

CHAPTER-I

INTRODUCTION

1.1 Background

The source of finance is the most essential element for the establishment and operation of any profit and nonprofit organization. The main source of financing is ownership capital, public capital through issue of shares and through financial institution, such as bank in the form of credit, because banks are institutions that pool together the scattered savings of people and arrange for its productive use. In other words, they accept the surplus fund of people as deposit and supply it to meet the financial needs of people and modern business by various means.

The first bank of Nepal was established on 30th Kartik, 1994 B.S. as Nepal Bank Limited to provide modern and organized banking facilities. Nepal Rastra Bank was established on 14th Baishakh, 2013 B.S. Nepal Rastra Bank is the central Bank of Nepal which manages, control and develops monetary system in Nepal. Later Rastriya Banijya Bank was setup under the Banijya Bank Act 2021 B.S. to fulfill the growing needs of the time. Then commercial banks, development banks, finance companies came into existence (Shrestha, 2006:p.9).

Bank is a bridge between the savers and the users. In other words, it collects the scattered savings and mobilizes them into productive channels in order to maximize their wealth. Development Banks are the mediators which help to collect savings and mobilize savings in various tasks like hire purchase, purchase of land, housing loan etc between the person who has got savings and investors and big finance company and also the persons and organization which need the loan. So, it is considered as a complementary to commercial bank to some extent. Beside equity, the main sources of fund of these companies are time deposits collections and issuance of debentures (Shrestha, 2006:p.2).

In our country Nepal, the history of development bank is not so very old. The first development bank of Nepal is Nepal Development Bank Ltd. Till October 2010,

83 development banks have been established in Nepal.

A bank aims at making huge profit. Since loans and advances are more profitable than any other assets, they are willing to lend as much fund as possible. They make an offer to borrower at certain terms, including interest rate and length of loan, with the goal of maximizing their profit in relation to the borrower's risk of defaulting on the loan. Since it is a risky job to lend money care should be taken about the safety of such loans & advances. Though there is lot of chances of wrong analysis; this study thus is focused on analyzing the status of non-performing assets and loan portfolio of a bank for analyzing the credit efficiency of a bank.

For the convenient purpose the study is concentrated in one of the development bank of Pokhara i.e. Business Development Bank Ltd. The main objective of BDBL is to collect dispersed savings of people, convert them into capital and lend them to individuals or institutional borrowers. As a whole, its main objective is to uplift the national economy by considering financial and technical facility to general public. Its head office is located at New Road, Pokhara in Kaski district. Till today, it has expanded its financial activities in other parts of the country also; and it is in the process of being national level development bank. Till now it has opened 4 branches. It got its operating license on 8th Baisakh 2062 B.S. and started its transaction from 27th Baisakh 2062 B.S (Annual Reports, 2062-67).

At the starting period, BDBL had authorized capital of Rupees Thirty Million, issued capital of Rupees Eighteen Million and paid –up capital of Rupees Eighteen Million and at present, it has increased its authorized capital to Rupees One Hundred Million, issued capital to Rupees Sixty Nine Million Sixty Thousand and paid up capital to Rupees Sixty Nine Million Sixty Thousand(Annual Reports, 2062-67).

Initially, its operation was started with 5 employees and now, the total number of employees has reached 41. There are eight members in Board of Directors of whom three members are elected by general shareholders and five members are from the promoter's side. All the decisions of BDBL are taken by the B.O.D. under the rules and regulations formulated by NRB as well as Bank & Financial Institution Act 2063 B.S. It collects deposits under various accounts and invests it in different

sectors like hire- purchase, trade loan, housing loan, industrial loan etc. Since BDBL provides loan to various sector, good interest to depositors and pays tax, it can be said that it has contributed a lot for the development and betterment of the society people as well as the economy of the nation.

1.2 Focus of the Study

Development Banks perform various activities. Among them, investing in different sectors by providing loan is also considered as important one. The main objective is to maximize the return by minimizing the risk. For this, sound and viable loan policy should be formulated. A good loan policy attracts both borrowers and lenders which help to increase the volume and quality of deposits, loans and investment.

This study mainly focuses on how BDBL diversifies its loan & advances to maintain optimum loan portfolio & reduce NPA. Decision science says that developing more and more alternatives, analyzing each of the alternatives, considering various aspects around the alternatives and selecting the best alternatives is a good decision making process. In this study, the trend of loan & advances of BDBL in various years in various sectors are analyzed in order to observe whether the investment process has been passed through decision science or not?

1.3 Statement of the Problem

The establishment of the financial institutions has contributed a lot in the development of Nepalese economy. The major operation of these institutions is accepting deposits, advancing loans and making investment in various sectors.

The bank should diversify its loan & advances in different sector to make optimum portfolio and check its NPA accordingly in order so that it can maximize the return and minimize risk. Also formation of optimum portfolio plays a vital role in the profitability position of an organization as well as to sustain and compete in the competitive business environment. The study is mainly focused on the following problems, especially related to loan portfolio & NPA.

- i) What is the NPA and loan loss provision of BDBL for the past five

years?

- ii) What is the Loan Portfolio of BDBL for the past five years?
- iii) What is the relationship between deposit mobilization and loan investment?
- vi) What is the recovery procedure of BDBL?

1.4 Objectives of the Study

The objectives of the study are listed below:

- i) To find out the NPA and loan loss provision of BDBL in the past five years.
- ii) To know about the different sectors of loan investment of BDBL in the past five years.
- ii) To explore the relationship between deposit mobilization & loans & advances.
- vi) To know about the recovery procedure of BDBL.

1.5 Significance of the Study

Basically, the purposed study is important for the researcher to fulfill the academic requirement of the master degree. Apart from this, the study evaluates and facilitates the different people in the following ways:

- i) It provides a useful feedback to shareholders and general public to know about the loan portfolio maintained by bank for effective credit mobilization.
- ii) It will be a reference to all to know about the recovery procedure of Development Banks.
- iii) It will be helpful in analysis of NPA in future and maintaining loan loss provision accordingly.

Thus, this study itself carries the significance and importance for every researcher scholars as a reference material.

1.6 Delimitation of the Study

This study is mainly focused on BDBL and has certain delimitation:

- i) The study is simply a partial fulfillment of M.B.S degree and prepared within the time constraint.
- ii) The whole study is based on secondary data i.e. financial report and information provided by the bank.
- iii) The study covers only five years period beginning from the fiscal year 2062/2063 to 2066 /2067.
- iv) The study mainly focuses on the NPA & loan portfolio of BDBL so; it does not pay any attention towards the whole bank's pattern.

1.7 Organization of the Study

The whole study is divided into five chapters in the following ways.

The first chapter deals with introduction, which includes general background, focus of the study, statement of the problems, objectives of the study, significance of the study and delimitation of the study

The second chapter deals with review of literature. It includes conceptual review and review of related studies.

The third chapter deals with research methodology and it includes research design, population and sample, nature and sources of data, data collection procedure and data analysis tools.

The fourth chapter deals with data presentation and analysis of relevant data and information.

The fifth chapter is the last chapter, which summarizes the whole study. Moreover, it draws conclusion and forward recommendation for the improvement in future.

At the end, bibliography and appendices are also incorporated as per the need of the study.

CHAPTER- II

REVIEW OF LITERATURE

Basically, this chapter gives more emphasizes on the literature relevant to the study. It means, this chapter deals with the development of financial institutions in Nepal, conceptual review, review of related studies and research gap.

2.1 Development of Financial Institutions in Nepal

While tracing back to the history of banking in Nepal, it is found that from the ancient time, the financial transaction was carried out. During the reign of Gunakama Dev, in about 8th century, the transaction of money in the form of lending was started and at the end of same century, a merchant named Shankhardhar had started the new era “Nepal Sambat” after freeing all the people of Kathmandu from the debt (Shrestha,2006:p.8).

During the course of development of borrowing, at the end of 14th century, King Jayasthiti Malla classified the people in 64 castes according to their occupation. Among them, one of the categories of the people, named “Tankadhari” worked as a money lender and who invested his money on the needy persons by charging some percentage of interest. Furthermore, during the reign of Mallas, it is believed that the lending business was done particularly for financing the foreign trade with Tibet which became quite popular. But, some money lenders used to charge high interest rate and other extra charges on loans & advances due to the absence of the regulation of interest rate (Shrestha, 2006:p.8).

In the 19th century, Ranodeep Singh, prime minister opened a systematic organization called the “Tejaratha Adda” which granted the loans to the government officials and the people at 5 percent interest against gold and silver and other ornaments. From this new established office, the government service holders got privilege to take loans which were repayable in installment out of their salary but this office had no right to accept deposit of public and also it had no characteristics of

modern banks. Nevertheless, it can be said that the institutional banking system had started from then (Shrestha, 2006:p.9).

In 1994 B.S., Nepal Bank Ltd. came into existence as the first bank of modern financial system in Nepal which was taken as the milestone of modern banking of the country. Then after, with the change of time and need of a separate institution or body to issue national currencies and to promote financial organization in the country, NRB was set up on 2013 B.S., as a central bank under NRB Act 2012 B.S. Since then, it has been functioning as the government's bank and has contributed to the growth of financial sector. Similarly, in 2022 B.S., Rastriya Banijya Bank came into existence under the Banijya Bank Act 2021 B.S. as a second commercial bank in the country because the presence of only one commercial bank was not sufficient to handle all the banking activities as well as to provide services to all the people of the country. Then, after Nepal Industrial Development Corporation was set up for industrial development. Similarly, Agriculture Development Bank was established in 2024 B.S. to provide finance for agriculture producer so that agricultural productivity could be enhanced by introducing agriculture technique (Shrestha, 2006:p.9).

For more than two decades no more banks have been established in the country. After declaring free economy and privatization policy, HMG encouraged the foreign banks for joint ventures in Nepal. In the beginning of 2040 B.S., the new act for banking came into existence which specified that a bank can be established under the joint investment schemes between Nepalese investors and their parent banks, each supplying 50 % of the total investment. As a result, on 2041 B.S., the three joint venture banks named Nepal Arab Bank Ltd.(NABIL), Nepal Indosuez Bank Ltd. and Nepal Grindlays Bank Ltd.(Standard Chartered), were established under the Company Act 2021 B.S., and operated under the Banijya Bank Act 2031(Shrestha,2006:p.10).

Development bank is registered under the Bank & Financial Institution Act 2063 and license issued for operation is granted by NRB. The development bank collects the scattered savings and mobilizes them into productive channels in order to maximize their wealth. The collected resources are mobilized in various sectors like hire purchase, purchase of land, housing loan, leasing finance, consumption loan, and also investment in government securities and bonds which are considered as the main

lending areas approved by NRB . Therefore, it is considered as a complementary to commercial banks. The main source of funds of these institutions beside equity is time deposit.

Development banks are allowed to collect time deposit with the maturity period of three months to five years. In terms of loans and investment they are allowed to extend loans for hire purchase, housing finance and leasing finance, overdraft, education etc. They are also allowed to invest in securities and issue guarantee. They are free to fix the rate of interest on deposits but the spread on deposit and loan should not exceed 2%.

Due to the increasing demand of the customers, numbers of developing banks are increasing day by day. So, as a result 83 development banks have been established in Nepal till October 2010.

2.2 Conceptual Review

Here, the attempt is made to review the conceptual aspects regarding the concept of development bank, loan, default, loan portfolio, performing assets, NPA, loan loss provision, recovery and features of a sound lending and investment policy.

2.2.1 Concept of Development Bank

Development bank is composed of two words 'development' and 'bank'. On the development front these institutions are under obligation to play promotional role and to encourage new entrepreneurship. Development role is a role of catalyst. A development bank is designed to supply one or more of the essential ingredients of effective investment. It functions as an agent for promoting a balanced and viable process of economic development. The modern development banks are focused toward achieving all round economic development of under developed countries and searching an appropriate instrument through which such development can be promoted and financed.

Development Banks may be best regarded as the channel through which not only capital but also all the other ingredients of economic development flow under planned direction so on as to irrigate and fertilize the arid regions and transform them

into economically developed fruitful areas (wikipedia,2010).

2.2.2 Concept of Loan

As already stated the main function of development bank is to achieve all round economic development and for this it collects the scattered savings of people and arrange for its productive use through investment and loan disbursement.

A loan is a type of debt. As a loan a borrower receives an amount of money from the lender, which they pay back, usually but not always in regular installments to the lender. This service is generally provided at a cost, referred to as interest on the debt.

Since development bank is also one of the financial institutions; acting as a provider of loan is one of the principle tasks of it. Legally, a loan is a contractual promise of debtor to repay a sum of money in exchange for the promise of a creditor to give another sum of money (financial-dictionary, 2010).

2.2.3 Concept of Default

Default is the failure to promptly pay interest or principal when due. Default occurs when a debtor is unable to meet the legal obligation of debt repayment or their failure to perform on a futures contract as required by an exchange. Defaulting on a debt obligation can place a company or individual in financial trouble. The lender will see a default as a sign that the borrower is not likely to make future payments. Defaulting on a future contract occurs when one party does not fulfill the obligations set forth by the agreement. The default usually involves not settling the contract by the required date. A person in the short position will default if he or she fails to deliver the goods at the end of the contract. The long position defaults when payment is not provided by the settlement date.

In finance default occurs when a debtor has not met its legal obligations according to the debt contract, e.g. it has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract. Default may occur if the debtor is either unwilling or unable to pay their debt. This can occur with all debt obligations including bonds, mortgages, loans, and promissory notes.

The term default should be distinguished from the terms insolvency and bankruptcy. 'Default' essentially means a debtor has not paid a debt. 'Insolvency' is a legal term meaning that a debtor is unable to pay his debts. 'Bankruptcy' is a legal finding that imposes court supervision over the financial affairs of those who are insolvent or in default (wikipedia, 2010).

2.2.4 Concept of portfolio

A portfolio is usually defined as a combination of assets and a collection of securities. A portfolio simply represents the practice among the investors of having their funds in more than one asset. The combination of investment assets is called a portfolio. So, the portfolio analysis considers the determination of future risk & return in holding various blends of individual securities.

A portfolio theory deals with the selection of optimal portfolio; i.e. portfolio that provides the highest possible return for any specified degree of risk or the lowest possible risk for any specified rate of return. Portfolio theory has been developed for the financial assets. The term 'portfolio' simply means collection of investment. For an investor through the stock exchange the portfolio will be collection of shareholdings in different companies. For a property investor portfolio will be collection of buildings. To a financial manager within an industrial company portfolio will be a collection of real capital projects. It will be apparent that the actual nature of the components of a portfolio depends on the population of opportunities from which the selection has been made. All the securities carry the different degree of expected risk. So, an investor must hold more than one security at a time and should try to diversify the risks but not putting all the eggs into one basket. Diversification into ones holding is intended to reduce risk in an economy in which every assets return are subject to some degree of uncertainty (Shrestha,2006:p.16).

As already mentioned a banks job is to collect deposits and provide loan; since loan consists risk, bank must diversify its loan in different sector as a result of it bank need to maintain good loan portfolio. A bank thus invests in different types of sector like Hire Purchase, Real Estate, and Easy Loan etc. The bank must select optimal loan portfolio i.e. the portfolio that provides the highest rate of return with the

least possible amount of risk is the real loan portfolio.

2.2.5 Loan Portfolio Management

Loan portfolio management assumes periodic supervision of the loans in the portfolio. It can be made by credit manager. A loan portfolio of a bank consist the loan which is the result of individual preferences and decisions regarding risk and return. Portfolio management is the art of handling a pool of funds so that it not only preserves its original worth but also overtime appreciates in value and yields an adequate return consistent with the level of risk assumed. The basic problem of loan portfolio management is to establish an investment objective or goal and then decide the best to reach the goal with the fund available. In other words, investor wants to obtain maximum return with minimum risk.

Thus, the process of portfolio management also involves logical steps common to any decision i.e. planning, implementing and monitoring (Shrestha, 2006:p.17).

2.2.6 Objective of the loan Portfolio Management

Mostly the objective is closely related to the theoretical objective of maximizing return for the level of risk inherent in the portfolio. The other objectives of the portfolio management are like minimization of risk, granting loans on a sound and collectible basis, investing the bank's funds profitably for the benefit of shareholders and the protection of depositors and to serve the legitimate credit needs of their communities.

The board of directors and senior management team develops medium and long term strategic plans and objectives for the loan portfolio. Thus strategies should be consistent with the strategic decision and risk tolerance of the institution. They should be developed with a clear understanding of their risk/reward consequences. They should also be reviewed periodically and modified as appropriate. In drawing up strategic objectives management and the board should consider establishing goals for loan quality, goals for portfolio diversification, loan product mix, general financial objectives (e.g. increase in fee, income etc) and should be concern about what

proportion of the balance sheet the loan portfolio should comprise, how much the portfolio should contribute the bank's financial objectives, community needs and service, bank's geographic markets and loan growth targets by product market and portfolio segment (Comptroller's Handbook, 1998:p.14).

The bank's loan policies, underwriting guidelines and procedures support the strategic objectives for the portfolio. MIS inform management about whether performance measures up to plan or not.

2.2.7 Loan Portfolio Management in Development Bank

The art of managing the funds in a proper way and optimizing its value and the performance of the company is known as a portfolio management of the company. In this competitive environment, managing loan portfolio in an efficient way is not an easy task rather it is a challenging task for the development banks. On the other hand, development banks are not being able to get success on doing such activities so far because of being unable to explore new field or sectors for investment, due to lack of proper techniques to run such activities in the best and successful manner and less developed capital market and also few availability of financial instruments in the financial market. So, because of very limited opportunities available not only development banks, commercial banks are also not able to provide optimum services regarding the portfolio management.

