

LENDING POLICIES OF COMMERCIAL BANKS IN NEPAL

A Thesis

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University, Kathmandu

By:

Suman Bahadur Godar

Roll No.: 132/062

T.U. Regd. No: 7-1-48-1514-99

Exam Roll No: 3145

Central Department of Management

T.U., Kirtipur, Kathmandu, Nepal

*In Partial Fulfillment of the Requirements for the Degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal

April, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Suman Bahadur Godar

Entitled:

"Lending Policies of Commercial Banks in Nepal"

*has been prepared as approved by this Department in the Prescribed format
of faculty of Management.*

This thesis is forwarded for examination.

.....
Lecturer, Ajaya Prasad Dhakal	Prof. Dr. Jay Krishna Pathak	Prof. Dr. Dev Raj Adhikari
Supervisor	Chairperson, Research Committee	Head of Committee

Date :

VIVA - VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

By

Suman Bahadur Godar

Entitled:

"Lending Policies of Commercial Banks in Nepal"

and found the thesis to be the original work of the student written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirements for the degree of
Master's of Business Studies (M.B.S.)

Viva-Voce Committee

Chairperson (Research Committee)

Member (Thesis Supervisor)

Member (External Expert)

Member (Central Department of Management)

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled "Lending Policies of Commercial Banks in Nepal" submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Lecturer Ajaya Prasad Dhakal of Central Department of Management.

April, 2009

.....

Suman Bahadur Godar

Researcher

Roll No. : 132/062

T.U. Regd. No. : 7-1-48-1514-99

Central Department of Mgmt. Kathmandu

PREFACE

The completion of the present study is a result of help and support of several hands. Therefore, I would like to express my heartfelt gratitude to all those respondents for their support and help.

First of all thanks to the entire helping hands in order to complete the work successfully. I am highly indebted to my thesis supervisor Lecturer Ajaya Prasad Dhakal for his constant encouragement, patient guidance and valuable supervision at every stage of my work. This work would not have been materialized at the present form without his incisive observations and intellectual direction in the course of completion.

I would also like to give special thanks to Prof. Dr. Dev Raj Adhikari, Head, CDM, T.U., Kirtipur for their kind co-operation and guidance.

I am also grateful to all the professors, lecturers as well as staffs of the Central Department of Management, Kirtipur whose suggestions made me able to finalize this thesis.

I am equally grateful to librarians of T.U. Central Library, Department Librarians for their help. Likewise, I would like to express my gratitude to the responding companies, financial executives and practitioners for solving my queries without which it would be different for me to complete this thesis.

I am thankful to my parents for their continuous supports and corrective suggestions. I would like to thank to all my friends.

It was a great experience of doing a thesis work which certainly helped me to gain deep knowledge in the subject matter. Though it was very difficult to get data and information, it was pleasant feeling to accomplish the thesis work finally.

Thumki - 2, Kaski

.....

Suman Bahadur Godar

TABLE OF CONTENTS

Page No

Recommendation

Viva-Voce Sheet

Declaration

Preface

List of Abbreviations

Table of Contents

List of Tables

List of Figures

CHAPTER – I

INTRODUCTION

1-19

1.1	Background of the Study	1
1.2	Status of Financial Sector in Nepal	3
1.3	NRB and Financial Institutions: An overview	5
1.4	Brief Introduction to Commercial Banks	11
1.5	Focus of the Study	11
1.6	Profile of the Concerned Banks	12
	1.6.1 Everest Bank Limited	12
	1.6.2 Himalayan Bank Limited	13
	1.6.3 Nabil Bank Limited	14
	1.6.4 Nepal Investment Bank Limited	15
1.7	Statement of the Problems	15
1.8	Objectives of the Study	16
1.9	Significance of the Study	17
1.10	Limitation of the Study	18

1.11	Scheme of the Study	18
CHAPTER – II		
REVIEW OF LITERATURE		20-46
2.1	Conceptual Review	20
	2.1.1 Commercial Banks	20
	2.1.2 Concept of Credit	20
2.2	Review of Books	24
2.3	NRB Directives Review	27
2.4	Review of Articles	40
2.5	Review of Thesis	41
2.6	Research Gap	46
CHAPTER – III		
RESEARCH METHODOLOGY		47-61
3.1	Research Design	47
3.2	Population and Samples	48
3.3	Data Collection Procedure	48
3.4	Data Collection Techniques	48
3.5	Method of Data Analysis	50
	3.5.1 Financial Tools	50
	3.5.2 Statistical Tools	57
3.6	Limitation of the Research Methodology	61
CHAPTER – IV		
PRESENTATION AND ANALYSIS OF DATA		62-110

