

**LENDING POLICY OF COMMERCIAL  
BANKS IN NEPAL**  
(With Reference to Nepal Investment Bank Ltd. and Bank of  
Kathmandu)

**A Thesis**

**Submitted to**

**Office of the Dean  
Faculty of Management  
Tribhuvan, University**

**In partial fulfillment of the requirements for the Degree of Master of  
Business Studies (M.B.S.)**

**Submitted by**

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# Recommendation

This is to certify that the thesis

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Entitled

**LENDING POLICY OF COMMERCIAL BANKS IN NEPAL  
(WITH REFERENCE TO NEPAL INVESTMENT BANK LTD. AND  
BANK OF KATHMANDU LTD.)**

*has been prepared and approved by this Department in the prescribed  
format of Faculty of Management. This thesis is forwarded for  
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# VIVA-VOCE SHEET

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Master's Degree in Business Studies (MBS).

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## **Declaration**

I hereby declare that the present thesis entitled **LENDING POLICY OF COMMERCIAL BANKS IN NEPAL (WITH REFERENCE TO NEPAL INVESTMENT BANK LTD. AND BANK OF KATHMANDU LTD.)** has been prepared to partial fulfill the requirement of Masters Degree in Business Studies (M.B.S.) under kind supervision of Mr. Surya Bahadur Rana of Lumbini Banijya Campus, Butwal. The under studied thesis has been prepared as per the format prescribed by the university and analysis carried in the study is original. Eventually, I firmly believe that the road to improvement never end so I am solely responsible for and varieties of shortcomings and drawbacks admitted in the study.

Anubha Karki

Date: -----

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## **List of Abbreviation**

BOKL	=	Bank of Kathmandu Limited
NIBL	=	Nepal Investment Bank Limited
FY	=	Fiscal Year
NG	=	Nepal Government
NPL	=	Non- Performing Loan
NPA	=	Non Performing Asset
NRB	=	Nepal Rastra Bank
LLP	=	Loan Loss Provision
Ltd.	=	Limited
Rs.	=	Rupees
T.U.	=	Tribhuvan University

# CHAPTER -I

## INTRODUCTION

### 1.1 Background of the Study

The word 'Bank' is itself derived from the French word 'Banque' and 'Italian' word 'Banco'. It referred to a bench. Before, there were money lenders sitting in the bench for keeping lending and exchanging of money in the market place. That was the origin of commercial bank in the banking history.

The commercial bank pool together the savings of community and arrange for their productive uses. They supply financial needs of modern business. To provide loan to the needed one the commercial bank collect the saving under different account head called current deposit, saving deposit, fixed deposit, call deposit and other deposits. The clients are attracted for rate of interest on those deposits. Further the banks use this art for making investments and granting loan and advances.

The study is totally based on the mobilization of the deposits. The mobilization of domestic resources is one of the key factors in the economic development. Banks plays an important role in the economy by collecting surplus from the savers and providing them to investors or users. Banking institutions are inevitable for mobilizing resources to all parties' i.e. general public, business, organization, government and other small financial institution.

Loans and advances, overdrafts, discounting of bills of exchange etc are some of the form of bank lending. The different areas of the lending are being presented. Not all the amount collected are disbursed some amount are undisbursed so that the amount can be used to pay short term obligations and refund the cheque amount. The amount of undisbursed amount does not give any return but it should be well enough to meet the banks daily requirements.

Here the amount of undisbursed deposits are also taken in consideration to find out the banks liquidity positions

The study also contains the study of the NRB directives that are to be followed by the commercial banks. Also focus is being put to check how far the directives prepared by the central bank are fruitful to the commercial banks. The central bank prepares all the directives with the target to regulate the banks with in the country. Other banks need to follow the directives which may or may not be profitability to concern banks.

“Bank assists both the flow of goods and services from the products to the consumers and the financial activities of the government. Banking provides the country with monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy” (The American Bankers Association; 1972)

According to Beckman, T.N. and Bartels. R (1995), “Credit management is on the lowest administrative level, the person holding the position of credit manager or its equivalent is responsible for the actual extension of credit in actual in analyzing requests, conducting investigations, evaluating risks, setting limits and referring credits to higher authority. Making collections is another chief duty, which entails maintenance of controls, following up accounts, calling upon customers, representing the company at creditors meeting and supervision of collection correspondence”

Although the banks follow the directives and create own regulations for loan disbursement, there are some non-performing loans. With the sample banks target is put to find out whether or not the loan loss provisions and non-performing loans are according to rules and regulations or not. Unlike other studies, here the relationship between deposit collected and loan disbursement is identified. Also the relation between loan loss provision and non-performing loan is expressed.

Commercial Bank performs multiple function among them fund mobilization and recovery is the most important function. Here focus has been given how the concern banks has disbursed their loan and what are the procedure of collecting those disbursed loan i.e. recovery of the loan. The target has been done to identify whether or not the directives of NRB are followed.

Now collecting funds without future invest plans is worth less. So banks should prepare a well diversified portfolio investment area to mobilize the fund collected. The study here will help to find out whether the sample banks have prepared such plans. After disbursement regular follow up action should be taking to recover the loans. Only those proposal should be accepted which have clear vision. Loan loss amount of sample banks will explain the follow up action of the banks. This research work gives glance about the profile of the bank giving emphasis on the Credit Culture of the Concerned Commercial banks.

## **1.2 Statement of the Problem**

However, subsequent development of Commercial Banks in quality has not been satisfactory. The banks are not interested in granting loan to the primary and deprived sector of the economy. Banking is not being easy accessibility of public in remote and village area but operate mainly in town and capital of the country.

Credit policies are not systematic and no clear-cut vision on policy is available on credit aspects. Commercial Banks seem to be ready to grant much more loans, advances and other facilities to its clients against insufficient deposits. Unsecured loan and investment increase the possibility of the failure of the banks. The research problems of the study are as below:

NRB has issued a clear cut directives related to lending policies of commercial banks. The directives clearly explain the terms and conditions to be followed

by the relevant commercial banks. The studies put efforts to identify whether or not the selected banks have followed the directives.

Also, the studies focus on how far the banks directives have brought the favorable and unfavorable consequences to the profitability of commercial banks? The regulations are developed by the central bank and issued to the banks. The banks need to follow all rules and regulations. In this case not all the policies may be favorable. The study helps to find out the unfavorable directives.

With the shortage of data the performance of the bank and its recovery management policy is viewed with respect of non-performing loan to total disbursement. That is, what is the portion of non-performing loan out of total loan disbursed?

The liquidity position of the bank also depends upon the amount of undisbursed amount. The relationship between the total deposit and loan disbursed is identified to determine the undisbursed amount.

Also, depending on the secondary data the relationship between loan loss provision and loan disbursement is analyses.

Therefore, the basic issue of this study is to examine credit policies of commercial banks on Nepal. However, the specific issues of this study are as follows:-

- a. Whether or not the sample banks followed NRB directives related to lending?
- b. Is there any relationship between credit policy and profitability of commercial banks?
- c. What is the total amount of deposit and what amount is disbursed in form of loan?

- d. What is the portion of non-performing loan in total lending?
- e. Are the lending policies favorable to the banks or not?
- f. How does undisbursed amount act as working capital?

### **1.3 Objectives of the Study**

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. The main objectives related to the study are presented below:

- a. To study the lending and recovery policies of selected commercial banks.
- b. To compare and analyze the deposit mobilization.
- c. To measure and compare the total amount of lending.
- d. To analyze recovery management and non-performing assets position

### **1.4 Limitation of the Study**

For the completion of the study, some facts are to be considered as limitation of this research work:

- a. All the analysis in this study has been conducted based on the data available. The study is totally based on the secondary data of the concern banks and published reports of NRB
- b. Tools used in the study have its assumption and characteristic which itself may provided some weakness on the outcome. Assumption are made that the total amount collected as deposit are divided into two parts namely loan disbursed and undisbursed amount. Further the undisbursed amount is used for liquidity purpose.

- c. This study is based on the data of five years period from 2005 to 2010. With the time limitation it was difficult to consider other periods.
- d. Limited resources like time and cost factor have also constrained the study to conduct at a desirable extent.

## **1.5 Organization of the Study**

This study has been organized into five chapters. Chapter 1 is an introductory chapter, which contains background of the study, statement of problems, objectives of the study, limitation of the study and organization of the study. Chapter 2 is concerned with review of literature, which contains framework, review of policy guidelines, review of books, review of related study, research paper and published articles/journals and unpublished master's thesis. Chapter 3 is the most important part of the study. It deals with the research methodology, which is applied to collect the data and analyze them in this study. It contains research design, sources of data, population & sample, data collection technique and data analysis tools. Chapter 4 deals with data presentation and analysis using statistical tools. Chapter 5 is the last part of to study, which provides summary and conclusion, suggestions and recommendations for improving the future performances of the sample banks. Finally, bibliography and appendices are also presented at the end of the thesis work.

## CHAPTER – II

### REVIEW OF LITERATURE

This chapter is concerned with review of literature relevant to the topic “LENDING Policy of Commercial banks in Nepal with reference to NIBL and BOKL”. The literature survey, thus, provides the knowledge of the status of the field research. The chapter begins with conceptual framework of the study and also provides an overview on the policy and guidelines associated with lending policy of commercial banks prescribed by NRB directives.

#### 2.1 Conceptual Framework

This chapter briefly focuses on the theoretical concept of the loans and advances and its relation with other subject matter in relation to banks.

#### Meaning of Some Important Terminology

The study in this section comprises of some important banking terminology for which efforts have been made to clarify the meaning, which are frequently used in this research work. They are as follows: -

**1. Deposits:** - Deposits are the most important source of the liquidity for each commercial bank. For financial strength of banks, it is treated as a barometer. In the word of Eugene, “a banks deposit is the amount that it owes to its customers.” A deposit is the lifeblood of the commercial banks. Even though, they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits. For accounting and analyzing purpose, deposits are categorized in three heading. They are -

) **Current Deposit/ Demand Deposit:** - The deposit in which an amount is immediately paid at the time of any account holder’s demand is called

demand deposit or current deposit. The bank does not provide interest in this deposit.

) **Saving Deposit:** - The bank can collect fund through the saving deposit. According to Commercial Bank Act 2031, Saving Account means, “an account of amounts deposited in a bank for saving purposes”. Generally, in saving account there are certain restrictions like maximum amount that can be deposited and on withdrawal of the amount also. In this type of deposit, customers get some interest on the deposit.

) **Fixed Deposit:** - According to the Commercial Bank Act 2031, Fixed Account means “an account of amounts deposited in a book for certain period of time. The customers opening account deposit their money in this account for a fixed period. It is also called time deposit because this amount is deposited for a certain period. The rate of interest is higher than the saving or other account as the banks use this amount for making investments and granting loan and advances.

**2. Loans and Advances:** - Commercial banks main functions are to create from its borrowed fund. Loans and advances dominate the asset side of the balance sheet of any bank and constitute the primary sources of income to the banks. Loans and advances may take different forms and are allowed against various types of securities. Loans, overdraft, discounting of bills of exchange etc. are some of the forms of bank lending. Granting loans and advances always carries a certain degree of risk.

**3. Past Due/ Overdue:** - An amount due under any credit facility is treated as past due or overdue when it has not been paid on the due date fixed by the bank.

**4. Loan Classification:** - Though all the loans are good at the time of disbursement with the passes of time, they show the sign of problem. Based on the health of loan, the loan should be classified and provided accordingly. In

the context of Nepal, according to NRB guidelines, loans are classified into four categories. They are Pass, Substandard, Doubtful and Loss.

**5. Events-of-Default:** - When the borrower violates the terms and condition of a loan agreement, after receiving loan, such situation is called the event-of-default. Event-of-default can be divided into two parts: Willful defaulter and Non-willful defaulter. In the part of loan agreement, it should be specified that what actions the bank is legally authorized to take in order to secure the recovery of its funds, incase the borrower violate the terms of loan agreement.

**6. Performing Loans:** - Good loans and advances are called performing loans. Performing loans are those that repay principal and interest to the bank from the cash flow it generates. Only loans falling under 'PASS' category is termed as "Performing loans". Pass category is known as, all loans and advances the principal of which are not past or past due for a period up to 3 months.

**7. Non-Performing loans/Non-Performing Assets:** - Non-Performing loans are those loans that do not repay principal and interest to the bank timely. Loans falling under 'Substandard', 'Doubtful', and 'Loss', categories are termed as "Non-Performing loans". The details and classification standards of non-performing loans vary from country to country as the country put in place norms as per the requirements of their own banking system. The ratio of NPL's is derived through dividing the total amount of non-performing loans by total outstanding of loan and advances.

**9. Loan Loss Provision:** - There is associate risk in every loan. To minimize the risk from possible losses of these loans bank has to allocate some funds as loan loss provision. Loan loss provision is made as cushion against possible losses and to reflect the true picture of banks assets. Hence, there is a practice of showing net loss (total loan – loan loss provision) in the financial statement instead of gross loan. The level of provisioning is depended upon the level of NPL's and their quality. The ratio of provision may differ from nation to

nation. In the context of Nepal, NRB has prescribed 1%, 25%, 50% and 100% provision for Pass, substandard, doubtful and loss loans respectively.

### **Concept of Credit:**

The word “Credit” is derived from Latin word ‘credo’. In Latin, language the meaning of ‘Credo’ is ‘I believe’. Generally, credit signifies belief on circumstance or situation. Based on the belief banks provides much more loan on limited resources. Therefore, credit is the loan provided by the bank with its resources based on belief.

According to **G.D.H.** “Credit is purchasing power not derived from income, but created by financial institutions either as an offset to idle incomes held by depositors in the bank, or as a net addition to the total amount of purchasing power”.

According to Singh (2062), Credit means a direct or indirect promise to invest money and the right to recover such amount of investment in return and the interest of such credit or payment of other charges, the refinance given against the security of creditor investment, credit restructuring and renewal of credit, the guarantee made for repayment of credit or any those promise for such repayment, and the word also includes any type of debt”.

