Loan Management

Comparative Study of Everest Bank Limited and Nepal Bangladesh Bank Limited

A Thesis

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RECOMMENDATION

This is to certify that the thesis:

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has been prepared as approved by this department in the prescribed format of the Faculty of Management .This thesis is forwarded for examination.

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VIVA-VOCE SHEET

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

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<u>Viva-Voce Committee</u>

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DECLARATION

I hereby, declare that the work reported in this thesis entitled **Loan Management: Comparative Study of Everest Bank Limited and Nepal Bangladesh Bank Limited** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement of the Master of Business Studies (MBS) under the supervision of Janak Prasad Timilsina and Jyoti Pandey, Nepal Commerce Campus.

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Sarina Rajlawat

Researcher

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ABBREVIATION

C	:	Column
CDM	:	Central Department of Management
d.f	:	Degrees of freedom
E	:	Expected frequency
et.al	:	and others
FRN	:	Floating Rate Note
i.e.	:	That is
NEPSE	:	Nepal stock exchange
NRB	:	Nepal Rastra Bank
O	:	Observed frequency
SEBO	:	Security board Nepal
T-bill	:	Treasury bills
Viz.	:	Namely

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Financial institution is considered as the backbone in the development of the national economy. It is a financial institution, which act as a transaction of money by accepting various types of deposit, disbursing loans and rendering other financial services. So, among the various function, to provide loan to the investors is the major function. Through the loan, there will be increase in the environment of the investment and the bank has the major role in creating such an environment.

Financial institution plays a vital role in the economic development of a country. In fact, in the modern industrialized and service oriented era, the availability of banks with competitive services is the measure of economic development of a country. While many people believe that banks play only a narrow role in the economy taking deposit and making loans the modern banking has had to adopt new roles in order to responsive to public needs.

Overall national development of any country depends upon the economic development of that country and economic development largely depends upon the financial infrastructure of that country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being one of the least developed countries has been trying to embark upon the path of the economic development by economic growth rate and developing all sectors of economy. Nepal started economic development very late, only from early fifties of the 19th century. The agriculture based economy, vast mountainous landforms, political instabilities, landlocked situation and poor resource mobilization, which have slowed down the pace of development.

Nepal is a beautiful country in the world. Besides, it has got many means and resources such as water, minerals, forest etc. Though Nepal is not poor in means and resources, it is one of the poorest countries in the world. This is not because there is lack of resources; it is because the resources are either underutilized or unutilized in productive sectors or even other purposes i.e. social welfare and so on.

Nepal has adopted mixed liberal economic policy with implicit objective to help the state and the private sector. Especially, after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principle and state policies. This liberalization has helped in establishing many companies, banks, finance companies, co-operative companies and manufacturing industries. Thus these establishments help the country for its development.

After the establishment of Nepal Bank Limited on 30th Kartik, 1994 B.S. modern banking system started in Nepal. Under the Nepal Rastra Bank Act. 2012, Nepal Rastra Bank was established on 14th Baishakh, 2013 in Nepal. Rastriya Banijiya Bank was established in government sector in 2022 and Agricultural Development Bank on 17th Magh, 2024. Nepal Arab Bank is the first joint venture bank established in 2041 under the commercial Bank Act 2031 and Companies Act 2021.

The financial institutions are the yardstick for measuring the level of economic development. Bank is such a powerful financial institution that plays an important role to promote the economy by adopting the growth related policy thereby building up the financial structure for future economic development. According to U.S law, any institution offering deposits subject to withdrawal on demand and making loans of commercial or business nature is a bank. Banks today can be defined on the basis of the functions they perform in the economy. Bank is a kind of depository intermediary, which collects the loanable amount in the form of deposits from the surplus unit and disburse it to the deficit unit for the purpose of investing it in a productive sector. This is done by the bank through the process of financial intermediary in which it converts the secondary securities in the form of loans to the borrowers. In other words banks are those intermediaries that engage themselves in risky borrowing and lending across the financial markets by taking on risky financial claims from borrowers, while issuing almost risk-less claims to depositors.

Loans and advances should be efficiently managed and controlled. If loan is not managed it can cause inflation or deflation in the economy. Loans and advances are always risky. A detailed analysis of documentation and collateral for the largest loan, a review of a sample of small loans and an evaluation of the bank's loan policy should be properly monitored to ensure that it is sound and prudent in order to protect the public's fund. Thus it becomes necessary that funds of bank, which has been granted as loans into various sectors should be thoroughly inspected to guarantee the protection of the bank against the unforeseen risks.

In context of Nepal, its financial system comprises of financial markets, financial institutions and unorganized sector. Due to the security condition, economic activities are concentrated mainly in the urban areas only, which have created inefficiencies in the financial sector. Liquidity with the financial sector is high due to lack of investment opportunities. But contradictory profit figures of financial institutions indicate sound financial activities, which are quite unbelievable. Since the financial system is the sub-system of a national economical system, it is affected by the country's political and economic situations. The political scenario is stagnant in Nepal, due to which there is a slack in the economy. Besides this reason the socio-economic development of Nepal has been limited by a variety of geo-political and structural constraints as such, country's landlocked-ness, low economic growth, low per capita income and lower savings, increasing level of population, unexplored resources, higher tariff, and limited importable resources all of which have acted as major barriers to the economic development of the country.

In our country the banking industry has always been acted as a major force towards the economic development and enhancing the financial market. This industry has always been a reason for economic prosperity. Banking industry is completely service-oriented and from decades it has been providing various banking services and facilities. However the existence of unorganized money market, shopkeepers, and other indigenous individual moneylenders has acted as the main barrier to the intuitional credit. Besides that the lower saving also acts as the main barrier to the deposit collection. Nevertheless this, deposit collection, is the fund that bank uses to work by making loans and buying bonds.

The role of commercial banks in Nepal can be judged from its contribution made to the farmers to purchase a buffalo, to finance a big industry, to establish its industrial foundations to an exporter to produce goods to be exported and to provide a link to the economy providing conducive trade and commerce opportunities opened by the globalization. The Nepalese banking if worked efficiently would be the people's hope towards prosperity and economic dynamism.

This can be felt in this statement which says that, "Nepal has experienced a banking revolution in the country. The industry is reshaping its services continuously. They are gradually expanding the menu of financial services they offer to the customers. The level and intensity of competition faced by the financial services field have increased to execute more risky and high tech services in the country." He further adds, "Deregulation of the financial sector by Nepal has made it possible for bank managers to be more creative to more freely explore new ways to appeal to their customers and moreover, become more market oriented."(*Vaidya, 1999:118)*

In spite of all the revolutions that Nepalese banks have undergone they still merely act as repositories of community's savings and lent such savings to needy investors who are acceptable to them to certain criteria. But the saving of the people is very low. Commercial banks if successful in increasing the saving habit of people, would have a great power in multiplying the deposits by the way of credit creation and this would multiply the investment in priority and deprived sector more than the limit granted by the national savings. But the banks are mainly concentrated only in profitable sectors and have neglected the priority and deprived sectors. The latest data shows the banks are unable to meet the requirements of investment in these sectors as of the NRB directive. This has been the practices of many private and joint-venture banks that have not opened up their branches in rural areas where progress has not been seen in any field. In contradiction to this, public banks have been successful in opening many branches in the rural areas but they have higher proportions of default loans and un-recovered loans. But in private banks they have less loan loss provisions. The ratios of bad loans in government-operated banks i.e. Rastriya Banijya Bank and Nepal Bank Ltd. are greater than that of other commercial publicly owned banks, which affect the economic condition of the country. "According to the international standard, up to 5% bad loan is considered as better one and should be acceptable. The public banks have around 60% bad loan occupied 20% of the total deposit". (*The Annapurna Post Ashad 13, 2062)*

Recently two private banks are under the close monitoring and surveillance of Nepal Rastrya Bank because of their poor loan management and serious lapses in corporate governance. The problems of these banks usually springs from the loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies or unexpected economic conditions. That's why bank should have an effective loan management. The bank loan management department should regularly review all the asset quality issues including credit management policy and process. But improving loan management is not easy and quick. It takes years to improve.

Since the loan management is not satisfactory amongst the banks in Nepal and its being a national issue, this loan management topic is selected. The study on the topic may be the best one in the current situation where the loan management is being the main problem faced by the commercial banks and study on the topic tries to find the grass root problems of the loan management.

1.1.1 Everest Bank Limited (EBL)

Everest Bank Limited was registered under the company act 1964 in 19th November, 1993 (2049/09/03) and started banking transactions in 16th October 1994 (2051/07/01). This is the joint venture bank with Punjab national bank of India and Nepalese promoters. It is managed by a team of professionals led by Punjab National Bank under the Technical Service Agreement. Currently the bank has 14 branches including the head office in Nepal.

The bank had Rs.240 million as an authorized capital, Rs.120 million issued capital, and Rs.117.5645 million as paid up capital in the beginning of the year 2051/52.

It has the following share holding patterns.

I.	Punjab National Bank (India)	20%
II.	Nepalese promoters	50%
III.	General public	30%

Similarly, the present composition of Board of Directors (BOD) of the Bank comprise as given below.

1	Chairman	-	Promoter	nominee
1	Executive director	-	PNB	nominee
4	Director	-	Promoter	nominee
1	Director	-	PNB	nominee
2	Director	-	Elected by public shareholders	

The objectives of Everest Bank Limited are as follows:

- To play an important role in facilitating Indo-Nepal trade. This is growing with the support of large network of branches of Punjab National Bank in India.
- To provide a whole range of International Banking services and facilitate Nepal's trade and tourism.
- To participate in the emerging industrial scenario in Nepal and India's age- old exposure, banking experience and expertise.
- To provide the full range of quality banking service to the business community and common man in both the countries.

(Source: Brochure of EBL)

1.1.2 Nepal Bangladesh Bank Limited (NBBL)

Nepal Bangladesh Bank Limited is a joint venture bank with International Financial Investment and Commerce Bank (IFIC) limited of Bangladesh, and was established in 6th June, 1994 (2051-2-23 B.S.) under the company act 1964. It is managed as per the agreement signed with IFIC Bank Ltd. Bangladesh. Currently, the bank has 15 branches including its head office in Nepal.

In the initial period it had an authorized capital of Rs.240 million, issued capital of Rs.120 million and paid up capital of Rs.60 million.

The ownership composition or the holding pattern of share capital of the bank is as follows:

I. IFIC Bank Ltd. Bangladesh 50%
II. Nepali Promoters 20%
III. Public shareholders 30 %

Similarly, the present composition of Board of Director (BOD) of the bank comprise as follows:

1	Chairman	Representative from Nepalese promoter (Group B)
1	Director (member)	Representative from Nepalese promoter (Group B)
3	Directors (member)	Representative from IFIC Bank
2	Directors (members)	Representative from HMG/N
1	Managing Director	

The goals and objectives of Nepal Bangladesh Bank limited are as follows:

- To facilitate the reliable, prompt and high standard of banking service adopting the latest version of baking technologies in compliance with the need and demand of the market.
- To develop life-long relationship with clients and achieve profitability through customer oriented service and customer satisfaction.
- To spread its branch-net-work widely in different parts of the county covering at least one branch in all development regions and facilitating large number of clients as far as possible.
- To extend possible co-operation in the economic development of the country.

(Source: Brochure of NBBL)

1.2. Statement of the Problem

Loan management is the essence of commercial banking; consequently the formulation and implementation of second lending policies are among the most important responsibilities of directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit. Loan management effects on the company’s profitability and liquidity so it is one of the crucial decisions for the commercial banks.

The need of financial resources in a developing country like Nepal is essential for the economic development of country. All the sectors from industrial and commercial to agriculture and infrastructure are in need of finding. Although the growth of industrial loans has not been encouraging in the recent years, there is sizable growth in the commercial and other short-term credits. Commercial banks are focusing loans on consumer loans like housing, vehicle, education loan etc. It is encouraging to explore new sector for loan management but it should also be considered that industrial loan should be given prime importance as the economy largely depends on this sector.

Lending policies are not systematic and no clear cut vision of policy is available on lending aspect. In Nepal it has been found that on approval and lending decisions are made flexible to favor to personnel networks also. A new customer finds that loan providing process being very complicated and sometimes the documents submitted for loan sanctioning being fraudulent and for formality purpose only.