Normally, the development banks do not trade on its own fund rather then they circulate people's money to the people. During this process, it makes profit by rendering different services to the people. But, if the bank cannot meet the claims of the people readily then they have to suffer an irrecoverable loss, which may even lead to bankruptcy.

Since the main objective of bank is to earn profit, they try to use every single rupee into a productive sector to meet their expenses as well as to earn profit. In other words, they should invest the fund in high yielding portfolio. But sometimes, high yielding portfolio may be hardly liquid and risky and some may yield very little but they are liquid and bear no risk. So, the development banks must formulate such strategy which helps to choose optimum portfolio to achieve their objective as well as to meet the social obligations because they are considered as one of the responsible

factor of the society (Shrestha, 2006:p.18).

The bank thus selects the best mix of loan subject to following aspects:

-) Higher return comparing with alternative opportunities available.
-) Good liquidity with adequate safety of investment.
-) Certain capital gain
-) Maximum tax concession
-) Flexible investment
-) Economic, efficient and effective loan mix in the view of above aspects, following strategies are adopted.

- ❖ Do not hold any single security i.e. try to have a portfolio of different securities.
- ❖ Do not put all the eggs in one basket i.e. to have a diversified investment.
- ❖ Choose such portfolio of such loans which helps to maximize return with minimum risk or lower of return but with added objective of wealth maximization.

2.2.8 Concept of Performing Assets

Bank is institution for keeping, lending and exchange of money. The banker's business is to take the debts of other people to offer exchange and thereby create money. While investing the money by bank, the bank should be confirmed about the borrowers that the borrower will use them in productive sector or not. If the bank will be alert enough then no NPA will be caused only performing loan will be occurred (Shrestha, 2007:p.33).

Performing loan means that loan which recovers the installment amount in due time. So, Nepal Rastra Bank has issued guidelines of performing assets which is only the pass assets. Pass assets is classified as performing assets for a period of loans & advances which are not past due as well as past due for a period up to 3 months. The loan loss provision set aside for the outstanding loan and advances and bills purchased of performing assets or pass loan is 1%

Loan Loss Provision set for performing loans is defined as general loan loss

provision.

2.2.9 Concept of Non-Performing Assets

The bank's main motive is to mobilize ideal resources in productive area after collecting them from scatters resources and to maximize profit. So, the capital is the property (asset) of the bank. To manage the property that is capital of the bank different sources is available. Equity and debt is the most important sources of the bank. If the bank is not able to mobilize the capital fund in better way than the bank will not be able to achieve their target as well as that kind of capital will be non-performing. So the efficiency of bank and financial institution can be weak. So the economic condition and financial efficiency of the bank is depended upon the non-performing assets ratio (Shrestha, 2007:p.34).

From the total assets of bank if the asset of bank is not productive, is not able to earn the income, not been able to transform the fund under a certain period then that kind of asset is known as non-performing assets (NPA). Since the date the loan become past due, the loan becomes non-performing asset of the bank. Simply, non-performing assets means; Non-Performing Loan (the part of the principal or the interest of the amount borrowed being past due for more than three months) and receivables.

According to the directives of NRB some fund should be kept and other remaining fund should be invested. After the investment of fund the bank should be able to collect the principal and interest which is very important. If the bank is not able to collect the principal and interest in time then in this type of banking transaction credit risk is found (Shrestha, 2007:p,34).

The most important business implication of NPA is that it leads to the credit risk management assuming priority over other aspects of bank's functioning. The bank's whole machinery would thus be pre-occupied with the recovery procedures rather than concentrating on expanding business. A bank with high level of NPA would be forced to incur carrying costs on a non-income yielding assets. Other consequences would be reduction in interest income, high level of provisioning, stress on profitability and capital adequacy, gradual decline in ability to meet steady increase

in cost, increased pressure on net interest margin (NIM) thereby reducing competitiveness, steady erosion of capital resources and increased difficulty in augmenting capital resources(Shrestha,2007:p,34).

The non-quantifiable implications can be psychological like 'play safe' attitude and risk aversion, lower morale and disinclination to take decisions at all levels of staff in the bank. An asset is classified as Non-Performing Asset (NPA), if interest or installments of principal due remain unpaid more than 3 months. If any advance or credit facilities granted by a bank to a borrower become non-performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances/credit facilities having performing status (Shrestha,2007:p.35).

Nepal Rastra Bank has issued guidelines on provisioning requirement with respect to bank advances. In terms of these guidelines, NPA are mainly classified into three categories:

-) Substandard: It is classified as non-performing assets for a period of 3 months to 6 months.
-) Doubtful: Assets that are remained non-performing asset for a period of 6 months to 1 year is included in doubtful assets.
-) Loss: It is classified as NPA for a period exceeding more than 1 year as well as very least possibility to recover the advances or possibility of undercover and in future which have least possibility of partial recovery is included in it.

Thus, NPA depends according to the length of time. According to the provision of NRB, if the loan is performing but an obstacle is found then that loan will be classified as non-performing loan. The obstacles can be like borrower's insolvency/bankruptcy, if borrower is lost, if borrower who have taken the loan for one purpose and invested that amount for the other purpose or they misuse the loan.

Banks faces loan loss due to the borrower's default of loan obligations. It is not possible for the bank to have 100 percent success in selecting the good clients since in practice some percentages of customers do not pay the loans either

intentionally or due to some genuine causes and the factors beyond their controls. There are many other factors like change in economic environment, keen competition in the economy, managerial weakness and other outright fraud that bring the losses to the banks. This affects the earnings and the reserve building capability of the banks. So, the regulatory body like central bank compels the bank to maintain loan loss provision according to classification of loans into various categories like pass loan, substandard loan, doubtful loan and bad loan (Shrestha, 2007:p.37).

According to NRB guidelines, all the banks should classify its loan and advances into four categories to maintain loan loss reserve fund according to the percentage shown in table below, so, it is possible to analyze the status of loan payment from loan loss provision.

Table 2.1
Loan Loss Provision

Classification of Loans	Time Period	Loan Loss Provision
Pass Loan	1 – 3 months matured	1%
Sub – Standard Loan	3 – 6 months matured	25%
Doubtful Loan	6 – 12 months matured	50%
Bad Loan	More than 1 year matured	100%

Source: NRB Directives, 2067

Pass loan is regarded as performing assets while other remaining three loans are called as non-performing assets according to NRB. Loan Loss Provision set aside for performing assets is known as General Loan Loss Provision and Loan Loss Provision set aside for non-performing loan is known as Specific Loan Loss Provision. As the provision is regarded as a cushion against the future losses, moreover, the loan loss provision reflects the increasing probability of non – performing loans. Though all the loans are good at the time of disbursement, with the passage of time, they show the sign of problem so it is necessary to maintain loan loss provision.

2.2.10 Non-Performing Loan Management

To change the non-performing loan into performing loan is difficult task but change is very necessary for a certain time and up to certain limit. For that different policy, strategy should be implemented in a planned way to achieve the targeted work. Some solutions for managing NPL are defined below (Shrestha, 2007:p.38):-

- J It is necessary to inform all the staffs, employees and workers about the increment reasons of NPL, kind of affect bearing by the financial institutions and should have effective management.
- J In offices and regional level areas loan classification should be done. The quality of assets particularly, loan assets and investments would depend largely on the risk management system of the institution. After the classification of loan of the loan portfolio, the employees, bank directors and management should be informed about the motive and should be given responsibility.
- J To be aware and alert about the NPL the bank have to contact with borrowers regularly. The bank has to watch and follow the provision on monthly and 3 monthly basis to manage the risk. Lower the loss loan, provisioning should be lowered.
- J Formulation and implementation of sound lending policies are most important responsibilities of the bank. A sound investment policy of bank on different types of assets with good profitability is necessary.
- J If borrowers repay, commitments to pay the interest in monthly basis then the loan is impossible of being NPA. So, such program should be followed up by the bank.
- J The loans which can be rescheduled and restructured should be given first priority.
- J Banks manager and management should measure the entire program related to minimization of NPA.

2.2.11 Concept of Recovery

Recovery means to collect the default loan or expiry loan. It is necessary in a

bank so that bank can collect the default loan and keep record accordingly how much default loan has been collected. Also to make plan regarding several terms & conditions that can be imposed in order to keep their loan safe, to make it properly utilized and ultimately to get them reserved in time. The bank also always thinks about the repayment capacity. Banks have to maintain the repayment from the investment for the sustainability and profitability of the company. As the repayment becomes regular, this money will be circulated to another investment thus, generating service charge and other incomes. So, analysis of repayment is very important.

2.2.12 Features of a Sound Lending Policy

Basically, the income and profit of the development bank depends upon its lending procedure, lending policy and investment of its funds in different securities. The chance of profit earning for the development banks will be high if there is more credit creation. So, a sound lending and investment policy must be formulated since it is a pre-requisite for the bank's profitability and also crucially significant for the promotion of financially backward country like Nepal.

There are some factors for most of the banks which should be considered in order to have a sound lending and investment policies. They are explained below (Shrestha, 2006:p.22):

a) Safety and Security

Every banks should pay much emphasizes on the principle of safety, to follow the investment policy. If they invest its fund in those securities which are subject to too much depreciation and fluctuation then a little difference may cause a great loss which is not good sign for the financial institution. There will be no doubt of loss whether it is great or little if they had not invested in a safe sector. It must not invest its fund into speculative businessman who may be bankrupt at once and who may earn millions in a minute also. Hence, the banks should accept such types of securities which are commercial, durable, marketable and high market price. In addition to this, 'MAST' should be applied for the investment i.e. M = Marketability, A = Ascertain ability's, S= Stability, T = Transferability.

b) Profitability

Profitability should be the cardinal principle for making investment. According to the principle of profitability, they should invest their funds in such sectors which ensures higher rate of return as they have to meet all expenses for daily administration, expansion and growth as well as payment of dividend to the share holders. They can gain much profit from the safe and long term investment. But, there is less liquidity in such investment. It may loss the investment in the sector where profit is not gained, where much risk is there is much profit. But, sometimes it may create a situation where the company should face the great economic loss, by loss of the investment in such a risky sector. So, the profit and liquidity are two opposite principles. If they pay its attention only for profit, the liquidity becomes less, if it pays its attention on liquidity; it can't be a long term investment and can't get profit. So, they should maintain equality in it. As we know that higher return involves higher risk, there should be a proper check and balance between risk and return for investment. Thus, the banks must invest their fund which can maximize its volume of wealth as well as the return on its investment with proportionately low risk.

c) Liquidity

Liquidity is one of the most important factors of lending and the bank should not forget the principle of liquidity while it is following its lending policy. Liquidity refers to the ability of a firm to repay the money when required. People deposit money in bank in different account with the certainty that the bank will repay the money when required. So, in order to maintain certainty of the depositors, the bank must keep in mind while investing its excess fund in different securities or at the time of lending that it can meet the current or short term obligation when they become due for payment. Therefore, they should keep adequate liquid fund. If they can't meet the required obligation at the time of demand then it may lose the customer and their trust. In the same manner if they invest the whole deposit in loans and advances, they can't give it at the time of demand by the depositor so they should try to move the liquidity and profit together.

d) Diversification

Banks should take into consideration about the diversity of loans and advances. In choosing the loan portfolio, they should follow the principle of diversity. Diversification aims at minimizing risk of the loan portfolio of the bank. According to the principle of diversity, they should not provide loans and advances only in one particular sector rather they should distribute in the various sectors. By studying and analyzing the different sectors where it is possible to earn more from little investment should extend its investment. If they invest in many sectors, it becomes successful to keep it in balance. This also helps the company to be competent itself. If the transaction does not go up and down then also it can run comfortably and smoothly so, this principle helps to reduce the risk by dividing the investment into different sectors and regions. Therefore, the popular saying “Do not put all the eggs on the same basket,” is justified by this principle. Hence, it should be applied while advancing of the loans in order to minimize the risk.

In addition to this, diversification of loan helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way, the loss can be recovered.

e) Legality

Sometimes, loans and advances may bring out many problems for the investors. So, the bank must follow the rules and the regulations as well as different directions granted by NRB and Ministry of Finance while mobilizing its fund.

2.3 Review of Related Studies

It is found that different studies have been carried out by many researchers about many aspects of commercial banks, development banks & finance companies. Attempts have been made to review the research reports available in different libraries of Pokhara.

2.3.1 Review of Dissertation

Reetu Shrestha has conducted a research on "Non-performing Assets Management of Nepal Bank Ltd." in 2007. The main objective of this study was to find out the reasons of increment of NPA in government banks. She found that the NPA of Nepal Bank Ltd. has gradually increased during the study period but due to provision of restructuring and rescheduling of loan it has decreased in the last two years. She recommends that NPA can't be eliminated; it has to be done with heavy cost of provisioning and increasing portfolio of credit.

Bir Bahadur Adhiakri has conducted a research study on "Loan Disbursement and Loan Recovery Pattern of Fewa Finance Company" in March 2006. He concluded that the average growth rate of loan recovery is greater than the average growth rate of loan disbursement because of which outstanding loan has been decreased. Also he concludes deposit collection as compared to loan outstanding is more which is satisfactory. There was high degree of positive correlation between loan disbursement with deposit collection & loan recovery with loan outstanding. Loan recovery has highest growth rate which shows the company retains the good customer by giving rebate in interest & customer satisfaction. He also concludes that housing loan has high repayment due to sale of the land & building easily.

A study on "Consumer Loan Mobilization by selected Finance Companies of Pokhara" has been conducted by **Sujan Manandhar** in February 2008. He has found out that the term loan has got maximum share percentage unlikely to those other remaining investments and fixed deposit loan has got very negligible share percentage. The increasing trend of loan loss provision to total loan & advances ratio shows that the quality of loan amount of non-performing has been increasing in all selected companies and possibility of default in future has increased. Among the

various profitability ratios, return on loans and advances to total income ratio etc, the performance of finance companies is fluctuating which he concludes can be due to tough competition , slack economy etc affecting the whole business chain. However increasing trend of interest income from loan and advance to total income shows the maximum contribution of interest income from loans & advances in profit generation.

Mani Ratna Bajracharya has conducted a study on “The Deposit and Loans and Advances of Nepal Bank Ltd.” for six years period starting from 2030 B.S to 2035 B.S. He has found that there was increasing trend in deposit but there was up and down position in the case of loans and advances. It is due to the cause of changes in the rate of interest. However the loans and advances position is satisfactory from 2034 B.S. but it showed that the resources of the bank were not fully utilized. The bank has invested a lot in long term investment instead of granting loans. Those investments were found in the form of development bonds issued by H.M.G. Therefore, in order to have the proper utilization of the sources of the bank, the bank should expand its credit facility and should disregard long term investment in those sectors. Finally, he has concluded that the deposits as well as loans and advances must increase proportionately in order to maintain balance.

Tika Ram Banstola in his research Loan Disbursement and Repayment Pattern of Agricultural Development Bank in November 2003 found that the average growth rate of repayment is greater than the average growth rate of loan disbursement i.e. outstanding loan has decreased. Repayment situation on term wise disbursement of short term loan has higher percentage of repayment to the total loan disbursement as compared to another type of term loan. In case of repayment situation to compare disbursement and outstanding the Western development region has higher percentage of repayment. The repayment situation is satisfactory in Central & Mid-western Development regions. Corporation had become inactive because principal collection through corporation had negative growth rate. It shows outstanding loan is increasing in corporation. There was a high degree of positive correlation between loan disbursement with repayment and outstanding.

Lal Bahadur Thing has conducted a research on "A Study on Credit

Planning & Control in Machhapuchhre Bank" in December 2006. He concluded that the credit planning of the first two years (i.e. F.Y.2057/058, 2058/059) of the bank was found relatively weak. Then after it was found relatively better position. During first two study period, no sectors successfully achieved their target. The position of secured lending was found weak in the first two year of the study period. NPL crossed its target in first two year of study period which signifies inefficiency of credit. Due to high NPL it results to negative net profit in first two years. The primary information showed that relationship of client with top authority, personal integrity of borrower and loan portfolio management are the causes of credit inefficiency. Besides, internal reasons such as weak monitoring miss management and external reasons such as economic and industrial recession, inconsistency in government policies are the main causes of credit inefficiency.

Sheleena Shrestha has conducted a research on "A study on investment Portfolio of Pokhara Finance ltd." in July 2006. The objective of the study was to analyze the investment portfolio of Pokhara Finance Co. Ltd. and she concludes that the investment portfolio of Pokhara Finance Co. Ltd. has made large investment on loans and advances then in government securities and finally on shares and debentures respectively. She also concludes that the increasing trend of loan loss provision to total loans and advances ratio shows that the quality of loan is degrading year by year. She founds that the increasing as well as decreasing trend of loan and advances to total deposit ratios and performing assets to total assets ratios during the study period indicates that Pokhara Finance Co. Ltd. is adopting the appropriate policies to manage and utilize the fund in income generating activities as well as to increase the quality of assets.

