.V) of LBL is 0.75 and 15.53% respectively this indicates that the bank has variability in nonperforming loan.

**Figure No. 4.5**

**Nonperforming Loan to Loan and Advances**



The above chart displays the ratio between nonperforming loan and advances of LBL from the fiscal year 2063/64 to 2067/68. The nonperforming loan to total loan and advances is variability. This indicates that quality of assets of bank in the form of loan not maintain properly.

**4.2.6 Loan loss provision to Non Performing loan**

This ratio determines provision held to non performing loan. NRB has directed all commercial bank s to provide provision for all types of loan and advances. This ratio measures up to what extent of

risk inherent in NPL is covered by the total loan loss provision more than 100% ratio signifies that the bank is safeguard against failure contingencies that may create due to bad loan where as lower than 100% may create huge provision in coming future due to requirement to high provision to substandard loan and advances

**Table No. 4.6**  
**Loan loss provision to Non Performing Loan**

(NPR in Million)

Fiscal year	Loan loss provision	Nonperforming loan	Ratio (%)
2063/64	11175.2	923.81	127.2
2064/65	1244.3	963.03	129.21
2065/66	1437.	1149.11	125.10
2066/67	1493.7	996.66	149.87
2067/68	2241.6	1415.20	158.39
Mean			137.96
S.D			13.54
C.V			9.81

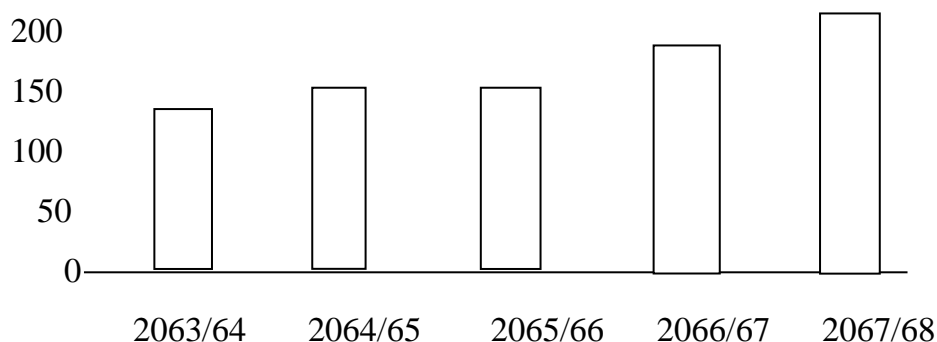
Source: Appendix I (6)

The above table shows the ratio of loan loss provision to nonperforming loan of LBL for five year starting from fiscal year 2063/64 to 2067/68. From the above table it can be seen that total provision of LBL is increased in second year than first year but in third fiscal year it is again decreased to 125.10% in fourth fiscal year it is increased to 149.87% and finally in fifth year again it is increased to 158.79%. All commercial bank have created provision greater than the amount of nonperforming loan which shows that all banks are safe against the future contingencies that may create due to nonpayment of loan. LBL is average loan loss provision ratio is 137.96%

The standard deviation (S.D) and coefficient of variation (C.V) is 13.54% and 9.81% respectively.

**Figure No.4.6**  
**Total Provision to Non performing Loan**

Ratio (%) 300  
250



Above bar graph reflects the ratio of total loan loss provision to non performing loan of LBL from fiscal year 2063/64 to 2067/68. As we know that more than 100% ratio signifies that the bank is safeguard against future contingencies that may create huge provision in coming future due to requirement of high provision to substandard loan and advances.

#### 4.2.7 Return on loan & Advances

Return on loan & advances ratio indicates how efficiently the bank has employed its resources in the forms of loan & advances. Net profit of a bank largely depends upon interest earned from loan & advances and there is positive correlation between effective utilization of loan & advances and net profit. This ratio measures the bank's profitability with respect to loan & advances. Higher the ratios better the performance of the bank and vice versa.

**Table No. 4.7**

**Return on loan & Advances**

(NPR in Million)

Fiscal Year	Net profit	Loan & Advances	Ratio %
2063/64	699.73	20214.58	4.45%
2064/65	1026.15	24319.06	4.22%
2065/66	981.34	22443.54	4.37%
2066/67	1017.60	22859.27	4.45%
2067/68	680.11	23086.53	2.95%

Mean			4.091%
S.D.			0.575%
C.V			14.06%

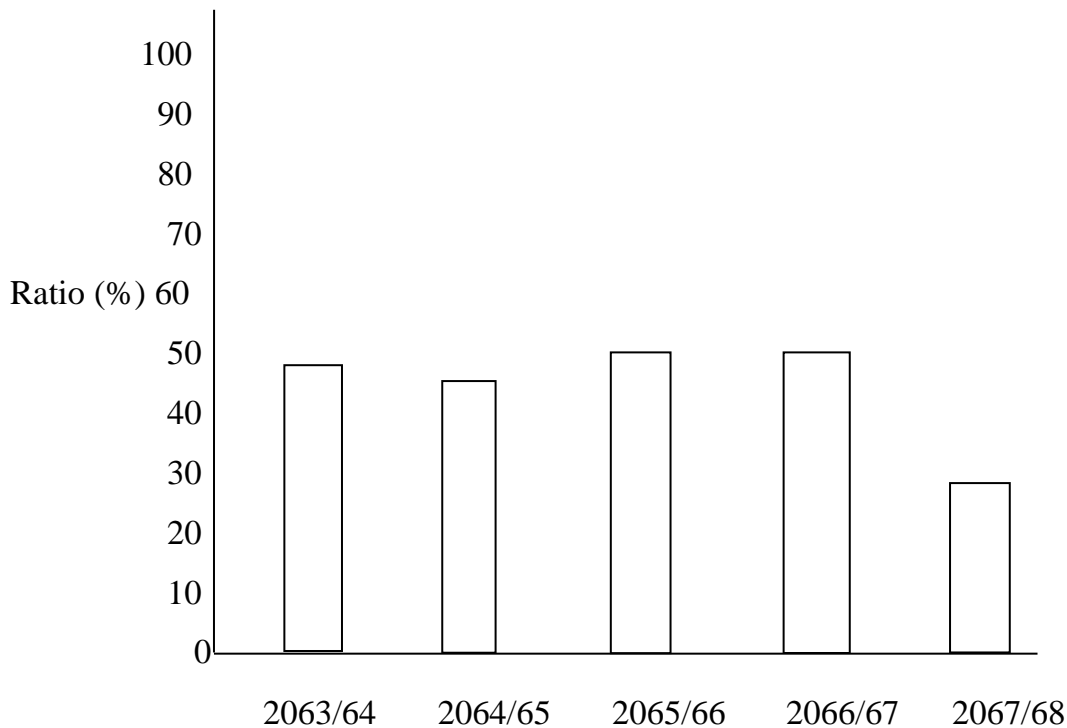
Source: Appendix I (7)

The above table displays the ratio of net profit to loan & advances of LBL for fiscal year 2063/64 to 2067/68. From above table it can be seen that net profit of LBL is variability and ratio of net profit to loan & advances is also decreasing and increasing and in the final fiscal year it is decreased to 2.95%. Loan disbursement on unproductive sector, is the most reliable cause for the lower net profit. Its average ratio is just 4.091%.