In this perspective following are some notes problematic aspect of the study.

- How effectively is the lending policy of selected sample bank is being followed?
- Whether the trend of the deposit and loans of the commercial banks are satisfactory.
- How the sample bank measures the liquidity position and impact of deposit on liquidity?
- What is the portion of lending between consumer and industrial loan?
- How the bank measures the lending performance in quality, efficiency, and contribution of profitability.

1.3. Objective of the Study

The general objective of this study is to analyze and evaluate of the loan management of Everest Bank Limited and Nepal Bangladesh Bank Limited. The objectives of this study has been categorized

- To analyze the effectiveness of lending policy of the selected sample banks.

- To measure the performance in quality, efficiency and contribution of profitability.
- To examine the trend of deposit and loans of commercial bank.
- To study the liquidity position, the impact of deposit on liquidity and its effect on lending performance.
- To provides suggestion and recommendation for the proper loan system.

1.4. Significance of the Study

Research made especially on Loan management of commercial bank couldn’t be found. This study too is made under the guidelines of the previous researches made on commercial banks, which too are very few in numbers. Commercial are emerging as vital part of our economy and moreover, Loan is one of the most essential and main function of commercial. Thus, this study on EBL and NBBL are going to play a significant role for all other researchers who wish to study on commercial banks. More than that, this can provide adequate information about studied EBL and NBBL and overall trend of commercial bank to the shareholders, investors, professionals and also to the students and teachers of commerce.

The presentation of this study will also help to clear out the misconceptions people have about commercial banks regarding their trustworthiness. Besides, this comparative study of loan management of commercial bank is probably the first attempt of its kind so it is going to be of an important value for the people interested in this field.

More than all, myself being a commerce student and interested in career in commercial bank this study will prove to be very important in my individual level, for my career in the up growing and challenging field of commercial bank.

1.5. Limitations of the Study

The study focuses the sensitive part of the financial institutions which resultants the management a little bit hesitation to come up with open view regarding the loan management and provision method. Therefore the study has been conducted on the basis of annual reports of selected commercial bank, published and unpublished material, NRB publications, and interview with the bankers and my personal judgment. Therefore the strength of findings will largely depend upon the correctness of input information. This research has following limitations

- The data used are all secondary. The annual reports published by the respective companies are the major data used for the analysis in the study. Besides those, reports published by NRB, articles, journals, and news published are used as the source of data. Thus, any mispresentations, mistakes and omissions will affect the outcome of the study.
- Since the study was made for 5 years only and the performances of others years ignored, this might not give the accurate picture. And the trend analysis might not be correct too.
- Statistical tools are used for analysis. Hence, the drawbacks and weakness of those tools may affect the outcome of the study.
- The data only focuses on the time period of the last 5 years i.e. from 2008/09 to 2012/13.
- Time constraint or limited time has had an impact on shaping up the study conducted.

1.6 Organization of the Study

This proposal is prepared in line with prescribed format and structured into five chapters; each devoted to some aspects of non performing loan and performance of finance companies. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

Chapter I : Introduction

Chapter II : Review of Literature

Chapter III : Research Methodology

Chapter IV : Presentation and Analysis of Data

Chapter V : Summary, Conclusion & Recommendations

Chapter One: The first chapter deals with the subject matter consisting introduction, background of the study, focus of the study, statement of the problem, objective of the study, significance of the study, limitations of the study and chapter scheme of the study.

Chapter Two: The second chapter is mainly focused with the review of available literature in the field of the studies being conducted. This includes review of the concerned topics, review of supportive text, review of books, review of various empirical studies conducted inside and outside the country, review of related articles and review of legislation related to loan management of commercial banks, development banks and finance companies.

Chapter Three: The third chapter describes the research methodology used to conduct the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools.

Chapter Four: The fourth chapter is concerned with analytical framework. It deals with the presentation, analysis, interpretation and scoring the empirical findings out of the study through definite course of research methodology. In this study, investment operations of commercial bank.. This chapter also contains major finding of the study.

Chapter Five: The final chapter five includes the major finding and conclusion of the study, which deals about the main theme of study. It is conclusive and suggestive chapter including the main findings and recommendation for improvement. This chapter deals about the main themes of the study and gives recommendations for the improvement in loan quality of the listed finance companies. At last, appendixes and bibliography have also been included according to the use of study.

CHAPTER -II

REVIEW OF LITERATURE

“Review of literature means reviewing research studies of other relevant preposition in the related area of the study so that all part studies, their conclusions and deficiencies may be know and further research can be concluded.”(Pant & Wolf, 1999:234). This chapter deals with the literature, relevant to this study, this part of thesis will essential to know about the finding of other research which are appropriate to the study. The first part will consist conceptual framework and the remaining parts will consist the review of reports, articles, journals and dissertation.

2.1 Conceptual Review

It consists of review of textbooks and other reference material such as newspaper, journals, magazines etc.

Concept of Commercial Banks

In general, commercial banks are these financial institutions, which play the role of financial intermediary in collection and disbursement of funds from surplus unit to deficit unit. Upadhaya and Tiwari (2037) have stressed that the commercial bank is established with a view to provide short term debt necessary for trade and commerce of the country along with other ordinary banking business such as collecting the surplus in the form of deposit, lending debts by discounting bills of exchange, accepting valuable goods in security, acting as an agent of the client etc. In the same way, Abrol and Gupta (2002) explain accept deposits and provides loans primarily to business firm. On the other hand the broad concept of commercial bank holds that the commercial bank is a banking institution other than central banks. The commercial bank is the only institution other than central bank permitted to accept demand and deposits.

Function of Commercial Banks

Commercial bank performs different functions such as core function and support to the business world as well as general people. Core function includes two type of functions- fund based and non-fund based functions. Similarly, which are carried out to fulfill the core functions American institute of Banking (1972), has fixed out four major functions of a commercial bank receiving payments, handling payments, making loans & investment and creating money by extension of credit. Similarly, Upadhaya & Tiwari (2037) have argued that there are three major functions of commercial bank. These three functions are:-

I. **Primary functions**
   - Accept deposits
   - Provide loans & Credit

II. **Agency functions**
   - Sales and purchase of securities.
   - Working as an agent & trustee of a customer.
   - Transfer of funds
   - Provide financial information.

III. **General functions**
   - Safe custody of valuable assets.
   - Issue of credit instruments.
   - Dealing with foreign exchange.
   - Competition of trade information & statistics.

2.1.1 Concept of Loan

Loan is the amount that has been provided to the deficit group of the society by bank. Banking business is to accept deposit from the surplus group of the society (or from those who want less risk to their money with less return) and supply those fund to the deficit group of society or to those entrepreneurs who have skill and knowledge but less financial resources to implement those viable projects. Almost all the banks have the loan as their prime assets and interest earning from the loan is the major source of income. Therefore the management is always concerned about the quality of their loan and advances.

“A bank that cannot grant loan applications from the good customers is in serious problem, a position which every well-run bank seeks to avoid. A bank must have an active turnover of its loan in order to properly allocate its supply of loanable funds. Since long-term loans are normally repaid more slowly the short or intermediate term loans, they have limited place in the bank portfolio. This fundamental need for the loan turnover is also the basis for the banks’ normal insistence or repayment plans for all loans, no matter how secured they are.”(*American institute of Banking; 1973, 164)* Thus the management of funds is constantly directed towards the bank’s need for liquidity, safety and income. Balancing these three goals is similar to trying to juggle three balls; it involves care, co-ordination and experience.

“An analysis of pattern of loans and advances provided by the banks in various developing countries reveals that banks have geared their credit policies to the interest of the national economy. More liberal and expansion credit policies have become a characteristic feature with them. The credit deposit ratio has soared to very high levels showing that there are arising new outlets for the employment of the resources.”*(Basu; 1974, 252)*

The primary business of commercial banking is one of collecting funds from the community and extending credit to the people for useful purpose. Commercial banks put their deposit money to work by making loans and advances, and buying bonds. “Commercial Bank is a unique financial institution and although loan practices vary widely among the individual commercial banks, their loan portfolios have several characteristics in common. Controlling the loan portfolio is a complex task because of the interaction of a variety of factors. The basic type of restrictions affecting the size and composition of the portfolio may be broken down into legal and practical.”*(American institute of Banking; 1973, 164)*

Loan is a financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation repay on specified date or demand. Loan usually comprises:

- Consumer installment
- Residential mortgage
- Direct finance leasing
- Non- personal loan, such as loan to business, financial institution, government and their agencies.
- Other financial arrangement that are in substance loans.

Thus the loans of commercial banks can be classified on the basis of what borrowers intend to do with the money they obtain. On this basis, there are six major classes of loans business loans, farm loans, loans for purchasing and carrying of securities, consumer loans, home mortgage loans, miscellaneous loan class including inter-bank loans, direct loans to government bodies and loans granted by banks to their own officers and employees. *(Kent; 1972, 326)* Likewise loans can also be classified as commercial loan, consumer loan, mortgage loan *(Johnson et.al:1940:158)*

Loan Classification

Total loan of a bank consists of hundred of thousands of individual loan which have their own performance and inherit risk. To understand the overall performance of loan management has to segregate its total loan into different categories so that the focus should be made depending upon the classification of loan. Further loan has to classify as per the regulation of NRB so that the appropriate provision should be made to eliminate the risk to its stakeholders.

If we scrutinize the loan classification schedule of a commercial bank we found the loan and advances and bills purchased are classified into two major categories which is performing loan and non performing loan. To understand it in detail, we have to deal it separately.

A) Performing Loan

Performing loan is that loan which the principal are not past due for a period up to 3 months and restructured loans shall be included in this category. Earlier, restructured loan were not included in this category but the new directive issued by NRB has permitted the banks to treat restructured loans as performing loan, but the restructured loan should meet the all criteria stated in Unifies NRB Directives No-2.

B) Non Performing Loan

All loan and advances the principal of which are past due for a period of more than 3 months shall be included in this category. Non -performing loan is further categorizes into sub standard, doubtful and loss. Sub standard loan are those loan which are past due for period of more than 3 months or up to 6 months, doubtful are past due for a period of more than 6 months or up to 1 year and loss are past due for a period of more 1 year. Non- performing loans have negative impact in banks growth as well as in economic growth. In the one hand, it stops the interest earnings of bank and in other hand it causes the bank to make certain percent provision (for possible loss of principle) from the operating profit. Increasing non- performing loan has direct and negative impact on banks profitability. Therefore, the management should focus on quality loan.

C) Non Performing Assets:

Assets side of balance sheet consists of performing and non -performing assets. Performing assets are those assets which help the bank to generate regular income where as non performing assets refer to that portion of bank's total assets which is not generating income to bank. Accumulated loss, non-banking assets and non-performing loan are some example of non-performing assets. Accumulated loss is the past loss from operation carried forward to balance sheet, which reduces the shareholder's equity. Non-performing loan is such loan, which fails to pay its interest to bank with in stipulated time and non-banking assets are those taken over assets which have been sold to set off the loan. Non-performing loan and non-banking assets have positive and direct relationship. The higher the non-performing assets, the lower will be the return to the organization. Therefore, the management always focuses to utilize the deployed assets in maximum and reduce the level of non-performing assets so that a sustainable income is generated.

Loan Loss Provision:

Loan and advances are the major sources of income of a bank and it is the major portion of its assets too. Therefore, management should always be conscious to maintain a high yield and low risky portfolio so that it regularly generates the income for the bank and reduces possible losses due to non-payment of principle.

Though bank tries to manage it's portfolio but what a bank can do is to control/ direct internal factor regarding the loan disbursement decision. But the performance of loan largely depends upon external factor, which the bank cannot eliminate. There are number of factor which affects the performance of loan some of them are adverse economic situation, high competition, security problem, poor management, low moral of borrower, etc.

Loan loss provision is a provision made to reduce the possible loss due to non-payment of principle. NRB has made it mandatory to provide provision according to the classification of outstanding loan. By doing so, NRB has protected the interest of stakeholder. Loan loss provision is essential to analyze the performance of management in all respect.

According to NRB, all good loans should provide 1 per cent provision, restructured/ rescheduled loan should provide 25.0 per cent, doubtful loan should provide 50 per cent and bad loan should provide 100 per cent provision. The above said provision is a minimum one but management can provide provision in higher rate to strengthen the bank's position.

