

LENDING PRACTICES OF KAILASH BIKAS BANK LIMITED

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ACRONYMS AND ABBREVIATIONS

ADB/N	: Agricultural Development Bank of Nepal
AFCL	: Annapurna Finance Company Limited
AMA	: Advanced Measurement Approaches
ATM	: Automated Teller Machine
BOK	: Bank of Kathmandu
BR Act	: Banking Regulations Act
B.S.	: Bikram Sambat (Nepali Calender)
C/D	: Credit to Debt Ratio
CIB	: Credit Information Beaurro
CPG	: Credit Policies Guidelines
CV	: Coefficient of Variation
EBL	: Everest Bank Limited
EPS	: Earning Per Share
FAQ	: Frequently Asked Questions
FY	: Fiscal Year
GDP	: Gross Domestic Product
HBL	: Gross National Product
ICAN	: Institute of Chartered Accountants Nepal
IRB	: Internal Rating Based
KBBL	: Kailas Bikas Bank Limited
M	: Million
N	: Number of Observations
NABIL	: Nabil Bank Limited
NBL	: Nepal Bank Limited
NIBL	: Nepal Investment Bank Limited
NIDC	: Nepal Industrial Development Corporation
NPA	: Non Performing Assets
NPL	: Non Performing Loan
NRB	: Nepal Rastra Bank
PCCI	: Pokhara Council of Commerce and Industry
P.Er.	: Probability of Error
r	: Karl Pearson's Correlation Coefficient
r^2	: Coefficient of Determination
RBB	: Rastriya Banijya Bank
Rs.	: Rupees (Nepalese Monetary Unit)
SCBNL	: Standard Chartered Bank (Nepal) Limited
S.D/ σ	: Standard Deviation
SMS	: Short Messaging Service
T-Bills	: Treasury Bills
TL	: Total Loan
TU	: Tribhuvan University

CHAPTER I

INTRODUCTION

1.1. General Background

Nepal is a small nation situated in between two large countries India and China. Almost half Nepalese population of 25.8 million live below the poverty line as it is ranked as one of the world's poorest. But Nepal is developing country in the world and slowly has also increasing the trend of the economic condition. The developing of a country is always measured by its economic indices. Therefore every country has given emphasis on uplift of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. Every well-organized financial institution including financial intermediaries play pivotal role in the development and advancement of the financial sectors of the country. They collect scattered financial resources from the mass and invest them among those who are social activities of the country. This provides fuel to the development process. The economic activities of the country assist with the financial institution. They are actually indispensable part of the development process. It is the fact that the unorganized financial system leads the country nowhere. Therefore the central bank (Nepal Rastra Bank) continuous to play major role in development and advancement of the financial sector of the country. (*Shrestha 2009:1*)

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

In the present context, the role of money in the economy has become very important. Proper and well-planned management of money – directs, determines and enhances the health and

productivity of total financial sector and performance of financial sector affects the growth of the economy. Bank collects, disperses and controls the flow of money. Banks collect the funds from public who has savings and it disperses the fund to the people who are in need of it. This way, whole infrastructure of national development, direction of economy, rate of progress and even the habit of people is being the function of the banking system. Therefore, the existence of bank is for the change in every aspect of human beings and its presence is for the enrichment of the people. (*Shrestha 2009:8*)

Nepal is one of the least developed countries in the world. More than 90 percent of the total population is still in the rural areas and most of them are still deprived of the physical facilities that are necessary for any human being. However, Nepalese economy is predominantly agriculture; i.e. agriculture is backbone of Nepalese economy. More than 90% of the population still directly or indirectly depends upon it for their livelihood. It provides employment to over 80% of the labor force and contributes a major portion to the Total Gross Domestic Product (GDP) and also is a major supply of raw materials to the industries (www.worldbank.org). The poor structure of Nepalese economy, slow paced industrial sector, low rate of employment, majority of non organized financial sectors, lack of organized capital market etc. have always been demanding an efficient, competent, and liberalized banking industries. The existence of an ideal banking system regularizes the scattered fund from public. Lending it to productive sector reduces the idle saving of the country. Development banks, if successful in increasing the banking habit of people, would have great power in multiplying the deposited by way of credit creation and this would multiply the investment more than the limit granted by the national savings. The role of development banks in the economy like Nepal can be judged from its contribution to a farmer to purchase a buffalo, to a big industry to establish its industrial foundations, to an exporter to produce goods to be exported and to provide a link to the economy, provide conducive trade and commerce opportunities opened up by globalization etc. In addition, the very essence of people's hope towards the banking system is dependent on its efficiency to implement its lending and investment activities. "The two essential functions of banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then they provide the collected fund to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. The primary function of bank is that of a broker and a dealer in money. By discharging this function

efficiently, a banker renders a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development (*Shekhar & Shekhar, 2000: 4*).

The Banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions, such as merchant banking, debit and credit card business, documentary credit, traveler check business etc. Nevertheless, the importance of lending in banking business is undoubtedly unchanged and remained vital as it was in early day of this business. The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been changed are the institutional structure, the instruments, and the techniques used in performing these functions.

Lending is not only the most important function of a bank; it also determines the future of banking institutions. The quality of loan, quality of borrower and quality of securities determines the health of any bank. The efficiency of bank lies in how it multiplies the deposits of depositors. Hence, lending should be accompanied by some basic principles and practices. Hence, lending should be accompanied by some basic principle and practices. Lending policy is a study in determining the importance of the bank's lending policy towards National economic development because it ensure efficient allocation of funds to achieve the material and economic well being of the society as a whole. (*Shrestha 2009:11*)

Lending policy is a study in determining the importance of the bank's lending policy towards National Economic Development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regards loan disbursement pattern has been a major catalyst in achieving priority of industries in the context of Nepal's economic development. All eighty six development banks in Nepal have their own lending policy apart from government policy and Central Bank's rules. Timely evaluation and reform of lending policy is utmost important for strengthening the position of bank.

This study is focused to explore the lending practices of Kailash Bikas Bank Limited.

1.2 An Introduction of Kailash Bikas Bank Limited

Kailash Bikas Bank Limited is one of the largest national level development bank of Nepal in terms of assets, deposits, profits & branches catering to large customer base. The Bank has earned accolade in recognition to its services and overall performance & has been bejeweled with glorious awards from NRB, ICAN and PCCI in the history of Nepali Financial Institutions.

Kailash Bikas Bank has completed 20 consecutive successful years, and is operating in 21st year now. It was incorporated on 6 Chaitra 2049 BS and commenced from 14 Ashwin 2050 BS as the name of Annapurna Finance Company Limited being upgraded from "C" class national level Finance company. The bank has started its transaction as national level development bank; a "B" class financial institution dated from 12 Baisakh 2069 BS. The paid up capital of the bank as on FY 2069-70 is NR 707,616,000. Ever since inception, the Bank has been rendering outstanding services to its' clients from different walks of life. Corporate governance, transparency, long term growth and likes has always been high priority of the Management which in turn has yield secured profit, sustained growth and smooth operation of the Bank.

KBBL has been providing services through its 22 branches & 11 ATM machines; in and outside the valley, including internet banking, SMS banking, 365 days banking & extended evening counter processing of opening more branches in the coming fiscal year and are contemplating to start Mobile Banking and utility payment in near future.

(www.kailashbank.com)

1.3 Focus of the study

Financial institutions are currently viewed as catalyst in the process of economic growth of country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries, the financial institution helps the process of resources mobilization. The importance of financial institutions in the economy has of late growth to an enormous extent. The government in turn is required to regulate their activities so that the financial policies are implemented as per the requirement of the country. Policy such as lending to priority and deprived sectors, lending to the educated unemployed people, lending

for creation of entrepreneurs in the society are certain examples which the government in developing economy try to implement with the help of financial institutions.

With the growing activities of bank after the NBL and RBB, new banking policy was introduced for establishment of international investment banks, joint venture banks in foreign investment with Nepalese co-operation and national development banks. Its objective is to create healthy competitive banking system and provide cheap banking facilities to people.

Banks are the heart of financial system. They hold the deposits on many persons, government institutions and business units. They make funds available through their lending and investing activities to borrowing; individuals, business firm and government establishments. In doing so, they assist both the flow of goods and services from the products to consumers and the financial activities of the government. These facts show the banking system of nation is important to the functioning of the economy.

Bank creates funds from its client to saving and lends the some to needing person or business institutions in terms of loan, advances and investment. So, proper financial decision making is more important in banking transaction for its efficiency and profitability. Most of the financial decision making are concerned with lending policy and lending management. It plays the vital role in the business succession, so efficient lending management is needed. This study deals with the lending position, non-performing loan, lending portfolio management and relation of lending in profitability of the bank.

1.4 Statement of the Problem

Capital resource is the prime source of the economic development of the country. Economic development of a country succeeds only when the development of the capital formation mechanism exists. The major cause of this chronic problem is the lack of economic development or the slow rate of the national economic growth. With the increased sophistication and liberalization of financial markets, this has made the problem of debt management one of the most important issues in economic policy.

Banking, especially the development banking sectors can flourish the capital resources in the rural and urban parts of the country. Development banks collect or deposit necessary capital from the people in the different parts of the country. They powerfully help in the creation of the capital resources for the national investment. Effective utilization of capital is depends up on creditability position of the bank.

Development banks suffered from various types of problem such as non-performing loan. They do not mobilize their deposit properly because of weak management and ineffective policies implementation in organization. It is no debate that high profitable institutions can easily get their goals and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Credit is the most effective area in development bank. While granting the loan, banks which do not analyze the documents submitted by the borrowers, are resulting increasing non-performing loan. Thus lending management is considered as the main issues in Nepalese banking sector. Development bank's investment has been found to be have lower productive due to the lack of supervision regarding whether there is a proper utilization of their investment or not.

Lending management concept has appeared as a major research gap in Nepalese development banks. There is lack of scientific research that could identify the issues of Lending management in development banks. In this regard, the performance of the development banks is to be analyzed in terms of lending. Some research questions regarding to the credit practices, liquidity position, economic and industrial environment, management quality are considered as a clear evident in present situation.

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

- 1) Is the lending practices adopted by KBBL is in good position?
- 2) Is lending position of bank influences the profitability?
- 3) What is the trend value, growth rate and propensity of growth of lending and Earnings Per Share?
- 4) How much the lending with other variables (i.e. total deposit, shareholder's equity, total income, provision for loan loss, and interest income) is correlated?

It has been apparent that there is a difficult for long term and medium term loan as the

procedure to provide such facilities to the customers is very lengthy. On the other hand, due to the lack of deposit habit of the Nepalese people, a low rate of deposit formation has been observed, which ultimately has been affecting the lending procedure of the bank. Banks have to hugely depend on mortgage of properties, however, in case of default the bank is incapable to get back its funds promptly and effectively due to the lack of proper legal procedures.

1.5 Objective of the Study

The main target of this study is to observe the loan disbursement of Kailash Bikas Bank Limited. The general objective of this dissertation includes visualization of the actual lending position, its strengths and its weaknesses. The specific purposes of the study are:

1. To analyze the lending position of KBBL.
2. To assess the impact of lending position of the bank on its profitability.
3. To examine the trend value of loans; determine the growth rate annually and forecast of loan disbursements and EPS.
4. To measure the relationship of lending with other variables (i.e. total deposit, shareholder's equity, total income, provision for loan loss, and interest income).

1.6 Scope of the Study

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

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

1.7 Limitations of the Study

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

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

1. The entire study is based on secondary data, which has already been collected and processed.
2. Due to the confidential nature of the banking sector, bankers do not give correct or relevant information on some topics in order to maintain the privacy of the bank. So the report is mainly based in the financial statement published by the bank.
3. The data only focuses on the period of the last 5 years. Time constraint or limited time has had an impact on shaping up the study conducted.
4. The study mainly concerns only on those factors related with lending management of the bank under research.

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

1.8 Organization of the Study

The overall study conducted has been organized into five different chapters for an easy presentation of the data collection. The sequential chapter plan has been briefly mentioned below:

Chapter 1: Introduction

The first chapter is an introductory chapter, which contains general background of the study, introduction of Kailash Bikas Bank Limited, focus of the study, statement of problem, objectives of the study, scope of the study and limitation of the study and organization of the study.

Chapter 2: Review of Literature

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

Chapter 3: Research Methodology

The basic objective of this study is to analyze a case study on lending practices of Kailash Bikas Bank Limited. Therefore, within the case study descriptive and analytical research design as demanded by the study is followed.

Chapter 4: Data Presentation and Analysis

In this Chapter, data collected from various relevant sources is presented and analyzed using various statistical and non-statistical methods. The annual reports of KBBL are the major sources of the data of the study. Tables, Bar Graph, and Line Graph etc are used for presentation of data. Various financial tools like Ratio Analysis, statistical tools like Standard Deviation, Coefficient of Variation, Correlation Coefficient and Trend Analysis has been used for analysis of data.

Chapter 5: Summary, Conclusion and Recommendation

This chapter includes the summary with conclusions of the study and to express recommendations to improve any time of lacking, if found in the subject during the study.

In addition, Bibliography of books, all published and unpublished reports, journals and literatures along with Appendixes containing elaborated for calculation and presentation of detail of data has included at the end of the report.

CHAPTER II

REVIEW OF LITERATURE

Several research works have been conducted in various aspects of banks, for instance financial performance, investment policy, resource mobilization compliance of Nepal Rastra Bank directives by banks, risk and return analysis etc. This chapter focuses on reviewing prior researches, books and journals so that the theoretical framework can be built.

2.1 Conceptual Review of Lending

2.1.1 Meaning of Lending/loan

Loan is defined as a thing that is lent, especially a sum of money. Likewise debt means a sum of money owned to somebody. However in financial terms loan or debt means principal or interest availed to the borrowers against the security. Debt means money that bank owes or lend to individual or person. Likewise the term loan is defined as lending. Delivery by one party and receipt by another party, a sum of money upon agreement expressed or implied, to repay it with or without interest. Anything furnished for temporary use to a person at his request, on that condition it shall be returned or it's equivalent in kind, with or without compensation for its use. Loan includes:

1. The creation of debt persuade to a lender credit card or similar arrangement.
2. The creation of debt by credit to an account with the lender upon which the debtor is entitled to draw immediately.
3. The certain of debt by the lender's payment of or agreement to pay money to the debtor or to a third party of the debtor.

Further debt means "Principal and Interest" provided to debtor by financial institutions, with the pledge of immovable or movable property, securities, guarantee, without guarantee and the word also means over dues of the transaction beyond balance or fees, commission and interest incurred in that relation. The supreme court of India has defined the debt during the decision of the case "In the case in hand, there cannot be any dispute that the expression 'debt' has to be given the widest amplitude" mean any liability which is alleged as dues from any person by a bank during the course of any business activities undertaken by the bank either in cash or otherwise, whether secured or unsecured, whether payable under a

decree of order of any court or otherwise and legally recoverable on the date of the application. (*Shrestha, 2009:16*)

2.1.2 Types of Loan

Banks make a wide variety of loans to wide variety of customers for many different purposes. For customers, the cause of loan purchasing may be investment in business, purchasing automobiles, take dream vacations, pursuing college educations, constructing home and office building so on. On the basis of loan purpose, bank loans can be divided into following categories.

1. Term loan

Term Loan is money lent to the borrowers in a lump sum. Generally, subsequent debt in the loan account is not allowed except by way of interest, incidental charges, insurance premiums, expenses incurred for the protection of the security. Term loans are generally granted for long period to finance fixed assets and are repayable on installments over the period of loan.

2. Project Loan

Project loan is granted to customers on the basis of the viability of the project. The financial institution asks the borrower to invest certain proportion to the project from their equity and the rest be financed as project loan. The debt equity ratio in case of project loan is generally 60:40. The project loan includes the term loan and working capital loan required by the project.

3. Working Capital Loan

Working Capital is the difference between current assets and current liabilities. This type of loan is granted to the customer to meet their working capital gap. Working capital can be divided into fixed working capital and variable working capital. Fixed working capital is financed by way of short-term loan while variable working capital is financed by overdraft.

4. Loan against Fixed Deposit Receipt

The depositor keeps fixed deposits for a specified period. If a depositor needs money before its maturity date, he can obtain loan against the security of such fixed deposits. Generally development banks allow up to 90% of the fixed deposits as loans.

5. Priority/Deprived Sector Loan

Development banks are required to extend advances to the priority sector and deprived sector. Out of the total credit facility of the development 12% must be extended towards priority sector loan including deprived.

6. Overdraft

Overdraft facility is a kind of working capital loan. This facility is allowed in current accounts. Overdraft is an agreement by which the banker allows the customers to draw over and above the current account balance. The borrower cannot exceed the limit sanctioned to customer. In this account, the balance is fluctuating because of withdrawal and repayment of money by the borrower. Interest on overdraft is charged on debit balance on daily basis. Overdraft is generally granted to the businessmen for the fulfillment of their short-term needs.

7. Cash Credit

Cash Credit is similar to the overdraft account by which the customer is allowed to overdraw his account. The borrower may operate the account within stipulated limited and when required. Cash credit is provided against the pledge or hypothecation of stock in trade, goods, Plants and machinery, land and buildings so on.

8. Hire-Purchase Financing

Hire purchase is a type of installment credit under which the hire purchaser, called the hirer, agrees to take the goods on hire at a stated rental, which is inclusive of repayment of principal as well as interest, with an optional to purchase. Goods for the purchase of hire purchase may be bus, truck, car, jeep, and machinery so on. Hire purchase facility can be granted to the person having fixed source of income. The facility can also be granted to the institutions.

9. Bill Purchase and Discount

Purchasing of bill of exchange of customers in whose favors limit is sanctioned is called purchasing of bills. Bills may be either documentary bills or clean bill. If a bill is accompanied documents of title to the goods (Railway Receipt, Truck receipt, Airway Bill) it is called documentary bill. In the absence of such document, it is called clean bill.

10. Bridge-Gap Loan

A bridge gap loan is interim financing for an individual or business until permanent financing or next step of financing. If a term loan is approved to some customers and the approving institution cannot disburse the facility because of incompleteness of legal and other formalities. In this situation customer may ask as bridge gap loan.