### **Criteria for providing loan**

To put in simple words when a loan is made the following 5 C’s of Credit needs to be evaluated:

**1. Character:** - Responsibility, truthfulness, serious purpose, and serious intention to repay all money owed make up what a loan officer calls character. First, the loan officer must be convinced that the customer has a well-defined purpose for requesting bank credit and serious intention to repay. The loan officer must determine that the borrower has a responsible attitude towards using borrowed funds and is truthful in answering the banks questions. If the

loan officer feels the customer is insincere in promising to use borrowed fund and in repaying as agreed, the loan should not be provided to the applicant.

**2. Capacity:** - Capacity refers to the borrower's ability to generate sufficient cash flow from normal operations to meet future obligations. It needs to be analyzed whether the business has the resources (funds, income and revenue) to repay the debt. The business should be sound enough to generate profit, which is sufficient for not only repayment of bank loans but also provides reasonable return for the promoters. Here the ability of the individual to repay the loan and interest in time is observed. Only on the fruitful business the investment is done.

**3. Capital:** - It represents the funds retained in the borrowing entity to provide a cushion against unexpected losses. A strong equity position will provide financial resiliency to help a firm whether periods of operational adversity. Capital is often looked at as the amount of money that you have invested into your own business. A financial lender or an investor may be curious as to why you are seeking financial assistance using your own assets. Many lenders or investors also want to know if you plan to use your own money to help your business succeed when needed.

**4. Collateral:** - Collateral is the security proposed by the borrower. The loan officer must answer the question: Does the borrower possess adequate net worth or own enough quality assets to provide adequate support for the loan? The loan officer is particularly sensitive to such features as the age, condition and degree of specialization of the borrower's assets. Collateral always plays an important role in the process of loan disbursement. A detailed documentation work is fulfilled regarding against the collateral of the individual seeking loan.

**5. Condition:** - The credit analyst must be aware of trends in the borrower's line of work or industry. It must be clear that how the changing economic conditions might offset the loan. A loan can look very good on paper, only to have its value wear down by declining sales or income in a recession or by the

high interest rate occasioned by inflation. The external situations always hamper the loan disbursement system.

**Principle of Credit Policy:**

A banker has to follow a cautions policy and conduct the business of lending based on certain sound principles. These principles are as follows: -

**1. Principle of Safety of funds:** - A banker first duty is to see that money, which it lends, comes back to him. Scrupulous care must be taken to see that the funds lent are not subject to any undue risk of being lost due to deployment for unproductive or speculative ventures or due to dishonesty of the borrowers. The recovery of banks money will not only be safe at the time of lending but will remain so throughout.

**2. Principle of liquidity:** - Liquidity means short-term solvency of the borrower. A banker is essentially the lender of short-term funds because he knows that the bulks on his deposits are repayable on demand. A banker ensures that the borrower employs money for his short-term requirements and not in fixed assets, which take a long-term finance, generally, term lending institutions come to the rescue of the borrower.

**3. Principle of Security:** - It acts as cushion to grant advances and credits. Adequate values of collaterals ensure the recovery of credit correctly at the right time. Accepted security should be readily marketable, handy and free from encumbrances.

**4. Principle of purpose of Credit:** - Banks and other financial institutions must examine study why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have heavy bad debts. Therefore, they should collect detailed information about the plans and scheme of the borrowing.

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

**6. Principle of Spread:** - One of the tools of management of risks is to spread his advances portfolio not only among many borrowers but also to diversify lending to different types of industries and against different types of securities. A banker who puts all his eggs in one basket is not a prudent banker.

**7. Principle of National interest:** - An advance may satisfy all the previously mentioned cardinal principles of good lending and still may not be desirable, if it runs counter to national interest. Purpose of advances, priority given by government and national interest is assumed greater importance than security, especially in priority sector lending.

## **2.2 Review of NRB Directives on Classification of loan and Provisioning**

Nepal Rastra Bank has issued Unified Directives to banks and financial institutions for implementation effective 2062.4.1 (16 July 2005). This also contains the new directive (No. 2) concerning classification of loan portfolios and provisioning. Except a few important changes, this directive has retained most of the previous provisions.

### **Classification of Loan and Advances**

The classification criteria area as follows:

- (a) **PASS** Category: All Loans and Advances the principal of which are not past due or past due for a period up to 3(three) months. Only loans falling under PASS category are termed as “Performing loan”

- (b) **SUBSTANDARD** Category: All loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months.
- (c) **DOUBTFUL** Category: All loans and advances the principal of which are past due for a period of more than 6 months and up to 1 (one) year.
- (d) **LOSS** Category: All loans and advances the principal of which are past due for a period of more than 1 (one) year.

The respective overdue periods of PASS, Sub-Standard and Doubtful loans shall be considered for higher classification from the next day of the date of expiry of the overdue period provided for each category.

Lending institutions are not restricted from classifying the loan and advances from low risk category to high-risk category. For instance, 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 deposited receipts, Credit Card and against security of HMG 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 HMG 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 clarification issued by Nepal Rastra Bank earlier, loans 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 basis of amount due period.

Means, where the interest on working capital loan is not serviced regularly, such loans will be considered as “overdue” and qualify for classification on the basis of the overdue period. Accordingly, working capital loan will simply 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.

### **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 “Loss loan”.

(a) Loans 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 or 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, be classified into LOSS loan where they are not realized within 90 days from due date. This is departure from the normal classification rules applicable to other loans. According, Bills will have only two-classification viz., PASS and LOSS. The directive is not clear as to treatment of bills the amount of which is transferred to a separate loan account before expiry of 90 days and remain unpaid for more than 90 days.

(e) Misuse of credit,

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

(f) Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.

(g) Loans provided to the borrowers included in the blacklist of credit information Center,

No loans can be provided to a Black listed person, firm, company. Such an act shall be punishable under NRB Act with imposition of equivalent amount in fine. However, where a borrower is black listed through other bank or financial institution, the lending institution may provide loan loss provision according to its own classification of the loan or facility provided (*earlier*) to such borrower.

(h) Project/Business is not in condition to operate or not in operation.

The requisite condition is “not in operation 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 card loan is not written-off within the 90 days from the due date.

### **Additional Arrangement in Respect of Term Loan**

In respect of term 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 due 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 the 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 construed as prohibitive for recovering the principal and interest by debiting the customers' account. Where a system of recovery of principal and interest by debiting the customer's 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 *Directives No. 4*.

Income recognition directives require that all interest accruals on loans shall be recognized on cash collection basis only. The above directive allowing the

settlement of “overdrawn” account within one-month period has led to believe that such accrued interest may be recognized if paid within a month’s time.

Under this clause, Banks and financial institutions may debit the borrower’s current account, irrespective of the balance available, of recovery of interest and principal. By doing so, it may buy a month’s time for collecting the same. This may save the lending institutions from requiring classifying the loan to a higher category. However, in respect of the interest, the cushion is not available since the directive has expressly mentioned that the recognition of interest shall be on cash basis only (*Directive No. 4 and 15*).

### **Letters of Credit and Guarantees**

In the event of conversion of contingent liabilities e.g., letters of credit, guarantee and other contingencies, into the fund base liability and required to make payment, such amounts shall be classified as PASS loan up to 90 days from the date of conversion. Such credit facility shall be classified as LOSS loan if not realized within 90 days.

The above provision basically covers the guarantees provided by banks and financial institutions that are converted into funded facility on account of non-fulfillment of the obligations by the customer. Letters of credit not retired or failure to fulfill the guaranteed activities etc. by the customers resulting in the liability of banks and financial intuitions come into this category. A general confusion that remains is whether the letters of Credit settled by converting the amount into Trust Receipt loan, which are not paid within 90 days of such conversion, qualify to be categorized as LOSS loan. It is opined that since the Trust Receipt loans are a different type of facility provided to the customers, such conversion should not be termed as conversion from Non-Funded facility to funded facility.

## **Loan Rescheduling and Restructuring**

(1) Loans may be rescheduled or restructured only upon submission of a written plan of action by the borrower, which is resurrecting 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 limits.

(2) 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.**

(3) 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 His Majesty’s Government, Ministry of industry, Commerce and Supply after recovery of 12% accrued interest and completion of all necessary procedure, provision for loan loss at a minimum of 25% will be 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 terms of rescheduling or restructuring may be as per the understanding between the BFI and the borrower. This is true even in the case of recommended sick industries.

At least 25 percent of total accrued interest up to the date of rescheduling or restructuring (12% for sick industries) should have been collected. In such a

case, the classification of the loan will remain in the current position. However, where rescheduling or restructuring is done against collection of ALL INTEREST – meaning all outstanding interest-, the loan (principal) will be eligible for classification under PASS category. However, it is not clear as to the requisite treatment where portion of interest is waived and balance is collected in full. Where the lending institutions agree to waive interest accruals, the same has to be accounted, first to facilitate calculation of 25% (or 12%) 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/rescheduling.

### **Loan Loss Provisioning**

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

<b>Classification of loan</b>	<b>Loan Loss Provision</b>
Pass	1 Percent
Substandard	25 Percent
Doubtful	50 Percent
Loss	100 Percent

*Source: www.nrb.org.np*

(2) Provisions on restructured or rescheduled loans shall be made as follows:

(a) A minimum of 12.5% provision shall be made on restructured or rescheduled loans.

(b) In respect 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 of 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 in classification to lowest risk category (PASS) is not prohibited. However, such rescheduled loan shall require provisioning of at least 12.5%. The upper limit of such provisioning requirement is not specified even if a LOSS loan is reclassified and categorized as PASS loan. However, 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 of minimum 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% interest(in other case, it is 25%).At the same time, the provisioning is required at minimum 25% (in other cases it is 12.5%).*

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

However, in case of insured loans, the provisioning requirement will be only 25% of the prescribed normal rates.

Concessional provisioning is not limited to priority/deprived sector and small/medium industries only as was the case earlier. The condition is purchase of insurance cover. Accordingly, all loans, including priority sector/deprived sector, not covered by the insurance (presumably with Deposit Insurance and

Credit Guarantee Corporation) fall under normal category. The norms of classification remain same for these loans and advances also.

In the case of rescheduling, restructuring of insured credit, the proportion of loan loss provisioning would be 3.125% (being 25% of 12.5%). However, in the case of recommended Sick Industries, the minimum provisioning requirement is 25%, and accordingly in case of rescheduling, restructuring of insured credit of recommended sick industries, the minimum provisioning requirement will be 6.25% (25% of 25%).

(4) Where the loan is extended only against personal guarantee, a statement of the assets, equivalent to the personal guarantee amount not claimable by any other, shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of Pass, Substandard and Doubtful, in addition to the normal loan loss provision applicable for the category, an additional provision by 20-percentage point shall also be provided. Additional loan loss provision as above shall also be provided for the loan which is partly covered by collateral of physical assets and personal/institutional guarantee is obtained to cover the shortfall. Classification of such loan and advances shall be prepared separately.

By virtue of above, the loan loss provision required against a personal guarantee loan will be 21%, 45%, and 70% for Pass, Sub-Standard and Doubtful category respectively. Such an additional loan loss provisioning will be required where loan is extended against the personal guarantee only without having obtained other form of collateral. The directive also requires additional provisioning where the value of partial collateral falls short of the loan amount and partially covered by personal guarantee.

### **Some Additional Notes on Provisioning**

The Unified Directives has withdrawn provisioning requirement at double the rate against credit and non-funded facilities extended to the Promoters or

Shareholders in the Promoters Group of the bank holding less than 1% of the total issued capital. Now, such facility is entirely prohibited and disclosure is required of facilities extended earlier.

A cent percent loan loss provisioning shall be provided for the amount due from blacklisted person, firm, company or organized institutions. Where such provisioning is found to have not been maintained, the concerned Chief Executive Officer shall be imposed with a penalty of up to Rs. 500,000 under Section 100(2) (c) of Nepal Rastra Bank Act, 2058.

Lending to the family members of any black listed individual shall require provisioning at double the required amount under the existing arrangement. However, provision in excess of one hundred percent shall not be necessary.

The full amount of excess provisioning made against the pass, substandard, doubtful and bad loans than those prescribed by Nepal Rastra Bank, as well as loan loss provision made against restructuring and rescheduling loan can be included as the additional loan loss provision under supplementary capital. However, the total of above loan loss provisioning amount shall not exceed 1.25 percent of the total Risk Weighted Assets.

Where the financial guarantee is not provided as prescribed such guarantees shall be liable for provisioning at 100%.

Where a licensed institution has extended loan or facility to one customer, firm, company or group of related borrowers in excess of the prescribed exposure limit, such excess credit or facilities shall be provided with cent percent additional loan loss provisioning to cover the concentration risk.

In the event of directives issued by Nepal Rastra Bank, an additional loan loss provision shall be provided at 100% for excess concentration in a sector of the economy.

## **Adjustment in Provisioning**

(1) Except under the following cases, adjustment of loan loss provision is prohibited:

(a) The loan has been completely written off. This may be on account of part recovery and part written off. The requirement is complete wipe out of loan portfolio.

(b) In the event of repayment of installment or partial payments of loan, the loan loss provision has to be provided as per loan classification and write back the provisions related to the amount of repaid loans.

*By virtue of this, adjustments in loan loss provision amount are permitted where the entire loans and advances have been classified and adequate provision is made against the same.*

(c) Where the installment of principal and interest of restructured or rescheduled loan is serviced regularly for two consecutive years, the loan loss provisioning may be adjusted. However, the amount adjusted by writing back the loan loss provision cannot be used for distribution of dividend or issue bonus shares by showing in the profit.