4.1	Measuring the Liquidity Position of the Banks	62
4.1.1	Current Ratio	62
4.1.2	Liquid fund to Current Liability Ratio	63
4.1.3	Liquid Fund to Total Deposit Ratio	64
4.2	Measuring the Lending Strength	65
4.2.1	Loan & Advances to Total Deposit Ratio	65
4.2.2	Loan & Advances and Investment to Total Deposits Ratio	66
4.2.3	Loan & Advances to Shareholders' Equity	67
4.2.4	Non-interest Bearing Deposit to Total Deposit Ratio	68
4.3	Analyzing the Lending Efficiency and it's Contribution to Profitability	69
4.3.1	Interest Income to Total Income Ratio	69
4.3.2	Interest Expenses to Total Deposit Ratio	70
4.3.3	Interest Income to Interest Expenses Ratio	71
4.3.4	Interest suspense to Interest Income From Loan & Advances Ratio	72
4.3.5	Loan Loss Provision To Total Loan & Advances Ratio	73
4.3.6	Loan Classification and Provisioning	75
4.4	Analysis of Growth Rate	85
4.4.1	Growth rate of Total Deposit	85
4.4.2	Growth rate of Loan & Advances	86
4.4.3	Growth Rate of Total Investment	87
4.4.4	Growth Rate of Net Profit	88
4.5	Correlation Coefficient Analysis	89
4.5.1	Co-efficient of Correlation between Deposit & Loan and Advances	90
4.5.2	Co-efficient of Correlation between Investment and Loan	91
4.5.3	Co-efficient of Correlation between Shareholders' Equity and Loan & Advances	92

4.5.4	Coefficient of Correlation between Total Income and Loan & Advances	93
4.5.5	Coefficient of Correlation between Interest Suspense and Interest Income	94
4.5.6	Coefficient of correlation between provision for loan loss and Loan & Advances	95
4.5.7	Coefficient of Correlation between Interest Income & Net Profit	96
4.6	Trend Analysis	97
4.6.1	Trend Analysis of Deposit Collection	97
4.6.2	Trend Analysis of Loan Disbursement	98
4.6.3	Trend Analysis of Loan Loss Provision	100
4.6.4	Trend Analysis of Net Profit	101
4.7	Analysis of Primary Data	102
4.7.1	Interpretation of Questionnaire's responses given by employees	103
4.7.2	Interpretation of Questionnaire's responses given by customers	105
4.8	Major Findings of the Study	106

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION 111-119

5.1	Summary	111
5.2	Conclusion	115
5.3	Recommendation	117

Bibliography

Appendixes

LIST OF TABLE

Table No.	Title	Page No.
1.1	List of Financial Institutions	4
4.1	Current Ratio	62
4.2	Liquid Fund to Current Liability ratio	63
4.3	Liquid Fund to Total Deposit ratio	64
4.4	Loan & advances to Total Deposit ratio	65
4.5	Loan & Advances and Investment to Total Deposit ratio	67
4.6	Loan & Advances to Shareholders' Equity	68
4.7	Non-interest bearing deposit to Total Deposit ratio	69
4.8	Interest Income to Total Income Ratio	70
4.9	Interest Expenses to Total Deposit ratio	71
4.10	Interest Income to Interest Expenses ratio	72
4.11	Interest Suspense to Interest income from Loan & Advances	73
4.12	Loan loss provision to total loan & Advances	74
4.13	Loan Classification and Provisioning of EBL	76
4.14	Loan Classification and Provisioning of HBL	78
4.15	Loan Classification and Provisioning of NABIL	80
4.16	Loan Classification and Provisioning of NIBL	82
4.17	Non-performing Loan to Total loan and Advacnes ratio	84
4.18	Growth Rate of Total deposit	85
4.19	Growth Rate of Loan & Advances	86
4.20	Growth Rate of Total Investments	87

4.21	Growth Rate of Net Profit	88
4.22	Coefficient of Correlation between deposits and loan & Advances	90
4.23	Co-efficient of Correlation between Investment and Loan & Advances	91
4.24	Coefficient of Correlation between Shareholders' Equity and Loan & Advances	93
4.25	Coefficient of Correlation between Total income and Loan & Advances	93
4.26	Coefficient of correlation between interest suspense and interest income	94
4.27	Coefficient of Correlation between Provision for Loan loss and Loan & Advances	95
4.28	Coefficient of correlation between Interest Income and Net Profit	96
4.29	Trend analysis of Deposit Collection	97
4.30	Trend analysis of Loan Disbursement	99
4.31	Trend analysis of Loan Loss Provision	100
4.32	Trend analysis of Net profit	101
4.33	Analysis of responses given by employees	103
4.34	Analysis of responses given by credit customers	105

LIST OF FIGURE

Figure No.	Title	Page No.
4.1	Growth of Total Deposit	86
4.2	Growth of Total Loan & Advances	87
4.3	Growth of Total investment	88
4.4	Growth of Net profit	89
4.5	Trend Line of Deposit Collection	97
4.6	Trend Line of Loan Disbursement	99
4.7	Trend line of Loan Loss Provision	101
4.8	Trend line of Net profit	102

ABBREVIATIONS

6*PEr	:	Six times of the probable error
A.D.	:	Anno Domini
ATM	:	Automated Teller Machine
B.S.	:	Bikram Sambat
C.V.	:	Coefficient of variation
EBL	:	Everest Bank Limited
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Limited
HMG	:	His Majesty's Government
i.e.	:	That is
LLP	:	Loan Loss Provision
NABIL	:	Nepal Arab Bank Limited
NGO	:	Non Government Organization
NIBL	:	Nepal Investment Bank Limited
NIDC	:	Nepal Industrial Development Corporation
NPA	:	Non Performing Assets
NPL	:	Non Performing loan
NRB	:	Nepal Rastra Bank
NRN	:	Non Resident Nepali
P.E.	:	Probable Error
r	:	Coefficient of Correlation
R ²	:	Coefficient of Determination
S.D.	:	Standard Deviation
CRR	:	Cash Reserve Ratio
CAR	:	Capital Adequacy Ratio