Standard deviation S.D. and coefficient of variation of LBL for those five fiscal years are 0.575% and 19.06% respectively. Lack of proper management of loan disbursement is the main cause for decreasing of net profit for the last fiscal year 2067/68.

**Figure No. 4.7**

**Return on loan & Advances**



The above chart displays the ratio between net profit and loan & advances of LBL from fiscal year 2063/64 and 2066/67 ratios are equal which is 4.45% and in the final fiscal year ratio is decreased to 2.95%. The bank has coefficient variation is 14.06% which is consistent variation and reflects that

Net profit of a bank largely depends upon interest earned from loan & advances and there is positive correlation between effective utilization of loan & advances net profit.

### **4.3. Correlation Analysis**

Correlation is the statistical tool that can be used to describe the degree of linear relationship of one variable to other variables correlation analysis is another important tool of statistic. It describes the relationship between variables and shows the degree of depending of one variable with another variable. Two variables are said to be correlated when the change in one variable results in change in another variable. Different models for correlation to determine the relationship between variables studied Karl Pearson's coefficient of correlation is calculated as follows. Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by "r" and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative correlation. If correlation coefficient is zero, then the factors are independent or not correlated.

#### **Interpretation of Correlation Coefficient**

- It always lies between +1 to -1
- If  $r=0$  there is no relationship between the variables.
- If  $r<0$ , there is negative relationship between the variables.
- If  $r>0$ , there is positive relationship
- If  $r=+1$ , the relationship is perfectly positive
- If  $r=-1$ , the relationship is perfectly negative.
- When  $r$  lies in between 0.7 to 0.999 to 0.7 to -0.999 there is a high degree of positive or negative correlation
- When  $r$  lies in between 0.5 to 0.6999, there is moderate degree of correlation.
- When  $r$  is less than 0.5 there is a low degree of correlation.

#### **Probable Error**

- If  $r < P.E.$ , the value of  $r$  is not significant
- If  $r > P.E.$ , the value of  $r$  is significant
- If the other situation happens nothing can be concluded with certainty.

### 4.3.1 Correlation between Loan Loss Provision and Loan & Advances

This relationship shows us the likely pattern of loan loss provision if loan changes. In other word correlation of loan loss provision and loan & advances indicates the degree of linear relationship between these two variables which helps us to take decision regarding loan 7 advances.

Following table shows the correlation between loan loss provisions to loan 7 advances.

**Table No. 4.8**

**Correlation between Loan Loss Provision and loan & advances**

Bank	$r$	$r^2$	Probable Error (P.E.)	E.P.E.
LBL	0.28	0.784	0.278	1.668

Source: Appendix II (1)

Above table shows the relationship between LLP and loan & advances of LBL. It is clear to see that LBL has positive correlation between loan loss provision and loan & advances LBL has positive correlation of 0.28 which indicates that loan loss provision follows the pattern of loan & advances which means if loan & advances increases loan loss provision also increases in same ratio and vice versa. Likewise correlation of LBL is lesser than six times of P.E. which proves that it is not significant.

### 4.3.2. Correlation between Loan loss provision and Non-performing loan

This relationship shows the degree of line or relationship between loan loss provision and Non-performing loan.

Following table reflects the correlation between loan loss provision and Non-performing loan.

**Table No 4.9**

**Correlation between Loan Loss provision and Non-performing Loan**

Bank	$r$	$r^2$	Probable Error (P.E.)	E.P.E.
LBL	0.45	0.9025	0.029	0.174

Source: Appendix II (2)

Above table shows the relationship between LLP and NPL for LBL. It is clear to see that LBL has positive correlation between loan loss provision and non-performing loan. LBL has positive correlation of 0.95 which indicates that loan loss provision is positively correlated with the non-performing loan. It means if non-performing loan increase loan loss provision also increase in same ratio and vice versa. In other words, it can be said that if the bank has to decrease the level of its loan loss provision it has to funds to increase quality loan portfolio and reduce the level of nonperforming loan. Likewise correlation of the bank is higher than the six times of its P.E. which proves that it is significant.

**4.3.3. Correlation between Loan & Advances to Total Deposit**

Accepting deposit and granting loan are the major function of commercial banks. The relationship of deposit and loans & advances should always be perfect positive.

Following table exhibits the correlation between Loan & advances to Total Deposit

**Table No. 4.10**

**Correlation between Loan & Advances to Total Deposit**

Bank	$r$	$r^2$	Probable Error (P.E.)	E.P.E.
LBL	0.72	0.5184	0.145	0.87

Source: Appendix II (3)

Above table shows the relationship between loan 7 advances and total deposit for LBL. It is clear that LBL has positive correlation between deposit and loan & advances for review period. LBL has positive correlation of 0.72 between total deposit and loan & Advances which indicates that loan 7 advances largely depends on deposit volume of the bank. If the bank wants to increase loan &

advances amount it has to accept additional deposits. Likewise correlations of the bank are lower than the six times of it's which proves that the correlation calculated above is not significant.

#### 4.4 Trend Analysis

Trend analysis present of future analysis is utilized to see the movement of upward or downward by the help of given numerical values of some specified period of time. That time period may be of five years, ten years etc. this section consists to tabular and graphical presentation and analysis of data. Trend analysis is mainly based on data relating to loans and advances, bills purchased and discounted interest income on loans and advances and commission and discount on bills purchased and discounted.

Here, trend analysis of loans and advances, non-performing loan and total provision of the bank are done. The forecast is made for the next five years. These are based on the following assumptions.

- The main assumption is that other things are remaining the same.
- The forecast will be true only when a limitation of least square method is carried out.
- The bank will un in present position
- The economy will remain in the present stage.
- Nepal Rastra bank will not change its guideline to commercial banks.

