

A Case Study on
Role of NRB Directives Implementing by Nepalese
Commercial Bank

(with reference to EBL, NIBL & HBL)

Submitted by:

Sudha Baniya

Hari Khetan Multiple Campus

Campus Roll No. 21/065

T.U Regd. No: 7-2-238-32-2003

Submitted to:

Office of Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement of the degree of

Master of Business Studies (MBS)

June, 2012

1.INTRODUCTION

1.1 General Background of the Study

Nepal is a tiny, beautiful and the constitutional secular (Dharma Nirpeksha) Kingdom of South Asia bordered by China to the north and India to the south, east and west geographically. The kingdom of Nepal extends to about 885 km from east to west along with the beautiful Himalayas ranging from 16,000 feet to the highest mountain of the world, Mt. Everest with the area of 147,181 sq. Kms. and population of 2,66,20,809.

Geographically Nepal represents a transitional mountain area between the fertile Ganges plain of India and the arid plateau of Tibet. Ecologically the whole Kingdom is divided into three regions – the mountain, the Hilly and the Terai, running east to west; and Administratively into Five development regions, fourteen zones and seventy-five districts. It is culturally diversified and fabricated by two main religions – Hindu and Baudha. Out of total population, 86.5% people are Hindus, 2.4% are Buddhist and the rest are the followers of the other religions.

Nepal is landlocked country with agro based economy. The country is classified into three parts by geographical nature namely Terai, Mountain & Hills. Nepal is one of the least developed country with less economy growth. More than 80% people are stay in rural area. The per capita income of Nepalese people is \$700.

Capital accumulation plays an important role in accelerating the economic growth of a nation, which in turn is determined among other, by saving and investment propensities. However, the capacity to save in developing countries is quite low with a relative higher marginal propensity of consumption. As a result, such countries are badly entrapped into the vicious circle of poverty. Therefore,

the basic problem for the developing countries is in raising the level of saving and thus investments.

The banking sector is largely responsible for collecting household saving in terms of different types of deposit and regulating them in the society by lending different sectors of economy. The different sector has now reached to the most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in the small-scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy.

Banking concept existed even in the ancient period when goldsmiths and the rich people used to issue the common people against the promised of safekeeping of their valuable items on the presentation of the receipt; the depositors would get back their gold and valuables of the paying a small amount for safekeeping and saving.

Central Bank (NRB) is the Supreme Bank of a country which occupies central position in the monetary banking structure of a country. It enjoys a special group of power like issuing of currencies, foreign exchange, controls credit & representative of government. It is the most important bank in the country. It gives permission to establish other banks & to control their financial activities. It accepts the Deposit from commercial banks & other banks. NRB is the central Bank of Nepal which was established in 14th Baishakh 2013 B.S. under the Nepal Rastra Bank Act 2012 has been amended time & again. It is owned, managed &

controlled by the government. Its objective isn't to earn profit. "Reek Bank of Sweden" is the first central Bank in the world which was established in 1656 A.D. Bank of Denmark is the central Bank of England, India & Denmark respectively. It is very difficult to give a brief & accurate definition of central Bank Different authors have given different definition of central Bank according to situation & need. Some of important definitions of central Bank are given below.

"A Bank which constitutes the apex of the monetary & banking structure of its country is called central Bank". – Dr. D. Kode.

"The central Bank stand as the member- bank is exactly the same relation as the member banks themselves to the public". – Crowther.

"Central Bank may be defined as an institution which is charged with the responsibility of managing, the expansion & contraction o f the volume of money in the interest of the public welfare". Prof. Kent.

From the study of above definitions, central Bank is the bank which has the power & right of controlling all the banks, managing & controlling monetary management of the country, preparing various monetary & economic policies rapid economic development of the country.

1.1.1 Emergence of Bank in Nepal

The history of banking sector is rather more slow evolution. Even now, the banking system is still in the evolution phase so far as banking is concerned with debt, we may go back in the Nepalese history, where a merchant namely “Sankhdhar” is recorded. He was the person who alone paid all debts of the people existing in the country at that time. Since then he introduced a new era called “Nepal Sambat”. This record proves the existence of money lending function at that time. During the course of development of borrowing, there are some steps in the direction of start of banking development in Nepal.

Phase I :- The establishment of “Tejarath Adda” during the tenure of Prime Minister Ranoddip Singh in 1933 B.S. (1876 A.D.) was the first step towards the institutional development of banking in Nepal. It was fully subscribed by the government in KTM. Tejarath provided credit loans to the general public at 5% interest rate on securities i.e. gold, silver & other ornaments.