*By virtue of this, though rescheduling/restructuring of loan is possible, the advantage in terms of writing back previously provided loan loss provisioning would not be available unless service is regular consecutively for 2 years.*

*The written back provisioning amount against rescheduled or restructured loans cannot be used for distribution of dividend or even issue of bonus shares. It is not time bound, simply a not-permitted activity. How long this has to go is also not specified. The accounting treatment of this needs clarification from Nepal Rastra Bank. Even if the "Profit" arising on account of provisions written back is not distributed, it will have to be capitalized into Retained*

*Earnings. This will require maintenance of records so that the bonus issue at a later stage, if any, does not “consume” the provision written back amount.*

**Loan Loss Provision Relating to Non-banking Assets**

(1) For all non-banking assets acquired by the licensed institutions up to FY 2059/60, where the assets were not disposed off in three years after the FY 2059/60 i.e., up to FY 2062/63, provisioning for loss on such non-banking assets shall be provided at one hundred percent within 3 fiscal years, as follows:

<b>Fiscal Year</b>	<b>Provisioning for loss</b>
FY 2060/61	33.33%
FY 2061/62	66.67%
FY 2062/63	100%

*Source: www.nrb.org.np*

(2) For all non-banking assets acquired by the licensed institutions during 2060/61 and thereafter, provisioning at 25% shall be provided in the year of acquisition, and provide as follows within subsequent 3 fiscal year:

<b>Year</b>	<b>Provisioning for loss</b>
First Year	50%
Second Year	75%
Third Year	100%

*Source: www.nrb.org.np*

(3) In case of disposal of the non-banking assets, the existing provision against such assets may be adjusted in the Profit and loss Account in the year of sale of such assets.

*Once it is decided to hold the property by the lending institutions themselves, the loan account shall have to be adjusted with the value assigned for the assets assumed. The existing provision on such loan may be utilized for the purpose of provisioning against non-banking assets. Where the loan carry 100% provisioning, and non-banking assets require provisioning of less than that amount (first year 50%), it gives room for a possible manipulation to recognize the difference in provisioning into the income. The directive has not specifically prohibited this manipulation. Further, since the loan loss provision thus written back is not considered as “adjustment on account of rescheduling or restructuring”, such amount is also not prohibited for distribution of bonus shares or dividend.*

*The directive is silent as to the provisioning and income recognition where the lending institutions decide to utilize the properties for their own use. Accordingly, in such cases the prevailing rules apply- meaning no provisioning shall be required.*

## **2.3 Review of the Banking Legislation**

Nepalese financial system is under regulated environment. Banks are given autonomy to allocate their resources in the most efficient manner. At the same time, they are also

required to abide by the mandatory circulars and directives issued in different areas. The underlying philosophy is that banks should be free to allocate their resources according to market forces and shall be entitled to set terms and conditions for their operations in a competitive environment.

However, strict regulatory norms should be set for bank behavior in order to protect depositors and other creditors and the financial system as a whole.

Pursuant to this, the objective of bank supervision in Nepal is to promote and maintain the safety, soundness, and integrity of the Nepalese banking and financial system; while promoting confidence in the financial system through the implementation of policies and standards that are considered best in international practices. It's on the part of Nepal Rastra Bank to strengthen and ensure the stability and soundness of the banking system. Further the bank is also equally responsible, together with banks and financial institutions to raise public confidence in the banking system. For this, the Bank Supervision Department is performing on-site examinations, off-site surveillance & analysis and policy and guidelines formulations in different issues for the achievement of the department's objectives.

In performing the above role, the Bank, through the Banking Supervision Department strives to ensure compliance with the Bank and Financial Institutions Act-2006 (BAFIA-2063) by banking institutions under its jurisdiction. In order to achieve the role of protecting the interests of depositors, Nepal Rastra Bank has crafted a number of prudential requirements to be complied with by banking institutions. The prudential requirements advised on banking institutions are designed to limit risk taking to levels that are manageable and that do not place the individual banking institution and the banking system at risk.

In addition to other prevailing laws of the country, the main legislative framework for supervision function includes:

- Nepal Rastra Bank Act, 2002 (2058)
- Bank and Financial Institutions Act, 2006 (2063)
- Company Act, 2006 (2063)
- Supervision By-laws, 2002(2059)
- Directives to commercial banks and financial institutions

- New Capital Adequacy Framework, 2007

NRB has continued to review the relevant legislations and regulations in 2008/09 in order to put in place up-to-date regulatory framework that meets international standards and resolves the issues of the banking industry.

## **2.4 Review of Related Studies**

In the view of Dahal and Dahal (2000), “Banks offers credit facilities to the borrower; it is always subject to the terms and conditions stipulated in the conditions which can be lenient or stringent depending upon the bargaining capacity of the bank and the borrower, but no way detrimental to the interest of the bank”.

Singh (2063) expresses his opinion as, “In bank, lending is the most risky business among all. There is no risk in collection of deposits but only small careless or mistake in the loan portfolio and procedure can shock the bank profitability and survival, when bank is unable to recover the loans with interest. Therefore, there should be well-managed regulations lending aspect of bank. Such regulations should be strictly followed while evaluating the loan proposal and providing loans”.

According to Shrestha (1995), “The Commercial banks fulfill the credit needs of various sectors of the economy as well as the investment on securities, whether it is government or non government. The lending policies of commercial banks are based on the profit maximizing of the institution as well as the economic enhancement of the country.”

National Association of Credit Research(1965) have expressed, “Dynamic credit management requires, addition to expertness in all the technical phases of credit, the ability to analyze, plan and develop objectives, policies and program, build an organization, to delegate responsibility and maintain accountability for result, review and appraise operations for conformity with

objectives, policies, standard and practices and effect remedial action wherever and whenever required”.

According to Beckman, and Bartels. (1995), “Credit management is on the lowest administrative level, the person holding the position of credit manager or its equivalent is responsible for the actual extension of credit in actual in analyzing requests, conducting investigations, evaluating risks, setting limits and referring credits to higher authority. Making collections is another chief duty, which entails maintenance of controls, following up accounts, calling upon customers, representing the company at creditors meeting and supervision of collection correspondence”.

Gambacorta and Margues (2011), “The 2007 -2010 financial crisis highlighted the central- role of financial intermediaries stability in buttressing a smooth transmission of credit to borrowers .while results from the years prior to the crisis often cast doubts on the strength of bank lending- Channel recent evidence shows that bank specific characteristics can have a large impact on the provision of credit. Banks with weaker core capital positions, greater dependence on market funding and on non-interest sources of income restricted the loan supply more strongly during the crisis period.

According to Economic Research Division of the Federal Reserve Bank St. Louis,(2010), “In a rational profit-maximizing world, banks should maintain a credit policy of lending if and only if borrowers have positive net present value projects. Why then a changes in the condition of those demanding credit? The report argues the rational bank managers with short horizons will set credit policies that influence and are influenced by other banks and demand side condition .This leads to a theory of low frequency business cycles by bank credit policy.

Tor and Kasper (1998), “In this paper, the bank decision model is been examined. The bank provides loans in a way that is not consistent with default risk minimization. The lending policy must thus either be inefficient or be the

result of some other type of optimizing behaviors that expected profit maximization value at risk being a value weighted sum of individual risk, provides a more adequate of monetary losses on a portfolio of losses that default risk.

Chatterjee (1982) express as “Bank credit serves two functions. It helps to bridge the resources gap of customers and acts as a catalyst to stimulate increase mental production/ sales and income. The banker’s judgment of his customer’s integrity plays a crucial role in his decision to lend or not to lend”.

He further states, “Successful lending, thus, depends upon careful selection of the customer, proper appraisal of his credit needs and adequate control to ensure that his dealings with the bank are above-board and that he is complying with the terms and conditions on which credit has been sanctioned to him”.

Radhaswami, & Vasudevan, (1979) expresses their opinion, “The mechanism of credit creation is used to expand the business. Fluctuation in the credit facilities granted by banks has an important bearing on the level of economic activities. Expansion of bank credit is followed by increased in production, employment, sales and prices. In a developing economy, the banks offer more and more bank credit and increase the recourses of the industries, thereby causing faster economic development. The credit facilities extended by banks must be uniform and rational; otherwise, there will be haphazard development of country. The flow of credit is very much like the circulation of blood. Just as the circulation of blood, ha to be smooth and uniform throughout all the organs of the human body, so also credit should flow steadily and evenly through various sectors of economy. If credit flow is artificially plugged or arrested, it would do irreparable harm to economy just as clotting of our blood vessels would lead to fatal results”.

In the view of Reed, Cotter, Gill and Smith (1980), “Commercial banks perform a very important service to all sectors of the economy by providing facilities by lending and investing activities to the people. The primary function

of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service, through their actions production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same”.

According to Mathur (1990), “Bank Credit constitutes an important component of resources. Thus, deployment of credit has to be properly planned to match with national planning objectives and targets. With a view to better and optimum utilization of bank credit, it is necessary for periodical estimation of the need for credit expansion in consonance with national priorities. There was lack of any systematic attempt in the direction of proper credit planning by commercial banks”.

Clemens (1963) expresses his opinion, “The main function of the banks has been to mobilize surplus credit and put it to work by careful lending. And if the once clear pattern of idle credit balances in the agricultural districts and heavy lending in the developing industrial areas how now become blurred, the traditional work of the banks, as mobilizes of credit, persists”.

Baxley (1987) writes, “It is obvious to most bankers that lending is the largest source of revenue for most banks. However, it is not as equally apparent that the bankers realize lending also provides the greatest exposure to loss of bank assets. This does not imply that there is a need for management to look at each and every detail that goes into every loan”.

In the view of Shekher & Shekhar (1999), “Two essential functions of commercial banks may be best summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then it provides this money to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. Thus, the primary function of commercial banker is that of a broker and a dealer in money. By

discharging this function efficiently, a commercial banker renders a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development”.

In this subject, effort has been made to examine and review some of the related Studies.

Prof. Koirala (2006) in his article, “Credit Culture of Commercial Banks in Nepal”, has concluded that, the unorganized moneylenders in Nepal never loose. They used to assess the record of accomplishment of potential borrowers and innocent characters termed as the best borrower. The bank, on the other hand, is institutions established to support and improve development process of a nation. The politicians and the staff have been responsible for the existence of huge volume of NPA in state owned commercial banks. In order to improve the situation, there is a need to evolve a more acceptable working system backed by cooperation and realization by the banks employees as well as the politicians and stakeholders, who can influence in banks operation.

Garg (2063) in his article, “Principles of Lending and Credit Culture at Rastriya Banijya Bank”, has concluded, a bank’s credit culture is the unique combination of policies, practices, experience, and management attitudes that defines the lending environment and determines the lending behavior acceptable to the bank. Loans are not be made unless there is a demonstrated capability for repayment. Lending culture can take cash flows as opposed to security. Every credit must be subject to rigorous analytical scrutiny of the customer’s repayment capability prior to approval, and on an ongoing basis following approval. There can be no exceptions to the basic principles of lending.

Dhungana (2006) in is article, “Problems of NPL’s and the need of financial discipline in the Nepalese Banking System”, has concluded that ,Poor credit management and deterioration in the quality of loans give birth to non-performing assets i.e. NPL’s. The internal measures play significance role to

control the growth of NPL's. Best credit practices, culture and policies are required to strengthen the internal factors. The banks should have a proper system and competency on risk management and should insure that risk are accurately identified, assessed and controlled properly. A proper risk management is undoubtedly an important tool for a good banking and NPL's management.

He further states, it can be expected that the financial sector reforms will lower down the level of NPL from the existing level and strengthening the bank and financial institution internally to manage the credit portfolio efficiently and support will be continued to make a good credit culture in the system.

Kshetry (2057) in his articles, "Non-Performing Assets: A Need for Rationalization", has mentioned financial institutions are best with the burden of mounting of NPA's in developing countries. Such assets debar the income flow of financial institutions while claiming additional resources in the form of provisioning thereby hindering further gainful investments. Management aspects of banks and financial institutions have no less responsibility than the entrepreneurs themselves. Diversion of funds and under capitalization of projects might have contributed to amass the level of NPA's. Concerted efforts to lessen the burden of NPA's do not include 'ever greening' process but adequate provisioning and administrative measures like debt recovery tribunals should be prepared to solve the cases speedily. Rising level of NPA's cannot be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth.

Dr Bhandari (2005) in his article, "Etiology and Strategy of Credit Repayment", has concluded that lending agencies should adopt several strategies for achieving their target of credit repayment. However, before enforcing coercive actions against entrepreneur and the enterprise, the banks

and the lending agencies should follow a series of liberal strategies for recovering their loans”.

Bista (2053) in his article, “Issues in Banking Reforms”, has mentioned that the health of banks could be protected through financing of good clients and by restricting outreach to unwanted or undesirable clients through proper functioning of credit information bureau. However, credit information bureau is a voluntary organization under Nepal Banker’s Association to which even big banks do not provide credit information. Therefore, credit information bureau should be institutionalized and made strong by a separate Act.

He further adds banks loan recovery could be significantly imposed if a separate Debt Recovery Tribunal is established under a separate Debt Recovery Act. Even, there should be provisions for dealing with defaulting clients or borrowers and declare those clients or borrowers as insolvent and bankrupt under the bankruptcy provision.

Khadka (2004), in his thesis paper “Non-Performing Assets of Nepalese Commercial Banks” Provides details information about the non-performing assets of the related banks and the provision related to the non-performing assets of Nepalese Commercial banks. Significance, of this thesis is that it is able to overcome through the following questions passed in research; Whether or not Nepalese Commercial banks is following NRB’s regulations/directives regarding their lending, especially to maintain the provision? In addition, how does non-performing assets effect on return on shareholders’ equity and return on total assets? The study is based on secondary data, which may or may not provide exact vision of the field. The tool used is correlation analysis.

This thesis analysis has found that no one bank has been maintaining loan loss provision as per requirement of NRB’s directives. It may create legal hassles to the bank. It express that fundamental change are necessary to cover such system but what exactly is the fundamental change has not been explained. Recommendation of taking the loan and feasibility of the loans should be

carefully analyzed. The liquidation of collateral does not turn out to be as simple as it sounds.

Maskey (2004), in his thesis paper, “A Study on Lending Performance with reference to Nabil Bank Ltd., Standard Chartered Bank Ltd. and Nepal Investment Bank Ltd.”. The thesis give the objective of studying the relationship among different financial indicators relating to loans and advances, total investment, profitability, deposit and non-performing loan in commercial banks under the study. In this study, financial and statistical tools are used. The data used in this research is mainly secondary nature and extracted from the annual reports of concerned banks and website of Nepal Stock Exchange.

