

Loan Recovery and Profitability Analysis of Commercial Banks in Nepal

Suraj Narayan Singh Thapa

St Xaviers Campus

T.U. Registration No: 6-1-22-1144-96

Second Year Symbol No: 2820055

A Thesis Submitted to

Office of the Dean Faculty of Management

Tribhuvan University

In partial fulfillment of the requirements of the degree of

Master of Business Studies (M.B.S)

Kathmandu

February 2012

Date: 27 Feb, 2012

Declaration

I hereby declare that the work reported in this thesis entitled “ Loan Recovery and Profitability Analysis of commercial Banks in Nepal “ submitted to the Central Department of Management , Tribhuvan University ,is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies under the Supervision of Mr. Shankar Thapa .

Suraj Narayan Singh Thapa

(Researcher)

St Xavier’s Campus

Roll No 06/87

T.U. Registration No: 6-1-22-1144-96

ACKNOWLEDGEMENT

I would like to express my gratitude to Mr Shankar Thapa my thesis guide , my father Ajit Narayan Singh Thapa and Mr Basu Sharma my proposal guide for their guidance, support , inspiration and time they gave during the preparation of this thesis.

I am thankful to my mentor, my father Ajit Narayan Singh Thapa for his advice, time and editing of the thesis. I am also very thankful to my wife Sunita for giving so much time for formatting and editing of the thesis.

I would like to thank all my family members : my mother Lalita Thapa ,my sister Shradha and my nephew Samriddha's "inchey" for their moral support and constant encouragement .I am also thankful to my brother Sujit Thapa for his constant encouragement and my nephews ,Param ,Siddhant and Barune and my sister Sumira Thapa for their inspiration.

I would like to express my thanks to the professors, lecturers of St Xavier's Campus and library staff of St Xavier's Campus for their help. . I am also grateful the TU central library staff.

I am also thankful to the staff of Kumari bank Smriti joshi and Rosita Shah , Staff of Himalayan Bank Mr Sameer Acharya, Mr Jayesh Pradhan and Mr Dipendra Bhatt ,Staff of Nepal Investment bank Aparna Giri, Mr Abishek Bhattaria and Pooja Gautam Baniya and staff of Nepal SBI Bank .I would also like to thank the respondents (clients) Mr Arjun Gurung , Mr Sanjiv Hamal and Mr Hari Bahadur Shrestha and the three respondents (customers) of Kumari Bank for giving time to answer the questions and Yuvraj Basnyat for his help in the computer work.

Suraj Narayan Singh Thapa

Date: 27 Feb, 2012

Table of Contents

	Page No.
CHAPTER 1: INTRODUCTION	1-7
1.1 Background of the Study	1-4
1.2 Statement of the problem	4-4
1.3 Objectives of the Study	5-5
1.4 Importance of the Study	5-6
1.5 Limitations of the Study	6-6
1.6 Organization of the Study	6-7
CHAPTER II: REVIEW OF LITERATURE	8-34
2.1 Theoretical Framework	8-14
2.1.1 Loans and Advance	8-11
2.1.2 Default of Loans of Commercial Bank	11-11
2.1.3 Non Performing Assets	11-13
2.1.4 Classification of Loan and Provisioning	13-14
2.2 Review of Related Studies	14-34
2.2.1 Article Related to Banking	14-21
2.2.2 Review of Unpublished Thesis	21-22
2.2.3 Review of Books	22-24
2.2.4 Review of Article of Foreign Writers	24-34

CHAPTER III RESEARCH METHODOLOGY	35-39
3.1 Introduction	35-36
3.2 Research Design	36-36
3.3 Population and Sample	37-37
3.4 Sources of data	37-37
3.5 Data collection techniques	37-37
3.6 Data analysis tools	37-39
3.7 Limitation of the methodology	39-39
CHAPTER IV DATA PRESENTATION AND ANALYSIS	40-91
4.1 Analysis of growth rate	42-55
4.2 First quarter analysis	56-59
4.3 Correlation co-efficient Analysis	59-65
4.4 Analysis of Loan Classification and provisioning	66-81
4.5 Analysis of Real Estate exposure of four commercial banks	82-84
4.6 Analysis of Primary data	85-90
4.7 Liquidity Crunch and How Nepal Rastra Bank is using measures to ease it.	91-91
4.8 Major Findings of the Study	92-98
CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATION	99-106
5.1 Summary	99-102
5.2 Conclusion	103-103
5.3 Recommendations	104-106

BIBLIOGRAPHY

APPENDIXES

Appendix I

Appendix II

List of Table

Table No.	Page No.
1. Classification of Loan Provisioning of Banks	13
2. Deposit of four commercial banks from 2007 – 2011	40
3. Growth Rate of Deposit in Percentage	42
4. Loan and Advance of Four Commercial Bank from 2007 - 2011	44
5. Loan and Advance Growth Rate in Percentage	45
6. Net Profit of the Four Banks From 2007 – 2011	47
7. Net Profit Growth Rate in Percentage	48
8. Non Performing Loan of Four Commercial Banks from 2007 - 2011	50
9. Non Performing Loan Growth Rate in Percentage	51
10. Loan Loss Provision of Four Commercial Banks from 2007 - 2010	53
11. Loan Loss Provision Growth in Percentage	54
12. Deposit of Four Commercial Bank as of 17-10-2011	56
13. Loan and Advances of Four Commercial Bank as of 17-10-2011	56
14. Net Profit of Four Commercial Banks as of 17-10-2011	57
15. Non Performing Loan out of Total Loan in Percentage as of 17-10-2011	57
16. Coefficient of Correlation Between Deposit and Loan and Advances	60
17. Coefficient of Correlation Between Loan, Advance and Profit	62
18. Correlation Between Deposit and Profit	64
19. Analysis of Loan Classification and Provision of KBL	66
20. Analysis of Loan Classification and Provision of SBI	70
21. Analysis of Loan Classification and Provision of HBL	74
22. Analysis of Loan Classification and Provision of NIBL	78
23. KBL Real Estate Exposure Out of Total Loan	82
24. Nepal SBI Real Estate Exposure Out of Total Loan	83
25. HBL Real Estate Exposure Out of Total Loan	83
26. NIBL Real Estate Exposure Out of Total Loan	84

List of Graph and Chart

List of Bar Graph

Graph No.	Page No.
1. Deposits of Four Commercial Banks from 2007 – 2011	41
2. Loan and Advance of Four Commercial Bank from 2007 – 2011	44
3. Net Profit of Four Commercial Bank from 2007 -2011	47
4. Non Performing Loan of Four Commercial Bank from 2007 – 2011	50
5. Loan Loss Provision of Four Commercial Bank from 2007 – 2010	53

List of Pie- Chart

Chart No.	Page No.
1. Loan Classification of KBL 2009	68
2. Loan Classification of KBL 2010	68
3. Classification of Non Performing Loan of KBL 2009	69
4. Classification of Non Performing Loan of KBL 2010	69
5. Loan Classification of Nepal SBI 2009	72
6. Loan Classification of Nepal SBI 2010	72
7. Classification of Non Performing Loan of Nepal SBI 2009	73
8. Classification of Non Performing Loan of Nepal SBI 2010	73
9. Loan Classification of HBL 2009	76
10. Loan Classification of HBL 2010	76
11. Classification of Non Performing Loan of HBL 2009	77
12. Classification of Non Performing Loan of HBL 2010	77
13. Loan Classification of NIBL 2009	80
14. Loan Classification of NIBL 2010	80
15. Classification of Non Performing Loan of NIBL 2009	81
16. Classification of Non Performing Loan of NIBL 2010	81

Abbreviation

6 Pe	-	6 times of probable error
Ans	-	Answer
BOK	-	Bank of Kathmandu Limited
C/D ratio	-	Credit Deposit ratio
EBL	-	Everest Bank Limited
HBL	-	Himalayan Bank limited
KBL	-	Kumari Bank Limited
MBL	-	Machhapuchhre Bank Limited
Nepal SBI	-	Nepal State Bank of India
NIBL	-	Nepal Investment Bank Limited
NICB	-	Nepal Industrial and Commercial Bank Limited
NPA	-	Nonperforming Asset
NPAs	-	Non Performing Assets
NPL	-	None performing Loan
NRB	-	Nepal Rastra Bank
Pe	-	Probable error
Q	-	Question
R	-	Correlation coefficient
r ²	-	Coefficient of Determination
Rs	-	Rupees
SBI	-	Nepal State Bank of India
SCBNL	-	Standard Chartered Bank Nepal Limited
SME	-	Small Medium Enterprises

CHAPTER I

Introduction

1.1. Background of the study

Nepal is a developing nation .It is one of the least developed and poor countries in the world. For the economic upliftment of the country and people, sound economic policies should be formulated and implemented.

The role of financial institutions for the development of any country is very important .If the financial institutions are regulated well and operated efficiently we can achieve good economic growth. Banks are the major financial institutions in the country .Banks take in deposits and disburse them as loans. Banks act as an intermediary for the circulations of money. There are different types of banks .I will be researching about commercial banks .Giving loan is one of the more important function of banks .Giving the right loan is very important .By giving loans at a higher rate than paying for deposits, banks make profit .It is very important for banks to make good loans, bad loans can ruin the bank .The main business of a bank is to pool the scattered idle deposits in the public and channel for productive use.

As per Kent a noted economist “A bank is an organization whose principal operations are concerned with the accumulation of the temporary idle money of the general public for the purpose of advancing to others for expenditure.”

History of banking in Nepal started with Nepal Bank limited followed by Rastriya Banijya Bank. They are not doing well due to bad management. Currently there are so many different commercial banks, development banks and other financial institutions. The main Challenge of banks is collections of deposits and the problem is over lending on some specific sectors .Although a large number of banks have sprung up, banking has not still reached the masses and the poor. There are about 31 commercial banks currently in the country.

Importance of Banks

Banks pool the scattered deposits across the country and channel it in productive use. Banks provide letter of credit and Guarantee facilities which contribute in boosting international trade to a great extent. Sound banking system helps in the development of healthy commercial and industrial activities of every country. Banks actively participate in credit expansion and contraction which immensely influence the economy of a country.

Banks play an important role in the economic growth of the country. Banking, when properly organized aids and facilitates the growth of trade and industry. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development. Banks are not just the storehouse of the country's wealth but are the reservoirs of resources necessary for economic development. Banks renders valuable services to trade and industry. The economic growth of a country depends on the growth and development of trade and industry. Industrial development can take place only if sufficient money is invested in industries.

Credit affects the overall development of the country. The volume of credit is directly related with the pace of development in a country, which would be mobilized through various commercial banks of the country itself. Other functions of the bank such as merchant banking, credit card business and documentary credit and travelers cheques have begun to grow in importance but still credit is the main function of the bank. The quality of loan determines the health of any bank. Loan recovery is the process of recovering the interest and capital that has been disbursed as loan.

There are different types of financial institutions in Nepal. Commercial banks, development banks, finance companies and Co-operatives are the main financial institutions. In this study, I am going to research on four commercial banks; Nepal Investment Bank, Himalayan Bank, Nepal SBI Bank and Kumari Bank.

Commercial banks

Commercial banks are big institutions that lend for business, open Letter of Credit, and must have a paid up capital of 200 crore rupees till now. Commercial Bank act 1974 defines a commercial bank: “A commercial bank means a bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.”

Commercial banks are the largest source of finance and its business is largely confined to business institutions. Though the commercial bank were established with the concept of supply of short term credit and working capital needs of the industries, they started to provide long term loans, for up to 10 years as per the provision made in the commercial Bank act 1974. After the enforcement by Nepal Rastra Bank to lend in priority and deprived sectors, these banks initiated to provide credit to small and cottage industries, agriculture and service, etc.

Commercial Banking in Nepal

NEPAL Bank Ltd was established in 15th November 1937 as the first commercial bank and was followed by Rastriya Banjiya Bank on January 1966. Until 1984, the Nepalese financial sector was dominated by the above two commercial banks. Commercial banking act 1974 was amended in 1984 to increase competition among commercial banks. Hence, provision was made to allow private sectors including foreign investments to open commercial banks. As a result Nepal Arab bank Ltd. (Nabil bank) was established on July 12, 1984 with the partnership of Dubai Bank Ltd. Dubai. The number of commercial banks operating in the country is increasing everyday and many more are in the pipeline to commence their business. Though the commercial banks were established with the concept of supplying short-term credit and working capital need of the industries, they have been providing long-term loans upto 15 years. After the enforcement to lend to priority and deprived sector, these banks initiated to provide credit to small and cottage industries, agriculture and services. Presently, commercial banks must lend 5 percent of their total lending in priority and deprived sector and among these, 3 percent being compulsory to the deprived sector. NRB has a provision of refinance facility also for such loan provided to priority and deprived sector including export credit.

Presently there are 32 commercial banks in Nepal. They are competing with each other for deposits and good loans. There is liquidity crunch and bad governance resulting in the collapse of some financial institutions.

Development banks are smaller in paid up capital .Regional level development bank covering 10 continuous districts must have a paid up capital of Rs 20 crore ,for three district banks it must have a paid-up capital of Rs 10 crore and Kathmandu based national level bank must have Rs 65 crore .

1.2 Statement of the Problem

Lending is a vital function of commercial banking; consequently the formulation and implementation of sound lending policies are among the most important responsibilities of the bank's management .Well- conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit .Lending is a major source of income for commercial banks though it involves high risk. Loan Recovery affects the company's profitability and liquidity.

Commercial banks are not properly utilizing their deposits because of lack of sound lending policy and investment opportunities. Due to less investment opportunities banks are reducing the interest rates on the deposits and increasing the minimum balance for the deposit accounts. Due to the cut throat competition of the financial market and bad governance the banks seems to be ready to grant much more loan , advances and other facilities to is clients against insufficient deposits and collateral ,unsecured loan and investment may cause liquidation of banks . The main problems of the Study are:

-) Many Banks to-day have over lent (exceeding prudential norms) on some specific sector such as real estate and housing .Banks should avoid over extending loans on any sector and this study will analyze Kumari , Nepal SBI ,Himalayan and Nepal Investment bank's loan portfolio and the methods by which loans are given and recovered . We will also see if the four banks have over lent on some specific sector like real estate or housing.
-) There are also problems related to liquidity and the manner in which banks deal to overcome such problems.

1.3 Objectives of the Study

The main threat to a commercial bank is their non performing loan .Thus the primary objective of the study is to find out the portion of non –performing loan in Nepalese commercial banks in their loan portfolio .Likewise it tries to evaluate the causes of NPL and remedies to reduce it . It further scrutinizes the impact of NPL to the profitability of the banks.

The Objectives of this study are:

- To analyze the loan and recovery process of commercial banks.
- To study the loans and advances, Non performing loan, profitability, deposits position of the commercial banks under study.
- To study on the liquidity position of banks in terms of deposits.
- Lending is one of the most important functions of the bank. However there are very few researches done in lending practices of commercial banks. This study would be beneficial to the shareholders depositors banking professional, investors and teachers and students of banking management.

1.4 Importance of the study

-) Banks and financial institutions will face tougher challenges in the years to come, especially because of liquidity crunch and poor governance. Because of intense competition from the large number of commercial banks that have opened, there will be even greater competition for deposits and lending.
-) There have been numerous past theses regarding the financial performance of commercial banks. But few have conducted the study about liquidity crunch, over lending on one sector and Loan, recovery and profit in commercial banks in Nepal.
-) We will be studying the loan and recovery aspect and its impact on profit. Profit is the backbone of every organization. So it is very important to study what causes increase or decrease in profit.
-) Banks nowadays have over lent on some specific sector like real estate and housing .I will analyze and recommend whether the banks I am researching have over lent or not .In the recent past , capital inadequacy have forced some banks and financial intuitions to close. This study

will also find out the liquidity situation of banks. The study is also concerned with the analysis of NPL in total lending.

- J Due to bad governance and executive greed there has been collapses of financial institutions such as Samjhana finance, Nepal development bank Gurkha development bank and Capital Merchant banking and finance. This study will help to find out the financial position of the four commercial banks and give recommendations if any.

1.5 Limitation of the study

The study is limited by the following factors:

- J The data collected will be mostly secondary data from banks, internet and publications. We will also have small amount of primary data in the form of interviews with the bank staffs and customers. The primary data are collected from a few staffs and a few clients only, as samples.
- J Due to time constraint, we will be mainly focusing on 4 commercial banks.
- J The data collected will be of five years only.

1.6 Organization of the Study

The study is organized in five chapters: Introduction, Review of literature, Research Methodology, Data Analysis and Finding and Summary.

The study is divided in the following chapters.

Chapter 1: Introduction

The first chapter is the introduction chapter which consists of background of the study, statement of the problem, objectives of the study, importance of the study, Limitations of the study and organization of the study.

Chapter 2

Review of literature

The second chapter deals with review of literature with the concept of some terminologies of lending. The second part of this chapter consists of review of books, journals, previous study, research papers and review of unpublished thesis of various research students.

Chapter 3 Research Methodology

The third chapter deals with the research methodology used in this study .It consists of introductions ,research design , sources of data , populations and sample ,data gathering procedures and analysis's of data .

Chapter 4 Presentation and analysis of data

Fourth chapter is the analytical presentation of the study. This chapter consists of analysis, interpretation and major finding of the study. This is the most important part of the study.

Chapter 5 Summary

Fifth Chapter deals with the summary, conclusion and recommendations of the study .The Bibliography and appendices is also included in this Chapter.

Chapter II

Review of literature

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. A critical review of literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigating problems that have already been definitely answered.

The review of literature accomplishes the following functions:

1. It establishes a point of departure for future research.
2. It avoids needless duplication of costly research effort.
3. It reveals areas of needed research.

This Chapter includes the review of previous studies, articles and conceptual framework for the related studies. To present the real framework of the study, mere analysis is not enough and review of some related materials should be dealt with to give the research clear vision .Past study, knowledge provides foundation to the present study.

2.1 Theoretical Framework

Commercial Banks Act 1974 defines a commercial Bank: “A commercial bank means a bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.”

2.1.1 Loan and advances

Commercial banks offers two types of credit facilities namely funded facility and non- funded facility , In the case of funded facilities offered , cash is involved such as in overdraft facility , demand loan , time loan , short term loan , long term loan and in the case of non funded facility cash is not involved but only the contingent liability increase . Letter of credit and guarantee facility offered by banks are non funded facilities .One of the basic functions of commercial banks is to provide credit. Out of their total income, on an average 60-70% of income consists from lending activities. Such

income, based on lending is known as exposure based income because banks are exposed to default. In order to mitigate default risk, it would be wise to follow the principles of good lending.

Commercial banks are the largest source of finance and its business is large .Some of the loans given are:

-) Overdraft facility
-) Demand loan
-) Term loan

Classification of loan based on sectors

-) Real estate loan
-) Commercial or industrial loan
-) Individual or customer loan
-) Agriculture loan
-) Education Loan

Classification based on the nature of loans

-) Overdraft facility
-) Clean advances
-) Casual overdraft

The other types of loans are given below:

-) Term loan
-) Bridge loan
-) Participation loan or consortium loan
-) Hire purchase loan
-) Trust receipt loan
-) Pre shipment loan
-) Post shipment loan
-) Mortgage loan

) Bills purchase

Classification based on sector wise loan distribution

) Real estate loan :

Generally real estate loans are categorized into following categories:

1. Construction and development loan
2. Multifamily residential real estate loan
3. Home equity
4. Families residential (1-4 family)
5. Farmland and other real estate loans

) Commercial or industrial Loans:

Commercial or industrial loans are extended to finance the business of a borrower .It can be for financing the working capital need, purchase of fixed assets and various other seasonal or miscellaneous requirements .The Financing can be for short term, and long term needs.

) Individual or consumer loans:

Consumer loans are extended to individual borrowers. The average size of consumer loan is relatively small. The maturities of such loans are 1-4 years. Consumer loans are provided to finance durable goods in hire purchase like car, freeze, washing machine, etc. Nowadays banks finance the education, medical care, travelling expenses, etc of individuals. The individual borrowers default risk is high compared to commercial loans. Consumer loans are considered risky because the goods financed through consumer lending cannot be sold in the face value and neither there exists as secondary market for such good . Hence the interest rates on such loans are high in comparison to other types of loans. Consumer loans are normally repaid in installments consisting of principles and interest on emi (equal monthly installment) basis. As the interest is also paid every month, the actual cost of fund to the borrower comes to be higher than the other loans.

) Agriculture loans :

Agriculture loans are provided to finance the planting and harvesting of crops. Such loans are quite similar to commercial and industrial loans because loan is provided to finance the

short term seasonal credit need of the customers . The loan is utilized in purchase of seeds, pesticides, fertilizers, wages of farm workers and various other production costs.

) Education Loan:

Education Loans are provided to finance the education needs of the student . It is provided for the entire course of the study period.

Classification based on security

Secured risk loan When loan is fully secured by 100% cash margin or by instruments equivalent to cash such as fixed term deposits, Foreign currency deposits, deposits under certain savings schemes ,provident fund accounts , etc held in the bank's own account, it's is considered a secured risk loan .

2.1.2 Defaults of loans of commercial banks

The default risk is inherent in almost all types of lending made by any of the financial institutions .Management always desires to know the actual magnitude of the risk to reduce the default. The secured loan is made to reduce the possible default. The collateral made against the loan includes tangibles (property, agriculture products, shares and bonds etc). .Even in the secured loans Nepal Bank limited and Rastriya Banjiya Bank had to go for auction of properties and goods to recover their loans.

Performing loan

Performing loans are good loans whose repayment installments have not passed the three month time line.

2.1.3 Nonperforming assets

Often NPA and NPL are found to be interchangeable. But NPA encompasses a broader area as stated earlier. Nonperforming assets of a bank refers to assets that is not utilized for productive use and constitutes from the accumulated figures of basic components namely non banking assets , non performing loan ,interest suspense and unutilized assets .Nonperforming loan is only a part of nonperforming assets.

Nonperforming loans are loans that have expired by 3 months and are categorized into substandard, doubtful or loss by the bank. In other words when the interest and principal of a loan is not likely to be repaid by the borrower, it is considered as non –performing loan.

Features of NPA

-) Loan ceases to earn income or is about to stop earning.
-) The maturity date of the loan is expired.
-) Full payment of principal and interest is anticipated no longer.
-) Payment of installments of principal and interest is due by 90 days or more.
-) Loan is classified to sub-standard, doubtful or loss category.
-) Increase in NPA demands more provisioning affecting profit level adversely.
-) Banks with high level of NPA is considered weak and loses credibility nationally and internationally.

NPA and its impact.

Increase in NPA has a direct and inverse impact on a bank's profitability because banks cannot book income from such accounts and at the same time loan loss provisioning has to be made on such assets. Deterioration in the quality of loans and other assets give rise to NPA which ultimate lead the bank towards financial crisis. Thus, steady rise in the NPA level of one bank or few banks worsens the financial environment of the entire country itself. Various other impacts that arise due to increase in NPA can be pointed as follows.

High Level of NPA blocks the bank's cash flow and decreases the bank's resources and thus reduces the fund for new lending .Banks face difficulties in expanding their working capital, adversely affecting their normal operation or growth.

Causes of NPA factors contributing to NPAS

According to a recent study conducted by the RBI, the underlying reasons for NPAs' in India can be classified into two heads, namely: Internal Factors and External factors

Internal factors

The following internal factors contribute to NPA in the order of prominence.

-) Diversion of funds for expansion /diversification /modernization or for taking up new projects.
-) Diversion of funds for assisting or promoting associate concerns
-) Time or cost overrun during the project implementation stage
-) Business failures due to product failure , failure in marketing e.tc
-) Inefficiency in management
-) Slackness in credit management and monitoring
-) Inappropriate technology or problems related to modern technology

External Factors

The external factors that contribute to NPAs are the following:

-) Recession in the economy as a whole
-) Input or power shortage
-) Price escalation of inputs
-) Exchange rate fluctuation
-) Accident and natural calamities
-) Change in government policies relating to excise and import duties ,pollution control orders, etc.
-) Government loan waiver scheme.

2.1.4 Classification of loans and provisioning

Table - 1

Classification	Loan loss provision
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

Pass loans and advances: Pass Loans and advance are those loans whose principal amount are not past due for a good period of up to 3 month fall in pass loans . The loans in this category are defined as performing loan

Sub standard: All loans expired by 3 months but which has not crossed 6 months fall in this category.

Doubtful: All loans expired by 6 months but which have not crossed 1 year.

Loss: All loans expired by one year and advances which have lean or thin possibility of recovery or unrecoverable is also included in this category.

Loan loss provision

Loan loss Provisioning is putting provision for contingent liabilities .It acts as a cushion. Loan loss provisioning is kept from pass loan to bad loans.

2.2 Review of Related Studies

2.2.1 Articles related to banking

Dr As Bhandari in his article “ Etiology and Strategy of credit Repayment “ published in Nepal Rastra Bank Annual publication states that the adoption of liberal strategy can be more meaningful in case of “unwillful “ and “ misguided ‘ defaulters who in fact wish to repay loans but due to certain circumstances they are unable to do so. Liberal Strategy includes simplification of lending policies and procedures, frequent and strict supervision, renewal of the terms and conditions of loan, rescheduling of repayment schedules, prolonging due date, refinancing, keeping personal approach, etc. This type of organizational strategy of loan repayment is suggested against sick units and default customers with an objective to provide them an ample opportunity of maintaining lender –borrower relationship

On the other hand coercive strategy is suggested to be employed against “ Willful “ defaulters who have the capacity to payback the loans but due to their “ affiliation to power “ “ association with unnatural gangs” “ ethno- centrist “ and similar other reasons , they do not repay the loans. Coercive strategy can be adopted by establishing special credit recovery cell.

This article below was published in the Kathmandu Post on 18th February 2011. These article discusses about bank provisioning and NPL Level in commercial banks In Nepal.

Banks Provision stands at 2.29 Billion

Provisioning of commercial banks went up to Rs 2.29 billion in the second quarter of the current fiscal year from Rs 1.01 billion in the first. The provisioning usually goes up when the size of bad loans increases. At least 25 percent of the loans should be provisioned, if they are not recovered within three months after the expiration of the payment deadline. If a bank fails recover loans within six months after the ending of the payment deadline, than it should provision 50 percent of the loans. And, if the loans are not recovered within a year of the running out of the payment deadline, 100 percent of the loans should be provisioned.

An increased size of loans also contribute to higher provisioning, as banks are also required to make 1 percent provisioning of good loans, according to the Nepal Rastra Bank (NRB) directive. Banks' lending has gone up to Rs 502.86 billion from Rs 481.77 billion in the first quarter.

Provisioning was relatively higher during the second quarter of the last fiscal year compared to that in the same period this year, though. "Excessive lending last year could be a reason behind the higher provisioning," said chief executive officer of a bank. "The growth of lending is slow this year." As a result of excessive lending compared to deposit growth last year, banks faced liquidity crunch in the second half of the last fiscal year. He, however, said both non-performing loans and provisioning would further go up this year due to difficulty in recovering loans that went to realty sector.

Sunrise Bank witnessed the highest rise in provisioning with the provisioning of Rs 118.01 million in the first six months of the current fiscal year. NIC, KIST and Nepal Investment Bank have negative provisioning due to write back of provision. In the second quarter, 12 banks witnessed rise in their non-performing loans compared to the first. Machhapuchhre Bank witnessed the highest increment in NPL—from 4.91 percent to 7.17 percent. The bank's NPL was 1.87 percent in the second quarter last year. A total of 16 commercial banks witnessed rise in their NPL in the first six months this year compared to the same period last year.