Phase II :- During the time of Chandra Shamsher (1901-1929), credit facilities of ‘Tejarath’ were extended by opening its branches. Later, ‘Tejarath’ was replaced by the first commercial bank, Nepal Bank Ltd. established on 30th Kartik 1994 B.S. is the first commercial bank in Nepal with authorized capital of 10 million rupees. Then Nepal Rastra Bank was established on B.S. 2013/01/14 as the Central Bank under the Nepal Rastra Bank Act 2012 B.S. Its function was to supervise commercial banks & to guide the basic monetary policy of the nation. In 2013 B.S., Industrial development center was established & later it was converted into Nepal Industrial Development Corporation (NIDC) in 2016 B.S.

As the monetary transaction got more & more complicated on 2022.10.10, Rastriya Banijya Bank was established as a fully government owned commercial Bank. Agricultural development bank was then established on 2024.10.07 to help the agriculture side of the country.

1.1.2 Introduction to the Sample Commercial Banks

1.1.2.1 Everest Bank Ltd. (EBL)

Everest Bank Ltd. established in 1992 as a joint venture bank with Pujab National Bank Ltd. (India) with the objective of extending professionalized banking services to various section of society in the kingdom of Nepal & there by contribute in the economic development of the country. It has 15 branches across the country. Its earning per share is very high.

Share Capital of Everest Bank Limited:

Authorized capital (75,00,00,000 share @ 100) Rs. 75,00,00,000

Issued capital (46,50,000 share @ 100) Rs. 46,50,00,000

Paid up capital (46,50,000 share @ 100) Rs. 46,50,00,000

1.1.2.2 Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank was established in 1986 at the name of Nepal Indosuez Bank Ltd. as a 2nd joint venture Bank under the company act 1964. This is managed by Banque Indosuez, Paris in accordance with joint venture & technical services agreement signed between it's & Nepalese promoters. Banque Indosuez hold 50% of total capital & Nepalese promoters hold other half portion which include government organization holding 30% & general public holding 20% of the total capital. The main objective of the Bank is to provide loan & advances to the agriculture, commercial & industrial to provide modern banking services to the people the paid up capital of bank for the year 1989/90 was Rs. 30 millions. Later the name of this bank is changed as Nepal Investment Bank Ltd.

Share capital of NIBL :

Authorized capital	(100,00,000 share@ Rs. 100) 100,00,00,000
Issued capital	(8013526 share @ Rs. 100) 80,13,52,600
Paid up capital	(8013526 share @ Rs. 100) 80,13,52,600

1.1.2.3 Himalayan Bank Ltd. (HBL)

Himalayan Bank Limited (HBL) is the largest private sector commercial bank of Nepal in terms of deposit base, loan portfolio and capital base. In July 2003 and again in July 2006 the Bankers Almanac ranked HBL as country's no. 1 bank. For the year 2006, it was ranked at 2368 in the worldwide ratings, which are fifty positions ahead of its nearest competitor in the country.

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the Bank also offers industrial and merchant banking services.

Himalayan Bank has always been committed to providing a quality service to its valued customers, with a personal touch. All customers are treated with utmost courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology. This has not only helped the bank to improve its service level but has also prepared the Bank for future adaptation to new technology. The Bank already offers unique services such as SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future.

Himalayan Bank has access to the worldwide correspondent network of Habib Bank for fund transfer, letter of credit or any banking services.

Share Capital of Himalayan Bank Limited:

Authorized Capital	Rs 1,00,00,00,000
Issued Capital	Rs. 65, 00, 00,000
Paid-Up Capital	Rs. 53, 62, 50,000

2. Objective of the Study

The main objectives of the study are as follows:

- i. To find out the importance of central bank in the modern dynamic economy.
- ii. To find out the role of NRB on monitoring & inspection of commercial bank.
- iii. To find out the effectiveness of directives of NRB practically on the commercial banks of Nepal.
- iv. To make necessary suggestions & recommendations.

3. Significance of Study

Nepal Rastra Bank is the main figure of this research study. The directives of NRB are one which government authority controls the banks as well as commercial sector in the country. NRB issues directives to the commercial Bank & financial sectors as well as all of banking financing & co-operative sector time to time in order to control/maintain stability in the financial market. The directives are issued on the basis of monetary policies of the country depending on the directives of the central bank & its central role. So, it is important to find out the practical implementation of the directives in the existing banking environment. In the process economic development, it has become necessary to develop NRB directives to meet the financial as well as commercial banks objectives. The commercial sector is support/supposed to follow the rules & regulation laid down by the NRB. This research though small but placed in sight about the effect of directives of the commercial, sectors & the implementation by them. The directives of the central bank hold a central role in obtaining the success of the monetary policies.