Conclusion is given as the banks are following NRB guidelines of loan classification and provisions which make bank financially strong instead of holding high volume of NPA's is addition to all the guidelines followed of NRB and the banks internal policy. The thesis is missing to give the fact of why the non-performing rates are not being relatively affected beyond the precautions of the banks to keep the collateral. Also primary data collection is limited through the questionnaire with banking officials only. The actual lender opinion about lending policies is missing.

Shilpaka (2004) in her thesis paper “A study on lending practices of finance Companies of Nepal”. The main objective is of highlighting the fact regarding lending & recovery and highlighting the NRB directives regarding loans and advances. The tools used in the thesis are financial and statistical tools.

This thesis is able to fulfill its objectives of what a loan actually is. What are the principles of good loans? Quality of loans is objected to highlight. To measure the lending performance in quality, efficiency and its contribution in profitability secondary data are used. The liquidation of collateral, as regarded as security against the loans and advances is one very tedious job. Realization of default loan from the liquidation of collateral does not turn out to be as simple as it sounds Qualitative analysis comes only on the theoretical base. A

huge amount of primary data is necessary to be collected to fulfill the objective of qualitative analysis.

Parajuli (2004) has concluded his study entitled, “Credit Management of Commercial Banks in the context of financial reform Program”. The researcher main objective was to study procedure of granting loans, to find out relevancy of the financial sector reform program, to examine the level of NPL’s. The data used in this research is both primary and secondary data. Financial and Statistical tools are used in this research.

This research analysis has found that there should extra cautions for the financial liberalization and reforms of the financial sector. Therefore, financial sector reform program policies are equally viable to the private and public bank too. This thesis recommended that more focus should be given to improve the credit management of NBL such as credit granting procedures, updating the credit files, value of collateral and marinating the loan loss provision adequately.

In this research, the differ4eent procedures while granting loans and the loan loss provisions are missing.

Maharjan (2005) has carried out research on “Loan Management of Nepalese Commercial Banks” has examined the loan management of the commercial Banks in Nepal”. The main objective of the study was how far the banks are investing in the priority sector and the deprived sector. The trend of the deposit and the loan, Loan loss provision made by banks. The data used in this research are secondary data and tools are statistical.

The researcher concluded that loan and advances are the profitable assets for the banks and it s very risky too. Due to this reason, the loans and advances should be effectively managed and controlled. The recommendation was to follow the NRB directives because thinking the beneficial in terms of the banks

and the strength the financial condition of the country directives should be made.

In this research only how to lend is discussed but the recovery management is missing.

Shahi (2004), in his thesis paper, “Lending Operation and Practice of Joint Venture Banks in Nepal”, has examined the lending operation and practice of joint venture banks. The main objectives of the research is to determine the liquidity position, to measure the bank’s lending strength, to analyze the portfolio behaviors of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector. The data used in this research is of secondary type and tools are financial and statistical.

This research has concluded that the high volume of liquidity shows that the high degree of lending strength has been prevailing in all of these banks. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping these banks to less orient towards the lending function. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in rural economy.

Bist (2004), in his thesis paper “NRB Directives Implementation and its Impact on selected Commercial banks in Nepal” has examined the impact to the changes in the NRB directives on the performance of the commercial banks. In addition, an effort was made to find out if the directives were implemented and that if NRB was taking enough steps to monitor the implementation. The study is limited to only HBL, SCBL, BoKL and Nabil Bank Ltd.

This thesis concluded that the changes in the directives would bring prosperity not only to the shareholders but also, to the depositors, the employee and the economy of the country as a whole.

The recommendation was commercial banks have to come up with a stronger internal audit department to make sure that the directives are properly

implemented. Banks need to give priority in Human Resources Development to monitor and collect already disbursed loans. NRB should be more practical while issuing the directives. The directives should not be issued to meet the international standard only but also, they need to be applicable in the context of Nepal.

The major gap in this thesis study is that this study is related to analysis of implementation and impact of NRB directives of commercial banks in Nepal. So, the additional research can be made on the study of implementation and impact of NRB directives in finance companies.

According to *The Journal of Economic History*, (Jun., 1985), "The basis for granting credit is deciding who is worthy of trust.

Indeed, the phenomena of credit rationing the unavailability of credit at any price to various groups of potential borrowers, is a matter of continuing controversy in economics. Several factors govern the rationing of credit:

- ) Imperfections in the market or credit. These include imperfect information and prohibitively high information cost about some groups of borrowers (for example, individuals with no credit history.
- ) Oligopolistic tendencies of the usually small number of credit institutions in a given setting. A small number of individuals can control all the credit institutions in a given local preventing other from operating such institution and making decisions on personal rather than financial bases.
- ) Ceilings on interest rates, either by law or custom.

## **CHAPTER-III**

# **RESEARCH METHODOLOGY**

Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Kothari CR (1990) defines, “Research methodology as the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view”. Thus, the overall approach to the research is presented in this chapter. This chapter consists of research design, population and sample, sources of data collection procedure, data processing and presentation and statistical tools used for data analysis.

### **3.1 Research Design**

This study has adopted descriptive and core prescriptive research design. Historical secondary data have been used for analysis. In this research design the researcher has conducted the research, searching for new data, analyzing the data, and getting new knowledge. For the purpose of the research work secondary data are compiled, processed and tabulated in time series. And to judge the reliability of data provided by the banks and other sources, they were compiled with the annual reports of auditors.

### **3.2 Populations and Sample**

Population refers to the institutions of same nature and their services and product is general. A sample is a collection of items or elements from the population.

Till mid-July 2010, there are 30 commercial banks in Nepal. All the banks conduct the credit culture functions. It is not possible to study the credit culture activities of all the commercial banks. So, among the 30 commercial banks two banks namely NIBL and BOKL have been selected as a sample.

### **3.3 Sources of Data Collection Procedure**

This study is conducted on the basis of secondary data. The data relating to the deposit, loan disbursed & loan loss provision are directly obtained from the balance sheet and profit and loss account of the concerned banks. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, Security Board of Nepal, Nepal Stock Exchange Ltd., Ministry of Finance etc. All the secondary data are compiled, processed and tabulated in the time series as per need and objectives.

### **3.4 Data Processing and Presentation**

The data obtained from the different sources are in raw form. The raw data is processed and converted into the required form. For this study, required data are taken from the secondary sources and presented in this study. For presentation, different tables and figures are used. Besides primary data collected from different sources, are also presented whenever required. Computation has been done with the help of scientific calculator and computer software program.

### **3.5 Statistical Tools used for Data Analysis**

In order to get the concrete results from this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on

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

### **3.5.1 Growth ratio**

Growth ratios are directly related to the fund mobilization and investment management of a commercial bank. Growth rate here calculates the percentage increase in total deposit, loan & advance, loan loss provision and non-performing loans. This helps to analysis the performance increment and decrease of the concern bank. For the calculation purpose year mid-July 2005 is take as base year.

To examine and analyze, following growth ratios are calculated in this studies:-

- ) Growth ratio of deposits
- ) Growth ratio of loan & advances
- ) Growth ratio of loan loss provision
- ) Growth ratio of non-performing loan

Beside the above mentioned ratio other ratio are also analyzed to find out how well the banks are performing.

#### **1. Loan Loss Provision to Loan Disbursed**

= Loan Loss Provision/ Loan Disbursed

#### **2. Non-Performing Loan to Loan Disbursed**

= Non-Performing loan / loan disbursed

## **CHAPTER IV**

### **PRESENTATION AND ANALYSIS OF DATA**

The collected data are presented here to examine the position of the bank. The data are properly processed, tabulated and analyzed to appraise the fulfillment of the thesis.

#### **4.1 Deposit collected**

Deposit is one of the main source of fund. Banks collect deposit by attracting depositors with a satisfactory interest rate and bank services. Banks follow different strategies to collect the deposit. However, the collection of the deposit should be planned. Over collection of such deposit will lead the bank difficult to find investment sectors. These collected amount are so scattered to different sectors.

##### **4.1.1 Deposit Collected by NIBL**

The total deposit collected by NIBL during the six year period is presented in the table below:

**Table-4.1****Deposit Collected by NIBL**

(Amount in million)

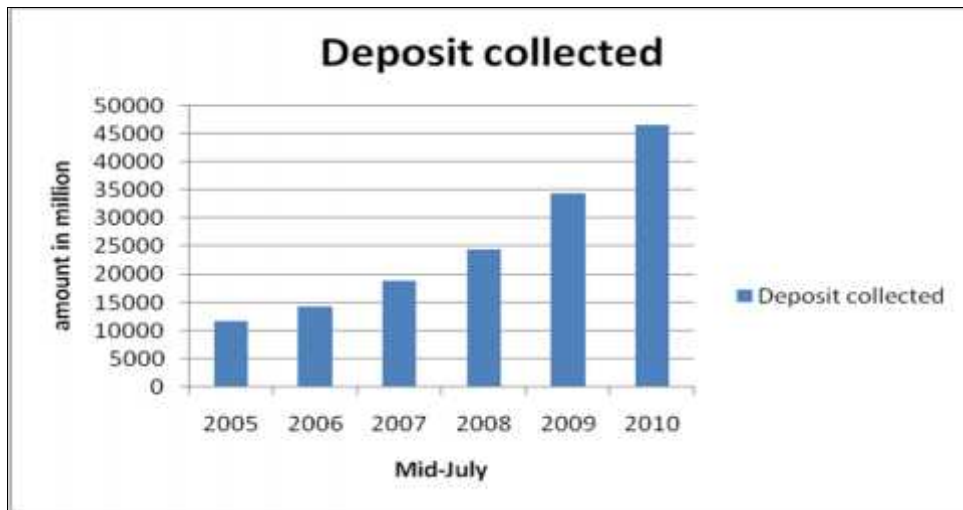
Year mid-July	Deposit collected	Increase/Decrease in deposit collected	%Increase/Decrease in deposit collected
2005	11706.30	-	-
2006	14254.8	2548.8	21.18
2007	18927.3	5327.50	37.37
2008	24488.8	5561.50	29.38
2009	34451.7	9962.90	40.8
2010	46698.1	12246.40	35.55

(Sources : Annual report of NBBL)

The above table shows the deposit collected by NIBL from mid-July 2005 to mid-July 2010. The table shows there is fluctuation in the amount of deposit collection. In 2005, the deposit collection amounted to Rs1706.30 million that increased by 21.18% and reach to Rs14254.8 in million 2006. In year 2007 the amount collected decrease by 8.01% . In mid-july 2009 the percentage increases to 40.68% which again decrease by 5.14% in 2010 and reach to Rs 46698.1 million.

**Figure 4.1**

**Deposit Collected by NIBL**



The figure shows how the bank is being able to increase the deposit collection. There is slight increment in year 2006 and 2007. The growth rate decrease in year 2008 by 7.99%. Collection of the amount is not enough proper utilization is required to fund is required. The bank will be in profit only when it will maintain both the liquidity position and disburse a sum in form of loan.

**4.1.2 Deposit Collected by BOKL**

The total deposit collected by BOKL during the six year period is presented in the table below:

**Table-4.2**  
**Deposit Collected by BOKL**

(Amount in million)

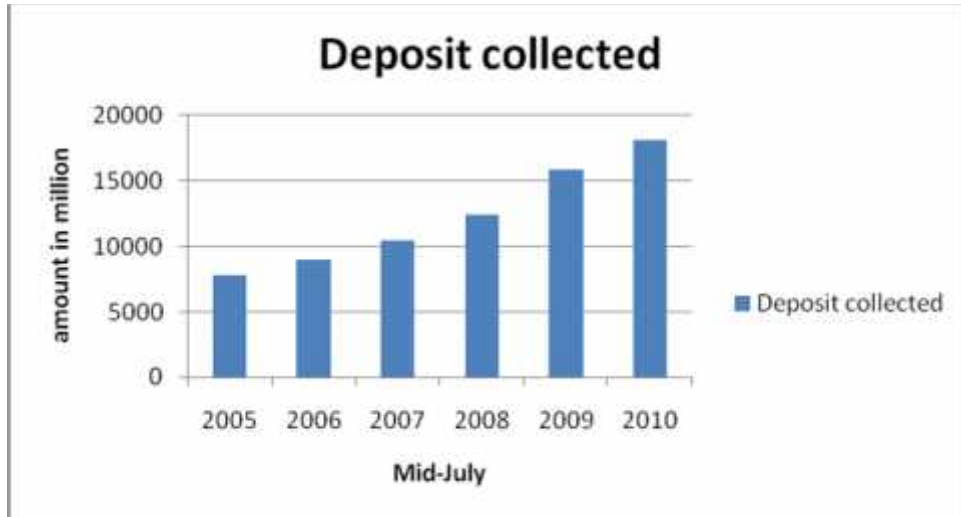
Year mid-July	Deposit collected	Increase/ Decrease in deposit collected	%Increase/ Decrease in deposit collected
2005	7741.6	-	-
2006	8942.8	1201.20	15.52
2007	10485.4	1542.60	17.2
2008	12388.9	1903.50	18.1
2009	15833.7	3444.80	27.8
2010	18083.9	2250.20	14.21

(Sources : Annual report of BOKL)

In the above table, we can see the increase in the deposit collection of BOKL during different period. In mid-July 2005 the total deposit collected amount to Rs. 7741.6 million which increased by 15.52 % in 2006. In mid-July 2007 and 2008 the amount increased by Rs. 1542.60 and Rs.1903.5 million respectively. The total deposit in 2009 was Rs.15833.70 million which increased by only 14.21% in 2010. The data shows that the collection rate is decreasing in recent

years. The trend of deposit collection of BOKL is increasing in first four years but it is decreasing in last year.

**Figure 4.2**  
**Deposit Collected by BOKL**



There is consistency in the deposit collection of the bank. A huge growth is seen in year 2009, the growth rate increase by 27.8% from 18.1% in year 2008. The bank has shown its efficiency throughout the years. However the collection is not enough the alternative source for the fund disbursement should be identified.

## **4.2 Types of deposits collection**

The types of deposits collection has been classified broadly in five types namely current deposit, fixed deposit, call deposit and other deposit.

### **4.2.1 Types of deposits collected by NIBL**

NIBL also have classified its deposit into five types. The table below shows the types of deposit collected along with % increase or decrease.

