

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

It is obvious that economic development is impossible without the development of different sectors like industries, trade so on. So development of these sectors needs a regular supply of financial resources. In development countries there is always shortage of the capital for the development activities. It is not possible to handle and development all the sectors by the government alone at a time. Private people also cannot undertake large business because per capital income of the people is very low while their propensity to consume is very low. Their saving is not sufficient for carrying on development works.

Capital formation is one of the important factors in economic development. The capital formation leads to increase in the size of the national output. Income and employment. Solving the problem of inflation and balance of payment and making the economy free from the burden of foreign debt. Domestic capital formation helps in making a country self sustainable profit made by business community constituted the major part of the community and what was assumed to be invests.

The issue of development always rests upon the mobilization of resources. Banks function of lending ensures required volumes of capital to resources mobilization .thus the foundation of resources mobilization is pillared on the bank function of lending. The primary issue of economic development, production income, government revenue, international trade etc. what role a bank can play to assist the economic development is the main issue that the banking sector facing in Nepal and worldwide today. The liberalization of economy has posed more responsibility and challenges on commercial banks. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development. The liberalization of financial sector in Nepal has opened a new horizon of expectancy in banking industry. But the liberalization is not easy game to play, it demands for expert to drive the liberalization, without the competence driver gives rise to a chaos and exploitation n economy.

Lending is the most fundamental function of commercial bank as well as other finance institutions. It is not only the most important function; it also determines the futures of financial institutions. The quality of loan, the quality of borrower and the quality of securities determines the health of any financial institution. It is very sensitive subjective that what sort of credit policy a bank should have. So it should pay more attention to the loans and advances that it provides.

Banking sector plays an important role in the economic development of the country. Commercial banks are one to the vital aspects of this sector, which deals in the process of channelling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to such institutions it is possible that the saving will not be sagely and profitably utilised within the economy. Ti will be diverted aboard or channelled into unproductive conspicuous consumption including real estate speculation.

“Banks assist both the flow of goods and services from the producer to the consumer and the financial activities of the government. Banking provides the country with a 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; 1992:162*).

Loan is essential aspect of commercial bank. “First, income from loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community bank relationship. Third, lending money spurs business development and supports a growing economy” credit being the most important function of commercial banks, affects overall development of the country. So far as pace of economic development is considered it is directly related to the quality and quantity of the credit, which is derived from various financial institutions, especially commercial banks in Nepal.

Lending operation of commercial banks is very risky one. For this commercial banks have to pay due consideration while formulating lending polity. A healthy development of any commercial bank depends upon its lending policy. A good

lending policy attracts of borrowers and lenders, which help to increase the volume and quality of deposits, loans and investment.

1.2 Statements of the Problems

Lending is one of the major terms of investment policy. So every financial institution should concentrate on lending as major means of investment. But the sufficient return cannot have been found to be earned as well stable and appropriate lending policy hasn't been followed by these commercial banks.

None of the commercial banks can survive without implementing its lending functions efficiently. To better sustain of any business entity, its market availability is a must. In present situation liquidity with public is quite high and banks are not getting promising lending opportunities properly. They are collecting adequate amount from the mass; however they couldn't find new lending sectors to mobilized funds on the changing context of Nepal. Increasing rate of liquidity has caused a downward trend in investment sectors .it has ensued bad impact on interest rate to the depositors, lower dividend to the shareholders, lower market values of shares, lower contribution to national revenue etc.

Lending portfolio position of the banks is not satisfactory. These are not following a sound diversification principle. At one time commercial banks lending had invested a large proportion of their loan to garment, hotel, carpet industries but these sectors became sick and banks are in trouble of their loan repayment. Commercial banks in Nepal has been facing several challenges , some of them arising from lack of smooth functioning of economy, some of them arising due to confused policies and many of them arising due to default of the borrowers. Thus, in this in this scenario of Nepalese commercial banking sector, this study has been mainly concentrated on the following specific problems.

- What are the trend of deposit, credit and profitability of commercial banks?
- What is the position of non-performing loan in total lending?
- What is the position of liquidity of commercial banks?
- Do the commercial banks have sustainable lending environment?
- Are commercial banks lending aggressively?

1.3 Objectives of the Study

The main objective of the study is to analyse the lending performance of the NABIL and EBL banks. The specific objectives of the study are as follows.

- To analyse status of non performing loans of NABIL and EBL
- To measure the lending performance quality and efficiency
- To study the position and utilisation of deposit, lending and its contribution to profitability of banks under study

1.4 Signification of the Study

Lending is one of the essential and main functions where the whole banking business is rested upon .In the context of Nepal there are less availability of research work, journals and articles in the lending policy of commercial bank. There are only few researches in commercial bank especially on their lending practices. Few books dealing with theses aspects can be found but they are not sufficient. Lending is one of the essential and main functions where the whole financial business is rested upon.