Sumana Khatri Chhetri conducted a research "A Study on Non-Perfotming Assets in Commercial Banks of Nepal." in April, 2009. The main objective of this study was to find out the causes of NPA and its effect on the net profit of commercial banks. She found that the net profit of banks especially government banks has been affected much than private banks by the NPA, and the causes of high NPA are political influence, absent of good credit granting process, improper documentation, overvalued collateral, management inefficiency and lack of proper financial analysis

of borrower. She suggests that bank should provide training regarding loan management to managers and staff and Central Bank should make regular checks effectively.

2.4 Research Gap

The present study has been confined about the status of NPA and loan portfolio of BDBL but the various researches which have been conducted regarding NPA management, credit planning & control, loan disbursement & repayment pattern, lending policy, investment portfolio facilitates this study. With this regard the former study on NPA management of Nepal Bank Ltd. concludes that the NPL of Nepal Bank Ltd. was found too volatile in the beginning years of study and which gradually decreased in later years, also it shows that Nepal Bank Ltd. is not concern about the appropriate policies to manage and utilize the fund in income generating activities

Further more, this study deserves to predict the present loan portfolio of BDBL mainly based on latest data, whether the bank has well diversify its loans & advances or not and what NPA status does it shows during the period of latest five years undertaken for the study i.e. from F.Y. 2062/63 to F.Y. 2066/67 with the help of various mathematical, financial and statistical tools. Also, it describes about the recovery procedure undertaken by BDBL which is silent in previous research work.

CHAPTER- III

RESEARCH METHODOLOGY

Research Methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. Here, the basic objective is to evaluate the loan portfolio of BDBL and analyzing the NPA. On the other hand, this study will also be able to make some useful and meaningful recommendation so that all concerned would find something useful for them from this study.

The research methodologies adopted for the present study are as follows.

3.1 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

The present study is mainly based on descriptive and analytical research design. Descriptive research design describes the general information of the facts gathered. The analytical research design makes analysis of the gathered facts and information and makes a critical evaluation of it. Beside this, trend research design is also applied to analyze the growth trend in the past and use such trend in order to make the future predictions.

3.2 Population and Sample

The total number of development banks is the population of the study i.e 83 but, being a case study of a single unit; BDBL is taken as the base for the study unit among all other development banks. For the sampling purpose, convenience sampling method is used.

3.3 Nature and Sources of Data

This research study is mainly focused on secondary (published) data. However to certain extent, primary data is also being used. For the purpose of the study, the secondary data are gathered from various sources such as books, annual reports, office records, articles etc.

3.4 Data Collection Procedure

The study is dominated by secondary data which is collected through the annual reports and financial statement of BDBL, publication of NRB. However primary data is used which is collected through unstructured interview with the concerned management.

3.5 Data Analysis Tools

With respect to this study, the data are analyzed in accordance to the available data and information. So, the financial as well as other simple mathematical and statistical tools are used to accomplish the objective of the study in order to make the analysis more convenience, reliable and authentic too. The major tools applied in this study are discussed below.

3.5.1 Financial Tools

Different financial tools are used in order to see the bank's position by establishing the relationship between the items of the financial statement. Among them ratio analysis is one of the widely used tool which helps to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. So, some of the following ratios are calculated and carried out in comparison to this study.

A) Activity Ratio

- i) Loan Loss Provision to Total Loan and Advances

It is calculated by dividing the loan loss provision by total loans and advances.

$$LLR = \frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}} \times 100$$

Where,

LLR = Loan Loss Ratio

Loan Loss provision = Loan loss provision for performing and Non - performing loans

Total Loans and Advances = all the short term and long term loans

ii) Non-performing Assets to Total Loans and Advances Ratio

It is calculated by dividing non-performing assets by total loans and advances.

$$NPATL = \frac{\text{Non Performing Assets}}{\text{Total Loans and Advances}} \times 100$$

Where,

NPATL= Non-performing Assets to Total Loans & Advances Ratio

Non Performing Assets= Loan that are past due for more than 3 months

Total Loans and Advances = all the short term and long term loans

iii) Non- Performing Assets to Total Assets

$$NPATAR = \frac{\text{Non Performing Assets}}{\text{Total Assets}} \times 100$$

Where,

NPATAR = Non-Performing Assets to Total Assets Ratio

Non-Performing Assets = Loans that are past due for more than 3 months

Total Assets = all the items of right hand side of balance sheet

B) Assets Management Ratio

i) Loans and Advances to Total Deposit Ratio

Loans and advances to total deposit ratio is calculated by dividing loans and advances by total deposits.

$$LTDRX \frac{\text{Loans and Advances}}{\text{Total Deposits}} \times 100$$

Where,

LTDR = Loans and Advances to Total Deposit Ratio

Loans and Advances = all the short term and long term loans

Total Deposit = Short term and long term deposit

ii) Loans and Advances to Total Assets Ratio

$$LATA \times \frac{\text{Loans and Advances}}{\text{Total Assets}} \times 100$$

Where,

LATA = Loans and Advances to Total Assets Ratio

Loans and Advances = all the short term and long term loans

Total Assets = all the items of right hand side of balance sheet

C) Growth Ratio

Growth ratio of loans and advances & deposits are calculated by using the given formula.

$$D_n = D_0 (1+g)^{n-1}$$

Where,

D_n = Total deposit & total loans and advances in the n^{th} year

D_0 = Total deposit & total loans and advances in the initial year.

g = Growth Rate

n = Total number of years

3.5.2 Statistical Tools

In order to analyze the study, various statistical tools can be applied and so, the following statistical tools are used.

Mean

Standard Deviation

Karl Pearson's Coefficient of Correlation

A) Mean

A mean is simply the average value or the sum of all the observations divided by the number of observation and it is given by formula below:

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N}$$

Where,

\bar{x} = Mean of the values

N = Number of pairs of observations

B) Standard Deviation (S.D.)

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

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

$$\text{S.D.} = \sqrt{\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n^2}}$$

Where,

n = no. of observations

x = individual value

\bar{x} = simple arithmetic mean/average

C) Karl Pearson's Coefficient of Correlation

Among the various methods of finding out the coefficient of correlation between two variables is Karl Pearson's Coefficient of Correlation. The coefficient of correlation measures the degree of relationship between the two sets of

variables i.e. dependent and independent variables. “Correlation is the statistical tool that we can use to describe the degree in which one variable is linearly related to another.” Here in the present study the coefficient of correlation is calculated in order to examine the relationship between the deposits and loans & advances, NPA & loans & advances and also between loan loss provision and loans and advances, which is obtained by using the following formula:

$$r = \frac{\sum f_x Z_x \sum f_y Z_y}{\sqrt{\sum f_x Z_x^2} \sqrt{\sum f_y Z_y^2}}$$

The result of coefficient of correlation always lies between ± 1 . The value of $+1$ signifies perfect positive correlation between the two variables while the value of -1 signifies perfect negative correlation between them. But, if the value of correlation coefficient is zero then it is said that there is no any significant relationship between the two variables.

Probable error (P.E.) helps to interpret the value as well as measures the reliability of the coefficient of correlation. If the value of correlation coefficient is greater than the probable error, the value of correlation coefficient is said to be significant. If the value of correlation coefficient is less than the probable error, the value of correlation coefficient is said to be insignificant. Probable error is calculated as below:

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

3.6 Limitation of the Methodology

As this study is carried within the frame work of case study research design, it is bounded by its own methodology. So, it cannot be said that it is free from any limitations.

Here, only one development bank has been taken among 83 banks which cover the data from F.Y. 2062/63 to F.Y. 2066/67 period only. Convenience sampling method is used which is not free from criticisms. It does not cover every aspect of the development bank. However, the financial as well as statistical tools which are used to analyze the collected data are based on certain assumption so reliability of the analysis depends upon the circumstances on which the models are used.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

The data have been analyzed according to the research methodology as mentioned in chapter three to get best results. Since, the topic is related to NPA and Loan portfolio as a whole, the ratios related to them has been calculated; comparison of data has been done on the basis of annual reports of the bank and to arrive at the concrete decisions regarding the NPA and loan portfolio.

4.1 Analysis of Loan Portfolio

Development banks are required to extend loans and advances in different sectors as mandatory of NRB. So, in this section, we examine the portfolio management of loans and advances. BDBL has mainly concentrated its loan investment in seven sectors i.e. business, hire purchase, real estate, term loan, consumer, fixed deposit loan and deprived sector loan. Thus, each and every loan investment has been described in detail in order to analyze the portfolio behavior of loans and advances of BDBL for the study.

4.1.1 Real Estate Loan of BDBL

Real Estate Loan includes purchase of personal and institutional land, personal and institutional house construction and also institutional warehouse construction. According to NRB directives, 2067 B.S. development banks shouldn't exceed its investment by 25% in real estate loan. The real estate loan of BDBL is shown in table 4.1 and figure 4.1(see detail in appendix 1).

Table 4.1
Real Estate Loan to Total Loans & Advances Ratio (Rs.in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Real Estate	35.88	49.90	46.39	58.02	137.42		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
Real Estate to Total Loans Ratio (%)	17.50	14.56	7.45	4.62	8.80	10.59	4.73

Source: Annual Reports, BDBL

Table 4.1 shows that the loan investment in real estate loan of BDBL ranges from Rs.35.88 million in F.Y. 2062/63 to Rs.137.42 million in F.Y. 2066/67 which indicates that the real estate loan amount is increasing each year. Whereas the percentage of real estate loan to total loans and advances shows decreasing trend from F.Y. 2062/63 to 2065/66 which slightly increase in the year 2066/67. These ratios lie between the range of minimum 4.62% and maximum 17.50% with an average mean ratio of 10.59%, which shows that the real estate loan of BDBL hasn't exceeded the criteria of 25% of total loans and advances in real estate set by NRB. The S.D. of these of these ratios is 4.73% which shows that they are slightly variable to each other.

Figure 4.1
Real Estate Loan to Total Loans & Advances Ratio

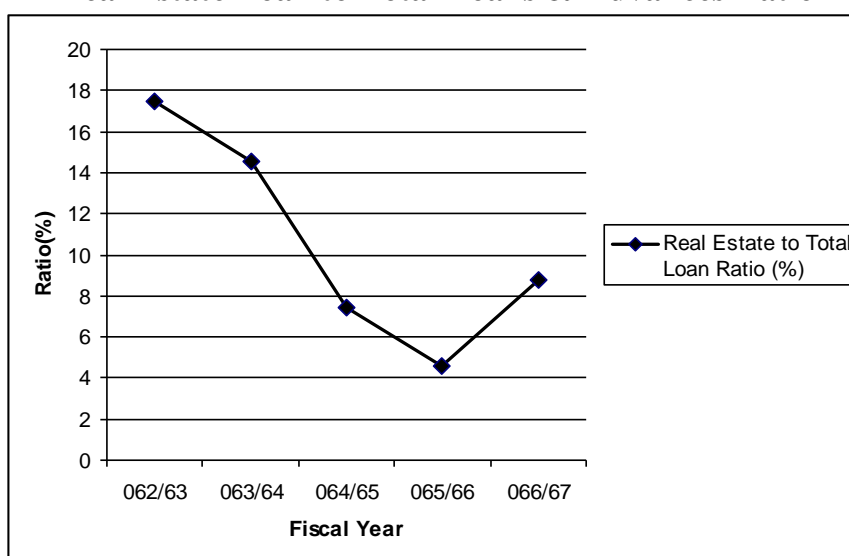


Figure 4.1 shows the declining trend of real estate loan to total loans and advances from 17.50% in the F.Y. 2062/63 to 4.62% in the F.Y. 2065/66 which increased slightly in the F.Y. 2066/67 and reached to 8.80%.

4.1.2 Business Loan of BDBL

Business loan includes the loan taken by people for business purpose like overdraft, business development loan whose interest is paid on monthly basis and principal at maturity. The business loan investment of BDBL is shown below in table 4.2 and figure 4.2(see detail in appendix 1).

Table 4.2
Business Loan to Total Loans & Advances Ratio (Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Business Loan	18.70	25.25	52.78	86.25	85.86		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
BL to Total Loan Ratio (%)	9.10	7.36	8.50	6.90	5.49	7.47	1.26

Source: Annual Reports, BDBL

Table 4.2 shows that the business loan of BDBL is Rs.18.70 million in the F.Y. 2062/63 which gradually increased up to F.Y. 2065/66 and reached Rs. 86.25 million where with a slight decrease of 0.39 million it dropped to Rs.85.86 million in the F.Y. 2066/67. Whereas the percentage of business loan to total loan shows slightly fluctuating trend with the ratios laying between 5.49% to 9.10% with a mean ratio of 7.47% and S.D. of 1.26%. The S.D. ratio shows that the ratios are very consistent and less variable over the study period.

Figure 4.2
Business Loan to Total Loans & Advances Ratio

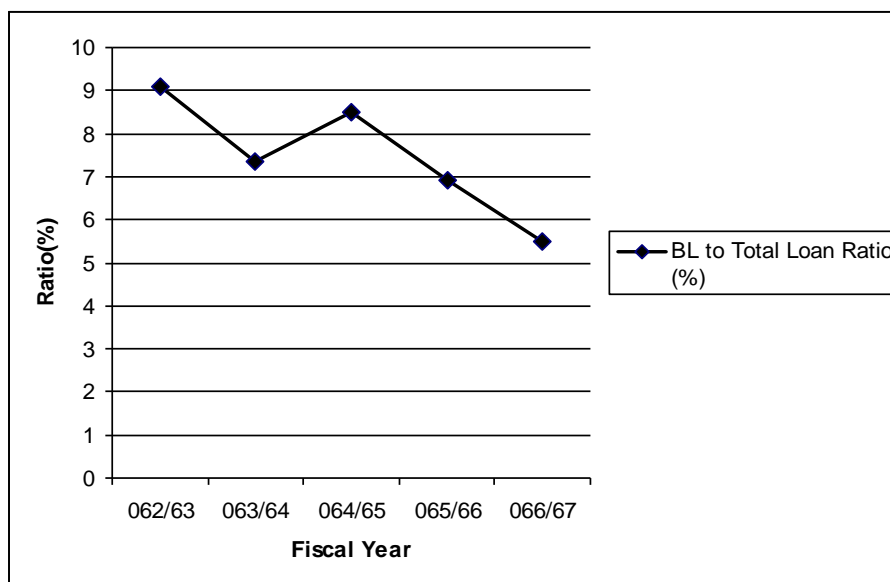


Figure 4.2 predicts that the percentage of business loan to total loans and advances has slightly up and down trend during the study period. In the second F.Y. 2063/64 the ratios has slightly decreased than in the F.Y. 2062/63 which slightly

increased in the F.Y.2064/65, again in the F.Y.2065/66 and 2066/67 it decreased slightly.

4.1.3 Term Loan of BDBL

Term loan is the loan which is mainly taken by the industry, trade, education, health as well as tourism and other service oriented sectors for the period of more than one year payable on equal installments. The term loan investment of BDBL is shown in table 4.3 and figure 4.3(see detail in appendix 1).

Table 4.3

Term Loan to Total Loans & Advances Ratio (Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Term Loan	9.30	18.47	25.17	23.78	23.86		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
TL to Total Loan Ratio (%)	4.52	5.38	4.04	1.89	1.52	3.47	1.69

Source: Annual Reports, BDBL

Table 4.3 exhibits that the term loan investment of BDBL is Rs 9.30 million in FY 2062/63 which showing increasing trend increased to Rs.25.17 million in the F.Y. 2064/65 and decreased to Rs.23.78 million in F.Y. 2065/66. In the F.Y. 2066/67 this loan increased in very nominal figure. Whereas looking to the percentage of term loan in total loans and advances it is found that very nominal part of loan is invested in term loan. The ratios are quite constant over the first three F.Y. i.e 2062/63, 2063/64 and 2064/65 which shows decreasing trend in the last two F.Y. i.e 2065/66 and 2066/67 with an average mean of 3.47% . The S.D. of 1.69% between these ratios shows that they are very consistent and less variable over the study period.

Figure 4.3
Term Loan to Total Loans & Advances Ratio

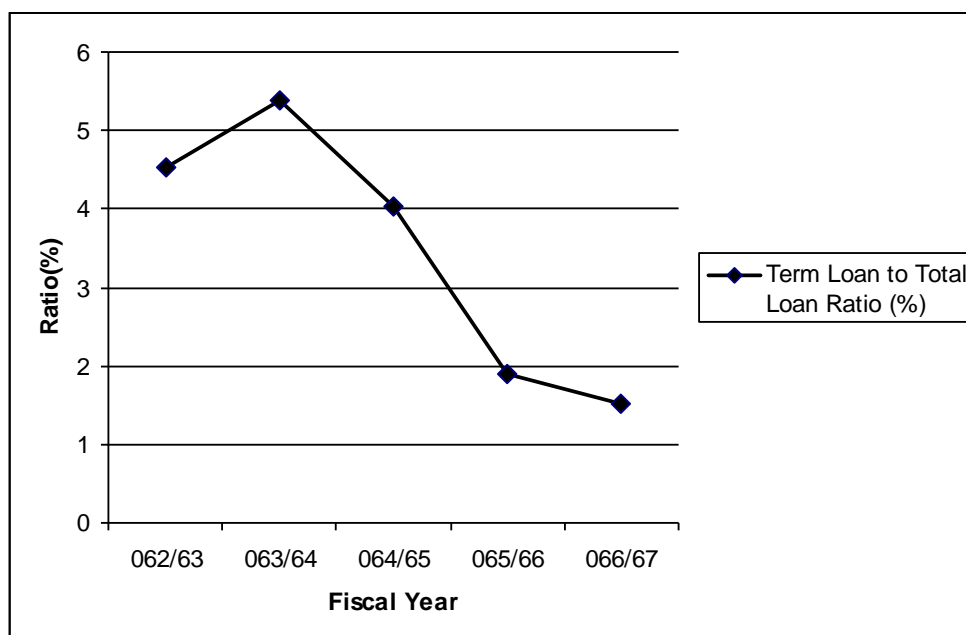


Figure 4.3 shows that the ratio of term loan to total loans and advances is high in the F.Y. 2063/64 and low in the F.Y. 2066/67. In the first two years it shows slightly increasing trend than after it shows decreasing trend.