4. Limitation of Study

This report is for the partial fulfillment of MBS. The efforts have made the present and analyze the fact clearly, truly and within the boundary. But reliability of tools, lack of research experience, and lack of data are the primary limitation of this report. Other limitations are:

- i. This study is focused on only few directives among several directives issued by NRB for commercial banks time-to-time. Namely provision of minimum Capital Fund to be maintained by commercial bank, provision of loan

classification and loan loss provisioning on credit and introduction of stringent black listing procedure for loan defaulter.

- ii. This study is based on secondary data received from NRB and other commercial bank.
- iii. Among 32 commercial banks this is based on only 3 banks.

Past five year data fiscal year 2003/04 to fiscal year 2008/08 are taken study and analyze.

5. **Organization of the Study**

❖ **Chapter One :- Introduction**

First chapter will describe about the research it self by defining various aspects of NRB directives concerning to commercial banks of Nepal. This will help to develop the conceptual frame work about the research problem & subject matter.

❖ **Chapter Two :- Review of Literature**

Review of Literature will advance the knowledge about the subject matter as well as general method of doing research in directives on some requirements, which are also defined by the finance & banking expertise.

❖ **Chapter Three :- Research Methodology**

Research Methodology is policy & frame work not within, which we will find the best alternative for making the research effective to analyze on the topic.

❖ **Chapter Four :- Analysis of Data**

Data Presentation & Analysis will evaluate & examine the impact & situation of directives on different section of commercial banks in Nepal.

❖ Chapter Five :- Summary, Conclusion & Recommendations

Moreover, the last chapter will be the summary & conclusion of this research & remedial measures to be applied for further advancement & effectiveness of the directives of the central Bank, NRB to the commercial Banks of Nepal.

6. Research Methodology

Research methodology consists of research design, procedure of data collection and tools and techniques of data analysis etc. It covers quantitative methodology using statistical & financial tools. But the study is mainly based on secondary data collection from NRB & respective annual reports from different commercial banks the nature of data and method of analysis used in the study used are described below.

6.1. Research Design

A research design is the arrangement of condition for collection and analysis of the data in money that aims to combine relevance to the research purpose with economy in procedure. Research design is used to convert to gathered information into spatial form. The present study is mainly based in two types of research design.

Descriptive

Descriptive research design describes the nature and pattern of Nepalese Commercial Sector & Implementation of NRB's Directives on Commercial Bank of Nepal in the changing competitive banking environment.

Analytical

Analytical research design is a tool to convert raw data or raster data to spatial data. It means that the collected crude data remain information less therefore the analytical research design is used to change the uninformative data into spatial form. For the analysis, we tabulate the raw data in columnar and other form. Then, the data will be meaningful. Several statistical & financial tools & techniques are used to analyze the data.

6.2. Population & Sampling

Population refers to the entire group of people or things of interest that the researcher wishes to investigate. The population represents the thirty two commercial banks of the country. Out of 32 commercial banks 3 banks taken as a sample.

6.3. Sources of Data

The study is based on secondary sources but however we can use two types of sources.

Book's related to investment and finance, encyclopedia website of NRB, Encarta and annual report of sampled commercial banks.

Nature of Data

The data collected has mainly concentrated on the **Secondary Data**.

It is collected from various books. Such as journals, articles, reports etc.

6.4. Data Collection Techniques

The following are the data collection techniques which are used to collect primary and secondary data for the study are:

- Studies various books, booklets, magazines, published reports, computer data, bank internet & periodicals.

6.5. Data Processing Techniques

In data processing procedure, we have tabulate classify and analyze the data to give information. The obtained data are presented in various forms like tables, diagrams and charts with supporting statistical interpretations. The detail calculations, which cannot show in the body part of the report, are presented in annexes at the end.

6.6 Tools Used

6.6.1. Credit-Deposit Ratio (C.D Ratio)

If 75% of amount deposited by the customers are invested in various sectors, it is considered satisfactory. It is good sign. This ratio shows the efficiency of the CB to use the liquidity during a particular time. The ratio helps to find out the liquidity position as well as the prediction for the need of additional capital for the CBs. If the given ratio is not maintained by the CBs, there is a scarcity of cash & there is a lack of capital.