Nepal Bangladesh Bank (NBB), Rastriya Banijya Bank (RBB), Agriculture Development Bank Nepal (ADB) and Machhapuchhre Bank have the highest NPL among commercial banks.

Bankers say that increasing realty loan defaults will result in further increase in the NPL level of banks. At an interaction organized by Nepal Land and Housing Developers Association recently, both bankers and realty traders had demanded more flexible policy from the central bank to ensure loan recovery. “Banks are facing difficulties in recovering loans from the realty sector,” said Upendra Poudel, chief executive officer of NMB Bank Limited.

The number of defaulters or black listed people have been increasing .Here is an article which demonstrates this .This article is also taken from the Kathmandu post Published in 6th February 2011.

Number of blacklisted loan defaulters on rise.

The number of blacklisted bank loan defaulters has begun to rise again after a three-year declining trend. The number started to rise from the second half of the last fiscal year after a new Nepal Rastra Bank (NRB) directive allowed Banks and Financial Institutions (BFIs) to include defaulters in the blacklist irrespective of loan amount, provided that they meet the basic inclusion criteria. Although this is an alternative provision, defaults of loans worth more than Rs 2.5 million should be compulsorily blacklisted.

How the number of blacklisted firms and individuals is peaking is evident from the fact that a total of 156 names were blacklisted as of Jan. 26 of the current fiscal year compared to 171 in the entire last fiscal year, according to the Credit Information Bureau (CIB) which keeps records of those blacklisted by BFIs. Since fiscal year 2006-07, the number of blacklisted firms and individuals had been falling until fiscal year 2008-09. “After the new NRB provision, the number of blacklisted firms and individuals started to go up,” said Anil Chandra Adhikari, chief executive officer of CIB.

Among the major firms blacklisted over the last six months are Cosmic Air, Avco International, Memento Apparels, Mount Everest Brewery and Triveni Cement. No BFI can lend to a blacklisted firm or an individual. Not even the remaining installments of loan, says the NRB directive. The government can also cancel passports of blacklisted individuals as per the recommendation of BFIs. According to the NRB directive, banks may blacklist individuals or firms in the event of cheque bouncing and write-offs. “These kinds of additional provisions have resulted in increase in the number

of blacklisted defaulters in FY 2009-10,” states CIB’s annual report.

BFIs should blacklist any firms or individuals if their cheques bounced for three consecutive times. The NRB directive has also provisioned that BFIs should blacklist those involved in fraud—use of counterfeit cheques, drafts, debit and credit cards and bills. Those not repaying credit card debts should also be blacklisted.

However Adhikari of CIB said the NRB provision that BFIs could blacklist defaulters of loans worth below Rs 2.5 million only after blacklisting defaulters of loans worth more than the amount has created confusion. As of FY 2009-10, there were a total of 2,152 blacklisted defaulters with total outstanding amount of Rs 29.81 billion. Sudhir Khatri, chief executive officer of DCBL Bank, said it was natural to see rise in the number of blacklisted defaulters given the increased number of BFIs. “Current political and economic situation of the country also resulted in increased loan defaults,” he added. During the first quarter of the current fiscal year non-performing loans of commercial banks went up by Rs 2.93 billion. The NPL level rose by 0.61 percent to 3.15 percent.

“The default rate will further go up with stagnation in the real estate sector, and industrial sector facing acute power outage and higher interest rate,” said Khatri. Bankers say that there has not been 100 percent payment of interest too in recent days. Not only the number of blacklisted defaulters, number of new borrowers also increased by more than 25% in FY 2009-10 compared to the previous year, as per the record of CIB.

Prithivi Man Shrestha in his article published in the Kathmandu Post on 17th June 2011 writes:

FIS rush to NRB for cash

More than a dozen financial institutions (FIs) have applied to Nepal Rastra Bank (NRB) for cash under a special refinancing measure amid a continuing tight liquidity situation. The FIs have rushed to NRB to prevent an acute liquidity shortage in case of large withdrawals. A total of 14 development banks and finance companies have applied to the central bank for refinancing as of Friday. “Four out of them have got approval for refinancing worth Rs 400 million,” said Bhaskarmani Gyawali, spokesperson of the central bank. The FIs facing an acute liquidity crunch were engaged in intense lobbying with NRB officials on Friday for early availability of refinancing. NRB had opened the special refinancing measure to address the liquidity crunch last week admitting

that the existing refinancing measures were inadequate. Under the special refinancing, banks and financial institutions (BFIs) can get refinancing of up to 60 percent of their core capital for 120 days.

They can get refinancing of up to 80 percent of good loans put up as collateral. As per the usual refinancing measure, they could get refinancing of up to 40 percent of the core capital for six months. BFIs can get refinancing under both measures. A total of 20 BFIs have applied for refinancing under both the usual and special measures worth Rs 1 billion so far, according to NRB. Six commercial banks have applied for refinancing under the usual refinancing measures. A few days ago, three banks got approval for refinancing worth Rs 150 million. Finance companies are in greater trouble than commercial banks nowadays. They blame the central bank's alleged decision to not put its deposits in B and C Class FIs.

This has resulted in withdrawals of deposits by other institutional depositors and individual depositors too. After the central bank and a number of other institutional depositors withdrew their deposits from VIBOR Development Bank and People's Finance, they landed in trouble. Their failure to manage liquidity properly is another big flaw behind the situation they went through.

"Finance companies as a whole are facing a liquidity crunch," admitted Rajendra Man Shakya, president of the Nepal Finance Companies Association. "A total of 22 finance companies have rushed to the central bank for funds under the special refinancing measure as of Friday."

Until the last fiscal year, growth of deposits in commercial banks was sluggish while the growth in B and C financial institutions was relatively robust. Deposits in development banks soared 63 percent to Rs 77 billion and finance companies saw their deposits grow 35.08 percent to Rs 77 billion in the last fiscal year. However, commercial banks witnessed a mere 13.69 percent growth in their deposits to Rs 631 billion, according to NRB. Now the situation has reversed, and old and better commercial banks are wooing depositors in recent days out of fear that B and C class FIs could land in trouble.

Shakya admitted that finance companies were witnessing withdrawals of 70-80 percent of their deposits while only around 20 percent deposits were coming in recent days. Development banks,

however, are not in a hurry to obtain special refinancing from the central bank. “I don’t have information about any development bank applying for special refinancing from NRB,” said Jhapat Bohora, president of the Development Bankers Association. According to him, mainly capital-based development banks went through a liquidity crunch as they were heavily dependent on institutional depositors. “It is a lesson for us that we have to increase the general public’s deposits,” he said.

This article by Sanjib Subba has been taken from Nepali Times.

Eight reasons why Trust and confidence in the banking system is evaporating, and what can be done about it

When the government decided to open the licensing of banks and financial institutions (BFI) of every shape and size, it was in line with its policy to liberalize the economy so the free market fundamentals would set the rules. The mushrooming of banks coincided with the ten-year conflict, mass emigration, closing of factories and a slump in investment. Money is liquid and needs to flow constantly. Liquidity explores opportunities in the economy and in Nepal it flowed into the real estate sector.

The price bubble meant that even overseas Nepalis sold their Kathmandu property to buy in the US, Brokers and bureaucrats became tycoons overnight. When the Nepal Rastra Bank woke up and decided to drive monetary policy into corrective mode followed by consolidation, it meant there was less money in the systems.

This triggered a liquidity crunch, which is what we are in at the present. Many investors, with real estate holdings were caught off guard and suddenly found there were no buyers because they were cut off from cheap and easy financing. The worst is yet to come. In the past few months, this is what has happened to the BFI,

1. Poor portfolio management:

The use of short term deposits to fund long term loans was a mismatch and poor asset liability management. To maintain their credit deposit and other statutory ratios the drive to attract more deposits led them to offer higher interest rates, which then would increase cost of fund and narrowing spread would prompt them to increase lending rates too. This would also mean interest on

existing banks would get more expensive and hence high probability of borrowers not being able to repay already troubles loans.

2. Corporate governance:

This is a core issue in mainly B and C Class Fi . Conflict of interest issues are either ignored or not understood. FIs have not drawn the line between what belongs to promoters. Directors and what belongs to the bank. In some cases the chairman of the board and chief executive are the same person.

3. Greed:

The desire to earn overnight dividends and bonus .Reasonable profit is fine , but the banking industry operates with certain parameters and a conservative approach ensures sustainability .

4. No innovation:

Even though 70 percent of Nepalese do not bank, there is a little innovative thinking .The market is open for banking services, especially the informal sector.

5. Size matters:

Innovation and investment is hampered by the small size of some FIs. Consolidation would help FIs so that they can take sound financial decisions and improve efficiency.

6. Weak monitoring:

In the past there has been serious shortcoming in the part of regulators and government's .The number of FIs was allowed to grow haphazardly without proper assessment.

7. Delayed action:

How long can the regulators postpone action because of the fear of the unknown? Wrong doers must be booked and actions taken as soon as possible. There have been bailouts and FIs have not been allowed to fail, which is fine as long as it does not send a wrong signal to stake holders.

8. FIs forgot what prudent practice is:

How would and FIs place large deposits without addressing counter party risk with another FI. Trust and confidence in the banking system seems to be evaporating and restoring it should be a priority , Protecting wrong doers will send the wrong message .The industry still has many competent institutions and professionals that can drive quick corrective measures to restore public confidence .

2.2.2 Review of unpublished thesis

Usha Koirlala in her thesis “Credit Risk Management of commercial banks in Nepal”(2010) opines Loan loss provision to total loan loss and advances ratio of NIBL is 2.73% and Nabil is 2.68%. Since higher ratio is an indication of higher non –performing loan in the total loans and advances. Nabil has least ratio with decreasing trend which is the indication of sound assets as compared to that on NIBL.

According to Arjun Dhoj Khadka in his thesis “Non performing loan in commercial banks in Nepal” (2008), the following Conclusion can be drawn:

-) Loan and advances are the major determinant of earning of commercial banks and major portion of their earning assets. The study of loan and advances to total assets has cited that most of the banks have maintained sixty percent of their total asset in the form of loan and advances which obviously indicates high attention of management towards loan and advances .
-) 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 the banks are safe against the future contingencies that may be created to non –payment of loan .
-) All the banks have increasing trend of loans and advances .NIBL and KBL show the highest growth rate of loans and advances , other banks have a moderate growth in their loan and advances and if they continue with the same trend their portfolio will become slightly more than the double of current average loan .
-) Nonperforming loans of KBL NIBL and EBL is in increasing trend and that of Bok and NICB is decreasing. Bok and NICB have been very conservative regarding flowing loan which has made them able to flow quality loan and decrease the level of provision. KBL, NIBL and EBL have increasing level of NPL.

Mohan Khanal in his thesis “Impact of Non- Performing Loan on the Performance of Nepalese Commercial Banking sector “(2005) has observed the following things:

) In conclusion it can be said that economic slowdown and recession , overvaluation of properties provided as collateral , faulty credit analysis and decision , negative attitude of borrowers are the major causes of NPL in Nepalese commercial banking sector .Similarly lack of periodic supervision and monitoring ,political pressure in lending , over finance and under finance , misuse of multiple banks by big borrowers has been also playing role to increase the leave of NPL .Loan classification and analysis enable banks to monitor the quality of their lending and to take remedial actions to counter deterioration in quality of their loan and advances . Likewise regular tactful and aggressive follow up of borrowers, accurate valuation of securities.

According to Lalima Maskey in her thesis “A Comparative Study of Lending performance of Nepal Arab Bank Limited, Standard Chartered Bank Limited and Nepal Investment Bank Limited.” (2004) .NIBL has the highest mean ratio of interest income from loan and advances which shows a large contribution of interest income to the total income. And scbnl has the lowest. Nabil’s mean ratio is higher than the combined mean, Scbnl is successful in collecting low cost deposits.

According to Rashmee Chhetri in her thesis “Risk Management of commercial Banks.” (2009).Interest income has major portion in total income of both KBL and MBL .As there is change in interest rate, it will have huge impact on total income. So both banks need to increase their fees and commission based income to minimize income concentration risk.

The average loan loss provision to total loan ratio of KBL and MBL is 1.53% and 1.25% respectively. The higher percent of LLP of KBL indicates that the bank has high amount of non –performing loan than MBL. Because of higher amount of non –performing loan of KBL in total, the provisioning amount is in higher side. This figure indicates that MBL is in better position than KBL.

2.2.3 Review of Books

In his book “Creating a world without Poverty.” page 55 Muhammad Yunus says

“ At grammen bank , we quickly discovered that , in the real world., it is important to think about men ,woman and children not as units of “Labor “, but as human beings with varying capacities and

needs . Observing the actual behavior of the people we lent money to , we soon found that giving credit to poor woman brings more benefits to a family than giving it to men. when men make money , they need to spend it on themselves ,but when woman make money , they bring benefits to the whole family , particularly children . Thus lending to woman creates a cascading effect that brings social benefits as well as economic benefits to the whole family and ultimately to the entire community.”

Dr Suniti Shrestha in her book” Portfolio Behavior of commercial banks in Nepal” page 69 says the following things:

) “The loan repayment by the borrowers based on the security provided shows that the highest amount of the loan is repaid in case of gold and silver as security. In 1982 from the gold and silver as security, loan was repaid was 117.44 m. and has been increasing thereafter. In 1990 the repayment amounted to Rs 304.02 million. The return from loan made against government securities (including treasury bills , bonds and debentures) has been also increasing throughout the period. It was Rs 34.7 million in 1982 and with constant increase over the period, amounted to Rs 263.1 million in 1990.”

Gordon and Natarajan in their book “Banking theory, law and practice “have the following views:

) NPAs are an inevitable burden on the banking industry. Banks need to monitor standard assets to arrest any account becoming NPA. Today, the success of bank depends upon the methods of managing NPAs and keeping them within a tolerance level.

Rajan Bahadur thapa and Dirge Bahadur Rawal In their book “Principles and practices of Nepalese Banking.” Page 92 has the following things to say.

) Loan Recovery :

Recovery is integral part of credit management. Every Bank and financial institution should have in place and efficient and an effective recovery mechanism. Cost of carrying problematic loans is high because of high volume of provisions and interest suspense.

The following things can be done for the recovery process:

) Using Regular monitoring of accounts

- J Information to the borrower about the performance of his accounts.
- J Ensure that the charge documents are in order.
- J Assess the value of the security.
- J Dialogue with the borrower to derive possible solution. Convey the consequences of the recovery action
- J Try to reach an amicable settlement with the borrower.
- J If the borrower still fails to respond, move onto an auction process to liquidate the security provided
- J Black listing of the borrower and the guarantor
- J File case at Debt Recovery Tribunal (Drt).

2.2.4 Review of articles from foreign writers

In the research “NPAs Emerging Challenges in India.” S. Khasnobis has observed the following things:

- J The distribution of NPAs in the system follows the 80-20 rule whereby 20% by number of borrowers are responsible for 80% of value of impaired assets and vice\versa. The large impaired assets comprise industrial assets having good restructuring potential.
- J The Arcil experience shows in value terms that more than 60%of the impaired assets are amenable to be restructured or sold as going concerns. The small assets, however, have to be put through recovery process, where the collateral-\based financing practice followed by the banking system in the past offers a fair recovery potential. The seed of success of managing the impaired assets in any economy lies in the speed of recycling these assets and their realization into cash. In achieving this objective, it is important to have a conducive legal environment, an adequately empowered system and structure, support from the government and finally, access to new domestic and foreign capital. Only then shall the Indian banking system be at full throttle to take up the challenge to de-stress the system and prepare for fuelling the SMEs and retail financing, the growth engine for the Indian economy in the future era.

Mohammad Mohiuddin Siddique in his research made the following observations in his study in the journal The Bangladesh Accountant in the July - September 2008 issue.

Introduction

Smooth and efficient flow of saving-investment process is prerequisite for the economic development of a country. Bangladesh, being a developing country and with an underdeveloped capital market, mainly depends on the intermediary role of commercial banks for mobilizing internal saving and providing capital to the investor. Thus, it matters greatly how well our financial sector is functioning. Looking at the performance of our financial sector for the last decade or so, we observe that our banking sector is heavily burdened with a high percentage of non-performing loans (NPLs). The latest data reveal that 13.23 % of total loans is classified in our banking sector. Although, the ratio was as high as 41.1% in 1999 and it came down gradually to the present level of 13.23 %, still it is much higher than the internationally accepted tolerable range and, thus, is a threat to our banking sector. It is obvious that NPLs reduce banks' profitability, as banks cannot appropriate interest income from their classified loans. NPLs reduce loan able funds by stopping recycling. Banks need to set aside a portion of their income as loan loss reserve to make up bad debt. A bank with a high percentage of NPLs suffers from erosion of the capital. All those adverse impact of NPLs on banks' financial health such as low profitability and low capital base are clearly reflected in Bangladesh banking sector. The question arises as to why we are unable to solve this problem for such a long time? A number of studies have been undertaken to deal with the problem and to address this 'default culture' phenomenon. Emergence and accumulation of high scale of non-performing loans after independence starting from the nationalization of banks has been well discussed by a number of authors (Islam et al., 1999; Moral et al., 2000).

Several attempts have been made to explain the nonperforming loans problem with some theories relating to political economy backed by empirical findings. Islam et al., (1999) in their study on bank loan default offered the idea of 'comprador government' and 'comprador bourgeoisie' developed by Paul Baran as an explanation of the behavior of Bangladeshi capitalists class where trading as opposed to manufacturing becomes the main business of the capitalists and they act as importers, indentors, sales agents, suppliers, etc. The same study also made an effort to explain the process of transfer of economic surplus through international trade based on Emmanuel's theory of 'unequal exchange'

which complements Baran's explanation. Ahmad (1997) used three theoretical paradigms in his quest for a socio-political explanation of the bank loan default problem of Bangladesh, the rational actor theory, the pluralist instrumentalist theory and the organizational bargaining theory. Based on an investigation he mentioned some important factors as causes of loan default which includes lack of willingness to pay coupled with diversion of fund, willful negligence and belief that waiver may be available in the future, operational problems, and inability to utilize production capacity, power failure, improper credit appraisal, natural calamity, and unfair taxation. Non-professional handling of assets both by the State-owned Commercial Banks and the private sector bank was reported as the main reasons for the accumulation of loan default problem in Bangladesh (Alam and Jahan, 1999). It included the Government directed credit for the loss making public sector enterprises and the private sector banks' lending to insiders and connected parties. Prof. Rehman Sobhan(1991) in his study on debt default problem examined the nature and problems relating to poor repayment status of the two Development Finance Institutions- Bangladesh

Shilpa Bank and Bangladesh Shilpa Rin Sangstha. The problem of non-repayment could have been minimized if there were sound and effective legal recovery mechanism.

This was a study done by Xu, Min. "**Resolution of Nonperforming loans in China**".(2005). In his research he had the following findings:

) Despite its impressive economic growth, China also has one of the largest non-performing loan (NPL) portfolios in the world. According to the China Banking Regulatory Commission (CBRC), major commercial banks carried NPLs of RMB 1.7 trillion on their balance sheets as of December 31, 2004, representing 13 percent of total loans. This NPL figure does not include the RMB 1.05 trillion of NPLs remaining on the balance sheet of four asset management corporations (AMCs), which were established in 1999 as decentralized vehicles to manage and dispose of NPLs they had purchased from the four state-owned commercial banks (SOCBs). These official figures reveal NPLs of about RMB 2.8 trillion or \$340 billion in the financial system. However, various sources estimate that the total amount of non-performing assets (NPAs) in the system, which includes not only NPLs, but also debt-equity swaps and repossessed collateral, is even higher.

) PricewaterhouseCooper's' *China NPL Investor Survey 2004*, for example, estimates this

Figure to be about \$500 billion. Standard & Poor's is more pessimistic, estimating that it would cost \$656 billion to resolve bad loans at all of China's banks (Cheng and Miller 2004).

This paper is organized as follows. The first section provides an overview of China's financial sector and post-1998 measures initiated by the government to relieve the NPL burden. The second section examines the root causes of the NPL problem and alerts to the buildup of new NPLs in the system. The third section compares China's NPL resolution efforts against East Asian economies that faced the same problem, analyzes the reasons for China's shortfalls, and presents recent policy measures that are narrowing the gap. The fourth section studies each of the main NPL resolution methods that China undertakes, evaluates their effectiveness and challenges, and highlights measures that could increase the likelihood of their success.

In his study "**A comparative study of Non Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures.**" (2002) Mr Prashant K Reddy made the following observations:

- J After nationalization, the initial mandate that banks were given was to expand their branch network, increase the savings rate and extend credit to the rural and SSI sectors¹. This mandate has been achieved admirably. Since the early 90's the focus has shifted towards improving quality of assets and better risk management. The 'directed' lending approach has given way to more market driven practices. The *Narasimhan Committee* has recommended prudential norms on income recognition asset classification and provisioning. In a change from the past, Income recognition is now not on an accrual basis but when it is actually received. Past problems faced by banks were to a great extent attributable to this. Classification of what an NPA is has changed with tightening of prudential norms. Currently an asset is "non-performing" if interest or installments of principal due remain unpaid for more than 180 days.
- J Financial sector reform in India has progressed rapidly on aspects like interest rate deregulation, reduction in reserve requirements, barriers to entry, prudential norms and risk-based supervision. But progress on the structural-institutional aspects has been much slower and is a cause for concern. The sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and ineffective. Changes required to tackle the NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective. This paper deals with the experiences of other

Asian countries in handling of NPAs. It further looks into the effect of the reforms on the level of NPAs and suggests mechanisms to handle the problem by drawing on experiences from other countries.

Country-wise Analysis

1. China

Causes of Increase in NPAs

-) Moral Hazard: The SOE's believe that there the government will bail them out in case of trouble and so they continue to take high risks and have not really strived to achieve profitability and to improve operational efficiency
-) Bankruptcy laws favor borrowers and law courts are not reliable enforcement vehicles.
-) Political and social implications of restructuring big SOE's force the government to keep them afloat.
-) Banks are reluctant to lend to the private enterprises due to:
 - Non-standard accounting practicesWhile an NPA of an SOE is *financially undesirable*, an NPA of a private enterprise is both *financially and politically undesirable*.

Measures to reduce NPAs

-) Reducing risk by strengthening banks, raising disclosure standards and spearheading reforms of the SOE's by reducing their level of debt.
-) Laws were passed allowing the creation of asset management companies, foreign equity participation in securitization and asset backed securitization.
-) The government which bore the financial loss of debt 'discounting'. Debt/equity swaps were allowed in case a growth opportunity existed.
-) Incentives like tax breaks, exemption from administration fees and clear cut asset evaluation norms were implemented.

2. Thailand

Causes of Increase in NPAS

-)] Liberalized capital and current account and external borrowings with inaccurate Assessment of exchange rate risk and risk of capital flight in a crisis.
-)] A legal system that made credit recovery time consuming and difficult.
-)] Real estate speculators took massive loans projecting high growth in demand and prices of properties. When this did not materialize all the loans went bad.
-)] Steep interest rate rise turned a lot of loans into NPAs
-)] Inability to correctly assess credit risk

Measures to reduce NPAs

-)] Amendments were made to the Bankruptcy Act.
-)] Corporate Debt Restructuring Advisory Commission was set up for the takeover and restructuring of banks.
-)] The Financial Sector Restructuring Plan (1998) focused on capital support facilities for bank recapitalization and setting up of AMCs.
-)] New rules governing NPA exit procedures based on international standards were introduced.
-)] Privatization of government entities was mooted, but faced strong political Opposition for fear of a social backlash.
-)] Adoption of international standards for loan classification and provisioning.
-)] Caps on Foreign equity ownership in financial institutions were removed.

3. Korea

Causes of increase in NPAs

-)] Directed credit: Protracted periods of interest rate control and selective credit allocations gave rise to an inefficient distribution of funds. The Chaebols' focus on increasing market share and

pursuing diversification with little attention to profitability caused tremendous stress on the economy.

- J The “compressed growth” policy via aggressive, leveraged expansion worked well as long as the economy was growing and the ROI exceeded the cost of capital. This strategy backfired when slowing demand and rising input costs placed severe stress on their profitability.
- J Lack of Monitoring – Banks relied on collaterals and guarantees in the allocation of credit, and little attention was paid to earnings performance and cash flows.
- J Contagion Effects from South East Asia coincided with a period of structural adjustments as well as a cyclical downturn in Korea.

Measures to reduce NPAS

- J Speed of Action - The speedy containment of systemic risk and the domestic credit crunch problem with the injection of large public funds for bank recapitalization were critical steps towards normalizing the financial system.
- J Corporate Restructuring Vehicles (CRVs) and Debt/Equity Swaps were used to facilitate the resolution of bad loans.
- J Creation of the Korea Asset Management Corporation (KAMCO) and a NPA fund to fund to finance the purchase of NPAs.
- J Securitization KAMCO’s recoveries came through asset-backed securitization and outright sales. International investors like the Lone Star Fund participated in the process.
- J Strengthening of Provision norms and loan classification standards based on forward-looking criteria (like future cash flows) were implemented.
- J The objective of the central bank was solely defined as maintaining price stability. The Financial Supervisory Commission (FSC) was created (1998) to ensure an effective supervisory system in line with universal banking practices.

4. Japan

Causes of increase in NPAs

-) Investments were made real estate at high prices during the boom. The recession caused prices to crash and turned a lot of these loans bad.
-) Legal mechanisms to dispose bad loans were time consuming and expensive and NPAs remained on the balance sheet.
-) Expansionary fiscal policy measures administered to stimulate the economy supported industrial sectors like construction and real estate, which may have further exacerbated the problem.
-) Crony capitalism to the *Keiretsus*
-) Weak corporate governance coupled with a *no-bankruptcy doctrine* was a moral hazard in Japanese economy.
-) Inadequate accounting systems and information flow makes assessment of loan performance outside a bank in Japan difficult.

Measures to reduce NPAs

-) Amendment of foreign exchange control law (1997) and the threat of suspension of banking business in case of failure to satisfy the capital adequacy ratio prescribed.
-) Legislation to improve information flow has been passed.
-) Accounting standards – Major business groups established a private standard setting vehicle for Japanese accounting standards (2001) in line with international standards.
-) Government Support - The government's committed public funds to deal with banking sector weakness.

This is a analysis taken from a study by Ernst and young .This is a report from 2008.

European Non-Performing Loan Report 2008.A review of selected European Countries

Greece

Investors have been hoping for NPL transactions in Greece for the past few years but have been disappointed. NPLs, particularly in the household loan sector, exist, so it may only be a matter of time.

At least two of Greece's large banks are thought to be considering transactions, which, if true, may be the stimulus necessary to set the market in motion.

Germany

The German NPL market slowed to a crawl in 2007 after a hurried pace from late 2003 to 2006. Investors' interest is still strong and few believe the NPL problem is past. With banking consolidation likely in 2008, NPL transaction volume is expected to pick up. Italy was one of the first European countries to acknowledge its NPL problem and in 1999 created a securitization law that drove early transactions. Activity turned quiet after 2001 but turned up dramatically in 2005 and has stayed strong during 2007. The ongoing consolidation process in the banking sector as well as regulatory requirements (IFRS and Basel II) should also have a positive influence on NPL market activity in 2008 and beyond.

USA

This was a study done about bank failures in the U.S. Alessandro Santoni , Elisa Ricci , Arun Kelshiker (in their research "Us Banks causes of banks failures in 2009 and early warning indicators." (2009).This is part of the excerpt taken from the study.