4.1.4 Hire Purchase/Leasing Loan of BDBL

Hire Purchase loan is that type of loan which the client takes for the purchase of new and old vehicles, machinery items and instruments. The hire purchase loan of BDBL is shown below in table 4.4 and figure 4.4(see detail in appendix 1).

Table 4.4

Hire Purchase Loan to Total Loans & Advances Ratio (Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
HP Loan	61.94	75.26	260.13	488.14	688.32		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
HP to Total Loan Ratio (%)	30.16	21.96	41.79	38.92	44.08	35.38	8.21

Source: Annual Reports, BDBL

Table 4.4 shows that hire purchase loan is increasing over the study period. The loan amount ranges from minimum Rs. 61.94 million in F.Y. 2062/63 to

maximum Rs.688.32 million in F.Y. 2066/67. Whereas percentage of HP loan in total loans and advances shows moderately fluctuating trend over the study period ranging from minimum 21.96% to maximum 44.08% with a mean ratio of 35.38% and S.D. of 8.21% which shows that the ratios over the study period are moderately consistent and somewhat variable.

Figure 4.4

Hire Purchase Loan to Total Loans & Advances Ratio

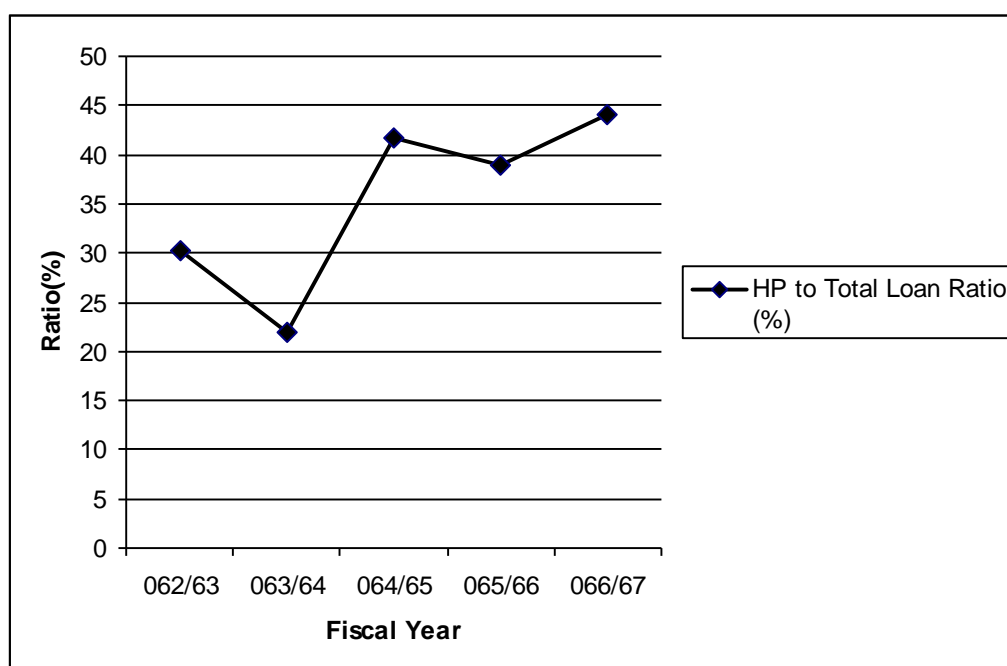


Figure 4.4 shows that the proportion of HP loan in total loans and advances is high in the F.Y. 2066/67 i.e 44.08% and low in the F.Y. 2063/64 i.e 21.96%. The ratio of 44.08% ratio shows good coverage of HP loan in total loan in the last year of the study period.

4.1.5 Consumer Loan of BDBL

Consumer loan includes the loan taken by people for their own personal purposes like education, foreign employment, luxurious goods purchase, marriage, house construction etc. People take such loan in order for the fulfillment of their personal needs rather than investing in any other sectors. The detail of consumer loan of BDBL is shown below in table 4.5 and figure 4.5(see detail in appendix 1).

Table 4.5

Consumer Loan to Total Loans & Advances Ratio(Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Consumer Loan	78.97	170.93	231.78	563.83	577.60		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
Consumer Loan To Total Loan Ratio (%)	38.46	49.90	37.24	44.96	37	41.51	5.12

Source: Annual Reports, BDBL

Table 4.5 exhibits that the consumer loan of BDBL is Rs.78.97 million in F.Y. 2062/63 which increases to Rs.577.60 million in F.Y. 2066/67, which shows that the investment in consumer loan is increasing each year; whereas considering the ratio of consumer loan to total loans and advances it is found showing slightly fluctuating trend over the study period with the ratios ranging between minimum 37% and maximum 49.90%. The average mean of these ratios is 41.51% with a S.D. of 5.12% which shows that the ratios are somewhat consistent and variable to some extent.

Figure 4.5

Consumer Loan to Total Loans & Advances Ratio

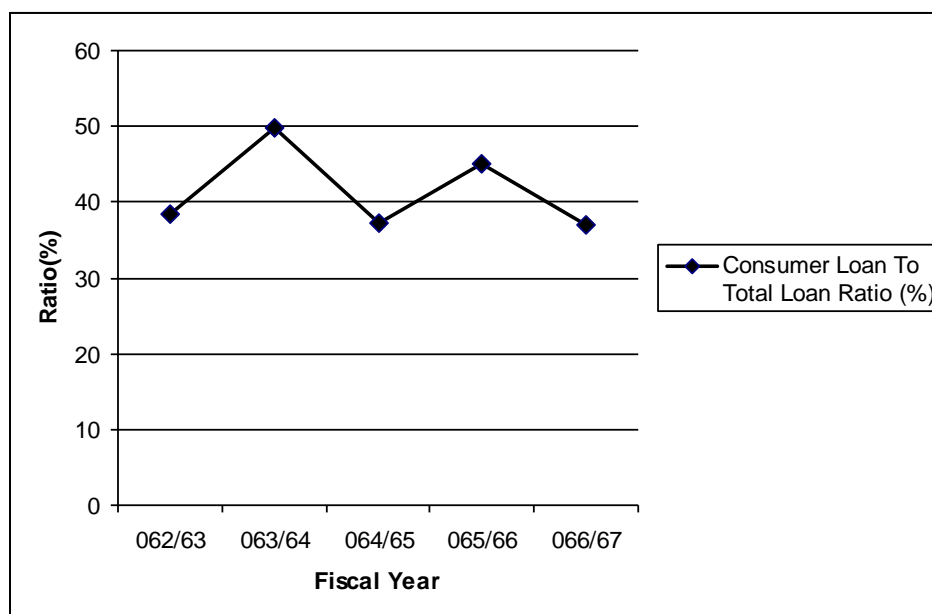


Figure 4.5 predicts that the ratio of consumer loan to total loans and advances is slightly fluctuating over the study period. The ratio has reached the peak i.e. 49.90% in the F.Y. 2063/64 and felled to the lowest in the F.Y 2066/67 i.e 37%. The trend line shows the up and down trend of consumer loan in total loans and advances.

4.1.6 Fixed Deposit Loan of BDBL

In the case of fixed deposit loan the clients or customer take loan against the fixed deposit amount kept by them in bank. The interest rate charged by BDBL on this loan is 2 % extra on the interest earning by their fixed deposits and only 90% of the fixed deposit amount can be taken as loan by the customer. The fixed deposit loan of BDBL is given below in table 4.6 and figure 4.6(see detail in appendix 1).

Table 4.6

Fixed Deposit Loan to Total Loans & Advances Ratio (Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
FD Loan	0.54	2.89	6.15	8.06	9.55		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
FD Loan To Total Loan Ratio (%)	0.26	0.84	0.98	0.64	0.61	0.67	0.26

Source: Annual Reports, BDBL

Table 4.6 exhibits the fixed deposit loan of BDBL over the study period. The amount of this loan ranges from Rs.0.54 million in F.Y. 2062/63 to Rs.9.55 million in the F.Y. 2066/67. Considering the coverage of FD loan in total loans and advances it is found to be covering very nominal part as the ratio ranges from 0.26% to 0.98%. It is seen that BDBL has very less investment in FD loan with an average mean ratio of 0.67% and S.D. of 0.26% which shows the consistency of ratios over the study period.

Figure 4.6
Fixed Deposit Loan to Total Loans & Advances Ratio

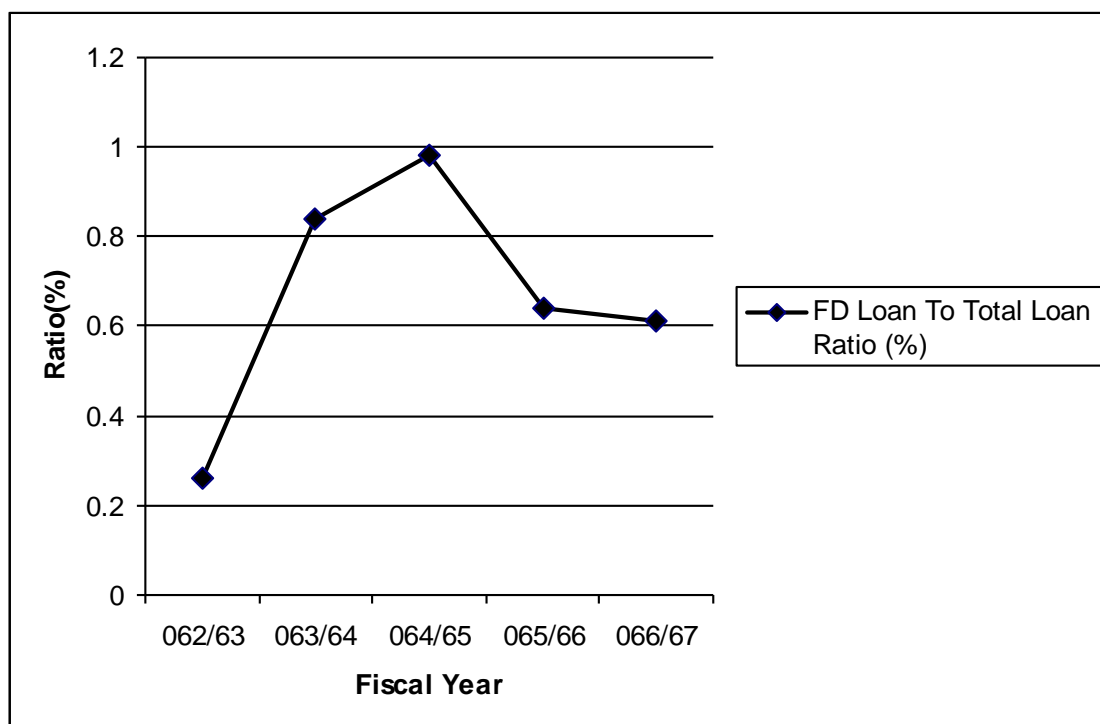


Figure 4.6 exhibits that the fixed deposit loan to total loans and advances ratios show increasing trend during the first three fiscal years of study period and decreasing trend then after. The loan investment in this sector is high in the F.Y. 2064/65 and lowest in the F.Y. 2062/63.

4.1.7 Deprived Sector Loan of BDBL

This is the loan given to deprived sector people. Deprived sector includes people having no land and property, women, janajati, dalit etc. The liberalization of financial sector has aimed at active participation and upliftment of deprived sector in economic activities. According to NRB directives, 2067 the development banks should invest 2% of its total loans and advances in deprived sector. The loan investment of BDBL in deprived has been shown in table 4.7 & figure 4.7 below (see detail in appendix 1).

Table 4.7
Deprived Sector Loan to Total Loans & Advances Ratio (Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Deprived Loan	NA	NA	NA	25.97	38.63		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
Deprived Loan to Total Loan Ratio (%)	NA	NA	NA	2.07	2.50	2.28	0.22

Source: Annual Reports, BDBL

Table 4.7 shows that in the first three fiscal years i.e. 2062/63, 2063/64, 2064/65 BDBL hasn't made any loan investment in deprived sector. Only after F.Y. 2065/66 it has started to provide loan to deprived sector, so only two years data has been gathered which shows that the percentage of total loans invested in deprived sector is 2.07% & 2.50% in the last two fiscal years of the study period with an average mean of 2.28% and S.D. of 0.22%. The average mean ratio shows that BDBL has met the criteria of 2% compulsory investment in deprived sector set by NRB and the S.D. ratio shows that the ratios are consistent and not variable at all.

Figure 4.7

Deprived Sector Loan to Total Loans & Advances Ratio

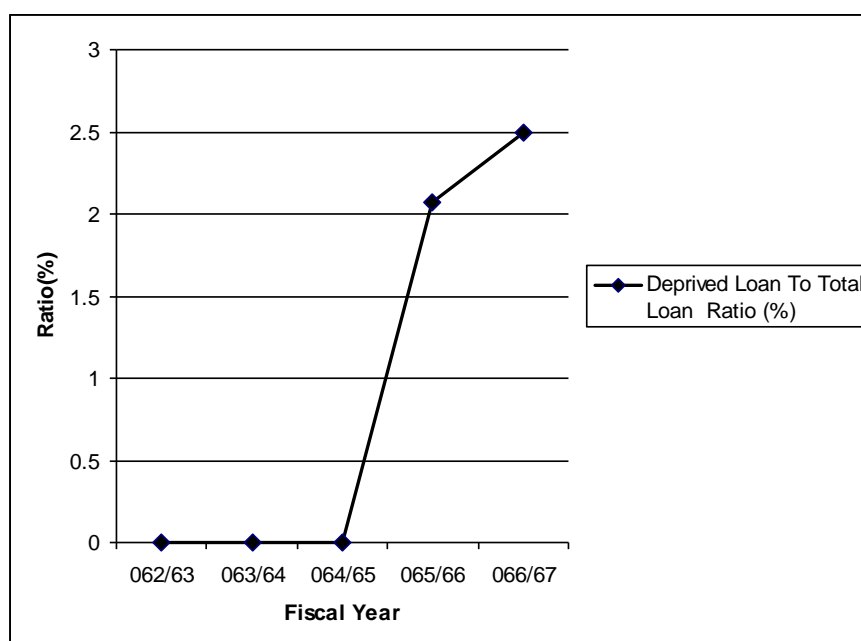


Figure 4.7 exhibits that there isn't any loan investment in deprived sector by

BDBL in the first three fiscal years where as the percentage of deprived sector loan in total loans and advances shows stable trend with the ratios moving around 2% in the last two F.Y. i.e 2065/66 and F.Y. 2066/67 of the study period.

4.1.8 Purpose Wise Loan to Total Loans and advances Ratio

The total loans and advances of BDBL have been classified into Real Estate, Business, Term, HP, Consumer, Fixed Deposit and Deprived sector. This classification or portfolio explains the contribution made by bank for different purposes. These classifications show the lending trend of bank for particular purpose. In the table below, how much percentage does each individual loan covers in the total loans and advances are defined (see detail in appendix 1).

Table 4.8
Purpose Wise Loan to Total Loans and Advances Ratio (%)

Purposes	Fiscal Year					Mean	S.D.
	062/63	063/64	064/65	065/66	066/67		
Real Estate	17.50	14.56	7.45	4.62	8.80	10.59	4.73
Business	9.10	7.36	8.50	6.90	5.49	7.47	1.26
Term Loan	4.52	5.38	4.04	1.89	1.52	3.47	1.69
HP Loan	30.16	21.96	41.79	38.92	44.08	35.38	8.21
Consumer	38.46	49.90	37.24	44.96	37.00	41.51	5.12
FD Loan	0.26	0.84	0.98	0.64	0.61	0.67	0.26
Deprived	-	-	-	2.07	2.50	2.28	0.22
Total	100	100	100	100	100		

Source: Annual Reports, BDBL

Table 4.8 explains BDBL's trend of lending for different purposes as percentage of total loans and advances. BDBL has mostly used its fund in consumer and hire purchase sectors. Lending in consumer, hire purchase, real estate, business, term and fixed deposit takes the first, second, third, fourth, fifth and sixth place with mean ratio of 41.51%, 35.38%, 10.59%, 7.47%, 3.47% & 0.67% respectively in the lending portfolio of bank. Whereas regarding deprived sector in the first three fiscal years BDBL has no lending in it but after NRB made compulsory, in the last two

years BDBL utilized funds in deprived sector with an average mean ratio of 2.28% of total loans and advances meeting the criteria of NRB of investing 2% of total loans and advances by development banks in deprived sectors.

As the maximum investment ratio of real estate loan to total loans and advances is 17.50% it is found that it hasn't crossed the limit of 25% fixed by NRB. In the total loan portfolio of BDBL very less investment is found in term and business loan which shows that business sectors aren't given priority by the bank. Whereas regarding the deprived sector the ratios are moving around 2% as per directed by NRB.