6.6.2. Cash Reserve Ratio (CRR)

It is the proportion of the deposit liabilities that commercial banks are required to keep as a cash deposit with the NRB. The level of CRR influences the commercial banks' credit creation capacity. If there is a higher rate of CRR, then the CBs need to keep the higher portion of deposits for CRR purpose with the central bank. As such, they have less deposit for lending purpose. Hence, the higher CRR squeezes the money expansion in the economy. Conversely, the low CRR rate means CBs need to keep less of the deposits so that they can lend more, resulting in the expansion of money supply in the economy. Moreover, CRR also serves as

a measure for smoothing payment system as a prudential measure by avoiding sudden liquidity crunch in the banking system.

6.6.3. Provision of General Reserve Fund

The “A” class financial institution should maintain a general reserve fund. This reserve should be maintained until the amount reached the double of the paid-up capital. Every year, the financial institution should allocate at least 20% of the particular year’s net profit.

6.6.4. Adequacy of Capital Fund on RWA

The importance of the Adequacy of Capital Fund on RWA has increased after the implementation of the BASEL-II by NRB in the recent year. It had mentioned the rate of at least 11% of Tier 1 Capital & Tier 2 capital based on total RWA of the banks.

The concept of capital adequacy aroused after the enactment of the Federal Deposit Insurance Corporation Improving Act of 1991. This act aims to ensure that regulations take action appropriate to overcome the degree of capital short-fall. Capital adequacy of the CBs was defined at least 10% of Tier 1 Capital & Tier 2 capital based on total RWA of the banks.

But, under BASEL Report, Capital Adequacy Ratio¹ consists of (i) Tier 1 Capital Ratio that shows relationship between Tier 1 Capital & total RWA. (ii) Tier 2 Capital Ratio shows relationship between Tier 2 Capital & total RWA.

6.6.5. Arithmetic Mean (A.M)

The most public and widely used measure of representing the entire data by one value is what most laymen set of observation is their sum divided by the number of observation in general X_1, X_2, \dots, X_n are the given "n" observation then their arithmetic mean adding together the entries item and dividing this total by numbers of item obtained its value. The arithmetic mean is also known as averages. The mean is an appropriate term than saying average. The mean of data is biased toward extreme values. The mean is the figure we get when the total of all the values in a distribution is divided by the number of values in the distribution. The arithmetic mean is also known as the average. It should, however, be remembered that the mean can only be calculated for numerical data. The mean is an appropriate term than saying average. The mean of data is biased toward extreme values. The mean is suitable when the scores are distributed symmetrically about the center of the distribution. This is calculated by using following formulae:

¹ Ibid, pp.35

$$\text{Mean (A.M.)} = \bar{X} = \frac{\sum X}{n}$$

6.6.6. Standard Deviation (S.D.)

The measurement of the scatter ness of the mass of figure in a series about an average is known as the dispersion. The standard deviation measures the absolute dispersion. The greater amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series: a large standard deviation means just the opposite. This is calculated as follows:

$$\text{Standard deviation (S.D.)} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

6.6.7. Coefficient of Variation (CV)

The relative measure of dispersion based on standard deviation is called coefficient of std. deviation. The coefficient of variance is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is calculates as follows:

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

6.6.8. Line Graphs/Graphical Presentation

Graphic presentation is a power full and effective way for highlighting variable. A very common way of presenting data for two variables which have a relationship is in a figure or chart similarly graphical presentation support has been also taken to elaborate the collected data for this purpose, line graph has been used in the report to present the calculated values not all data can be presented in figures. It works best when the data is continuous. This is a characteristic of parametric data.

7. Summary

7.1. Summary

The main reason of the business fluctuation of modern times is the expansion and contraction of money and credit. In modern economics, there is the circulation of credit money many times more than the volume of bank note and coins. The central bank, the highest monetary authority of the country should, therefore, control the volume of money and credit for business stability. Since the bank notes are issued by the central bank, it can directly control the volume of money. However, the central bank controls credit through indirect measures. Hence, in an ordinary sense, the policy of the central bank related to the control of money and credit is known as monetary policy. Based on this policy, the central bank of every country makes & gives directives to the different types of

financial institutions for their effective & smooth operation for the economic benefits of the country.