##### 4.4.1. Analysis of Trend Value on3Loan & Advances

Under table shows the trend values of 10 years F/Y 2063/64 to F/y 2072/73

**Table no. 4.11**

**Actual and Trend Values of Loan & Advances of LBL (NPR in Million)**

Year	Actual value of L&A	Trend value of L&A
2063/64	201214.58	21727.78
2064/65	24319.06	22156.18
2065/66	22443.54	22584.58
2066/67	22859.17	23012.98

2067/68	23086.53	23441.38
2068/69		23869.78
2069/70		24298.18
2070/71		24726.58
2071/72		25154.98
2072/73		25583.38

Source: Appendix III (1)

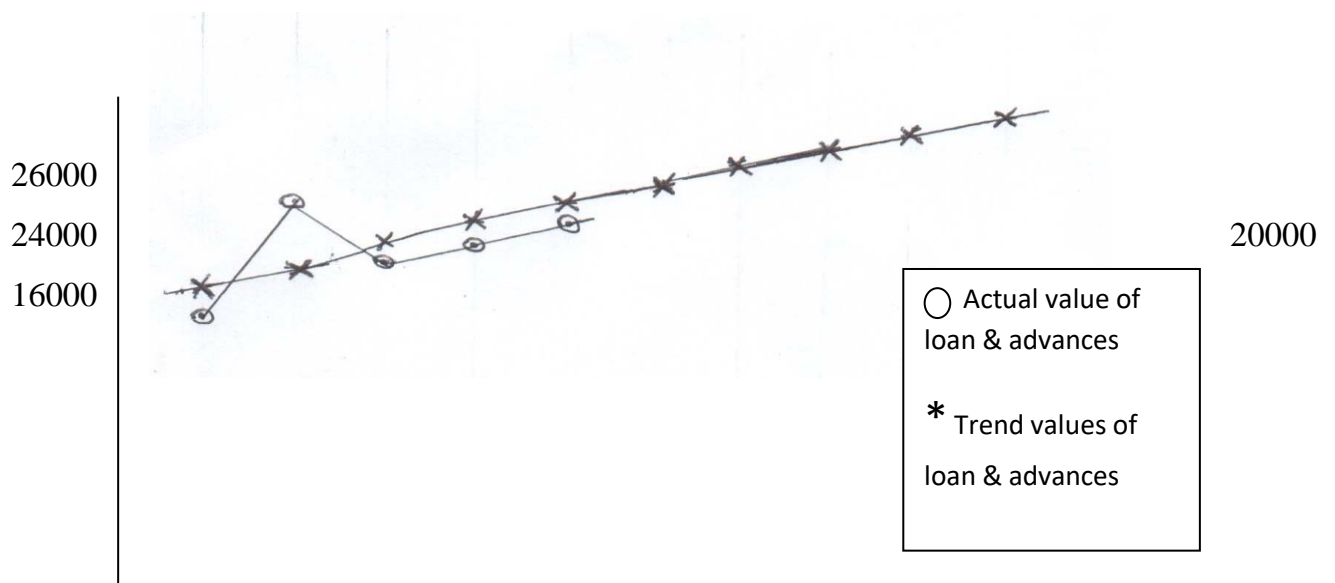
From the above comparative table it is clear that the trend values of loan & advances of LBL is in an increasing trend.

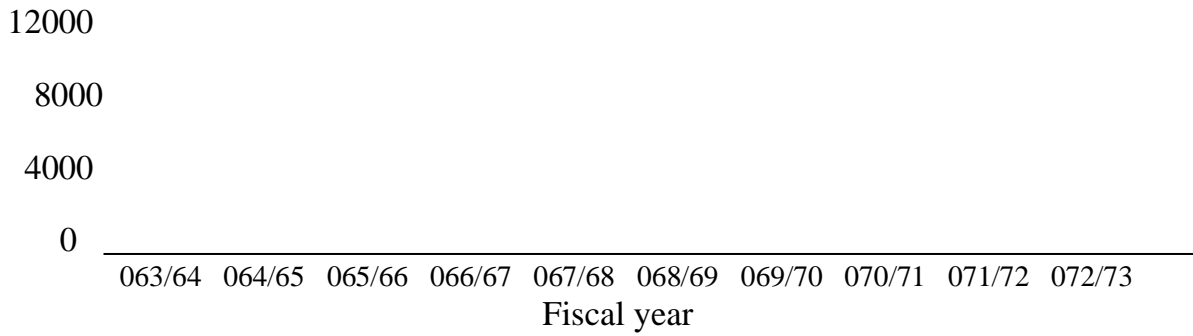
In the fiscal year 2063/64, the trend value is 21727.78 which will increase to 25583.38 in the fiscal year 2072/73.

The above actual values and trend values loan & advances of LBL are fitted in the trend line in the given figure below.

**Figure No. 4.8**

**Actual and Trend Values of loan & Advances of LBL**





Above figure No. 4.8 shows the actual and trend values of loan & Advances of LBL from FY 2063/64 to 2072/73. The trend line shows increasing trend of Loan & advances but actual values decreased in FY 2065/66 and again started to move up.

#### 4.4.2 Analysis of Trend value on Nonperforming Loan

Under this topic an effort has been made to calculate the trend values of Nonperforming loan of LBL for five years from FY 2063/64 to 2067/68 and forecast for next five years till FY 2072/73.

**Table No. 4.12**

**Actual and Trend values of nonperforming Loan of LBL (NPR in Million)**

Year	Actual value of NPL	Trend value of NPL
2063/64	923.81	686.28
2064/65	963.03	787.92
2065/66	1149.12	889.56
2066/67	996.66	991.2
2067/68	1415.20	1092.84
2068/69		1194.48
2069/70		1296.12
2070/71		1397.76
2071/72		1499.4
2072/73		1601.04

