

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nepal being listed among developing country is trying to go aboard upon the path of economic development by economic growth rate and developing all sectors of Nepal. Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sectors. Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development.

Nepalese financial sector is composed of banking and non banking sector. Besides commercial banks, there are sizeable number of development banks, finance companies, micro-credit development bank, co-operative, NGOs and postal saving offices that undertake limited banking and financial sector comprises funds, provident fund, citizen investment trusts and mutual fund. Financial institutions are the specialized firms that facilitate the transfer of funds from savers to borrowers. Bank is a financial institution that acts as a bridge between the savers and borrowers. It collects scattered deposits and gives loans to maximize their wealth. The establishment, growth and development of the financial sector directly influence open market and liberalization policies.

Financial institution is the backbone of the economic development of any country. A small financial institution is a vital contributor to the financial health of the national economy. The financial institution is often fragile and susceptible to failure because of poor management, particularly financial management. National development of any economic development is supported by financial infrastructure of that country. Financial infra structures indicate the financial strength, position and environment of the institutions. The various branches of bank in towns and villages are offering various types of services. In past they just used to accept deposits from the saver of money and give loan to the users of money. Savers are those units whose earning exceeds expenditure on real assets and users are those whose expenditures on real assets exceed their earnings.

Integrated and speedy development of the country is possible only when competitive banking service reaches every corners of the country. It is not possible to develop all the sectors by the investment of funds by the government alone. Commercial bank occupies an important place in the framework of every economy because it provides capital for the development of industry, trade and business by investing the saving collected as deposits from public. In this way they contribute to the economic growth of the nation. Besides this, commercial bank provides numerous services to their customer in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world.

Banking plays a significant role in the development of national economy. Modern bank provides varieties of functions therefore it is difficult to decide the functions of modern banks. Because of their complexity and versatility in the operation various authors have defined the word “bank” in different ways.

“A commercial bank is dealer in money and it substitutes for money such a check or a bills of exchange, it also provides a variety of financial service”. (The New Encyclopedia of Britannica, vol.4:1985; 600)

Oxford English Dictionary says “A bank is an establishment for the custody of money received from or on behalf of its customers, its essential duty is to pay their draft on it, its profit arises from its use of the money left unemployed by them.”

According to Halsbury’s Laws of England “A banker is defined as an individual, partnership or corporation, whose sole or predominating business is banking, that is, the receipt of money on current or deposit account, and the payment of cheque paid by customer.”

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

According to Horace White, “Bank is a manufacturer of credit and machine so facilitating exchanges”.

Professor R.S. Sayers says “I believe in that fact the banks are not merely purveyors of money. But also in an important sense; manufactures of money”.

Cambridge International Dictionary of English defines bank as “An organization where people and business can invest or borrow money, change it to foreign money, etc. or a building where these services are offered”.

Dr. Hart defines a banker or bank as “A person or company carrying on the business of receiving money and collecting draft, for customers subject to the obligation of honoring cheque drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts.”

Thus, we can say that banks are those institutions whose functions are related with creation of money and credit, acceptance of deposits, forwarding of loans, transfer of money, and agency functions, etc.

Banks constitute important segments of financial infrastructure of any country. A bank is the financial departmental store, which render various financial services besides taking deposits and lending loans. For strengthening the economy of any country both the private and public sector should play vital role. Both private and public sector have been contributing to our nation. Commercial banks and other financial institution provide capital for the development of the industry, trade, business and entrepreneurs by investing the collected savings. All the economic activities of each and every country are greatly influenced by the commercial banks of the country.

Total assets of bank can be divided in to two parts performing assets and non performing assets. Performing assets are those assets which directly generate cash to organization or indirectly help to generate cash or that facilitate the set ups for better productivity. Loan and advances is direct contributor to banks income whereas cash in vault, balance in other bank, fixed assets and other assets are the facilitators which helps the daily operation of bank. Performing assets add positive value to bank as well as to the nation. Non

performing assets can be defined as those assets that cannot be used productively. Non performing assets are the outdated loan, and bad and doubtful debts. Loan and advances is an important part of assets which are the main source of income for bank. So the study focuses on loan.

### **1.1.1 Introduction of NABIL Bank Limited**

Nepal Arab Bank Limited is the first foreign joint venture bank of Nepal. NABIL bank, earlier known as Nepal Arab Bank Ltd was established and started operations in 16th July 1984 with a paid up equity of Rs. 30 million. NABIL bank was established under the Commercial Bank Act 2031 and the Company Act 2021. The head office is at Kantipath, Kathmandu. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and tele-banking system.

NABIL Bank a joint venture with Dubai Bank Ltd. under a Technical Service Agreement (TSA) marks a new dawn in the Nepalese banking industry. With the opening of the Nepal Arab Bank Ltd, (NABIL Bank Limited), Customer Service or marketing took a U-turn. The bank accelerated the evolution in banking products and services thereafter in Nepal. The bank commenced with a team of about 50 staff members and Rs. 28 million as capital. Today NABIL bank is entering the 25th year of operation. It has achieved two things first it has a large clientele base and supportive stakeholders. Secondly, it has succeeded in positioning itself robustly in the market for which the credit goes to Team NABIL.

Today the Bank has established itself as the Bank of 1st Choice. NABIL is the largest bank in terms of the network and number of branches amongst the commercial banks with a wide network of ATMs and offerings including a range of diversified service products. In this span of 24 years of banking operation NABIL has already distributed rich cash dividends, spectacular returns on asset and equity even during the most trying times. All of which endorses the strength and drive with which NABIL proceeds. NABIL has multiple sectors in focus to serve host of entrepreneurs as new strategies are to expand dynamically, exploring new avenues and opportunities.

NABIL bank promises to always be “Your Bank at your service”.

### **Mission**

“To be the Bank of 1st choice”

### **Focus**

- ◆ Attaining fairness for all stakeholders, as well as achieving organizational efficiency.
- ◆ Providing financial assistance to customers and functioning as the principal financial institution and coordinating the working of institutions and public interest.
- ◆ Becoming nationally competitive banking organization while improving its prime position in niche area through qualitative and quantitative growth with generation of surplus in an environment of growing professional and technological competence
- ◆ Being a leading, global, client-focused, innovative and low-cost provider of financial services through the distribution channels of the client's preference in markets where NABIL can create value.

### **Values**

- ◆ Customer focused
- ◆ Result oriented
- ◆ Innovative

- ◆ Synergetic
- ◆ Professional

*(Source: www.nabilbank.com)*

### 1.1.2 Introduction of Bank of Kathmandu

BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights with the slogan of “We make your life easier”. Commencement of bank of Kathmandu ltd. gave a new ray of hope to the sluggish financial sector of Nepal. It started its operation during the year as a joint venture with Siam Commercial bank of Thailand with view to carry out the mobilization of domestic saving and other fund from the deprived sector to priority sector. Now, Bank of Kathmandu Ltd. has becomes a pioneer organization in the banking sector of Nepal. It has been able to provide excellent service to its valuable customer since its establishment. The strong commitment has put the bank among the list of competitors and it has become a prominent name in the banking sector of Nepal.

BOK aims to facilitate the nation's economy and to become more competitive globally. Bank of Kathmandu is committed to deliver quality service to customers, generating good return to shareholders, providing attractive incentives to employees and serving the community through stronger corporate social responsibility endeavor. Each specific service, with its unique features, is designed to satisfy a particular requirement. Ultimately, BOK helps customers in many ways, from ordinary day-to-day needs to complex life-changing decisions. Every way is a step closer to an easier, happier life.

To achieve these, BOK has been focusing on its set objectives right from the beginning. Its objectives are highlighted as follows.

- ◆ To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas.
- ◆ To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost.
- ◆ To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies.
- ◆ To contribute to the overall social development of Nepal.

BOK corporate slogan is “We make your life easier”.

### **Vision**

“To become a significant contributor to the economic development of Nepal by distinguishing the bank as an efficient, competitive, safe and top quality financial institution”

### **Mission**

To offer financial services and becoming the “Bank of Choice” by dedicating to the progress and growth of the institution for the community, customers, employees, supervisors and stockholders by:

- ◆ Promoting economic growth and becoming a caring corporate citizen.
- ◆ Providing excellent customer services by offering personalized quality products and services.
- ◆ Inducing modern technologies of banking that adds value to customer service
- ◆ Following strict risk control mechanisms
- ◆ Enhancing shareholders value
- ◆ Providing challenging career and learning opportunities for employees

### **Focus**

BOK is focusing in different sector which has made the bank as a social responsible corporate citizen. BOK has been contributing to the society as a corporate citizen mainly in the areas of social interest like; blood donation programme, HIV/AIDS walkathon programme, keeping the environment clean, contributing to drinking water facility for senior citizen living in the Pashupati Vridhaashram, sponsoring scholarship to meritorious student from rural areas and public school and sponsoring in various types of workshop and competition and poetry contest.

*(Source: [www.bok.com.np](http://www.bok.com.np))*

#### **1.1.3 Introduction of Everest Bank Limited**

Everest Bank Limited was registered on November 17, 1992 and come into operation on October 18, 1994 with objectives of extending professionalized and efficient banking

services to various segments of the society. EBL had an initial paid up capital of Rs 30 million. EBL has grown to become one of the leading banks in Nepal. Joint Venture Partner PNB joined hands with EBL as a Joint Venture in 1997 and turned it around to a highly profitable bank. There has been no looking back since then. PNB provides top management support under the Technical Service Agreement. Punjab National Bank (PNB), which is joint venture partner of EBL, is one of the largest nationalized banks in India having 114 years of banking history. PNB (Punjab National Bank), India holds 20% equity Shareholding Pattern. 50 % of the shares are owned by the local promoters, and 30% of the shares are owned by the general public.

The bank is providing customer-friendly services through its Branch Network and over 250 correspondent banks across the globe. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account.

### **Awards**

- ◆ The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London.
- ◆ The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan against Share, Loan Against Life Insurance Policy and Loan for Professionals.

### **Vision**

- ◆ To evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.
- ◆ To integrate the frontiers of technology & serving the various segments of society.
- ◆ To be committed to excellence in corporate values.

## **Mission**

- ◆ To provide excellent professional services & improve its position as a leader in the field of financial related services.
- ◆ To build & maintain a team of motivated and committed workforce with high work ethos.
- ◆ To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments.

*(Source: www.everestbank.com)*

## **1.2 Statement of the Problem**

Commercial bank being the financial institution plays significant role by collecting scattered surplus funds and deploy these funds in productive sectors as investment. The core banking business is mobilizing the deposits and utilizing it for lending to industry lending business is generally encouraged because it has the effect of funds being transferred from the system to productive purposes which result into economic growth.

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

Nepali banking sector is primarily focusing on plain vanilla banking products such as loans, deposits, letter of credit, guarantees, remittances etc. There are value added products like funded-risk participation and private labeling in the trade finance area. Nepal does not have electronic clearing system for realization of cheque and drafts on a real time basis. On the treasury front unavailability of dealing room at the central bank electronic dealing screen at treasuries of banks can be considered another hindrance. Although few banks have offered internet banking services, we still have to go long way.

At the current scenario, the number of financial institutions in comparison to the size of the market is extremely high. Few more commercial banks are in the pipeline. An addition to the existing number can only mean one thing, which is an increased level of

competition among the commercial banks. If we look at this way then, it seems that customers are the one who will truly benefit from this. But if we look at the other side of the picture, inefficient and under performing banks can no longer exist and will have to exit from market. This will have a spill over effect on the whole financial system.

Government owned banks are in critical condition before reform, they are unable to recover the credit. After reforming them it is now in progressing trend but still not satisfactory. However in private banks condition is better comparing to government but some of the private banks also have the problems of recovering the loans. Private Banks has generated different new scheme for loans, which considered are the quality of loan portfolio, mix of risk assets and credit administration system. They are maintaining lower loan loss provision, which indicates good credit management. But performance on the credit is poor in the government banks and poor loan categorization, diversification and risk analysis. Due to that, the amount of non- performing assets increases.

Private Banks has generated different new schemes for loans, which considered are the quality of loan portfolio, mix of risk assets and credit administration system. They are maintaining lower loan loss provision, which indicates good credit management. But performance on the credit is poor in the government banks and poor loan categorization, diversification and risk analysis. Due to that amount of non performing assets is increasing. This study have been tried to analyze and examine the problems related to loan recovery system existed in NABIL, BOK and EBL.

The problems of the study are as follows.

- i. What are the purposes and sectors, the loan of NABIL, BOK, and EBL are mobilized?
- ii. What relationship exists between loan granting and repayment of NABIL, BOK, and EBL?
- iii. What are the processes and criteria for granting loan in NABIL, BOK, and EBL?
- iv. What steps are taken to improve the lending and recovery procedure of loan disbursement?
- v. Which banks' performance is satisfactory?

### **1.3 Objectives of the Study**

Before providing loan, a bank always should evaluate the external condition or environment of industry, business shown by the loan proponent, whether the business shown by the proponent is usable in the market or not, the proposal of loan proponent should not be approved, though the requirements are fulfilled. To know the process of loan disbursement and recovery system of selected banks and find out the problems is the main objective of this study. This study is done with the objective of having practical knowledge to the theoretical knowledge studied in the books and to fulfill the requirement for the degree of Master of Business Studies. The basic objectives of the study are to examine, identify, analyze study and interpret the loan disbursement and recovery of NABIL, BOK, and EBL.

- i. To study and examine present loan disbursement process of the banks under study.
- ii. To analyze the total loan investment, recovery and outstanding of the banks under study.
- iii. To segregate and evaluate total performing and non- performing loan of selected banks.
- iv. To provide suggestions to the concerned banks on the basis of findings of the study.

### **1.4 Significance of the Study**

It is well known fact that the commercial banks affect the economic condition of the whole country. The effort has been made to highlight the loan. Loan is the topic of much more interest. So the study has analyzed about loan investment, recovery and outstanding. This study may be useful to utilize the loan taken for specific purpose. Similarly, it will be helpful to mobilize the loan into productive areas.

Interested persons, institutions; public and government agencies may be benefited from the study. This study is benefited to the entrepreneurs, bankers, and other citizens, policy makers as well as to the selected banks. This study could be advisable for the related financial institutional in defining appropriate interest rate.

Commercial banks provide short- term loans such as demand loan, vehicle loan, education loan, hose loan, personal loan, overdraft and time loan for one- year period as a working capital loan. It also provides long term loans for financing fixed assets for maximum of seven years with repayment on installment basis. Commercial bank provides loan in both trading sector and industrial sector and also in priority and deprived sector. A bank is needed for the purpose of providing or granting loan at low rate interest. A bank provides long term loan to various projects which no individual can afford. Loan is one of the important parts of the bank. Loan and Advances occupies the major portion of the assets of any commercial banks. It directly generates income to the bank, so it has an important space in banking industry. Thus the study have been tried to discover something extra about the loan disbursement and recovery system.

### **1.5 Focus of the Study**

The development of the any country can't be imagined without economic activities. The development of the banking system is one of the grounds of economic development. In another word, there is no possibility of economic development of a country without the development of banking system. So, bank is taken as strong means for the economic development. Among the commercial banks the study is focused on joint venture banks. Commercial banks perform a wide spectrum of functions. Loan disbursement is the most critical factor in determining the strength of any bank. Primary factor that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. However, advancing loan is one of their major functions. Bank loans contribute a lot to the growth of new business, which ultimately improves the economic health of the country. The role of bank loan in the economic development of the country is of great value. Normally, commercial banks loans are in four forms namely overdraft, cash credit, direct loan and discounting bills of exchange. Loans and advances constitute a major portion of the assets of a commercial bank and the interest income earned from loans and advances is a major contributor to a bank's profit. If the loan asset of the bank turns out to be non-performing or least liquid, the bank cannot obtain the targeted return from loans and advances. Thus, an effective management of loan investment is the must.

The focus of the whole study will be on loan disbursement and recovery system. Most of the topics related to loan are compared up to the possibility. NABIL, BOK and EBL are all joint venture commercial banks. The study focuses on loan and advances and related matters only. The comparison between three selected sample banks is done up to possibility. The study is vague if their whole matters are analyzed and compared.

## **1.6 Limitation of the Study**

Though best possible efforts have been made to complete this study, this dissertation is limited in the few areas. Every research has to be conducted in certain period. The topic covers wide area. Only three joint venture banks have been selected among the seven joint venture commercial bank of Nepal. Some of the limitations are as follows:

### **i. Time Limitation**

A deep knowledge of the subject matter could not be gained because of the time restriction. So this study is limited on three banks. They are NABIL, EBL and BOK. The study has been completed in few months after completion of the degree of Master of Business Studies. So, the available time is very much limited.

### **ii. Accuracy of Data**

The statistics, which is used for the purpose of this study, is secondary, which consists of banks publication, annual reports, published magazines and other available secondary sources. Bank publications may not be always reliable because they may publish the reports according to their profit policy and market situation.

### **iii. Availability of Data**

All required data and information are not available easily. Some information relating to the subject matter could not be obtained because of the bank's secrecy. So, there are some difficulties to get the sufficient information. The study has analyzed the data and information of five years. A consolidate trend for five years has been sufficient for the research and accurate projection.

## **1.7 Organization of the Study**

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

### **◆ Chapter One- Introduction**

It consist introduction part of the whole study. It has been sub divided into seven heads; Background of the study, statement of the problem, objectives of the study, significance of the study, focus of the study, limitation of the study and organization of the study.

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

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

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

It has been sub-divided into six heads, which includes Introduction, research design, population and sample, nature and sources of data, data collection procedure, financial tools used and statistical tools used for studying .

### **◆ Chapter Four- Data Presentation and Analysis**

This chapter is the main part of the study. It include introduction of areas of loan disbursement, ratio analysis, graphical presentation, correlation analysis, trend analysis and miscellaneous analysis, and major findings of the study. In this chapter data colleted through various sources are also presented.

### **◆ Chapter Five- Summary, Conclusions and Recommendations:**

This chapter is the final part which includes the conclusion findings and whole summary of the study.

# **CHAPTER II**

## **REVIEW OF LITERATURE**

### **2.1 Background**

A literature review discusses published information in a particular subject area, and sometimes information in a particular subject area within a certain time period. It can be just a simple summary of the sources, but it usually has an organizational pattern and combines both summary and synthesis. A summary is a recap of the important information. It might trace the intellectual progression of the field, including major debates. And depending on the situation, the literature review may evaluate the sources and advice the reader on the most pertinent or relevant.

Generally, past study about the topic is presented as well as researcher presents new facts by finding out the weakness and conclusion of previous studies. The review of the related topic, thesis articles while presenting review of literature, researcher should be clear about the topic, date of research, facts presented etc. Various sources can be studied during the research process in review of literature.

### **2.2 Conceptual Review**

The chapter review of literature includes the review of concept and findings of previous research on the same field. Books, journals and unpublished thesis are reviewed for this purpose. In this regard, basic academic course book on finance, recently published books specially related to this topic, some of the major research based journals and the related studies are reviewed. To explore the relevant and true facts for the research purpose, this chapter highlights the literature available related to the study.

Financial management is directly related with finance, that is, money. But finance, today, is the best characterized as ever changing, with new ideas and techniques. Today finance is not only related with the money matters but also subject to acquiring, managing and efficient utilizing of the funds for businesses. Hence it is obvious that, this word “finance” is the matter of concern to the various sectors. For example, it is the management of the firm, which is always interested in all aspects of financial analysis to adopt a good

financial management system and for the internal control of the enterprise. Similarly, trade creditors are more interested in cash flow ability of the enterprise to service debt over a long run. However, shareholders of the firm are principally concerned with the present and expected future earnings and the stability of the earnings as well as their variation with the earnings of the other enterprise. Thus, shareholders are more concentrated on the profitability of the firm. The present structure of the financial institutions is based on the foundation laid by commercial banks. Hence, banks are regarded as one of the intermediaries to mobilize capital resources and channel them into productive sectors. Resource mobilization is, thus, assumed to be vital and challenging work in the present day world economy. But in this era of financial, economic and political liberalization, the task is more complicated than before. Thus, there is a need of foreign investment in order to meet the standards to cope with the worldwide competition.