Figure 4.8

Mean Ratios of Loans Disbursed for different Purposes to Total Loans and Advances

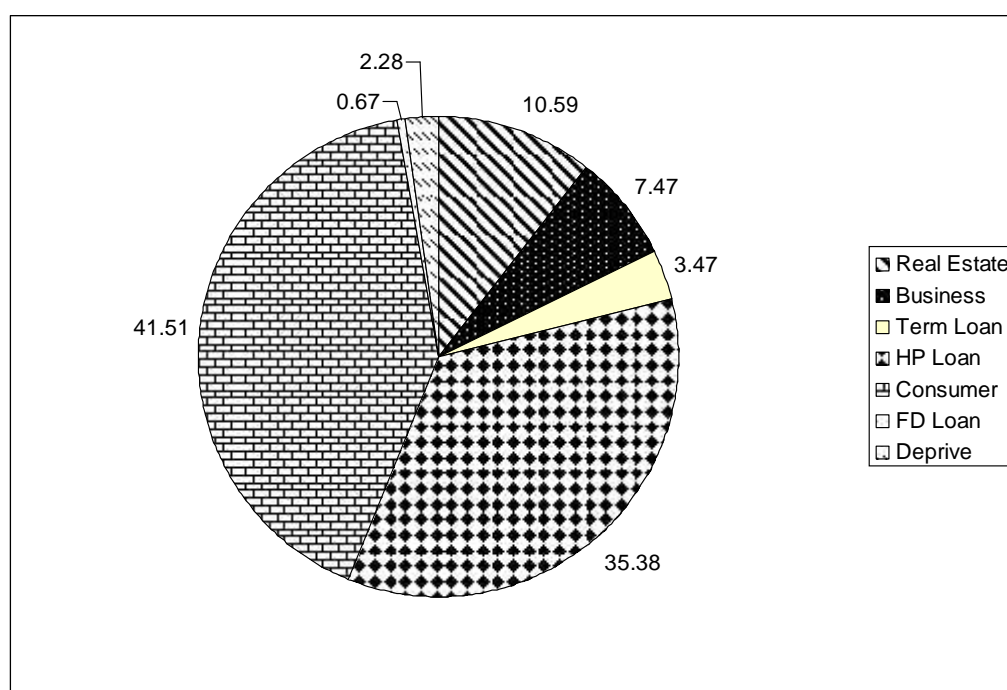


Figure 4.8 exhibits that the maximum percentage of total loans and advances of BDBL is covered by consumer loan. In the total lending portfolio of BDBL maximum percentage is covered by consumer and hire purchase loan where as other loan category covers very less portion in comparison to these two loans. Consumer loan is found to be covering maximum percentage in the loan portfolio because it covers the loan given to consumer under various categories like education, foreign employment, purchase of land, house building, purchase of luxurious goods, purchase

of personal vehicle etc. It covers wide variety of purposes so the loan investment is large. The other large portion of loan portfolio of BDBL is covered by HP loan. The reasons behind large investment of BDBL in hire purchase is due to easy loan process, no extra collateral required for new vehicle and machines, small loan investment, regular income and easy recovery.

4.2 Analysis of Assets Composition of BDBL

Assets composition of a bank consists of bank balance, cash balance, money at call and short notice, investment, loans and advances, fixed assets and other assets. In balance sheet the assets side shows the fund entrusted to the bank. As balance sheet is prepared with a view to know the exact financial position of the business on the last date of every financial year. To measure the non-performing and performing loan, assets composition helps to determine the capability of the bank to earn profit.

Table 4.9
Assets Composition of BDBL (Rs. in millions)

Assets	Fiscal Year				
	062/63	063/64	064/65	065/66	066/67
Cash balance	4.27	5.39	10.58	25.10	35.01
Bank Balance	0.11	1.18	0.69	37.15	60.73
Balance at NRB	5.03	8.13	20.76	35.89	95.17
Money at Call & Short Notice	24.50	21.42	152.46	231.25	405.78
Investment	25	65	62.5	15	98.5
Loans and Advances	205.33	342.70	622.40	1254.05	1561.24
Fixed Assets	4.34	4.12	8.21	12.89	95.38
Other Assets	4.48	3.34	4.21	6.77	8.20
Total	273.06	451.28	881.83	1618.10	2360.01

Source: Annual Reports, BDBL

Table 4.9 presents the assets composition of BDBL from the fiscal year 2062/63 to 2066/67. As shown in above table the value of cash balance and balance at NRB is in increasing trend where as bank balance shows fluctuating trend. Money at call and short notice shows increasing trend though it decreased a bit in F.Y. 2063/64. Likewise the amount of investment is fluctuating but loans and advances are increasing over the study period. Fixed assets and other assets are slightly up and

down during the first two fiscal year and shows increasing trend in other three years.

Figure 4.9

Assets Composition of BDBL

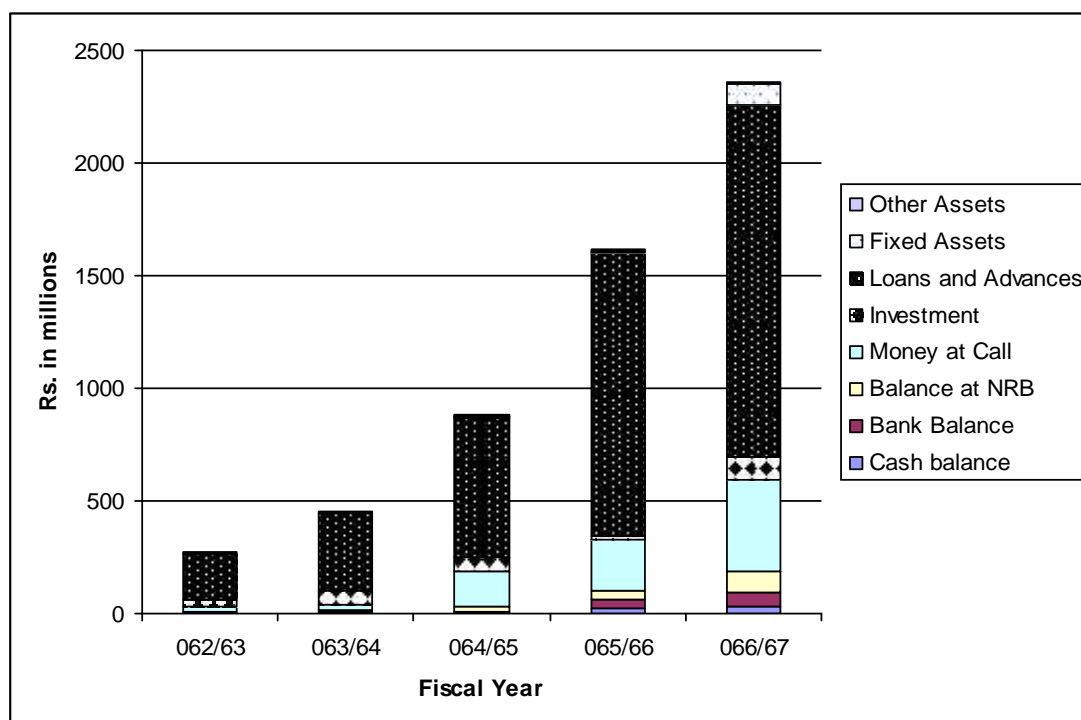


Figure 4.9 presents that the assets composition has increased during the study period. Every year the composition is increased by double value.

4.3 Non-Performing Assets

Non-performing assets are defined as loans past due and loans that are not occurring interest due to the problems of borrower. While investing the money by bank, the bank should be confirmed about the borrowers that the borrower will use them in productive sector or not. If the bank will be alert enough then no NPA will be caused only performing loan will occur. The bank's main motive is to mobilize idle resources in productive area after collecting them from scattered sources and to maximize the profit. If the bank isn't able to mobilize the capital fund in better way than the bank won't be able to achieve their target. So the efficiency and economic condition of bank and financial institution can be weak. The economic condition and financial efficiency of bank thus depends on the non-performing assets ratio of the bank. NPA occurs due to the borrower's default on loans either intentionally or due to some genuine causes and factors beyond their control, as it isn't possible for the bank

to select only good clients. The status of NPA of BDBL is shown in table 4.10 below.

Table 4.10

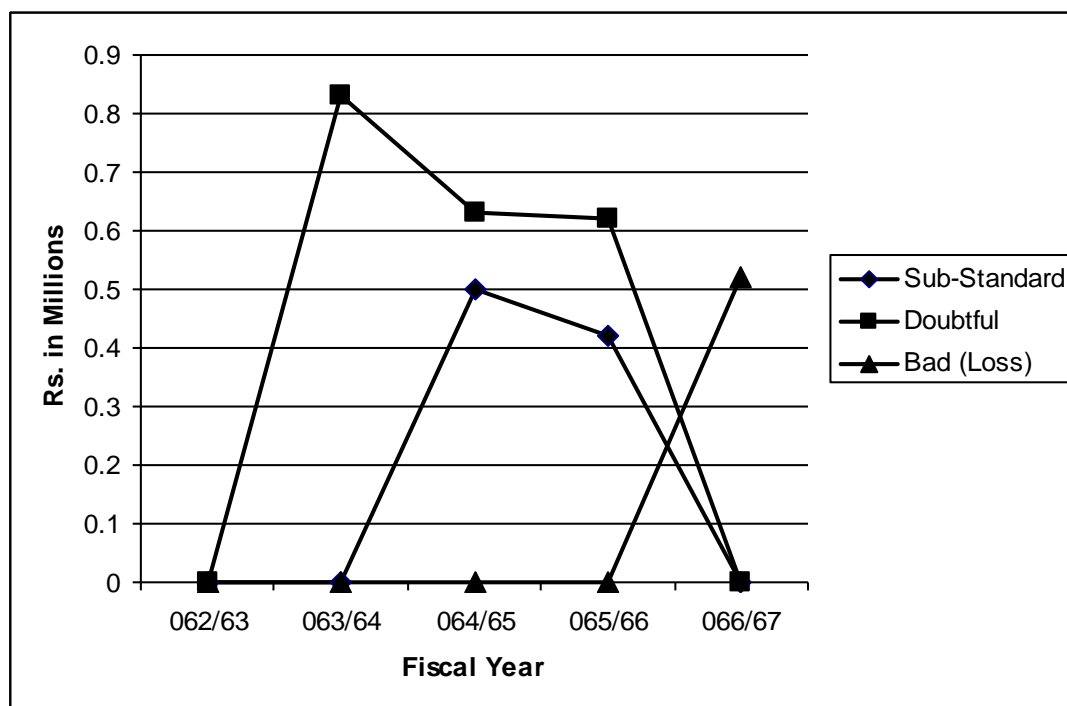
Non-Performing Assets Position of BDBL (Rs. in Millions)

Non-performing Assets	062/63	063/64	064/65	065/66	066/67
Sub-Standard	0	0	0.50	0.42	0
Doubtful	0	0.83	0.63	0.62	0
Bad (Loss)	0	0	0	0	0.52
Total NPA	0	0.83	1.13	1.04	0.52

Source: Annual Reports, BDBL

Table 4.10 shows the non-performing assets position of BDBL from the fiscal year 2062/63 to 2066/67. The table shows that there is no sub-standard loan in the F.Y. 2062/63, 2063/64 and 2066/67 but it is seen in F.Y. 2064/65 and 2065/66. Regarding doubtful debt, no doubtful debt is seen in F.Y. 2062/63 which formed in the F.Y. 2063/64 and showing decreasing trend became zero in the F.Y. 2066/67. Whereas regarding Bad loan, no bad loan is seen during the study period of beginning four years; Only in the year 2066/67 bad loan of Rs. 0.52 million is seen.

Figure 4.10
Non-Performing Assets of BDBL



The figure 4.10 shows the non-performing assets of the bank. The figure exhibits that sub-standard loan is high in the F.Y. 2064/65 which shows declining trend then after and reaches zero in the F.Y. 2066/67. Similarly doubtful loan is at peak in the F.Y. 2063/64 which shows declining trend in later years and becomes zero in F.Y. 2066/67. It is seen that there is no bad debt till the F.Y. 2065/66 which formed in the last fiscal year of the study period i.e. 2066/67.

4.3.1 Non Performing Assets to Total Assets

Non-performing assets to total assets ratio measures the extent to which the bank have been unsuccessful in utilizing their assets for the profit generation purpose. Non-performing assets reflects the quality of assets that a bank is holding. A higher non-performing asset reflects the bad performance of bank and bad recovery of the bank. The NPA to total assets ratio is shown in table 4.11 and figure 4.11 (see detail in appendix 2).

Table 4.11
Non-performing assets to Total Assets Ratio (Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
NPA	0	0.83	1.13	1.04	0.52		
Total Assets	273.06	451.28	881.83	1618.10	2360.01		
NPA to Total Assets Ratio(%)	0	0.18	0.12	0.06	0.02	0.076	0.066

Source: Annual Reports, BDBL

Table 4.11 shows that the non-performing assets to total assets ratio over the study period has decreasing trend with mean ratio of 0.076% and S.D. of 0.066. The S.D. of ratios shows that the ratios over the study period are very less variable and consistent to each other. It is seen that BDBL is trying to make all most 100% of its assets performing.

Figure 4.11
Non-performing assets to Total Assets Ratio

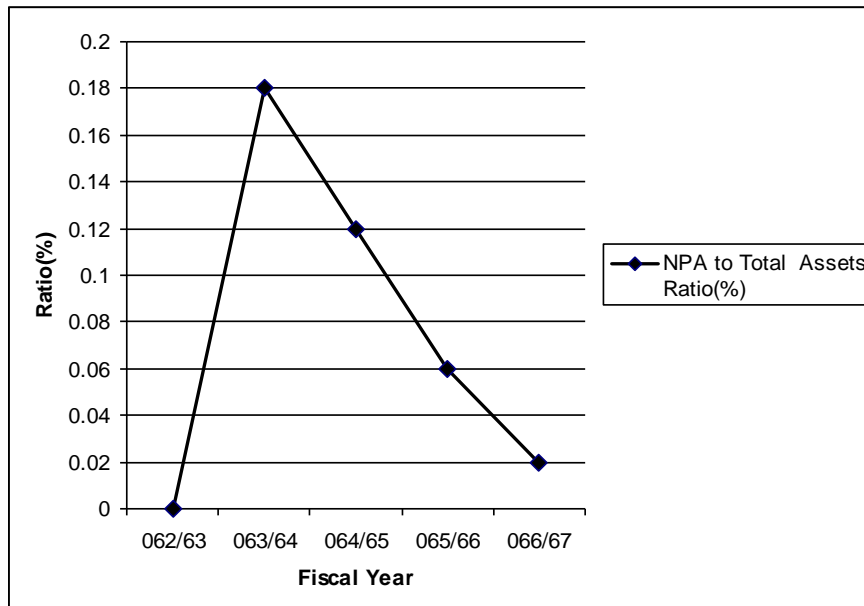


Figure 4.11 exhibits that in the F.Y. 2062/63 the ratio of non-performing assets to total assets is zero which increased to 0.18% in F.Y. 2063/64, which then after showing declining trend decreased to 0.12% in F.Y. 2064/65, to 0.06% in F.Y. 2065/66 and reached to 0.02% in FY 2066/67.

4.3.2 Total Loans and Advances to Total Assets

Total loans and advances to total assets measures the extent to which the bank are successful enough in utilizing total assets in extending the loans and advances of BDBL. A high ratio represents the efficiency in utilizing the funds to optimum and vice versa. This ratio is shown below in table 4.12(see detail in appendix 3).

Table 4.12

Total Loans and Advances to Total Assets Ratio (Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
Total Assets	273.06	451.28	881.83	1618.10	2360.01		
Total Loans to Total Assets Ratio (%)	75.19	75.93	70.58	77.50	66.15	73.07	4.16

Source: Annual Reports, BDBL

Table 4.12 shows the total loans and advances percentage of total assets during the study period. In the F.Y. 2062/63 the ratio is 75.19% which increased to 75.93% in F.Y. 2063/64, further it decreased to 70.58% in the F.Y. 2064/65 which again increased to 77.50% in the F.Y. 2065/66 and later decreased to 66.15% in the F.Y. 2066/67. These ratios show slightly fluctuating trend with a mean ratio of 73.07% and S.D. ratio of 4.16% which indicates that the ratios are consistent and very less variable over the study period. The mean ratio of 73.07% shows that maximum percentage of total assets of BDBL consists of loans and advances.

