

**IMPACT AND IMPLEMENTATION OF NRB  
DIRECTIVES**

**(A case study of commercial banks)**

**A THESIS**

*Submitted By:*

**Laxmi Maharjan**

Patan Multiple Campus

T.U. Regd. No. : 7-1-38-1670-98

Campus Roll No. : 164/062

Exam Roll. No.: 220208/066

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Office of the Dean

Faculty of Management

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March, 2012

March, 2012

# **RECOMMENDATION**

This is to certify that the Thesis

Submitted by:  
**Laxmi Maharjan**

Entitled

**“IMPACT AND IMPLEMENTATION OF NRB DIRECTIVES  
(A case study of commercial banks)”**

Has been prepared as approved by this Department in the prescribed format of Faculty of Management, Tribhuvan University. This thesis is forwarded for examination.

.....  
( Bishnu Gopal Khimbaja)  
Co-ordinator, MBS Program

.....  
(Dr. Mahananda Chalise)  
Thesis Supervisor

.....  
(Baburam Singh Thapa)  
Asst. Campus Chief

Date:

# VIVA VOCE SHEET

We have conducted the viva-voce examination of the thesis

*Presented by*

**Laxmi Maharjan**

Entitled

**“IMPACT AND IMPLEMENTATION OF NRB DIRECTIVES  
(A case study of commercial banks)”**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Degree of

**Master of Business Studies (MBS)**

**Viva Voce Committee**

Head, Research Department: .....

Member (Thesis Supervisor): .....

Member (External Expert): .....

# DECLARATION

I hereby declare that the work reported in this thesis entitled **IMPACT AND IMPLEMENTATION OF NRB DIRECTIVES (A case study of Commercial Banks)** submitted to Patan Multiple Campus, Patandhoka, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirements for the Master is Degree of Business Studies under the supervision of **Dr. Mahananda Chalise**, Patan Multiple Campus.

March, 2012

-----  
**Laxmi Maharjan**

Researcher

Patan Multiple Campus

TU Regd. No: 7-1-38-1670-98

Campus Roll No. : 164/062

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Researcher

Patan Multiple Campus

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## **ABBREVIATIONS**

NRB:	Nepal Rastra Bank
GDP:	Gross domestic Product
NBL:	Nepal Bank Limited
RBB:	Rastriy Banija Bank
NIC:	Nepal Industrials and Commercial Bank
NGO:	Non-government Organization
CRR:	Cash reverse Ratio
CB:	Commercial Banks
WTO:	World Trade Organization
RWA:	Risk Weight assets
CAR:	Capital Adequacy Ratio
NPL:	Non-performing Loan
LLP:	Loan Loss provision
i.e.:	That is
FY:	Fiscal Year
LTD:	Limited
Rs:	Rupees
ISO:	International Standard Organization
LC:	Letter of Credit
NB:	Nepal Bangladesh Bank
NCC:	Nepal credit and Commercial Bank

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is a Developing with an agriculture economy. 8 out of 10 Nepalese are engaged in farming and it accounts for about 38% of the GDP (Mrs. Pradan & Mrs. Sherstha 2004:64). In recent year the country's efforts to expand into manufacturing industries and other technological sectors are in a progress. Farming is the main economic activity followed by manufacturing, trade and Tourism. The chief source of foreign currency earnings are merchandised export, services tourism and remittance. In the absence of a stable political environment, structural reforms have been delayed new investment are sluggish pervasive weaknesses in the fiscal and financial sector persist and a backdrop for sustained economic growth has been impaired. Repeated threats to business and industrial communities and growing industrial insecurities have added uncertainties to long-term investment in the country.

So far an examination of the status and the planned management changes of major Government owned banks have been carried out. Additionally a study on strengthen the supervisory function to the Nepal Astray Bank (NRB) has also been completed. All these reforms are aimed towards having the financial sector which play crucial role in economics Development of Nepal. While Nepal has initiated a financial reform project in association with the Asian development Bank, he progress of these financial sector reforms thus far has been satisfactory challenges like growing non-performing assets high operational expenses and narrow banking coverage exist the financial system.

In fact banks played a pioneering role in the enhancement of economy of the country and hence it is the life blood of the modern commerce and can be said that modern commerce is so much dependent upon banking that any cessation of banking activities even, for a couple of day will completely paralyze the modern business and economic life of a nation. Modern bank had gained paramount trust in the public.

The deposit mobilization of the commercial banks reached to 421Arbba 52Carore (Fiscal Year 064/65 NRB Pratibedan). This is not a small amount so it needs to be secured and for

this NRB, the Central Bank of Nepal has to play a pioneer role. Central bank being the leaders of entire banking system needs to maintain the financial sector stable. So for the effective functioning of the commercial banks, Central Bank issues some directives of the commercial banks. The main aim of issuing directives is to ensure the stability and healthy development of banking and financial system and towards enhancing the public credibility towards it.

The size of the total assets of the financial sector has been increased significantly over the last six and half year. But the market share of banks and non banking financial institutions has not changed in a huge range. Still commercial banking sector is holding a dominant position in financial market of the total asset and liabilities of financial sector 85.43% has been held by commercial banks till mid-January 2007. Commercial Banks and development banks all together held 88.81% of total assets liabilities of the financial system. In mid-January 2007, the share of the total assets of financial system owned by development banks and other were 3.38%, 1.83%, 0.83% respectively.

The credit for this significant growth in the commercial Banking activities goes to Nepal Rastra Bank. The Two huge commercial banks -Nepal Bank Ltd. and Rastra Bank had almost gone to bankruptcy because of non-performing loans. But they again regained their strength as they were guided by the policies of NRB known as NRB Directive.

### **1.1.1 History of Banking Development**

The evolution of banking industry had started a long time during ancient times. There was reference to activities of money changer in the temple of Jerusalem according to “New Testament.” In ancient Greece, the famous temple of Delphi and Olympia served as the great depositors for people by surplus fund and money lending transaction. Preliminary banking was operated in Chaldean, Egyptian, and Phoenician according to Marshal’s “Money, Credit and commerce”. Greek pattern was followed by ancient Rome for Development banking. After the death of Emperor Justinian in 562AD Banking suffered oblivion from the Roman Empire until the revival of trade and commerce in the middle ages that the lessons of finance were learnt anew from the beginning Money lending in the middle ages was, however, largely confined to the Jews since the Christians were forbidden by the cannon law to indulge in the sinful act of lending money to other on interest. However, as the hold of the church loosened with the development of trade and commerce about thirteenth century Christians

also took the lucrative business of money lending thereby entering into keen competition with the Jews who had hitherto monopolized the business.

How ever as public enterprise banking dare it first beginning around the middle of the twelfth century in Italy and the Bank of venous it's were established the bank of Carolina and the Bank of Venous in 1401 and 1407 AD respectively. Similarly Bank of Amsterdam set up in continued to operate unit the end of eighties century. With the expansion of commercial activities in northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world. The combated migrated to England and other parts of Europe from Italy are regarded for the development and expansion of the modern banking. In Nepal modern

### **1.1.2 History of Banking Development in Nepal**

The growth of banking Nepal is not so long. In comparison with other developing or developed country, the institutional development in banking system of Nepal is far behind. Nepal had to wait for a long time to come this banking position. The origin of bank in Nepal and its beginning of growth is controversial. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life Similar to other countries, landlords. Rich merchant's shopkeepers and other individual money tenders have acted as fence to institutional credit in presence of unorganized money market. In ancient times, some crude banking operations were in practice. In Nepalese chronicle, in the beginning of eight century, king Gunakamdev renovated the Katmandu city by taking loan and the end of same period ,a merchant name Shankhadhar had started the "New year" Nepal Sambhat after release all the people of Katmandu from the debt in 879 or 880 A.D . The establishment of the "Tejrath Adda" during the year 1877 Ad (1933 BS) was fully subscribed by the Government of Kathmandu valley, which played a vital role in the banking system and was the first step in institutional development of banking sector in Nepal. This establishment helped the general public to provide credit facilities at a very low rate. The Tejrath Adda distributed credit facilities to the public especially on the collateral of gold and silver. Hence the establishment of Tejrath Adda could be regarded as pioneer foundation of banking in Nepal.

In this year 1937 AD (1994 BS) the establishment of Nepal Bank ltd, with the technical assistance of Imperial bank of India come into existence under "Nepal Bank Act. 1937 AD" as the first commercial bank of Nepal, inaugurated by his Majesty King Tirbhuwan on Nov.

1937 A.D. Rastriya Banijya Bank the second commercial Bank was established in the year 1966 AD (2022B.S) under the Banijya Bank Act 2021(1965) according to recommendation of the Nepal Rastra Bank. After enacting the Commercial Bank Act 2031(1974) both the Banijya Bank Act 2020 and the National Banijya Bank Act 2021(1965) were replaced. Rastriya Banijya Bank being the largest commercial bank plays a major role in the economy. The Financial shapes of the two commercial banks have a tremendous impact on the economy. To promote industrial development, Industries development centre was set up in 2013 BS which was later converted in to Nepal Industrial Development Bank (ADB) was established in 2024 BS.

On the long run Commercial Bank Act was felt, accordingly it was established in 1974AD. According to section 2(a) of commercial Bank Act 1974, the commercial banks are the heart of the economics system. They hold the deposit of millions of persons, government and business units. It exchanges money, accepts deposit, grants loan and operates commercial transaction. They make funds available through their lending and investing activities to borrower, individuals, business firms and government. Thus, their task is to provide a collecting point for saving or relatively small average amount from number of individual sources and invites them into a productive and needed sector of the country, so as to develop the nation. In the developing country like Nepal, there is always lack of financial resources not only because of its real absence but because of the available resource are not properly mobilized and are not fully utilized for the productive purpose, in this course the commercial banks are financial institute rather than banking institute.

The process of the development of banking system in Nepal was not satisfactory up to 2040(1983). No bank was opened from during this period except extending the branches and sub branches of the banks, which were established in this period.

After the initiation of liberalized economic policy the operating of Nepal Arab Bank Limited (NABIL) in 2041 (1985) under the commercial Bank Act 2031(1974) and company Act 2021(1965) opened the door for commencement of commercial bank in private sector. Then whole lot of commercial banks was opened in Nepal. Today all the banks except Nepal Bank Ltd and Rastriya Banijya bank is making profit. The inefficiency of these two public sector banks has led to the success of other private sector.

### **1.1.3 NRB Central Bank of Nepal as a Regulatory Body**

It is very difficult to give a brief and accurate definition of a central bank for easy understanding. We can define the central bank on the basis of functions it performs. We may say that central bank is one which act as the bankers to the government and the commercial banks, enjoying the monopoly of not issue, operates the currency and credit system of the country and does not perform the ordinary commercial banking functions. The functional of the central bank various from country and with the passage of time, its functional have grown considerable. Central bank is the central arch (Principle) of the monetary and fiscal frame work in every country of the world and its functions are indispensable for proper functioning of the economy and fiscal operations of the government.

So many authors have given different definition of central bank according to situation and need. Which reflect that the term central bank is a board defines it's in a single sentence. Most of the authors define central bank by laying emphasis on one or more functions it performs.

A central bank is a bank which constitutes the apex of the monetary and banking structure of its country and which performs, as best as it can in the national interest. (De Kock)

Central banking is of recent origin. Prior to the commencement of the twentieth century, there had been no clearly defined concept of central banking. But today there is no country in the world, which does not have a central bank. Due to its various functions and fundamental rights, it has becomes, an essence for the proper functioning of the economy. before the commencement of the twentieth century, some banks in England, Europe Sweden etc were assuming more powers and enjoying the rightly of note issue and were acting as the government's banker and agent. They were not originally called the central banks but were generally known as the bank of issue or the national banks.

The oldest central bank is the Risk bank of Sweden, established in 1656 then after Bank of England came into begin in 1694. Which was assumed, to be a first central bank, to develop, what are now, generally recognized as the fundamentals of the art of central Banking. The fundamentals, principles and tools and instruments developed, by Bank of England was universally accepted by the entire Bank over the country. The successful working of Bank of England, stimulate the development of central banking in the world. As a result, the bank of France was established in 1800 with the assistance of state funds and private capital.

Similarly, the bank of Russia was established in 1860, as a state bank, with the declared object of consolidating the monetary circulation and the floating debt of the Russian Empire. The Bank of Netherlands was founded in 1814 on the ruins of old Bank of Amsterdam. The National bank of Austria, is the result of the reorganization of Bank of Austria-Hungary in 1877, was established in 1817 to manage the deteriorated situation of over issue of paper currency. In 19th century, the Bank of Norway, the national Bank of Denmark and bank of Spain was also established in 1817 A.D. 1818 A.D. and 1856 A.D. respectively. Bank of Japan was established in 1882, to manage the currency. Establishment of Federal Reserve System of U.S.A in 1914, International Financial Conference held in Brussels in 1920 and establishment of the International Monetary Fund, the highest body in the world to control monetary system, in 1944 is considered as milestone in the history of central bank. Today the number of central banks stands over 150.

In the context of Nepal, NRB is the central bank was established in 1956 AD (2013 BS) as per NRB Act 2012. It is nonprofit organization fully subscribed by the government. It was established to discharge the central banking roles and responsibilities including guiding the development of the embryonic domestic financial sector, since then, there has been huge growth in both the number and the activities of the domestic financial institutions NRB as the central bank of the country is entrusted with responsibility of management and supervision of the monetary and credit system of the country. In order to exercise adequate control and supervision over the banking and credit system of the country, the NRB has a key role in the country's economic system in which no other organization is likely to substitute it. As the highest monetary authority of the country, the bank's activities are directed towards the economic up ward of the country. NRB has been given wide regulatory responsibility under the various provisions of the following legislations.

Nepal Rastriya Bank Act 2012 BS (1955 A D) new Act 2058 BS

Commercial bank Act 2031 BS (1974 AD)

Foreign exchange Act 2019 BS (1962 AD)

Bank and financial institutions ordinance 2060 BS

#### **1.1.4 Concept of Commercial Bank**

According to banks and financial institution act 2063”Commercial banks are those banks which are established under this act to perform commercial function except those which are established for specific purpose like Development banks, co-operatives etc.” The commercial banks pool together the saving of the community and arrange for productive use. They supply the financial needs of modern business. They accept deposit from the public which are repayable on demand or on short notice. They cannot afford to invest their fund in long term needs of trade and industry. They provide the working capital required by trade and industry in their day to day transactions. They cannot afford to supply the block of capital required for the purpose of fixed assets. They grant loans in the form of cash credits and overdrafts. They also render a number of subsidiary services such as collection of bills and cheques, safe keeping variables of their customers, etc. they provide short term accommodation by discounting the bills of exchange

Commercial Banks are intermediaries between the saving units and investing units in the economy. In other word they act as bridges between the surplus units and deflect units. Small amounts of scattered savings are pooled together which are then lent for the purpose of investments and facilitating other transactions. So, a well-regulated, soundly-operating and properly-directed banking system plays a catalytic role in the transformation of the economy. Through their activities of attracting or financializing the savings, allocating the pooled resource into the creditworthy and components sectors, and facilitating the payments process, the banks help the economy to augment its level of efficiency, productivity and competitiveness. An efficient role to the banks in tapping the resource mobilization and investment prospects of the economy thus fosters saving, investment, employment and economic growth. The banks themselves offer employment opportunities to a large number of educated and skilled hands. The banks are run in accordance with specialized legislation, which in Nepal is presently called the Banks and Financial Institutions Act, 2006.

#### **1.1.5 Commercial Banks in Nepal**

The banking in Nepal stated with the established of Nepal Bank Limited. Today we have 26 commercial banks in operation. The commercial bank of Nepal can be categorized in two types Public and Private sector. Public Sector bank includes the two old banks NBL and RBB. Private Sector comprises the other remaining banks.

**Table 1.1**

List of Commercial Banks in Nepal

S.N	Names	Operation Date (A.D.)	Head Office	Paid-up Capital (In “00”)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380383
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172300
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777500
4	NABIL Bank Limited	1984/07/16	Kathmandu	965747
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2407069
6	Standard Chartered Bank Nepal Limited	1987/01/30	Kathmandu	931966
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1216215
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874528
9	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu	1860315
10	Everest Bank Limited	1994/10/18	Kathmandu	838821
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	844398
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthana gar	1399558
13	Lumbini Bank Limited	1998/07/17	Narayangadh	1096079
14	Nepal Industrial & Commercial Bank Ltd	1998/07/21	Biaratnagar	1140480
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara,	1479141

			Kaski	
16	Kumari Bank Limited	2001/04/03	Kathmandu	1166099
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1098086
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	952200
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1000000
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu	1000000
21	Prime Bank Ltd	2007/9/24	Kathmandu	863755
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1337500
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1000000
24	Development Credit Bank Ltd.	2008/05/24	Kathmandu	1655289
25	NMB Bank Ltd.	2008/06/1	Kathmandu	1424641
26	Kist Bank Ltd	2003/02/21	Kathmandu	2000000
27	Janata Bank Ltd.	2010/04/05	Kathmandu	1400000
28	Mega Bank Nepal Ltd.	2010/07/23	Kathmandu	1631000
29	Commerz and Trust Bank Nepal Ltd	2010/09/20	Kathmandu	1400000
30	Civil Bank ltd	2010/11/26	Kathmandu	1200000
31	Century Commercial bank ltd.	2011/03/10	Kathmandu	1080000

## 1.2 Profile of the Selected Bank

### 1.2.1 MACHHAPUCHHRE BANK LTD

Machhapuchhre Bank limited was registered in 1998 as the first regional Commercial bank to start banking business from the western region of Nepal with its head office Pokhara. Today , with a paid of capital of above 1479 million rupees, it is one of the full fledged commercial bank operating in Nepal and it ranks in the topmost among the private commercial banks.

Machhapuchhre Bank Limited is striving to facilitate its customer needs by delivering the best of services in combination with the state of the art technologies and best international practices. Machhapuchhre Bank Limited is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software named GLOBUS BANKING SYSTEM developed by Temenos NV, Switzerland. Currently it is using the latest version of GLOBUS, referred as T-24 BANKING SYSTEM. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers. Bank able to get ISO certification 062\063 on Quality Management Certification as the first Bank in Nepal.

The bank in the last few years have really opened up with branches spread all around the country. At this stage, it has its Corporate Office in Kathmandu and branch offices in other parts of Kathmandu, Damauli, Bhairahawa, Birgunj, Banepa, and different parts of Pokhara in addition to the Head Office in Naya Bazar, Pokhara. A full-fledged banking branch is in operation in Jomsom located high up in the mountains too. The bank aims to serve the people of both the urban and rural areas. The bank intends to open many more branches in the coming years and have already envisaged the opening of 39 branches during the year 2009/10.

**Table 1.2**

Capital Structure of Machhapuchhre Bank

Share Capital	Amount (NPR)
Authorized Capital	2000000000
Issued equity capital	1479269600

Paid up equity capital	1627000000
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(Source: Annual Report of Machhapuchhre Bank, 066/067)

**Table 1.3**

Share ownership Pattern (In percent)

Owner	Holding
Organization Institution	22
Individual	78
Total	100

(Source: Annual Report of Machhapuchhre Bank, 066/067)

### **1.2.2 NEPAL INDUSTRIAL AND COMMERCIAL BANK LTD**

NIC Bank which commenced operating on 21 July 1998 is the First commercial bank in the country to be capitalized at Rs 500 million. The bank was promoted by some of the prominent business house of nation. The current shareholding pattern of the bank constitutes of promoters holding 65% and General public holding 35% NIC .Bank is one of the most widely held banking companies in Nepal with over 32000 shareholders. The share of bank are actively traded in Nepal stock Exchange with current market capitalization of about NPR 6270 million within 9years of commencing business, the bank has grown rapidly 34 branches throughout the country while few more in the pipeline. All branches are interconnected through V-Sat and capable of providing online real time transactions.

The bank is first commercial bank in Nepal to be ISO 9001; 2000 certified for quality management system. The bank is run by professionals and believes in the highest standard of corporate governance. NIC Bank's organizational structure is designed to support its business goals and is flexible while at the same time seeking to ensure effective control and supervision and consistency in standards across all business. The bank believes in continuously offering new and added services to its customers with commitment to quality and value to its clients. Accordingly, the bank has been in the forefront in launching

innovative and superior product with immense success. To add to these achievements the bank has also been awarded the “Bank of the year 2007 Nepal” by world-renowned financial publication of the Financial Times UK.-the Bankers. This fruit of the Bank’s outstanding performance backed by belief and support of its customer toward the bank.

**Table 1.4**

Capital Structure of NIC Bank

Share Capital	Amount (NPR)
Authorized Capital	1600000000
Issued equity capital	1311552000
Paid up equity capital	1311552000

(Source: Annual Report of NIC Bank, 066/067)

**Table 1.5**

Share ownership Pattern (In percent)

Owner	% Holding
Promoter Group	1
General Public	99
Total	100

(Source: Annual Report of NIC Bank, 066/067)

### 1.2.3 LAXMI BANK LTD

Laxmi Bank was incorporated in April 2002 as a commercial bank. The current shareholding constitutes of promoters holding 27.11%, other organization 37.33% and individual 35.56%. Promoters represent Nepal's leading business families with diversified business interests. The bank's shares are listed and actively traded in the Nepalese Stock Exchange.

Laxmi Bank has grown with 29 branches in country. Bank successfully merged with himself Finance which was a decade old first generation finance company. With a view to providing safe, seamless, quick and advance banking service, the bank has been heavily investing in contemporary banking technologies. The bank uses Flex cube as its main banking platform. Flex cube incidentally has been ranked the number one selling core banking solution globally, and has been embraced by over 500 financial institutions across over 90 countries. The Bank provides its services through a host of delivery channels including cell phone, Internet, ATM. Point of sales(pos) etc., in addition to a network of physical branches. Its Internet banking facility comes with capabilities of online shopping in addition to regular Internet banking features. Similarly, through the bank's alliance with smart Choice Technologies (STC), the ATM\ Debit cardholder of Laxmi Bank has access to a network of ATMs, and POS terminals located in all major urban centers of the country. The bank is the first in south Asia to have implemented SWIFTNET, the advanced version of the SWIFT technology, which is used for speedy and secure payment and messaging services.

**Table 1.6**

Capital Structure of Laxmi Bank

Share Capital	Amount (NPR)
Authorized Capital	2000000000
Issued equity capital	1613520500
Paid up equity capital	1613520500

(Source: Annual report of Laxmi Bank, 066/067)

**Table 1.7**

Share ownership Pattern (In percent)

Owner	% Holding
Other organization	37.33
Individuals	35.56
Others	27.11
Total	100

(Source: Annual report of Laxmi Bank, 066/067)

#### **1.2.4 SIDDHARTHA BANK LTD**

Siddhartha Bank Limited (SBL) commenced operations in 2002. The Bank is promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience. Bank provide a full Range of commercial banking services through its 33 branches established in Kathmandu, Birjing, Briratnagar, Pokhara, Damak, Narayangat and Patan. The vision of SBL is to be financially sound, operationally efficient and keep abreast with technological development. The bank firmly believes customer focus is core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern. The Bank wants to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and also aims tom provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staff.

**Table 1.8**

Capital Structure of Siddhartha Bank

Share Capital	Amount (NPR)
---------------	--------------

Authorized Capital	3000000000
Issued equity capital	1571130000
Paid up equity capital	1095030000

(Source: Annual Report of Siddhartha Bank, 066\067)

### **Table 1.9**

Share ownership Pattern (In percent)

Owner	% Holding
Other institutions	49
Individuals	51
Total	100

(Source: Annual Report of Siddhartha Bank, 066/067)

### **1.3 Focus of the Study**

This study entitled “Impact and Implementation of NRB directive on commercial Bank in Nepal” with respective to single borrower limit, capital adequacy ratio and loan classification and loan loss provision as well as mainly focused on directives issued by central bank to commercial banks. This study tries to find out the impact and implementation of NRB directives on commercial banks with special reference to the directive considered on this study is single borrower limit, capital adequacy norms and loan classification and loan loss provision.

### **1.4 Statement of the Problems**

The current economic scenario of the country is worsening. Still there is a mushrooming growth of commercial banks in private as well as Joint Venture. The number of competitors is large and area serve is limited. Under such circumstances a fierce competition has been raised among the financial institution with regular increases in numbers of financial

Institutions. Despite the competition and increase in the number of players for the same market, most of the commercial banks are generating higher profit than the previous yrs. This indicates that there may be offering of uneconomic rate of interest, indulging in risky enterprises, unhealthy competition etc. such situation may endanger the deposits of general public. Hence it is imperative to scrutinize the performance of this commercial bank.

In order to safeguard the public deposit and ensure the economic stability in the country NRB, issues Directives time to time. The directives are related to various performances of the banks and banks are required to follow the directives. The directives thus issued by NRB, if not addressed properly, have potential to wreak the financial system of the country as they are only the tools of NRB to supervise and monitor the activities of the financial institution it must be formulated taking into consideration the positive as well as negative impact on the commercial banks. Issue of wrong or unsuitable directives may ruin the conditions of commercial banks instead of enhancing its situation.

NRB takes necessary action to ensure that its recent directives have been compelled by all commercial banks equally. Any activities operated by the financial institution deviating from these guidelines will be penalized by the Central bank (NRB) that may range from reprimanding to snatching the license of the institutions. Because of the strict policy of NRB, the financial system has gained momentum not only in the number of institution but also has helped them to improve their quality by reducing the unnecessary risks and unfair market competition.

In the beginning due to lack of proper regulations Nepalese commercial bank could not recognize the importance of the quality credit and banking sector failed to witness the expected development. Subsequently, the banking sector faced the problems of Bad Debts, overdue loans, accrued interest, accumulation of non-banking assets and excess liquidity in the banking system. Viewing the adverse implications, NRB felt it must to issue suitable directives to run commercial banks in a healthy competitive environment to ensure the sustainable developments of the overall banking system.

In the year 2001, NRB issued a set of Directives to commercial banks consisting of nine parts, claiming that these directives are based on internationally accepted banking norms of Basel committee. NRB ordered the commercial bank to increase its authorized capital to Rs. 2 billion up to 2070 B.S which is almost impossible for Nepalese banks/ such regulation may

have negative impact on commercial banks and may ruin the conditions of commercial banks. Later on commercial banks were allowed to comply with the norms, stage by stage within specific time period. So the impact of NRB directives must be regularly studied and examined so that short coming in the directives can be eliminated and healthy directives are ruled. However there is no specific period when NRB may change their directives. They introduce new directives, amend the necessary ones and remove the existing directives any time as deemed necessary by them. Because of this, the commercial banks are facing difficulty in implementing the directive in proper manner.

The problem of this study is to find out whatever Machhapuchre bank, NIC bank, Laxmi bank and Siddhartha bank implemented the directive issued by NRB regularly or not with special reference to the directives considered on this study is capital Adequacy ratio, loan classification and loan loss provision and single borrow limit.

### **1.5 Objective of the Study**

NRB has under taken various activities for the banking and financial development since its establishment. NRB has issued various regulation and directives to commercial banks to make the banking sector effective. The main objectives of the study are to review directives of the NRB related to commercial banks. This study will conducted with the broad objectives of examining the state of NRB functions in the commercial banks in Nepal. The specific objectives of this study are given below.

- a. To review and analyze the directives of NRB.
- b. To examine the impact and implementation to NRB Directives by commercial bank.
- c. To analyze the steps taken by commercial banks to fulfill the requirements of NRB directives.

## **1.6 Significance of the Study**

NRB directives are only the tools for NRB to supervise monitor and control the financial institution. It obviously play important role in the development of commercial banks of Nepal. It is therefore necessary to conduct a details research on impact and implementation of NRB directives from time to time. This research will help commercial banks to reassess their strategies and polices to cope with the development created by the recent changes made in the directives of NRB. It helps NRB, to find out their short coming and take necessary action.

Today especially in developing countries the financial system in general and the banking system in particular has been progressively oriented towards meeting national, socio-economic objectives, including rural development and enlistment of the weakens sections of the society. As commercial banks and financial institution play a vital role in the economy, their regulation and supervision by central bank is considered still more important aspects of sound monetary policy as effective, regulation and supervision leads banking in industry to operate in a competent and constructive way. Realizing the fact, NRB had issued a set of guidelines to the financial institutions which is amended, added and removed as deemed necessary by NRB. The directives of NRB which regulated the function of financial institution of Nepal have the power to drive the financial system of the country. If these directives are formulated without proper groundwork, the players of financial system may not be able to implement them and there may be rise unfair competition in the market. Not only this, the development of the banks also largely depends upon these policies, the wrong formulation of which can create the financial crises in the country deteriorating the economy of the country as a whole. There should be a continuous monitoring if the polices designed is been able to attain its objective or not. It has, therefore became imperative that a details research study be taken on the directives of NRB and its impact on the banks.