In developing countries these foreign investment plays a significant role in economic development by providing capital, technology, skills, managerial efficiency and others. So, foreign joint investments have been considered as very important. They are mechanism through which resources are mobilized and make flowing from non-productive sectors to productive sectors.

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

Banks are among the most important financial institution in the economy and essential business in the thousands of local towns and cities. In this context, there is much confusion about exactly what bank is. Certainly, banks must be identified by the functions (services and roles) they perform in the economy. The problem is not only that the functions of banks are changing, but the functions of their principle competitors are also changing.

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

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

Sayers defined the banks as “ordinary banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits I exchange, government bonds, the secured or unsecured promises of business to repay, etc.” (Vaidya; 2001:29)

### **2.3 Review of Books**

Sound, vibrant and competitive sector is a key to the economic development. As the countries are becoming more and more inter dependent through globalization and liberalization. Most of the poor and developing nations are finding themselves way behind the develop countries in terms of trade and development. To become a successful trade partner and to achieve economic development, development of a financial sector is a must. Here are some review of books and journal regarding this subject.

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

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

**Ratna Man Dangol and Keshab Prasad Prajapati in the book, “Accounting for Financial Analysis and Planning”** mention the use of Ratio Analysis as follows,

- ◆ For expressing trend
- ◆ For showing changes in financial statement
- ◆ For explaining plan for future
- ◆ For setting standard
- ◆ For effective control
- ◆ For company efficiency
- ◆ For maintain uniformity

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

**Madlin & Snock (1998) in their book, “ Evaluation of Banking Supervision in NRB”** express when government decided to establish banks with joint venture two benefits were expected; first that competition would force domestic banks such as NBL & RBB to improve their services and efficiency; second that introduction of new banking procedures, methods and technology would occur.

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

## **2.4 Review of Articles**

In an article,” **Challenges of non-performing loan management in Nepal**”, Uma Karki ha s mentioned the cause of increasing trend of non-performing loan. She identifies the major cause such as “poor loan analysis, guarantee oriented loan system, depreciation on valued assets, misuse of loan, lack of regular supervision of loan.(Karki, Uma, Nepal Rastra Samachar-Vol47,NRB,2059 :87)

In an article, “**Risk management of commercial bank and financial management**”, **Aswini Kumar Thakur**, raised the issue of risk management I the banking sector. According to him risk should be taken as a one of the challenges of the banking industry but it is not sufficient to minimize the potential disasters. Banking risk should be managed as a separate part of management. (Thakur , A.K, Nepal Rastra Samachar-Vol47,NRB,2059:49)

In an article, “**Restructuring process of commercial banks & responsibility of restructuring Team**”, Mahesh Bhattarai is trying to indicate the problem of banks’ bad debt and non performing assets. According to him, “If a bank can not recover its loan lending, bank’s cash flow will be badly affected.” Similarly it can affect the close relationship between depositors.

**Pradhan (1984) in his article “Financial Liquidity Assessment and Discriminate Analysis” in the “Pravaha”, Journal of management, Vol 8, 1984, published by Nepal Commerce Campus, Tribhuvan University**, has made an effort to show how a

discriminate analysis may be useful in assessing the financial liquidity position of the selected public enterprises of Nepal. He even tried to arrange 10 public enterprises (5 from manufacturing sectors and 5 from non-manufacturing sectors) on the basis of their risk indicated by Z-scores. The objective of the article was, however, to evaluate and combine two explanatory variables in a manner that forces the selected groups to be as statistically distinct as possible. (Source: Pradhan, 1984“Pravaha”,Vol 8 :24 )

**Sunil Chopra in his article, “Role of foreign banks in Nepal”** had attempted to focus the role of foreign banks in Nepal. According to him, the joint venture banks are playing dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

**Similarly, Bedi B. Bajracharya, in his article, “Monetary policy and mobilization in Nepal,”** concluded that the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal. It can, however, be fulfilled only by the commercial banks as they are the active financial intermediary for generating resources in the form of deposit and providing credit to the investors.

**Jha (2005) in his article, “Challenges and Opportunities”, in The Boss, Vol 2, issue 10, pg 96** has expressed in his article about the challenges and opportunities that the Nepali banking sector faces. Nepali banking sector is going through a rapid transformation. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic. The opportunities to enter new business and new markets and to deliver higher level of customer service are immense. Four trends that alter the banking industry in future are consolidation and merger, globalization of operations, development of new technology and sustenance of traditional services. With the new capital adequacy norms coming through, it is expected that few banks have no choice but to merge. In order to have a sustainable growth in the bottom line, banks must increase their global market operations, especially in treasury products by being more innovative and selecting a pool of products which the global market is offering today to reward the calculated risk taken by the bank.

**Shrestha (2004), in his article, “ A study on deposits and credits of commercial banks in Nepal”** concluded that the credit deposits ratio would be 51.3%, other things remaining same in the year 2004 A.D., which was the lowest under the period of review. So he has strongly recommended that the commercial banks should try to give more credit entering new field as far as possible otherwise they might not be able to absorb even its total expenses

**B. M. Magazine, Nov (2000) in one of its article, “How Much Bankable is Your Bank”**, states that the strength and performance of any commercial bank can't be judged on the basis of single parameter. The parameters of strength could be the total equity employed, that total assets held, total deposits mobilized etc. whereas performance can be measured with operating profit ratio, deposit to advances ratio, growth in advance, deposits and operating profit etc. P/E ratio shows the confidence of the investors in the stock of a bank.

## **2.5 Review of Thesis**

**Miss. Rajani Shakya (2004) has performed her dissertation on, “Liquidity assessment of Nepal Bangladesh Bank Ltd.”** Her study is based on Nepal Bangladesh Bank's liquidity assessment. Its main objective is to analyze the liquidity assessment of NBB for the creation of better investment. In this regard she has tried to focus on the major problems of NB Bank which is at crucial stage. Besides, she has also raised relevant problems on mushrooming of the banks. Other problems, which she has focused, are as follows.

- ◆ High flow of money in the market but less viable and investible project.
- ◆ Due to lack of study of liquidity and available investment sector, it is not able to attract as much clients as it could have.
- ◆ Due to the political problems, this bank is also going via. Saturation.
- ◆ Beneficial investment strategy needs to be in operation.

She concludes that NB bank was not able to maintain the conventional standard of 2:1. The cash and bank balance to total deposit ratio was not satisfactory as the average ratio was found to be only 17.80% which means that NB bank was not capable to keep more

cash balance against its various deposit and thus, it defines that its liquidity position is not good in spite of its slight improvement in 2001/02. Loans and advances to total deposit ratio also showed the fluctuating trend. This study recommended that the concerned authorities should develop the sense of safety and security in the mind of investors. She even suggested the NB bank to promote their international banking network to increase their remittance and other banking business.

**Miss. Archana Joshi (2002) in her thesis, “A comparative study on Financial Performance of Nepal SBI Bank Ltd. & Nepal Bangladesh Bank Ltd.”**, reveals that the liquidity position of NSBL exists in normal standard and NB is still trying to gain that position. However, NBB has better turnover than NSBL, thus has got better utilization of resources in income generating activities than NSBL resulting into the increment of profit for the organization. But despite of the fluctuating trend in the ratio of cash and bank balance to total deposit. NSBL is more efficient than NBB in cash management i.e. it is more able to keep more cash balance against its various deposits. However, the overall finding is that NBB seems to be more successful in mobilizing its customer’s saving in much more productive sectors.

**Mr. Bhoj Raj Bohara (1992) in his research paper titled, “A comparative study of the financial performance of Nepal Arab Bank Limited and Nepal Indosuez bank Limited”**, concludes that to meet the short term obligations both the banks had been maintained adequate liquidity and utilization of deposit was satisfactory. Both the banks have highly geared capital structure and the capital adequacy ratio of both banks has been maintained in excess then actually required. This study suggested increasing same status of capital structure to reduced financial risks.

**Mr. Bindeshwar Mahato in his unpublished master’s thesis, “A comparative study of the financial performance of NABIL & NIBL”** concluded that NABIL is more oriented towards discharging responsibility towards its shareholders than NIBL. More than this, NABIL is found paying more attention towards the attainment of national objectives. NABIL’s participation in the task of economic development with liberal attitude towards the government and being more responsive to the national priorities like branches expansion, ore employment, more resources mobilization etc. so, from the shareholders and government point of view, NABIL is performing much better than

NIBL. But it doesn't mean that NIBL is not performing well. Relatively, NABIL is doing better banking business.

**Mr. Kishor Poudel, in his thesis paper “Liquidity and Investment position of Joint Venture Commercial Banks in Nepal”**, has made an attempt to evaluate liquidity and investment of JVBs, with special reference to EBL & NABIL. He has concluded that liquidity of EBL is comparatively better than NABIL. Growth rate of investment is high in EBL then NABIL. He even found that the bank don't 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 on share and debenture and the bank should have laid down policy for timely review of portfolio and to maintain risk and return.

**Mr. Keshav Raj Joshi (1989) in his dissertation entitled, “A study on financial performance of commercial banks”**, has analyzed different ratio of Nepal Bank Ltd. and Rastrya Banijya Bank for the period of five years till fiscal year 1988. He concludes liquidity position of commercial banks is sound. Their debt equity ratio is high and debt on solvency to debt equity ratio is under doubt. Regarding debt solvency to debt equity ratio of local commercial banks is higher than joint venture banks. Conservative credit policy is followed by commercial banks for asset utilization. That is why more investment is done in loan and advances, assets utilization for earning purpose is two third of the total assets. The main sources of income for those banks are interest from loans and advances. Overall profit position of NABIL is better than that of other joint venture banks during the study period. Dividend layout ratios of commercial bank should be determined which should be kept in mind of the shareholder's expectations and their growth requirements of the banks.

## **2.6 Experts' Views**

### **Paul Wolfowitz President, the World Bank**

The world's Bank Support would be aimed at “reinforcing Success” in countries that were performing well. Nepal especially interims of the stalled financial sector reforms

and the hiccups the in implementation of the poverty Reduction Strategy which now stands poised to be replaced by an interim three year plan. He added that he was aware that Nepal like Africa did not have the infrastructure it needed to grow, but developing it- which the Bank could restart to support-would have to be done on a regional and not “country specific” basis.

### **Devaranjan, Shantayanan, Chief Economist World’s Bank South Asia Region**

There is not too much that Nepal can do (to benefit from the change in the neighborhood”, said Shantayanan Devarajan, the Chief economist of the World Bank’s South Asia Region. “I do think internal stability and careful management of the domestic economy working with the private sector for establishment the final sector (can help)”.

### **President, Nepal Banker’s Association**

After 2010, there will be new international entrants in the market. We must remain very competitive. We have to operate at international standards. However, I don’t think we need to fear. I believe there are seventeen commercial banks, but all of their capital combined would not even equal to the capital of a small bank in developed countries. If somehow, Nepal is able to capitalize on the growth of China and India, there is no turning back for the banking sector. There will be opportunities for all types of bans. So, we need to work together to address the challenges of the WTO.

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

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

### 2.7.1 NRB Rule Regarding Fund Mobilization of Commercial Banks

To mobilize bank's deposit in different sector of the different parts of the nation to prevent them from the financial problems, central bank (NRB) may establish a legal framework by formulating various rules and regulations (Prudential norms). These directives must have direct or indirect impact while making decision to discuss those rules and regulation which are formulated by impact while making decision to discuss those rules and regulation which are formulated by NRB in term of investment and credit to priority sector, developed sector, other institution, single borrower limit, CRR, Loan loss provision, Capital adequacy ratio, interest spread, productive sector investment etc. a commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand and branch and the counters, how much flexible and helpful the NRB rules are important. But we discuss only those, which are related to investment function of commercial banks. The main provisions established by NRB in the form of prudential norms in above relevant area are briefly discussed here.

### 2.7.2 Directives Relating to Loan Classification and Loan Loss Provision

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

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

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

Here, if it is appropriate in the views of bank management, there is not restriction in classifying the loan and advance from new risk category to high risk category. For instance loans falling under sub-standard category may be classified in to doubtful or loss and loans falling under doubtful may be classified into loss category. And the term loans and advance also include bill purchased and discounted.

### **Provision of Loan Loss and Loan Classification**

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

**Table No. 2.1**  
**Provision of Loan Loss and Loan Classification**

<b>Classification of Loan</b>	<b>Period of overdue</b>	<b>Loan loss provision</b>
Pass/Good	Not overdue and overdue up to 3 months	1%
Sub-standard	Overdue loan from 3months to 6 months	25%
Doubtful	6 to 12 month overdue loans	50%
Loss/ Bad	More than 1 year period overdue loans	100%

*(source:www.nrb.org.np)*

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

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

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

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

**Table No. 2.2**  
**Proportion of Minimum Capital Funds**

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

*(source:www.nrb.org.np)*

#### **2.7.4 Directives Related to Interest Rates**

According to previous directives, the difference between the interest provided and interest charged (spread rate) should not be more than 5%. These difference are calculated on this of the weighted interest to the directives of circular issued on 16<sup>th</sup> July 2002, the requirements to maintain average interest spread at 5% has been with draw from the time being.

#### **2.7.5 Directives to Cash Reserve Ratio Requirements (CRR)**

To ensure adequate liquidity in the commercial banks, to meet the depositors' demand for the cash at any time to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to have maximum CRR. In this regards NRB has directed commercial banks to deposits in their own bank's vault. CRR has been reduced by one percentage point effective beginning of new FY.

#### **2.7.6 Important Terminologies**

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

##### **1) Deposits**

Deposits mean the amount in a current, saving or fixed account of a bank or financial institution. For commercial banks, deposit is the most important sources of liquidity for bank's financial strength; it is treated as a barometer. In the work of Eugene, "A bank deposits are the amounts that it owes to its

customers.” Deposits are lifeblood of the commercial bank greatly depends upon the extent to which it may attract more and more deposits. The deposit of a bank is affected by various factors like:

- ◆ Types of customers
- ◆ Physical facilities of bank
- ◆ Management and accessibility of customers
- ◆ Types and range of the services offered by the bank

In addition to the above, the prevailing economic condition exerts a decisive on the amount of deposit the bank receives.

## **2) Loan and Advances**

Loan and advances and overdraft are the main source of income for a bank. Bank deposits can be crossed beyond a desired level but level of loans, advance and overdraft will never cross it, the facilities of granting loan, advance and overdraft are the main services in which customers of the bank can enjoy. Funds borrowed from banks at much cheaper than those borrowers from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rates; further an increase in economic and business activities always increase the demand for the funds. Due to limited resource and increasing demand for loans, there is some fear for those commercial banks and other financial institutions too. It may take preferential collateral while granting loans causing unnecessary botheration to the general customer. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. These are the undesirable effects to too low interest rate.

## **3) Investment of Government Securities, Share and Debentures**

Commercial banks invest on government securities, share and debenture to earn some interest and dividend. This is secondary sources of income of the

bank. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons, some of them are:

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

However, investment portfolio of commercial bank is established and maintained with a view to the nature of bank's /liabilities. That is because depositors may demand funds in great volume without previous notice to banks; the investment must be of a type that can be marketed quickly with of no shrinkage in value.

#### **4) Investment on the Other Companies Share and Debenture**

Due to excess funds but least opportunity to invest those funds in much more profitable sector and also to meet the requirement of Nepal Rastra Bank directives many commercial banks have to utilize their funds to purchase shares and debentures of many other financial and non financial companies. Now a day, most of commercial banks have purchase the shares of regional development bank, NIDC and other development banks.

#### **5) Other use of Funds**

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

#### **6) Lending and Investment Procedures**

The income and profit of the bank depends upon its lending procedures, lending policy and investment of its fund in different securities. The greater

the credit by the bank, the higher will be prodigality. A sound lending and investment policy is not only requisite for banks profitability, but also crucially significant for the promotion of commercial saving of a backward countries like Nepal.

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

- a. Safety and security
- b. Profitability
- c. Liquidity
- d. Legality
- e. Diversification
- f. Purpose of loan diversification
- g. Tangibility

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

### **2.8.1 Loan Disbursement**

Commercial banks perform a wide spectrum of functions. Loan disbursement is the most critical factor in determining the strength of any bank. Primary factor that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. However, advancing loan is one of the major functions. Banks loans contribute a lot to the growth of new business, which ultimately improves the economic health of the country. The role of bank loan in the economic development of the country is of the great value. Normally commercial banks' loan can be categorized into four forms, namely overdraft, cash credit, direct loan and discounting bills of exchange. Loans and advances constitute a major portion of the assets of a commercial bank and the interest income earned from loans and advances is a major contributor to a bank's profit.

If the loan asset of the bank turns out to be non-performing or least liquid, the bank cannot obtain the targeted return from loan and advances. Thus an effective management of loan is a must.

In bank, a request for disbursement of loan from the borrower with an authorized signature should be obtained for disbursing amount of loan. Bank personnel verify the signature of the borrower and the requested amount is credited to the respective borrower's account.

## 2.8.2 Loan Disbursement Process

At the current scenario, the number of financial institution in comparison to the size of the market is extremely high. Few more commercial banks are in the pipeline. An additional to the existing number can only mean one thing, which is an increasing level of competition among commercial banks.

Commercial banks provide short- term loans such as demand loan, vehicle loan, education loan, hose loan, personal loan, overdraft and time loan for one- year period as a working capital loan. It also provides long term loans for financing fixed assets for maximum of seven years with repayment on installment basis. Commercial bank provides loan in both trading sector and industrial sector and also in priority and deprived sector.

Lending is the most profitable activity of commercial banks and also the greatest contributor to the profit. Loans and advances occupy the largest portion of the total assets of bank. If the loan turns out to be non performing assets then the outcome may be terrible. Thus, loan should be properly managed.

### 2.8.2.1 Loan Disbursement Procedure:

Disbursement procedures for different types of loan are discussed below:

- i. **Long –Term Time Loan:** The fund is disbursed as per the schedule normally fixed in advances by debiting long-term loan account.
- ii. **Short- Term time loan:** The fund limit is disbursed at once by debiting time loan account and normally crediting current account.
- iii. **Demand Loan:** The loan is disbursed as and when demanded by the borrower by debiting demand loan account and by normally crediting current account.
- iv. **Overdraft Loan:** A borrower can draw a cheque in current account up to the approved limit at any time.

### 2.8.2.2 Loan Approval

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

### **2.8.2.3 Loan Application**

A loan application has to be submitted by borrower. This application contains a variety of information. Loan application must contain information regarding the following aspects.

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

### **2.8.2.3 Interview**

Interview helps in extracting and critical information that are not covered by a loan application. Additional information can be gathered by interviewing the customers/ borrowers.

### **2.8.2.4 Credit Analysis**

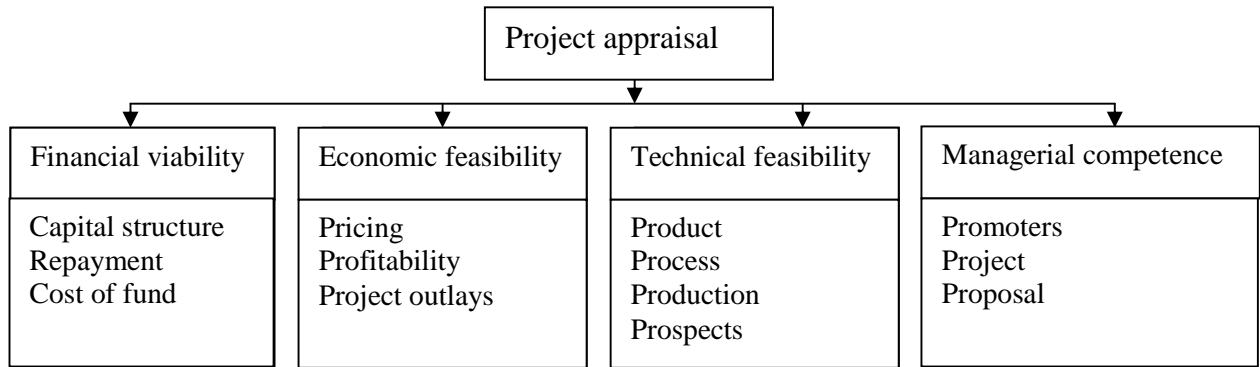
After interviewing the borrower, the bank personnel carry out credit analysis. A credit analysis is mainly concerned with the friskiness of loan proposal. Various aspects such as loan repaying capacity of the borrower, loan purpose, securities offered by the borrower etc are analyzed and inspected. A credit analysis is a crucial aspect of loan approval process.