Figure 4.12
Total Loans and Advances to Total Assets Ratio

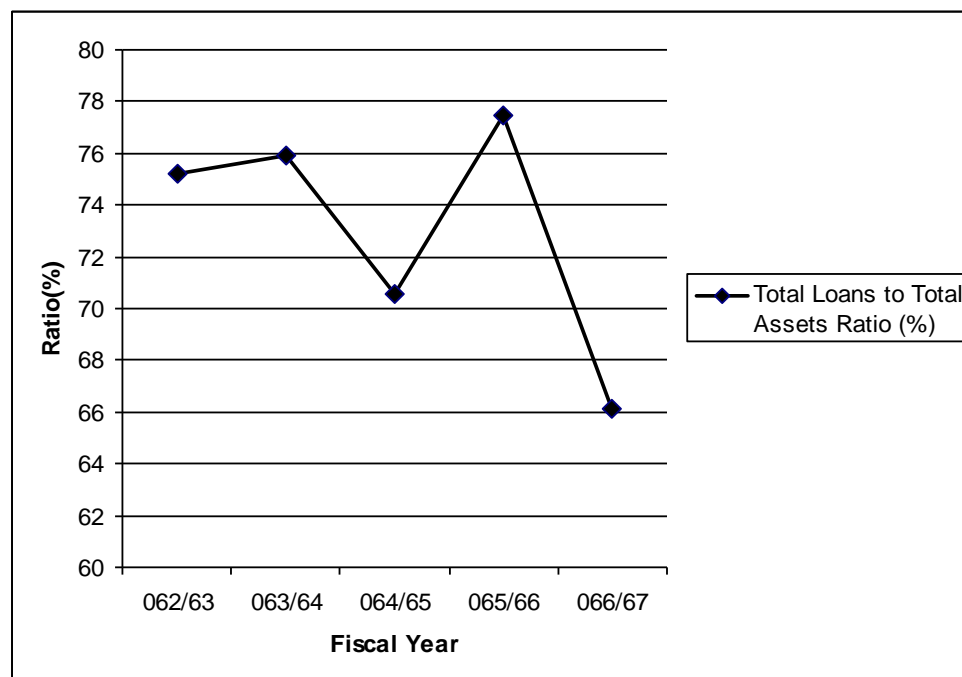


Figure 4.12 shows that the total loan and advances to total assets ratio of BDBL is peak in the F.Y. 2065/66 and less in the F.Y. 2066/67. It also shows that the ratios are fluctuating over the study period.

4.3.3 Non-Performing Assets to Total Loans and Advances

The development banks have been directed by NRB to classify its loans and advances into the category of pass, sub-standard, doubtful and bad. As the pass loan has been classified as performing loan and other three types of loan as non-performing loan. Here, the ratio of NPA to total loans and advances shows the percentage of NPA in the total loan (see detail in Appendix 4).

Table 4.13

Non-Performing Assets to Total Loans and Advances Ratio(Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
NPA	0	0.83	1.13	1.04	0.52		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
NPA to Total Loans Ratio (%)	0	0.24	0.18	0.08	0.03	0.11	0.09

Source: Annual Reports, BDBL

Table 4.13 exhibits the percentage of non-performing assets to total loans and

advances from the study period of five fiscal years. The percentage of the bank shows decreasing trend from F.Y. 2063/64 to F.Y. 2066/67, where as in F.Y. 2062/63 there isn't any NPA in total loans and advances. The average mean ratio between the ratios is 0.11% and S.D is 0.09% which shows that the ratios are consistent to each other over the study period.

Figure 4.13

Non-Performing Assets to Total Loans and Advances Ratio

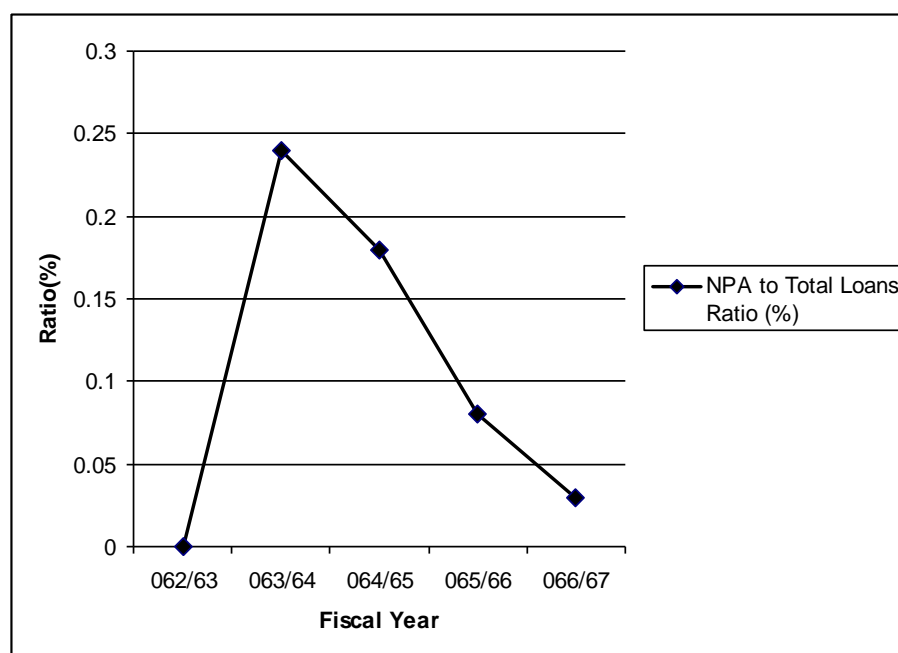


Figure 4.13 shows that in the F.Y. 2062/63 there isn't any NPA which formed and reached to 0.24% in FY 2062/63 and then after showing decreasing trend dropped to 0.03% in the F.Y. 2066/67.

4.3.4 Comparison of NPA

The NPA of BDBL is compared with other two Pokhara based Development banks i.e. Gandaki Bikas Bank and Himchuli Bikas Bank. The, other development banks of Pokhara haven't been considered because they don't have the data of 5 years. Thus, the NPA of these three development banks have been shown in table below.

Table 4.14**NPA to Total Loans & Advances Ratio of BDBL, HBBL and GBBL (%)**

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Ratio (%) BDBL	0	0.24	0.18	0.08	0.03	0.11	0.09
Ratio (%) HBBL	0	0.03	0	0.02	0.10	0.03	0.04
Ratio (%) GBBL	0	0.11	0.35	0.39	0.22	0.21	0.15

Source: Annual Reports of BDBL, HBBL & GBBL

Table 4.14 shows that the mean ratio of NPA to Total Loans & Advances of BDBL is 0.11%, HBBL is 0.03% and GBBL is 0.21% which shows that the NPA of HBBL is less in comparison to other two banks. Considering the S.D. also it is found that with the S.D. ratio of 0.04%, the ratios of HBBL over the study period are more constant and very less variable in comparison to other two banks.

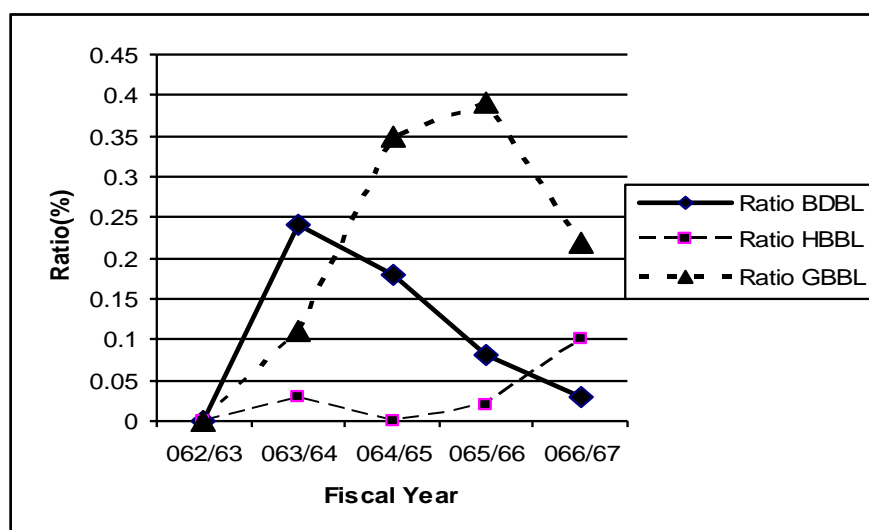
Figure 4.14**NPA to Total Loans & Advances Ratio of BDBL, HBBL and GBBL**

Figure 4.14 shows that the NPA to Total Loans & Advances ratios of all the three banks is zero in the F.Y. 2062/63. After that GBBL shows increasing trend up to F.Y. 2065/66 and reaches 0.39% and decreases to 0.22% in the F.Y. 2066/67. Regarding HBBL a little NPA of 0.03% is seen in the F.Y. 2063/64 which decreased to zero in the F.Y. 2064/65. After that it shows increasing trend and reaches 0.10% in the F.Y. 2066/67. Considering BDBL its NPA reached 0.24% in F.Y. 2063/64 from zero in the F.Y. 2062/63 and then after showing decreasing trend over the study period it dropped to 0.03% in the F.Y. 2066/67. So, in the last fiscal year of the study period

BDBL shows the least NPA ratio.

4.3.5 Loan Loss Provision to Total loans & Advances

It measures the proportion of loan loss provision in total loans and advances in the bank. This ratio shows the possibility of loan default of the bank. Higher ratio indicates the higher portion of non-performing assets. Loan loss provision indicates adequacy of allowance for collection of loan and the performance in loan portfolio. The provision for loan loss indicates the increasing probability of non-performing loans in the volume of total loans and advances. The high ratio reflects more risky loans in the volume of loans and advances. Banks thus should be concerned to control and minimize it. The loan loss provision to total loans and advances of BDBL is shown in table 4.15 and figure 4.15 (see detail in Appendix 5).

Table 4.15

Loan Loss Provision to Total loans & Advances Ratio(Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Loan Loss Provision	2.07	3.87	6.72	13.08	16.36		
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
LLP to Total Loans Ratio (%)	1	1.12	1.07	1.04	1.04	1.05	0.1

Source: Annual Reports, BDBL

Table 4.15 exhibits that the loan loss provision of BDBL in F.Y. 2062/63 is 1% which means that no non-performing loan occurred this year, all the loans are pass loan. After this from F.Y. 2063/65 to F.Y. 2066/67 the loan loss provision shows decreasing trend with an average mean of 1.05% and S.D. of 0.1% which means that the ratios are consistent over the study period.

Figure 4.15
Loan Loss Provision to Total loans & Advances Ratio

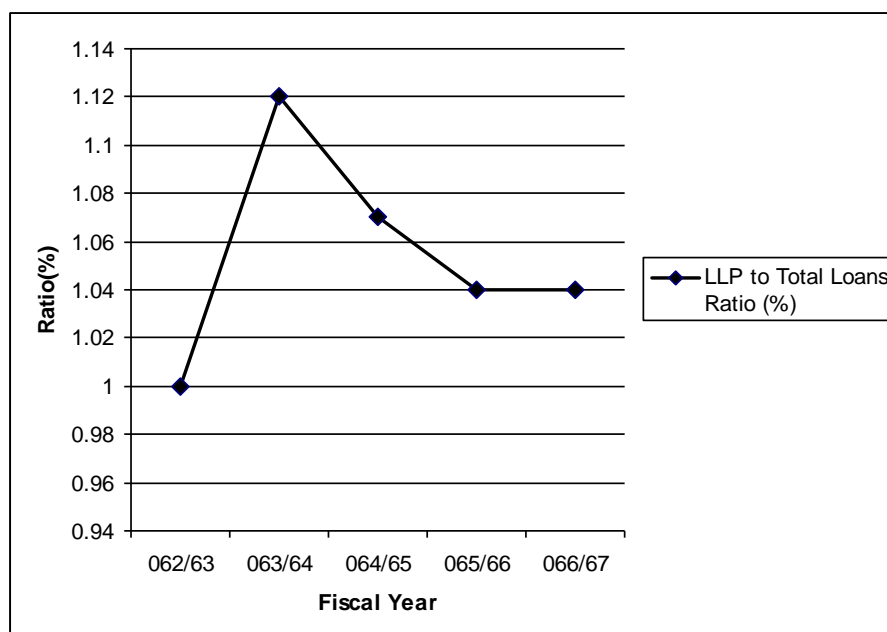


Figure 4.15 shows the loan loss provision to total loans and advances trend. As the loan loss provision is 1% in F.Y. 2062/63 it can be said that all the loans in this year are performing. In the F.Y. 2063/64 the ratio went up to 1.12% and thereafter showed decreasing trend and remained constant in the last two F.Y. of study period i.e. 2065/66 and 2066/67 at 1.04%. Also it can be said that, since the range of ratio is minimum 1% and maximum 1.12% there isn't so much NPL in the total loans and advances.

4.4 Loans & Advances to Total Deposit Ratio

This ratio measures the extent to which the bank is successful to mobilize its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposits & vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. The ratio is calculated by dividing loans & advances by total deposits (see detail in appendix 6).

Table 4.16
Loans & Advances to Total Deposit Ratio (Rs. in Millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Mean	S.D.
Total Loan	205.33	342.70	622.40	1254.05	1561.24		
Total Deposit	221.06	377.31	641.87	1327.22	1562.64		
Total Loan to Total Deposit Ratio (%)	92.84	90.82	96.96	94.48	99.91	95.01	3.17

Source: Annual Reports, BDBL

Table 4.16 shows that in the fiscal year 2062/63 & 2063/64 the loans & advances to deposit ratio is 92.88% & 90.82% respectively; in the year 2064/65, 2065/66 & 2066/67 the ratio is 94.48%, 99.91% & 95.01% respectively. The mean of the ratios is 95.01% with 3.17% S.D. between them which shows that the ratios are satisfactorily consistent over the time period and very less variable.

Figure 4.16

Loans & Advances to Total Deposit Ratio

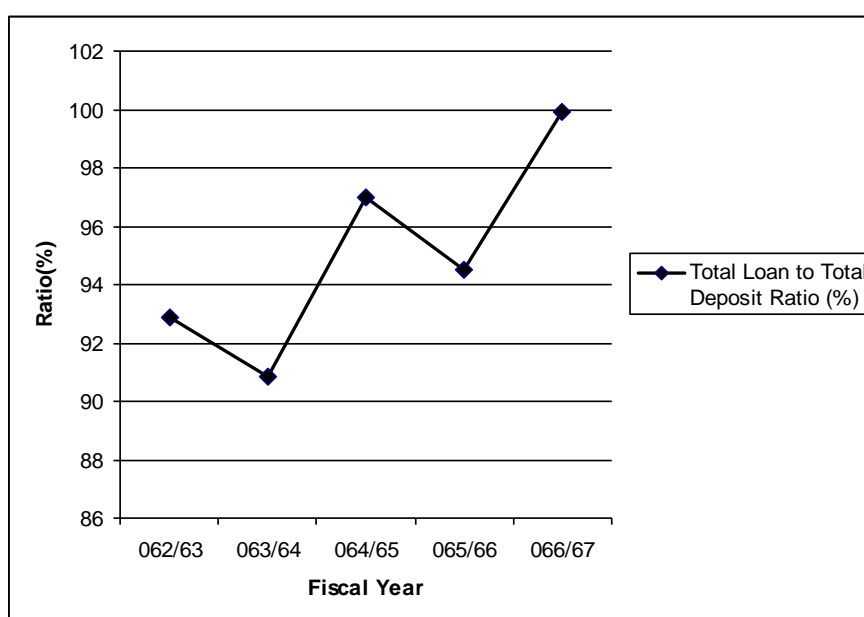


Figure 4.16 exhibits that the ratios show minor fluctuating trend over the study period. The ratios range from minimum 90.82% and maximum 99.91%. Seeing these ratios one can conclude that these ratios are more than the CD ratio of 80% as per NRB directives, the point to be noted here is that CD ratio includes capital also, but in our calculation we have taken deposits only. If we include the capital then the CD

ratio of BDBL meets the criteria of 80% CD ratio set by NRB, which shows that the collected deposits are better mobilized in loans and advances.

4.5 Measuring Correlation between Different Variables

The coefficient of correlation measures the degree of relationship between two sets of variable i.e. dependent and independent variables.

4.5.1 Correlation between Deposits and Loans and Advances

The correlation between total deposits and loans and advances describes the degree of relationship between these two items. How units increase in deposits impact in the volume of loans and advances is measured by this correlation. Here deposit is independent variable and the loans and advances is the dependent variable (see detail in Appendix 7).

Table 4.17

Correlation between Deposits and Loans and Advances

Correlation Coefficient (r)	P. Er.	6* P. Er.	Remarks
0.9985	0.0007	0.0042	$r > 6*P. Er.$

Table 4.17 shows the correlation coefficient between deposit & loans and advances of the BDBL is 0.99851 and probable error multiplied by six is found to be 0.0042. Since $r > 6*P. Er.$, and r is positive and is near by 1, so, it can be interpreted that there is a very strong positive correlation between deposit & loans and advances during the study period.

4.5.2 Correlation between NPA and Loans and Advances

The correlation between total loans and advances and NPA describes the degree of relationship between these two items. Here loans and advances is the independent variable and NPA is dependent variable (see detail in Appendix 8).

Table 4.18**Correlation between NPA and Loans and Advances**

Correlation Coefficient (r)	P. Er.	6* P. Er.	Remarks
-0.20	0.29	1.74	$r < 6*P. Er.$

Table 4.18 shows that the correlation coefficient(r) between loans and advances and NPA of the bank is -0.20 i.e $r < 0$ and P.Er. and P.Er. multiplied by 6 is 1.74 and, since r is negative and very near to zero, it can be concluded that there is insignificant (very low) negative correlation between NPA and loans and advances during the study period.

4.5.3 Correlation between LLP and Loans and Advances

The correlation between loan loss provision and total loans and advances describes the degree of relationship between the two variables. Here loans and advances is independent variable and loan loss provision is dependent variable (see detail in Appendix 9).

Table 4.19**Correlation between Loan Loss Provision and Loans and Advances**

Correlation Coefficient (r)	P. Er.	6* P. Er.	Remarks
0.9997	0.0006	0.0036	$r > 6*P. Er.$

Table 4.19 shows that the correlation coefficient(r) between Loans and Advances and Loan Loss Provision is 0.9997 and P.Er. multiplied by 6 is 0.0036. Since $r > 6*P. Er.$ and r is positive and very near to 1, it can be interpreted that there is very strong positive correlation between these two variables.