This research study, though small in size is expected to insight the effects of NRB directives on the commercial banks and the extent of their implementation. The comparative study among commercial bank will help the researchers, investors, creditors and other stakeholders to analyze the financial position of the firm. Further without any doubt this research study will be very helpful to other researchers for similar studies.

## **1.7 Limitations of the Study**

This assignment is for the partial fulfillment of M.B.S. The effort has made to present and analyze the fact clearly, truly and within the boundary. But reliability of tools, lack of

research experiences and lack of data are the primary limitation of this report. Other limitations are:

Among 26 commercial banks, the study is based on only four banks namely Machhapuchre Bank, NIC Bank, Laxmi Bank, and Siddhartha Bank. Hence the study out from this study may not be applicable to other Commercial banks.

NRB, the central Bank have set directive to the commercial bank, which are mainly related to capital, loan, deposit and borrowing rates, exchange facilities, expansion and contraction of branches, investments share proportion etc. It is almost impossible to take in account all the directives issued and make the study on them so, this study is focused on only three directives among seventeen directives issued by NRB for commercial banks namely capital Adequacy ratio, loan classification and loan loss provision, and single borrower limit.

The study is based on questionnaire direct interview and secondary data received from NRB and other commercial banks. As well as primary data were used to support the secondary data.

In some cases independent assumption has been made. Therefore the validity of results can be question marked.

The study covers the period from F\Y 2062\063 to 2066\067.

### **1.8 Organization of Study**

The study has been organized in to five chapters each devoted to some aspects of the study of the NRB directives. The chapters one to five consist of introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusions and recommendation. To follow the simple research methodology, it is rational behind this kind of organization of the study as:

Chapter 1: Introduction.

It deals with introduction of the main topic of the study like general background, statement of the problems, objective of the study and organization of the study and other introductory framework.

Chapter 2: Review of Literature.

It includes with the review of available relevant studies. It includes the conceptual review of the related books, journals, articles and the published and unpublished research works as well as thesis. It also includes security act.

#### Chapter 3: Research Methodology.

It describes research methodology employed in this study i.e. research carried out in this size and shape. For the purpose various financial and statistical tools and techniques are defined which is used for the analysis of the presented data.

#### Chapter 4: Presentation and Analysis of Data.

This chapter is the major part of the whole study in which all collected relevant data are analyzed and interpreted by the help of different financial & statistical tools. In this chapter we explained the major findings of the study.

#### Chapter 5: Summary, Conclusion and Recommendations

It contains the summary of the study, conclusion recommendation and suggestion on the basis of the study.

## CHAPTER II

### REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is not only way to discover what other research in the area of our problems has uncovered, but also helps to avoid investing problems that have already been definitely answered. It is an internal and mandatory process in research works. It is necessary to show how the problem under investigation related to previous research within theoretical framework and in such situation, the underlying theory needs to be reviewed well.

In this chapter, the researcher has presented the conceptual framework or regulatory system of NRB directives (guidelines) of commercial bank and financial institutions. All the directives are directly related to the commercial bank's activities and it's affected by the bank rules and regulations. The reviews are done regarding the directives relating to capital adequacy ratio, single borrower limit and loan loss classification and provisioning. In this connection, the researcher has reviewed books and articles published in different journals and newspapers as well as browsing materials from the concerned web sites previous dissertations in the relevant subject matters etc.

From above it is clear that the purpose of literature review is to be final out. What research has been conducted is one's chosen field of study and what remarks to be done;

Thus this chapter is broadly discussed under three sections.

- ) Theoretical Review
- ) Review of Journals and Articles.
- ) Review of related studies

#### **2.1 Theoretical Review**

NRB directives Guideline issued by NRB to banks and financial institution for regulation, supervision and monitoring is termed as NRB directives. NRB is authorized bank to regulate, control and developing banking system in Nepal. It gives permission to open new commercial bank under its act and also serves as a lender of last resort to commercial banks and financial institution. The NRB's mandate incorporates the supervision, regulation and monitoring of all

commercial bank, Development bank, and finance companies as well as a licensed NGOs and the co-operative engaged in micro finance. As NRB has the effective functioning of banks and financial institutions, it should issue guidelines for them, which are called directives. The main aim of issuing directives is to ensure that stability and healthy development of banking and financial systems ant toward enhancing the public creditability toward it.

### **2.1.1 Review of NRB Directives**

Central Bank being the leaders of entire banking system needs to maintain the financial sector stable. So for the effective functioning of commercial banks, central Bank issues some guidelines to the commercial which we called directive. The main aim of issuing directives is to ensure the stability and healthy development of banking and financial system and towards enhancing the pubic creditability towards it.

The financial sector reform of Nepal was initiated in mid 1980s and from the onward NRB, has been playing pioneer role by issuing directives to commercial bank is an attempt to maintain their level at par to the international standard. At present the number of guidelines issued by NRB to commercial bank reaches, seventeen which are as follows:

- 1) The provision of minimum capital fund to be maintained by the commercial bank.
- 2) The provision of loan classifications and loan loss provisioning on the credit.
- 3) The provision relating to limit on credit exposure and facilities to a single borrower, group of related borrowers and single sector of the economy.
- 4) The provision relating to accounting policy and the structure of financial statements to be followed by the commercial banks.
- 5) Regulation relating to minimization of risk inherent in the activities of commercial banks.
- 6) The provision of institutional good governance to be followed by commercial banks.
- 7) Time frame for implementation of regulatory directives issued in connection with inspection and supervision and supervision of commercial banks.
- 8) Regulation relating to investment in shares and securities by commercial banks.
- 9) The provision of submission of statistical data to the NRB. Banking management division and inspection and supervision division.
- 10) Regulation relating to sale and ownership transfer of promoters shares.
- 11) Regulation relating to, stringent blacklisting procedure for loan defaulters.
- 12) The provision relating to compulsory deposited amount of NRB.

- 13) Regulation relating to developing the branch office of commercial banks.
- 14) Provision relating to interest rates.
- 15) Provision relating to collection of financial sources.
- 16) Provision relating to consortium financing.
- 17) Provision for investment in the deprived sector

(Source: [www.nrb.org.np](http://www.nrb.org.np))

### **2.1.2 Role of NRB for Regularity and Supervision**

Principally, the central bank has the liability and obligation to maintain fair and healthy environment of economic activities of the nation. For it, the necessary acts, rules and regulations are enacted and developed. Thus, the act of checking whether the related officials and bank have honestly complied with the policy, regulation and provisions enacted by the controlled financial system, itself is called inspection. As a central bank, the Nepal Rastra Bank has been discharging such serious and sensitive task. The Nepal Ratra Bank (NRB) has got this power and full authority to supervise and regulated the sector under the Nepal Rastra Bank Act 2058(2002) and section 29, of the commercial Bank Act 2031(1974). The main objective of supervising the banks is to establish financially sound, well managed banks not posing a threat to the interest of their depositors. Central bank has power and full authority to supervise and regulate the banking sector. A central bank makes rules, issues instructions from time to time. For this NRB established banking operations and development department in 1966 AD to effectively mobilize the capital for promoting industry and the banking system. In December 1974 AD, agriculture loans department and industrials loans department were merged and the department was renamed as a banking operation and loan department. Again in 1986 AD it was divided into two different departments namely bank operation and development finance department. In 2002 AD, it came in its present form of Bank and financial institutions regulation department. (BFIRD)

The main functions of the BFIRD include steering the financial sector reform, providing license to banks and financial institutions, issuing regulations and directives to the banks and financial institution re-financing the commercial banks to rehabilitate and sick industries, devising laws relating to banks and financial institutions and make timely amendments compiling, processing and publishing the data on banking and financial sector.

Various financial innovation introduced by numbers of financial institutions in recent years in more competitive manner have significant impact on the formulation and implementation of monetary policy. These new instruments if have widened the scope of choices for customer then they also have altered the definition and measurement of the money which has important implications on the supervisory and examining roles of the central bank. Thus, it has become imperative for the central banks to keep pace with this development and carry out their continuous monitoring.

Initially to ensure that the financial institutions of Nepal are operating according to the NRB directives, NRB used to inspect the banks only once in year and the inspection was limited to the foreign transactions only. Later on, the bank prepared on comprehensive manual for the inspection with many objectives. Generally NRB inspect the commercial banks by two methods.

**2.1.2.1 Off-site inspection:** An inspection carried out without visiting the places of the banks and financial institutions but by demanding from the financial statement (balance sheet) and other necessary documents, report and information, the function, on the basis of its, making the financial analysis of Bank and Financial institution as whole is called the off-site supervision. This inception review and analyze the matter like capital adequacy, Cash reserves ratio (CRR), requirement, loan classification and profitability provision, priority and derived sector credit etc.

**2.1.2.2 On-site inspection:** The inspection, which is made by visit of the place of the bank and financial institutions by the team of inspectors of the central bank, is called on-site inspection. It provides the independent check on the bank operation, income and expenses, provision for expenses, are inspected to assure that they comply with the existing rules.

The central bank then prepared the report on finding and find out the deviations if any. In case of irregularities and deviation, instructions are given to rectify them. If any bank violates such instructions the actions taken may range from reprimanding to snatching the license. The takeover of Lumbini Bank by NRB directives where dissolved the existing Board of director of the bank and brought the management under its own control is a glaring example of the action against a commercial bank by the Central Bank.

Another important role of central bank as a regulator and promoter of financial sector is to assist the problems of financial institutions and their resuscitation. In this context central bank has become more alert for the safety and soundness of banks and financial institutions to command public trust and confidence.

NRB's ongoing re-engineering to upgrade its inspections, supervision and regulation capacity at par with the international standard is another important of the reform process. Improved central bank supervision and regulation can do much to revitalize not only the financial system by focusing on the quality of assets, but also by identify problem and ascertaining financial conditions of the banks, hence NRB has directed its attention towards the analysis of solvency, profitability, risk exposure and that operational procedures.

The function of the development has been guide by its goal to develop a healthy, transparent and competitive financial system in the country. In this connection it has issued new directives to the commercial banks and financial institutions on credit information and black listing of defaulting borrowers.

### **2.1.3 Capital Adequacy and Directives of NRB**

How much capital is required to be maintained by a commercial bank is the subject matter of discussion since a long time. Holding to much capital than its requirement may be have lower return from their investment and similarly holding too little capital may mean reverse of the former. So there must be optimum level of a capital in a bank. While deciding on an optimum level of capital, several factors are to be taken into consideration. So it is worthwhile to know the meaning of capital and terms related to it.

In general sense, Money is needed to established and operate a bank is called bank capital. It is not possible and operates a bank without capital. In this way, The amount received by the bank from different sources to establish the bank, to operate the banking system is called bank capital. No law has given the definition of bank. It has described only structure of the bank capital. There is no definition of bank capital in the Commercial Bank Act 2031(1974), 9<sup>th</sup> Rastra Bank Act 2058(2002) and other banking laws. Only the structures of capital for the establishment of bank are descried there. It is therefore clear that the capital necessary to establish and operate a bank is known as bank capital.

The meaning of the capital varies place; situation and the circumstances. Sometimes, it denotes assets. In business, the amount invested by any person for business and industry is called capital.

Capital is simply a name given to the network of the business, the amount by which the value of the assets exceeds the liabilities.(L.C.B Gower)

Capital is a stock of resource that may be employed in the production of goods and service and price paid for use of credit or money, respectively. (Microsoft Encarta reference Library 2003)

According, effectively from 16<sup>th</sup> July 2001(1<sup>st</sup> Sharwan 2058 B.S) capital of the bank has been categorized in to two part by NRB as follows: (Source: www.nrb.orb.np)

1 Tier-1capital/core capital, which context fallowing components:

- ) Share capital
- ) Share premium
- ) Irredeemable preference shares
- ) General reserve fund
- ) Cumulative profit\loss
- ) Capital Redemption Reserve
- ) Capital adjustment fund
- ) Other reserves

Following items should be deducted while calculating core capital:

- ) Goodwill
- ) Excess investment in shares and other securities of organized institutions determined by NRB.
- ) Investment in shares and other securities of organized institutions in which bank or financial institution has own financial interests.
- ) Fictitious Assets.

Tier-1 capital is capital which is permanently and freely available to absorb losses without the banking being obliged to cease trading. An example of tier one capital is the ordinary share capital of the bank Tier one capital is important of because it safe guards both the survival of the bank and the stability of financial system.

Supplementary Capital (Tier-2 Capital): Tier-2- capital/ supplementary is capital which is generally absorbs losses only in the event of a winding up of a bank, and so provides a lower level of protection for depositors and other creditors. It comes into play is absorbing losses after tier one capital has been lost by the bank. An example of tier-two capital is subordinated

debt. This is debt which ranks is priority behind all creditors except shareholders. In the events of a winding-up, subordinated debt holders will only be repaid if all other creditors (including depositors) have already been repaid. According to NRB directives, Tier-2 capital/Supplementary capital includes the following components:

Loan loss provision for pass loan, total excess amount of provision over the NRB requirements for substandard, doubtful and loss category of loans and loan loss provision made for restructured or rescheduled loans.

- ) Assets revaluation reserves
- ) Hybrid capital instruments
- ) Unsecured subordinated term debt
- ) Exchange equalization reserve
- ) Provision for possible loss in investment and investment adjustment fund.

Notes:-

Under supplementary capital exchange equalization reserve is deleted through the amendment unified directive 2062.

Loan loss provision up to 1.25% of total risk weighted assets is considered as supplementary capital.

Gain from revolution of assets is transferred to asset revolution reserve but fund in asset Revolution reserve up to 2% of supplementary capital is treated as supplementary capital.

Hybrid capital instruments include those securities which are issued without collateral security, fully paid, lower priority in payment than depositors and creditors and participation in loss or can be converted into equity capital.

Subordinate term debt includes debentures or bonds which are issued without any collateral security and low priority in payment than depositors and maturity period more than five years. But these instruments should not be issued to raise capital more 50% of core capital fund.

#### **2.1.4 Need and Maintenance of Capital Fund**

The sum of core and supplementary capital is called Total fund. Capital adequacy Ratio is calculated on the basis of core capital, supplementary capital and Risk Weighted assets. Clark (1999) has defined capital adequacy as a legal requirement that a financial institution should have enough capital to meet all its obligations and fund the service it offers.

Capital Adequacy of a Bank: the Nepalese context.(Shrestha R L) opines that main objective of the capital base is to have the capacity to absorb loss. So it should be at such a level, which is sufficient to absorb probable loss, Degree of probable loss refers to the risk. Thus, progressive nations have linked capital Adequacy with the level of risk associated with the bank. In some countries it is related with the liabilities side of the balance sheet while some countries consider both liabilities and assets side of the balance sheet for deciding capital adequacy. Most of the countries are following the standard international practice for maintaining the capital known as BASEL. The basic norms of BASEL are defined the later Section.

Central bank of Nepal has come up with its commitment to adopt BASELII from year 2007 (NRB publication-Banking Pravandhan, 2006 page 73). However, through the capital adequacy ratios are above the minimum levels recommended by the Basel capital Accord, the safety of banks can't be guaranteed because capital Adequacy ratios are concerned primarily with credit risks. There are the risks that capital Adequacy ratios don't recognize, such as, probabilities of losses due to internal frauds, losses on trading different financial instruments etc. so capital Adequacy ratios are not the sole indicators to judge a bank's financial soundness.

### **2.1.5 Capital Fund Ratio and NRB Provision for Maintenance of Capital**

Capital adequacy ratio is the ratio which determines the capacity of the bank in terms of meeting the time liabilities and other risks, such as credits risk, operational risk etc, and are the measure of the amount of bankers capital expressed as a percentage of its risk-Weighted credit exposures. It is the ratio of a bank's capital to its Risk-Weighted assets. It is sometime reduced as CAR, where  $CAR = \frac{\text{capital}}{\text{Total assets}}$ . It is also known as CRAR abbreviated as capital to risk Weighted Assets ratio.

The provision of minimum capital to be maintained by the commercial banks as per directed by NRB since Fiscal year 2058/059 are as follows.

**Table 2.1**

Fiscal Year	Core Capital (%)	Capital Fund (%)
2003/04(2060\2061)	5.5	11
2004/05(2061\2062)	5.5	11
2005/06(2062\2063)	5.5	11
2006/7(2063\2064)	5.5	11

2007/08(2064\2065)	5.5	11
2008/09(2065/066)	5.5	11
2009/10(2066/2067)	5.5	11

Banks are required to submit the report of capital adequacy along with other required data related with it, on a quarterly basis within one month from the end of each quarter starting from Aswin, Poush, Chaitra and Ashad of every year. In case capital adequacy ratio is found shortfall banks are required to cover the short-fall within next six months by the way of re-allocating assets or by issuing new share or by appropriating from the next profit while increasing its paid-up capital, it should increase its paid-up capital at least by 10% per year.

Action against not fulfilling the requirement of capital adequacy ratio:

- ) Prohibition on declaration and distribution of dividend.
- ) Prohibition on opening of new branch.
- ) Prohibition on loan distribution.
- ) Prohibition on accepting new deposits.
- ) Refinancing facility form NRB is not provided and
- ) Any other action may also be initiated under section 100 of Nepal Rastra Bank ACT 2058.

### **2.1.6 NRB Directives Regarding Capital Adequacy Ratio**

As per NRB Directives from F\Y 2062/2063(2005/06) the licensed institution shall maintain minimum capital fund on the basis of their risk-weighted assets in order to safeguard the money of the depositors against any possible loss. The risk-weighted assets have also classified into two components. These are: On –Balance Risk Weighted assets and Off-Balance Risk Weighted items.

Banks are required to maintain capital adequacy mainly in three different ways, the core capital adequacy ratio, the supplementary capital adequacy ratio and the total capital adequacy ratio. The reporting requirement of capital fund, time period for fulfilling the shortfall in capital fund and action for not complying the directives relating to capital fund have been mentioned in the NRB directives issued under the prudential norms\regulation.

For the calculation of capital fund ratio, first the bank shall calculate the total risk weighted assets. Both the on balance sheet and the off balance sheet assets shall be considered for the purpose of calculation of total risk weighted assets.

For determine total risk weighted on Balance assets, the amount as exhibited in the balance sheet assets shall be multiplied by their respective risk- weights and then added together. For the purpose of calculation of risk-weighted assets, the gross value of the assets shall be considered.

Accordingly, for determining the total Risk-Weighted of Balance sheet assets, the amount of such transaction shall be multiply by their respective risk- weighted and then added together. More the liquidity and risk, more is the weight age and Vice-Versa.

### 2.1.6.1 Risk Weighted on Balance – Sheet Assets

$$CAR = \frac{\text{Core Capital} \Gamma \text{ Supplementary Capital}}{\text{Sum of Risk Weighted Assets}} | 100$$

Sum of risk weighted assets= Total on-Balance sheet risk weighted+ Total off-balance sheet risk weighted items.

On-balance sheet assets of banks are group into three categories with assignment of separate risk-weighted. The assets categories and their corresponding risk-weights are given in the following table. To determine the risk weighted on-balance sheet assets, the national value of the various balance sheet assets are multiplied by their respective risk weights and then added together.

**Table 2.2**  
**Risk-Weighted on-Balance Sheet Assets.**

On balance sheet assets Risk weights	Risk weighted %
Cash balance- gold tradable- balance of NRB	0%
Investment on HMG bonds/ securities	0%
Investment on NRB bonds/ securities	0%
Fully secured loan against own FDR	0%
Balance at local banks & financial institutions	20%
Fully secured loan against other banks FDR	20%
Balance at foreign banks- loan against guarantee of	20%

A+ rated Int'l banks	20%
Money at call- other investment on A+ rated Int'l banks	20%
Investment on share, debt and bond	100%
Other Investment	100%
Other loan, advance and bills purchased	100%
Fixed assets	100%
Other Assets	100%

(Source: www.nrb.org.np)

### 2.1.6.2 Risk Weighted Off –Balance Sheet Items

In order to determine the value of risk –weighted assets of balance sheets items of a bank the items are grouped in to four categories and accordingly risk weight age of 10%, 20%, 50% and 100% have been assigned .The risk –weight age assigned for off –balance sheets items, the value of the off-balance sheets items shall be multiplied by their respective risk –weights and then added together

**Table 2.3**  
**Risk –Weighted off –Balance Sheets Items**

Particular off –Balance Sheets Items	Risk Weighted %
Bills collection	0%
Forward foreign exchange contact.	10%
L/C with maturity of more than 6 months (full value)	20%
Guarantee provided against counter guarantee of internationals rated foreign bank	20%
L/C with maturity of more than 6months (full value)	50%
Bid bond	50%
Performance bond	50%
Advance payment guarantee	100%
Financial guarantee	100%
Other guarantee	100%
Contingent Tax Liability	100%
Irrevocable loan commitment	100%

Other contingent liabilities	100%
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(Source: www.nrb.org.np)

### **2.1.7 BASEL II Concept and its Implementation in Nepal**

With a view of adopting the international best practices, NRB has decided to adopt capital adequacy framework based on Basel II document released by Basel committee on banking supervision. The complexity and sophistication of the Nepalese financial market didn't warrant advanced approaches like the IRB Approach or the standardized Approach. Hence, Nepal Rastra Bank adopted the simplified standardized approach for credit risk, Basic indicator Approach for operational Risk and Net open Exchange Model for the market Risk. Reminiscent of the international convergence of capital measurements and capital standards, this framework also builds around three mutually reinforcing pillars, Viz. minimum capital requirements supervisory review process and disclosure requirements.

The first pillar aligns minimum capital requirements more closely with banks actual underlying risks, in concept, the first pillar is similar to the existing capital framework, in that, it provides a measure of capital relative to risk. The second pillar- supervisory review process- allows supervisors to evaluate a bank's assessment of its own risks and determine whether that assessment seems reasonable. It is not enough for a bank or its supervisions to rely on the calculation of minimum capital under the first pillar. Supervisors should provide an extra set of eyes to verify that the bank understands its risk profile and is sufficiently capitalized against its risks. The third pillar- market provides yet another set of eyes. The third pillar is intended to strengthen incentives for prudent risk management. Greater transparency in bank's financial reporting should allow market place participants to better reward well- managed banks and penalize poorly managed ones.

The coming year shall see a parallel rule on the capital adequacy of the banks under both Basel I and Basel II. Banks are required to compute their capital adequacy requirements, based on this framework, on a quarterly basis. The so arrived result should report to their respective board of Directors as well as to the Nepal Rastra Bank in the prescribed format. Any shortfall in the capital adequacy requirements in accordance with this framework shall not constitute a default during this review period. However the failure to submit the returns stipulated in this framework shall constitute non-compliance. The Accord Implementation

Group (AIG) constitutes to support the Basel II implementation is continuously monitoring and providing support to this process. This Group also recommends necessary changes to the framework based on the ground of the need and justification of such changes.

### **2.1.8 Loan Classification and Provisioning Norms**

The international accounting standards Board (IASB) has issued standard on assets valuation and disclosure, it has not yet provided detailed guidance on loan provisioning. As a result, countries that implement the international accounting standards still have different loan loss provisioning regulatory home works.

In such loan means money lend at interest. In commerce and finance term own is used as the transfer of money or other property on promise of repayment along with interest, usually at a fixed future date. Loan loss provision is an arrangement made in order to safeguard from bankruptcy if loaned amount is not recovered or if the debtors default on repayment of loan. It provides buffer against future unexpected losses.

Loan and advances are the most profitable of all the assets of a commercial bank. This is the primary source of income and the most profitable of all the assets of the bank. Loan and advances account for the largest part of the revenue of the bank. But bank need to be careful about the safety of such loan and advances because bank may be influences by bad debts and since loan and advances are least liquid of the entire banker's assets. So may feel difficult to realize them on short notice.

There are different types of loan and advances. Such as secured and unsecured loans. These loans, which were granted against the personal security of the borrower, is secured loan i.e. against the promissory notes while unsecured loan means they are not backed by tangible assets or securities.

With an objective to minimize the possible loss of credits extended by commercial banks, as provided under section 23(1) of Nepal Rastra Bank Act 2012 (with amendment) relating to development and regulation of banking system, this directives in respect of loan classification and provisioning has been issued in exercise of authority under section 14 (a) of commercial banking act 2031.

#### **Clause 1:**

Classification of outstanding loans and advance on the basis of aging:

The loans and advance of a commercial bank shall be classified on the basis of ageing of the principal amount.

**Clause 2:**

Classification of Loans and Advances;

As per the directives issued by NRB, all loans and advance of the banks need to be classified into the following four categories:

- ) Pass Loan
- ) Sub-Standard Loan
- ) Doubtful Loan
- ) Bad Loan

**Table 2.4**

**Loan classification and provision as per NRB directives**

<b>Classification of loans</b>	<b>Category</b>	<b>Duration overdue</b>	<b>Loan Loss Provision</b>
Performing loan	Standard Pass/ Good	Up to 1 to 3 months	1%
Non-performing Loan	Sub-standard	3 to 6 months	25%
	Doubtful	6 months to 1 year	50%
	Bad Loans	More than 1 year	100%

**2.1.8.1 Additional Arrangement in Respect of Pass Loan**

Loans advances fully secured by gold, silver, fixed deposit receipts and HMG securities shall be include under “pass” category. However, where collateral of fixed deposit receipt or HMG securities or NRB Bonds is place as security against loan for other purposes, such loan has to be classified on the basis of aging.

### **2.1.8.2 Additional Arrangement in Respect of Loss Loan**

Even if the loan is not past due, loans having any of all of the following discrepancies shall be classified as ‘Loss’. No security at all or security that is not in accordance with the borrower’s agreement with the bank. The borrower has been declared bankrupt. The borrower is absconding or cannot be found. Purchased or discounted bills are not realized within 90 days from the due date. Owing to non-recovery, initiation as to auctioning or the collateral has passed six months and if the recovery process is under litigation. Loans provided to the borrowers include in the blacklist and where the Credit Information Bureau blacklists the borrower.

The classification shall be made against the entire outstanding loan on the basis of the past due period of overdue installment.

### **2.1.8.3 Relating to Collateral**

The collateral used by the bank to back up the loans and advances need to be adequate enough to cover up the principal and interest amount in the event of non-realization of the principal and the interest amount.

### **2.1.8.4 Loan Loss Provisioning**

The loan loss provisioning on the basis of the outstanding loans and advances and bills purchases is classified as follows:

**Table 2.5**  
**Provision for Loan Loss**

Classification of loan	Loan loss provision
Pass	1%
Sub-standard	25%
Doubtful	50%
Loss	100%

(Source: [www.nrb.org.np](http://www.nrb.org.np))

### **2.1.8.5 Provision against Personal Guarantee Loan**

In case of Loans against Personal Guarantee, a statement of the assets, equivalent to the amount of the personal guarantee, not claimable by other has to be obtained. The provision

for such loans has to be made as per the categorization shown above but in case of Pass, Sub-standard and Doubtful loans, in addition to the normal provision made on the basis of aging, another 20% extra provision should also be provided. Therefore, for loans against personal guarantee, the provision amount will be 20%, 45%, and 70% for pass, Sub-standard, and Doubtful loans respectively.

#### **2.1.8.6 Provisioning Against Priority Sector Credit**

Priority sector Credit\Deprived Sector Credit is normally insured with the Deposit Insurance and Credit Guarantee Corporation. In case certain loans under the priority sector credit\deprived sector credit are not insured, the loan amount will have to be provisioned at 25% of the provision percentage mentioned above for different categories.

The required provisioning for insured priority sector credit\deprived sector credit is as follows:

)	Pass	0.25%
)	Sub- standard	5%
)	Doubtful	12.5%
)	Loss	25%

#### **2.1.9 Single Borrower Limit**

Single obligor limit is the borrower\group of borrowers limit. In order to reduce the concentration risks of the banks, NRB has fixed the maximum percentage of loans and advance that can be provided by a bank to a single borrower or a single group of borrowers. For this purpose, NRB has classified loans into two types: the Fund-based loan (e.g. overdraft, term loan, trust receipt etc) and Non- Fund based loan (LC, Guarantees, and Commitments). Both the loans are treated differently when it comes to the fixation of a Single Obligor Limit.

**Table 2.6**

**Single Borrower Limit.**

Loans and Advances	Percentage (By 2059 end)	Percentage ( By 200 end)
Fund Based	40% of total Core capital	25% of total Core capital
Non-Fund Based	75% of the total Core capital	50% of the total Core capital

**2.1.9.1 Exemptions in Limit of Credit and Facilities**

The credit and facilities extended against FDR's, deposit placed with the bank, HMG securities, NRB Bonds as well as against unconditional guarantees issued by the World Bank, Asian Development Bank and International Finance Corporation including multilateral institutions and loans and advances and facilities extended against unconditional guarantees issued by internationally rated banks having rating of at least A+ by reputed Rating agency or Banks specified as first class banks by NRB from time to time.