US Banks, Causes of Bank Failures in 2009 and Early Warning Indicators

130 US banks filed for bankruptcy in 2009, 45 of which in the first half of the year and the remaining 85 in the second half. The purpose of this paper is to review a number of indicators concerning the balance sheet and profit and loss situation of the bankrupt financial institutes, so as to focus on potential correlations between them. The aim is to identify whether it is statistically possible to define a mix of balance sheet and profit and loss conditions common to the 1012 banks considered in the pre-bankrupt phase.

The study stresses that factors associated with a macroeconomic deterioration and consequent worsening of the loan portfolio are the most relevant early warning indicators. By contrast, the state of liquidity does not appear to be a determining ex-post factor, nor is it proven to be an ex-ante early warning signal. Pre-bankrupt capital levels do not appear to be a reliable confidence indicator either. A

parallel with banks that have failed in the last 40 years indicates that 2009 was characterized by a more varied geographical distribution and a reduced sizing of bankrupt banks on the average, as compared to the past (83% of the total having less than 1 billion dollars in assets).

In light of the research conducted, major U.S. bank failures in the 80's and 90's, but also during the *Great Depression* of the 30's, are not traceable to liquidity crises, but rather to "real" causes, mainly associated with the accumulation of impaired loans, with a consequent "erosion" of capital to a level below the minimum required.

In a recent study, the Bank for International Settlements (BIS) analyzed the main causes of U.S. bank failures in 162 *Studi e Note di Economia, Anno XV, n. 1-2010* the 80's and 90's. It was highlighted that the extraordinary volatility of interest rates and the high level they reached in the wake of inflationary thrusts in the early 80's put the U.S. banking system under heavy pressure. The first to be exposed were *Savings Banks* in consideration of their business mix. By their own nature, *Savings Banks* have *long-term* assets mainly exposed to residential and commercial mortgage loans. On the liabilities side, their balance sheet structure includes *short-term financing*, mainly based on short and immediate term deposits. Most of the system's banks were adequately capitalized, with an equity/assets ratio of 9% as against 4% required as a minimum. Nevertheless, based on the BIS study, the banks that failed were those that had a significant average credit exposure, with a loans/assets ratio exceeding 60% as compared to an average ratio of 50% in the system. In addition, their percentage of exposure to residential and commercial mortgage loans was well above that of the surviving banks. Loan loss provisions had a significant impact on the banks' profit and loss statements and even got to the point of lowering the system's tangible 'equity to assets ratio' to 0.5%. The BIS study further pointed out that most of the bank failures occurred in Texas (with this State accounting for 28% of total failures and 40% of related federal costs) and California (7% of total failures and 11% of costs). These States are characterized by a weak banking supervisory framework and are more exposed to the real estate speculative bubble. A study by Charles W. Calomiris & Joseph R. Mason on bank distress during the Depression in the 1930s, when the number of banks operating in the U.S. dropped from 24,633 in 1929 to 15,015 in 1933, stigmatizes the fact that, in this case again, the reasons for bank failures in the U.S. were not to be found in the liquidity crises of the system, but rather in the problems of the real economy, including, first and foremost, that of Non Performing Assets (NPAs). Similar conclusions can be drawn from our analysis of the recent U.S. bank failures. Again in the case of banks failing in 2009,

the “real” component resulting from exposure to a high loans/assets ratio, combined with a heavy accumulation of NPAs, is the main factor of ‘vulnerability’:

90% of the banks that failed in the U.S. in 2009 had a high level of NPAs (over 4.7%). The liquidity position is proven not to be a relevant element, considering that only in five cases out of 101 was it a decisive and unequivocal cause of default. Another parameter we considered in our investigation on bank failures was the pre-failure level of capital (Tier 1). Results obtained leads us to reduce the weight of this indicator as a univocal factor. From the sample considered, it emerged that only 5% of the banks that failed were low in capital (Tier 1 negative or lower than 5%) and low in NPAs (less than 5%). Conversely, the correlation between a low level of capital and a high level of NPAs is proven to be very important, as it builds the perfect mix.

CHAPTER III

Research Methodology

3.1 Introduction

Research methodology describes the methods and process applied in the entire subject of the related study .It is a method of critical thinking by defining and redefining problems, formulating hypothesis or suggested solution, collecting organizing and evaluating data, making decisions and making conclusion to determine whether they fit the formulated hypothesis.

The topic of the problem is “Loan, recovery and profit in commercial banks in Nepal “.The main objective is to find the lending performance of the commercial banks. Review of literature has been carried out from relevant books, unpublished theses, articles and journals. The data has been collected from the concerned commercial bank’s annual reports, the internet and papers and books.

Basically there are two types of data collected .Primary data and Secondary data.

Primary data

Primary data are collected from the staffs and customers of the four commercial banks .Questionnaires regarding loan , process and difficulties of getting loans are prepared and asked to potential customers and existing customers and interview are taken , In the same way questions regarding loans ,non performing loans ,profit and other questions are asked to the banking staffs.

Here is the details of some of the questions asked to the bank’s Staffs

-)] What do you think of the paper work for the loan process?
-)] What are the difficulties of getting loan?
-)] How has the management reacted after the loan has been given?
-)] Do the staffs bother you too much for loan recovery?
-)] What is the reason for paying in time?
-)] What is the reason for not paying in time?

-) What is the reason for you to default?
-) What sector is the most popular among customers?
-) In what sector more loans should be given according to you?
-) What changes should be made in the loan process?
-) How is the liquidity position of the Banks?
-) What stage is the bank in? Is it in Expansion stage or consolidation stage?
-) How is the Position of Non-Performing Loan in the bank?
-) What is the financial position of your bank?

Questions asked to the customers.

-) How is the loan process?
-) What changes should be made in the loan giving process?
-) What are sectors which should get priority?
-) Is there any Problem with loan recovery?
-) What are your recommendations if any?
-) Why do you think customers pay in time and why some customers don't pay in time and why do some customers default? Do women or men pay back loan earlier?
-) Do big borrowers or small borrowers pay back loan at the stated time?

3.2 Research Design

By research design we mean the overall frame work or plan for the activities to be undertaken during the course of a research study. The research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data after identifying.

-) What the researcher wants to know?
-) What has to be dealt with in order to obtain the required information?
-) The research design is an organized approach.

3.3 Population and Sample

There are 32 commercial banks registered in Nepal. The population of the study is all commercial banks registered in Nepal. Sampling is done to draw conclusion from the whole populations. The sample consists of four commercial banks.. They are Nepal SBI Bank, Himalayan bank, Nepal investment Bank and Kumari Bank.

3.4 Sources of data

This study is mainly based on secondary data .The secondary data includes annual reports from the four concerned commercial banks, various articles published in newspapers and internet and unpublished dissertation.

The main sources of data is annual reports of concerned banks which was found from the websites .For the collection of primary data a structured interview was taken on the basis of questionnaire with the credit department personnel of the concerned banks and the bank's client and the information received from the interview was analyzed and presented .

3.5 Data Collection Techniques

The researcher collected the annual reports from websites, newspapers, economic reports and bulletins. Primary data has been collected through structured interview taken with the credit department officials and the clients of the concerned banks.

3.6 Data Analysis Tools

Various tools are used to analyze the data presented in the study which are a follows.

Analysis of growth ratio In order to find out relative growth of different portfolio, growth analysis is done.

To examine and analyze, the following growth ratios are calculated under the study:

-) Growth ratio of total deposits
-) Growth ratio of loan and advances
-) Growth ratio of Net profit

-) Growth ratio of Loan loss provision
-) Growth ratio of NPL

Statistical tools

Some important tool like correlation coefficient analysis is used in this study .

Correlation Coefficient

This test is used to assess the strength of relationship. However, this test can be used only when our dependent measures are scaled on an interval or a ratio scale. This correlation coefficient provides an index of the direction and magnitude of the relationship between two sets of scores .This magnitude of correlation coefficient tells us the degree of linear relationship between two variables .

Correlation is an analysis of the covariance between two or more variables and it deals to determine the degree of relationship between the variables .Correlation just says the degree of relationship between two or more variables .If between two variables ,increase or decrease in one cause increase or decrease in another ,then such variables are correlated variables .Thus, it measures the mathematical relationship between two variables.

The following coefficient of correlation is calculated of following variables:

-) Co-efficient of correlation between deposits and loan and advances.
-) Co-efficient of correlation between Loans and advances and profit
-) Co-efficient of correlation between deposit and Profit.

The percentage of real estate exposure in the total loans and advances as of 17.10.2011 has been analyzed.

In the same way the loans and advances and the provisioning of loans and advances of the four banks are taken. Each bank's data from 2009 and 2010 are analyzed. The Percentage of performing loan and non performing loan of each bank is taken out. Similarly the percentage of substandard, doubtful and loss loan are analyzed.

Similarly the loan loss provision for performing, nonperforming loan, substandard loan, doubtful loan and pass loan are also analyzed.

3.7 Limitations of the methodology

The study is mainly based on secondary data obtained from annual reports published by the bank .The reliability of the analysis depends on the reliable disclosure of the data .Different tolls used to analyze the collected data are based on certain assumptions which may not be considered as absolute . Hence, the reliability of the analysis depends upon the circumstances on which the models are based.

Some primary data have been collected but due to time constraint only a few customers and a few credit department staff were questioned for the interviews.

Chapter IV

Data Presentation and Analysis

Introduction

The process of analyzing the data is to change it from an unprocessed form to an understandable presentation to be used in decision making .The collected data need to be aggregated into a form that presents the summary of answers from respondents.

Presentation of data

The presentation of data will be done by organizing, classifying and analyzing the data. The main Objective of this chapter is to evaluate and analyze the financial performance which is mainly related to deposits, loans and advances, Net profit, Loan loss provision and Non Performing loans (NPL.)

Deposits are the main source of capital for commercial banks. Banks utilize these funds in loan and advances and investment.

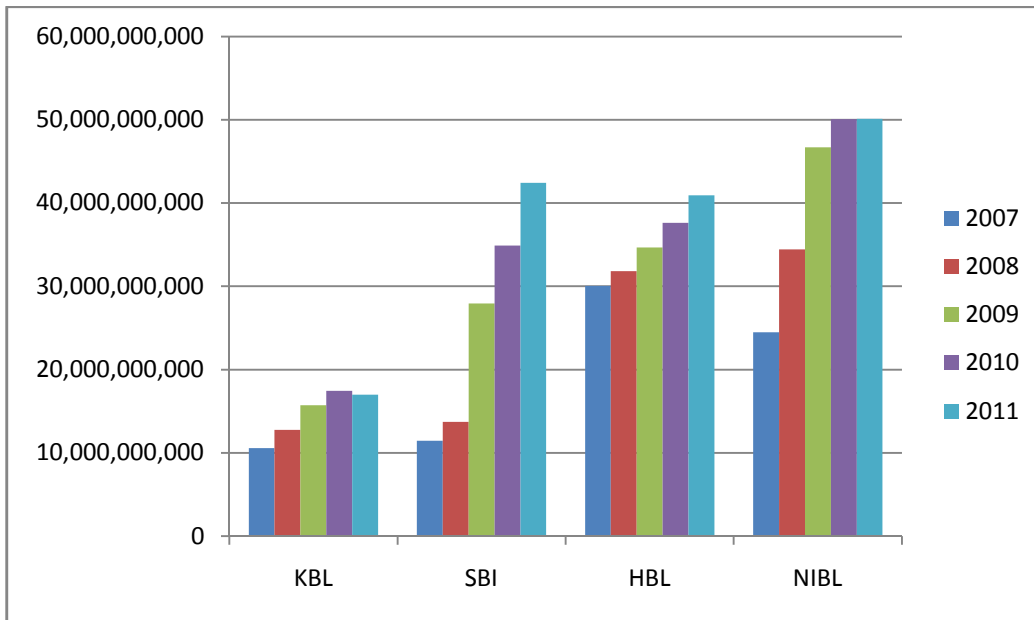
Table -2

Deposit in Bank

Bank	2007	2008	2009	2010	2011
KBL	10,557,416,461	12,774,281,014	15,710,925,263	17,432,253,032	16,986,279,000
NEPAL SBI	11,445,286,030	13,715,394,960	27,957,220,794	34,896,424,201	42,415,443,000
HBL	30,048,417,756	31,842,789,366	34,681,345,179	37,611,202,274	40,920,627,000
NIBL	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,497	50,139,080,000

Graph – 1

Deposit of Banks from 2007 - 2011



As you can see from the data till 2011 KBL has the lowest deposit, followed by HBL. NEPAL SBI has the second highest deposit. The highest deposit was of NIBL of 50.139 Billion.

KBL had the following deposits 10557.416, 12774.281, 15710.925, 17432.253 and 16986.279 million in the years 2007, 2008, 2009, 2010 and 2011 respectively. KBL's deposit grew from 10557.416 million to just 16986.279 million from the year 2007 to 2011 in the last five years. This is a very slow growth. One of the reasons for the low deposit growth could be because it is the newest among the four commercial banks.

NEPAL SBI's deposit and KBL's deposit in 2007 were close but by 2011 in the last five years NEPAL SBI's deposit has become much bigger than KBL's. NEPAL SBI's deposits were 11445.286, 13715.395, 27957.221, 34896.424, 42415.443 million in the years 2007, 2008, 2009, 2010 and 2011. NEPAL SBI's deposits have grown by large percentage annually.

HBL's deposits were 30048.418, 31842.790, 34681.345, 37611.202 and 40921 million in the years 2007, 2008, 2009, 2010, 2011 respectively. HBL's deposit has grown steady but comparatively lesser

than NIBL and NEPAL SBI. Although the deposits of NIBL was much lower than HBL till 2007 NIBL surpassed HBL's deposit by far much and is among the leading commercial banks in deposits .NIBL deposits were 24448.856, 34451.726 ,46698.100 ,50094 .725 and 50139.080 million in the years 2007,2008 , 2009 , 2010 and 2011 respectively.

Table - 3

Growth rate of Deposit in percentage

Bank	2007-2008	2008-2009	2009-2010	2011	Average Growth rate
KBL	20.99	22.99	10.96	-12.55	10.58
NEPAL SBI	19.83	103.84	24.82	17.26	41.43
NIBL	40.68	35.55	7.27	0.088541	20.897
HBL	5.97	8.91	8.45	8.79	8.03

Growth analysis The four banks have been analyzed on the basis of growth in deposits ,loans , net profit , loan loss provision and Non performing loan (NPL)

Lets us review the banks deposit growth individually from 2007-2011.

4.1 Analysis of growth rate

Growth ratio of total deposit

Kumari Bank's growth rate were 20.99%, 22.99% 10.96% -12.55% in the years 2008,2009,2010,2011 respectively. The mean growth rate of the five years was 10.58. In the three years 2008, 2009, 2010 there was not much deviation from the mean but in 2011 there was a large deviation from mean .The deposit actually diminished. The highest growth rate was observed in 2009 of 22.99% and the lowest was observed recently in 2011 .It was -12.55%.

Nepal SBI Bank's deposit growth rate was 19.83 % 103.84% 24.82% and 17.26 % in the years 2007-2008-2009 -010 respectively the highest growth rate was observed in 2008 of 103.84% and the lowest

as 17.26% in 2011. The average growth rate was 41.43%. In the years 2007, 2009, 2010 growth rates were close to the average growth rate. There was a lot of deviation from the average only in 2008.

Himalayan Bank Limited's observed growth rate of 5.97, 8.91, 8.45 and 8.79 % in the years 2008, 2009, 2010 and 2011 respectively. The highest was observed in 2009 at 8.91% and the lowest was in 2008 of 5.97%. In all the four years, there is not much deviation from the mean. The average was 8.03%.

Nepal investment Bank recorded growth rates of 40.68%, 35.55%, 7.27 and 0.088541% in the years 2008, 2009, 2010 and 2011 respectively. The highest growth rate was observed in 2007-2008 of 40.68 and the lowest was observed recently of 0.088541 in the year 2011. The average has been 20.897 and in 2008 and 2011 there has been maximum deviation from the mean.

The highest deposit growth rate among the four banks was observed by NEPAL SBI bank in 2008-2009 with a growth rate of 103.84. The lowest growth rate observed was by KBL of -12.55 % in 2011. The highest growth achieved by individual banks were as follows: NEPAL SBI observed the highest growth in deposit in 2008-2009 period, NIBL observed the highest growth rate in 2007-2008 and HBL in 2008-2009, KBL in 2008-2009.

NEPAL SBI, NIBL and KBL's growth rate has decreased from 2010 to 2011. NEPAL SBI'S growth rate decreased from 24.82 in 2009-2010 to 17.26 in 2011, Similarly NIBL's Growth rate decreased from 7.27 in 2009-2010 to 0.088541 in 2011. KBL's growth rate also drastically decreased from 10.96 to -12.55. That means deposits were lower in KBL in 2011 than in 2010. Other banks have increased in total deposit amount but the growth rate had decreased. So this explains the liquidity crunch in the 2010-2011 period as a result of the shortage of deposits in most of the banks. HBL's growth rate increased from 7.27 in 2009-2010 to 17.825 in 2011.

There is fluctuation in increase and decrease of growth rate in banks in the four years. The average growth rates of the banks are as follows :- KBL 10.58, NEPAL SBI 42.5, HBL 8.03, NIBL 20.897. Except HBL, all the other three banks, NEPAL SBI, NIBL and KBL have relatively large deviation from the average growth rate in most of the years. In terms of growth rate, HBL seems to be the most consistent although the growth rates were around the 8 percent level in three years.

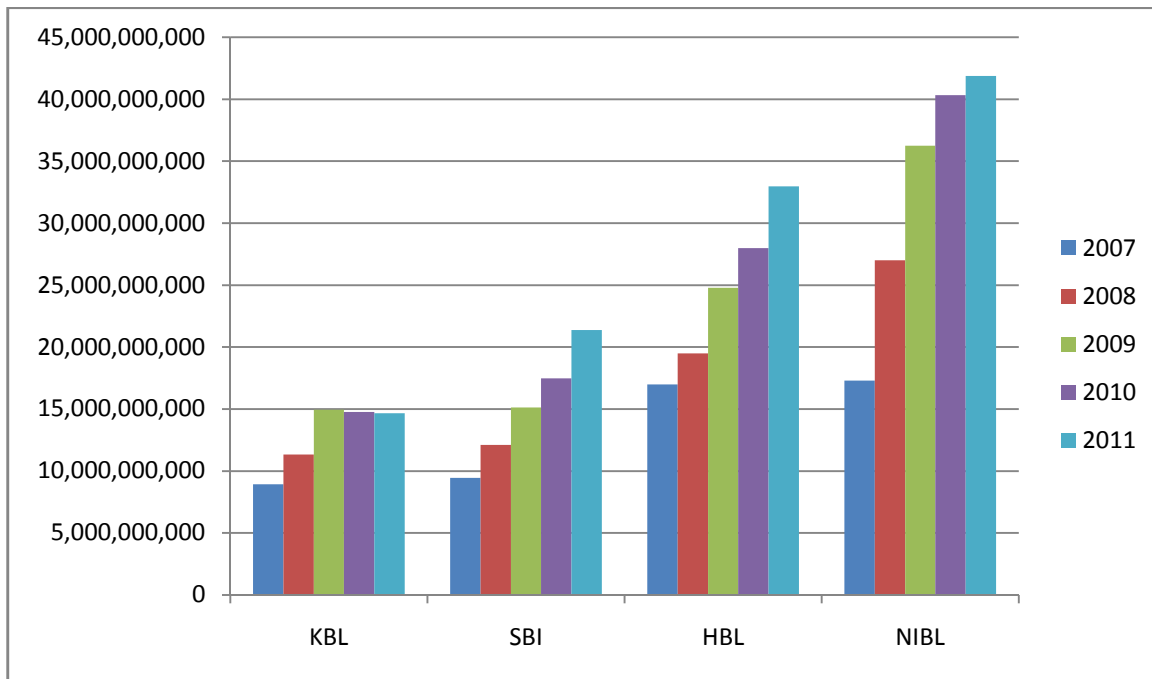
Table - 4

Loans and advances

Bank	2007	2008	2009	2010	2011
KBL	8,929,013,115	11,335,087,939	14,953,346,8830	14,765,112,480	14,666,309,000
NEPAL SBI	9460,450,701	12113,698,428	15,131,747,944	17,480,548,194	21,365,771,000
HBL	16,997,997,046	19,497,520,482	24,793,155,269	27,980,628,760	32,968,270,000
NIBL	17,286,427,389	26,996,652,258	36,241,206,558	40318,308062	41,887,694,000

Graph - 2

Graph Showing Loans and advances of four banks from 2007-2011



From the table above we can see that the loans and advances of KBL are lowest that is because the deposit is also lowest .It is the youngest bank among the four banks. KBL has maintained Credit Deposit (C/D) ratio below 80% as directed by NRB. KBL's loans were 8929.013, 11335.088, 14953.347, 14765.112 and 14666.309 million in the years 2007, 2008, 2009, 2010 and 2011 respectively.

After KBL Nepal SBI's loans are also very low compared to its deposits .The Credit Deposit (C/D) ratio of Nepal SBI is 68.18% in 2011. According to Nepal Rastra Bank's directive it should be below 80%. The Credit Deposit (C/D) ratio is well below 80% but I feel the amount of Loans given is relatively low .This shows very conservative lending policy.

Nepal SBI's loans were 9460.451, 12113.698, 15131.748, 17.481, 21365.771 million in the years 2007,2008,2009,2010 and 2011 respectively.

HBI' Loans and advances were 16997.997, 19497.52, 24793.155, 27980.629 and 32968.270 million in the years 2007, 2008, 2009, 2010 and 2011. Himalayan bank's loan sanctioning has been good. While keeping with the Nepal Rastra Banks Credit Deposit (C/D) ratio criteria, the loan given is close to optimal.

NIBL's deposits were 17286.427 26996.652 , 36241.207 , 40318.308 and 41887.694 million in the years 2007,2008,2009 , 2010 and 2011 respectively . The loan sanctioning of NIBL is the highest among the four banks .It had a very aggressive lending policy in the last 2-3 years. While keeping with the Nepal Rastra Bank's Credit Deposit (C/D) ratio criteria the loan given is the most optimal among the four banks.

Table - 5

Loans and advances growth rate table in percentage

Bank	2007-2008	2008-2009	2009-2010	2011
NEPAL SBI	28.05	24.91	13.4366	22.225
HBL	14.7	27.16	12.86	17.825
KBL	26.946705	31.92087	-1.2588	-0.669168
NIBL	56.17	34.24	11.25	3.892

Let's review the four banks individually

KBL observed growth rates of 26.95% 31.92 % -1.26% and -0.67% in the years 2008, 2009, 2010, 2011 respectively. In the year 2007-2008 it observed the highest growth rate of 26.95% and lowest of -1.26% in the year 2009-2010.

Nepal SBI's growth rates of Loans and advances were 28.05 % 24.91% 13.44 and 22.23% in the years 2007-2008, 2008-2009, 2009-2010 and 2010-2011 respectively. The highest was observed in the year 2007-2008 of 28.05% and the lowest growth rate was in 2009-2010 of 13.44%

HBL experienced growth rate of 14.7% 27.16, 12.86 and 17.83% in the years 2007-2008, 2008-2009, 2009-2010 and 2010-2011 respectively. The highest was observed in the year 2008-2009 of 27.16 and the lowest in the year 2009-2010 of 12.86%.

NIBL had the following growth rates: - 56.17, 34.24, 11.25 and 3.892 respectively in the years 2007-2008, 2008-2009, 2009-2010 and 2010-2011. The highest was 56.17 in the year 2007-2008 and the lowest was 3.892 in the year 2010-2011.

The loan and advances growth rate is fluctuating in all the four banks. Not a single bank is following an increasing growth rate from 2008 to 2011. Most of the bank's growth rate is up and down. Nepal investment bank's growth rate is decreasing every year. In the year 2011, the growth rates of NEPAL SBI, HBL, and KBL have increased compared to 2010. But the growth rate of NIBL has decreased in 2011 as compared to year 2010. NIBL is following a decreasing growth rate in the year 2008 it was 56.17, in the year 2009 it was 34.24, in the year 2010 it was 11.25 and in the year 2011 3.892.

KBL's amount of lending has decreased in 2010 and 2011. There is negative growth in these two years. In the year 2011 the highest growth rate was observed by NEPAL SBI followed by HBL, NIBL and KBL. KBL had the lowest growth rate. The highest growth rate of NIBL was 56.17 in 2007-2008, the highest growth of KBL was 31.92087 in 2009-2009 NEPAL SBI was 28.05% in 2007-2008 and 27.16 of HBL was 27.16 in 2008-2009.

Among the four banks the highest growth rate of loans and advances observed in the five years was of NIBL of 56.17% in the year 2007-2008. The lowest growth rate was of KBL in the year 2010 and it was -1.25.

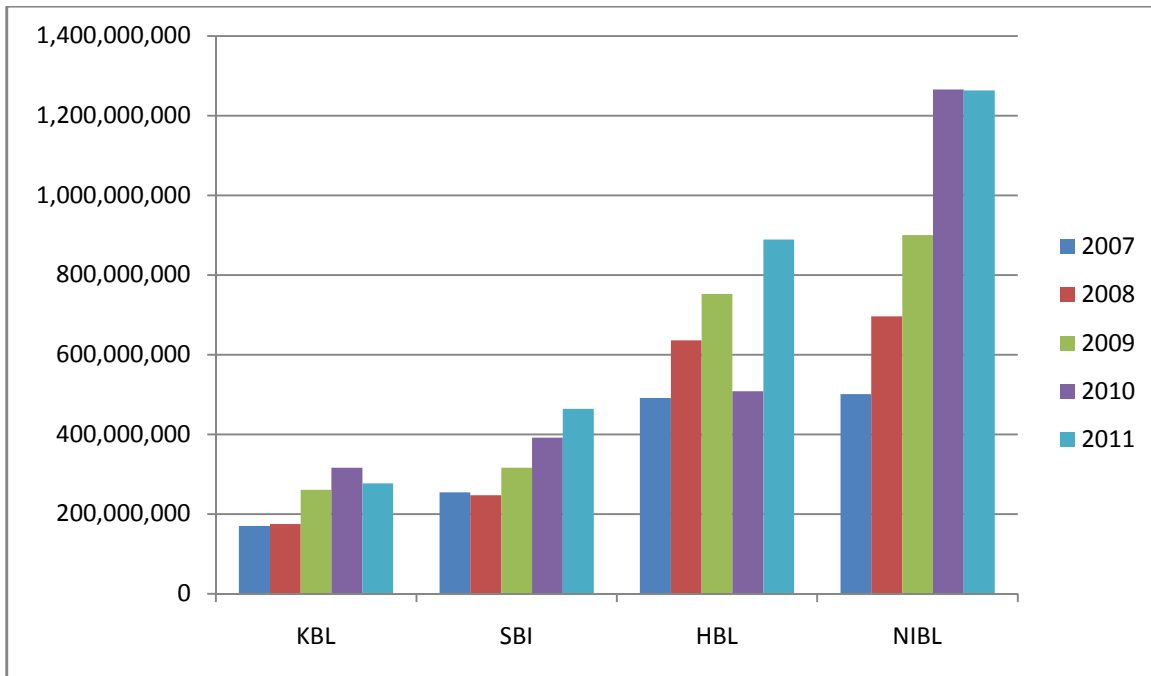
Table - 6

Net profit of the four banks from 2007 to 2011

Bank\Year	2007	2008	2009	2010	2011
KBL	170,262,909	174,930,227	261,442,989	316,542,342	276,817,000
NEPAL SBI	254,908,844	247,770,758	316,373,495	391,742,119	464,565,000
HBL	491,822,905	635,868,519	752,834,735	508,798,193	888,857,000
NIBL	501,398,853	696,731,516	900,619,072	1,265,949,588	1,263,333,000

Graph - 3

Graph showing Net profit of four commercial Banks from 2007-2011



Net profit

KBL's net profits were 170.263, 174.930, 261.443, 316.542, 276.817 million in the years 2007, 2008, 2009, 2010, 2011. Since profit is related to deposit and loans, KBL's profit in 2011 is the lowest

among the four banks .This is because KBL's deposit and loans are also the lowest among the four banks. The profit of KBL bank decreased to 278.817 million in 2011 from 316.542 million in 2010 primarily because there was a decrease in deposit and loans. Till 2010, the net profit was growing steadily.