### **2.8.2.6 Project Appraisal**

Bank generally carries out project appraised before accepting medium and long term loan proposals. A project appraised can simply be understood as a process of assessing the viability of projects to judge the soundness of loan proposals. The factors may differ as

per the types of project. However, commercial banks generally consider the factors as summarized in the figure:

**Figure No. 2.1**  
**Project Appraisal Process**

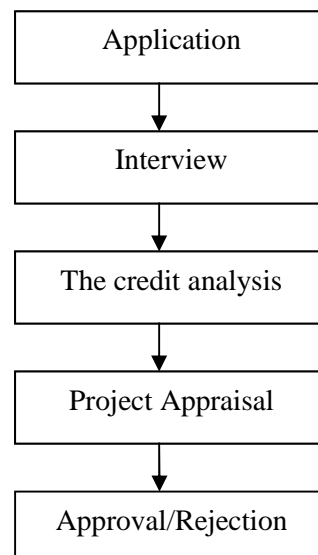


Thus, it is after appraising the project from all corners the bank personnel comes to the conclusion that whether the amount lent for that particular project can be repaid safely or not. It is on the basis of this appraisal process that medium and long term loan proposals are accepted or rejected in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

Finally, upon the fulfillment of all necessary requirements, the loan proposal is submitted to the approving authority for final decision. Banks sometimes approaches some reputed businessmen or organization with a request to take loans from bank because there is a tough competition in the banking sector, which requires making market efforts for sustaining the business.

Loan approval process can be shown as below.

**Figure No. 2.2**  
**Loan approval process**



### **2.8.2.7 Loan documentation**

Banks does not disburse the approval loan until all necessary documents have been obtained. Generally commercial banks demands following documents:

- ◆ All companies are required to submit their board resolution authorizing to execute loan/security documents with the bank to avail credit facility.
- ◆ Corporate guarantee should be supported by resolution of Board of Directors.
- ◆ Original certificates should be presented for verification while submitting this form.
- ◆ Salary certificates must be in the office's letterhead having seal and must contain net salary of employment (permanent or contract). It should be signed along with the name and designation of the signatory.
- ◆ The bank can demand any additional documents at its own discretion.
- ◆ For commercial vehicles, detail breakdown of the income from and expenses of the vehicle (scheme) is necessary.
- ◆ In case of swapping loan, loan statements from current bank/ a financial institution is required.

Bank never compromises with the required documents at any cost.

### **2.8.2.8 Loan Follow-Up**

The loan follow-up can simply be understood as a post assessment of the approved loan. The bank personnel keep close contact with the borrowers to know the developments that may hinder the repayment of loan. At the same time loan follow-up helps to build up a good relation with the borrowers that ultimately may result in good future prospects for the bank itself.

### **2.8.3 Payment of Debt and Interest**

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

#### **2.8.4 Types of loan**

Commercial banks provide various types of loan and advances and trade finance services:

- ◆ Demand loan
- ◆ Hire purchase loan
- ◆ Bridge gap loan
- ◆ Trust receipt loan
- ◆ Bills purchase and discounting
- ◆ Overdraft
- ◆ Vehicle loan
- ◆ Loan against gold
- ◆ Letter of credit
- ◆ Deprived sector loan
- ◆ Pledge loan
- ◆ Cash credit
- ◆ Housing loan
- ◆ Export credit
- ◆ Term loan
- ◆ Guarantee

#### **2.8.5 Credit Renew**

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

#### **2.8.6 Security**

Bank asks both primary and secondary security from the borrower. The securities are viewed on the various grounds such as possibility of marketability, valuation, validity, enforcement and other necessary economic considerations. In bank, non-repayment of loan sometimes takes place because of wrong valuation of securities or the wrong assessment of loan requirement itself.

To sum up, it is found that all the aspects of loan management such as loan approval, loan documentation, loan disbursement, loan follow-up etc in bank have been paid proper attention. Based on the discussion of various aspects of loan management process, it can be said that bank is able to perform loan management satisfactory till date.

# **CHAPTER III**

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

Research in common parlance refers to a search for knowledge. Research methodology is the various sequential steps and processes adopted by researcher in studying a problem with certain objectives of view. It is the overall framework for when to conduct process, analyze and present data on tables and figures to find the answer of the research problem. It describes the method and process applied in the subject of the study. It is the way to systematically present about the research problems. [Kothari, 2001;P-39]. It is the plan, structure and strategy of investigations conceived to answer the research questions or test the research hypothesis. [Wolf & Pant, 2002; p-5]

The basic objective of this study is to highlight the disbursement and collection procedure of NABIL, BOK and EBL. The research explain the various important causes of none payment and delayed payment of loan made by individual persons and institutions for various purposes from NABIL, BOK and EBL. For systematic analysis of related data and information, proper research methodology is required. Research methods help to analyze, examine and interpret the data and information in research work.

### **3.2 Research Design**

The research design is the conceptual structure within which research is conducted it constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher has done from writing the hypothesis and its operational implication to the final analysis of data.

Research design is the plan, structure and strategy to obtain answer to research questions through investigations and analysis. The research design of this study is descriptive as well as analytical. The purpose of this research is to answer the queries raised and control the variances.

This study has been procedure of disbursement and collection process of NABIL, BOK and EBL .Analytical and descriptive research design have been followed for accessing the loan investment and repayment of NABIL, BOK and EBL. Available information from primary and secondary sources is used to examine, explain and evaluate the disbursement and collection situation of NABIL, BOK and EBL.

### 3.3 Population and Sample Size

There are many banks and non-bank financial institution operated in Nepal. For example Commercial Banks, Development Banks, Finance Companies, Micro Credit Development Banks, Saving and Credit Co-operatives and Non-Government Organizations (NGOs) . It is not possible to study about all these banks and non-bank financial institution due to lack of time and other resources. So, all the commercial banks are considered as population of the study and among them three commercial bank like NABIL, BOK and EBL are taken as sample for this research purpose and its data related to loan are comparatively studied. There are all total 26 licensed “class A” commercial banks in Nepal.

**Table No. 3.1**

**List of “A” class commercial Banks with operation date as on August 31, 2009**

#### **Class A: Commercial Banks**

<b>S.N.</b>	<b>Names</b>	<b>Operation Date (B.S.)</b>	<b>Head Office</b>	<b>Paid up Capital (Rs. In Million)</b>
1	Nepal Bank Limited	1997/07/30	Dharmapath, Kathmandu	380.4
2	Rastriya Banijya Bank	2022/10/10	Singhadurbar, Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	2024/10/07	Ramshahpath, Kathmandu	10777.50
4	NABIL Bank Limited	2041/03/29	Kantipath, Kathmandu	965.75

<b>S.N.</b>	<b>Names</b>	<b>Operation Date (B.S.)</b>	<b>Head Office</b>	<b>Paid up Capital (Rs. In Million)</b>
5	Nepal Investment Bank Ltd.	2042/11/26	Darbarmarga, Kathmandu	2407.10
6	Standard Chartered Bank Nepal Limited.	2043/10/16	New Baneswor, Kathmandu	932.00
7	Himalayan Bank Limited	2049/10/05	Thamel, Kathmandu	1216.20
8	Nepal SBI Bank Limited	2050/03/23	Hattisar, Kathmandu	874.50
9	Nepal Bangladesh Bank Ltd.	2051/02/23	New Baneswor, Kathmandu	1822.70
10	Everest Bank Limited	2051/07/01	Lazimpat, Kathmandu	838.80
11	Bank of Kathmandu Ltd.	2051/11/28	Kamaladi, Kathmandu	844.40
12	Nepal Credit and Commerce Bank Limited	2053/06/28	Siddharthanagar, Rupendehi	1399.50
13	Lumbini Bank Limited	2055/04/01	Narayangadh, Chitawan	1096.10
14	Nepal Industrial & Commercial Bank Limited	2055/04/05	Biaratnagar, Morang	1140.50
15	Machhapuchhre Bank Ltd.	2057/06/17	Pokhara, Kaski	1479.10
16	Kumari Bank Limited	2057/12/21	Putalisadak, Kathmandu	1086.00
17	Laxmi Bank Limited	2058/12/21	Birgunj, Parsa	1098.10
18	Siddhartha Bank Limited	2059/09/09	Kamaladi, Kathmandu	952.20
19	Global Bank Ltd.	2063/09/18	Birgunj, Parsa	1000.00
20	Citizens Bank International Ltd.	2064/01/17	Kamaladi, Kathmandu	1000.00
21	Prime Commercial Bank Ltd	2064/06/07	Newroad , Kathmandu	700.00

S.N.	Names	Operation Date (B.S.)	Head Office	Paid up Capital (Rs. In Million)
22	Sunrise Bank Ltd.	2064/06/25	Gairidhara, Kathmandu	1337.50
23	Bank of Asia Nepal Ltd.	2064/06/25	Tripureswor, Kathmandu	1000.00
24	Development Credit Bank Ltd.	2057/10/10	Kamaladi, Kathmandu	1655.30
25	NMB Bank Ltd.	2053/09/11	Babarmahal, Kathmandu	1424.60
26	Kist Bank Ltd.	2059/11/09	Anamnagar, Kathmandu	2000.00

*Source: Kantipur (August 31, 2009)*

### 3.4 Nature and Sources of Data

Both primary and secondary data are used in research. Primary data are based on questionnaire from executives and employees of the related institution. Secondary data are collected from published journals, financial statements, brochures and research paper of NABIL, BOK and EBL. Other sources of secondary data, relating to this study are collected from publication of ministry of finance, central bureau of statistics, central bank, newspaper, previous unpublished dissertations, research report and other publications. Web sites of concerned banks and other sites are also viewed to collect more information.

This study is mainly based on secondary data. Data are collected from concerned banks, Nepal Rastra Bank and different library. The review of literature of the proposed study was based on the text books, official publication, journals, unpublished thesis, websites etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB, NEPSE, and their respective publications similarly the required micro level data derived are from annual reports of selected banks, and NEPSE. In addition to above, supplementary data and information were collected from different library such as library of Nepal Commerce Campus, T.U. Central library, etc. the major sources of data and information are NRB economic report, Non-Banking Financial Statistics (NRB), banking and Financial Statistics (NRB), Economic

Survey(ministry of finance), Annual reports of concern commercial banks( from 2003/04 to 2007/08), trading report of NEPSE, Journal of finance and Business, previous research studies, Dissertation and Articles on the subject, Various text books and different library.

### **3.5 Data Collection Procedure**

Specially, the nature of data is secondary, as the basic purpose of the study is to fulfill the requirement for the degree of MBS, T.U. Data for the study have been collected from fiscal year (2003/04 to 2007/08). The problem of the study lies on the issues related loan disbursement and recovery of NABIL, BOK and EBL. The sampled banks have been facing some short of threats from banks so, the study has been conducted to examine and evaluate the loan disbursement and recovery.

Statistical tools and financial tools are used to analyze the data and to draw accurate conclusion. Data and information collected have been used in such a manner so that they can clear the pattern of loan investment and recovery to the general public.

### **3.6 Data Analysis Tools**

#### **3.6.1 Financial Tools**

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

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

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

- ◆ Current Ratio
- ◆ Cash and Bank balance to Deposit ratio
- ◆ NRB balance to total deposit ratio

#### **b. Assets Management Ratio**

Asset Management Ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liabilities ensures its effective utilization. The banking business converts the liability in to assets by way of its efficiency by multiplying various liabilities and performing assets. The following are the various ratios relating to asset and liability management, which are used to determine the efficiency of the bank concerned in managing its assets and efficiency in portfolio management.

- ◆ Loan and advances to total deposit ratio
- ◆ Investment to total deposit ratio
- ◆ Performing assets to non performing assets ratio
- ◆ Non performing assets to total assets ratio

#### **c. Activity Ratio**

Activity ratio measure the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advance in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

- ◆ Loan loss provision to total loan and advance ratio.
- ◆ Non performing loans to total loans and advance ratio
- ◆ Provision for pass loan ratio
- ◆ Provision for doubtful debt to total doubtful debt ratio
- ◆ Provision for bad debt to total debt ratio

#### **d. Loans and Advance Portfolio**

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

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

#### **e. Profitability Ratio**

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

- i. Interest expenses to total expenses ratio
- ii. Interest income to credit and investment ratio
- iii. Return on total assets ratio
- iv. Return on equity
- v. Return on loan and advance ratio
- vi. Return on total working ratio
- vii. Earning per share

#### **3.6.1.1 Ratio Analysis**

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

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

Total assets side of a bank is composition of different assets. Among them some generate income and some do not generate income. Among income generating assets loan and advances are the high income generating assets therefore management always tries to increase the portion of assets from total portfolio. The ratio of loans and advances to total assets measures the volume of loans and advances in the structure of total assets. Loans and advances of commercial banks represent the major portion in total assets. The high degree of ratio indicates the good performance of the mobilizing its fund by way of lending functions. However in its reverse side, the high degree indicates low liquidity with the bank. Loans and advances always carry certain degree of risk. Thus this asset of banking business is regarded as risky assets. The low ratio indicates low productivity and high degree of safety in liquidity and vice versa. This ratio is calculated as follows.

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

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

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

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

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

Loan loss provision to Loan and advances shows percentage of loan is covered against the possible future loss due to non payment of loan. This ratio describes the quality of assets in the form of loan and advances that a bank is holding. Since there is risk inherent in loan and advances, NRB has directed commercial banks to classify its loan and advances into different category and accordingly to make provision for possible loss. Loan loss provision signifies the cushion against the future contingencies created by the default of the borrower in payment of loan and ensures the continuous solvency of the bank. Since high provision has to be made for non performing loan, higher provision for loan loss reflects increasing non performing loan in volume of total loan.

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

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

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

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

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

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

NRB has directed all commercial bank to provide provision for all types of loan and advances. Even performing loan needs to provide loan loss provision at the rate of 1%

and 12.5%. This ratio determines the proportion of provision held to non performing loan. This ratio measures up to what extend of risk inherent in NPL is covered by the total loan loss provision. More than 100% ratio signifies that the bank is safeguard against contingencies that may create due to bas loans, where as lower than 100% may create huge provision in coming future due to requirement of high provision to substandard loan and advances. This ratio is calculated as follows.

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

### **Return on Loan Advances**

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

$$\text{Return on Loan Advances} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

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

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

$$\text{Interest Income to Total Loan \& Advances} = \frac{\text{Interest Income}}{\text{Total Loan \& Advances}}$$

### 3.6.2 Statistical Tools

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

#### a. Arithmetic Mean

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

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

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

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

N = Number of observations

#### b. Standard Deviation

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

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

Where,

= Standard Deviation

$$\frac{\sum x^2}{N} = \text{Sum of Square of Observation}$$

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

### c. Coefficient of Variation

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

$$\text{Coefficient of variation (C.V)} = \frac{SD}{Mean} \times 100 \%$$

$$C.V = \frac{\dagger}{x}$$

### d. Correlation Coefficient and Regression

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

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

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

Correlation Coefficient (r)

$$r = \frac{\sum xy}{N \uparrow x \uparrow y}$$

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

Or

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

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

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

Interpretation;

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

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

If  $r > 0$ , there is positive relationship

If  $r = +1$ , the relationship is perfectly positive

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

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

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

Where,

$r$  = correlation coefficient

$N$  = Number of pair of observation

### **Conclusion**

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

## CHAPTER IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Presentation of Data

In this segment we analysis the data available and interpret them in meaningful manner, while analyzing data various statistical and financial tools have been applied. Data presentation and analysis is the most important part of this study or it is the heart of whole thesis. All Findings, Conclusion and Recommendation are based on the result of analysis. This chapter contains the presentation, analysis and interpretation of the available and relevant data of selected three commercial banks as the sample banks. Five years data period covering from F/Y 2003/04 A.D to 2007/08 have been analyzed and interpreted as per research methodology defined in chapter three. The trend analysis of various aspects related to loan disbursement in NABIL bank, BOK, and EBL is done.

##### 4.1.1 Areas of Loan Disbursement of NABIL, EBL & BOK

Table No. 4.1

Areas of Loan Disbursement of NABIL, EBL & BOK

NABIL	EBL	BOK
Personal Lending	Housing Loan	Corporate Loans
NABIL Housing	Vehicle Loan	Business Loan
NABIL Properties	Education Loan	Consumer Loans
NABIL Auto	Professional Loan	Vehicle Finance
NABIL Personal	Future Lease and Rental Loan	Education Loan
NABIL Siksha	Loan Against Shares	Housing Loan
Personal Overdraft	Loan against Life Insurance	Festivity/Personal Loan
Apartment Financing	Share Loan	Foreign Employment Loan

## **I. Introduction of Areas of Loan Disbursement of NABIL**

### **Personal Lending**

NABIL offers a wide range of Personal Lending Products to meet the consumer loan needs of its customers and turn their lifetime dreams into reality. NABIL is dedicated to cater to customer's needs with a personal touch with each loan specifically tailor made and designed keeping in mind the specific needs of the individual customer. Our extended branch network which covers from Mechi to Mahakali will be an additional benefit for our valued customers to experience our personalized services. This customer care can be experienced through the bank's array of Personal Lending Products that the Bank offers.

### **NABIL Housing**

NABIL makes the dream of owning a home a reality with attractive features available beyond market offerings at competitive interest rates and extended loan tenures, with flexible repayment and partial payment features. Whether be it for land purchase, construction, refurbishing, renovation, extension, purchase of a readymade house or purchase of home appliances, our products serve all kinds of financial needs of our valued customers.

### **NABIL Properties**

It constitutes an all purpose loan scheme, not limited just for education, marriage, travel, equity infusion purposes only, but a wide variety of other purposes available to fulfill varied financial requirements just by simply mortgaging idle property. Application is easy and loan sanction and delivery expeditious. We have made it more flexible and customer friendly by way of extending the loan tenure up to 15 years.

### **NABIL Auto**

NABIL Auto makes commuting easier and owning a four wheeler a reality at attractive interest rates, loan tenures and flexible repayment options with financing available for a large variety of vehicles, with special facilities to draw cash by pledging a vehicle in the Bank's name also available under the 'Cash for Car' scheme. Our revised terms of NABIL Auto can cater the entire need of the customer from brand new non-commercial and commercial vehicles to used non-commercial and commercial vehicles.

### **NABIL Personal**

NABIL Personal is an all purpose, small ticket size easy loan scheme, makes commitments comfortable by providing a hassle free finance facility at competitive interest rate options available. It even accommodates the rising need of medical doctors to purchase medical equipments.

### **NABIL Siksha**

NABIL Siksha extends easy financial solution to the students going abroad for higher education. It is highly customer friendly loan available with partial disbursement facility and having revolving feature in Education Loan category. Our financing is not restricted to the education expenses of the students but is also designed to accommodate other expenses of the students viz. boarding cost, traveling expenses,

### **Personal Overdraft**

Personal Overdraft has been designed to meet contingent obligations of our valued customers. Though it is a supplementary product, this product helps our valued customers with easy and fast processing of loan with easy payback feature and reinstating credit facility.

### **Apartment Financing**

Apartment Financing is an extended product of NABIL Housing, which is targeted to those customers who want to purchase a residential unit or apartment built

## **II. Introduction of Areas of Loan disbursement of Everest Bank Limited**

### **Housing Loan**

EBL is the pioneer bank to introduce housing loan in Nepalese commercial bank. In order to meet the needs of home seekers, Everest Bank Ltd offers Direct Housing Finance for individuals for construction /acquisition/ purchase of house/flat allotted by the private builders or Development Authorities and also for carrying out repairs/ renovation/ additions/alteration to the house/flat. Generally there is non prepayment if the loan amount is paid through own income source of the borrower. There is no hidden cost in the product and we are offering competitive interest rate with long repayment period.

## **Vehicle Loan**

The product offers the borrowers to purchase new car / van / jeep. Generally there is no prepayment if the loan amount is paid from the own income source of the borrower. There is no any additional collateral required in this scheme.