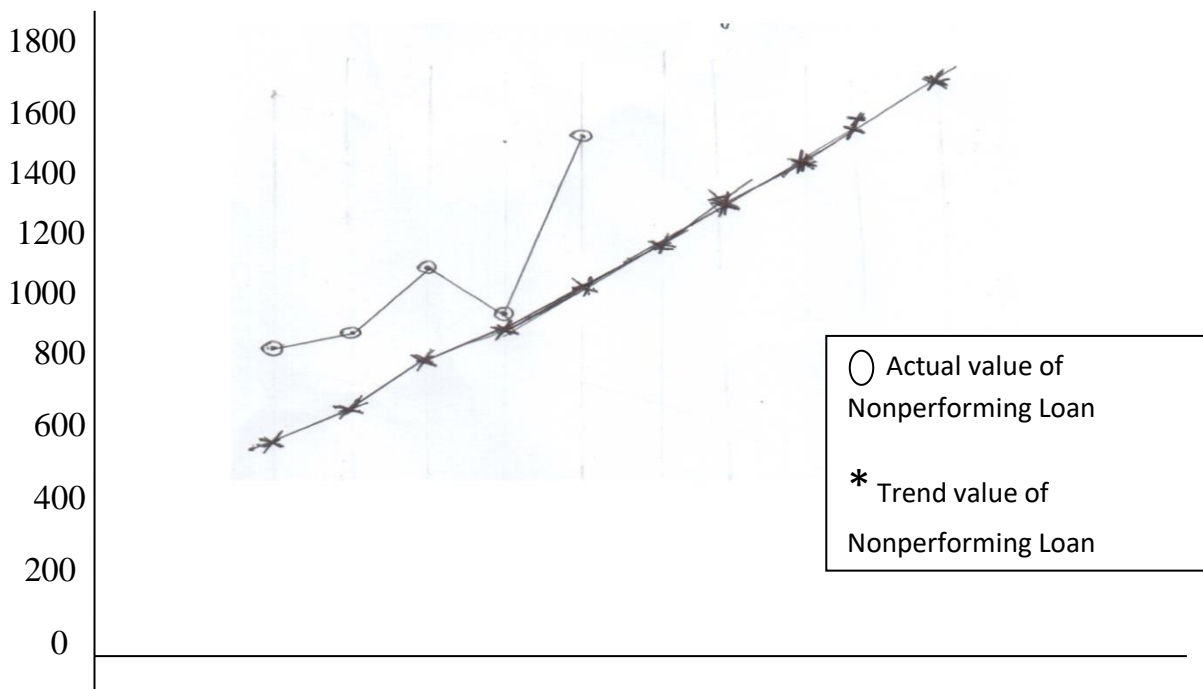
Source: Appendix III (2)

From the above table it is clear that the trend value of LBL is in increasing trend. If other things remain same, non-performing loan of LBL is predicted to be Rs 1601.04 million in FY 2072/73.

The above calculated trend values and actual values of LBL are filled in the trend line given in the following figure.

**Figure No. 4.9**

**Actual and Trend values of Non-performing Loan of LBL**



063/64 064/65 065/66 066/67 067/68 068/69 069/70 070/71 071/72  
072/73

Fiscal year

Above figure no 4.9 shows the actual and trend values of nonperforming loan of LBL from FY 2063/64 to 2072/73. The trend line reflects that the NPL is in increasing trend but actual values decreased I FY 2066/67 and again move up in FY 2067/68.

#### 4.4.3. Analysis of trend values of Total Provision

Under this topic the researcher has been made to calculate the trend values of total Loan loss provision of LBL for five years from FY 2063/64 to 2067/68 and forecast for next five years till FY 2072/73.

The following table shows the trend values of 10 years from FY 2063/64 to FY 2072/73

**Table No 4.13**  
**Actual and trend values of Total Provision**

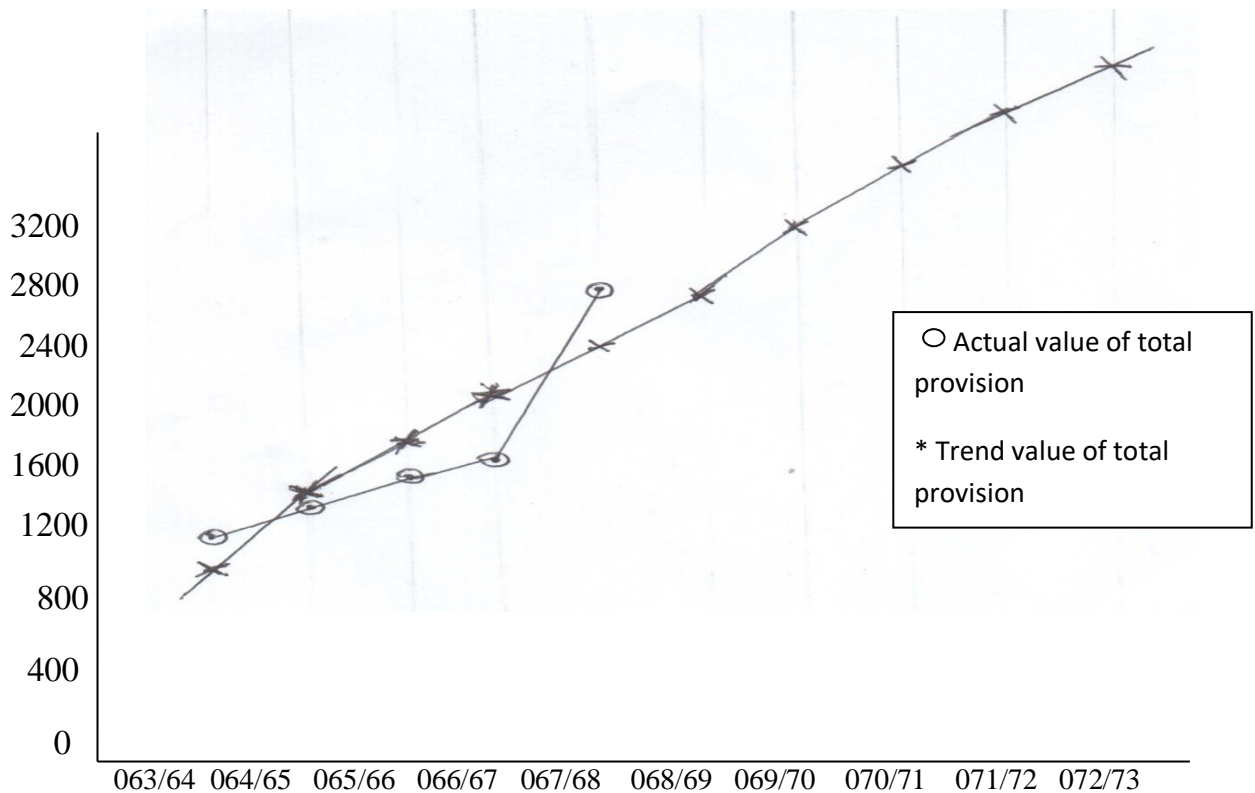
(NPR in Million)

Year	Actual value of Total provision	Trend value of Total Provision
2063/64	1175.2	1042.02
2064/65	1244.3	1280.24
2065/66	1437.5	1518.46
2066/67	1493.7	1756.68
2067/68	2241.6	1994.90
2068/69		2233.12
2069/70		2471.34
2070/71		2709.56
2071/72		2947.78
2072/73		3186.00

Source: Appendix III (3)

From the above comparative table we can see that a trend value of total provision of LBL is an increasing trend where as actual values also are in an increasing. If other things remaining unchanged total provision of LBL is predicted to be Rs 3186.00 million in FY 2072/73.