There is no uniform standard among the intellectuals and organizations for classifying the loans. However on the basis of aging, loans and advances should be classified into four categories which are described in the review of NRB directive. *(NRB Directive)*

- Pass Loan
- Substandard loan
- Doubtful Loan
- Bad Loan

The loans can be further classified as performing loans and non-performing loans. Performing loans includes pass loans only while non-performing loans includes substandard, doubtful and bad loans. Performing loans have multiple benefits while non-performing loans erodes even existing capital. Performing loans are those that repay the principal and interest to the bank from the cash flow it generates.

2.1.2 Review of NRB Directive

2.1.2.1 Classification of Loan

According to NRB directive no.2 on the basis of aging, loans and advances should be classified into four categories.

- Pass loan: Loans and advances whose principal amount are not past due and has the due for a period up to 3 months should be included in this category.
- Substandard loan: All the loans and advances that are past due for a period of 3 months to 6 months should be included in this category.
- Doubtful loan: All the loans and advances that are past due for a period of 6 months to 1 year should be included in this category.
- Bad loan: All the loans and advances which are past due for a period of more than 1 year and which have least possibility of recovery in future should be included in this category.

2.1.2.2 Loan Loss Provision

Similarly the commercial banks are required to maintain the loan loss provision based on the loan principal and their repayment status as per the directive (no.2) of NRB.

Table No 2.1: Loan classification according to NRB

Loan Classification on the basis of Aging	Loan Loss Provision Required (%)
Pass	1
Substandard	25
Doubtful	50
Bad/ Loss	100

(www.nrb.org.np)

"Loan loss provision set aside for performing loan is defined as 'General loan loss provision' and loan loss provision set aside for NPL is defined as 'Specific loan loss provision' where the loan is extended only against the personal guarantee, a statement of assets, equivalent to the personal guarantee amount not claimed by any other, should be obtained be classified as per above and where loan fall under the category of pass, sub-standard and doubtful, in addition to the normal loan provision applicable for the category, an additional provision by 20% should also be provided. Classification of such loans and advances should be prepared separately."

The banks should control NPL otherwise it creates great problem for the bank. NPLs not only affect the profitability of the banks but also create negative image towards the depositors and stakeholders, which ultimately affect the operations of the bank. So in order to provide positive image towards the stakeholders and depositors, the banks have to maintain the loan loss provisioning as of the NRB directives for various types of loans.

"Non-performing loans could wreck banks profitability both through a loss of interest income and write off principal loan amount. It takes the subject of in entire starting from the stage of their identification till the recovery of dues in such account." *(Bidani, 2003:1)*

2.1.3 Review of Lending and Recovery Procedure of EBL

2.1.4.1 Review of Lending Procedure of EBL

The very beginning process of Nepal Investment Bank Ltd. (EBL) is to obtain written confirmation from CICL about the client. CICL replies with the written confirmation regarding the status of the individual/companies that includes blacklisting, no loan till date or the loan amount and the latest outstanding. The banks are required to treat the confirmation in confidential manner. If CICL or any other banks/financial institutions inform that the applicant or promoters are blacklisted, by the rule of NRB, no loan should be processed or sanctioned.

Second step is, if the applicant is availing credit facilities from any other bank or financial institutions, credit information needs to be obtained from the same and again it is to be treated in confidential manner. Upon receiving satisfactory report from CICL and other bank, Credit Memorandum (CM) is to be prepared by Relationship Manager. Upon completion of CM, it is to be sent for approval to the competent authority. CM must be prepared in line with the credit policy and procedure guide (CCPG). CCPG is internally prepared by the bank in accordance with the rule of NRB.

Table No 2.2:

Credit approving authority at EBL is provided based on the level, which are as follows:

Corporate Title	Funded Facility	Non-Funded Facility
Head Of Corporate (HOC)	up to NPR 5 million	up to NPR 10 million
General Manager (GM)	up to NPR 20 million	up to NPR 40 million
Senior General Manager (SGM)	up to NPR 25 million	up to NPR 50 million
Chief Executive Director (CED)	up to NPR 70 million	up to NPR 140 million
Executive Credit Committee (ECC)	above NPR 70 million	above NPR 140 million

(ECC consists of CED, SGM, GM and a minimum of two boards of directors)

Third step is all Credit Memorandum (CM) are prepared by Relationship Manager then it goes the competent authority for approval. It has to go through all approving authorities i.e. if CM is to be approved by the SGM, and then it goes through HOC and GM. If it is to be approved by the CED and it goes through HOC, GM, SGM then CED. Similarly all CM to be approved by ECC goes through HOC, GM, SGM, and CED and finally it is to be approved by the ECC. Any of these authorities have the right to decline the loan at any stage. If application is declined from the 1st level i.e. by HOC then it doesn't go further up.

If the CM is approved then it goes back to Relationship Manager for further documentation. Relationship Manager sends the CM to Credit Administration Department (CAD) for the documentation process. CAD is entitled for preparation of all security documents like Offer Letter, personal guarantee etc and registration of the proposed collateral or security by the applicant. Once the loan is approved, CAD prepares the various documents as per the terms of approval and are to be signed by the authorized person of the company or firm.

It assigns the registered valuator of the bank to asses the value of the collateral proposed by the loan applicant. Upon receiving the report from the valuator, verification of the proposed site is done. Upon verification, Site visit report is prepared duly signed by the inspectors and forwarded to SGM for approval their through Legal Department of the bank and registered mortgage process over proposed collateral is carried out from concerned Malpot Office.

If the property is in the name of individual, then the property owner needs to submit his consent so that if the bank requires taking the property to auction, no 'hakwalas' can claim on the same. Upon completion of all documents, loan facility is ready to implement. Loan Administration Department (LAD) verifies all the documents and implements the facility. The client has now sanctioned facilities in the account. All facilities have the expiry date of one year other than Housing Loan and Vehicle Loan. The facilities are to be reviewed every year if the status of the loan account is satisfactory. For any waiver, file must reach the ECC/Board.

2.1.4.1.1 Supervision & Monitor

As per CPPG, the RM is responsible for the supervision and monitoring process. There are many ways of supervision. Some of them are:

The RM needs the check the loan account on regular basis to decide how properly the loan has been utilized. It is done until the loan is recovered. It is done from time to time to know the plight of the debtor, proper use of the loan and to identify the financial position. If the account is stagnant then risk is there. It comprises of

- Verification of the loan documents
- Field Visit: As per CPPG periodic inspection needs to be carried out from the RM. If the loan is secured with unrelated collateral such as land & building, vehicle or plant & machineries, then inspection is to be carried out on quarterly basis. If loan is secured with related collateral like stock, receivables, then inspection is to be conducted on monthly basis.
- Cross verification with other customers/competitors and obtaining market information at the time of marketing should be done on regular basis to find out the status of the client through the competitors or news and current affairs.
- Interaction with the senior management of the company should be done to identify the business status. RM must directly and indirectly drag out the business information and their plans.
- Similarly provided collateral/security must be verified on periodic manner. Must of the loans are provided for one year. Before the expiry of three moths, RM needs to take the initiation to renew the file so that it can be renewed before the expiry.
- Forms of credit to be prepared such as internal credit audit and external credit audit.

2.1.4.2 Loan Recovery Procedure of EBL

Once the loan is sanctioned and limit is utilized by the client, concerned Relationship Manager is responsible for monitoring and periodic supervision. Accounts of the client are to be monitored on a regular basis. Similarly, the clients are responsible to repay the interest and related installments on timely manner. Any status of overdue interest or installments can be identified through 'Exception Report'. If the payments are not received in the stipulated time, then it comes in the report with an outstanding amount.

Listed customers in Exception Report are to be initially verbally informed by the concerned Relationship Manager as a reminder to the customer. The customer needs to be well explained about the status so that the same thing is not repeated in future.

Follow-up by the RM is carried out on following manner if not repaid on timely manner:

- Verbal information through phone
- Visit the customer or call customer at bank and explain why the loan has to be rapid on time
- Prepare reminder letter no.1 (allow a minimum of one week time to repay the outstanding amount) and forward to the customer (file a copy of letter in related credit file)
- Send letter no. 2 as another reminder after the one week completion (copy to be filed)
- Send final written warning and inform the customer that the outstanding dues must be cleared within 24 hours otherwise bank may proceed for the further recovery process inline with legal action

2.1.4.2.1 Action

If the outstanding overdue is not cleared within the final warning timeframe, then the bank may initiate action for the recovery process. At this point of time, the file goes to Legal Department of the bank so that the legal action can be preceded. Legal Department consists of lawyers and legal advisors of the bank who are the expertise of the legal proceedings.

Legal Department verifies all security documents from the beginning like loan application, board resolution, offer letter and other terms and conditions papers, mortgage deed, loan deed, title deed etc. These documents are to be verified in order to identify that if the bank will have its upper hand against its lawsuit to the customer. Upon verifying the documents, the legal department publishes 35 days notice in local newspaper informing the client to repay the loan within 35 days of the notice or else the bank may seize the property and take it to auction for recovery of the debt. The bank may blacklist the company, its promoters and its sister concern in the recovery process. This is to note that as per the rule of the Central Bank, once the bank publishes the 35 days notice, the client and associates are automatically blacklisted and no other bank or financial institutions can do the lending on related company, promoters and the sister concerns. In addition, even if the loans have been provided by any other bank or financial institutions to related group/company, it needs to be 'call-back' and the client is entitled to settle all debts.

The client including promoters and the sister concerns are to remain blacklisted until the entire loan is settled either through the auction of the collateral or settlement by the client by depositing cash at bank.

2.2. Review of Related Studies

2.2.1 Review of Articles

Mr. Sunil Chopra **(2046)** in his article**,** "Role of foreign banks in Nepal", concluded that JV banks are already playing an increasingly dynamic and vital role in the economic development of the country. This will immediately increase with the time.

Sunity Shrestha **(1997)** in her article, "Lending operation of CB of Nepal and its impact on GDP" has presented with the objection to make an analysis of CBs lending to GDP of Nepal. She has set hypothesis that there has been positive impact of lending of CBs on the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial service and social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution. The multiple analyzes have shown that all the variables except service sector lending has positive impact on GDP. Thus in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP. At conclusion she has accepted the hypothesis i.e. there has been positive impact by lending of commercial in various sectors of the economy, except service sector investment."

Mr. Ramesh Lal Shrestha **(1998)** in his article, "A study on deposits and credits of CB in Nepal" has concluded that the commercial bank should try to give more credit entering new fields as far as possible; otherwise they might not be able to meet their total expense.

Mr. Rewat Bahadur Karki **(2000)** in his article, "Nepalese financial sector: challenges and solutions" says the financial sector is facing the major challenge of NPL of the banking sector, which comes around 18% of the total loan but if the loan classification is made according to least international practice, it is assumed to exceed 30%. Credit demand is being met largely by non-institutional sources i.e. private lender, merchant, trader, individual and landlord at very high rate of interest which is 2/3 times higher than that of institutional source, this shows that the unorganized financial sector is playing a major role in the Nepalese economy. The liquidity position of the banking sector is rated as high as 24% but the productive sector of the economy is starved by the credit crunch. This has created a paradoxical situation in the banking sector."

2.2.2 Review of Thesis

Giri (2011) conducted a study on "A Study on Investment Policy of Nepal Investment Bank Ltd. In Comparison to Nepal EBL Bank Ltd." With the objective of:

- To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal EBL Bank Ltd.
- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal EBL bank ltd.
- To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal EBL Bank Ltd.

The research findings of the study are as follows:

- Current ratios for both the banks are satisfactory.
- Although Cash reserve ratio is managed by both banks as per Nepal Rastrya Bank directives, both banks have not paid sufficient insight towards cash management. Their cash reserves have fluctuated in a high degree.
- Nepal EBL Bank ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal EBL Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal EBL Bank Ltd.

- Deposit utilization of Nepal Investment Bank Ltd. is less effective than that of Nepal EBL Bank Ltd. Further Nepal Investment Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal EBL Bank.
- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal EBL Bank.
- The trend value of loan and advances to total deposits ratio is decreasing in case of both banks. The trend value of total investment to total deposits ratio is also decreasing in case of both banks.

