

CHAPTER - I

INTRODUCTION

1.1 General Background

Bank is the most important financial institution, which is engaged in monetary transactions. It is an institution, which deals with money by accepting various types of deposit from the depositors under various deposit schemes there by allowing interest on them & also rendering loans on mortgage to deficit unit for productive use by charging interest. Bank accepts various kinds of deposit from the public, which are repayable on demand or on the short notice. Thus, it helps in mobilization of cash from saver groups to user groups.

Bank are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed making loans is the principal economic function of banks to funds consumption and investment spending by businesses, individual, and units of government. How well a bank performs its lending function has a great deal to do with economic health of its region, because bank loans support the growth of new business and jobs within the bank's trade territory and promote economic vitality. Moreover, bank loans often seem to convey positive information to the market place about a borrower's credits quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds form other sources.

For most banks, loans account half or more of their total assets and half to two thirds of their revenues. Moreover, risk in banking tends to be concentrated in the loan portfolio. When a bank gets into serious trouble, its problems usually springs from loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies, or an unexpected economic downturn. A detailed analysis of the documentation and collateral for the largest Loan, a review of a sample of small loans and an evaluation of the bank's loan policy should be properly monitored to ensure that it is sound and prudent in order to protect the public's funds. Thus it becomes necessary that the funds of the bank, which has been granted as loans, into various sectors be thoroughly inspected to guarantee the protection of the bank against unforeseen risks.

In the present context, the role of money in the economy has become very important. Proper and well-planned management of money –directs, determines and enhances the health and productivity of total financial sector and performance of financial sector affects the growth of the economy. Bank collects, disperses and controls the flow of money. Banks collect the funds from public who has savings and it disperses the fund to the people who are in need of it. This way, whole infrastructure of national development, direction of economy, rate of progress and even the habit of people is being the function of the banking system. Therefore, the existence of bank is for the change in every aspect of human beings and its presence is for the enrichment of the people.

The issue of development always rests upon the mobilization of resources. Bank's Function of lending ensures required volume of capital to resources mobilization. Thus, the foundation of resources mobilization is pillared on the bank's function of lending. The primary issue of economic development is to increase the investment in productive sector. The increase in investment affects positively in every sector of economy such as employment, production, income, government revenue, international trade etc. What roles can a bank play to assist the economic development is the main issue that the banking sector in Nepal and sectors around the world is facing today. The liberalization of economy has posed more responsibility and challenges to commercial banks. This has created new areas of probabilities and posed high degrees of competition risks. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development. The liberalization of financial sector in Nepal has opened a new horizon of expectancy in banking industry. But the liberalization is not easy game to play, it demands for experts to drive it. The liberalization, without the competent driver gives rise to chaos and exploitation in the economy. The efficiency of liberalization is based on the economic discipline and its adherence.

Nepal is one of the least developed countries in the world. More than 90 percent of the total population is still in the rural areas and most of them are still deprived of the physical facilities that are necessary for any human being. However, Nepalese economy is predominantly agriculture; i.e agriculture is backbone of Nepalese economy. More than 90% of the population still directly or indirectly depends upon it for their livelihood. It provides employment to over 80% of the labour force and contributes a major portion to the Total Gross Domestic Product (GDP) and also is a major supply of raw materials to the industries

(www.worldbank.org). The poor structure of Nepalese economy, slow paced industrial sector, low rate of employment, majority of non organized financial sector, lack of organized capital markets etc. have always been demanding an efficient, competent, and liberalized banking industries. The existence of an ideal commercial banking system regularizes the scattered fund form public. Lending to productive sector reduces the idle saving of the country. Commercial banks, if successful in increasing the banking habit of people, would have great power in multiplying the deposits by way of credit creation and this would multiply the investment more than the limit granted by the national savings. The role of commercial banks in the economy like Nepal can be judged from its contribution to a farmer to purchase a buffalo, to a big industry to establish its industrial foundations, to an exporter to produce goods to be exported and to provide a link to the economy, provide conducive trade and commerce opportunities opened up by globalization etc. The Nepalese banking, if worked efficiently in pursuit of its ideologies, would be the people's hope towards prosperity and economic dynamism. In addition, the very essence of people's hope towards the banking system is dependent on its efficiency to implement its lending and investment activities. "The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. The borrow money by taking all kinds of deposits. Then they provide the collected to those who are

In need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. The primary function of a commercial bank is that Of a broker and a dealer in money. By discharging this function efficiently, a Commercial banker renders valuable service to the community by increasing the Productive capacity of the country and there by accelerating the pace of economic Development"¹.

The Banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions, such as merchant banking, credit card business, documentary credit, traveler check business etc. Nevertheless, the importance of leading in banking business is undoubtedly unchanged and remained vital as it was in early day of this business. The classical economic function of bank and other financial intermediaries all

¹ Shekhar & Shekhar, 2000:4

Over the world have remaining virtually unchanged in modern times. What have been changed are the institutional structure, the instruments, and the techniques used in performing these functions²

Lending is not only the most important function of a bank; it also determines the future of not banking institutions. The quality of loan, quality of borrower and quality of securities determines the health of any bank. The efficiency of bank lies in how it multiplies the deposit of depositors. Hence, lending should be accompanied by some basic principals and practices. No banker would willingly give a loan, unless he has sufficient confusability, spread of loan portfolio and compliance with national interests are some of the principle that a banker should follow while granting a loan. Besides there the character of person receiving credit, the capacity of the borrower to utilize the fund, the percentage of borrower stake in the business etc. are basic element which measures the quality of the borrower and ultimately the quality of the loan.

Lending policy is a study in determining the importance of the bank's lending Policy towards National Economic Development because it ensures efficient Allocation of funds to achieve the material and economic well being of the society as a whole. In this regards loan disbursement pattern has been a major catalyst in achieving priority of industries in the context of Nepal's economic development.

All eighteen Commercial Bank in Nepal have their own leading policy apart from government policy and Central Bank's rules. Timely evaluation and reform of leading policy is utmost important for strengthening the position of bank.

1.1.1 Nepal Investment Bank Limited

Nepal Investment Bank Limited (NIBL), previously known as Nepal Indosuez Bank Ltd, was established in 1986 as a joint venture between Nepalese and French Partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricola Indosuez, a subsidiary of one largest banking group in the world. With the decision of Credit Agricola Indosuez to divest, a group of companies Comprising of bankers, professionals, industrialists and businessmen on April 2002 acquired the 50% shareholding of Credits Agricola Indosuez in

² Bhattacharya, 1998: XV.

Nepal Indosuez Bank Ltd. The name of the bank thus was changed to Nepal Rastra Bank and Company Register’s office with the following shareholding structure.

Table 1.1 Share Holding Pattern of NIBL

PARTICULARS	PERCENTAGE
1. Domestic Ownership	100%
1.1 Government of Nepal	
1.2 Commercial Bank (Rastriya Banijya Bank)	15%
1.3 Finance Companies (Rastriya Beema Sansthan)	15%
1.4 Nepalese Business Groups	50%
1.5 General public	20%
1.6 Others	-
2. Foreign Ownership	-
Total	100%

Source: Annual Report of NIBL

NIBL’s policy is to extend quality and personalized service to its customer as promptly as possible. To facilitate the clients and for the convenience of the customer the bank has installed its own “Finance Switch Service” due to which various “Service Delivery Channel” like ATM and POS has been put up for online Banking system. Internet Banking, E-Commerce and mobile banking can be done via this media of technology. Inclined to provide various services in a more personalized and in an efficient manner.

1.1.1.1 Branch Network

NIBL altogether has Forty one branches including the head office. The current network of branches can be represented as:

Figure 1.1: Branch Network
Addresses of 41 NIBL Branches

<p>1. <u>KATHMANDU HEAD OFFICE</u> Durbar Marg, P.O. Box 3412 Tel: 4228229, 4242530 (DISA) Fax: 977-1-4226349, 4228927 Swift: NIBLNPKT</p>	
<p>2. <u>SEEPADOLE BRANCH</u> Suryabinayak, Bhaktapur Tel: 6615617, 6612832 Fax: 6616617</p>	<p>3. <u>BIRGUNJ BRANCH</u> Adarshanagar, P.O. Box 101 Tel (051) 523327, 525277 Fax: (051) 525297, 534271</p>
<p>4. <u>PULCHOWK BRANCH</u> Pulchowk, Lalitpur Tel: 5010188, 5010042 Fax: 5010142</p>	<p>5. <u>BANEPA BRANCH</u> Banepa, Kavre Tel: (011) 664315,662401 Fax: (011) 662402</p>
<p>6. <u>JEETPUR BRANCH</u> Jeetpur, Bara Tel: (053) 520297 Fax: (053) 520877</p>	<p>7. <u>NEWROAD BRANCH</u> Newroad, Kathmandu Tel: 4242858, 4230374 Tel(Basantapur): 4227688, 4227167, 4227290 Fax: 4227050</p>
<p>8. <u>BIRATNAGAR BRANCH</u> Golcha Chowk, Biratnagar Tel: (021) 534523, 534524, 534525 Fax: (021) 534526</p>	<p>9. <u>BUTWAL BRANCH</u> Traffic Chowk, Butwal Tel: (071) 549991, 549992, 549993 Fax: (071) 549888</p>
<p>10. <u>BHAIRAHAWA BRANCH</u> Maitri Road, Bhairahawa Tel: (071) 526991, 526992 Fax: (071) 526990</p>	<p>11. <u>POKHARA BRANCH</u> Chiple Dunga, Pokhara Tel: (061) 538919, 539276 Fax: (061) 538920</p>
<p>12. <u>PUTALISADAK BRANCH</u> Putalisadak, Kathmandu Tel: 4445302, 4445303 Fax: 4445304</p>	<p>13. <u>NARAYANGARH BRANCH</u> Pulchowk, Narayangarh Tel: (056) 571921,571922, 571923, 571924 Fax: (056) 571925</p>
<p>14. <u>JANAKPUR BRANCH</u> Mills Area, Janakpur Tel: (041) 527331 Fax: (041) 527332</p>	<p>15. <u>NEPALGUNJ BRANCH</u> Dhamboji, Nepalgunj Tel: (081) 525978,525682 Fax: (081) 521664</p>
<p>16. <u>THAMEL BRANCH</u> Chaksibari, Thamel Tel: 4218431,4218434, 4218485,4218486 Fax: 4218434</p>	<p>17. <u>KALIMATI BRANCH</u> Kalimati Chowk, Kalimati Tel: 4672493,4672494 4672495,4672548 Fax: 4272612</p>
<p>18. <u>BIRTAMOD BRANCH</u> Traffic Chowk, Birtamod Tel:(023) 543810,543811, Fax: (023)543815</p>	<p>19. <u>BATTISPUTALI BRANCH</u> Battisputali, Kathmandu Tel: 4471690,4471790, Fax: 4470202</p>

<p>20. DHANGADI BRANCH Main Road, Dhangadi Tel:(091) 523620,523706 Fax: (091) 524090</p>	<p>21. <u>GONGABU BRANCH</u> Gongabu Chowk, Kathmandu Tel: 4365318,4365077 Fax: 4365302</p>
<p>22. <u>SURKHET BRANCH</u> Neta Chowk, Surkhet Tel: (083) 524330, 524331 Fax: 524332</p>	<p>23. <u>JUMLA BRANCH</u> Khalang Bazaar, Jumla Tel: (087) 520132 Fax: 520304</p>
<p>24. <u>BOUDHA BRANCH</u> Boudha, Kathmandu Tel: 4915121,4915722 Fax: 4915123</p>	<p>25. <u>HETAUDA BRANCH</u> Bank Road, Hetauda Tel: (057) 526001, 525946 Fax: (057) 526005</p>
<p>26. <u>PALPA BRANCH</u> Tansen,Palpa Tel: (075) 520832,520833 Fax:(075)-520891</p>	<p>27. <u>LUKLA BRANCH</u> Chaurikharka, Lukla Tel:(038) 550120 Fax: (038) 550220</p>
<p>28. <u>NAYA BANESHWOR BRANCH</u> Naya Baneshwor, Kathmandu Tel:4785529,4782289,4782520 Fax: 4785537</p>	<p>29. <u>DHUMBARAHI BRANCH</u> Pipalbot Chowk, Kathmandu Tel: 4009006, 4009007 Fax: 4009009</p>
<p>30. <u>BHOTAHITI BRANCH</u> Bhotahiti, Kathmandu Tel: 4230797, 4230788 Fax: 4230771</p>	<p>31. <u>TULSIPUR BRANCH</u> Tulsipur, Dang Tel:(082)521613,521614 Fax: 521615</p>
<p>32. <u>TRIPURESHWOR BRANCH</u> Tripureshwor, Kathmandu Tel: 4259780, 4259980 Fax: 4260324</p>	<p>33. <u>DAMAULI BRANCH</u> Safasadak, Damouli Tel:(065) 562500,562600 Fax: (065) 562700</p>
<p>34. <u>KRISHNANAGAR BRANCH</u> Krishnanagar, Kapilvastu Tel: (076) 520764, 520765, 520766 Fax: (076) 520354</p>	<p>35. <u>GAIGHAT BRANCH</u> Gaighat, Udayapur Tel: (035) 420952, 420953 Fax: (035) 420954</p>
<p>36. <u>LAZIMPAT BRANCH</u> Lazimpat, Kathmandu Tel:4005058, 4005069, 4005068 Fax:4005065</p>	<p>37. <u>PARSA BRANCH</u> Parsa, Chitwan Tel: (056) 583623, 583624 Fax: (056) 583625</p>
<p>38. <u>MAHARAJGUNJ BRANCH</u> Maharajgunj, Kathmandu Tel:4016151, 4016152 Fax:4016155</p>	<p>39. <u>LALBANDHI BRANCH</u> Lalbandhi, Sarlahi Tel: (046) 501583, 501584 Fax:(046) 501585</p>
<p>40. <u>LAGANKHEL BRANCH</u> Lagankhel, Lalitpur Tel: 5552980 Fax: 5552990</p>	<p>41. <u>WALING BRANCH</u> Waling, Syangja Tel: (063) 440573, 440574 Fax: (063) 440575</p>

Source: www.nibl.com.np

1.1.1.2 Management

NBIL was awarded the “Bank of the year 2003” and “Bank of the year 2005” by London based “Financial Times Group - The Banker”. Experienced people from the field of banking and business composed the term of NIBL. The NIBL management term has efficiently managed the bank’s investments, assets, profits, management and the available technologies. NIBL has to accomplish a number of objectives consistent with other national objective and satisfying their customers. In a business organization changes in structure and management is essential and need as well. NIBL has also been involved for such changes as per its need. Time to time update of the organizational structure of the bank has help to maintain its management strengths and good service delivery. NIBL’s major policy is to open and maintain accounts and transact with individual and organization and goods reputation that engage in business transaction of integrity. We believed that every financial institution should be aware of the possibility that their institution may be misused. For this each organization should have an excellent management term and working staff. Banks are the service industries and human resources is the Backbone of service industries.