**Fig no. 4.10**  
**Actual and Trend Value of total provision of LBL**



## Fiscal year

Above fig no 4.10 shows the actual and the trend values of total provision of LBL from fiscal year 2063/64 to 2072/73 the trend line reflects that the total provision increasing trend and actual values also is increased.

### 4.5. Major Findings of the Study

- While analyzing loan & advances total deposits the researcher has found that more than eighty percent of total deposits are in the form of loan & advances.
- After analyzing the ratio of loan and total assets the analysis has got that more than seventy percent of total assets are in the form of loan advances. Where it is found that S.D. and C.V. loan & advances to total assets are 5.86% and 8.02% respectively.
- The researcher has categorized total loan & advances into two broad groups such as retail loan & corporate loan where he has found that corporate loan has higher percentage in market than retail loan. LBL provides in market than retail on corporate and less than 40% loan on retail.
- Other analyses of loan loss provision in total loan & advances clarifies that LBL higher loan loss provision which portion is 6.65%
- Nonperforming loan to loan & advances of LBL is up and down level of its NPL has increased up to 3<sup>rd</sup> fiscal year and goes down in the final fiscal year. It has again move up from the study it is found that its NPL total loan 7 advances is 4.83%
- Ratio of provision to Nonperforming loan of LBL shows that the level of provision is increasing and almost all commercial banks have created provision greater than the amount of nonperforming loan which shows that all banks are safe against the future contingencies that may created due to nonpayment of loan. Current ratio of LLP to NPL of LBL is 137.96%
- Net profit of LBL is changeable where as ratio of net profit to loan and advances is not satisfactory which just 4.09% is.

In this chapter the researcher has used Karl Pearson's correlation to analyze the data and interpret the result. Following findings are noticed during the study.

- Relation between LLP and loan & advances have perfect positive correlation indicates that if loan & advances increases than loan loss provision also increases and vice versa. LBL has positive correlation of 0.28 between LLP and Loan & advances
- LBL has positive correlation of 0.95% between loan loss provision and nonperforming loan. It means if nonperforming loan increase than loan loss provision also increases in same ratio and vice versa. In other word it can be said that if the bank has to focus to increase quality loan portfolio and reduce the level of nonperforming loan.
- LBL has positive correlation 0.72 between total deposit and loan & an advance which indicates that loan & advances largely depends on deposit volume of the bank. If the bank wants to increase the volume loan & advances it has to accept the additional deposits.
- LBL has increasing trend of loan & advances but actual values are upward and downward.
- LLP and NPL of LBL has also in increasing trend where NPL actual values goes up and down but actual value LLP is gradually increase.

## **CHAPTER 5**

### **SUMMARY, CONCLUSION & RECOMMENDATIONS**

This chapter is the final chapter of the thesis, where the researcher has to enclose the summary and conclusions of findings and recommendations. Brief introduction to all chapters of the study and genuine information of the present situation under the topic of the study is defined as summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weakness, opportunities and threats of the commercial banks. And suggestions are obtainable in recommendation, which is arranged on the basis of findings and conclusions.

#### **5.1 Summary**

Development of a country always depends upon the economic development of that country. Banking sector plays a vital role for the country's economic development so, bank is a resource mobilizing institution, which accepts deposits from various sources and invests such accumulated resources in the field of agriculture, trade, commerce, industry, tourism etc. Broadly, we can say banks draw surplus money from the people who are not using it at present and are holding for future and supplies from those are in position to use it for productive purpose.

Loan and advances is reflected in assets side of balance sheet of commercial banks loan & advances is direct contributing to banks income. Loan can be divided into two categories normally performing loan and non performing loan. Total assets of bank can be divided in two parts performing assets and non performing assets. Performing assets are those sets which directly generate cash to organization or indirectly helps to generate cash or it facilitates the set ups for better productivity. Loan & advances is direct contributor to banks income where as cash in vault balance in other bank, fixed assets and other are the facilitator which helps the daily operation of bank. Performing assets add positive value to bank as well as to nation. Performing assets are those loan & advance which service the banks on time which means the loan which pays its installment and interest and within

the time is known as performing loan. Performing loan is the contributor of banks growth and prosperity.

Nonperforming loan is such loan which fails to pay its interest to bank within stipulated time. Nonperforming loan is major concern of management because non performing loan needs to make provision and it hampers the profitability of bank.

This study mainly focuses on analyzing the loan disbursement and recovery system of Nepalese commercial banks. Among total banks only one bank (LBL) has been selected as sample, required data have been collected from annual report of the bank and websites of concerned bank including website of Nepal Rastra Bank. To come in to conclusion various financial and statistical tools have been used.

LBL has been found to utilize the depositor's money maximum in the forms of loan advances. Up to now, according to study bank is in satisfactory position in banking market.

## **5.2 Conclusion**

After economic liberalization our country Nepal has been facing glorious are in financial sectors. Various foreign banks have been investing in Nepalese Commercial banks and assisting by capital supplement as well as technical collaboration. Likewise various finance company and cooperative are also playing their inevitable role to mobilize the fund from unproductive sector to more productive sector.

Financial institution basically plays the intermediately role by accepting deposit and granting loan. This is also known as core banking function of commercial banks because it grants the long term sustainability of banks. Granting loan & advances carries risk of nonpayment of principal and interest therefore management always bothers about the repayment capacity of borrowers. Bad loan are the negative contributors to the bank because as per NRB directives. Banks have to make provision from the operating profit to cover the possible future loss from defaulter.

Loan & advances are the major determinant of earning of commercial banks and major portion of their earning assets this study of loan & advances to total assets has shown.

- That LBL has maintained more than 60% of its total assets in the form of loan and advances, which obviously indicate high attention of management towards of loan and advances.