## **Education Loan**

EBL pioneered education loan in Nepal. To bring education within the reach of the people and help the needy students who intend to pursue higher studies in Nepal as well as abroad, to meet the increasing cost of admission fees / monthly fees / examination fees, books, etc. Boarding and lodging expenses if students putting up in recognized Boarding House where charges are standardized and can be paid to the management of boarding house on behalf of boarders. The USP of the product is that the repayment starts one year after the completion of the study or one-month after getting employment whichever is earlier. Thus the student can repay their own loan amount rather than depend on their parents

## **Professional Loan**

EBL pioneered the professional loan. Professional or self employed persons registered with Nepal Government and engaged in respective professions medical practitioners including dentists, Architect, Engineers, and Chartered Accounts etc can now set up their own firms. This product facilitates the professional to Purchase of Equipment used in the profession undertaken, Purchase of furniture, furnishing of the office premises, and Working Capital requirement.

Loan against mortgage of immovable property located in urban centers will be offered to Individuals / Business Enterprises for meeting their business and /or personal needs. The loan may be allowed as term loan or overdraft loan as per the requirement of the customers. Loan amount together with interest can be repaid in maximum of 120 EMIs in Flexi term loan. In case of Overdraft, one year & renewed/reviewed is done on satisfactory performance. Facility of Over Draft is offered for people with business.

## **Loan against Future Lease and Rental**

This facility has been introduced by EBL for meeting business/personal needs. Property owners having their properties situated in urban areas (Kathmandu /Pokhara /Birgunj/ Biratnagar) who have let out such properties to Government / Semi Government and

reputed Corporates, Banks, Financial Institutions, Insurance Companies, Multi National Companies, NGOs/INGOs and Embassy Officials can avail loans against their rentals.

### **Loan against Shares**

This loan is provided to Individuals/ Firms/Companies for Advances against primary security of physical shares or shares in dematerialized form. EBL may provide Demand Loan or Overdraft facility against the physical shares.

### **III. Introduction of Areas of Loan Disbursement of Bank of Kathmandu**

BOK being a commercial bank, functions in a same way by accepting deposits from the savers and giving loans to the users. But before giving loans to any firm, company or project, BOK makes appraisal and if seemed viable then only grants loan.

BOK has made sustained efforts to devise customer oriented lending services. A variety of financing options, suiting diversified customer needs, has been introduced. BOK schemes satisfy both the short and long-term funding requirements of customers. Furthermore, lending terms are positioned in such a way that customers enjoy the most competitive terms. BOK tries to enhance the capabilities of relationship managers with sophisticated tools that expedite the delivery of services and they provides loan on various headings

### **Corporate and Business Loans**

BOK is led by its vision of becoming a significant contributor to the economic development of the nation.

- ◆ Term Loan
- ◆ Overdraft/Working Capital Loan
- ◆ Demand/Short-Term Loan
- ◆ Trust Receipt/Importers Loan
- ◆ Export Loan
- ◆ Small and Medium Business Financing
- ◆ Consortium Financing
- ◆ Loan against Fixed Deposit
- ◆ Loan against Govt. Bond/1st Class Bank Guarantee
- ◆ Priority Sector/Deprived Sector Loan

## **Consumer Loans**

Whether we are looking for a personal loan to spread out a large expense, a car loan to ensure our mobility, planning for the purchase of a new house or ensuring our children's education needs, BOK's consumer finance unit will ensure that our every need is fulfilled. We will find that our rates and repayment terms are competitive in the local market, and we make sure to customize your monthly payment according to our budget.

## **Vehicle Finance**

BOK has made financing of vehicles realistic with simple processing, easy installments and attractive interest rates.

- ◆ Car 4 U
- ◆ LCV (Light Commercial Vehicle)
- ◆ HCV (Heavy Commercial Vehicle) – Buses/Trucks

## **Educational Loan**

To help create a better future, BOK finances students for their future studies inland and abroad.

## **Housing Loan**

BOK wants to contribute to fulfilling customer desire of owning a dream house with an accommodation financing facility for individuals.

## **Festivity/Personal Loan**

BOK also finances individuals to meet their personal expenses and social obligations such as marriages, barthabandh and other social celebrations. Furthermore, the bank also provides loans for medical treatment, vacations, etc.

## **4.2 Ratio Analysis**

Financial analysis is the process of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. Various financial ratios related to loan disbursement are presented and discussed to evaluate and analyze the performance of three banks, (NABIL, BOK and EBL). Financial ratios are calculated and data are analyzed with the help of those ratios. Some important financial ratios are only calculated from the point of view of loan disbursement and recovery

system. The ratio's are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned banks. The important and needed financial ratios, which are calculated for the purpose of this study, are mentioned below.

#### 4.2.1 Loan and Advance to Total Assets

Loans and advances and bills purchase occupy the largest portion of the total assets of bank. Loan and advances directly generates income to the bank therefore it is essential to analyze this ratio. The more the portion of loan and advances in total assets the more effective utilization of assets of the bank. Granting loan is a risky decision because each loan carries certain level of risk therefore loan and advances are also known as risky assets. Thus if loan and advances to total assets ratio is low it indicates low risk to management and low profitability and vice versa. All three banks BOK, EBL and NABIL provides loan on different area like Corporate and business loan, consumer loan, vehicle loan, education loan, housing loan, professional loan, festivity loan etc.

Total Loan and Advances and Total Assets from FY 2003/04 to 2007/08 of BOK, EBL and NABIL bank are presented through following table and figure.

**Table No. 4.2**  
**Loan & Advance to Total Assets**

(NPR in million)

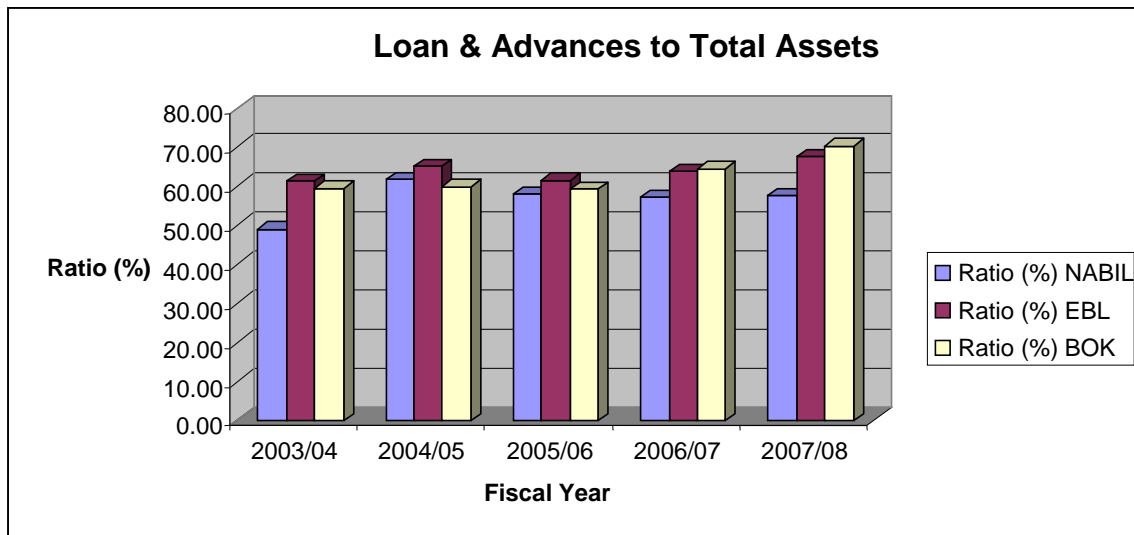
Fiscal Year	Loan & Advance			Total Assets			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	8189.99	5884.12	5646.69	16745.48	9608.57	9496.34	48.91	61.24	59.46
2004/05	10586.17	7618.67	5912.57	17186.33	11732.57	9888.53	61.60	64.94	59.79
2005/06	12922.54	9801.30	7259.08	22329.97	15959.28	12278.33	57.87	61.41	59.12
2006/07	15545.78	13664.08	9399.32	27253.39	21432.57	14581.39	57.04	63.75	64.46
2007/08	21365.05	18339.08	12462.63	37132.76	27149.34	17721.92	57.54	67.55	70.32
<b>Mean</b>							<b>56.59</b>	<b>63.77</b>	<b>62.63</b>
<b>S.D.</b>							<b>4.96</b>	<b>2.35</b>	<b>4.31</b>
<b>C.V.</b>							<b>7.35%</b>	<b>3.68%</b>	<b>6.88%</b>

Source : Appendix I(i)

Table shows that total loan and advances and total assets of NABIL, EBL and BOK as well as the ratio of loan and advances to total assets. Loan and advances to total assets of EBL and BOK is around 60% to 70% whereas this ratio of NABIL is below 60% which indicates that EBL and BOK has higher portion of their assets in risk bracket whereas NABIL have comparatively low risky assets in their assets portfolio. Higher portion in loan and advances of EBL and BOK obviously generates higher interest income and lower liquidity with these banks whereas lower portion of loan of NABIL indicates comparatively high liquidity available with this bank but lower portion of assets is generating low income

If we see the standard deviation (S.D.) and Coefficient of Variation (C.V.) of the ratio of these banks we can see that the NABIL has the highest S.D. and C.V. of 4.96% and 7.35% respectively. This means it has the highest variability in the portion of loan and advances in total assets. Whereas BOK has S.D. of 4.31% and C.V. of 6.88% which is moderate among the banks studied and similarly EBL has S.D. of 2.35% and C.V. of 3.68% which shows that EBL has the most consistency in the proportion of loan and advances in total assets.

**Figure No. 4.1**



In the above graph, portion of loan and advances in total assets of NABIL, EBL and BOK of fiscal year 2003/04 to 2007/08 are presented through bar diagram. NABIL have comparatively low risky assets in their assets portfolio as shown in the figure whereas EBL and BOK have more portions in loan and advances of their assets.

#### 4.2.2 Loan & Advances to Total Deposits

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

**Table No. 4.3**  
**Loan & Advances to Total Deposits**

(NPR in million)

Fiscal Year	Loan & Advances			Total Deposits			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	8189.99	5884.12	5646.69	14119.03	6694.96	7741.64	58.01	87.89	72.94
2004/05	10586.17	7618.67	5912.57	14586.60	10097.69	8975.78	72.57	75.45	65.87
2005/06	12922.54	9801.30	7259.08	19347.39	13802.44	10485.36	66.79	71.01	69.23
2006/07	15545.78	13664.08	9399.32	23342.28	18186.25	12388.92	66.60	75.13	75.87
2007/08	21365.05	18339.08	12462.63	31915.05	23976.29	15833.73	66.94	76.49	78.71
<b>Mean</b>							<b>66.18</b>	<b>77.19</b>	<b>72.52</b>
<b>S.D.</b>							<b>4.66</b>	<b>5.66</b>	<b>4.58</b>
<b>C.V.</b>							<b>7.04%</b>	<b>7.34%</b>	<b>6.31%</b>

*Source : Appendix I(ii)*

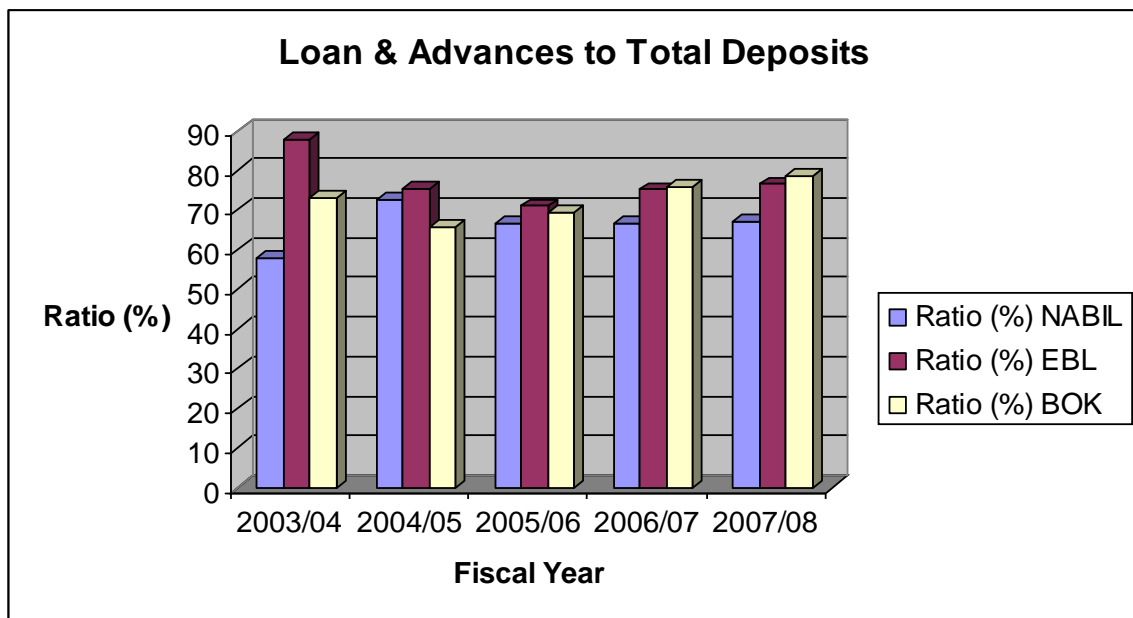
The above table exhibits the amount of loan and advances and total deposits of NABIL, EBL and BOK for five year starting from fiscal year 2003/04 to 2007/08. From the above table it is clear that NABIL bank has highest total deposit amount than that of EBL and BOK. Loan and advances of NABIL also occupies the highest portion of total assets. We can see that EBL is in the top in utilization of depositor's money. It has the highest average CD ratio of 77.19% which is high in banking industry. Similarly, NABIL and

BOK have 66.18% and 72.52% average of CD ratio which is slightly low and high than recommended of 70%. These ratios indicate that all three banks have enough liquidity available.

Standard Deviation (S.D.) of NABIL, EBL and BOK are 4.66%, 5.66% and 4.58% respectively and Coefficient of Variation (C.V.) are 7.04%, 7.34% and 6.31% respectively. This indicates that EBL has highest variability in CD Ratio and NABIL has moderate variability among the banks and BOK has the lowest variability in their CD Ratio.

In total we can say that EBL utilizes its depositor money optimally with considering the liquidity position of the bank too. And NABIL has not been able to utilize its deposit optimally. 66.18% average CD Ratio implies that either NABIL has ideal money in the forms of cash and bank balance or it has invested high amount in low yield investment portfolio. Like wise BOK can be considered as moderate in utilization of deposit and liquidity inherent.

**Figure No. 4.2**



The above diagram shows the portion of loan and advances to total deposit of NABIL, EBL and BOK for five years starting from fiscal year 2003/04 to 2007/08. EBL has highest ratio of loan and advance to total deposit among the selected banks. That means

utilizes its depositor money optimally with considering the liquidity position of the bank too. And NABIL has not been able to utilize its deposit in comparison to EBL

#### 4.2.3 Loan Loss Provision to Loan & Advance

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

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

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

(NPR in million)

Fiscal Year	Loan Loss Provision			Loan & Advances			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	358.65	211.72	361.61	8189.99	5884.12	5646.69	4.38	3.60	6.40
2004/05	360.56	281.41	269.46	10586.17	7618.67	5912.57	3.41	3.69	4.56
2005/06	356.24	334.94	229.62	12922.54	9801.30	7259.08	2.76	3.42	3.16
2006/07	357.24	418.60	294.77	15545.78	13664.08	9399.32	2.30	3.06	3.14
2007/08	394.40	497.34	285.08	21365.05	18339.08	12462.63	1.85	2.71	2.29
<b>Mean</b>							<b>2.94</b>	<b>3.30</b>	<b>3.91</b>
<b>S.D.</b>							<b>0.88</b>	<b>0.36</b>	<b>1.44</b>
<b>C.V.</b>							<b>30.13%</b>	<b>11.03%</b>	<b>36.89%</b>

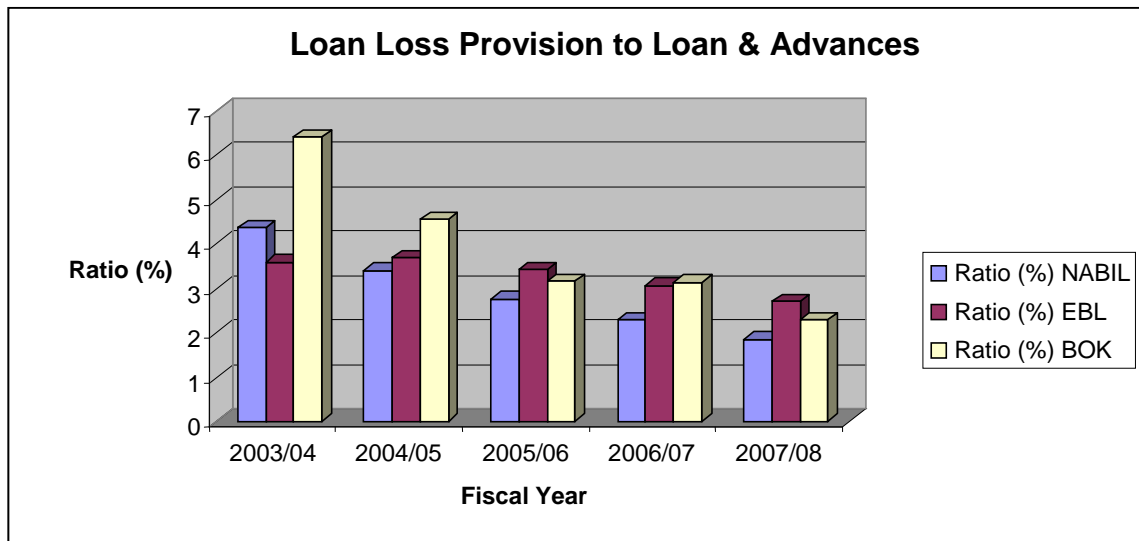
Source : Appendix I(iii)

The above table shows the ratio of Loan Loss Provision in total loan and advances of selected banks, NABIL, EBL and BOK from fiscal year 2003/04 to 2007/08. It is clear to see that BOK has higher average ratio of loan loss provision in total loan and advances making 3.91% which indicates that BOK is not able to manage loan and advances and make efforts to cope with probable loan loss. Whereas NABIL bank keeps its loan loss provision ratio 2.94%, which is minimum among the three banks and the best one. It means NABIL bank is efficiently managing its loan and advances and making better effort to recover probable loan loss. EBL has loan loss provision of 3.3% which is moderate loan loss provision in total loan and advances.

NABIL, EBL and BOK have decreasing trend of loan loss provision in total loan and advances which indicates that these banks have been able to flow quality loan in recent years. This is the positive thing happening in Nepalese banking sector. If loan loss provision goes on increasing then it is not the sign of well management and good for the banks.

If we see the standard deviation (S.D.) of the ratio, it can be seen that all banks have S.D. less than 1% except BOK which has 1.44% and Coefficient of Variation (C.V.) of NABIL, EBL and BOK are 30.13%, 11.03% and 36.89% respectively. This indicates that BOK has more variability in provisioning which is only because of higher growth of loan of this bank. The table shows that BOK has improved more in increasing loan and advances than other bank. In one hand it has increased the volume of loan and in other has it has decreased the C.V. to the 36.89%, which indicates that BOK has managed its portfolio by good loan with respect of other banks studied.

**Figure No. 4.3**



The above diagram shows the portion of loan loss provision to loan and advances of NABIL, EBL and BOK for five years starting from fiscal year 2003/04 to 2007/08. BOK has highest ratio of loan loss provision to loan and advances among the selected banks.

#### **4.2.4 Non Performing Loan to Total Loan & Advances**

NRB has directed the commercial banks to classify their total loan portfolio into two category, performing loan and non performing loan. Non performing loan to total loan ratio determines the proportion of non-performing loan in the total loan portfolio. Higher ratio implies the bas quality of assets of banks in the form of loan and lower return from the loan portfolio and lower ratio implies good quality of loan. Hence lower NPL to credit ratio is preferred. Amount of non performing loan in million is shown below in the tabulated form below of the selected banks starting from fiscal year 2003/04 to 2007/08. The ratio is calculated as follows.