Thus, NIBL has also understood this theory and has given considerable focus to Update and develop its organizational structure. NIBL maintains a strict adherence To all NRB banking regulations as they apply to its activities throughout the Kingdom of Nepal. All officers including at the supervision adheres to all regulatory Guidelines. NIBL is responsible for ensuring that units and branches adhere to Federal regulations, and all regulatory requirements are disseminated throughout the bank in a timely manner.

1.2 Statement of the Problem

A sound banking system with spread branches throughout the country, Availing varieties of banking services to fulfill commerce, trade industry and Agriculture need of the country. Is of crucial importance for Nepal.

Following the amendment of the commercial Bank Act 1974, the banking sector saw mushrooming of banks especially in the urban areas. Lately, people have been receiving banking service form quite a number of banks. The establishment of the Nepal Investment Bank has given an impetus to the development of the financial Sector through the expansion of the country’s banking and financial sectors. In Addition, various finance companies co-

operatives, non-governmental Organizations (NGO's) and development banks like Nepal Industrial Development Corporation (NIDC), Agriculture Development Bank (ADB/N) and Rural Development Bank (RDB) are also in existence. Despite this banking expansion, the rural sector is still deprived of banking service.

Present Nepalese banking setup is the result of liberalization of economy, economic requirement, and globalization. In 1990s the development of banking in both quality and quantity was satisfactory. However, subsequent development of commercial banks in quality has not been satisfactory. The center bank, once, had withdrawn permission to register the new bank due to unsatisfactory increment in credit of productive and employment generating sector. The joint venture banks are not interested in granting loans to the priority and deprived sector of the economy. Banking is not being the easy accessibility of the public in remote and village area. Joint venture banks have concentrated their operation mainly in towns and capital of the country.

The main reasons behind the private banks are not interested to establish their branch in remote area is due to lack of confidence of security level. In fact, government is responsible to maintain peace and propriety in the country, but unfortunately the government is not able to perform its job. So, blaming only to the banks for not felling their responsibility for the remote area will not be the fair judgment. Moreover, establishment of branches in the remote area even after taking risk do not generate profit to the banks because government also has not given emphasis to the remote area for its economic development.

There were few commercial banks ten years ago and the majority of economy was dominant by unorganized financial sector. The banking sector had access in major cities and municipalities only. The scene has remained unchanged except there is a dramatic increase in number of commercial banks only. Moreover, if we add Inflation rate and the devaluation of Nepalese rupee with US dollar, it would reflect poorer performance of the commercial banks in both deposits and Rastriya Banijaya Bank in the above increment and judging the performance of other commercial banks only, gives another aspect of failure of private sector banks in Fund mobilization. The allegation does not point towards these private banks only but to the other factors of economy such as instable political situation, immature economy, invasion of foreign products, lack of sound lending policy and uncertainty in economic performances of industries due to uncertain Indian product invasion. This way, commercial banks in Nepal has been facing several challenges, some of them arising from lack of smooth

functioning of economy, some of them arising due to confused policies and many of them arising due to default of the borrows. Liberalization in the economy has produced some degree of opportunities and more than that it has created chaos and uncertainty.

NIBL has the policy of expanding its branches in the remote areas of the country to serve the poor people. It has been providing commercial services to the remote sectors. It is light of the very facts, as commercial bank is the backbone of the economy; it is highly useful to make the present study on Nepal Investment Bank. Moreover, this study is felt needed as to know the pattern to leading status of the bank and other banking services provided to the people. One advantage behind this study also lies in the fact that it helps in bringing into notice the lacks and deficiencies that has to be accomplished by the bank. In addition to these, following are some grossly noted problematic aspects of the study.

- 1) What has been the pattern of Loan Distribution of NIBL to the priority and the deprived sectors?
- 2) Out of the total deposits what has been the percentage of the loan Disbursed?
- 3) Is the lending position sound to reflect a good status of the bank's Performance?
- 4) Lending in industrial sector has been risky project. (This is because most of the industries in the country are running in crisis both financially and technically. The share price of those industries in the market is below par. In this scenario, these industries do not hold the required standard of credit rating unless the government guarantees them). In this perspective, how to deploy the fund to ensure intact liquidity and high profitability and low risk?
- 5) Examine the reason for lack of sustainable lending environment.

It has been apparent that there is a difficulty for long term and medium term loan as the procedure to provide such facilities to the customers is very lengthy. On the other hand, due to the lack of deposit habit of the Nepalese people, a low rate of deposit formation has been observed, which ultimately has been affecting the lending procedure of the bank. Moreover the absence of strong protection by law of recovery of lending or investment has made it difficult for the banks to indulge in lending activities. Banks have to hugely depend on mortgage of properties, however, in case of default the bank is incapable to get back its funds promptly and effectively due to the lack of proper legal procedures.

1.3 Objective of the Study

The main target of this study is to observe the loan disbursement of Nepal Investment Bank. The general objectives this dissertation includes visualization of the actual lending position, its strengths and its weakness. The specific proposes of studies are:

1. To conduct a study about the loan and advances provided to the customers by the bank
2. To determine the amount of loan invested in industrial area.
3. To examine the trend of providing the loan: determine the growth rate annually and hence forecast likely disbursements of loans.
4. To observe whether the loans disbursement pattern is in compliance with the NRB regulation.
5. To assess the impact of lending position of the bank on its profitability.
6. To provide a recommendation for initiating correct measure to improve the lending status of NIBL.

1.4 Scope of Study

Without any argument it can be accepted that a bank's performance hugely depend on the amount and the types of loan it provides. Rather it is believed that the sound helps of the bank relies on the optimum lending position of the bank. which mean; better the lending position of the bank, higher will be the return to the stakeholder of the bank.

This study reveals the role of NIBL in the industrial development as well as identifies the contribution of the bank to the economic development of the country. However, there has been little research done on the commercial banking and especially on the loan disbursements of the banks since most of the population of our country depend on agriculture, it has become essential that these studies are conducted, in order to provide in sight to the people as to what measures are being taken by the banks to facilitate people to carry out expensive ventures and at the same time provide the citizen with economic support. Moreover, the loan disbursement outline of NIBL will be in accordance to people's economic enlistment along with identification of the weaknesses of the loan disbursed in various sectors of the country. The study is conducted with a purpose of determining the trend of the pattern of loan distributed since the past five years. While trying to create a vision of what the trend of loan disbursement would be in the near future.

1.5 Limitations of the Study

This study has been conducted appropriately however there were several complications; which arose indigenously. As this research tries to justify the events in accordance with the well known or already established tools and techniques, emphasis is not given to fundamental and decision oriented study.

There are certain drawbacks on the present study of loan disbursement of NIBL, which emerged as limitations of the study. Following limitations were observed during the course of study:

1. The entire study is based on secondary data, which has already been collected and processed by the bank employees. So its reliability is depend upon the sources.
2. Due to the confidential nature of the banking sector, bankers do not give correct or relevant information on some topics in order to maintain the privacy of the bank. The report is mainly based in the financial statement published by the bank.
3. The data only focuses on the time period of the last five years i.e. from 2005/06 to 2009/010.
4. The data of fiscal year 2010/011 is not available.
5. Time constraint or limited time has had an impact on shaping up the study conducted.
6. The analysis in this study has been conducted on the data available as of end' of the fiscal year i.e. mid July of respective years. A change in this date may affect the conclusion of the study.

The above listed point has in some way or other affected the proper conduct of study. The impact of these may be positive or negative based on their nature. However, effort has been put to minimize the error that may have emerged due to these limitations and discrepancies have been reduced to the minimum.

1.6 Organization of the Study

The overall study conducted has been organized in the following manner.

Chapter-I, Introduction

This Chapter presents the light over view of origin of Bank, Banking system in Nepal and introduction of Nepal Investment Bank, subject institution of the study, in general.

Chapter-II, Review of Literature

This Chapter devoted for the brief review of literature, report and journal available with the support of accepted theories and practices. Conceptual framework about lending position of the subject bank is briefly reviewed. Review from books, journals (articles), thesis etc. are included in this chapter.

Chapter-III, Research Methodology

This Chapter presents the sample taken out from population and methodology used to present and analyze the collected data relevant for the study.

Chapter-IV, Presentation and Analysis of Data

In this Chapter the data collected from various relevant sources is presented and analyzed using various statistical and non-statistical methods. Tables, Bar Graph, Pie Chart, and Line Graph etc. are used for presentation of data. Various financial tools like Ratio Analysis, Assets/Liability Management Ratio, Activity Ratio, Profitability Ratio and Statistical tools like Standard Deviation, Coefficient of Variation, Correlation coefficient, Time Series etc has been used for analysis of data.

Chapter-V, Summary, Conclusions and Recommendations

This Chapter is for summary, Conclusions of the study and to express recommendations to improve any type of lacking, if found in the subject during the study.

Finally, Bibliography of books, all published and unpublished reports, journals and literatures along with Appendixes containing elaborated for of calculation and presentation of detail of data will be jotted down at the end of the report.

CHAPTER - III

RESEARCH METHODOLOGY

The very common meaning of research is “a search for knowledge”. Research refers to search of knowledge through objectives

According to John W. Best, research can be defined as “the systematic and the objective analysis and recording of controlled observation that may lend to development of generalizations, principles or theories resulting in predictions and perhaps ultimate control of events”. Research methodology depends on the various aspects of the research project, time frame of the project, impact of the project in various aspects of human life etc. are the variables that determine the research methodology of that particular project.

3.1 Research Design

Research design is a planned structure and strategy of investigation conceived to obtain answers to research objective through analysis of data. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedures and techniques, which guide the study and propounds ways of doing research. In this way, a descriptive and analytical survey will be done. The justification of the choice of these methods is preferred because it includes reliable data and information covering long time and avoids numerous complex variables.

The research covers one of the major commercial bank in Nepal, particularly in its practice of lending. The research has its basic objective to figure out problem there in and provide them with some recommendation. The literature has been reviewed especially from the past thesis conducted on same aspects of commercial banks. The data for the research are of secondary type.

3.1.1 Sources of Data

The study is mainly focused in analytical part. The main objective of the study is to find the lending strengths of NIBL on the basis of past and present performance of the bank. There are two sources of data, one is primary and another is secondary. In this study only secondary sources of data are used. The annual reports of the bank are the major sources of the data for the study. However, besides the annual reports of the subjected bank the following sources of data shall also be used in the respective corner of the study;

1. NRB Reports
2. Various publications dealing with the subject matter of the study
3. Various articles published in magazines
4. Websites of different institutions

Besides the above, any kind of other sources, such as assertions, interviews, remarks by the specialist of the subject, those are capable in providing valuable data and conclusion, shall be considered in the study.

3.1.2 Population and Sample

The population refers to the entire field and industries of the same nature, which represent and have the similar type of services and products in general. There are 31 Commercial Banks in Nepal. So all commercial Banks are population and out of these NIBL is taken randomly as a sample. Following table shows the population and sample Commercial Banks

Table 3.1: The Sampling Population (Commercial Banks in Nepal)

1. Nepal Bank Ltd.	2. Rastriya Banijya Bank
3. Nepal Investment Bank Ltd.	4. Standard Chartered Bank Nepal Ltd.
5. Nabil Bank Ltd.	6. Himalayan Bank Ltd
7. Everest Bank Ltd.	8. Nepal SBI Bank Ltd.
9. Nepal Bangladesh Bank Ltd.	10. Nepal Credit and Commerce Bank
11. Bank of Kathmandu Ltd.	12. Nepal Industrial & Commercial Bank Ltd.
13. Machhapuchchhre Bank Ltd.	14. Laxmi Bank Ltd.
15. Kumari Bank Ltd.	16. Lumbini Bank Ltd.
17. Siddhartha Bank Ltd.	18. Nepal Merchant Bank Ltd.
19. Global Bank Ltd.	20. Citizen Bank Ltd.
21. Bank of Asia Ltd.	22. Sunrise Bank Ltd.
23. Kist Bank Ltd.	24. DCBL Bank Ltd.
25. Agriculture Development Bank Ltd.	26. Prime Bank Ltd.
27. Janata Bank Ltd.	28. Megha Bank Ltd.
29. Commerz & Trust Bank Ltd.	30. Civil Bank Ltd.
31. Century Commercial Bank Ltd.	

Source: NRB Publication

3.1.3 Data Collecting Procedures

The annual reports of NIBL were obtained from Birgunj Branch of the bank, and the bank's website www.nibl.com especially for the purpose of the study. NRB publications, such as quarterly economic bulletin, banking and financial statistics, economic report, annual reports of NRB etc. has been collected from the website of NRB www.nrb.org.np The data on some of the aspects of the bank was obtained from the website www.nepalstock.com of Nepal Stock Exchange.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter represents the data collected from various sources and also presents and analyzes them to measure the various dimensions of the problems of the study.

4.1 Measuring the Lending Strength (Assets/Liability Management Ratio)

The lending strength of a bank is measured in relative measures on this section. The relationship between various assets and liabilities of the balance sheet has been established to show the relative strengths of lending of the bank comparatively. An attempt is made to determine the lending strength in absolute figure of the bank, regarding to the volume of deposits, loans and advances and other variable.

4.1.1 Measuring the Lending Strength in Relative Term

4.1.1.1 Total Assets to Total Liabilities Ratio

The ratio of total assets to total liabilities measures the volume of total liability in total value of assets. The bank has however the ratio has in the similar range of the five years' period of time. The total assets to Total Liabilities ratio have observed a fluctuating trend for the different fiscal year. The ratio range from 1.06, the lowest in the year 2008/09 to 1.11, the highest in the year 2006/07 indicating an absolute variation -0.05. The ratio of the banks indicates a poor performance; the ratio should not be below two times in a developing country like Nepal. This represent that bank has not been able to successfully convert its liability into asset. Looking at the facts and figures the performance in the year 2006/07 can be regarded as the best, but during the year 2008/2009, the ratio depicts that the banks liability was not effectively used as compared to the year 2006/2007.

Table 4.1: Total Assets to Total Liability Ratio*Rs in million*

Fiscal years	2005/06	2006/07	2007/08	2008/09	2009/010
Total Assets	5,127.40	5,123.00	9,163.90	13,463.40	16390.80
Total Liability	4658.30	4,599.50	8525.40	12734.80	15210.50
Ratio	1.10	1.11	1.07	1.06	1.08

Source: www.nibl.com.np

Table 4.1 represents the five years trend of Total Assets to Total Liability ratio. The ratio has observed an increasing trend except for the year 2007/08 and 2008/09. The absolute indicators of the ratio range from 1.10, the lowest in the year 2008/09. The highest in the year 2006/07 and this ratio is the best performance of the bank according to its ratio.