- Loan and advances largely depends upon the level of deposit. The banks having more deposit have higher portion of loan and advances and vice versa. The study has revealed that LBL maintaining loan and advances to total deposit ratio is around 80%.
- Loan loss provision is a safeguard against future contingencies which NRB has made mandatory to all type of loan and advances. Higher portion of LLP indicates high portion of NPL in total loan portfolio and bad condition of bank too. The analysis of loan loss provision in total loan and advances has seemed 6.65% which higher in commercial banks.
- NRB has directed to divide the total loan into two parts, performing loan and non performing loan. Performing loan are those which success to survive in time and also known as good loan. Non-performing loan are those loan which fails to service in time and it is bad for financial health of any bank. Therefore the researcher has analyzed the portion of non-performing loan in total loan and advances. Which reveal that non performing loan of commercial banks has been decreasing. Non-performing loan to loan and advances of LBL has maintained a level of 4.83%.
- Ratio of provision to non-performing loan of LBL shows that the level of provision is increasing and has created provision greater than the amount of non-performing loan which shows the LBL is safe against the future contingencies that may create due to nonpayment of loan. Net profit of LBL is not in good condition .It is changing sometime more and sometimes decrease too.
- Correlation between LLP and loan and advances has cleared that has perfect positive correlation which got in data 0.28.
- Correlation between total loan and advances and deposited also perfect positive correlation between loan and advances and deposits is higher than the six times of P.E. which proves that it is significant.
- IN loan disbursement and collection do not occur timely, each and every organization could not be operationally and economically sounds and viable. This research is focused on loan disbursement and recovery system of LBL. For the purpose of collection of related information and data, the researcher has visited the concerned bank, materials were collected and analyzed. Both loan disbursement and recovery data are systematically presented and composed.

### 5.3 Recommendations

This study is basically done to analyze the loan disbursement and recovery system of LBL therefore various aspects of LBL have been sequined to come into conclusion.LBL has its own recourses structure and in the basis of that resources, management try to get optimal result various managerial skill as well as other setups obviously effect the banking progress therefore it is essential to analysis the performance of banking. This study has tried to find out some real facts about loan and advances and other interrelated variables with loan and advances of LBL indene, it would be beneficial for all stakeholders of that particular bank based on above summary and conclusions following recommendations have been provided.

- LBL has more than 70% of its assets in the form of loan and advances and loan and advances itself is the major income earning assets of commercial banks therefore management should be very much cautions while disbarring loan anyone bad loan can wipe out the profit from hundred good loans before providing loan viability of business as well as financial status of borrower and their repayment capacity should be closely analyzed.
- In case of borrowers who are not paying loans timely, banker, must examine and take corrective action. Repayment schedule must be rearranged recognizing the exact cause. Political and other pressure should be minimized.
- Lone and advances are categories as non performing loan if they fail to pay the dues in predetermines time. Several reasons for not servicing lone have been found among them reverse economic situation, change in government rules, sickness of industries, unexpectedly increment in competition and reduced margin in the business and intentional defaulter are some of them. These are few reasons for nonpayment of the dues in time therefore management should always analysis the future possible reverse situation and impact of that in their business before providing lone. Some of the techniques of reducing non performing lone are management can diverse their loan portfolio in two perfectly negatively correlated industry which sure a minimum recovery and distribution of total lone in different sector is also another technique which provides the banks safeguard of major portion of their lending.

- Since deposit utilization is a big challenge of commercial banks. An unutilized deposit brings additional costs to the bank therefore management always seeks to invest deposit in such project which maximizes the return. In the race of achieve long run sustainability but the quality of lone should be primal focus of the management. Study has shown that nonperforming loan has brought direct impact in their profitability therefore there should be a tradeoff between risk and return.
- This study has revealed that L B L has positive correlation between loan loss provision and non-performing lone which indicates that if the bank will to decrease the level of its loan loss provision it has to focus to increase quality loan portfolio and reduce the level of nonperforming loan. Therefore it should flow quality loan if it wants to reduce its loan loss provision.
- As per current NRB directive banks are not allowed to open new branches to grow their business if those banks have non performing lone directly reduces the profitability of banks by creating provision from operating profit and in the other hand it deprive of the banks to expand their business by opening new branches therefore should focus in long run profitability by discouraging lower quality lone.
- As per NRB directive banks should divide their lone and advances into two parts performing lone and non performing lone and loans are required to make provision as per the category of each lone. Since the directive has created great control measure and safely follow the directives. In addition to this loan loss provision provides safeguard against the future contingencies which may be created due to nonpayment of lone in future management should provide adequate loan loss provision as pre NRB directives to safeguard the bank from possible losses.
- As per NRB directive banks should divide their lone and advances into two parts performing lone and non performing lone and loans are required to make provision as per the category of each lone. Since this directive has created great control measure and safeguard to depositors and other stakeholders of the banks. Banks should strictly follow the directives. In addition to this lone is provision provides safeguard against the future contingencies which may be created due to nonpayment of lone in future management should provide adequate loan loss provision as pre NRB directives to safeguard the bank from the possible losses.

- Long term loan disbursement only can't change the life standard of rural life. Short term loans must be distributed to utilize small and local resources. If customers are provided technical facility along with the loan, it helps them to use the loan affection procedure should be transparent and easier. The borrower selection criteria should implement strictly and the needy should get priority in getting loan. Unnecessary obstacles and disturbances should be minimized. The employee should get adequate facility as per capacity of organization in the context of the country.
- Loan disbursement is mostly effected by recovery system. So, management should always adopt such policies which sure the customers to pay loan back before due date. Supervision and inspection system must be strict, unbiased, effective and efficient. It helps them to understand the importance of loan.