Similarly Nepal SBI's profits were 254.908, 247.771, 316.373, 391.742, 464.565 million in the years 2007, 2008, 2009, 2010 and 2011 respectively. From 2008 it has been going steadily. Among the four banks Nepal SBI's profit was 3rd. Although the deposits of Nepal SBI is high among the four banks second in 2011, The loans and advances are comparatively low .Although Nepal SBI's deposits are higher than HBL , its loans and advances are much lower .So because of comparatively low loans and advances, it has not been able to achieve high net profit.

HBL's profits were 491.823, 635.869, 752.835, 508.798, and 888.857 million in the years 2007, 2008, 2009, 2010 and 2011. The loans and advances of Himalayan Bank is second among the four banks and the profit is also the second highest.

Likewise NIBL profits were 501.399, 696.732, 900.619, 1265.950 and 1263.333 million in the years 2007,2008,2009,2010 and 2011 respectively. NIBL'S deposits and loans and advances are the highest among the four banks and hence the profit is also the highest.

Table - 7

Net Profit Growth rate table in percentage

Banks \Year	2007-2008	2008-2009	2009-2010	2011
KBL	2.74	49.455	21.075	-12.54977
NEPAL SBI	-2.8	27.688	23.823	18.58949
HBL	29.288	18.3974	-32.4156	74.69735
NIBL	38.9575	29.2634	40.5643	-2.0668

Let us have a look at the bank's data individually.

Recently the growth rate of profit for KBL is negative or it is decreasing. It reached the highest in 2008-2009 that is 49.46% and lowest in 2011 that is -12.54977. In 2007-2008 it was 2.74, in 2008-2009 it was 49.46, in 2009-2010 it was 21.075 and in 2011 it was -12.54977.

The average growth rate is 12.68 which is relatively good. The deviation from the average is very high in some years especially in the years 2007-2008, in 2008-2009 and in 2011.

Nepal SBI's net profit growth was negative in 2007-2008 at 2.8%. In 2008-2009, it was 27.688 and in 2009-2011 were 23.823. Similarly in 2011, it was 18.58949. The growth rate has been relatively steady. The highest growth rate of 27.688 was achieved in 2008-2009 and the lowest growth of -2.8% was achieved in 2007-2008. The profit decreased in 2007-2008. The average growth rate of the four years is 16.83%. Most of the four year's data is around the average except for 2007-2008 where the deviation is the most.

HBL's growth rates are 29.88, 18.3974, -32.4156 and 74.69735 respectively in the years 2008,2009,2010,2011. The highest growth rate was achieved recently in 2011 largely because in the previous year, the growth rate was negative. In 2010, the net profit decreased by a large amount and in 2011 there was more profit. This made the growth rate look high. The lowest growth rate was achieved in 2010, it was -32.4156. The average growth rate is 22.49. In the last two years, there has been huge deviation from the average of 22.49%. In 2010 the profit decreased.

NIBL has had a steady growth rate except in the year 2011 where there is negative growth rate of -2.6689. The net profit growth rate are as follows 38.9575, 29.2634, 40.5643, -2.6689 in the years 2007-2008, 2008-2009, 2009-2010, 2011 respectively. The highest growth rate was in 2010 which was 40.5643. Similarly the lowest growth rate was -2.6689. The average growth rate is 26.53%. In the year 2011 there has been decrease of profit. From the average growth rate there has not been much deviation except in the recent year in 2011. In the year 2011 the profit decreased compared to the year 2010.

The average among the four banks is 19.1078. NEPAL SBI and NIBL are close with their averages from the aggregate average. While HBL and KBL are further from aggregate average, KBL is the furthest. Among the four banks, HBL recorded the highest growth of 74.69735 in 2011 largely because

in the previous year there was negative growth of -32.4156. Similarly the lowest growth in profit was recorded by HBL in 2010 of -32.4156. KBL's lowest was in 2011 of -12.54977. NEPAL SBI's lowest was -2.8 in 2007-2008. HBL's was -32.4146 in 2009-2010. NIBL's was -2.6689 in 2011.

The most deviation from their average was of HBL and KBL. NEPAL SBI and NIBL were steady.

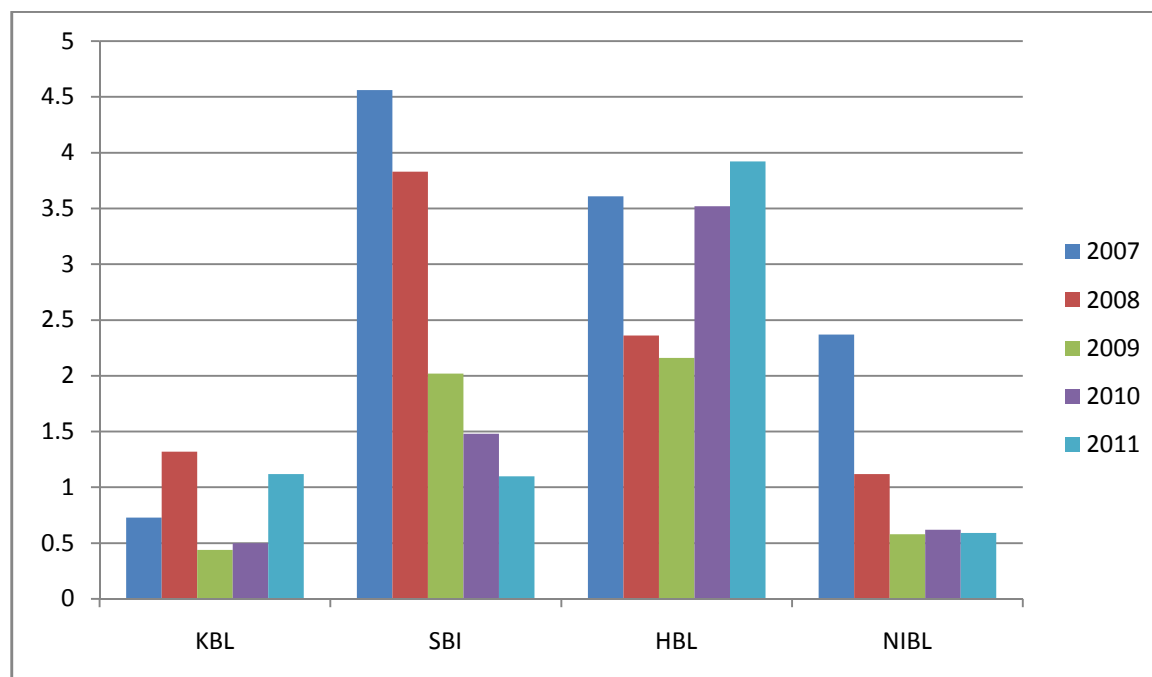
Table - 8

NPL of the four banks (Non performs loans as a % of total loan)

Bank	2007	2008	2009	2010	2011
KBL	0.73	1.32	0.44	0.50	1.12
NEPAL SBI	4.56	3.83	2.02	1.48	1.10
HBL	3.61	2.36	2.16	3.52	3.92
NIBL	2.37	1.12	0.58	0.62	0.59

Graph - 4

Graph Showing NPL of four commercial banks from 2007-2011



As we can see from the table KBL's NPL were 0.73% , 1.32% , 0.44% 0.50% and 1.12 in the years 2007,2008,2009,2010 and 2011 respectively .Till 2009 the NPL of KBL Bank was decreasing but from 2010 and 2011 the NPL has been increasing . This is mainly because of the default and late repayment of the loans in the real estate and margin lending.

Similarly Nepal SBI bank's NPL were 4.56, 3.83, 2.02, 1.48 and 1.10 respectively in the years 2007,2008,2009,2010 and 2011. The NPL has decreased continuously for the last five years. NEPAL SBI has been doing conservative lending for the past five years. It has adopted risk adverse policies. It has given minimum loan and advances to sectors like real estate and margin lending .It has a very well diversified portfolio of loans and advances.

The NPL of HBL was 3.61, 2.36, 2.16, 3.52 and 3.92% in the years 2007,2008,2009,2010 and 2011 respectively. Himalayan Bank's NPL has been growing for the past 3 years. One of the reasons is because its total loan has also gone up .There should be provision of 1% for even pass loans. The rise in the NPL is due to one/ two big loans in the manufacturing sector which could not be recovered.

The NPL of NIBL was 2.37, 1.12, 0.58, 0.62 and 0.59 in the years 2007,2008,2009,2010 and 2011 respectively. The NPL of NIBL is decreasing and is 0.59% in 2011. The percentage of NPL for the very large loan exposure is very good .We have to keep in mind that we have to keep provision of 1% even for good loans.

Table - 9

NPL growth rate table in percentage

Bank	2008	2009	2010	2011
KBL	80.82	-66.667	13.6363	124
NEPAL SBI	-16.0087	-47.2584	-26.732	-25.67567
HBL	-34.722	-8.4745	62.9629	11.36363
NIBL	-52.7426	-48.2142	6.89655	-4.838

Let's review the individual NPL growth rates of the four banks.

The higher the growth rate of NPL (Non performing loan) more the NPL, the bank's losses increases. So the lesser the growth rate, the better for the bank. KBL bank's growth rates were as follows, 80.82 -66.667, 13.6363 and 124 respectively in the years 2008, 2009, 2010, 2011. The highest level of NPL was witnessed recently in 2011 the growth rate was 124. In the year 2009 it showed lowest growth rate of -66.667.

Actually there should be negative growth rate which indicates the NPL has decreased. More growth rate indicates more Non performing loans. More loan loss provision and decrease in Profit affect the overall health of the bank. Similarly decrease in the growth rate indicates less loan loss provision, less non performing loan and increase in profit. The average growth rate for the four years is 37.947 which are a little more than normal. Normally if there is a positive growth rate of 20%, it should be considered ok.

The growth rate of NPL's for Nepal SBI banks were -16.0087, -47.2584, -26.732, -25.67567 in the years 2008, 2009, 2010, 2011 respectively .Nepal SBI has negative growth rate through the last 5 years data. This is a positive sign. Negative growth rate indicates decrease in NPL or bad loans. The decreasing NPL indicates less Non performing loan, more good loan. It also show less loan loss provision and increase in profit. In the year 2009 it witnessed the most decrease in the growth rate of -47.2584 while in the year 2008 it witnessed the least decrease of -16.0087. The average growth rate is -28.938 which indicates the NPL has been decreasing at 28.938 on average which is a very good sign.

For HBL in the years 2007 and 2008, the NPL is negative which means decrease in the bad or non performing loan and the profit has increased. But in the year 2010 and 2011, there has been a positive growth in the NPL of 69.9629 and 11.36363 which is a bad indicator for the bank. This shows that in the last two years the NPL has increased, that is more Non performing loan .So the loan loss provision has decreased and the overall performance of the bank and the profit has gone down .The average growth rate is -1.888 which is positive but only the first two years were negative, the recent years have been positive.

The growth rates in the NIBL are as follows -52.7426, -44.2142, 6.89655 and -4.838 for the years 2008, 2009, 2010 and 2011 respectively. Except the year 2010 all the growth rate of NPL for NIBL has been negative which is very good indicator .In the year 2008, there was least growth rate of -52.7426% . The year 2010 saw the highest growth rate of 6.89655. Overall the NPL has been in

decreasing trend except in the year 2010. Recently in 2011, the NPL decreased by -4.838% which is a good indicator. The Non performing loan decreased, so there is less loan loss provisioning and more Profit.

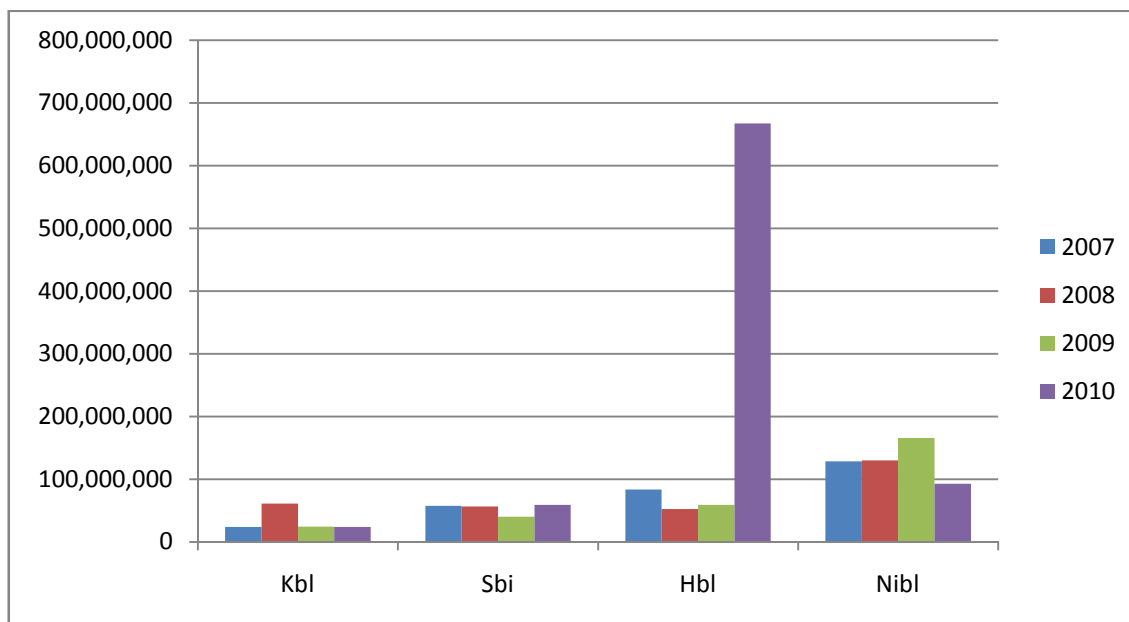
Table – 10

Loan Loss provision

Bank	2007	2008	2009	2010
KBL	23,752,857	61,113,311	24,673,178	23,752,857
NEPAL SBI	57,901,851	56,678,376	40,345,336	59,411,794
HBL	83,839,133	52,423,881	59,237,184	667,416,941
NIBL	128,817,738	130,214,237	165,851,383	93,056,584

Graph - 5

Graph showing Loan loss provision of four commercial banks from 2007-2010



KBL's loan loss provisions were 23.753, 61.11, 24.673, 23.753 million in the years 2007,2008,2009,2010 and 2011. Loan loss provision increases with the increase in non performing loan and total loan.

Similarly Nepal SBI's loan loss provision was 57.902, 56.678, 40.345 and 59.412 million respectively in the years 2007, 2008, 2009, 2010. Although the non performing loan has decreased there was an increase in the loan loss provision because the total loans and advances increased.

HBL's provision was 83.839, 52.424, 59.237, 667.417 million in the years 2007, 2008, 2009 and 2010. In the year 2010 there was a big jump in provision amount because the non performing loan increased by a big amount.

NIBL's loan loss provisions were 128.818, 130.214, 165.851, 93.057 million in the years 2007, 2008, 2009 and 2010 respectively. The loan loss provision is moderately low for NIBL. NIBL's Non performing loan is low but the total loan is high. The total provision is relatively low because of very high % of performing loans

Table – 11

Loan loss Provision growth table in percentage

Bank	2007-2008	2008-2009	2009-2010
KBL	157.28	-59.627	-3.73
NEPAL SBI	-2.123	-28.817	47.258
HBL	-37.4708	12.9965	1026.6858
NIBL	1.0724	27.368	-43.8915

Less loan loss provision indicates more good loans and more profit .High loan loss provision indicates more bad loans and less profit

KBL's loan loss provision was as follows (growth rate in %):157.28, -59.627 and -3.73 in the years 2007, 2008, 2009 and 2010 respectively

KBL has the least loan loss provision growth rate in the year 2009 it had -59.627. It decreased by that growth rate than 2007. Similarly it had the highest loan loss provision growth rate in the year 2007.

Nepal SBI's loan loss provision is -2.113, -28.817 , 47.258 in the years 2008, 2009 ,2010 respectively . The Lowest growth rate of -28.817 was recorded in the year 2009 and the highest was recorded in the year 2010 of 47.258.

Loan loss provision increases for two reasons : one reason is because there is increase in Non performing loan and the other is because there is increase in total loan as we have to keep provision for performing loans , pass loans also . For pass loans, we have to keep provision of 1%, for substandard 25%, for doubtful we have to keep provision of 50% and for loss we have to keep provision of 100%. Substandard loans are loans which have not been paid for 3 month, doubtful loans are loans which have not been paid for 6 months and loss loans are loans which have not been paid for a year. NEPAL SBI had more good loans but in the year 2010, the loan loss provision grew by 47.258% which might be because of worse loan or more total loan since even for pass loan we have to keep 1% provision.

The loan loss provision in HBL has been increasing .It was lowest in 2008 with -37.4708% and reached its high in 2009 at 12.9965% and in 2010 it reached 1026.88%, the maximum .The increasing loan loss provision could be because of increase in bad loans and also because of increase in total loan portfolio .But this huge increase in loan loss provision cannot be only due to increase in loan portfolio because for pass loan we have to provide only 1%. That it why the main reason is because of increase in Nonperforming loan.

The loan loss provision of NIBL has been increasing till 2009 but decreased in 2010 which is a good sign. The loan loss provision was highest in 2008 and lowest in 2010. It was -43.8915% in 2010 compared to 2009. . The low level of loan loss provision is a good sign. We can say the main reason for increase in loan loss provision is due to increase in bad loans or non performing loans.

4.2 First quarter Analysis

The first quarter analysis as of 17.10.2011

Table - 12

Deposits

Bank\Date	17.10.2011	16.07.2011
KBL	18,006627,000	16,986,279,000
NEPAL SBI	46,117245,000	42,415,443,000
HBL	44,515,694,000	40,920627000
NIBL	51,598,691,000	50,138,122,000

From the table we can see that the deposits in all the four banks have risen. There has been significant growth in deposit in Nepal SBI and HBL. We can see the liquidity problem of the bank has been solved from the First quarter, that is, 17.10.2011 onwards.

Table - 13

Loans and advances

Bank\Date	17.10.2011	16.07.2011
KBL	15,569380000	14,666,309000
NEPAL SBI	21,117,826000	21,365,771000
HBL	34,442,195000	32,968,270000
NIBL	42,545,939,000	41,887,694,000

All the banks except Nepal SBI have increased its loans and advance this quarter .Due to the increase in deposits, the loans and advances have also increased.

Table - 14

Net Profit

Bank\Date	17.10.2011	Previous year 17.10.2010
KBL	42,326,000	18,815,000
NEPAL SBI	95,985,000	94,499,000
HBL	164,907000	195,567,000
NIBL	294,817,000	335,850,000

All the three banks except Nepal SBI have increased their profits .KBL, HBL and NIBL's profits have decreased compared to corresponding previous year's quarter. KBL has the most decrease. The decrease in profit is due to increase in Non performing loans .There is an increase in provision for possible losses.

Table -15

NPL (Non Performing Loan Out of Total Loan in %)

Bank\Date	17.10.2011	16.7.2011
KBL	2.20	1.12
NEPAL SBI	1.59	1.10
HBL	4.74	3.92
NIBL	1.03	0.94

All the four banks have increase in NPL .KBL and HBL have the most increase in NPL where ad Nepal SBI and NIBL have low increase .NIBL has the least increase in NPL.

First quarterly analysis of KBL

The deposit rose from 16,986,279,000 to 18,006,627,00 which is very good . This is an increase of 6.006895 %. Considering there was not much increase in deposits in 2010 and actually decrease in 2009, there has been improvement in liquidity. NPL has gone to 2.20% this first quarter compared to the previous quarter 1.12% .There has been increase in NPL .The NPL has risen by 96.428571% .This is a serious signal . Loans and advances have risen from 14,666,309,000 to 15, 569, 380, 00. The net profit in this quarter is less than corresponding last year's quarter.

First quarter analysis of Nepal SBI

The deposit in 17.10.2011 was 46,117,245,00 .It rose from 42,415,443,00 from previous quarter .This is a substantial increase in one quarter . This is a 8.73% growth. The loans in the first quarter decreased compared to the previous quarter. In the first quarter 17.10.2011 , it was 21,117,826,00 while it was 21,365,771,00 in the previous quarter. The net profit grew .In the first quarter as of 17.10.2011 it was 95,985,000 while in the same quarter in the previous year it was 94,499,000. The NPL in 17.10.2011 is 1.59 which is higher than the previous 16.07.2011 of 1.10% Nepal SBI's deposits rose from 42,415,443,000 in 16.07.2011 to 46,117,245,000 in 16.07.2011. This was a major jump in just three months .This was an increase 8.73 %.

First quarter analysis of HBL

HBL'S deposits grew from 40,920,627,000 in the previous quarter to 44,515,694,000 this first quarter .This is a major jump in the total deposits .This is a growth of 8.79%. The loans and advances grew from previous quarter's 32,968,270,000 to the first quarter's 17.10.2011 to 34,442,195,000. This is a growth of 4.47%.The Net profit has decreased from 195,567,000 in 16.07.2011 to 164,907,000. This decrease is – 15.68 %. The NPL in 16.07.2011 was 3.92 and it grew to 4.74 in 17.10.2011. The growth was 20.92%. This is not a healthy sign.

First quarter analysis of NIBL

The deposit of NIBL was 51,598,691,000 in 17.10.2011. In last quarter (16.07.2011), it was 50,138,122,000 there was a slight increase in deposit .The deposit rose by 2.913090. The loans and advances also rose slightly from 41,887,694,000 in 16.07.2011 to 42,545,939,000 in 17.10.2011. There was a growth of 1.57%. The net profit decreased from 335,850,000 in the last quarter 16.07.2011 to 294,817,000 in 17.10.2011. The decrease was -12.22%. The NPL in last quarter was 0.94 in 16.07.2011 and it rose to 1.03 this quarter in 17.10.2011 .This was an increase of 9.57%.

4.3 Correlation coefficient analysis

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

-) A positive or negative relationship exists
-) The relationship is significant or insignificant
-) Establish cause and effect relation if any.

Correlation analysis is used to measure the relationship between the variables in determining whether the relationship is significant or not. For the purpose of decision making, interpretation is based on the following terms:

r = correlation coefficient

r^2 = coefficient of determination, r squared

pe = probable error

$6pe = 6 * \text{probable error}$

1. When $r = 1$, there is perfect positive correlation
2. When $r = -1$, there is perfect negative correlation
3. When $r = 0$ there is no correlation
4. When r lies between 0.7 to 0.999 (-0.7 to -0.999), there is high degree of positive or negative correlation.
5. When r lies between 0.5 to 0.6999 there is moderate degree of correlation
6. When r is less than 0.5 there is low degree of correlation
7. $r > pe$ there is relationship
8. $r > 6pe$ there is significant relationship

Correlation Coefficient of Banks.

Table - 16

Coefficient of correlation between deposits and loans and advances

Bank	R	R²	PE	6PE
KBL	0.968150	0.937314	0.018	0.1080
NEPAL SBI	0.981269	0.962889	0.010995	0.065671
HBL	0.997248	0.994966	0.000760	0.004561
NIBL	0.995741	0.991500	0.005733	0.034400

Here in the above table, the coefficient of correlation between deposits and loans and advances of Kumari Bank is 0.968150. It shows positive relation between these two variables. There is high degree of correlation between deposits and loans. The value of determination $r^2 = 0.937314$ which means 93.73 % of the variation in the dependent variable (Loans and advances) have been explained by the independent variable deposit.

Since $r > 6PE$ in KBL bank there is significant relationship between deposits and loans and advances. This means that in KBL more the deposits more the loans. Increase in deposit means increase in loans.

The coefficient of correlation between deposits and loans and advances of NEPAL SBI Bank is 0.981269 .It shows a positive relation between deposits and loans and advances .There is high degree of correlation between deposits and loans .The value of determination $r^2= 0.962889$ which means 96.2889 % of the variation in the dependent variable (Loans and advances) have been explained by the independent variable deposit .

Since $r > 6pe$ in NEPAL SBI bank, there is significant relationship between deposits and loans and advances. This means that in Nepal SBI Bank more the deposits more the loans .Increase in deposit means increase in loans.

The correlation Coefficient between deposit and loans and advances in Himalayan Bank $r = 0.997248$.It shows positive relation between these two variables .There is high degree of correlation between deposits and loans. The value of determination $r^2= 0.994966$ which means 99.4966 % of the variation in the dependent variable (Loans and advances) have been explained by the independent variable deposit.

As $R > 6PE$, there is significant relationship between deposits and loans and advances in HBL.

This means that in HBL the more the deposits, the more the loans .Increase in deposits means increase in loans.

The correlation coefficient between deposits and loans and advances in Nepal investment bank limited is 0.995741 .It shows a positive relation between these two variables. There is high degree of correlation between deposits and loans. The value of determination is 0.991500 $r^2=$. Which mean 99.15% of the variation in the dependent variable loans and advances) have been explained by the independent variable deposit?

Here $R > 6PE$, therefore there is significant relationship between deposits and advance in NIBL. This means more the deposits more the loans .Increase in deposits means increase in loans.

Table -17

Coefficient of Correlation between Loans and advances and profit

Banks	R	R²	Pe	6pe
KBL	0.902981	0.815375	0.055692	0.334152
NEPAL SBI	0.966319	0.933772	0.019977	0.119864
HBL	0.653861	0.427534	0.172682	1.036091
NIBL	0.959305	0.920266	0.024051	0.144308

Here in the above table is the correlation between loans and profit of the four banks.

Let us review KBL first

The coefficient of correlation between loans and advances and profit of KBL is 0.902981. It shows positive relation between these two variables. There is high degree of correlation between loans and advances and profit. The value of determination $r^2 = 0.815375$ which means 81.53% of the variation in the dependent variable profit have been explained by the independent variable loans and advances.

$r > p_e$ which shows there is a relationship between loans and advances and profit.

Similarly $r > 6p_e$ ($0.902981 > 0.334152$)

There is a significant correlation between loans and advances and profit. This means that in KBL the more the loans and advances the more the profit. Increase in loans and advances means increase in profit.

Let us review Nepal SBI Bank

Here the coefficient of correlation between loans and advances and profit of Nepal SBI bank is 0.966319. It shows a positive relation between these two variables. There is high degree of correlation between loans and advances and profit of Nepal SBI bank. The value of determination is 0.933772 r^2 which means 93.377 % of the variation in the dependent variable profit has been explained by the independent variable loans and advances

Here $r > p_e$, which shows there is a relationship between loans and advances and profit, there is evidence of correlation

$$r > p_e (0.966319 > 0.119864)$$

There is significant correlation between Nepal SBI bank's loans and advances and profit. This means in NEPAL SBI Bank more the loans and advances more the profit. Increase in loans and advances means increase in profit.

Let us review the HBL

The coefficient of correlation between loans and advances and profit of Himalayan bank is 0.653861. It shows a positive relation between these two variables. The degree of correlation between loans and advances and profit of HBL bank is moderate. Here the coefficient of determination of HBL bank is 0.427534 which means 42.7534 of the variation in the dependent variable profit has been explained by the independent variable profit.

$$r > p_e, 0.653861 > 0.172682 \text{ which shows evidence of correlation.}$$

But $p_e > r$

$p_e < r < p_e$ although there is some evidence of correlation, the correlation between loans and advances of HBL is not significant. We cannot confidently say that increase in loans and advances will increase the profit or more the loans and advances more the profit.