**Table No. 4.5**  
**Non Performing Loan to Total Loan & Advances**

(NPR in million)

Fiscal Year	Non Performing Loan			Loan & Advances			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	286.68	104.75	399.94	8189.99	5884.12	5646.69	3.50	1.78	7.08
2004/05	144.50	128.80	308.50	10586.17	7618.67	5912.57	1.36	1.69	5.22
2005/06	182.62	129.23	203.62	12922.54	9801.30	7259.08	1.41	1.32	2.81
2006/07	178.29	113.18	243.29	15545.78	13664.08	9399.32	1.15	0.83	2.59
2007/08	161.08	121.00	236.89	21365.05	18339.08	12462.63	0.75	0.66	1.90
<b>Mean</b>							<b>1.63</b>	<b>1.26</b>	<b>3.92</b>
<b>S.D.</b>							<b>0.96</b>	<b>0.45</b>	<b>1.94</b>
<b>C.V.</b>							<b>58.99%</b>	<b>35.60%</b>	<b>49.44%</b>

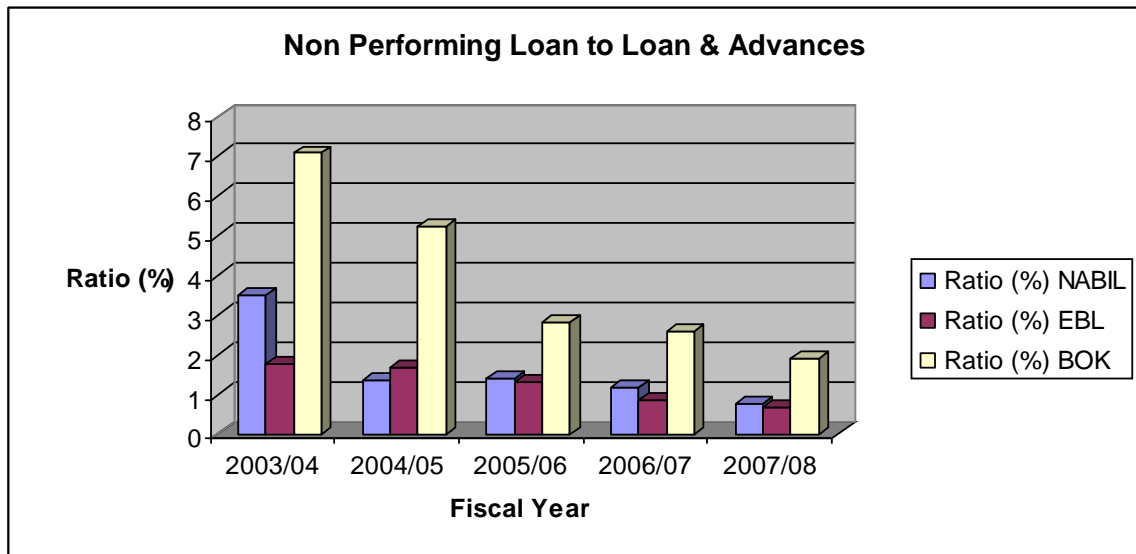
*Source : Appendix I(iv)*

The above table exhibit the ratio of Non-Performing loan to total loan and advances of selected commercial bank for the five year starting from 2003/04 to 2007/08. From the above table it is clear that non-performing loan of all commercial banks have been decreasing. NABIL, EBL and BOK started from 3.5%, 1.78% and 7.08 respectively of non-performing loan in total loan and advances in year 2003/04 and all the banks have been able to decrease the non performing loan to 0.75%, 0.66% and 1.90% respectively in year 2007/08 but still their non performing loan is high among other commercial bank.

NABIL and EBL both have maintain their average non performing loan to total loan and advances level very low making 1.63% and 1.26% respectively which indicates that these banks have been making continuous effort to maintain the ratio level low. If we compare the non-performing loan with other banks we can see that when other banks had above 5% of non-performing loan ratio at that time these banks were maintaining the ratio level at 2% which shows good loan management by these banks at that time.

If we see the standard deviation (S.D) and coefficient of variation (C.V) of the ratio it can be seen that standard deviation of NABIL, EBL and BOK are 0.96%, 0.45% and 1.94% respectively. This indicates that banks have variability in non-performing loan though it is decreasing in all banks which are positive symptoms.

**Figure No. 4.4**



The above chart displays the ratio between non-performing loan and loan and advances of NABIL, EBL and BOK from fiscal year 2003/04 to 2007/08. BOK has higher ratio than EBL and NABIL. The non-performing loan to total loan and advances is decreasing continuously from the starting year to final year. This indicates that good quality of assets of banks in the form of loan and higher return from the loan portfolio and which is better result for the selected banks.

#### **4.2.5 Loan Loss Provision to Non Performing Loan**

This ratio determines provision held to non performing loan. NRB had directed all commercial banks to provide provision for all types of loan and advances. This ratio measures up to what extend of risk inherent in NPL is covered by the total loan loss provision. More than 100% ratio signifies that the bank is safeguard against future contingencies that may create due to bad loans, where as lower than 100% may create huge provision in coming future due to requirement of high provision to substandard loan and advances.

**Table No. 4.6**  
**Loan Loss Provision to Non Performing Loan**

(NPR in million)

Fiscal Year	Loan Loss Provision			Non Performing Loan			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	358.65	211.72	361.61	286.68	104.75	399.94	125.10	202.12	90.42
2004/05	360.56	281.41	269.46	144.50	128.80	308.50	249.52	218.49	87.35
2005/06	356.24	334.94	229.62	182.62	129.23	203.62	195.07	259.18	112.77
2006/07	357.24	418.60	294.77	178.29	113.18	243.29	200.37	369.85	121.16
2007/08	394.40	497.34	285.08	161.08	121.00	236.89	244.85	411.02	120.34
<b>Mean</b>							<b>202.98</b>	<b>292.13</b>	<b>106.41</b>
<b>S.D.</b>							<b>44.84</b>	<b>83.41</b>	<b>14.64</b>
<b>C.V.</b>							<b>22.09%</b>	<b>28.53%</b>	<b>13.75%</b>

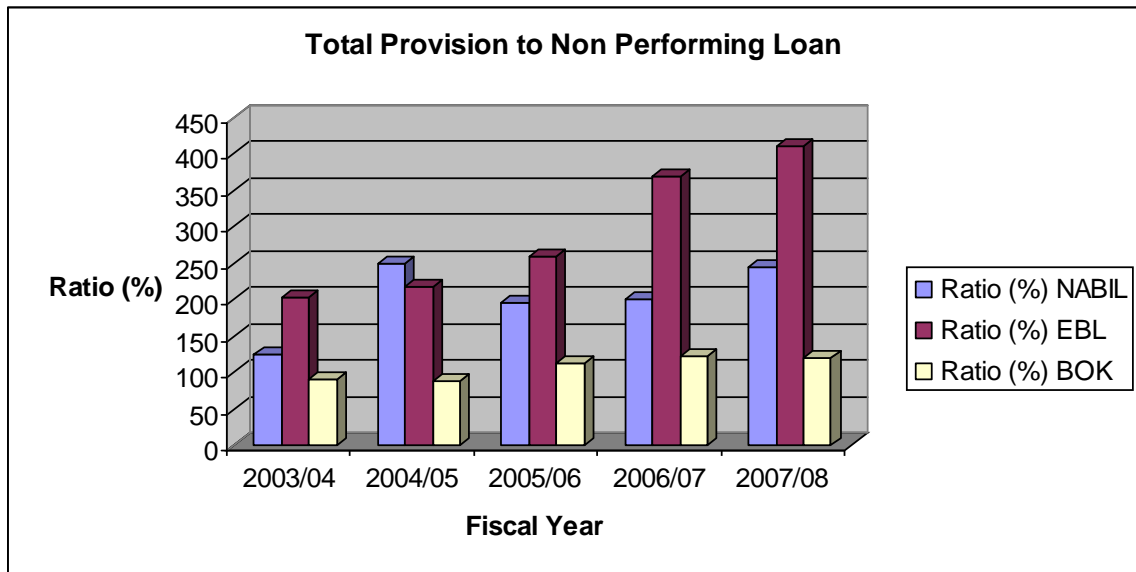
*Source : Appendix I(v)*

The above table shows the ratio of loan loss provision to non-performing loan of selected commercial banks for five year starting from fiscal year 2003/04 to 2007/08. from the above table it can be seen that total provision of all banks are increasing and all commercial banks have created provision greater than the amount of non-performing loan which shows that all banks are safe against the future contingencies that may create due to non payment of loan.

NABIL and EBL have higher average loan loss provision ratio of 202.98% and 292.13% respectively and BOK has comparatively lower average loan loss provision ratio of 106.41% which indicates that NABIL and EBL are aware of future possible loss and BOK needs more changes to become as former banks.

The standard deviation of the three banks highly varies from each other. EBL has highest standard deviation of 83.41% and BOK has lowest standard deviation of 14.64% which shows the dispersion between the banks.

**Figure No. 4.5**



Above chart reflects the ratio of total loan loss provision to non performing loan of the three sample joint venture commercial banks from fiscal year 2003/04 to 2007/08. As we know that more than 100% ratio signifies that the bank is safeguard against future contingencies that may create due to bad loans, where as lower than 100% may create huge provision in coming future due to requirement of high provision to substandard loan and advances, EBL has become the superior among the three bank in provisioning loan loss (28.53%). NABIL has quite lower ratio (22.09%) which is also the better but not the best.

#### **4.2.6 Return on Loan & Advances**

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

**Table No. 4.7**  
**Return on Loan & Advances**

(NPR in million)

Fiscal Year	Net profit			Loan & Advances			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	516.86	143.56	127.47	8189.99	5884.12	5646.69	6.31	2.44	2.26
2004/05	549.90	168.21	139.53	10586.2	7618.67	5912.57	5.19	2.21	2.36
2005/06	635.26	237.29	202.44	12922.5	9801.30	7259.08	4.92	2.42	2.79
2006/07	673.96	296.40	262.38	15545.8	13664.10	9399.32	4.34	2.17	2.79
2007/08	746.47	451.22	361.49	21365.1	18339.10	12462.60	3.49	2.46	2.90
<b>Mean</b>							<b>4.85</b>	<b>2.34</b>	<b>2.62</b>
<b>S.D.</b>							<b>0.93</b>	<b>0.12</b>	<b>0.26</b>
<b>C.V.</b>							<b>19.26%</b>	<b>5.32%</b>	<b>9.89%</b>

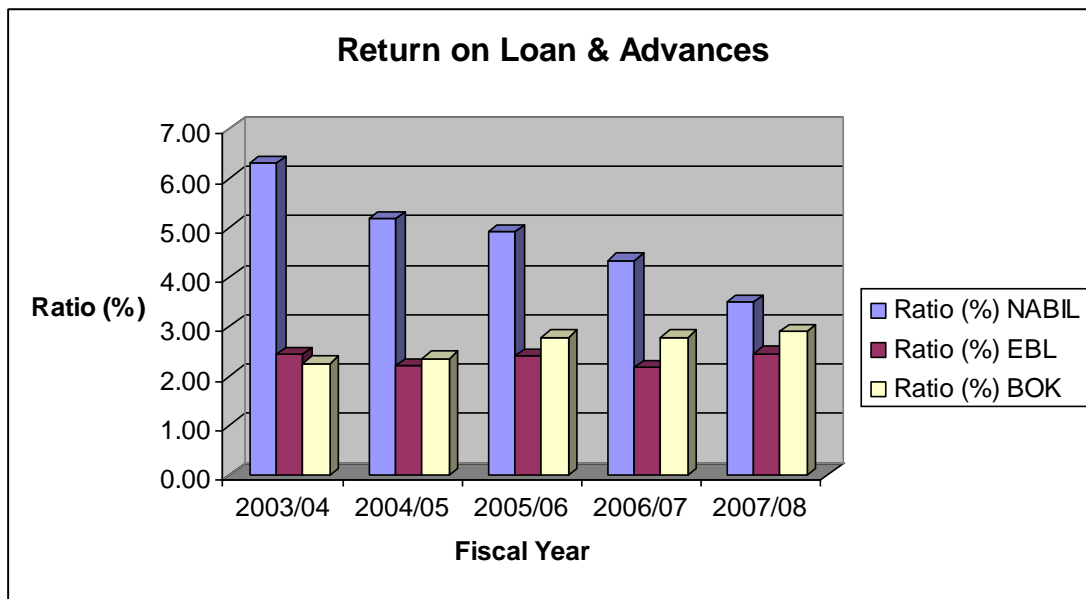
*Source : Appendix I(vi)*

The above table displays the ratio of net profit to loan and advances of selected commercial banks for fiscal year 2003/04 to 2007/08. From above table it can be seen that net profit of all banks are increasing and the percentage of net profit in respect to loan and advances is increasing and also decreasing.

Return on Loan & Advances ratio of NABIL and EBL is decreasing whereas the ratio of BOK is increasing. In the five years time BOK has increased its net profit nearly three times but NABIL net profit is increasing slower than other banks.

Average ratio of NABIL is higher than that of EBL and BOK which indicates that the performance of NABIL is better than that of EBL and BOK.

**Figure No. 4.6**



The above chart displays the ratio between net profit and loan and advances of NABIL, EBL and BOK from fiscal year 2003/04 to 2007/08. NABIL has higher ratio, which indicates the better performance of the bank. Return on Loan and advances of NABIL is higher than EBL and BOK it means the banks is efficiently employed its resources in the forms of loan and advances. The bank has coefficient variation of 19.26% which is the consistent variation and reflects that Net profit of a bank largely depends upon interest earn from loan and advances and there is positive correlation between effective utilization of loan and advances and net profit.

### **4.3 Correlation Analysis**

Correlation is the statistical tool that can be used to describe the degree of linear relationship of one variable to other variables. Correlation analysis is another important tool of statistic. It describes the relationship between variables and shows the degree of dependency of one variable with another variable. Two variables are said to be correlated when the change in one variable result in change in another variables. Different model for correlation to determine the relationship between variables studied. Karl Pearson Coefficient of correlation is calculated as follows. Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by “r” and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating

perfect negative correlation. If the correlation coefficient is zero, then the factors are independent or not correlated.

### **Interpretation of Correlation Coefficient**

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

### **Probable Error**

- ◆ If  $r < P.E.$  the value of  $r$  is not significant.
- ◆ If  $r > 6 P.E.$ , the value of  $r$  is significant.
- ◆ If the other situation happens, nothing can be concluded with certainty.

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

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

Following table shows the correlation between loan loss provision to Loan and Advances.

**Table No. 4.8**

**Correlation between Loan Loss Provision and Loan and Advances**

<b>Banks</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>Probable Error (P.E)</b>	<b>6P.E.</b>
<b>NABIL</b>	0.81	0.6561	0.10	0.60
<b>EBL</b>	0.99	0.9801	0.006	0.036
<b>BOK</b>	-0.17	0.0289	0.293	1.75

*Source : Appendix 2(i, ii, iii)*

Above table shows the relationship between LLP and loan and advances for selected commercial banks. It is clear to see that EBL and NABIL have positive correlation between loan loss provision and loan and advances and BOK has negative correlation between loan loss provision and loan and advances.

BOK has negative correlation of -0.17 which indicates that the provision amount does not follow the trend of loan and advance. The cause of negative correlation is that the bank has write off its huge amount of bad loan during 2006/07 which has decreased the loan loss provision amount but loan is still increasing which result in negative correlation between loan loss provisions. It has 6P.E. of 1.75 which shows the correlation is insignificant.

EBL and NABIL have positive correlation of 0.99 and 0.81 respectively which indicates that loan loss provision follows the pattern of loan and advances which means if loan and advances increases loan loss provision also increases in same ratio and vice versa. Likewise correlation of EBL is higher than six times of its P.E. which proves that it is significant.

### 4.3.2 Correlation between Loan Loss Provision and Non-Performing Loan

This relationship shows the degree of linear relationship between the Non-performing Loan and Loan Loss Provision.

Following table reflects the correlation between Loan Loss Provision and Non-Performing Loan.

**Table No. 4.9**

**Correlation between Loan Loss Provision and Non- Performing Loan**

<b>Banks</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>Probable Error (P.E)</b>	<b>6P.E.</b>
<b>NABIL</b>	-0.31	0.961	0.012	0.072
<b>EBL</b>	0.22	0.484	0.29	1.74
<b>BOK</b>	0.85	0.7225	0.084	0.504

*Source : Appendix 2(iv, v, vi)*

Above table shows the relationship between LLP and NPL for selected commercial Banks. It is clear to see that almost all the three banks have positive correlation between loan loss provision and non performing loan.

NABIL, EBL and BOK have positive and negative correlation of -0.31, 0.22 and 0.85 respectively which indicates that loan loss provision is positively correlated with the non performing loan. It means if non performing loan increases loan loss provision also increases in same ratio and vice versa. In other word it can be said that if these banks have to decrease the level of their loan loss provision they have to focus to increase quality loan portfolio and reduce the level of non performing loan. Likewise correlation of these banks is higher than the six times of its P.E. which proves the above claim. NABIL has low positive correlation of -0.31 and r is less than 6 P.E. which shows the correlation is insignificant.

### 4.3.3 Correlation between Loan and Advances to Total Deposit

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

Following table exhibits the Correlation between Loan and Advances to Total Deposit.

**Table No. 4.10**

#### **Correlation between Loan and Advances to Total Deposit**

<b>Banks</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>Probable Error (P.E)</b>	<b>6P.E.</b>
<b>NABIL</b>	0.99	0.9801	0.006	0.036
<b>EBL</b>	0.99	0.9801	0.006	0.036
<b>BOK</b>	0.99	0.9801	0.006	0.036

*Source : Appendix 2(vii, viii, ix)*

Above table shows the relationship between Loan and advances and total deposit for NABIL, EBL and BOK. It is clear that all banks have positive correlation between deposit and loan and advance for the review period.

NABIL, EBL and BOK have positive correlation of 0.99, 0.99 and 0.99 respectively between total deposit and loan and advances which indicates that loan and advance largely depends on deposit volume of these banks. If the bank wants to increase loan and advances amount it has to accept additional deposits. Likewise correlations of these banks are higher than the six times of its P.E. which proves that the correlation calculated above are highly significant and reliable.

### 4.4 Trend Analysis

Trend analysis, present or future analysis, is utilized to see the movement of upward or downward by the help of given numerical values of some specified period of time. That time period may be of five years, ten years etc. This section consists of tabular and graphical presentation and analysis of data. Trend analysis is mainly based on data

relating to loans and advances, bills purchased and discounted, interest income on loans and advances and commission and discount on bills purchased and discounted.

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

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

#### **4.4.1 Analysis of Trend Value on Loan and Advances**

Under this topic, an effort has been made to calculate the trend Values of loan and advances of NABIL, EBL and BOK for five years from F/Y 2003/04 to 2007/08 and forecast for next five years till F/Y 2012/13.

The following table shows the trend values of 10 years from F/Y 2003/04 to F/Y 2012/13.