## Appendix I

### 1. Loan & Advances to Total Deposit

(NPR in millions)

Fiscal year	Loan & advance	Total deposits	Ratio %
2063/64	20214.58	23833.02	84.82%
2064/65	24319.06	73806.98	32.95%
2065/66	22443.54	24431.42	91.86%
2066/67	22859.17	23009.13	99.35%
2067/68	23086.53	25233.08	91.49%

Here (ratio %) = X

$$\text{Mean} = \frac{\sum x}{N} = \frac{400.47}{5} = 80.09\%$$

$$\text{S.D.} = \sqrt{\frac{(\sum x - \bar{x})^2}{N}} = \sqrt{\frac{2883.993}{5}} = 24.07\%$$

$$\text{C.V.} = \frac{S.D.}{\bar{x}} \times 100\% = \frac{24.07}{80.09} \times 100\% = 30.05\%$$

### 2. Loan & Advances to Total Assets

(NPR in millions)

Fiscal year	Loan & advance	Total deposits	Ratio %
2063/64	20214.58	28776.36	70.25
2064/65	24319.06	28686.93	84.77
2065/66	22443.54	31286.77	71.73
2066/67	22859.17	31531.57	72.50
2067/68	23086.53	34023.19	67.86

$$\text{Mean} = \frac{\sum x}{N} = \frac{367.11}{5} = 73.42\%$$

$$\begin{aligned} \text{S.D} &= \sqrt{\frac{(\sum x - \bar{x})^2}{N}} \\ &= \sqrt{\frac{173.4875}{5}} \\ &= 5.89\% \end{aligned}$$

$$\text{C.V.} = \frac{\text{S.D}}{\bar{x}} \times 100\%$$

$$= \frac{5.89}{73.42} \times 100\%$$

$$= 8.02\%$$

### 3. Retail Loan to Corporate Loan

(NPR in millions)

Fiscal year	Retail Loan	Corporate Loan	Ratio %
2063/64	8085.83	12128.75	66.67
2064/65	9241.24	15077.82	61.29
2065/66	9426.29	13017.25	72.41
2066/67	10286.63	12572.54	81.82
2067/68	9003.75	14082.78	63.93

$$\text{Mean} = \frac{\sum x}{N} = \frac{346.12}{5} = 69.22\%$$

$$\begin{aligned} \text{S.D} &= \sqrt{\frac{(\sum x - \bar{x})^2}{N}} \\ &= \sqrt{\frac{359.6845}{5}} \\ &= 8.48\% \end{aligned}$$

$$C.V. = \frac{S.D}{\bar{x}} \times 100\%$$

$$= \frac{8.48}{69.22} \times 100\%$$

$$= 12.25\%$$

#### 4. Loan Loss Provision to Loan & Advance

(NPR in millions)

Fiscal year	Loan Loss Provision	Loan advance	Ratio %
2063/64	1175.2	20214.58	5.81
2064/65	1244.3	24319	5.11
2065/66	1437.5	22443.54	6.41
2066/67	1493.7	22859.17	6.53
2067/68	1241.6	23086.53	9.71

$$\text{Mean} = \frac{\sum x}{N} = \frac{33.27}{5} = 6.65\%$$

$$S.D = \sqrt{\frac{(\sum x - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{12.5128}{5}}$$

$$= 1.58 \%$$

$$C.V. = \frac{S.D}{\bar{x}} \times 100\%$$

$$= \frac{1.58}{6.65} \times 100\%$$

$$= 23.76\%$$

## 5. Nonperforming Loan to Total Loan & advance

(NPR in millions)

Fiscal year	NPL	Loan & advance	Ratio %
2063/64	923.81	20214.58	4.57
2064/65	963.03	24319.06	3.96
2065/66	1149.11	22443.54	5.12
2066/67	996.66	22859.17	4.36
2067/68	1415.20	23086.53	6.13

$$\text{Mean} = \frac{\sum x}{N} = \frac{24.14}{5} = 4.83\%$$

$$\text{S.D} = \sqrt{\frac{(\sum x - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{2.8195}{5}}$$

$$= 0.75 \%$$

$$\text{C.V.} = \frac{\text{S.D}}{\bar{x}} \times 100\%$$

$$= \frac{0.75}{4.83} \times 100\%$$

$$= 15.53\%$$

## 6. Loan Loss Provision to Nonperforming Loan

(NPR in millions)

Fiscal year	Loan Loss Provision	Nonperforming loan	Ratio %
2063/64	1175.2	923.81	127.21
2064/65	1244.3	963.03	129.21
2065/66	1437.5	1149.11	125.10
2066/67	1493.7	996.66	149.87
2067/68	2241.6	1415.20	158.39

$$\text{Mean} = \frac{\sum x}{N} = \frac{689.78}{5} = 137.96\%$$

$$\text{S.D} = \sqrt{\frac{(\sum x - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{916.73}{5}}$$

$$= 13.54 \%$$

$$\text{C.V.} = \frac{\text{S.D}}{\bar{x}} \times 100\%$$

$$= \frac{13.54}{137.96} \times 100\%$$

$$= 9.81\%$$

## 7. Return on Loan & Advances

(NPR in millions)

Fiscal year	Net profit	Loan & Advances	Ratio %
2063/64	899.73	20214.58	4.45
2064/65	1026.15	24319.06	4.22
2065/66	981.34	22443.54	4.37
2066/67	1017.60	22859.17	4.45
2067/68	680.11	23086.53	2.95

$$\text{Mean} = \frac{\sum x}{N} = \frac{20.44}{5} = 4.09\%$$

$$\text{S.D} = \sqrt{\frac{(\sum x - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{1.6541}{5}}$$

$$= 0.575 \%$$

$$\text{C.V.} = \frac{\text{S.D}}{\bar{x}} \times 100\%$$

$$= \frac{0.575}{4.09} \times 100\%$$

$$= 14.06\%$$

## Appendix II

### 1. Calculation of Correlation Coefficient between Loan Loss Provision and Loan & Advances

(NPR in millions)

FY	LLP (x)	L&A (y)	X=x- $\bar{x}$	Y=y- $\bar{y}$	$x^2$	$y^2$	XY
2063/64	1175.2	20214.58	-343.26	-2370	117827.42	5616900	813526.2
2064/65	1244.3	24319.06	-274.16	1734.48	75163.71	3008420.87	-475525.04
2065/66	1437.5	22443.54	-80.96	-141.04	6554.52	19892.28	11418.60
2066/67	1493.7	22859.17	-24.76	274.59	613.06	75399.67	-6798.85
2067/68	2241.6	23086.53	723.14	501.95	522931.46	251953.80	362980.12
<b>Total</b>	<b>7592.3</b>	<b>112922.88</b>			<b>723090.17</b>	<b>8972566.62</b>	<b>705601.01</b>

$$\bar{x} = \frac{\sum x}{N} = \frac{7592.3}{5} = 1518.46$$

$$\bar{y} = \frac{\sum y}{N} = \frac{112922.88}{5} = 22584.58$$

$$\begin{aligned} \gamma &= \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} \\ &= \frac{705601.43}{\sqrt{723090.17} \sqrt{8972566.72}} \\ &= \frac{705601.01}{850.35 \times 2995.42} \\ &= 0.28 \end{aligned}$$

$$\gamma^2 = 0.0784$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.0784}{\sqrt{5}} = 0.278$$

$$\text{P.E.} = 6 \times 0.278 = 1.668$$

## 2. Correlation between Loan Loss Provision and Nonperforming Loan

(NPR in millions)