11. Consortium Loan

While a single financial institution cannot grant credit to a project because of single borrower limit or other reasons, two or more such institutions may agree to grant credit facility to the project. Such kind of loan is called consortium loan. Financial institutions may also go on consortium financing to share the risk of project between them.

12. Real Estate Loan

It is the credit extended to purchase or improves real property, such as land and buildings. Real property-land buildings and other structure secure such loans. Real estate loans include longer-term loan to finance the purchase of farmland, house, apartments, commercial structure and foreign properties.

13. Commercial and Industrial Loan

Commercial and industrial loans are extended to business firms to support the production and distribution of their products and services. It is granted business to cover such expenses as purchasing inventories, paying tax, meeting payrolls too.

14. Housing Loan

Financial institutions also extend housing loan to their customers. Housing loans may be of different nature e.g., residential building, commercial complex, construction of warehouse etc, housing loans are granted to the customer if they have regular source of income or if they earn revenue from the housing project itself.

15. Off -Balance Sheet Transaction

The bank provides the facilities to the client being the guarantor in some transaction. This facility provided to the client mainly in two ways. First bank guarantee and second is Letters of credit. This transaction is also called off balance sheet transaction.

Bank Guarantee

Bank guarantee expresses a commitment of the bank to make good any financial loss and beneficiary of the guarantee may sustain when the party named in Guarantee on whose behalf the guarantee is issued falls to perform the contract and or discharge his/her obligation.

Letter of Credit

Letter of Credit is a commitment by a bank on behalf of its customer to pay the counter value of goods/services within a given date of its supplier according to agreed stipulated and against presentation of specified documents. Letter of Credit is used an instrument for settlement of payment arising out of the commercial transaction like sales/purchases so on. In

such credit payment obligation arises only upon fulfillment of specified conditions. (*Shrestha, 2009:20*)

2.1.3 Credit Policies Guidelines

Every bank has to develop Credit Policies Guidelines (CPG) that clearly outline the bank's view of business development priorities and the terms and conditions that should be adhered to for loans to be approved. The CPG should be updated at a regular interval to reflect changes in the economic outlook and the evolution of the bank's loan portfolio. To make it effective, policies should be communicated timely and should be implemented by all levels of the bank through appropriate procedures. It should be distributed to all lending authorities and credit officers. Credit policies establish framework for making investment and lending decisions and reflect bank's tolerance for credit risk. Any significant deviation to these policies must be communicated to the Senior Management/Board and corrective measures should be taken. At a minimum, credit policies should include:

- i) An area of credit in which the bank plans to lend and does not lend (acceptable and unacceptable lines of credit). These areas can be on the basis of credit facilities, type of collateral security, types of borrowers, or geographic sectors on which the bank may focus;
- ii) Bank's formal credit approval process; detailed and formalized credit evaluation/appraisal process, administration and documentation;
- iii) Credit approval authority at various levels;
- iv) Clear guidelines for each of the various types of credits, such as loans, overdrafts, mortgages, leases, etc.
- v) Concentration limits on single counter party and group of connected counter parties, particular industries or economic sectors, geographic regions and specific products. Banks can set their own stringent internal exposure limits comply with any prudential limits or restrictions set by the Nepal Rastra Bank;
- vi) Authority for approval of allowance for probable losses and write-offs;
- vii) Credit Pricing;
- viii) Roles and responsibilities of units/staff involved in credit;
- ix) Guidelines on regular monitoring and reporting system.
- x) Guidelines on management of problem loans; and

xi) Internal rating (Risk grading) systems including definition of each risk grade and clear demarcation for each risk grade.

The credit policy should spell out the process to ensure appropriate reporting and approval of credit extension beyond prescribed limits. The policy should also spell out approvals of disbursements of excess over limits, and other exceptions to credit policy. In order to be effective, credit policies must be communicated throughout the bank, implemented through appropriate procedures, and periodically revised to take into account changing internal and external circumstances. (Source: *www.nrb.org.np*)

2.1.4 Features of Sound Lending Policy

The income and profit of the development banks depend upon its lending procedure. The greater the credit created by bank, the higher is the profitability. A sound lending policy is not only pre-requisite for banks profitability, but also crucially significant for the promotion of saving of backward country like Nepal. Some features of Sound lending policy are considered as under:

1. Safety

Safety is the most important principle of good lending. If borrower invests the money in an unproductive or speculative venture, or if the borrower is dishonest, the advance would be in jeopardy. Similarly, if the borrower suffers losses in his business due to his incompetence, the recovery of the money may become difficult. The banker ensure that the money advanced by customer goes to the right type of borrower and is utilized in such a way that it is not only be safe at the time of lending but remains so throughout, and after serving a useful purpose in the trade or industries where it is employed, is repaid with interest.

2. Liquidity

The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by borrower for short-term requirements and not locked up in acquiring fixed assets, or in schemes, which take a long time to pay their way. The source of repayment must also be definite. The reason why bankers attach as much importance to “liquidity” as to “safety” of their funds is that a bulk of their deposits is repayable on demand or at short notice.

3. Purpose

The purpose should be productive so that the money not only remains safe but also provide a definite source of repayment. The banker must closely scrutinize the purpose for which the

money is required, and ensure, as far as he can, that the borrower applies the money borrowed for a particular purpose accordingly.

4. Profitability

Like other business institutions, banks must make profit. They have to pay interest on deposits received by them. They have to incur expenses on establishment, rent, stationery, salary etc. they have to make provision for depreciation of their fixed assets, and also for possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; otherwise, it is not possible to carry anything to the reserve of pay dividend to the shareholders. It is after considering all these factors that a bank decides upon its lending rate.

5. Collateral/Security

It has been the practice of banks not to lend as far as possible except against security. Security can be considered as insurance. Security may be generally classified as personal and tangible, as well as primary and collateral. The banker carefully scrutinizes all the different aspects of an advance before granting it. At the same time, he provides for an unexpected change in circumstance which affected the safety and liquidity of advance.

6. Spread

Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance, however secure it might appear to be. In fact, the entire banking business is one of taking calculated risks and successful banker is an expert in assessing such risks. He is keen on spreading the risks involved in lending, over a large number of borrowers, industries and over different type of securities.

7. Legality

Illegal securities bring out many problems for the investor. Development banks must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance and other while mobilizing its funds.

8. National Interest

Even when an advance satisfies all the aforesaid principles, it may still not be suitable. The advance may run counter to national interest. It in the changing concept of banking factors such as purpose of the advance, viability of the proposal and national interest are assuming a greater importance than security and export-oriented industries.

(Shrestha 2009:23)

Table 1.1: Capital Requirements to establish a Financial Institution.

Grade / Operation level	Minimum Paid-up capital required				
	National Level	Regional Level	4-10 districts	1-3 districts	1 districts
'Ka' Grade	2000 million				
'Kha' Grade	640 million		200 million	100 million	
'Ga' Grade	200 million				
'Gha' Grade	100 million	60 million	20 million	10 million	

'Gha' Grade is for co-operatives and/or micro-finance companies only.

(Source: www.nrb.org.np)

2.1.5 Need of lending Policy in Development Banks

In banks fund management, the cost of handling is, of course as important as the availability of funding. Competition, deregulation, economic conditions and increased sophistication in money management on the part of retail and wholesale depositors have increase the cost of bank fund tremendously.

Making an unsecured loan involves taking a risk and losses on some loans are to be expected. Development banks are increasingly facing lending risk (counter party risk) in various financial instrument other than loans, including acceptances, inter bank transactions, trade financing, foreign, financial futures, swaps, bonds, equities, options, and in the settlement of transactions. Thus the need of credit policy is the most as the banks should always try to mitigate the risk related to the loan provided. Steps that the banks can take to limit loan losses included obtaining sufficient information on loan and borrowers as well as establishing an internal system of loan review in addition to the loan review of regulatory agencies. Bank can also affect or offset credit risk in their loan portfolios by watching the business cycle, varying loan rates against the degree of risk and recognizing risk in loan concentration. Although specific credit risk policy and practice may differ among banks depending upon the nature and complexity of their credit activities, a comparative credit risk management program should address the following areas:

- i) Establishing an appropriate credit risk environment,
- ii) Operating under a sound credit granting process,

- iii) Maintaining an appropriate credit administration, measurement and monitoring process
- iv) Ensuring adequate controls over credit risk.

Lending risk is a factor in all loans, but to varying degrees. Bank should recognize this variability by matching loan rates to risk. A bank that charges the same rates for many types of loan is not receiving adequate compensation for its riskier loans. In comparison a loan's total yield to its risk, a bank also should consider any supporting deposits balances required in conjunction with the loan and may also want to consider other profitability generated from the customer's relationship with banks. (*Pradhan 2011: 46*)

2.1.6 Basel II

Basel-II is also a capital adequacy related standard framed by Basel committee. After the successful implementation of 1988 accord in more than 100 countries, the Basel Committee on Banking Supervision reached an agreement on a number of important issues for promoting best and uniform banking practices as well as setting standards and guidelines for supervisory function. Following extensive interaction with banks industry groups and supervisory authorities that are not members of the committee, **the revised framework** was issued on 26 June 2004. The latest revision on the framework was issued on November 2005.

The Basel-II aims to replace Basel I and to make the capital framework more risk sensitive. Basel II has recommended major revision on the international standard on bank's capital adequacy assessment with underlying credit risk, market risk, and operational risk. The Basel II has been introduced basically for the protection of depositor's interest by preserving the integrity of capital in banks.

2.1.7 Approaches of Basel II

The following table identifies primary approaches available by risk type.

Table No. 2.2 Risk type approaches under Basel II.

SN	Credit Risk	Operational Risk	Market Risk
1 Standardized Approach Basic Indicator Approach	Standardized Approach		
2 Foundation IRB Approach	Standardized Approach	Internal Model Approach	

Advanced IRB Approach	Advanced Measurement Approaches(AMA)
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(Source: www.nrb.org.np)

A major innovation of the proposed Basel II is the introduction of distinct options for the calculation of three types of risk. For credit, operational and market risk, there are different approaches of increasing risk sensitivity to allow banks and supervisors to select approach of development of banks' operations and of the financial market infrastructures.

2.1.8 Basic characteristics of Basel-II

- It captures the risk through its three pillars.
 1. Minimum Capital Requirement
 2. Supervisory review process
 3. Market discipline
- It addresses not only the credit and market risk but the Operational risk.
- The risk is computed based on the actual risk profile of the counter part. It is not ad hoc or general. Hence the capital is truly risk based.

2.1.9 Tier I and Tier II Capital

Capital that is fully paid up and having no fixed servicing or dividend costs attached to it and freely available to absorb losses qualify as Tier-I capital. Capital also needs to have a very high degree of performance if it is to be treated as Tier 1. Tier 1 capital is also subject to specified deductions from it.

Tier 2 Capital consists of general loan loss provision, revaluation reserve, exchange equalization reserve, investments adjustment reserves, other reserves, redeemable preference share and subordinated term debt. Tier-II capitals shall be subject to the certain limitations and restrictions.

Sum of Tier I and Tier II capital is Total Capital. It is proposed that every development bank shall maintain capital requirement set out below:

- (a) Tier I capital of not less than 6% of total risk weighted exposure:
- (b) Total capital (Tier-I and Tier- II) of not less than 10% of its total risk weighted exposure.

The true Basel II is almost impracticable for the numbers of years in our context. However the journey should be started and should keep in touch to the international developments and

be prepared to capture the principle in full when the need is arises. It is encouraged by the different simplest options available in the framework. The simplest approaches are practicable and it is proposed to start from them. The destination to advance approaches is really a long one in our context. (Source: www.nrb.org.np)

2.2 Review of Related Studies

Cross(1963) has mentioned in his book “Management Policy for Commercial Banks”, that lending is the essence of commercial banking, consequently the formulation an implementation of sound lending policies are among the most import responsibilities of bank directors and management. Well-conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit. Before formulation a lending policy, many factors have to be taken into consideration because banks are not the real owners of deposits but rather the custodians of money. Crosse has further pointed out the various factors to be considered before planning for sound lending policy. The factors include community’s need of money, determining the size of the loan portfolio and the character of loan payment, purpose and protection. Other factors for consideration for sound lending policy include credit worthiness, assets pledged to secure borrowing, interest rate policy etc. It should be of short-term character, repayable on demand, profitable and it should be with adequate securities.

Bhattacharya (1975) in his book “Banking Strategy, Credit Appraisal and Lending Decisions” has put the recommendation of Tondon Committee from the report submitted this committee. The committee has prepared this report in 1975; however these recommendation stills deserve great significance in the sector of credit appraisal and lending. Breaking away from the traditional methods of credit appraisal, the system proposed by the Committee enjoined upon the banker:

- To develop healthy banker-borrower relationship.
- To improve the financial discipline of the borrower
- To assess the need based credit of borrower on a rational basis
- To ensure proper end-use of bank credit by keeping a closer watch on the borrower’s business and thus to ensure safety of the banks funds

The committee examined the existing system of lending and recommended the following broad change in the lending system:

- The credit needs of borrowers assessed on the basis of their business plans.
- Credit be made available in different components only, depending upon the nature of holding of various current assets.
- Borrowers are required to hold inventory and receivables according to norms prescribed by the Reserve bank of India from time to time.
- Bank credit only supplementary to the borrower's resources and not in replacement of them. Banks not to finance 100 percent of borrower's requirement.

Singh (1983) the credit policies of bank are condition to great extent by national policy frame work, every banker has to apply his own judgment for arriving at a credit decision, keeping or course, his banker's credit policy also in mind. The further state, the field of credit is more challenging as it offers relatively greater scope to banker for judgment and discretion in selection their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanies greater risk. Particularly during recent years, the credit function has become more complex.

Cheney and Edward (1988) said that the lending objectives are to increase systematically the individual wealth, defined as asset, minus liabilities. The higher the level of desired wealth the higher must be received. An investor seeking higher return must be willing to face higher level of risk.

Baidhya (1996) has given his view on sound credit policy. He has said that, a sound credit policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to depositors and bank on the other hand, moreover risk in banking sector trends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn.

Peter & Sylvia (2011) "The profitability that some of financial institution's assets especially its loan, will decline in value and perhaps becomes worthless is known as credit risk. Because

financial firms tend to hold little owners capital relative to the aggregate value of their assets, only a small percentage of loans need to push them to the brink of failure. The following are four of the most widely used indicators of credit risk. The reason of nonperforming assets to and lease, the ratio of net charge –offs of loan to loan and leases. The ratio of the annual provision for loan losses to total loans and lease or to equity capital. The ratio of allowance for loan losses to total loans and leases or to equity capital. The ratio of nonperforming assets to equity capital.

2.2.1 Review of NRB Directives

Nepal Rastra Bank has issued unified directives to banks and financial institutions for implementation effective from 17 July 2010. This also contains the new directive concern in loan portfolios and provisioning. Except a few important changes, this directive has retained most of the previous provisions.

Classification of Loan and Advance

The classification criteria are as follows:

Pass Category: All loans and advances the principal of which are not past due or past due for a period up to three months. Only loans under pass category are termed as performing loan.

Substandard Category: All loans and advances the principal of which are past due for a period of more than three months and up to six months.

Doubtful Category: All loans and advances the principal of which are past due for a period more than six months and up to one year.

Loss Category: All loans and advances the principal of which are past due for a period of more than one year.

Lending institutions are not restricted from classifying the loan and advance from low risk category to high-risk category. For instances, loans falling under sub standard may be classified into doubtful or loss and loans falling under doubtful may be classified into loss category.

Additional Arrangement in Respect of ‘Pass loan’

All loans and advances extended against gold and silver, fixed deposit receipts, credit card and against security of government securities and NRB bonds shall be included under pass

category. In other words, loan against these collateral shall be eligible for placing under pass category irrespective of the past due period. However, where collateral of fixed deposit receipt or government securities or NRB bonds is placed as additional security against loan for other purposes, such loans have to be classified as required for other loans. As per the classification issued by Nepal Rastra Bank earlier, loan against fixed deposit receipts of other banks shall also qualify for inclusion under pass loan. However, this is not clarified in the Unified Directives.

Renewal of working capital loan having one year maturity period only may be classified as pass loan. Loans of working capital nature on which the service of interest is not regular shall be classified on the bases of total amount due period. Means, where the interest on working capital loan is not serviced regularly, such loans are considered as 'overdue' and qualify for classification on the basis of the overdue period. Accordingly, working capital loan is simple become pass loan on renewal of the facility provided interest is serviced regularly. The directive has not prohibited renewal of working capital facility with extended amount and outstanding interest amount is assumed collected by accommodating the same within that extended facility.

(Source: www.nrb.org.np)

Additional Arrangement in Respect of 'loss' Loan

Irrespective of whether the loan is past due or not, loans having any of the following discrepancies shall be classified as loan loss.

a) Loan with inadequate securities

This is very subjective and may lead to a difference in opinion between the lending institutions and auditors/NRB inspectors.

b) The borrower has been declared bankrupt

The bankruptcy law is yet to be enacted in the absence of the same; definition of bankrupt person may be imported from the 'Civil Code'.

c) The borrower is absconding or cannot be found

d) Purchased of discounted bills not realized within 90 days from the due date and non-fund base facilities like letters of credit and guarantee converted into fund base credit not realized within 90 days from the conversion date.

e) Misuse of credit

For this purpose, term 'misuse' means the credit has not been used for the purposed originally intended, non-operation of project, income earned form the project/ business are not used in repaying loan and advances but used for a other purposes, certified misuse if credit and facilities by the supervisions and auditors in course of the supervision or audit. As per the clarification provided by NRB earlier, even partial diversification of the credit is allowed.

h) Project/ Business are not condition to operate or not in condition to operate. Accordingly, loan to entities not in operation but condition exists as to their operation may not qualify for loss categorization under this clause. Once restructuring process is considered, classification into loss category may not be necessary for temporarily closed down business.

i) Credit and loan is not written-off within 90 days from the due date.

(Source: www.nrb.org.np)

Additional Arrangement in respect of Term Loan.

In respect of loans (having the maturity period of more than one year period), the classification shall be made against the entire outstanding loan on the basis of the past sue period of overdue installment of principal/interest.