Lets us review the NIBL

Here the correlation between loans and advances and profit of NIBL is 0.959305. It shows a positive relation between the two variables. The coefficient of determination is 0.920266 which means 92.026 % of the variation in the dependent variable Profit can be explained by the independent variable loans and advances.

$$r > p_e$$

$$(0.959305 > 0.024051)$$

There is evidence of correlation.

$r > 6pe$

$0.959305 > 0.144308$

Therefore it is significant. There is significant relationship between loans and advances and profit of Nepal investment Bank. This means that in NIBL the more the loans and advances more is the profit .Increase in loans and advances means increase in profit.

Table - 18

Correlation Between deposit and profit

Banks	R	R²	Pe	6pe
KBL	0.957668	0.917128	0.024998	0.149988
NEPAL SBI	0.974083	0.948838	0.015433	0.092597
HBL	0.627109	0.393266	0.182883	1.097298
NIBL	0.943061	0.889364	0.033373	0.200234

Correlation between Deposit and profit

The correlation between deposit and profit of KBL bank is 0.957668. We can say that deposit and profit of KBL bank is highly correlated. The coefficient of determination $r^2 = 0.917128$. 91.71% of the variation in the dependents variable profit can be explained by the independent variable deposit.

Here $r (0.957668) > pe (0.024998)$ which mean there is evidence of correlation.

Similarly $r (0.957668) > 6 pe (0.149988)$ which is significant. There is significant correlation between deposit and profit of KBL bank. This means that in KBL the more the deposit the more the profit .Increase in deposit means increase in profit.

The correlation between deposit and profit of Nepal SBI bank is 0.974083 .There is high correlation between deposit and profit. The coefficient of determination r^2 is 0.948838 which mean 94.88 % of the variation in the dependent variable profit is explained by the independent variable deposit. $r (0.974083) > pe (0.015433)$ which shows there is evidence of correlation .

Again $r > 6p_e$ (0.092597) which is significant. There is significant correlation between deposit and profit of Nepal SBI Bank. This means in Nepal SBI the more the deposit the more the profit. Increase in deposit means increase in profit.

The correlation between deposit and profit of Himalayan Bank is 0.627109 which is considered moderate correlation. The coefficient of determination r^2 is 0.393266 which means 39.32 % of the variation in the dependent variable profit is explained by the independent variable deposit. $r > p_e$, ie $0.627109 > 0.182883$ there is evidence of correlation.

$6p_e > r$, ie (1.097298 > 0.627109)

Here $p_e < r < 6p_e$

Although there is some evidence of correlation between deposit and profit of HBL there is no significant correlation between deposit and profit of HBL. So we cannot say confidently that more the deposit more the profit.

The correlation between deposit and profit of Nepal Investment bank is 0.943061. This is a high degree of correlation between deposit and profit of investment bank. The coefficient of determination $r^2 = 0.889364$ which means 88.936% of the variation in the dependent variable profit is explained by the independent variable deposit. $r > p_e$, ie $0.943061 > 0.033373$ which shows evidence of correlation.

Here, $6p_e = 0.033373 * 6 = 0.200234$

$R(0.943061) > 6p_e(0.200234)$

This means there is significant relationship between deposit and profit of Nepal Investment Bank. This means the more the deposit the more the profit. Increase in deposit means increase in profit.

All the calculations are shown in appendix I

4.4 Analysis of Loan Classification and Provisioning Of KBL

Table – 19

			2009				2010	
Particulars	Total Loan	% of total loan	Total LLP	% Of Total LLP	Total loan	%of total loan	Total llp	%of total llp
Performing loan	14730.7	99.523188	147.9975	73.297155	14890.569	99.495458	149.357	74.3708
Pass Loan	14724.7	99.523188	147.247	72.92553	14886.637	99.469181	148.866	74.3708
Restructured loan	6.002	0.0400573	0.75	0.371625	3.932	0.026277	0.491	0.24558
Non performing loan	64.542	0.436239	53.915	26.702845	75.51	0.504542	50.809	25.3834
Sub standard loan	13.082	0.088427	3.27	1.619866	10.148	0.06781	2.537	1.26750
Doubtful loan	31.735	0.214496	30.921	15.31426	34.178	0.228376	17.089	8.53740
Loss loan	1.972	0.133316	19.724	9.768719	31.183	0.20836	31.183	15.5785
Total Loan	14795.3	100	201.914	100	14988.08	100	100	100

In the above table loan and the following three tables of **Loan Classification and Provisioning of Nepal SBI, HBL and NIBL** the loan figures is in millions and other figures are in percentage.

From the table the total loan of KBL bank stands at 14795.3 million in the year 2009. Out of the total loan 99.563761 is performing loan .The performing loan constituted of 99.523188 is pass loan and 0.040573% is restructured loan .Out of the total loan 0.436239 is Non performing loan out of which substandard , doubtful and loss constitute 0.088427% ,0.214496% and 0.133316% .Moving on to the loan loss provision pass loan constitutes 72.925530 of the provisioning similarly restructured , substandard ,doubtful and loss constitute, 0.371625, 1.619866, 15.314260 and 9.768719 % respectively .

In the year 2010 total loan sanctioned was 14,890.569 million. Out of this 99.495458% is Performing loan. Pass loan constitutes 99.469181 % and restructured loan consists of 0.026277 % . The non performing loan consists of 0.504542% of the total loan portfolio, out of which substandard , doubtful and loss consists of 0.067810, ,0.228376 , 0.208360 respectively . Similarly the provision for pass loan is 74.370855% of the total provision. In the same way restructured, sub standard, doubtful, and loss provisioning consist of 0.245580%, 1.267502%, 8.537404% and 15.578589%. The provision for pass loan has increased as there was an increase in the total loan .In the same way the provision for loss loan has also increased. We can see that that total loan sanctioned has increased in the year 2010 compared to year 2009 of KBL bank. The total performing loan percentage and pass loan percentage has decreased which is not a good sign. This means there was increase in the non performing loan. We can observe that the non performing loan has increased. The percentage of doubtful and substandard loan has decreased but the loss loan has increased. This is a major concern because the major part of the sanctioning is covered by loss provisioning. Substandard and doubtful provision is for loans which have not be repaid for 3 months and 6 months respectively. Loss is for loans which have not been paid for one year. Substandard loan and doubtful loans are also bad but there will be some chances of recovery within a year, but it is relatively hard to recover loss loans compared to substandard and doubtful loans.

Chart - 1

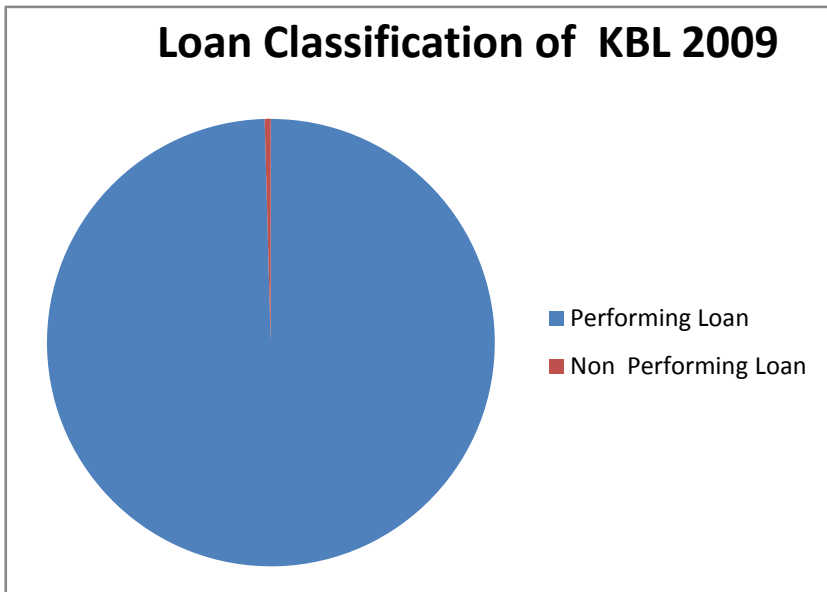


Chart - 2

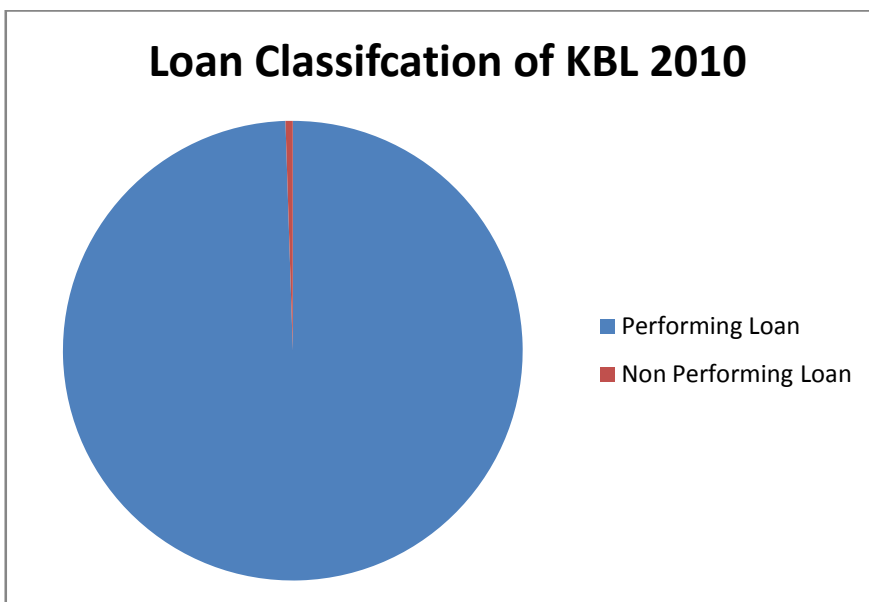


Chart - 3

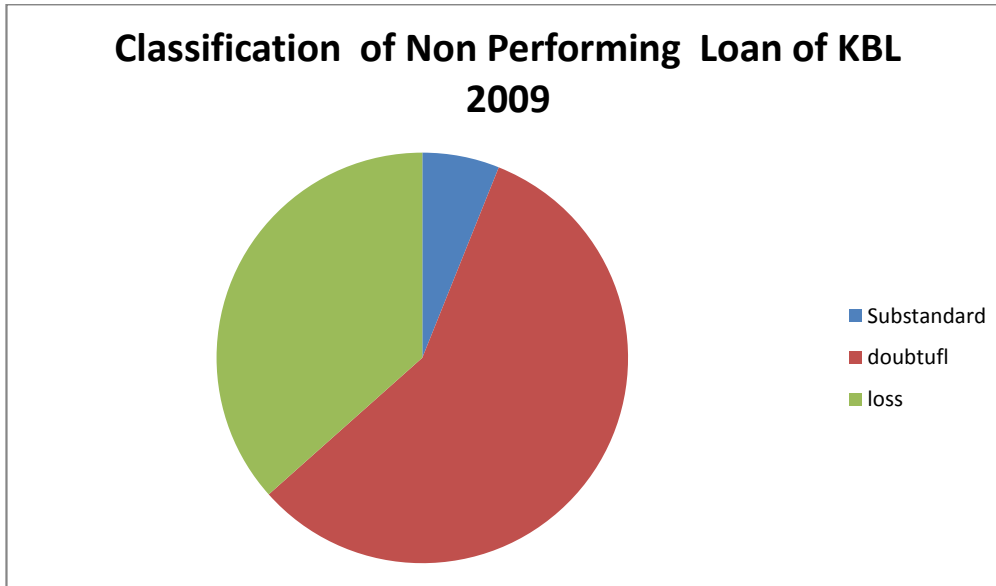
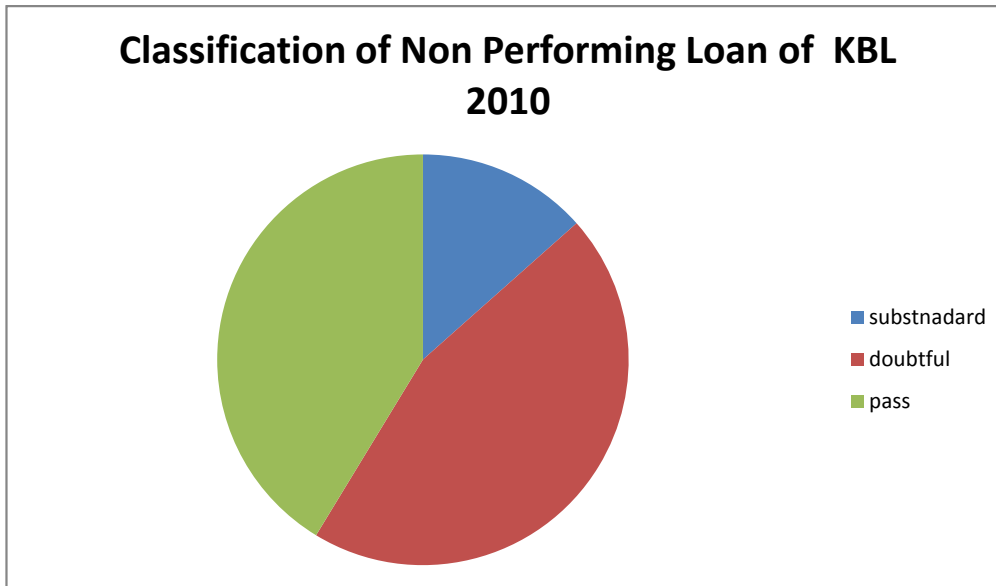


Chart - 4



Below is the Table of Classification of Loan and Provisioning of Nepal SBI

Table - 20

		2009				2010		
Particulars	Total Loan	% of total loan	Total LLP	% Of Total LLP	Total loan	%of total loan	Total llp	%of total llp
Performing loan	15296.0956	97.9762	188.538	39.254	17698.5	98.5241	233.929	48.4232
Pass Loan	15,081.17	96.5995	149.467	31.1193	17471.1	97.2579	173.584	35.9317
Restrured loan	214.926217	1.37667	39.0715	8.13477	227.448	1.26616	60.3458	12.4915
Non performing loan	315.954765	2.02379	291.764	60.0554	265.134	1.47595	249.164	51.5768
Sub standard loan	13.235686	0.08478	2.74074	0.57063	12.9754	0.07223	3.18972	0.66027
Doubful loan	11.338722	0.07263	3.68544	0.07673	1.11394	0.0062	0.21915	0.04537
Loss loan	291.380357	1.86638	285.338	59.408	251.044	1.39751	245.755	50.8711
Total Loan	15612.0504	100	480.302	100	17963.6	100	483.093	100

Now let's have a look at Nepal SBI bank in the year 2009 it had loans of 15612.050 million .Out of the total loan 97.976212 % constituted of performing loan, 96.599543% was pass loan while 1.376669% was restructured loan .Out of the total loan 2.023788 % was non performing loan. Similarly substandard loan constituted of 0.084779% and doubtful and loss loan constituted of 0.072628% and 1.866381% respectively.

In the year 2010 the total loan sanctioned was 17.963.641 million. Out of the total loan 98.524053% constituted of performing loan. Pass loan constituted of 97.257895% while restructured loan constituted of 1.266159% .Out of the total loan the non performing loan constituted of 1.475947%. Similarly the substandard loan constituted of 0.072231 % . Doubtful loan and loss constituted of 0.00620`1 % and 1.397514% respectively .From 2010 to 2009 the non performing loan decreased from 2.0233788 % to 1.475947% which is a good sign. It indicates there was a decrease in bad loans. The substandard loan decreased from 0.084779 to 0.072231 % ,the doubtful loan decreased from 0.084779 to 0.006201 and the loss loan decreased from 1.866381 to 1.397514% . So there was a decrease in substandard doubtful and loss loan. This decrease is a good indication .It indicates more good loans were floated and more loans are being recovered and there is less chances of default.

In the year 2009 out of the total provision pass loan provision was 31.119253% .Similarly restructured loan provision was 8.134769%. In the same way provision for substandard, doubtful, loss loan constituted of 0.570629%, 0.0767316% and 59.408033% in the year 2009.

In the year 2010 the provisioning were 35.931703 % , 12.491544% , 0.660271% ,0.045365% and 50.871117% for pass , restructured , sub-standard , doubtful , loss respectively .

Comparing the two years the pass loan provision has increased from 31.12 to 35.93 which is good. Pass loans should also be provisioned with 1%. In 2010 provisioning for doubtful and loss loans has decreased but provisioning for substandard loan has increased.

Chart - 5

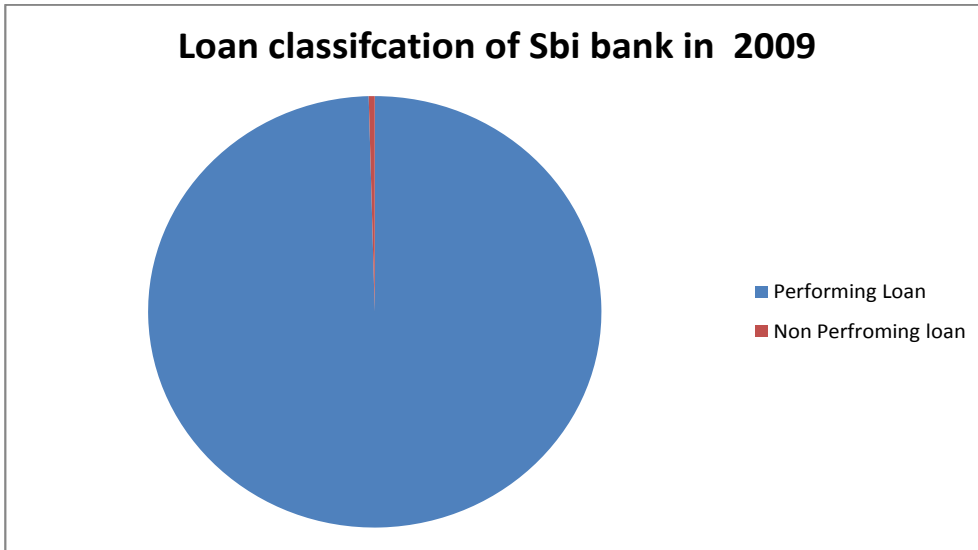


Chart - 6

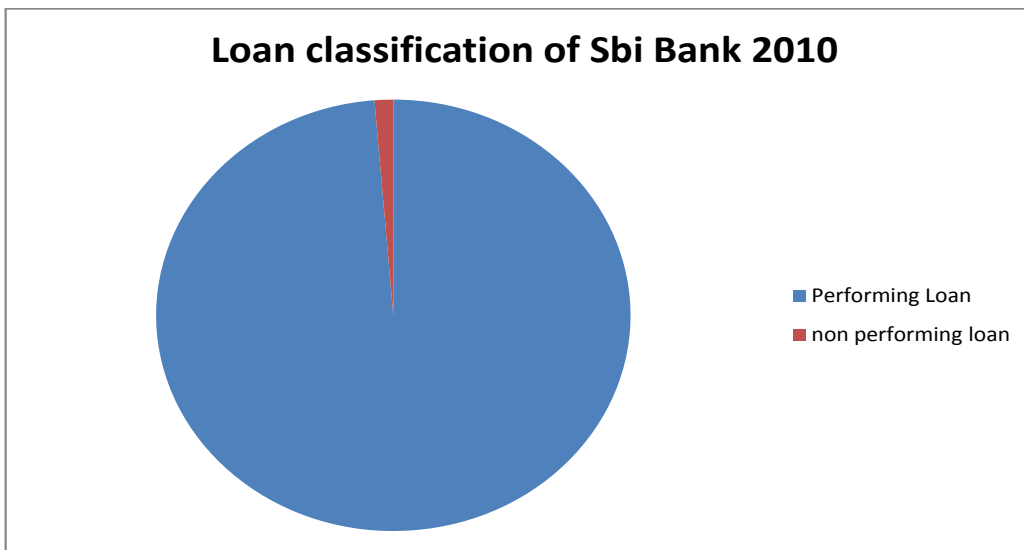


Chart - 7

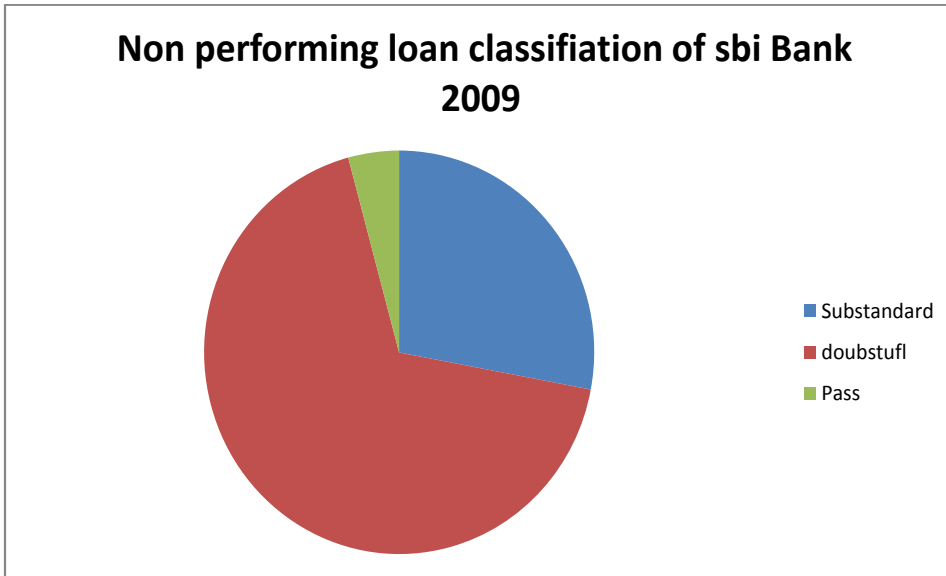


Chart - 8

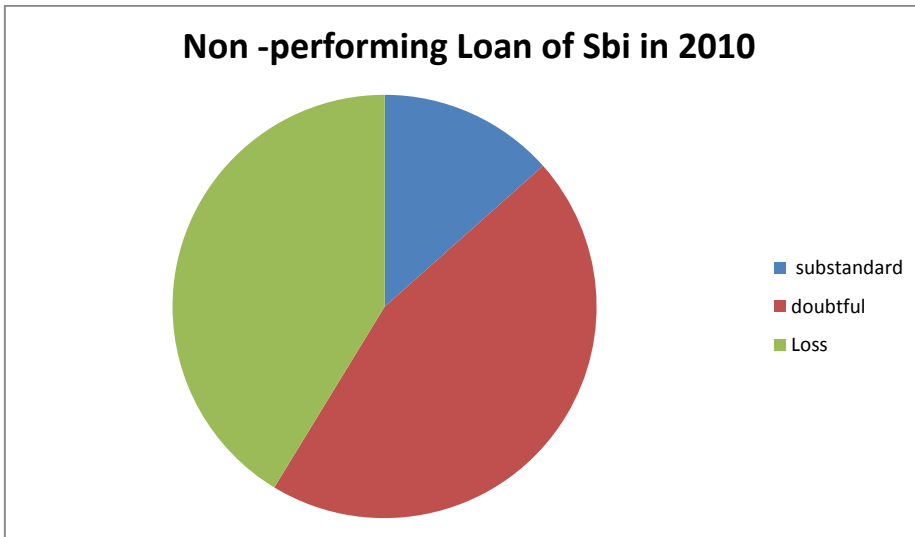


Table - 21

Loan Classification and Provisioning of HBL

		2009				2010		
Particulars	Total Loan	% of total loan	Total LLP	% Of Total LLP	Total loan	%of total loan	Total llp	%of total llp
Performing loan	24968.2	97.8397	365.299	50.2915	28098.9	96.4811	305.393	26.711
Pass Loan	24666.6	96.6579	247.686	34.0995	27915.6	95.8518	282.483	24.711
Restreured loan	301.568	1.18172	117.613	16.192	183.285	0.62934	22.91	2
Non performing loan	551.309	2.16035	361.062	49.7079	1024.83	3.51889	837.73	73.283
Sub standard loan	167.831	0.65766	74.157	10.209	122.76	0.42151	46.818	4.095
Doubful loan	194.699	0.76294	99.025	13.633	220.519	0.75718	110.259	9.645
Loss loan	188.777	0.73975	187.88	25.8659	681.551	2.34014	680.653	59.543
Total Loan	25519.5	100	726.363	1000	29123.8	100	1143.12	100

Classification of loans and provisioning for Himalayan bank 2009.

The total loan sanctioned in 2009 of Himalayan bank was 25,519.519 million. Out of the total loan 97.839655% is performing loan. Pass loan constitutes 96.65793924% and restructured loan constitutes 1.181716%. The non performing loan constitutes 2.16034555% of the total loan. The substandard loan constitutes 0.657658% .Similarly doubtful and loss constitutes 0.762942 and 0.739745%. In the loan loss provision the pass loan provision constitutes 34.099546 % whereas restructured loan provision consists of 16.192061 %. Similarly substandard, doubtful and loss constitutes 10.209467, 13.633026% and 25.865900 % respectively.

In the year 2010, the total loan sanctioned of Himalayan bank was 29123.754 million. Out of the total loan 96.481113 % was performing loan. Pass loan constituted 95.851779% and restructured loan constituted 0.6249335%. Non performing loans of Himalayan bank constituted 3.518887% of total loan .The substandard loan constituted 0.421512% ,similarly doubtful and loss loan constituted of 0.757182% and 2.340193% respectively . Provision for pass loan constituted of 24.711516%, the restructured loan consists of 2.004217%. Similarly the substandard, doubtful, loss loans constituted 4.095662%, 9.645472% and 59.543133% respectively.

From 2009 to 2010 the total loan sanctioned grew. The performing loan decreased from 97.839655% % to 96.481113%. The non performing loan increased from 2.16034555% to 3.518887% from 2009 to 2010. This is a bad sign .It indicates the loan recovery is not effective. There have been more bad loans. It also indicates more chances of defaults and increase in bad assets. Similarly there has been decrease in substandard loan and doubtful loan. The substandard loan decreased from 0.657658% to 0.421512% and doubtful decreased from 0.762942% to 0.757182%. But the loss has increased from 0.739745% to 2.340193% .The loss is the worst form of non performing loan. Because there was less percentage of pass loan the pass loan provision which is 1% decreased from 34.099 to 24.7115% . Provision for pass loan constituted 24.711516% , the restructured loan 2.004217% . Similarly the substandard, doubtful, loss loans constituted 4.095662%, 9.645472% and 59.543133% respectively.

Similarly the provisioning of substandard loan, doubtful loan and loss loan decreased from 10.209 in 2009 to 4.0965% in 2010. The doubtful loan also decreased from 13.633% to 9,645 % from 2009 to 2010. The loss provisioning increased from 25.865900 to 59.543133% from 2009 to 2010 which is a worrisome sign because loss loan is the greatest fear for banks.