**Table No. 4.11****Actual and Trend Values of Loan & Advances of NABIL, EBL and BOK**

(NPR in million)

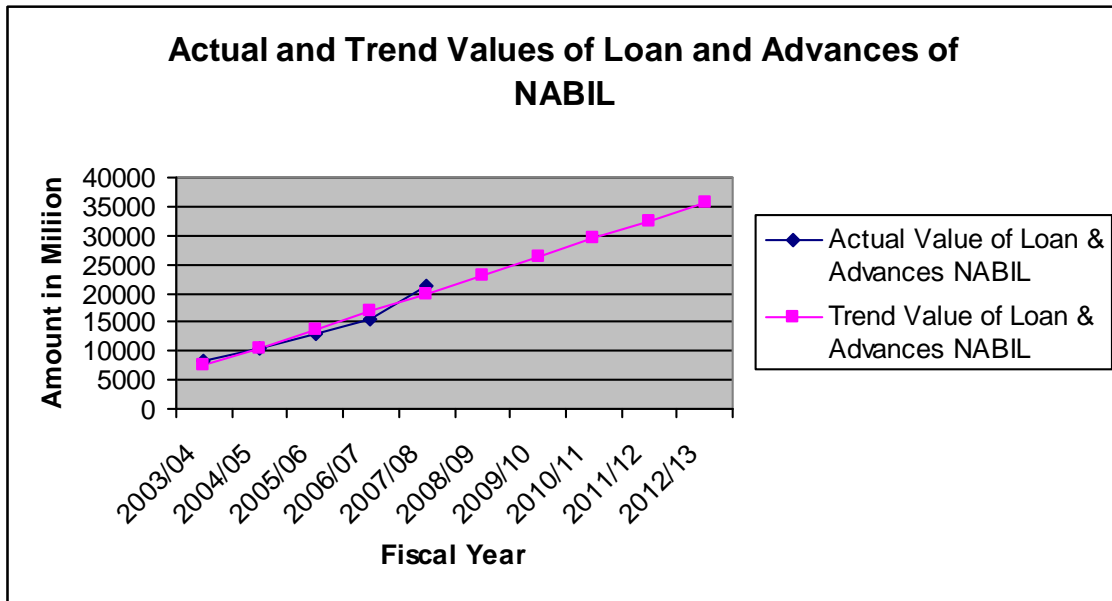
<b>Year</b>	<b>Actual Value of Loan &amp; Advances NABIL</b>	<b>Actual Value of Loan &amp; Advances EBL</b>	<b>Actual Value of Loan &amp; Advances BOK</b>	<b>Trend Value of Loan &amp; Advances NABIL</b>	<b>Trend Value of Loan &amp; Advances EBL</b>	<b>Trend Value of Loan &amp; Advances BOK</b>
2003/04	8189.99	5884.12	5646.69	7459.96	4870.4	4712.34
2004/05	10586.17	7618.67	5912.57	10590.9	7965.93	6424.2
2005/06	12922.54	9801.3	7259.08	13721.9	11061.46	8136.06
2006/07	15545.78	13664.08	9399.32	16852.9	14156.99	9847.92
2007/08	21365.05	18339.08	12462.63	19983.8	17252.52	11559.78
2008/09				23114.8	20348.05	13271.64
2009/10				26245.8	23443.58	14983.5
2010/11				29376.8	26539.11	16695.36
2011/12				32507.7	29634.64	18407.22
2012/13				35638.7	32730.17	20119.08

*Source : Appendix 3(i)*

From the above comparative table it is clear that the trend values of loan and advances of NABIL, EBL and BOK is in an increasing trend. From the above trend analysis it is clear that NABIL has comparatively higher loan and advances through the trend projection period.

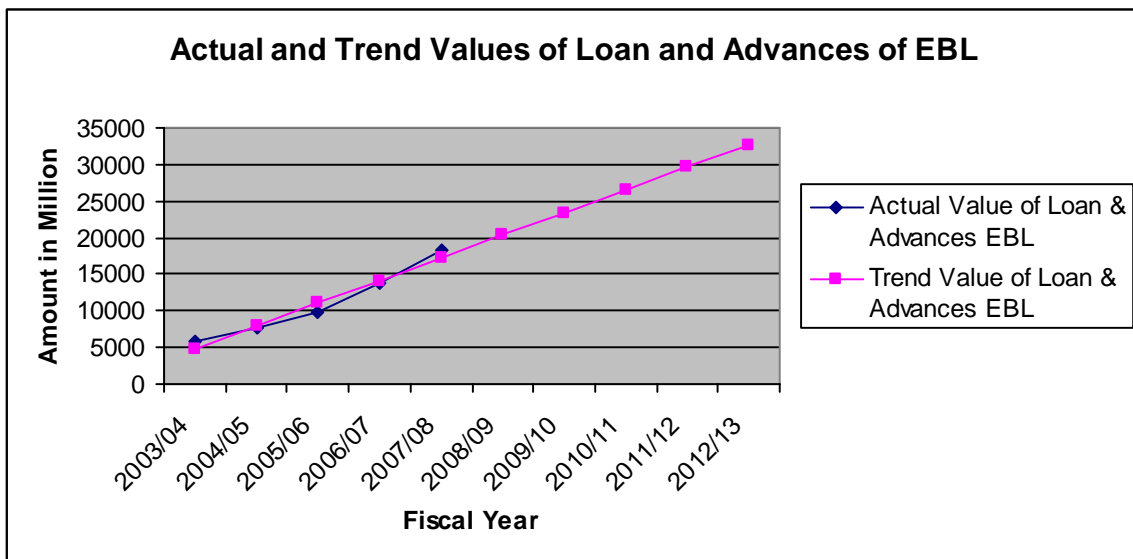
The above trend values of loan and advances of NABIL, EBL and BOK are fitted in the trend line in the given figure below.

**Figure No. 4.7**



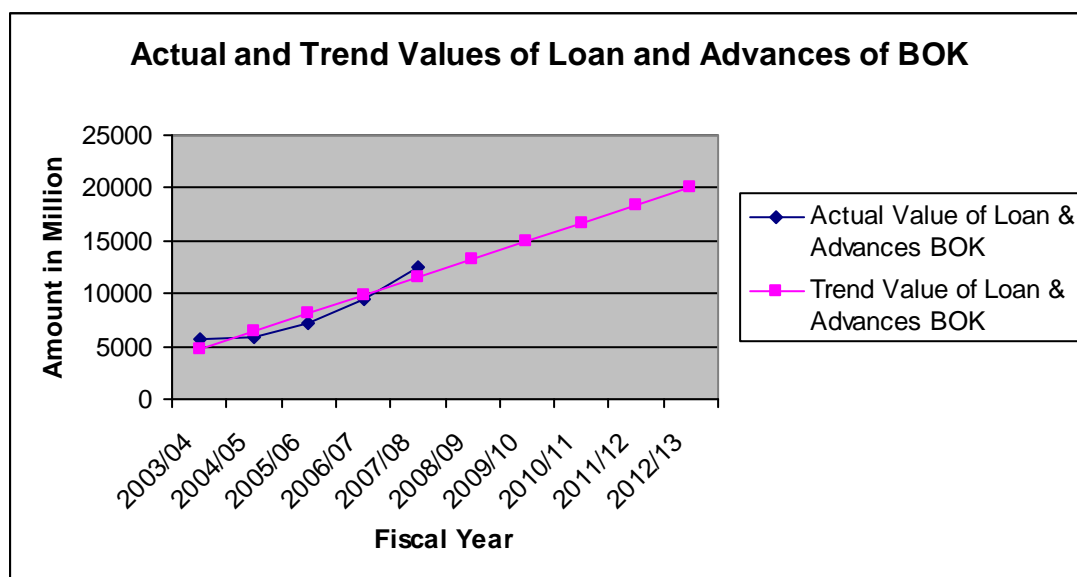
Above figure no. 4.7 shows the Actual and trend Values of Loan and Advances of NABIL from FY 2003/04 to 2012/13. The trend line shows increasing trend of Loan and advance, in actual also it is increasing in current position.

**Figure No. 4.8**



Above figure no. 4.8 shows the Actual and trend Values of Loan and Advances of EBL from FY 2003/04 to 2012/13. The trend line shows increasing trend of Loan and advance, in actual also it is increasing in current position.

**Figure No. 4.9**



Above figure no. 4.9 shows the Actual and trend Values of Loan and Advances of BOK from FY 2003/04 to 2012/13. The trend line shows increasing trend of Loan and advance, in actual also it is increasing in current position.

#### **4.4.2 Analysis of Trend Values of Non-performing loan**

Under this topic, an effort has been made to calculate the trend values of Non-Performing Loan of NABIL, EBL and Bok for five years from fiscal year 2003/04 to 2007/08 and forecast for next five years till 2012/13.

The following table shows the trend values of 10 years from fiscal year 2003/04 to 2012/13.

**Table No. 4.12****Actual and Trend Values of Non- performing loan of NABIL, EBL and BOK**

(NPR In million)

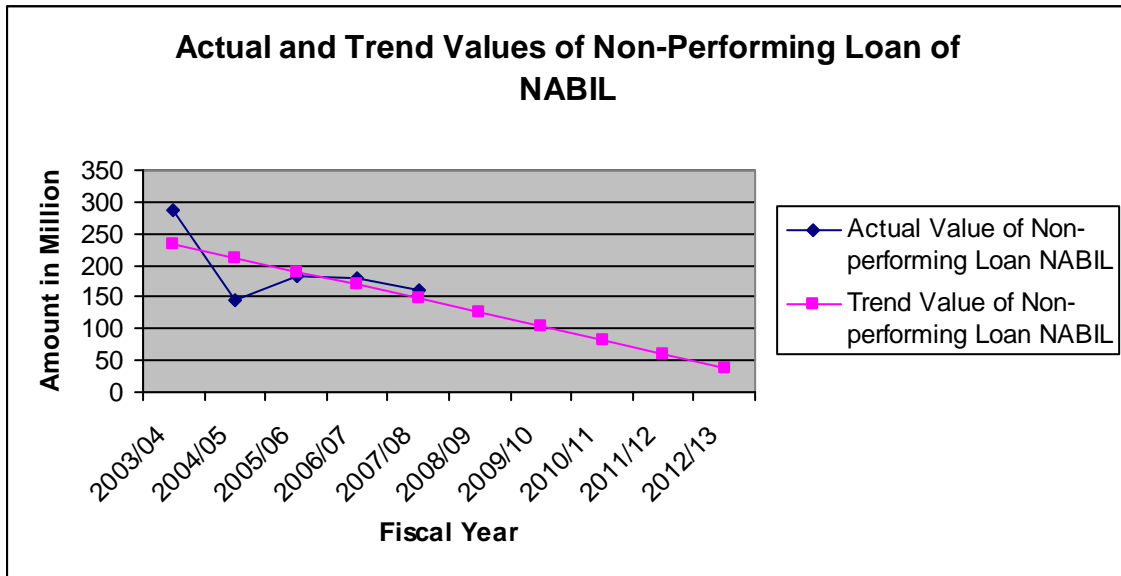
<b>Year</b>	<b>Actual Value of Non-performing Loan NABIL</b>	<b>Actual Value of Non-performing Loan EBL</b>	<b>Actual Value of Non-performing Loan BOK</b>	<b>Trend Value of Non-performing Loan NABIL</b>	<b>Trend Value of Non-performing Loan EBL</b>	<b>Trend Value of Non-performing Loan BOK</b>
2003/04	286.68	104.75	399.94	234.11	116.01	356.71
2004/05	144.50	128.80	308.50	212.37	117.70	317.58
2005/06	182.62	129.23	203.62	190.63	119.39	278.45
2006/07	178.29	113.18	243.29	168.89	121.08	239.32
2007/08	161.08	121.00	236.89	147.15	122.77	200.19
2008/09				125.41	124.45	161.06
2009/10				103.67	126.14	121.92
2010/11				81.93	127.83	82.79
2011/12				60.18	129.52	43.66
2012/13				38.44	131.21	4.53

*Source : Appendix 3(ii)*

From the above table it is clear that the trend value of EBL is in increasing trend. If other things remain same non performing loan of EBL is predicted to be Rs. 131.21 million in FY 2012/13. NABIL and BOK have decreasing trend of non performing loan. If other thing remaining unchanged non- performing loan of NABIL is predicted to be 38.44 million and BOK is predicted to be 4.53 in year 2012/13.

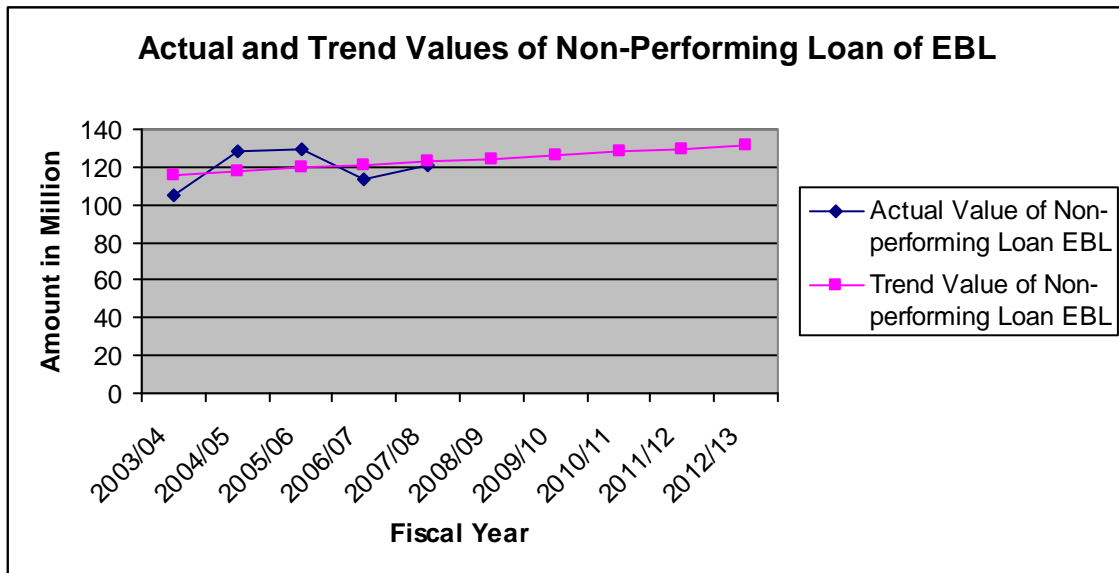
The above table reveals that non-performing loan of EBL is higher than that of NABIL and BOK throughout the trend projection period. It can be said that NABIL and BOK have good position in comparison to EBL. Due to high non performing loan this bank doesn't meet maximum profit as their target. The above calculated trend values of NABIL, EBL and BOK are fitted in the trend line given in the following figures.

**Figure No. 4.10**



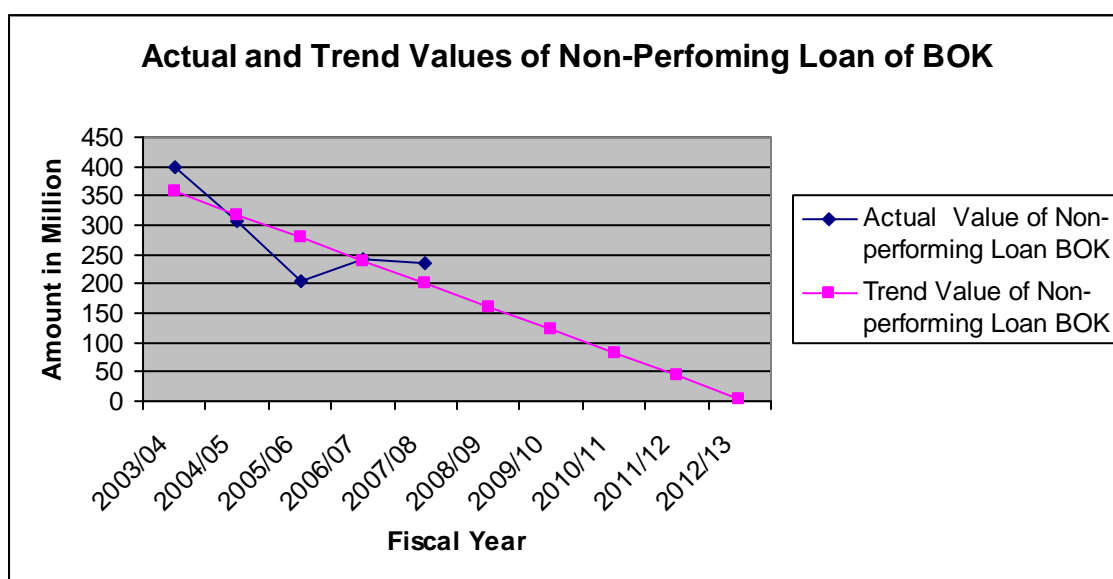
Above figure no. 4.10 shows the Actual and trend Values of Non-Performing Loan of NABIL from FY 2003/04 to 2012/13. The trend line reflects that the NPL is in decreasing trend but Actual values decreased in FY 2005/06 and moving up and down.

**Figure No. 4.11**



Above figure no. 4.11 shows the Actual and trend Values of Non-Performing Loan of EBL from FY 2003/04 to 2012/13. The trend line reflects that the NPL is in increasing trend but Actual values increased in FY 2004/05 and moving up and down.

**Figure No. 4.12**



Above figure no. 4.12 shows the Actual and trend Values of Non-Performing Loan of BOK from FY 2003/04 to 2012/13. The trend line reflects that the NPL is in decreasing trend but Actual values decreased up to FY 2006 and currently moving up.

#### 4.4.3 Analysis of Trend Values of Total Provision

**Table No. 4.13**

**Actual and Trend Values of Total Provision of NABIL, EBL and BOK**

(NPR In million)

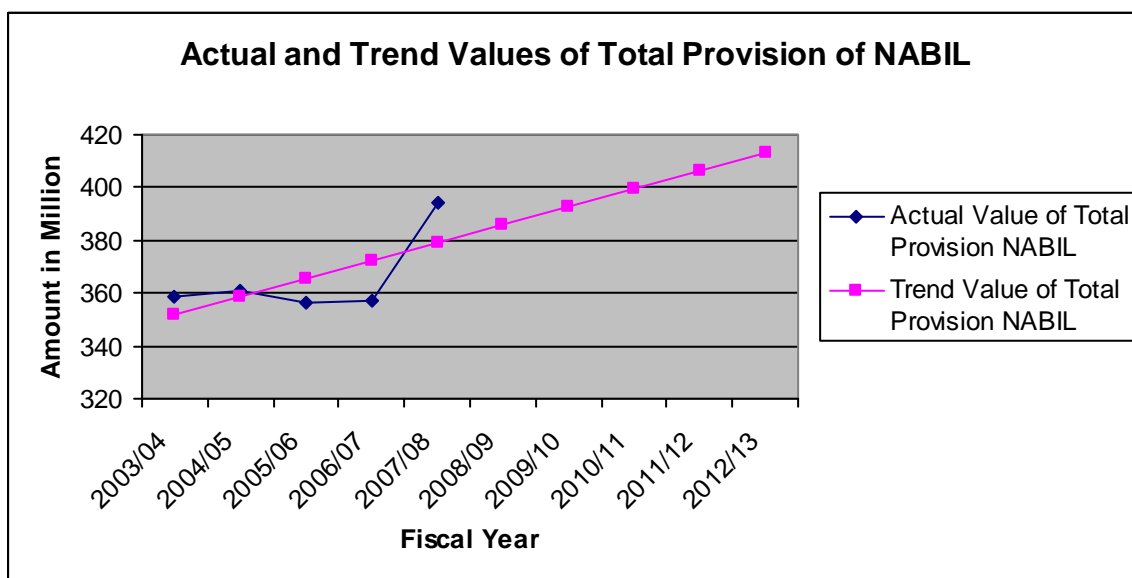
Year	Actual Value of Total Provision NABIL	Actual Value of Total Provision EBL	Actual Value of Total Provision BOK	Trend Value of Total Provision NABIL	Trend Value of Total Provision EBL	Trend Value of Total Provision BOK
2003/04	358.65	211.72	361.61	351.78	207.11	313.65
2004/05	360.56	281.41	269.46	358.60	277.96	300.88
2005/06	356.24	334.94	229.62	365.42	348.80	288.10
2006/07	357.24	418.6	294.77	372.24	419.64	275.33
2007/08	394.4	497.34	285.08	379.05	490.49	262.55
2008/09				385.87	561.33	249.78
2009/10				392.69	632.17	237.00
2010/11				399.51	703.02	224.23
2011/12				406.33	773.86	211.45
2012/13				413.14	844.70	198.68

Source : Appendix 3(iii)

From the above comparative table we can see that trend values of total provision of EBL and NABIL are in an increasing trend whereas trend values of total provision of BOK is in decreasing trend. If other things remaining unchanged total provision of EBL is predicted to be Rs. 844.70 million in FY 2012/13 which will be the highest provision amount among the banks under study.