Thapa (2011) in his thesis, "Investment Policy of the Joint Venture Banks in Nepal" had analyzed between investment policy and different variables like deposits, commission and discount, net profit, interest on loan and investment. He applied correlation, ratio analysis, t- test, and standard deviations.

He concluded that there is significant relationship between deposit and loan and advances as well as outside assets and net profit but not deposits and total investment in case of NABIL and other joint venture banks. Most of the joint venture banks have focused their banking services especially to big clients such as to purchase shares and debentures of other financial and non-financial companies.

Bhattarai, (2011) in his thesis paper "Liquidity and Investment Position of Joint Venture Commercial Bank in Nepal" had made an attempt to evaluate liquidity and investment of joint venture Banks special reference to Everest Bank limited and NABIL .He has conducted that liquidity position of EBL is comparatively better than NABIL's. Growth rate of investment is higher in EBL than NABIL. He further found the banks do not have constant and consistent liquidity and investment policy. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. A commercial bank at its own judgment may decide to maintain an appropriate level of liquid assets. So he has recommended exploring such investment and to increase its investment on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return.

Khadka (2012) conducted a study on “A study on the investment policy of NABIL Bank Ltd. in Comparison to Other Joint venture banks of Nepal” The research findings of the study are as follows:

- Liquidity position f NABIL bank Ltd. is comparatively worse than that of other JVBs. NABIL Bank has more portions of current assets as loan and advances but less portion as investment on government securities.
- NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than that of other JVBs.
- Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBs. The mean ratio of return on loan and advances of NABIL bank Ltd. has been found slightly lower than that of other JVBs. Similarly, the mean ratio of total interest earned to total outside assets of NABIL bank Ltd. has been found slightly lower than that of other JVBs.
- Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan and advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBs (i.e. Nepal Grindlays Bank Ltd. and Nepal Indo Suez bank ltd.).
- There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between total deposits and total investment in case of both NABIL bank Ltd. and other JVBs.

Bhattarai, (2013) in her thesis ‘Implementation of Directives issued by Nepal Rastra Bank’ with reference to the Nepal SBI bank and Nepal Bangladesh bank limited has focused to the legal implementations of non-performing loan of commercial banks. She concluded the impact of new directives issued by NRB has a negative impact to the commercial banks. She writes the new directive compels the bank to provide additional loan loss provision for outstanding loans, which ultimately reduces the operating profits of banks. However, it strengthens the position of banks and increases the quality assets of banks.

Shrestha, (2013) has conducted a study named ‘A study of non performing loan and loan loss provisioning of commercial banks’ with reference to the Nabil Bank Limited, Standard Chartered Bank and Nepal Bank Limited. Her objectives are to find out the portion of no performing loan, relationship between loan loss provision and loan and advances and profitability.

She has pointed out the problems of the commercial banks as lack of smooth functioning of economy, different policies and guidelines of NRB, political instability, security problem, poor information system, over liquidity caused by the lack of good lending opportunities, increasing nonperforming assets etc.

2.3 Research Gap

On review of various studies related to lending, investment, fund mobilizing and financial performance of various banks, it has been noticed that studies are focusing on the policies implemented by banks for their financial performance but none of them have given focus to actual position of banks due to their financial position as revealed by the data. This has resulted the lack of criticism to the banks, which helps them to improve their performance by minimizing the areas of weakness because banks do not provide their actual internal policies. Due to this, study will not be complete and helpful to explore the main objective.

So, this study is entirely focused to expose the actual position of EBL in term of its loan. Only analysis of loan has been chosen in order to minutely explore the lending status of the bank as revealed by the actual data of bank and its impact to the profitability and shareholders' investment as well. From this study we can see whether the bank has been properly utilizing the fund collected from public as deposits or not.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, the efforts have been made to analyze and present the collected data from the various sources. This chapter determines the quality of the study because how for the collected data are present and analyze with the help of various financial and statistical tools, tables, graphs etc as of meaningfully and clearly. This chapter his performed to know the clear picture of the loan management of the commercial banks.

4.1 Measuring the Liquidity Position of the Bank

To determine the liquidity position of the two banks under the following measures of liquidity ratio have been calculated and a brief analysis of the same has been conducted below.

4.1.1 Current Ratio

This is a crude measurement of liquidity ratio. It measures the ratio between total current assets and total current liabilities.

The current asset include cash and bank balance with cheque in hand, balance with NRB, money at call and short notices, investment in government securities, bills purchased and discovered loans, and advances and other current assts, similarly, current liability includes borrowing from other banks, deposit, bills payable, and other current assets.

Table: 4. 1

Current Ratio

	Fiscal Year (Mid July)					
Banks	2008/09	2009/10	2010/11	2011/12	2012/13	Mean
EBL	1.0406	1.0359	1.0895	1.0850	1.0761	1.0654
NBBL	1.0128	1.0298	1.0275	1.0099	1.0126	1.1438

Source: Annual Report of EBL and NBBL.

The above table no 4.1 shows that the combined mean ratio is 1.1438, if we measure the performance of these banks based in this mean, the performance of EBL is weak and the NBBL has maintained good liquid assets. The mean current ratio of EBL is 1.0654 and NBL is 1.2222 which is highest than EBL, NBBL implies a high liquidity ratio.

Table measures the current ratio of two banks of five consecutives years. The ratio has been ranged from 359 to 1.0895 of EBL. Table explains that the current ratio of NRB is 1.0099 to 1.0298. The overall trend of current of the two based ratio is slightly changed.

4.1.2 Liquid Fund to Current Liability Ratio

Table: 4. 2

Liquid fund to Current Liability Ratio Fiscal Year (mid July)

	Fiscal Year (Mid July)					
Banks	2008/09	2009/10	2010/11	2011/12	2012/13	**Mean**
EBL	0.00869	0.1713	0.0977	0.1536	0.0707	0.11604
NBBL	0.09297	0.1096	0.1685	0.079	0.01057	0.0111
Combined mean						0.2235

Source: Annual Report of EBL and NBBL.

The above table no 4.2 shows that the current ratio gives only the short and crude idea of liquidity position of a firm, measuring its liquidity ratio depending on liquid fund is more significant. Liquid fund comprises of those assets, which can be converted into cash within a short period without decline in their value cash in hand balance with NRB balance with other banks and money at cell included in calculating the liquid fund. The ratio measures a bank ability to discharge its current liability in an adverse condition without undergoing its liquidity risk.

Table 4.2 explains that the ratio has been ranged from 0.1713 of EBL in 2009/10 to 0.1685 of NBBL in FY 2010/11. The ratio of EBL of first two years has in increasing trend, and then it is decreased in 2010/11 year and then again increases in 2011/12. The ratios of NBBL of first three years have in increasing trend but it has fallen in 2011/12and then again it has increased in FY 2012/13. Unlike current ratio, the liquid fund to current liability ratio has been declined, this declined in two banks has caused due to high degree of increase in investment and decreased or lower level of increase in placement.

4.1.3 Liquid Fund to Total Deposit Ratio

The deposit constitutes the major part of the banks' liability. Flow of this liability is always uncertain in the bank's fund management. Hence, the ratio of liquid fund to total deposit indicates the banks' strength to meet uncertain flow of deposit.

Table: 4. 3

Liquid Fund to Total Deposit Ratio

Banks	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
EBL	0.09112	0.1825	0.1267	0.1702	0.0783	0.1297
NBBL	0.0998	0.1193	0.1849	0.0841	0.1122	0.12006
Combined Mean						0.1248

Source: Annual Report of EBL and NBBL.

The above table no 4.3 shows that the ratio has ranged from 0.7425 of EBL in FY 2011/12 to 0.1702 of NBBL in FY 2009/10. The trend of this ratio of EBL and NBBL seems similar in nature 2009/10 and increased in the first two years as compared to previous year and has started to decline from FY 2010/11. The trend of this ratio has not deviated from liquid fund to current liability ratio and the up and down in this ratio has caused by the some reason.

The combined mean ratio of these two banks is 0.1248. The mean ratio of EBL is 0.1297 and NBBL is 0.12006 and this is lowest ratio then EBL.

4.2 Measuring the Lending Strength

The lending strength of these two banks is measured in relative measures in this section. The relationship between various assets and liabilities of the balance sheet has been established to show the active strength of lending of each bank comparatively. An attempt is made to determine the lending strength in absolute figure of each bank, since these two banks are comparable in volume of deposit loans and advances and other variables also.

4.2.1 Total Asset to Total Liabilities Ratio

The ratio of Total Assets to total liabilities measures the volume of total liability in total assets of the firm. Then banking organization creates credit by way of lending activities and multiplies their assets many items, than their liability permits. Thus, this ratio measures the banks ability to multiply its liability into assets. It is always recommended to have higher ratio of total assets to total liabilities ratio. Since it signifies overall incensement of credit and overall development of the organization, the higher the ratio, higher the productivity and higher the assets conversion and vice versa.

Table: 4.4

Total Assets to Total Liabilities Ratio

Banks	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
EBL	1.0632	1.0654	1.0628	1.0623	1.0595	1.0626
NBBL	1.0571	1.0635	1.05980	1.0607	1.0483	1.0578
Combined Mean						1.0602

Source: Annual Report of EBL and NBBL.

The above table no 4.4 shows that one unit of liabilities of concerned bank has tabulated value of assets in respective years. All these banks have high degree of similarity in maintaining this ratio. The overall trend of this ratio is decreasing of EBL. The ratio has been ranging from 1.0654 of EBL in 2009/10 to 1.0635 of NBBL in 2009/10.

The combined mean ratio of these two banks over the period is 1.0602. The mean ratio of EBL is 1.0626 and this is the highest than that of NBBL. Taking the standard of Mean ratio the performance of EBL is the best and the ratio of NBBL is below the mean. However, the ratio of these two banks represents a poor performance. The ratio should not be below 2 times in the developing country like Nepal. This represents that these two banks have not successfully converted their liability into asset. Table explains that the ratio of two banks is decreasing in some extend. Looking this fact, it can be concluded that these banks are not utilizing their fund efficiently and effectively to extent, their liability permits them. As comparing among the banks the performance of EBL can be regarded the best.

4.2.2 Loans and Advances to Total Deposit Ratio

Loans and advances are the major area of fund mobilization of commercial Banks. Loans and Advances is the first type of application of funds, which has more risk. Loans and Advances and total deposit ratio indicates the firm's fund mobilization power in gross. The main sources of bank's lending are its deposit. Thus, this ratio measures how well deposit has been mobilized. This ratio measures the ability of a bank generating income from bank's deposit liability.

Table 4.5 explains the relation between a unit of deposit with the tabulated value of loans and Advances of concerning banks in given years. The ratios have been ranged from 0.7425 of EBL in FY 2008/09, 0.8555 of NBL in FY 2009/10. NBBL has the highest ratio for the whole period except in FY 2011/12 and 2012/13.

Table: 4.5

Loans and Advances to Total Deposit Ratio

Banks	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
EBL	0.7425	0.6571	0.7223	0.7331	0.7297	0.7169
NBBL	0.7139	0.8556	0.8022	0.6850	0.6753	0.7464
Combined Mean						0.7316

Source: Annual Report of EBL and NBBL.

The above table no 4.5 shows that the combined mean ratio of these two banks is 0.7316. The overall performance of NBBL seems the best with mean ratio 0.7464. EBL has maintained the lowest ratio. From this analysis, NBBL can be concluded as the best performer in utilizing its deposit irrespective the area of its utilization.

4.2.3 Loans and Advances and Investment to Total Deposit Ratio

Loans and Advances and Investment are the major area of fund mobilization of commercial banks. Loans and Advances is the first type of application of funds, which has more risk as compare to Investment and gives more returns. Investment is cushion against the liquidity risk and at the same time it gives return. Loans and advances and investment to total deposit ratio indicates the firm's fund mobilizing power in gross. The main sources of bank's lending and investment is its deposit. Thus, this ratio measures how well the deposits have been mobilized. This ratio measures the ability of a bank in generating income from bank's deposit liability.

Table 4.6 explains the relation between a unit of deposit with the tabulated value in loans and advances and investment of concerning banks in given years. The ratios have been ranged from 1.0038 of EBL in FY 2009/10 to 0.9342 of NBBL in FY 2009/10. EBL has the highest ratio for the whole period. NBBL has the lowest ratio throughout five years.