NRB has also updated the financial institution establishment policy with changes where necessary to ensure financial sector stability. Directives have been served to these institutions to increase their paid-up capital base with a view to ensure bank's capacity to bear possible risks of their banking transactions & to encourage merges when necessary. Accordingly, the new licensing policy in place requires having paid-up capital of Rs.2 billion for new commercial banks ("A" class financial institutions) to open. The concept of regional banks has been eliminated. Paid-up capital base for development banks & finance companies has also been raised. Such capital requirement for micro-finance companies to open, however, has not been changed with a view to encourage micro-finance companies to expand. According to the new licensing policy, providing proof of mandatory paid-up capital base by June/July 2010 is a pre-condition for those which have submitted proposals to open new finance institutions. This provision has been made considering the entry of Nepal in WTO. In case of operating financial institutions, they are required to comply with this provision by June/July 2013. Provisions such as individuals intending to invest in these institutions require to proof of tax clearance, & they are not blacklisted by the CIC been made effective.

As a regulator of country's financial & banking institutions, NRB always directly & indirectly advised banks & financial institutions to increase their financial base. The plan for capital enhancement is one of the best solutions to increase capital

strength of banks & complying Basle Accord. The global mantra of facing competition lies in growing big. This is not survival of the fittest alone, survival of “biggest & fittest” is the new theory formed under globalization of world finance.

Banks should pump billions, & still better if they can pump it in hard foreign currencies. This idea of curious policy makers is an example of how the whole banking system is dragged up for competition. The volume of competition & the way it could take place in future are just a matter of guess now. The government & the NRB as a banker’s bank want all public banks, private banks & joint venture banks to be financially strong & healthy because there are lot of challenges & opportunities in coming days.

To maintain financial stability, inspection & supervision system has been made more effective in addition to the updated regulatory works. The time-to-time different directives to the financial institutions by the NRB have been also an effective tool. Following this, a separate monitoring committee has been established to cater for the banks in problem & in-depth supervision & monitoring of such banks has been started. As per the policy of preparing annual reports timely inspection & supervision is done by NRB. To improve the weaknesses & shortcomings observed in the course of supervision, timely directives based on the inspection reports are being issued to the concerned banks & financial institutions. Providing preliminary clearance to the banks prior to approval of their financial statement publication has also been started. Provision of compensation payment for failure to maintain the mandatory cash reserve level & failure to provide deprived class loans has been enforced.

Banks & financial institutions are the backbone of the economic development of a country. They have promoted industrialization & economic development by channeling the public deposit into these sectors. The establishment of the new bank & financial institutions leads more competition in the banking market. To win the competition, banks provide more facilities to the customers with modern technology. At the same time, the probability of loss becomes significant to banks, which are running behind in the competition. In case of insolvency, the public depositors as well as the shareholders of the bank may suffer significantly. It will adversely affect the overall banking sector. Therefore, the supervisory & monitoring of banks & financial institutions is essential to find out the solvency position & take corrective action in time when needed. For this purpose, the central bank of the country, NRB monitors & gives directives to CBs & financial institutions after supervision & inspection.

7.2. Conclusions

Banks & financial institutions in Nepal will have to benchmark themselves against some of the best in the world, for a strong & resilient banking & financial system. Therefore, banks need to go beyond peripheral issues & tackle significant issues like improvements in profitability, efficiency & technology, while achieving economies of scale through available cost effective solutions. These are some of the major issues that need to be addressed by banks in recent scenario, for their success & not just survival, in the changing milieu.

Adequate capital reserve is necessary for financial institutions to minimize risks. Financial crisis faced by the Southeast Asian countries in 1997-98 due to inadequate capital reserve is a living memory. BASEL II guides the capital-structuring requirement, which has been implemented. Accordingly, the banks & finance institutions are required to maintain capital adequacy at 11.0% starting from F/Y 2006/2007.

Another directive of NRB to licensed banks & financial institutions deals with the financial statement. Starting from F/Y 2006/2007, they are required to open capital adjustment fund to meet mandatory minimum paid-up capital by allocating a minimum of 10% of paid-up capital from their profit. For financial institutions not earning profit, they are required to comply with this provision by managing resources from whatsoever sources at their disposal.

In the interest of financial stability, inactive loan amount should be below 5% of total loan. In Nepal, inactive loan amount is high in the banking sector particularly because of some clients being delinquent. Victims of high inactive loan amount are the government-owned banks. Among the measures taken so far to reduce the level of inactive loan, blacklisting has proved more effective.

CD Ratio is one of the most important indicators of the CBs financial performance as prescribed the central bank of Nepal, NRB. It shows the actual liquidity position of the CBs. If 75% of amount deposited by the customers are invested in various sectors, it is considered satisfactory. It is good sign. In the above sample CBs, in average, except the CD ratio of HBL, others CD ratios are in the strong position. According to the C.V. analysis, the CD ratio of EBL is seen most

consistent among the sample banks as its C.V. is seen the least among the sample CBS.