This study covers two commercial banks namely NABIL and EBL. As it is being well known fact that the financial institutions can affect the economic conditions of the whole country the effort is made to highlight the lending practices of the commercial banks expecting that the study can fill the research gap on the lending practices of finance companies. As well it is believed that this study would carry a great significance to the shareholders of the commercial banks, to the professionals related to finance, to the students and teachers of banking and commerce.

Since this study has purposed to measures the efficiency of NABIL and EBL of their lending and investing behaviours putting their in the same tooting, it deserve the great importance to all the people invested. The study is the first in its quality in comparing commercial bank to other banks. So that its ads news idea and findings related to these commercial banks and add the substantial knowledge in management literature.

The main importance of the study is to highlight the lending policies of these two commercial banks expecting that the study can be bridge the gap between deposits and lending policies. On the other hand, the study would provide information to

management of the bank that would help them to take collective action. Further from the study, the shareholders would get information to make decision while making investment on shares of various banks. This study will provide a useful feedback for academic institution, bank employee, trainees and investors, financial person, policy maker bodies and other persons concerned with commercial bank. This study will serve to be a guide to the management of banks, financial institution, related parties, shareholders and general public.

1.5 Limitation of the Study

This study attempts to evaluate the lending policies and its practices of commercial banks. In fast changing world it is difficult to cope with the pace of changes. Due to the arrival of unforeseen difficulties, every study or research is always accompanied by some limitations. Some commonly attributed limitations of this study are as follows:

- Limited variables have been selected for analysis.
- Being a student time and resources are constraints.
- Time and cost factors have also constrained the study.
- This study concentrates only related factors with lending.
- The study mainly based on secondary data collection from bank in same aspect .
- The study is done only on the basis of the published financial documents like balance sheets, profit and loss account so on.
- Some of the statistical and financial tools are used in the study. Hence the drawback and weaknesses of these tools may affect the result of the study.
- The study covers five fiscal years from 2007/08 to 2011/12.

1.6 Organization of the Study

The study has been divided into following five chapters.

Chapter:- I Introduction

The first chapter of the study is introduction, which highlighted the basis information of the research area, various problems, objectives, importance, limitations and organisation of the study.

Chapter:- II Review of Literature

The second chapter of the study assures readers that they are familiar with important research been carried out in similar areas by earlier scholars in related areas. It also establishes that the study as link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter:- III Research Methodology

The third chapter refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes the various research methods, source of data, data collection techniques, method and period of study.

Chapter :-IV Data Presentation and Analysis

The developed information has finished in required from in fourth chapter. Information is presented and analysed by using various financial and statistical tools in specified from to meet the stated objective of study.

Chapter:-V Summary, Conclusion and Recommendations

On the basis of the results form data analysis, the researcher concluded about the research work. Besides, it also gives important suggestion to the concerned organization for better improvement.

CHAPTER- II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Meaning of Lending / Loan

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

Loan includes:

- The forbearance of debt arising from a loan.
- The creation of debt by credit to an account with the lender upon which the debtor is entitled to draw immediately.
- The creation of debt by the lender's payment of or agreement to pay money to the debtor or to a third party for him of the debtor.

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

"Commercial bank as of its primary function makes lending activity. It is apparent that loan is defined as a thing is lent, esp. a sum of money. Likewise, debt means a

sum of money owed to somebody. However in financial terms loan or debt means principal or interest availed to the borrowers against the security. Debt means money that owes or will lend to individual or person” (*Ghimire; 2005:113*).

“In bank, lending is the most risky business among the all. There is no risk in collection of deposit but only small careless or mistake in the loan portfolio and procedures can shock the bank profitability and survival, when bank is unable to recover the loan with interest. Therefore, there should be well managed regulations lending aspect of bank. Such regulation should be strictly followed while evaluating the loan proposal and providing loan” (*Khadka and Singh; 2004: 196*).

“The formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management. Well-conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimising the risk inherent in any extension of credit” (*Cross; 1963:56*).

“Lending is a form of trade. In means giving of purchasing power now in exchange for purchasing power in future” (*Kohn; 1996:23*).

“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 realised. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same” (*Cotter, Gill and Smith; 1980:1-5*).

2.1.2 Types of Loan

Banks make a wide variety of loans to wide variety of customers for many different purposes. For customers, the cause of loan purchasing may be investment in business, purchasing auto mobiles, take dream vacations, pursuing college educations, constructing home and office building so on.