**Table 4.3**  
**Types of Deposit Collected**

(Amount in million)

Years mid-July	Current Deposit	%increase / decrease	Saving Deposit	%increase/ decrease	Fixed Deposit	%increase / decrease	Call deposit	%increase / decrease	Other Deposit	%increase / decrease
2005	1625.1	_	4922	_	2294.7	_	2576.6	_	287.91	_
2006	1583.2	-2.57	6703.5.6	36.19	3212.4	39.99	2469.7	-4.14	286	-4.55
2007	1705.6	7.73	8082.0	20.5	5412.0	68.47	3448.2	39.62	278.5	-2.82
2008	2175.03	27.52	10742.33	32.91	7516.68	38.88	3683.1	6.81	371.62	33.43
2009	3138.67	44.3	1368.77	27.42	7944.23	5.68	3073	-16.59	607.06	63.35
2010	3756.57	19.68	17066.25	24.67	11633.38	46.43	3514	14.38	727.99	19.22

(Sources: Annual report of NIBL)

The table shows the larger amount of deposit is collected in saving deposit. The amount in the fixed deposit is more fruitful and the amount can be used to invest in other sectors and used as working capital.

Here, in mid-July 2006 the amount of current deposit decrease by 2.57 %. After that there is an increment to 7.73 in 2007 and 27.52 in 2008. The amount reached to Rs. 3138.67 in 2009, there is a little increment in 2010 of 19.68%.

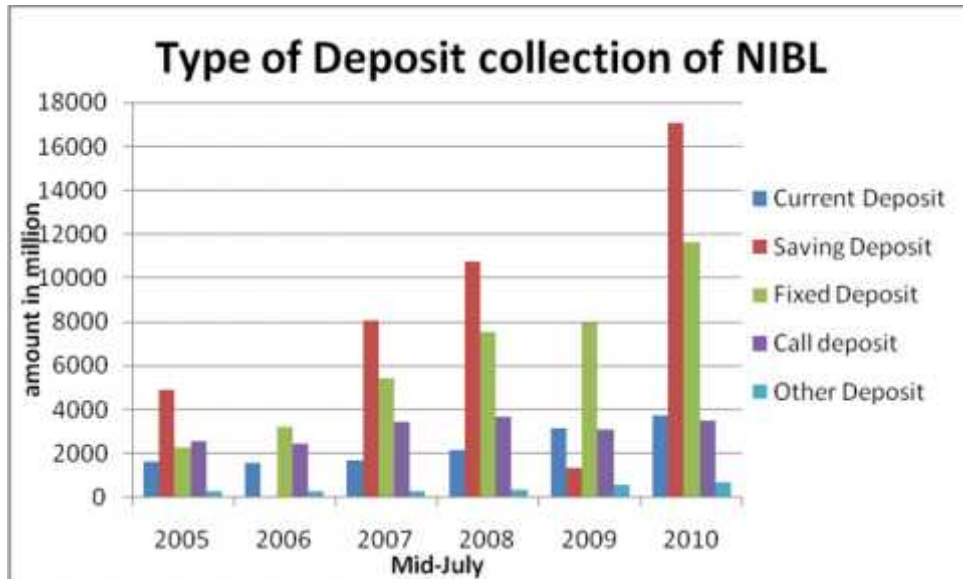
There is continuous increment in the saving deposit. In mid-July 2005, saving deposit amounted to Rs. 2873.8 million which increased by 19.96% and reached to Rs. 3447.5 in 2006. In 2007 32.90% increment can be seen then the collection increased by normal rate of 19.33% and 10.06% in 2009 and 2010.

All the banks want an increasing trend in fixed deposit but here the deposit decreased by 5.87% in 2007. Notwithstanding good collection policies the bank has increased its collection throughout. The collection reaches to Rs. 3037.17 in 2008 and further increase by 21.92 % in 2009. In 2010 the fixed deposit increases to Rs. 4474.6 million.

The bank is also able to collect a good amount of call deposit. In 2005 the call deposit amount was Rs. 1450.7 million which decreases by 19.89% in 2006. The amount reaches to Rs. 1966.47 in 2007 and Rs. 3196.1 in 2008. In 2009 the amount increases by 62.52% whereas the amount only increases by 19.62 in 2010.

The bank has collected deposit from other sources in small amount. The amount was Rs. 139.5 in 2005 which decrease by 27.68% and reached to Rs. 109.7 in 2007. Further the amount increase by 78.66 % in 2008 and reached to Rs. 246.10 million in 2009. There is a decrease in collection by 6.05% in 2010.

**Figure 4.3**  
**Types of Deposit Collected**



Analysing the otherside of the table. The deposit on saving account is higher than fixed deposit. Deposit except fixed deposit i.e saving, call, current and other dont have time limitation which means, amount is immediately paid at the time any account holder need. Hence, high amount of liquidity ( cash balance) becomes necessary. If fixed deposit has been in higher amount the bank could have made money rotation.

#### **4.2.2 Types of deposits collected by BOKL**

This shows the various types of deposit collection of BOKL in current, saving, fixed, call and other deposit account. Other deposits include margin deposit.

**Table 4.4**  
**Types of Deposit Collected**

(Amount in million)

Years mid-July	Current Deposit	%increase / decrease	Saving Deposit	%increase/ decrease	Fixed Deposit	%increase / decrease	Call deposit	%increase / decrease	Other Deposit	%increase / decrease
2005	997.9	-	2873.8	-	2279.7	-	1450.7	-	139.5	-
2006	1302.6	30.53	3447.5	19.96	2878.9	26.28	1162.1	-19.89	151.7	8.74
2007	1409.2	8.18	4582	32.90	2709.8	-5.87	1618.6	39.28	109.7	-27.68
2008	1661.77	17.92	5527.29	20.63	3037.17	12.08	1966.47	21.49	196	78.66
2009	2092.3	25.90	6596.1	19.33	3703.1	21.92	3196.1	62.52	246.10	25.56
2010	2294.4	9.65	7260.3	10.06	4474.6	2083	3823.4	19.62	231.21	-6.05

(Sources: Annual report of BOKL)

In Mid-July 2005, the current deposit collected to Rs. 997.9 million that increase by 30.5 % in 2006 and reach to Rs.1302.6 million. In 2007 the bank is only being able to collect Rs. 1409.2 million which reach to Rs. 1661.77 in 2008. In 2009 the bank is able to increase the collection by 25.90 but the increments only of 9.65 % in 2010.

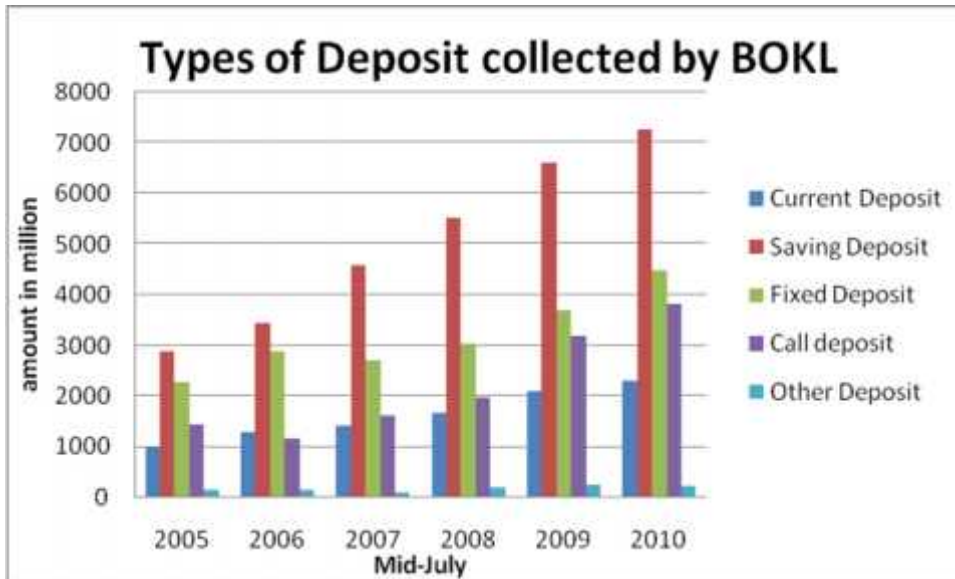
There is continuous increment in the saving deposit. In mid-July 2006 the bank has collected Rs. 3447.5 million and is being able to increase the collection by 32.90 % in 2007. Further the increment in 2008, 2009 and 2010 was 20.63%, 19.33% and 10.06 respectively.

The collection of fixed deposit has decreased by 5.87 % in 2006 after that the collection has been increasing throughout. In 2009 the deposit increase by 21.92% and reached to Rs. 4474.6 in 2010.

In 2007 the call deposit has decrease by 19.89% which increase by 39.28% in 2008. In 2010 the call deposit reaches to Rs. 3196.1 million which is increment of 62.52 however the collection is only Rs.3823.4 million.

There is fluctuating trend in the other deposit collection. Collection decrease by 27.68% in 2007 but there is huge increment in the collection in 2008 which reach to Rs. 196 million. In 2009 the collection is only 246.10 million which reach to Rs. 231.12 in 2010.

**Figure 4.4**  
**Types of Deposit Collected**



The bank has collected maximum amount in saving deposit account and there is fluctuation in the collection of the fixed deposit. In year 2007 alone the fixed deposit amount has been decreased by 5.87 %. Also in compare to the saving deposit amount the bank is now been able to collect its fixed deposit amount. There is only slight fluctuation in the collection of fixed deposit amount.

### **4.3 Total Loan Disbursement**

The amount of deposit collected is disbursed as per the demand-taking loan. Before loan is provided details about, the individual is analyzed.

#### **4.3.1 Total Loan Disbursement on NIBL**

The total loan disbursed of NIBL in six year are presented below:

**Table 4.5**  
**Total Loan Disbursement**

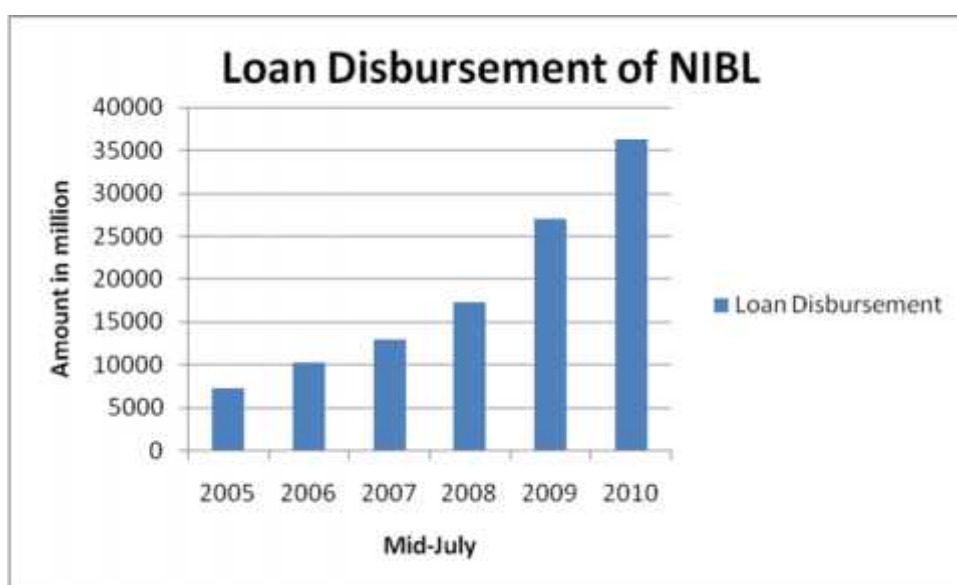
(Amount in million)

Year Mid- July	Loan Disbursement	Increase/Decrease in LoanDisbursement	%increase/decrease inloanandisbursement
2005	7290.2	-	-
2006	10295	3004.8	41.22
2007	13007	2712	26.34
2008	17286.4	4279.4	32.90
2009	26966.7	9680.2	56.00
2010	36241.2	9274.6	34.39

(Sources: Annual Reports of NIBL)

The tables shows the fuctuation trend of loan disbursement. In year 2005 the total amount disburshed was Rs. 7290.2 which inceased by 41.22% and reach to Rs. 10295 million. in 2009 alone the bank has disbchursed Rs. 26966.7 which is an increment of 56%. the total amout disbursed inceased only by Rs. 9274.6 million in year 2010.

**Figure 4.5**  
**Total Loan Disbursement**



The amount of loan disbursement largely dependent upon the demand. However the bank should be carefull to disburse the loan elsewise the loan collection work will be comparatively in low ratio. The disbursement ratio is being increasing in recent years which seem that bank is expanding its business volume. Before making any decision the NRB directive should be followed.

### 4.3.2 Total Loan Disbursement on BOKL

The total loan disbursed of BOKL in six year are presented below:

**Table 4.6**  
**Total Loan Disbursement**

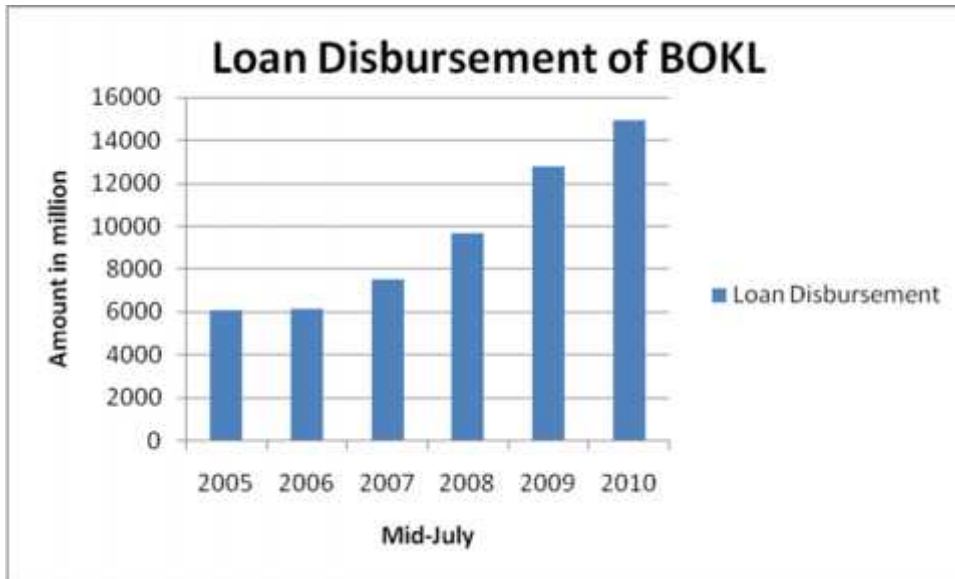
(Amount in million)

Year Mid- July	Loan Disbursement	Increase/Decrease in LoanDisbursement	%increase/decrease inloan disbursement
2005	6104.9	-	-
2006	6167	62.1	1.02
2007	7525	1358	22.02
2008	9694.1	2169.1	28.83
2009	12748	3053.9	31.50
2010	14946	2198	17.24

(Sources: Annual report of BOKL)

The table reveals the pattern of loan disbursement of BOKL. The loan disbursement of BOKL was in increasing trend throughout the period. In mid-July 2005 the loan disbursement was Rs. 6104.9 which increased by 1.02% and reaches to Rs. 6167 in 2006. The loan disbursed increases to Rs 9694.1 million in 2008 and Rs. 12748 million in2009. In 2010 there was increment of only 17.2 and amount reach to Rs14946 million.