As a matter of fact, this provision is seen as the most discouraging factor on the part of banks and financial institutions to lend to the projects. Even in the event of non-payment of a small installment within the stipulated period, the entire project loan, which may be excessively large, shall require classification. This may have huge negative effect in the profitability of the financial institution. Accordingly, with a view to facilitate project lending particularly in this hour of insecurity feeling some relent in the rule is suggested.

Prohibition to recover principal and interest by exceeding overdraft limit

Principal and interest on loans and advances shall not be recovered by overdrawing the borrower's current account exceeding the limit of overdraft facility.

However, this arrangement shall not be considered as prohibitive for recovering the principal and interest by debating the costumers' account. Whereas the system of recovery of principal and interest by debating the costumers' account exists and recovery is made as such resulting in overdraft, which is not settled within one month, then such overdrawn principal amount shall also be liable to be included under the outstanding loan. Such loans shall be downgraded by one step from its current classification. In respect of recognition of interest, the same shall be as per the clause relating to income recognition mentioned in the rules. *(Source: www.nrb.org.np)*

Loan Rescheduling and Restructuring

Loans may be rescheduled or restructured only upon submission of a written plan on action by the borrower, which is restructuring on the Following grounds.

- a) Evidence of existence of adequate loan documentation and securities.
- b) The lending institution is assured as to the possibility of recovery of restructured or rescheduled loan. The term reschedule means process of extending repayment period/time of credit taken by the borrower. And, restructuring means process of changing the nature or conditions of loan/facility, adding or deleting of conditions and change in time limit.

In addition to submission of the written plan of action for rescheduling or restructuring of loan as above, at least 25% of accrued interest outstanding on date of restructuring or rescheduling should have been collected. Renewal of loan by collecting all interest can be classified as pass loan.

In case of restructuring or rescheduling of loan of an industry which is recommended by the sick industry preliminary enquiry and recommendation committee formed under the ministry of industry of Nepal, commerce and supply after recovery of 12% accrued interest and completion of all necessary procedure, provision for loan loss at a minimum of 25% is required. However, where the loan is restructured or rescheduled by collecting less than 12% interest, such loan shall require loan loss provisioning on past due period basis as is applicable to all.

The term of rescheduling and restructuring may be as per the understanding between the loan provider and borrower. This is true even in the case of recommended sick industries.

At least 25% of total accrued interest up to the date of rescheduling of restructuring should have been collected. In such a case, the classification of the loan remains in the current position. However, where rescheduling or restructuring is done against collection of all interest meaning all outstanding interest, the loan (principal) be eligible for classification under pass category. However, it is not dear as to the requisite treatment where portion of interest is waived and balance is collected in full. Where the lending institutions agree to waived interest accruals, the same have to be accounted first to facilitate calculation of 25% interest on reduced outstanding balance.

In the case of sick industries recommended by the committee, rescheduling or restructuring is allowed with collection of less than 12% interest with the condition that loan shall be

classified and normal provision is made. In other cases, collection of at least 25% is mandatory for restructuring and rescheduling.

Loan Loss Provisioning

The loan loss provisioning on the outstanding loans and advances and bills purchases shall be done on the basis of classification, as follows:

Table 2.3 classification of loan loss provision

Classification of Loan	Loan Loss Provision
Pass	1 percent
Substandard	25 percent
Doubtful	50 percent
Loss	100 percent

(Source: www.nrb.org.np)

Provisions on restructured or rescheduled loans made as follows:

- a) A minimum of 12.5% provision shall be made on restrict or restructured loans.
- b) In interest of restructuring or rescheduling of deprived sector loan and guaranteed or insured priority sector loan, the requisite provisioning shall be only 25% of the rates stated above.
- c) Where the installment of principal and interest if restructured or rescheduled loan is serviced regularly for two consecutive years, such loan can be converted into pass loan.

Rescheduling/restructuring of loan resulting in improvement of classification to lowest risk category (pass) is not prohibited. However, such rescheduled loan shall require provisioning of at least 12.5%. Adjustments to loan loss provisioning is allowed only on satisfactory service of the loan up to 2 consecutive years.

Loan loss provisioning on rescheduled/restructured sick industries recommended by sick industry preliminary enquiry and recommendation committee, upon recovery 12% outstanding interest is fixed at minimum 25%. Meaning, restructured loss loan can be provided provisioning at 25% (upper limit is not prohibited though). The only concession provided in this case is rescheduling is made possible against collection of 12%. At the same time, the provisioning is required at minimum 25% (in other cases it is 12.5%).

Full provisioning shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans.

Provisioning against Priority Sector Lending

Full provisioning as per normal loan loss provisioning shall be made against the uninsured priority and deprived sector loans. However in respect of insured loans the requisite provisioning shall be 25% of the percentage normal loan loss provisioning. The required provisioning in the case of insured priority/deprived sector credit is as follows:

Pass	0.25%
Substandard	5%
Doubtful	12.5%
Loss	25%

Table 2.4: Categories classifying the Loans and Advances

Category	Type of Loans
Pass	Loans and Advances not past due and past due up to 3 months
Sub standard	Loans and Advances due over 3 months and less than 6 months
Doubtful	Loans and Advances past due over 6 months and less than 1 year
Loss	Loans and Advances past due over 1 year

(Source: www.nrb.org.np)

Table 2.5: Required Capital Fund on Risk-weighted Assets

Type of Institution	Core Capital	Capital Funds
'Ka' to 'Ga' Grade	6%	12%
'Gha' Grade	4%	8%

(Source: www.nrb.org.np)

2.2.2 Review of dissertations

Gurung (2006) explored in his research “lending policy and recovery management of Standard Chartered Bank Nepal Ltd and NABIL bank Ltd” has found out that the deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years is continuing. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and NABIL has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. Thus this ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and NABIL

respectively. In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at the future trend of loan loss provision it shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of NABIL, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of NABIL is negative.

Neupane (2006) conducted the research “Non-performing loan and loan loss provisioning of NBL, RBB and NABIL” has found that measurement of lending strength in relative term has revealed that the loan and advance to total assets of NBL is highest but issued loan and advances are not generating the desired income. RBB shows the highest degree of deviation and variation while NABIL has the most consistent ratio throughout the study period. RBB and NBL have highest proportion of the non-performing loan in the total loan portfolio, which exhibit the critical condition of the banks. After taking the management by the foreign management groups NPL is decreasing but its rate is very low as compare to the expenses made for them. Keeping the view of international standard, not only the public sector bank even private sector bank as NABIL has higher proportion of NPL. NABIL has shown significant decrement in NPL, which are the results of banks effective management and its efforts of recovering bad loans through establishment of recovery cell. Correlation between loan and advances and deposit has found that RBB and NBL have negative where as NABIL found positive correlation.

He concluded that tremendously increasing non-performing loan with higher rate is one of the burning problems of Nepalese commercial banks. NBL and RBB has almost more than 50% of market share of deposit and resource, but these two banks are facing vicious circle of NPL resulting high provision. These banks have higher percentage of market share in lending too, which are the most income generating assets but operating in loss since long time. Ineffective credit policy, overvaluation of collateral in disbursement of loan are the major causes of mounting nonperforming assets in government owned banks NBL and RBB. In addition, leading factors of accumulating NPAs are also improper credit appraisal system; ineffective credit monitoring and supervision system, economic slowdown, borrower’s misconduct etc are the major factors leading to non-performing assets. Proper classification of and close review of loans enable banks to monitor loan portfolio and take remedial step to safeguard deterioration of its credit equality. Furthermore, setting up recovery cell, hiring

assets Management Company, fair and highly skilled management for lending and monitoring of credit are some of the majors to solve the problem of nonperforming assets in Nepalese financial sector. Present NRB unified directives are more effective than previous as a result proper classification of loans and adequate provisioning for the further loss, which reduces profit in short term but can be use a cushion for future distress situation.

Shrestha (2009), has written a thesis on the topic “Credit Risk Management of NABIL and NIBL’ and submitted to TU dated on November 2009. The main objective of the study is to evaluate credit risk management of commercial bank. To achieve the objective, there are other objectives like to evaluate the status of loan portfolio of commercial banks, to evaluate the problem and weakness of credit risk management, to reviews the prevailing rules, norms and regulation enforced by NRB and access its impact on profitability and liquidity of the banks. The major findings are that NABIL and NIBL has possible risk due to the large amount of doubtful loan and risky investment. So these banks should evaluate the portfolio analysis and proper credit risk techniques should follow. Both companies have earned more income from interest income which is not good from long term view. So they should focus on other investment besides interest income to reduce the risk for banks. Both banks should strictly follow the rules, regulation and directives of NRB for proper risk management and sustainable business for banks.

Guragain (2010), has carried out in his study “Comparative study of Credit Risk Management of Finance Companies in Nepal” with objectives to evaluate the credit management of finance companies in Nepal, to determine the impact of deposit on liquidity and its effects on lending practices of finance companies. According to his findings, both institutions should focus on less risky investment like government securities, T-bills to reduce credit and improve the goodwill of organizations. Both organization should follow liberal lending policy when sanction of loan and advances have been done with adequate guarantees and should implement sound collection policy with proper identification of creditworthiness of customers, continue follow up and legal procedure if required.

Pangeni (2011) submitted his thesis “A Comparative Study of Lending Performance of the Commercial Banks” has study to seek objectives to measure the banks’ lending strength and efficiency, analyze the effectiveness of lending practices of commercial banks and to study the position and utilization of deposit, lending efficiency and its contribution to profitability of banks. His major findings from study is that EBL is the bank with greater liquidity position but greater variability and less consistent in liquid fund ratios. NABIL and HBL are able to

collect large proportion of non-interest bearing deposits and low interest rate offering deposit. HBL has high gap in deposit rate and lending rate which shows high interest spread rate.

Ranabhat (2012) has submitted the thesis in “Credit Management in Nepalese Commercial Bank” (A case Study of Bank of Kathmandu Limited). The major objective of the study are to analyze the composition of loan and advances, trend of loan and advances, composition and trend of deposit, analyze the loan advances and non performing loan, relationship between loan and deposit, performance of BOK in terms of liquidity and profitability, analyze capital adequacy of BOK and analyze the credit management procedure. In that research study he found that the deposit and loan and advances are in increasing trend, BOK has disbursed in manufacturing and production in highest amount of its lending and lowest loan disbursement is in agriculture sector. Coefficient of correlation between deposit and loan and loan and advance to NPL is positive, liquidity ratios are unstable during the study period.

Adhikari (2012) explored in her research “Analysis Of Credit Management of Annapurna Finance Company Ltd and Pokhara Finance Ltd” to explore the objectives of profitability from loan and advances, credit risk measurement by capital adequacy and the structure of loan of AFCL and PFL, his findings were AFCL & PFL had disbursed the loan and advanced more than deposit collected in the research period with the help of capital fund collected from promoters of companies and retained earnings. Both companies have to maintain the C/D ratio below 80 after coming FY 2011/12 so this is the challenges for them and there is chance to lose profit. AFCL has higher concentration on loan and advances compare to PFL as per their data of last 5 years. It indicates that AFCL has taking more credit risk compare to PFL. AFCL seems in better position in terms of NPL to TL compare to PFL. AFCL NPL ratio is in decreasing trend and has not crossed 3 any point of time where as PFL has crossed this ratio more than 5 times in three FY years and is in volatile situation. AFCL has managed systematically its credit risk compare to PFL and PFL is not able to maintain it credit risk. Interest rate charge in PFL is in higher rate compare to AFCL. However the volume of total loan and advance is higher in AFCL and the ratio if interest earning is higher in PFL.

Tamang (2012) in his study “Deposit Collection of Nepal Bank Limited” find out that NBL has significantly increased deposit over the period of four years; however the growth rate for last year is negative. The deposit growth rate of NBL is lower than the deposit growth of banking industry in all the study period. NBL has been able to maintain CD ratio of below

80% in all of the study period. CD ratio of bank is increased year by year however, it has not crossed the level of 60% by the end of study period. Cash reserve ratio of NBL seems to be above standard over the study period of five years. The standard of 5.5 percent of NRB balanced out of its total deposit maintained by NBL. Return on assets of NBL is lower than the average of Industry. Earnings per share of the of NBL is far better than the average of industry periods. EPS in end of study of period is in decreasing trend. But EPS of NBL is higher than average EPS in all of the study period the industry performing range. Nonperforming loan of NBL is above the Industry average in all of the study periods except in last of in study period. However NPL of NBL is decreased year by year. It was 18.18 percent starting of study period and reached 2.28 percent at the end of study period. Banking Industry and NBL have been able to reduce NPL over the study period of five years.

2.3 Research Gap

On review of various studies related to lending, investment, fund mobilizing and financial performance of various banks, it has been noticed that studies are focusing on the policies implemented by banks for their financial performance. The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to lending practices of Kailash Bikas Bank Limited. Previous studies cannot be ignored because they provide the foundation to the present study and guide the research to the new level without repetition of work. After the study of past research work and NRB directives it is found that number of research work has been done in regards to the study of credit risk management of finance companies and commercial banks, comparative studies of two or more banks. Lots of work has been done in the study of lending policies and lending practices of commercial banks. A very little work has been done on study of lending practices in the field of Development banks. Research work on study of lending practices of KBBL has not been done yet separately. So to fulfill this research gap this study is selected.

CHAPTER III

RESEARCH METHODOLOGY

The research Methodology is systematic way of solving research problem. Research Methodology refers to the overall research process, which a researcher conducts during their study. Research can be conducted on the basis of primary and secondary data. Here in the study all the data and observed data are analyzed with using appropriate financial and statistical tools.

In this research, the research design, source of data collection, population and sample and method of data analysis are serially described.

3.1 Research Design

Research design is a planned structure and strategy of investigation conceived to obtain answers to research objective through analysis of data. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedures and techniques, which guide the study and propounds ways of doing research.

To achieve the objectives of this study, case study research design is followed. Within the case study descriptive and analytical research design has also been used. Some statistical and financial tools have also been adopted for doing this research.

3.2 Sources of Data

The study is mainly focused in analytical part. The main objective of the study is to find the lending practices of KBBL on the basis of past performance. So, the data presented in this study are from secondary sources. The annual reports of the bank are the major sources of the data for the study. However, besides the annual reports of the subjected bank the following sources of data shall also be used in the respective corner of the study;

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

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

3.3 Population and Sample

The population refers to the entire field and industries of the same nature, which represent and have the similar type of services and products in general. Sampling is concerned with the selection of a subset of individuals within a statistical population to estimate characteristics of the whole population. The three main advantage of sampling are that the cost is lower, data collection is faster , and since the data set is smaller it is possible to ensure homogeneity and to improve the accuracy and quality of data.

Here, a total of eighty six development banks in the country are operating in our country, shall constitute the population of the data and the bank under study constitutes the sample of the study. So, among the eighty-six development banks in operating under the banking industry, Kailash Bikas Bank Limited has been taken as sample for the study. Only one bank has been taken as a sample for the study because banks are the organization with vast exposure and turn over and taking many banks as sample for the study is not truly generate a fair result and conclusion due to various reasons like time limit for the study, level of the study, size and portfolio of the banks etc.

3.4 Data Collecting Procedures

The annual reports of KBBL were obtained from Syangja Branch of the bank, and the bank's website for the purpose of the study. NRB publications, such as quarterly economic bulletin, banking and financial statistics, economic report, annual reports of NRB etc. has been collected from the website of NRB. The data on some of the aspects of the bank was obtained from the website of Nepal Stock Exchange.

3.4.1 Analysis of Data

For the purpose for the study of the data that has been collected, various financial, accounting and statistical tools have been used to achieve the objective of the study. The following tools shall analyze the presented data.

3.4.2 Financial Tools

Ratio Analysis

A ratio is simply one number expressed in terms of another and as such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportions and as a coefficient. 'Log arithmetic Graph', and 'break even chart' are the graphic forms of expressing a ratio. The technique of ratio analysis is a part of the

whole process of analysis of financial statement of any business of industrial concern especially to take output and credit decisions. Through this technique comparative study can be made between different statistics concerning varied facet of a business unit. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measures the economic and financial health of a business concern. Thus, the technique of ratio analysis is a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns.

“The relationship between two accounting figures, expressed mathematically, is known as financial ratio.” As far as we are concerned about the financial ratio, a ratio between two relevant figures that provide a certain relation, and have negative or positive correlation between them only be studied. Since comparing two in comparable figures and their ratio gives no idea and judgment on analysis and it remains as an absurd figure. Thus, ratio analysis is useful only as aids to judgment but as mechanical substitutes for thinking and judgment, it is worse than useless. (*Kothari, 1994*)

Asset/Liability Management Ratio

Asset/Liability Management Ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of lending and investing functions. Asset and liability management ratio measures its efficiency in multiplying various liabilities in performing assets. The following are the various ratios relating to asset liability management, which are used to determine the lending strengths of the bank.

-) Loans and Advances to Total Assets Ratio
-) Loans and Advances to Shareholders' Equity Ratio
-) Portfolio Ratio of Loans Advances

Activity Ratio

Activity Ratio measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity and enterprise to utilize available funds, particularly short-term funds. The following activity ratio measures the performance efficiency of an organization to utilize its short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total

profitability.

-) Loan Loss Provision to Total Loans and Advances Ratio
-) Non-performing Loans to Total Loans and Advances Ratio
-) Interest Income to Total Income Ratio
-) Interest Income to Interest Expense Ratio

Profitability Ratio

Profit is the difference between the revenues and the expenditure over a period. Profit is the main elements that make an organization to survive in long run. The profit, on the other hand, measures the management ability regarding how well they have utilized their funds to generate surplus. Thus, measuring the profitability ratio also is significant in this study and shall reflect the various aspect of the problem of the study.

These ratios have been used to determine the efficiency of the lending and its quality and contribution in total profitability.

-) Total Income to Total Assets Ratio
-) Net Profit to Shareholders' Equity
-) Earnings per Share

3.4.3 Statistical Tools

Standard Deviation

Standard deviation determines the reliability of central tendency or mean. It measures the dispersion. Dispersion is variability of data and it finds out how individual values fall apart on an average. The higher standard deviation has higher variability. It is presented as,

$$\sigma = \sqrt{\frac{\sum x^2}{N}}$$

Where, $x = (\bar{X} - X)$

\bar{X} = Mean

$$\sigma = \sqrt{\frac{\sum fx^2}{N}}$$

Where, $x = (\bar{X} - X)$ and 'f' denotes frequency

$$\sigma = \sqrt{\frac{\sum fd^2}{N} - \left(\frac{d^2}{N} \right)}$$

Coefficient of Variation (C.V.)