The level of CRR influences the commercial banks' credit creation capacity. If there is a higher rate of CRR, then the CBS need to keep the higher portion of deposits for CRR purpose with the central bank. As such, they have less deposit for lending purpose. Hence, the higher CRR squeezes the money expansion in the economy. Conversely, the low CRR rate means CBS need to keep less of the deposits so that they can lend more, resulting in the expansion of money supply in the economy.

In average, NIBL have maintained the higher level of CRR with 9.876% among the sample CBS & Nabil have maintained the least level of CRR with 5.336%. According to the C.V. analysis also, the level of the CRR of EBL is seen the most consistent during the past five F/Y.

Every year, the financial institution should allocate at least 20% of the particular year's net profit as a general reserve fund according to the NRB rules & directives regarding the provision for general reserve. This provision of general reserve fund helps the CBS to keep in the secured side in crisis of fund.

We see that the sample CBS have been able to maintain the provision of general reserve fund every F/Y. But only, the NIBL has not been capable to maintain the GRF as per the NRB directives since the F/Y 2006/07. Similarly, the GRF of Nabil

was seen only 1.26% in the F/Y 2007/08. According to the C.V. analysis also, the level of the GRF of HBL is seen the most consistent during the past five F/Y.

According to the recent NRB directives regarding the capital adequacy, every CBs have to maintain **at least 11%** of Tier 1 Capital & Tier 2 capital based on total RWA of the banks. Nabil has been capable of maintaining the adequacy of Capital Fund on RWA as directed by NRB. The TCF on RWA of Nabil in average is seen 12.68%. NSBI has been capable to maintain the required capital as directed by NRB. But it has not been capable to maintain the capital requirement in consistent. During the F/Y 2004/05 & F/Y 2005/06, the rate is seen below 11% with 10.95% & 9.47% respectively. EBL, NIBL & HBL has been capable to maintain the required capital as directed by NRB. It has been capable to maintain the sufficient amount of Tier I & Tier II capitals as directed by NRB. This shows the banks least exposure to the risk in the coming days.

According to the NRB directive regarding to the loan loss provision every CBs have to classify the total credit amount into five categories namely: Pass (Good), restructured, sub-standard, doubtful & bad loans. They are classified according to their recovery level & payment of loan & advance by the customers to the banks. In the study, we found that every sample CBs we have taken have strictly followed the NRB directives on loan loss provision & kept according to standard level as prescribed by the NRB. This helps to keep the CBs in the safe side & escape from the credit risk.

Under, the test hypothesis, since calculated F is greater than the tabulated value, the alternative hypothesis, H_1 is accepted & hence the null hypothesis, H_0 is rejected. Therefore, we conclude that there is a significant difference among mean CD Ratio of EBL, NIBL & HBL.

Under, the test hypothesis, since calculated F is greater than the tabulated value, the null hypothesis, H_0 is rejected & hence the alternative hypothesis, H_1 is accepted. Therefore, we conclude that there is a significant difference among mean CRR of EBL, NIBL & HBL.

7.3. Recommendations

1. Proper co-ordination among the NRB, SEBON, & NEPSE should be continued in the coming days for the proper follow of the directives of the all autonomous bodies.
2. NRB has to encourage the simultaneous growth of a sound & competitive financial system in the country. Such objective supports the promotion of momentum policy with stabilization driving economic development of the country.

3. The central bank of the country, NRB has to review its directives time-to-time according to the requirement of the economic situation of the country.
4. Strict action should be taken by the NRB to the CBs who have not followed the directives as prescribed by it.
5. The loan defaulters should be taken into strict legal action in the joint effort of the NRB, Loan Recovery Tribunal, GON & the concerned CBs.
6. As, Nepal has entered into WTO, & government has decided to let the foreign banks to enter into the Nepalese market, the capital requirement for the establishment of new CBs should be strictly follow-up by the local CBs also.
7. Information-technology aid should also be taken by the central bank to make the effective & efficient flow of information to the financial institutions.
8. Proper provision of collection of capital fund required should be made by the central bank. The mode of collection should also be properly mentioned in the act by the central bank.
9. Loan loss provision & the classification of the loans by the CBs should be continued in the coming days to protect from the crisis.