On the basis of loan purpose, bank loans can be divided into following categories (Acharya; 2010:30).

1. Term Loan

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

2. Project Loan

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

3. Working Capital Loan

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

4. Loan Against Fixed Deposit Receipt

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

5. Priority/Deprived Sector Loan

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

6. Overdraft

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

7. Cash credit

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

8. Hire Purchase Financing

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

9. Bill Purchase and Discount

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

10. Bridge Gap Loan

If a term loan is approved to some customers and the approving institution cannot disburse the facility because of in completion of legal and other formalities. In this situation customer may ask as bridge gap loan.

11. Consortium Loan

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

12. Real Estate Loan

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

13. Commercial and Industrial Loan

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

14. Housing Loan

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

15. Off-Balance Sheet Transaction

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

2.1.3 Bank Guarantee

No loan is disbursed in the transaction of Bank Guarantee. Hence I would like to introduce it is a single sentence. Bank guarantee expresses a commitment of the bank to make good any financial loss and beneficiary of the guarantee may sustain when the party named in Guarantee on whose behalf the guarantee is issued falls to perform the contract and or discharge his/her obligation.

Letter of Credit

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

2.1.4 Features of Sound Lending Policy

The income and profit of the commercial banks depend upon its lending procedure. The greater the credit created by bank, the higher will be the profitability.

A sound lending policy is not only pre-requisite for commercial banks profitability, but also crucially significant for the promotion of commercial saving of backward country like Nepal. Some features of Sound lending policy are considered as under (*Shrestha; 2010:18*).

1. Safety

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

2. Liquidity

The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by borrower from short-term requirements and not locked up in acquiring fixed assets, or in schemes, which take a long time to pay their way.

The source of repayment must also be definite. The reason why bankers attach as much importance to “liquidity” as to “safety” of their funds is that a bulk of their deposits is repayable on demand or at short notice.

3. Purpose

The purpose should be productive so that the money provide a definite source of repayment. The banker must closely scrutinise the purpose for which the money is required, and ensure, as far as he can, that the borrower applies the money borrowed for particular purpose accordingly.

4. Profitability

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

5. Collateral / Security

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

6. Spread

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

7. Legality

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

8. National Interest

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

2.1.5 Elements for the Effective Lending Policy

A lending policy should contain an outline of the scope and allocation of bank's credit facilities and manner in which a credit portfolio is managed, i.e. how loans are originated serviced, supervised and collected. A good lending policy is not overly restrictive but allows for the presentation of loans to the board that officers believe are worthy of consideration but fall within the parameters of written guidelines. Flexibility must exist to allow for fast reaction and ready adaptation to changing conditions in a bank's earning asset mix and market environment. Consideration that from the basic elements of the effective lending policies including the followings (*Cross;1963:98*).

1. Geographic Limits

These limits are usually a dilemma. If a bank lacks understanding of its diverse market and does not have quality managements, geographic diversification may become a reason for bad loan problems. The imposition of strict geographical limits can also create problems, particularly in the case of regions with narrow economies. In any case, a bank's business market should be clearly delineated and commensurate with its market knowledge, managerial and staff experience. Bank's officer should be fully aware of specific geographical limitations for lending purposes.

2. Limit on Total Outstanding Loan

A limit on the total loan portfolio is usually expressed relative to deposits, capital or total assets. In setting such a limit, factors such as credit demand, the volatility of deposits and credit risks should be considered.

3. Credit Concentrations

A lending policy should stimulate portfolio diversification and strike a balance between maximum yield and minimum risk. Concentration limits usually refer to the maximum permitted exposure to a single client, connected group and sector of economic activities. This is especially important for small, regionally oriented or specialised banks. A lending policy should require that all concentration be reviewed and reported on frequent basis.

4. Distribution by Category

Limitations based on aggregated percentage of total loans in commercial, real estate, consumer or other credit categories are common. Policies related to such limitations should allow for deviations that are approved by the board.

5. Maturities

A lending policy should establish the maximum maturity for each type of credit and loans should be granted with a realistic repayment schedule. Maturity scheduling should be determined in relation to the anticipated sources of repayment, the purpose of the loan and the useful life of the collateral.

6. Types of Loans

A lending policy should specify the types of loans and other credit instruments that the bank intends to offer to clients and should provide guidelines for specific loans. Decisions about types of credit instruments should be based on the expertise of lending officers, the deposit structure of the bank and anticipated credit demand. Types of credit that have resulted in an abnormal loss should be controlled by senior management.