FY	LLP (x)	L&A (y)	X = x- $\bar{x}$	Y = y- $\bar{y}$	$x^2$	$y^2$	XY
2063/64	1175.2	923.81	-343.26	-165.75	117827.43	27473.06	56895.35
2064/65	1244.3	963.03	-274.16	-126.53	75163.71	16009.84	34689.46
2065/66	1437.5	1149.11	80.96	59.55	6554.52	3546.20	-4821.17
2066/67	1493.7	996.66	-24.76	-92.9	613.06	8630.41	2300.20
2067/68	2241.6	1415.20	723.14	325.64	522931.46	106041.41	235483.31
Total	7592.3				723090.18	161700.92	324547.15

$$\bar{x} = \frac{\sum x}{N} = \frac{7592.3}{5} = 1518.46$$

$$\bar{y} = \frac{\sum y}{N} = \frac{5447.81}{5} = 1089.56$$

$$r = \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}}$$

$$= \frac{324547.15}{\sqrt{723090.18} \sqrt{161700.92}}$$

$$= \frac{324547.15}{850.35 \times 402.12}$$

$$= 0.95$$

$$r^2 = 0.9025$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.9025}{\sqrt{5}} = 0.029$$

$$P.E. = 6 \times 0.029 = 0.174$$

### 3. Correlation between Loan and Advances to Total Deposits

(NPR in millions)

FY	LLP (x)	L&A (y)	X = x- $\bar{x}$	Y = y- $\bar{y}$	$x^2$	$y^2$	XY
2063/64	20214.58	23833.02	-2370	-10229.71	5616900	104646966.7	24244412.7
2064/65	24319.06	73806.98	1734.48	39744.25	3008420.87	1579605408	68935606.74
2065/66	22443.54	24431.42	-141.04	-9631.31	19892.28	92762132.32	1358399.96
2066/67	22859.17	23009.13	274.59	-11053.6	75399.67	122182073	-3035208.02
2067/68	23086.53	25233.08	501.95	-8829.65	251953.80	77962719.12	4432042.82
Total	112922.8	170313.63			8972566.62	1977159299	95935254.2
	8						

$$\begin{aligned}\bar{x} &= \frac{\sum x}{N} \\ &= \frac{112922.88}{5} \\ &= 22584.58\end{aligned}$$

$$\begin{aligned}\bar{y} &= \frac{\sum y}{N} \\ &= \frac{170313.63}{5} \\ &= 34062.73\end{aligned}$$

$$\begin{aligned}r &= \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} \\ &= \frac{95935254.2}{\sqrt{8972566.62} \sqrt{1977159299}} \\ &= \frac{95935254.2}{2995.42 \times 44465.26} \\ &= 0.72\end{aligned}$$

$$\gamma^2 = 0.5184$$

$$\begin{aligned} \text{P.E.} &= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \\ &= 0.6745 \times \frac{1-0.5184}{\sqrt{5}} \\ &= 0.145 \end{aligned}$$

$$\text{P.E.} = 6 \times 0.145 = 0.87$$

### Appendix III

#### 1. Trend Value of Loan & Advances of LBL

(NPR in millions)

FY	Loan & Advances	X= (t - 2065/66)	X <sup>2</sup>	XY
2063/64	20214.58	-2	4	-40429.16
2064/65	24319.06	-1	1	-24319.06
2065/66	22443.54	0	0	0
2066/67	22859.17	1	1	22859.17
2067/68	23086.53	2	4	46173.06
Total	112922.88		10	4284.01

$$a = \frac{\sum y}{N} = \frac{112922.88}{5} = 22584.58$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{4284.01}{10} = 428.40$$

The equation of the straight line is

$$y_c = a + bx$$

$$= 22584.58 + 428.40x$$

Year	X = ( t-2065/66)	$y_c = 22584.58 + 428.40x$
2063/64	-1	21727.78
2064/65	-1	22156.18
2065/66	0	22584.58
2066/67	1	23012.98
2067/68	2	23441.38
2068/69	3	23869.78
2069/70	4	24298.18
2070/71	5	24726.58
2071/72	6	25154.98
2072/73	7	25583.38

## 2. Trend value of Nonperforming Loan of LBL

(NPR in millions)

FY	Loan & Advances	X= (t - 2065/66)	X <sup>2</sup>	XY
2063/64	923.81	-2	4	-1847.62
2064/65	963.03	-1	1	963.03
2065/66	1149.11	0	0	0
2066/67	996.66	1	1	996.66
2067/68	1415.20	2	4	2830.4
Total	4447.81		10	1016.41

$$a = \frac{\sum y}{N} = \frac{4447.81}{5} = 889.56$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{1016.41}{10} = 101.64$$

The equation of the straight line is

$$y_c = a + bx$$

$$= 889.56 + 101.64x$$

Year	X = ( t-2065/66)	$y_c = 22584.58 + 428.40x$
2063/64	-2	686.28
2064/65	-1	787.92
2065/66	0	889.56
2066/67	1	991.2
2067/68	2	1092.84
2068/69	3	1194.48
2069/70	4	1296.12
2070/71	5	1397.76
2071/72	6	1499.4
2072/73	7	1601.04

### 3. Trend values Total Provision of LBL

(NPR in millions)

FY	Loan & Advances	X= (t - 2065/66)	X <sup>2</sup>	XY
2063/64	1175.2	-2	4	-2350.4
2064/65	1244.3	-1	1	-1244.3
2065/66	1437.5	0	0	0
2066/67	1493.7	1	1	1493.7
2067/68	2241.6	2	4	4483.2
Total	7592.3		10	2382.2

$$a = \frac{\sum y}{N} = \frac{7592.3}{5} = 1518.46$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{2382.2}{10} = 238.22$$

The equation of the straight line is

$$y_c = a + bx$$

$$= 1518.46 + 238.22x$$

Year	$X = (t - 2065/66)$	$y_c = 22584.58 + 428.40x$
2063/64	-2	1042.02
2064/65	-1	1280.24
2065/66	0	1518.46
2066/67	1	1756.68
2067/68	2	1994.90
2068/69	3	2233.12
2069/70	4	2471.34
2070/71	5	2709.56
2071/72	6	2947.78
2072/73	7	3186.00

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