The standard deviation calculated in the above formulas give the absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability.

The coefficient of variation (C.V.) is given by the following formula and is expressed in terms of percentage.

$$C.V. = \frac{s}{\bar{x}} \times 100$$

Correlation

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measures the performance of the bank. The correlation coefficient between the two variables describes the degree of relationship between those two variables. The reliability of the value of coefficient of correlation is measured by probable error (P.Er).

Correlation refers to the degree of relationship between two variables. If increase or decrease in one variable impacts the increase or decrease in another, then such variables are correlated variables. This, measures of correlation, calculates the mathematical relationship between two variables. "The measures of correlation called the correlation coefficient or correlation index summarizes in one figure the directions and degree of correlation (*Gupta, 1989*).

The Karl Pearson's Coefficient of Correlation is given by the following formula

$$\text{Coefficient of correlation (r)} = \frac{\sum XY}{N \sum x \sum y}$$

Where,

$$X = (x - \text{Mean } x); Y = (y - \text{Mean } y)$$

$$\sum x = \text{Standard Deviation of Series } x$$

$$\sum y = \text{Standard Deviation of Series } y$$

$$N = \text{Number of Observations}$$

And,

$$\text{Probable Error of r (P.Er)} = 0.6745 \frac{1 - r^2}{N}$$

The Karl Pearson's Coefficient of Correlation (r) always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and the + value signifies the positive correlation. As the value of correlation coefficient reaches near to the value of zero, it is said that there is no significant relationship between the variables. When 'r' lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive/negative correlation. When r lies between 0.5 to 0.6999, there is moderate degree of correlation. When r lies less than 0.5, there is low degree of correlation.

The coefficient of correlation shall be interpreted based on probable error (P.Er). If the value of correlation coefficient is greater than 6 times the value of P.Er, the coefficient correlation is deemed as significant and reliable. If the value of correlation coefficient is less than probable error, the coefficient correlation is said to be insignificant and there is no evidence to predict the correlation between the variables. Karl Pearson's Coefficient of Correlation has been used to determine the relationship between the different variables related to lending of KBBL.

3.4.4 Trend Analysis

The trend analysis is used to predict the future. It is a pattern according from the past and it is assumed that the same patterns will occur in future. The following trend analysis has been used in this study,

- Trend analysis of Total Loan and Advances
- Trend analysis of Earning

Following equation is developed to calculate trend value, "Any value of independent variable x, the estimated value of y, denoted by Y_c can be written as,

$$Y_c = a + bx$$

Where,

Y = the dependent variable

a = the region i.e. arithmetic mean

b = the slope coefficient i.e. ratio of change

x = the independent variable

The Propensity of Growth and Growth Rate have been examined from the value of trend value of Least Square Method. The Growth Rate has been measured from fiscal year 2008/09 to 2012/13 (five years) to reveal the real status of the study period. However, under the calculation of trend analysis, a forecast of the next five years shall be made i.e., till 2017/18

so as to determine the trends that the bank is likely to face in the pattern of total loans and advances and earnings per share of the bank.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Measuring the Lending Portfolio

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

4.1.1 Measuring the Lending Portfolio in Relative Term

4.1.1.1 Loan and Advances to Total Deposit Ratio

The main sources of bank lending are its deposit. Loans and advances to total deposits ratio actually measures how successfully the bank is able to mobilize their total deposits on loans and advances for the purpose of profit generation and fund mobilization power. Higher the ratio indicates the better mobilization of total deposits, but too high ratio is not good from its liquidity point of view. Lower ratio indicates the idle amount of deposit so that higher ratio is favorable. Total loan and advances to total deposit ratio of KBBL is calculated by total deposit by total loans and advances

Table 4.1 show the loans and advances to total deposit ratio of KBBL.

Table 4.1 Total Loans and Advances to Total Deposit Ratio

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Total Loans and Advances	2,564,547.00	2,751,137.00	3,293,710.00	4,159,479.00	5,379,947.00
Total Deposit	2,201,542.00	2,940,251.00	3,538,136.00	5,166,760.00	6,262,436.00
Ratio	1.16	0.94	0.93	0.81	0.86

(Source: www.kailashbank.com)

From above table the total loans and advances to total deposit ratio shows the highest ratio of 1.16 in FY 2008/09 and was decreased to 0.81 in year 2011/12 where average ratio is 0.94.

The total loans and advances to total deposit ratio of KBBL was in decreasing trend throughout the years except FY 2012/13.

4.1.1.2 Total Loans and Advances to Total Assets Ratio

Total loans and advances of any development bank represent the major portion in the volume of total assets. The ratio of total loans and advances to total assets measures the volume of total loans and advances in the structure of total assets. The high degree of this ratio indicates the good performance of the bank in mobilizing in the funds by way of lending function. However, in its reserve side, the high degree of this ratio is representative of low liquidity. Granting the loan and advances always carries the certain amount of risk. Thus, these assets of banking business are regarded as risk assets. This ratio measures the management attitudes toward risk assets. The low ratio is indicative of low productively and high degree of safety in liquidity and vice versa. The interaction between risk and return determines this ratio.

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

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Total Loan & Adv	2564547.00	2751137.00	3293710.00	4159479.00	5379947.00
Total Assets	2812701.00	4089189.00	4740736.00	6216612.00	7503260.00
Ratio	0.91	0.67	0.69	0.67	0.72

(Source: www.kailashbank.com)

The table represents the five years trend of total loans and advances to total assets ratio. The ratio has observed an increasing trend after the year 2009/10. The absolute indicators of the ratio range in the year 2009/10 and year 2011/12 is 0.67, the highest in the year 2008/09 which is the best performance of the bank according to its ratio during the research period, it is due to distribution of share dividend to its shareholders.

The bank has increased its total loans on an average basis since the past 5 years. This indicates that the bank has been following average lending policy. At the same time the assets of the bank has also increased in almost same level in the five years time period. Hence there is no significant different in the ratio during last five years period.

4.1.1.3 Total Loans and Advances to Shareholders' Equity Ratio

Shareholders' equity consists of share capital, share premium, reserves and retained earnings. The ratio between loans and advances to shareholders' equity provides the measures regarding how far the shareholders' equity has been able to generate assets to multiply its

wealth. The shareholders' equity refers to the net shareholders' intake in the business. Thus, this ratio measures the size of the business and its success in converting liabilities into assets.

Table 4.3: Total Loans and Advances to Shareholders' Equity Ratio *Rs in thousand*

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Total Loan&Adv	2564547.00	2751137.00	3293710.00	4159479.00	5379947.00
SH's Equity	370443.00	794789.00	821433.00	858898.00	947807.00
Ratio	6.92	3.46	4.01	4.84	5.68

(Source: www.kailashbank.com)

Table explains that the overall ratio of the bank ranges from 6.92, the lowest, in the year 2009/10 to 3.46, the highest in the year 2008/09 at ratio of 6.92. The decreasing trend reveals that the bank is unable to meet the increasing trend of equity by increasing its lending portfolio. This may be because the bank has distributed share dividend to its shareholders and is compelled to increase its capital every year as per central bank's rule.

4.1.2 Measuring the Lending Portfolio in Absolute Term

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

4.1.2.1 Net Assets

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

Table 4.4: Net Assets and Percentage Changes *Rs in thousand*

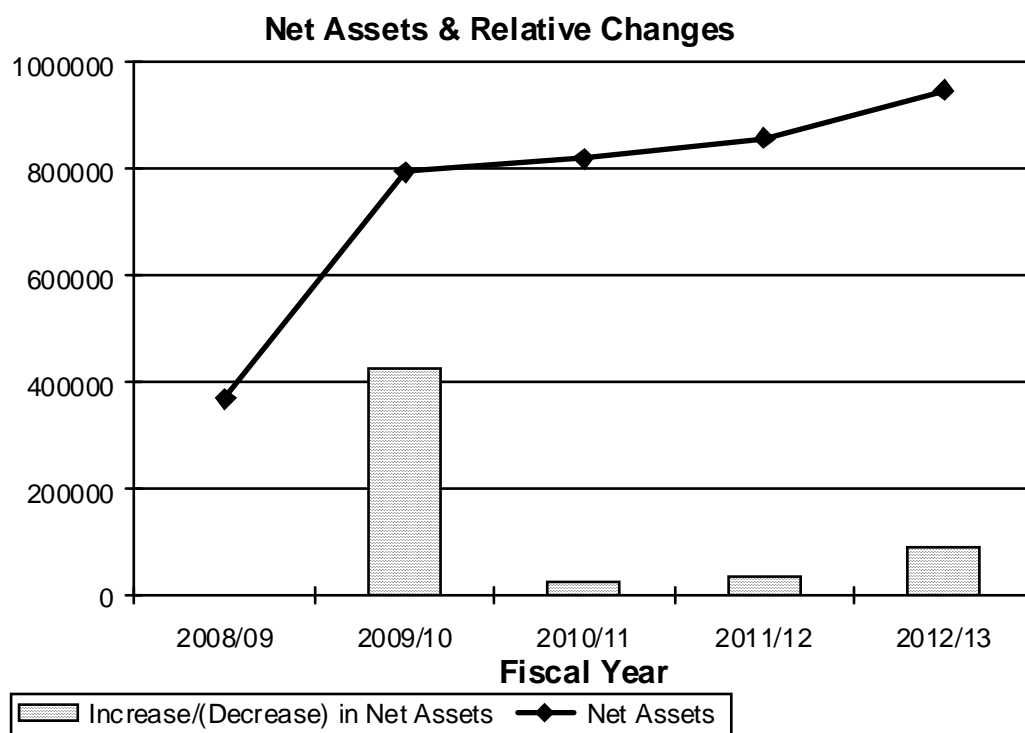
Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Net Assets	370445.00	794792.00	821436.00	858900.00	947810.00

Increase/(Decrease) in NA	-	424347.00	26644.00	37464.00	88910.00
Percentage Change	-	114.55	3.35	4.56	10.35
Average Growth per Annum in % :			26.56		

(Source: www.kailashbank.com)

The table reflects the net assets of KBBL in the past five years. The net assets of the bank have increased drastically from Rs. 370445 thousand to Rs. 947810 and overall average growth of 26.56%. This indicates that the bank has been effectively initiating the shareholders' wealth to mobilize loans and clearing its liabilities, but there has huge percentage decreases in the year 2010/11, it is due to the sale of fixed assets. With the fall in the percentage of this particular year, the average growth of the net assets indicating the bank has had substantial success in maintaining the satisfaction to its shareholders and also has been able to increase the volume of its business.

Figure 4.1



The graphic of figure indicates the net assets of the bank. By the graphic it can be seen that the net assets has increased since the five years but the bank saw a rapid increase in the year 2009/10, where the line indicating the net assets has become steeper in starting of research period. However, the graph represent that the lowest increase in the net assets was during the year 2010/11 and 2011/12, this was resulted due to the burden of outsider's liability that is the bank has owed a relatively larger amount to the outsiders in proportion to other years. A conclusion can be derived from here that the capability of bank to meet the shareholders' demands in the near future would be satisfactory, i.e. the bank would be able to meet the stakeholders' expectation in the time to future.

4.1.2.2 Mean, Standard Deviation (SD) and Coefficient of Variation (CV) of Net Assets

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

Table 4.5: Mean, SD and CV of Net Assets for five years

Rs in thousand

Mean	Standard Deviation	Coefficient of Variation
758677	200889	0.27

(Source: Appendix)

The table shows the mean measured for net assets of the bank hold at Rs. 758677 thousand, which shows that at an average the bank must have net assets worth Rs. 758677 thousand every year, with the increasing trend of the net asset the standard deviation for the bank is Rs. 200889 thousand, it means that the bank manages to keep its net worth with a dispersion of Rs. 200889 thousand. The flexibility of deficit or surplus is limited by the aforementioned amount. Another important measure of depression, the coefficient of variation measured at 27% indicates that the bank has some extent of variability in its net assets with the moderate value. The overall trend of net assets is increasing. Thus, the volume of net assets of KBBL permits it to expand its business in higher degree.

4.1.2.3 Total Loans and Advances

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

Table 4.6: Total Loans and Advances and percentage changes *Rs in thousand*

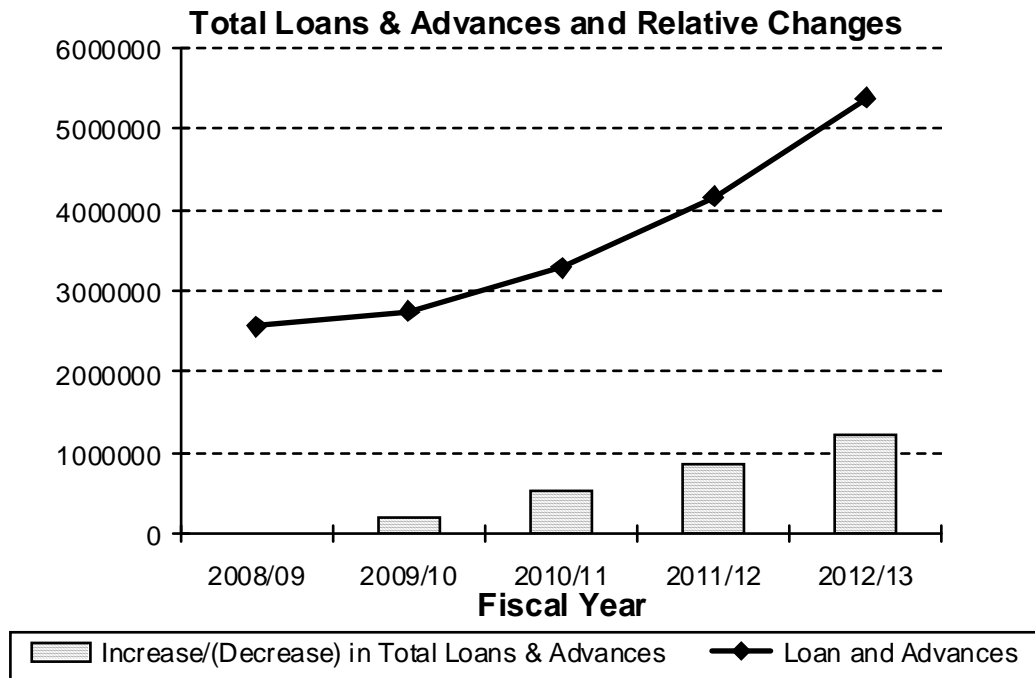
Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Total Loan and Advances	2564547.00	2751137.00	3293710.00	4159479.00	5379947.00
Increase/Decrease in Total Loans & Advances		186590.00	542573.00	865769.00	1220468.00
Percentage Change	-	7.28	19.72	26.29	29.34
Average Growth Per Annum in percentage:			16.52		

(Source: www.kailashbank.com)

The table shows the total loans and advances made during the five years. It has been observed that the bank has been able to increase its lending activity by 19.72% in 2010/11. It is evident that as a development bank, KBBL has been performing its lending activity, by increasing the loans and advances since the last five years. A major increase in the amount of the loan was during the years 2012/13, where the percentage increase in the total loans and advances increased with 29.34% of Rs. 1220468 thousand. Loans and advances made during the year

2009/10 were very lesser in comparison to other years. The hindering part for the bank during that period was that even though the loans and advances for the past years were increasing, the bank could not continue and steady growth of loans and advances. However, there is average growth of percent over past five years.

Figure 4.2



In figure the graphical representation of the loans and advances show that there has been smooth increase in the loans and advances of the bank. The bank has on growth of 7.28% from the year 2008/09 from Rs. 2564547 thousand, to Rs. 1220468 thousand in the year 2012/13. The graph shows that bank has smooth and steady growth over loan flow. Though growth in the year 2009/10 has increased slowly, it is considered that bank is following the growth stage.

4.1.2.4 Interest Income

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

Table 4.7: Interest Income and Changes for Respective Years*Rs in thousand*

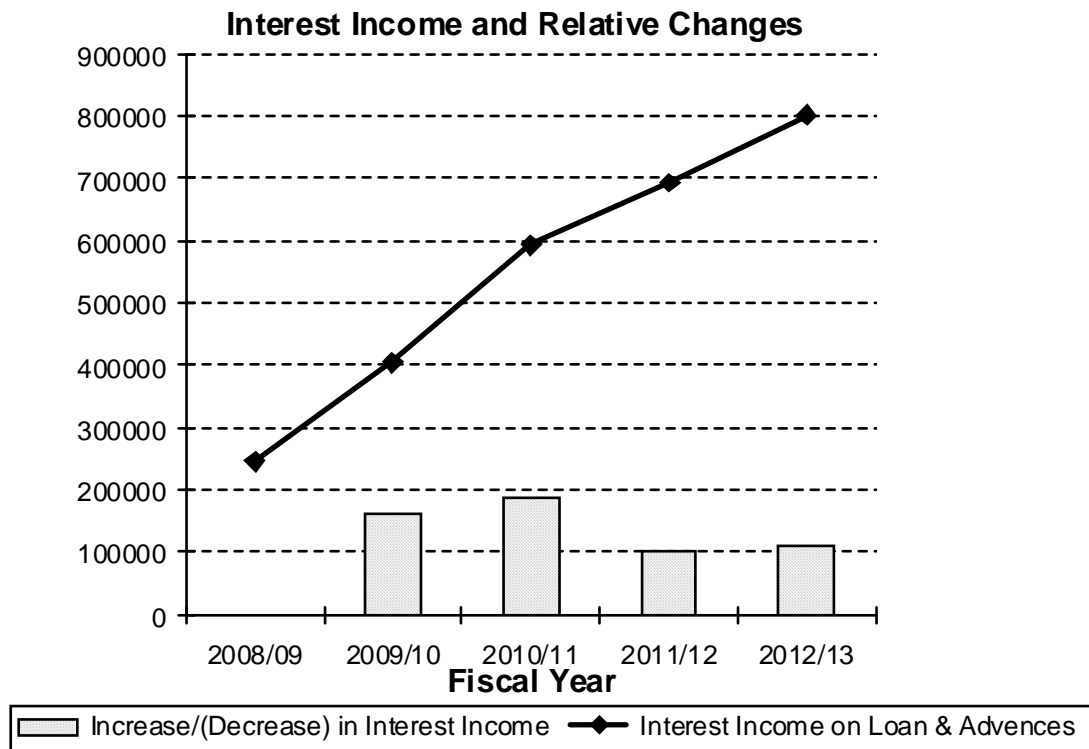
Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Interest Income on Loan & Advances	245,119.00	404,258.00	592,323.00	692,686.00	801,447.00
Increase/(Decrease) in Interest Income	-	159,139.00	188,065.00	100,363.00	108,761.00
Percentage Change	-	64.92	46.52	16.94	15.70
Average Growth Per Annum in percentage:			28.82		

(Source: www.kailashbank.com)

The table represents the interest that have been earned form loans and advances given out as well at the interests form the investments made by the bank. The interest earned was on higher level in year2008/09, but from 2008/09 it has been decreased its income of interest earning. During this year, there was no significant growth in lending and investment of the bank and market was on the track of reducing effective interest rates. This has caused downward impact in the income of KBBL from interest on loan. However, KBBL has shown good growths, which are 16.94% &15.70% on the study of last years.