4.1.1.2 Loan and Advances to Total Assets Ratio.

Loan and advances of any commercial bank represent the major portion in the volume of total assets. The ratio of loans and advances to total assets measures the volume of loans and advances in the structure total assets the high degree of ratio indicates the goods performance of the banks in mobilization in the funds by way of lending function. However, in its reserves sides, the high degree of this ratio is representative of low liquidity. Granting the loan and advance always carries the certain amount of risk. Thus, these assets of banking business are regarded as risk assets. The ratio measures the management attitudes towards risk assets. The low ratio is indicative of low productively and high degree of safety in liquidity and vice versa. The interaction between risk and returns determines this ratio.

Table 4.2: Loans and Advances to Total Assets Ratio*Rs in million*

Fiscal years	2005/06	2006/07	2007/08	2008/09	2009/010
Loan and Advances	2,429.00	2,713.50	5,921.80	7,338.50	10,453.10
Total Assets	5,127.40	5,127.40	9,163.90	13,463.40	16,601.10
Ratio	0.47	0.53	0.65	0.55	0.63

Source: www.nibl.com.np

Table 4.2 represents the five years trend of loans and advances to total assets ratio. The ratio has observed an increasing trend except for the year 2008/2009, where the ratio decreased by 0.10 making it 0.55. The absolute indicators of the ratio range from 0.47, the lowest, in the year 2005/06 to 0.65, the highest, in the year 2007/2008 the best performance of the bank according to its ratio was in the year 2007/08 and 2009/010.

The bank has increased its loans and advances almost four times since the past 5 years. This indicates that the bank has been following a policy of high lending. At the same time the assets of the bank has almost tripled in the five years time period. The ratio cannot be deemed as outstanding but can be mentioned satisfactory.

3.1.1.3 Loans and Advances to Shareholders' Equity Ratio

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

Table 4.3 loans Advance to Shareholders' Equity Ratio

Rs in million

Fiscal year	2005/06	2006/07	2007/08	2009/010
Loans and Advance	2,429.00	2,713.50	5,921.80	10,453.10
Shareholder's Equi	469.08	523.46	638.53	1,180.17
Ratio	5.18	5.18	9.27	8.86

Source: www.nibl.com.np

Table 4.3 explains that the overall ratio of the bank ranges from 5.18, the lowest, in the year 2005/2006 & 2006/2007 to 10.07, the highest in the year 2008/2009. The ratio observed an increasing trend where only in 2009/2010 the ratio decreased by 1.21. The increasing trend is considered as satisfactory. Another reason for the high ratio can be because of the bank is being successful in generating proportionately higher volume of loans and advance. This has led NIBL to be one of the best performers amongst the whole banking industry. This it can be concluded that the bank has been able to increase its loans and advances in proportion to the size of its capital.

4.1.1.4 Priority Sector Loans to Total Loans and Advances Ratio

Earlier, NRB had directed all the commercial banks to flow 12.5% of their total outstanding credit to priority sector loans. The loan provided to agriculture cottage industries, deprived sector of national priority, hydroelectricity and minimum power sector is deemed as the priority sector loans. The ratio of priority sector to total loans and advances refers to the portion of the total outstanding loans and advances that is out flowed in the priority sector. Now, NRB, through its monetary policy for fiscal year 2066/067, has relieved banks from its earlier compulsion to provide loan to priority sector loan.

Table 4.4: Priority Sector Loans to Total Loans and Advances Ratio

Rs in million

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
Priority Sector Loans	243.50	342.54	533.81	641.55	688.89
Loans and Advances	2429.00	2713.50	5921.80	7338.50	10453.10
Ratio	0.10	0.13	0.09	0.09	0.07

Source: www.nibl.com .np

According to the above table, the average amount lent to the priority sector over the past five year is 0.096 times of the total loan. The table represents that the bank has been able to maintain the NRB directives of lending out at least 12% of its total lending to the priority sector. The tabulated value shows that the bank has increased its lending in the priority sector from 2005/06 to 2006/07. It can be seen that during 2007/2008 alone, there was a decrease in the ratio by 0.04 times. This represents that the bank has not only focused on the industrial sector alone, rather, it has been giving equal importance to the priority sector as well. There has also been an increase in the total amount lent out to the priority sector. However, there is decrease in terms of total loans and advances. Earlier, bank were required to lend at least 12.5% to priority sector, so on that basis, NIBL had also tried to maintain its required level, It has met the requirement in 2006/07, however the ratio has been gradually decreased. There may be many factors due to which NIBL has been reluctant to lend towards priority sector. Most of the industries, which are not been able to perform well and are given a change to re-establish and Also categorized to this sector and lending to such units are risky. So, banks cannot go easily to provide loan to priority sector .

4.1.1 Measuring the Lending Strengths in Absolute Term

Under this topic, the various variables in their absolute value are measured. Unlike ratio analysis, different variables are measured individually. The volume of variable and its variables are measured. The value of individual variables enables to measure the gross contribution of the bank in the respective years. Though the ratio analysis solely describes the ratio between the two variables, it does not tell about the absolute value of those variables. Therefore, in this chapter, some of the importance individual variables in their absolute value of mean and standard deviation is examined. At the same time, to measure the relative measure of variability of data; the coefficient of variation is also measured. The absolute value of bank for different years is compared to judge its contribution and its practices.

4.1.2.1 Net Assets

Net assets of a firm refer to total assets minus outsider's liability. This figure measures shareholders' wealth in a firm. Higher the amount, higher will be the volume of business and vice versa.

Table 4.5: Net Assets and Percentage Changes

Rs.in Million

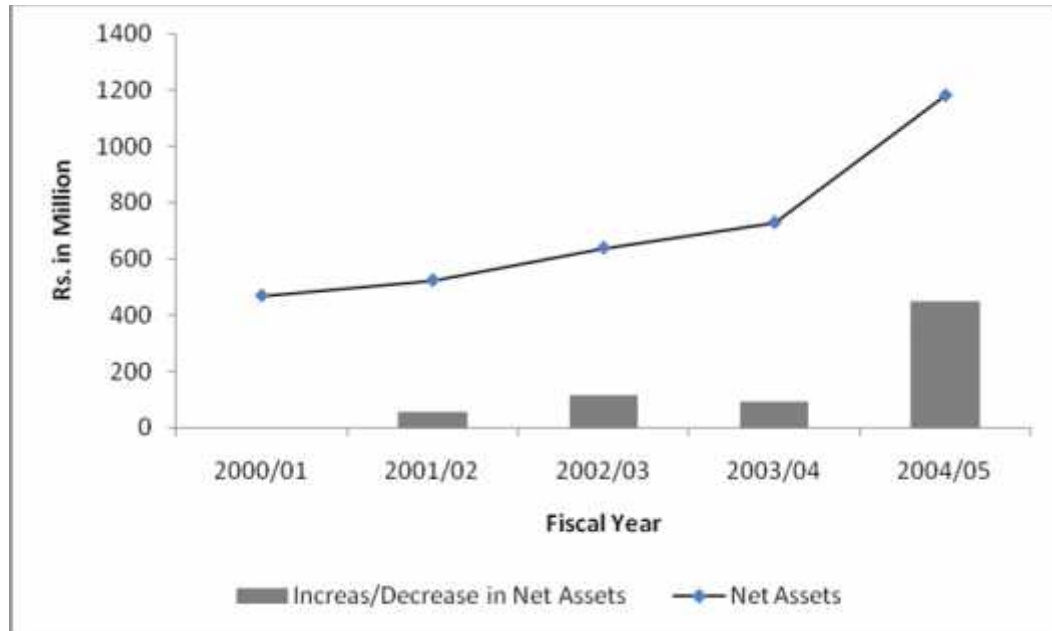
Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
Net Assets	469.08	523.46	638.53	729.05	1,180.17
Increase/Decrease in Net Assets	-	54.38	115.07	90.52	451.12
Percentage Change	-	11.59	21.98	14.18	61.88
Average Growth Per Annum in Percentage: 21.93					

Source : www.nibl.com.np

Table 4.5 reflects the net assets of NIBL in the past five years. The net assets of the bank have increased drastically from Rs 1,180.17m indicating a total increase of Rs 711.09m, and overall growth of 109.63%. This indicates that the bank has been effectively initiating the shareholders' wealth to mobilize loans and clearing its liabilities, a small percentage decrease in the year can 2008/09 can be depicted where the percentage change in the net assets of the bank falls to 14.18% from 21.98%, that of the previous year. But even with the fall in the percentage of this particular year, the average growth of the net assets throughout five years

is measured at 21.93% indicating the bank has had substantial success in maintaining the satisfaction to its shareholders and also has been able to increase the volume of its business.

Figure 4.1
Net Assets & Relative Changes



The graphic indicates the net assets of the bank. By the graphic it can be seen that the net assets has increased since the five years but the bank saw a rapid increase in the year 2009/010, where the line indicating the net assets has become steeper. During this period alone, bank saw an increase by Rs. 451 million in its net assets. However, the graph represent that the lowest increase in the net assets was during the year 2009/010, this was resulted due to the burden of outsider's liability that is the bank has owed a relatively larger amount to the outsiders in proportion to other years. A conclusion can be derived from herein that the banks capability to Meet the shareholder's demands in the near future would be satisfactory, i.e. the bank will be able to meet the shareholder's expectation in the time to the come.

Mean, Standard Deviation (SD) and Coefficient of variation (CV) of Net Assets.

The Mean, standard deviation and the coefficient and the variation of net assets have been calculated to evaluate the dispersion of the net assets for the given years.

Table 4.6: Mean, SD and CV of Net Assets for five years.*Rs in million*

Mean	Standard Deviation	Coefficient of Variation
708.06	252.73	35.69%

Source: Appendix 2, Calculation no. 1

The mean measured for net assets of the bank hold at Rs. 708.06 million, which shows that at an average the bank must have net assets worth Rs. 708.06 million every years with the increasing trend of the net assets the standard deviation for the bank is Rs.252.73 million, it means that the banks manage to keeps its net worth intact with a dispersion of Rs. 252.73 million. The flexibility of deficit or surplus is limited by the aforementioned amount. Another measure of depression, the coefficient of variation, measured at 35.69%, indicates that the bank has some extend of variability in its net assets with the moderate value. The overall trend of net assets is increasing. Thus, the volume of net assets of NIBL permits it to expand its business in higher degree.

4.1.2.2 Loans and Advances

Commercial bank's main function is to create credit from its borrowed fund. The bank doing so converts its liability into assets; loan and advances are the assets coming from such activities. The high volume of loans and advances is indicative of good performance in credit sector. Since the survival of banking business is dependent on its good performance of lending function. The high volume of well performing loans and advances in economy is a healthy banking business.

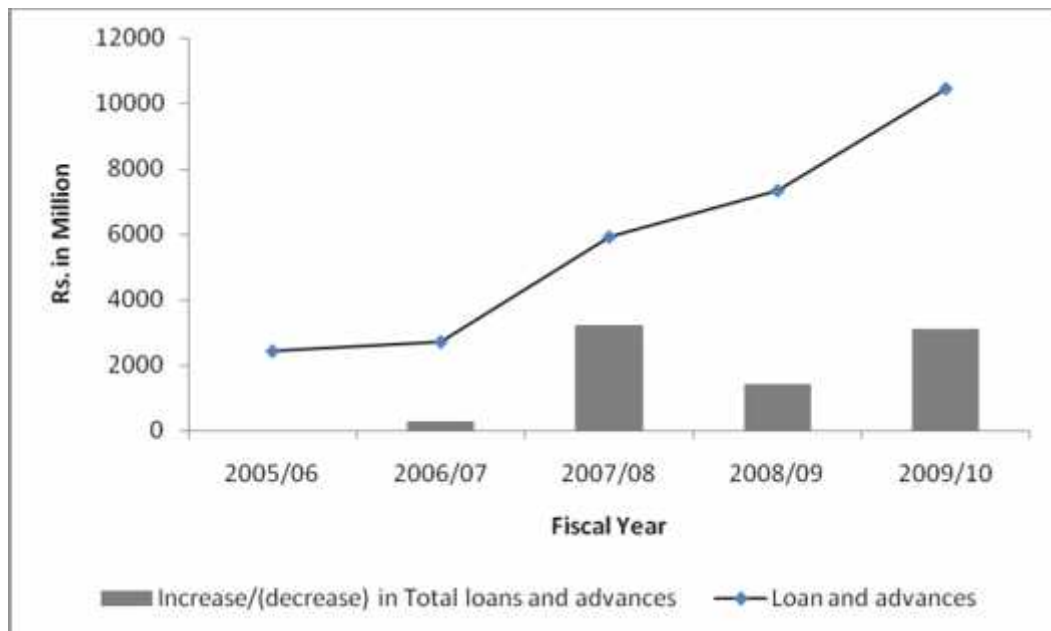
Table 4.7: Total loans and Advances and Percentage changes*Rs. in Million*

FISCAL YEAR	2005/06	2006/07	2007/08	2008/09	2009/010
Loan and advances	2429.00	2713.502	5921.80	7338.50	10453.10
Increase/(decrease) in Total loans and advances		284.50	3208.30	1416.70	3114.60
Percentage Change	-	11.71	118.23	23.92	42.44
Average Growth Per Annum in percentage:					39.26

Source: www.nibl.com.np

Table 4.7 shows the total loans and advances made during the Five years. It has been observed that the bank has been able to increase its lending activity by 4 times since 2005/06. It is evident that as a commercial bank, NIBL has been performing its lending activity, by increasing the loans and advances since the last five years. A major increase in the amount of the loan was during the years 2007/08, where the percentage increase in the total loans and advances increased by an incredible 118.23%, from Rs2713.50m in the year 2006/07 to Rs 5921.8m in the year 2007/08. Loans and advances made during the year 2006/07 were somewhat lesser in comparison to other years because during that year the deposit was low and since deposit was low, proposed mobilization of funds could not be initiated. But the hindering part for the bank during that period was that even though the loans and advances for the past years were increasing, the bank could not continue and steady growth of loans and advances. However, there is excellent average growth of 39.26 percent over past five years.

Figure 4.2
Loans and Advances and Relative Changes



The graphical representation of the loans and advances shot that there has been a steep increase in the loans and advances of the bank. The bank has an overall growth of 330.35% from the year 2005/06 from Rs. 2429m, to Rs. 10,453.10m in the year 2009/10. A tremendous increase in the loans and advances of the bank can be highlighted in the graph as the line representing loans and advances shoots up when it reaches the year 2009/10, which,

for a bank, is considered as a healthy growth rate in terms of the funds it lends out. This indicates the the volume of loans and advances provided by NIBL is increasing every year.

Mean, Standard Deviation (SD) and Coefficient of Variation (CV) of Loans and Advances

To evaluate the dispersion of the loan and advances for five years, the mean, standard deviation and the coefficient and variation of loans and advances have been calculated.