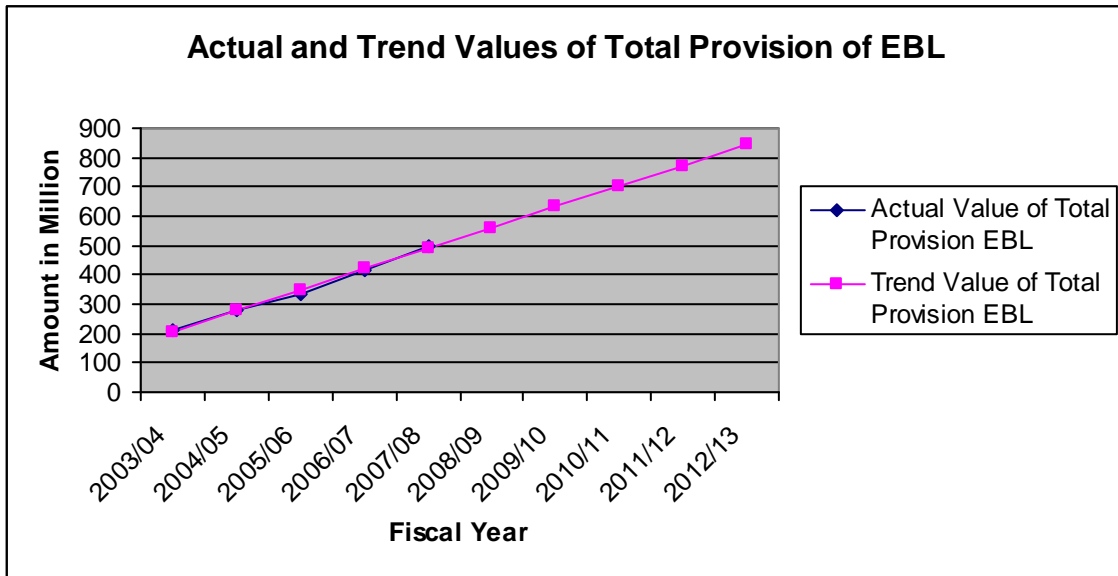
From the above trend analysis it is quite obvious that NABIL has total provision collection much better than EBL and BOK from FY 2003/2004 on wards. The trend values of Total Provision of NABIL, EBL and BOK are fitted in the trend lines in given figures.

**Figure No. 4.13**



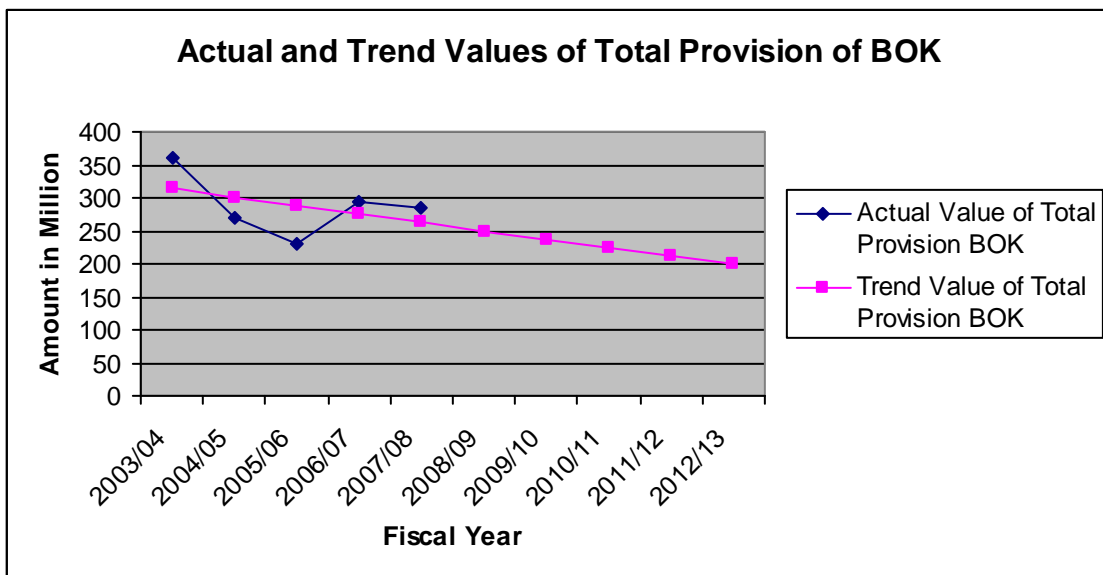
Above figure no. 4.13 shows the Actual and trend Values of total provision of NABIL from FY 2003/04 to 2012/13. Although the trend line shows increasing trend total provision is decreasing but it is increasing in current position.

**Figure No. 4.14**



Above figure no. 4.14 shows the Actual and trend Values of total provision of EBL from FY 2003/04 to 2012/13. We can see The Actual Values following the Trend Values from the Figure.

**Figure No. 4.15**



Above figure no. 4.15 shows the Actual and trend Values of total provision of BOK from FY 2003/04 to 2012/13. Although the trend line shows decreasing trend total provision is not decreasing but it is increasing in current position.

## Major Findings

In this segment we analyze various ratios and while analyzing loan and advances to total assets we found that more than sixty percent of total assets of all banks are in the form of loan and advances and they have less deviation throughout the period and lesser CV in the ratio.

- ◆ We analyze ratio of loan and advances to total deposit. The analysis has cleared that EBL is in the top in utilizing the depositor's money among the three banks. It has the highest average loan and advances to total deposit ratio of 77.19%. Similarly, NABIL and BOK have 66.18% and 72.52% of average loan and advances to total deposit ratio which is slightly less than recommended of 75%. Loan and advances to total deposit ratio of NABIL is comparatively low which indicates enough liquidity available with the bank.
- ◆ Other analysis of loan loss provision in total loan and advances clarifies that BOK has higher average ratio of loan loss provision in total and advances making 3.91%. Similarly EBL has moderate loan loss provision ratio of 3.30% and NABIL has lowest portion of loan loss provision of 2.94% only.
- ◆ Non- Performing loan to loan and advances of all commercial banks have been decreasing. NABIL and EBL both have reduced the level of their Non- performing loan to 1.63% and 1.26% respectively but Bok has still 3.92% of NPL level which is higher among the banks.
- ◆ NABIL and EBL both have maintain their NPL level very low making 1.63% and 1.26% respectively which indicates that these banks have been making continuous efforts to maintain their NPL level low.
- ◆ Ratio of provision to Non- Performing loan of banks show that the level of provision of all banks are increasing and almost all commercial banks have created provision greater than the amount of non-performing loan which shows that all banks are safe against the future contingencies that may be created due to non payment of loan.
- ◆ Net Profit of all banks is increasing and the percentage of net profit in respect of loan and advances is also in increasing trend.

- ◆ In this chapter we have used Karl Pearson's Correlation to analyze the data and interpret the result. Following findings are noticed during the study.
- ◆ Relation between the LLP and Loan and advances has cleared that most of banks have perfect positive correlation between loan loss provision and loan and advances. It is clear to see that NABIL and EBL have positive correlation between loan loss provision and loan and advances and BOK has negative correlation between loan loss provision and loan and advances. BOK has negative correlation of 0.17 which indicates that the provision amount does not follow the trend of loan and advance. If loan and advances increases the LLP also tends to increase.
- ◆ NABIL, EBL and BOK have positive and negative correlation of -0.31, 0.22 and 0.85 respectively which indicates that loan loss provision is positively correlated with the non performing loan. It means if non performing loan increases loan loss provision also increases in same ratio and vice versa. In other word it can be said that if these banks have to decrease the level of their loan loss provision they have to focus to increase quality loan portfolio and reduce the level of non performing loan. Likewise correlation of these banks is higher than the six times of its P.E. which proves the above claim. NABIL has low positive correlation of -0.31 and r is less than 6 P.E. which shows the correlation is insignificant.
- ◆ Correlation between Total loan and Advances and total Deposit indicates perfect positive correlation between deposit and loan and advances for review period.
- ◆ All three banks have increasing trend of loan and advances. NABIL shows the highest growth rate of loan and advances. Similarly Bok shows the lowest growth rate of loan and advances. EBL has a moderate growth in their loan and advances and if they continue the same trend their loan portfolio will become slightly more than the double of current average loan.
- ◆ Loan loss provision of these commercial banks have been in increasing trend but NABIL and BOK have been able to decrease the level of provision through out the year. If NABIL and BOK continue the trend its provision is expected to decrease by year FY 2012/13.

# CHAPTER V

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is an accomplished specific and indicative enclosure which contains summary and conclusion of finding and recommendations. Brief introduction to all chapters' of the study and genuine information of the present situation under the topic of the study is defined on summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weakness, opportunities and threats of the commercial banks. And suggestions are obtainable in recommendation, which is arranged on the basis of findings and conclusions.

### 5.1. Summary

Development of a country always depends upon the economic development of that country. Financial institutions play vital role for economic development. Basically it works as financial intermediary by taking deposit and lending that money to deficit group of society. Both private and public sector have been contributing to our nation. Integrated and speedily development of the country is possible only when competitive banking service reaches nook and corners of the country. Commercial banks occupy an important place in the framework of every economy because they provide capital for the development of industry, trade, business and other resources deficit sectors by investing the saving collected as deposits. All the economic activities of each and every country are greatly influenced by the commercial banking business of the country.

Loan and Advances is reflected in assets side of balance sheet of commercial banks. Loan and advances is direct contributor to banks income. Loan can be divided into two categories namely performing loan and non-performing loan. Total assets of bank can be divided in two parts performing assets and non performing assets. Performing assets are those sets which direct generates cash to organization or indirectly helps to generate cash or it facilitates the set ups for better productivity. Loan and advances is direct contributor to banks income whereas cash in vault balance in other bank, fixed assets and other are

the facilitators which helps the daily operation of bank. Performing assets add positive value to bank as well as to nation.

Performing loan are those loan and advances which service the banks on time. Which means the loan which pays its installment and interest within the time is known as performing loan. Performing loan is the contributor of banks growth and prosperity.

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

This study mainly focuses on analyzing the loan disbursement and recovery system of Nepalese commercial banks. Among total banks three banks have been selected as sample. Required data have been collected from annual report of the banks and websites of concerned banks including website of Nepal Rastra Bank. To come in to conclusion various statistical and financial tools have been used. Judgmental sampling method has been adopted to choose the banks to study. All banks have been selected as “A” class closes competitors to carry study. This study about loan disbursement carries sample of three private sector banks as a sample.

All banks have been found to utilize the depositors money among them some banks prefer high liquidity and retain good sum of amount from deposit to operate day to day transaction and some prefer high return rather than liquidity and utilize more than seventy five percent of their deposits as loan and advances.

## **5.2 Conclusion**

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

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

- ◆ Loan and advances are the major determinant of earning of commercial banks and major portion of their earning assets. This study of loan and advances to total assets has sighted that most of the banks have maintains sixty percent of their total assets in the form of loan and advances which obviously indicate high attention of management towards of loan and advances.
- ◆ Loan and advances largely depends upon the level of deposit. The banks having more deposit have higher portion of loan and advances and vice versa. The study has revealed that most of the banks maintaining loan and advances to total deposit ratio around 70%.among the three commercial banks EBL has the highest average loan and advances to total deposit ratio of 77.19%. Likewise NABIL and BOK have 66.18% and 72.52% of average loan and advances to total deposit ratio which is slightly less than recommended of 75%. Loan and advances to total deposit ratio of NABIL is comparatively low (66.18%) which indicates enough liquidity available with the bank.
- ◆ Loan loss provision is a safeguard against future contingencies which NRB has made mandatory to all type of loan and advances. Higher portion of LLP indicates high portion of NPL in total loan portfolio and bad condition of banks too. Our analysis of loan loss provision in total loan and advances has cleared that BOK has higher average ratio of loan loss provision in total loan and advances making 3.91%. Likewise EBL has moderate Loan loss provision of 3.30% and NABIL has lowest portion of LLP of 2.94% which is known to be best.

- ◆ NRB has directed to divide the total loan into two parts, Performing Loan and Non-performing Loan. Performing loan are those which success to service in time and also known as good loan. Non-performing Loan are those loan which fails to service in time and it is bad for financial health of any bank. Therefore we have analyzed the portion of non –performing loan in total loan and advances which reveal that non performing loan of commercial banks have been decreasing. Due to strict NRB regulations regarding loan loss provision all banks have been focusing on quality loan which has resultant lower non performing loan ratio. Non –performing loan to loan and advances of the commercial banks have been decreasing. NABIL and EBL both have maintain their NPL level very low making 1.63% and 1.26% respectively which indicates that these banks have been making continuous efforts to maintain their NPL level low.
  
- ◆ Ratio of provision to Non- performing Loan of bank shows that the level of provision of all banks are increasing and almost all commercial banks have created provision greater than the amount of non performing loan which shows that all the selected banks are safe against the future contingencies that may create due to non payment of loan. Net profit of all banks is increasing and percentage of net profit in respect of loan is also increasing.
  
- ◆ Relation between the LLP and Loan and advances has cleared that most of banks have perfect positive correlation between loan loss provision and loan and advances e It is clear to see that EBL has positive correlation between loan loss provision and loan and advances and NABIL and BOK have negative correlation between loan loss provision and loan and advances.
  
- ◆ Correlation between Total loan and Advances and total Deposit indicates perfect positive correlation between deposit and loan and advances for review period. All three banks have increasing trend of loan and advances. NABIL shows the highest growth rate of loan and advances. Similarly Bok shows the lowest growth rate of loan and advances. EBL has a moderate growth in their loan and advances and if they continue the same trend their loan portfolio will become slightly more than the double of current average loan. Loan loss provision of these commercial banks have been in

increasing trend but NABIL and BOK have been able to decrease the level of provision through out the year.

If loan disbursement and collection do not occur timely, each and every organization could not be operationally and economically sound and viable. This research is focused on loan disbursement and recovery system of commercial banks of Nepal. This study is the comparative study of NABIL, EBL and BOK. For the purpose of collection of related information and data all banks have been visited and materials were collected from each bank. Both loan disbursement and recovery data are systematically presented and compared. Major findings and conclusions have been drawn through the whole study.

### **5.3 Recommendations**

This study is basically done to analyze the loan disbursement and recovery system of commercial banks. Therefore various aspects of commercial banks have been scrutinized to come into conclusion. All banks have their own resources structure and in the basis of that resources management try to get optimal result. Various managerial skill as well as other set ups obviously effect the banking progress therefore it is essential to analysis the performance of banks by bringing the common variables of all banks in similar respect and draw conclusion.

This study has tried to find out some real facts about loan and advances and other inter related variables with loan and advances of different commercial banks. Hence would be beneficial for all stakeholders of that particular bank. Based on the above summary and conclusions following recommendation have been provided.

- ◆ Almost all selected commercial banks have more than sixty percent of their assets in the form of loan and advances and loan and advances itself is the major income earning assets of commercial banks therefore management should be very much cautious while disbursing loans. As “one bad loan can wipe out the profit from hundred good loans” before providing loan viability of business as well as financial status of borrower and their repayment capacity should be closely analyzed.

- ◆ In case of borrowers who are not paying loans timely, bankers must examine and take corrective action. Repayment schedule must be rearranged recognizing the exact cause. Political and other pressure should be minimized.
- ◆ Loan and advances are categorized as non-performing loans if they fail to pay the dues in predetermined time. Several reasons for not servicing loans have been found among them: reverse economic situation, change in government rules, sickness of industries, unexpectedly increment in competition and reduced margin in the business and intentional defaulters are some of them. These are few reasons for non-payment of the dues in time; therefore, management should always analyze the future possible reverse situation and impact of that in their business before providing loans. Some of the techniques of reducing non-performing loans are: management can diversify their loan portfolio in two perfectly negatively correlated industries which ensure a minimum recovery and distribution of total loans in different sectors is also another technique which provides the banks with a safeguard of major portions of their lending.
- ◆ Since deposit utilization is a big challenge for commercial banks, an unutilized deposit brings additional costs to the bank; therefore, management always seeks to invest deposits in such projects which maximize the return. In the race of achieving high returns, management should not forget the drawback of bad loans. Obviously, they have to provide loans to achieve long-run sustainability, but the quality of loans should be the primary focus of management. Studies have shown that non-performing loans have a direct impact on profitability; therefore, there should be a trade-off between risk and return.
- ◆ This study has revealed that all banks have a positive correlation between loan loss provision and non-performing loans, which indicates that if these banks wish to decrease the level of their loan loss provision, they have to focus on increasing the quality of their loan portfolio and reducing the level of non-performing loans. Therefore, banks should flow quality loans if they want to reduce their loan loss provision.
- ◆ As per current NRB directives, banks are not allowed to open new branches to grow their business if those banks have non-performing loans of above five percent. This indicates that on the one hand, non-performing loans directly reduce the profitability of banks by creating provisions from operating profits, and on the other hand, it deprives the banks of expanding their business by opening new branches; therefore, they should focus on long-run profitability by discouraging lower quality loans.

- ◆ As per NRB directive banks should divide their loan and advances into two parts Performing Loan and Non Performing Loan and loans are required to make provision as per the category of each loan. Since this directive has created great control measure and safeguard to depositors and other stakeholders of the banks. Banks should strictly follow the directives. In addition to this loan loss provision provides safeguard against the future contingencies which may be created due to non payment of loan in future management should provide adequate loan loss provision as pre NRB directives to safeguard the bank from the possible losses.
- ◆ As per NRB directive banks should divide their loan and advances into two parts Performing Loan and Non Performing Loan and loans are required to make provision as per the category of each loan. Since this directive has created great control measure and safeguard to depositors and other stakeholders of the banks. Banks should strictly follow the directives. In addition to this loan loss provision provides safeguard against the future contingencies which may be created due to non payment of loan in future management should provide adequate loan loss provision as pre NRB directives to safeguard the bank from the possible losses.
- ◆ Long term Loan disbursement only can't change the life standard of rural life. Short term loans must be distributed to utilize small and local resources. If customers are provided technical facility along with the loan, it helps them to use the loan effectively at rapid changed may be possible in economic development.
- ◆ Loan sanction procedure should be transparent and easier. The borrower selection criteria should implement strictly and the needy should get priority in getting loan. Unnecessary obstacles and disturbances should be minimized. The employee should get adequate facility as per capacity of organization in the context of the country.
- ◆ Loan disbursement is mostly effected by recovery system. So, management should always adopt such policies which sure the customers to pay loan back before due date. Supervision and inspection system must be strict, unbiased, effective and efficient. It helps them to understand the importance of loan.

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- ◆ Article 2(B), Bank and Financial Institutions Ordinance, (2060)
- ◆ Section 1, Directive to the Commercial Banks, NRB, 2003.