Advance and facilities to be used for the purpose of importing specified merchandise by the following public corporation:

**Table 2.7**

**Exemption on single Borrower limit**

Name of the Corporation	Merchandise
Nepal Oil Corporation	Petrol, Diesel, Kerosene and LP Gas
Agricultural Input Corporation	Fertilizer, Seeds
Nepal Food Corporation	Cereal

**2.1.9.2 Group of Related Borrowers**

As per NRB, the borrowers fall under a single group in the following circumstances:

- ) Where a company holds 25% or more shares in another company, than both or such companies or,
- ) Director of a company shareholder of a private company and husband, wife, son, daughter-in law, daughter, son in –law, adopted daughter, father, mother, brother, and

brother's wife. Sisters of such directors or shareholders residing jointly in the same house or separately as well as all other persons who are supported by such related persons. In addition, other companies in which such persons individually or by their relatives as above, separately or jointly, hold 25% or more shares, and such companies. Sisters of wife and brother of wife have been excluded from the definition of a single group in the revised directives.

- ) Firm, Company stated to be associated as a group, or members of such group, or
- ) Even if the director, shareholder or other relatives as specified above, holds, jointly or individually, less than 25% shares of another company, but the management of that other company is controlled by the following ways, then such companies:
  - ) By being Chairperson of the Board of directors,
  - ) By being the Chief executive of the Company,
  - ) By appointing more than 25% of the directors.
- ) Where one borrower or company gives a gross guarantee to another borrower or company, then such companies.

The banks shall prepare records of the single borrower and related customers on half yearly basis and submit to NRB.

### **2.1.9.3 Separate Group**

Any organized institution or company owned fully or more than 50% by HMG shall be treated as a separate group.

#### **Note:**

In case a bank provides loan in excess of the single borrower limit to the borrowers or the group of related borrowers, then such excess amount should either be reduced to the required level or an additional capital charge is to be provided by the bank for the excess amount within six months. In order to provide an extra capital charge, the bank is required to increase its core capital in accordance to the formulae provided by NRB.

## **2.2 Review of Related Studies**

This segment primarily tries to find out major conclusions and recommendations of the previous studies by TU students which are related to the research undertaken by the author. There are many studies related to the central bank. But some studies have been conducted regarding the role of NRB as a supervisor of the overall financial sector of Nepal. An attempt

has been made to provide a comparative perspective for evaluating and interpreting the significances of one's finding.

**Kamal Prakash Kalathoki** in 2000 had conducted a research entitled "A study on Nepal Rastra Bank's Role for the banking development in Nepal" has concluded that NRB's role in the banking development in the country has not been effective. He suggested that to increase more bank deposit, Deposit insurance Scheme, Workers Saving Scheme will be beneficial. The insurance Scheme will prove safe for depositor. Again for unbanked areas the management of weekly or monthly moving bank will also be helpful for deposit collection & increasing the banking habit of the people in rural areas. NRB should persuade the banks to maintain the spread gap of 5% & it should also reintroduce the loss compensation scheme and interest free loan to the newly established CBs especially in remote areas at least for certain year. It should be able to manage various training programs as per the requirement of the CBs to make their staff to satisfy their customer and increase their efficiency. He suggested further, there should be regular meeting & communication with the banks to sort out the problems and to make programs successful. He suggested for deposit collection but now, the main problem is, there is not good investment opportunity in the markets.

**Santosh Pandey** in 2002 had conducted a research entitled "A Case Study of Himalayan Bank Ltd. NRB Directives their Implementation and Impact on the Commercial Bank" concluded the following finding and recommendation. In his report, the new directives issued by NRB to the commercial banks, banks have to increase the operational cost and dividends to the shareholders and bonus to the employees are scaled down due to the decrease in the profit of the banks. The reporter has observed about the protection of the deposit of public because of the reduction in the loan exposure to the single unit, the reporter states that due to the new directives, its foresight results lead to banks financially healthy and stronger in future. Finally the reporter laid down about the changes in the directives will bring prosperity to the shareholders, depositors, employees and the economy of the country as a whole. The reporter has also suggested in his thesis to NRB that the NRB should issue directives only after doing the proper homework. NRB must strengthen the functioning of credit information Bureau. The NRB should be practical and should issues directives to be applicable in the context of Nepal, not only to meet the international standards, otherwise complaints from commercial banks may arise. However, in the present context the commercial banks have to comply such directives

And maintain its policies, failing which may suffer penalties of different category. The reporter has suggested NRB to try to avoid ambiguity in the directives that are found there in the present directives and to come up with straightforward directives leaving no loopholes that can be manipulated.

**Bijay Karmacharya** in 2002 had conducted a research entitled “Study on Capital Structure of Joint Venture Commercial Bank and NRB Directives Issued in Regards” concluded the following finding and recommendation. The report has expressed that the financial soundness as well as its strength of the company depends upon the large extent on the composition of the capital structure and assets. Capital structures of the company present its resources capacity and ability of its present worthiness. In the study he has found that all the banks in his study follow the requirement of NRB directives regarding capital adequacy. The capital structure of studied banks is highly leveraged. Thus, Karmacharya has recommended that the proportion of debt and equity capital should be decided keeping in mind that effort of tax advantages and financial distress. The banks are required to maintain improved capital structure by increasing by increasing equity base i.e. issuing more equity capital expanding general reserves and retaining more earning with this improvement, it will compromise among the conflicting factors of cost and risk. As mandated by NRB, for the operation in overall Nepal’s commercial bank should have capital base of RS 500 million. Hence, the banks should raise its paid-up capital to RS 500 million as soon as possible.

**Sabitri Shrestha** in 2003 had conducted a research entitled "Impact and Implementation of NRB's Guidelines on Commercial Banks A study of NABIL Bank Ltd. and Nepal SBI Bank Ltd" has tried to find out the impact of NRB directives on commercial banks. She has also made effort to find out whether the directives are actually implemented and are being monitored by NRB or not. She has stated that both Nabil and SBI bank are implementing the NRB directives. In her study, she found out that all the changes in NRB directives made both positives and negative impacts on the commercial bank. Even though the study is limited to only two samples, it is cleared that new directives issued by NRB make good impact more than bad impact on the various aspects of the banks. It can be seen that the provision has been changed and the increased provisioning amount has decreased the profitability of commercial banks. Apart from, loan exposure has been cut down to customers due to the borrowers limits have been brought down by NRB. Therefore reductions in loan amount result to decrease the interest income from loans. This will decrease the profit of the bank’s shareholders and lesser bonus to employees. Not only negative sides but also there are positive sides of new

directives. Recently the problems of banks are increasing operating cost and decreasing loan amount resulting decrease in profit of the banks. But it shows it in only for short term because the directives re more effective to protect the banks form bad loans, which protect the banks from bankruptcy as well as protections of deposits of general public's. Increase in capital adequacy ratio strength the banks financial position. Loan related provision will made safety of loans except the risk reducing provision will protect the bank from liquidation. Above all, it can be concluded that newly issued directives are more effective than previous one although it has brought some problems towards banks. To decrease the decreasing profits of the banks, they should research the alternative such like more investments in other business, banks, should adopt new technology according to the demand of time and must not depend on only interest income for profits.

**Sanjay Shrestha** in 2007 had conducted a research entitled “Banks Impact and Implementation of NRB Guidelines of Commercial” conclude the following finding and recommendation. The report focus that all the changers in NRB directives have made both positive and the negative impacts on the commercial bank. The research concluded that new directives of NRB have more good output than the negative on various aspects of the banks. Study has mentioned that the changed provisions have increased the provisioning amount for the commercial bank which has decreased the profitability of the banks. Due to the changed directives of single obligor limit, the loan exposure has been cut down to customers which resulted decrease in the interest income resulting decrease in the profit of commercial bank and less dividends could be given to the shareholders and bonus to the employees of the banks. Besides this, the need for the increment in the core capital increased the expenses of the commercial banks and the banks are facing the problems of increasing operating cost with decreasing loan amount restricting the increases in the profit of the bank.

However, the study finally concluded that the prudential vies of NRB though seemed rigorous to the commercial bank will ultimately give a positive impact in the long run of the banks. The report clarifies that the restriction of borrowing limit to a single party is done with a view of reducing the bad loans to a minimum levels, protecting the banks from bankruptcy as well as protection of deposits of the depositors.

### **2.3 Review of Articles**

Recent financial crisis have revealed a number of data deficiencies, notably in pledged assets, deposit held in financially weak domestic banks and their foreign affiliates, valuation

practices leading to bank valuation if assets being significantly difference from market value and complicating assessment of the realizable value of reserve assets. Similarly, public information is lacking in many countries on the off-balance sheet activities of the authorities financial derivatives activities. Also observed was the inadequate information of actual and potential foreign liabilities of the monetary authorities and central government. FSR envisages for measures for mitigating this information and data gap problem as well. Nepal initiated FSR back in 1980s with this donor initiative and assistance. In this process, some progress was made in term of re-capitalization of the government banks, divestment, branch consolidation, introduction of new regulatory and prudential norms and cleaning up the B\S of bad loan locked bank. But the reform process was started in the later 1990s due to political instability and government priority in areas other than financial system. In between, the country observed from very close by, the financial crisis in the neighboring religion. Keeping in mind the financial crisis and its effects in the Asian region, the NRB is now focusing its attention on the reforms measures in the financial sectors as a drive towards new financial architecture.( **Katiwada Y.R. Banking Sector Reform in Nepal I &II : Implication for Corporate Governance The Telegraph Weekly Published in April 30 2003 & May 7 2003**)

NRB took action against some commercial bank under its supervisory function as per the provision of NRB act 2058 on the basis of their financial statement and reports for Fiscal year 2006/07. As some bank couldn't maintain required minimum level of capital so distribution of any kind of dividend or bonus share was restricted for those banks which couldn't fulfill minimum capital requirement. (**NRB Annual Report: 063\064**)

Some banks were fined for not maintaining a compulsory cash Reserve and for not lending loan to the deprived sector under the priority sectors loan, as per the directive of NRB during the year 2006\07.

**(NRB Annual Supervision Report 2007)**

From 2062 Falgun NRB takes over NB Bank, Lumbini Bank, and NCC Bank on its micro supervision toward their transaction especially on loan lending program. Now Bank able to improve their Management so NRB ruled out micro Supervision over NB Bank, Lumbini Bank and NCC Bank.

**(NRB Fiscal year 064/065 Prativedan)**

After 2010, there will be new international entrants in the market. We must remain very competitive. We have to operate at international standard. However, I don't think we need to fear. I believe there are seventeen commercial banks, but all of their capital combined would not even equal to the capital of a small bank in developed countries. If somehow, Nepal is able to capitalize on the growth of china and India, there is no truing bank for the banking sector. There will be opportunities for all types of banks. So, we need to work together to address the challenges of the WTO.**(Pant, Radesh , President of Nepal Bankers Association and CEO of Bank Of Katmandu).**

Ram Prasad Adhikari in his articles, Development of Banking and financial Sector in past 25yrs, state that during the 90's the trend of CBs' branches expansion seems low than past due to the liberal policy followed by government and also NRB. Thus, it is necessary to changes the present policy of NRB for rapid branch expansion of CBs. **(Nepal Rastra Bank Samachar 2051 Kathmandu)**

Nepal Charter Accountancy Institution (ICAN) announces best financial report national award 2064for Following the rule and regulation as provided by SAFA, ICAN analysis the annual report and financial performance of different bank and non-bank institutions.

Under Banking Sector: Nepal Investment Bank

Non- banking Sector: Ace Finance

Insurance Sector: Prudential Insurance Company

Productive Sector: Butwal Power Company

Health and Trasport Sector: Soaltee Hotel

**(As on Katipur Daily 24 July 2007)**

International Finance Corporation (IFC) the privates' sector arm of the World Bank Group announced that Nepal Industrial and Commercial (NIC) Bank have signed an agreement with the IFC to provide a line of credit. With, this, the NIC bank has become the first Nepali bank to join the IFC Global Trade Finance Programme (GTFP). IFC is providing NIC bank with US two million dollar facility, focused to increase the volume and value of the country's imports while improving assess to finance for local business, states a press release. The GTFP supports trade with emerging markets worldwide and promotes the flow of goods and services between developing countries.

**(The Boss June-July 2007:18)**

NRB has implied that the further established of commercial banks in Nepal, where has withdraw the seven-year restriction. Under new directives commercial banks must maintain paid up capital equivalent to RS 2 billion and RS 25 million at the national and regional levels respectively. This proviso stipulate one compulsory requires the joint investment of foreign commercial bank or financial institutions and Nepali firm company etc. for the operation of such commercial banks. These new NRB banking policy has affected the royal army's long- standing plan to established a separate commercial bank. Its management ownership also, there may be negative effect on foreign investment because of no registration of new banks starting from the year 1995 due to express of competition aroused by massive investment following the adoption of liberal policy.

**(Licensing policy for Bank & financial institution 2063)**

In article, "WTO and Challenges of Financial Services Liberalization in Nepal" Gauttam Biji, has put his opinion in the context of financial service liberalization in Nepal reform in Nepal. According to him "the process of financial services liberalization in Nepal is very recent phenomenon. It has been gathering pace gradually, the process of liberalization was started with the financial sectors reform in mid-eighties. It was surged up after the initiation of structural Adjustment program and enhanced structural Adjustment program with respective loan and assistance of the World Bank and International monetary Fund. Financial sectors reform was implemented on a phase wise basis. It was designed to address the institutional deficiencies and closed and controlled financial system. Various macroeconomics polices were modified and adjusted during the period to facilitate the liberalization process.

## **2.4 Research Gap**

All the above mentioned reports have derived more or less universally acceptable conclusion and have been proved to be significant to different sectors in their own place. But the studies are related only with either the impact of NRB directives on commercial banking or the compliance of the capital adequacy maintained by commercial banks with the guidance of NRB directives. But it is not sufficient to discover whether directives do have positive or negative impact on commercial banking. It is equally important to check whether the issued directives are being followed properly or not. If despite of following the directives, commercial banks are not able to enhance their situation or their situation worsens instead of enhancing, we can conclude that the directives are not user friendly. Hence, along with the

impact of NRB directives, it is also, necessary to study the implementation part of NRB Directives.

In another hand, directives are not just related to capital adequacy. At present the number of guidelines issued by Nepal Rastra Bank to commercial Banks reaches eleven. Hence it is necessary to in order to know whether the directives do have positive impact on banks or whether the directives are actually being followed by the banks.

Finally none of the researches have studied the strictness in monitoring and supervision of commercial banks by NRB which is the main important aspect in impact and implementation of directives.

Current research will include both impact and implementation of NRB Directives in its study. The study has included different time periods during which the amendments have been brought in directives of NRB. Also three different sectors of Directives: Capital Adequacy, Loan classification and Loss Provision and Single Borrower Limit have been including. Hence the research claims the study to be more broad and significant in comparison to the former ones.

## CHAPTER III

### RESEARCH METHODOLOGY

#### 3.1 Introduction

The term 'Research' is believed to derive from the French word 'Researcher' meaning to search again. The research work is undertaken following a systematic way, which is called research methodology. As per Kothari," it is the way to solve systematically about the research problem". Research is essentially inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws. It is really a method of critical thinking by defining and redefining problems, formulating hypothesis or suggested solution, collecting organizing and evaluating data making deductions and making conclusion to determine whether they fit the formulated hypothesis. To sum up research is the process of a systematic and in-depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data.

The main objectives of this study are to evaluate or description of the assessment of NRB directives on commercial banks and compare one another assuming they represent almost all of the entire banking industry.

#### 3.2 Research Design

A Research design is purely and simply the framework or plan for a study that guides the collection and analysis of data "Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and control variance". This study is based on descriptive source research design. This study is an examination and evaluation of NRB directives on commercial banks. It helps the researcher in the right direction in order to achieve the goal.

#### 3.3 Populations and Sample

Population means the whole industry and for this study twenty-six commercial banks operating in the kingdom are the total population. Out of twenty-six commercial banks, four commercials banks are taken as sample. These banks are taken as sample on the basis of established by Nepalese promoter.

) Machhapuchre Bank Ltd.

) Laxmi Bank Ltd.

) NIC Bank Ltd.

) Siddhartha Bank Ltd.

### **3.4 Nature and Source of Data**

The study is based mainly on the secondary data that are available in the published form. The sources are books, Annual report, newsletter of selected institutions, website of NRB; published of NRB Directives etc. likewise the articles published in professional journals/newspaper have also been taken into consideration. The major secondary data is used in this research study are loan and advance, profit, capital, Risk weight assets of selected banks.

### **3.5 Data Collection Techniques**

In order to make the study more reliable and authentic different tools and techniques are used throughout the study. Primary data has been obtained through questionnaire, direct interviews, field visits and telephone inquiries. For secondary data annual reports, brochures etc has been collected from different department of concerned banks and as well as websites were also used for down loading the necessary information. Various related publications of NRB were collected from concerned departments of NRB Baluwatar. Similarly reports of credit information bureau (CIB) have been collected from office of CIB, Thapathali.

### **3.6 Data Analysis Tool**

The data collected from different sources are recorded systematically as necessary. Only useful and related data are grouped as per need of the research work. Data are presented in appropriate forms of tables; graphs and charts for analysis of appropriate mathematical, financial as well as statistical tools are used. Some of them are:

) Ratio Analysis – Capital adequacy ratio, Loan loss provision

) Statistical Analysis- Correlation analysis, Probable error, Coefficient of Determination  
etc.

#### **3.6.1 Financial Tools**

For proper financial analysis of data ratio analysis is the best tool. It is very simple analyzing tools under which ratios are taken to express the relation between two or more data. Through ratio analysis we can establish the relationship among the data and research into conclusion. Under ratio analysis following ratio related to bank are analyzed.

### **1. Capital adequacy ratio**

The capital adequacy ratio is the ratio that implies the amount of capital the bank needs to maintain in comparison to its Risk Weighted Assets in order to protect the interest of Depositors and creditors by making bank keep more risk-free assets and by increasing their capital base. It is comprised by dividing total capital fund (core capital +supplementary capital) by total Risk Weighted Assets.

*To measure the adequacy of capital fund*

$$\text{CAR} = \frac{\text{Total Capital Fund}}{\text{Risk Weighted Assets.}} | 100\%$$

Where,

Total capital fund = Core capital + Supplementary capital

### **2. Dividend to net profit**

This ratio is used to calculate the portion of dividend distributed to shareholders from the net profit earned by the bank. High ratio shows the large portion of net profit is distributed to shareholders. Due to certain norms of NRB, commercial banks are required to keep some reserves for different purpose, which is obviously deducted from net profit. Hence, dividend is distributed, if large portion of net profit is kept for certain reserves, retained earning etc. through this ratio we can know what portion is separated for dividend and reserves and can also find out the impact of maintaining reserves earning etc. from net profit.

It is calculated as follows;

$$\text{Dividend to net profit} = \frac{\text{Dividend}}{\text{Net Profit}} | 100\%$$

### **3. Non-Performing loan to total loans and advances ratio**

This ratio is used for find out the portion of non-performing loan is the portfolio of total loan and advances. Higher ratio shows that bank has bad quality of assets in the form of loan and advances. Hence, lower ratio is preferred. There is no fixed ratio to be maintained but as per international standard only 5% is allowed.

It is calculated as follows;

$$\text{NPL to total loan and advances} = \frac{\text{Non Performing Loan}}{\text{Total Loan and Advances}} \times 100\%$$

#### 4. Provision held to NPL

This ratio is used to find out the provision held for non-performing loan. This ratio measures up to what extent of risk interest in NPL is covered by loan loss provision held for NPL. Since higher ratio safe guard against future contingencies that may create due to non performing loan, higher ratio is preferred by bank or in other words banks have cushion of provision to cope the problem that may he cause due to NPL.It is calculated as follows;

$$\text{Provision held to NPL} = \frac{\text{Provision Held for NPL}}{\text{Non Performing Loan}} \times 100\%$$

#### 5. Loan Loss Provision to Total Loan and Advances

Loan loss provision signifies the cushion against future contingencies created by the default of the borrowers in the payment of loans and ensures the continued solvency of the banks. Since low ratio reflects the good quality of assets in the volume of total loan and advances, low ratio is preferred. It indicates how efficiently it manages loan and advances and makes efforts to cope with probable loan loss, since, high provision has to be made for non-performing loans, higher ratio implies, higher portion of NPL in the total loan portfolio.

It is calculated as follows;

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan Loss Provision}}{\text{Total Loan \& Advances}} \times 100\%$$

### 3.6.2 Statistical Tools

#### 1. Correlation Coefficient

Correlation analysis is the statistical tool that can be use to describe the degree to which one variable is linearly related to other variable. Two or more variables are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other variables. Correlation is an analysis of the co-variance between two or more variables and correlation analysis deals to determine the degree of relationship between two or more

variables. It refers the closeness of the relationship between two or more variables. The correlation between two variables X and Y is calculated as follows:

$$\text{Karl parson's correlation coefficient } (r_{xy}) = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Where,

$$\sum x = \sum X$$

$$\sum y = \sum Y$$

N= numbers of observations

X & Y = variables.

## 2. Coefficient of Determination

The square of the correlation coefficient is called the coefficient of determination. It is used to interpret the value of the correlation coefficient. The main significance of the coefficient of determination is to represent the proportion of total variations in the dependent variable, which is explained, by the variations in the independent variables.

It is calculated as follows:

$$\text{Coefficient of Determination } (r^2) = (\text{Correlation of coefficient})^2$$

## 3. Probable Error

Probable error is an old measure of ascertaining the reliability of the value of coefficient of correlation. It is used to test whether the calculated value of sample correlation coefficient is significant or not and also it is used to determine the limits within which the population correlation coefficient may be expected to lie. The probable error may lead to fallacious conclusions particularly when the number of observations is small.

It is calculated as follows:

$$\text{PE (r)} = 0.6745 \times \text{SE (r)}$$

Where,

r= correlation coefficient

$$\text{SE= Standard Error} = \frac{\sum z r^2}{\sqrt{n}}$$

Limits for population correlation coefficient = r ± PE (r)

### **3.6.3 Analysis of Primary Data**

Data generated through questionnaires and personal interviews of commercial banks, bank officials, academicians, and Depositors are analyzed using descriptive methods and are presented in tables wherever necessary.

The study is confined to limited banks considering the time constraint. The findings should not be generalized. The study is only focused on commercial banks which have been relating to the NRB directives. Since data of the study is of non-experimental type; chances of observation errors may take place. Similarly, primary data are based on surveys of personal interviews and questionnaires; there can be selective bias because of non-response error. So this study is just to fulfill the partial requirement of the MBS of Tribhuvan University.

## CHAPTER IV

### DATA PRESENTATION AND ANALYSIS

In this chapter, the impact assessment of NRB regulatory system on commercial bank has been analyzed. The main important or crucial tool use to evaluate the true and actual position of any organization is its past information and data. The data has been arranged in the possible simplest manner so that it can analyze easily and for better.

Understanding, these are also presented with tables, graph, and chart wherever possible. Also for more clarification the arranged data has been interpreted in the simplest language so that it can be easily understand by everyone. The strength and weakness of the organization can be appraised from the proper analysis of data.

Through there are many directives issued by NRB to the commercial Banks as stated earlier, this study is limited on Capital Adequacy ratio, Loan classification and loan Loss provision and Single borrower limit with respect to the directives of NRB and for the study four banks of Nepal: Machhapuchre Bank, NIC Bank, Laxmi Bank and Siddhartha Bank has been taken into considerations as the sample banks.

#### 4.1 Capital fund Analysis

##### Machhapuchre Bank Ltd

**Table 4.1**  
**Capital Fund of Machhapuchre Bank Ltd. (Amount in Rs)**

	2062\063	2063\064	2064\065	2065\066	2066\067
Core capital	912023761	982630381	1142751921	1676865000	1750353000
Supplementary	64108783	119608567	136463538	135004000	229201000
Total capital Fund	976132544	1102238948	1279215459	1811869000	1979554000
TRWA	7631998000	9200659000	10417064000	15302947700	17596035600

Table 4.1 shows the capital fund of Machhapuchre Bank Ltd. of Year from 2062/063 to 2066/067.

### NRB Requirement (%)

Core Capital to RWA	5.5	5.5	5.5	5.5	5.5
CAR	11	11	11	11	11

The table of Core Capital to RWA of Machhapuchre Bank Ltd. from Year 2062/063 to 2066/067 with NRB requirement.

### Actual Maintained (%)

Core capital to RWA	11.95	10.68	10.97	10.96	9.94
CAR	12.79	11.98	12.28	11.84	11.25

The table of Core Capital to RWA of Machhapuchre Bank Ltd. from Year 2062/063 to 2066/067 with Actual maintained.

### Excess or short fall (%)

#### Core Capital to RWA

Percentage	6.45	5.18	5.47	5.46	4.44
RWA (Rs)	492263871	4765941360	569813401	835540944	781263981

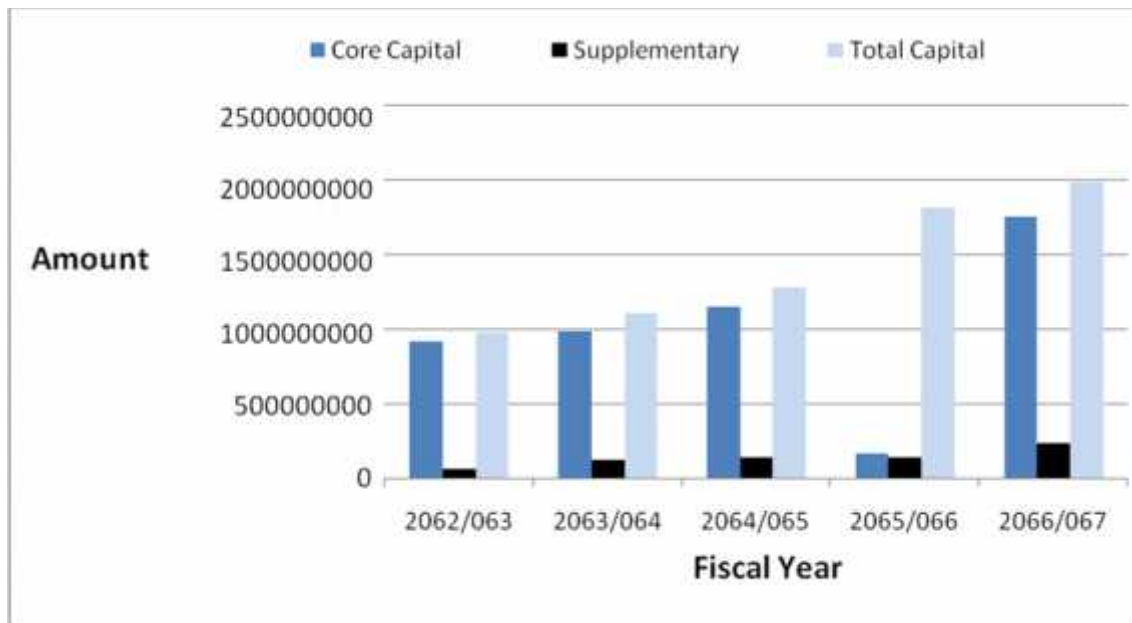
From table it shows the Core Capital to RWA of excess or Short fall percentage of Year 2062/063 to 2066/067.

### Capital Adequacy Ratio

Percentage	1.79	0.98	1.28	0.84	0.25
Amount	136612764	90166458	133338419	128544761	43990089

The table of Machhapuchre Bank Ltd. Capital Adequacy Ratio i.e. 1.79, 0.98, 1.28, 0.84 and 0.25 of Year 2062/063 to 2066/067 respectively.

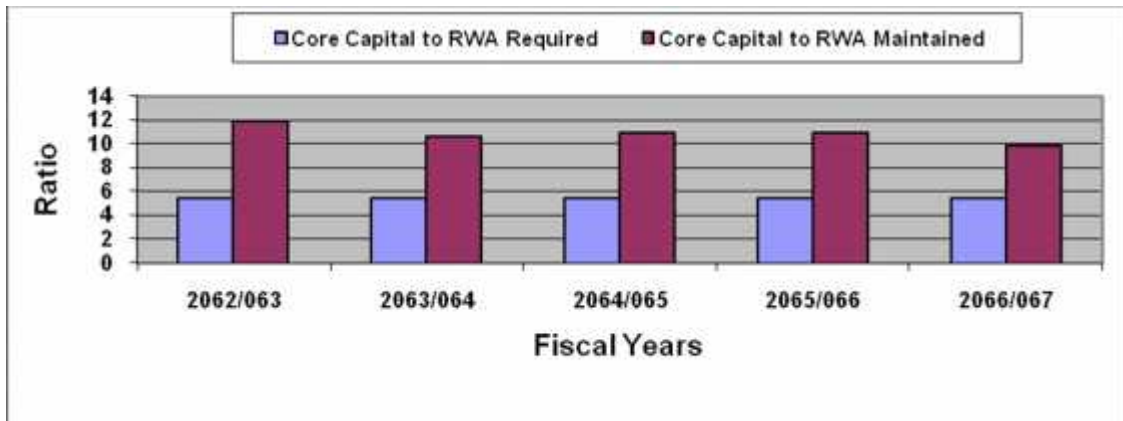
**Figure 4.1**  
**Capital Fund of Machhapuchre Bank Ltd.**



The above data shows that the capital fund, core capital, and supplementary capital are in increasing trend. Machhapuchre has been increasing its capital fund by increasing its core capital than its supplementary capital consistently during the last five years. The total capital fund has increased from Rs 976132544 in F/Y 062/063 to Rs 1979554000 in F/Y 066/067, thus increasing its total capital fund by net 50.69%. Similarly, the core capital and supplementary capital of the bank has been increased from Rs 912023761 and Rs 64108783 in F/Y 062/063 to Rs 1750353000 and Rs 229201000 respectively in F/Y 066/067. This represents an incensement of 91.92% and 257.52% respectively in core and supplementary capital of the bank during the last 5yrs (source Annex 1). We can see that Machhapuchre bank increased its capital fund by increasing its core and supplementary capital. The portion of core capital in total fund is around 91.80% in last five years average while that of supplementary capital is around 8.20% only. Its means contribution of core capital is more in growth of total capital fund. Core capital play important role in safeguarding both the survival of the bank and stability of the financial system. So, commercial banks give more priority to core capital than supplementary capital.