Table 4.8: Mean, SD and CV of Loans and Advances for five years

Rs in million

Mean	Standard Deviation	Coefficient of Variation
5,771.18	2,997.30	51.94%

Source: Appendix 2, Calculation no. II

Table 4.8 describes the figure of mean contribution made by the bank and also its standard deviation and the coefficient of variation. The mean contribution is Rs. 5771.18m, where this amount indicates that at an average the bank is lending out the mentioned funds as loans and advances to various sectors of the country. A standard deviation of Rs. 2997.30m represents that the bank by this mentioned amount has been deviating from in average or the mean loans and advances. Similarly a high coefficient of variation of 51.94% indicates that there is a variability of 51.94% in the loans and advances that the banking has been giving out. The major reason for this variability is due to the increasing trend that has picked up in providing loans and advances by the bank.

4.1.2.3 Industrial Sector Loans

Industrial sector loan falls within the category of productive sector. Thus, this resembles a portion of productive sector loans. Industrial sector includes loans that are made mainly for Industries like food production, refining, packaging and processing and production of other goods and equipments or assembling of materials.

Table 4.9: Industrial Sector Loans and Changes for Respective Years

Rs in million

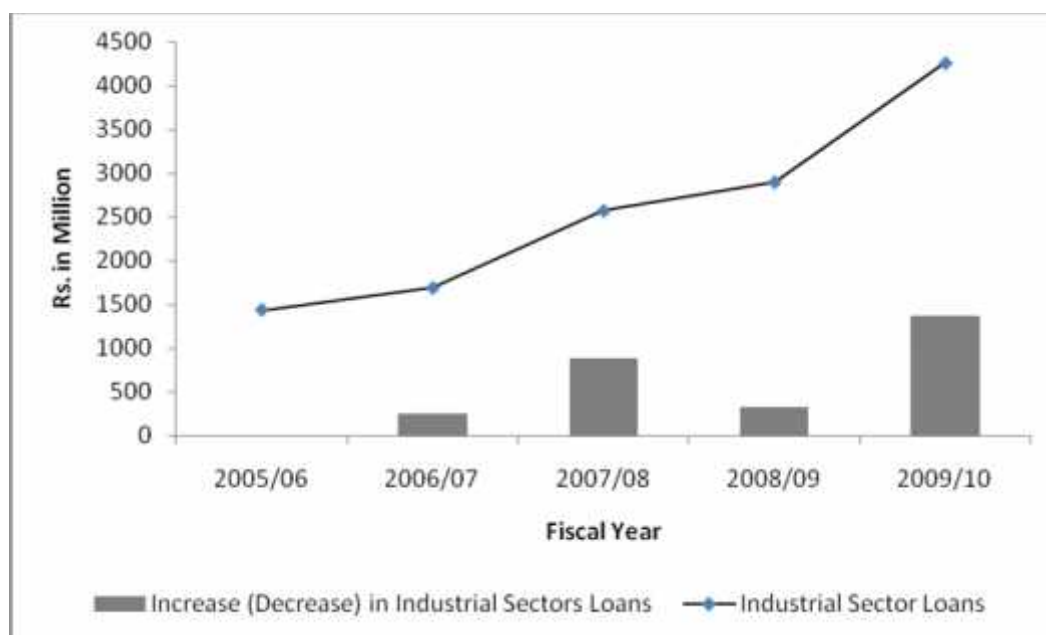
Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
Industrial Sector Loans	1,436.70	1,686.80	2,570.70	2,899.40	4,263.40
Increase (Decrease) in Industrial Sectors Loans	-	250.10	883.90	328.70	1,364.00
Percentage change	-	17.41	52.40	12.79	47.04
Average Growth Per Annum on percentage:	25.93				

Source: *www.nibl.com.np*

The table 28 represents the increase in the industrial loans that the bank has provided over the past five years. The bank has an increasing trend in the industrial sector loan during the last five years, where he bank increased its overall loan disbursement by Rs. 2826.70m, to take its total industrial sector loans to Rs. 4263.40m, in the year 2009/2010. The bank has displayed highest increment in the year 2009/2010 by 47.04% over last year's exposure. The bank grabbed an average growth of 25.93% per year in the industrial sector loans during last five year's duration.

Figure 4.3

Industrial Sector Loans and Relative Changes



The graphical representation makes it easier to assess the performance of the in the industrial sector. It can be noted that the increasing trend persists in the lending to the industrial sector.

The line, representing the industrial sector, always has upward direction and almost seeps during final year. The bank has been able to triple its loan contribution to the industrial sector during the period of last five years. A diminishing rate of increase was observed during the year 2006/07. And it stood up in the year 2007/08. The highest degree of increment is seen in 2009/010. Increases in the industrial sector loans help explain why there was an increase in the productive sector loans provided by the bank.

Mean, Standard Deviation (SD) and Coefficient of Variation (CV) of Industrial Sector loans

To Further calculate the consistency, variability of NIBL, the mean, standard Deviation and the coefficient of variation for the industrial sector loans have been Calculated.

Table 4.10: Mean, SD and CV of Industrial Sector Loans for five years

Rs in million

Mean	Standard Deviation	Coefficient of Variation
2,571.40	1,004.04	39.05%

Source: Appendix 2, Calculation no. III

The mean, standard deviation and the coefficient of variation have been calculated in table 4.10. The mean contribution made by the bank is Rs.2571.40m while it has a variation of 39.05%. Such high degree of variation indicates that there has been an increase of the volume of loan provided by the bank. Similarly, standard deviation of Rs.1004.04m indicates that there is a deviation from the mean at the average amount being lent out by the aforementioned amount. The bank does not portray consistency, but rather, variance suggests that it is open to change and is initiating considerable amount of loan industrial sector.

4.1.2.4 Priority Sector Loans

Priority Sector Loan constitutes the loans provided to prioritized sector such as the agriculture sector, cottage and small industries sector, service sector, hydropower and power generation sector and deprived sector.

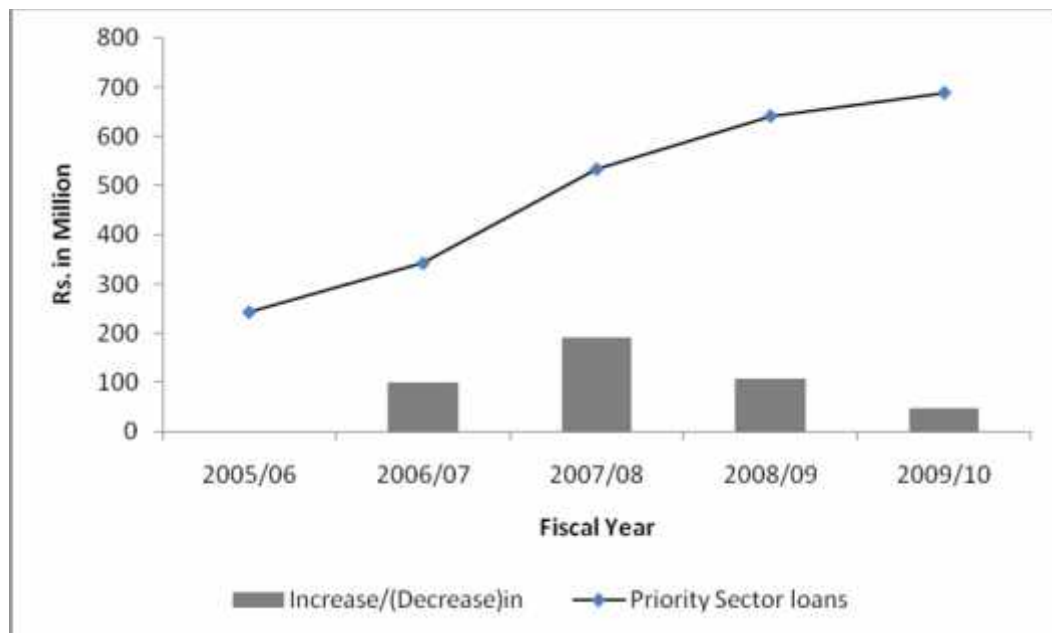
Table 4.11: Priority Sector Loans and Change for Respective Years*Rs in million*

Fiscal year	2005/06	2006/07	2007/08	2008/09	2009/010
Priority Sector loans	243.50	342.54	533.81	641.55	688.89
Increase/(Decrease)in Priority Sector Loans	--	99.04	191.27	107.74	47.34
Percentage Change	--	40.67	55.84	20.18	7.38
Average Growth per Annum in Percentage: 24.81					

Source: www.nibl.com.np

Table 4.11 shows that loans to the priority sector have increase since the past few years. The major reason behind the increase in the loans to priority sector is because of the increase in the total loans and advances of the bank. Earlier, as a regulation of the Nepal Rastra Bank, Commercial banks were required to grant loan to priority and deprived sector up to 12.5% of its total loans and advances. However, NRB has pulled out this compulsion from the year 2066/67, according To the data; there has been an increase of Rs445.39m during last five years. The Bank has managed to keep increasing trend of lending to priority sector although that is to the minimum level. However, it has been notices that the highest percentage of increment is during 2007/08 and similarly, lowest increment is during 2009/010. The table shows that the bank is not lending its fund to the Priority sectors aggressively. The main reason behind this is high risk to this sector due to instability in the country. Small-scale industries and business are passing through tuff time due to economic crisis influenced by political crisis.

Figure 4.4
Priority sector Loans and relative changes



The graph shows the relative trend of the loans given by NIBL to the priority Sector. The increasing line of the loan disbursement to the priority sector, as Mentioned earlier, is because of the increase in the total loan of the bank and at the same time the line has moved up from 2005/2009. But there is little slow improvement in the year 2009/010. There was a total increase of Rs. 445.39m since the initial period of the year of study to the last. An average Increase of loan to priority sector was obtained at 24.81% per year.

Mean, Standard Deviation () and Coefficient of Variation (CV) of priority Sector Loan

The mean , standard deviation and the coefficient of variation of the priority sector loans for NIBL has been shown as represented below by table 31.

Table 4.12: Mean, SD and CV of Priority Sector Loans for five years

Rs in million

Mean	Standard Deviation	Coefficient of Variation
4,90.06	171.44	34.98%

Source: Appendix 2, Calculation no: IV

The above table is a representation of the mean, standard deviation and the coefficient of variation of the priority sector loan by NIBL. According to the figures obtained, the mean contribution of Rs 490.06m is moderate. This represents that the yearly average of loan to the

priority sector amounts to Rs 490.06m, however the standard deviation for the bank is obtained as Rs 171.44. This shows that there is deviation of data from mean amount by around Rs 171.44m. Further, it has been calculated of 34.98%. This percentage proves that there is variation of data in each year.

4.1.2.5 Interest Income

Volume of interest income measures the bank's ability to generate income from lending and investment activities. The high volume is indicative of favorable contribution of lending and investment activities. Interest income for a bank is one of the major sources of income. Interest income relates to that interest that is charged by the bank on the loan it provides.

Table 4.13: Interest Income and Change for Respective Years.

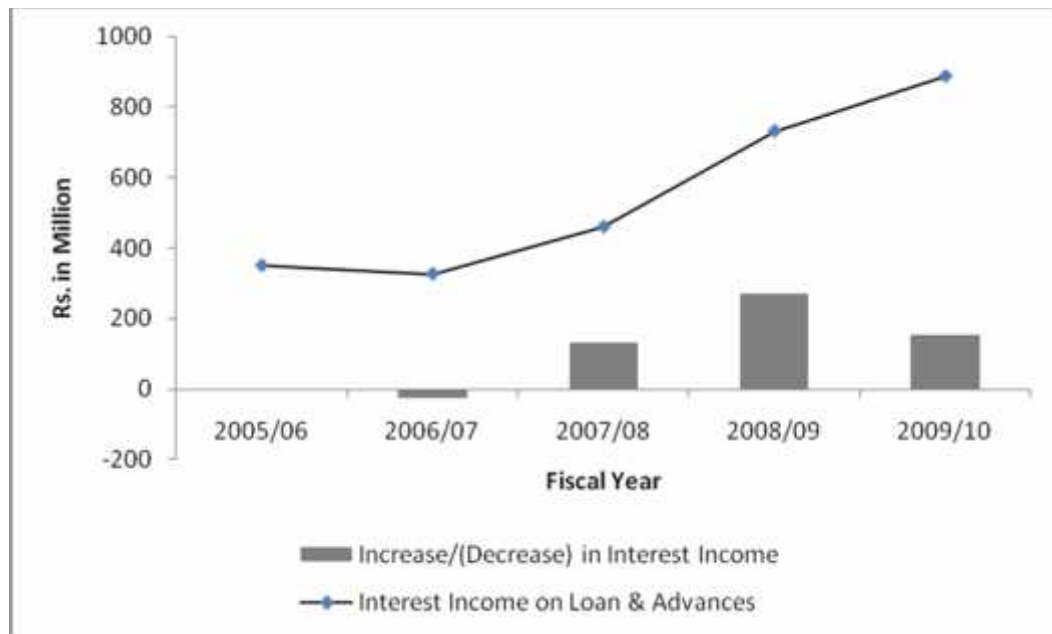
Rs in million

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
Interest Income on Loan & Advances	349.80	326.20	459.60	731.40	886.80
Increase/(Decrease) in Interest Income	-	(23.60)	133.40	271.80	155.40
Percentage Change	-	(6.75)	40.90	59.14	21.25
Average Growth Per Annum in Percentage: 22.91					

Source: www.nibl.com.np

The above table represents the interest that have been earned form loans and advances given out as well at the interests form the investments made by the bank. The pattern of the interest earned was on downward trend in 2006/07, but after that the bank has been able to uplift its income by mean of interest earning. Negative growth seen in 2006/2007 by 6.75%. During this year, there was no significant growth in lending and investment of the bank and market was on the track of reducing effective interest rates. This has caused negative impact in the income of NIBL. However from the very next year NIBL has shown very good growths, which are 40.9%.59.14% and 21.25% respectively. This growth is also due to increased loans.

Figure 4.5
Interest Income and Relative Changes



The figure explains the interest income from the loans and investments over five years and level of its increment/decrement. However, trend line and bars shows decrease in income for a year, there is steady growth on the succeeding years. According to the figure, the bank had earned a maximum interest during the fiscal year 2009/010, where as the highest level of increment is during the year 2008/09. The reason for the overall increase in the interest income lies in the fact that the lower interest earned through investment has been offset by the higher interest earned through loans and advances and vice versa. but the graph indicates that the increase in the interest income is not radical. One other major factor contributing to the fluctuating rate of collection of interest could be because of the uncollected interest during yearly closing, which is counted towards expenses or receivables. Bank suffers through a high credit risk, which could have hampered the collection of the interest from the clients. However, an average growth off 22.91% looks satisfactory in term of learning.

4.1.2.6 Net Interest Income

Net interest income is the overall interest income of bank after deduction of all interest expenses on deposits. Following table shows the exposure of NIBL in term of Net Interest Income.