Table - 9

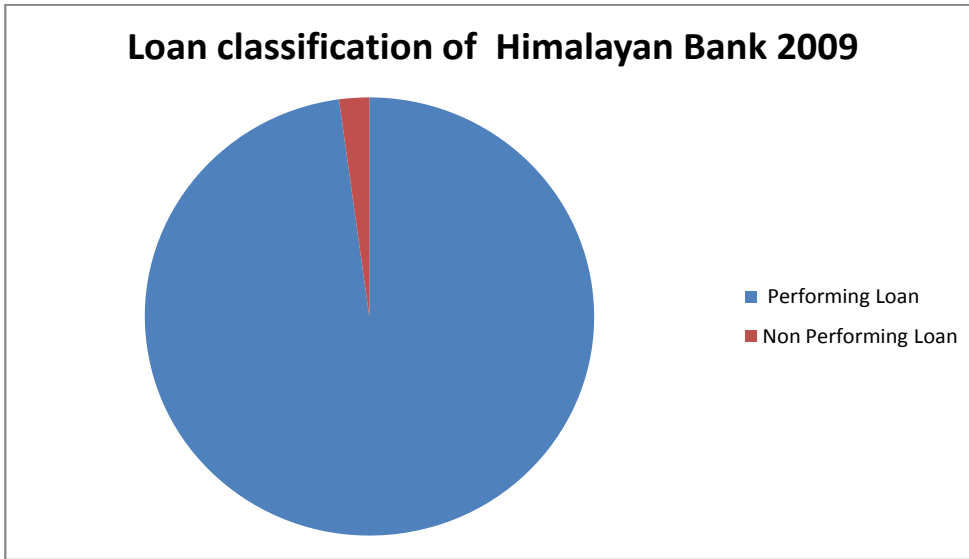


Table - 10

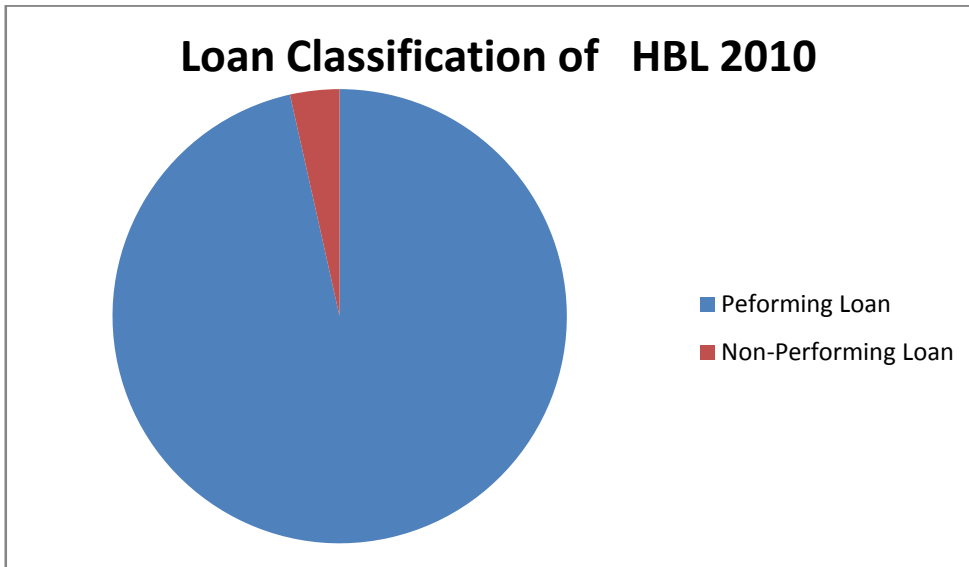


Table - 11

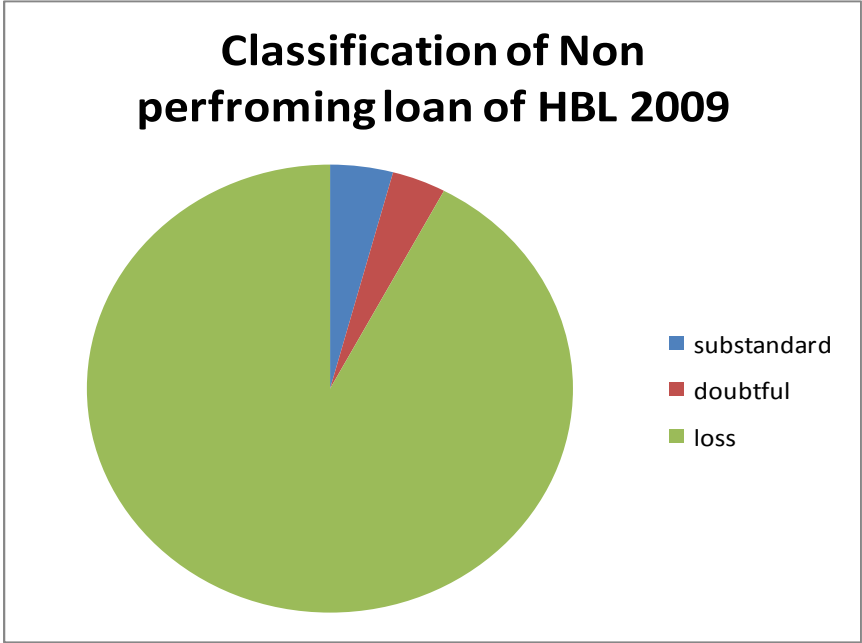


Table - 12

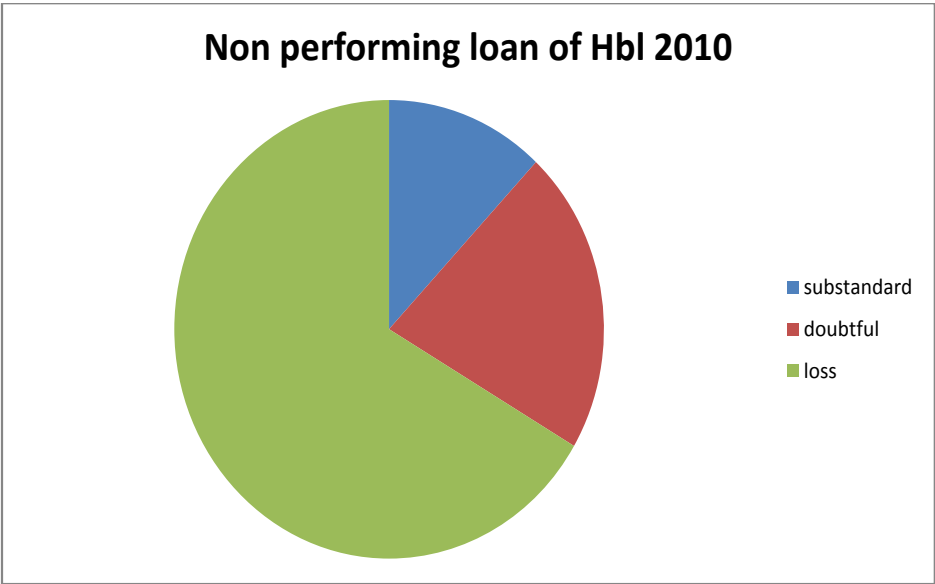


Table - 22

Loan Classification and Provisioning of NIBL

Particulars	2009				2010			
	Total Loan	% of total loan	Total LLP	% Of Total LLP	Total loan	%of total loan	Total llp	%of total llp
Performing loan	36613.3	99.4192	385.861	65.852	40694.4	99.3796	423.378	67.1888
Pass Loan	36576.3	99.3187	381.199	65.0565	40674.1	99.3301	420.84	66.7861
Restrured loan	36.9924	0.10045	4.66154	0.79555	20.2994	0.04957	2.53743	0.40268
Non performing loan	213.907	0.58084	200.09	34.148	254.034	0.62038	206.754	32.8112
Sub standard loan	10.7655	0.02923	2.69138	0.45932	55.7104	0.13605	13.9276	2.21027
Doubful loan	11.4859	0.03119	5.74293	0.9801	10.995	0.02685	5.49748	0.87243
Loss loan	191.656	0.52042	191.656	32.7086	187.329	0.45748	187.329	29.7286
Total Loan	36827.2	100	585.951	100	40948.4	100	630.132	100

In the year 2009, the total Loan portfolio of Nepal investment bank stood at 36,827.157 million. Out of the total loan in 2009, 99.419159% was performing loan. Similarly Pass loan was 99.318710 % and restructured loan was 0.100449 %. The non performing loan constituted 0.580841%. The substandard

loan was 0.029233% .In the same way, doubtful and loss loan constituted 0.031189% and 0.520420% respectively.

In the year 2009, the pass loan provisioning was 65.056476% of the total provision. Similarly restructured loan provisioning was 0.795551% .Provisioning for substandard, doubtful and loss loans were 0.459318%, 0.980104% and 32.708550 %.

In the year 2010, the total loan sanctioned was 40,048.440 million. The total performing loan was 99.379624%, similarly the pass loan was 99.330 % and restructured loan was 0.049573%. In the year 2010, the Non performing loan was 0.620376. The substandard loan constituted of 0.136050%, likewise the doubtful loan constituted of 0.026851% and loss loan constituted of 0.457476% respectively. In the same way in 2010, the pass loan provisioning was 66.786069% and restructured provisioning was 0.402682% .Likewise the provision for substandard , doubtful , loss were 2.210267% ,0.872432% and 29.728550% respectively .

Comparing the 2009 and 2010 figures, the total loan sanctioned increased quite substantially. The performing loan percentage decreased marginally from 99.419159% in 2009 to 99.379624% 2010. The pass loan % increased from 99.318710 to 99.330% which is a good sign. The non performing loan increased from 0.580841% in 2009 to 0.620376% in 2010. There has been a slight increase in the non performing loan. We cannot conclude anything from this because there has been substantial increase in the total loan sanctioned. But we can say there has been slight increase in bad loans but nothing to be worried about.

The substandard loan increased from 0.029233 % to 0.136050% in 2010 from 2009 .Similarly the doubtful loan decreased from 0.031189 to 0.026851%. There was decrease in loss from 0.520420 % to 0.457476% .This is a good sign because the loss has decreased.

In the same way the pass loan provision increased from 65.056476 to 66.786069%. The restructured provisioning decreased from 0.795551 to 0.402682% The substandard provisioning increased from 0.459318 % to 2.210267%, doubtful provisioning decreased from 0.980104% to 0.872432% and loss provisioning decreased from 32.708550% to 29.728550% .

Table - 13

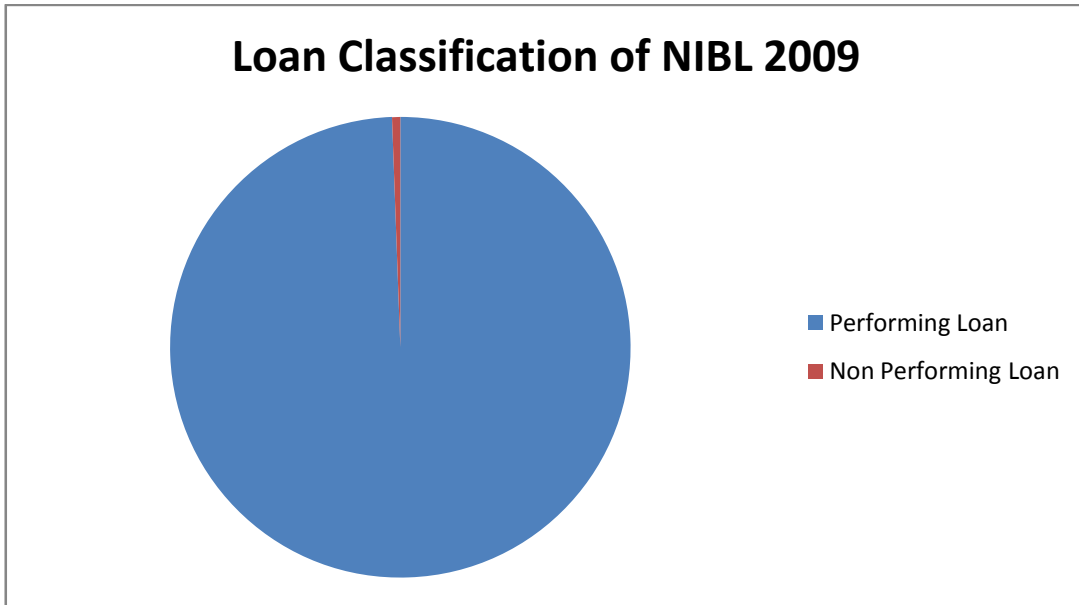


Table - 14

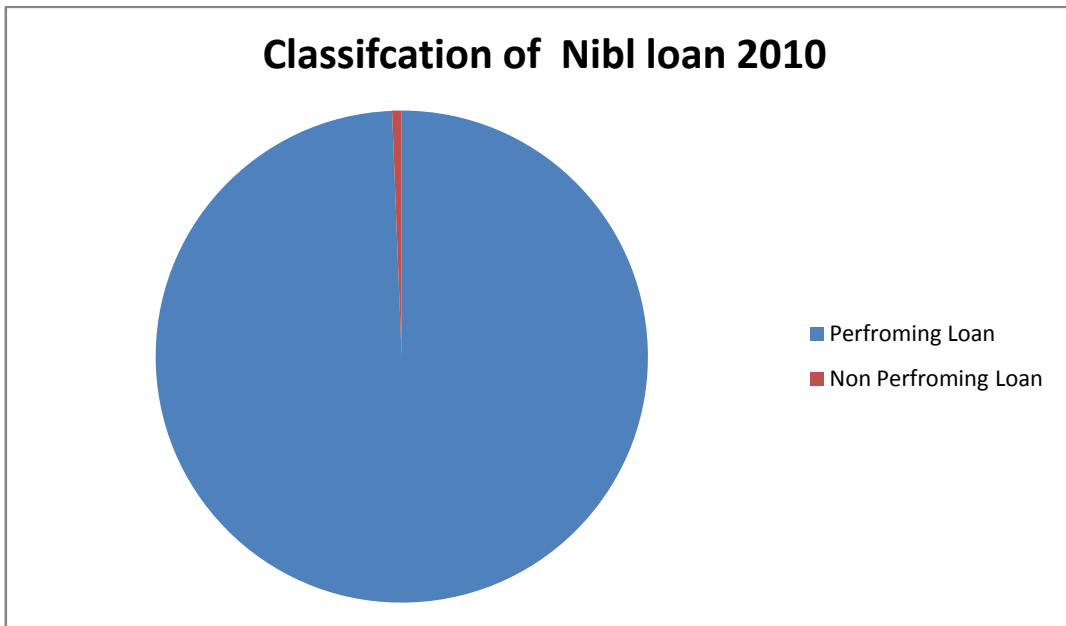


Table - 15

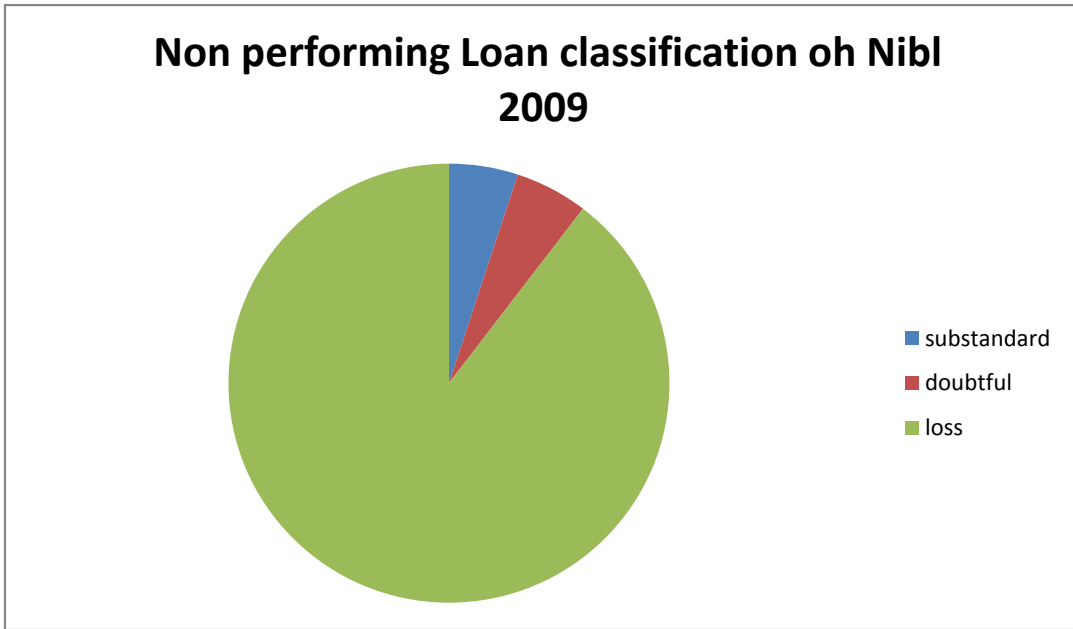
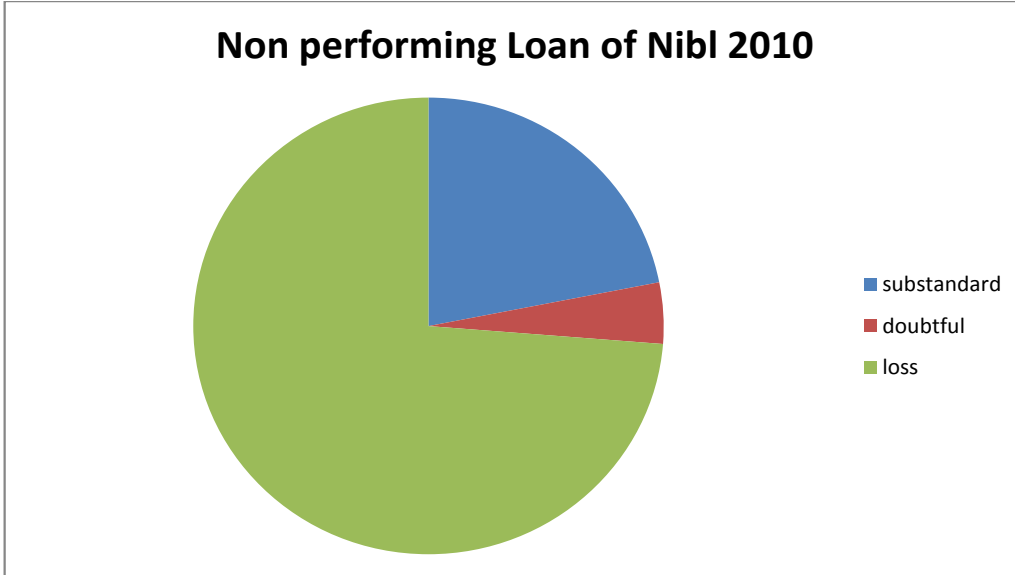


Table - 16



4.5 Analysis of Real estate exposure of four commercial banks

Table - 23

Kumari Bank's Real estate Exposure out of total Loans

Day/month /year	15.7.09	16.07.2010	16.07.2011	17.10.2011
Real estate Loan	4557,976,000	36,00012 ,000	29,54,712,000	29,09,097,000,
Total Loan and Advances	14,593,347,000	14,766,119,000	14,666,309,000	15,569,380,000
Percentage of real estate loan to total Loan	31.23%	24.380217	20.146	18.6847 %

The total loan on real estate has been decreasing and so has the total percentage .In 2009 it was 31.23% but now it has gone down to 18.6847% .KBL bank still needs to reduce the real estate loan and make it to around 10%.

Table – 24

Nepal SBI Bank’s Real estate exposure out of total Loans

Day/Month/Year	15.07.2009	16.07.2010	16.07.2011	17.10.2011
Real estate Loan	1,177,483,000	14,28,777,000	17,33,730,000	1752,027,000
Loan and advances	15612,050,000	17,480,548,000	21,265,771,000	21,117,826,000
Percentage of real estate loan to total loans and advances	7.5421%	8.11452%	8.11452%	8.296436%

Some of the data are in gross figure and some are in net .Anyways the Percentage of real estate exposure is around 8 % which is very manageable .NEPAL SBI has not lent heavily on real estate . They have followed a very conservative and strict lending policy. This may be the reason for their NPL not increasing.

Table - 25

Himalayan Bank’s Real estate exposure out of Total Loans

Day/Month/Year	16-07-2010	16-07-2011	17-10-2011
Real Estate Loan	29,44,546,000	36,50,371,000	3,739,746,000
Total Loan and Advances	29,123,755,000	32,968,270,000	34,442,195,000
Percentage of Real Estate Loan to Total Loan and Advances	10.110461%	11.072377%	10.858036%

The total loan exposure of Himalayan Bank is around 10%. This is a moderate exposure .The total amount of Real estate loan has been increasing, partly because of the total increase in deposit. But I feel if the bank lowers its exposure in real estate and brings it back to 8% it would be even better. Since the total loan and advances is high for HBL even 10% of the total loans and advances amounts to a lot of exposure.

Table - 26

Nepal Investment Bank's Real estate exposure out of total Loans

Day/Month/Year	16.07.2010	16.07.2011	17.10.2011
Real estate Loan	10,093,750,000	9,014,181,000	8,822,525,000
Total Loans and advances	40,948,440,000	41887,694,000	42,545,939,000
Percentage of real estate loan to total loans and advances	24.64990	21.51987	20.73646

The total amount of loans and advances of NIBL has been decreasing .Presently ,the percentage of real estate loans to the total Loans and advances stands 20.73646 which is high . NIBL should stop lending in the real estate and reduce the percentage of loans given in real estate .It should try to bring the percentage to 10% of total loans and advances. Since the realty market is not picking up the bank could be in trouble.

4.6 Analysis of primary data

A structured interview was taken with the credit department personal of NIBL, NEPAL SBI, HBL and KBL and with customers from these banks. The interview was basically about loan process, lending policy, recovery, liquidity and others.

The following analysis has been done from the interview taken from the Credit department staff of the four banks.

General Findings from the interview of the Four Banks

From the interview it has been found out that all the banks generally have the same procedure for Loan Application .The initial process of lending starts off with marketing department. They first identify the customer; conduct preliminary screening .Preliminary screening of the loan applicant is essential and important for further processing of the loan.

In most of the banks the loan process is similar. They do preliminary screening , after that they make site visit , and if agreed will refer to the main branch .Small loans processing is faster than large loan .On average the loan processing time is moderate .

SMEs (Small medium enterprises), real estate and housing are the most popular among customers and they should get the priority while lending. Other areas of potential investment opportunities include tourism, Hydro others .The increase in NPL in some cases can be attributed to slow economy, difficulty in recovery of real estate loan and so on . There was liquidity problem in some banks, good treasury measures helped solve the problem .Now the liquidity problem is almost over.

Most of the banks are in consolidation stage and are working very hard to make the liquidity optimal. There is very little Staff turnover in the banks.

KBL

The loan process starts with preliminary interview. On the basis of their capacity and capital requirement they will be screened to find out whether they are genuine clients or not. There are checklists for different types of loans. The check listing will also be done. After that the engineers and valuers will go and see the property or collateral and see if there is a 10-12 feet motor able road. If it is accepted the branch manager forwards to the head office. The loan giving is a serious exercise. The main problem with decrease in profit and NPL increase was due to non recovery of investments in the real estate and margin lending sector. Currently there is no problem of deposit .More investment should be done in Hydro projects and SMEs .SMEs is the most popular type of loans among customers. The loan processing takes one week to 20 days. KBL's loan processing is fast and need based .Recovery of real estate is the most difficult. The bank is in consolidation and little bit of expansion phase.

Nepal SBI

Nepal SBI bank's loan application is similar. Its looks at the client's background and their income and collateral. The most important is the background. Preliminary screening is done in informal way .The person's income or company profitability, location of the land, rent income etc is analyzed. If the client passes the preliminary screening then further consideration is done .In further screening , property is not much of a worry but whether the person has taken loans from other banks becomes important .It is important to find out If the person or clients is genuine . The loan process is very strictly carried out .Loan applications are formally and informally scrutinized. Not only the paper work but their repayment capacity is also analyzed. Safety of loan is a big factor .Time frame for loan processing on average is 1-2 weeks .It will take 2-3 months for big loans. The bank has large foreign currency deposit and the deposit growth is healthy. They have very conservative lending policies and are risk averse and want to take zero risk .There was increase in NPL because of strict NRB rules and paper work but it will go down at the end of the year .There is virtually no investment in real estate and margin lending. Agriculture is one area where there can be more investment .The bank does not take initiative to lend in new areas and has not put its hands in new sectors .The bank does pure banking .They are not influenced by other people or other banks attitudes . They are risk averse. There is relatively more turnover is junior level staffs but there is very little turnover in officers level.

HBL

In the Loan process first the customer's status and work is evaluated. Then it is found out what type of loan they need god/home e.t.c. Then documents for shops, offices, others are seen. For business, offices, shops audit report are required. After that vat and pan papers are examined. Then the collateral (Lalpurja and Charkila) is examined. The nata praman or relationship status is seen. The family background is looked into. After the first screening is approved, form is given. After documentation is approved account is opened. If approved it is sent to head office. While seeing the documents Work, business and cash flow is the first priority. Second priority is given to land and building. The loan processing is finished within in 14 days, 7 days after the documents have come.

Branches has approval authority of 20-25 lakhs. Compared to other banks, the loan process is stricter. The increase in NPL, loan loss provision and decrease in profit in 2010 was due to out of valley loan problems which is being solved. There are one two big loan problems which can be solved. Recently the l/c case, case against other party has been won. During Liquidity crunch, no loan or very few loan were given for 4 months. Deposit have been increasing due to good will and remittance. The bank is going slow and steady and it is in consolidation stage. There is currently no problem of liquidity. The main reason for the increase in NPL was due to default in repayment by the manufacturing sector. The bank has a balanced portfolio; it has given money in mixed sectors. Due to good interest rate, easy withdrawal, hassle free account opening and more facilities there is lot of money from remittance. SMEs loan is the most popular among the customers. SME loans usually range from 5 lakh to 5 crores. Loan recovery of old loans is the most difficult. The bank is helping the economy to grow; it is following its motto. Hire purchase is the most difficult to recover. There is very little staff turn-over.

NIBL

The process of loan approval starts with: Whether there is enough collateral or not. Is there enough salary or rental income. Then if it is a company or business, the audited financial details of the company is looked. Land taken as collateral should be in motor able road, there should be no high tension wire, and should not be guthi ko jagaa. First the retail /Credit office will see and brief the client. Then the documentation is seen. If it is ok then there is site visit. Head of corporate loan department approves loans upto 40 lakhs, The GM approves from 40 lakhs to 2 crore and CEO

looks after loans more than 2 crore .The loan Processing paper work is relatively slow . For small loans, it is 2-3 weeks and bigger loans it is 2-3 months. In keeping in line with the NRB directive for giving loans and keeping in mind the C/D ratio, the bank is strict in the loan processing. It has reduced the overdraft limit and the overdraft value .The bank was in expansion phase for 2-3 years but it is stagnant and in consolidation phase right .The bank is trying to discourage high cost deposit like call account , fixed deposit and encourage low cost deposit like saving mix . It is trying to increase customer base .There is potential for investment in SMEs (small medium enterprises) and tourism and other sectors. The most popular loans among customers are real estate and housing .The loan processing should be expedited.

Analysis of responses from the customers of the four banks

The respondents of the four banks, felt that that loan process is easy, moderate and hard. The customers thought that the loan processing is moderate and fast.

The difficulty of getting loan is due to tough documentation and security shortfall. Response of the management has been good in three banks and in one case it is satisfactory The reason for paying in time is enough cash flow , good business and the reason for not paying in time is not enough cash flow, bad business . Another reason for paying in time is following rules .The reason for not paying in time is due to negligence and because customers did not have time. The reason for people to default is cheating by customers, bad attitude, because of bad business; it is also because of high receivables and stock position. Staffs bother in case of dues .It is the staff duty to bother for recovery

The most popular sector is home loan, real estate, business loan .More loans should be given in SMEs, trading, small business and big business.