**Figure 4.2**

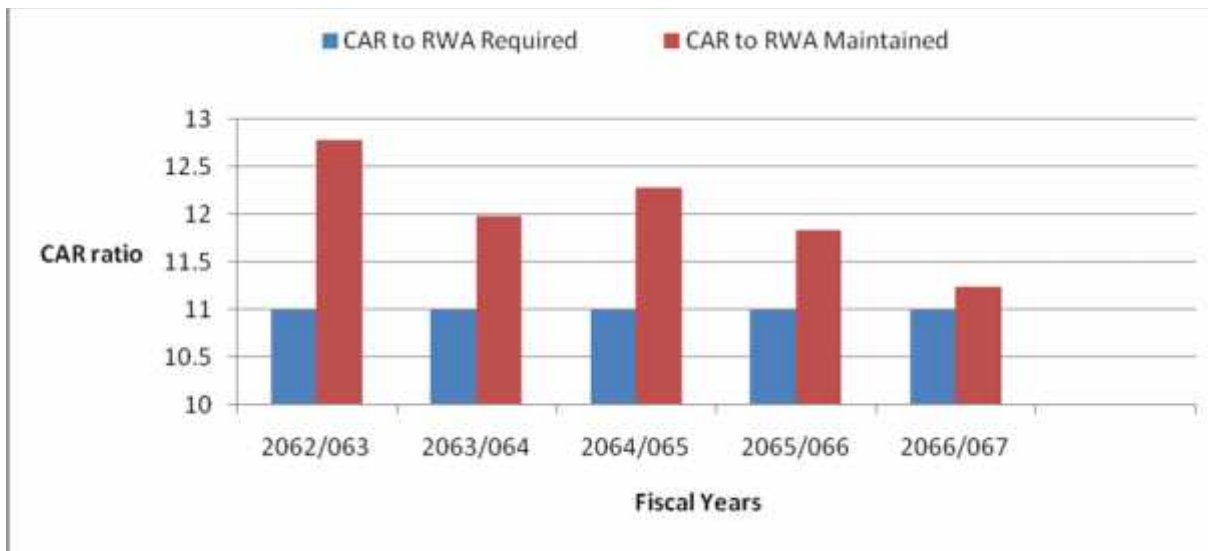
**Core Capital to RWA of Machhapuchchre Bank**



The core capital to Risk Weight assets of Machhapuchre Bank during the fiscal year 062/063, 063/064, 064/065, 065/066, and 066/067 is within the limit and over by 6.45%, 5.18%, 5.47%, 5.46%, and 4.44% respectively. Risk weight Assets of Machhapuchre Bank is increasing or decreasing every year so that to fulfill NRB direction. Bank is able to implementation NRB directives or norms any time or anywhere.

**Figure 4.3**

**CAR to RWA of Machhapuchre bank**



Capital Adequacy ratio is within limit and over during the fiscal year 062/063, 063/064, 066/065, 065/066, and 066/067 is 1.79%, 0.98%, 1.28%, 0.84%, and 0.25% respectively shows that bank was able to maintain its capital adequacy norms, which is guideline of NRB. This bank has subsequently increased its capital fund by increasing more in its core capital and as well as supplementary capital also increased in small amount. At the same time Risk Weighted Assets is also increasing each year. If we see contributions portion of core capital is high to increase total capital than contribution portion of supplementary. If we see the growth figure of core capital, supplementary and capital fund are increasing in amount every year but their ratio are in both increasing and decreasing trend. Risk weight Assets of Machhapuchre Bank is increasing every year so that to fulfill NRB direction, Bank able to implementation NRB directives or norms any time or anywhere. Machhapuchre bank has increased the loan loss provision every fiscal year 062/063 to till date. This means supplementary capital of bank is increasing, so that supplementary capital is in increasing trend each year. To maintain the required capital adequacy norm, bank has allocated huge portion of profit which is send to different reserve fund which ultimately reduces the share holder dividend.

**Table 4.2**

**Portion of Dividend on Net Profit** (Amount in Rs.)

Fiscal Year	062/063	063/064	064/065	065/066	066/067
Net Profit	133996709	74085647	85016002	123251098	73312799
Dividend + Bonus Share	112894736	86478799	172979221	-----	147926960
Percentage	84.25	116	203.47	-----	201.77

(Source: Annual Report :( 062/063 to 066/067): Machhapuchre Bank Ltd.)

$$\text{Percentage} = \frac{\text{Dividend} \Gamma \text{ BonusShare}}{\text{Net Profit}} | 100$$

If we see the Dividend provided to shareholder from net profit Machhapuchre bank was able to pay dividend and Bonus share during the fiscal year 062/063, 063/064 and 064/065. But during the fiscal year 065/066 bank is unable to pay dividend and bonus share. But during the fiscal

year 066/067 bank was able to pay dividend and bonus share for its shareholders. As well as in the fiscal year 062/063, 063/064,064/065 and 066/067 share holders received dividend in percentages 84.25%, 116%, 203.47% and 201.77% respectively of total net profit. Bank focused the share holders desire and fulfilled it by paying cash dividend as well as bonus share. By providing cash dividend for share holder it shows that better operation condition of bank. During the last year bank paid only 201.77% dividend on net profit. So, Machhapuchre bank should be very careful and must consider the desire of shareholders and concentrate towards giving good return for shareholders since shareholders are the real owner of the bank.

### **Laxmi Bank Ltd**

**Table 4.3**  
**Capital Fund of Laxmi Bank Ltd**

<b>Fiscal Year</b>	<b>2062/063</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>
Core capital	645936252	840503162	1076383384	1269743601	1834867663
Supplementary	58737522	81431555	114964035	451430601	418194617
Total capital fund	704673774	921934717	1191347419	1421174202	2253062280
TRWA	4711710244	7416106864	11455263700	14992806700	16433714700

Table 4.3 shows the capital fund of Laxmi Bank Ltd. of Year from 2062/063 to 2066/067.

#### **NRB Requirement (%)**

Core Capital to RWA	5.5	5.5	5.5	5.5	5.5
CAR	11	11	11	11	11

The table shows Core Capital to RWA and CAR of Laxmi Bank Ltd. of Year from 2062/063 to 2066/067 with NRB requirement.

#### **Actual Maintained (%)**

Core capital to RWA	13.71	11.33	9.39	8.47	11.17
CAR	14.96	12.43	10.40	11.48	13.71

The table shows Core Capital to RWA and CAR of Laxmi Bank Ltd. of Year from 2062/063 to 2066/067 with Actual Maintained.

### Excess or short fall (%)

#### Core Capital to RWA

Percentage	8.21	5.83	4.6	2.97	5.67
RWA (Rs)	386792186	432617285	526942130	445286359	391791624

From the table it shows the Core Capital to RWA of Excess or short fall percentage of Year 2062/063 to 2066/067.

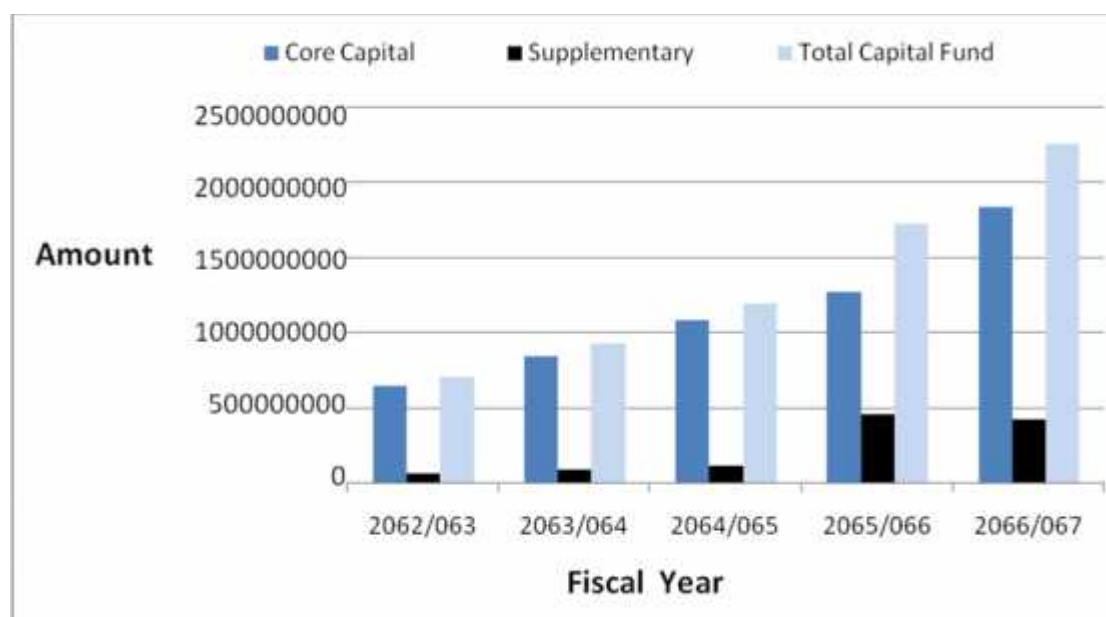
#### Capital Adequacy Ratio

Percentage	3.96	1.43	0.17	0.48	2.17
Amount	186385647	106162962	19473948	71965472	356611609

The table of Laxmi Bank Ltd. Capital Adequacy Ratio i.e. 3.96, 1.43, 0.17, 0.48 and 2.17 of Year 2062/063 to 2066/067 respectively.

Figure 4.4

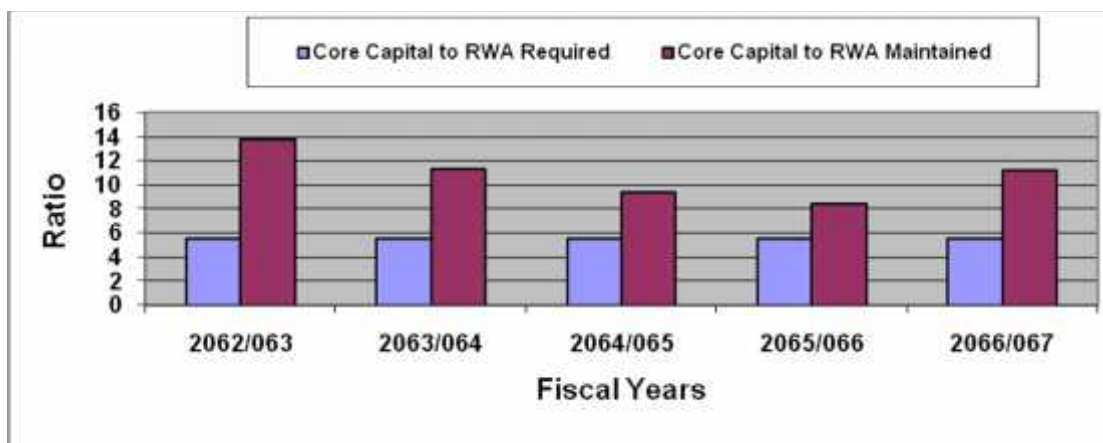
#### Capital Fund of Laxmi Bank



Above table shows that the capital funds, core capital and supplementary capital of Laxmi bank is increasing position. Laxmi bank has increases its total capital fund by increasing core and supplementary capital consistently during the last five years. The bank total fund has increased from Rs 704673774 in F/Y 2062/063 to Rs 2253062280 in F/Y 2066/067. Thus, increasing its total capital fund by net 68.72% similarly, the core capital and supplementary

capital of the bank has been increases 645936252 and 58737522 in F/Y 2062/063 to 1834867663 and 418194617 in the F/Y 2066/067 respectively. This represents an increment of 184.06% and 611.97 % respectively in core and supplementary capital of bank during the last 5yrs(source: Annex II). We can see that Laxmi Bank has increased its capital fund by increasing its core capital than supplementary capital. The portion of core capital in total capital fund is around i.e. 93.00 % in last five year average while that of supplementary capital is around i.e. 7.00% only. It means contribution of core capital is more in growth of total capital fund. Core capital play vital role in safe guarding both the survival of the bank and its stability of the financial system. So, commercial banks give more priority for core capital than supplementary capital.

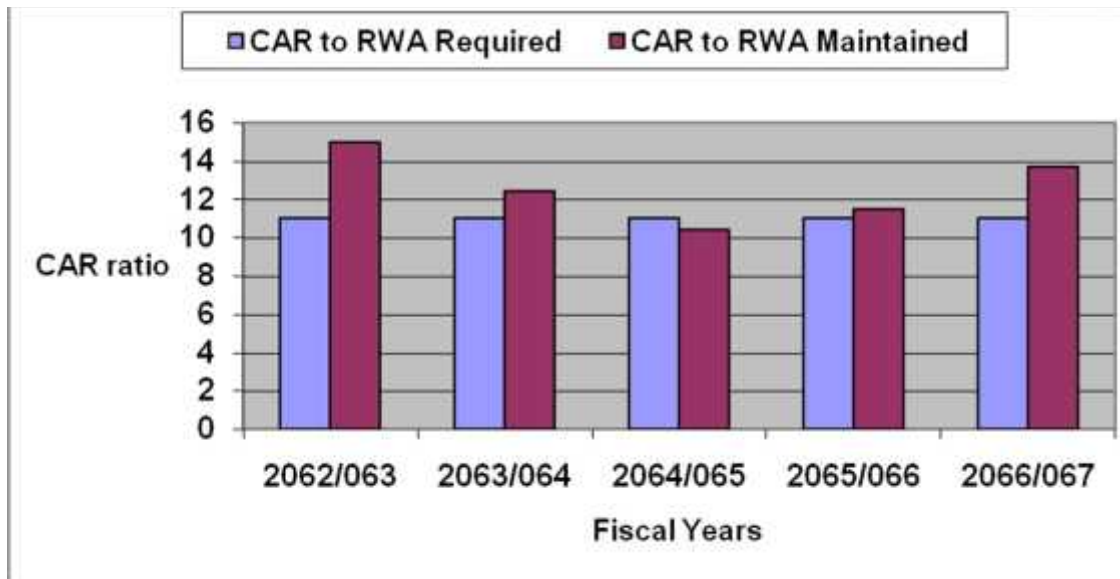
**Figure 4.5**  
**Core Capital to RWA of Laxmi Bank Ltd**



The core capital to Risk Weight assets of Laxmi Bank during the fiscal year 062/063, 063/064 064/065, 065/066, and 066/067 is within the limit and over by 8.21%, 5.83%, 4.6%, 2.97% and 5.67% respectively. If we see the growth figure of core capital, supplementary and capital fund are increasing in amount every each year. Risk weight Assets of Laxmi Bank is increasing or

decreasing every each year so that to fulfill of NRB direction, Bank able to implementation NRB directives or norms any time or anywhere.

**Figure 4.6**  
**CAR to RWA of Laxmi Bank Ltd**



Capital Adequacy ratio is within limit and over during the fiscal year 062/063, 063/064, 064/065, 065/066, and 066/067 is 3.96%, 1.43%, 0.17%, 0.48% and 2.17% respectively shows that bank able to maintained its capital adequacy norms, which is guidelines of NRB. This bank has subsequently increased its capital fund by increasing more in its core capital and as well as supplementary capital also increased in small amount. If we see contributions portion of core capital is high to increase total capital than contribution portion of supplementary. If we see the growth figure of core capital, supplementary and capital fund are increasing in amount every each year but their ratio are decreasing trend.

Laxmi bank has increased the loan loss provision every fiscal year 062/063 to till date. This means supplementary capital of bank is increasing so, that supplementary capital is increasing trend each year. To maintain the required capital adequacy norm, bank has allocated huge

portion of profit is send to different reserve fund which ultimately reduces the share holder dividend.

**Table 4.4****Portion of Dividend on Net Profit** (Amount in Rs.)

Fiscal Year	062/063	063/064	064/065	065/066	066/067
Net Profit	35395333	65579489	120031347	188998637	327037041
Dividend + Bonus Share	-----	-----	192632000	80911607	209757665
Percentage			160.48	42.81	64.14

(Source:- Annual Report: (062/063 to 066/067): Laxmi Bank Ltd.)

$$\text{Percentage} = \frac{\text{Dividend} \Gamma \text{ BonusShare}}{\text{Net Profit}} | 100$$

If we see the Dividend provided to shareholder from net profit Laxmi bank unable to pay dividend and Bonus share during the fiscal year 062/063 and 063/064. From fiscal year 064/065 bank able to pay dividend and bonus share for its shareholders. As well as in the fiscal year 064/065, 065/066 and 066/067 share holder receive dividend in percentages 160.48%, 42.81% and 64.14% of total net profit. Bank net profit amount is increasing trend. Bank focused the share holder desire and fulfils it bank pay cash dividend as well bonus share. By providing cash dividend for share holder it shows that better operation condition of bank. Laxmi bank should be very careful and must considered the desire of shareholders and concentrate towards giving good return for shareholders since shareholders are the real owner of the bank.

**NIC Bank Ltd**

**Table 4.5**  
**Capital Fund of NIC Bank Ltd (Amount in Rs)**

<b>Fiscal Year</b>	<b>2062/063</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>
Core capital	761128967	912312362	1293750759	1649007425	1750459218
Supplementary	275709696	296801251	321968707	305927368	260102281
Total capital fund	1036838663	1209113613	1615719466	1954934793	2010561500
TRWA	7656131091	9905036012	12324328500	15740215700	15561621500

Table 4.5 shows that capital fund of NIC Bank Ltd. of Year from 2062/063 to 2066/067.

**NRB Requirement (%)**

Core Capital to RWA	5.5	5.5	5.5	5.5	5.5
CAR	11	11	11	11	11

From the table Core Capital to RWA and CAR of NIC Bank Ltd. of Year from 2062/063 to 2066/067 with NRB requirement.

**Actual Maintained (%)**

Core capital to RWA	9.94	9.2	10.5	10.48	11.25
CAR	13.54	12.2	13.11	12.42	12.92

From the table Core Capital to RWA and CAR of NIC Bank Ltd. of Year from 2062/063 to 2066/067 with Actual Maintained.

### Excess or short fall (%)core capital

#### Core Capital to RWA

Percentage	4.44	3.7	5.00	4.98	5.75
RWA (Rs)	340041757	367507562	616216425	613751559	894793236

From the table it shows that the Core Capital to RWA of Excess or short fall percentage of Year 2062/063 to 2066/067.

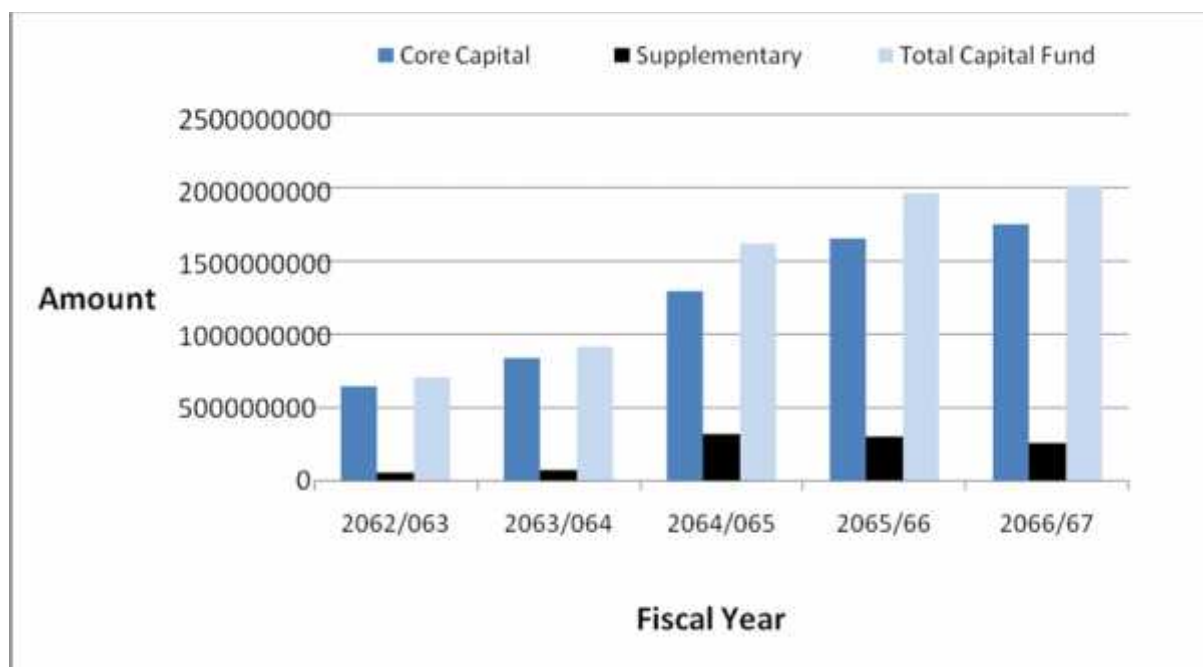
#### Capital Adequacy Raito

Percentage	2.54	1.2	2.11	1.42	1.92
Amount	194664243	119504013	2600433314	2235110629	298783133

From the table NIC Bank Ltd. Capital Adequacy Ratio i.e. 2.54, 1.2, 2.11, 1.42 and 1.92 of Year 2062/063 to 2066/067 respectively.

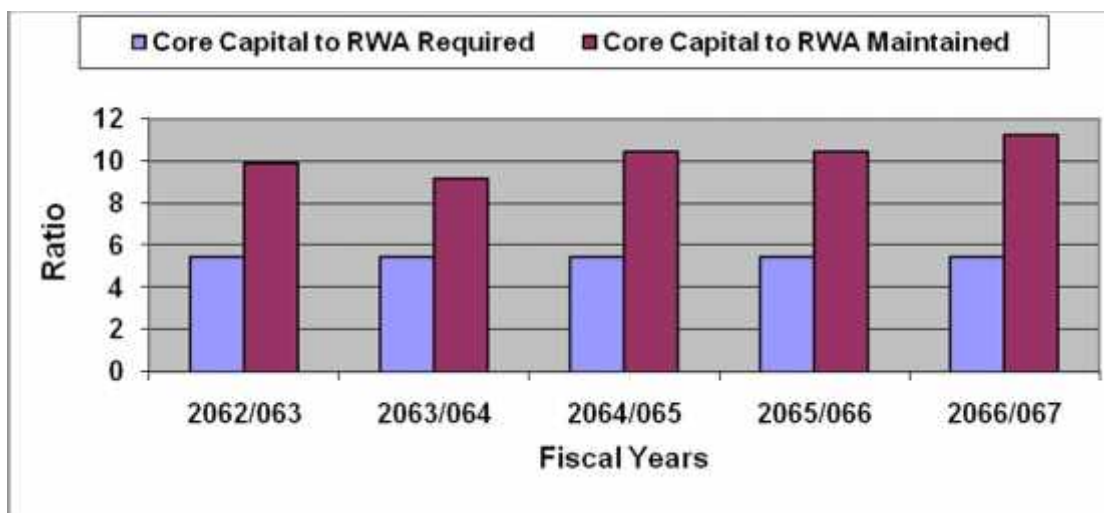
**Figure 4.7**

#### Capital Fund of NIC Bank



From table shows that the capital fund, core capital, and supplementary capital are increasing trend. NIC has been increasing its capital fund by increasing its core capital than its supplementary capital consistently during the last five years. The total capital fund has increased from Rs. 1036838663 in F/Y 062/063 to Rs 2010561500 in F/Y 066/067, thus increasing its total capital fund by net 48.43%. Similarly, the core capital and supplementary capital of the bank has been increase from Rs 761128967 and Rs 275709696 in F/Y 062/063 to Rs 1750459218 and Rs 260102281 respectively in F/Y 066/067. This represents an incensement of 129.98% and -5.66% respectively in core and supplementary capital of the bank during the last 5yrs (source Annex III). We can see that NIC bank increased its capital fund by increasing its core and supplementary capital. The portion of core capital in total fund is around 83 % in last five years average while that of supplementary capital is around 17 % only. Its means contribution of core capital is more in growth of total capital fund. Core capital play important role in safeguarding both the survival of the bank and stability of the financial system. So, commercial banks give more priority to core capital than supplementary capital.

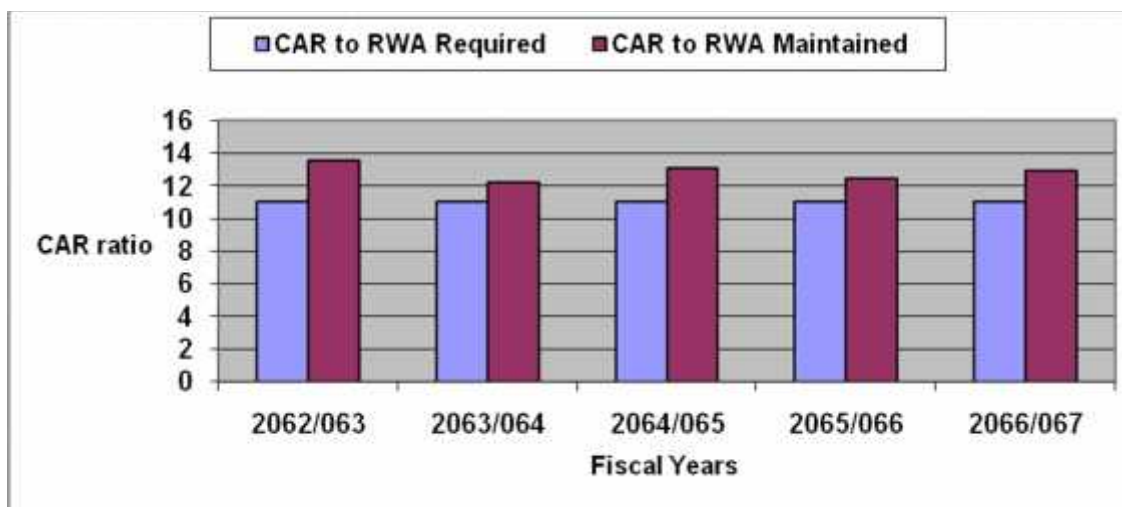
**Figure 4.8**  
**Core Capital to RWA of NIC Bank Ltd**



The core capital to Risk Weight assets of NIC Bank during the fiscal year 062/063, 063/064, 064/065, 065/066, and 066/067 is within the limit and over by 4.44%, 3.70%, 5.00%, 4.98%, 5.75%

respectively shows that bank able to maintained its capital adequacy norms, which is guidelines of NRB. This bank has subsequently increased its capital fund by increasing more in its core capital and as well as supplementary capital also increased in small amount. At the same time Risk Weighted Assets is increasing and decreasing trend. Risk weight Assets of NIC Bank is increasing and decreasing every each year so that to fulfill of NRB direction, Bank able to implementation NRB directives or norms any time or anywhere.

**Figure 4.9**  
**CAR to RWA of NIC Bank Ltd**



Capital Adequacy ratio is within limit and over during the fiscal year 062/063, 063/064, 064/065, 065/066, and 066/067 is 2.54%, 1.2%, 2.11%, 1.42%, and 1.92% respectively shows that bank able to maintained its capital adequacy norms, which is guidelines of NRB. If we see contributions portion of core capital is high to increase total capital than contribution portion of supplementary. If we see the growth figure of core capital, supplementary and capital fund are increasing in amount every each year but their ratio are decreasing increasing trend.

NIC bank has increased the loan loss provision every fiscal year 062/063 to till date. This means supplementary capital of bank is increasing so, that supplementary capital is increasing trend each year. To maintain the required capital adequacy norm, bank has allocated huge portion of profit is send to different reserve fund which ultimately reduces the share holder dividend.