Figure 4.3

Rs in thousand



The above figure explains the interest income from loans and investments over five years and level of its increment/decrement. However, trend line and bars shows increase in income for a year, there is steady growth on the succeeding years. According to the figure, the bank had earned a maximum interest during the fiscal year 2010/11, where as the highest level of increment is during the year 2009/10. The reason for the overall increase in the interest income lies in the fact that the lower interest earned through investment has been offset by the higher interest earned through loans and advances and vice versa. But the graph indicates that the increase in the interest income is not radical. One other major factor contributing to the fluctuating rate of collection of interest could be because of the uncollected interest during yearly closing, which is counted towards expenses or receivables. Bank suffers through a high credit risk, which could have hampered the collection of the interest from the clients. However, an average growth of 28.82% looks excellent in term of earning.

4.1.2.5 Net Interest Income

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

Table 4.8: Net Interest Income and Changes for Respective Years *Rs in thousand*

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Net Interest Income (NII) of KBBL	96,841.00	185,621.00	233,754.00	254,513.00	322,828.00
Increase/(Decrease) in NII	-	88,780.00	48,133.00	20,759.00	68,315.00
Percentage Change	-	91.68	25.93	8.88	26.84
Average Growth Per Annum in percentage:			30.67		

(Source: www.kailashbank.com)

the table exposes the net interest income of KBBL during last five years period. Although there was decrease in gross interest income of KBBL in 2011/12, we can see that there was increase in net interest income. Even though it is minimum among other year's data, it should be taken positively because the bank has been able to maintain income-expense ratio of interest to the positive side. Fluctuating growth has been seems on research study. At beginning stage of study there reach a peak of and at the end of study it growth is satisfactory in year 2012/13.

Figure 4.4

Rs in thousand

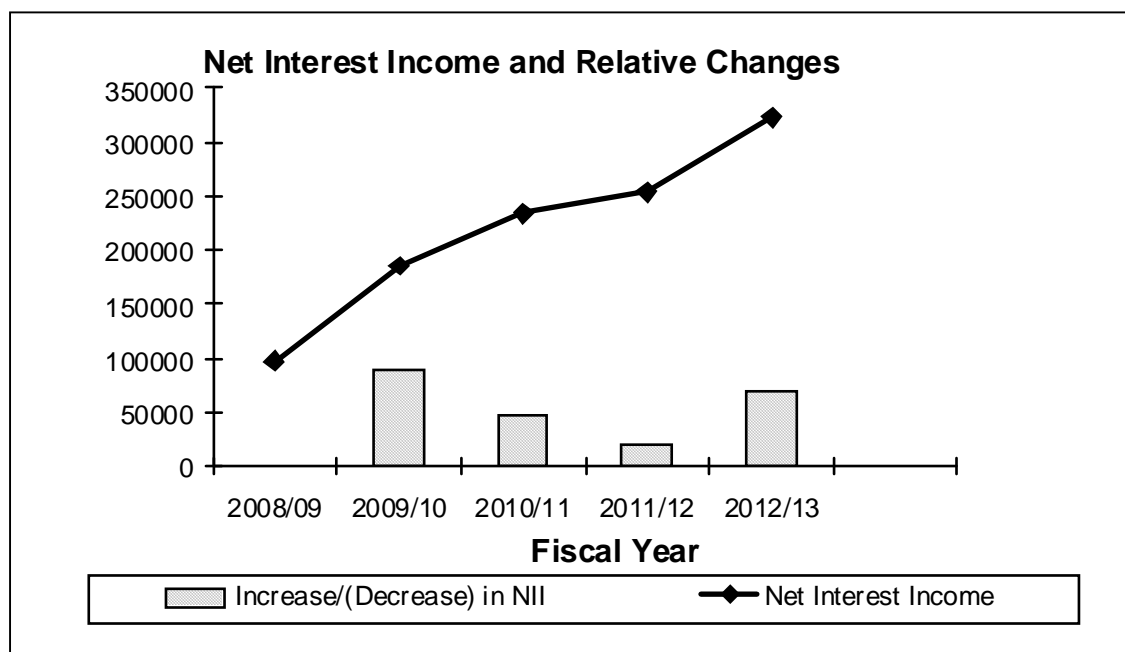


Figure 4.4 shows NII and its respective growth

with over last five years. The highest growth rate is reported in 2009/10 and lowest is in 2011/12. The bank has an average growth in NII by 30.67% per annum.

4.1.2.6 Net Profit

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

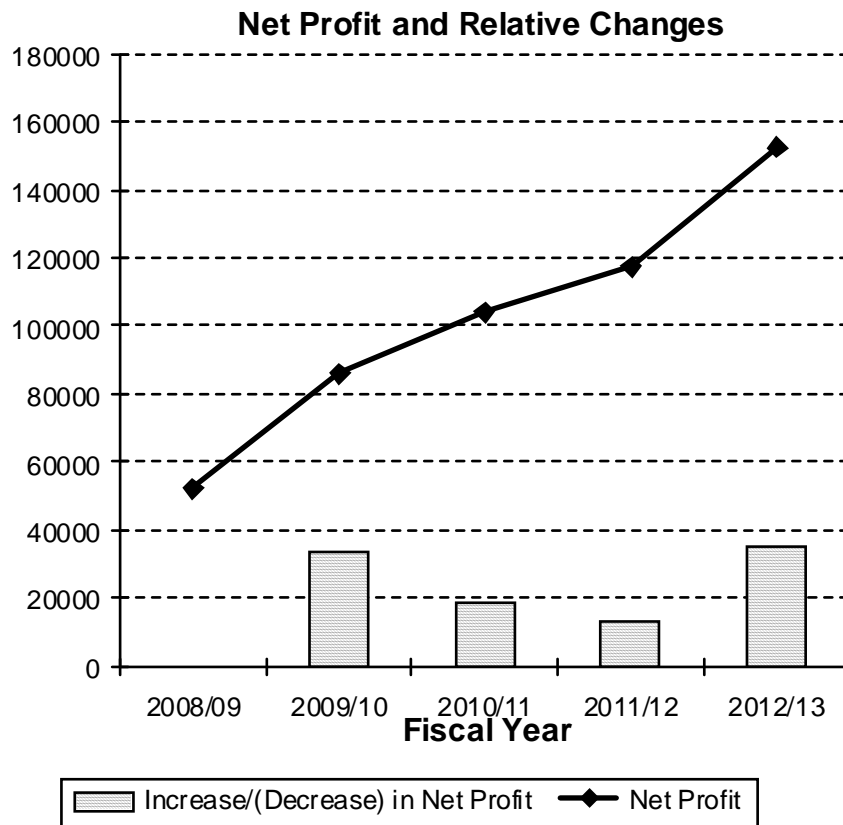
Table 4.9: Net Profit and Changes for Respective Years*Rs in thousand*

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Net Profit	52101.00	85819.00	104115.00	117278.00	152595.00
Increase/(Decrease) in Net Profit	0.00	33718.00	18296.00	13163.00	35317.00
Percentage Change	0.00	64.72	21.32	12.64	30.11
Average Growth Per Annum in percentage:	25.76				

(Source: www.kailashbank.com)

In table the pattern of net profit of the bank has increased all over the years. During 2009/10 there was increased by 64.72% in the net profit. The lowest growth was in 2011/12 that was likely to be lowest for the period. However, growth of KBBL can be termed as excellent, if we consider other factors constant and observe in term of net profit only. There is a regular increment over all the period except 2011/12 year. Average profit growth for the period is 25.76%.

Figure 4.5



The graph represents the net profit of KBBL in figure 4.5. It reveals the highest net profit in the year 2009/10 and the lowest in the year 2011/12. As represented by the graph, the net profit increased tremendously in 2012/13. The bank has been able to take up its net profit level from Rs 52101 thousand in 2008/09 to Rs. 152595 thousand in 2012/13. The bank's increment in the total deposits with lesser cost and increment in fees and commissions because of the increment in the loan and advances made the reason there was an increase in the net profit of the bank. The data shows that the bank has achieved annual average growth of 25.76% in net profit.

4.1.3 Analyzing the Lending Efficiency and its Contribution in Total Profitability (Activity Ratio)

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

4.1.3.1 Provision for Loan Loss to Loans & Advances Ratio

This ratio of provision for loan loss to loans and advances describes the quality of assets that

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

Table 4.10: Provision for Loans Loss to Loan & Advances Ratio *Rs in thousand*

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Provision for Loan Loss	17848.00	29693.00	24288.00	32606.00	67821.00
Loan and Advances	2564547.00	2751137.00	3293710.00	4159479.00	5379947.00
Ratio	0.007	0.011	0.007	0.008	0.013

(Source: www.kailashbank.com)

Above table shows the provision for loan loss over past five years. As per NRB directives, provisions against all type of loans should be done and booked under separate accounts. This type of regulations has been imposed by NRB in order to minimize the risk of loan and advances followed by the banks. In case of KBBL, we can see that some loans have been crossed the rating of pass loan. Pass loans are those loans, which do not default for repayment and account conduct is found satisfactory. Thus, from the table we can say that KBBL has provisioned more than 2% for some of its loans, which shows that defaulters are present in KBBL. Thus, KBBL has to improve category of its loan and try to minimize the bad loans, which fall under non-performing loan.

4.1.3.2 Non-performing Loans (NPL) to Total Loans and Advances Ratio

NRB has directed all development banks to formulate a special loan loss provision against the substandard, doubtful and bad loans. But most of the banks do not willingly provide data on non-performing loans. Few of the banks do not even show the figure of specific reserve made on doubtful and bad debts in their profit and loss account. All banks show the total provision

amount in the balance sheet. As per international standard only 5% or below NPL allowed but the context of Nepal maximum 10% or below NPL may be acceptable. As per NRB's prescribed format of report, banks publish category wise loans and advances.

Table 4.11: Non-Performing Loans to Total Loans & Advances Ratio *Rs in thousand*

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Non Performing Loans	37151.00	53073.00	55764.00	93592.00	126235.00
Loan and Advances	2564547.00	2751137.00	3293710.00	4159479.00	5379947.00
Ratio	0.0145	0.0193	0.0169	0.0225	0.0235
Average Ratio		0.0193			

(Source: www.kailashbank.com)

Table exhibits that the volume of loans and advances to non-performing loans and advances. There has been a consistency in the percentage of the non-performing loan of the bank. However, increase in the non-performing loans decreases the profit of the bank. The bank has been able to decrease its total ratio throughout the research period and have making 0.0193 average ratios during the period, which indicates the improving performance of the bank.

4.1.3.3 Interest Income to Total Income Ratio

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

Table 4.12: Interest Income to Total Income Ratio *Rs. in thousand*

Fiscal Years	2008/09	2009/10	2010/11	2011/12	2012/13
Interest Income	245119.00	404258.00	592323.00	692686.00	801447.00
Total Income	268858.00	425440.00	619487.00	734391.00	855786.00
Ratio	0.91	0.95	0.96	0.94	0.94

(Source: www.kailashbank.com)

The ratio for the interest income to total ratio has somewhat been stable for KBBL as indicated in table. The highest ratio was in the year 2010/11 and the lowest was in the year 2008/09. The average ratio calculated is soars around 0.94, which is close to the year's entire

ratio. The average ratio indicates that the ratios of the five years do not have a high degree of deviation from the mean of the bank. It can be concluded that there is close consistency between these variables.

4.1.3.4 Interest Income to Interest Expense Ratio

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

Table 4.13: Interest Income to Interest Expense Ratio *Rs. in thousand*

Fiscal Years	2008/09	2009/10	2010/11	2011/12	2012/13
Interest Income	245119.00	404258.00	592323.00	692686.00	801447.00
Interest Expense	148278.00	218637.00	358569.00	438173.00	478619.00
Ratio	1.65	1.85	1.65	1.58	1.67

(Source: www.kailashbank.com)

Table indicates that there is fluctuating in interest income to interest expenses ratio. The low cost of non interest bearing deposits in the deposits mix of KBBL has caused the gap between interest income and interest expense to be higher. The average ratio of the bank is 1.68 which indicates that a rupee of expense in deposits has generated 1.68 rupees of interest income for the bank.

4.1.4 Measurement of Profitability Ratios

4.1.4.1 Total Income to Total Assets Ratio

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

Table 4.14: Total Income to Total Assets Ratio *Rs in thousand*

Fiscal Years	2008/09	2009/10	2010/11	2011/12	2012/13
Total Income	268858.00	425440.00	619487.00	734391.00	855786.00
Total Assets	2812701.00	4089189.00	4740736.00	6216612.00	7503260.00
Ratio	0.10	0.10	0.13	0.12	0.11

(Source: www.kailashbank.com)

Above table explains that KBBL's highest ratio was observed during 2010/11. The ratio has

followed a stable from year 2008/09 to 2009/10 which is 0.10 but is in increasing pattern from the year 2010/11. The overall change in the ratio was recorded at 0.11 times. Since the ratio is decreasing, it implies that the efficiency of assets has been decreasing that year. If the bank were to look for a boost in the performance through this ratio, the bank would not be in a good position to do so. But the high volume of total income has offered this high ratio resulting in low EPS and net profit to shareholder's equity. However, this ratio measures the earning power of assets in respective of the expenditure involved in this.

4.1.4.2 Net Profit to Shareholders' Equity Ratio

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

Table 4.15: Net Profit to Shareholders' Equity Ratio *Rs in thousand*

Fiscal Years	2008/09	2009/10	2010/11	2011/12	2012/13
Net Profit	52101.00	85819.00	104115.00	117278.00	152595.00
Shareholder's Equity	370443.00	794789.00	821433.00	858898.00	947807.00
Ratio	0.14	0.11	0.13	0.14	0.16

(Source: www.kailashbank.com)

Above table exhibits that the ratio of net profit to shareholder's equity is the highest in the year 2012/13, where the ratio was 0.16 times. Once again this ratio for the bank has not been stable throughout the period of five years. Even though there have been fluctuations from the high of 0.16 to the low of 0.11. With an average ratio of 0.14 times, it relates that the shareholder's for every single rupee of equity shall receive 0.14 profits for that single rupee. Even throughout the years net profit has been increasing, increase in the shareholder's equity during the year 2012/13 was greater in proportion to the net profit made by the bank.

4.1.4.3 Earning Per Share

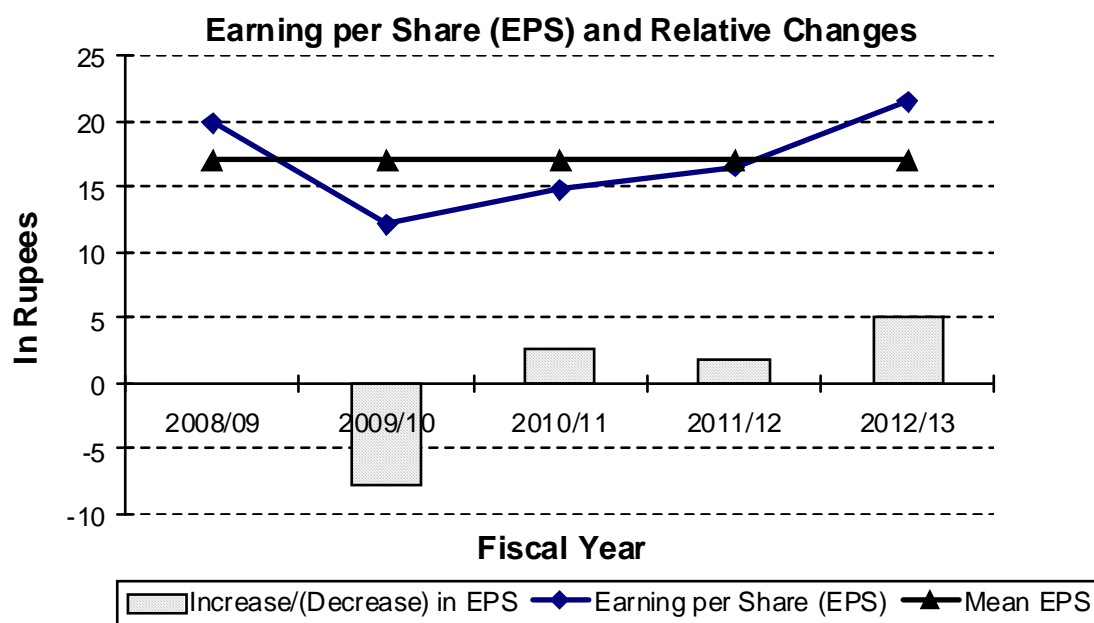
EPS refers to the net profit divided by the total number of shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This figure is the indicative of the overall good or bad performance of the organization. How far an organization is able to use its resources to generate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

Table 4.16: Earning per Share (EPS)*Rs in thousand*

Fiscal Years	2008/09	2009/10	2010/11	2011/12	2012/13
Earnings per Share (EPS)	19.88	12.19	14.78	16.57	21.56
Increase/ Decrease in EPS		(7.69)	2.59	1.79	4.99
Mean EPS	17.00				

(Source: www.kailashbank.com)

Above table shows that the EPS of KBBL was highest during 2012/13. During the years 2012/13 the bank EPS is 21.56 but in the year 2009/10 and 2010/11 EPS was decreased up to 12.19 and 14.78 respectively. The major reason behind this drop in the EPS was due to the increase in the number of shares outstanding. EPS is calculated by dividing net profit by the number of shares outstanding.