Table 4.14: Net Interest Income and Changes for Respective Years

Rs in million

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Interest Income (NII) of NIBL	182.10	195.80	270.30	405.20	532.20
Increase (Decrease) in NII	-	13.70	74.50	134.90	127.00
Percentage Change	-	7.52	38.05	49.91	31.34
Average Growth Per Annum in percentage:	25.36				

Source: www.nibl.com.np

Table 4.14 figures the net interest income of NIBL during last five years period. Although there was decrease in gross interest income of NIBL in 2006/2007, from table 38 we can see that there was increase in net interest income. Even though it is minimum among other year's data, it should be taken positively because the bank has been able to maintain income-expense ratio of interest to the positive side. Steady growth of 7.52%, 38.05%, 49.91% and 31.34% seen in every year from 2006/2007 to 2009/2010.

Figure 4.6

Net Interest Income and Relative Changes

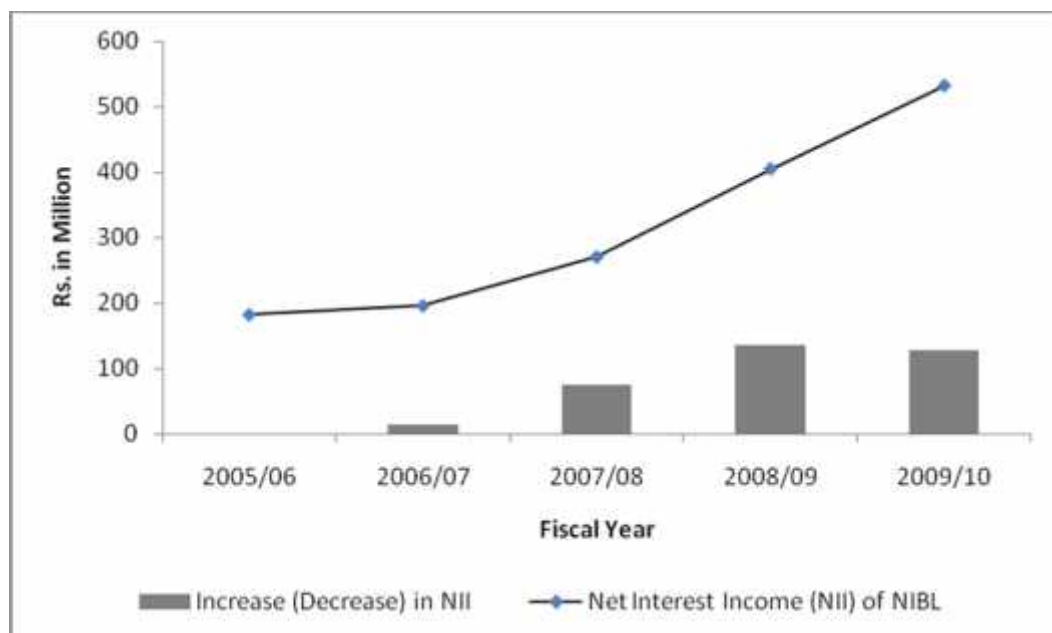


Figure shows NII and its respective growth over last five years. The highest growth rate is reported in 2008/09 and lowest is in 2005/06. The bank has an average growth in NII by 25.36% per annum.

4.1.2.7 Provision for loan loss

As per directions given by Nepal Rastra Bank, all banks and financial institutions are required to make provision of all loan and advance granted to their customers. This regulation is imposed by NRB in order to minimize the liquidation risk of banks and financial institutions. Provision is to be made as per delay in payment of interest and/or principal of the loan after its due date. The amount of provision increases proportionately when the due date increases.

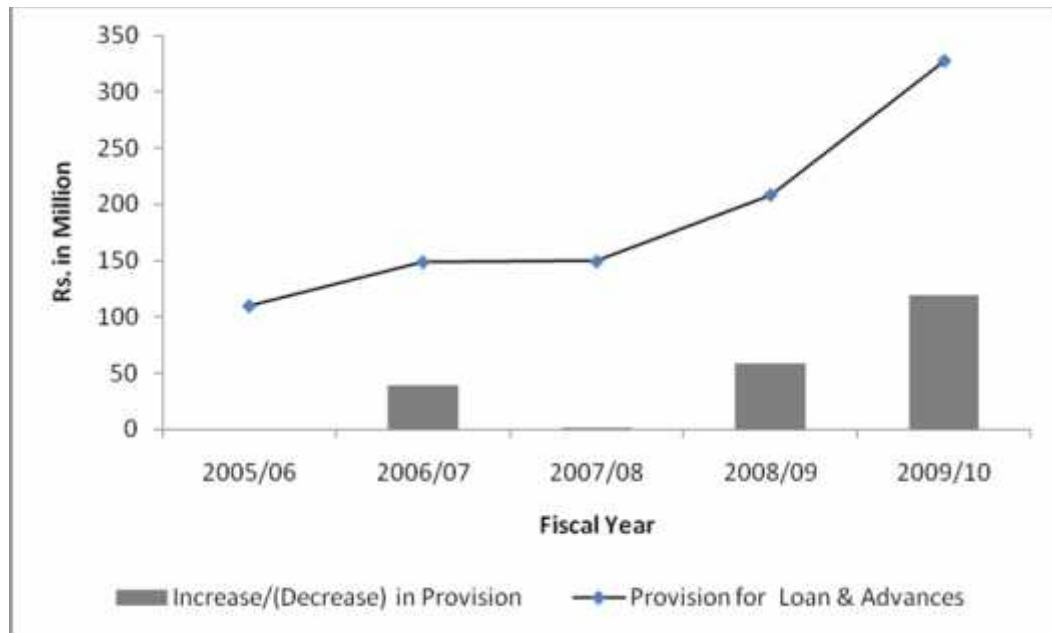
Table 4.15: Provision for Loan Loss and Changes for Respective Years*Rs in million*

Fiscal	2005/06	2006/07	2007/08	2008/09	2009/010
Provision for Loan & Advances	110.20	149.10	149.70	208.40	327.10
Increase/(Decrease) in Provision	-	38.90	0.60	58.70	118.70
Percentage Change	-	35.30	0.40	39.21	56.96
Average Growth Per Annum in percentage: 26.37					

Source: www.nibl.com.np

Table 4.15 represents the amount that has been allotted for provision for loans Loss. As the table shows, there has been an increase in the provision for the loans Since 2006/2007 except in the year 2007/2008 in which it is almost stable. There has been an increase in the provision for loan loss and the highest increase in the Provisions amounted to Rs.38.90m, a percentage increase of 35.30. On the other Hand, the increase in the year 2007/2008 was very minimal. There was an increase of only 0.40% only during this year i.e. an increase of Rs. 0.60m. Just I contrast; higher the increment of provision poorer will be the performance of the bank. However, there will automatically be an increment of provision, in case there is an Increment of loan and advances. Highest increment of provision is seen in 2009/2010 i.e. Rs. 118.70. This may be the result of either increase in bad debt of the bank or increase in loans and advances.

Figure 4.7
Provision for Loan Loss and Changes for Respective Years



As the figure depicts it can be seen that there has been an increase in the Provisioning by the bank. But it is visible clear that during 2007/2008. There was almost nil increment. The total percentage increases form the year 2005/2006 till 2009/2010 was 131.87%. Therefore contribution of the provisioning for the year 2007/2008 was a merely 0.40% of the total increment. Another perspective of the Graph shows is that, during the year 2006/2007 and 2007/2008, the trend line is Straight, which also shows that there has been almost no change in the year's Provisioning. If decreased is favorable to the bank as it decreases the Liability of the bank, but on the other hand if the provisioning stays the same, that Will be the result no additional business by the bank. Although, least increment of Provisioning with an increase in the loans and advances of the bank is very good. Hence, the minimal increase in the provisioning of the loans and advances shows a Positive effect on the bank's performance. Thus from the advances shows a That NIBL either have been facing problem of risky assets (bad loans) or there is Tremendous increase in loans and advances.

4.1.2.8 Net Profit

Net profit after all types of deductions such as bonus to employees, taxes and Provisions has been used in this analysis. The volume of net Profit measures the Success of a firm in every aspect of its operation and strategy.

Table 4.16: Net Profit and Changes for Respective Years

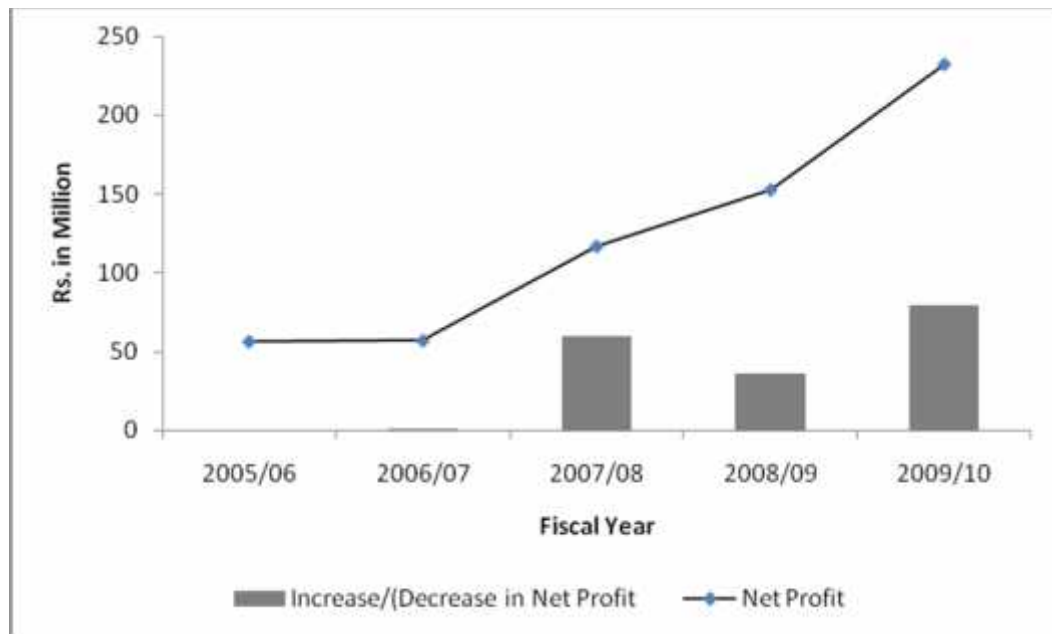
Rs in million

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
Net Profit	56.40	57.10	116.80	152.60	232.10
Increase/(Decrease in Net Profit	--	0.70	59.70	35.80	79.50
Percentage Change	--	1.24	104.55	30.65	52.10
Average Growth Per Annum in percentage:	37.71				

Sources: www.nibl.com.np

The Pattern of net profit of the bank has increased all over the years. During 2007/2008 alone there was an increase of 104.55 in the net profit. The total amount of net profit was Rs. 116.80m, an increase of Rs. 59.70 from the previous year. The lowest growth was in 2006/07, that was likely to be nil for the period. However, growth of NIBL can be termed as excellent, if we consider other factors constant and observe in term of net profit only. There is a regular increment over all the years.

Figure 4.8
Net Profit and Relative Changes



The graph represents the net profit of NIBL. It reveals the highest net profit in the year 2009/2010 and the lowest in the year 2005/2006. As represented by the graph, the net profit increased tremendously in 2009/2010. The bank has been able to take up its net profit level from Rs 56.40 in 2005/06 to Rs. 232.10 in 2009/2010 reporting growth of almost 311.52% over past five years of study. This record is among the highest in Nepal. The bank, the increment in the total deposits with lesser cost and increment in fees and commissions because of the increment in the loan and advances made the reason there was an increase in the net profit of the bank. The data shows that the bank has achieved annual average growth of 37.71% in net profit.

4.2 Analyzing the Portfolio Behaviors of Loans and Advances

So, far we have analyzed the relationship between loans and advances with various assets and liabilities of respective bank. In this section, we examine the portfolio management of loans and advances. Bank provides loans to various sectors of the economy and to various types of borrowers. Similarly, it invests fund in various types of securities and shares. In this section, the ratio of loans and advances granted to various sector of the economy and for various purposes to total volume of loans and advances are measured.

4.2.1 Sector Wise Loan Classification

The total loans and advances have been classified into various sectors as per the nature of the business. The main classification can be termed as Agriculture, Manufacturing & Assembling, Trading (including Import & Export), Construction, Service and other social personal use. The classification explains the contribution made by the bank for different sector of the business. The classification shows the lending trend of the banks for particular sector.

Table 4.17: Sector Wise Loan classification

Rs in million

Sector / Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010	Mean
Agriculture	5.70	4.50	21.90	53.90	59.20	29.04
Manufacturing and Assembling	1,012.70	1,111.00	2,613.00	2,980.10	4,279.07	2,399.17
Construction	113.00	132.30	53.20	67.60	245.00	122.22
Transportation	74.50	92.30	155.40	267.10	458.80	209.62
Wholesale & Retailer	528.30	590.30	1,502.20	1,691.30	2,299.30	1,322.28
Finance, Insurance & Real State	126.80	158.40	322.20	507.00	639.85	350.85
Service Industries	454.20	478.40	828.30	1,042.60	1,164.48	793.60
Others	113.80	146.30	425.60	728.90	1,307.40	544.40
Total	2,429.00	2,713.50	5,921.80	7,338.50	10,453.10	5,771.18

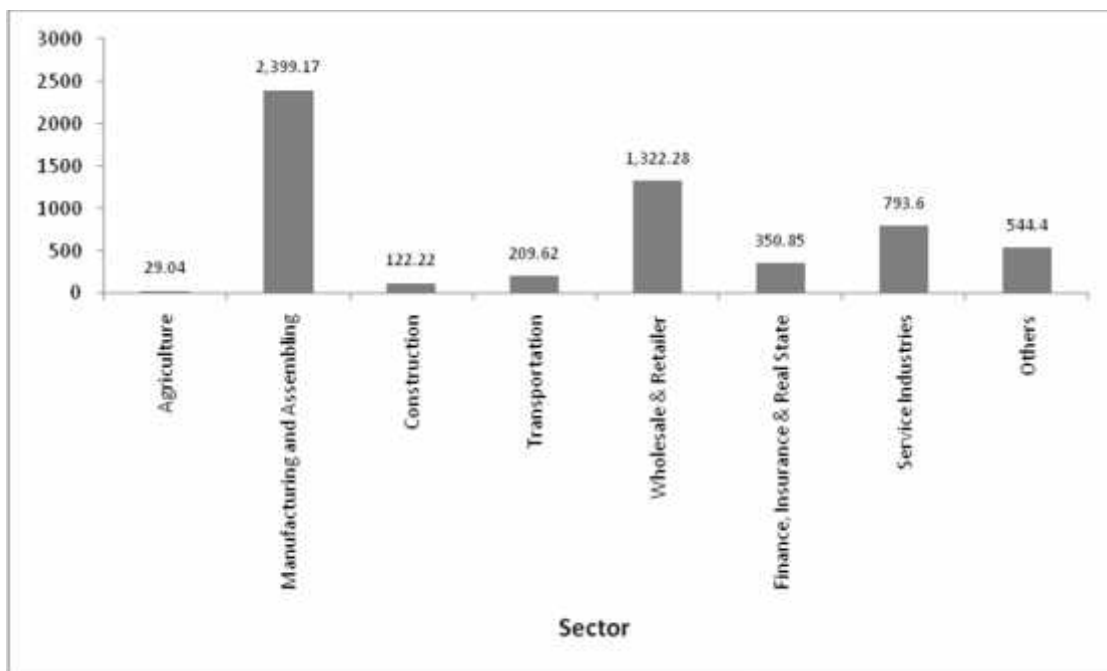
Source: www.nibl.com.np

From the table, it can be seen that there is fluctuation in sector wise loan granted by NIBL. For Agriculture, there is increasing term expect in the last year of the study. Mean contribution in Manufacturing & assembling sector is significantly dominant in the loan composition of NIBL as it covers nearly half of the total loans provided by NIBL. In construction there is decreasing in third year and gradually increasing in fourth and fifth year. Wholesale & retailer is constant in first and second year and increase in third year and decrease in fourth year. While there was continuous up and down movement in finance insurance and real state, the highest in service sector was in 2005/06. Thus through the mean

representation of the bank's total lending to different purpose wise sector can be marked by indication that the bank has made the highest loans to the manufacturing & assembling, which means that the bank has prioritized its lending to Manufacturing & assembling, wholesale & retailer, services, finance, insurance & real state, transportation, construction, and agriculture respectively.