**Table 4.6**  
**Portion of Dividend on Net Profit** (Amount in Rs.)

Fiscal Year	062/063	063/064	064/065	065/066	066/067
Net Profit	96587674	158475051	243058040	317434138	449843702
Dividend + Bonus Share	63157895	138947368	200084211	180075789	345145263
Percentage	65.38	87.67	82.32	56.73	76.73

(Source: Annual Report: (062/063 to 066/067)NIC Bank Ltd.)

$$\text{Percentage} = \frac{\text{Dividend} + \text{Bonus Share}}{\text{Net Profit}} \times 100$$

If we see the dividend provided to shareholders from net profit the bank able to pay dividend and bonus share for its share holders. As well as in the fiscal year 062/063, 063/064, 064/065, 065/066 and 066/067 share holder receive dividend in percentages 65.38%, 87.67%, 82.32%, 56.73% and 76.73% of net profit. It means remaining portion of net profit was allocated for different reserves. Bank net profit amount is increasing trend. It means that bank operate its work properly. Bank focused the share holder desire and fulfils it bank pay cash dividend as well Bonus share. By providing cash dividend for share holder it shows that better operation condition of bank. During the last two year bank pay only 56.73% and 76.73% dividend on net profit which is lower than previous years. So, NIC bank should be very careful and must considered the desire of shareholders and concentrate towards giving good return for shareholders since shareholders are the real owner of the bank.

### Siddhartha Bank Ltd

**Table 4.7**  
**Capital Fund of Siddhartha bank** (Amount in Rs.)

Fiscal Year	2062/063	2063/064	2064/065	2065/066	2066/067
Core capital	593401322	786690618	1049855949	1257070000	1581568000
Supplementary	38845685	76625710	97848597	368385000	402422000
Total capital fund	632247007	863316328	1147403546	1625456000	1983990000
TRWA	4465021233	7297686621	10208216600	15205388200	19760856600

Table 4.7 shows that capital fund of Siddhartha Bank Ltd. of Year from 2062/063 to 2066/067.

**NRB Requirement (%)**

Core Capital to RWA	5.5	5.5	5.5	5.5	5.5
CAR	11	11	11	11	11

From the table Core Capital to RWA and CAR of Siddhartha Bank Ltd. of Year from 2062/063 to 2066/067 with NRB requirement.

**Actual Maintained (%)**

Core capital to RWA	13.29	10.78	10.27	8.26	8.00
CAR	14.16	11.83	11.24	10.69	10.04

From the table Core Capital to RWA and CAR of Siddhartha Bank Ltd. of Year from 2062/063 to 2066/067 with Actual Maintained

**Excess or short fall (%)core capital****Core Capital to RWA**

Percentage	7.79	5.28	4.77	2.76	2.5
RWA (Rs)	347825154	385317853	486931932	419668714	494021415

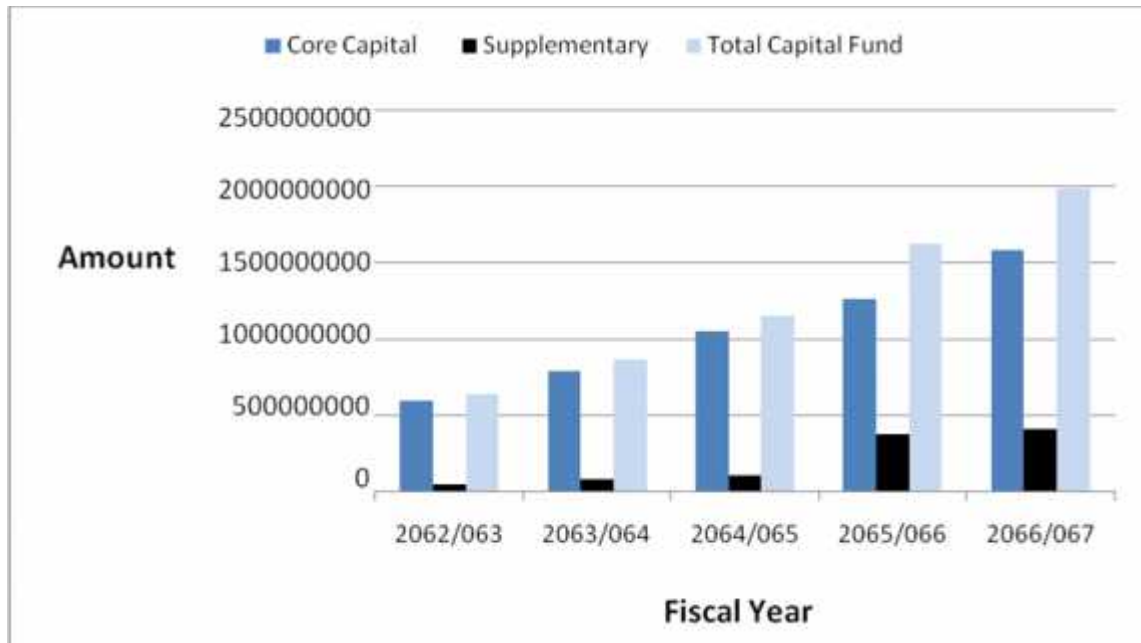
From the table it shows that the Core Capital to RWA of Excess or short fall percentage of Year 2062/063 to 2066/067.

**Capital Adequacy Raito**

Percentage	3.16	0.83	0.24	-0.31	-0.96
Amount	141094671	60570799	24499720	47136704	189704223

From the table Siddhartha Bank Ltd. Capital Adequacy Ratio i.e. 3.16, 0.83, 0.24, -0.31 and -0.96 of Year 2062/063 to 2066/067 respectively.

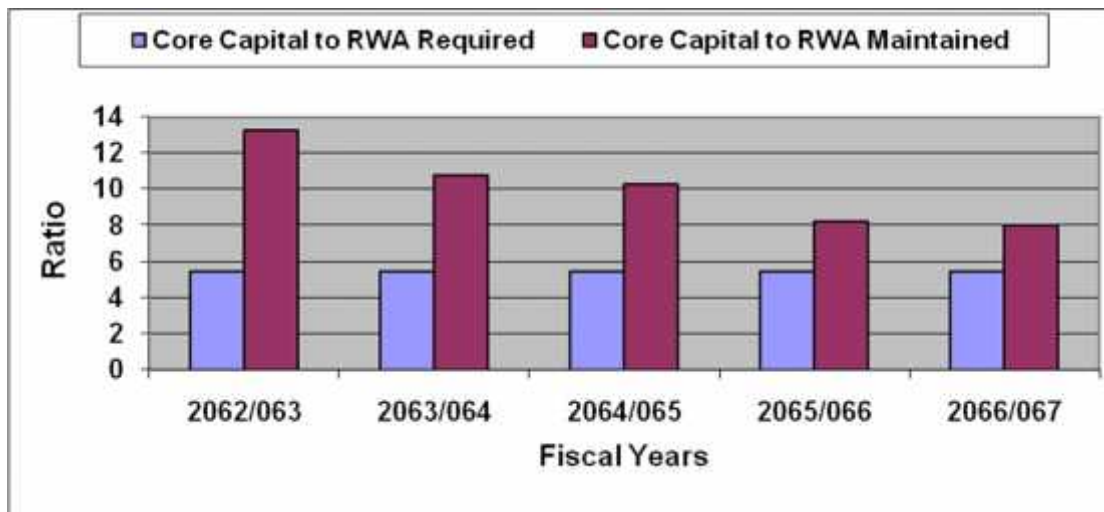
**Figure 4.10**  
**Capital Fund of Siddhartha Bank**



From table shows that the capital fund, core capital, and supplementary capital are increasing trend. Siddhartha Bank has been increasing its capital fund by increasing its core capital than its supplementary capital consistently during the last five years. The total capital fund has increased from Rs 632247007 in F/Y 062/063 to Rs 1983990000 in F/Y 066/067, thus increasing its total capital fund by net 68.13%. Similarly, the core capital and supplementary capital of the bank has been increase from Rs 593401322 and Rs 38845685 in F/Y 062/063 to Rs 1581568000 and Rs 402422000 respectively in F/Y 066/067. This represents an incensement of 166.53% and 935.95% respectively in core and supplementary capital of the bank during the last 5yrns (source Annex IV). We can see that Siddhartha bank increased its capital fund by increasing its core and supplementary capital. The portion of core capital in total fund is around 93.96 % in last five years average while that of supplementary capital is

around 6.04 % only. Its means contribution of core capital is more in growth of total capital fund. Core capital play important role in safeguarding both the survival of the bank and stability of the financial system. So, commercial banks give more priority to core capital than supplementary capital.

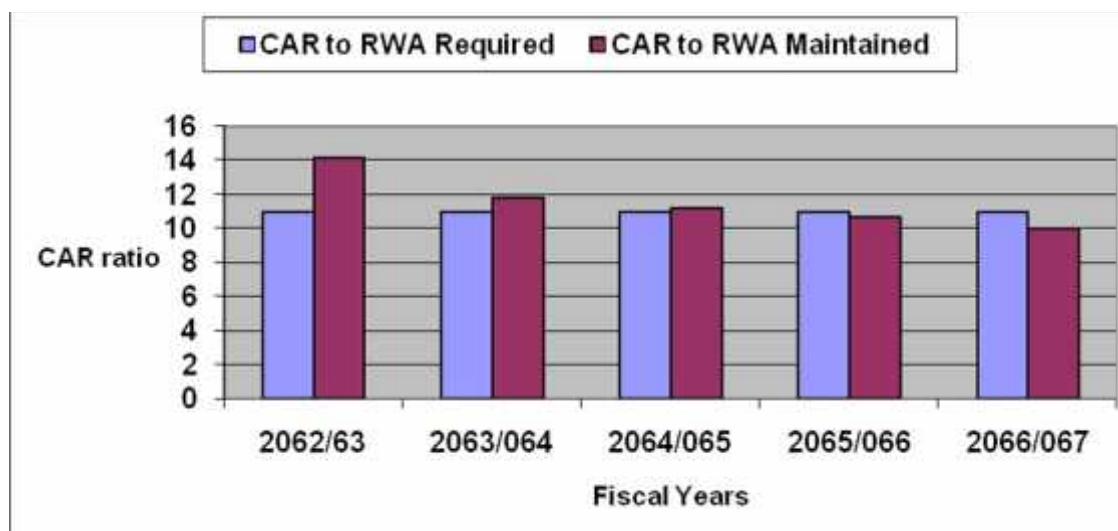
**Figure 4.11**  
**Core Capital to RWA of Siddhartha Bank Ltd**



The core capital to Risk Weight assets of Siddhartha Bank during the fiscal year 062/063, 063/064, 064/065, 065/066, and 066/067 is within the limit and over by 7.79%, 5.28%, 4.77%, 2.76%, and 2.5% respectively shows that bank able to maintained its capital adequacy norms, which is guidelines of NRB. This bank has subsequently increased its capital fund by increasing more in its core capital and as well as supplementary capital also increased in small amount. At the same time Risk Weighted Assets is decreasing each year. Risk weight Assets of NIC Bank is decreasing every each year so that to fulfill of NRB direction, Bank unable to implementation NRB directives or norms any time or anywhere.

**Figure 4.12**

**CAR to RWA of Siddhartha Bank Ltd**



Capital Adequacy ratio is within limit and over during the fiscal year 062/063, 063/064, 064/065, 065/066, and 066/067 is 3.16%, 0.83%, 0.24%, -0.31%, and -0.96% respectively shows that bank able to maintained its capital adequacy norms, which is guidelines of NRB. If we see contributions portion of core capital is high to increase total capital than contribution portion of supplementary. If we see the growth figure of core capital, supplementary and capital fund are increasing in amount every each year but their ratio are decreasing trend.

Siddhartha bank has increased the loan loss provision every fiscal year 2062/063 to till date. This means supplementary capital of bank is increasing so, that supplementary capital is increasing trend each year. To maintain the required capital adequacy norm, bank has allocated huge portion of profit is send to different reserve fund which ultimately reduces the share holder dividend.

**Table 4.8**

**Portion of Dividend on Net Profit (Amount in Rs.)**

Fiscal Year	062/063	063/064	064/065	065/066	066/067
Net Profit	65252813	95305326	143172989	217915808	240847768
Dividend + Bonus Share	-----	94736842	130736842	150347368	131456632
Percentage	-----	99.40	91.31	68.99	54.58

(Source: - Annual Report: (062/063 to 066/067 Siddhartha Bank Ltd.)

$$\text{Percentage} = \frac{\text{Dividend} \Gamma \text{ BonusShare}}{\text{Net Profit}} | 100$$

If we see the dividend provided to shareholder from net profit bank unable to pay dividend and bonus share during the fiscal year 062/063. In the year 063/064, 064/065, 065/066 and 066/067 bank pays cash dividend as well as bonus share. Share holder receive dividend in percentage 99.40%, 91.31%, 68.99% and 54.58% during the year 063/064, 064/065, 065/066 and 066/067. Bank net profit amount is increasing trend. It means bank operate its work properly. Bank should be focused on share holder's desire and fulfils it by paying cash dividend as well as Bonus share because share holders are real owner of bank. By providing cash dividend for share holders it shows better operation condition of bank. So, Siddhartha bank should be very care full and must consider the desire of shareholders and concentrate towards giving good return for shareholders.

#### 4.2 Loan Loss and Loan Loss Provision Analysis

##### Machhapuchre Bank Ltd

**Table 4.9**

##### **Loan and Loss Provision of Machhapuchre bank**

<b>Fiscal Year</b>	<b>2062/063</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/66</b>	<b>2066/067</b>
<b>Performing loan</b>	<b>6129656359</b>	<b>7234771025</b>	<b>8871154213</b>	<b>12681622058</b>	<b>14624956625</b>
Non-performing loan (NPL)	<b>16916597</b>	<b>85168239</b>	<b>92916079</b>	<b>302837300</b>	<b>347577740</b>
Sub standard	65003	19290865	82690767	1282203	39973841
Doubtful	1213724	26610217	6841182	2046187	37613307
Bad	15637870	39267157	3384131	299508910	269990592
<b>Total loan and &amp; advance</b>	<b>6146572956</b>	<b>7319939264</b>	<b>8964070292</b>	<b>12984459357</b>	<b>14972534366</b>
<b>Loan loss provision (LLP)</b>	<b>78145506</b>	<b>190047722</b>	<b>321746918</b>	<b>468447241</b>	<b>682741699</b>
Performing loan	61884527	127697339	294270105	167399741	312987406
Sub Standard loan	16250	6679717	20672692	320551	17618269
Doubtful	606862	16403509	3420591	1218039	18806654
Bad	15637840	39267157	3384131	299508910	333329370

**Provision Maintain in %**

Pass loan	1	1.75	3.31	1.32	2.41
Substandard	25	34.62	25	25	44.47
Doubtful	50	61.64	50	59.53	50
Bad	100	100	100	100	123.46

**NRB requirement (%)**

Pass loan	1	1	1	1	1
Substandard	25	25	25	25	25
Doubtful	50	50	50	50	50
Bad Debt	100	100	100	100	100

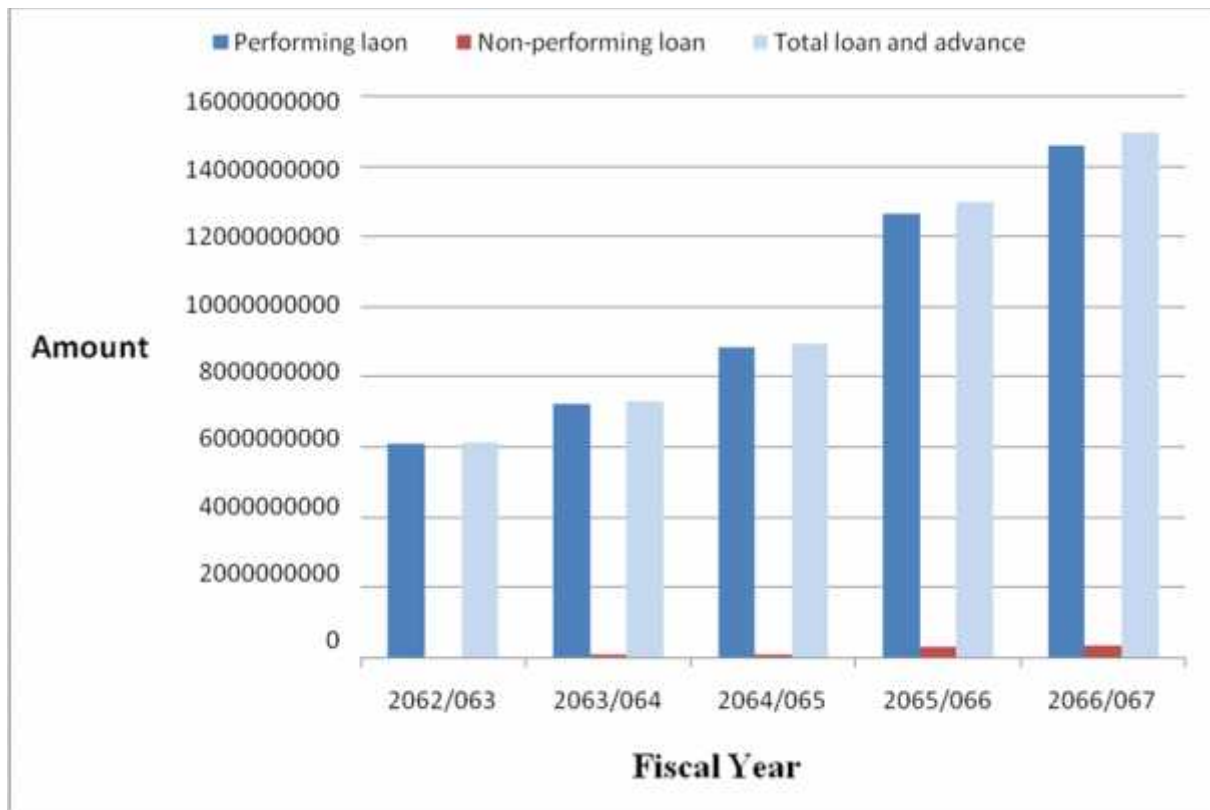
LLP to total loan & Adv.	1.27	2.59	3.58	3.61	4.61
NPL to total loan & Adv	0.27	1.16	1.03	2.33	2.35
LLP to NPL	461.94	223.14	346.27	154.68	196.43

(Source: Annual Report; (2062/063 – 2066/067):Machhapuchre Bank Ltd.)

Table 4.9 shows that Performing loan, Loan loss provision of Machhapuchre Bank Ltd. from the Year 2062/063 to 2066/067. As well as it shows that the Provision maintained in percentage and NRB requirement percentage of Machhapuchre Bank Ltd.

**Figure 4.13**

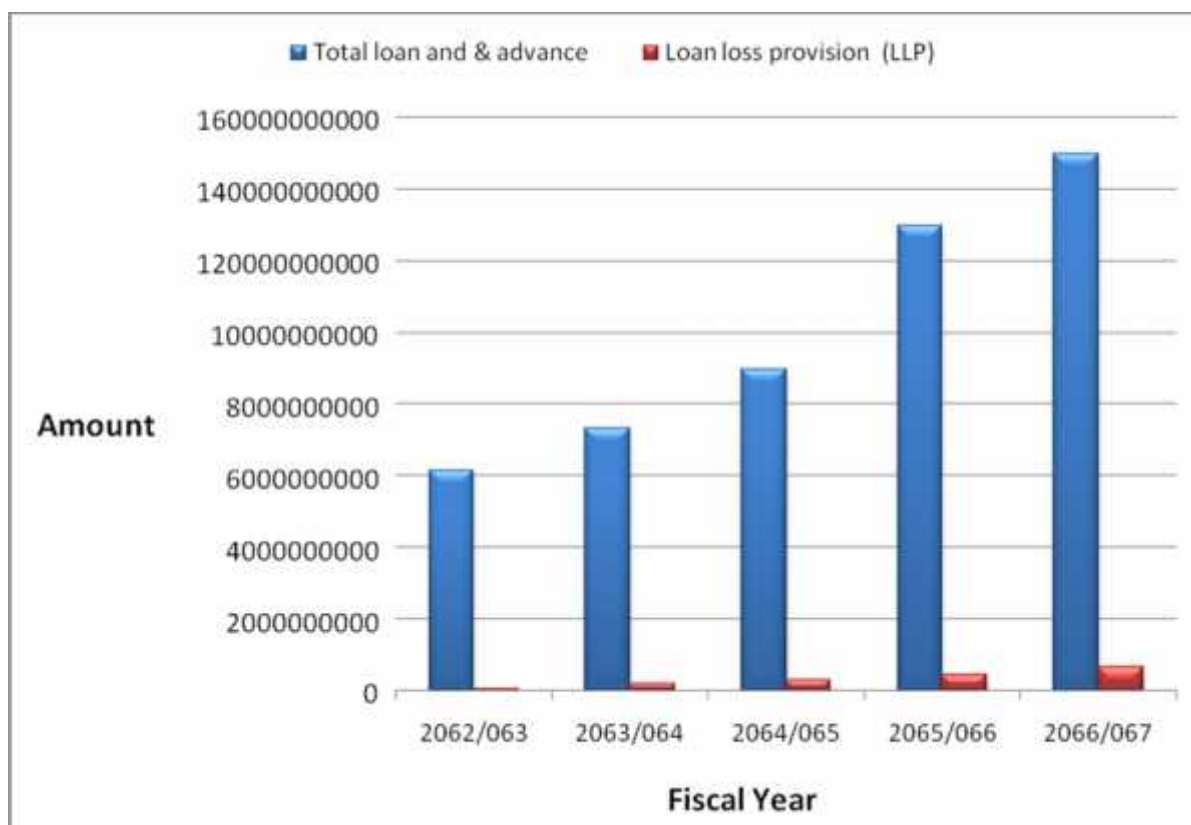
**Portfolio of Loan and Advance of Machhapuchre bank**



From table shows that total loan and advances is increasing every year compare to previous year. Similarly, pass loan (performing loan) is also increasing. NPL is increasing in amount cause of increasing Total Loan and Advance. In the portfolio of total loan and advances portion of pass loan (performing loan) is around 99.56% while remaining is NPL. This shows that Machhapuchre bank is distribution its loan very carefully and by increasing the portion of performing loan in the portfolio. Machhapuchre Bank is trying to make its assets good and earn interest without bearing any risk. Due to the normal of NRB directives Machhapuchre Bank is increasing its portion of performing loan in the portfolio of total loan and advances.

**Figure 4.14**

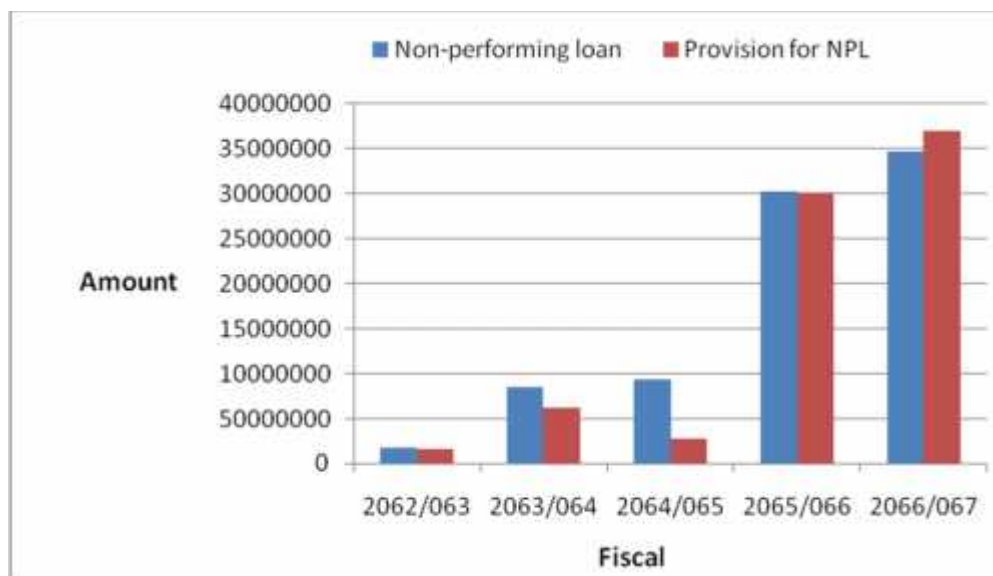
**Loan Loss Provision to Total Loan and Advance of Machhapuchre Bank**



The ratio of loan loss provision (LLP) to total loan and advances of Machhapuchre bank is around 1.27% to 4.61% in different years. Since, high provision is to be maintained for the non-performing loan (NPL), higher ratio indicates high portion of non-performing loan in the total loan and advances. Lower ratio indicates low portion of nonperforming loan is the total loan and advances. As comparing with total loan and advance bank's Non- performing ratio is small amount. It also signifies the good quality of assets in the volume of loan and advances as well as Machhapuchre bank's efficiency effectively and strong managing of its loan and advances and coping with probable loan loss and also complying with the NRB norms. If there had not been NRB guidelines to maintain high provision on non-performing loan then, there might be high portion of non-performing loan in the total loan portfolio.

**Figure 4.15**

**Provision for NPL to Non Performing Loan of Machhapuchre Bank**



Bank is able to maintain its loan Loss provision as directed by NRB norms. In reaming fiscal year it would be maintain its provision than NRB requirement. NPL is increasing trend due to increasing total loan and advance. Maintaining high provision is to provide security from loan loss but maintaining in excess may be disadvantageous to the bank. As amount maintained for provision remains idle and does not yield any return, it may have negative impact in return or profit will be affected so to remain unaffected form profit viewpoint bank must maintain provision as required.

**Laxmi Bank Ltd****Table 4.10****Loan and Loan Loss Provision of Laxmi Bank Ltd.**

<b>Fiscal Year</b>	<b>2062/063</b>	<b>063/064</b>	<b>2064/065</b>	<b>065/066</b>	<b>066/067</b>
<b>Performing loan</b>	<b>4246603460</b>	<b>6506218118</b>	<b>9781708458</b>	<b>13452558228</b>	<b>14718589140</b>
Non-performing loan	<b>33502578</b>	<b>3021093</b>	<b>12729896</b>	<b>10790791</b>	<b>17816353</b>
Sub standard	2646985	1183093	1198699	—	2124638
Doubtful	4116952	2666987	590828	2495836	2344567
Bad	26738641	19171013	10940369	8294954	13347148
<b>Total loan and &amp; advance</b>	<b>4280106038</b>	<b>6529239211</b>	<b>9794438354</b>	<b>13463349018</b>	<b>14736405493</b>
<b>Loan loss provision (LLP)</b>	<b>77744077</b>	<b>91789964</b>	<b>113489702</b>	<b>147744714</b>	<b>176295905</b>
Performing loan	47967122	70329747	101896395	138201652	161245313
Sub Standard loan	665386	494000	328094	—	531159
Doubtful	2372928	1795204	324845	1247729	1172283
Bad	26738641	19171013	10940369	8295333	13347148

**Provision Maintain in %-**

Pass loan	1.12	1.08	1.04	1.03	1.09
Substandard	25.13	41.51	27.37	—	25
Doubtful	57.63	67.31	54.98	50	50
Bad	100	100	100	100	100

**NRB requirement (%)**

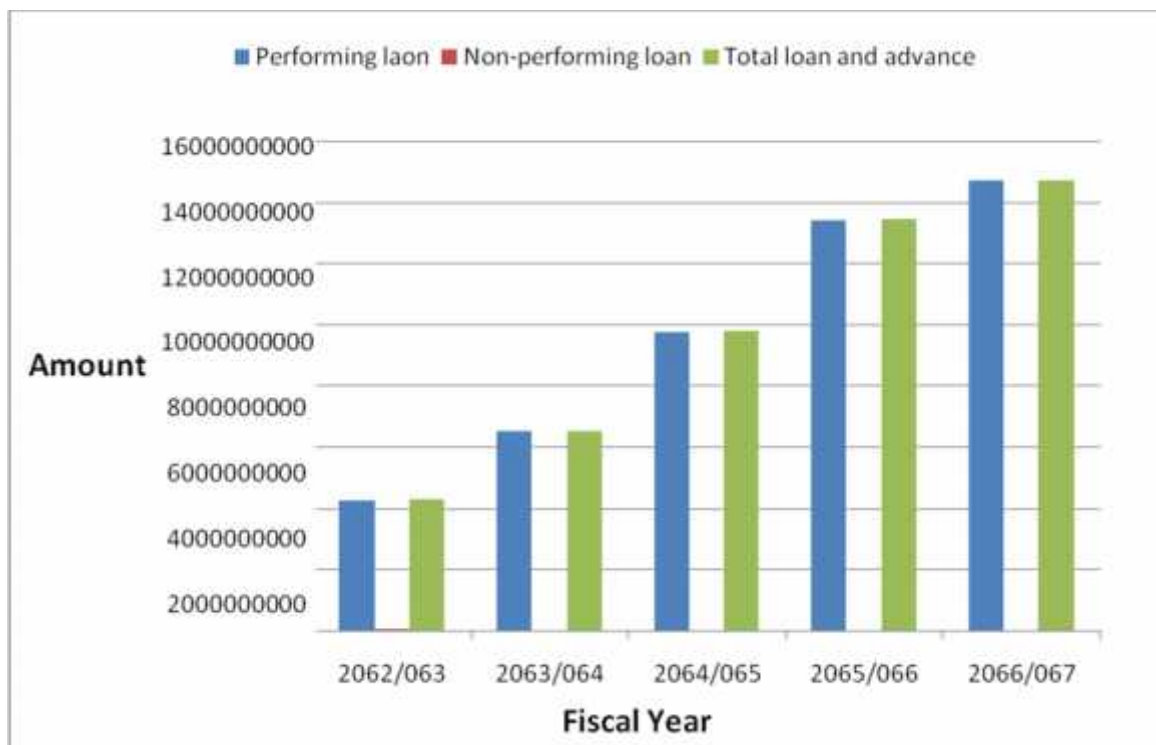
Pass loan	1	1	1	1	1
Substandard	25	25	25	25	25
Doubtful	50	50	50	50	50
Bad	100	100	100	100	100

LLP to total loan & Adv.	1.81	1.73	1.16	1.09	1.19
NPL to total loan & Adv	0.78	0.35	0.13	0.89	0.12
LLP to NPL	232.05	398.5	891.52	1369.17	989.52

(Source: Annual Report; (2062/063 – 2066/067): Laxmi Bank Ltd.)