Figure 4.6

The figure reflects the EPS of KBBL and at the same time represents the mean EPS and also shows the change in the EPS during the period of five years. By the figure it is easily portrayed that the EPS of the bank had initially decreased and then went up drastically during last year of the study. On the other hand, the mean EPS denotes that apart from 2008/09, the EPS for the different years haven't deviated from the bank's average EPS. Though the deviation during 2012/13 was positive and proved the increased efficiency of the bank,

however, decrease in the EPS the year 2009/10 plummeted the change to a decreasing status. However, the performance of the bank on the part of the EPS is deemed as satisfactory as the mean EPS of KBBL hovers around Rs.17 and during 2006/07; the EPS of the bank was just above the mean, which was Rs. 21.56. Further, it can be noted that EPS of KBBL has not gone down than the mean EPS over five years, and it is almost equal to the mean amount.

4.1.5 Measuring Correlation between different Variables

4.1.5.1 Correlation between Deposits and Loans & Advances

The correlation between deposits and total loans & advances describes the degree of relationship between these two variables. How a unit increase in deposits impact the volume of the loans and advances is measured by correlation.

Table 4.17: Correlation, Coefficient of Determination and Probable Error between Total Deposit and Total Loans & Advances

Evaluation Criteria			
R	r^2	P.Er.	6*P.Er.
0.9848	0.9698	0.0391	0.2346

(Source: Appendix)

The table describes the relationship between total deposits and total loans and advances. As prominent from the table, it can be seen that there is a high degree of positive correlation between the two variables. This indicates that loans and advances are highly dependable on the amount of deposits collected. Since the value of (r) in the bank is more than six times the P.Er., the correlation between these two variables is significant. As noted the value of coefficient of determination is 0.9698, it indicates that 96.98% of the variation in loans and advances is explained by deposit and the rest of 3.02% is due to other factors such as necessity of utilization of deposit to other sectors, which is essential and requirement for banking operation. Thus by the figures that have been obtained above, we can say that the bank is making its loans and advances form a major portion of its deposits, which means the bank is efficiently mobilizing its deposits.

4.1.5.2 Correlation between Shareholders' Equity and Loans and Advances

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

Table 4.18: Correlation, Coefficient of Determination and Probable Error between Shareholders' Equity and Total Loans & Advances

Evaluation Criteria			
R	r ²	P.Er.	6*P.Er
0.7160	0.5126	0.1491	0.8946

(Source: Appendix)

Above table explains that there is moderate degree of positive correlation between shareholder's equity and total loans and advances in the bank. Since the value of r is less than six times the P.Er, value of (r) is insignificant. We can see that coefficient of determination between the said variables is 0.5126; this infers that the increment in loans and advance of KBBL increases the shareholder's equity in moderate degree. So, 51.26% of the variation in the shareholders' equity has been resulted by the performance of loans and advances and rest of 48.74% is due to other variables.

4.1.5.3 Correlation between Total Income and Loans & Advances

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

Table 4.19: Correlation, Coefficient of Determination and Probable Error between Total Income and Loans & Advances

Evaluation Criteria			
r	r ²	P.Er.	6*P.Er
0.9330	0.8705	0.0391	0.2343

(Source: Appendix)

According to above table, correlation between total income and loans and advances is high. The value or (r) is significant as the value of (r) is greater than six times P.Er. Both the variables are positively correlated, so there is certainly be change in total income with changes in loans and advances. The coefficient of determination is also high, which is 0.8705, which means that 87.05% % of changes in total income is resulted by loan and advances and rest of 12.95 % is due to other factors, such as fee based income and other income of KBBL.

4.1.5.4 Correlation between Provision for Loan Loss and Loans and Advances

The provision for loan loss and loans & advances are co- related. The former is the product of the latter. Therefore, correlation between provision for loan loss and loans & advances

measure the degree of linear relationship between these two variables. By the nature of variables, as an independent variable the increase in loan and advances must increase the volume of the dependent variable i.e. Provision for loan loss.

Table 4.20: Correlation, Coefficient of Determination and Probable Error between Provision for Loan Loss and Loans & Advances

Evaluation Criteria			
R	r ²	P.Er.	6*P.Er
0.9165	0.8399	0.0483	0.2897

(Source: Appendix)

As predicted by the calculations on table, there is high degree of correlation between two variables. So, changes in loans and advances certainly result the changes in provision for loan loss. The value of (r) is greater than 6 * P.Er. So the coefficient of correlation is significant. Similarly, coefficient of determination 0.8399 explains that 83.99% of total variation in provision for loan loss is explained by loans and advances leaving only 16.01%, which is result of other factors. Here, other factor is again loans and advances, but difference is that in this case loans should be categorized to the higher degree of risk (i.e. nonperforming loan).

4.1.5.5 Correlation between Interest Income and Net Profit

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

Table 4.21: Correlation, Coefficient of Determination and Probable Error between Interest Income and Net Profit

Evaluation Criteria			
r	r ²	P.Er.	6*P.Er
0.9788	0.9581	0.0127	0.0759

(Source: Appendix)

The table shows that the value of (r) for KBBL is significant and the linear relationship between these two variables is also positive, as the value of (r) is greater than six times the P. Er. In determining the correlation, we can say that the net profit is dependent with interest income but not totally because as shown by the result coefficient of variation is not 1. As shown in the table 95.81% of variation in net profit is a result of interest income and rest of 4.19 % is result of other factors.

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

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

4.1.6.1 Trend Analysis, Growth Rate and Propensity of Growth of Loans and Advances.

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

Table 4.22: Trend Equation, Growth Rate and Propensity of Growth of Loans & Advances
Rs in thousand

Linear Equation with base 2008/2009 $Y = 36297.64 + 7039.14X$			
Fiscal Year	X	Trend Equation	Trend Value
2008/09	-2	$36297.64 + 7039.14 \times -2$	22219.36
2009/10	-1	$36297.64 + 7039.14 \times -1$	29258.50
2010/11	0	$36297.64 + 7039.14 \times 0$	36297.64
2011/12	1	$36297.64 + 7039.14 \times 1$	43336.78
2012/13	2	$36297.64 + 7039.14 \times 2$	50375.92
2013/14	3	$36297.64 + 7039.14 \times 3$	57415.06
2014/15	4	$36297.64 + 7039.14 \times 4$	64454.20
2015/16	5	$36297.64 + 7039.14 \times 5$	71493.34
2016/17	6	$36297.64 + 7039.14 \times 6$	78532.48
2017/18	7	$36297.64 + 7039.14 \times 7$	85571.62
Average Growth in Percentage			14.73
Propensity of Growth of Loans & Advances			7039.14

Estimated Trend Value

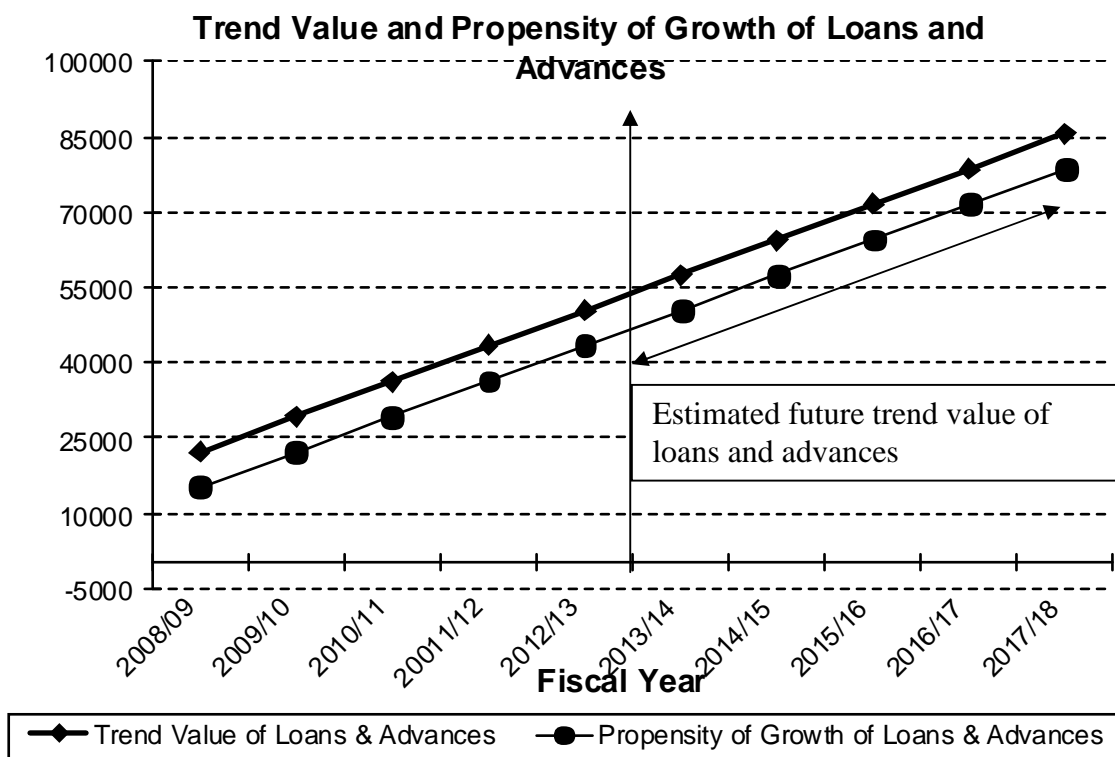
(Source: www.kailashbank.com)

Table 4.22 exhibits linear equation based on $Y = a + bX$ of the bank and the average growth of the bank along with the propensity of growth with respect to the loans and advances. The growth exhibited by the table represents 14.73% growth, where it is likely to growth by Rs 7039.14 thousand in one year period. However, the trend shows the encouraging sign as the

loans and advances of the bank are likely to increase vastly in the future.

Figure 4.7

Rs in thousand



The figure exhibits the trends lines representing the trend value performance of loans and advances of KBBL. The trend line has been rising and representing that the bank has major focus on lending. The figure indicates that the bank has focus on lending as shown by the slope of the line. The slope of the line represents the high growth rate in its lending.

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

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

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

Table 4.23: Trend Equation, Growth Rate and Propensity of Growth of EPS

In rupees

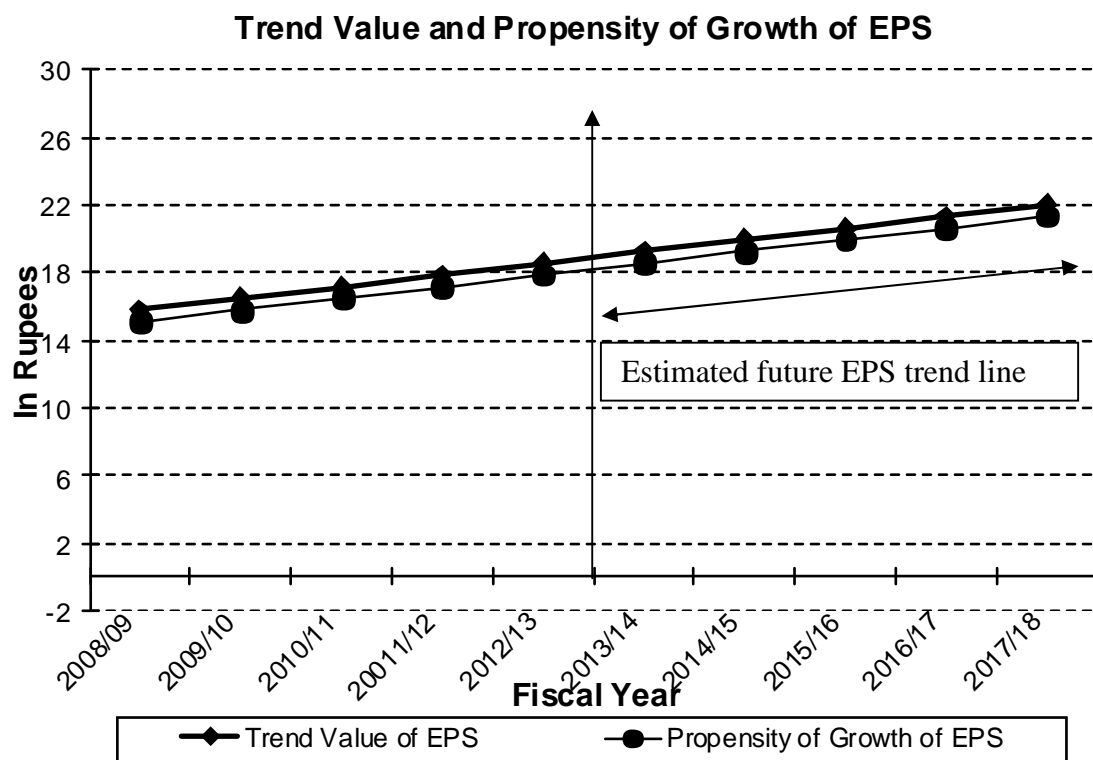
Linear Equation with base 2008/2009 = 17.16 + 0.694 X			
Fiscal Year	X	Trend Equation	Trend Value

2008/09	-2.00	$17.16 + 0.694x-2$	15.77
2009/10	-1.00	$17.16 + 0.694x-1$	16.47
2010/11	0.00	$17.16 + 0.694x0$	17.16
2011/12	1.00	$17.16 + 0.694x1$	17.85
2012/13	2.00	$17.16 + 0.694x2$	18.55
2013/14	3.00	$17.16 + 0.694x3$	19.24
2014/15	4.00	$17.16 + 0.694x4$	19.94
2015/16	5.00	$17.16 + 0.694x5$	20.63
2016/17	6.00	$17.16 + 0.694x6$	21.32
2017/18	7.00	$17.16 + 0.694x7$	22.02
Average Growth in Percentage			3.40
Propensity of Growth of EPS			0.69

(Source: www.kailashbank.com)

Above table represents that the growth rate of EPS of KBBL is on increasing trend. The average growth rate of EPS is 3.40% per year. However, the bank efficiency may have a increase in the future. The trend value shows that the EPS may be increase within next five years. However, this type of growth is dependent to many factors of the bank's operation such as interest earning, performance of loans and advances and overall goodwill of the bank.

Figure 4.8



The chart explains the overall increasing trend of EPS. Looking at the figure 4.8, we can conclude that the average line of EPS of the bank is in increasing trend slowly; this can be identified via the slope of the line. Since the slope of the line has a moderate degree of upward trend, the rise in the EPS can thus be concluded to some extent. KBBL should focus to keep the trend on track as shown in the figure or even to improve more by mean of generating more profit. Thus, KBBL can provide good level of return to its shareholders.

4.2 Major Findings of the Study

4.2.1 The measurement of lending strengths in relative term has revealed that total loans and advances and total deposit ratio has fluctuating trend for the different fiscal years. The highest ratio is 1.16 in FY 2008/09 and was decreased to 0.81 in year 2011/12 where average ratio is as 0.94. The ratio of was in decreasing trend throughout the years except FY 2012/13.

- 4.2.2 Total loans and advances to total assets ratio of the bank has been increasing. It shows that the bank has increased its total loans and advances as increment of deposits since the past 5 years. The absolute indicators of the ratio range in the year 2009/10 and year 2011/12 is 0.67, the highest, in the year 2008/09 which is the best performance of the bank according to its ratio during the research period.
- 4.2.3 The net assets of the KBBL have increased from Rs. 370445 thousand to Rs. 947810 thousand indicating a total increase of Rs. 577365 thousand, and overall growth of 26.56%. In the study there is high percentage of increment in net assets of KBBL in year 2009/10.
- 4.2.4 The total loans and advances of KBBL are in increasing trend. Maximum percentage change of total loans and advances of the bank is 29.34 in year 2012/13 where as minimum change rate is 7.28% in Fiscal year 2009/10. The average growth percentage of loan and advances of KBBL is 16.52%.
- 4.2.5 The interest earned is on higher level in year 2009/10 with 64.92%, but from 2010/11 it has been decreased its income of interest earning. KBBL has shown good growths, which are 16.94% & 15.70% on the last of study years. This growth is also due to increased loans. The average percentage change of interest income on loan and advances is 28.82%.
- 4.2.6 The percentage change of Net Interest Income exposes the fluctuating trend during the research period. The highest growth rate is 91.68% reported in 2009/10 and lowest is 8.88% in fiscal year 2011/12. The bank has an average growth in NII by 30.67% per annum.
- 4.2.7 The net profit of the bank has increased all over the years. During 2009/10 there was increased by 64.72% in the net profit. The growth in 2011/12 that was likely to be lowest for the period. There is a regular increment over all the period except 2011/12 year. Average profit growth for the period is 25.76%.