Figure 4.9

Sector Wise Mean Loan Contribution of NIBL



The diagrammatic representation above shows the mean contribution of various Purpose wise loan to the total loan and advances of NIBL over the five years Period of time. According to the calculations made loans to agriculture sector has been the minimal with just 1%. The bulk of the loan made has been made to Manufacturing & assembling, which consists of 41% of the total loan amount. Wholesale & retail is the second highest sector to which loan given out? A total of 23% of loan was given to these sectors, thus showing that loan for the purpose of wholesales & retails were given second priority by NIBL. With a total loan disbursed to service being 14%, this purpose in the economy was given less priority over last five years. However, through the trend it can be seen that loan given to this sector has increased over the years. Loan in financial insurance & real state, transportation and construction were 6%, 4% and 2% respectively. Thus, through the mean representation of the bank's total lending to different purpose wise sector can be marked by indicating that the bank has made highest

loans to manufacturing and assembling, wholesales and retail, service sector, finance insurance and real state, transportation, construction and agriculture respectively.

4.3 Analyzing the Lending Efficiency and its Contribution in Total profitability (Activity Ratio).

In this section the lending efficiency in term of quality and turn over is measured. For this Purpose, the relationship of different variables of balance sheet and profit and loss account is established.

4.3.1 Provision for Loan Loss to Loan & Advance Ratio

This ratio of provision for loan loss to loans and advances describes the quality of assets that a bank is holding. NRB has directed the commercial bank to classify its loan and advances in to the category of pass, substandard, doubtful and loss and to make the provision of 1% for pass category, 25% for substandard category, 50% for doubtful category and 100% for loss category. NRB has classified the pass loan as performing loans and all the others types of loan as non-performing loans. The provision created against the pass loan is called general loan loss provision against all other category is called special loan loss provision. Provision for loan loss in the balance sheet represents the profitability from total loans of banks. Provision for loan loss, on the other hand, signifies the cushion against future contingencies created by default of borrower. The low rate signifies the good quality of assets in the total volume of loans and advances. The high ratio signifies the relatively more risky assets in the volumes of loan and advances.

Table 4.18: Provision for Loans and Advances to Loans and Advances Ratio.

Rs in million

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
Provision for loans and Advances	110.20	149.10	149.70	208.40	327.10
Loan & Advances	2,429.00	2,713.50	5,921.80	7,338.50	10,453.10
Ratio	0.05	0.05	0.03	0.03	0.03

Sources: www.nibl.com.np

Above tables explain the provision for loan loss of NIBL over past five years. As per NRB directives, provision against all type of loans should be done and booked under separate accounts. This type of regulations has been improved by NRB in order to minimize the risk of loans and advances flowed by the banks. In case of NIBL, we can see that some loans have been crossed the rating of good loan. Good loans are those loans, which do not default for repayment and account conduct is found satisfactory. Thus from the table we can say that NIBL has provisioned more than 1% for some of its loan, which shows that defaulters are present in NIBL. However, ratio of five years predict that provisioned amount does not exceed 5% of total loan of NIBL, which proves NIBL has been putting its effort and is conscious to minimize the risky loan. In 2005/06 and 2006/07, 5% of total loan has been provisioned towards LLP and then after only 3% has been booked for that. Thus, NIBL has to improve the category of its loan and try to minimize the bad loans, which fall under non-performing loan.

4.3.2 Non-Performing Loans (NPL) to Total Loans and Advances Ratio

NRB has directed all commercial banks to formulate a special loan loss provision against the substandard, doubtful and bad loans. But most of the commercial banks do not willingly provide data on non-performing loans. Few of the banks do not even show the figure of specific reserve made on doubtful and bad debts in their profit and loss account. All banks show the total provision amount in the balance. As for NRB's prescribed format of report, banks publish category wise loans and advances.

Table 4.19: Non-Performing loans to Total Loans & Advances Ratio.

Rs in million

Fiscal Years	2005/06	2006/07	2007/08	2008/09	2009/010
Non performing loans	201.43	130.30	117.09	181.44	280.87
Loans and Advances	2,429.00	2,713.50	5,921.80	7,338.50	10,453.10
Ratio	0.08	0.05	0.02	0.02	0.03

Source: www.nibl.com.np

Table 4.19 exhibits that total volume of loans and advances, the non-performing loans and advances represent 4%. This is deemed lower as compared to other commercial banks in the

country. There has been a substantial decrease in the percentage of the non-performing assets of the bank. However, increase in the non-performing loans decreases the profit of the banks. The banks have been able to decrease its total ratio from 0.08 in 2005/06 to 0.03 in 2009/010, which indicates the improving performance of the bank.

1.3.3 Interest Income to Total Income Ratio

The ratio measures the volume of interest income in total income. This ratio also helps to measure the bank's performance on other fee-based activities. The high ratio indicates the high contribution made by the lending and investment activities and vice versa.

Table 4.20: Interest Income to Total Income Ratio

Rs in million

Fiscal years	2005/06	2006/07	2007/08	2008/09	2009/010
Interest Income	349.75	326.22	459.50	731.40	886.80
Total Income	421.58	415.58	577.44	883.50	1,145.50
Ratio	0.83	0.78	0.80	0.83	0.77

Source: www.nibl.com,np

The ratio for the interest income to total ratio has somewhat been stable for NBL as indicated in table 4.20. The highest ratio was in the year 2005/06, and the lowest was in the year 2009/010. The average ratio calculated is however around 0.80, which is close by to the year's entire ratio. Though the ratios have fallen during the years 2006/07 and 2007/08, however, it does not have a major impact in the total income as it is deemed stable in comparison to its previous years. The average ratio indicates that the ratios of the five years do not have a high degree of deviation form the mean of the bank. We can see that the over all trend of the ratio of the bank is not fixed. The lowest ratio in 2009/010 suggests its low dependency on fund-based activity. The contrary, highest ratio indicates its greater degree of dependency on fund-based activities. The over all trend of this ratio suggests shaken economy activity and stability bf bank in fund based even due to its increasing risk elements.

4.3.4 Interest Income to Interest Expense ratio

The ratio of interest income to interest expense measures the gap between interest rates offered and interest rate charged since NRB has restricted the gap between the interest offered and interest charged, in average should not be more than 5% the difference in this ratio is mainly caused by the ratio of funds mobilized and the funds collected. The credit creation power of commercial banks has high impact on this ratio.

Table: 4.21: Interest Income to Interest Expense Ratio.

Rs. in million

Fiscal years	2005/06	2006/07	2007/08	2008/09	2009/010
Interest Income	349.75	326.22	459.50	731.40	886.80
Interest Expense	163.15	130.44	189.21	326.20	354.50
Ratio	2.14	2.50	2.43	2.24	2.50

Source: www.nibl.com.np

The ratio indicates that there is a high degree of gap between the interest offered and the interest charged. The increased ratio has compared to the trend of loans and advanced and deposits to total deposits, implies that NIBL is charging high interest to borrowers and offering low interest rate to the depositors. The low cost of deposit and the moderate volume o non interest bearing deposits in the deposits mix of NIBL has caused the gap between interest income and interest expense toe higher. The interest volume of fixed deposits and high interest rate paid thereon has caused the ratio to fall in the year 2008/09. The average ratio of the bank is 2.36 which indicate that a rupee of expense in deposits has generated 2.36 rupees of interest income for the bank.

4.4 Measurement of Profitability Ratios

4.4.1 Total Income to Total Assets Ratio

This ratio measures how efficiently the asset of a business is utilized to generate income. It also measures the quality of assets in income generation.

Table 4.22: Total Income to Total Assets Ratio.*Rs in million*

Fiscal years	2005/06	2006/07	2007/08	2008/09	2009/010
Total Income	421.58	415.68	577.44	883.50	1,145.50
Total Assets	5,127.40	5,123.00	9,163.60	13,463.40	16,601.10
Ratio	0.08	0.08	0.06	0.07	0.07

Source: www.nibl.com.np

Above table explains that NIBL's highest ratio was observed during 2005/06. The ratio has followed a decreasing pattern in the year 2006/07 & 2007/08 but is in increasing pattern in the year 2008/09 & 2009/010. The overall change in the ratio was recorded at 0.02 times. Since the ratio is decreasing, it implies that the efficiency of assets has been decreasing year by year. If the bank were to look for the boost in the performance through this ratio, the bank would not be in a good position to do so. But the high volume of total income has offered this high ratio resulting in low EPS and net profit to shareholder's equity. However, this ratio measures the earning power of assets irrespective of the expenditure involved in this.

4.4.2 Net Profit to Shareholders' Equity Ratio

This Ratio measures the amount of profit that a rupee of shareholders' fund has received. The high ratio is indicative of high return to shareholder and vice versa.

Table: 4.23: Net Profit to Shareholders' Equity Ratio.*Rs in million*

Fiscal Years	2005/06	2006/07	2007/08	2008/09	2009/010
Net Profit	56.40	57.10	116.80	152.60	232.10
Shareholders' equity	469.10	523.50	638.50	729.00	1,180.20
Ratio	0.12	0.11	0.18	0.21	0.20

Source: www.nibl.com.np

Above table exhibits that the ratio of net profit to shareholder's equity is the highest in the year 2008/09, where the ratio was 0.21 times but once again this ratio for the bank has not been stable throughout the period of five years even though there have been fluctuation from

the high of 0.21 to the low of 0.11, the overall change from 2005/06 till 2009/010 was just 0.10 times. With an average ratio of 0.16 times, it relates that the shareholder's for every single rupee of equity shall receive 0.16 profits for that single rupee even though throughout the year net profit has been increasing, increase in the shareholder's equity during the year 2007/08 & 2006/07 were greater in proportion to the net profit made by the bank.

4.4.3 Earning Per Share (EPS)

EPS refers to the net profit divided by the total numbers of share outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This figure is the indicative of the overall good or bad performance of the organization. How far the organization is able to use its resources to generate profit is determined by the profit it has earned. Thus the EPS determines the market value of share, determines the attitude of outsiders and high amount of EPS increases the competition in the market by the entry of organization.

Table 4.24: Earning Per Share (EPS).

Rs. In Million

Fiscal Years	2005/06	2006/07	2007/08	2008/09	2009/010
Earning per Share (EPS)	33.18	33.59	39.56	51.70	39.50
Increase/Decrease in EPS		0.41	5.97	12.14	(12.20)
Mean EPS	39.51				

Source: www.nibl.com.np

Above table shows that the EPS of NIBL was highest during 2008/09. During the years 2005/06, 2006/07 & 2007/08 the EPS of the bank increase and in the year 2009/010 EPS was decreased. During 2009/010, the EPS of the bank fell to Rs.39.5 from previous years Rs.51.70, a total change of Rs.12.20. The major reason behind this drop in the EPS was due to the increase in the number of share outstanding. As EPS is calculated by dividing net profit by the number of shares outstanding. Hence increase in the denominator, which would always reduce the value obtained from there in.

Figure 4.10
Earning per Share (EPS) and Relative Changes

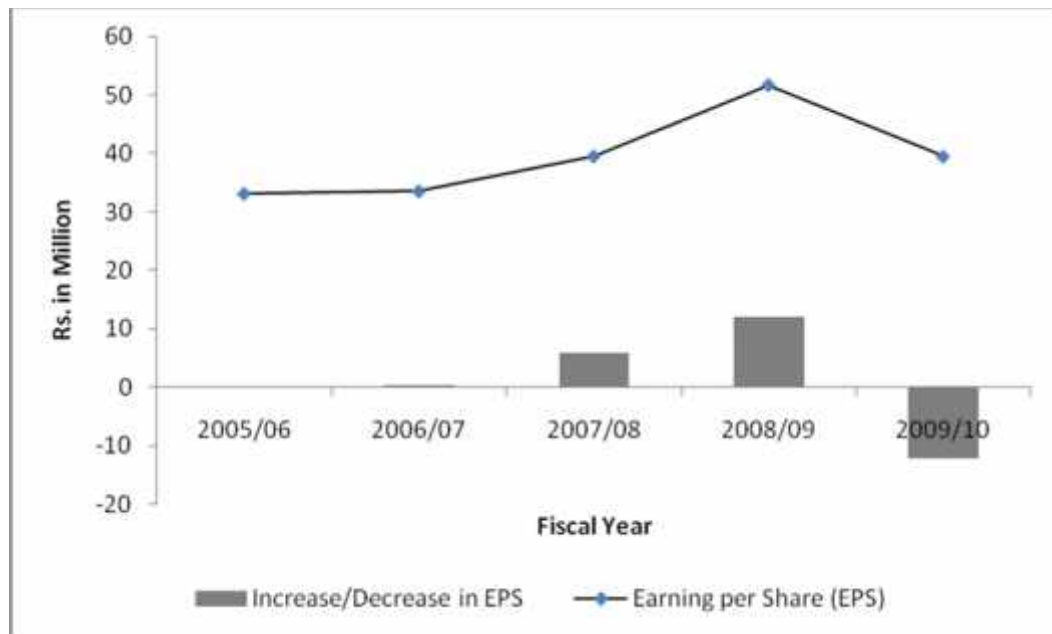


Figure 4.10 reflects the EPS of NIBL and the same time represents the mean EPS and also shows the change in the EPS during the period of five years. By the figure it is easily portrayed that the EPS of the bank had initially increase and then went down drastically during last year of the study. On the other hand, the mean EPS denotes that apart from 2005/06, the EPS for the different year haven't deviated from the bank's average EPS. Through the deviation during 2008/09 was positive and proved the increased efficiency of the bank, however, decrease in the EPS a year later, plummeted the change to a decreasing status. However, the performance of the bank on the EPS is deemed as satisfactory as the mean EPS of NIBL hovers around Rs 39.51 and during 2008/2009; the EPS of the bank was just above the mean, which was Rs. 51.70. Further, it can be noted that almost equal to the mean amount.