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- ◆ [www.google.com.np](http://www.google.com.np)

## APPENDIX-1

### i. Loan & Advance to Total Assets Ratio

(NPR in million)

Fiscal Year	Loan & Advance			Total Assets			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	8189.99	5884.12	5646.69	16745.48	9608.57	9496.34	48.91	61.24	59.46
2004/05	10586.17	7618.67	5912.57	17186.33	11732.57	9888.53	61.60	64.94	59.79
2005/06	12922.54	9801.30	7259.08	22329.97	15959.28	12278.33	57.87	61.41	59.12
2006/07	15545.78	13664.08	9399.32	27253.39	21432.57	14581.39	57.04	63.75	64.46
2007/08	21365.05	18339.08	12462.63	37132.76	27149.34	17721.92	57.54	67.55	70.32

### ii. Loan & Advances to Total Deposits

(NPR in million)

Fiscal Year	Loan & Advances			Total Deposits			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	8189.99	5884.12	5646.69	14119.03	6694.96	7741.64	58.01	87.89	72.94
2004/05	10586.17	7618.67	5912.57	14586.60	10097.69	8975.78	72.57	75.45	65.87
2005/06	12922.54	9801.30	7259.08	19347.39	13802.44	10485.36	66.79	71.01	69.23
2006/07	15545.78	13664.08	9399.32	23342.28	18186.25	12388.92	66.60	75.13	75.87
2007/08	21365.05	18339.08	12462.63	31915.05	23976.29	15833.73	66.94	76.49	78.71

### iii. Loan Loss Provision to Loan & Advances

(NPR in million)

Fiscal Year	Loan Loss Provision			Loan & Advances			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	358.65	211.72	361.61	8189.99	5884.12	5646.69	4.38	3.60	6.40
2004/05	360.56	281.41	269.46	10586.17	7618.67	5912.57	3.41	3.69	4.56
2005/06	356.24	334.94	229.62	12922.54	9801.30	7259.08	2.76	3.42	3.16
2006/07	357.24	418.60	294.77	15545.78	13664.08	9399.32	2.30	3.06	3.14
2007/08	394.40	497.34	285.08	21365.05	18339.08	12462.63	1.85	2.71	2.29

**iv. Non Performing Loan to Total Loan & Advances**

(NPR in million)

Fiscal Year	Non Performing Loan			Loan & Advances			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	286.68	104.75	399.94	8189.99	5884.12	5646.69	3.50	1.78	7.08
2004/05	144.50	128.80	308.50	10586.17	7618.67	5912.57	1.36	1.69	5.22
2005/06	182.62	129.23	203.62	12922.54	9801.30	7259.08	1.41	1.32	2.81
2006/07	178.29	113.18	243.29	15545.78	13664.08	9399.32	1.15	0.83	2.59
2007/08	161.08	121.00	236.89	21365.05	18339.08	12462.63	0.75	0.66	1.90

**v. Loan Loss Provision to Non Performing Loan**

(NPR in million)

Fiscal Year	Loan Loss Provision			Non Performing Loan			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	358.65	211.72	361.61	286.68	104.75	399.94	125.10	202.12	90.42
2004/05	360.56	281.41	269.46	144.50	128.80	308.50	249.52	218.49	87.35
2005/06	356.24	334.94	229.62	182.62	129.23	203.62	195.07	259.18	112.77
2006/07	357.24	418.60	294.77	178.29	113.18	243.29	200.37	369.85	121.16
2007/08	394.40	497.34	285.08	161.08	121.00	236.89	244.85	411.02	120.34

**vi. Return on Loan & Advances**

(NPR in million)

Fiscal Year	Net profit			Loan & Advances			Ratio (%)		
	NABIL	EBL	BOK	NABIL	EBL	BOK	NABIL	EBL	BOK
2003/04	516.86	143.56	127.47	8189.99	5884.12	5646.69	6.31	2.44	2.26
2004/05	549.90	168.21	139.53	10586.2	7618.67	5912.57	5.19	2.21	2.36
2005/06	635.26	237.29	202.44	12922.5	9801.30	7259.08	4.92	2.42	2.79
2006/07	673.96	296.40	262.38	15545.8	13664.10	9399.32	4.34	2.17	2.79
2007/08	746.47	451.22	361.49	21365.1	18339.10	12462.60	3.49	2.46	2.90

## APPENDIX-2

### i. Calculation of Correlation Coefficient between Total Provision and Loan and Advances of NABIL

(NPR in million)

FY	Total Provision (X)	L & A (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	$x^2$	$y^2$	xy
2003/04	358.65	8189.99	-6.77	-5531.93	45.83	30602249.52	37451.17
2004/05	360.56	10586.2	-4.86	-3135.72	23.62	9832739.92	15239.60
2005/06	356.24	12922.5	-9.18	-799.42	84.27	639072.34	7338.68
2006/07	357.24	15545.8	-8.18	1823.88	66.91	3326538.25	-14919.34
2007/08	394.40	21365.1	28.98	7643.18	839.84	58418200.51	221499.36
<b>Total</b>	<b>1827.09</b>	<b>68609.6</b>			<b>1060.48</b>	<b>102818800.55</b>	<b>266609.46</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{1827.09}{5} = 365.42$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{68609.6}{5} = 13721.92$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{266609.46}{32.56 \times 10139.96} = 0.81$$

$$r^2 = 0.6561$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.6561}{\sqrt{5}} = 0.10$$

$$6P.E. = 6 \times 0.10 = 0.06$$

ii. **Calculation of Correlation Coefficient between Total Provision and Loan and Advances of EBL**

(NPR in million)

FY	Total Provision (X)	L & A (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	$x^2$	$y^2$	xy
2003/04	211.72	5884.12	-137.08	-5177.34	18790.93	26804849.48	709709.77
2004/05	281.41	7618.67	-67.39	-3442.79	4541.41	11852802.98	232009.62
2005/06	334.94	9801.30	-13.86	-1260.16	192.10	1588003.23	17465.82
2006/07	418.60	13664.10	69.80	2602.64	4872.04	6773734.97	181664.27
2007/08	497.34	18339.10	148.54	7277.64	22064.13	52964043.97	1081020.65
<b>Total</b>	<b>1744.01</b>	<b>55307.3</b>			<b>50460.61</b>	<b>99983434.62</b>	<b>2221870.12</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{1744.01}{5} = 348.80$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{55307.3}{5} = 11061.46$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{2221870.12}{\sqrt{50460.61} \times \sqrt{99983434.62}} = 0.99$$

$$r^2 = 0.9801$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9801}{\sqrt{5}} = 0.006$$

$$6P.E. = 6 \times 0.006 = 0.036$$

iii. Calculation of Correlation Coefficient between Total Provision and Loan and Advances of BOK

(NPR in million)

FY	Total Provision (X)	L & A (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	$x^2$	$y^2$	xy
2003/04	361.61	5646.69	73.50	-2489.36	5402.25	6196913.21	-182967.96
2004/05	269.46	5912.57	-18.65	-2223.48	347.82	4943863.31	41467.90
2005/06	229.62	7259.08	-58.49	-876.97	3421.08	769076.38	51293.98
2006/07	294.77	9399.32	6.66	1263.27	44.36	1595851.09	8413.38
2007/08	285.08	12462.6	-3.03	4326.55	9.18	18719034.90	-13109.45
<b>Total</b>	<b>1440.54</b>	<b>40680.3</b>			<b>9224.69</b>	<b>32224738.90</b>	<b>-94902.15</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{1440.54}{5} = 288.11$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{40680.3}{5} = 8136.05$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{-94902.15}{96.05 \times 5676.68} = -0.17$$

$$r^2 = 0.0289$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.0289}{\sqrt{5}} = 0.293$$

$$6P.E. = 6 \times 0.293 = 1.75$$

iv. Calculation of Correlation Coefficient between Total Provision and Non-Performing Loan of NABIL

(NPR in million)

FY	Total Provision(X)	Non-Performing Loan (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	$x^2$	$y^2$	xy
2003/04	358.65	286.68	-6.77	96.05	45.83	9225.60	-650.26
2004/05	360.56	144.50	-4.86	-46.13	23.62	2127.98	224.19
2005/06	356.24	182.62	-9.18	-8.01	84.27	64.16	73.53
2006/07	357.24	178.29	-8.18	-12.34	66.91	152.28	100.94
2007/08	394.40	161.08	28.98	-29.55	839.84	873.20	-856.36
<b>Total</b>	<b>1827.09</b>	<b>953.17</b>			<b>1060.48</b>	<b>12443.22</b>	<b>-1107.95</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{1827.09}{5} = 365.42$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{953.17}{5} = 190.63$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{-1107.95}{32.56 \times 111.55} = -0.31$$

$$r^2 = 0.961$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.961}{\sqrt{5}} = 0.012$$

$$6P.E. = 6 \times 0.012 = 0.072$$

v. **Calculation of Correlation Coefficient between Total Provision and Non-Performing Loan of EBL**

(NPR in million)

FY	Total Provision (X)	Non-Performing Loan (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	$x^2$	$y^2$	xy
2003/04	211.72	104.75	-137.08	-14.64	18790.93	214.33	2006.85
2004/05	281.41	128.80	-67.39	9.41	4541.41	88.55	-634.14
2005/06	334.94	129.23	-13.86	9.84	192.10	96.83	-136.38
2006/07	418.60	113.18	69.80	-6.21	4872.04	38.56	-433.46
2007/08	497.34	121.00	148.54	1.61	22064.13	2.59	239.15
<b>Total</b>	<b>1744.01</b>	<b>596.96</b>			<b>50460.61</b>	<b>440.86</b>	<b>1042.02</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{1744.01}{5} = 348.80$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{596.96}{5} = 119.39$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{1042.02}{224.63 \times 21.00} = 0.22$$

$$r^2 = 0.0484$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.484}{\sqrt{5}} = 0.29$$

$$6P.E. = 6 \times 0.29 = 1.74$$

vi. **Calculation of Correlation Coefficient between Total Provision and Non-Performing Loan of BOK**

(NPR in million)

<b>FY</b>	<b>Total Provision(X)</b>	<b>Non-Performing Loan (Y)</b>	<b><math>x=X-\bar{X}</math></b>	<b><math>y=Y-\bar{Y}</math></b>	<b><math>x^2</math></b>	<b><math>y^2</math></b>	<b>xy</b>
2003/04	361.61	399.94	73.50	121.49	5402.25	14759.82	8929.52
2004/05	269.46	308.50	-18.65	30.05	347.82	903.00	-560.43
2005/06	229.62	203.62	-58.49	-74.83	3421.08	5599.53	4376.81
2006/07	294.77	243.29	6.66	-35.16	44.36	1236.23	-234.17
2007/08	285.08	236.89	-3.03	-41.56	9.18	1727.23	125.93
<b>Total</b>	<b>1440.54</b>	<b>1392.24</b>			<b>9224.69</b>	<b>24225.81</b>	<b>12637.65</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{1440.54}{5} = 288.11$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1392.24}{5} = 278.45$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{12637.65}{96.05 \times 155.65} = 0.85$$

$$r^2 = 0.7225$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.7225}{\sqrt{5}} = 0.084$$

$$6P.E. = 6 \times 0.084 = 0.504$$

vii. Calculation of Correlation Coefficient between Loan and Advances and Total Deposit of NABIL

(NPR in million)

FY	L & A (X)	Total Deposit (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	$x^2$	$y^2$	xy
2003/04	8189.99	14119.03	-5531.93	-6543.04	30602249.52	42811372.44	36195639.27
2004/05	10586.2	14586.60	-3135.72	-6075.47	9832739.92	36911335.72	19050972.79
2005/06	12922.5	19347.39	-799.42	-1314.68	639072.34	1728383.50	1050981.49
2006/07	15545.8	23342.28	1823.88	2680.21	3326538.25	7183525.64	4888381.41
2007/08	21365.1	31915.05	7643.18	11252.98	58418200.51	126629558.88	86008551.68
<b>Total</b>	<b>68609.6</b>	<b>103310</b>			<b>102818800.55</b>	<b>215264176.19</b>	<b>147194526.63</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{68609.6}{5} = 13721.92$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{103310}{5} = 20662$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{147194526.63}{10139.96 \times 14671.88} = 0.99$$

$$r^2 = 0.9801$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9801}{\sqrt{5}} = 0.006$$

$$6P.E. = 6 \times 0.006 = 0.036$$

viii. Calculation of Correlation Coefficient between Loan and Advances and Total Deposit of EBL

(NPR in million)

FY	L & A (X)	Total Deposit (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	$x^2$	$y^2$	xy
2003/04	5884.12	6694.96	-5177.34	-7856.57	26804849.48	61725692.16	40676134.12
2004/05	7618.67	10097.69	-3442.79	-4453.84	11852802.98	19836690.75	15333635.81
2005/06	9801.30	13802.44	-1260.16	-749.09	1588003.23	561135.83	943973.25
2006/07	13664.10	18186.25	2602.64	3634.72	6773734.97	13211189.48	9459867.66
2007/08	18339.10	23976.29	7277.64	9424.76	52964043.97	88826101.06	68590010.37
<b>Total</b>	<b>55307.3</b>	<b>72757.6</b>			<b>99983434.62</b>	<b>184160809.27</b>	<b>135003621.22</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{55307.3}{5} = 11061.46$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{72757.6}{5} = 14551.53$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{135003621.22}{9999.17 \times 13570.59} = 0.99$$

$$r^2 = 0.9801$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9801}{\sqrt{5}} = 0.006$$

$$6P.E. = 6 \times 0.006 = 0.036$$

**ix. Calculation of Correlation Coefficient between Loan and Advances and Total Deposit of BOK**

**(NPR in million)**

<b>FY</b>	<b>L &amp; A (X)</b>	<b>Total Deposit (Y)</b>	<b>x=X-<math>\bar{X}</math></b>	<b>y=Y-<math>\bar{Y}</math></b>	<b>x<sup>2</sup></b>	<b>y<sup>2</sup></b>	<b>xy</b>
2003/04	5646.69	7741.64	-2489.36	-3343.45	6196913.21	11178657.90	8323050.69
2004/05	5912.57	8975.78	-2223.48	-2109.31	4943863.31	4449188.68	4690008.60
2005/06	7259.08	10485.36	-876.97	-599.73	769076.38	359676.07	525945.22
2006/07	9399.32	12388.92	1263.27	1303.83	1595851.09	1699972.67	1647089.32
2007/08	12462.60	15833.73	4326.55	4748.64	18719034.90	22549581.85	20545228.39
<b>Total</b>	<b>40680.3</b>	<b>55425.4</b>			<b>32224738.90</b>	<b>40237077.17</b>	<b>35731322.23</b>

$$\bar{X} = \frac{\sum X}{N} = \frac{40680.3}{5} = 8136.05$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{55425.4}{5} = 11085.09$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{35731322.23}{5676.68 \times 6343.27} = 0.99$$

$$r^2 = 0.9801$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9801}{\sqrt{5}} = 0.006$$

$$6P.E. = 6 \times 0.006 = 0.036$$

### APPENDIX-3

**i. Trend Value of Loan and Advances of NABIL, EBL and BOK**

(NPR in million)

Year (t)	Loan and Advances (y)			x=(t-2005/06)	x <sup>2</sup>	xy		
	NABIL	EBL	BOK			NABIL	EBL	BOK
2003/04	8189.99	5884.12	5646.69	-2	4	-16380.00	-11768.00	-11293.00
2004/05	10586.17	7618.67	5912.57	-1	1	-10586.00	-7618.70	-5912.60
2005/06	12922.54	9801.30	7259.08	0	0	0.00	0.00	0.00
2006/07	15545.78	13664.08	9399.32	1	1	15545.80	13664.10	9399.32
2007/08	21365.05	18339.08	12462.63	2	4	42730.10	36678.20	24925.30
<b>Total</b>	<b>68609.50</b>	<b>55307.30</b>	<b>40680.30</b>	<b>0</b>	<b>10</b>	<b>31309.70</b>	<b>30955.30</b>	<b>17118.60</b>

**For NABIL,**

$$a = \frac{\sum y}{N} = \frac{68609.5}{5} = 13721.9$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{31309.7}{10} = 3130.97$$

**For EBL,**

$$a = \frac{\sum y}{N} = \frac{55307.3}{5} = 11061.46$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{30955.3}{10} = 3095.53$$

**For BOK,**

$$a = \frac{\sum y}{N} = \frac{40680.3}{5} = 8136.06$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{17118.6}{10} = 1711.86$$

The Equation of The Straight Line is;

$$y_c = a + bx$$

**For NABIL,**

$$y_c = a + bx$$

$$Y_c = 13721.9 + 3130.97x$$

**For EBL,**

$$y_c = a + bx$$

$$Y_c = 11061.46 + 3095.53x$$

**For BOK,**

$$y_c = a + bx$$

$$Y_c = 8136.06 + 1711.86x$$

<b>Trend Value</b>				
<b>Year</b>	<b>x = (t-2005/06)</b>	<b>NABIL</b>	<b>EBL</b>	<b>BOK</b>
2003/04	-2	7459.96	4870.4	4712.34
2004/05	-1	10590.9	7965.93	6424.2
2005/06	0	13721.9	11061.5	8136.06
2006/07	1	16852.9	14157	9847.92
2007/08	2	19983.8	17252.5	11559.8
2008/09	3	23114.8	20348.1	13271.6
2009/10	4	26245.8	23443.6	14983.5
2010/11	5	29376.8	26539.1	16695.4
2011/12	6	32507.7	29634.6	18407.2
2012/13	7	35638.7	32730.2	20119.1

ii. **Trend Value of Non-Performing Loan of NABIL, EBL and BOK**

(NPR in million)

Year (t)	Non-Performing Loan (y)			x=(t-2005/06)	x <sup>2</sup>	xy		
	NABIL	EBL	BOK			NABIL	EBL	BOK
2003/04	286.68	104.75	399.94	-2	4	-573.36	-209.50	-799.88
2004/05	144.50	128.80	308.50	-1	1	-144.50	-128.80	-308.50
2005/06	182.62	129.23	203.62	0	0	0.00	0.00	0.00
2006/07	178.29	113.18	243.29	1	1	178.29	113.18	243.29
2007/08	161.08	121.00	236.89	2	4	322.16	242.00	473.78
<b>Total</b>	<b>953.17</b>	<b>596.96</b>	<b>1392.24</b>	<b>0</b>	<b>10</b>	<b>-217.41</b>	<b>16.88</b>	<b>-391.31</b>

**For NABIL,**

$$a = \frac{\sum y}{N} = \frac{953.17}{5} = 190.63$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{-217.41}{10} = -21.741$$

**For EBL,**

$$a = \frac{\sum y}{N} = \frac{596.96}{5} = 119.39$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{16.88}{10} = 1.688$$

**For BOK,**

$$a = \frac{\sum y}{N} = \frac{1392.24}{5} = 278.448$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{-391.31}{10} = -39.131$$

The Equation of the Straight Line is;

$$y_c = a + bx$$

**For NABIL,**

$$y_c = a + bx$$

$$y_c = 190.63 + (-21.741)x$$

**For EBL,**

$$y_c = a + bx$$

$$y_c = 119.39 + 1.688x$$

**For BOK,**

$$y_c = a + bx$$

$$y_c = 278.448 + (-39.131)x$$

**Trend Value**

<b>Year</b>	<b>x = (t-2005/06)</b>	<b>NABIL</b>	<b>EBL</b>	<b>BOK</b>
2003/04	-2	234.11	116.01	356.71
2004/05	-1	212.37	117.70	317.58
2005/06	0	190.63	119.39	278.45
2006/07	1	168.89	121.08	239.32
2007/08	2	147.15	122.77	200.19
2008/09	3	125.41	124.45	161.06
2009/10	4	103.67	126.14	121.92
2010/11	5	81.93	127.83	82.79
2011/12	6	60.18	129.52	43.66
2012/13	7	38.44	131.21	4.53

iii. Trend Value of Total Provision of NABIL, EBL and BOK

(NPR in million)

Year (t)	Total Provision (y)			x=(t-2005/06)	x <sup>2</sup>	xy		
	NABIL	EBL	BOK			NABIL	EBL	BOK
2003/04	358.65	211.72	361.61	-2	4	-717.30	-423.44	-723.22
2004/05	360.56	281.41	269.46	-1	1	-360.56	-281.41	-269.46
2005/06	356.24	334.94	229.62	0	0	0.00	0.00	0.00
2006/07	357.24	418.60	294.77	1	1	357.24	418.60	294.77
2007/08	394.40	497.34	285.08	2	4	788.80	994.68	570.16
<b>Total</b>	<b>1827.09</b>	<b>1744.01</b>	<b>1440.54</b>	<b>0</b>	<b>10</b>	<b>68.18</b>	<b>708.43</b>	<b>-127.75</b>

**For NABIL,**

$$a = \frac{\sum y}{N} = \frac{1827.09}{5} = 365.418$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{68.18}{10} = 6.818$$

**For EBL,**

$$a = \frac{\sum y}{N} = \frac{1744.01}{5} = 348.80$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{708.43}{10} = 70.843$$

**For BOK,**

$$a = \frac{\sum y}{N} = \frac{1440.54}{5} = 288.10$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{-127.75}{10} = -12.775$$

The Equation of The Straight Line is;

$$y_c = a + bx$$

**For NABIL,**

$$y_c = a + bx$$

$$y_c = 365.418 + 6.818x$$

**For EBL,**

$$y_c = a + bx$$

$$y_c = 348.80 + 70.843x$$

**For BOK,**

$$y_c = a + bx$$

$$y_c = 288.10 + (-12.775)x$$

**Trend Value**

<b>Year</b>	<b>x = (t-2005/06)</b>	<b>NABIL</b>	<b>EBL</b>	<b>BOK</b>
2003/04	-2	351.78	207.11	313.65
2004/05	-1	358.60	277.96	300.88
2005/06	0	365.42	348.80	288.10
2006/07	1	372.24	419.64	275.33
2007/08	2	379.05	490.49	262.55
2008/09	3	385.87	561.33	249.78
2009/10	4	392.69	632.17	237.00
2010/11	5	399.51	703.02	224.23
2011/12	6	406.33	773.86	211.45
2012/13	7	413.14	844.70	198.68