**Figure 4.6**  
**Total Loan Disbursement**



#### **4.4 Loan disbursement to deposit collection**

**The main task of the bank is to collect the excess amount from its depositor and** to supply the same who is in need of it. The amount of loan disbursed to deposit collection also helps to determine the amount of liquidity in the bank. Hence, a proper allocation of the loan disbursement to deposit collection should be made such that it does not hamper the liquidity position.

##### **4.4.1 Loan disbursement to deposit collection of NIBL**

The loan disbursed ot deposit collection of NIBL has been presented below:

**Table 4.7**  
**Loan Disbursed to Deposit Collected**

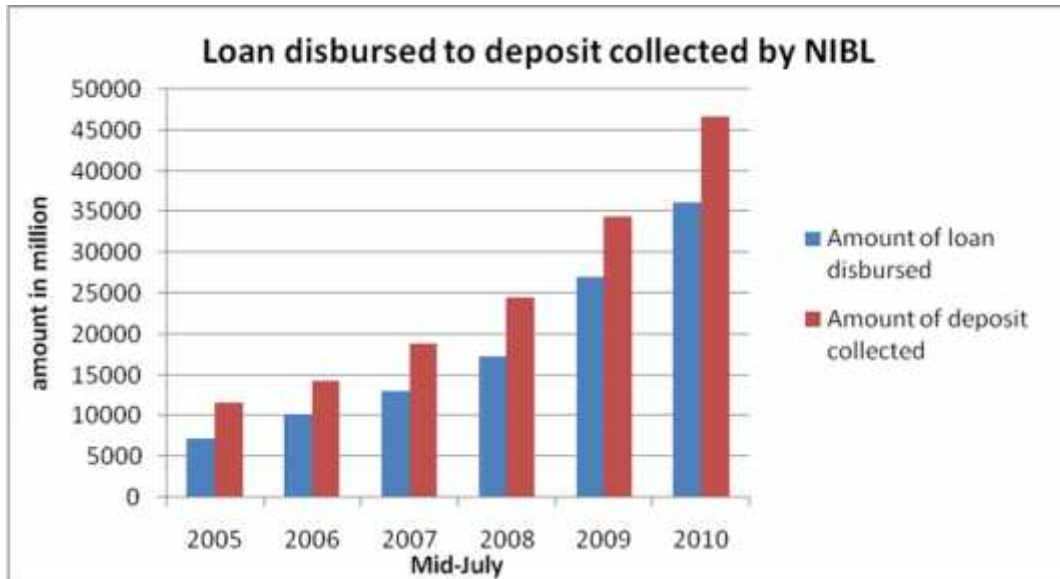
(Amount in million)

Years mid-July	Amount of loan disbursed	Amount of deposit collected	Undisbursed amount	% change in loan disbursed with respect to deposit collected
2005	7290.2	11706.3	4416.1	62.276
2006	10295	14254.8	3959.8	72.221
2007	13007	18927.3	5920.3	68.721
2008	17286.4	24488.8	7202.4	70.589
2009	26966.7	34451.7	7485	78.274
2010	36241.2	46698.1	10456.9	77.607

(Sources: Annual report of NRB)

The table display the amount of loan disbursed in comparison to deposit collection. The percentage of total loan disbursed with respect to deposit collected were 62.27%, 72.22%, 68.72%, 70.58%, 78.27% and 77.6% between mid-july 2005 to 2010 respectively. The table indicates that the bank disburses the average amount of amount collected.

**Figure 4.7**  
**Loan Disbursed to Deposit Collected**



The bank seems to disburse the similar range of deposit collected amount in form of loan. All the amounts collected are not disbursed as bank need to maintain sufficient amount of liquidity position.

#### **4.4.2 Loan disbursement to deposit collection of BOKL**

The loan disbursed or deposit collection of BOKL has been presented below:

**Table 4.8**  
**Loan Disbursed to Deposit Collected**

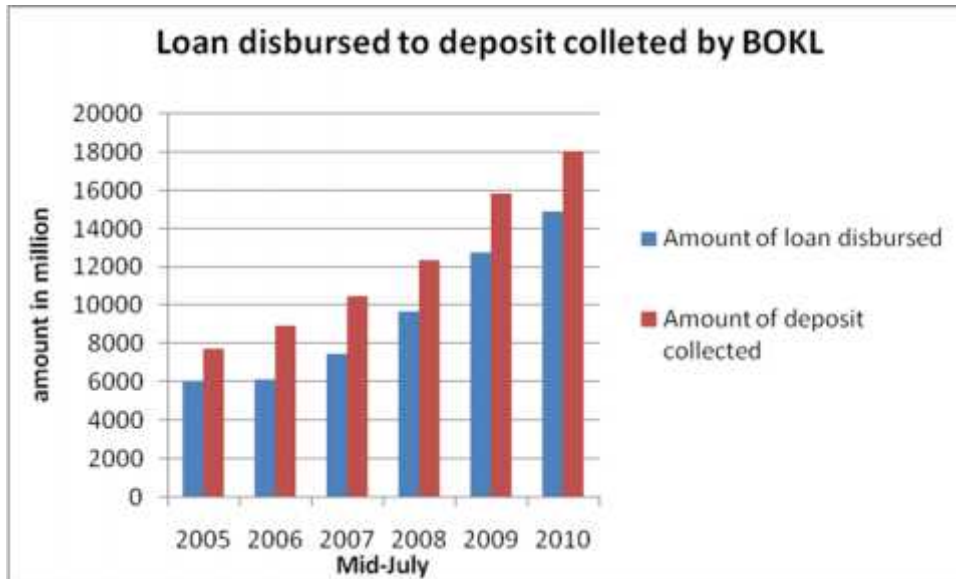
(Amount in million)

Years mid-July	Amount of loan disbursed	Amount of deposit collected	Undisbursed amount	% change in loan disbursed with respect to deposit collected
2005	6104.9	7741.6	1636.7	78.86
2006	6167	8942.8	2775.8	68.96
2007	7525	10485.4	2960.4	71.77
2008	9694.1	12388.9	2694.8	78.25
2009	12748	15833.7	3085.7	80.51
2010	14946	18083.9	3137.9	82.65

(Sources: Annual report of NRB)

The table display the amount of loan disbursed in comparison to deposit collection. The percentage of total loan disbursed with respect to deposit collected were 78.86%, 68.96%, 71.77%, 78.25%, 80.51% and 82.65% between mid-july 2005 to 2010 respectively. The table indicates that the bank disburses the average amount of amount collected.

**Figure 4.8**  
**Loan Disbursed to Deposit Collected**



The bank seems to disburse the similar range of deposit collected amount in form of loan. All the amounts collected are not disbursed as bank need to maintain sufficient amount of liquidity position.

#### **4.5 Lending and Recovery Management of Commercial Banks**

##### **Loan disbursement Process of Commercial Bank**

Broadly, commercial banks provide three types of loan-Corporate loan, Business loan and Consumer loan. Commercial bank follows several steps to distribute loan to the borrowers. The lending policies followed by the banks might be similar to the other banks. In general, the steps may be listed as under:

## **APPLICATION**

The banks that consist of all details related to the particular loan provide application forms. The needy are required submitting the form withal the required documents.

Generally, the documents required by the banks for further processing the application form could be listed as under:

- Loan application
- Citizenship Certificate of applicant
- Salary certificate
- Renewed firm/ Company registration certificate
- Income tax registration certificate
- Latest audited financial statement
- Feasibility report/ scheme for new project
- Authenticated “Partnership Deed” in case of partnership firm, Memorandum and article of association in case of company.
- Citizenship certificate of proprietor/ promoters/guarantors along with share holding percent.
- Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.
- Loan deed.

### **Loan appraisal and Processing**

Once the application form and the relevant document are submitted the difficult task of banks starts. The viability of the proposal and the documents are analyzed. Detail enquiry of the individual is done.

Commercial bank carries out loan appraisal on the basis of past performance, future forecast and information available from the enquiry.

The bank ascertains the following during loan processing:

- Proposal should not deviate from NRB directives.
- Proposal should be in accordance with bank credit policy, credit procedural manual and bank and financial institution (Act 2061) ordinance 2060.
- The cost estimate is examined so that the appropriate estimate can be accepted.
- Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.
- The return on investment (ROI), Internal rate of return (IRR) should be adequate.
- SWOT (strength, weakness, opportunity, threat) analysis of the proposed project must give reasonable assurance.
- The borrower should be credit worthy.
- Security should not be disputable. It should be easy to legally and physically take under the control by the bank when it is necessary.

Beside above points, the bank makes inspection of the physical existence of the project.

The bank also tries to ascertain whether the borrower will be able to pay interest timely and repay the amount of loan on maturity.

### **Loan Approval**

After a person, institution and project submit a proposal, bank makes a deep study and analyze from different aspects on the proposal. The bank also evaluates necessary documents. If the bank feels the loan proposal satisfactory, it can approve the loan accordingly.

Loan Documentation

After the approval of the loan from the bank, a letter is issued showing all the terms and conditions to be followed by the borrower. After the acceptance of the terms and conditions by the borrower the documentation process is carried out.

As loan documentation, loan deed is signed. Loan deed is an agreement which mention for how long the money is lent, what shall be the repayment schedule and what shall be the cost of money lent, what against money is lent and what action is to be taken in case of default.

Besides the loan deed, the following documents shall be obtained according to the type and nature of credit:

- Demand promising note.
- Continuing security letter.
- Letter of lien and set-off.
- Letter of pledge.
- Letter of guarantee.
- Mortgage deed.
- Letter of instalments.
- Partnership letter.
- Letter of acknowledgement of debt.
- General/Special power of attorney.
- Blue book/ ownership certificate in case of hire purchases.

Incase of mortgage of collateral security, documents required are:

- Letter of property owner's agreement to mortgage property.
- Letter of approval from the office the company register to mortgage the property of the company, in case of the company.
- Landowner certificate "Laal Purja".

- Property transfer deed “Ownership Deed”.
- “Malpot” receipt.
- Boundary certificate from town/ village development committee.
- Survey map of the land (Blue Print).
- Mortgage deed registered original copy.
- Rokkapatra “Banks lien earmarked letter of Malpot office”.
- Authorization of property owner.
- Valuation report of property.

### **Loan Disbursement**

After careful appraisal and scrutinizing of the proposal and documentation, loan is disbursed.

### **Loan Audit**

A bank asks his debtor to use the loan in proper places, after it provides loan, as far as possible with the intention of this objective, the bank performs audit of the loan. Thus, the audit is done from time to time by the bank, in addition to other function to find out a picture about loan utilization.

The tools used for audit of loan are:

- Performance statements.
- Cash flow statements.
- Stock turnover statements.
- Profitability statements.
- Audited balance sheet.
- Site inspection.

## **Loan Recovery by Commercial Banks**

The credit management performs depends upon the loan recovery made. Hence we can say the most important activities performed by the credit department is loan recovery. No such hard and fast rule is performed to recover loan. The recovery process depends upon the time frame i.e. the situation is which the loan is to be recovered.

Practically, both distribution and process of recovery are explained in the loan deed. Loan deed contains all the necessary terms and conditions. If the terms and conditions written in the deed are not fulfilled there will be violation deed. In such condition certain adjustment is added in the deed so that the terms and conditions are changed as per the demand. Generally, arrangement and adjustment between the bank and the customer are settled but the condition may arise to sell the mortgage to recover the loan amount.

In general arrangement of loan i.e. adjustment of the loan as per the demand of the customer is done. The duration of the loan payment is increased after making certain charge in loan deed. It also happens that mortgage assets are also to recover the loan.

All the recovery process is systematic and legal. As per the precaution the banks also give through vision to find out whether the loans are utilized in the relevant area or not.

### **4.6 Loan Loss Provision**

There is risk associated with the every loan. Some loan may be good but some may convert into bad, if necessary precaution is not taken in due time. Loan Loss Provision is compared with the total loan disbursed to find out the percentage of the amount separated for the provision purpose.

#### 4.6.1 Loan Loss Provision made by NIBL

The loan loss provision made by NIBL is presented below:

**Table 4.9**

#### **Loan Loss Provision to Loan Disbursed**

(Amount in million)

YEAR mid-July	L.L.P	Loan Disbursed	Ratio (%)
2005	182.26	7290.2	2.50
2006	277.97	10295	2.70
2007	299.16	13007	2.30
2008	421.97	17286.42	2.44
2009	309.47	26966.65	1.15
2010	213.91	36241.2	0.59

(Source: Annual report of NIBL)

Here, the L.L.P is compared with loan disbursed which is in increasing trend. It become very necessary for the banks to allocated the provision amount according to the rules stated in the NRB directive. The ratio of L.L.P of the NIBL to the loan disbursed is 2.84, 3.13, 3.05, 2.79, and 1.98. The ratio is being decreasing in recent periods.