- 4.2.8 Provision for loan loss of KBBL in fiscal year 2008/09 is 0.7 %. There is fluctuating in provision for loan loss, maximum provision is 1.3% in year 2012/13. We can say that KBBL has provisioned less than 2% for its loans, which shows that KBBL has able to recover its loans. Thus, KBBL has to improve so on category of its loan and try to minimize the bad loans, which fall under non-performing loan.
- 4.2.9 The ratio of non-performing loan to total loans and advances of KBBL in fiscal year 2008/09 is 0.014. This ratio is in regular increasing trend during the research period up to 0.023. Average ratio of non-performing loan to loan and advance ratio is 0.019.
- 4.2.10 The ratio of interest income to total income in year 2008/09 is 0.91. The highest ratio is 0.96 in the year 2010/11 and the lowest is 0.91 in the year 2008/09. The average ratio calculated is soars around 0.94, which is close to the year's entire ratio. The average ratio indicates that the ratios of the five years do not have a high degree of deviation from the mean of the bank.
- 4.2.11 The interest income to interest expenses ratio in fiscal year 2008/09 is 1.65 where as there is highest in year 2008/09 with ratio of 1.85. The average ratio of the bank is 1.68 which indicates that a rupee of expense in deposits has generated 1.68 rupees of interest income for the bank.
- 4.2.12 Among the various measures of profitability ratios, the total income to total assets ratio measures the earning power of each rupee employed by an organization in respective of volume of expenditure incurred. The ratio of total income to total assets measure the earning capacity a rupees of expenses. The ratio indicates how much a unit of asset would result in total income. Thus higher the ratio, better the productivity of assets. The ratio of total income to total assets of KBBL is fluctuating during research period. Highest ratio is in year 2010/11 with 0.13 and lowest income to assets ratio is in fiscal year 2008/09 and 2009/10 at 0.10.
- 4.2.13 The ratio of net profit to shareholder's equity is highest in the year 2012/13, where the ratio is 0.16 times. Even though there have been fluctuations from the high of 0.16 to the low of 0.11; the average ratio is 0.14 times, it reflects that the shareholder's for

every single rupee of equity shall receive 0.14 profits for that single rupee. Even throughout the years net profit has been increasing, increase in the shareholder's equity during the year 2012/13 was greater in proportion to the net profit made by the bank

4.2.14 The EPS of KBBL is highest during fiscal year 2012/13. During the year 2012/13 the bank EPS is 21.56 but in the year 2009/10 and 2010/11 EPS was decreased up to 12.19 and 14.78 respectively. The major reason behind this drop in the EPS was due to the increase in the number of shares outstanding. The mean EPS of KBBL is Rs 17 per share during study period.

4.2.15 The relationship between total deposits and total loans and advances seems that there is a high degree of positive correlation between the two variables. As noted the value of coefficient of determination is 0.9698, it indicates that 96.98% of the variation in loans and advances is explained by deposit and the rest of 3.02% is due to other factors such as necessity of utilization of deposit to other sectors, which is essential and requirement for banking operation.

4.2.16 The coefficient of determination between the shareholder's equity and total loans and advances is 0.5126; this infers that the increment in loans and advance of KBBL increases the shareholder's equity in moderate degree. So, 51.26% of the variation in the shareholders' equity has been resulted by the performance of loans and advances and rest of 48.74% is due to other variables.

4.2.17 The coefficient of determination of total income and total loans and advances is also high, which is 0.8705, which means that 87.05% % of changes in total income is resulted by loan and advances and rest of 12.95 % is due to other factors, such as fee based income and other income of KBBL.

4.2.18 Coefficient of determination of provision for loan loss and total loans is 0.8399 explains that 83.99% of total variation in provision for loan loss is explained by loans and advances leaving only 16.01%, which is result of other factors. Here, other factor is again loans and advances, but difference is that in this case loans should be categorized

to the higher degree of risk (i.e. nonperforming loan). Similarly the value of (r) for KBBL is significant and the linear relationship between these interest income and net profit, total income and loans and advances, shareholders equity to total loan and advances is also positive, as the value of (r) is greater than six times the P. Er. In determining the correlation, we can say that the net profit is dependent with interest income but not totally because as shown by the result coefficient of variation is not 1. As findings from table, 95.81% of variation in net profit is a result of interest income and rest of 4.19 % is result of other factors.

4.2.19 The growth of total loans and advances from trend evaluation exhibited by the table represents 14.73% growth, where it is likely to growth by Rs 7039.14 thousand in one year period. Similarly the growth rate of EPS is 3.40%.

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

4.2.21 Trend analysis has revealed the future performance of KBBL in the case of total loans & advances and the earning per share. The slope of the trend line is high in the bank. Especially, through the pattern of the recent times, KBBL's efficiency in total loans & advances is forecasted to increase. The measured growth, depending on the trend values, has projected the increasing performance of KBBL's for the next five years. The growth rates of loans & advances of KBBL seem good. The growth exhibited by the table represents 14.73% growth, where it is likely to growth by Rs 7039.14 thousand in one year period. Although, there is little bit lower degree of growth rate in EPS as compared with total loans and advances, it can be improved with the growth of loans &

advances as expected. The average growth rate of EPS is 3.40% per year. The propensity of growth measured by trend analysis also reveals KBBL's forecasted good performance, not only in the percentage growth but also in the volume of growth.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

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

5.1 Summary

Lending management is very integral part of the bank and most probably the existence of the bank depends upon lending. The bank gains the interest income from loans and advances that it provides to the business entity and individuals for different purposes. Bank always fits itself into an economy with an important role of capital provider. The main function of development bank is lending and borrowing. But the things have changed and modern banking system provides many more advanced and new facilities, so the function of development bank push the national economy, mobilize the collected fund and canalize into productive sectors. These can easily achieve investment objective of gaining maximum return. The credit is the reason that the bank exists and it is what is fueling the economy of the Nepalese economy and world around us. Hence the management of credit of the bank is an important for the existence of bank.

The main objective of this study is to supplement the prior studies in loan disbursement of Kailash Bikas Bank Limited and provide some insight into how much the impact of lending position on its profitability; examining and forecasting trend value and growth rate of providing loan and EPS of KBBL; measuring the relationship of total lending to total deposit, shareholder's equity, total income, provision for loan loss, and interest income. After reviewing past research work, much research study has been done on comparative analysis among various commercial banks and very little work has been done on study of lending behavior of other development banks. Research study on Lending practices of KBBL has not been done yet separately, so that to fulfill this gap this research study has been conducted.

The study was done by getting to the every details of the bank and tabulating data wherever necessary to facilitating the analysis. Two methods were used for presentation of data and analysis of it, i.e. within this case study research design, descriptive method and another is analytical method. Different financial tools with ratio analysis, statistical tools with mean, standard deviation, correlations and trend analysis associated with lending were studied and control over it by credit policy guidelines of the bank and directives of Nepal Rastra Bank was shown. During the period, researcher summarized whole task in five chapters including this chapter.

The lending position has been analyzed by calculating various ratios. The ratio between total loans and advances to total deposit was in fluctuating trend showing increased of this ratio at beginning of study period and decreased end of the period. The ratio of loan and advances to total assets, loans and advances to shareholder's equity indicate a good performance of KBBL in its lending activities. The net assets of KBBL is increased in second year of research period and decreased thereafter, its growth rate is 26.56% during the period. The trend line and bars figure of interest income on loans and advances shows increase in income for a year and there is steady growth on the succeeding years. Average growth rate of interest income is 28.82% per annum. The pattern of net profit of the bank has increased all over the years except FY 2011/12; the average growth during the study is 25.76%. The ratio of provision for loan loss to total loans and advances is fluctuating and the ratio is over 1% in some Fiscal Years. Interest income to total income ratio indicates that there is almost consistent during research period with an average ratio of 0.94. The interest income to interest expenses ratio of KBBL is in fluctuating trend having average ratio of 1.68, which implies that a rupee of expenses in deposits has generated 1.68 rupees of income for the bank. The ratio of total income to total assets has an average of 0.11 indicates fluctuating during the study and this ratio decreased in FY 2012/13. The ratio of net profit to shareholder's equity over the period is highest in FY 2012/13 and lowest in FY 2009/10 with 0.16 & 0.14 respectively. Average of this ratio 0.14 times implies that every single rupee of equity shall generate 0.14 profits for the bank. EPS of KBBL is on increasing trend with average growth rate of 3.40% per year. The mean EPS of the bank is Rs.17. There is high degree of positive correlation between total deposits and total loans and advances and the value of these variables is significant, 98.48% of variation in total loans and advances is explained by deposit and rest of 1.52 is due to other factors. There is positive correlation between shareholder's equity and total loans and advances with correlation coefficient of 0.7160.

The income and profit of the KBBL depends upon its lending procedure and lending policy of its fund utilize in different sectors. The study, which researcher have chosen “Lending Practices of Kailash Bikas Bank Limited”, think that most of the research regarding the banking policy is founding normally moving around the principle aspect again and again rather than filtering the actual situation.

In the fifth chapter, summary of the study are presented in brief to understand the whole to get about of the study instantly after which conclusion of the study with recommendation are presented.

5.2 Conclusions

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

- 5.2.1 Total loans & Advances are the major area of fund mobilization of development bank. Total loans and advances to total deposit ratio indicates the firms fund mobilizing power in gross. Average ratio of the bank during the study is satisfactory. But this ratio is in decreasing trend which indicates that the idle deposit of bank has increasing.
- 5.2.2 The fluctuating trend of total loan and advances to shareholders equity reveals that the bank is unable to meet the increasing trend of equity by increasing its lending portfolio. This may be because the bank is compelled to increase its capital every year as per central bank's rule.
- 5.2.3 The net assets of KBBL indicate that it has been efficiently increasing the shareholders' wealth over the research period and increases the capacity to cover its liability. The average growth of the net assets throughout five years indicating that the bank has substantial success in maintaining the satisfaction to its shareholders and also has been able to increase the volume of its business.
- 5.2.4 The total loans and advances of the bank during research period are increasing. An average growth rate of total loans and advances looks excellent in term of earning. It

is due to the goodwill of company and regular interest adjustment on deposit & loans and advances according to market fluctuation.

- 5.2.5 The annual average growth rate of net profit is in increasing trend which concludes that the banks' total deposit increases with lesser cost and higher rate of fees and commissions in total loans and advances so that the profit level of bank is increasing.
- 5.2.6 The higher ratio of NPL is an indicator of financial crisis and it should be resolved as soon as possible. Hence, the lower ratio of NPL to total loans and advances is preferred. Some loans of the bank have been crossed the rating of good loan. From the findings we can say that bank has provisioned more than 2% for some of its loans, which shows that defaulters are existence in the bank. Thus, KBBL has to improve category of its loan and try to minimize the non performing loans.
- 5.2.7 The bank is able to utilize its lending for generating profit. An average 94% of total income has been earned from loan and advances which is good financial indicator for the bank. The performance of bank is satisfactory from the analysis of interest income and interest expenses. The low cost and non interest bearing deposits in the deposits mix of bank has caused the gap between interest income and interest expense to be higher.
- 5.2.8 The value of correlation coefficient (r) of KBBL is significant and there is positive correlation between total deposit and loan and advances, interest income and net profit, total income and total loans and advances. It can be conclude that an increase or decrease in deposit of KBBL positively affects the increment or decrement to its total loans and advances and vice versa. Similarly net profit is increased or decreased if the total income of bank is increased or decreased. As the value of (r) of given variables is greater than six times the P. Er, and lies between 0.7 to 0.999, the correlation between their each two variables is significant.
- 5.2.9 From the trend analysis of loans and advances and EPS, it is concluded that both of the variables are in increasing trend and shows the encouraging sign as the trend line of these variables are likely to increase in the future. From the growth value of loans and advances and EPS from trend evaluation is also concluded that the lending practices of KBBL are satisfactory and the profitability is increasing. The banks credit policy is main factor to determine the future value of total loan of the bank. The value of EPS is depends upon profit of the bank. However, future is uncertain

but the forecast is in increasing trend.

5.3 Recommendations

Based on the findings in chapter four and above conclusions the following recommendations have been forwarded:

- 5.3.1 KBBL should find out the new area for lending and investment to utilize its deposit otherwise it has to bear high deposit expenses in near future. Because deposit collection from customers is the key source to mobilize the fund for lending. Decreasing in total expenses from total income of bank positively affects its performance. Further the bank has to be maintained the gap of interest income to interest expenses by reducing cost of fund. Increasing interest rate on lending generates high return to the bank and helps in increasing the sustainable lending practice with proper analysis. This type of changes may cause high risk of losing existing business in competitive market. The bank suggested for adopting sound recovery policy and also to carry out competitors' analysis to retain old customers and gain new customers, which increase deposit and eventually can earn profit from lending loan and other investments.
- 5.3.2 To compromise between the liquidity and credit need of rural economy, the bank is highly recommended to expand its credit in this area. KBBL should reduce its operational costs by managing its interest gap between deposit and lending in competitive market. Bank should focus on secured lending in order to increase the business volume and meet the expectation of stakeholders as well for business strengths. This helps minimizing idle fund in business and at the same time it contributes to increase profitability of the bank. The bank is advised to lower the position of loan loss provision by strengthening the credit appraisal and follow-up measures. Bank should continue to increment loans proportionately with the capital it should regularly follow the credit customers to confirm that whether the customers have utilized their credit for the same purpose or not, committed at the time of taking credit from the bank. It should follow the directives of NRB strictly to reduce many of credit risks and also suggested to come up with a stronger internal audit department to ensure that the directives are properly implemented.
- 5.3.3 From the correlation measurement of the different variables all the variables with loans and advances is significant and highly correlated. KBBL is successful to grant

loan and advances by mobilizing the collected deposits in a proper way. Since, there is high degree of positive coefficient of correlation(r) between two analyzed variables, it is recommended that the bank should take considerations in formulating policies of deposit collection, wealth maximization, nonperforming loan which minimize the provision of loan loss.

- 5.3.4 Looking a current trend of business of loans and advances and EPS during study period it is recommended to the management of KBBL that it must be very careful on formulating marketing strategies to serve customers. It has good growth rate of total loans and advances and earnings per share but the future is uncertain and the forecasted value is in increasing trend. The existence of bank depends upon its profitability so it is recommended to increase its yield as its net profit to gain the trust of the equity holders and other stakeholder.

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APPENDIX

Calculation I

Rs. in thousand

Calculation of Mean, Standard Deviation and Coefficient of Variation of Net Assets

Fiscal Year	Net Assets (X)	Mean(X - \bar{X}) = x	x^2
2008/09	3,70445	388232	1507240858
2009/10	7,94792	-36115	1304293225
2010/11	8,21436	-62759	3938692081
2001/12	8,58900	-100223	1004464973
2012/13	9,47810	-189133	3577129169
	X=37,93383		$x^2 = 2017830125$

$$\text{Mean } X (\bar{X}) = \frac{\sum X}{N}, \quad \text{where } N = 5$$

$$\text{Therefore, Mean } \bar{X} = \frac{37,93383}{5} = 758677$$

$$\begin{aligned} \text{Now, standard deviation } (\Xi) &= \sqrt{\frac{\sum x^2}{N}} \\ &= \sqrt{2017830125 / 5} \\ &= 200889 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of Variation (C.V.)} &= \frac{\Xi}{\text{Mean } x} \times 100 \\ &= \frac{200889 \times 100}{758676} \\ &= 27\% \end{aligned}$$

Calculation II

Calculation of Mean, Standard Deviation and Coefficient of Variation of Loans and Advances

Rs. in thousand

Fiscal Year	Loans & Advances (X)	Mean(X - \bar{X}) = x	x^2
2008/09	25,64547	1065217	113,468,72571
2009/10	27,51137	878627	77,198,54051
2010/11	32,93710	336054	11,293,22909
2001/12	41,59479	-529715	28,059,79812
2012/13	53,79947	-1750183	306,314,05335
	X= 181,48820		$x^2 =$ 536,334,34680

$$\text{Mean } X (\bar{X}) = \frac{\sum X}{N}, \quad \text{where } N = 5$$

$$\text{Therefore, Mean } X = \frac{18148820}{5} = 3629764$$

5

$$\begin{aligned}
 \text{Now, standard deviation } (\Xi) &= \sqrt{\frac{\sum x^2}{N}} \\
 &= \sqrt{53633434680 / 5} \\
 &= 1035697 \\
 \text{Coefficient of Variation (C.V.)} &= \frac{\Xi}{\text{Mean X}} \times 100 \\
 &= \frac{1035697 \times 100}{3629764} \\
 &= 28.30\%
 \end{aligned}$$

Calculation III

1. Calculation of correlation between loan and advances and deposits

Rs. in thousand

F/Y	Deposit (X)	dx=(X-x)	dx ²	Loan (Y)	dy=Y-y	dy ²	dx*dy
2008/09	22,01542	18,20283	331343020	25,64547	1065217	113,468,72571	1938996396
2009/10	29,40251	10,81574	1169802317	27,51137	878627	77,198,54051	9503001189
2010/11	35,38136	483689	2339550487	32,93710	336054	11,293,22909	1625456232
2011/12	51,66760	-11,44935	1310876154	41,59479	-529715	28,059,79812	6064892435
2012/13	62,62436	-22,40611	5020337653	53,79947	-175018	306,314,05335	3921479282
	X = 201,0912 5		dx ² = 1104840137	Y= 181,48820		dy =536, 334,34678	dx*dy =757,981,06 640

Here, N = 5

$$\text{Mean of X } (\bar{x}) = \frac{\text{Sum of X}}{N} = \frac{201,09125}{5} = 4021825$$

$$\begin{aligned}
 \text{Now, standard deviation } (\Xi_x) &= \sqrt{\frac{\sum x^2}{N}} \\
 &= 1,035,69720
 \end{aligned}$$

$$\text{Mean of Y } (y) = \frac{\text{Sum of Y}}{N} = \frac{181,48820}{5} = 3629764$$

Now, for calculation of correlation coefficient (r),

$$\begin{aligned}
 \text{We have } r &= \frac{\sum dx \, dy}{N \Xi_x \Xi_y} \\
 &= \frac{757,981,06640}{(5 \times 1,486,49934 \times 1,035,69720)}
 \end{aligned}$$

$$\frac{0.6745}{N} \frac{1-r^2}{N}$$

$$= 0.9848$$

Calculation of Probable Error (P.Er.) =

$$\text{P.Er.} = 0.0391$$

Note: Σx and Σy has been calculated as per the calculation given in Calculation I.