4.5 Measuring Correlation Between Different Variables

4.5.1 Correlation Between Deposits and Loans and Advances

The correlation between deposits and total loans and advances describes the degree of relationship between these two items. How a unit increase in deposits impact the volume of the loans and advances is measured by correlation. Here, deposit is the independent variable and the loan and advances is the dependent variable.

Table 4.25: Correlation, Coefficient of Determination and Probable Error between Total Deposit and Total Loans & Advances

Evaluation Criteria			
R	r^2	P.Er.	6* P.Er.
0.9887	0.9776	0.0068	0.0406

Source: Appendix 2, calculation no: V

Table describes the relationship between total deposits and total loans and advances. As prominent from the table, it can be seen that there is a high degree of positive correlation between the two variables. This indicates that loans and advances are highly dependable on the amount of deposits collected. Since the value of (r) in the bank is more than six times the P.ER, the correlation between these two variables is significant. As noted the value of coefficient of determination is 0.9776, it indicates that 97.76% of the variation in loans and advances is explained by deposit and the rest of 2.24% is due to other factors such as necessity of utilization of deposit to other sectors, which is essential and requirement for banking operation. Thus by the figures that have been obtained above, we can say that the bank is making its loans and advances form a major portion of its deposits, which mean the bank the bank is efficiently mobilizing its deposits.

4.5.2 Correlation between Shareholders' Equity and Loans and Advances

The correlation between shareholders' equity and loans and advances describes the degree of impact of the increase in shareholders' equity due to increase in loans and advances. The loans and advances is the independent variable and the shareholders' equity is considered as the dependent variable.

Table 4.26: Correlation, coefficient of determination and probable error between total Income and Loans and Advances.

Evaluation Criteria			
R	r^2	P.Er.	6* P.Er.
0.9494	0.9013	0.0298	0.1786

Source: Appendix 2, Calculation no: VI

Above table explains that there is high degree of positive correlation between shareholder's equity and loans and advances in the bank. Since the value of r is greater than six times the P.Er., the value of (r) is significant. We can see that coefficient of determination between the

said variable is 0.9013; this infers that increment in loans and advances of NIBL increases the shareholders equity in higher degree. So, 90.13% of the variation in the shareholder's equity has been resulted by the performance of the loans and advances and rest of 9.87% is due to other variables.

4.5.3 Correlation between Total Income and Loans and Advances

The correlation between total income and loans and advances measures the degree of linear relationship between these two variables. Loan and advances is independent variable whereas total income is the dependent variable.

Table 4.27: Correlation, coefficient of determination and probable error between total Income and Loans and Advances.

Evaluation Criteria			
R	r^2	P.ER.	6* P.Er.
0.9750	0.9506	0.0149	0.0894

Source: Appendix 2, Calculation no: VII

According to above table, correlation between total income and loans and advances is high. The value or (r) is significant as the value of (r) is greater than six times P.ER. Both the variables are positively correlated, so there will certainly be charge in total income with changes in loans and advances. The coefficient of determination is also high, which is 0.9506, which means that 95.06% of charges in total income is resulted by loan and advances and rest of 4.94% is due to other factors, such as fee based income and other income of NIBL.

4.5.3 Correlation between Provision for Loan Loss and Loans and Advances

The provision for loan loss and loans and advances are co-related. The former is the product of the latter. Therefore, correlation between provision for loan loss and loans and advances measure the degree of linear relationship between these two variables. By the nature of variables, as an independent variable the increase I n loan and advances must increase the volume of the dependent variable i.e. Provision for loan loss.

Table 4.28 Correlation, coefficient of determination and probable error between total Income and Loans and Advances.

Evaluation Criteria			
R	r ²	P.ER.	6* P.Er.
0.9289	0.8629	0.0414	0.2482

Source: Appendix 2, Calculation no: VIII

As predicted by the calculation, there is high degree of correlation between two variables. So, changes in loans and advances will certainly result the changes in provision for the loan loss. The value of (r) is greater than 6 * P.ER. So the coefficient of correlation is significant. Similarly, coefficient of determination 0.8629 explains that 86.29% of total variation in provision for the loan loss is explained by loans and advances leaving only 13.71%, which is result of other factors. Here, other factor is again loans and advances, but difference is that in this case loans should be categorized to the higher degree of risk (i.e. non-performing loan).

4.5.5 Correlation between Interest Income and Net Profit

The interest income contributes the major portion of total volume of commercial bank's income. This correlation measures the degree of linear relationship between interest income and net profit. Here, the interest income is independent variable and net profit is dependent variable.

Table 4.29: Correlation, Coefficient of Determination and Probable Error between Interest Income and Net profit

Evaluation Criteria			
R	r ²	P. Er.	6*P.Er
0.9734	0.9474	0.0159	0.0951

Source: Appendix 2, Calculation no: IX

Table 4.29 shows that the value of (r) for NIBL is significant and the linear relationship between these two variables is also positive, as the value of (r) is greater than six times the .Er. in determining the correlation we can say that the net profit is dependent with interest income but not totally because as shown by the result coefficient of variation is not 1. As

shown in the table 94.74% of variation is net profit is a result of interest income and rest of 5.26% is result of other factor.

4.6 Measuring the Growth Rate, Propensity of Growth based on Trend Value

So far we have calculated various measures of relative financial tools and absolute measures of statistical tools. In this section we have examine the trend analysis of loans and advances, and EPS. The measures of trend analysis exhibit the behavior of given variables in a series of time. The performance of any commercial banks does not carry consistency over all the period and several factors causes the increase or decrease in various item of bank operation. The trend of any variable and the slope of trend line relating with the compound interest discount factor measures the growth rate of the variable. Thus along with the analysis of trend line, the growth rate has also been measured.

4.6.1 Trend Analysis, Growth Rate and Propensity of Growth of Loans and Advances

Loans and Advances are the backbone of commercial banks. Volume of loans and advances directly affects the performance of the banks. Volume of loans and advances directly affects the performance of the bank and its profitability as well. The trend line is obtained for the next five years and is based on least square methods of time series.

Table 4.30: Forecasted growth Rate and Propensity of Growth of Loans \$ Advances

Trend equation (Yc) = 5771.18+2067.32 x			
Fiscal year	X	Trend Equation	Trend Value
2010/2011	3	5771.18 + 2067.32 x 3	11,973.14
2011/2012	4	5771.18 + 2067.32 x 4	14,040.46
2012/2013	5	5771.18 + 2067.32 x 5	16,107.78
2013/2014	6	5771.18 + 2067.32 x 6	18,175.10
2014/2015	7	5771.18 + 2067.32 x 7	20,242.42
Average Growth in Percentage			32.14
Propensity of Growth of Loans and Advances			2,067.32

Source: Appendix 2, Calculation no. X

Table 4.31 exhibits linear equation based on $y = a + bx$ of the bank and the average growth of the bank along with the propensity of growth with respect to the loans and advances. The growth exhibited by the table represents 32.14% growth, where it is likely to growth by Rs 2067.32m in one year period. However, the trend shows the encouraging sign as the loans and advances of the bank are likely to increase vastly in the future.

Figure 4.11
Trend Value and Propensity of Growth of Loans and Advances

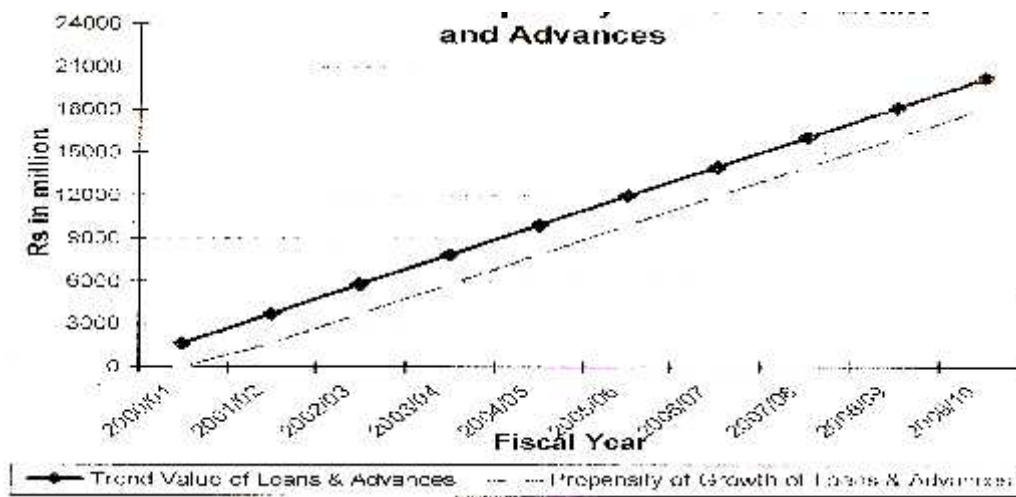


Figure 4.11 exhibits the trends lines representing the trend value performance of Loans and advances of NIBL. The trend line has been rising and representing that the bank has major focus on lending. The average lending has been estimated Rs 10939.48m, which means that the bank will be lending at least Rs 10939.48m. The figure indicates that the bank will focus on lending as shown by the slope of the line. The slope of the line represents the high growth rate in its lending.

From this analysis, NIBL can be concluded as a good performer in Loans and Advances in the future. It has a good growth rate and the aspect of growing in Loans in the future also looks good for the bank.

4.6.2 Trend Analysis, Growth Rate and Propensity of Growth of Earning per Share (EPS)

EPS and its trend reflect the overall efficiency of a commercial bank. This measures the efficiency of overall bank’s performance and checks the financial health of the bank.

Table 4.31: Trend Equation, Growth and Prosperity of Growth of EPS

Rs. In Million

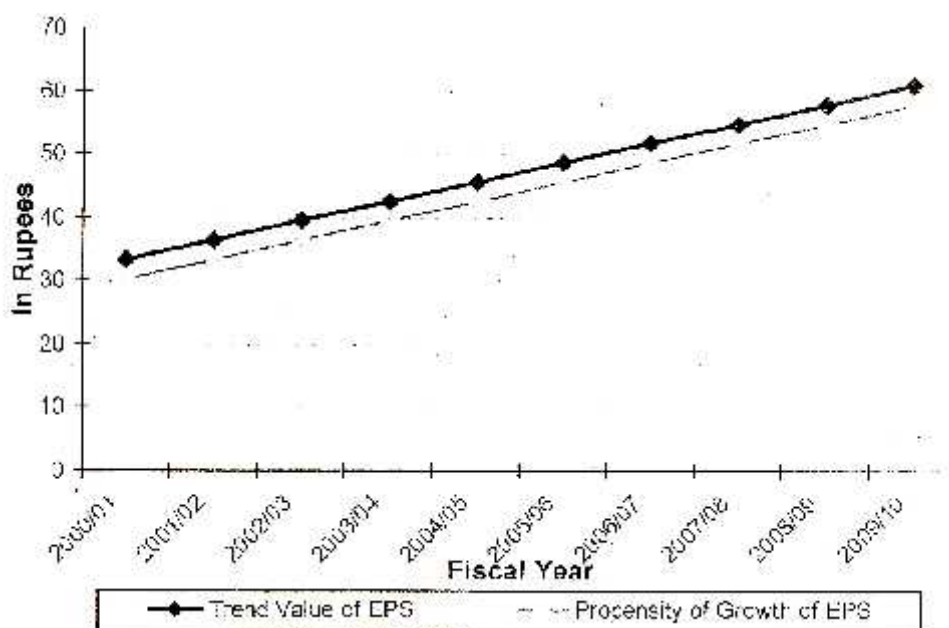
Trend equation (Yc) = 39.51 + 3.08 X			
Fiscal Year	X	Trend Equation	Trend Value
2010/2011	3	39.51 + 3.08 x 3	48.73
2011/2012	4	39.51 + 3.08 x 4	51.81
2012/2013	5	39.51 + 3.08 x 5	54.88
2013/2014	6	39.51 + 3.08 x 6	57.96
2014/2015	7	39.51 + 3.08 x 7	61.03
Average Growth in Percentage			6.26
Prosperity of Growth of EPS			3.08

Source: Appendix 2, Calculation no. XI

Table 61 represents that the growth rate of EPS of NIBL is on increasing trend. The average growth rate is 6.26% per year; this signifies that the bank efficiency may have a increasing trend in the future. The trend value shows that the EPS may be nearly doubled within next five years. However, this type of growth is dependent to many factors of the bank’s operation such as interest earning, performance of loans and advances overall goodwill of the bank.

Figure 4.12

Trend Value and Propensity of Growth of EPS



The chart explains the overall increasing trend of EPS. Looking at the figure, we can conclude that the average line of EPS of the bank will increase slowly; this can be identified via the slope of the line. Since the slope of the line has a moderate degree of upward tender, the rise in the EPS can thus be concluded to some extent. This type of rise in EPS is the earlier calculation we can see that there has been a considerable growth in profit along with loans and advances, which has resulted good the earning in shares. NIBL should focus to keep the trend to track as shown in the figure or even to improve more by mean of generating more profit. Thus, NIBL can provide good level of return to its shareholders’.

4.7 Major Findings of the Study

4.7.1 Finding From Measurement of Lending Strength

1. The measurement of lending strengths in relative term has reveled that the total liability to total assets of the bank is moderate. The fluting ratio is the result of the high volume of shareholders equity in the liability mix. The ratio of the bank however has not deviated vastly from the mean. It depicts average performance of the bank, as it seems the bank has not been efficiently using its funds as its liability permits.
2. Loans and advances to total assets ratio of the bank has been increasing. It shows that the bank has increased its loan and advances almost four times since the past 5 years. This indicates that the bank has been following a policy of high lending. At the same time the assets of the bank has almost tripled in the 5years time period. The ratio in the mean time also depicts that the bank has maintained a right mix of conducting other fee-based activity to move along with its loan and advances. However, the ratio cannot be deemed as outstanding but can be mentioned satisfactory. According to the figures, the best performance can be seen in the year 2007/08, which shows the highest ratio of 0.65. The steady and high volume of loan and advance throughout the different years has helped to gain NIBL these ratios.
3. The ratio of loan and advance to shareholders equity has gained significant importance in measuring the capital fund and corresponding contribution in loans and advances. There has been a good level of increment during the year 2007/08 and 2008/09; however this increase in the ratio is owed to the low volume of the entire component of shareholders’ equity in the bank’s capital mix and proportionately high volume of business. This has led NIBL to be one

of the best performers amongst the world banking industry. Thus it can be concluded that the bank has been able to increase its loans and advances in proportion to the size of its capital.