#### 4.6.2 Loan Loss Provision made by BOKL

The loan loss provision made by BOKL is presented below:

**Table 4.10**

#### **Loan Loss Provision to Loan Disbursed**

(Amount in million)

YEAR mid-July	L.L.P	Loan Disbursed	Ratio (%)
2005	367.51	6104.9	6.02
2006	268.88	6167	4.36
2007	231.02	7525	3.07
2008	294.77	9694.1	3.04
2009	285.08	12748	2.24
2010	298.42	14946	2.00

(Source: Annual report of BOKL)

The ratio of loan loss provision over the loan disbursed is in diminishing ratios. The bank is being able to reduce its loan loss which is good for the bank. The ratio of L.L.P to Loan Disbursed are 6.02, 4.36, 3.07, 3.04, 2.24 and 2 throughout the years.

#### 4.7 Non-Performing Loans to Loan Disbursement

According to NRB directives the loans falling under category of substandard and doubtful and loss loan are regarded as non-performing loan. Higher ratio implies the bad quality of loan of banks in the form credit ratio is preferred. As per international standard only 5% NPL is allowed and as per .

#### 4.7.1 Non-Performing Loans to Loan Disbursement of NIBL

**Table 4.11**

##### **Non-Performing Loan to Loan Disbursed**

(Amount in million)

Year mid- July	NPL	Loan Disbursed	NPL to loan Disbursed in %
2005	182.26	7290.2	2.50
2006	277.97	10295	2.70
2007	299.16	13007	2.30
2008	421.97	17286.42	2.44
2009	309.47	26966.65	1.15
2010	213.91	36241.2	0.59

(Source: Annual report of NIBL)

Here, NPL is compared to loan disbursed to find out the amount of non-performing loan amount. The ratio is increasing in the recent year. In mid-July 2005 the amount of NPL was Rs. 182.26 million which increase in year 2008 to Rs. 421.97 million. Further the amount decrease to Rs. 309.47 million. However in year 2010 was only Rs. 213.91million.

#### 4.7.2 Non-Performing Loans to Loan Disbursement of BOKL

**Table 4.12**

##### **Non-Performing Loan to Loan Disbursed**

(Amount in million)

Year mid- July	NPL	Loan Disbursed	NPL to loan Disbursed in %
2005	409.03	6104.9	6.70
2006	308.35	6167	5.00
2007	18.23	7525	0.24
2008	23.29	9694.1	0.24
2009	236.89	12748	1.86
2010	190.31	14946	1.27

(Source: Annual report of BOKL)

The table clearly explains the ratio of non-performing loan upon the loan disbursed. Lower the ratio higher will be the performance of the bank. BOKL has succeeded to decrease the ratio, to minimum of 0.24% in mid-July 2007 and 2008. However, the ratio has increased to 1.26% in year 2009. Maintaining the ratio to the lowest is target of all the banks. Non collection of the loan disbursed in future is the result of NPL. The banks NPL ratio to loan disbursed was 6.70% in year 2005 which now in 2010 reached to 1.27%.

#### **Major Findings from analysis**

1. The analysis of deposit collected by bank reveals both the banks deposit collections are increasing but in fluctuating trend. The trend is that it will continue to increase in the future. Deposit amount should be collected only

after identifying the field for investment. The deposit collection of the NIBL is in increasing trend the bank is been able to collect Rs.9962.90 million alone in mid-July 2009 which was 40.8% increment. The deposit reached to Rs. 12246.40million in year 2010. In case of BOKL there is only slight increment in the collection through-out the years.

2. Both the bank has collected maximum amount in saving deposit. The amount should be paid back on the demand of the account holder. Comparatively the amount collected in the fixed deposit amount is less. The bank should put effort to collect the amount in the fixed deposit as the time of deposit is pre known. Hence there will be more chance to invest in the relevant field. There is fluctuating trend in the collection of fixed deposit amount. The collection of NIBL reach to Rs. 7516.68 in mid-year 2008 with little increment in year 2009 the amount reaches to Rs. 7944.23 million. The figure does not seem promising towards the performance of the bank. In case of BOKL the bank seem to collect a healthy amount in the fixed deposit. The amount increase from Rs 2279.7 million in year mid-July 2005 to Rs. 4474.6 million in year mid-july 2010.
3. Collected sum of money is finally disbursed in the form of loan. All the necessary procedures are followed before granting loans. The character, capability, capita requirement, collateral and condition of the loan holder are analysis.
4. Not all the deposit amount collected are disbursed some of the amount is retained in the bank for the liquidity reason. Both the banks have similar amount of undisbursed loan reserved in the banks' account for daily transaction purpose.
5. NRB directives have given certain provision for the recovery of loan loss provision. All the banks in Nepal strictly follow the rules and regulations. Event the sample banks are bound to follow the directive.

6. In order to analyze the recovery management of the bank its loan loss provision and non- performing loan were analyzed. The loan loss provision and non-performing loan are in decreasing trend.
7. The bank is being able to collect its debts in time and seem to be going detail analysis at the time of disbursing loan.

# **CHAPTER V**

## **SUMMARY CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary**

Commercial banks play an important part for economic development of a country as they provide capital for the development of industry trade and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and their social life. They are the most important ingredient for integrated and speedy development of a country. Therefore a competitive and reliable banking system is essential to every country for development.

The analysis of deposit collected by bank reveals deposit collection is increasing but in fluctuating trend. The trend is that it will continue increase in the future. The bank is being able to maintain the loan disbursement in context to deposit collected. The bank however does not disburse all the amount of deposit collected it save retain some of the amount for liquidity purpose. In order to analyze the recovery management of the bank its loan loss provision and non-performing loan were analyzed. The loan loss provision and non-performing loan are in decreasing trend. The bank is being able to collect its debts in time and seem to be going detail analysis at the time of disbursing loan.

The major functions of commercial banks are to accept deposits, provide loans, agencies function, general utility function etc. Beside the regular function mentioned risk management is a crucial function of bank in today's environment. It not only reduces the cost of distress but also aim at strengthen the decision making process of an optimum risk-return tradeoff. It is important to select appropriate tools to measure the risk and control the activity of banks.

In order to cover the risk inherent in the lending portfolio, banks have to make loan loss provision by categorizing the loans into different category as per the NRB directives. The bank is being able to decrease the ratio of loan loss but the total amount is being increasing.

## **5.2 Conclusion**

Analyzing the sample banks the trend of other banks can be easily determined. The collection of the deposit amount plays a vital role in all the banks. However, deposit amount should be collected only after identifying the field for investment. The bank should put effort to collect the amount in the fixed deposit as the time of deposit is pre known. Hence there will be more chance to invest in the relevant field. Collected sum of money is finally disbursed in the form of loan. All the necessary procedures are followed before granting loans. The character, capability, capital requirement, collateral and condition of the loan holder are analysis.

Not all the deposit amount collected are disbursed some of the amount is retained in the bank for the liquidity reason. NRB directives have given certain provision for the recovery of loan loss provision. All the banks in Nepal strictly follow the rules and regulations. In order to analyze the recovery management of banks, loan loss provision and non- performing loan should be analyzed. The future profitability of the bank depends upon the total deposit collected and the ratio of collection the disbursed amount. The lending policy of the banks should be strong enough and should follow the directives provided by NRB. As the term 'Loan' is only good in the books of account, the overall performance of any bank depends upon the lending practices.

### 5.3 RECOMMENDATIONS

- ) Bank should collect deposit only after clear vision of future possibility of investing them in fruitful sectors.
- ) Only loan disbursement is not enough. In addition loan audit should be done. With the intention to find out whether or not the bank loan is properly utilizes.
- ) Bank strictly follows NRB directives in case of loan loss provision and non-performing loan. Only classification of loan loss provision and non-performing loan is not enough. Bank should put target to minimize the NPL and increase the net profit every year. Healthy recovery efforts should be followed.
- ) It is very necessary to effectively increase the capital fund this will affect the ability of fund mobilizing and also the reputation of the bank. The increment in the capital can be made either by capitalization of profit, declaration of stock dividend or right share issue.
- ) Deposits are the major source of fund incoming; hence the amount should be optimally utilized for the benefit of the depositor and not to be utilized for private investment especially by the top management team. Bank should collect deposit only after clear vision of future possibility of investing them in most fruitful sectors.
- ) Bank plays a significant role to fulfill the working capital of its own and other business organization. Hence the management of working capital should be effective enough so that bank does not fall in fund crisis.
- ) To get success in competitive banking environment deposited money must be utilized as loan and advances. The largest side of the bank in assets side in loan and advances. In case of negligence in administrating this asset could be the main cause of liquidity crises in the bank and one of the main reasons of banks failure.

- ) NRB has encouraged the joint venture banks to expand the bank services in rural areas without making unfavorable impact in their profits. The bank is hence recommended to expand its branches and provide banking service to rural and communities to accelerate rural areas economic development.
- ) Due to poor credit administration, the credit recovery process is slow as well as legal process in recovery of credit is lengthy and ineffective. Clear cut objective and policy of the credit mgmt is lacking so the NPL is going upward. To get better result in the coming future, bank should reduce the volume of NPL.

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## Appendix 1

### Deposit Collected by NIBL

(Amount in Million)

Year mid-July	Deposit collected	Increase/ Decrease in deposit collected	%Increase/ Decrease in deposit collected
2005	11706.30	-	-
2006	14254.8	2548.8	21.18
2007	18927.3	5327.50	37.37
2008	24488.8	5561.50	29.38
2009	34451.7	9962.90	40.68
2010	46698.1	12246.40	35.55

Here,

The growth rate for total deposit is calculated as:

% increase or decrease in the deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} \times 100$$

$$\text{Year mid July 2006} = \frac{2548.8}{11706.30} \times 100 = 21.18\%$$

$$\text{Year mid July 2007} = \frac{5327.50}{14254.8} \times 100 = 37.37\%$$

$$\text{Year mid July 2008} = \frac{5561.50}{18927.30} \times 100 = 29.38\%$$

$$\text{Year mid July 2009} = \frac{9962.90}{24488.8} \times 100 = 40.68\%$$

$$\text{Year mid July 2010} = \frac{12246.40}{34451.7} \times 100 = 35.55\%$$

## Appendix 2

### Deposit Collected by BOKL

(Amount in million)

Year mid-July	Deposit collected	Increase/ Decrease in deposit collected	%Increase/ Decrease in deposit collected
2005	7741.6	-	-
2006	8942.8	1201.20	15.52
2007	10485.4	1542.60	17.25
2008	12388.9	1903.50	18.15
2009	15833.7	3444.80	27.8
2010	18083.9	2250.20	14.21

Here,

The growth rate for total deposit is calculated as:

% increase or decrease in the deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} \times 100$$

$$\text{Year mid July 2006} = \frac{1201.20}{7741.6} \times 100 = 15.52\%$$

$$\text{Year mid July 2007} = \frac{1542.6}{8942.8} \times 100 = 17.25\%$$

$$\text{Year mid July 2008} = \frac{1903.5}{10485.4} \times 100 = 18.15\%$$

$$\text{Year mid July 2009} = \frac{3444.8}{12388.9} \times 100 = 27.8\%$$

$$\text{Year mid July 2010} = \frac{2250.20}{15833.7} \times 100 = 14.21\%$$

## Appendix-3

### Types of deposits collected by NIBL

(Amount in million)

#### Current Deposit

Year mid-July	Current deposit	%Increase/ Decrease in current deposit
2005	1625.1	—
2006	1583.2	-2.57
2007	1705.6	7.73
2008	2175.03	27.52
2009	3138.67	44.3
2010	3756.57	19.68

Here,

The growth rate for the current deposit is calculated as:

$$\% \text{ increase or decrease in the current deposit collected} = \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{1583.2 - 1625.1}{1625.1} | 100 = -2.57\%$$

$$\text{Year mid July 2007} = \frac{1705.6 - 1583.2}{1583.2} | 100 = 7.73\%$$

$$\text{Year mid July 2008} = \frac{2175.03 - 1705.6}{1705.6} | 100 = 27.52\%$$

$$\text{Year mid July 2009} = \frac{3138.67 - 2175.03}{2175.03} | 100 = 44.3\%$$

$$\text{Year mid July 2010} = \frac{3756.57 - 3138.67}{3138.67} | 100 = 19.63\%$$

## Appendix-4

### Types of saving deposit of NIBL

(Amount in million)

#### Saving Deposit

Year July	mid- July	Saving deposit	%Increase/ Decrease in saving deposit
2005		4922	—
2006		6703.56	36.19
2007		8082.0	20.5
2008		10742.33	32.91
2009		13687.77	27.42
2010		17066.25	24.67

Here,

The growth rate for the saving deposit is calculated as:

% increase or decrease in the saving deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{6703.56 - 4922}{4922} | 100 = 36.19\%$$

$$\text{Year mid July 2007} = \frac{8082 - 6703.56}{6703.56} | 100 = 20.5\%$$

$$\text{Year mid July 2008} = \frac{10742.33 - 8082}{8082} | 100 = 32.91\%$$

$$\text{Year mid July 2009} = \frac{13687.77 - 10742.33}{10742.33} | 100 = 27.42\%$$

$$\text{Year mid July 2010} = \frac{17066.25 - 13687.77}{13687.77} | 100 = 24.67\%$$

## Appendix-5

### Types of fixed deposit of NIBL

(Amount in million)

#### Fixed Deposit

Year mid-July	Fixed deposit	%Increase/ Decrease in fixed deposit
2005	2294.7	—
2006	3212.4	39.99
2007	5412.0	68.47
2008	7516.68	38.88
2009	7944.23	5.68
2010	11633.38	46.43

Here,

The growth rate for the fixed deposit is calculated as:

% increase or decrease in the fixed deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{3212.4 - 2294.7}{2294.7} | 100 = 39.99\%$$

$$\text{Year mid July 2007} = \frac{5412.0 - 3212.4}{3212.4} | 100 = 68.47\%$$

$$\text{Year mid July 2008} = \frac{7516.68 - 5412.4}{5412.4} | 100 = 38.88\%$$

$$\text{Year mid July 2009} = \frac{7944.23 - 7516.68}{7516.68} | 100 = 5.68\%$$

$$\text{Year mid July 2010} = \frac{11633.38 - 7944.23}{7944.23} | 100 = 46.43\%$$