10. Consistency in the indicators should be made among the CBs as far as possible by the central bank, NRB using its authorities & flowing effective directives.
11. Proper implementation of bills & acts namely: Bankruptcy Act, 2063, Credit Rating Institution Bill, Assets Management Corporation Bill, Trustee Bill, Anti-Money Laundering Bill should be passed as soon as possible by GON & also be implemented with the co-ordination of NRB.
12. NRB should not only issue directives for the sake of issuing them but a proper homework needs to be done to combat the problems associated with the directives. It should not happen as the directives related to L/C, where prior study was not done & within a few days of the issuance of the directives, they had to be amended.
13. NRB should be more practicable while issuing the directives to the CBs. Directives should be straight forward, reasonable & with no loopholes with context to the country & not just to fulfill the duty of the central bank only but also as the care-taker of the economy of the country.

BIBLIOGRAPHY

BOOKS:

Bedi, H.L. & Hardikar, V.K. (1993- Ninth Edition) **Practical Banking Advances**, UBS Publishers' Distributors Ltd. 5 Ansari Road, New Delhi- 110 002

Bhandari Dilli Raj (Jan 2003) **Banking & Insurance- Principle & Practice**, Aayush Publication. Kathmandu.

Gupta, S.C., (Sixth Edition Reprint 2006) **Fundamental of Statistics**, Himalaya Publishing House "Ramdoot", Dr. Bhalerao Marg, Girgaon, Mumbai-40004

Ojha, Gorakh, (First Edition, 2051 Baishak) **Money, Banking & International Trade**, Ratna Pustak Bhandar, Bhotahity, Kathmandu.

Pradhan Surendra, (1992-First Edition) **Basics of Financial Management**, Educational Enterprise (P) Ltd., P.O. Box 425, Kathmandu, Nepal.

Shrestha, Manohar Krishna (Ph. D) & Bhandari, Dipak Bahadur, (2nd Edition March 2008) **Financial Markets & Institutions**, Asmita Publication, Putalisadak, Kathmandu.

Sthapit, Azaya Bikarm(Dr.), Gautam Hiranya, Joshi, Pushpa R. & Dongal, Prakash M.,(Fourth 2007) **Statistical Methods**, Buddha Academic Enterprises Pvt. Ltd. Putalisadak-31(Shanker Dev Campus Building), Kathmandu, Nepal

Singh Hirday Bir, (2008- Third Edition) **Banking and Insurance with Guidelines for Project Work & Report Writing**, Asia Publications (P) Ltd., Bagbazar, Kathmandu.

Thapa, Kiran & Neupane, Dipendra (2065- First Edition) **Banking and Insurance**, Asmita Publication, Putalisadak, Kathmandu.

Vaidya Shakespeare, (2001 April-Third Edition) **Banking & Insurance Management** Taleju Prakashan, Kathmandu.

Van Horne, James. C. (Fourth Indian Reprint, 2006), **Financial Management And Policy**, New Delhi: Person Education, Inc.

Wolff, Howard K. & Pant, Prem R., (Fourth Edition, 2006) **Social Science Research And Thesis Writing**, Buddha Academic Enterprises Pvt. Ltd. Putalisadak-31(Shanker Dev Campus Building), Kathmandu, Nepal

MAGAZINES:

Nepal Bank Limited (2044 Kartik), **Nepal Bank Ltd. Golden Jubilee Souvenir Magazine**, Nepal Bank Ltd., Head Office, Kathmandu, Nepal.

Nepal Rastra Bank (2055 Poush Year 4 Vol.1Edition:7) **Banking Pravardan**, Banking Pravardan Samiti, Nepal Rastra Bank, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (2060 Ashad Vol.50) **Prachicharan**, Bankers Prachichara Kendra, Nepal Rastra Bank, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (Baishak 14, 2062) **Nepal Rastra Bank 50th Anniversary Souvenir Magazine-Golden Jubilee Publication**, Nepal Rastra Bank, Governor's Office, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (Baishak 14, 2063) **Nepal Rastra Bank 51st Anniversary Souvenir Magazine**, Nepal Rastra Bank, Governor's Office, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (Baishak 14, 2063) **Nepal Rastra Bank 52nd Anniversary Souvenir Magazine**, Nepal Rastra Bank, Governor's Office, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (2064 Bhadra Vol.36 No.264) **Mirmire Monthly**, Nepal Rastra Bank, Public Relation Department, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (2064 Poush Vol.36 No.268) **Mirmire Monthly**, Nepal Rastra Bank, Public Relation Department, Bulwatar, Kathmandu, Nepal.

New Business Age (Vol.4), **NRB Withdraw Restriction in Commercial Banks**.

REPORTS:

Government of Nepal, Ministry of Finance, Singha Durbar, Kathmandu (2008), **Economic Survey Fiscal Year 2007/07**, Gorkhapatra Sansthan, Dharma path, Kathmandu.