Table: 4.6

Loans and Advances and Investment to Total Deposit Ratio

Banks	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
EBL	0.8267	0.8369	1.0038	0.9720	1.0355	0.9349
NBBL	0.7825	0.9342	0.9042	0.8864	0.8830	0.8780
Combined Mean						0.9064

Source: Annual Report of EBL and NBBL.

The above table no 4.5 shows that the combined mean ratio of these two banks is 0.9064. The overall performance of EBL seems the best with mean ratio 0.9349. NBBL has the mean ratio of 0.8780. From this analysis EBL can be concluded as the best performs in utilizing its deposit irrespective of the area of its utilization.

4.2.4 Loans and Advances to Shareholders Equity

Shareholders' equity is consisted of share capital, share premium, reserves and retained earnings. The ratio between loans and advances to shareholders' equity provides the measures regarding how far the shareholders equity has been able to generate assets to multiply its wealth. The shareholders equity refers to the net shareholders in take in the business. Thus, the ratio measures size of the business and their success in covering liabilities into assets.

Table: 4.7

Loans and Advances to Shareholders Equity

Banks	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
EBL	11.1914	9.4106	10.1007	10.3810	10.8898	10.3947
NBBL	11.6419	12.3653	12.1828	10.5977	13.1726	11.9920
Combined Mean						11.1933

Source: Annual Report of EBL and NBBL.

The above table no 4.7 shows that the overall ratio of these two banks has ranged from 11.1914 of EBL in FY 2008/09 to 13.1726 of NBBL in 2012/13. The ratio of EBL has continuously increasing trend from FY 2009/10.

The combined mean ratio of these two banks 11.1933 and mean ratio of EBL is 10.3947 and mean ratio of NBBL is 11.9920 respectively. This indicates that NBBL having small volume of capital in business has been succeeded in generating proportionately higher volume of loan due to the entire business.

4.3 Analyzing the Lending Efficiency and its Contribution in Total Profitability

Table: 4.8

Purpose-wise Loan Classification of EBL: Loans disbursed for different purposes to Total Loans and Advances

Ratio (in %)

Purposes	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
Industrial Sector	15.2026	11.2508	6.5053	4.0462	2.5326	7.8875
Commercial Sector	8.4636	7.3851	7.4330	2.3681	2.3259	5.5951
Priority Sector	2.1585	1.6578	1.3945	1.2636	1.2212	1.5390
Deprived Sector	0.4419	0.3780	0.3318	0.3521	0.3826	0.3772

Source: Annual Report of EBL.

The above table no 4.8 shows that EBL trend of lending for different purposes as percentage of total loans and advances. EBL has mostly used its funds in industry and commercial sector. In average, lending in industrial, commercial, priority and deprived sectors take the first, second, third and fourth place with mean ratios of 7.8875%, 5.5951%, 1.5390 and 0.3772 respectively in the lending portfolio of the bank. The highest portion of lending in industrial sector, commercial sector, priority sectors and deprived sector is 15.2026%, 8.4636, 2.1585% and 0.4419 in the year 2008/09 respectively.

Mean Ratios of Loans disbursed for different purposes to total loans advances over the study period.

Figure: 2

Mean Ratios of EBL: Loans Disbursed for different purposes to Total loans and Advances over the study period

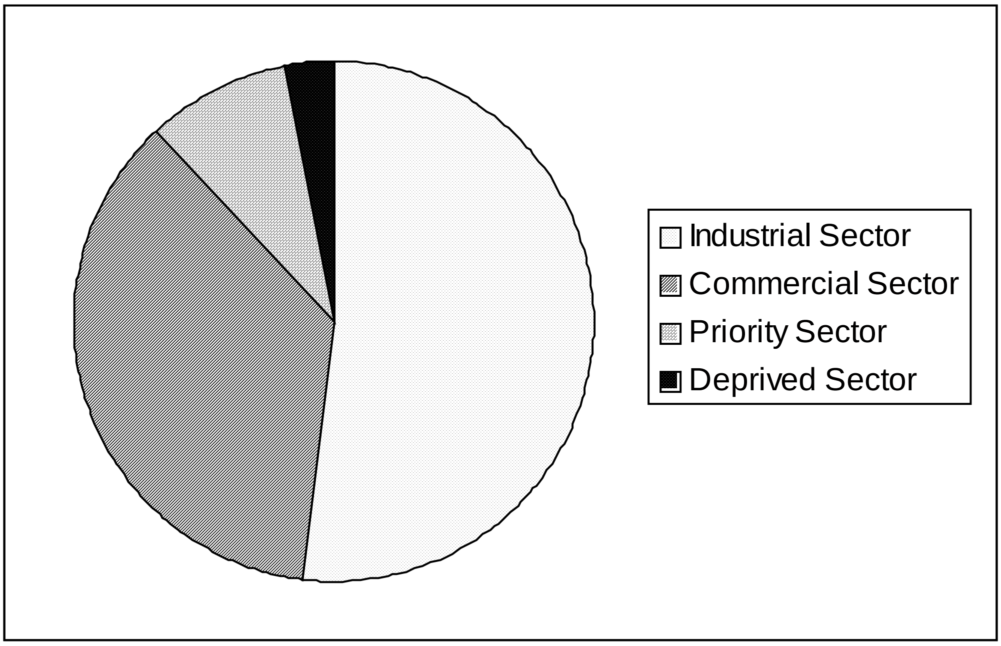


Table: 4.9

Purpose wise Loan Classification of NBBL: loans disbursed for different purpose to Total loans and Advances

Ratio (in %)

Purposes	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
Industrial Sector	10.8269	5.8575	5.77999	5.4424	5.7196	6.7252
Commercial Sector	9.1981	4.0627	4.0884	3.0709	3.1023	4.7045
Priority Sector	1.8320	0.9515	0.9202	1.1225	0.9435	1.1540
Deprived Sector	0.4827	0.3242	0.3678	0.4245	0.3784	0.3955

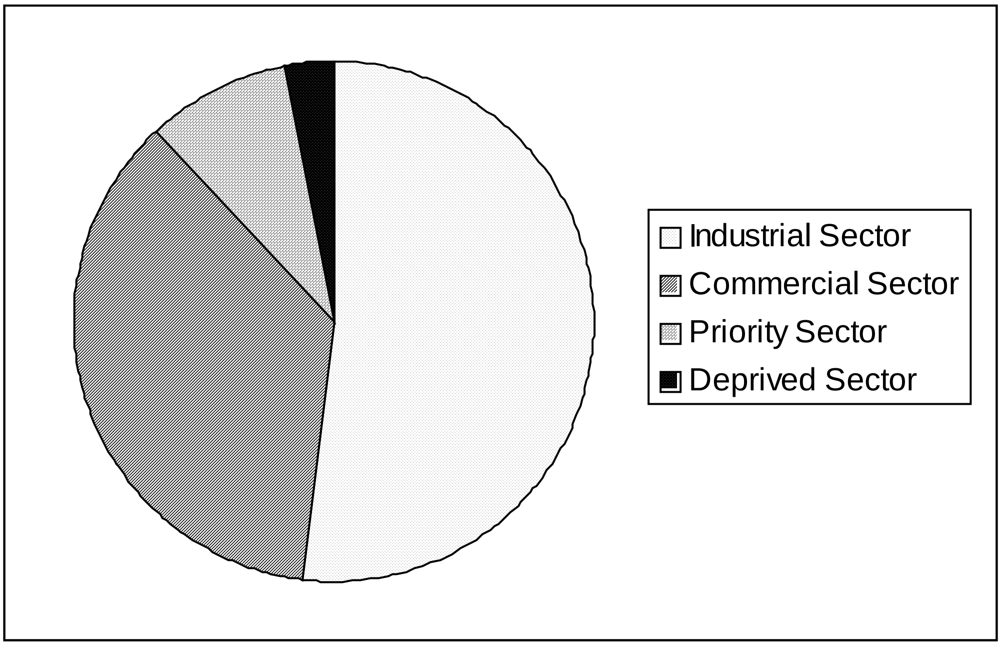
Source: Annual Report of NBBL.

The above table no 4.9 shows that NBBL's trend of lending for different purposes as percentage of total loans and advances. NBBL has mostly used its funds in industrial and commercial sector. In average, lending in industrial, commercial, priority and deprived sectors take the first, second, third and fourth place with mean ratios of 6.7252%, 4.7045%, 1.1540% and 0.3955% respectively in the lending portfolio of the bank. The highest portion of lending in industrial sector, commercial priority and deprived sector is 10.8269%, 9.181%, 18320 and 0.4827% in year 2008/09 respectively.

Mean Ratios of Loans disbursed for different purposes to total loans advances over the study period.

Figure: 3

Mean Ratios of NBBL: Loans Disbursed for different purposes to Total loans and Advances over the study period



In this section lending efficiency is measured in terms of quality and its turnover. A relationship between different variables related to lending efficiency is taken from balance sheet and profit and loss account.

4.3.1 Interest Income to Total Income Ratio

Income is one of the most important parts of any business organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measure the banks performance on other fee-based activities also. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates the low contribution made by lending and investment and high contribution by other fee based activities in total income. The ratio measures the volume of interest income in total income of the bank. This ratio helps to measures the banks performance on how well they are mobilizing their fund for the purpose of income generation. This ratio also helps to measure the banks performance on other fee-based activities, since after investing functions fee based activities are the major source of banks income to total income.

Table: 4.10

Interest Income to Total Income Ratio (%)

Banks	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
EBL	6.48	5.52	5.20	5.53	4.58	5.46
NBBL	4.37	4.07	12.93	14.17	41.39	15.38
Combined Mean						10.42

Source: Annual Report of EBL and NBBL.

The above table no 4.10 shows that NBBL has the highest ratio than that of EBL. The ratio of these two Banks has ranged from 6.48 of EBL in FY 2008/09 to 41.39% of NBBL in FY 2012/13.

The combined mean ratio of these two banks is 10.42. Mean ratio of EBL is 5.46 and mean ratio of NBBL is 15.38. NBBL has higher ratio which indicates that it is largely dependent on lending activities and low ratio indicates it has low dependency on lending activity and high dependent on lending activities and low ratio indicates it has low dependency on lending activity and high dependency on other fee based activities.

4.3.2 Interest Expenses to Total Deposit Ratio

This ratio measures the cost of total deposit in relative term. The commercial banks performance depends upon its ability to generate cheaper funds. More the cheaper fund more will be the profitability in generating loans and advances and vice-versa. The high ratio indicates of costly fund and this adversely affects its lending performance.

Table: 4.11

Interest Expenses to Total Income Ratio (%)

Banks	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
EBL	0.0582	0.05162	0.04702	0.0458	0.0389	0.0483
NBBL	0.0642	0.0599	0.0578	0.0561	0.0484	0.0573
Combined Mean						0.1056

Source: Annual Report of EBL and NBBL.

The above table no 4.11 shows that the ratio of both EBL and NBBL is in decreasing trend. The ratio ranges from minimum of 0.0389 in FY 2012/13 to maximum of 0.0582 in FY 2008/09 of EBL. And ratio ranges from minimum of 0.484 in FY 2011/012 to maximum of 0.0642 on FY 2008/09 of NBBL.

The combined mean ratio of these two banks is 0.1056. The mean ratio of EBL is 0.0483 and mean ratio of NBBL is 0.0573. The mean ratio of NBBL is higher than that of EBL. Due to lack of lending opportunities, the supply of the fund is exceeding the demand of the fund.

4.3.3 Interest Income to Interest Expenses Ratio

The ratio of interest income to interest expenses ratio measures the difference between interest rates offered and interest rate charged. The spread between the interest income and interest expenses is the main foundation for the profit of the bank. NRB had restrictions on the interest rate spread of the commercial banks. The interest offered and the interest charged should not be more than 5 percent. The commercial banks are free to fix interest rate on deposit and loans. Interest rate on all types of deposit and loans should be published in the local newspapers and communicated to Nepal Rastra Bank quarterly and immediately when revised. Deviation of 0.50 percent from the published rate is allowed on all types of loans and deposit. However with the new financial ordinance 2061 it has again empowered NRB to interview in rate fixation but it does not specify the conditions that would oblige NRB to do so.