Table 4.10 shows that Performing loan, Loan loss provision of Laxmi Bank Ltd. from the Year 2062/063 to 2066/067. As well as it shows that the Provision maintained in percentage and NRB requirement percentage of Laxmi Bank Ltd.

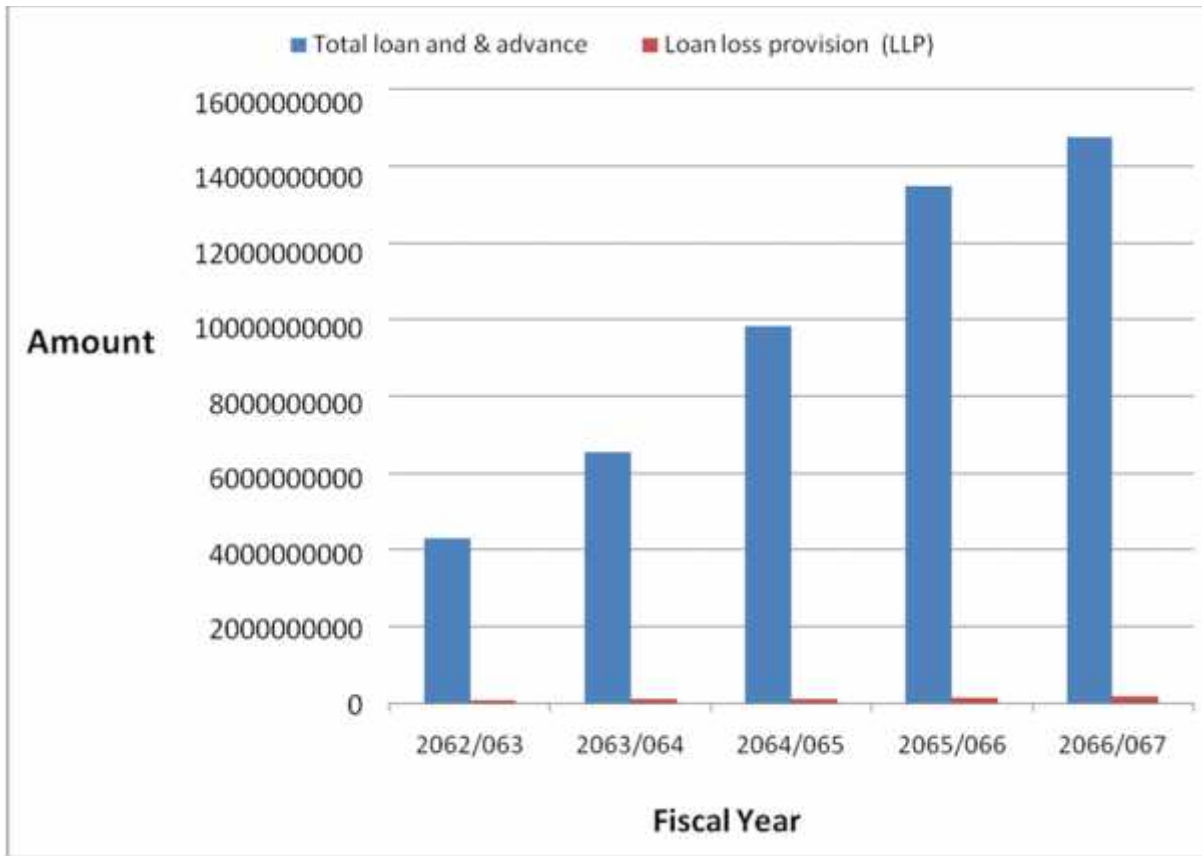
**Figure 4.16**  
**Portfolio of Loan and Advance of Laxmi Bank**



From table shows that total loan and advances is increasing every year compare to previous year. Similarly, pass loan (performing loan) is also increasing. NPL is nil during the year the year 060/061 and then after year its amount is decreasing consistently. In the portfolio of total loan and advances portion of pass loan (performing loan) is around 99.87% while remaining is NPL. This shows that Laxmi bank is distribution its loan very carefully and by increasing the portion of performing loan in the portfolio. Laxmi Bank is trying to make its assets good and earn interest without bearing any risk. Due to the normal of NRB directives Laxmi Bank is increasing its portion of performing loan in the portfolio of total loan and advances.

**Figure 4.17**

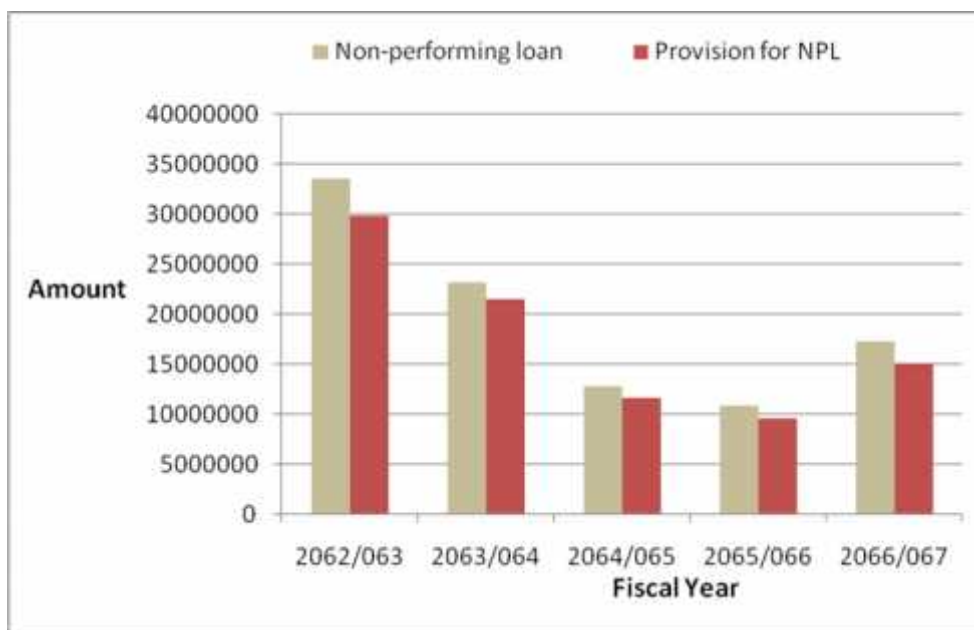
**Loan Loss Provision to Total Loan and Advance of Laxmi Bank**



The ratio of loan loss provision (LLP) to total loan and advances of Laxmi banks is around 1.81% to 1.19% in different years. Since, high provision is to be maintained for the non-performing loan (NPL), higher ratio indicates high portion of non-performing loan in the total loan and advances. Lower ratio indicates low portion of nonperforming loan is the total loan and advances but here data shows the ratio should be decreasing in a slow rate every year in the total volume of loan & advances. It also signifies the good quality of assets in the volume of loan and advances as well as Laxmi bank's efficiency effectively and strong managing of its loan and advances and coping with probable loan loss and also complying with the NRB norms. If there had not been NRB guidelines to maintain high provision on non-performing loan then, there might be high portion of non-performing loan in the total loan portfolio.

**Figure 4.18**

**Provision for NPL to Non Performing Loan of Laxmi Bank**



Laxmi Bank is complying with the NRB norms for loan loss provision. The NPL of bank is decreasing trend, which is good sign for bank and its loan management system is well. So, in the portfolio ratio of NPL portion with total loan and advance is also decreasing. Bank bad loan is also decreasing trend and it maintain loss provision as prescribed by NRB norms.

**NIC Bank Ltd****Table 4.11****Loan and Loan Loss Provision of NIC Bank Ltd.**

<b>Fiscal Year</b>	<b>2062/063</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>
<b>Performing loan</b>	<b>6722569509</b>	<b>9027509005</b>	<b>11367166861</b>	<b>13786671603</b>	<b>12836811445</b>
Non-performing loan (NPL)	<b>179554435</b>	<b>101140201</b>	<b>98167144</b>	<b>129178432</b>	<b>92492646</b>
Sub standard	654368	6133247	9632303	2422097	18647708
Doubtful	7864500	928740	11760428	61131299	19170414
Bad	171035567	94078214	76774413	65625036	54674524
<b>Total loan and &amp; advance</b>	<b>6902123944</b>	<b>9128649206</b>	<b>11465334005</b>	<b>13195850035</b>	<b>12929304094</b>
<b>Loan loss provision (LLP)</b>	<b>246159924</b>	<b>187251555</b>	<b>200655909</b>	<b>236456256</b>	<b>197289772</b>
Performing loan	71028515	91175659	115593206	139660046	128368114
Sub Standard loan	163592	1533312	2408076	605524	4661927
Doubtful	3932250	464370	5880214	30565650	9585207
Bad	171035567	94078214	76774413	65625036	54674523

**Provision Maintain in %-**

Pass loan	1.05	1.00	1.01	1.01	0.99
Substandard	25	25	25	25	25
Doubtful	50	50	50	50	50
Bad	100	100	100	100	100

**NRB requirement (%)**

Pass loan	1	1	1	1	1
Substandard	25	25	25	25	25
Doubtful	50	50	50	50	50
Bad	100	100	100	100	100

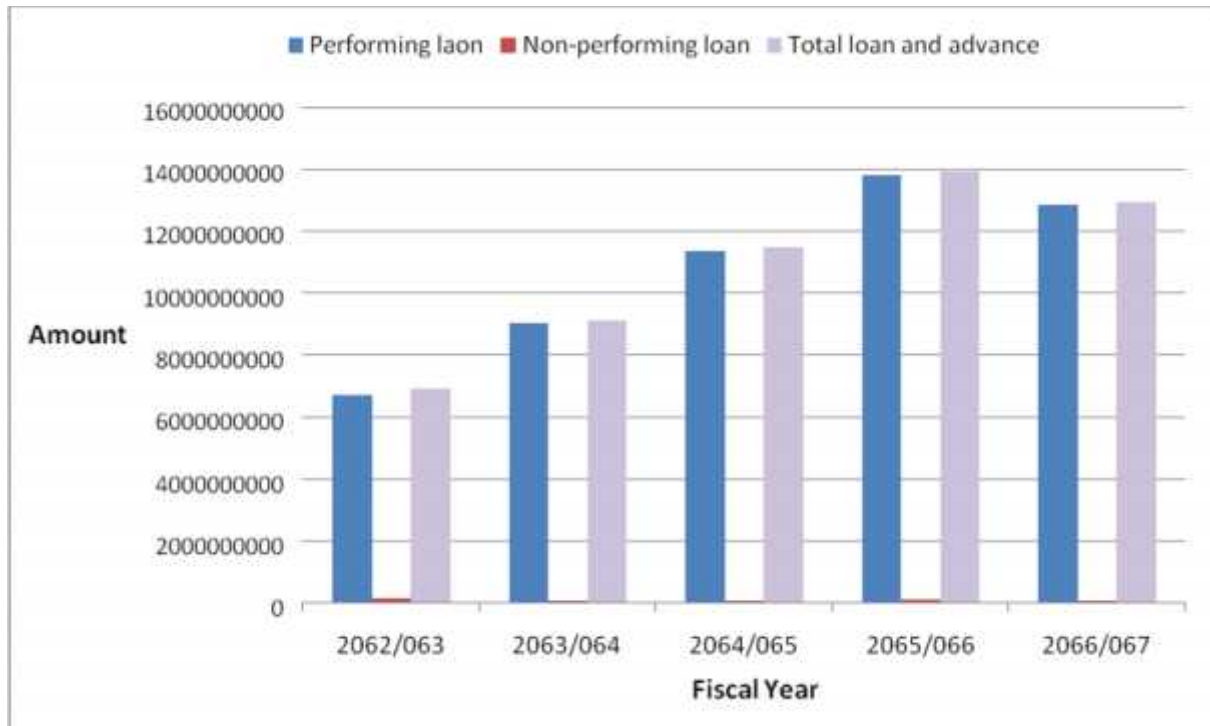
LLP to total loan & Adv.	3.56	2.05	1.75	1.69	1.52
NPL to total loan & Adv	2.6	1.10	0.86	0.93	0.72
LLP to NPL	137.00	185.00	204.00	183.05	213.30

(Source: Annual Report; (2062/063 – 2066/067): NIC Bank Ltd.)

Table 4.11 shows that Performing loan, Loan loss provision of NIC Bank Ltd. from the Year 2062/063 to 2066/067. As well as it shows that the Provision maintained in percentage and NRB requirement percentage of NIC Bank Ltd.

**Figure 4.19**

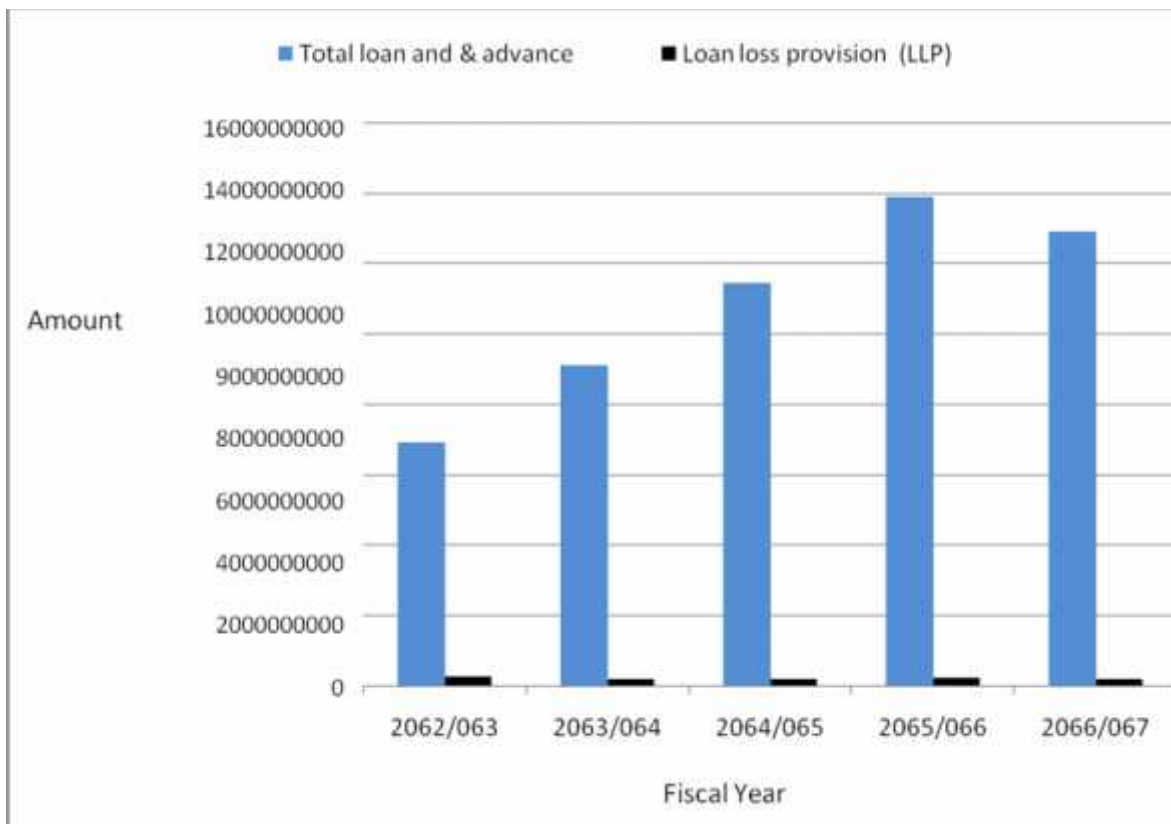
**Portfolio of Loan and Advance of NIC Bank Ltd**



If we see the loan and loan loss provision table, then what we see is in the total loan and advances, the portion of performing loan is increasing every year while portion of nonperforming loan is decreasing each year 2062/063 to 2066/067. Total loan and advances increases more than 53.38% in the year 2062/063 compare with last F/Y 066/067. With the increase in performing loan, which is good, sign for NIC as interest earned in loan amount in the main source of income for commercial banks. Due to the norms of NRB directives NIC is reducing non-performing loans.

**Figure 4.20**

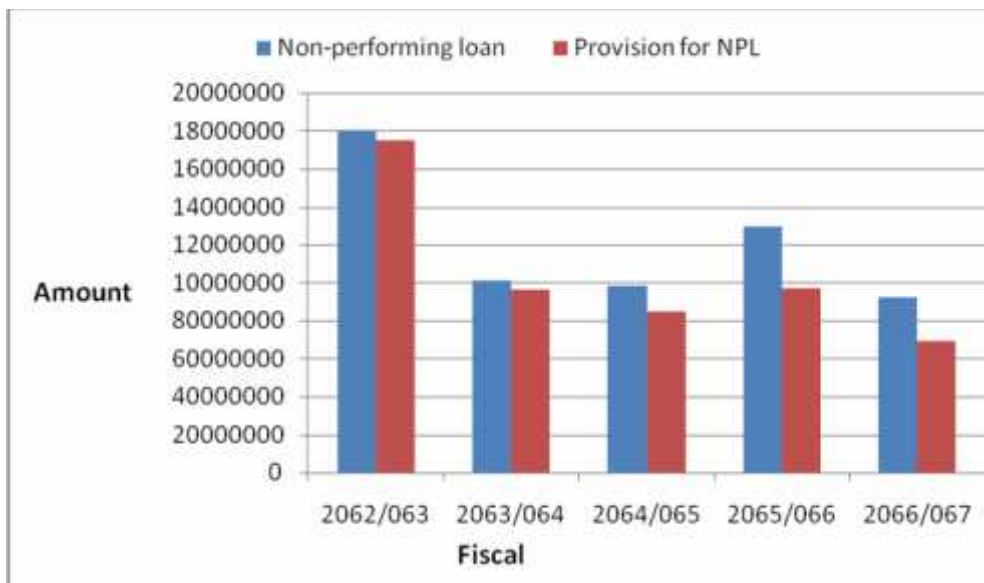
**Loan Loss Provision to Total Loan and Advance of NIC bank**



The ratio of loan loss provision on total loan and advances of NIC bank s around 3.56% to 1.52% in different years. Since, high provision is to be maintained for Non performing loan, higher ratio means high portion of nonperforming loan in the total loan and advances and lower ratio indicates low portion of nonperforming loan is the total loan and advances but here data shows the ratio should be decreasing in a slow rate every year in the total volume of loan & advances. It also signifies the good quality of assets in the volume of loan and advances as well as NIC bank's efficiency effectively and strong managing of its loan and advances and coping with probable loan loss and also complying with the NRB norms. If there had not been NRB guidelines to maintain high provision on non-performing loan then, there might be high portion of non-performing loan in the total loan portfolio.

**Figure 4.21**

**Provision for NPL to Non Performing Loan of NIC Bank**



Loan loss provision of NIC Bank shows that its provision is within the requirement of the fiscal year 2062/063 to 2066/067. NIC Bank has maintained of provision in excess for pass loan (performing loan) in the fiscal year 062/063. In reaming fiscal year it would be maintain its provision than NRB requirement. Maintaining high provision is to provide security from loan loss but maintaining in excess may be disadvantageous to the bank. As amount maintained for provision remains idle and does not yield any return, it may have negative impact in return or profit will be affected so to remain unaffected form profit viewpoint bank must maintain provision as required.

**Siddhartha bank Ltd****Table 4.12****Loan and Loan Loss Provision of Siddhartha bank Ltd.**

<b>Fiscal Year</b>	<b>2062/063</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>
<b>Performing loan</b>	<b>3835697432</b>	<b>6298185615</b>	<b>9415608432</b>	<b>13444493343</b>	<b>16806092755</b>
Non-performing loan (NPL)	<b>33572560</b>	<b>21541583</b>	<b>65178511</b>	<b>60302357</b>	<b>89255574</b>
Sub standard	4460923	14716	23783328	14030855	20589779
Doubtful	2695426	-----	15777722	27688741	9571652
Bad	26416211	21526867	25617461	18582761	59094143
<b>Total loan and &amp; advance</b>	<b>3869269992</b>	<b>6319727198</b>	<b>9480786943</b>	<b>13504795701</b>	<b>16895348329</b>
<b>Loan loss provision (LLP)</b>	<b>80147301</b>	<b>97140384</b>	<b>145189205</b>	<b>176174186</b>	<b>241496409</b>
Performing loan	51268145	75609838	105737051	140239340	172468993
Sub Standard loan	1115231	3679	5945832	3507714	5147445
Doubtful	1347713	-----	7888861	13844370	4785826
Bad	26416212	21526867	25617461	18582761	59094143

**Provision Maintain in %-**

Pass loan	1.33	1.2	1.12	1.04	1.03
Substandard	25.00	25.00	25	25	25
Doubtful	50.00	nil	50	50	50
Bad	100.00	100.00	100	100	100

**NRB requirement (%)**

Pass loan	1	1	1	1	1
Substandard	25	25	25	25	25
Doubtful	50	50	50	50	50
Bad	100	100	100	100	100

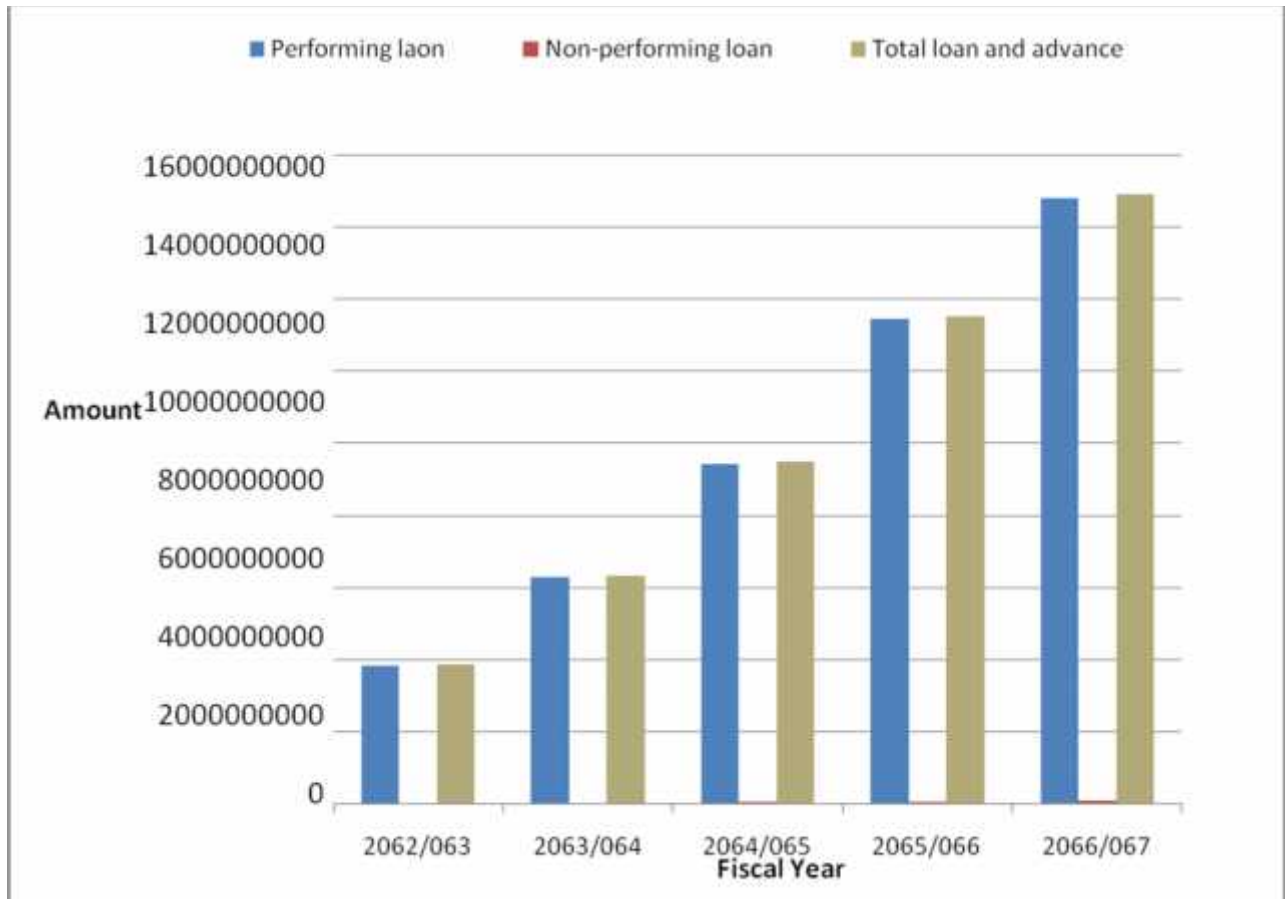
LLP to total loan & Adv.	2.07	1.51	1.59	1.30	1.43
NPL to total loan & Adv	0.86	0.34	0.69	0.45	0.53
LLP to NPL	238.78	450.92	231.88	292.15	270.57

(Source: Annual Report; (2062/063 – 2066/067): Siddhartha Bank Ltd.)

Table 4.12 shows that Performing loan, Loan loss provision of Siddhartha Bank Ltd. from the Year 2062/063 to 2066/067. As well as it shows that the Provision maintained in percentage and NRB requirement percentage of Siddhartha Bank Ltd.

**Figure 4.22**

**Portfolio of Loan and Advance of Siddhartha bank Ltd.**

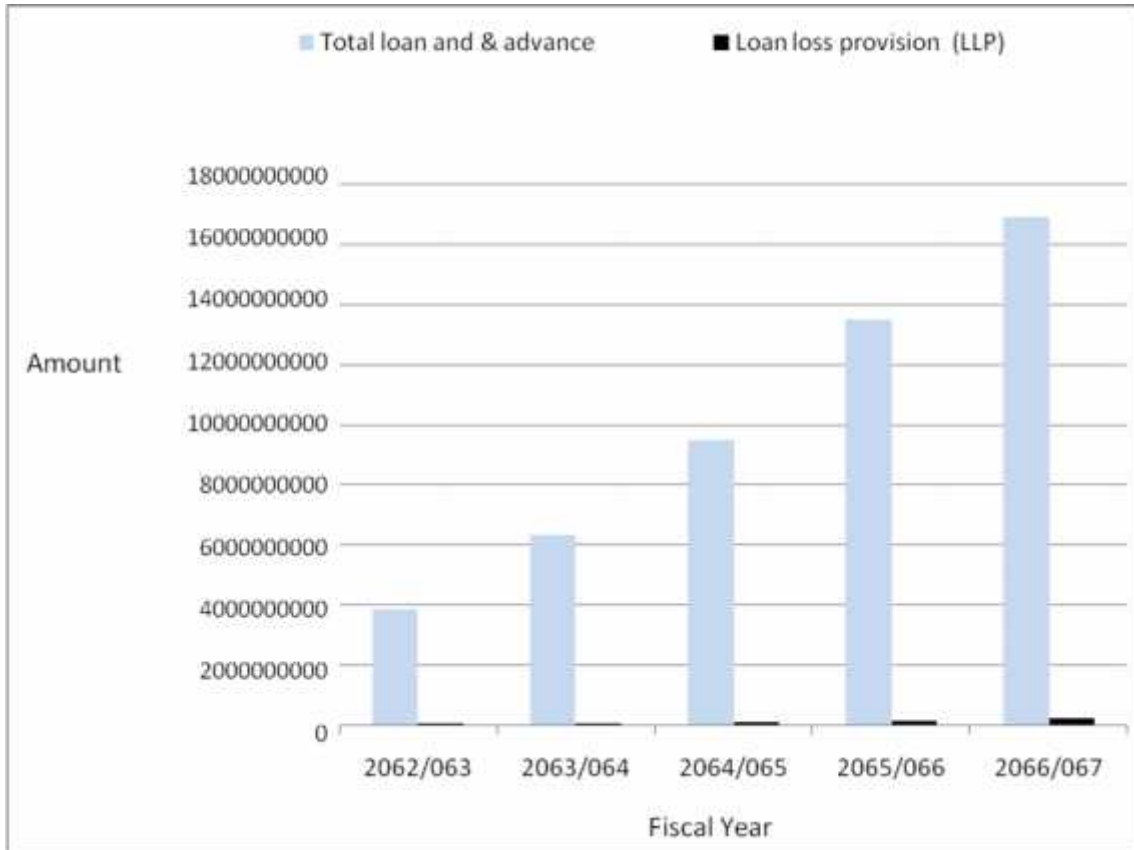


From table shows that total loan and advances is increasing every year compare to previous year similarly performing loan has to also increasing every year than previous year but NPL amount is increasing decreasing trend. NPL loan amount is increase with huge amount in the year 066/067 with comparison of previous year 062/063. In the portfolio of total loan and advances portion of performing loan is around 99.47% while remaining is NPL. This shows that Siddhartha bank is distributing its loan very carefully and by increasing the portion of performing loan in the portfolio, Siddhartha bank is trying to make its assets good and earn

interest without bearing any risk. Due to the norms of NRB directives Siddhartha bank is increasing its portion of performing loan in the portfolio of total loan and advances. There by reducing the burden of maintaining high provision for NPL.