Government of Nepal, Ministry of Finance, Singha Durbar, Kathmandu (July 2009), **Economic Survey Fiscal Year 2008/08**, Dharmapath, Kathmandu: Gorkhapatra Sansthan.

Nepal Rastra Bank (October 2007) **Current Macroeconomic Situation**, Nepal Rastra Bank, Central Office, Research Department, Statistic Division, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (2001/02) **Economic Report 2001/02**, Nepal Rastra Bank, Central Office, Research Department, Statistic Division, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (2006/06) **Economic Report 2006/06**, Nepal Rastra Bank, Central Office, Research Department, Statistic Division, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (Falgun 9, 2063) **Fiscal Year 2063/64- Monetary Policy Mid-term Evaluation,,** Nepal Rastra Bank, Central Office, Research Department, Statistic Division, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank (2062/63) **Aathik Barsa 2062/63 ko Pratibadhan**, Nepal Rastra Bank, Central Office, Research Department, Statistic Division, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank, Research Department, Statistics Division (Mid-April 2008 Number 3)

Nepal Rastra Bank- Quarterly Economic Bulletin, Nepal Rastra Bank, Research Department, Statistics Division, Bulwatar, Kathmandu, Nepal.

Nepal Rastra Bank, Banks & Financial Institutions Regulation Department, Statistics Division (Mid-Jan 2008 No.48)

Banking and Financial Statistics, Nepal Rastra Bank, Banks & Financial Institutions Regulation Department, Statistics Division, Bulwatar, Kathmandu, Nepal.

UNPUBLISHED THESIS:

Adhikari, Rajan Prasad, (May 2005), **Role of Nepal Rastra Bank for the Development of Commercial Banking in Nepal-TH 511**, Unpublished Thesis, Shanker Dev Campus, TU, Putalisadak, Kathmandu.

Kayestha, Jagadishwar Prasad, (1987), **A Study of NRB Role for the Banking** Kathmandu. Unpublished Thesis, TU. Kritipur.

Mistry, Moti Lal (1980), **A Study on the Development of Banking in Nepal with Special Reference to Contribution of NRB**. Unpublished Thesis submitted to TU, TU. Kritipur.

Shrestha, Sabitri (June, 2003), **Impact and Implementation of Nepal Rastra Bank (NRB) Guidelines(Directives) on Commercial Banks: A Study of Nabil Bank Limited and Nepal SBI Bank Limited**, Unpublished Thesis, Shanker Dev Campus, TU, Putalisadak, Kathmandu.

Shrestha, Sharan (January, 2007), **Impact of Nepal Rastra Bank (NRB) Guidelines on Performance of Financial Institutions-TH 691**, Unpublished Thesis, Shanker Dev Campus, TU, Putalisadak, Kathmandu.

Manandhar, Sunil (June, 2006), **Impact & Implementation of Nepal Rastra Bank's Directives on Commercial Banks of Nepal-TH 787**, Unpublished Thesis, Shanker Dev Campus, TU, Putalisadak, Kathmandu.

Rajkarnikar, Pushkar Raj (July 2007), **Supervisory Role of Central Bank- A Case Study of Laxmi Bank, Nepal Investment Bank & Nepal Credit & Commerce Bank-TH 762**, Unpublished Thesis, Shanker Dev Campus, TU, Putalisadak, Kathmandu.

Pandey, Santos (2002), **A Study on NRB Directives Implementation and Impact on Commercial Bank, A Case Study of Himalayan Bank Limited** , Unpublished Thesis, Shanker Dev Campus, TU, Putalisadak, Kathmandu.

Sapkota, Jaya (1981), **Role of NRB in the Development of Nepal**, Unpublished Thesis submitted to TU, TU. Kritipur.

Shrestha, Ma Maya (1975), **Role of Central Bank in Economic Development of Nepal**. Unpublished Thesis submitted to TU, TU. Kritipur.

Yadav, Saroj Kumar (2008), **Impact of Nepal Rastra Bank(NRB) Directives in Commercial Banks of Nepal**. Unpublished Thesis submitted to TU, Shanker Dev Campus.

WEB SITES:

<http://www.nrb.org.np> (Official Website of Nepal Rastra Bank)

<http://www.nabilbank.com.np>(Official Website of Nabil Bank)

<http://www.himilayanbank.com.np>(Official Website of Himalayan Bank Limited)

<http://www.everestbankltd.com.np>(Official Website of Everest Bank Limited)

<http://www.nsbi.com.np>(Official Website of Nepal SBI Bank Limited)

<http://www.nibl.com.np>(Official Website of Nepal Investment Bank Limited)