The changes that should be made in the loan process is it should be more fast and easy .For genuine people it is tough and for fraud people it is easy .Loan should be given according to the need .There should be need based loan and loans should not be given only to big borrowers . The loan process should be made easier and less time consuming. There should be reduction in service charge and interest rates.

KBL

Out of the three respondents one respondent thought that the loan process was moderate and one thought it was easy .Similarly one respondent thought that the loan process was fast and other respondent thought it was moderate .According to them the difficulties of getting loan are fixed assets , security shortfall and documents requirements. The management reaction after the loan has been given is good. The management bothers them in case of dues.

The reason for paying in time is sufficient fund and profit in business, similarly the reason for not paying in time is insufficient fund and loss. The reason for default is high receivables portion and stock position .There should be more loans given in trading business and small business .There should be reduction in service charges and interest rate.

Nepal SBI

According to customer paper work of the loan process is hard. According to the customer the loan processing is fast if you know somebody but slow if you don't have reference. The management response has been reasonably satisfying.

The reason for customers to pay in time is if the goal is achieved, cash flow is good .work goes according to plan. The reason for not paying in time is if cash flow and income source is low .The reason for default is cheating of banks by customers .Business loan is the most popular among customers. According to the customer Yuva Sarojgar should be encouraged .without collateral loan should be given to young people with skills and trainings to do their own business.

HBL

The paper work is easy .The loan process is fast. Response of management good The reason for paying in time is to follow rules .The reason for not paying in time is negligence from customers and sometimes the customers doesn't have time to pay .The reason for default is bad attitude .

Home loan is the most popular among customers more loans should be given in business loan for both small and big business. According to the customer the changes that should be made in the loan giving process are:-

The loan should be given according to the need based, based on the background statistics. Loans should not only be given to large borrowers.

The process should not be time consuming .The loan processing should be made easier and processing should be faster.

NIBL

The loan process is easy .The paper work is moderate in term s of time. The difficulties of getting loan is documentation is tough .The management has behaved nicely after the loan has been given. It is the staff's duty to bother for recovery in case of dues.

The reason for paying in time is good business .Home loan is the most popular among customers Loan should be given to small business. Changes that should be made in the loan process are making the loan process easy. According to the customers for genuine people it is tough for fraud people it is easy.

The detailed questionnaires and answers of the four banks are in appendix II.

4.7 Liquidity Crunch and How NRB is using measures to ease it.

Liquidity crunch is a situation when cash sources are in short supply. There was liquidity crunch in banks and financial institutions in Nepal from 2009 to 2011. But still there is some problems related to liquidity. From the data also we can see that deposit growth in the banks were lowest among the five years during 2009 to 2011 .In fact in KBL the deposit decreased in 2011.

Some of the causes of liquidity crunch were:

- 1) Reckless lending in the realty sector
- 2) The greed of promoters and their interference in the management of their bank.
- 3) Indiscriminate licensing of new banks.

The central bank's measures to tackle liquidity crunch are as follows:

- 1) By relaxing the refinancing facility, issuing “repo”, repurchase agreement (issuing loan against bank securities) twice a week and injecting (reportedly 5 billion) lying in the government pension account in the economy.
- 2) The central bank has also said it will be flexible on the non-performing loan (NPL) level and the C/D ratio while providing loan under the refinancing facilities.
- 3) NRB has also decided to open another window for refinancing a provision that BFIS could get refinance up to 60 percent of the core capital for four months. Earlier they could get refinancing of up to 40 percent of their core capital for six months.
- 4) It has lowered the Cash Reserve Ratio (CRR) the reserve the banks need to keep in NRB from 5.5 to 5 percent . This has infused RS 3-4 Billion into the market and helped ease the liquidity crunch.

4.8 Major Findings of the Study

The Major Findings of the Study are given below:

Deposit

The first quarter result as of 17.10.2011 indicates an increase in deposit of all the four banks. This is an indication that the liquidity problem might be over. Let's review the four banks individually.

Kumari Bank has been able to get reasonable amount of deposit but its deposit decreased in the year 2011 from 2010. So Kumari Bank is finding it very hard to get new deposits. But recently its deposit has increased which is a good sign. There has been a good growth in deposit. This also tells that now the liquidity problem in the bank is slowly going away.

Nepal SBI Bank has been able to attract large amount of deposits in the last few years so it just needs to maintain its deposits growth level. Recently its growth in deposit in the first quarter is substantial.

Himalayan Bank has a steady deposit growth. It gets its deposits mostly from remittance service. Account holders of remittance gets lots of facilities, Himal remit is very popular. It has been in the banking business for the last 16 years so it has good goodwill and customer base. So Himalayan bank need not be too worried about deposits. Its growth in the first quarter is quite substantial.

Nepal Investment Bank has the highest deposit among the four commercial banks. Its deposit grew very high but in 2011 it became stagnant and actually the deposit went down by a small amount.

There has been slight growth in the deposits in the first quarter which is encouraging but not enough.

Loans and advances

Kumari Bank's loans and advances are the lowest among the four commercial banks because it has the lowest deposits. A large proportion of Kumari Bank's loans went to Real estate during 2009 and 2010. The bank has been decreasing the amount of loans in real estate. The Credit Deposit (C/D) ratio in 2010 was 80.12.

Nepal SBI Bank's loans and advances have been growing steadily. Nepal SBI is very conservative about lending. Its Credit Deposit ratio is 66.12%. So Nepal SBI still can give more loans and advances. A lot of its deposits have been used for investments like government treasury bills.

Himalayan Bank's loans and advances are average. Its loans and advances have increased steadily. Its investment has to go up. It had below 80% Credit Deposit ratio.

Nepal Investment Bank has given the highest amount of loans and advances. The Credit Deposit ratio is below 80%.

Net profit

Kumari Bank's net profit decreased in 2011 because there was decrease in loans and advances, deposit and an increase in NPL. The profit in the first quarter has decreased compared to the corresponding quarter last year. This is mainly due to recovery problem and increase in NPL because of recovery problem of real estate lending.

Nepal SBI's profit is increasing steadily. Nepal SBI has been very tight with loans and advances. Its loans and advances is around 8% in real estate. It has the lowest percentage of loans and advances in real estate as compared to the four banks. Because it has limited its loans and advances in real estate and margin lending, its overall health is very good.

HBL'S profit is high comparatively but there is lot of fluctuation. It looks very volatile. The profit decreased in the year 2010 due to high NPL and provision which shows the volatility of the bank. The profit of the first quarter is lower than the corresponding previous year's profit. Recovery of loans has still been difficult.

NIBL is the most robust bank among the four banks. Its profit is the highest largely due to its high deposit and good loans. But its profit has sort of reached a plateau and its first quarter profit for FY 2011/2012 has decreased than its corresponding previous quarter profit.

NPL (Non Performing Loan)

Kumari bank's NPL is low but has been increasing for the last two years. It is mainly due to default and bad loan. It is mainly due to difficulties to recover from real estate loans. The first quarter's NPL has also increased.

Nepal SBI's NPL is decreasing every year. It is mainly due to good monitoring policy and strictness in giving loans. They have invested very little in real estate and margin lending. Its first quarter's NPL has risen but it is nothing to be worried about.

HBL's NPL is increasing every year. It is due to non recovery of couple of loans in the manufacturing sector outside Kathmandu valley. It should not let the NPL level touch 5%.

NIBL's NPL goes up and down. It has maintained a reasonably low level of NPL. Its first quarter NPL has risen. The only worry is it has given loans and advances to real estate at around 20% of the total loan. So if there is problem with real estate as there already is, NIBL could be in trouble.

Loan loss provision

KBL's loan loss provision is increasing. There was a big increase in 2010 compared to 2009 this is because NPL is rising and for substandard, doubtful and bad loans we have to provision 25%, 50%, 100% respectively.

Nepal SBI's provision has been following decreasing increasing trend. This is because the non performing loan has decreased but the total loan has increased. We have to provision even for pass loans.

HBL's loan loss provision has been increasing. It increased in the year 2010 heavily mainly because there were lots of bad loans. The non performing loan has been increasing very heavily and the year 2010 witnessed the highest growth of NPL.

NIBL's loan loss provision has been following increasing decreasing trend. It increased in the year 2010. This is because its loan portfolio has increased /decreased. The total amount of provision is high even when the NPL is low because the total volume of loan is high and we have to provision 1% for even pass loans.

Real estate exposure of the four commercial banks.

Kumari Bank and Nepal Investment Bank have the highest percentage of lending in real estate out of the four banks. This could be the reason for increase in NPL in KBL and NIBL. Nepal SBI has the least exposure in real estate. This could be the reason for its stable NPL. Himalayan bank has around 10% exposure in real estate. All the four banks have real estate exposure below 25% of total loans and advances. Since real estate has become a risky, speculative and volatile business, banks should limit lending in real estate.

Loans Classification and provisioning

KBL

Comparing between 2010 and 2009 Loans and advances and provisioning of KBL .The total performing loan percentage and pass loan percentage has decreased which is not a good sign. This means there was increase in the non performing loan.

We can observe that the non performing loan has increased. The percentage of doubtful and substandard loan has decreased but the loss loan has increased. This is a major concern because the major part of the sanctioning is covered by loan loss provisioning. The recovery of loans has not been effective.

Substandard and doubtful provision is for loans which have not be repaid for 3 months and 6 months respectively. Loss is for loans which have not been paid for one year. Substandard loan and doubtful loans are also bad but there will be some chances of recovery within a year, but it is relatively hard to recover loss loans compared to substandard and doubtful loans.

NEPAL SBI

From 2009 to 2010, the non performing loan decreased from 2.0233788 % to 1.475947% which is a good sign. It indicates there was a decrease in bad loans. The substandard loan decreased from 0.084779 to 0.072231 % the doubtful loan decreased from 0.084779 to 0.006201 and the loss loan decreased from 1.866381 to 1.397514% . So there was a decrease in substandard doubtful and loss loan. This decrease is a good indication .It indicates more good loans were floated and more loans are being recovered and there are less chances of default.

HBL

From 2009 to 2010, the total loan sanctioned grew. The performing loan decreased from 97.839655% % to 96.481113%. The non performing loan increased from 2.16034555% to 3.518887% from 2009 to 2010. This is a bad sign .It indicates the loan recovery is not effective. There have been more bad loans. It also indicates more chances of defaults and increase in bad assets.

Similarly there has been decrease in substandard loan and doubtful loan. The substandard loan decreased from 0.657658% to 0.421512% and doubtful decreased from 0.762942% to 0.757182%. But

the loss has increased from 0.739745% to 2.340193% .The loss is the worst form of nonperforming loan .Because there was less percentage of pass loan, the pass loan provision which is 1% decreased from 34.099 to 24.7115% .

Provision for pass loan constituted 24.711516%, the restructured loan 2.004217%. Similarly the substandard, doubtful, loss loans constituted 4.095662%, 9.645472% and 59.543133% respectively.

Similarly the provisioning of substandard loan, doubtful loan and loss loan decreased from 10.209 in 2009 to 4.0965% in 2010. The doubtful loan also decreased from 13.633% to 9,645 %. The loss provisioning increased from 25.865900 to 59.543133% from 2009 to 2010 which is a worrisome sign because loss loan is the greatest fear for banks.

NIBL

Comparing the 2009 and 2010 figures, the total loan sanctioned increased quite substantially. The performing loan percentage decreased marginally from 99.419159% in 2009 to 99.379624% 2010. The pass loan % increased from 99.318710 to 99.330% which is a good sign.

The non performing loan increased from 0.580841% in 2009 to 0.620376% in 2010. There has been a slight increase in the non performing loan. We cannot conclude anything from this because there has been substantial increase in the total loan sanctioned. But we can say there has been slight increase in bad loans but nothing to be worried about. The substandard loan increased from 0.029233 % to 0.136050% in 2010 from 2009 .Similarly the doubtful loan decreased from 0.031189 to 0.026851%. There was decrease in loss from 0.520420 % to 0.457476% .This is a good sign because the loss has decreased.

In the same way the pass loan provision increased from 65.056476 to 66.786069%. The restructured provisioning decreased from 0.795551 to 0.402682% the substandard provisioning increased from 0.459318 % to 2.210267%. Doubtful provisioning decreased from 0.980104% to 0.872432% and loss provisioning decreased from 32.708550% to 29.728550%.

The Correlation Coefficient Analysis

The relationship between the two variables in this study suggests that in most cases there is significant relation between the two variables. There is high positive correlation that is if one variable changes the other also change.

Correlation between deposits and loans and advances:

There is significant relationship between deposit and loans and advances of all the four banks. There is significant relationship between deposits and loans and advances of KBL, Nepal SBI, HBL and NIBL. The more the deposits the more the loans and advances. In all the banks $r > 6pe$ which suggest significant relationship between all the four banks.

Correlation between loans and advances and profit:

The correlation between loans and advances and profit of KBL, Nepal SBI and NIBL is significant. In these three bank $r > 6pe$, (Correlation > 6 *probable error). The more the loans and advances the more the profit. Increase in Loans and profit increases profit.

There is correlation between loans and advances and profit of HBL but there is no significant correlation. We cannot say confidently increase in loans and advances will increase in profit in HBL, we cannot say more the loans and advances more the profit.

Findings from the Primary Data Analysis

The loan process of all the banks are similar. It starts with preliminary screening, then the audit report and financial statements are looked then collateral is looked. The loan process is strict. The increase in Npl is due to non recovery of loans from real estate, margin lending and some manufacturing units. Banks are very tight about giving loans. Among the four banks Nepal SBI is very conservative about lending.

The deposits have been growing due to goodwill of the banks and its long years in service. More loans should be given to SMES. Banks should invest more in Hydro, Tourism, agriculture and productive sectors. Because of good treasury management some of the banks were able to manage the liquidity position even during liquidity crunch. All the banks are in consolidation stage.

According to customers loans should be easily available to genuine customers. Small borrowers should also be encouraged. The most popular loans among customers are home loan, real estate and business loan. The reason for not paying in time is due to negligence and because customers do not have time to pay and poor business, not enough cash flow .The reason for people to default is cheating by customers, bad attitude, because of bad business and because of high receivables and stock position.

Chapter V

Summary, Conclusions and Recommendations

This Chapter highlights some selected implementable conclusions and recommendations made on the basis of the major findings of the study derived from the analysis of Kumari Bank, NEPAL SBI Bank, Himalayan Bank and Nepal Investment Bank. In order to carry out this study mainly secondary data are used. The analysis of data is carried out with the help of various financial and statistical tools.

5.1 Summary

Lending is one of the most important functions of banks and the recovery of loan and advances directly affects the performance and profitability of the banks. There is intense competition in the banking business with limited market and less investment opportunities available. Most of the banks are facing the problem of increasing NPL and default. There is always the possibility of certain portion of the loans and advances turning in nonperforming loan. A study of deposits, loans and advances, profit, Non performing loan and Loan loss provision of the four commercial banks have been done. Each sector's relation with profit has been analyzed.

Correlation Coefficient and growth rate were conducted for the analysis and interpretation of data .The data used in the research is mainly secondary data and extracted from the annual reports of the concerned banks and their respective websites and the website of Nepal share market and others.

The primary data analysis of structured interview taken at various banks with the concerned banks officials and clients has also been presented. The deposits of all the four banks are increasing .There is increase in Npl in all the four banks .Except Nepal SBI there is decrease in profits of all the other three banks ,KBL,HBL and NIBL.

Deposit

The growth of deposits as of 17.10.2011 suggests that all the bank's growth of deposits are good and the liquidity problem might be over .Kumari bank's deposits are comparatively much lower compared to other three banks Nepal SBI Bank has been able to attract large amount of deposits in the last few years . Recently its growth in deposit in the first quarter is substantial. Himalayan Bank has a steady

deposit growth. Nepal Investment Bank has the highest deposit among the four commercial banks .Its deposit grew very high but in 2011 it became stagnant and actually the deposit went down by a small amount.

Loans and advances

Kumari Bank's loans and advances are the lowest among the four commercial banks because it has the lowest deposits. A large proportion of Kumari Bank's loans went to Real estate during 2009 and 2010. The bank has been decreasing the amount of loans in real estate .The Credit Deposit (C/D) ratio in 2010 was 80.12.Nepal SBI Bank's loans and advances have been growing steadily. Nepal SBI is very conservative about lending. Its Credit Deposit ratio is 66.12% in 2010. Himalayan Bank's loans and advances are average. Its loans and advances have increased steadily. It had below 80% Credit Deposit ratio in 2010.Nepal Investment Bank has given the highest amount of loans and advances .The Credit Deposit ratio is below 80% in 2010.

Net profit

Kumari Bank's net profit decreased in 2011 because there was decrease in deposit and in loans and advances and an increase in NPL. The profit in the first quarter has decreased compared to the corresponding quarter last year .This is mainly due to increase in NPL because of non recovery of real estate lending. Nepal SBI's profit is increasing steadily .Nepal SBI has been very tight with loans and advances .Because it has limited its loans and advances in real estate and margin lending, its overall health is very good. HBL'S profit is high comparatively but there is lot of fluctuation .It looks very volatile. The profit decreased in the year 2010 due to high NPL and provision which shows the volatility of the bank. The profit of the first quarter is lower than the corresponding previous year's profit. Recovery of loans has still been difficult. NIBL is the most robust bank among the four banks .Its profit is the highest largely due to its high deposit and good loans .But its profit has sort of reached a plateau and its first quarter profit for FY 2011/2012 has decreased than its corresponding previous quarter profit .

NPL (Non Performing Loan) and Loan loss provision

Kumari bank's NPL is low but has been increasing for the last two years. It is mainly due to difficulties to recover from real estate loans. The first quarter's NPL has also increased. Due to increase in NPL

the loan loss provision is also increasing, Nepal SBI's NPL is decreasing every year .It is mainly due to good monitoring policy and strictness in giving loans. Nepal SBI's provision has been following increasing decreasing trend. This is because the non performing loan has decreased but the total loan has increased .HBL's NPL is increasing every year. HBL's loan loss provision has been increasing and the year 2010 witnessed the highest growth of NPL. NIBL's NPL goes up and down. It has maintained a reasonably low level of NPL .Its first quarter NPL has risen. NIBL's loan loss provision has been following increasing decreasing trend.

Loan classification and provisioning of the four Banks in 2009 and 2010

Comparing the loans classification of four banks in 2009 and 2010, KBL'S total performing loan percentage and pass loan percentage has decreased which means there was increase in the non performing loan. NEPAL SBI's non performing loan decreased which is a good sign. It indicates there was a decrease in bad loans. HBL's total loan sanctioned grew. The performing loan decreased and the non performing loan increased from .It indicates the loan recovery is not effective. The loss provisioning increased from 2009 to 2010 which is a worrisome sign because loss loan is the greatest fear for banks. NIBL's total loan sanctioned increased quite substantially. The performing loan percentage decreased marginally. The pass loan increased which is a good sign. The non performing loan increased. There has been a slight increase in the non performing loan. In the same way the pass loan provision increased the restructured provisioning decreased, the substandard provisioning increased, Doubtful provisioning decreased and loss provisioning decreased.

Real estate exposure of the four commercial banks.

Kumari Bank and Nepal Investment Bank have the highest percentage of lending in real estate out of the four banks. This could be the reason for increase in NPL in KBL and NIBL. Nepal SBI has the least exposure in real estate .This could be the reason for its stable NPL. All the four banks have real estate exposure below 25% of total loans and advances .

The Correlation Coefficient Analysis

The relationship between the two variables suggests that in most cases there is significant relation between the two variables. There is high positive correlation that is if one variable changes the other also changes. Correlation between deposits and loans and advances are significant in all the four banks

.The more the deposits the more the loan and advances .The increase in deposits increases the loans .The correlation between loans and profit in KBL, Nepal SBI and HBL is significant .The more the loans and advances the more the profit .But in HBL there is no significant relation between loans and profit .Similarly the correlation between deposits and profit in KBL, Nepal SBI and HBL is significant .The more the deposits the more the profit .But in HBL there is no significant relation between deposits and profit .

All the banks have good lending procedures and the lending procedures are strict. Preliminary screening is done of all the loan application, credit appraisal and financial position of the business and cash flows of the proposed project and individuals are taken into account.

The most robust and strong bank is NIBL in terms of deposits, Loans and advances and profit and low level of NPL. Nepal SBI is a stable, Strong. Bank with good future. HBL is a good bank in terms of profit and deposits but its NPL is a big concern .So HBL needs to decrease its NPL. KBL is a very weak Bank .Its deposits are low, its NPL is high and its profits are low too

5.2 Conclusion

Out of the four banks Nepal SBI and NIBL's performance is very good. Actually NIBL's performance is excellent .But it has to lower its real estate loan exposure.

KBL's performance is below satisfactory. Its deposit has decreased in 2011 over 2010. Its NPL has increased and has been in increasing trend. Its profit has decreased. It has invested heavily in volatile markets like real estate and margin lending .Although it is trying to reduce its investment in real estate, it will face more problems in the future because the real estate and margin lending in stock market will take a few more years to recover.

Nepal SBI has shown steady increase in profit and steady decrease in NPL. Its loan and advances is steadily increasing .Its C/D ration is 66. % . It has very tight lending policy .It has invested minimally in real estate and margin lending .It has taken risk averse strategies.

HBL's deposits are increasing , its profit are also high .But there is a lot of fluctuation in the profit .Its NPL has risen tremendously and its performance is just satisfactory .But if we take into account its NPL, it's performance is below average .Actually alarm bells should be ringing in Himalayan Bank because of its ever increasing NPL.

NIBL has the highest profit due to its high amount of good loans and high deposits .Its NPL is also very low and it is the strongest among the four banks.

The liquidity crunch, problem seems to be getting over .There has been increase in the total deposits in all the four banks .In HBL and Nepal SBI there has been substantial increase deposits. Except Nepal SBI, profits of all other three banks in the first quarter as of 17.10.2011 have decreased compared to corresponding last year's quarter. This is not a healthy sign .This shows more provision is being done and there is increase in NPL.

All the banks have good lending procedures and they are strict about loan procedures. Preliminary screening is done of all the loan application, credit appraisal and financial position of the business and cash flows of the proposed project and individuals are taken into account. In the future for a couple of years the deposits of the banks will increase slowly There is a high probability that the profit of most of the banks might decrease .There will be increase in NPL for a couple of years due to non recovery from loans from real estate and other sectors.

5.3 Recommendation

On the basis of analysis and findings of the study, the following recommendations have been made:

All the banks need to be very vigilant about giving loans. They should thoroughly scrutinize the paper work and carefully interview the customer who asks for loan .All the banks should reduce their loans and advances to real estate and bring them to about 10% of the total loans within 2-3 years.

Deposits

KBLS's deposit is low. So it needs to increase its deposit by aggressive marketing, increasing customers base and by giving attractive interest rates .It should also be in good liquidity position .So it should decelerate lending for sometime.

Nepal SBI 's deposits are relatively high and they have comfortable deposit which has been steadily increasing .Because of their good will and long years in service Nepal SBI does not have to do too much to increase its deposits .Moreover its lending is just 66% of its deposits.

HBL's deposits have been steadily increasing .It gets its deposits from good will created from being long in the banking service and from remittance. It should focus on giving good loans and curtailing its NPL. It has comfortable deposits till now.

NIBL has good deposits but its growth rate of deposit is slowing down .So it should act more aggressively to increase its deposit by aggressive marketing, advertising, giving attractive interest rates, increasing customer base by giving more facilities, getting hybrid accounts and so on.

Loans and advances

KBL needs to scrutinize its loan and advances procedure. It should greatly reduce its loan in real estate and margin lending .From now onwards it should not give any loans in real estate and housing and try to recover from the past loans. It should reduce its loans and advances to real estate to around 10% in a couple of years.

Nepal SBI should not be too conservative about lending .It should lend more and find areas where it could lend .Maybe agriculture is the new area. It should take calculative risks and take initiatives.

HBL has lent around 10% in the real estate .It has to further reduce its loan in real estate because real estate is very volatile .It should stop giving loans in real estate and margin lending because the NPL is already high . So to reduce the NPL, it has to stop giving loan to real estate and margin lending and recover the loans from real estate and housing .It should really securitize and be vigilant when giving loans.

NIBL should limit its exposure to real estate .It should not lend more in this sector .NIBL has around 20% loans and advances in real estate .Since its loans and advances are very large , 20% comes to a big amount .So it should try to bring its real estate loan to around 10% within a couple of years .

NPL/ Loan loss provision

KBL's NPL is increasing .It should tighten its lending policy and try to recover loans. The loan recovery department should be proactive and should take initiative. Similarly the loan loss provision is also increasing. It should not lend in real estate and margin lending for some time. It should also be strict about loan processing.

Nepal SBI 's NPL is decreasing .It should continue with its policies adopted for giving loan .It should not lend in real estate and margin lending .it should try to recover its bad loans

HBL's NPL is increasing and its loan loss provision is also increasing .It should try to reduce its NPL and loan loss provision .It should not lend in real estate and margin lending. Moreover it should try to recover from loans given to margin lending and real estate. The NPL has been increasing every quarter and the main reason for it has to be found out. In the interview it was said that this was because of 2 - 3 bad loans in the manufacturing sectors. Is that recoverable? The bank should be very careful in giving loans because if the NPL crosses 5% it will be in trouble. If necessary, it could even stop giving loans for some time and fully concentrate on recovery and reducing the NPL. .The bank could be in trouble otherwise.

NIBL's NPL and loan loss provision is reasonable .But it should not allow it to grow bigger and it should try to reduce the NPL .It should stop lending in real estate and margin lending and also strictly monitor its loan giving process.

Loan loss and provisioning

In KBL, the substandard and doubtful loan decreased in 2010 from 2009, which is a good sign but the loss loans increased from 2009 to 2010. This is a more serious problem because loss loans are loans which have not been recovered for a period of one year. This loan is harder to recover. So the bank needs to take proactive and aggressive measures to recover the loan.

In Nepal SBI's case, all the three categories are decreasing which is a good sign.

HBL's substandard and doubtful loans decreased but the loss loan increased. This is more worrisome for the bank. The bank has to take the necessary measure and be more proactive to recover the loans.

NIBL's substandard loan increased. This is not a worrisome sign because substandard loan is easier to recover. Doubtful and loss loan decreased.

Real estate exposure in banks

From now on, all the banks should not lend more to real estate for at least a few years. KBL and NIBL's exposure in real estate is around 20 %, it should bring down to about 10% in a couple of year's. HBL and Nepal SBI'S exposure in real estate is moderate and they should not increase their exposure in real estate.

Suggestions and Recommendations from Primary data analysis

Banks should try to lend in productive sectors like Hydropower, tourism, alternative energy, agriculture and others. It should not lend more in unproductive and speculative sectors like real estate and margin lending. Banks should consider small borrowers too and should not only concentrate on large borrowers and large parties'. For genuine borrowers the loan facility should be easily accessible and available. The loan processing should be expedited. More loans should be given to SMEs (Small Medium Enterprises).

Bibliography

Books

Gordon, E., & Natarajan, K. (Eds). (2008). Banking Theory Law and Practice. Himalaya Publishing House.

Shrestha, Madhu Sundar. (Eds). (2009). Fundamentals of Banking. Kathmandu. Buddha Academic Publishers and Distributors Pvt. Ltd.

Shrestha, Sunity. (1995). Portfolio Behavior of Commercial Banks in Nepal. Kathmandu. Sunity Shrestha

Sthapit, Azaya B.,Gautam, Hiranya, Joshi,Pushpa R., & Dongol, Prakash M. (Eds). (2006) Statistical Methods. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd

Thapa, Rajan Bikaram ,& Rawal, Dirge Bahadur. Principles and Practices of Nepalese Banking .Kathmandu. Buddha Academic Publishers and Distributors Pvt. Ltd.