**Figure 4.23**

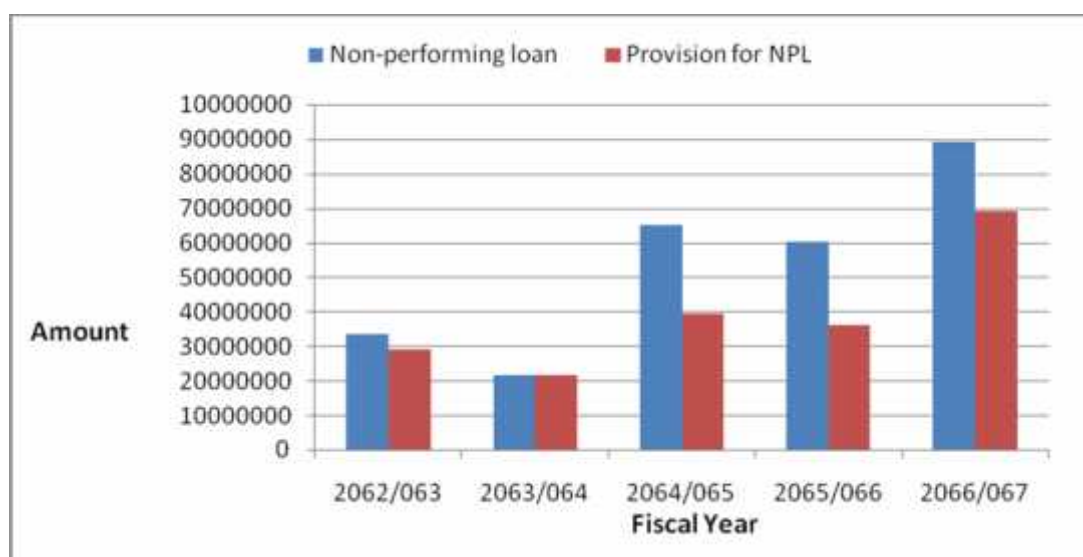
**Loan Loss Provision to Total Loan and Advance of Siddhartha bank Ltd.**



The ratio of loan loss provision to total loan and advances of Siddhartha bank is around 2.07% to 1.43% in different years. Since, high provision is to be maintained for Non performing loan, higher ratio means high portion of nonperforming loan in the total loan and advances and lower ratio indicates low portion of nonperforming loan is the total loan and advances but here data shows the ratio should be decreasing in a slow rate every year in the total volume of loan & advances. It also signifies the good quality of assets in the volume of loan and advances as well as Siddhartha bank’s efficiency effectively and strong managing of its loan and advances and coping with probable loan loss and also complying with the NRB norms.

**Figure 4.24**

**Provision for NPL to Non Performing Loan of Siddhartha Bank**



Loan loss provision of Siddhartha Bank shows that its provision is within the requirement of the fiscal year 2062/063 to 2066/067. NPL is increasing trend and bank maintains loss provision as its increasing trend. Maintaining high provision is to provide security from loan loss but maintaining in excess may be disadvantageous to the bank. As amount maintained for provision remains idle and does not yield any return, it may have negative impact in return or profit will be affected so to remain unaffected from profit viewpoint bank must maintain provision as required.

### **4.3 Single Borrower Limits**

Single borrower limits is the limit which should not be more than the one set by regulatory authorities to tend maximum amount of loan to a single borrower or a group of borrowers. The bank gives loans to various sectors for the long-term survival of the banks by receiving deposits from general public so that depositors' deposits are the major portions of the bank's lending liability and the loan and advances of the banks to the borrowers is the major portion of its total assets. Therefore the banks should be more careful while making loans otherwise banks may fail to make repayment of the deposits to the depositors, which results in the liquidation of the banks. With a view to safeguard the depositors money and protect the banks Bankruptcy. NRB has issuing directives from time to time under the prudential norms. The directives related to

single borrower limits main objectives is to set up limits on the maximum amount of loans that can be lend to a single borrower or group of borrowers. The single borrower limit is based only on the core capital in the new directives whereas these limits were based on the total capital fund as per old provision. The total core capital of Machhapuchre Bank, Laxmi Bank, NIC Bank and Siddhartha Bank are given below. So, single borrower limit is computed as percentage given by the NRB directives. The percentage of single borrower limit to be applied for Machhapuchre Bank, Laxmi Bank, NIC Bank and Siddhartha Bank are as follows:

**Machhachhapuchre Bank Ltd**

**Table 4.13**

**Comparative Chart of the Single Borrower Limit of Machhachhapuchre**

New provision limits			Old provision limits	
Year	Fund based	Non fund based	Fund based	Non fund based
	25% of core capital	50 % of core capital	35% of total capital fund	50% of total capital fund
2062/063	228005940	456011881	341646390	488066272
2063/064	245657595	491315191	385783632	551119474
2064/065	285687980	571375961	447725411	639607730
2065/066	419216250	838432500	634154150	905934500
2066/067	437588250	875176500	692843900	989777000

(Source: Annual report 2062/063– 2066/067Machhachhapuchre bank.)

**Laxmi Bank Ltd****Table 4.14****Comparative Chart of the Single Borrower Limit of Laxmi Bank**

New provision limits			Old provision limits	
Year	Fund based	Non fund based	Fund based	Non fund based
	25% of core capital	50 % of core capital	35% of total capital fund	50% of total capital fund
2062/063	161484063	322968126	246635821	352336887
2063/064	210125791	420251581	322677151	460967359
2064/065	269095846	538191692	416971597	595673709
2065/066	317435900	634871801	602410971	860587101
2066/067	458716916	917433831	788571798	1126531140

(Source: - Annual report 2062/063– 2066/067 Laxmi bank.)

**NIC Bank Ltd****Table 4.15****Comparative Chart of the Single Borrower Limit of NIC Bank**

New provision limits			Old provision limits	
Year	Fund based	Non fund based	Fund based	Non fund based
	25% of core capital	50 % of core capital	35% of total capital fund	50% of total capital fund
2062/063	190282242	380564484	362893532	518419332
2063/064	228078091	456156181	423189765	604556807
2064/065	323437690	646875380	565501813	807859733
2065/066	412251856	824503713	684227178	977467397
2066/067	437614804	875229609	703696525	1005280750

(Source: - Annual report 2062/063– 2066/067 NIC bank.)

## **Siddhartha Bank Ltd**

**Table 4.16**

**Comparative Chart of the Single Borrower Limit of Siddhartha Bank**

Year	New provision limits		Old provision limits	
	Fund based 25% of core capital	Non fund based 50 % of core capital	Fund based 35% of total capital fund	Non fund based 50% of total capital fund
2062/063	148350331	296700661	221286452	316123504
2063/064	196672655	393345309	302160715	431658164
2064/065	262463987	524927975	401591241	573701773
2065/066	314267500	628535000	568909600	812728000
2066/067	395392000	790784000	694396500	991995000

(Source: - Annual report 2062/063– 2066/067 Siddhartha bank.)

The following comparison data of old and new provision on fund based and non fund based shows the impact of changes in presented more clearly through the use of multiple bar diagram. It shown below separately

From above chart it clears that the limits of loan has come down by both fund based and non fund based due to the changes brought about by the directives reduction of the limits by such huge amounts will surely make an impact on the banks. The above data show that the Machhapuchre, Laxmi and NIC as well as Siddhartha bank have increasing trend of fund based and non-fund based. All the data are increasing for the previous years. It is shows that single borrower limit should be increases for the business houses or group of single borrower limit. The single borrower limits were previously based on the total capital fund, which is made by both core capital and supplementary capital. But the new provision is based only on core capital, which is lower than the total capital fund.

In case of the loans already disbursed before 16<sup>th</sup> July 2002, single borrower limit has to be maintained 40% of fund based and 75% of non-fund based of core capital up to the end of fiscal year 2001/02. But 25% of fund based and 50% of non-fund based of core capital is applicable for the start of the 2002/03 to onward.

The single borrower limit of, Machhapuchre, Laxmi, NIC and Siddhartha is above the table. If the banks has distributed excess amount of loan limit then it has to increases the core capital in order to fill the gap, if any exceeded amount of loans within the limit, where the core capital of the bank includes the paid-up capital share premium. Non-redeemable preference shares, general reserves and accumulated profit/ loss account and profit of this year. If there is no possibility of increasing core capital, banks must reduce the loan exposure of the customers. It will substantially reduce bank's capacity to finance this will make an adverse impact on the profitability of the banks.

#### 4.4 Correlation Analysis

**Table 4.17**  
**Correlation Analysis**

	<b>Coefficient of Correlation</b>	<b>Relationship</b>	<b>Co-efficient of Determination</b>	<b>Probable Error</b>	<b>6*PE</b>	<b>Significant or Insignificant</b>
MachhapuchreBank	0.8974	moderate degree of positive correlation	0.8053	0.0587	0.942	Insignificant
Laxmi Bank	0.9598	High degree of positive correlation	0.9212	0.0237	0.031	Significant
NIC Bank	0.9625	High degree of positive correlation	0.9264	0.0222	0.451	Significant
Siddhartha Bank	0.9984	High degree of positive correlation	0.9968	0.0965	0.178	Significant

Source:-Annex V-IX

As we know net profit is the important amount of bank, total loan and advances disbursed by the bank plays important role in the income of the bank. The correlation coefficient between the loan and advances and net profit describes the degree of relationship between these two variables of we see these two variables then loan and advances is independent variable where as net profit is dependent variable. Hence through this comparison we can find out the changes taken place in Net profit with every change in loan and advances and other invested found sources. To what extent is the impact of loan and advances on net profit of bank can be calculated or is exhibited by the correlation coefficient.

From table shows that coefficient of correlation ( $r$ ) of Machhapuchre Bank, Laxmi Bank, NIC Bank and Siddhartha Bank is 0.8974, 0.9598, 0.9625 and 0.9984 respectively, that is there is high degree of positive correlation between loan and advances and Net profit of all these selected banks excluding Mach bank. Mach bank has moderate degree of positive correlation. It means with every increase in the volume of loan and advances there will also be increment in the Net profit with the some volume so there is a close relationship between loan & advance and Net profit.

The coefficient of determination ( $r^2$ ) for Machhapuchre Bank is 0.8053, it means 80.53% of the total variation in Net profit (dependent variable) has been explained by the loan and advances (independent variable). Similarly for Laxmi Bank is 0.9212, it means 92.12% of the total variation in Net profit (dependent variable) has been explained by the loan and advances (independent variable). Similarly for NIC Bank is 0.9264, it means 92.64% of the total variation in Net profit (dependent variable) has been explained by the loan and advances (independent variable). And finally Siddhartha Bank is 0.9968; it means 99.68% of the total variation in Net profit (dependent variable) has been explained by the loan in and advances.

The correlation of coefficient of Machhapuchre, Bank Laxmi Bank, NIC Bank and Siddhartha Bank is 0.8974, 0.9598, 0.9625 and 0.9984 respectively. Which are greater than 6 times the values of their respective probable error, hence we can interpret that the correlation between two variables loan and advances and Net profit of all the three banks is certain and significant and as well as there is closeness between these two variables.

#### 4.5 Analysis of Primary Data

Primary data are collected from listed commercial bank and investors or depositors as well as individual academicians. More than one respondent have been included from the same organization as possible. The respondent of the data cover personalities involving in policy formulation with the position of NRB directives. Commercial bank officers and interested investor.

**Table 4.18**  
**No. of Respondents**

S.No.	Designation	Number
1	NRB Officials	10
2	Staffs of the commercial banks	12
3	Individual investors	6
4	Academicians	4
	<b>Total</b>	<b>32</b>

**Table 4.19**

S.N.	Statement	Answer Option					
		A		B		C	
		No.	%	No.	%	No.	%
1.	How effective is the role of NRB in regulating and supervising of the commercial bank?	22	68.75%	10	31.25%	0	0
2.	Which supervisory system is the best?	5	15.62%	7	21.87%	20	62.51%
3.	What are the effects of the NRB Directives on commercial bank?	10	31.25%	4	12.50%	18	56.25%
4.	What is the reason behind the change made in the directives?	12	37.5%	16	50.00%	4	12.50%
5.	Why NRB directives are necessary to the commercial bank?	6	18.75%	12	37.50%	14	43.75%

All together 32 respondents are analyzed in this section.

In the first query that how effective is the role of NRB in regulating and supervising of the commercial bank; 22 respondents show their effective and 10 respondents show their Satisfactory supervising role of NRB. The second query that which supervisory system is the best; 20 of the respondents show their both (on site and off site inspection) 7 of the respondent on site inspection and only 5 respondents were off site inspection. Third query was to what are the effects of the NRB Directives on commercial bank; 18 of the respondents agree to maintaining safe and sound banking system, 10 of the respondent agreement to safeguarding the depositors and 4 of the respondent agree with the constraint bank activities. The fourth query was to what is the reason behind the change made in the directives; 16 of the respondents opinion that to develop the better financial institutions. 12 people opinion that to meet the international standard and 2 people said that the constraint bank activities and fifth questionnaire was survey the opinion of the respondents why NRB directives are necessary to the commercial bank; 14 person said that the protect interest of depositors, 12 person said that the to enhance the creditability of the financial system and 6 person said that to protect the financial institution.

The respondent of the sample have been presented as it is, sum of the respondents didn't assign the rank for the given alternatives has been shown in the no response column. The first query indicates that the most of the respondent agree with the highly effective supervising and regulating role of NRB on commercial bank.

**Table 4.20**

S.N.	Statement	Answer Option					
		A		B		C	
		No.	%	No.	%	No.	%
1.	Are the commercial banks implementing the directives issued by NRB?	25	78.12%	2	6.25%	5	15.63%
2.	Do you think it necessary to implement the directives issued by NRB?	15	46.85%	2	6.30%	15	46.85%
3.	What is the reason for setting capital adequacy norms?	19	59.35%	7	21.85%	6	18.80%
4.	How your banks wish to meet the increase requirement capital as prescribed by NRB?	12	37.50%	10	31.25%	10	31.25%
5.	Who will be benefited most by maintaining capital adequacy requirement?	18	56.25%	10	31.25%	4	12.50%
6	Are you satisfied with the 12% Capital Adequacy Ratio set by NRB?	5	`	27	84.50%	0	0

Among the five alternatives provided, the respondents ranked.

That the 1<sup>st</sup> query. Are the commercial banks implementing the directives issued by NRB; 25 respondent opinions that “yes” 2 respondents showed there, “No” and 5 respondents showed they don’t know. Most of the respondent agree with the commercial banks were implementing the NRB directives regularly and minority respondent don’t know about the NRB directives.

The 2<sup>nd</sup> query that Do you think it necessary to implement the directives issued by NRB; 15 respondent showed their agreed with the necessary to implementing the directives and remaining respondent don't know about the NRB directives as well as they said that not necessary to implement the NRB directives on commercial banks.

The 3<sup>rd</sup> questionnaire that what is the reasons for setting capital adequacy norms; 19 respondent agree with to protect the interest of depositors, 7 respondents said that protect of the borrower and 6 respondent opinion that to protect the financial institution. It means that more than 50% respondent agree with to protect the interest of the depositors for setting capital adequacy norms. Its mean is near about 3 it indicates that the respondent agree with the interest of the depositors.

The 4<sup>th</sup> query that how your bank wish to meet the increase requirement capital as prescribed by NRB; 12 respondent showed their increasing core capital 10 respondent showed their by increasing supplementary capital and only 10 respondent showed their by adopting merger and acquisitions of the same category commercial bank. In indicates that all respondent are equally emphasized the increasing core capital, supplementary capital and merger and acquisitions of the same types of firms.

The 5<sup>th</sup> query that will be benefited most by maintaining capital adequacy requirement; 18 respondents agree that the depositors would be benefited by maintaining capital adequacy requirement. 10 respondents agree with the shareholder also be benefited and 4 respondent agreed that the others benefited, who are relating to the commercial banks.

Finally 6<sup>th</sup> query that Are you satisfied present Capital Adequacy ratio 12% set by NRB? in reply 5 respondents agree on that present ration while 27 felt it is high so it should be decreased.

**Table 4.21**

S.N.	Statement	Answer Option					
		A		B		C	
		No	%	No	%	No	%
1.	The commercial bank allows free to set capital adequacy ratio by them?	25	78.25%	4	12.50%	3	9.25%
2.	Whether loan and advance are reviewed on periodic basis?	20	62.50%	8	25.00%	4	12.50%
3.	Is capital adequacy requirement set by NRB fit for regulation and supervision of commercial bank?	25	78.25%	2	6.25%	5	15.50%
4.	Does the increase in requirement Rs. 2 billion capitals Act as barrier for new entrants?	20	62.50%	4	12.50%	8	25.00%
5.	Are the provisions in NRB directives about the black listing the loan defaulter adequate?	16	50.00%	10	31.25%	6	18.75%
6.	Are you satisfied that with existing requirement for the loan and loan loss provision?	24	75.00%	6	18.75%	2	6.25%
7.	Do you think that commercial bank will be affected by new directives relating to borrower limit?	24	75.00%	5	15.75%	3	9.25%
8	Is the change in the loan classification good for Commercial Banks and its sound financial health?	25	78.25%	5	15.50%	2	6.25%
9	What is the main objective of NRB in modifying its directives	24	75.00%	8	25.00%	0	0

	regarding Single Obligor Limits?						
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All together respondents take part to analyze in this section.

In the first query that should the commercial bank allow free to set capital adequacy ratio by them; 25 respondents showed their opinion, with didn't set capital adequacy ratio to the commercial banks. 4 respondents agree that to set Capital Adequacy Ratio to the commercial bank and 2 respondents don't know about the question.

The 2<sup>nd</sup> query that whether loan and advance are reviewed on periodic basis; 20 respondents showed their opinion to review the loan & advances on periodic basis regularly, 8 respondent showed their opinion don't review the loan & advance on periodic basis, it is enough to loan and loan loss provision.

The 3<sup>rd</sup> query that is capital adequacy requirement set by NRB fit for regulation and supervision of commercial bank; 25 respondent agreed that the it's all right to setting capital adequacy requirement by NRB fit for effective regulation and supervision of commercial bank and only 2 respondent did not agree to setting capital adequacy requirement by NRB.

The 4<sup>th</sup> query that does the increase in requirement R.s. 2 billion capital Act as barrier for new entrants; 20 respondents showed their opinion and emphasized that it is based to increase to the capital requirement Act as barrier for new entrants. 4 respondents did not agree with NRB's new capital requirement Act .they call that it's too high capital fund showing the upcoming commercial banks.

The 5<sup>th</sup> query that are the provisions in NRB directives about the black listing the loan defaulter adequate; 16 respondent showed their opinion that the enough present provision in NRB directives about the black listing loan defaulter. 10 respondents said that it's not enough provision in NRB directives about the blacklisting loan defaulters and remaining 6 respondents said that to some extend present provisions in NRB directives.

The 6<sup>th</sup> query that, are you satisfied that with existing requirement for the loan and loan loss provision; 24 respondents showed their opinion that the loan and loan loss provision of present ratio is adequate to commercial banks. More than 50% respondent satisfied that the NRB loan loss provision.

The 7<sup>th</sup> query that, commercial bank will be affected by new directives relating to borrower limit, 24 components say yes and 5 agree on no and remaining said on don't know

The 8<sup>th</sup> query that, change in the loan classification good for Commercial Banks and its sound financial health, in reply 25 respondent showed their opinion on yes and 5 said no .

Finally 9<sup>th</sup> query that what is main objective of NRB in modifying its directives regarding Single Obligor Limits, in reply 24 respondents showed their opinion on in order to improve the financial health of the bank and reaming respondents showed their to safeguard the money of the depositors.

#### **4.6 Major Findings of the Study**

During the research of this study on topic “Impact and Implementation of NRB directives” (A case studies of Commercial Banks) major findings are following:

##### **4.6.1 Capital Adequacy Ratio**

Machhapuchre bank has maintained the required Capital Adequacy ratio as per Directed by NRB. As on F/Y 2066\067 the standard 11% of its total assets and the bank able to maintained a capital adequacy ratio of 11.25%. Though NRB has defined core capital to be maintained at 5.5% for FY 066/067, the bank has maintained core capital of 9.94% to compensate the shortfall in the supplementary capital. According to the directive, a shortfall in supplementary capital can be fulfilled by the surplus in core capital. Machhapuchre bank has maintained an excess capital of Rs. 781263981 in FY 066/067.

Laxmi bank has also able to maintain capital adequacy ratio directed by NRB norms. Bank maintains its capital adequacy ratio is 13.71% which is greater than its standard ratio with 11%.

Similarly bank maintained its core capital 11.17% which ratio is higher with its required core capital 5.5%. Laxmi bank has maintained an excess capital of RS 391791624.

NIC bank has maintained the required Capital adequacy ratio as per directed by NRB. Bank maintained its capital ratio 12.92% during fiscal year 2066/067 of its total assets with standard ratio 11%. Though NRB has defined core capital to be maintained at 5.5% for FY 066/067, the bank maintained core capital of 11.25%. NIC bank has maintained an excess capital of RS 894793236 in FY 066/067.

Siddhartha bank also able to maintain its capital adequacy ratio as per directed by NRB. During the year 066/067 the standard 11% of its total weighted assets and bank maintained a capital adequacy ratio of 10.04%. Though NRB has defined core capital to be maintained at 5.5% for FY 066/067, the bank maintained core capital only 8%. Siddhartha bank has maintained an excess Capital of Rs. 494021415 in FY 066/067.

#### **4.6.2 Loan Classification and Provisioning**

It has been observed that in FY 2066/067, Machhapuchre bank has extended loan and advances of Rs and 14972534366 and provided RS 682741699 for loan provision. In the pass loan bank maintain excess percentage i.e. 0% and 1.41% during the year 062/063 to 066/067. Similarly bank maintains excess percentage for substandard loan and Doubtful debt during the study period.

In the same year 066/067, laxmi bank also has been to follow the directives in Loan and advance provisioning. It extended loan and advance of RS 14736405493 and also has to provisioning RS 176295905. In the pass loan bank maintain excess percentage i.e. 0.12%, 0.08%, 0.04%, 0.03%, and 0.09% during the year 062/063 to 066/067. Similarly, bank able to maintains excess percentage for substandard loan and Doubtful debt during the study period. It has maintained exact Provision for Bad Debt loan as per prescribed by NRB norms.

In the case of NIC bank has able to increases its Loan and advance every each year. During the year 066/067 its cover loan and advance in RS 12929304094. Bank maintained provision in exacts amount as per directed by NRB norm but in the case of pass loan it declare excess percentage i.e. 0.05% , 0%, 0.01%, 0.01% and -0.01% from the year 062/063 and 066/067.

Siddhartha bank maintained its loan loss provision as per directed by NRB norm. Bank declares an excess amount in percentage with 0.33%, 0.2%, 0.12%, 0.04%, and 0.03% for the pass loan during year 062/063 to 066/067. Bank increases its loan and advance amount each year. In the year 066/067 bank extend loan and advance with amount Rs.16895348329. In case of other category loan head bank provided exactly amount as per directed by NRB rules.

#### **4.6.3 Non- Performing Loan**

The NPL % of Machhapuchre bank is only 2.35% in FY year 066/067 where as NPL % of Laxmi bank, NIC bank and Siddhartha bank is 0.12%, 0.72% and 0.53 % respectively. The maximum NPL % of Machhapuchre bank, Laxmi bank, NIC bank and Siddhartha bank during the review period is 2.35% i.e. FY 066/67, 0.89% i.e. FY 065/066, 2.6% i.e. FY 062/063 and 0.86% i.e FY 062/063respectively. This represent that all selected bank able to maintain much better loan maintaining and provision. All the selected commercial banks able to decrease its NPL Percentage in every each year which is good achievement for bank.

#### **4.6.4 Capital Adequacy Ratio**

It has been observed during the course of study that NRB is consistently increasing the capital adequacy ratio bank should maintain. The main purpose of such increments is to make the commercial banks financially strong, safeguard the depositor's money and to prevent higher capital flight prevailing in the country. The capital adequacy was 8.0% on FY 057/058. it was fixed at 9.0% in FY 058/059 and increased to 10.00% in FY 059/60 and again increased to 11.00% in FY 2060/61. NRB set capital adequacy ratio 12% from FY 065/066.

Licensed institution shall at the end if Asoj, Paush, Chaitra and Ashad of each fiscal year, prepare the statement of Capital Fund on the basis of the financial statements as per the enclosed/directives From No 1.1 and 1.2 and submit to the bank and Financial statements as

per the enclosed/directives From no 1.1 and 1.2 and submit to the bank and Financial Institution Regulation Department and related Supervision Department of Nepal Rastra Bank within 1 month from the end of each quarter.

In the event for non-fulfillment of Capital Fund Ratio as prescribed by NRB , the Board of Directors of the licensed institution shall prepare and submit within 35 days the reason for non-filament of the capital fund and plan or program for making good the shortfall in the capital. On the submission of such capital plan or program, Nepal Rastra Bank may direct the concerned licensed institution to maintain required capital fund within prescribed time period. During the period of inadequate capital fund, distribution of dividend and bonus share is prohibited.

#### **4.6.5 Loan Classification and Provisioning**

The respective overdue periods of pass, sub-Standard and Doubtful loans have been changed and the provision to be maintained for each loan category has also been changed accordingly by NRB. For instance, in previous periods, any loans and advances which are pasr due for a period of more than two years were included in “Loss Loan” category. But now all those loans that are due for a year or more are included in this category and the provision of 100% has to be made for such loan. Directives regarding Loan Loss and Provisioning have been directed in order to safeguard the depositor’s money and to safeguard the banks from financial crisis. It has became clear from the analysis of questionnaire that most of the commercial banks follow the directives strictly and those who don’t follow are taken are taken action against by NRB for example, takeover of NBBL and LBL by NRB.

## CHAPTER V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is important for research because this chapter is the extracts of all previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and Recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendations made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as per further research.

#### 5.1 Summary

In the history of Nepal financial sectors has undergone a signified evolution in the past two decades. The banking system in Nepal is started lately with the establishment of Nepal bank Limited in 1994 B.S. After the establishment of Nepal Rastra Bank as Central bank of Nepal in 2012 B.S under a special act, financial system of Nepal gained a significant growth both in number of financial institutions, volume of the business and the quality of the assets of the financial institution. By this time in 2011, 31 commercial banks, 88 Development Banks, 77 financial Banks, and 13 micro-credit development banks had come into operation extending their services in Nepal .They have been playing the pivot role in mobilization of funds and also providing their services on commerce, trade and industry along, with general public. As the result of the significant growth in the financial sector of Nepal, the necessity had emerged to control the activities of the financial institutions to generate healthy competition and to uplift the economy of the country. For this, purpose NRB introduced a defined set of rules which all the financial institutions of Nepal must take with and such a set of rules which is known as NRB Directives. NRB has altogether introduced 16 directives related with different. In the current worsening economic scenario of the country, the mushrooming growth of commercial banks in private sectors as well as in joint venture and increasing higher profits of the banks has arose the chances of offering uneconomic rate of interest , including in risky enterprises, unhealthy competition etc. In order to scrutinize the performance of these commercial banks,

safeguard the public deposits and ensure the economic stability in the country, NRB issues Directives time to time. The directives thus issued by NRB, if not addressed properly, have potential to wreck the financial system of the country, as they are only the tools of NRB to supervise and monitor the activities of the financial institutions.