4. Similarly, the absolute measures of lending strengths have revealed that the mean volume of assets has a moderate variation. The average growth of the net assets throughout five years is measured at 21.93% indicating the bank has had substantial success in maintaining the satisfaction to its shareholders and also has been able to increase the volume of its business. The volume of net assets was low in the initial years, which has got drastic turnaround of 61.88% increment in the final year. This reveals that the bank has been increasing its assets by means of loan and investment.
5. The volume contributed by NIBL in case of loans and advances is highly appreciable. There is good level of increment in loans and advances. Moreover, there is unbelievable increment of 118.23% in the year 2007/08. Loans and advances made during the year 2006/07 were somewhat lesser in comparison to other years because during that year the deposit were low and since deposit were low, proposed mobilization of funds could not be initiated. But the hindering part for the past year were increasing, the bank could not continue and steady growth of loans and advances. However, there is excellent average growth of 39.26 percent over past five years.
6. From the analysis of lending contribution made by NIBL to various sectors, it can be seen that it has a high contribution to the industrial sector in proportion to its total loans and advances. The trend in the loans to the priority sector too is increasing. However, trend of increment in priority sector is losing its steepness. This is due to withdraw of NRB regulation of compulsion for lending certain percentage of total loan and advances to priority sector. The mean contribution by the bank looks satisfactory and at the same time variability if measured too looks good for the development of the productive sector of the country via, lending from the bank.
7. One noted finding is that the bank is positive towards increasing its assets from the loans and advances. The performance of the bank is pointed to the right direction as it has cut out on its provision for loans and more important, the bank has made reductions in the non performing loans of the bank. Thus

this concludes that the bank is stepping forward to efficiently perform in the case of pace of development of the above variables.

8. The bank had earned a maximum interest during the fiscal year 2009/2010, where as the highest level of increment is during the year 2008/2009. The reason for the overall increase in the interest income lies in the fact that the Lower interest earned through investment has been offset by the higher interest earned through loans and advances and vice versa. One other major factor contributing to the fluting rate of collection of interest could be because of the uncollected interest during yearly closing, which is counted towards expenses or receivable. Bank suffers through a high credit risk, which could have hampered the collection of the interest from the clients.
9. From the analysis of loan loss provisioning of the bank it can be seen that there has been an increase in the provisioning by the bank. The total percentage increase from the year 2005/2006 till 2009/2010 was 131.87%. During the year 2006/2007 and 2007/2008, there has been almost no charge in the year's provisioning. Provisioning, if decreased is favorable to the bank as it decrease the liability of the bank, but on the other hand if the provisioning stays the same, that will be the result no additional business by the bank. Although, least increment of provisioning with an increase in the loans and advances of the bank is very good. Hence, the minimal increase in the provisioning of the loans and advances shows a positive effect on the bank's performance. Thus, we can predict that NIBL either have been facing problem of risky assets [bad loans] or there is tremendous increase in loan and advances.
10. The figures of net profit reveals that NIBL has a excellent rate over last five years, which is good for goodwill of bank. From the calculation we can see that NIBL has average growth rate of 37.71% in net profit over last five year's period.

4.7.2 Finding From Analysis of Portfolio Behavior of Loans and Advances

The portfolio analysis has revaluated that the flow of loan and advances in agriculture sector is the lowest contribution from the bank. The mean of 1% indicates very low contribution in this sector. The high operating cost, high degree of risk, small-scale loans etc. has made the

commercial banks to flow low percentage of their credit in this sector. If the combined mean is taken as the standard percentage, then the performance of the bank in the manufacturing sector deserved a high degree of appreciation compared to other sector. The contribution of the bank on the manufacturing sector is appreciable and the increase of credit in the sector is crucial for the national development also. However, bank should divert its lending to different sector because focusing to only one sector may create high for the bank's future. The lending in the commercial purpose has however, been efficient in the case of NIBL. The contribution of bank to this sector is given second priority from the data obtained. The service sector to has been given importance by the bank. The bank has contributed 14% if its credit to this sector.

4.7.3 Finding From Lending Efficiency and its Contribution in Total Profitability

1. The Ratio of provision for loans and advances to loans and advances has a relatively lower degree of effect of NIBL. There has been a variation on the Ratio; however a decline in this ratio has been noted in the earlier year and NIBL has been able low level of ratio all most all the years. As per NRB directives, provision against all type of loans should be done and booked under separate accounts. This type of regulation has been imposed by NRB in order to minimize the risk of loan and advances flowed by the banks. In case of NIBL, we can see that some loans has been crossed the rating of good loans. Thus from the analysis we can say that the NIBL, has provisioned more than 1% for some of its loans, which sows that defaulters are present in NIBL. However, ratio of five years predict that provisioned amount does not exceed 5% of total loan of NIBL, which proves NIBL has been putting its effort and is conscious to minimize the risky loans. Regarding NPL, NIBL has to improve the category of its loan and try to minimize the bad loans, which fall under non-performing loan. Even though, the percentage of NPL of NIBL is low, it will have to make a review of its lending policy to recover bad loans from its default clients, but certainly NIBL has been putting efforts to reduce in non-performing loans (NPL) as we see in the decrease in the amount of the NPL of NIBL in the year after 2006/07. But in the contrary, increase in the previous has affected performance of NIBL.

2. The mean ratio of interest income to total income has concluded that the contribution of interest income to total income mixed of NIBL has been fluctuating for the different years. The performance NIBL has been moderate and the average ratio indicates that the ratio of the five years do not have high degree of deviation from the mean of the bank. We can see that the over all trend of the ratio of the bank is not fixed. This ratio indicates that the cost of funds in NIBL is not so high and that it does have relatively less effect on this ratio. NIBL, has advancement of technology and modern banking, thus, it has capitalized in collection funds in the cheapest possible price.

4.7.4 Findings From Measurement of Profitability Ratios.

1. Among the various measures of profitability ratios, the total income total assets ratio measures the earning power of each rupee employed by an organization irrespective of volume expenditure incurred. The high ratio for NIBL was observed during the years 2005/06 & 2006/07. The ratio of total income to total expense measure the earning capacity a rupees of expenses. The ratio indicates how much a rupee of expense would result in total income. Thus higher the ratio, better the productivity of expenditure. The productivity of expense in NIBL is not so good as it's a rupee expense is able to contribute 1.55 times the expenditure made. Regarding the performance of a bank, it is considered good to have a total income to total expense ratio of more than 2.
2. The EPS reflects the relative measure of profitability. The performance of NIBL is relatively satisfactory. But the high volume of reserve and surplus in the capita mix of NIBL has resulted in the bank to acquire a compromising position as compared to net profit to shareholders equity ratio. Although there is decrease in EPS of NIBL over last one year, it is also can be considered satisfactory because it has not gone from the mean EPS of NIBL.

4.7.5 Findings From Measurement of Correlation between Different Variables.

The correlation chapter has shown generally high degree of significant correlation between all the variables. The bank has a high degree of correlation in respect of total deposits and total loans and advances, shareholder's equity and loan and advances, total income and loan

and advances, which are indicative of good performance of NIBL in generating Profit through lending. This also concludes that increment in deposits is the most likely to increase the volume of loans and advances. As far as the lending function and its correlation with other variables is concerned, the correlation of NIBL has shown the best contribution toward national economy. There is also a high degree of correlation between shareholders' equity and loans and advances and between total income and loans and advances, which predicts the return generated by lending of NIBL has a great contribution towards bank's profitability.

4.7.6 Finding from Trends Analysis

1. Trend analysis has revealed the future performance of NIBL in the case of loans advances and the earning per share. The slope of the trend line is high in the bank. Especially, through the pattern of the recent times, NIB'S efficiency in loans advances is forecasted to increase. The measured growth, depending on the trend values, has projected the increasing performance of NIB'S for the next five years. The growth rates of loans and advances of NIBL seem outstandingly good. This added to the vital power of lending in NIBL. The high degree of growth in loans and advances puts the bank in a good position in the lending functions for the future. Although there is a little bit lower degree of growth rate in EPS as compared with loans and advances, it can be improved with the growth of loans and advances as expected.
2. The propensity of growth measured by trend analysis also reveals NIBL'S forecasted good performance, not only in the percentage growth but also in the value of growth. NIBL is likely to increase its loan and advances by rupees 2067.37m with an average per annum growth rate of 32.14%. this is deemed to be good, as in the future this bank will look to dominate the lending of the industry.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter we examine the processed data to come in to summary, conclusions on the performance of the bank on an individual basis and put some recommendation for the subject bank in order to improve its weakness. This chapter is divided into summary, conclusion and recommendation.

5.1 Summary and Conclusions.

The lending strength of NIBL in term of exposure of loans and advance is good. The ratio of loans & advances to total asset, loans & advances to shareholder's equity indicate a good performance of NIBL in its lending activities. The bank has been able to upgrade the performance by increasing its loan portfolio. If NIBL succeeds in collecting the cheap sources of fund in the future, the lending strengths of NIBL would push its performance upward.

Viewing the productivity of loans and advances and its contribution in the national economy, the performance of NIBL has been satisfactory. The contribution made by this bank in agriculture purpose, however, is lower; it has increased contribution to the manufacturing sector continuously. A considerable percentage of NIBL's credit has been granted to unproductive sector of general use and social purpose, however such loans are also required in order to improve individual's social status and fulfillment of basic needs. But the overall slowdown in the economy, increasing failure of the industrial sector in generating profit, increasing tendency bad performance of industrial loan etc. has put NIBL to the touch stage. Thus, element of credit risk in NIBL has increased due to the failure of industrial sector in the economy. If the present economic conditions improved and the industrial performance turned to success, NIBL would be the superior entity in the commercial banking groups in the future. However the case, the contribution made by the bank in industrial sector of the economy is highly appreciable.

The propensity of growth of loans and advances is good but the opportunity in lending activities is limited, thus there is uncertainty to meet the expect growth. This however, decreases the bank's capability in making credits but if the economy takes the upward trend

there would certainly be a strong position of NIBL in terms of lending, which will help to generate more profit. Looking at the asset management ratio, the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio on the other hand, also reflects to the soaring performance of NIBL. The decreasing loan loss provision ratio is the indicative of the bank's better performance in judging the good customers. The high growth rate, proportionately high volume of loans and advances, better contribution to the industrial sector and the increasing level of deposits mobilization, has put the bank into one of the most competitive banks in the industry. It has also been able to contract good renowned position in the lending function as deemed by the national priority, and national development. However better activity ratio of this bank, been a major contributor in managing the lending portfolio according to the demand of profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus, looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2007/08 and has continued till 2009/2010 and the bank has the potentiality to become a leading bank in Nepal.

5.2 Recommendation

Based on the finding in chapter four and above conclusion the following recommendation has been forwarded:

1. The rural economy has always been realizing the credit needs; the dominancy of non-organized moneylender in the area has been prevailing. To compromise between the liquidity and credit need of rural economy, the bank is highly recommended to expand its credit in this area. This helps minimizing idle fund in business and at the same time contribute to the national economy.
2. The ratio between loans and advances and shareholders' equity shows that there is good growth rate over last five years. This implies that NIBL is able to increase loans proportionately with the capital. So, Bank should continue to maintain or further increase this performance.
3. The provision on loan loss and relatively decreasing volume of non-performing loans in NIBL does somewhat attention. The moderate volume of NPL in NIBL may have caused slight hassle in the performance of the bank. But the bank must get rid of its accumulated bad debt and show high efficiency. Following the normal guidelines of NRB and acting upon this also

reduce many of the credit risk arising from borrowers, lack of proper credit appraisals, black listed borrowers, and willful defaulters. The over confidence in commercial bank regarding credit appraisal efficiency and negligence in taking information from credit information bureau has cause many bad debt in the bank. Hence, the bank is recommended to follow the directives of NRB strictly and be more cautious and realistic while granting loans and advances. The major solution of reducing the risk is to avoid lending in the more risky area until the bank is fully satisfied regarding the future viability of the project. Although the government has established the office named “Debt Recovery Tribunal” in order to help bank for recovery of bad debts. An additional effort for establishment of ‘Assets management Company’, which helps the bank in collecting their debts and improving their credit rating efficiency, should be initiated.

4. There is dramatic change in Net Assets of NIBL in last year, which is good for banks image and shareholders’ satisfaction. This type of dramatic change is due to drastic increase in loans and advances over last year. Shareholders’ satisfaction is one of the major factor for bank’s status. Thus, the bank is recommended to increase sustainable baking practice to cope up with the future challenges in the coming days by continually increasing loans and advances.
5. As examined by interest income and interest expense ratio, the interest gap is highly unfavorable for the bank. As the total loans and advances the total deposits ratio is not even 1:1, this gap has its reason with not succeeding to lend the available fund to the optimum level. This ratio has clearly indicated that the bank is not able to maintain the maximum gap of 5% between interest collected & interested paid as permitted by NRB. Thus, bank is recommended to increase this gap especially by increasing interest rate on lending. Increasing interest rate on lending generates high return to the bank and helps in increasing the sustainable lending practice with proper analysis. This will also create room to solicit deposit in case of liquidity crunch by mean of offering higher interest rate. However, this type of changes should be implement with due care because there is high risk of loosing existing business, so tint analysis of market is required for this.

6. The actual status of any bank is explored by net profit of the bank. NIBL's net profit shows a good sign of growth, so there is confidence in public towards NIBL. So, NIBL is recommended to continue the present growth rate over net profit in order to maintain its status by focusing on the strength of lending and giving emphasis to mobilize the collected deposit to the great extent.
7. The ratio contribution made by the bank in agriculture and priority sector does not look fulfilling. NIBL's volume of agricultural and priority sector both is not satisfactory, though lending to agriculture is increasing. Since, the prosperity of national economy is highly dependent upon this sector, the bank is recommended to increase its volume of credit to these sectors. So, as focused by NIBL, contribution to industrial sectors only does not complete the responsibility of the banks to the national economy. So, NIBL should put effort to lend out money to the prioritized sectors like tourism, hydro powers, information and technology, and small scale businesses.
8. The high volume of liquidity shows that the high degree of lending strength has been prevailing in the bank. The lack of reliable lending opportunities and fear of losing the principal in case of lending in rural sector has been keeping the bank less oriented towards the lending function to rural sector. Hence, the government should take appropriate action to initiate the banks to attract to flow credit in the rural economy. Imposing the compulsion by directives does not create long term healthy lending practice unless the commercial bank are not self motivate to flow credit in this sector. But in view of the risk element in lending, the banks still prefer to have a negative outlook in handling lending proposal. This attitude requires to be changed among the banks and any Proposal coming to them should be processed to conform to banking norms so that it can be sanctioned for fulfillment of national and social objectives.
9. Finally, however, performance of NIBL seems to be good till date, there is still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strengths, personal integrity and credibility of the borrower for loan disbursement. It should maintain high level of monitoring and control system over the disbursed loans and advances. To create opportunities of business new and attractive lending schemes should be launched to the public. NIBL should be more responsive towards national

economy and economic development. It should not neglect the deprived sector, as upliftment of this sector plays vital role for national economy. The bank should avoid credit concentration to a limited sector in order to maintain its performance. If there is recession in any specific sector, remaining sector of economy may function well and there may not be severe impact on the whole lending portfolio of the bank. NRB also should be more concerned and active for proper monitoring and formulating or reviewing its policies and regulations to safeguard the interest of the banks.