Calculation IV. Calculation of correlation between shareholders' equity and loans and advances
Rs. in thousand

F/Y	Loans & Advances (X)	dx=(X-x)	dx ²	Shareholders' Equity (Y)	dy=Y-y	dy ²	dx*dy
2008/09	2,564,547.00	(1,065,217.00)	1,134,687,257.089.00	370,443.00	388,231.00	150,723,309.361.00	(413,550,261,127.00)
2009/10	2,751,137.00	(878,627.00)	771,985,405,129.00	794,789.00	(36,115.00)	1,304,293,225.00	31,731,614,105.00
2010/11	3,293,710.00	(336,054.00)	112,932,290,916.00	821,433.00	(62,759.00)	3,938,692,081.00	21,090,412,986.00
2011/12	4,159,479.00	529,715.00	280,597,981,225.00	858,898.00	(100,224.00)	10,044,850,176.00	53,090,156,160.00
2012/13	5,379,947.00	1,750,183.00	3,063,140,533,489.00	947,807.00	(189,133.00)	35,771,291,689.00	331,017,361,339.00
	X = 18,148,820.00		dx ² = 5,363,343,467,848.00	Y = 3,793,370.00		dy ² = 201,782,436,532.00	dx*dy = 744,835,751,535.00

Here, N = 5

$$\text{Mean of X (x)} = \frac{\text{Sum of X}}{N} = 1,035,697.20$$

$$\text{Mean of Y (y)} = \frac{\text{Sum of Y}}{N} = 200,889.24$$

N

Now, for calculation of correlation coefficient (r),

$$\begin{aligned} \text{We have } r &= \frac{\Sigma dx \, dy}{N \Sigma x \, \Sigma y} \\ &= 0.7160 \end{aligned}$$

Calculation of Probable Error (P.Er.)

$$\begin{aligned} \text{P.Er.} &= 0.6745 \frac{1 - r^2}{N} \\ &= 0.6745 [1 - (0.71115)^2] / 5 \\ &= 0.1491 \end{aligned}$$

Note: Σx and Σy has been calculated as per the calculation given in Calculation I.

Calculation V. Calculation of correlation between Total Income and loans & advances
Rs. in thousand

F/Y	Loans & Advances (X)	dx = (X-x)	dx ²	Total Income (Y)	dy=Y-y	dy ²	dx*dy
2008/09	2,564,547.00	(1,065,217.00)	1,134,687,257,089.00	268,858.00	(311,934.40)	97,303,069,903.36	332,277,825,764.80
2009/10	2,751,137.00	(878,627.00)	771,985,405,129.00	425,440.00	(155,352.40)	24,134,368,185.76	136,496,813,154.80
2010/11	3,293,710.00	(336,054.00)	112,932,290,916.00	619,487.00	38,694.60	1,497,272,069.16	13,003,475,108.40
2011/12	4,159,479.00	529,715.00	280,597,981,225.00	734,391.00	153,598.60	23,592,529,921.96	81,363,482,399.00
2012/13	5,379,947.00	1,750,183.00	3,063,140,533,489.00	855,786.00	274,993.60	75,621,480,040.96	481,289,123,828.80
	$\Sigma X = 18,148,820.00$		$dx^2 = 5,363,343,467,848.00$	$\Sigma Y = \text{Error! Not a valid link.}$		$\Sigma dy^2 = 222,148,720,121.20$	$\Sigma dx*dy = \text{Error! Not a valid link.}$

Here, N = 5

$$\text{Mean of X (x)} = \frac{\text{Sum of X}}{N} = 3629764.00$$

$$\text{Mean of Y (y)} = \frac{\text{Sum of Y}}{N} = 580,792.40$$

Now, for calculation of correlation coefficient (r),

$$\begin{aligned} \text{We have } r &= \frac{\Sigma dx \, dy}{N \Sigma_x \Sigma_y} \\ &= 0.9330 \end{aligned}$$

$$\text{Calculation of Probable Error (P.Er.)} = \frac{0.6745}{N} \sqrt{1 - r^2}$$

$$\begin{aligned} \text{P.Er.} &= 0.03906 \\ &= 0.0391 \end{aligned}$$

Note: Σ_x and Σ_y has been calculated as per the calculation given in Calculation I.

Calculation VI. Calculation of correlation between provision for loan loss and loans & advances
Rs. in thousand

F/Y	Loans & Advances (X)	dx = (X-x)	dx ²	Provision Amount (Y)	dy=Y-y	dy ²	dx*dy
2002/2003	2,564,547.00	(1,065,217.00)	1,134,687,257,089.00	17,848.00	-16,603.20	275,666,250.24	17,686,010,894.40
2003/2004	2,751,137.00	(878,627.00)	771,985,405,129.00	29,693.00	-4,758.20	22,640,467.24	4,180,682,991.40
2004/2005	3,293,710.00	(336,054.00)	112,932,290,916.00	24,288.00	-10,163.20	103,290,634.24	3,415,384,012.00

			0			4	80
2005/2006	4,159,479.00	529,715.00	280,597,981,225.00	32,606.00	-1,845.20	3,404,763.04	(977,430,118.00)
2006/2007	5,379,947.00	1,750,183.00	3,063,140,533,489.00	67,821.00	33,369.80	1,113,543,552.04	58,403,256,673.40
	$\sum X =$ 181,48820.00		$\sum dx^2 =$ 5,363,343,467,848.00	$\sum Y =$ 172,256.00		$\sum dy^2 =$ 1,518,545,666.80	$\sum dx*dy =$ 82,707,904,454.00

Here, N = 5

$$\text{Mean of X (x)} = \frac{\text{Sum of X}}{N} = 3,629,764.00$$

$$\text{Mean of Y (y)} = \frac{\text{Sum of Y}}{N} = 34,451.20$$

Now, for calculation of correlation coefficient (r),

$$\begin{aligned} \text{We have } r &= \frac{\sum dx dy}{N \sum x \sum y} \\ &= 0.9165 \end{aligned}$$

Calculation of Probable Error (P.Er.)

$$\begin{aligned} \text{P.Er.} &= 0.6745 \frac{1-r^2}{N} \\ &= 0.2897 \end{aligned}$$

Note: $\sum x$ and $\sum y$ has been calculated as per the calculation given in Calculation I.

Calculation VII

Calculation of Trend Equation of Loans and Advances

Rs. in thousand

Year	t	Loans and Advances (Y)	X = (t-3)	X ²	XY
2008/09	1	25,645.47	-2	4	(21,689.2)
2009/10	2	27,511.37	-1	1	(12,919.63)
2010/11	3	32,937.10	0	0	0
2011/12	4	41,594.79	1	1	15,762.00
2012/13	5	53,799.47	2	4	35,587.44
		Y = 181,488.20	X = 0	X ² = 10	XY = 70391.42

Here, N = 5, mid value of t is considered 3

$$\begin{aligned}
 a &= Y / N \\
 &= 181,488.20 / 5 \\
 &= 36297.64 \\
 b &= XY / X^2 \\
 &= 70391.42 / 10 \\
 &= 7039.14
 \end{aligned}$$

Thus, the Trend Equation Line obtained for Total Deposit is
 $Y = a + b X$

i.e. $Y = 36297.64 + 7039.14X$

Calculation VIII. Calculation of Trend Equation of Earning Per Share (EPS)

Rs. in thousand

Year	t	EPS (Y)	X = (t-3)	X ²	XY
2008/09	1	19.88	-2	4	(39.76)
2009/10	2	12.99	-1	1	(12.99)
2010/11	3	14.78	0	0	-
2011/12	4	16.57	1	1	16.57
2012/13	5	21.56	2	4	43.12
		Y = 85.78	X = 0	X ² = 10	XY = 6.94

Here, N = 5, mid value of t is considered 3

$$\begin{aligned}
 a &= Y / N \\
 &= 85.78 / 5 \\
 &= 17.16 \\
 b &= XY / X^2 \\
 &= 6.94 / 10 \\
 &= 0.694
 \end{aligned}$$

Thus, the Trend Equation Line obtained for Total Deposit is
 $Y = a + b X$

i.e. $Y = 17.16 + 0.694 X$

Data work sheet calculation:

Rs. in thousand

Mean X (Loan)	3,629,764.00	SD Loan=	1,035,697.20
MeanY(Sh's Equity)	758,674.00	SD Sh's Equity=	200,889.24
r(Correlation Coefficient of Loan& Sh's Equity)=	0.71598		
r ² =	0.51263		
P.Er=	0.14701	6*P.Er.=	0.8821

Mean X(Loan)	3,629,764.00	SD Loan=	1,035,697.20
MeanY(Total Income)	580,792.40	SD Total Income=	210,783.64
r(Correlation Coefficient of	0.93302		

Loan & Total Income)=			
r ² =	0.87052		
P.Er=	0.03906	6*P.Er.=	0.2343

Mean X(Loan)	3,629,764.00	SD Loan=	1,035,697.20
MeanY(Deposit)	4,021,825.00	SD Deposit=	1,486,499.34
r(Correlation Coefficient of Loan & Deposit)=	0.98467		
r ² =	0.96958		
P.Er=	0.00918	6*P.Er.=	0.0551

Mean X(Loan)	3,629,764.00	SD Loan=	1,035,697.20
MeanY(Provision For Loan Loss)	34,451.20	sd Provision for Loan Loss=	17,427.25
r(Correlation Coefficient of Loans & Provision for Loan loss)=	0.91646		
r ² =	0.83991		
P.Er=	0.04829	6*P.Er.=	0.2897

Mean X(Interest Income)	547,166.60	SD Interest Income =	199,764.43
Mean Y(Net Profit)	102,381.60	SD of Net profit =	33,312.91
r(Correlation Coefficient of Interest Income & Net Profit)=	0.97880		
r ² =	0.95805		
P.Er=	0.01265	6*P.Er.=	0.0759

Total Assets to Total Liabilities Ratio

Rs. in thousand

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
Total Assets	2812701.00	4089189.00	4740736.00	6216612.00	7503260.00
Total Liabilities	2442256.00	3294397.00	3919300.00	5357712.00	6555450.00
Ratio	1.15	1.24	1.21	1.16	1.14

Total assets to total liabilities ratio=total assets/ total liabilities

Note: Ratio of other variables are calculated same as above.

Net Assets and Percentage Changes

Rs in thousand

Fiscal Year	2008/09	2009/10	2010/11	2011/12	2012/13
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Net Assets	370445.00	794792.00	821436.00	858900.00	947810.00
Increase/(Decrease) in Net Assets	-	424347.00	26644.00	37464.00	88910.00
Percentage Change	-	114.55	3.35	4.56	10.35
Average Growth per Annum in % :			26.56		

Percentage change in net assets = (net assets in current year- net assets in previous year) × 100 / net assets in previous year

Note: Percentage Changes on other Variables are calculated same as above.

YEAR END BALANCE SHEET OF KAILASH BIKAS BANK LIMITED FOR LAST FIVE YEARS

Rs in thousand

Capital and Liabilities	2008/09	2009/10	2010/11	2011/12	2012/13
Share Capital	288,288.00	704,287.00	704,287.00	707,616.00	778,377.00
Reserve Funds	82,155.00	90,502.00	117,146.00	151,282.00	169,430.00
Debentures and Bonds	-	-	-	-	-
Borrowings	197,000.00	217,300.00	200,000.00	-	-
Deposit Liabilities	2,201,541.00	2,940,251.00	3,538,135.00	5,166,760.00	6,262,436.00
Bills Payable	-	796.00	1,967.00	513.00	1,849.00
Proposed Dividend	1,379.00	77,471.00	77,471.00	84,913.00	63,685.00
Income Tax Liabilities	2,001.00	1,842.00	2,017.00	868.00	8,932.00
Other Liabilities	40,337.00	56,740.00	99,713.00	104,660.00	218,551.00
Total Liabilities	2,812,701.00	4,089,189.00	4,740,736.00	6,216,612.00	7,503,260.00
Assets					
Cash Balance	34,703.00	58,160.00	54,470.00	123,680.00	167,336.00
Balance at NRB	53,197.00	170,009.00	204,018.00	268,051.00	347,997.00
Balance with Banks	10,485.00	36,161.00	12,865.00	22,071.00	11,420.00
Money at call and Short Notice	40,185.00	650,180.00	575,833.00	1,029,866.00	1,102,924.00
Investments	15,571.00	308,161.00	440,424.00	453,855.00	297,476.00
Loan, Advances and Bills Purchase	2,564,547.00	2,751,137.00	3,293,710.00	4,159,479.00	5,379,947.00
Fixed Assets	66,695.00	87,232.00	124,894.00	113,998.00	121,327.00
Non Banking Assets	-	-	-	-	-
Other Assets	27,318.00	28,149.00	34,522.00	45,612.00	74,833.00
Total Assets	2,812,701.00	4,089,189.00	4,740,736.00	6,216,612.00	7,503,260.00

INCOME STATEMENT AS ON YEAR END FOR LAST FIVE YEARS

Rs in thousand

Description	2008/09	2009/10	2010/11	2011/12	2012/13
Interest Income	245,119.00	404,258.00	592,323.00	692,686.00	592,323.00
Interest Expenses	148,278.00	218,637.00	358,569.00	438,173.00	358,569.00
Net Interest Income	96,841.00	185,621.00	233,754.00	254,513.00	233,754.00
Fees, Commission and Discount	382.00	449.00	981.00	2,055.00	981.00
Other Operating Income	23,357.00	20,733.00	26,183.00	39,650.00	26,183.00
Foreign Exchange Gain	-	-	-	2.00	-
Total Operating Income	120,580.00	206,803.00	260,918.00	296,220.00	260,918.00
Staff Expenses	16,511.00	21,340.00	33,953.00	45,632.00	33,953.00
Other Operating Expenses	19,524.00	33,759.00	55,000.00	68,389.00	55,000.00
Foreign Exchange Loss	-	-	-	-	-
Operating Profit before Provision	84,545.00	151,704.00	171,965.00	182,199.00	171,965.00
Provision for Possible Losses	17,848.00	29,693.00	24,838.00	32,652.00	24,838.00
Operating Profit	66,697.00	122,011.00	147,127.00	149,547.00	147,127.00
Non Operating Income/Expenses	294.00	1,241.00	1,315.00	5,820.00	1,315.00
Write Back of Provision for Possible Loss	15,157.00	11,886.00	15,063.00	25,829.00	15,063.00
Profit from Regular Activities	82,148.00	135,138.00	163,505.00	181,196.00	163,505.00
Extra ordinary Income/Expenses	-	-	-	-	-
Profit before Bonus & Taxes	82,148.00	135,138.00	163,505.00	181,196.00	163,505.00
Provision for Staff Bonus	7,468.00	12,285.00	14,864.00	16,472.00	14,864.00
Provision for Tax	22,579.00	37,034.00	44,526.00	49,344.00	44,526.00
This Year	22,601.00	36,631.00	44,507.00	48,928.00	44,507.00
Tax Payment for Past Years	-	6.00	-	(533.00)	-
This Deferred Tax Income/ Expenses	(22.00)	397.00	19.00	949.00	19.00
Net Profit	52,101.00	85,819.00	104,115.00	115,380.00	104,115.00

The Sampling Population (Development Banks in Nepal)

List of Development Banks In Nepal

As of Mid July, 2013 (Licensed by NRB)

S. No.	Names	S. No.	Names
1	NIDC Development Bank Ltd.	45	Tinau Bikas Bank Ltd.
2	Malika Bikash Bank Ltd.	46	Rising Development Bank Ltd.
3	Siddhartha Development Bank Ltd.	47	Muktinath Bikas Bank Ltd.
4	Yeti Development Bank Ltd.	48	Kankai Bikas Bank Ltd.
5	Narayani Development Bank Ltd.	49	Public Development Bank Ltd.
6	United Bikash Bank Ltd.	50	Ace Development Bank Ltd.
7	Pashimanchal Development Bank Ltd.	51	Mahakali Bikas Bank Ltd.
8	Sahayogi Bikas Bank Ltd.	52	Sangrila Development Bank Ltd.
9	Axis Development Bank Ltd.	53	Bhargab Bikas Bank Ltd.
10	Karnali Bikash Bank Ltd.	54	Kamana Bikas Bank Ltd.
11	Triveni Bikas Bank Ltd.	55	Professional Diyalo Bikas Bank Ltd.
12	Bhrikuti Bikas Bank Ltd.	56	Country Development Bank Ltd.
13	Supreme Development Bank Ltd.	57	Vibor Bikas Bank Ltd.
14	Shubhechchha Bikas Bank Ltd.	58	Alpine Development Bank Ltd.
15	Bageshwori Development Bank Ltd.	59	Nilgiri Bikas Bank Ltd.

16	Gaurishankar Development Bank Ltd.	60	Kasthamandap Development Bank Ltd.
17	Gorkha Development Bank (Nepal) Ltd.	61	Corporate Development Bank Ltd.
18	Gandaki Development Bank Ltd.	62	City Development Bank Ltd.
19	Infrastructure Development Bank Ltd.	63	Biswo Bikas Bank Ltd.
20	Business Universal Development Bank Ltd.	64	Pathibhara Bikas Bank Ltd.
21	Biratlaxmi Bikas Bank Ltd.	65	Garima Bikas Bank Ltd.
22	Excel Development Bank Ltd.	66	Kabeli Bikas Bank Ltd.
23	Western Development Bank Ltd.	67	Purnima Bikas Bank Ltd.
24	H & B Development Bank Ltd.	68	Jyoti Bikas Bank Ltd.
25	Araniko Development Bank Ltd.	69	Shine Resunga Development Bank Ltd.
26	NDEP Development Bank Ltd.	70	Bagmati Development Bank Ltd.
27	Clean Energy Development Bank Ltd.	71	Hamro Bikas Bank Ltd.
28	Miteri Development Bank Ltd.	72	Kakre Bihar Bikas Bank Ltd.
29	Pacific Development Bank Ltd.	73	Mount Makalu Development Bank Ltd.
30	Civic Development Bank Ltd.	74	Sindhu Bikas Bank Ltd.
31	International Development Bank Ltd.	75	Sahara Bikas Bank Ltd.
33	Kanchan Development Bank Ltd.	76	Nepal Community Development Bank Ltd.
34	Bright Development Bank Ltd.	77	Cosmos Development Bank Ltd.
35	Matribhumi Bikas Bank Ltd.	78	Manasalu Bikash Bank Ltd.
36	Innovative Development Bank Ltd.	79	Ekata Bikash Bank Ltd.
37	Jhimruk Bikas Bank Ltd.	80	Kalinchowk Development Bank Ltd.
38	Metro Development Bank Ltd.	81	Kailash Bikash Bank Ltd.
39	Raptibheri Bikas Bank Ltd.	82	Salapa /;Bikash Bank Ltd.
40	Gaumukhi Bikas Bank Ltd.	83	Saptakoshi Development Bank Ltd.
41	Nepal Consumer Development Bank Ltd	84	Sajha Bikash Bank Ltd.
42	Khandbari Development Bank Ltd.	85	Prabhu Bikash Bank Ltd.
43	Tourism Development Bank Ltd.	86	Apex Development Bank Ltd.
44	Mission Development Bank Ltd.		

(Source: www.nrb.org.np)