7. Loan Pricing

Rates of various loan types must be sufficient to cover the costs of funds, loan supervision, administration and probable losses. At the same time, they should provide the reasonable margin of profit. Rates should be periodically reviewed and adjusted to reflect changes in costs or comparative factors. Rate differentials may be deliberately maintained either to encourage some types of borrowers to seek credit elsewhere or to attract a specific type of borrower. Guidelines for other relevant procedures, such as the determination of fees or penalty interest rates are also an element of pricing policy.

8. Lending Authority

Lending authority is often determined by size of the bank. In smaller banks, it is typically centralized. In order to avoid delays in the lending process, larger banks tend to decentralize according to geographical area, lending products and types of customers. A lending policy should establish limits for all lending officers. If policies are clearly established and enforced, individual limitations may be somewhat higher than would normally be expected, depending on the officer's individual limitations may be somewhat higher than would normally be expected, depending on the officer's experience and tenure with the bank. Lending limits could also be based on group authority, which would allow a committee to approved larger loans. Reporting procedures and the frequency of committee meetings should be specified.

9. Appraisal Process

A lending policy should outline where the responsibility for appraisal lies and should define formal, standard appraisal procedures, including reference to reappraisals of renewals or extensions. Acceptable types and limits on the amount of appraisal should be outlined for each type of credit facility. Circumstances requiring appraisal by qualified independent appraisers should also be described. The ration of the amount to the loan to appraised value of both a project and collateral, as well as the method of valuation and differences among various types of lending instruments should be detailed. The lending policy should also contain a schedule of down payment requirements, where applicable.

10. Maximum Ratio of Loan Amount to the Market Value of Pledged Securities

A lending policy should set forth margin requirements for all types of securities that are accepted as collateral. Margin requirements should be related to the marketability of securities. A lending policy should also assign responsibility and establish a timetable for periodic pricing of collateral.

11. Recognition

A bank should recognise a loan, whether original or purchased, in its balance sheet. This should occur as soon as the bank becomes the party to the contractual provisions that apply to the loan. A bank should initially carry the loan at cost.

12. Impairment

A bank should identify and recognised the impairment of a loan or a collectively assessed group of loans. This should e done whenever it is neither probable nor assured that a bank will be able to collect the amounts due according to the contractual terms of a loan agreement. Impairment can be recognised by reducing the carrying amount of the loan to its estimated realisable value through an allowance or charge off or by attributing charges to an income statement during the period in which the impairment occurs.

13. Collections

A lending policy should define delinquent obligations of all types and specify the appropriate report to be submitted to the board. These reports should included sufficient detail to allow for the determination of the risk factor, loss potential and alternative courses of action. The policy should require a follow-up collection procedure that is systematic and progressively stronger. Guidelines should be established to ensure that all accounts are presented to and reviewed by board.

14. Financial Information

A lending policy should define the financial statement requirement for business and individual at various borrowing levels and should included appropriate guidelines for audited, non-audited, interim, cash flow and other statements. If the loan maturity is longer than one year, the policy should require that the bank's officers prepare financial projections with horizon equivalent that the bank's loan maturity, to ensure

that the loan can be repaid from cash flow. All requirements should be defined in such a manner that any negative credit data would clearly violate the bank's lending policy.

2.1.6 Criteria for Providing Loan

A bank has to set some criteria for providing loan. Persons who come to a bank for the purpose of demanding loan, the bank should not provide loan random choice, not by examining and investigating. If a loan is provided without proper investigations it will lose the principal and interest. Therefore the bank always has to follow some criteria for providing loan. These as follows: (*Pungeni; 2010:35*).

1. Personal Character

Before providing loan, a bank should make an inquiry and examination of a person who comes to the bank with proposal of loan. Though it is very difficult to find out true character of person, it must be checked out. The bank should study whether the person has good character with intention to pay the loan or not, whether he is person of criminal nature or not, whether a creditor has filed a petition against him in the court for recovery of debt or not. If the person is doubtful in nature, character and the bank has uneasiness to him, if so, it should not accept the proposal of loan. If he process good character and other criteria are satisfactory to the bank, it should accept the proposal.

2. Capacity or Competency

First of all it should be checked out whether the person is a person capable under law to make a contract with bank or not, i.e. according to the contract Act 2056(1999), if he is (capable) a competent person, there after the bank should know what kin of qualifications the proposal maker does have and in which subject or business he is related with, whether he has competency or skill in that business or not. Under this heading the bank should carefully examine all things, which are relating to capacity of borrower.