## Appendix-6

### Types of call deposit of NIBL

(Amount in million)

#### Call Deposit

Year mid- July	Call deposit	%Increase/ Decrease in Call deposit
2005	2576.6	–
2006	2469.7	-4.14
2007	3448.2	39.62
2008	3683.1	6.81
2009	3073	-16.59
2010	3514	14.38

Here,

The growth  
call deposit is

rate for the  
calculated as:

% increase or decrease in the call deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{2469.7 - 2576.6}{2576.6} | 100 = -4.14\%$$

$$\text{Year mid July 2007} = \frac{3448.2 - 2469.7}{2469.7} | 100 = 39.62\%$$

$$\text{Year mid July 2008} = \frac{3683.1 - 3448.2}{3448.2} | 100 = 6.81 \%$$

$$\text{Year mid July 2009} = \frac{3073 - 3683.1}{3683.1} | 100 = -16.59\%$$

$$\text{Year mid July 2010} = \frac{3514 - 3073}{3073} | 100 = 14.38\%$$

## Appendix-7

### Types of other deposit of NIBL

(Amount in million)

#### Other Deposit

Year mid-July	Other deposit	%Increase/ Decrease in other deposit
2005	287.91	—
2006	286	-4.55
2007	278.5	-2.82
2008	371.62	33.43
2009	607.06	63.35
2010	727.99	19.22

Here,

The growth rate for the other deposit is calculated as:

% increase or decrease in the other deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{286 - 287.91}{287.91} | 100 = -4.55\%$$

$$\text{Year mid July 2007} = \frac{278.5 - 286}{286} | 100 = -2.82\%$$

$$\text{Year mid July 2008} = \frac{371.62 - 278.5}{278.5} | 100 = 33.43\%$$

$$\text{Year mid July 2009} = \frac{607.06 - 371.62}{371.62} | 100 = 63.35\%$$

$$\text{Year mid July 2010} = \frac{727.99 - 607.06}{607.06} | 100 = 19.22\%$$

## Appendix-8

## Types of deposits collected by BOKL

(Amount in million)

### Current Deposit

Year mid-July	Current deposit	%Increase/ Decrease in current deposit
2005	997.9	-
2006	1302.6	30.53
2007	1409.2	8.18
2008	1661.77	17.92
2009	2092.3	25.90
2010	2294.4	9.65

Here,

The growth rate for the current deposit is calculated as:

% increase or decrease in the current deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{1302.6 - 997.9}{997.9} | 100 = 30.53\%$$

$$\text{Year mid July 2007} = \frac{1409.2 - 1302.6}{1302.6} | 100 = 8.18\%$$

$$\text{Year mid July 2008} = \frac{1661.77 - 1409.2}{1409.2} | 100 = 17.92\%$$

$$\text{Year mid July 2009} = \frac{2092.3 - 1661.77}{1661.77} | 100 = 25.90\%$$

$$\text{Year mid July 2010} = \frac{2294.4 - 2092.3}{2092.3} | 100 = 9.65\%$$

## Appendix-9

## Types of saving deposit of BOKL

(Amount in million)

### Saving Deposit

Year mid-July	Saving deposit	%Increase/ Decrease in saving deposit
2005	2873.8	-
2006	3447.5	19.96
2007	4582	32.90
2008	5527.29	20.63
2009	6596.1	19.33
2010	7260.3	10.06

Here,

The growth rate for the saving deposit is calculated as:

% increase or decrease in the saving deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{3447.5 - 2873.8}{2873.8} | 100 = 19.96\%$$

$$\text{Year mid July 2007} = \frac{4582 - 3447.5}{3447.5} | 100 = 32.90\%$$

$$\text{Year mid July 2008} = \frac{5527.29 - 4582}{4582} | 100 = 20.63\%$$

$$\text{Year mid July 2009} = \frac{6596.1 - 5527.29}{5527.29} = 19.33\%$$

$$\text{Year mid July 2010} = \frac{7260.3 - 6596.1}{6596.1} | 100 = 10.06\%$$

## Appendix-10

## Types of fixed deposit of BOKL

(Amount in million)

### Fixed Deposit

Year mid-July	Fixed deposit	%Increase/ Decrease in fixed deposit
2005	2279.7	-
2006	2878.9	26.28
2007	2709.8	-5.87
2008	3037.17	12.08
2009	3703.1	21.92
2010	4474.6	20.83

Here,

The growth rate for the fixed deposit is calculated as:

% increase or decrease in the fixed deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{2878.9 - 2279.7}{2279.7} | 100 = 26.28\%$$

$$\text{Year mid July 2007} = \frac{2709.8 - 2878.9}{2878.9} | 100 = -5.87\%$$

$$\text{Year mid July 2008} = \frac{3037.17 - 2709.8}{2709.8} | 100 = 12.08\%$$

$$\text{Year mid July 2009} = \frac{3703.1 - 3037.17}{3037.17} | 100 = 21.92\%$$

$$\text{Year mid July 2010} = \frac{4474.6 - 3703.1}{3703.1} | 100 = 20.83\%$$

## Types of call deposit of BOKL

(Amount in million)

### Call Deposit

Year mid-July	Call deposit	%Increase/ Decrease in Call deposit
2005	1450.7	-
2006	1162.1	-19.89
2007	1618.6	39.28
2008	1966.47	21.49
2009	3196.1	62.52
2010	3823.4	19.62

Here,

The growth rate for the call deposit is calculated as:

% increase or decrease in the call deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{1162.1 - 1450.7}{1450.7} | 100 = -19.89\%$$

$$\text{Year mid July 2007} = \frac{1618.6 - 1162.1}{1162.1} | 100 = 39.28\%$$

$$\text{Year mid July 2008} = \frac{1966.47 - 1618.6}{1618.6} | 100 = 21.49 \%$$

$$\text{Year mid July 2009} = \frac{3196.1 - 1966.47}{1966.47} | 100 = 62.52\%$$

$$\text{Year mid July 2010} = \frac{3823.4 - 3196.1}{3196.47} = 19.62\%$$

## Appendix-12

### Types of other deposit of BOKL

(Amount in million)

**Other Deposit**

Year mid-July	Other deposit	%Increase/ Decrease in other deposit
2005	139.5	-
2006	151.7	8.74
2007	109.7	-27.68
2008	196	78.66
2009	246.10	25.56
2010	231.21	-6.05

Here,

The growth rate for the other deposit is calculated as:

% increase or decrease in the other deposit collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{151.7 - 139.5}{139.5} | 100 = 8.74\%$$

$$\text{Year mid July 2007} = \frac{109.7 - 151.7}{151.7} | 100 = -27.68\%$$

$$\text{Year mid July 2008} = \frac{196 - 109.7}{109.7} | 100 = 78.66 \%$$

$$\text{Year mid July 2009} = \frac{246.10 - 196}{196} | 100 = 25.56\%$$

$$\text{Year mid July 2010} = \frac{231.21 - 246.10}{246.10} | 100 = -6.05\%$$

**Appendix-13**

## Types of other deposit of BOKL

(Amount in million)

### LOAN DISBURSEMENT

Year Mid-July	Loan Disbursement	Increase/Decrease in Loan Disbursement	%increase/decrease in loan disbursement
2005	6104.9	-	-
2006	6167	62.1	1.02
2007	7525	1358	22.02
2008	9694.1	2169.1	28.83
2009	12748	3053.9	31.50
2010	14946	2198	17.24

Here,

The growth rate for the loan disbursement is calculated as:

% increase or decrease in the loan disbursement collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{62.1}{6104.9} | 100 = 1.02\%$$

$$\text{Year mid July 2007} = \frac{1358}{6167} | 100 = 22.02\%$$

$$\text{Year mid July 2008} = \frac{2169.1}{7525} | 100 = 28.83 \%$$

$$\text{Year mid July 2009} = \frac{3053.9}{9694.1} | 100 = 31.50\%$$

$$\text{Year mid July 2010} = \frac{2198}{12748} | 100 = 17.24\%$$

## Appendix-14

## Types of other deposit of NIBL

(Amount in million)

### LOAN DISBURSEMENT

Year Mid-July	Loan Disbursement	Increase/Decrease LoanDisbursement	in	%increase/decrease inloanandisbursement
2005	7290.2	-		-
2006	10295	3004.8		41.22
2007	13007	2712		26.34
2008	17286.4	4279.4		32.90
2009	26966.7	9680.2		56.00
2010	36241.2	9274.6		34.39

Here,

The growth rate for the loan disbursement is calculated as:

% increase or decrease in the loan disbursement collected

$$= \frac{\text{increase or decrease in the deposit collected}}{\text{deposit collected of previous year}} | 100$$

$$\text{Year mid July 2006} = \frac{3004.8}{7290.2} | 100 = 41.22\%$$

$$\text{Year mid July 2007} = \frac{2712}{10295} | 100 = 26.34\%$$

$$\text{Year mid July 2008} = \frac{4279.4}{13007} | 100 = 78.66 \%$$

$$\text{Year mid July 2009} = \frac{9680.2}{17286.4} | 100 = 56.00\%$$

$$\text{Year mid July 2010} = \frac{9274.6}{26966.7} | 100 = 34.39\%$$

Appendix-15

### Loan Loss Provision to Loan Disbursed

**of NIBL**

(Amount in million)

YEAR mid-July	L.L.P	Loan Disbursed	Ratio (%)
2005	182.26	7290.2	2.50
2006	277.97	10295	2.70
2007	299.16	13007	2.30
2008	421.97	17286.42	2.44
2009	309.47	26966.65	1.15
2010	213.91	36241.2	0.59

Here,

The ratio of loan loss provision to loan disbursement is calculated as:

$$= \frac{\text{Loan Loss Provision}}{\text{Loan Disbursed}} | 100$$

$$\text{Year mid July 2005} = \frac{182.26}{7290.2} | 100 = 2.50\%$$

$$\text{Year mid July 2006} = \frac{277.97}{1029} | 100 = 2.70\%$$

$$\text{Year mid July 2007} = \frac{299.16}{13007} | 100 = 2.30\%$$

$$\text{Year mid July 2008} = \frac{421.97}{17286.42} | 100 = 2.44 \%$$

$$\text{Year mid July 2009} = \frac{309.47}{26966.65} | 100 = 1.15\%$$

$$\text{Year mid July 2010} = \frac{213.91}{36241.2} | 100 = 0.59\%$$

**Appendix-16**

**Loan Loss Provision to Loan Disbursed  
of BOKL**

(Amount in million)

YEAR mid-July	L.L.P	Loan Disbursed	Ratio (%)
2005	367.51	6104.9	6.02
2006	268.88	6167	4.36
2007	231.02	7525	3.07
2008	294.77	9694.1	3.04
2009	285.08	12748	2.24
2010	298.42	14946	2.00

Here,

The ratio of loan loss provision to loan disbursement is calculated as:

$$= \frac{\text{Loan Loss Provision}}{\text{Loan Disbursed}} | 100$$

$$\text{Year mid July 2005} = \frac{367.51}{6104.9} | 100 = 6.02\%$$

$$\text{Year mid July 2006} = \frac{268.88}{6167} | 100 = 4.36\%$$

$$\text{Year mid July 2007} = \frac{231.02}{7525} | 100 = 3.07\%$$

$$\text{Year mid July 2008} = \frac{294.77}{9694.1} | 100 = 3.04 \%$$

$$\text{Year mid July 2009} = \frac{285.08}{12748} | 100 = 2.24\%$$

$$\text{Year mid July 2010} = \frac{298.42}{14946} | 100 = 2.00\%$$

**Appendix-17**

**Non-Performing Loan to Loan Disbursed**

**of NIBL**

(Amount in million)

Year mid-July	NPL	Loan Disbursed	NPL to loan Disbursed in %
2005	182.26	7290.2	2.50
2006	277.97	10295	2.70
2007	299.16	13007	2.30
2008	421.97	17286.42	2.44
2009	309.47	26966.65	1.15
2010	213.91	36241.2	0.59

Here,

The ratio of Non-performing loan to loan disbursement is calculated as:

$$= \frac{\text{Loan Loss Provision}}{\text{Loan Disbursed}} | 100$$

$$\text{Year mid July 2005} = \frac{182.26}{7290.2} | 100 = 2.50\%$$

$$\text{Year mid July 2006} = \frac{277.97}{10295} | 100 = 2.70\%$$

$$\text{Year mid July 2007} = \frac{299.16}{13007} | 100 = 2.30\%$$

$$\text{Year mid July 2008} = \frac{421.97}{17286.42} | 100 = 2.44 \%$$

$$\text{Year mid July 2009} = \frac{309.47}{26966.65} | 100 = 1.15\%$$

$$\text{Year mid July 2010} = \frac{213.91}{36241.2} | 100 = 0.59\%$$

## Appendix-18

### Non-Performing Loan to Loan Disbursed of BOKL

(Amount in million)

Year mid- July	NPL	Loan Disbursed	NPL to loan Disbursed in %
2005	409.03	6104.9	6.70
2006	308.35	6167	5.00
2007	18.23	7525	0.24
2008	23.29	9694.1	0.24
2009	236.89	12748	1.86
2010	190.31	14946	1.27

Here,

The ratio of Non-performing loan to loan disbursement is calculated as:

$$= \frac{\text{Loan Loss Provision}}{\text{Loan Disbursed}} \times 100$$

$$\text{Year mid July 2005} = \frac{409.03}{6104.9} \times 100 = 6.70\%$$

$$\text{Year mid July 2006} = \frac{308.35}{6167} \times 100 = 5.0\%$$

$$\text{Year mid July 2007} = \frac{18.23}{9694.1} \times 100 = 0.24 \%$$

$$\text{Year mid July 2008} = \frac{23.29}{9694.1} \times 100 = 1.86 \%$$

$$\text{Year mid July 2009} = \frac{236.89}{12748} \times 100 = 1.86\%$$

$$\text{Year mid July 2010} = \frac{190.31}{14946} \times 100 = 1.27\%$$