This research has been conducted with the main objective to conclude the impact of NRB Directives on safety of general public's deposit and on enhancement of the situation of commercial bank's situation. Other objective of the study are to examine the implementation of

NRB directives by selected commercial banks related to capital Adequacy, Loan Classification and provisioning, and single borrower limit in there activities, to find out the role of NRB on monitoring and inspection of commercial banks. This research is the case study of four commercial out of 31 banks namely Machhapuchre bank, Laxmi bank, NIC bank and Siddhartha bank.

To organize systematic research, this study has used research methodology. The study is based on both primary and secondary data. Secondary data have been collected from annual reports and websites of the concerned companies and published NRB directives, article and previous thesis. For primary data, questionnaire was designed to, look into the various issues that are related to capital adequacy ratio, loan classification and provisioning of the studies banks. To analysis the data, this study has used various data analytical methods like charts, table, figure etc.

## **5.2 Conclusions**

From the research work “ Impact and Implementation of NRB directives in commercial banks of Nepal “ tried to analysis the impact of NRB directives on current banking industry was observed and effort was also made to understand its implementation procedure. This study was drawn only on 3 directives among 16 directives and 4 commercial banks among 31 banks. The main selected of directives are capital adequacy ratio, loan classification and loan provision and single (borrower) oblige limit.

- ❖ Total capital fund, core capital and supplementary capital of Machhapuchre bank, Laxmi bank, NIC bank and Siddhartha bank are increasing trend indicating the increasing trend of liquidity of the bank to repay the depositors demand.
- ❖ Selected banks have increased its fund by increasing its core capital than its supplementary capital. Such increased portion of core in total fund increases the extent of safeguard of both the survival of the bank and stability of the financial system.
- ❖ NRB directives related to capital adequacy are maintained by the selected commercial bank. Capital adequacies of selected banks are above the requirements of NRB in all year of study period 2062/063 to 066/067.
- ❖ All the sample banks have banks are focused on core capital rather than supplementary capital. In capital fund portion of core capital is high. All the banks able to issued right share, bonus share to increase share capital.
- ❖ Throughout the review period, selected banks have been doing exceptionally well by increasing loan and advance and profit.
- ❖ Loan classification is made according to NRB norms and selected banks able to maintained loss provision as per prescribed by NRB. In case of pass loan all selected bank maintain excess provision amount during the review period. But Laxmi bank declare excess loss amount for the sub-standard.
- ❖ Non-performing loan of Machhapuchre bank, Laxmi bank, NIC bank and Siddhartha bank in average of 1.43%, 0.454%, 1.242% and 0.574% on selected period which are below the international standard i.e. 5%. It shows efficient credit management, low credit risk, and good performance of selected bank in mobilizing loan and advance.
- ❖ Effect of NRB directives on commercial banks can be pointed out as fallowing two aspects with positive and negative part.
- ❖ Similarly, the research has reaches the conclusion that role of NRB is effective in regulating bank and financial institutions. Both off-site and on-site inspections are best for regulating bank and financial institutions.

### **Positive part**

- ❖ By using NRB norms banks will be achieve healthy and stronger financial environment for long run.
- ❖ NRB directive helps banks from bank repay and bank fraud.
- ❖ Changes in capital adequacy norm set by NRB protect the money of depositors and loan and loan loss provision.
- ❖ NRB directives will carry support not only for banks also to its depositors, shareholders, employees and also whole economy of the country.
- ❖ NRB directives help commercial bank to achieve goal and as well as provide the good governance of the society.
- ❖ Credit risk is minimized through the loan and loan loss provision as well as to provide the investing opportunities to the different sector.
- ❖ At the moment when the country has already accept to WTO and the regional economic integration being a seriously discussed issue, adopting international standard in the banking industry will make it efficient and competitive with the international banks.
- ❖ All directives are important and essential to the regularly operation of the bank and financial institutions to long run.

### **Negative Aspect**

Since, Nepal is developing country and its banking environment is not so long. Banking markets is small and not very old. In Nepalese content adopting international rules and norms is not suitable and will be hard for fallow international level norms. That means more chances of non-compliance.

- ❖ Strict loan distribution rule will be reduced credit and as result income from loan interest will be affected.
- ❖ If NRB rules are revision and frequently changes leads to inefficient financial environments or management.
- ❖ Increasing in the operational procedures of the banks, which will be increasing additional cost of the banks.
- ❖ Profit of commercial banks will be low causes of increasing operational cost.
- ❖ To fulfill shareholder desire bank paid interest and fewer bonus.

- ❖ Most of banks should large portion of invisible fund separate provisioning, which will be affecting the (net profit) income.
- ❖ NRB give permission for foreign bank to open its branches in Nepal from 2070B.S. Nepalese banking environment is so small so this action make very hard for Nepalese banking institution with having low capital and not advance technologies.
- ❖ NRB order to all commercial bank to increases its capital 2 billion from 2070 B.S which is almost impossible for Nepalese bank.

Since, every matter has always have positive and negative aspect, we must fallow positive aspect and as well as negative part should be considered and focused on to take more benefit from it and for this we have to focus on implementation part. For implementation for NRB rules commercial bank set strategy and procedure, which play vital role for such agenda on getting benefit. So, commercial banks should be very careful from implementation side. If we see the implementation part of the selected banks for fulfilling the capital adequacy norms, single borrower (obligor) limit and loan loss provision norms has adopter following steps.

#### **Machhapuchre Bank Ltd**

- ) It issued bonus share and right share to its shareholder.
- ) Large portion of net profit was allocating for capital adjustment.
- ) General reserve fund and Retained earnings was maintain regularly.
- ) Contribution of core capital on total capital fund is around 91.80%,.
- ) Pass loan around 93% in the portfolio of total loan and advance.
- ) Loss Provision divide as per prescribed by NRB norms.
- ) Bank increase its loan and advance in each year.
- ) Take necessary program to reduce Non- performing loan.

#### **Laxmi Bank Ltd**

- ) Core capital amount is increasing each year, it show that the large portion of net profit was allocated in capital adjusted fund (reserve).
- ) Bank maintains the CAR in excess amount as rule by NRB norms.
- ) General reserve fund and retained earnings was also increased.
- ) Issue bonus share and Right share.

- ) Decrease NPL in every year of review period.
- ) Core capital is increasing trend. So, the single limits always increases.
- ) Increase pass loan in the portfolio of total loan and advance.
- ) Taken essential steps for reducing NPL.
- ) Provision set for all loans secure the position of bank from defaulters but insufficient for same loans.

### **NIC Bank LTD**

- ) Issue bonus share.
- ) Issue 6% NIC bond.
- ) Core capital increasing every year, its means that the large portion of net profit was allocated in capital adjustment reserve.
- ) General reserve fund and retained earnings was also increased.
- ) Contribution of core capital on total capital fund is huge portion than supplementary capital.
- ) Bank increases pass loan in the portfolio of total loan and advances.
- ) Provision created for loan is sufficient as per directed by NRB.
- ) NIC maintain excess CAR ratio as rules by NRB rules.
- ) NPL amount is decreasing ratio, so it means bank adopt necessary steps for deducting NPL amount.

### **Siddhartha Bank Ltd**

- ) Siddhartha bank has been paid dividend from FY 2063/064.
- ) Core capital is increasing each year.
- ) General reserve fund and retained earnings was also increasing.
- ) Portion of core capital is greater than supplementary capital in total capital fund.
- ) Siddhartha bank increases its pass loan in the portfolio of loan and advance.
- ) CAR and core capital amount maintain by bank is in excess amount, as directed by NRB norms.
- ) Provision declare by bank is as prescribed by NRB rules.
- ) Issue bonus share and right share.
- ) Bank increase loan and advance each year.

The coefficient of correlation, coefficient of determination and probable error of all the four banks shows that net profit is closely related with total loan and advances, there is increase in net profit too. So, net profit dependent on total loan and advances as well as other investment of banking activities. Since net profit is the net income for the banks. Which is net amount i.e. deducting of various expenditure amount. Specially pass loan increases i.e. net profit is also increases.

### **5.3 Recommendation**

On the base of the study “Impact and Implementation NRB Directive in Commercial Banks of Nepal” that the following suggestions are recommended to improve the implementation of NRB directives on commercial banks.

#### **Machhapuchre Bank**

- ) Bank only focusing on core capital although they can fulfill the capital adequacy requirements by using Core capital up to 50% of total capital.
- ) Bank fulfill two billion paid up capital from the 2070 B.S. by issuing common share, right share, bonus share, debenture or bond and capitalization of profits.
- ) NPL of machhapuchre bank is highly increased in the year 065/066 and 066/067 than previous three year. It is not good for bank so bank should be decrease it's by effective plan.
- ) It's bad loan seem to be decreasing , but in fiscal year 065/066 it would be increasing , so much be careful and must take necessary steps so that they can recover bad loan and stop from becoming bad loan.
- ) Machhapuchre bank has maintained the CAR and core capital ratio RWA every year so that the Machhapuchre bank needs to be very careful and take necessary steps to so that they can recover bad loan and stop from becoming bad loan.
- ) Machhapuchre bank has maintained to the CAR and core Capital to RWA every year so that the bank need to be very careful and take necessary steps to fulfill the NRB requirement.
- ) It provisioning for different loans and advances are maintained as per NRB requirement.

- ) In the name of increasing capital base, Machhapuchre bank ltd is cutting down the earning of its shareholders. Since shareholders are the actual owners of the bank and are investing their money with a hope of getting wonder.
- ) Share holder is owner of bank so bank regularly paid bonus share as well as cash dividend for its share holder
- ) Full return management should be very careful and must provide adequate

### **Laxmi bank**

- ) NPL of laxmi bank Ltd. is decreases in each year during the review period and its provision for loan loss maintained as prescribed by NRB so bank should fallow this work regularly.
- ) Its bad loan is also decreased in each year during the selected period so this will kept continuously.
- ) Share holder is owner of bank so bank regularly paid bonus share as well as cash dividend for its share holder.
- ) Bank only focusing on core capital although they can fulfill the capital adequacy requirements by using Core capital up to 50% of total capital.
- ) Bank fulfill two billion paid up capital from the 2070 B.S. by issuing common share, right share, bonus share, debenture or bond and capitalization of profits.
- ) Laxmi bank has maintained the CAR and core capital ratio RWA every year so that the Laxmi bank needs to be very careful and take necessary steps to so that they can recover bad loan and stop from becoming bad loan.
- ) Laxmi bank has maintained to the CAR and core Capital to RWA every year so that the bank need to be very careful and take necessary steps to fulfill the NRB requirement.

### **NIC Bank**

- ) NPL of NIC ltd is increased in fiscal year 2062/63, 2063/064 and 2065/66, but after year its NPL is decreasing. Similarly its provisioning is also increased so to secure itself from burden of NPL, NIC ltd needs to be very careful and strict in disbursement of loan and advance.

- ) It's bad loan is decreasing, so bank maintain this position taking necessary steps and proper planning.
- ) It provisioning for different loans and advances are maintained as per NRB requirement.
- ) In the name of increasing capital base, NIC ltd is cutting down the earning of its shareholders. Since shareholders are the actual owners of the bank and are investing their money with a hope of getting wonderful return, management should be very careful and must be positive adequate return for their investment.
- ) Bank should fulfill its paid of capital by issuing common share, right shares, debenture or bond and capitalization of profit.
- ) NIC bank has maintained to the CAR and core Capital to RWA every year so that the bank need to be very careful and take necessary steps to fulfill the NRB requirement.

### **Siddhartha Bank**

- ) NPL of Siddhartha bank is increasing each fiscal year and provision for loan loss is also increasing each year so bank should take necessary steps for reducing and for recover loan.
- ) Siddhartha has maintained to the CAR and core capital to RWA every year so that the Siddhartha bank need to be very careful and take necessary steps to fulfill the NRB requirement.
- ) It's provisioning for different Loan and advance is within the limit. So Siddhartha bank needs to carry on maintain its provision as per NRB requirement regularly.
- ) In the name of increasing capital base, Siddhartha bank ltd is cutting down the earning of its shareholders. Since shareholders are the actual owners of the bank and are investing their money with a hope of getting wonder.
- ) Performing loan is increasing ratio so Siddhartha bank is better that net profit is highly increases.
- ) Bank should increases it's paid of capital 2billion in FY 2070 B.S.
- ) CAR of bank is decreasing trend so, bank give focus on that matter.

## **Nepal Rastra Bank**

- ) NRB is the one who formulates the directives and commercial banks are the one who bring them into action. No matter how formulated directives are but they became irrelevant if their implementation is not effective. Hence, NRB should be consulting with the commercial banks before setting standards on different aspects. It has been observed that commercial banks raising questions on directives set by NRB. It shows that lack of co-ordination between Nepal Rastra bank and commercial banks of Nepal. NRB officials should be considered on complaints and criticisms rising by commercial banks. To solve this matter consequently, an optimal standard will be followed to ensure satisfy every complaints of commercial banks.
- ) We know that Nepal Rastra bank is heading bank of all commercial banks which operating in Nepal. Directives set by NRB is only tools to supervise, monitor and control the financial institution. Bank must taking considered positive as well as negative impact while formulating directives. Issuing wrong and unsuitable directives may created problems for commercial bank for follow rules. NRB should be take necessary action to ensure that recent directives are completed followed by all commercial banks or not.
- ) NRB also has to strengthen the functioning of Credit Information Bureau so that the commercial banks receive the details of the blacklisted borrower in quick time. This will reduce chances of creating bad quality assets in the bank balance sheet.
- ) It was observed that NRB is playing reactive role instead of being proactive. Sometimes the inspection of the bank shall be done without prior notice to the banks so that the concern bank may not have the chance to hide their irregularities. Any deviation during the inspection shall be informed to the branch immediately and the ratification period shall be defined, the failure of which shall be penalized. Unlike the case of NBBL bank delayed in taking action against the bank during which the position of the bank was almost non-recoverable, NRB should also have the policy to take the proactive measures.
- ) Issuance of new directives and re- change of NRB norms should be made to meet the international standards and norms. They should be issued only after properly analyzing its importance, effectiveness, suitability and must be applicable in Nepal context.

- ) NRB should consult to the various bank officials before setting or re-setting standards on such capital adequacy norms.
- ) It has been found that to depositors are not aware of the fact of the necessity of adequate capital fund to safeguard their deposits. They deposit their money to any bank regardless of adequate capital fund which may endanger safety of their money. Therefore, NRB should initiate awareness program to make the depositors aware of such fact and carefully think before depositing money in any commercials banks.

All the bank should be careful while analyzing the paying capacity of its credit clients and has to make its monitoring and fallow departments stronger through area it training and counseling its staff and make them efficient enough to monitor and collect he already disburse loans. Bank able to take action over those credit clients who are not willing to pay their loan in time. We know that, interest income is main source of income for all banks. The relation analysis showed that banks net profit is highly dependent on total Loan and advance and other investigable amount of the bank. If loan and advance of bank is highly increases, specially pass loan, it carries high interest income and earn more profit. So all banks are focus on disbursement of loan which has less chance of being NPL.

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NIC Bank Annual report (062/063to 066/067)

Siddhartha Bank Annual Report (062/063to 066/067)

### **Website**

[www.nrb.org.com](http://www.nrb.org.com)

[www.machbank.com](http://www.machbank.com)

[www.laxmibank.com](http://www.laxmibank.com)

[www.nicbank.com](http://www.nicbank.com)

# ANNEXURE

## Annexure – I

### Capital Fund Growth of Machhapuchre Bank Ltd

A) Growth in Total Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Capital Fund (066/066)} - \text{Capital Fund (062/063)}}{\text{Capital Fund (066/067)}} \\ &= \frac{1979554000 \text{ Z}976132544}{1979554000} | 100\% \\ &= \frac{1003421456}{1979554000} | 100\% \\ &= 50.69\% \end{aligned}$$

B) Growth in Core Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Core Capital (066/067)} - \text{Core Capital (062/063)}}{\text{Core Capital (062/063)}} \\ &= \frac{1750353000 \text{ Z}912023761}{912023761} | 100\% \\ &= \frac{838329239}{912023761} | 100\% \\ &= 91.92\% \end{aligned}$$

C) Growth in Supp Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Supp Capital (066/067)} - \text{Supp Capital (062/063)}}{\text{Supp Capital (062/063)}} \\ &= \frac{229201000 \text{ Z}64108783}{64108783} | 100\% \\ &= \frac{165092217}{64108783} | 100\% \\ &= 257.52\% \end{aligned}$$

## Annexure II

Capital Fund Growth of Laxmi Bank Ltd.

A) Growth in Total Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Capital Fund (066/067)} - \text{Capital Fund (062/063)}}{\text{Capital Fund (066/067)}} \\ &= \frac{2253062280 \text{ Z } 704673774}{2253062280} | 100\% \\ &= \frac{1548388506}{2253062280} | 100\% \\ &= 68.72\% \end{aligned}$$

B) Growth in Core Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Core Capital (066/067)} - \text{Core Capital (062/063)}}{\text{Core Capital (062/063)}} \\ &= \frac{1834867663 \text{ Z } 645936252}{645936252} | 100\% \\ &= \frac{1188931411}{645936252} | 100\% \\ &= 184.06\% \end{aligned}$$

C) Growth in Supp Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Supp Capital (066/067)} - \text{Supp Capital (062/063)}}{\text{Supp Capital (062/063)}} \\ &= \frac{418194617 \text{ Z } 58737522}{58737522} | 100\% \\ &= \frac{359457095}{58737522} | 100\% \\ &= 611.97\% \end{aligned}$$

### Annexure III

Capital Fund Growth of NIC Bank Ltd.

A) Growth in Total Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Capital Fund (066/067)} - \text{Capital Fund (062/063)}}{\text{Capital Fund (066/067)}} \\ &= \frac{2010561500 \text{ Z}1036838663}{2010561500} | 100\% \\ &= \frac{973722837}{2010561500} | 100\% \\ &= 48.43\% \end{aligned}$$

B) Growth in Core Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Core Capital (066/067)} - \text{Core Capital (062/063)}}{\text{Core Capital (062/063)}} \\ &= \frac{1750459218 \text{ Z}761128967}{761128967} | 100\% \\ &= \frac{989330251}{761128967} | 100\% \\ &= 129.98\% \end{aligned}$$

C) Growth in Supp Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Supp Capital (066/067)} - \text{Supp Capital (062/063)}}{\text{Supp Capital (062/063)}} \\ &= \frac{260102281 \text{ Z}275709696}{275709696} | 100\% \\ &= \frac{\text{Z}15607415}{275709696} | 100\% \\ &= -5.66\% \end{aligned}$$

## Annexure IV

### Capital Fund Growth of Siddhartha Bank Ltd.

#### A) Growth in Total Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Capital Fund (066/067)} - \text{Capital Fund (062/063)}}{\text{Capital Fund (066/067)}} \\ &= \frac{1983990000 \text{ Z } 632247007}{1983990000} | 100\% \\ &= \frac{1351742993}{1983990000} | 100\% \\ &= 68.13\% \end{aligned}$$

#### B) Growth in Core Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Core Capital (066/067)} - \text{Core Capital (062/063)}}{\text{Core Capital (062/063)}} \\ &= \frac{1581568000 \text{ Z } 593401322}{593401322} | 100\% \\ &= \frac{988166678}{593401322} | 100\% \\ &= 166.53\% \end{aligned}$$

#### C) Growth in Supp Capital in 5yrs (%)

$$\begin{aligned} &= \frac{\text{Supp Capital (066/067)} - \text{Supp Capital (062/063)}}{\text{Supp Capital (062/063)}} \\ &= \frac{402422000 \text{ Z } 38845685}{38845685} | 100\% \\ &= \frac{363576315}{38845685} | 100\% \\ &= 935.95\% \end{aligned}$$

**Annexure V**

**Correlation Analysis of Machhapuchre Bank**

Net Profit	Loan & advance	$\frac{z}{X}$	$X^2$	$\frac{z}{Y}$	$Y^2$	XY
133.99	6146.57	36.06	17953.32	-3930.94	37780322.76	823578.91
74.08	7319.93	-23.85	5487.84	-2757.58	53581375.2	542260.41
85.01	8964.07	-12.92	7226.70	-1113.44	80354550.96	762035.59
123.25	12984.45	25.32	15190.56	2906.94	168595941.8	160033.46
73.31	14972.53	-24.62	5374.35	4895.04	224176654.6	1097636.17
489.64	50387.55		51232.77		564488845.3	4825844.54

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{489.64}{5} = 97.93$$

$$(\bar{Y}) = \frac{\sum Y}{n} = \frac{50387.55}{5} = 10077.51$$

Now,

$$\begin{aligned} \text{Karl Pearson's correlation coefficient } (r_{xy}) &= \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} \\ &= \frac{4825844.54}{\sqrt{51232.77 \times 564488845.3}} \\ &= 0.8974 \end{aligned}$$

Coefficient of Determination  $(r_{xy})^2 = (\text{Correlation of coefficient})^2$

$$= (0.8974)^2 = 0.8053$$

Probable Error

$$\begin{aligned} \text{PE}(r) &= 0.6745 \times \text{SE}(r) = 0.6745 \times \frac{\sqrt{1 - r^2}}{\sqrt{n}} \\ &= 0.6745 \times \frac{\sqrt{1 - 0.8053}}{\sqrt{5}} \\ &= 0.0587 \end{aligned}$$

**Annexure VI**

**Correlation Analysis of Laxmi Bank**

Net profit	Loan & advance	$\sum XZ$	$\sum X^2$	$\sum YZ$	$\sum Y^2$	$\sum XY$
35.39	4280.10	-112.13	1252.45	-5480.6	18319256.01	151472.74
65.57	6529.23	-81.95	4299.42	-3231.47	42630844.39	428121.61
120.63	9794.43	-26.89	14551.59	33.73	95930859.02	1181502.09
188.99	13463.34	41.47	35717.22	3702.64	181261524	2544436.63
327.03	14736.40	179.51	106948.62	4975.7	217161485	4819244.89
737.61	48803.5		162769.3		555303968.4	9124777.96

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{737.61}{5} = 147.52$$

$$(\bar{Y}) = \frac{\sum Y}{n} = \frac{48803.5}{5} = 9760.7$$

Now,

Karl Pearson's correlation coefficient \*

$$= \frac{9124777.96}{\sqrt{162769.3 \times 555303968.4}}$$

$$\dots = 0.9598$$

Coefficient of Determination  $(r \times y)^2 = (\text{Correlation of coefficient})^2$

$$= 0.9598^2 = 0.9212$$

Probable Error

$$\begin{aligned} PE(r) &= 0.6745 \mid SE(r) = 0.6745 \mid \frac{\sum Zr^2 A}{\sqrt{n}} \\ &= 0.6745 \mid \frac{\sum Z0.9212A}{\sqrt{5}} \\ &= 0.0237 \end{aligned}$$

**Annexure VII**

**Correlation Analysis of NIC Bank**

Net profit	Loan & advance	$\sum XZ$	$\sum X^2$	$\sum YZ$	$\sum Y^2$	$\sum XY$
96.58	6902.12	-156.43	9327.69	-3966.13	47639260.49	666606.75
158.15	9128.64	-94.86	25011.42	-1739.61	83332068.25	1443694.42
243.05	11465.33	-9.96	59073.30	597.08	131453792	2786648.45
317.43	13915.85	64.42	100761.80	3047.6	193650881.2	4417308.26
449.84	12929.30	196.83	202356.02	2061.05	167166798.5	5816116.31
<b>1265.05</b>	<b>54341.24</b>		<b>396530.23</b>		<b>623242800.4</b>	<b>15130374.19</b>

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{1265.05}{5} = 253.01$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{n} = \frac{54341.24}{5} = 10868.25$$

Now,

Karl Pearson's correlation coefficient \*

$$= \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

$$= \frac{15130374.19}{\sqrt{396530.23 \times 623242800.4}}$$

$$\dots = 0.9625$$

Coefficient of Determination  $(r_{xy})^2 = (\text{Correlation coefficient})^2$

$$= (0.9625)^2 = 0.9264$$

Probable Error

$$PE(r) = 0.6745 \mid SE(r) = 0.6745 \mid \frac{\sum Z^2}{\sqrt{n}}$$

$$= 0.6745 \mid \frac{\sum Z^2 \cdot 0.9264}{\sqrt{5}}$$

$$= 0.0222$$

**Annexure VIII**

**Correlation Analysis Siddhartha bank**

NP	Loan & advance	$\sum XZ$	$\sum X^2$	$\sum YZ$	$\sum Y^2$	$\sum XY$
65.25	3869.26	-87.24	4257.56	-6144.72	14971172.95	252469.23
95.30	6319.72	-57.19	9082.09	-3694.26	39938860.88	602269.32
143.17	9480.78	-9.32	20497.65	-533.2	89885189.41	1357363.27
217.91	13504.79	65.42	47484.77	3490.81	182379352.9	2942828.79
240.84	16895.34	88.35	58003.90	6881.36	285452513.7	4069073.68
762.47	50069.89		139325.97		612627089.8	9224004.29

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{762.47}{5} = 152.49$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{n} = \frac{50069.89}{5} = 10013.98$$

Now,

Karl parson's correlation coefficient \*

$$= \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}}$$

$$= \frac{9224004.29}{\sqrt{139325.97 \times 612627089.8}}$$

$$\dots = 0.9984$$

Coefficient of Determination  $(r_{xy})^2 = (\text{Correlation of coefficient})^2$

$$= (0.9984)^2 = 0.9968$$

Probable Error

$$PE(r) = 0.6745 \mid SE(r) = 0.6745 \mid \frac{\sqrt{1 - r^2}}{\sqrt{n}}$$

$$= 0.6745 \mid \frac{\sqrt{1 - 0.9968}}{\sqrt{5}}$$

$$= 0.0965$$

## Annexure IX

### Questionnaire

Dear sir/ Madam,

The purpose of this study is to assess the performance of NRB directives on commercial banks. The information supplied will be used only for research purpose and high level of secrecy will be maintained. Please read the following statement and tick ( ) at the appropriate option that comes closest to your opinion.

Regards

Laxmi Maharjan

#### Details of Respondent:

Age: ..... Sex.....

Profession.....

Position.....

1. How effective is the role of NRB in regulating and supervision of the commercial banks?  
a) Effective                      b) Satisfactory                      c) Poor
2. Which supervisory system of NRB is the best for regulating commercial banks in your opinion?  
a) Off-site inspection                      b) On –site inspection                      c) Both
3. What are the effects of NRB directives on commercial banks?
  - a) Safeguarding the depositors
  - b) Constraints the banks activities
  - c) Maintaining safe and sound banking system.

4. What is the cause of changes made on NRB directives in time to time?
  - a) To meet the international standard
  - b) To develop the better financial institutions
  - c) To meet constraints the bank activities
5. Why NRB directives are necessary for the commercial banks?
  - a) To protect the banks and financial institutions
  - b) To enhance the credibility of financial system.
  - c) To protect the interest of the depositors
6. Are commercial banks implementing the NRB directives?
  - a) Yes
  - b) No
  - c) Don't know
7. Do you think it is necessary to implement the directives issued by NRB?
  - a) Yes
  - b) No
  - c) Don't know
8. What are the reason for setting capital adequacy standard by NRB?
  - a) To protect the interest of the depositors
  - b) To protect the borrowers
  - c) To protect the financial institution
9. How your bank wishes to meet capital adequacy norms as prescribed by NRB?
  - a) By increasing core capital
  - b) By increasing supplementary capital
  - c) By adopting merge and acquisitions of same category CB
10. Who will be benefited most by maintaining capital adequacy ration by themselves?
  - a) Depositors
  - b) Shareholders
  - c) Other
11. Are you satisfied with the 12% capital adequacy ratio set by NRB?
  - a) Yes
  - b) No
  - c) Don't know
12. Should commercial bank allow free to set capital adequacy ratio by them?

a) Yes                      b) No                      c) Don't know

13. Whether or not the loan and advance are reviewed on periodic basis?

a) Yes                      b) No                      c) Don't know

14. Is capital adequacy requirement set by NRB fit for regulation and supervision of commercial bank?

a) Its all right                      b) No, it's too high                      c) No, it's not adequate

15. Does the increase in requirement RS. 2 billion capital Act barrier for new entrants?

a) Yes                      b) No                      c) To some extend

16. Are the provisions in NRB directives about the black listing the loan defaulter adequate?

a) Yes                      b) No                      c) To some extend

17. Are you satisfied with the existing requirement for the loan and loss provision?

a) Yes`                      b) No                      c) Don't know

18. Do you think that commercial bank will be affected by new directives relating to borrower limit?

a) Yes                      b) No                      c) Don't know

19. Is the change in the loan classification good for Commercial Banks and its sound financial health?

a) Yes                      b) No                      c) Don't know

20. What is the main objective of NRB in modifying its directives regarding Single Obligor Limits?

a) To improve the financial health

b) To save money of depositor

c) To met international standard