3. Capital

If any person or businessman comes to make a proposal for a loan in a bank, economic condition should be examined. His demand for money should be matched

with the status of his household condition, how much the sum of money he wants to invest in his business. If the economic condition of the proponent is poor or less, or inferior to the amount for loan, the bank should reject his proposal. In brief, the quantity of amount of proponent financial condition should be stronger than the quantity of amount demanded.

4. Security /Collaterals

A bank is a legal person. It doesn't provide the loan without securities or collaterals. It always studies and analyses whether the securities or collaterals recovers the banks principal and interest of the loan. Inspired by the same concept, it classifies the security. A security means property, which is pledge able under the existing law while giving loan or document relating thereto or any other security acceptable to the bank. But the Nepalese banking law has not defined collateral. But the collateral falls under the security, itself. If a bank is satisfied no primary security, it does not require collateral, if the bank is not satisfied with the primary security, the bank may ask collateral, if the borrower can 't give collateral, the bank does not provide loan to him.

5. Tangible and Intangible Security

Securities, like raw materials, finished goods, agricultural produce, machinery's land and building shares and debentures, fixed deposit receipts life insurance policies are those that have physical form and are, therefore, called tangible securities. In addition to tangible securities, or when tangible security is not available, a banker can also take intangible securities or when tangible security is not available, a banker can also take intangible securities, like guarantees of reputed persons to cover an advance. In case of need, the bank calls upon the borrowers in their personal capacity to repay the advance.

6. Secured and Unsecured Advances

When sufficient tangible security is available to cover the amount of advance, it is called a secured advance. When tangible security is not available to back the advance or is not sufficient to cover the advance in case of need, it is called an unsecured advance.

7. Primary and Collateral Security

Primary security is the security, which the borrower himself offers to a banker as the main security for an advance. Collateral security is the additional security, which the banker may insist upon as it helps him to realize his dues in case the primary security defaults. Section 47.b (1) of the commercial bank act 2031 reads as follows:

Notwithstanding anything mentioned in prevailing law the bank may provide loans with security of moveable property in the following circumstances, and the bank shall provide the loans only after stipulating conditions acceptable to it:

- Moveable property acceptable to the bank as a security under its possession
- Entrusting the security to the possession of the borrower on the condition that the bank may take possession of the property whenever it's so wants.
- If the movable property of the borrower is not in its possession, by obtaining a document providing for its ownership on such property.

8. Credit Information

The bank should find out the credit information of the person or businessman who comes to request for a loan. Credit information such as the loan proponent's characters, the securities given to the bank, the detail of the property and their reality, a bank can get all information about loan proponent and the businessmen. It can be a great help to the bank. It is difficult for the bank to find out the real condition of the loan proponent.

9. External Environment

Before providing loan, a bank always should evaluate the external condition or environment of the industry, business shown by the loan proponent, whether the business shown by the proponent is saleable or usable in the market or not, the proposal of loan proponent should not be approved, though the above mentioned five grounds are received satisfactory by the bank. Because, a businessman can't gain profit from the financial potion whose may deteriorate. Therefore, while providing loan, it should study the external environment too.

2.1.7 Step of Lending Process

From the viewpoint of both principle and practice, lending has the following steps:

1. Evaluation of Loan Proposal

After a person and institution submit a proposal, project bank makes a deep study and analyses from different angles on the proposal. Before approving the loan proposal the bank evaluates all necessary documents for providing loan. In the case of person or businessmen the study of such documents are different. It will be accepted or rejected depending on the will of the bank. If the bank feels the loan proposal satisfactory, it can approve the loan accordingly.

2. Find what Types of Loan

After accepting the proposal of a borrower, the bank discusses on these subjects, what types of loan the projector or the person wants. Surely, the nature of the loan differentiates from loan proposal of the proposal of the proponent. In this way, it becomes the division of the loan. Generally, there are many types of loan like industrial loan, hire purchase and the employees' loan so on. The loan can be classified in another way too like secured loan and unsecured loan. The bank wants to keep its safe. So, the banks can classify loan in this way the loan can be classified in the process of approving the loan.

3. Loan Interview

Once a customer decides to request a loan, an interview with a loan officer usually follows right way, giving the customer the opportunity to explain he or her credit needs. That interview is particularly important because it provides an opportunity for the bank's loan officer to assess the customer's character and sincerity of purpose. If the customer appears to lack sincerity in acknowledging the need to follow to the terms of a loan, this must be recorded as a strong factor evaluating against approval of the loan request.

4. Site visit

If a business or mortgage loan is applied for, an officer of the bank usually makes a site visit to assess the customer's location and the condition of the property. Site visit helps to verify the accuracy of the information provided by the applicant. It also reveals the degree of customer's sincerity and character.

5. