

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Globalization, privatization, free market economic liberation is the key phenomenon taking in this 21<sup>st</sup> century. Making the bank and financial institutions are more complex and challenging. Structure of the economy of Nepal has still remained primarily agricultural with very small manufacturing base. So it is essential to divert with very small manufacturing base. So it is essential to divert and modify agro based economy increase in population and their business. Thus influencing the growing demand for better commercial complexes and home projects in Kathmandu, and their city area has become the central point of commercial activities in Nepal. Thus the various needful factors like; development of planned cities, development of market places has come to be realized. The establishment and emergence of commercial complexes and residential home has become vital. Because of increasing population and centralized of opportunities in Kathmandu valley more and more houses are built in every year. With the view of 20 years development project of Kathmandu valley the proper management and implementation of systematic town planning can be under gone through the construction of home apartments.

The Government has emphasized up on the promotion of home sectors as an important medium for economic development, poverty alleviation and to up lift the living standard of the people. Similarly in order to strengthen the existing home system by making the home sector self- reliant the government will make people abide by law and play the role of catalyst and facilitate and promote the role of private sector. As per the Kathmandu valley town planning committee, the government has been encouraging the private sectors to carry out the construction of huge complexes along with government's mutual participation if required.

The commercial banks as corporate bodies i.e. Joining of two or more enterprises with the purpose of carrying out specific operation such as investment in trade, business and industry in the form of negotiation between various groups of industries on trades to achieve mutual exchange of goods and services. They are the modes of trading to achieve mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between investors, financial and non-financial institution

The rising costs of land and building materials have also made access to home more difficult. Shortages and speculative practices have helped drive up the prices of urban land. Lack of foreign currency reserves and tightening world credit conditions have constrained the importation of building material components and ingredients, thus helping to create domestic shortages and, together with the effects of currency devaluation, driving material prices up. Also, home and rental scarcities, induced by the continuing to the informal shelter sector, have made access more difficult and expensive than need be. Under these circumstances of increasing demand for home facilities but deteriorating financing choices and decreasing purchasing power has created an immense void for proper home loan scheme. Considering these demands, most of the banks are to provide Home Loan.

Due to the growth on banking sector in Nepal and huge competition, opportunity for investment are comparatively losses. The main function of commercial bank is to collect deposits from the depositors and to invest on profitable sectors by minimizing risks. These days, the commercial banks are moving towards the Retail banking sectors like; Auto loan, Education loan, Professional loan and Home loan etc, because of low risk and lack of proper and secured investing sectors. Home loan is one of the important investing sectors of financial institution. These days, most of the commercial banks and other financial institutions are providing home loan, which helps to develop the home in Nepal.

### **1.1.1 Introduction of Commercial Bank**

The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. In the process of such intermediation, commercial bank plays funds raised from different sources into different assets with a prime objective of profit generation and administrative assistance. According to commercial Bank Act 2031, “commercial banks are those banks which are established under this act to perform commercial function.” The commercial banks pool together the savings of the community and arrange for their productive use. They supply financial needs of modern business.

Now a day there are 31 commercial banks (NRB March, 2011). Besides commercial bank is investing their performance in Nepali banking industry and also provide retail banking scheme. It plays important role for the growth of countries economic position.

In short, Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.

The main function of commercial bank is to accept deposits from the public in different types of deposits account. Generally a bank accepts deposit in three forms namely – saving, current and fixed deposits.

Commercial bank collect deposit from public in various forms and lend the same as investment. More over they also provide technical support administrative suggestion cheap remittance of funds safekeeping of valuables collection of bills cheques overdraft facilities to industries and commerce whenever banks lend money they must remember that the source of their fund is customers deposits therefore it is of almost importance that the subsequent leading should be of minimal risk. Banks have often been criticized for not

lending more freely. But higher risk of loss is the deterring factor on granting advances despite the availability of option of changing higher interest rate.

Modern banking is not limited to the function of accepting deposit and granting loan but providing huge range of services that makes banking a compulsion for everyone. Banking sector has an immense role in the economy in financial intermediation, credit creation, fund or money transfer, facilitating trade, safe keeping of valuables and providing employment opportunities. The scope for banking has increased, due to globalization, to expand their activities to various locations within and outside the boundaries of their country of origin.

While many people believe that banks play only a narrow role in the economy – taking deposits and making loans – the modern bank has to adopt new roles in order to remain competitive and responsive to public needs. Bank's principal roles today are as follows:

1. The Intermediation Role
2. The Payment Role
3. The Guarantor Role
4. The Agency Role
5. The Policy Role

## Vital functions performed by Full Service Banking Institution



### Increasing Number of Financial Institutions of Past 2 Years

Class of Bank	2065 Ashad	2067 Falgun
Commercial Banks "A"	25	31
Development Banks "B"	58	78
Finance Companies "C"	78	97

### Lists of Licensed Commercial Banks

<b>S.N.</b>	<b>Commercial Banks</b>	<b>Operation Date (A.D.)</b>	<b>Head Office</b>
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/21	Kathmandu
4	NABIL Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Rupandehi
13	Lumbini Bank Limited	1998/07/17	Chitawan
14	Nepal industrial & Commercial Bank Ltd.	1998/07/21	Morang
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara
16	Kumari Bank Limited	2001/04/03	Kathmandu
17	Laxmi Bank Limited	2002/04/03	Birgunj
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj
20	Citizens Bank International Ltd.	2007/09/24	Kathmandu
21	Prime Commercial Bank Lt.	2007/10/12	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank Of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	DCBL Bank Ltd.	2001/01/23	Kathmandu
25	NMB Bank Ltd.	1996/12/26	Kathmandu
26	Kist Bank Ltd.	2003/02/21	Kathmandu
27	Janata Bank Nepal Ltd.	2010/04/28	Kathmandu
28	Megha Bank Ltd.	2010/09/17	Kathmandu
29	Commerz and Trust Bank Nepal Ltd.	2010/09/20	Kathmandu
30	Civil Bank Ltd.	2010/11/25	Kathmandu
31	Century Commercial Bank Ltd.	2011/03/10	Kathmandu

*(Source: NRB March, 2011)*

### **1.1.2 Profile of the Banks under Study**

As there has been numbers of commercial banks established in Nepal, the research has been taken into consideration of Everest Bank Ltd., Nepal Bangladesh Bank Ltd., and Kumari Bank Ltd. So, the short introductions of these commercial banks are given as.

#### **1.1.2.1 Everest Bank Ltd. (EBL)**

Everest Bank Ltd. was registered under the company act 1964 in 19<sup>th</sup> November 1993 and started commenced banking transaction in 16<sup>th</sup> October 1994, the promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals are deputed by PNB under this arrangement. Now the bank has 38 branches including main branch in Nepal. Nepalese promoter holds 50% and rest 30% held by General public.

The main purpose of EBL is to extend professional banking services to various sectors of the society in the Kingdom of Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers;

- ) Cumulative Deposit Scheme
- ) Unfix Fixed Deposit
- ) Required Deposit Plan
- ) Telegraph Transfer (T.T)
- ) Letter of Credit
- ) Drawing Arrangement
- ) SWIFT Transfer
- ) International Trade and Bank Guarantees
- ) Remittance
- ) Foreign Currency Deposits/ Lending

- ) Foreign Exchange
- ) Trade Finance
- ) 365 Days Banking
- ) Debit Card
- ) Merchant Banking
- ) ATM (Automated Teller Machine) etc

Everest Bank Ltd. is moving towards to the consumer finance and providing different types of loans like; Home Loan, Home Equity Loan, Education Loan, Professional Loan, and Vehicle Loan etc.

#### **1.1.2.2 Nepal Bangladesh Bank Ltd. (NBBL)**

Nepal Bangladesh Bank Ltd. was established in 1993 AD and it commenced its operation on June 6 1994 under company act 1964 with an authorized capital of Rs.240 million and paid up capital of Rs.60 million the currently the bank has an authorized capital of Rs.359.9 millions as a joint venture commercial bank with International Finance Investment and commercials bank (IFIC) of Bangladesh in accordance with the joint venture and technical services agreement between it and Nepali promoters. Now it has 18 branches including main branch in Nepal. Its head office is situated at New Baneshwor, Bijuli Bazar, Kathmandu. The prime objective of this bank is to render banking services to the different sectors like industries, traders, businessmen, priority sector, small entrepreneurs and weaker section of the society and every other people who need banking services. During the period of 10 years of its operation it has been able to provide excellent services to its clients. The bank has introduced its first ATM facility at Kathmandu plaza, Putalisadak branch to give 24 hours 365 days banking services to their valued customers. The bank has earned the glory of providing the services to almost all the top business houses of the country and it occupies one of the leading positions among the joint venture banks in Nepal. The bank is still pursuing to accommodate as many clients as possible.

It provides following facilities and services to their customers:

- ) ATM (Automated Teller Machine)
- ) ABBS (Any Branch Banking System)
- ) Remittance
- ) Debit Card
- ) Credit Card
- ) Letter of credit

NBBL is also started to provide consumer banking services and facilities as per need and requirements of its customers, and started to provide Hire Purchase facilities, Education Loan and Home Loans at lower interest rate.

### **1.1.2.3 Kumari Bank Ltd. (KBL)**

Kumari Bank Ltd. was established in April 03 2001 as part of the policy of Nepal Rastra Bank's liberalization of the Nepalese Banking Industry. It has been established with an objective of providing a complete banking solution to customers backed by its state-of-the art infrastructure. Apart from its regular business loans, KBL is gearing itself up to offer a wide range of consumer banking product and services like; vehicle loan, education loan and home loans etc. At present it has 28 branches including main branch (head office) in Nepal. It was established fully investment made by Nepalese investors and its 100% equity is held by the Nepali promoters and public.

KBL is providing following facilities and services to their customers;

- ) Internet Banking
- ) Electronic Bill Payment System
- ) Mobile Banking
- ) Debit Card, Credit Card

## **1.2 Focus of the Study**

Investment is made by the commercial banks in various sectors contribute in economy to develop of the country. Commercial banks are providing loan of different sectors. As there has been numbers of commercial banks established in Nepal, The research has been taken into consideration of EBL, NBBL and KBL. The prime focus is a study of retail banking in Nepal with special study of three sample banks like EBL, NBBL and KBL. The study is particularly based on home loan. So, an independent study in this sector, wherein the facts regarding the available facilities put forward by three commercial banks are analyzed in detail, will help people find their way to the solutions for their investment for the home.

### **1.3 Statement of the Problem**

Government introduced the liberalization policy. Many banks, financial institution and other institution are established rapidly. These days many commercial banks, developments banks and financial institutions are operating their work to assist in the process of economic development in the country. Due to the high competition between the financial institutions, the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. So, it raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in utilization of collected funds and overall development of economy of the nation. Commercial bank can have sufficient liquidity and security. Though most of the commercial banks have been successful to earn profit from fund mobilization, none of them seem to be capable to invest their entire fund in more profitable sector.

The unplanned expansion of city, uncontrolled population growth, lack of basic facilities, raise in nuclear families and working couples have resulted a sharp increase in demand for “home” like dwelling places. But, the continued high rates of population growth, the commercialization and growing regularization of land markets, the constricted supply of mortgage financing, reduced household purchasing power the rising cost of imported building materials have made the access to these “homes” very difficult.

As the major motive of the commercial banks is to earn more profit, they want to disburse the deposits on loans and advance on different sectors. These days, most of the commercial banks are moving towards to the consumer financing. Home loan is one of the most importance sectors among the various consumer finances. Bank has to take minimum risk while providing home loans to the needy people. So, most of the commercial banks have been providing home loan to their

customer. The banks have been facing various problems while providing home loans to their customers. The present problems related to the home loan of the various commercial banks are;

1. What is the position of Home Loan of sample banks?
2. What is the proportion of Home Loan on Total Loan and Advance?
3. Does the relation between Total Loan and advance with respect to Home Loan is significant?
4. Whether they are able to provide Home Loan to their customer at lowest cost or not?
5. Is there easy accessibility for Home Loans providing by various financial institutions?

#### **1.4 Objectives of the Study**

For any kind of research work or study the objectives must be determined. It shows the way to achieve desired goals. The main objective of this research work is to examine, interpret and analysis the home loan procedures adopted by the three banks (i.e., EBL, NBBL and KBL). This study is also concerned with whether the banks are adopting efficient home loan policy or not. The general objectives related to this study are presented as below:

1. To examine the position of Home Loan of sample commercial banks.
2. To evaluate the relationship between Total Loan and Advances and Home Loan.
3. To analyze the trend of Total Loan and Home Loan.
4. To provide suggestions for the improvement of Home Loan schemes on the basis of findings.

#### **1.5 Significance of the Study**

Home loan is one of the important functions of the commercial banks in Nepal. It helps to grow the economic condition in a country. This study in this sector helps

several stakeholders, banking sector and researcher, individual who will carry out research work in commercial banks and who has been interested in Nepalese economy. The private sector who is constructing different home projects and even general people are still derived of owning their houses. So, an independent study in this sector will help people find the solution for the investment in their home.

The significance of the home loan can be written as the following manner:

1. By the help of this study, general public can know the home loan activities of the banks.
2. It is also beneficial for the government while formulating policies and rules regarding home loan.
3. The study of home loan would provide information to the management of the concern banks that would be helpful to take corrective action in the banks activities.
4. This study provides valuable information that is necessary for the management of the banks, shareholders, general public (depositors, customers, and creditors), and related parties.

### **1.6 Limitation of the Study**

The study and outcome of the study is individual's effort. Therefore management and resources mobilization are limit the in- depth study of few commercials banks operating the country.

For the completion of this study, following are considered as the limitations;

1. This study is based on primary as well as secondary data. Accuracy depends upon the data collected and provided by the banks.
2. This study has been carried out for the partial fulfillment of master's degree, faculty of management of TU. So the time and resource are major limitations of the study.

3. Only selected banks have been selected as sample for the study, i.e. EBL, KBL and NBBL.
4. As a title covers specifies the study covers only the home loan system of selected commercial banks. Its covers yearly data.
5. Resource, Time, money constraints and inaccessibility of sufficient information also limit drawn from study.
6. Evaluation is made through the analysis of financial statement published and presented by banks. While, providing suggestion, other performance of the organizations is fully neglected.

### **1.7 Organization of the Study**

This study has been divided into five chapters. They are Introduction, Review of Literature, Research Methodology, Presentation and Analysis of data and Summary, Conclusion and Recommendations.

#### **Chapter - I Introduction**

This chapter contains the introduction of the study, which includes the following topics;

1. General Background of the study
2. Statement of problems
3. Focus of the Study
4. Objectives of the study
5. Significance of the study
6. Limitation of the study
7. Plan of the study

#### **Chapter - II Review of Literature**

The second chapter is review of literature, which contains conceptual framework, review of previous thesis, research paper and published and unpublished master's thesis of T.U.

### **Chapter - III Research Methodology**

The third chapter is concerned with the research methodology, which is applied to collect the data and analyze them in this study. It consists of the following topics:

1. Introduction
2. Research design
3. Source of data
4. Population and sample
5. Method of analysis and presentation

### **Chapter IV Presentation and Analysis of Data**

The fourth chapter is analyzing chapter, which deals with presentation and analysis of relevant data through definite course of research methodology with financial and statistical analysis related to Home Loan of related banks.

### **Chapter V Summary, Conclusion and Recommendations**

The fifth chapter is the last chapter of the study, which concerned with the summary of the data, conclusion and recommendations of the study for the implementation in the future. Finally, an extensive, bibliography and appendices are also presented at the end of this thesis work.

## **CHAPTER - II**

## **REVIEW OF LITERATURE**

This chapter is basically concerned / related with review of literature relevant to the topic “A Study on Retail Banking (with Reference to Home Loan) of EBL, NBBL and KBL.” Every study is very much based on the past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies. This chapter describes the conceptual framework and highlights the literature that is available in concerned subject as to my knowledge.

### **2.1 Conceptual Framework**

Basically, conceptual framework describes the following terms, which are closely related to the research work;

#### **2.1.1 Meaning of Retail Banking**

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current / savings accounts on the liabilities side; and mortgages, loans (e.g., home, travel, personal, home, auto, and educational) on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services.

Retail banking refers to the mobilization of deposits mainly from individuals and lending to small business and in retail loan markets. It consists of large volume of low value transactions. Its liabilities are mostly related to various types of deposits account and the loan portfolio is dominated by the customer loans. Retail banking deals with large number of customers with low value of transaction. As the

processing cost is high in retail banking, higher interest spread is maintained in transaction.

Retail banking was viewed primarily as a cost centre and source of low cost deposit. But, these days, retail banking represents a major source of competitive strength for the banking industry, as it is a point of direct customers contact. Retail services are uniquely positioned to help banks develop strong long-term relationship with targeted customers and thus differentiate themselves from competitors. Banks look up to retail lending as a possible avenue to augment business in the current context.

Consumer financing encompasses extension of loans for consumer durable goods, education loans, finance for travel, medical expenses etc. Demand for loans for acquisition of TV, fridge, washing machine, air-conditioners, etc., is on the rise. Banks also offer loans through tie-ups with manufacturer or distributors of such products. Some of the factors that contribute to the growth of auto finance are lower interest rates, poor public transport system, increasing income levels of the people, and availability of finance for even second-hand cars.

In retail banking even product to be offered to the customer needs to be well defined, easily serviceable and potentially profitable.

#### **2.1.1.1 Present Status of Retail Banking in Nepal**

Entry of more number of banks in the market has created intense competition in the banking industry. This has led the banks to operate under thin interest spreads, declining margins and rising costs. This was not the case until two years ago. Banks were getting a lot of business because of expansion in the economy. Consumer finance was not a favored subject for them. They were keen to finance industrial and trading activities.

However, with slowdown in the economic activities in the recent past, banks became selective in their lending operations as lending to industrial and trading activities as working capital and term loan requirements. Because of uncertainty in the economic environment.

Banks are now trying to reduce their risks by diversifying their portfolio and having a thrust on short-term retail earnings rather than blocking funds in riskier medium and long-term loans. Some banks developed consumer finance and housing finance product to attract rich middle class people and the people having fixed source of income and increase lending business. In the present competitive banking environment, differentiated products are an effective method of gaining competitive advantage.

Customer service is one of the most important dimensions of retail banking. Public sector banks compare very poorly with the private sector banks when it comes to the efficiency in services. In order to improve the speed of service the bank should improve the rapport between the controlling offices and the branches to ensure that decisions are communicated fast so that processing is faster.

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Consumer financing encompasses extension of loans for consumer durable goods, education loans, finance for travel, medical expenses etc. Demand for loans for acquisition of TV, fridge, washing machine, air-conditioners, etc., is on the rise. Banks also offer loans through tie-ups with manufacturer or distributors of such products. Some of the factors that contribute to the growth of auto finance are lower interest rates, poor public transport system, increasing income levels of the people, and availability of finance for even second-hand cars. In fact on account of liberal financing by banks, import of passenger cars, motorcycles and scooters, has registered good growth.

In retail banking, one of the major problems faced by the banks is the queue problem. The size of queuing will differ from hour to hour and day to day. To overcome this obstacle, banks must ensure that adequate staff is available to man all the branches.

### **2.1.2 Role of Commercial Bank on Home Loans**

The rising costs of land and building materials have also made access to home more difficult. Shortages and speculative practices have helped drive up the prices of urban land. Lack of foreign currency reserves and tightening world credit conditions have constrained the importation of building material components and ingredients, thus helping to create domestic shortages and, together with the effects of currency devaluation, driving material prices up. Also, home and rental scarcities, induced by the continuing to the informal shelter sector, have made access more difficult and expensive than need be. Under these circumstances of increasing demand for home facilities but deteriorating financing choices and decreasing purchasing power has created an immense void for proper home loan scheme. Considering these demands, most of the banks are to provide Home Loan.

Due to the growth on banking sector in Nepal and huge competition, opportunity for investment are comparatively losses. The main function of commercial bank is to collect deposits from the depositors and to invest on profitable sectors by avoiding risks. These days, the commercial banks are moving towards the micro financing sectors like; Auto loan, Education loan, professional loan and home loan etc, because of low risk and lack of proper and secured investing sectors. Home finance is one of the important investing sectors of financial institution. These days, most of the commercial banks and other financial institutions are providing home loan, which helps to develop the home in Nepal.

According to statistical review all together there are 30lakhs houses in Nepal, among which 27lakhs constitute houses in rural areas and remaining 3lakhs in urban cities.

Residential flats/ apartments which can be listed as below in Table 2.1

**Table 2.1**  
**List of some Residential flats/ Apartments**

<b>Name</b>	<b>Location</b>	<b>Types</b>	<b>Price</b>	<b>Total investment</b>
Sunrise Home	Balkumari	Flat/Independent / Duplex Home	Rs.16-37lakhs	Rs.25crores
Civil Homes	Bhainsapati	Independent Home	Rs20-29lakhs	Rs.15.5crores
Mount View Residency	Harisaidi	Independent/ Duplex Home	Rs.19-25lakhs	Rs11crores
Oriental Colony	Kuleshwor	Flat	Rs.7-15lakhs	-
Mount view Residency 2	Hattiban	Flat	Rs.13-17lakhs	Rs.20crores
Shangri-La Villa	Gongobu	Flat/ Independent Home	Rs.12-29lakhs	Rs.6crores
Comfort Homes	Sitapaila	Independent Home	Rs. 33 lakhs	Rs. 30 crores

*Source: www.nepalhomepage.com*

### **2.1.2.1 Policy Guidelines on the Establishment of the Commercial Banks**

Receiving applications for the establishment of commercial banks have been stopped since 1995. Visualizing that such an administrative restriction is not in conformity with the liberal financial policy, the following new policy guidelines have been made public on 16<sup>th</sup> May 2003:

#### **Paid up Capital**

To establish a commercial bank of national level, joint investment with foreign bank and financial institution or a management contract at least for 3 years with such institutions is required. The paid up capital of such bank must be at Rs. 2000 million.

#### **Share Capital**

In general, the share of commercial banks will be available for the promoters (70 percent) and general public (30 percent). The foreign banks and financial institutions could have a maximum of 67 % share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70% and 30% respectively.

#### **) Legal Procedure**

Banks to be established with foreign promoters, participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.

#### **) Banks Already in Operation**

Banks that is already in operation and those who have already acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e. by 16 July 2009, as per the recently declared provision. Such increase in the capital should be at a rate of 10 percent should be at the minimum.

### **) Concerning up gradation**

Banks to be established outside Kathmandu Valley could be allowed to operate throughout the Kingdom including Kathmandu Valley only on the condition that they have brought their paid up capital level to Rs. 2000 million and also fulfilled other prescribed conditions. Until and unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu Valley.

#### **(1) Promoters Share Payment Procedure**

Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the time of receiving the letter of intent on a interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the bank comes into operation. Normally, within 4 months from the date of filling the application, NRB should give its decision for the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.

#### **(2) Promoters Qualification and Experience**

Action on the application from promoters will not be initiated if it is proved that their collateral has been put on auction by the bank and financial institutions as a result of non-payment of loans in the past, who have not cleared such loans or

those in the black list of the Credit Information Bureau and 5 years have not elapsed from the date of the removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved. Of the total promoters, one-third should be its chartered accountant or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, one-fourth promoters should have the work experience of bank or financial institution or similar nature.

### **(3) Promoters Share**

Promoter Group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of 3 years from the date it has been registered in the Stock Exchange. But before the disposal of such shares it is mandatory to get approval from NRB. The share allotted to general public has to be issued and sold within 3 years from the date the bank cannot issue bonus shares or declare and distribute dividends, shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution.

### **(4) Branch Expansion**

The commercial banks established in national level will initially be authorized to open a main branch office in Kathmandu Valley. They will be authorized to open one more branch in Kathmandu Valley only after they have opened two branches outside the Kathmandu Valley.

### **(5) Disqualify from Becoming Director**

An individual who is already serving as a director in one of the bank or financial institutions licensed by NRB cannot be considered eligible to become the director in other banks or financial institutions. Also, stock brokers, market makers and

also an individual and institution involved as an auditor of the bank and institutions carrying on financial transactions cannot be a director.

### **2.1.3 Investment**

Jams B. Bossley express his view as, “Investment policy fixes responsibilities for the investment disposition of the bank’s assets in terms allocating funds for investment and loan and establishing responsibility for day to day management of those assets.”

J.K. Francis saying, “An investment is a commitment of money that is accepted to generate additional money. Every investment entails some degree of risk it requires a present certain sacrifice for a future uncertain benefit.”

Cheney and Moses said, “Their investment objective is to increase systematically the individuals wealth defined as asset minus liabilities. The higher the level of desired wealth the higher the must be received. As investor seeking higher return must be willing to take higher level of risk.”

Investment by individual, business and government involves a present sacrifice of income to get on expected future benefit. As result investment raises a nation’s standard of living.

V.K. Bhalla:(2001), has given the basic concept of investment in three points. They are as follows;

1. Economic investment that is an economist definition of investment.
2. Investment in a more general or extended sense, which is used by “the man of the street.”
3. The sense in which we are going to be very much interested normal financial investment.

From the above definitions we can conclude that investment means use of rupee of amount today by expecting more income in future. If someone invests his/her fund

today, he/she expects financial benefits in future from mobilization of their fund. The value of investment in future increases. The commitment takes place at present the future always remains uncertain. The return sometimes may be negative, if investment is made wrongly.

#### **2.1.4 Features of Sound Lending and Investment Policy**

Income and profit of the financial institutions like; commercial banks and finance companies depend upon its lending procedure, lending policy, investment policy of collected fund in different securities. The greater the credit credited by the banks higher will be the profitability. Some required features of sound lending policy and investment policies are explained as below;

##### **(a) Safety and Security**

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those of companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied while making investment on any sector.

Where,

M=Marketability

A=Ascertainability

S=Stability

T=Transferability

##### **(b) Liquidity**

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different

accounts having full confidence of repayment by the banks wherever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

**c) Profitability**

To maximize the return on investment and lending position, financial institution must invest their collected fund in proper sectors. Finally they can maximize the volume of their wealth. Their return depends upon the interest rate, volume of loan, its time period and nature of investment on different securities and sectors.

**(d) Purpose of Loan**

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have bad debts. So they should collect detailed information about the plan and scheme of the borrowing.

**(e) Legality**

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be last.

**(f) Tangibility**

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly does not yield on income apart from intangible securities, which have lost their value due to price level inflation.

**(g) Diversification**

A firm can invest its deposit collection in various securities in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

### **2.1.5 Meaning of Some Important Terminology**

#### **Assets**

Assets are the valuable and important properties of the firm and represent economic resources. All the assets should be measured in monetary term, which help to earn future benefits to an organization such as; building, debtors, marketable securities, patents, goodwill, etc. In the firms, there may be tangible and intangible assets as well as fixed and current assets to run the activities properly and for the smooth operation.

#### **Liabilities**

Liabilities are the amount of debt payable in future by the firm to its creditors. Liabilities represent the obligations to make payments through cash of bank or provide goods and services in future; e.g. creditors, bills payable, loan, outstanding expenses, overdraft etc.

#### **Balance sheet**

Balance sheet is a financial statement, which is prepared at the end of each accounting year, which contains assets liabilities, owner share capital. It shows the actual financial position of the organization, the efficiency of all assets and liabilities separately. Broadly speaking, it shows three things, they are; the nature and value of assets, the nature and value of liabilities and the position of capital.

## **Income Statement**

It is a statement, which summarizes and provides the information about revenues and expenditure of the organization during the accounting period. It contains real income and expenditures during the fiscal year. Income statement contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and selling and distribution of the goods for the particular accounting period which gives the amount of net profit.

## **Off Balance Sheet Transaction**

Off balance sheet transactions are the future agreements concerning with bills purchase, letter of credit and guarantee which are treated as liabilities.

## **Share**

The part of capital owned by a shareholder is called share. These shares are transferable in nature. Thus, any person can be the member of the company by purchasing the certificates of investment on company and could withdraw his/her shares. In Joint Stock Company total amount of capital is divided into the number of shares through which company can collect capital.

## **Bond**

A bond is the source of long term financing or long term promissory note issued by an organization under which borrower agrees to pay interest as well as principle on specific date to the lender. It is of two types; i.e. mortgage bond, and debenture.

## **Securities**

Securities are the main sources of long term financing which involves shares and debentures issued by the company or government and redeemed in future with interest.

## **Deposits**

Financial institutions collect deposits from the customers in various accounts like current account, saving account, and fixed deposit account. Therefore the sums of money collected by the financial institution from the depositors in various accounts are called deposits. Deposit is the main source of fund of the financial institutions.

## **Loan and advances**

Loan and advances, and overdraft are the main sources of income for a firm. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdraft will never cross it. Commercial banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs to the banks as home loan, vehicle loan, personal loan and others.

## **Liquidity Position**

It is the states of owing things of value that can easily be changed into cash. Liquid assets determine the liquidity position of the organization and higher the liquidity assets, better would be the liquidity position.

## **Interest**

Interest is that additional source of money of charged on borrowing or paid to someone who borrows money from the banks or other financial institutions or moneylenders. It is an opportunity cost on sacrificing the saving from own state for certain period.

## **Retained Earning**

It is the certain portion of the firm's earnings, which is kept for the future use or contingencies. It is an internal source of financing.

## **Variance**

The square of standard deviation is called variance and it is denoted by  $\sigma^2$ . It is one of the statistical tools, which is used to analyze the data for the study.

## **Standard Deviation**

Standard deviation is the positive square root of the mean of the deviations taken from the arithmetic mean, which measures the variability of a set of observations. It is usually denoted by the  $\sigma$ .

## **Mean**

A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted  $\bar{X}$ . The formula is;

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

## **Co-efficient of variation**

Co-efficient of variation (C.V.) is the proportion of standard deviation with mean and multiplied by 100. It can be defined by;

$$CV = \frac{\sigma}{\bar{X}} \times 100\%$$

## **Correlation**

Correlation is one of the statistical tools, which measures the relationship between or among the variables, which does not explain the causes and effects relationship between the variables. It explains that two variables are correlated if the change in one variable results in a corresponding change in the others. It can be categorized into two groups i.e. Positive correlation and Negative correlation.

### **2.1.6 Consumer Lending and Borrowing**

Among the most important of all financial markets are the markets providing savings instruments and credit to individuals and families. Many financial analysts have referred to the period since World War II as the age of consumer finance of loanable funds flowing into the financial markets today but system. Moreover, the market for consumer financial services is the one market that everyone, regardless of profession or social status, will enter at one time or another during his or her lifetime.

#### **2.1.6.1 Consumers as Lenders of Funds**

Each of us is a consumer of goods and services virtually every day of our life. Scarcely a single day passes that we do not enter the marketplace to purchase food, shelter, entertainment and other essentials of modern living. We are also well aware perhaps from personal experience, that consumers often borrow heavily in the financial marketplace to achieve their desired standard of living. The groups of consumers are the most important lenders of funds in the economy. Consumers supply loanable funds, when they purchase financial assets from the other units in the economy.

The most important household financial asset today is pension fund reserve, built up by individual workers to prepare for their retirement. An aging population has shown great concern in recent years that sufficient funds will be available when they retire to sustain their living standards. In second place are holdings of corporate stock (equities) led by a dramatic rise in holdings of shares in mutual funds (investment companies). The recent growth in household's common stock investment appears to reflect continuing fears about inflation. Then, too many individuals are concerned that, when they reach retirement, social security and other government pension programs will be inadequate to cover spiraling medical expenses and other living costs in their later years.

In third place among household holdings of financial assets are deposits in banks, saving and loan associations, credit unions, and other thrift institutions. The importance of deposits in consumer financial investment is increasing these days. There has also been a significant rise in household investments in small businesses, which are often owned and operated by an individual or by a member of same family.

#### **2.1.6.2 Categories of Consumer Borrowing**

The range of consumer borrowing needs is enormous loan to the household sector support a more diverse group of purchase of goods and services than is true of any other sector of the economy. Consumer borrow long term loan to finance purchases of durable goods, such as single-family homes, automobiles and home appliances. They usually borrow short term to coven purchases of non-durable goods and services, such as medical care, vaccines, food and clothing. Financial analysts frequently divide the credit extended to consumers into three broad categories.

1. Residential Mortgage Credit, used to support the purchase of new or existing homes.
2. Installment Credit, used primarily for long term non-residential purpose; and
3. Non-installment Credit, used for shorter-term cash needs.

For and away the dominant from of consumer borrowing is aimed at providing shelter for individuals and families through mortgage loans. The volume of home mortgage credit flowing to households has grown rapidly in recent years with the attractiveness of home ownership as a tax shelter and with recent tax reforms that favor loans secured by the borrower's home.

Installment credit is the second major component of consumer debt. Installment debt consists of all consumer liabilities other than home mortgages that are relieved

in two or more consecutive payments usually monthly or quarterly. Lenders in this field extend four major types of installment credit: automobile credit, revolving credit, mobile homes and other consumer installment loans. This kind of credit, including the purchase of furniture and appliances, the payment of medical expenses, the purchase of automobiles, and the consolidation of outstanding debt, finances an incredibly wide variety of consumer goods and service.

The final major category of consumer debt is non-installment credit, which is normally paid off in a lump sum. This form of consumer credit includes single payment loans, charge accounts, and credit for services, such as medical care and utilities. The total amount of non-installment loans outstanding is difficult to estimate because many such loans are made by one individual to another or by department stores, oil and gas companies and commercial banks, however, make a substantial volume of non-installment loans to consumers and are considered the lending lender in this field.

### **2.1.6.3 Home Equity Loans**

One new form of consumer borrowing that is closely related to residential mortgage credit is home equity loan. Like traditional home mortgages, a home equity loan is secured by a borrower's home. However, unlike traditional home mortgages many home equity loans consist of a rearranged revolving credit line the borrower can draw on for purchases of any goods or services he or she wishes in varying amounts over the life of the credit line. So the consumer can literally or presenting a credit card for purchases made up to a stipulated maximum amount known as the borrowing base. The borrowing base usually equals the difference between the appraised market value of the borrower's home and the unpaid amount of the mortgage against that home multiplied by a fraction (of 70%).

Most home equity loan rates are linked to the bank prime interest rate plus an extra margin for risk (i.e. a flotation loan rate). The consumer protection act of 1998 prohibits a home equity lender from canceling a loan unless fraud, failure to pay, or other violations of the loan contract occur. Thus for, most home equity loans have been used to pay off other debts, make home improvements buy automobiles or finance an education.

Home equity credit has proved to be especially attractive to consumer lending institutions for a variety of reasons. These loans tend to have a lower rate of default because borrowers tend to feel more responsible when their home is pledged as collateral and that collateral tends to have more stable value. Moreover the cost of making home equity is substantially lower than the cost of a series of short-term loans made to the same customer. In addition, these loans usually carry rates that adjust to the market, whereas, many other consumer loans have fixed interest rates. Finally home equity credits help the lender to build a working relationship with a customer better than most other types of consumer loans, creating more opportunities for the lender to sell that customer additional services.

The borrower can repeatedly borrow, repay and borrow again because most home equity credit lines are revolving credits. However, if the borrower cannot make the loan payments his or her home may be repossessed and sold to pay back the lender. Many financial experts recommended that consumers use home equity credit with caution, particularly when their future employment prospects are uncertain.

#### **2.1.6.4 Consumer Lending Institution**

Financial intermediaries-banks, saving and loan associations credit unions, and finance companies-account for most of the loans made to consumer in the economy. Intermediaries also dominate the market for non-installment credit and

make the bulk of home mortgage loans. Although each type of financial institution prefers to specialize in a few selected areas of consumer lending, there has been a tendency in recent years for institutions to diversify their lending operations. One important result of this diversification has been to bring all major consumer lenders in to direct competition with each other.

**(i) Commercial Banks**

Commercial banks are the most important consumer lending institution. Commercial banks approach the consumer in three different ways by direct lending, through purchases of installment paper from merchants, and by making loans to other consumer lending institutions. Roughly half of all bank loans to consumers consist of mortgages to support the purchase, construction or improvement of residential dwellings; the rest consist of installment and non-installment credit to cover purchases of goods and services. In the mortgage field, commercial banks usually prefer to make long-term permanent loans for family home.

Banks make a wider variety of consumer loans than any other lending institution. They grant almost half of all auto loans extended by financial institutions to consumers each year. However, most bank credit in the auto field is indirect-installment paper purchased from auto dealers-rather than being made directly to the auto-buying consumer. Moreover, bank's leadership in auto lending has been challenged in recent years by finance companies and credit unions. Indeed, in recent years by finance companies and credit unions. Indeed, in many forms of consumer installment credit today, the lead of commercial banks is threatened by challenged from aggressive non-bank lenders who see the consumer market as a key growth area for the future.

**(ii) Finance Companies**

Finance companies have a long history of lending in the consumer installment field providing funds directly to the consumer through thousands of small loans offices and indirectly by purchasing installment paper from auto and appliance dealers. These active household lenders provide auto loan and credit for home improvements and for the purchase of appliances and furniture. Finance companies often face state-imposed legal limits of the interest rates they can charge for household loans and on maximum loan size.

### **(iii) Other Consumer Lending Institutions**

Other Consumer installment lenders include credit unions, saving and loan associations, and saving banks credit unions make a wide variety of loans for such diverse purposes as purchase of automobiles, home repair and more recently mortgage credit for the purchase of new homes. Also important in the consumer loan field in recent years have been savings and loans and savings banks, which experienced dramatic growth in consumer lending but more recently have faced much slower growth and even decline due to inadequate capital and the public's fears about the long-run soundness of some of these institutions.

Although these institutions have long been dominant in residential mortgage lending, they have moved aggressively to expand their portfolios of credit card, education, home improvement furniture, appliance and mobile home loans over the past decade.

## **2.2 Reviews of Previous Studies**

### **2.2.1 Review of Unpublished Thesis**

There are very few thesis and research work of the same kind and in same field in Nepal, to knowledge of the researcher, various master level thesis conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, investment policy etc. These theses are

more or less related to the field of this study. The review and the extract from them are presented below.

**Sindhu Dhakal (2008)**, in her thesis study entitled, “*Investment Policy of Commercial Banks in Nepal*” has tried to examine the collection of resources utilization of those resources and collection of resources utilization of those resources and investment sectors. She has concluded in the last section that commercial banks should be able to generate capital. Otherwise lower capital formation hampers economic development of the people and whole country. So they must give more preference for collection and utilization of fund properly.

Her study is not concerned with home loan. She has tried to show the position of deposit collection and lending them, other factors are not analyzed. Her study period is up to FY 1996/97. Therefore her findings cannot represent the lending position of the commercial banks after FY 2002/2007.

**Man Bhadur Ranabhat (2008)**, in his thesis, “*An Analysis of Financial Performance of Finance Companies in the Context of Nepal*” has included the objectives of fund mobilization and investment on different sectors of finance companies, how the finance companies are utilizing their funds through home loans, hire purchase loan, how they are investing in government securities, share and bond of other companies. Finally, he found that,

- ) Finance companies are using their fund on hire purchase loan in decreasing trend.
- ) The use of funds towards housing loans is also gradually decreasing.
- ) They are providing term loan in increasing way.
- ) The fund used by finance companied is increased towards leasing with increasing rate.
- ) Investment on government securities is in increasing rate.

On the basis of above findings he has recommended the following suggestions

- ) Finance companies are providing several financial services. The uses of funds toward hire purchase and hanging financing must be shifted towards the business financing. They have to prepare good investment policy, credit strategies to form adequate capital for overall development.
- ) The unhealthy competition of interest rate towards finance companies for the collection of deposits should be avoided.
- ) They need strong supervision and control of finance companies by Nepal Rastra Bank.
- ) They should have a good cooperation and collect the public confidence.
- ) The finance companies have to prove it to the country that they
  - can really contribute to the national economy
  - are efficient to mobilize their deposits
  - Is trust worthy?

He has mainly focused the study on financial performance of finance companies of Nepal. He has not mentioned comparative study and investment policy. He has mainly focused the lending policy of finance companies on hire purchase loan, house loan and leasing etc. His study period is up to FY 2002/07, which cannot explain the result after 2002/07.

**Manoj Thapa** in his study entitled, “*Comparative Analysis of Loan - Investment Portfolio of Selected Commercial Banks of Nepal*” has concluded followings.

- ) Rates of commercial banks have been fluctuating. Deposits and lending rates were increased immediately after liberalization of the interest rate on August 31, 1996 but, however, started to decline, which have helped in increasing the credit flow.

- ) Interest rate structure has direct influence on profitability of commercial banks. Decreasing lending rate helps to increase the profitability through increasing the credit amount.
- ) Deposits are more interest rate conscious and positively correlated.
- ) Loans and advances of commercial banks have been found to be continuously increasing with the decline interest rates.
- ) Effective interest rate structure helps in proper utilization of resources as measured by loan to deposit ratio.
- ) Most of the banks are having similar interest rate structure, which lessens the importance of liberalization of interest rate.

**Sabina Bhattarai (2009)**, on the “*Impact of Interest Rate on Financial Performance of Commercial Banks*” concludes,

- ) Most of the commercial banks contradict the general financial theories.
- ) The relation between amount of deposits and interest rate on deposits, in general concept, must be positive. But deposits are increasing despite the decrease in the general level of interest. The result of such phenomenon is that there are fewer investment opportunities for the banking sectors as well as general investors.
- ) The relationship between total amount of loan and the lending rate is negative and significant. However, the change in the total amount of loan flow is not proportionate with the change in the lending rate.
- ) Correlation between interest rate and inflation is not significant.
- ) Not only interest rate is responsible to shape the profitability of banks but also the operation efficiency also has major influence on it.

**Pradip Kr. Shah (2009)**, entitled “*A Study on the Investment Portfolio of Joint venture Banks of Nepal*” has highlighted the following objectives to complete the study.

- ) To study the mobilization of fund and investment Portfolio
- ) To evaluate the liquidity, efficiency of asset management and profitability position, growth ratios.

In this study, he has concluded the following findings

- ) Mean current ratio of SCBL is slightly higher than that of other banks i.e. NABIL and HBL. Liquidity position of SCBL is less than that of the other two JVBs.
- ) Mean of cash and bank balance to current ratio of SCBL is less than of NABIL and HBL.
- ) Mean of loan and advances to total deposit ratio of SCBL is less than that of other two JVBs.
- ) Mean of investment on government securities to working fund ratio of SCBL is better than that of other two JVBs.
- ) SCBL has the largest profit margin in comparison with other two JVBs.
- ) Growth ratio of SCBL and NABIL is negative but it is found that HBL has increasing growth ratio.

Finally he has presented the following suggestions.

- ) JVBs should extend their services to rural areas and priority sector of the kingdom.
- ) JVBs should increase cash and bank balance to meet the need of investment and demand of loan and advances.
- ) JVBs should follow the liberal lending policy.

Tuladhar has also recommended investing their funds in the purchase of shares and debenture of other financial non-financial companies, hotels and debenture of other government companies. His study period is up to 1999/00, which cannot represent the investment policy of succeeding fiscal year.

**Dipak Adhikari (2010)**, in his thesis entitled, “*A study of Fund Mobilization of Selected Commercial*” has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So that he has suggested that all commercial banks should give preference on long term lending sectors for the better utilization of the deposits and improvement of their existing situation.

He has also tried to show the deposit position and utilization. He has not explained the risk factor. His main focus is deposit collection, which cannot show and analyze the financial position, proper lending and investment policy. His study period is up to FY 2004/09, which cannot show deposit position and its utilization for succeeding years.

### **2.2.2 Review of Research and Articles**

#### **Study undertaken by the Nepal Housing Development Finance Company**

The Nepal Housing Development Finance Company (NHFDC) is one of the pioneers in the field of housing finance Nepal. It will be of great importance to put light to the studies undertaken by them. The NHFDC was established in March 1990 under the finance companies Act of 1985. Its six founding institutional shareholders signed a memorandum, and subscribed a total of Rs. 18 million in share capital, all of which had already been paid in.

The goal of the NHDFC has been to become a financially sustainable and efficiently managed housing finance organization with a social obligation. The main objectives of the NHFDC are:

1. To mobilize financial resources to be channeled to the housing sector.
2. To supply interim and long term loans for the purchase construction, improvement, expansion and completion of houses and for the purchase of land.
3. To expand NHDFC operations to other cities in Nepal.
4. To introduce innovative savings programs to complement the lending efforts.
5. To introduce additional lending programs to serve a wider range of families.

Initially, NHDFC implemented a basic lending program to be called the Experimental Lending Program (ELP). The ELP was with Rs.2 million plus in retained earning held by made available about Rs.10 million to extend the program to other qualified borrowers.

A household Survey Studied by the institution revealed that families rely on cash saving as the most important source of funding for the purchase of land for housing and for home construction. Savings as the principal source of funding were almost three times as large as the second most common source the sale of land. Other important sources include loans from employees, sale of ornaments; remittances and the sale of one house to by another. Bank loans are a less important source, however, when added to loans from employers, these two formal sector sources accounted for about 15 percent of the funds for home and land finance.

It is rare in Nepal for a family to finance the construction of a home from only one of the many sources mentioned. A typical family would use funds from four or five sources only one of which might be an employer or bank loan, with an

average of 85 percent of the funding coming from personal savings or the informal sector institutions now involved in providing some sort of financing.

## **Loans Power Home Growth**

For an individual with a regular income, owning a house is no longer a distant dream in Nepal. Boom in consumer finance in recent years leads to change in urban living patterns and rapid growth in the purchasing power of the middle-class people. The Equated Monthly Installment (EMI) repayment method with repayment period of up to a maximum of 20 years has also been a driving force. Through interest rates vary from bank to bank, the nature of home loan is; common-purchase of a house or apartment, construction, renovation/ extension, and purchase of land. Till four to five months bank, private sector banks and financial institution were the only players. But entry of the two largest public sector commercial banks, Nepal Bank Ltd. And Rastriya Banijya Bank, in the consumer-financing sector has added fuel to the fire.

RBB is offering house loans at an interest of 7.5 percent to 10 percent per annum up to a maximum period of 20 years. Nepal Industrial & Commercial Bank recently introduced its much-acclaimed scheme, 'NCC Ghar Subidha', which the bank claimed, is unprecedented in Nepal. The interest rate of 6.99 percent on refinancing and 7.49 percent n new loans, offered by the bank is the lowest one as of how under the house loan scheme. NIC Bank is providing up to 110 percent money for construction and renovation with a maximum loan repayment period is 20 years. The total loan amount ranges from Rs.5 million to Rs.15 million.

Himalayan Bank Ltd. (HBL) has been aggressively offering various consumer loans as required by individuals, helping people realize their dreams, says Sabina Dangol of HBL.A according to her, HBL house loan ranges from Rs.0.5 million to Rs.3.4 million, the maximum repayment period being 15 years. However, the loan amount could go up depending upon the value of collateral and disposable income of customer. Lumbini Bank Ltd (LBL) is also eyeing the market and planning to introduce house loans with refined features very soon. Under the scheme, the bank

plans providing loans of up to Rs. 10 million for a maximum period of 15 years. The interest rates will be ranging from eight, nine to 10 percent for five, 10 and 15year repayment period respectively, informed Pradhan, The present boom in coming days, too. Construction will certainly continue to grow, whatever might be the country's economy.

**Table 2.2**  
**List of the Builders at Work**

<b>S.N</b>	<b>Builders at Work</b>
1	Ace Apartment
2	Annapurna Developers
3	Ansal Chaudary Developers
4	Civil Homes
5	Comfort Housing
6	Dome housing
7	Euro Housing and Developers
8	Grace Apartment
9	Greenwood Villas
10	Indrani Apartment
11	Jaulakhel Real Estate and Housing
12	Kusunti Housing
13	KC Constrictions (Pokhara Homes)
14	Rapid Development
15	Saligram Apartments
16	Shangrila Villa
17	Subbha Avas
18	Oriental Construction and Development
19	Valley Homes

*Source: - The Himalayan Times, July 29, 2010*

**Table 2.3**

**List of Banks Providing Home Loan and their Interest Rates**

<b>S.N</b>	<b>Name of the Banks</b>	<b>Interest Rate on (%) per annum</b>
1.	NABIL Bank Ltd.	10 – 12
2.	Himalayan Bank Ltd.	11 - 12.5
3.	Krist Merchant Bank Ltd.	12 - 14
4.	Kumari Bank Ltd.	12 - 13
5.	Nepal Investment Bank Ltd.	14 - 15
6.	Bank of Kathmandu Ltd.	9.5 - 11
7.	Nepal Bangladesh Bank Ltd.	12 – 15.5
8.	NIC Bank Ltd.	10 - 12
9.	Sanima Bank Ltd.	11 - 13
10.	Laxmi Bank Ltd.	10 - 13
11.	DCBL Bank Ltd.	12 - 15
12.	Standard Charter Bank Ltd.	9 – 12
13.	Everest Bank Ltd.	10 -12

*Source: Concerned Banks' Website*

Housing finance – a study undertaken by Department of International Economic and Social Affairs on Housing and Economic Adjustment

In the formal sector, an aspect of housing cost that is even more important than its price is the manner in which the price is paid. With this precept in mind, housing finance systems have been viewed in most countries as the key to making conventional housing affordable. Given the nature of their lending, however such institutions have generally been fragile and selective and in recent years have come under enormous pressures. Many are a virtual casualty of crisis generated by external debt burdens, an unfavorable fiscal and monetary environment, high and fluctuating rates of inflation, and stagnating or declining real household incomes. Although examples exist of housing finance systems that are currently healthy and thriving, that does not appear to be the case for those undergoing adjustment policies. The study on Housing and Economic Adjustments undertaken by

Department of International Economic and Social Affairs, United Nations in the year 1988 indicates the above facts.

Housing finance mechanism includes specialized circuits that rely on government transfers, intermediaries that borrow short on a voluntary basis and institutions that rely on mandatory worker schemes and provident funds for resources. Whether the result of inflation or reduced available finance, all are showing signs of contraction.

The study further shows that in keeping with public sector efforts to reduce domestic deficits, service external debt and limit monetary emission mortgage lending that passes through special circuits on a subsidized basis is at risk of being severely curtailed in many countries. As a consequence although interest rates are low, the availability of mortgage money to lend is generally limited and increasingly rationed in an arbitrary and regressive manner.

Housing entities that draw upon social security funds workers schemes and the like have also experienced severe problems in recent years. Some of those funds have been deeply drawn down as growing numbers of dismissed workers collect benefits, the first wave of pensioners comes of age and because of the losses of some housing operations through policies of negative real interest rates and their growing delinquency levels in payments.

In more recent years credits have been obtained mainly from multilateral and bilateral agencies. In the 1980s official development assistance for housing and related infrastructure projects has ranged from \$800 million to \$1 billion annually, amounting to approximately 2% of all official external assistance. The United States Agency for International Development (USAID) continues to provide support to housing finance systems and the International Finance Corporation has recently become involved in the creation of new secondary mortgage facilities.

## **Wholesale Vs Retail Banking**

Wholesale banking refers to dealing with large corporate customer often-multinational companies, governments or government enterprises. Wholesale banks usually deal with small numbers of customers with large valued transaction. They mobilize the funds from and lend funds to the business undertakings. Wholesale banking is the term used for transactions between banks and large customers involving large amount of money. It includes the transactions, which the banks conduct with each other via inter-bank markets separate from customers. On the other hand, retail banking refers to the mobilization of deposits mainly from individuals and lending to small business and in retail loan markets. Retail banking consists of large volume of low value transactions. Retail banking liabilities are mostly related to various types of deposits accounts and the loan portfolio is dominated by the consumer loans.

Wholesale banking is characterized by a narrow client base but large size of transactions per customer. Large size of deposits and loans from few customers result in low cost of processing and encourages bank to have lower spreads. On the other hand, retail banking deals with large number of customers with low value of transactions. As the processing cost is high in retail banking, higher interest spread is maintained in the transaction.

Retail banking requires a moderate level of customer relation. While most of the banks offer the same range of service with similar technology, the level of customer service matters the most in bringing in more business. Dedicated, highly professional junior and middle management supported by senior management could contribute to the success of retail banks. In retail banking, each product to be offered to the customer's needs to be well defined, easily serviceable and potentially profitable.

While information technology has contributed to major upheaval in wholesale banking, its impact on retail banking has been relatively limited. Corporate clients are more familiar with automated environments, which will facilitate more automation and creation of paperless office. Technology-based delivery channels such as automated teller machines (ATMs) did not fundamentally change competitive position among banks, based on the density of traditional branch networks. So far, Internet banking has not modified this relationship. While the number of banks with Internet sites and offering Internet-based services is growing rapidly, it represents a limited portion of banking transactions.

The needs of the corporate sector are diverse in nature. This diversity and complexity stems from the multifaceted nature of a company's operations. Today, a typical company is engaged in expansion, diversification, imports, exports, restructuring which require pre-project facilities, term-loan, short-term facilities, export & import financing and fund raising. Many of the corporate clients enjoy fund surplus during a certain period. They may ask the bank to offer portfolio management services in order to achieve maximum return on funds. Corporate client also need risk management services such as forward contracts, interest rate and foreign currency swaps, floating rate interest rates, etc.

While a few banks specialize in wholesale banking or in retail banking, there is no longer a complete separate wholesale or a retail bank in Nepal. Most of the banks combine retail and wholesale banking operations. Some of the banks have separate division or unit dealing corporate customers. The skill and knowledge required carrying out the wholesale and retail banking businesses are different. However, there are some common critical success factors such as customer orientation, investment in technology etc. In the competitive environment the banks needs to

reorient and equip themselves with modern techniques of banking to face the increasing competition.

### **Shifting Focus on Retail Banking**

Banks are now trying to reduce their risks by diversifying their portfolio and having a thrust on short-term retail earnings rather than blocking funds in riskier medium and long-term loans. Some banks developed consumer finance and housing finance product to attract rich middle class people and the people having fixed source of income and increase lending business.

Customer service is one of the most important dimensions of retail banking. Public sector banks compare very poorly with the private sector banks when it comes to the efficiency in services. In order to improve the speed of service the bank should improve the rapport between the controlling offices and the branches to ensure that decisions are communicated fast; and make sure that the officials as well as the staff are fully aware of the rules so that processing is faster.

While information technology has contributed to major upheaval in wholesale banking, its impact on retail banking has been relatively limited. Corporate clients are more familiar with automated environments, which will facilitate more automation and creation of paperless office. Technology-based delivery channels such as automated teller machines (ATMs) did not fundamentally change competitive position among banks, based on the density of traditional branch networks. So far, Internet banking has not modified this relationship.

Retail banking was viewed primarily as a cost centre and source of low cost deposit. But, these days, retail banking represents a major source of competitive strength for the banking industry, as it is a point of direct customer contact. Retail services are uniquely positioned to help banks develop strong long-term

relationship with targeted customers and thus differentiate themselves from competitors. Banks look up to retail lending as a possible avenue to augment business in the current context. Consumer financing appears to be a viable alternative to cope with poor credit off takes.

Consumer financing encompasses extension of loans for consumer durable goods, education loans, finance for travel, medical expenses etc. Demand for loans for acquisition of TV, fridge, washing machine, air-conditioners, etc., is on the rise. Banks also offer loans through tie-ups with manufacturer or distributors of such products. Some of the factors that contribute to the growth of auto finance are lower interest rates, poor public transport system, increasing income levels of the people, and availability of finance for even second-hand cars. In fact on account of liberal financing by banks, import of passenger cars, motorcycles and scooters, has registered good growth.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain objectives in view. Thus the overall approach to the research is presented in this chapter. The main objective of this research work is to evaluate the housing financing procedures adopted by three commercial banks i.e. EBL, NBBL, and KBL, which are selected as sample financing banks. This chapter consists of research design, population and samples, sources of data and collection procedure, data processing and presentation and data analysis tools.

#### **3.2 Research Design**

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern or framework for the project that stipulates what information is to be collected, from which sources and by what procedures. Thus a research design is a plan for the collection, presentation, analysis and interpretation of data.

This study is analytical in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study,

recommendation among them, they are derived with the help of some statistical tools were adopted to evaluate the retail banking of commercial banks. They are EBL, NBBL and KBL inconsideration not only to research about them by also to facilitate among them.

### **3.3 Population and Samples**

The term “population” of universe for research means the universe of research study in which the research is based. At present there are 31 commercial banks operating in Nepal and most of their stocks are traded actively in the stock market. Due to the lack of suitable investing opportunity, all banks are involved in Home loan. So precisely saying, all 31 commercial banks are the population of this study. Among them 3 commercial banks are chosen as sample from total population. In comparison with other banks these banks provides large amount of home loan in total loan in advances.

Sampling technique is very much essential for conducting and research. It allows the researcher to make an intensive study of the research problem within the limited time frame. When the study of whole population is not possible, sampling technique is adopted. The ideal sampling represents the whole universe accurately.

For selecting the samples, simple random sampling method is used here among different methods. Organizations under study are as follows, whose general introduction and major objectives are presented in chapter one.

- ) Everest Bank Ltd.
- ) Nepal Bangladesh Bank Ltd.
- ) Kumari Bank Ltd.

### **3.4 Sources of Data and Collection Procedure**

For this study, mainly secondary data are used. These data are collected from published sources like; annual reports, balance sheet, prospectus, newspaper, journal, Internet and other sources. Besides this in some case, If needed, primary data can also be used which can be collected through personal interview and direct observation.

The secondary data published on annual reports of concerning organizations, like deposit and loan and advance amount as well as their organizational profits is collected through personal visit of respective organization and their websites too. The data related to the home loan amount of past period is collected through the personal visit and from their respective web sites.

### **3.5 Data Processing and Presentation**

The information and data obtained from the different sources are in raw form. From that information, direct presentation is not possible. So it is necessary to process data and converts it into required form.

After then only, the data are presented for this study. This process is called data processing. For the study, only required data are taken form the secondary source and presented likewise, in some case graphical presentation is also made. For presentation, different tables are used. Likewise, in some case graphical presentation is also made. The calculations that are related to this study are done with the help of scientific calculator as well as computer software program.

### **3.6 Data Analysis Tools**

Analysis and presentation of the data is the core of each and every research work. In order to get the concrete results from this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical

tools rather than financial tools. So for this study following statistical tools are used.

### **3.6.1 Statistical Tools**

#### **3.6.1.1 Arithmetic Mean**

It is the sum of all the observations divided by the number of observations. In such cases all the items are equally important. As arithmetic mean is most common, popular and widely used tools for data analysis, here in this study also, arithmetic mean is used. It is computed by using following formula.

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

Where  $\bar{X}$  = mean  
X = sum of all the variable  
N = variables involved

#### **3.6.1.2 Coefficient of Correlation**

The degree of relationship between two variables is identified by using this statistical tool. In other words, this tool is used to describe the degree to what extent one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other variables. Correlation analysis enables us in determining the degree and direction of relationship between the variables. Correlation may be positive or negative and range from -1 to +1. Simple correlation between the total loan and advance and housing loans is computed in this thesis. For this research work, following reference is used.

- ) Correlation may be positive or negative and ranges from  $-1$  to  $+1$ .
- ) When  $r = +1$ , there is perfect positive correlation, when  $r = -1$ , there is perfect negative correlation and when  $r=0$ , there is no correlation and when  $r<0.5$  then there is low degree of correlation.
- ) When  $r$  lies in  $0.7$  to  $0.999$  (or  $-0.7$  to  $-0.999$ ), there is high degree of positive (or negative) correlation.
- ) When  $r$  lies in  $0.5$  to  $0.699$ , there is a moderate degree of correlation.

**The simple correlation coefficient,  $r$  is calculated by using following formula**

$$\text{Simple Correlation Coefficient (r)} = \frac{n\phi XY Z(\phi X)(\phi Y)}{\sqrt{n\phi X^2 Z(\phi X)^2} \sqrt{n\phi Y^2 Z(\phi Y)^2}}$$

Where,

$r$  = Karl person's coefficient of correlation

$n$  = number of observation in series X and series Y

$\phi X$  = Sum of the observations in series X

$\phi Y$  = Sum of the observations in series Y

$\phi X^2$  = Sum of the square of observation in series in X

$\phi Y^2$  = Sum of the square of observation in series in Y

$\phi XY$  = Sum of the product of the observations in series X and series Y

A convenient and useful way of interpretation of the value of coefficient of correlation between two variables is to use the square of coefficient of determination ( $r^2$ ). If the value of coefficient of correlation,  $r=0.90$ , then the coefficient of determination,  $r^2=0.81$ , which means that 81% of the total variation in the value of the dependent variable has been explained by the change in the value of independent variable. It is must easier to understand the meaning of  $r^2$  than  $r$  and therefore, coefficient of determination is preferred while presenting the result of correlation analysis.

### 3.6.1.3 Trend Analysis

The statistical test used in this study, which describes the trend of any variables whether it increases or decreases with passage of time. The formula of least square method is,

$$Y_c = a + bx$$

Where,  $a = \frac{\phi y}{n}$

$$b = \frac{\phi xy}{\phi x^2}$$

Here,  $Y_c$  is used to designate the trend value to distinguish from the actual value.  $a$  is the  $Y_c$  intercept as the computed trend figure of the trend line or the amount of change in  $Y$  variable, that is associated with a change of one unit on  $X$  variable represents the time.

### 3.6.1.4 Probable Error (P.E.) of Correlation coefficient

Probable error is measured for testing the reliability of an observed value of correlation coefficient. It is computed to find the extent to which it is dependable. If correlation coefficient is greater than 6 times P.E the observed value of  $r$  is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated ( $r$ ) is less than the P.E correlation is not at all significant. It is calculated by using following formula:

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

Where,

P.E. ( $r$ ) = Probable error of correlation coefficient

$r$  = Correlation coefficient

$n$  = Number of observations

A few rules for the interpretation of the significance of correlation coefficient are as follows;

- 1) If  $r < P.E.(r)$  is not significant (i.e. insignificant)
- 2) If  $r > P.E. (r)$ , then is definitely significant.

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

In this chapter, data collected from primary and secondary sources are presented and analyzed by using the statistical tools and techniques. The data are presented in tables, graphs, and charts according to need. The available data are analyzed and interpreted so that the retail banking of banks can be evaluated easily. To see the future effects or trends as well as to show the relation between Home Loan and Total Loan and Advances, trend analysis and correlation analysis is used in this study.

#### **4.2 Analysis of Retail Banking Scheme and Features**

In this section, detail study is made about the retail banking scheme and its features of various banks. For this study only three commercial banks are considered because of various limitations.

#### 4.2.1 Everest Bank Ltd.

Everest Bank Limited is the pioneer in retail banking which includes auto loan, education loan, travel loan, home loan and consumer products. Retail banking scheme was launched in the market in the month of April 2001. Since the bank primarily focuses on retail banking, the budget authorized for home loan does not have any limitation. In view of customer's convenience, it has modified its scheme regarding the loan amount, the interest rate and loan repayment period. The interest rate has been revised from 12% to 10% and the loan amount has been increased from Rs. 1,500,000 to Rs. 4,000,000. The loan repayment period has also been increased up to 15 years. The financing is provided to commercial building as well as non commercial building. And the age limit is 55 years.

The features of the home loan scheme for EBL are tabulated in Table. 4.1

**Table 4.1**

#### **Features of Home Loan scheme by EBL**

<b>S.N.</b>	<b>Particular</b>	<b>Features</b>
1	Finance	Commercial Building / Non-commercial Building
2	Finance in Home Colony	Agreement with Kathmandu Residency and so on.
3	Loan Amount	NRs. 2,00,000 to NRs. 40,00,000
4	Interest Rate	10% to 12%
5	Payback Time Period	Maximum up to 15 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan disburse till date	NRs. 4920 million
8	Bad-loan	Not yet
9	Grace period	1 year for new land building, negotiable for expansion.
10	Age bar	Last installment within 55 years
11	Authorized capital for Home	No limit

	Loan of the total budget in %	
12	Scheme launched date	April 2001
13	Number of customer till date	2250 (Approximately)

*Source: Field Survey*

#### **4.2.2 Kumari Bank Ltd.**

It has been introduced home loan scheme since mid July 2001 in the market. It has a provision to finance only up to 60% of the cost of purchase/ construction/ renovation of land/home with in municipal boundaries. To get the home loan facility from the bank customer needs to provide his or her income by producing reference and guarantee from the employer. Depending upon the customer's income and need, the loan amount varies from NRs. 5, 00,000 to NRs. 40, 00,000 and are disbursed at a very competitive rate of interest of 10.5%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 84 months with a charge of 1% as prepaid amount on the outstanding amount.

KBL has already attracted 700 customers till now with the total loan disbursement reaching NRs. 2430 million. The finance is provided to commercial and non-commercial building and the age limit is 65 years.

The features of the home loan scheme rendered by KBL are tabulated in table 4.2

**Table 4.2**

#### **Features of Home Loan scheme by KBL**

<b>S.N</b>	<b>Particular</b>	<b>Features</b>
1	Finance	Commercial / Non-commercial Building
2	Finance in Home Colony	No
3	Loan Amount	NRs. 5,00,000 to NRs. 40,00,000
4	Interest Rate	12% to 13%
5	Payback Time Period	Maximum up to 7 years
6	Mode of Repayment	Equal Monthly Installment

7	Loan disburse till date	NRs. 2420 million
8	Bad-loan	Not yet
9	Grace period	1 year for new land building, negotiable for expansion.
10	Age bar	Last installment within 65 years
11	Scheme launched date	August 2001
12	Number of customer till date	700(Approximately)

*Source: Field Survey*

### **4.2.3 Nepal Bangladesh Bank Ltd.**

Nepal Bangladesh Bank Ltd has also started home loan scheme for its valued customers. It has been introduced retail banking scheme since 2003 in the market. Before the date, it has provided the home loan under construction and residence. To get the home loan facilities from the bank, the customer need to produce his or her income by producing reference and guarantee from the employer. Depending upon the customer's income and need, the bank provide home loan up to NRs. 40,00,000 to build or purchase a new home and up to NRs. 10,00,000 to renovate the existing home at a very competitive rate and its mode of payment is equal monthly installment basis.

The features of the home loan scheme are tabulated in table 4.3.

**Table 4.3**

#### **Features of Home Loan scheme by NBBL**

<b>S.N.</b>	<b>Particular</b>	<b>Features</b>
1	Finance	Commercial / Non-commercial Building
2	Finance in Home Colony	No
3	Loan Amount	NRs. 5,00,000 to NRs. 40,00,000
4	Interest Rate	11%
5	Payback Time Period	10 to 15 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan disburse till date	NRs. 1145 million
8	Bad-loan	Not yet
9	Grace period	1 year for new land building, negotiable

		for expansion.
10	Age bar	Last installment within 55 years
11	Scheme launched date	2003
12	Number of customer till date	500 (Approximately)

*Source: Field Survey*

It has already attracted 500 customers till now with the total loan disbursement reaching NRs. 1145 million. The finance is provided to commercial and non-commercial building and the age limit is 55 years. It also provide home developer loan to the experienced firms/companies or persons in the field, for the construction of dwelling i.e., flats, homes or units.

### **4.3 Position of Home Loan**

The banks collect the deposit from the customers and they are invested on various sectors. Since past few years, there is lack of secured investing sector due to nation's internal problem. However, retail banking is one of the most popular and secured investing sector. So, most of the banks are attracted towards such financing schemes for their customer by lunching different retail banking scheme since last five years. The home loan position of last few years of EBL, KBL, and NBBL are shown in the table 4.4 below.

**Table 4.4**  
**Position of Home Loan**

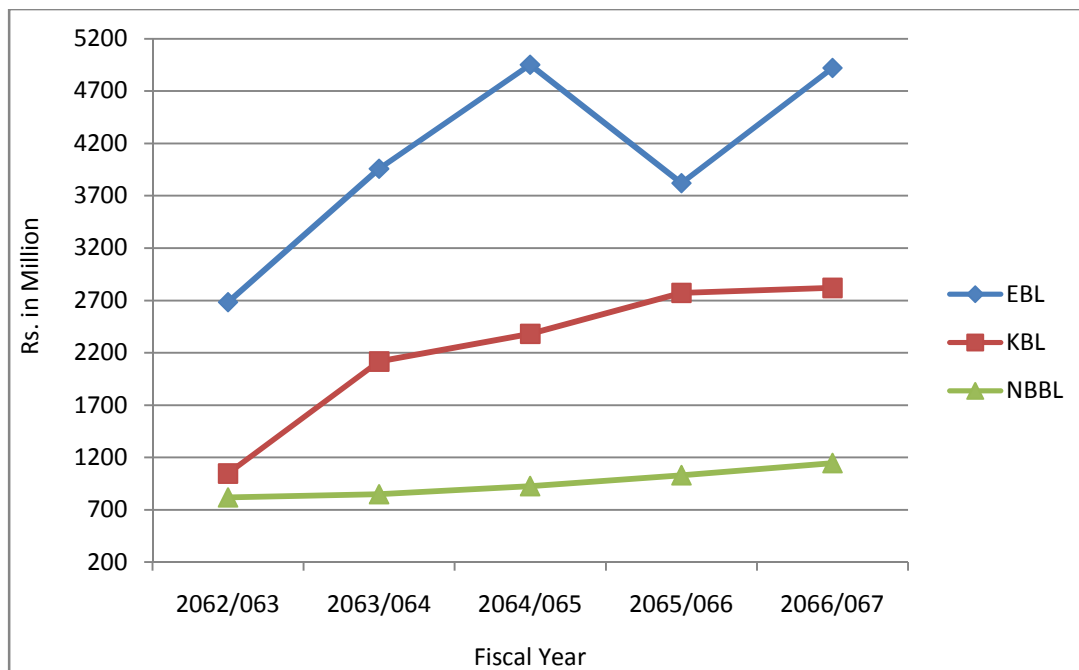
(In Million)

<b>Fiscal Years</b>	<b>Total Loan and Advance</b>		
	<b>EBL</b>	<b>KBL</b>	<b>NBBL</b>
2062/063	2684	1047	820
2063/064	3959	2117	850
2064/065	4952	2380	925
2065/066	3821	2773	1028
2066/067	4920	2820	1145

Source: Individual Bank's Internal Record

From the Table 4.4, it is seen that the amount of home loan for EBL is in increasing trend upto the Financial Year 2064/065 but in 2065/066 the trend is decreasing to the amount of 3821 million. It has again increased in 2066/067 up to 4920 million. Similarly for KBL, the amount is in increasing trend. In same manner, for NBBL, the amount is in increasing trend for all years. The above data can be presenting by following figure.

**Figure 4.1**  
**Trend of Home Loan for EBL, KBL and NBBL**



#### 4.4 Position of Total Loan and Advance

The major source of loan is deposit collected by the banks from its valuable customers. The banks provides loan and advances to their customer in various forms like; Auto Loan, Home Loan, Education Loan, and so on. The major activity of the bank is to collect deposit from the customer and generate income in the form of interest by granting loan to the needed person and sectors. Position of

Total loan and Advance of last few periods of EBL, KBL, and NBBL are shown in the table 4.5 below

**Table 4.5**  
**Position of Total Loan and Advance**

(In Million)

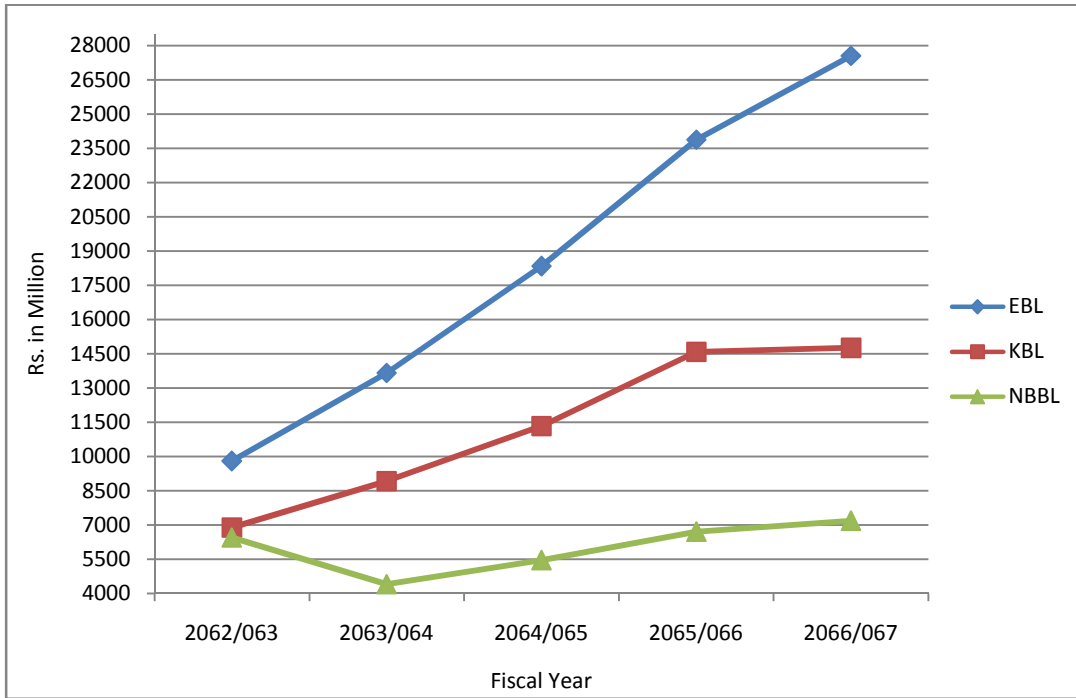
<b>Fiscal Years</b>	<b>Total Loan and Advance</b>		
	<b>EBL</b>	<b>KBL</b>	<b>NBBL</b>
2062/063	9801	6892	6460
2063/064	13664	8929	4409
2064/065	18339	11335	5458
2065/066	23885	14593	6705
2066/067	27556	14766	7180

*Source: SEBON*

From the Table 4.5, it is seen that the amount of Total Loan and Advances for every banks is in increasing trend. The amount is seen to be increased by more than double amount in past five years for EBL. Similarly for KBL, the amount is in increasing trend and the amount has increased by approximately double. In the same manner, for NBBL, the amount is in increasing trend for past years. The above data can be presenting by following figure.

**Figure 4.2**

**Trend of Total Loan and Advance for EBL, KBL and NBBL**



**4.5 Percentage of Home Loan on Total Loan and Advance**

**4.5.1 Percentage of Home Loan on Total Loan and Advance of EBL**

Find out the percentage of home loan on total loan and advance. Percentage of home loan and advance of five years of EBL is shown in the table 4.6 below.

**Table 4.6**

**Percentage of Home Loan on Total Loan and Advance of EBL**

(In Million)

Fiscal Year	Total Loan and Advance	Home Loan	Percentage of Home Loan on Total Loan and Advance (%)
2062/063	9801	2684	27%
2063/064	13664	3959	29%
2064/065	18339	4952	27%
2065/066	23885	3821	16%
2066/067	27556	4920	18%

Average of 5 Years	23%
--------------------	-----

Source: Appendix I

From the Table 4.6, it is seen that the percentage of home loan and advance of EBL is in mixed in trend and decreased in 2066/067 comparing to previous data. In the year 2063/064 we can see a highest percentage of home loan flow i.e. 29%.

#### 4.5.2 Percentage of Home Loan on Total Loan and Advance of KBL

Find out the percentage of home loan on total loan and advance. Percentage of home loan and advance of five years of KBL is shown in the table 4.7 below.

**Table 4.7**

#### **Percentage of Home Loan on Total Loan and Advance of KBL**

(In Million)

<b>Fiscal Year</b>	<b>Total Loan and Advance</b>	<b>Home Loan</b>	<b>Percentage of Home Loan on Total Loan and Advance (%)</b>
2062/063	6892	1047	15%
2063/064	8929	2117	24%
2064/065	11335	2380	21%
2065/066	14593	2773	19%
2066/067	14766	2820	19%
Average of 5 Years			20%

Source: Appendix II

From the Table 4.7, it is seen that the percentage of home loan and advance of KBL is in mixed but. The percentage is same for last two years.

#### 4.5.3 Percentage of Home Loan on Total Loan and Advance of NBBL

Find out the percentage of home loan on total loan and advance. Percentage of home loan and advance of five years of NBBL is shown in the table 4.8 below.

**Table 4.8**

**Percentage of Home Loan on Total Loan and Advance of NBBL**

(In Million)

<b>Fiscal Year</b>	<b>Total Loan and Advance</b>	<b>Home Loan</b>	<b>Percentage of Home Loan on Total Loan and Advance (%)</b>
2062/063	6460	820	13%
2063/064	4409	850	19%
2064/065	5458	925	17%
2065/066	6705	1028	15%
2066/067	7180	1145	16%
Average of 5 Years			16%

*Source: Appendix III*

From the Table 4.8, it is seen that the percentage of home loan was 13% in the year 2062/063. It increased up to 19% in the year 2063/064. It decreased 2% on 2064/065 and reached to 17%. The loan decreased by 2% in the year 2065/066 and increased 1% in the year 2066/067 and reached to 16% compared to Total Loan & Advances. The trend is increasing first and then decreasing and again increasing.

**4.6 Relationship between Home Loan and Total Loan and Advance**

One of the main objectives of this study is to know the relationship between home loan and total loan and Advance. In other words, the major motive is to explore to chunk of home loan out of total loan and Advance. Since in past few years, financial institutions are not getting appropriate avenue for investment. So they are forced to search new sectors for investment and ultimately enter into retail banking. This scenario has diverted the most of the investable fund of banks to home sectors. To some extent such finance is good, but large finance on such sector is not good for county's economy because they are non productive sector. They don't give any contribution to the growth of economy. So by this analysis, it

is tried to know the trend (increasing or decreasing trend) of home loan out of total loan and Advance.

#### **4.6.1 Analysis of Correlation Coefficient between Home Loan and Total Loan and Advances for EBL, KBL and NBBL**

The following table describes the relationship between home loan and total loan and advances of EBL, KBL and NBBL with comparatively five years period. In the following case, home loan is independent variables(X) and total loan and advances is dependent variables(Y).

**Table 4.9**

#### **Correlation Coefficient between Home Loan and Total Loan and Advance**

<b>Banks</b>	<b>Base of Evaluation</b>			
	<b>R</b>	<b>R<sup>2</sup></b>	<b>P.E.</b>	<b>6×P.E.</b>
<b>EBL</b>	0.69	0.48	0.16	0.96
<b>KBL</b>	0.93	0.87	0.04	0.24
<b>NBBL</b>	0.67	0.45	0.17	0.99

*Source: Appendix – IV, V and VI*

From the above Table 4.9, we can find that the coefficient of correlation between home loan and Total loan and advances value of ‘r’ of EBL, KBL and NBBL are 0.69, 0.93 and 0.67 respectively. This shows the positive relationship between these two variables i.e. home loan and total loan and advances. By considering coefficient of determination ( $R^2$ ), the value of  $R^2$  is 0.48 in case of EBL, 0.87 in case of KBL and 0.45 in case of NBBL.

The value of  $R^2$  of EBL is 0.48, which means 48% of total loan and advances decision is depends upon home loan and only 52% loan and advances depend upon other variables. The value of  $R^2$  of KBL is 0.87 means that 87% of loan and advances decision is depend upon home loan and only 13% loan and advances depend upon other variables. Similarly, the value of  $R^2$  of NBBL is 0.45, which

means 45% of loan and advances decision is depends upon home loan and 55% loan and advances depends upon other variables.

The 6<sup>th</sup> time of Probable Error (P.E.) of EBL, KBL and NBBL are found 0.96, 0.24 & 0.99 respectively. The value of  $R^2$  is found 0.48, 0.87 and 0.45 EBL, KBL & NBBL respectively. By considering the probable error (P.E.), the value of  $R^2$  is less than the 6 times of P.E. for EBL and NBBL, i.e.  $0.48 < 0.96$ ,  $0.87 < 0.162$  which indicates that there is significant relationship between home loan and total loan and advances. The value of  $R^2$  is greater than 6 times of P.E. for KBL which denotes that there is less significant relationship between these two variable i.e. home loan and total loan and advances.

#### 4.7 Trend Analysis

To find the future scenario of home loan for sample banks, trend analysis has been done. This statistical test describes the trend of any variables with passage of time. Most popular method for trend analysis is least square method. The formula of least square method is,

$$Y_c = a + bx$$

Where,  $a = \frac{\phi y}{n}$

$$b = \frac{\phi xy}{\phi x^2}$$

Here,  $Y_c$  is used to designate the trend value to distinguish from the actual value. 'a' is the  $Y_c$  intercept as the computed trend figure of the trend line or the amount of change in Y variable, that is associated with a change of one unit on X variable represents the time.

#### **4.7.1 Trend Analysis of Home Loan of EBL**

In this section, an attempt has made to analyze the trend amount of home loan for EBL and to forecast the home loan for the coming 2 year.

**Table 4.10**  
**Trend Analysis of Home Loan of EBL**

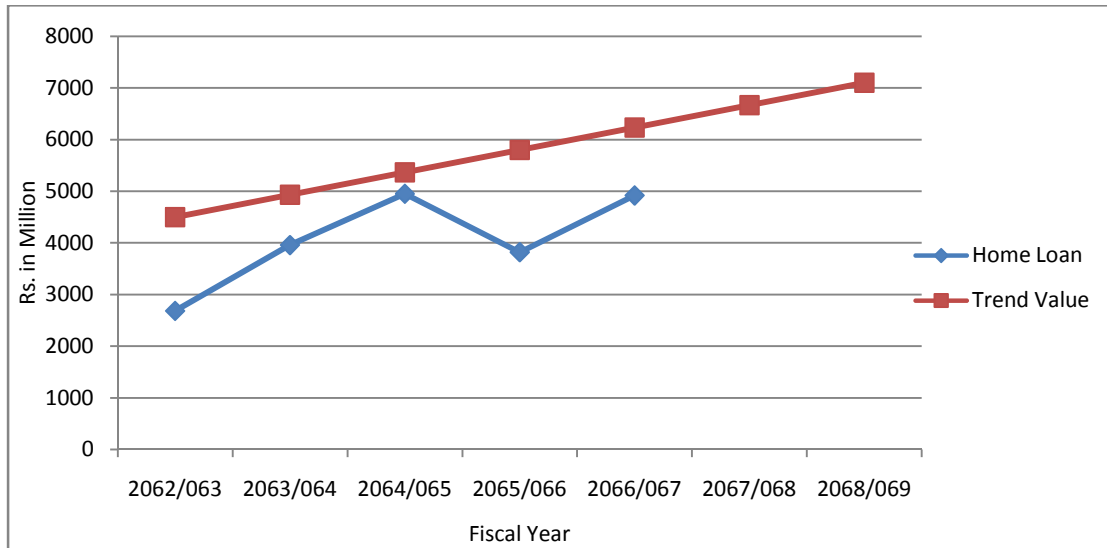
(In Million)

<b>Years</b>	<b>Home Loan</b>	<b>Trend Value</b>
2062/063	2684	4,500.60
2063/064	3959	4,934.00
2064/065	4952	5,367.40
2065/066	3821	5,800.80
2066/067	4920	6,234.20
2067/068	Forecasted Value	6,667.60
2067/068	Forecasted Value	7,101.00
<b>Mean (a)</b>		<b>4067.20</b>
<b>Rate of Change (b)</b>		<b>433.4</b>
<b>Trend Equation</b>		<b>4067.2+433.4x</b>

*Source: Appendix VII*

From the table 4.10, it is found that the amount of home loan of EBL is in increasing trend. The rate of change is Rs. 433.4 million. i.e.  $b=433.4$ . The mean home loan of 5 years period is Rs. 4067.2 million in the study period. If other things remain same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years will be Rs. 6667.6 million and Rs. 7101 million respectively. These facts can be presented in diagram to make clear as following.

**Figure 4.3**  
**Trend Analysis of Home Loan of EBL**



#### 4.7.2 Trend Analysis of Home Loan of KBL

The trend of amount of home loan for KBL and its forecasted home loan amount for the coming 2 years.

From the table 4.11, it has been revealed that the amount of home loan of KBL is fluctuated in increasing trend. The rate of change is Rs. 415.5 millions, i.e.  $b=415.5$ . The mean home loan of 5 years period is Rs. 2227.4 million in the study period. If other things remaining the same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years will be Rs. 4720.4 and 5135 million respectively.

**Table 4.11**  
**Trend Analysis of Home Loan of KBL**

(In Million)

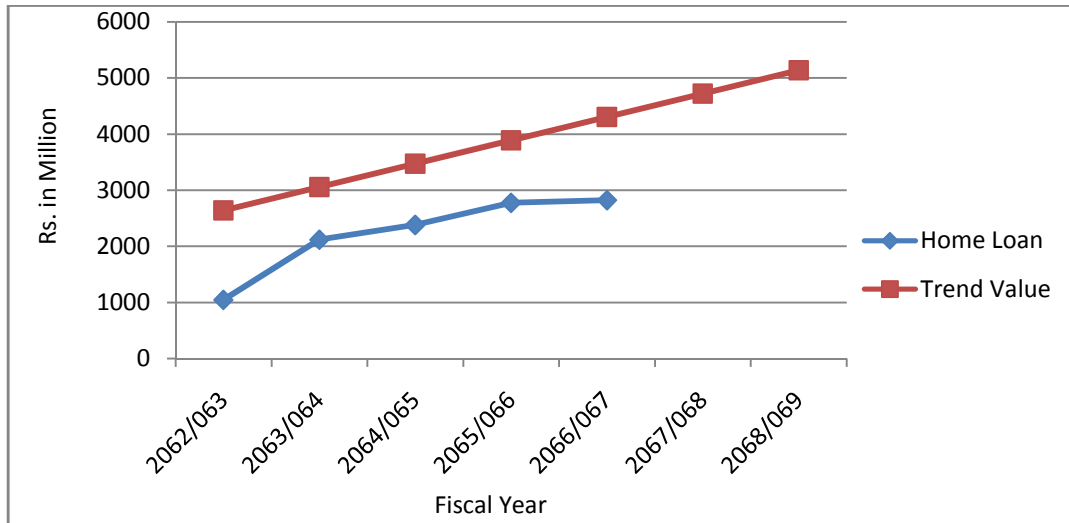
<b>Fiscal Year</b>	<b>Home Loan</b>	<b>Trend Value</b>
2062/063	267	2,642.90
2063/064	604	3,058.40
2064/065	1047	3,473.90
2065/066	2117	3,889.40
2066/067	2380	4,304.90
2067/068	Forecasted Value	4,720.40
2068/069	Forecasted Value	5,135.90

<b>Mean (a)</b>	<b>2227.4</b>
<b>Rate of Change (b)</b>	<b>415.5</b>
<b>Trend Equation</b>	<b><math>2227.4+415.5x</math></b>

*Source: Appendix VIII*

To make clear these facts can be presented in diagram 4.4 as following.

**Figure 4.4**  
**Trend Analysis of Home Loan of KBL**



#### 4.7.3 Trend Analysis of Home Loan of NBBL

An attempt has made to analyze the trend of amount of home loan of NBBL and to forecast the home loan for the coming 2 years other than study periods.

From the table 4.12 it is depicted that the amount of home loan of NBBL is fluctuated but in increasing trend. The rate of change is Rs. 82.80 millions, i.e.  $b=71.1$ . The mean home loan of 5 years period is Rs. 953.6 million in the study period. If other things remaining the same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years will be Rs. 1380.20 and Rs. 1451.3 million respectively.

**Table 4.12**  
**Trend Analysis of Home Loan of NBBL**

(In Million)

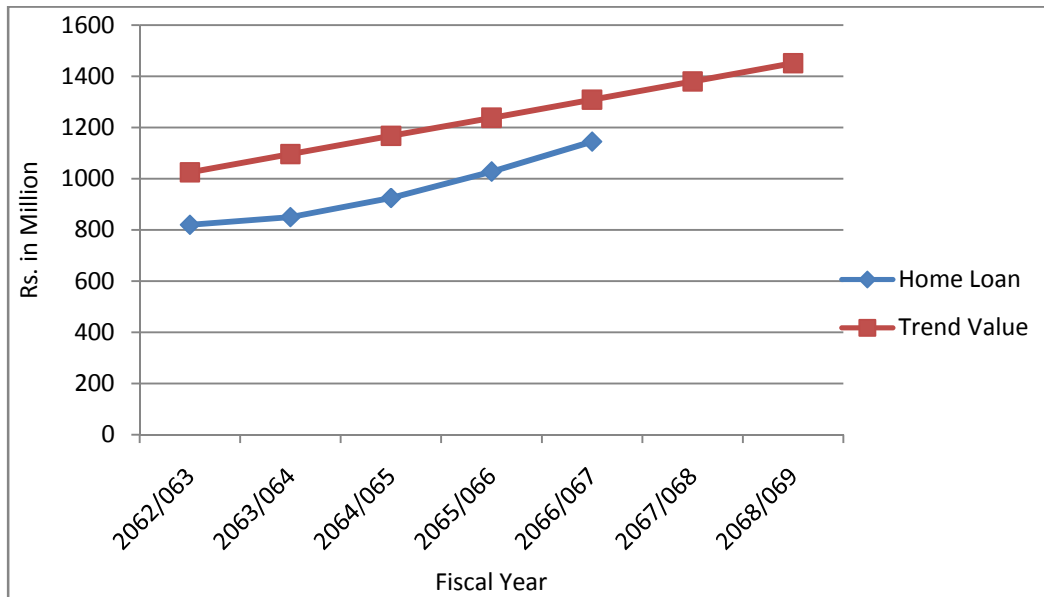
Years	Home Loan	Trend Value
2062/063	820	1,024.70
2063/064	850	1,095.80
2064/065	925	1,166.90
2065/066	1028	1,238.00
2066/067	1145	1,309.10
2067/068	Forecasted value	1,380.20
2068/069	Forecasted value	1,451.30

<b>Mean (a)</b>	<b>953.60</b>
<b>Rate of Change (b)</b>	<b>71.1</b>
<b>Trend Equation</b>	<b>953.6+71.10x</b>

The Source: Appendix IX Figure 4.5 to make clear as following.

**Figure 4.5**

**Trend Analysis of Home Loan of NBBL**



**4.7.4 Trend Analysis of Total Loan and Advance of EBL**

In this section, an attempt is made to analyze the trend of loan and advance of EBL, KBL and NBBL for the objectives of forecasting the loan and advance for the upcoming 2 years.

**Table 4.13**

**Trend Analysis of Loan and Advance of EBL**

(In Million)

<b>Years</b>	<b>Total Loan</b>	<b>Trend Value</b>
2062/063	9801	22,855.00
2063/064	13664	27,061.00
2064/065	18339	31,267.00
2065/066	23885	35,473.00
2066/067	27556	39,679.00

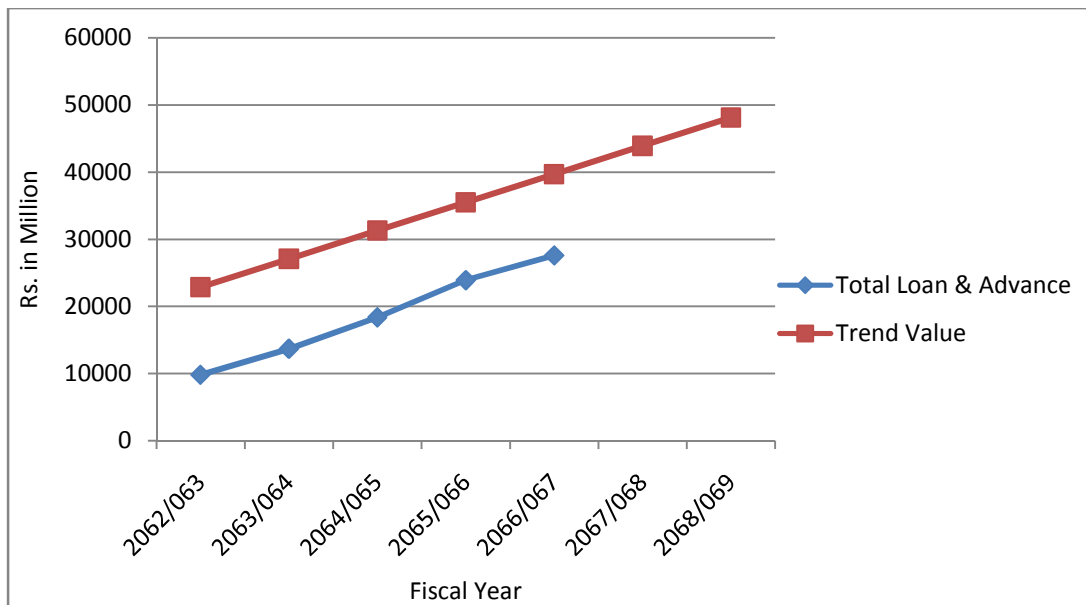
2067/068	Forecasted value	43,885.00
2068/069	Forecasted value	48,091.00
<b>Mean (a)</b>		<b>18649</b>
<b>Rate of Change (b)</b>		<b>4206</b>
<b>Trend Equation</b>		<b>18649+4206x</b>

Source: Appendix X

From the table 4.13, it is revealed that the amount of loan and advance of EBL is fluctuated in increasing trend. The rate of change is Rs. 4206 million. i.e.  $b=4206$ . The mean loan and advance of 5 years is Rs. 18649 million in the study period. If other things remaining the same, the loan and advance for the 6<sup>th</sup> & 7<sup>th</sup> years will be Rs. 43885 & Rs. 48091 million respectively. These facts can be presented in diagram to make clear as following.

**Figure 4.6**

**Trend Analysis of Loan and Advance of EBL**



**4.7.5 Trend Analysis of Total Loan and Advance of KBL**

From the table: 4.13, it is revealed that the amount of loan and advance of EBL is fluctuated in increasing trend. The rate of change is Rs. 2141.20 millions, i.e.  $b=2141.20$ . The mean loan and advance of 5 years period is Rs. 11393 million in

the study period. If other things remaining the same, the loan and advance for the 6<sup>th</sup> and 7<sup>th</sup> years will be Rs. 24150.2 and 26291.4 million.

**Table 4.14**  
**Trend Analysis of Loan and Advance of KBL**

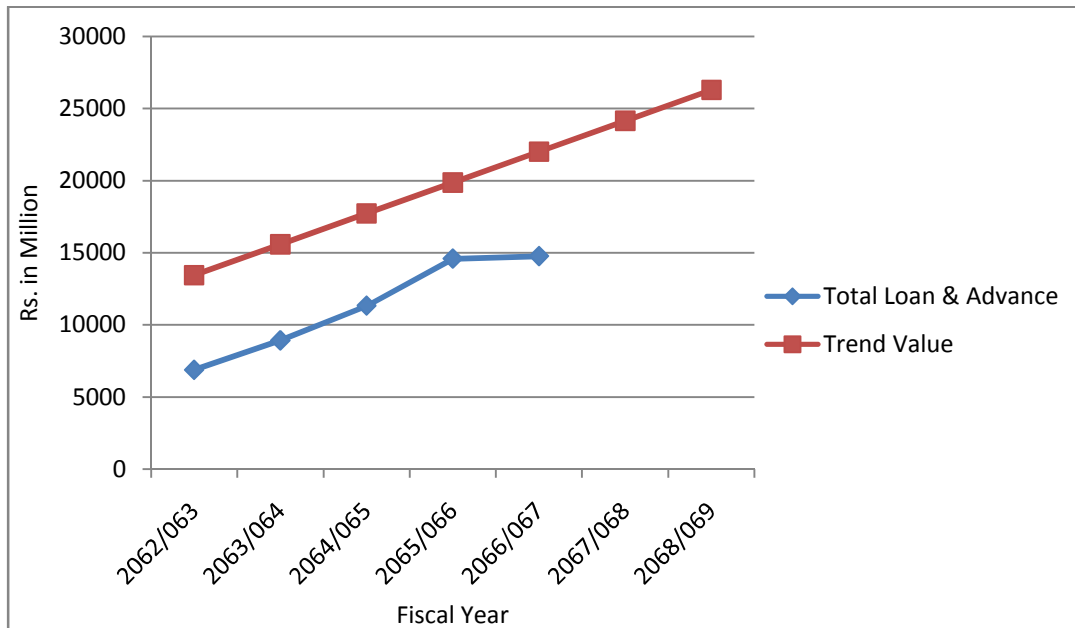
(In million)

<b>Years</b>	<b>Total Loan</b>	<b>Trend Value</b>
2062/063	6892	13,444.20
2063/064	8929	15,585.40
2064/065	11335	17,726.60
2065/066	14593	19,867.80
2066/067	14766	22,009.00
2067/068	Forecasted value	24,150.20
2068/069	Forecasted value	26,291.40
<b>Mean (a)</b>		<b>11393</b>
<b>Rate of Change (b)</b>		<b>2141.20</b>
<b>Trend Equation</b>		<b>11393+2141.20x</b>

Source: Appendix XI

These facts can be presented in diagram 4.7 as following.

**Figure 4.7**  
**Trend Analysis of Loan and Advance of KBL**



#### 4.7.6 Trend Analysis of Loan and Advance of NBBL

From the table 4.15, it is depicted that the amount of loan and advance of NBBL is fluctuated but in increasing trend. The rate of change is Rs. 373.60 millions, i.e.  $b=373.60$ . The mean loan and advance of 5 year period is Rs. 6042.40 million in the study period. If other things remaining the same, the loan and advance for the 6<sup>th</sup> and 7<sup>th</sup> year will be Rs. 8284 & 8657.60 million respectively.

**Table 4.15**  
**Trend Analysis of Loan and Advance of NBBL**

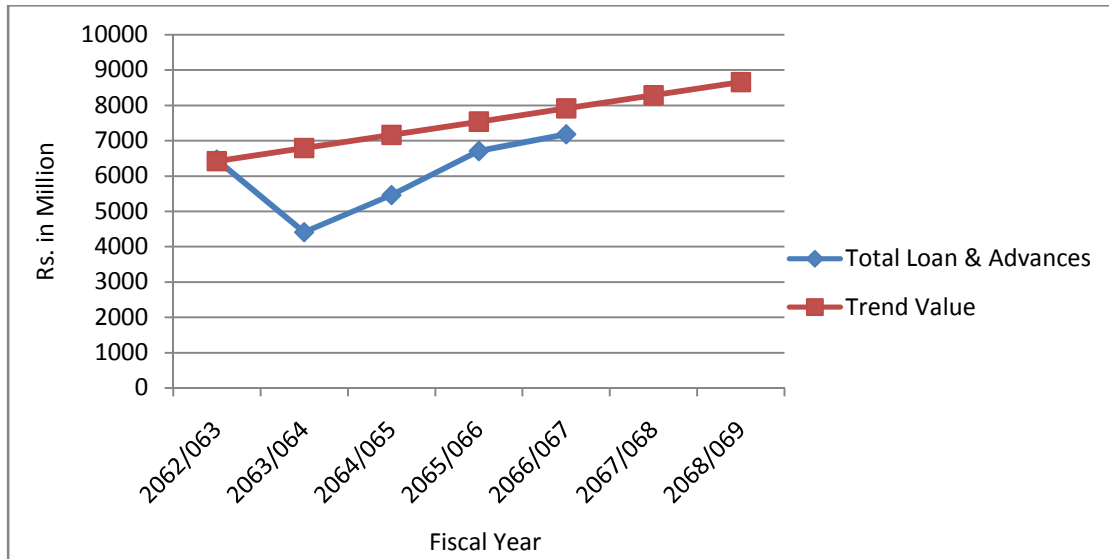
(In million)

<b>Years</b>	<b>Total Loan</b>	<b>Trend Value</b>
2062/063	6460	6,416.00
2063/064	4409	6,789.60
2064/065	5458	7,163.20
2065/066	6705	7,536.80
2066/067	7180	7,910.40
2067/068	Forecasted value	8,284.00
2068/069	Forecasted value	8,657.60
<b>Mean (a)</b>		<b>6042.40</b>
<b>Rate of Change (b)</b>		<b>373.60</b>
<b>Trend Equation</b>		<b>6042.40+373.60x</b>

*Source: Appendix XII*

These facts can be presented in diagram to make clear as following.

**Figure 4.8**  
**Trend Analysis of Loan and Advance of NBBL**



#### 4.8 Major Findings of the Study

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist the findings, issues and gaps of the study. This would be meaningful to the desired result. The following presents a comprehensive summary of the main finding of the study.

#### Main Findings of the Study

The main findings of the study are derived on the basis of Home Loan and Total Loan & Advances of EBL, KBL and NBBL are given below:

#### Retail Banking Scheme and Features

- ) The EBL has been providing the retail banking since April 2008. The interest rate on home loan has been revised from 12% to 10%. Similarly the KBL and NBBL have been charging the interest of 13% and 11% respectively.
- ) The home loan amount of EBL has been increased from Rs. 20, 00,000 to Rs. 40, 00,000. Likewise, the KBL and NBBL have been granting Rs. 500,000 to Rs. 40, 00,000. The maximum loan amount of the every sample banks is equal.

- J The loan repayment period of EBL and NBBL is up to 15 years. But KBL has maximum up to 7 years payback period.
- J All the sample banks have no bad loans till now. The EBL has disbursed Rs. 4920 million in home loan while the KBL and NBBL have disbursed the Rs. 2820 million and Rs. 1145 million respectively.
- J All the sample banks have been providing the finance to commercial building as well as non-commercial building.
- J The age limit for the repayment of last installment is 55 years of age of the borrower for EBL and NBBL while 65 years of age for KBL.
- J The mode of repayment for every bank is equal monthly installment.
- J The EBL has approximately 2250 customer till now while KBL and NBBL have approximately 700 and 500 customers.

#### **Position of Home Loan**

- J The proportion of home loan in total loan and advance for all the banks under the study is in increasing trend.
- J The amount of home loan for EBL was Rs. 2684 million in 062/063 and it has increased to Rs. 4920 million in 066/067.
- J The amount of home loan for KBL was Rs. 1047 million in 062/063 and it has increased to Rs. 2820 million in 066/067.
- J The amount of home loan for NBBBL was Rs. 820 million in 0062/063 and it has increased to Rs. 1145 million in 066/067.

From the above result, it is concluded that the position of home loan for EBL, KBL and NBBL is in better position. All the banks are provided greater proportion of their fund on retail banking.

#### **Position of Total Loan and Advance**

- J The amount of total loan and advances disbursed by EBL, KBL and NBBL is in increasing trend but NBBL has very less increment comparing to other banks.
- J The total loan and advance amount for EBL was Rs.9801 million in 062/063 and it has reached to Rs. 27556 million in 066/067.
- J The total loan and advance amount for KBL was Rs.6892 million in 062/063 and it has reached to Rs. 14766 million in 066/067.
- J The total loan and advance amount for NBBL was Rs.6460 million in 062/063 and it has reached to Rs. 7180 million in 066/067.

From the above result, it is concluded that the position of total loan and advance for EBL and KBL is comparatively better than NBBL.

#### **Percentage of Home Loan on Total Loan and Advance**

- J The percentage of home loan on total loan and advance disbursed by EBL but decreased in last two years. KBL has increasing trend from the beginning. NBBL also has increasing trend of home loan percentage but from 3<sup>rd</sup> year of the study period it has decreased by 4% and again increased by 1% and reached to 16% compared to 4<sup>th</sup> year's 15% in the final year.
- J The percentage of home loan on total loan and advance for EBL was 27% in 062/063 and it has reached to 29% next year. After that it again decreased to 27% in third year, 16% in fourth year and 18% in 2066/067.
- J The percentage of home loan on total loan and advance for KBL was 15% in 062/063 and it has reached to 24% next year. After that it again decreased to 21%, 19% and 19% in 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> year.
- J The percentage of home loan on total loan and advance for KBL was 13% in 062/063 and it has reached to 19% next year. After that it again decreased to 17%, 15% and 16% in 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> year.

From the above result, it is concluded that the percentage of home loan on total loan and advance for EBL and KBL is comparatively better than NBBL. Again the average growth rate of total loan and advance for EBL and KBL is comparatively better than NBBL. But the average growth rate of home loan for KBL and NBBL is better than EBL.

### **Correlation coefficient between Home Loan and Total Loan and Advances**

- J KBL has the highest degree of correlation coefficient between home loan and total loan and advances than other two banks. It states that the KBL has a high relation between home loan and total loan and advance. The other two banks also has high degree of correlation between home loan as total loan and advances in comparison to EBL and NBBL but less than KBL. From the correlation result we can conclude that there is significant relationship between correlation coefficient of home loan and total loan and advances of EBL, KBL and NBBL
- J The value of  $R^2$  of EBL is 0.48, which means 48% of total loan and advances decision is depends upon home loan and only 52% loan and advances depend upon other variables. The value of  $R^2$  of KBL is 0.87 means that 87% of loan and advances decision is depend upon home loan and only 13% loan and advances depend upon other variables. Similarly, the value of  $R^2$  of NBBL is 0.45, which means 45% of loan and advances decision is depends upon home loan and 55% loan and advances depends upon other variables.
- J The 6<sup>th</sup> time of Probable Error (P.E.) of EBL, KBL and NBBL are found 0.96, 0.24 & 0.99 respectively. The value of  $R^2$  is found 0.48, 0.87 and 0.45 EBL, KBL & NBBL respectively. By considering the probable error (P.E.), the value of  $R^2$  is less than the 6 times of P.E. for EBL and NBBL, i.e.  $0.48 < 0.96$ ,  $0.87 < 0.62$  which indicates that there is significant relationship between home loan and total loan and advances. The value of  $R^2$  is greater

than 6 times of P.E. for KBL which denotes that there is less significant relationship between these two variable i.e. home loan and total loan and advances.

### **Trend Analysis of Home Loan**

- ) It is found that the amount of home loan of EBL is in increasing trend. The rate of change is Rs. 433.4 million. i.e.  $b=433.4$ . The mean home loan of 5 years period is Rs. 4067.2 million in the study period. If other things remain same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years will be Rs. 6667.6 million and Rs. 7101 million respectively.
- ) It has been revealed that the amount of home loan of KBL is fluctuated in increasing trend. The rate of change is Rs. 415.5 millions, i.e.  $b= 415.5$ . The mean home loan of 5 years period is Rs. 2227.4 million in the study period. If other things remaining the same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years will be Rs. 4720.4 and 5135 million respectively.
- ) It is depicted that the amount of home loan of NBBL is fluctuated but in increasing trend. The rate of change is Rs. 71.1 millions, i.e.  $b= 71.1$ . The mean home loan of 5 years period is Rs. 953.6 million in the study period. If other things remaining the same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years will be Rs. 1380.20 and Rs. 1451.3 million respectively.

### **Trend Analysis of Total Loan and Advance**

- ) It is revealed that the amount of loan and advance of EBL is fluctuated in increasing trend. The rate of change is Rs. 4206 million. i.e.  $b=4206$ . The mean loan and advance of 5 years is Rs. 18649 million in the study period. If other things remaining the same, the loan and advance for the 6<sup>th</sup> & 7<sup>th</sup> years will be Rs. 43885 & Rs. 48091 million respectively.
- ) It is revealed that the amount of loan and advance of EBL is fluctuated in increasing trend. The rate of change is Rs. 2141.20 millions, i.e.  $b=2141.20$ .

The mean loan and advance of 5 years period is Rs. 11393 million in the study period. If other things remaining the same, the loan and advance for the 6<sup>th</sup> and 7<sup>th</sup> years will be Rs. 24150.2 and 26291.4 million.

) The amount of loan and advance of NBBL is fluctuated but seems in increasing trend. The rate of change is Rs. 373.60 millions, i.e.  $b=373.60$ . The mean loan and advance of 5 year period is Rs. 6042.40 million in the study period. If other things remaining the same, the loan and advance for the 6<sup>th</sup> and 7<sup>th</sup> year will be Rs. 8284 & 8657.60 million respectively.

## **CHAPTER -V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter is concluding chapter. In this chapter, summary of the study and conclusions derived from the study are presented. At last recommendations to the concerned body on the basis of the major findings are presented for the implementation and improvement in the future.

#### **5.1 Summary**

Many commercial banks, developments banks and financial institutions are operating in the economy to assist in the process of economic development in the country. Due to the high competition between the financial institutions, the collected huge amount of deposit from public is not properly invested. It is due to the lack of demand for fund. So, it raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in the overall development of economy of the nation.

The unplanned expansion of city, uncontrolled population growth, lack of basic facilities, raise in nuclear families and working couples have resulted a sharp increase in demand for “home” like dwelling places. But, the continued high rates of population growth, the commercialization and growing regularization of land markets, the constricted supply of mortgage financing, reduced household purchasing power the rising cost of imported building materials have made the access to these “homes” very difficult. As the major motive of the commercial banks is to earn more profit, they want to disburse the deposits on loan and advance in different sectors. These days, most of the commercial banks are moving towards the consumer financing. Bank has to take minimum risk while providing home loans to the needy people.

Today Retail Banking is one of the important financing sectors of the commercial banks in Nepal. Though the private developers are initiating the construction of different home projects, general people are still deprived of the facility to own their houses. So, an independent study in this sector will help people to find their way to the solution for their investment for the houses.

The main objectives of this research work are to examine, interpret and analyze the retail banking scheme adopted by the sampled banks, i.e. Everest Bank Ltd. Kumari Bank Ltd. and Nepal Bangladesh Bank Ltd. This study is also concerned with evaluate the relationship between total loan and advance and home loan.

## **5.2 Conclusion**

Retail banking scheme in EBL was launched in the market in the month of April 2001. Since the bank primarily focuses on retail banking, the budget authorized for home loan does not have any limitation. The interest rate has been revised from 12% to 10% and the loan amount has been increased from Rs.20, 00,000 to Rs. 4,000,000. The loan repayment period has also been increased up to 15 years. The financing is provided to commercial building as well as non commercial building. The age limit for the repayment of last installment is 55 years of age of the borrower.

KBL has introduced home loan scheme since mid July 2001 in the market. It has a provision to finance only up to 60% of the cost of purchase/ construction/ renovation of land/ house with in municipal boundaries. Depending upon the customer's income and need, the loan amounting NRs. 500,000 to NRs. 4,000,000 may be disbursed at a very competitive rate of interest of 10.5%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 84 months with a charge of 1% as prepaid amount on the outstanding

amount. The finance is provided to commercial and non-commercial building and the age limit is 65 years.

NBBL has also started home loan scheme for its valued customers. It has been introduced retail banking scheme since 2003 in the market. Before the date, it has provided the home loan under construction and residence. To get the home loan facilities from the bank, the customer need to produce his or her income by producing reference and guarantee from the employer. Depending upon the customer's income and need, the bank provide home loan up to NRs. 4,00,00,00 to build or purchase a new house and up to NRs. 1,00,00,00 to renovate the existing house at a very competitive rate. Its mode of repayment is equal monthly installment basis.

While observing the past 5 annual periods data it is found that the proportion of home loan in total loan and advance for all the banks under study is in increasing trend but decreasing in the later years and increased again in the final year. The trend values also have helped to forecast that the loan will be increased in future.

It is seen that the amount of home loan for EBL is in increasing trend upto the Financial Year 2064/065 but in 2065/066 the trend is decreasing to the amount of 3821 million. It has again increased in 2066/067 up to 4920 million. Similarly for KBL, the amount is in increasing trend. In same manner, for NBBL, the amount is in increasing trend for all years.

It is seen that the percentage of home loan and advance of EBL is in mixed in trend and decreased in 2066/067 comparing to previous data. In the year 2063/064 we can see a highest percentage of home loan flow i.e. 29%.

It is seen that the percentage of home loan and advance of KBL is in mixed but. The percentage is same for last two years. It has started with 27% in year 1 and ended with 18% in year 5. The average value of 5 years is Twenty Three percent.

It is seen that the percentage of home loan of NBBL was 13% in the year 2062/063. It increased up to 6% in the year 2063/064. It decreased 2% on 2064/065 and reached to 17%. The loan decreased by 2% in the year 2065/066 and increased 1% in the year 2066/067 and reached to 16% compared to Total Loan & Advances. The trend is increasing first and then decreasing and again increasing.

The amount of Total Loan and Advances for every bank is in increasing trend. The amount is seen to be increased by more than double amount in past five years for EBL. Similarly for KBL, the amount is in increasing trend and the amount has increased by approximately double. In the same manner, for NBBL, the amount is in increasing trend for past years.

We can conclude that the coefficient of correlation between home loan and Total loan and advances value of 'r' of EBL, KBL and NBBL are 0.69, 0.93 and 0.67 respectively. This shows the positive relationship between these two variables i.e. home loan and total loan and advances. By considering coefficient of determination ( $R^2$ ), the value of  $R^2$  is 0.48 in case of EBL, 0.87 in case of KBL and 0.45 in case of NBBL.

The value of  $R^2$  of EBL is 0.48, which means 48% of total loan and advances decision is depends upon home loan and only 52% loan and advances depend upon other variables. The value of  $R^2$  of KBL is 0.87 means that 87% of loan and advances decision is depend upon home loan and only 13% loan and advances depend upon other variables. Similarly, the value of  $R^2$  of NBBL is 0.45 which

means 45% of loan and advances decision is depends upon home loan and 55% loan and advances depends upon other variables.