Table: 4. 12

Interest Income to Interest Expenses Ratio

Banks	**Fiscal year (Mid July)**					**Mean**
	2008/09	2009/10	2010/11	2011/12	2012/13	
EBL	0.6651	0.6133	0.5792	0.5890	0.4784	0.5850
NBBL	0.6811	0.6368	0.6467	0.5865	0.5668	0.6235
Combined Mean						0.6042

Source: Annual Report of EBL and NBBL.

The above table no 4.12 we can analyze that the ratio of NBBL is higher than the ratio of EBL over five years. The ratio ranged from 0.6651 of EBL in 2008/09 to 0.6811 of NBBL in 2008/09.

The combined mean of these two banks is 0.6042. Mean ratio of EBL is 0.5850 and the mean ratio of NBBL is 0.6235 which is highest than that of EBL.

4.4 Analysis of Growth Rate

Growth analysis of the banks involves of growth in deposit, loans, investments and net profit. Growth analysis ascertains has much growth in deposit liability is supported by growth in assets. The analysis also concerns which asset portfolio has significant increment corresponding to the increment in deposit liability.

To examine and analyze the expansion and growth of the banking business, following growth ratios are calculated in this part of the study. The higher ratios represent the better performance of the bank. Growth ratios are directly related to the fund mobilization and investments decision of the bank. This ratio represents how well the commercial banks are maintaining their economic and financial position. These ratios can be calculated by dividing the last period figure by the first period figure then by referring to the compound interest tables. Under these topic four types of ratios namely growth ratios of total deposit, loans and Advances, Total Investment, and net profit of EBL and NBBL for the study period have been analyzed.

4.4.1 Growth Ratio of Total Deposit

Deposits are the main source of capital for the commercial banks. Banks utilize these funds in loans and advances and as investments.

Table: 4.13

Growth Ratio of Total Deposit of EBL and NBBL

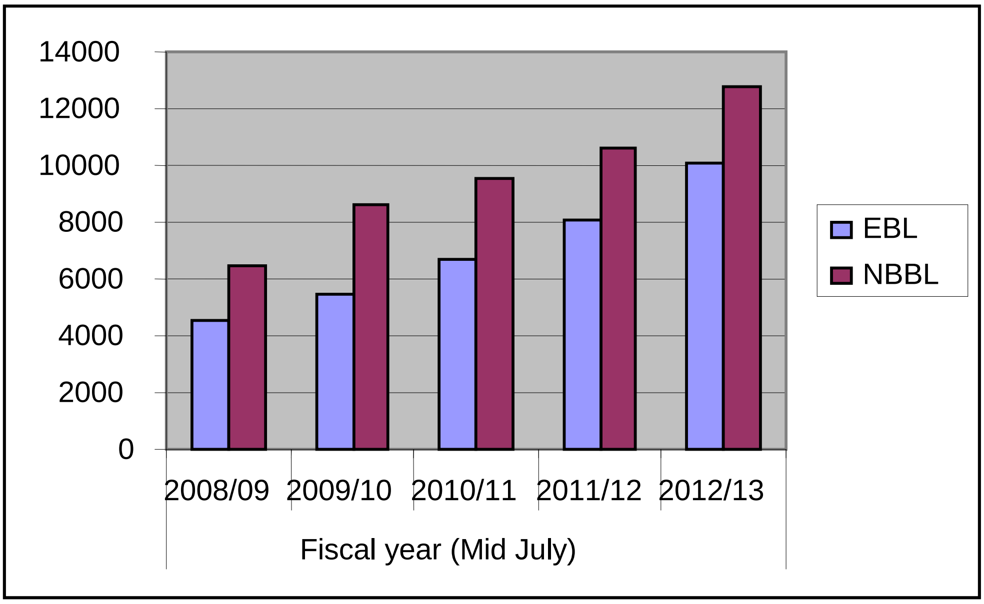
(Rs. in Million)

Banks	**Fiscal year (Mid July)**				
	2008/09	2009/10	2010/11	2011/12	2012/13
EBL	4574.51	5466.60	6695.00	8063.90	10097.7
NBBL	6467.19	8600.81	9514.47	10580.65	12807.37

Source: Annual Report of EBL and NBBL.

Figure: 4

Growth Trend of Deposit over the Study Period



The above table no 4.13 shows that the growth of total deposit by analysis of five years period of EBL and NBBL. NBBL has the highest deposit of Rs.12807.37 million and EBL has R. 10097.70 million which is lowest than that of NBBL.

According to highest range of the total deposit, we can conclude that NBBL has good performance than EBL.

4.4.2 Growth Ratio of Loans and Advances

Loans and Advances is the major function of the commercial banking of those loans and advances determines the book performance.

Table: 4.14

Growth Ratio of Loans and Advances of EBL and NBBL

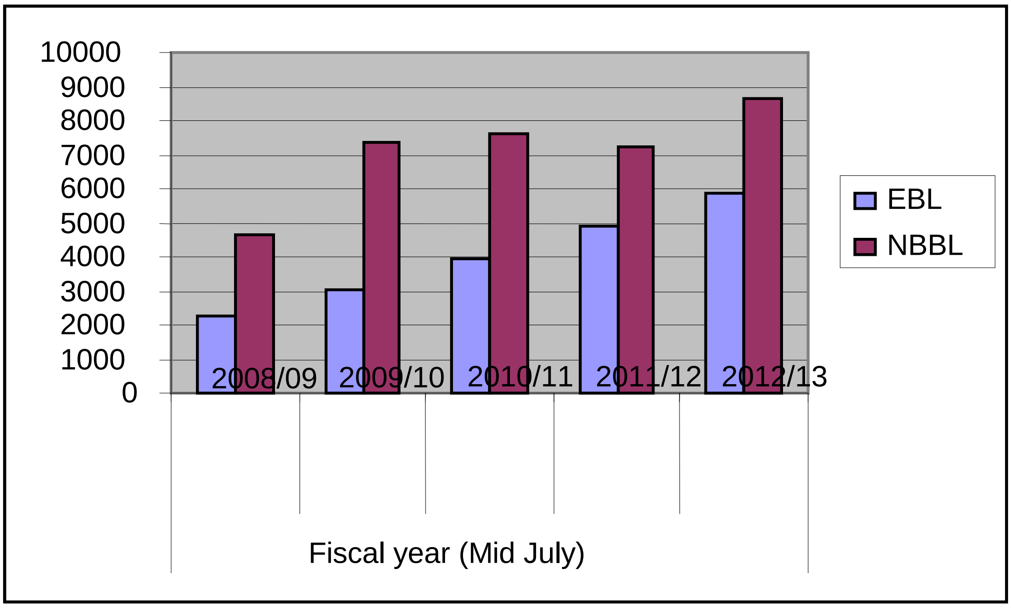
(Rs. in Million)

Banks	**Fiscal year (Mid July)**				
	2008/09	2009/10	2010/11	2011/12	2012/13
EBL	2270.18	3005.76	3948.48	4908.46	5884.12
NBBL	4617.10	7358.84	7632.42	7247	8648.74

Source: Annual Report of EBL and NBBL.

Figure: 5

Growth Trend of Loan and Advances over the Study Period



The above table no 4.14 shows that the growth of loans and advances of EBL and NBBL. There is increasing trend on loans and advances of EBL. Loans and Advances of NBBL is highest than that of EBL in five year during the study period. During the study period it has a significant growth of these two banks and explains its aggressiveness.

4.4.3 Growth Ratio of Total Investment

Investment is another important function of banking besides loans and advances. Investment determines the proper utilization of funds.

Table: 4.15

Growth Ratio of Total Investment of EBL and NBBL

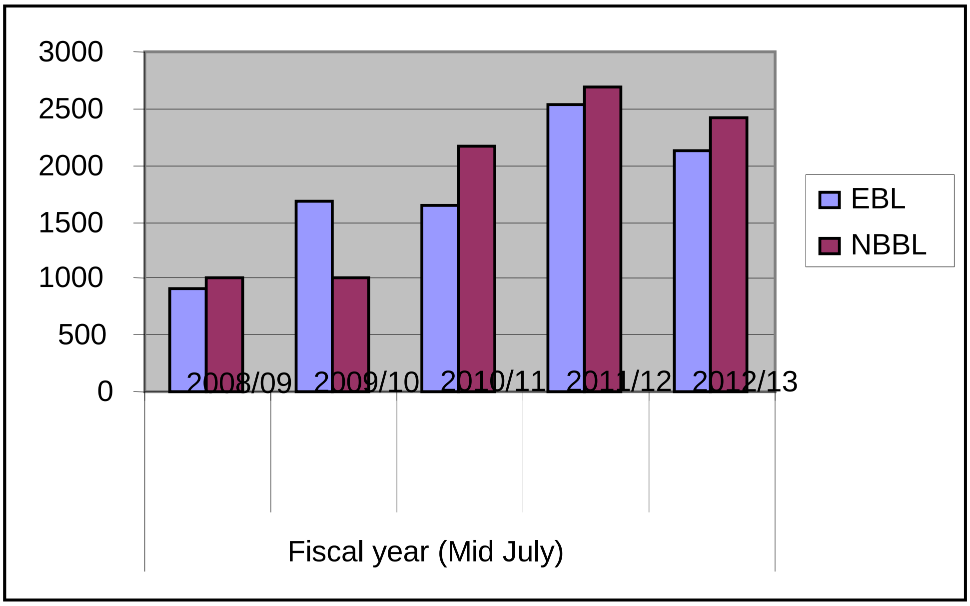
(Rs. in Million)

Banks	**Fiscal year (Mid July)**				
	2008/09	2009/10	2010/11	2011/12	2012/13
EBL	901.70	1693.00	1654.00	2535.70	2128.90
NBBL	1008.64	1008.64	2168.92	2699.16	2411.72

Source: Annual Report of EBL and NBBL.

Figure: 6

Growth Trend of Total Investment of EBL and NBBL over the Study Period



The above table no 4.15 shows that there is an increasing trend over 2011/12 and then it is decreasing trend in FY 2012/13 in investment of EBL and NBBL. During the study period total investment of NBBL is height than that of EBL.

4.4.4 Growth Ratio of Net Profit

A commercial banks performance measuring criteria is its net profit. The growth of net profit reveals the overall performance of the banks.

Table 4.16

Growth Ratio of Net Profit of EBL and NBBL

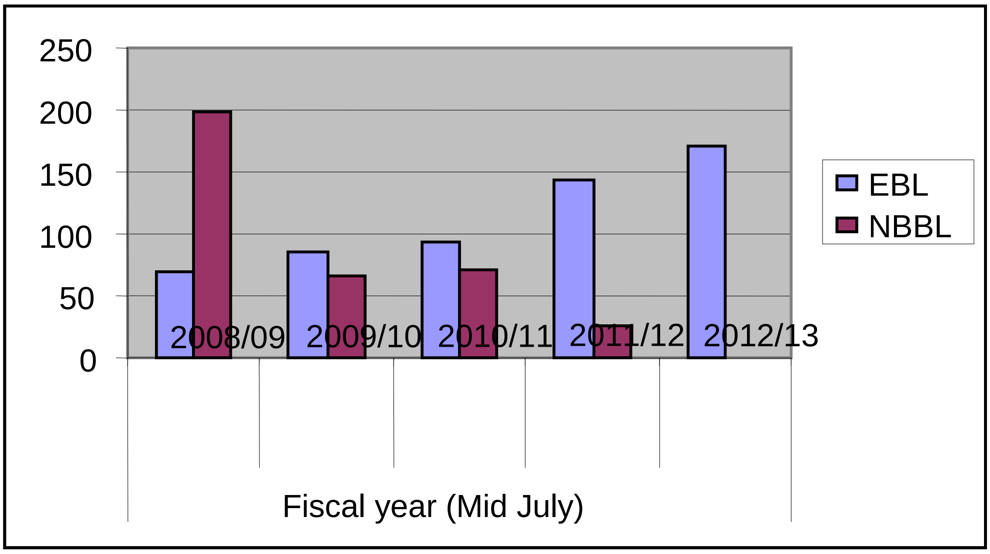
(Rs. in Million)

Banks	Fiscal year (Mid July)				
	2008/09	2009/10	2010/11	2011/12	2012/13
EBL	69.70	85.30	94.20	143.60	170.80
NBBL	198.75	65.78	71.49	26.43	0

Source: Annual Report of EBL and NBBL.

Figure: 7

Growth Trend of Investment of EBL and NBBL over the Study Period



The above table no 4.16 describes the growth rate of net profit of EBL and NBBL of five years the study period. EBL has the highest profit of Rs.170.80 million in FY

2012/13 and NBBL has the highest profit of Rs.198/75 million in FY 2008/09. It has increasing trend of profit of EBL. But profit of NBBL has fluctuation over the study period.

4.5 Correlation Coefficient Analysis

Correlation coefficient is the measure of correlation between two variables that summarizes correlation in one figure. If the change in the value of one variable is accompanied by the charge in the value of the other, the variables are said to be correlated. Analysis of correlation coefficient explains to what extent two variables are correlated. In this analysis Karl Pearson's Correlation Coefficient has been used to find out the relationship between variables. Correlation analysis describes the relationship between variables i.e. positive or negative. It helps to determine the following.

- Existence of a positive or negative relationship between variables.
- The relationship is significant or insignificant.
- Establishment of cause and effect relationship if any.

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

1. When, r = 1, then is perfect positive correlation.
2. When, r = 1, then is perfect negative correlation.
3. When, r = 0, then is no correlation.
4. When, 'r' lies between 0.7 and 0.999 (-0.7 to 0.999), then is high degree of positive (or negative) correlation.
5. When, 'r' lies between 0.5 and 0.6999 there is moderate degree of correlation.
6. When, 'r' is less than 0.5, there is low degree of correlation.

4.5.1 Correlation Coefficient between Deposit and Loans of EBL and NBBL

Table: 4.17

Evaluation Criteria

Banks	Correlation Coefficient	r^2	P.Er.	6×P.Er.
NBBL	0.1027	0.0105	0.2985	1.7910
EBL	0.9538	0.9097	0.2744	1.6464

Source: Annual Report of EBL and NBBL.

The above table no 4.17 shows that the Correlation Coefficient between deposit and loans and advances of EBL and NBBL is 0.9538 and 0.1027 respectively. There is high degree of positive relationship between deposit and loans and advances of NBBL. The deposit and loans and advances of NBBL have lower degree of relationship.

The value of (r) above explains that a percentage increase in deposit likely generate. The same percentage of change in the value of loans and advances EBL through there is highest probability of being so in NBBL.

4.5.2 Correlation Coefficient between Total Investment and Loans and Advance

This correlation measures the degree of relationship between investment and loans and advances. These measures of correlation explain where the banks have a rigid policy to maintain a consistent relationship between two assets or other factor such as seasonal opportunity, economic demand, NRB directives etc. has impact on the volume of these two variables. Since the volume of investment does not impact on loans and advance as every bank has first priority an loans and advance directly reduce or increases the level of ideal fund and this idleness of fund increases the investments.

Table 4.18 reveals the poor relationship between investment and loans and advance. There is high degree of negative relationship between these two variables of EBL has the value of r is less than the value of P.Er. However NBBL has greater than 6 times

P.Er. This implies that NBBL has maintained a steady ratio between investment and loans and advances as compared to NBBL. The value of r is NBBL suggests that it does not have rigid policy to maintain and fixed and consistent ratio between these assets and the volume of these assets in NBBL is highly of seasonal character than that is explained by the value of r is NBBL.

Table: 4. 18

P.Er. And 6×P.Er. between Investment and Loans and Advances

Banks	Correlation Coefficient	P.Er.	6×P.Er.
NBBL	-0.6144	0.1163	0.6978
EBL	0.8394	0.0891	0.5346

Source: Annual Report of EBL and NBBL.

The above table no 4.18, we can conclude that EBL has the good opportunity of lending and investment than NBBL due to highest degree of positive correlation.

4.5.3 Correlation Coefficient between Total Income and Loans and Advances

The correlation between total income and loans and advances measures the degree of relationship between these two variables. The value of r explains whether a percentage change in loans and advances it is independent variable and total income is dependent variable.

Table: 4. 19

P.Er. and 6×P.Er. between Total Income and Loans and Advances

Banks	Correlation Coefficient	P.Er.	6×P.Er.
NBBL	0.3819	0.2926	1.7556
EBL	0.9810	0.1135	0.0681

The above table no 4.19 shows that the tight degree of positive correlation of EBL. The value of r in EBL is significant as it is grate than six time of probable error. This explains that a percentage charge in loans and advances is most likely to change the same percentage of income. There is the lower degree of correlation of NBBL.

4.5.4 Correlation Coefficient between Interest Income and Net Profit

The correlation between Interest Income and Net profit measures the degree of relationship between these two variables. The interest income contributes a major portion of total volume of commercial banks income. In this analysis, interest income is independent variable and net profit is dependent variable.

Table: 4. 20

P.Er. and 6×P.Er. between Interest Income and Net Profit

Banks	Correlation Coefficient	P.Er.	6×P.Er.
NBBL	-0.7676	0.1385	-0.1063
EBL	0.7318	0.1401	-0.1063

The above table no 4.20 shows that the value of r of EBL high degree of correlation, as the value of r of NBBL is negative correlation. There is a significant, as role of 'r' of EBL is more than 6 times of P.Er. But there is not significant, as the value 'r' is less than 6 times of P.Er.

4.6 Trend Analysis of Deposit Utilization

The main objective of this analysis is to analyze the trend of deposit utilization in terms of loans and adverse and investment of EBL and NBBL under five years of study period. A commercial bank may grant loans advances and invest some of the funds in government securities and share and debenture of other companies to utilize its deposit.

4.6.1 Trend Analysis of Loans and Advances and Total Deposit Ratio

The trend analysis of loans and advances to total deposit ratio of EBL and NBBL under five years study period and projection of trend for the next five years is calculated.

The following table describes the trend value of loans and advances to total deposit of the bank for 5 years.

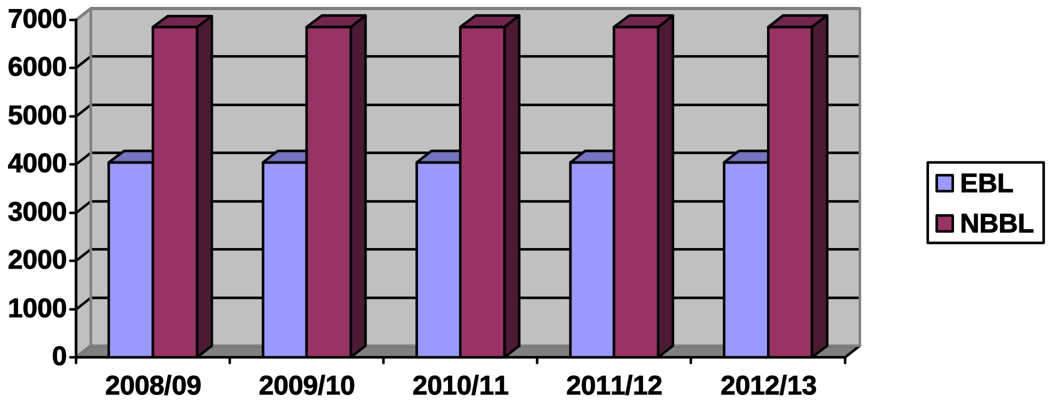
Table: 4. 21

Trend Analysis of Loans and Total Deposit Ratio of EBL and NBBL

Fiscal Year (Mid July)	EBL (Trend Value)	NBBL (Trend Value)
2008/09	4045.55	6847.73
2009/10	4045.69	6847.89
2010/11	4045.84	6847.85
2011/12	4045.98	6848.20
2012/13	4046.13	6848.35

Figure: 8

Trend Analysis of Loans and Advances and Total Deposit



The above table no 4.21 shows that the total loans and advances and deposit of EBL and NBBL is in increasing trend. EBL has the highest trend value of 4046.13 in the year 2012/13 and NBBL has the highest trend value of 6848.35 in the year 2012/13. The increasing trend of loans and advances and total deposit ratio of both books shows the good performance of the selected banks is providing loans and advances in deposit in profit earning sector.

4.6.2 Trend Analysis of Investment and Total Deposit Ratio

The trend analysis of investment and total deposit ratio of EBL and NBBL shows the trend values of five years. Over the study period the analysis makes projection for the next five years. The following table describes the trend values of total investment to total deposit ratio of the selected commercial banks.

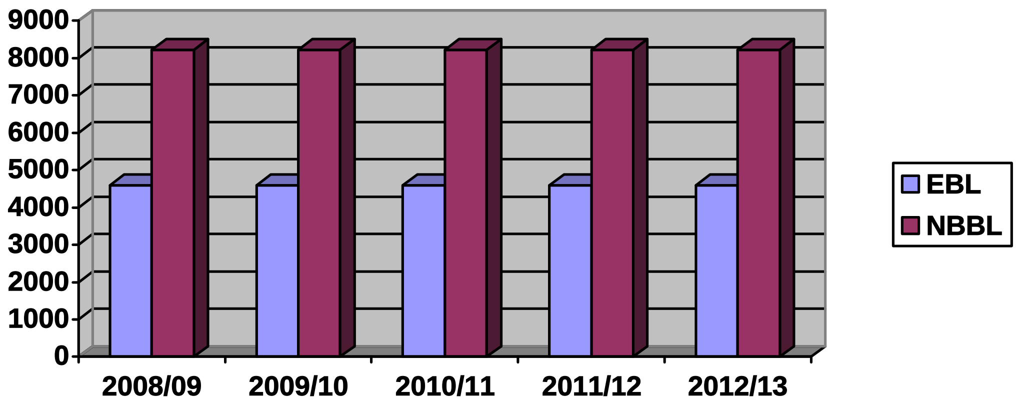
Table: 4.22

Trend Analysis of Investment and Total Deposit Ratio of EBL and NBBL

Fiscal Year (Mid July)	EBL (Trend Value)	NBBL (Trend Value)
2008/09	4587.59	8217.11
2009/10	4588.33	8218.11
2010/11	4589.07	8219.12
2011/12	4589.80	8220.12
2012/13	4590.54	8221.13

Figure: 9

Trend Analysis of Investment and Total Deposit of EBL and NBBL



The above table no 4.22 shows that the total investment and total deposit of EBL and NBBL is in increasing trend. EBL has the highest trend value of 4590.54 in the year 2012/13 and the NBBL has the highest trend value of 8221.13 in the year 2012/13. The increasing trend of investment and total deposit ratio of both banks shows the good performance of the selected bank on investing the deposit in profit earning sectors.

4.7 Major Findings of the Study

In the research data mainly secondary data are used and the analysis is computed with the help of different financial and statistical tools. In financial tools ratio analysis has been used and on statistical tools correlation coefficient, and trend analysis has been used. A primary data analysis is done from the information collected from structured interview with the concerned banks officials. This chapter focuses on the major findings from analysis of Everest Bank Limited and Nepal Bangladesh Bank Limited from the year 2008/09 to 2012/13.

The major findings of the financial and statistical analysis are presented below serially.

Measuring the Liquidity Position of the Bank

Total Assets to total liability ratio of EBL and NBBL has the highest ratio.

- Current ratio of both banks showed slightly fluctuating trend. Both of the banks could not maintain the conventional standard of 2:1. However, the average of the ratios appeared higher in EBL, which signifies that EBL is more capable of meeting immediate liabilities in contrast to NBBL. The ratio was found more consistent in EBL. Hypothesis test showed that the mean ratio of two banks did not differ significantly.
- Liquid food to current liability ratio of EBL and NBBL in fluctuating trend. After analyzing the ratio we can conclude that both the sample banks do not differ significant with respect to this ratio.
- Liquid fund to total deposit ratio of banks. EBL and NBBL are in fluctuated trend. Mean ratio appeared marginally greater in NBBL, which means that NBBL has maintained greater portion of fixed deposit as liquid asset. The ratio has maintained loss consistency in NBBL Hypothesis test showed that the mean ratio of two banks does not differ significantly.