Wolff, H.K. & Pant, P.R. (Eds). (2005). Social Science Research and Thesis Writing. Kathmandu. Buddha Academic Enterprises Pvt. Ltd.

Yunus, Mohammad .(Eds). (2007). Creating a World without Poverty, Social Business and the Future of Capitalism.

Journals / articles/ other Publication

Bhandari, As. “Etiology and Strategy of credit Repayment” Nepal Rastra Bank

Subba,Sanjib . “Eight reasons why trust and confidence in the banking sector is evaporating and what can be done about it.” Nepal times 17 June 2011 – 23 rd June 2011 from issue 558

Kathmandu post 1st February 2011 “Banks provision stands at 2.29 Billion.” www.ekantipur.com

Shrestha , Prithivi Man. 17th June 2011 “FIs rush to NRB for cash” The Kathmandu post.

Article from the internet

Nepalese article from the internet

“Number of blacklisted defaulters on rise,” The Kathmandu post. 6th February 2011.
www.ekantipur.com

Foreign articles from the internet:

Ernst and young. (2008). “A comparative study of Nonperforming loans of European countries.”
www.3.amazonaws.com/zanran_storag

Khasbosis, S . “NPAs Emerging Challenges in India.”

www.203.115.117.202/Arcil1/.../NPA_S1_Emerging-Challenges.pdf

Reddy,k Prashant. (2002).“A comparative study of Nonperforming assets in India.”
www.unpan1.un.org/groups/public/apcity

Siddique, Mohammad Mohiuddin. “Non performing loan in Bangladesh banking sector some issues and observations.” www.icab.org/journal

Santoni, Alessandro, Ricci, Elisa, Kelshiker Arun . (2009). “Us Banks causes of banks failures in 2009 and early warning indicators.” www.mpsit/nr/rdonlyres/122eaa26/santoniriccikelshiker.pdf

Xu,Min .(2005).“Resolution of Nonperforming loans in China.”

www.w4.stern.nyu.edu/glucksman/docs/xu_2005.pdf

Unpublished master degree thesis

Cheetri, Rashmi . (2009) . Risk Management of commercial Banks. Unpublished Master’s thesis ,Central Department of Management ,Tribhuvan University .

Koirala, Usha . (2010). Credit Risk Management of commercial banks in Nepal. Unpublished Master’s thesis ,Central Department of Management ,Tribhuvan University .

Khanal , Mohan. (2005) . Impact of Non- Performing Loan on the Performance of Nepalese Commerical Banking sector. Unpublished Master's thesis, Central Department of Management, Tribhuvan University.

Khadka , Arjun Dhoj. (2008). Nonperforming loan in commercial banks in Nepal . Unpublished Master's thesis ,Central Department of Management ,Tribhuvan University .

Maskey. Lalima (2004). A Comparative Study of Lending performance of Nepal Arab Bank Limited, Standard Chartered Bank Limited and Nepal Investment Bank Limited. Unpublished Master's thesis, Central Department of Management, Tribhuvan University.

Annual Reports from Websites

Himalayan Bank Annual reports:

2007 Himalayan Bank Annual report www.himalayanbank.com

2008 Himalayan Bank Annual Report www.himalayanbank.com

2009 Himlayan Bank Annual Report www.himalayanbank.com

2010 Himalayan Bank Annual Report www.himalayanbank.com

Kumari Bank Annual Reports:

2007 Kumari Bank Annual Report www.KumariBank.com

2008 Kumari Bank Annual Report www.KumariBank.com

2009 Kumari Bank Annual Report www.KumariBank.com

2010 Kumari Bank Annual Report www.KumariBank.com

Nepal Investment Bank Annual Reports:

2007 Nepal Investment Bank Annual Report www.Nibl.com.np

2008 Nepal Investment Bank Annual Report www.Nibl.com.np

2009 Nepal Investment Bank Annual Report www.Nibl.com.np

2010 Nepal Investment Bank Annual Report www.Nibl.com.np

Nepal SBI Bank Annual Reports:

2007 Nepal SBI Bank Annual Report www.nepalsbi.com.np

2008 Nepal SBI Bank Annual Report www.nepalsbi.com.np

2009 Nepal SBI Bank Annual Report www.nepalsbi.com.np

2010 Nepal SBI Bank Annual Report www.nepalsbi.com.np

Websites

www.ekantipur.com

www.ekantipur.com//the-kathmandu-post/

www.himalayanbank.com

www.Kumaribank.com

www.Nepalsbi.com.np

www.Nibl.com.np

www.Nepalsharemarket.com

www.Nepalitimes.com

www.Nrb.org.np

Appendix I

Kumari Banks' Correlation Coefficient

Correlation between Deposit and loan R= 0.968150

$$\text{Probable error pe} = 0.6745 (1-r^2) / \sqrt{n}$$

$$0.6745 (1-(0.968150)^2) / \sqrt{5}$$

$$= 0.6745 * 0.062686 / \sqrt{5}$$

$$= 0.042282 / \sqrt{5}$$

$$= 0.018$$

$$6pe = 0.1080$$

Correlation between Loan and profit OF KBL

$$R = 0.902981$$

$$Pe = 0.6745 (1-(0.902981)^2) / \sqrt{5}$$

$$0.6745 (1-0.815375) / \sqrt{5}$$

$$= 0.6745 * 0.184625 / \sqrt{5}$$

$$= 0.124530 / 0.055692$$

$$Pe = 0.055692$$

$$0.334152$$

Correlation between Deposit and profit of KBL

$$R = 0.957668$$

$$Pe = 0.6745 (1 - (0.957668)^2) / \sqrt{5}$$

$$= 0.6745 (1 - 0.917128) / \sqrt{5}$$

$$= 0.6745 * 0.082872 / \sqrt{5}$$

$$0.055897$$

$$0.024998$$

$$6pe = 0.149986$$

Coefficient of correlation between deposits and loans and advances

Bank	R	R ²	PE	6PE
Kbl	0.968150	0.937314	0.018	0.1080
Sbi	0.981269	0.962889	0.010995	0.065671
Hbl	0.997248	0.994966	0.000760	0.004561
Nibl	0.995741	0.991500	0.005733	0.034400

SBI's Correlation between Deposit and loan

$$R = 0.981269$$

$$Pe = 0.6745(1 - r^2) / \sqrt{n}$$

$$= 0.6745(1 - (0.981269)^2) / \sqrt{5}$$

$$= 0.6745(1 - 0.963715) / \sqrt{5}$$

$$= 0.6745 * 0.036285 / \sqrt{5}$$

$$= 0.024474 / 0.010945$$

$$6pe = 6 * 0.010945$$

$$= 0.065671$$

Correlation between Loan and advances to profit

$$r=0.966319$$

$$pe= 0.6745(1-(0.966319)^2)/ \sqrt{5}$$

$$=0.6745(1-0.933772)/ \sqrt{5}$$

$$=0.6745(0.066228)/ \sqrt{5}$$

$$=0.044671/ \sqrt{5}$$

$$=0.019977$$

$$6pe =0.119864$$

Correlation between SBI Deposit and profit

$$R= 0.974083$$

$$Pe= 0.6745(1-r^2)/ \sqrt{n}$$

$$=0.6745(1-(0.974083)^2)/ \sqrt{5}$$

$$=0.6745(1-0.948838)/ \sqrt{5}$$

$$=0.034509/ \sqrt{5}$$

$$=0.015433$$

$$=0.092597$$

Correlation between Loans and advances and profit

Banks	R	R2	Pe	6pe
Kumari	0.902981	0.815375	0.055692	0.334152
Sbi	0.966319	0.933772	0.019977	0.119864
Himalayan	0.653861	0.427534	0.172682	1.036091
Nibl	0.959305	0.920266	0.024051	0.144308

Correlation Between deposit and profit

Banks	R	R2	Pe	6pe
Kumari	0.957668	0.917128	0.024998	0.149988
Sbi	0.974083	0.948838	0.015433	0.092597
Hbl	0.627109	0.393266	0.182883	1.097298
Nibl	0.943061	0.889364	0.033373	0.200234

Himalayan Bank'S Correlation between deposit and Loan

$$R=0.997248$$

$$Pe= 0.6745-(1-r^2)/ \sqrt{n}$$

$$=0.6745(1-(0.997248)^2)/ \sqrt{5}$$

$$0.6745(0.002520)/ \sqrt{5}$$

$$=0.000760$$

$$0.004561$$

Correlation between Loans and advances to profit HBL

$$R=0.653861$$

$$Pe= 0.6745 (1-r^2)/ \sqrt{n}$$

$$=0.6745(1-(0.653861)^2)/ \sqrt{5}$$

$$= 0.6745 (1-0.427534) / \sqrt{5}$$

$$= 0.386128 / \sqrt{5}$$

$$= 0.172682$$

$$\sigma_{pe} = 1.036091$$

Correlation between Deposit and profit HBL

$$R = 0.627109$$

$$P_e = 0.6745(1-r^2) / \sqrt{n}$$

$$= 0.6745 (1-0.393266) / \sqrt{5}$$

$$= 0.6745$$

$$= 0.408939$$

$$= 0.182883$$

$$\sigma_{pe} = 1.097298$$

Correlation Coefficient of NIBL between Deposit and Loan and advances

$$R = 0.995741$$

$$P_e = 0.6745(1-(0.995741)^2) / \sqrt{5}$$

$$= 0.6745(1-0.991500) / \sqrt{5}$$

$$= 0.6745(0.008500)$$

$$P_e = 0.005733$$

$$\sigma_{pe} = 0.034400$$

Correlation between Loans and advances to Profit NIBL

$$R=0.959305$$

$$Pe= 0.6745(1-r^2)/ \sqrt{n}$$

$$=0.6745(1-(0.959305)^2)/ \sqrt{5}$$

$$=0.6745(1-0.920266)/ \sqrt{5}$$

$$=0.6745(0.079734)$$

$$=0.053781/ \sqrt{5}$$

$$0.024051$$

$$\sigma_{pe} = 0.144308$$

Correlation Between deposit and profit of NIBL

$$R= 0.943061$$

$$Pe= 0.6745(1-r^2)/ \sqrt{n}$$

$$=0.6745(1-(0.94306)^2)/ \sqrt{5}$$

$$=0.6745(1-0.889364) \sqrt{5}$$

$$=0.074624$$

$$=0.033373$$

$$\sigma_{pe} =0.200237$$

Appendix II

Question asked to the staff of Kumari Bank

Q.1 How is the loan process?

Ans : Walk in or reference Client's capacity and the capital requirement is studied .Then it is found whether it is a genuine case or not .If it is a genuine case then there is further proceedings . After the paper work or loan from the branch office is finalized all the loans files are forwarded to the head office.

Q.2 What is the time frame of the Loan process?

Ans: The loan processing takes one week to 20 days .Kumari banks loan processing is fast and need based.

Q.3 What paper works are needed for the loan process?

Ans:

-) There are Check lists for different things. Different checklist for different loans.
-) Engineer's valuation is done after the things needed in the checklist are fulfilled
-) The bank checks if there is 10-12 feet motor able road in the land put as collateral.
-) The bank also inspects if there is high tension wire above the land and if it is a Guthi ko jagga .

Q.4 How strict is the loan process ?

Ans: The loan process is strict.

Q.5 The Profit has decreased from 316.542 to 276.817million from 2010 to 2011 but there has been increase in Npl of kumari banks from 0.5 to 1.12 from 2010 to 2011. What is the reason for the decrease in profit and increase in NPL in this two years?

Ans: Non recovery from real state lending and margin lending are the main caused for this .

Q.6 Is there a problem on liquidity in the bank currently?

Ans: There is no problem of liquidity in the bank at present.

Q. 7 Is there a sector that you think the bank has over lent . Which sector do you think the bank should lend more and why ?

Ans: No the bank has not over lent in any one sector . The bank Should lend more in Hydro and SMEs.

Q.8 Is the bank following an aggressive marketing policy for collection of deposits?

Ans: Yes the bank is following an aggressive marketing policy for collection of deposits.

Q.9 Do you think the bank has some weaknesses which can be rectified ?

Ans: The bank does not have any weakness.

Q.10 What sector is the most popular among customers?

Ans: SMEs are the most popular among customers .

Q.11 What changes should be made in the loan giving process?

Ans: No changes should be made in the loan process.

Q.12 Is there any Problem with loan recovery?

Ans: Yes there is problem of recovery of real estate loan .

Q.13 Why do you think customers pay in time and why some customers don't pay in time and why do some customers default?

Ans: All related with business .If the business is good there is cash flow and they can pay ,if the business is not good, there is no cash flow and they cannot pay.

Q.14 Do men and woman pay back at the same time or is there a difference .Is it easier to recover from woman than man or vice versa ?

Ans: It's the same with both men and woman .

Q.15 There is a Study which says "The poor always pay back", is it that small loan takers pay in time there is less default than large loan takers?

Ans: Yes that's true small loans are paid back in time and it takes time for big loans to pay back .

Q.16 what stage is the bank in, is it in expansion or consolidation stage ?

Ans: The bank is in consolidation stage .

Q.17 Has kumari banks reached remote places and to the poor ?

Ans: Yes we have reached remote places and to the poor.

Q.18 Has kumari bank lived upto the motto banking par excellence?

Ans: Yes we have lived upto the motto.

Q.19 is there still more room for improvement?

Ans: There is room for improvement.

Q.20 How is the labor turnover ?

Ans: The labor turnover is very few.

Questions to the customers of KBL.

There were basically three respondents I ,II and III

Q.1 What do you think of the paper work for the loan process? Hard, moderate easy.

Ans: The second respondent (II), thought it was moderate and the third respondent(III) thought it was easy.

Q.2 Is the loan processing fast, moderate or slow?

Ans: According to the first respondent (I) the loan processing is fast and the second respondent (II) thought it was moderate .

Q.3 What are the difficulties of getting loan?

Ans: Fixed assets security shortfall , documents requirements.

Q. 4 How has the management reacted after the loan has been given?

Ans: The management reaction is good.

Q.5 Do the staffs bother you too much for loan recovery?

Ans: They bother us incase of dues.

Q.6 What is the reason for paying in time?

Ans: The reason for paying in time is sufficient cash flow and profit in business.

Q.7 What is the reason for not paying in time?

Ans: The reason for not paying in time is insufficient cash and loss.

Q.8 What is the reason for you to default?

Ans: The reason for default is high receivables portion and stock position.

Q.9 In what sector more loans should be given according to you?

Ans: There should be more given in trading business and small business.

Q.10 What changes should be made in the loan process?

Ans: There should be reduction in service charges and interest rate.

Questions asked to the staff of SBI Bank

Q.1 How is the loan process?

Ans: For individuals there is first preliminary screening , after it passes through the preliminary screening there is further screening. In the preliminary the individuals income and background is looked in case of company, the companies' profitability is looked.

Q.2 What things and papers are needed?

Ans: The following things are looked and checked:

-) In case of land the banks sees if it has sufficient motor able road, whether there is High tension wire above the land or if the land is a Guthi ko jagga .
-) The persons Background, income, collateral is checked .
-) Most important is the person's background
-) There is preliminary screening in the informal way.
-) The company's profitability, location, rent income is looked .For individuals also the income is looked.
-) If it passes the preliminary screening then further screening is considered.
-) Further, the property is inspected and the banks see if they have taken loans from other banks.
-) The bank also finds out if they are genuine clients .Why they came and what are their reference

Q.3 How strict is the loan process?

Ans: The loan giving procedures are very strict. All the loan finalization takes place in the head office after it is finalized in the branch office

Q.4. The table below shows the deposits from the year 2007 to 2011. How did the bank manage to increase high deposit in times of liquidity crunch as seen in the table from 2009 to 2011?

11,445,286,030	13715,394,960	27,957,220,794	34,896,424,201	42,415,443000
----------------	---------------	----------------	----------------	---------------

Ans: There is a big foreign currency deposit in the bank as well a local deposit .The deposit growth is healthy because of goodwill and it has been in banking business for some time now .

Q.5 what is your investment in real estate and margin lending?

Ans: There is virtually no investment in real estate and margin lending.

Q.6 Was there a problem of liquidity in the bank ever?

Ans: There was no liquidity problem in the bank.

Q.7 The table below shows SBI's lending from 2007 to 2011, which is conservative in terms of deposit. What is the reason for the bank not lending and keeping so much deposit?

SBI	9460,450,701	12113,698,428	15,131,747,944	17,480,548,194	21,365,771,000
-----	--------------	---------------	----------------	----------------	----------------

Ans: There is no good investment opportunity and the bank is conservative about lending too.

Q.8 The table below shows the NPL of SBI Bank from 2007 to 2011. How did it manage to reduce its NPL and how is the NPL low and decreasing when the whole banking industry is going through such a crisis ?

SBI	4.56	3.83	2.02	1.48	1.10
-----	------	------	------	------	------

Ans: We can say the NPL is not high because we have not invested a lot in real estate and margin lending .We are very conservative about lending .

Q. 9 the first quarter's NPL has risen a little high to 1.59 what is the reason for it .Will it decrease in the whole year?

Ans: The rise in the first quarter is due to strict rules of NRB. At the end of the year the NPL situation will improve. So there is nothing to worry.

Q.10 Is there a sector that you think the bank has over lent?

Ans:There is no sector the bank has over lent .

Q.11 Is the bank following an aggressive marketing policy for collection of deposit s?

Ans: It is following a moderate marketing policy for collection of deposits.

Q.12 Do you think the bank has some weaknesses which can be rectified?

Ans: No the bank does not have any weakness.

Q.13 what sector is the most popular among customers?

Ans: SMEs , Student Loan .Depends upon clients .

Q.14 what changes should be made in the loan giving process?

Ans: There is no need for change in the loan process. It should remain as it is .

Q.15 what sectors should get priority?

Ans: There should be more investment in agriculture .We have not put hands in new sectors .

We are going steady. We do not take lead and we don't take risk.

Q.16 which sector is the most difficult to recover?

Ans: Manufacturing sector is most difficult to recover.

Q.17 What is the problem of Labor Turnover

Ans: No outside people are hired .Junior level turnover is high.

Q.18 what stage is the bank in? Is it in expansion or consolidation stage?

Ans: The bank is in consolidation stage.

Q.19 Has SBI bank reached remote places and to the poor?

Ans: Yes we have reached the remote places and to the poor.

Q.20 Has SBI bank lived up to the motto bisudha banking.

Ans: Yes SBI Bank has lived up to the motto bisudha banking. We are affected by outside influence. We do pure banking. We do not work under influence from big business houses or individuals. We are risk averse pure banking bank.

Q.21 which sector loan has been the toughest to recover and why do you think so?

Ans: Manufacturing sector is difficult. There is labor problem.

Questions asked to the customers of SBI Bank .

Interview with client sanjiv Hamal 2nd January 2011

Q.1 What do you think of the paper work for the loan process? Is it hard, moderate or easy?

Ans: Paper work of the loan process is hard.

Q.2 Is the paper work of loan processing fast, moderate or slow?

Ans: Earlier before I knew anyone in the bank the paper work was moderate but the process became fast afterward after getting the reference.

Q.3 How has the management reacted after the loan has been given?

Ans: The reaction has been reasonably satisfying.

Q.4 What is the reason for customer to pay back in time?

Ans: If the goal is achieved, works according to plan and Income cash flow is good ,then the customer pays in time.

Q.5 What is the reason for not paying in time?

Ans: If Cash flow, income source is less the person cannot pay.

Q.6 What is the reason for customer to default?

Ans: It is cheating of banks by customer.

Q.7 What sector is the most popular among customers?

Ans: Business loan is the most popular among customer.

Q.8 In what sector more loans should be given according to you.

Ans: Yuva sarojgar should be encourage . Without collateral loan should be given to young people with skills and trainings to do their own business .

Q.9 What changes should be made in the loan process

Ans: The process should not be time consuming . Currently the loan process is difficult and tiresome. The loan process should be made easier and processing should be faster.

Question asked to Staff of Himalayan Bank.

Q1 How is the loan process?

Ans: First the following things are looked:

-) Customer status, work, what type of loan they need .
-) Documents if you have business , Shops, office audit report of the business.
-) Vat/pan certificates
-) Collateral, lalpruja and charkila
-) Family background , Nata praman ,Ghar jagga haruko pani hakh

If the client looks genuine from will be given, Then there will be first screening. After the first screening account will be opened and the documents will be seen .If it is ok ,approval is sent to the head office .

Q.2 What papers work are needed?

Ans: In case of land, the bank looks if the collateral put as land has motor able road, whether the land has high tension wire above and if it is a Guthi ko jagga . If any of these things mentioned is present in the land no further loan processing is done.

Q.3 How strict is the loan process?

Ans: Compared to other banks the loan process is strict.

Q.5 The NPL level is given below from the years 2009 to 2011 respectively. What is the reason for increase in NPL level?

2.16	3.52	3.92
------	------	------

Ans: The NPL problem was due to non recovery of loan from out of valley manufacturing industries .

Q.6 What is your investment in real estate and housing ?

Ans: The investment is moderate.

Q.7 The deposit growth looks good it is in a steady state . Is Himalayan bank going aggressively to increase its deposits?

Ans: It is going Normally .The strategy is steady .

Q.8 How was it able to keep up the deposit in times of liquidity crisis?

Ans: The bank was able to keep the deposits high due to good management treasury department, no loan was given for 4 months, 2-3 times only minimum loan was given.

Q.9 You think margin lending and lending to real estate was the main reason of increase in Npl or default in your bank . If not what is the main reason for increase in npl in your bank?

Ans: 2-3 Bad loans in out of valley manufacturing sectors.

Q.10 Is there a sector that you think the bank has over lent . Which sector do you think the bank should lend more and why ?

Ans: We have a balanced mixed portfolio. There is no one sector the bank has over lent .

Q.11 Is the bank following an aggressive marketing policy for collection of deposits?

Ans: It is doing normal marketing, because of the bank's goodwill helps to increase the deposit.

Q.12 Do you think the bank has some weaknesses which can be rectified?

Ans: No, the bank doesn't have any weakness.

Q.13 What sector is the most popular among customers?

Ans: Sme loans are most popular among the customer. . Smes loans range form 5lakh – 5 crore.

Q.14 What changes should be made in the loan giving process?

Ans: No changes should be made in the loan giving process.

Q.15 What are the sectors which should get priority?

Ans: SMEs

Q.16 Is there any Problem with loan recovery?

Ans: Yes in two three big loans .

Q.17 what stage is it in? is it in expansion or consolidation stage?

Ans: It is in consolidation stage .

Q.18 Has Himalayan bank reached remote places and to the poor?

Ans: Yes its branches are throughout Nepal.

Q.19 Has Himalayan bank lived up to the motto the power to lead?

Ans: Leadership motto live up to help the economy. We have been trying to make the economy strong

Q.20 How is the labor turnover ?

Ans: The labor turnover is Low around 5 %.

Q.21 Which sector loan has been the toughest to recover and why do you think so?

Ans: Hire purchase is the most difficult to recover because the collateral is the vehicle.

Question to the Customer of HBL.

Q.1 what do you think of the paper work for the loan process? Hard, moderate or easy.

Ans: Easy Processing

Q.2 Is the loan processing fast, moderate or slow?

Ans: It is fast.

Q.3How has the management reacted after the loan has been given?

Ans: Response of management good.

Q.4 What is the reason for paying in time?

Ans: As per rules one has to follow the rule and if there is enough cash flow.

Q.5 What is the reason for not paying in time?

Ans: The reason for not paying in time is negligence form the customer, and sometimes the customer doesn't have time to pay.

Q.6 what is the reason for customers to default?

Ans: The reason for customer to default is due to bad attitude.

Q.7 What sector is the most popular among customers?

Ans: home loan

Q.8 In what sector more loans should be given according to you?

Ans: More loan should be given in business loan for both small and big business.

Q.9 What changes should be made in the loan process?

Ans: The loan should be given according to the need based, based on the background statistics, loans should not only be given to large borrowers .

Question asked to the staff of Nepal Investment Bank

Q.1 How is the loan process?

Ans: First the bank looks at salary, rental income and other sources of income if any for individuals. For company we look at the audited financial details of the company. If the first requirement is satisfactory then we look at the collateral. When we look at the land collateral we see the access road, we look whether there is motor able road or not, whether there is high tension wire above the land and whether it is a guthi ko jagga . The customer first meets the retail, credit officer. There the documentation and briefing is done. Then after the documentation part is finished the team goes for site visit . Then a memo is written and send . The head of corporate looks at loans upto 40 lakhs . The GM looks at loans from 40 lakhs to 2 crore . For loans more than 2 Crore the CEO sees the loans files . If the loans are approved the loan is given .

Q.2 How many days does it take. Is the process fast moderate or slow ?

Ans: The processing or paper work in Nepal investment bank is relatively slow . Small loans will take 2-3 weeks for big loans it will take 2-3 months

Q.3 Is there a problem of liquidity in the bank? How are you managing it ?

Ans: To keep in line with the NRB directive of maintaining the c/d ratio , there has been low sanctioning of loan . There has been lowering of od limit . For example if a loan of 20 lakhs is sanctioned the limit is till 19 lakhs.

Q. 4 Do you think margin lending and lending to real estate was the main reason of increase in NPL or default in your bank. If not what is the main reason for increase in NPL in your bank ?

Ans: One of the reason is over lending in real state and margin lending but the whole economy was down so one problem lead to another.

Q.5 Is there a sector that you think the bank has over lent . Which sector do you think the bank should lend more and why ?.

Ans: No , there is no sector the bank has overlent .The bank should lend in SMEs , hydro , tourism.

Q.6 What sector is the most popular among customers?

Ans: Among the customers real estate and housing is the most popular .

Q.7 What changes should be made in the loan giving process?

Ans: No changes in the loan process.

Q. 8 Is there any Problem with loan recovery ?

Ans: Yes in some cases .

Q.9 What are your recommendations if any?

Ans: Nibl should expedite and make the loan process fast .To stabilize and increase the liquidity there is marketing and doing things to increase the customers base . High cost deposit like call a/c and fixed deposit accounts are discouraged and low cost deposits like saving are encouraged .

Q.11 Why do you think customers pay in time and why some customers don't pay in time and why do some customers default?

Ans: There is recovery problem because people have invested in different sectors and they are not getting their money back. Due to available cash flow they pay in time .Due to less cash flow they do not pay in time .

Question asked to the customer of NIBL

Interview taken on Thursday 28th December 2011

Telephonic interview Interview with Hari Bahadur Shrestha

Q.1 How is the loan process?

Ans: The loan process is easy.

Q.2 How is the paper work?

Ans: The paper work is moderate in terms of time.

Q.3 What are the difficulties , hindrances of getting loan ?

Ans: The difficulties of getting loan is the documentation is very tough.

Q.4 How have the management behaved after the loan has been given ?

Ans: Good

Q.5 Do the staffs bother too much for loan recovery?

Ans: Its their duty .

Q.7 What is the reason for paying in time?

Ans: The reason for paying in time is good business

Q.8 What is the reason for not paying in time?

Ans: Because it is new business management of fund is difficult .

Q.9 Which loan is the most popular among customers?

Ans: Home loan most popular among customer.

Q.10 In which sector do you think loan should be given?

Ans: Loans should be given to small business.

Q.11 what changes should be made in the loan process?

Ans: Make the loan process easy. For genuine people it is tough for fraud people it is easy.

Contact Information:

Name: Suraj Narayan Singh Thapa

Address : 69 Manjushree Marg, Battisputali, Kathmandu, Nepal

Contact No: +977-1-4470239

Mobile : 9721333026

Email add: surajthapa1@hotmail.com