4.6 Growth Ratio

With regard to this part of the study, growth ratios are calculated. It plays a significant role as they are directly related to the mobilization of fund and the investment decision of the company. So, higher the growth ratio, better the performance of the company. Basically, in this study, growth ratios related to the total

deposit and loans and advances of BDBL have been analyzed (see detail in Appendix 10).

Table 4.20

Growth Ratio of Total Deposit (Rs. in millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Growth Ratio (%)
Total Deposit	221.06	377.31	641.87	1327.22	1562.64	63.05

Source: Annual Reports, BDBL

Table 4.21

Growth Ratio of Total Loans and Advances (Rs. in millions)

Fiscal Year	062/63	063/64	064/65	065/66	066/67	Growth Ratio (%)
Total Loans & Advances	205.33	342.70	622.40	1254.05	1561.24	66.05

Source: Annual Reports, BDBL

From Table 4.20 to 4.21 depicts the growth ratios of total deposits and total loans and advances of BDBL during the study period. The analysis shows that total deposit and total loans and advances of BDBL shows increasing trend over the years having the growth rate of 63.05% and 66.05% respectively. It seems that both deposit and loans and advances are growing with equal growth ratios.

4.7 Loan Recovery Procedure and Policy of BDBL

Loan is defined as the amount expected to be repaid with interest. In each loan repayment, methods are mentioned which is affected by the nature of debt. In case of term loan, Real Estate, hire purchase, consumer loan payment is received in the form of installments as per prefixed monthly schedule. While in case of overdraft and credit line, interest is paid monthly while principal is paid at any time before expiry of the facility. In case of part payment, interest is paid first and remaining amount is utilized to reduce principal outstanding.

Bank's ability to provide continued credit service depends upon the record of loan collection. Satisfactory repayment of debt is important for the smooth functioning of the entire credit machinery. Their collection of due loan in time is an important aspects of the bank, which determine the further expansion of company's activities. If the customer repays the loan in time, the bank gets chance to mobilize that collected amount in other profitable areas. Indeed collection aspect is more important and difficult than loan disbursement in time. Efficiency of the bank is measured by the extent to which it collects the amount of due loan in time

The customers can get some direct and indirect benefits if they follow the repayment rules and regulations of the bank. Firstly, the bank helps such customers by granting necessary additional loan, Secondly, the customer is supposed to be confidential and respectable person in the eyes of the company and society. Thirdly, economic burden of such customer tends to decrease and finally, their assets increase in near future. On the contrary, if a customer is unable to repay amount of loan in due date, the customer is compelled to pay monthly 18% penalty on overdraft and credit line loans and 24% penalty on installments loans as a punishment. Thus, the bank has considered the principal of prize and penalty. Generally, the laborious and efficient customer are supposed to be winners and the inefficient customer who neglects their occupation is penalized (CPG, 2062).

All the loans and advances of the bank aren't good, there occurs some bad loan. So, for the recovery of such loans following are the actions taken by bank.

1. First Reminder Letter:- After one month of the due date, a reminder letter is send and offered the borrower to pay the loan as soon as possible.
2. Second Reminder Letter: - After one month of the first reminder letter also if the loan is overdue than second reminder letter is send requesting the customer to pay the overdue loan immediately and retain good relation.
3. "Notice of 35 Days" Publish on Newspaper: - After 60 days of second reminder letter also if the customer doesn't come to repay overdue loan than the bank should publish a notice in national Newspaper for the

collection of loan within 35 days. But an information letter should be sent to the customer before the publication of the notice. A copy of Newspaper should be sent to the customer and receipt letter should be kept in his/her file. If the loan holder pays satisfactory amount within 3 days the bank can stop the forward process.

4. Auction of collateral: - After 35 days of notice if the loan holder doesn't pay the amount of bank, the auction process begins. It is done under the supervision of a loan committee represented by manager, chief of loan and account. First of all, the collateral which was secured by loan is revealed and inspected a report is prepared on the basis of which the loan committee of office decide to auction the collateral. After the decision the process is run to the Board Committee.

This committee fixes the date of auction and decides to auction the collateral. After the decision, the information of the decision should be sent to the loan holder and his/her family within 3 days. Bank publishes the notice of auction in national Newspaper after seven days of decision giving the information about auction place, date, time and collateral also (CPG, 2062).

If the revaluation of collateral on auction time is less than the loan amount then, only revalued amount of collateral is processed for auction and rest loan amount is collected from other law process. On the date of auction the party giving higher amount pays the loan and bank provides collateral in his/her name, but if no one works to call the amount the auction date will be transferred in further date or the bank can own the collateral itself.

If the loan holder applies the additional time for payment of loan by depositing token money and commits to pay within some days than bank can stop the process of auction for the days the bank is convinced.

If the loan cannot be repaid by the effort of bank, than bank can appeal the case to Loan Collection Court of Justice, which was established by Nepal Government with three members from Law, banking and Accountancy. The bank should pay 0.25% claimed amount as loan collection charge with the application. Within 15 days

from the application, the court of justice declares the case after receiving the order from the court. The loan collection officer should collect the loan from loan holder and pay to the bank, for this he adopts the following procedures:

1. Adopting or auctioning the pledged or other fixed and current assets of borrower.
2. Adopting or auctioning the fixed and current assets of guaranteed person.
3. To arrest the borrower or guarantor and keep in jail according to law.

After receiving the loan amount, the company should pay 1% of loan to court of justice as a loan collection charge (CPG, 2062).

4.7.1 Views Collected from BDBL Branches

BDBL has four branches and one Head Office; all together it is five in number. The above mentioned recovery procedure is a guideline or policy made by BDBL to be followed for the recovery of default loan. So, analysis has been made regarding how well all the branches of BDBL and Head office follow the recovery procedure as per mentioned in the CPG.

After the analysis it is found that Buddha Chowk and Narayangarh Branch of BDBL being new branches don't have overdue loans at all. They check all the loan amounts on second day of the due dates whether payment has been made or not and if they find any loan amount due, they immediately makes telephone call to the borrower and ask them to pay the interest or installment amount.

Regarding Damauli Branch it is found that for any overdue loan amount they make frequent telephone calls to the borrower from time to time before sending the first letter reminder letter. After one month of the due date they send the first reminder letter and start making regular visit to the clients place and try to collect the money. If they won't succeed to collect the money within one month also than they send the second reminder letter and try to collect the money within 60 days. Till now Damauli branch hasn't faced the problem of publishing 35 days notice on Newspaper and auction of collateral, they have succeeded to collect the due amount in second reminder letter. If they have to move beyond the procedure of second reminder letter than, the responsibility is taken by Head Office.

The other branch of BDBL, Birauta Branch is found more concerned about

following the recovery procedure. They don't make any telephone calls till the first reminder letter. Only, after sending the first reminder letter if the borrower doesn't come to make the payment, than they make telephone calls frequently. If after one month of second letter also they can't collect the due loan than they send the second letter and start visiting the borrower's place. After 60 days of second letter also if the borrower doesn't come to pay the due amount that with the permission of Head office they publish a 35 Days notice on National Newspaper and send a copy of it and information letter to the borrower. After 35 days notice also if the borrower's doesn't comes than for the auction procedure all the responsibility is taken by the loan committee of Head Office as mentioned in the CPG.

Regarding Head Office, it has got a separate department known as recovery department which handles all the cases of loan recovery of Head Office as well as provide guidance to the branches in recovery procedure. In case of Head office it is found that the staff of recovery department checks in advance the due date of loans and 1 or 2 days prior the due date they make telephone calls to the borrowers and reminds them about the due date of loan and make payment accordingly. After the due date of loan, they checks which borrower hasn't still paid the due amount and makes them phone call again. This procedure continues till one month of the due date after which the first reminder letter is sent to the borrower and until the recovery of due amount regular follow-ups are made through telephone calls and personal visits. After the issuance of first letter also if the borrower doesn't pay loan than second reminder letter is sent requesting to pay within 60 days and bank tries its best to collect the due amount within this time period. After second letter also, if borrower becomes default than a "Notice of 35 days" is published in national newspaper informing the borrower to pay the money within the time period of 35 days. Still, if the borrower doesn't pay the loan, than the auction of collateral and further procedure of loan recovery is carried forward as per the recovery policy of BDBL.

In summary, it is found that there isn't any mention of telephone calls in the recovery procedure of BDBL, but it has been giving its first priority to make telephone calls as the recovery procedure which is found quite effective also. All other procedures are found to be followed as per the recovery policy of BDBL.

4.8 Major Findings of the Study

The major findings of the study on status of NPA and loan portfolio of BDBL are as follows.

4.8.1 The percentage of real estate loan to total loans & advances shows decreasing trend except in the last fiscal year with an average mean ratio of 10.59% and S.D. ratio of 4.73% which shows that the ratios are slightly variable over the study period.

4.8.2 The percentage of business loan to total loan shows slightly fluctuating trend with the ratios lying between 5.49% to 9.10% with a mean ratio of 7.47% and S.D. of 1.26%. The S.D. ratio shows that the ratios are very consistent and less variable over the study period.

4.8.3 The ratios of term loan to total loans and advances are quite constant over the first three fiscal years of the study period which then after shows decreasing trend in the last two fiscal years with an average mean of 3.47%. The S.D. of 1.69% between these ratios shows that they are very consistent and less variable over the study period.

4.8.4 The percentage of HP loan in total loans and advances shows moderately fluctuating trend over the study period with a mean ratio of 35.38% and S.D. of 8.21% which shows that the ratios over the study period are moderately consistent and a bit variable.

4.8.5 The ratios of consumer loan to total loans and advances it is found showing slightly fluctuating trend over the study period with the ratios ranging between minimum 37% and maximum 49.90%. The average mean of these ratios is 41.51% with a S.D. of 5.12% which shows that the ratios are less consistent and variable to some extent.

4.8.6 The coverage of fixed deposit loan in total loans and advances is found to be covering very nominal part as the ratio ranges from 0.26% to 0.98%. It is seen that

BDBL has very less investment in fixed deposit loan with an average mean ratio of 0.67% and S.D. of 0.26% which shows the consistency of ratios over the study period.

4.8.7 The average mean ratio of 2.28% and S.D. of 0.22% BDBL has met the criteria of 2% compulsory investment in deprived sector set by NRB and ratios are consistent over the study period.

4.8.8 The purpose wise classification of total loans and advances explains BDBL's trend of lending for different purposes. BDBL has mostly used its funds in consumer and hire purchase loans. In average the lending in consumer, hire purchase, Real Estate, Business, term & fixed deposit loan sectors take the first, second, third, fourth, fifth and sixth position with average mean ratios of 41.51%, 35.38%, 10.59%, 7.47%, 3.47% and 0.67% respectively in the lending portfolio of the bank. Real estate loan is below 25% and deprived sector loan is found above 2% as per NRB directions. As per BDBL hire purchase loan covers more percentage due to more demand in the market and real estate covers less due to its riskiness and less investment in business loan is due to competition in the market.

4.8.9 The assets composition of BDBL has increasing trend over the study period. Cash balance, balance at NRB and loans and advances in the assets mix has increasing trend where as bank balance, money at call and short notice, investment, fixed assets and other assets has fluctuating trend in the five F.Y. of study period. But in the overall total assets view point the trend is increasing.

4.8.10 In the F.Y. 2062/63 BDBL has zero NPA. It started to form from F.Y. 2063/64, which shows increasing with decreasing trend over the study period. This indicates that there is no consistency with the increasing trend.

4.8.11 The NPA to total assets ratio has decreasing trend with mean ratio of 0.076% and S.D. of 0.066. The S.D. of ratios shows that the ratios over the study period are very less variable and consistent to each other.

4.8.12 The total loans and advances to total assets ratios show slightly fluctuating trend with a mean ratio of 73.07% and S.D. ratio of 4.16% which indicates that the ratios are consistent and less variable over the study period. The mean ratio of 73.07% shows that maximum percentage of total assets of BDBL consists of loans and advances.

4.8.13 The non-performing assets to total loans and advances shows decreasing trend with an average mean ratio of 0.11% and S.D of 0.09% which shows that the ratios are consistent to each other over the study period. NPL has fulfilled the criteria of international standard of NPL below 5%.

4.8.14 NPA to Total Loans & Advances mean ratio of BDBL is 0.11%, HBBL is 0.03% and GBBL is 0.21% which shows that the NPA of HBBL is less in comparison to other two banks. Considering the S.D. also it is found that with the S.D. ratio of 0.04%, the ratios of HBBL over the study period are more constant and very less variable in comparison to other two banks.

4.8.15 The loan loss provision to total loans and advances with a mean ratio of 1.05% shows that the ratios has quite stable trend and the S.D. of 0.1% indicates the high consistency among them over the study period. It shows that maximum percentage of loan of BDBL is performing loan.

4.8.16 The loans and advances to total deposit ratio of the bank is highest in the F.Y. 2066/67 with 99.91% and lowest in F.Y. 2063/64 with 90.82%. The mean of the ratios is 95.01% with 3.17% S.D. between them which shows that the ratios are satisfactorily consistent over the time period and very less variable. The collected deposits are fully mobilized as loans and advances.

4.8.17 The correlation analysis shows that the correlation coefficient (r) between deposits and loans and advances of the bank is 0.9985 and probable error multiplied

by 6 is 0.0042. Since, $r > 6 * PE.r$, and r is positive and very near by 1, it can be said that there is very strong positive correlation between deposits and loans and advances during the study period.

4.8.18 The correlation analysis shows that the correlation coefficient (r) between loans and advances and non-performing assets of the bank is -0.20 and probable error multiplied by 6 is 1.74. Since $r < 6 * PE.r$ and r is negative and near to zero and $r < PE.r$ it can be concluded that there is insignificant correlation or we can say there is no correlation between NPA and loans and advances of BDBL.

4.8.19 The correlation analysis shows that the correlation coefficient (r) between loans and advances and loan loss provision of the bank is 0.9997 and probable error multiplied by 6 is found to be 0.0036. Since $r > 6 * P.Er$, and r is positive and very near by 1, it can be concluded that there is significant and very strong positive correlation between these two variables of BDBL during the study period.

4.8.20 The analysis of the growth ratios of total deposits and total loans and advances of BDBL during the study period shows that both deposits and loans and advances has increasing trend with net growth rate of 63.05% and 66.05% respectively.

4.8.21 The recovery procedure of BDBL is sound. In, brief the main steps of recovery procedures of BDBL is first reminder letter, second reminder letter, 35 days notice in national newspaper and auction of collateral.

4.8.22 It is found that though there isn't any mention of telephone calls in the recovery procedure of BDBL, it is being used as the most important procedure of recovery by all the branches and Head office of BDBL. Apart from this all other recovery procedures are found to be followed as per the recovery policy of the bank.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter basically includes three aspects of the study. Firstly, it summarizes the whole study, secondly it concludes with remarks and then finally, the study focuses on making some useful suggestions and recommendations based on findings of the study.

5.1 Summary

The study is carried out as an academic requirement of master's degree of business studies, on the topic of the status of NPA and loan portfolio of BDBL. The present study has been undertaken to examine and analyze the loan portfolio and NPA status of Business Development Bank Limited. In order to build up the theoretical foundation and to get the clear destination of the research work, various materials were reviewed. Developments of financial institutions in Nepal, concept of development bank, loan, default, loan portfolio, Performing Assets, NPA, Loan Loss Provision recovery and features of a sound lending and investment policy in development banks were reviewed as conceptual review. Beside this, reviews of dissertation were also included in research review section of the report.

The study has covered five years period from F.Y. 2062/63 to F.Y. 2066/67 and is designed within the framework of descriptive and analytical research design and so the analysis has been made accordingly. The study has resorted mainly to secondary data that have been first processed and analyzed respectively. In addition to this, primary data were also used which were collected by using unstructured interview and key informant method with concerned personnel. Financial ratios, simple mathematical and statistical tools have been implemented to get the meaningful result of the collected data in this research work.

The analysis of the NPA and loan portfolio of BDBL reveals that BDBL has diversified and extended its loans and advances to various fields like hire purchase loan, consumer loan, term loan, deprived sector loan, real estate loan, business loan

and fixed deposit loan, and it is found that the investment regarding to these various sectors are in increasing trend with fluctuations during the study period. It can also be said that the overall loan portfolio of BDBL shows increasing trend over the study period. In order to know about the assets position of BDBL the assets composition of BDBL has been analyzed which shows increasing trend over the study period. Also analyzing the non-performing assets of BDBL it is seen that there is no consistency in NPA during the study period, it shows increasing with decreasing trend. The non-performing assets to total assets ratio shows decreasing trend during the study period where as the total loans and advances to total assets ratio shows fluctuating trend. The non-performing assets to total loans and advances is in decreasing trend where as the loan loss provision to total loan and advances ratio shows stable trend during the five years of the study period. Loans and advances to total deposit ratio shows that BDBL has been able to fully mobilized its total deposit in profit generating purposes during the study period. While calculating the growth ratios of total deposits and total loans and advances it is found that the growth ratio of both deposits and loans and advances is found quite similar. Finally, there exist a strong positive correlation between deposit and loans and advances and loan loss provision and loans and advances but insignificant correlation between the non-performing assets and loans and advances. All the branches and Head Office of BDBL is following recovery procedure as per the policy

5.2 Conclusions

Based on analysis and findings of the study, following conclusions have been drawn on the NPA position and Loan Portfolio of BDBL.