- Total assets to total liability ratio of EBL is highest than that of EBL. The highest ratio of EBL and NBBL is 1.0632 and 1.0635 in year 2009/10 respectively. The mean ratio of EBL is greater than NBBL. The ratio remained more consistency in EBL. Hypothesis test showed that the man ratio of the sample banks does not differ significantly.
- Loans and advances to total deposit ratio of EBL and NBBL is in fluctuating trend. The mean ratio of NBBL is higher than that of EBL. The overall performance of NBBL seems the best with the higher mean ratio.
- Loans and Advances and investment to total deposit ratio of appeared significantly higher in EBL. It indicates the better utilization of loans and advances and investment in EBL than NBBL. The ratio remained more uniform in EBL. As depicted by higher loans and advances and investment to total deposit in EBL. EBL seems more successful to utilize the despite fund in investment.
- The ratio of loans and advances to shareholders equity has gained the significant importance in measuring the capital fund and contribution in loans and advances. The analysis explain that the ratio of NBBL the highest than EBL. This indicates that the NBBL having small volume of capital in business have been succeeded in generating proportionately higher volume of loans and advances due to the entire business in future.
- Interest income to total income ratio of NBBL is greater than EBL over the year 2010/11 to 2012/13 which reveals the NBBL invested the fund rose from more successfully to earn the interest.
- Interest expenses to total deposit ratio, or an average lower in EBL than NBBL which reveals that EBL invested the fund from more successfully to earn the interest from total deposit.
- Interest income to interest expenses ratio of EBL is lower than that of NBBL which signifies that EBL invested the fund remove from more successfully to earn to interest rather than paying the interest for debt.
- Growth ratio of total deposit of NBBL is higher that of EBL by analysis over the study period, so it seems better performance of NBBL in total deposit.

- Growth ratio of loans and advances of NBBL is higher than that of EBL over the study period. It has a significant growth of NBBL than EBL and explains its aggressiveness.
- Growth ratio of total investment of NBBL is higher than that of EBL. The highest value increase in total investment of NBBL explains it aggressiveness.
- The growth ratio of net profit of EBL is in increasing trend. But the growth ratio of net profit of NBBL is in decreasing trend. So the increasing trend of net profit of EBL explains its aggressiveness.
- Correlation coefficient between total deposit loans and advances were found positively correlated of EBL and NBBL. NBBL has high degree of positive correlation shows the significant relation between net deposit and loans and advances.
- Correlation coefficient between investment and loans advances were found positively correlated of EBL and NBBL. NBBL has high degree of positive correlation shows the significant relation between net deposit and loans and advances.
- Correlation coefficient between investment and loans and advances were found positively correlated in NBBL and negatively correlated in EBL. The high degree positively correlation coefficient of NBBL shows significant relationship between investment and loans and advance. This shows that the bank has succeeded in contribution of significant proportion both investment and loans and advances. But the negative correlation coefficient of EBL shows poor relationship between those two variables. If shows that the bank could not succeeded in contribution of significant proportion of total investment and loans and advances.
- Correlation coefficient between interest income and net profit of EBL shows high degree of correlation. But NBBL has the negative correlation coefficient between these two variables. Due to high degree of positive correlation EBL shows signifies relationship between interest income and net profit.
- Trend analysis of loans and advances and total deposit ratio of NBBL is highly increasing trend, then EBL shows increasing rend. The analysis concludes the good performance of NBBL in deposit utilization in relation to loans and advances.

- Trend analysis of investment and total deposit of NBBL is highly increasing trend then EBL. The analysis concludes the good performance of NBBL in deposit utilization in relation to investment.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This is the concluding chapter of this study. This chapter is divided into three sections: Summary, Conclusions and Recommendations. In this chapter summary of the study is provided in brief. It has been a concern from the first chapter to the end. Findings of calculations, which have been drawn using different tools and technique based on the data provided by the concerned companies, are concerned here in conclusions section. In the last section of this chapter some recommendations have been given, which are useful to stakeholders and to concerned companies as well. They can use these recommendations to take some corrective actions to draw decisions.

5.1 Summary

Lending is one of the most important functions of a commercial bank and the composition of loans and advances directly affects the performance and profitability of the book. There is intense competition in banking business with limited market and less investment opportunities available. A study on the liquidity position, loans and advances, profitability, deposit position of EBL and NBBL is analyzed and the banks lending strength lending efficiency and its contribution in total profitability has been measured.

In this study, the financial tools-ratio analysis viz. asset management ratios and profitability ratios are calculated to find out the lending strength of this commercial bank. Also growth ratios, statistical tools like mean Correlation Coefficient and trend analysis conducted for analysis and interpretation of the data. The data used in this research is mainly secondary nature and extracted from the annual reports of the concerned bank and website of Nepal stock exchange. The financial statements of five years (2008/09 to 2011/012) were selected for the study purpose. And Analysis of primary data structured interview done with the concerned bank official has also presented.

The mean of current ratio of those two banks over the five year Period is 1.0694 and 1.2222 respectively and it is consistent over the years. Although the current ratio of 2:1 is considered as standard, acceptability of the value depend upon 1:1 or above would be considered acceptable. Therefore the liquidity position of EBL and NBBL is normal.

Mean of liquid fund to current liability ratio of these two banks over the five years period is 0.11604 and 0.1111 respectively and it is less consistent analyzing this ratio we can conclude that both the sample banks do not differ significant with this ratio.

Mean of liquid fund to total deposit ratio of EBL and NBBL is 0.1209 and 0.12006 respectively and it is less consistent. The ratio measure how well the deposits are being mobilized. The ratios of these two banks are in fluctuating trend. Here, none of the ratios is above 1, which refers that some deposit is idle and there is not maximum utilization of the funds.

The Analysis of Lending Strength

The mean ratio of EBL and NBBL is 1.0626 and 1.0483 respectively and it is consistent over the years. After analyzing the assets to total liabilities it can be concluded that these two banks are not utilizing their fund efficiently and effectively to extent their liability permits them.

Mean ratio of loans and advances to total deposit EBL and NBBL is 0.7169 and 0.7464 respectively and it is less consistent. The ratio measures how well the deposit are being mobilized and in the income generating sector. The ratios are in fluctuating trend. Here own of the ratios is above 1, which refers that some deposit is idle and then it is not maximum utilization of the funds. But in the year 2005/06 the ratio of EBL is nearly equal to 1, which refers that there is very less deposit which is remained idle in utilization of funds.

Means ratio of loans and advances and investment to total deposit ratio of EBL and NBBL is 0.9349 and 0.8780 respectively and is less consistent. This ratio measures how well the deposit are being mobilized and in the income generating sector. There is fluctuating trend of ratio. Here the ratio of EBL has above 1 in year 2005/06 which refers that deposit is not idle and there is maximum utilization of the funds in this year.

Loans and advances to shareholders equity ratio of EBL and NBBL over the five year period has mean ratio of 10.3947 and 11.9920 respectively and is less consistent. The ratio shows how well the investment made by the investor. It also measures the success of converting liability into assets and measures size of the business. The higher ratio of NBBL in the year 2009/10, 2010/11 and 2012/13 shows that the book has been successful in generating proportionately higher volume of loans and advances this the year 2008/09 and 2011/12.

Lending Efficiency and its Contribution in total Profitability

Interest income to total income ratio of EBL over the study period in decreasing trend but the ratio of NBBL is in increasing trend. Lower ratio of EBL shows low contribution made by lending and investment and high contribution by other fee based activities in total income. But higher ratio of NBBL shows high contribution made by lending and investment and low contribution by other fee based activities in total income.

Interest expenses to total deposit ratio of the banks over the study period are in decreasing trend with consistent values. This indicates the decrease in cost of fund. Interest income to interest expenses ratio of EBL and NBBL over the study period are in decreasing trend. This indicates the decrease in profit of the banks.

From the Analysis of Growth Ratio

The growth ratio EBL and total deposit of NBBL is in increasing trend. The growth ratio of loans and advances during the study period is found to be increasing trend in every year. The growth ratio of total investment of during the study period is found to be fluctuating. The growth ratio of Net profit of EBL is increasing trend but the ratio of NBBL is in fluctuating trend.

From the Analysis of Correlation

The correlation analysis shows that the correlation coefficient ‘r’ between deposit and loans and advances of NBBL is high degree of positive correlation but EBL has low degree of positive correlation. The correlation of NBBL has significant relationship between deposit and loans and advances and the bank is mobilizing the deposit as loans and advance successfully. Similarly the analysis shows high degree positive correlation of NBBL between investments and loans and advances. But EBL has negative correlation coefficient between investment and loans and advances. The correlation coefficient between total income and loans and advances of NBBL is high degree of positive correlation shows good fund mobilization and the there is how degree of positive correlation of NBBL between income and loans and advances.

The correlation coefficient between total income and loans and advances of NBBL shows positive correlation. So, the value of ‘r’ is significant. But the correlation coefficient between total income and loans and advances of NBBL show negative correlation.

From trend analysis of deposit utilization and its projection for next 5 years, it was found that EBL and NBBL have the increasing trend in loans and advances to total deposit and also increasing trend in total investment to total deposit.

5.2 Conclusions

The overall performance of Nepal Bangladesh Bank Limited is satisfactory then Everest Bank Limited. The liquidity position of NBBL is better than that of EBL. As loans and advances of NBBL is increasing trend deposit is also increasing trend during the study period. There is increasing trend in profit of NBBL shows that improvement in performance and success of the firm. Purpose-wise loan classification show that the NBBL and EBL bank have given priority to industrial and commercial sector lending as well as priority and deprived sector lending. NBBL has higher lending portion in these sectors than EBL. From the selected bank NBBL has performed well in increasing growth ratio of deposit, loans and advances, investment and profit.

NBBL has good lending procedure, preliminary screening is done of all the loan application, credit appraisal and financial position of the business and cash flows of the proposal is given high importance, which is essential criterion for loan approval. There is proper control mechanism like delegation of authority, follow up visits and books of accounts inspection of the client, which results in good performance of the bank. The banks follow NRB guidelines of loans classification and provisioning which makes strong financial position of the bank instead of holding high volume of non-performing assets. After comparative study of NBL and EBL banking performance, it can be concluded that NBL has better performance than that of EBL.

5.3 Recommendations

Based on above findings and conclusions the following recommendations have been forwarded:

- As the liquidity position of these two banks found to be high, they are recommended to look upon the new area of lending and investment. The rural economy has always been realizing the credit needs; the dominancy of non-organized moneylender in this area has been prevailing. To compromise between the liquidity and credit need of rural economy, these banks are highly fund in business and at the same time contribute to the national economy also.
- The ratio of loans and advances and Investment to total deposit of NBBL is the lowest and this has result in the highest ratio of interest expenses to total deposit. At the same time total deposit to total fund utilized is below the average and there is high propensity of growth in deposit as compare to loans and advances. Hence this bank is suggested to reduce the interest rate. Consequently the volume of interest bearing deposit in its deposit mix reduces; increase the gap between consequent assets the liquidity arising from high prosperity of deposit.
- EBL's contribution in loans and advances is the lowest and this has low degree of variation and low growth rate as compare to NBBL and NBBL since the entire economy is largely dependent on the proper execution of lending performance of all the banks in long run due to its paradox how level of lending constitutes the low level of investment, resulting in low level of

productive and employment generation and this causes slack in economy. This slackness in economy adversely effects the funding as well as non-funding activities of banking business. Thus, especially EBL is recommended to give more priority on productive and priority sector loan.

- As examined by interest income to interest expenses ratio, the interest gap in NBBL and EBL is highly unfavorable for the national development since this gap is not existed due to credit creation power of these banks, as the total loans and advances to total deposit ratio is not even 1:1, this gap has its reason with high interest charged and low interest offering. This ratio has clearly indicating that the bank has not followed that the NRB directives to maintain overall 5% gap in interest charged and interest offered. Thus bank is recommended to lower this gap by charging low interest in lending lowering this gap results in high volume of loans and advances and helps in increasing the sustainable lending practice.
- The high volume of liquidity shows that the high degree of lending strength has been prevailing in all of these banks. The lack of reliable lending opportunities and fear of losing the principle in rural sector has been keeping these banks to less orient toward the lending function. Hence, the government should take appropriate action to initiate these directives does not create long term healthy lending practices unless the commercial banks are not self motivated to flow credit in this sector. “But in view of the risk element in lending, the banker still prefers to have a negative outlook in handling proposals. This attitude requires to be changed among the bankers and any proposal coming to them should be processed to conform to banking norms so that it can be sanctioned for alignment for production or approved social objectives.

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