The 6<sup>th</sup> time of Probable Error (P.E.) of EBL, KBL and NBBL are found 0.96, 0.24 & 0.99 respectively. The value of  $R^2$  is found 0.48, 0.87 and 0.45 EBL, KBL & NBBL respectively. By considering the probable error (P.E.), the value of  $R^2$  is less than the 6 times of P.E. for EBL and NBBL, i.e.  $0.48 < 0.96$ ,  $0.87 < 0.99$  which indicates that there is significant relationship between home loan and total loan and advances. The value of  $R^2$  is greater than 6 times of P.E. for KBL which denotes that there is less significant relationship between these two variable i.e. home loan and total loan and advances.

The trend analysis of Home Loan has revealed that if other things remain same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years of EBL will be Rs. 6667.60 million and Rs. 7101 million respectively. Similarly if other things remaining the same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years of KBL will be Rs. 4720.4 and 5135.90 million respectively. The trend analysis have resulted that if other things remaining the same, the home loan for the 6<sup>th</sup> and 7<sup>th</sup> years of NBBL will be Rs. 1380.20 and Rs. 1451.3 million respectively.

The trend analysis for Total Loan & Advance of sample banks has revealed that if other things remaining the same, the loan and advance of EBL for the 6<sup>th</sup> & 7<sup>th</sup> years will be Rs. 43885 & Rs. 48091 million, Rs. 24150.20 and 26291.40 million and Rs. 8284 & 8657.60 million respectively.

### **5.3 Recommendations**

Based on the study, it is found that the amount of home loan is basically in increasing trend. Among the sample banks, EBL has disbursed higher amount for home loan. EBL is the pioneer bank in Nepal which initiates the home loan

scheme in Nepal. However, the other two sample banks are also providing home loan but they are not as aggressive as EBL. On the basis of the foregoing findings and conclusions, the following recommendations are made to improve retail banking policies and scheme.

- ) When there is less investment opportunity in the country, home loan is one of the best avenues for investment. Regarding this, EBL has disbursed large amount of fund for home loan. However, other two sample bank, KBL and NBBL, have disbursed little amount as home loan. So it is recommended for them to increase the chunk of home loan.
- ) Another factor hindering the growth of home loan is its interest rate. So the sample banks are requested to lower down the interest rate for home loan.
- ) The procedure to get home loan is quite tedious and lengthy. So it is suggested to make the procedure easy.
- ) Government should provide a regulatory climate conducive to the establishment of private specialized retail banking institutions by allowing them to compete effectively for savings and respond to market demand for loan rates.
- ) The financial institutions should be more aggressive in providing the home loans with improved EMI, interest rate and payback period.
- ) More simplified legal procedure should be established by the financial institutions to cater the loans in efficient manner.

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**APPENDIX**  
**QUESTIONNAIRE**

**Bank Interview Form**

**Name of the Bank:** - \_\_\_\_\_

Finance – **Commercial Building / Non-Commercial Building**

*Finance in Home Colony – Yes / No*

Loan amount: - **Minimum** \_\_\_\_\_ **Maximum** \_\_\_\_\_

Retail Banking scheme launched date: - \_\_\_\_\_

**Number of Customers till date:** - \_\_\_\_\_

*Age Bar:* - \_\_\_\_\_

Payback Time Period: - \_\_\_\_\_

*Mode of Repayment:* - \_\_\_\_\_

*Loan disbursed till date:* - \_\_\_\_\_

Bad loan: - \_\_\_\_\_

**Total Loan and Home Loan Provided by the Bank**

<b>Years</b>	<b>Total Loan</b>	<b>Home Loan</b>
2062/063		
2063/064		
2064/065		
2065/066		
2066/067		

### Appendix I

#### Percentage of Home Loan on Total Loan and Advance of EBL

Year	Total Loan and Advance	Home Loan	Percentage of Home Loan on Total Loan and Advance (%)
	<b>Y</b>	<b>x</b>	<b>x/y</b>
2062/063	9801	2684	27%
2063/064	13664	3959	29%
2064/065	18339	4952	27%
2065/066	23885	3821	16%
2066/067	27556	4920	18%
Total Percentage			117%
Average % of Five Years = $(x/y)n$			23%

### Appendix II

#### Percentage of Home Loan on Total Loan and Advance of KBL

Year	Total Loan and Advance	Home Loan	Percentage of Home Loan on Total Loan and Advance (%)
	<b>Y</b>	<b>x</b>	<b>x/y</b>
2062/063	6892	1047	15%
2063/064	8929	2117	24%
2064/065	11335	2380	21%
2065/066	14593	2773	19%
2066/067	14766	2820	19%
Total Percentage			98%
Average % of Five Years = $(x/y)n$			20% approx

### Appendix III

#### Percentage of Home Loan on Total Loan and Advance of NBBL

Year	Total Loan and Advance	Home Loan	Percentage of Home Loan on Total Loan and Advance (%)
	<b>X</b>	<b>y</b>	<b>x/y</b>
2062/063	6460	820	13%
2063/064	4409	850	19%
2064/065	5458	925	17%
2065/066	6705	1028	15%
2066/067	7180	1145	16%
Total Percentage			80%
Average % of Five Years = (x/y)n			16%

### Appendix IV

#### Correlation between Home Loan and Total Loan for EBL (in million)

Year	Home Loan(X)	Total Loan(Y)	X.Y	X <sup>2</sup>	Y <sup>2</sup>
2062/063	2684	9801	26,305,884.00	7,203,856.00	96,059,601.00
2063/064	3959	13664	54,095,776.00	15,673,681.00	186,704,896.00
2064/065	4952	18339	90,814,728.00	24,522,304.00	336,318,921.00
2065/066	3821	23885	91,264,585.00	14,600,041.00	570,493,225.00
2066/067	4920	27556	135,575,520.00	24,206,400.00	759,333,136.00
	X =20336	Y =93245	XY =398056493	X <sup>2</sup> =86206282	Y <sup>2</sup> 1948909779

We have,

$$r_{xy} = \frac{n\phi XY Z(\phi X)(\phi Y)}{\sqrt{n\phi X^2 Z(\phi X)^2} \sqrt{n\phi Y^2 Z(\phi Y)^2}}$$

$$r_{xy} = \frac{5 | 398056493 Z(20336)(93245)}{\sqrt{5 | 86206282 Z(20336)^2} \sqrt{5 | 1948909779 Z(93245)^2}} = 0.69$$

$$r^2 = 0.48$$

$$\text{Probable Error P.E.}(r) = 0.6745 | \frac{1 Z r^2}{\sqrt{n}} = 0.016$$

$$6 \times (\text{P.E.}) = 6 \times 0.016$$

$$= 0.096$$

## Appendix V

### Correlation between Home Loan and Total Loan for KBL (in million)

Year	Home Loan(X)	Total Loan(Y)	X.Y	X <sup>2</sup>	Y <sup>2</sup>
2062/063	1047	6892	7,215,924.00	1,096,209.00	47,499,664.00
2063/064	2117	8929	18,902,693.00	4,481,689.00	79,727,041.00
2064/065	2380	11335	26,977,300.00	5,664,400.00	128,482,225.00
2065/066	2773	14593	40,466,389.00	7,689,529.00	212,955,649.00
2066/067	2820	14766	41,640,120.00	7,952,400.00	218,034,756.00
	X =11137	Y =56515	XY =135,202,426.00	X <sup>2</sup> =26,884,227.00	Y <sup>2</sup> =686,699,335.00

We have,

$$\text{Now, } r_{xy} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

$$r_{xy} = \frac{5 \mid 135292426 - (11137)(56515)}{\sqrt{5 \mid 26884227 - (11137)^2} \sqrt{5 \mid 686699335 - (56515)^2}} = 0.93$$

$$r^2 = 0.87$$

$$\text{Probable Error P.E.(r)} = 0.6745 \mid \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.04$$

$$6 \times (\text{P.E.}) = 6 \times 0.04$$

$$= 0.16$$

## Appendix VI

### Correlation between Home Loan and Total Loan for NBBL (in million)

Year	Home Loan(X)	Total Loan(Y)	X.Y	X <sup>2</sup>	Y <sup>2</sup>
2062/063	820	6460	5,297,200.00	672,400.00	41,731,600.00
2063/064	850	4409	3,747,650.00	722,500.00	19,439,281.00
2064/065	925	5458	5,048,650.00	855,625.00	29,789,764.00
2065/066	1028	6705	6,892,740.00	1,056,784.00	44,957,025.00
2066/067	1145	7180	8,221,100.00	1,311,025.00	51,552,400.00
	X =4768	Y =30212	X.Y =29,207,340.00	X <sup>2</sup> =4,618,334.00	Y <sup>2</sup> =187,470,070.00

We have,

$$\text{Now, } r_{xy} = \frac{n\phi XY Z(\phi X)(\phi Y)}{\sqrt{n\phi X^2 Z(\phi X)^2} \sqrt{n\phi Y^2 Z(\phi Y)^2}}$$

$$r_{xy} = \frac{5 | 29207340 Z(4768)(30212)}{\sqrt{5 | 14618334 Z(4768)^2} \sqrt{5 | 187470070 Z(30212)^2}}$$

$$= 0.67$$

$$r^2 = 0.45$$

$$\text{Probable Error P.E.(r)} = 0.6745 | \frac{1 Z r^2}{\sqrt{n}}$$

$$= 0.17$$

$$6 \times (\text{P.E.}) = 6 \times 0.17$$

## Appendix VII

### Trend Analysis of Home Loan for EBL

Year (X)	Home Loan (y)	x=A	x <sup>2</sup>	Xy	Trend Value (Yc)
2062/063	2684	-2	4	-5368	4,500.60
2063/064	3959	-1	1	-3959	4,934.00
2064/065	4952	0	0	0	5,367.40
2065/066	3821	1	1	3821	5,800.80
2066/067	4920	2	4	9840	6,234.20
2067/068					6,667.60
2068/069					7,101.00
	y=20336	x=5	x <sup>2</sup> =10	x.y=4334	

A= Assumed Mean Value

Since  $y=20336, n=5$   $x^2= 55,$   $x.y =4334, n = 5$

$$a = \frac{\phi y}{n} = \frac{20336}{5} = 4067.2$$

$$b = \frac{\phi xy}{\phi x^2} = \frac{4334}{10} = 433.4$$

Now, Equation of Trend line  $Yc = a + bx$

$$= 4067.2 + 433.1 x$$

Trend value for period 2063/9/30 =  $4067.2 + 433.1 x \times 6 = 6667.2$

Trend value for period 2064/3/31 =  $4067.2 + 433.1 x \times 7 = 7101$

### Appendix VIII

#### Trend Analysis of Home Loan of past period for KBL

Year (x)	Home Loan(y)	x-A	x <sup>2</sup>	xy	Trend Value (Yc)
2062/063	1047	-2	4	-2094	2,642.90
2063/064	2117	-1	1	-2117	3,058.40
2064/065	2380	0	0	0	3,473.90
2065/066	2773	2	4	5546	3,889.40
2066/067	2820	1	1	2820	4,304.90
2067/068					4,720.40
2068/069					5,135.90
	y=11137	x=0	x <sup>2</sup> =10	x.y=4155	

A=Assumed Mean Value

Since  $y=11137$ ,  $A=3$ ,  $x^2=10$ ,  $x.y=4155$ ,  $n=5$

$$a = \frac{\phi y}{n} = \frac{11137}{5} = 2227.4$$

$$b = \frac{\phi xy}{\phi x^2} = \frac{4155}{10} = 415.5$$

Now, Equation of Trend line  $Y_c = a + bx$

$$= 2227.4 + 415.5x$$

Trend value for period 2067/068 =  $2227.4 + 415.5 \times 6 = 4720.4$

Trend value for period 2068/069 =  $2227.4 + 415.5 \times 7 = 5135.90$

## Appendix IX

### Trend Analysis of Home Loan of past period for NBBL

Year (X)	Home Loan (y)	x=A	x <sup>2</sup>	xy	Trend Value (Yc)
2062/063	820	-2	4	-1640	1,024.70
2063/064	850	-1	1	-850	1,095.80
2064/065	925	0	0	0	1,166.90
2065/066	1028	2	4	2056	1,238.00
2066/067	1145	1	1	1145	1,309.10
2067/068					1,380.20
2068/069					1,451.30
	y=4768	x=0	x <sup>2</sup> =10	x.y=711	

A= Assumed Mean Value

Since  $y=1130.54$ ,  $x=0$ ,  $x^2=10$ ,  $x.y=711$ ,  $n=5$

$$a = \frac{\phi y}{n} = \frac{4768}{5} = 953.6$$

$$b = \frac{\phi xy}{\phi x^2} = \frac{711}{10} = 71.10$$

Now, Equation of Trend line  $Y_c = a + bx$

$$= 953.6 + 71.1x$$

Trend value for period 2067/068 =  $953.6 + 71.1 \times 6 = 1380.20$

Trend value for period 2068/069 =  $953.6 + 71.1 \times 7 = 1451.30$

## Appendix X

### Trend Analysis of Total Loan and Advance of past period for EBL

Year (X)	Total Loan & Advance (y)	x=A	x <sup>2</sup>	Xy	Trend Value (Yc)
2062/063	9801	-2	4	-19602	22,855.00
2063/064	13664	-1	1	-13664	27,061.00
2064/065	18339	0	0	0	31,267.00
2065/066	23885	2	4	47770	35,473.00
2066/067	27556	1	1	27556	39,679.00
2067/068					43,885.00
2068/069					48,091.00
	y=93245	x=0	x <sup>2</sup> =10	x.y=42060	

A= Assumed Mean Value

Since  $y=93245$   $x=0$ ,  $x^2=10$ ,  $x.y=42060$   $n=5$

$$a = \frac{\phi y}{n} = \frac{93245}{5} = 18649$$

$$b = \frac{\phi xy}{\phi x^2} = \frac{42060}{10} = 4206$$

Now, Equation of Trend line  $Y_c = a + bx$

$$= 18649 + 4206x$$

Trend value for period 2067/068 =  $18649 + 4206 \times 6 = 43885$

Trend value for period 2068/069 =  $18649 + 4206 \times 7 = 48091$

## Appendix XI

### Trend Analysis of Total Loan and Advance of past period for KBL

Year (X)	Total Loan & Advance (y)	x=X - 2060/9/30	x <sup>2</sup>	xy	Trend Value (Yc)
2062/063	6892	-2	4	-13784	13,444.20
2063/064	8929	-1	1	-8929	15,585.40
2064/065	11335	0	0	0	17,726.60
2065/066	14593	1	1	14593	19,867.80
2066/067	14766	2	4	29532	22,009.00
2067/068					24,150.20
2068/069					26,291.40
	y=56515	x=9	x <sup>2</sup> =10	x.y=21412	

Since  $y=56515$ ,  $x=0$ ,  $x^2=10$ ,  $x.y=21412$ ,  $n=5$

$$a = \frac{\phi y}{n} = \frac{56515}{5} = 11393$$

$$b = \frac{\phi xy}{\phi x^2} = \frac{21412}{10} = 2141.2$$

Now, Equation of Trend line  $Y_c = a + bx$

$$= 11393 + 2141.2x$$

Trend value for period 2067/2068 =  $11393 + 2141.2 \times 6 = 21150.2$

Trend value for period 2064/3/31 =  $11393 + 2141.2 \times 7 = 26291.40$

## Appendix XII

### Trend Analysis of Total Loan and Advance of past period for NBBL

Year (X)	Total Loan & Advance (y)	x=A	x <sup>2</sup>	xy	Trend Value Yc
2062/063	6460	-2	4	-12920	6,416.00
2063/064	4409	-1	1	-4409	6,789.60
2064/065	5458	0	0	0	7,163.20
2065/066	6705	1	1	6705	7,536.80
2066/067	7180	2	4	14360	7,910.40
2067/068					8,284.00
2068/069					8,657.60
	y=30212	x=0	x <sup>2</sup> =10	x.y=3736	

Since  $y=30212$ ,  $x=0$ ,  $x^2=10$ ,  $x.y=3736$ ,  $n=5$

$$a = \frac{\phi y}{n} = \frac{30212}{5} = 6042.4$$

$$b = \frac{\phi xy}{\phi x^2} = \frac{3736}{10} = 373.6$$

Now, Equation of Trend line  $Y_c = a + bx$

$$= 6042.4 + 373.6x$$

Trend value for period 2063/9/30 =  $6042.4 + 373.6 \times 6 = 8284$

Trend value for period 2064/3/31 =  $6042.4 + 373.6 \times 7 = 8657.6$