5.2.1 While analyzing the loan portfolio of BDBL regarding to various sectors, it is found that the consumer loan and hire purchase loan has got the maximum share percentage unlike to those other remaining investments. As compared to them real estate and business loan has got less share percentage in total loan disbursement. Whereas the term loan, deprived sector loan and fixed deposit loan has got very negligible share percentage to this respect. Thus, this sectoral loan investment of

BDBL seems to have meaningful investment in fulfilling the personal needs and requirement of people and transportation system of the country as consumer and HP loan has got prior shares in comparison to other remaining loan investment. However very less investment is seen in productive sector as the business loan and term loan has got very less shares in the total composition of loan investment. However, it can be concluded that BDBL has mobilized its depositors fund to earn profit by advancing those funds in the form of loans and advances which shows that it has been able to maintain a balance ratio among the deposit and investment. Consumer loan holds maximum part because it contains varieties of purposes of loan disbursement and hire purchase covers more due to self liquidating facility and demand in the market.

5.2.2 While analyzing the overall assets composition of BDBL it is found that the composition is increasing every year. Analyzing the individual components it is found that loans and advances has the maximum coverage followed by money at call and short notice and investment thereafter. Other components of the assets composition like bank balance, cash balance, balance at NRB, fixed assets and other assets are also found in satisfactory level.

5.2.3 The non-performing assets of BDBL is found to be decreasing each year which shows the optimum utilization of the assets by BDBL in income generating activities and increase in the ratio of performing assets.

5.2.4 The decreasing trend of non-performing assets to total assets ratio shows that percentage of performing assets is increasing each year and BDBL is utilizing its assets in profit generating investments.

5.2.5 The fluctuating trend of total loans and advances to total assets ratio with very less S.D. ratio among them shows that in each fiscal year of the study period about same percentage of loans and advances in total assets is invested in different sectors.

5.2.6 The decreasing trend of non-performing assets to total loans and advances shows that the default loan of BDDL is decreasing and recovery of NPL is increasing.

5.2.7 Comparing with other two development banks HBBL & GBBL, it is found that over the study period of five years the NPA to total loans and advances, average mean ratio of BDDL is more than that of HBBL and less than that of GBBL. Whereas considering the last fiscal year of study period BDDL has the least NPA in comparison to other two banks.

5.2.8 The stable trend of loan loss provision to total loans and advances ratio lying between 1% to 1.12% shows that the quality of loan of BDDL is sound. It seems that the amount of pass loan is more in comparison to non – performing loan and the possibility of default in future is decreasing.

5.2.9 The stable trend of loan and advances to total deposit lying between 98.2% to 99.91% during the study period indicates that BDDL is investing large part of its collected deposits in loan investments. Also, it is adopting the appropriate policies to manage and utilize the fund in income generating activities as well as to increase the quality of assets.

5.2.10 The growth ratios of total deposits and loans and advances show that the bank has been increasing its disbursement of loans and advances slightly more than and deposits collection. The growth rate of deposit is 63.05% which is slightly less than the growth rate of loans and advances i.e.66.05%.

5.2.11 It is found that all the branches and Head Office of BDDL follows the recovery procedure as per their guideline. Though telephone call isn't mentioned in the policy it is found mostly used by all the branches and head office itself.

5.2.12 The correlation analysis between loans and advances and deposit shows that there is a strong positive relation between them. A unit increase in deposit increases the loans and advances with the same unit.

5.2.13 The correlation analysis between loans and advances and NPA shows insignificant relation between them. A unit increase or decrease in loans and advances doesn't affect the NPA of the bank.

5.2.14 The correlation analysis between loans and advances and Loan Loss Provision shows that there is a strong positive relation between them. A unit increase and decrease in loans and advances increases and decreases the loan loss provision. It is because bank is compulsion to keep 1% loan loss provision for pass loans also.

5.3 Recommendations

On the basis of analysis, findings and conclusions the following recommendation can be forwarded to overcome the weakness, inefficiencies and to improve the present fund mobilization and Non-performing assets of Business Development Bank Limited.

5.3.1 While analyzing the loan portfolio management of BDBL, it is found focusing more on consumer loan rather than business and term loan which shows its inactive participation in productive sector of the country. As HP loan shows second position in case of priority in the loan portfolio it seems that BDBL should now stop its investment in HP sector. It seems that BDBL should now focus on business and other productive sectors for loan investment, so that the overall economy of the country can be developed. It should adopt new promotional strategy by focusing on business loan. It also seems that BDBL should revise the portfolio condition of loan on regular basis and also try to maintain the equilibrium in the portfolio condition. Basically, the loan portfolio management refers to the allocation of funds into different small components of its sectors having different degrees of risk, different rates of return in such a way that conflicting goal of maximum yield (return),

minimum risk can be properly achieved. Therefore, it should always try to make the continuous effort to explore competitive and highly yielding investment opportunities to optimize its loan portfolio.

5.3.2 BDBL is suggested to decrease the money at call and short notice and increase investment in the total assets composition. It is found that money at call and short notice ranks second in the overall assets composition which is risky for the bank because such assets are of fluctuating nature which can't be utilized in long term investment purposes. Similarly BDDL is suggested to increase the investment which can facilitate them to utilize the idle fund to generate the income as well as to minimize the risk and also to maintain the optimal level of liquidity. So, it should increase the investment in government securities and corporate securities in order to diversify the risk. Regarding loans and advances it is found that up to maximum 77.50% of the total assets is invested in this category which is satisfactory.

5.3.3 Since the non performing loan of BDBL shows decreasing trend lying below 1% it fulfills the criteria of international standard of NPL below 5% in general. This shows that the performance of bank is very sound and recovery efforts and credit management is effective. But in the five years of study period BDDL had no bad loan in the beginning four fiscal years which is found in the fifth fiscal year in small amount, so BDDL should be more serious towards the recovery of bad loan and maintaining its NPL below international standard. The bank should make efforts towards making NPL zero in coming days.

5.3.4 Over the study period, the loan loss provision of BDBL shows stable trend laying around 1% which signifies that maximum percentage of loan loss provision is for performing loan as it is compulsory for the banks to maintain 1% provision for performing loan and there is less probability of loan default in future. BDBL should try to maintain its trend of loan loss provision at 1 %.

5.3.5 While analyzing the deposit mobilization of BDDL in loans and advances it is found that almost 90% to 100% of the deposit of BDDL is found to be invested in

loans and advances which shows that BDBL has been mobilizing its deposits to the optimum level which is good but care should be taken regarding liquidity and not only profitability.

5.3.6 Since BDBL is following recovery procedure as per the policy they are recommended to continue it in future and make sound recovery of default loan.

5.3.7 BDBL is also recommended to have a gradual shift of focus from traditional financing business to dynamic and innovative areas such as merchant banking, consortium financing, and venture capital, project financing etc and also there is need to offer innovative schemes and instruments in resource mobilization.

5.3.8 The another most important and challenging task is to build up the public confidence and enhancing their image in the mind of public at large. So, each step should be taken cautiously and with full understanding of the implications and the long term effect rather than merely going by short term benefits.

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Appendix-1

Purpose wise loan classification

(Rs. In millions)

Purpose	Fiscal Year									
	2062/63		2063/64		2064/65		2065/066		2066/67	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Real Estate	35.88	17.50	49.90	14.56	46.39	7.45	58.02	4.62	137.42	8.80
Business	18.70	9.10	25.25	7.36	52.78	8.50	86.25	6.90	85.86	5.49
Term	9.30	4.52	18.47	5.38	25.17	4.04	23.78	1.89	23.86	1.52
H.P	61.94	30.16	75.26	21.96	260.13	41.79	488.14	38.92	688.32	44.08
Consumer	78.97	38.46	170.93	49.90	231.78	37.24	563.83	44.96	577.60	37
Fixed Deposit	0.54	0.26	2.89	0.84	6.15	0.98	8.06	0.64	9.55	0.61
Deprived	-	-	-	-	-	-	25.97	2.07	38.63	2.50
Total Loans	205.33	100	342.70	100	622.40	100	1254.05	100	1561.24	100

Ratios of loans disabused for different purposes to total loans & advances (%)

Purposes	Fiscal Year					Mean	S.D.
	2062/63	2063/64	2064/65	2065/66	2066/67		
Real Estate	17.50	14.56	7.45	4.62	8.80	10.59	4.73
Business	9.10	7.36	8.50	6.90	5.49	7.47	1.26
Term	4.52	5.38	4.04	1.89	1.52	3.47	1.69
Hire Purchase	30.16	21.96	41.79	38.92	44.08	35.38	8.21
Consumer	38.46	49.90	37.24	44.96	37	41.51	5.12
F.D	0.26	0.84	0.98	0.64	0.61	0.67	0.26
Deprived	-	-	-	2.07	2.50	2.28	0.22
Total	100	100	100	100	100		

Calculation of Mean and S.D. of Real Estate Loan to total loans & advances ratio

$$\begin{aligned} \text{Mean } (\bar{x}) &= \frac{\sum X}{n} \\ &= \frac{52.93}{5} \\ &= 10.59\% \end{aligned}$$

$$\begin{aligned} \text{S.D.}(\sigma) &= \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum x}{n}\right)^2} \\ &= \sqrt{\frac{672.52}{5} - (10.59)^2} \\ &= \sqrt{134.50 - 112.15} \\ &= 4.73\% \end{aligned}$$

The Mean & S.D. of Other types of Loans to Total Loans and advances is calculated accordingly.

Appendix-2

Non-Performing Assets to Total Assets Ratio (%)

(Rs. In millions)

Fiscal Year	NPA	Total Assets	Ratio (%)
2062/63	0	273.06	0
2063/64	0.83	451.28	0.18
2064/65	1.13	881.83	0.12
2065/66	1.04	1618.10	0.06
2066/67	0.52	2360.01	0.02
Mean Ratio			0.076
S.D.			0.066

Calculation of Mean & Standard Deviation of ratios.

$$\begin{aligned}\text{Mean } (\bar{x}) &= \frac{\sum X}{n} \\ &= \frac{0.38}{5} \\ &= 0.076\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation } (\sigma) &= \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum x}{n}\right)^2} \\ &= \sqrt{\frac{0.0508}{5} - (0.076)^2} \\ &= \sqrt{0.0101 - 0.0057} \\ &= \sqrt{0.0044} \\ &= 0.0663\end{aligned}$$

Appendix - 3

Total Loans and Advances to Total Assets Ratio(%)

(Rs. In millions)

Fiscal Year	Total Loan and Advances	Total Assets	Ratio (%)
2062/63	205.33	273.06	75.19
2063/64	342.70	451.28	75.93
2064/65	622.40	881.83	70.58
2065/66	1254.05	1618.10	77.50
2066/67	1561.24	2360.01	66.15
Mean Ratio			73.07
S.D.			4.16

Calculation of Mean & Standard Deviation of ratios.

$$\text{Mean } (\bar{x}) = \frac{365.35}{5} = 73.07$$

$$\begin{aligned} \text{S.D. } (\sigma) &= \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} \\ &= \sqrt{\frac{26782.51}{5} - (73.07)^2} \\ &= \sqrt{5356.50 - 5339.22} \\ &= \sqrt{17.28} \\ &= 4.16 \end{aligned}$$

Appendix - 4

Non-Performing Assets to Total Loans and Advance

(Rs. In millions)

Fiscal Year	Total NPA	Total Loans and Advances	Ratio (%)
2062/63	0	205.33	0
2063/64	0.83	342.70	0.24
2064/65	1.13	622.40	0.18
2065/66	1.04	1254.05	0.08
2066/67	0.52	1561.24	0.03
Mean Ratio			0.11
S.D.			0.09

Calculation of Mean & Standard Deviation of ratios.

$$\begin{aligned}\text{Mean } (\bar{x}) &= \frac{\sum X}{n} \\ &= \frac{0.53}{5} \\ &= 0.11\end{aligned}$$

$$\begin{aligned}\text{S.D. } (\sigma) &= \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum x}{n}\right)^2} \\ &= \sqrt{\frac{0.0973}{5} - (0.11)^2} \\ &= \sqrt{0.0083} \\ &= 0.09\end{aligned}$$

Appendix - 5

Loan Loss provisions to Total Loans and Advances Ratio

(Rs. In millions)

Fiscal Year	Loan Loss Provision	Total Loans and Advances	Ratio (%)
2062/63	2.07	205.33	1
2063/64	3.87	342.70	1.12
2064/65	6.72	622.40	1.07
2065/66	13.08	1254.05	1.04
2066/67	16.36	1561.24	1.04
Mean Ratio			1.05
S.D.			0.1

Calculation of Mean & Standard Deviation of ratios.

$$\begin{aligned}\text{Mean } (\bar{x}) &= \frac{\sum X}{n} \\ &= \frac{5.27}{5} \\ &= 1.05\end{aligned}$$

$$\begin{aligned}\text{S.D. } (\sigma) &= \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum x}{n}\right)^2} \\ &= \sqrt{\frac{5.5826}{5} - (1.056)^2} \\ &= \sqrt{1.11-1.1} \\ &= 0.1\end{aligned}$$

Appendix - 6

Loans and Advances to Total Deposit Ratio

(Rs. In millions)

Fiscal Year	Total Loans and Advances	Total Deposits	Ratio (%)
2062/63	205.33	221.06	92.84
2063/64	342.70	377.31	90.82
2064/65	622.40	641.87	96.96
2065/66	1254.05	1327.22	94.48
2066/67	1561.24	1562.64	99.91
Mean Ratio			95.01
S.D.			3.17

Calculation of Mean & Standard Deviation of ratios.

$$\begin{aligned}\text{Mean } (\bar{x}) &= \frac{\sum X}{n} \\ &= \frac{475.06}{5} \\ &= 95.01\end{aligned}$$

$$\begin{aligned}\text{S.D. } (\sigma) &= \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum x}{n}\right)^2} \\ &= \sqrt{\frac{45184.68}{5} - (95.01)^2} \\ &= \sqrt{10.04} \\ &= 3.17\end{aligned}$$

Appendix - 7

Calculation of Correlation Coefficients between Deposits and Loans and Advances

(Rs. In millions)

Fiscal Year	Total Deposits	Total Loans and Advances	Correlation Coefficient (r)	P. Er.	6×P.Er.
2062/63	221.06	205.33			
2063/64	377.31	342.70			
2064/65	641.87	622.40			
2065/66	1327.22	1254.05			
2066/67	1562.64	1561.24	0.9985	0.0007	0.0042

Calculation of probable error for correlation coefficient between Deposits and Loans & Advances

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

Where, N=Number of Pairs of observations = 5

r =correlation coefficient = 0.9985

$$\begin{aligned} \text{or, } P.Er &= 0.6745 \times \frac{1 - (0.9985)^2}{\sqrt{5}} \\ &= 0.0007 \end{aligned}$$

Appendix - 8

Calculation of Correlation Coefficients between NPA and Loans and Advances

(Rs. In millions)

Fiscal Year	Loans & Advances	NPA	Correlation Coefficient(r)	P. Er.	6×P.Er.
2062/63	205.33	0			
2063/64	342.70	0.83			
2064/65	622.40	1.13			
2065/66	1254.05	1.04			
2066/67	1561.21	0.52	-0.20	0.29	1.74

Calculation of probable error for correlation coefficient t between NPA and Loans and Advances

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

Where, N=Number of Pairs of observations = 5

r = correlations coefficient = - 0.20

$$\begin{aligned} \text{or, } P.Er &= 0.6745 \times \frac{1 - (-0.20)^2}{\sqrt{5}} \\ &= 0.29 \end{aligned}$$

Appendix - 9

Calculation of Correlation Coefficient between Loan Loss provision and Loans and Advances

(Rs. In millions)

Fiscal Year	Loans & Advances	Loan Loss Provision	Correlation Coefficient(r)	P. Er.	6×P.Er.
2062/63	205.33	2.07			
2063/64	342.70	3.87			
2064/65	622.40	6.72			
2065/66	1254.05	13.08			
2066/67	1561.21	16.36	0.9997	0.0006	0.0036

Calculation of probable error for correlation coefficient between Loan loss provision and loans and advances

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

Where, N=Number of Pairs of observations = 5

r = correlations coefficient = 0.9997

$$\begin{aligned} \text{or, } P.Er. &= 0.6745 \times \frac{1 - (0.9997)^2}{\sqrt{5}} \\ &= 0.0006 \end{aligned}$$

Appendix - 10

Growth Ratios

(Rs. In millions)

Fiscal Year	Deposits	Loans and Advances
2062/63	221.06	205.33
2063/64	377.31	342.70
2064/65	641.87	622.40
2065/66	1327.22	1254.05
2066/67	1562.64	1561.24
Growth Ratios (%)	63.05%	66.05%

Computation of growth ratio of Deposit of BDBL

$D_n =$ Total Deposit in the nth year (2066/67) = 1562.64

$D_o =$ Total Deposit in the initial year (2062/67) = 221.06

$g =$ growth rate

$n =$ Total number of years

We have,

$$D_n = D_o (1+g)^{n-1}$$

or, $1562.64 = 221.06 (1+g)^{5-1}$

or, $7.0688 = (1+g)^4$

or, $g = \sqrt[4]{7.0688} - 1$

or, $g = 0.6309$

$\therefore g = 63.05\%$

Growth ratio of loans and advances is calculated accordingly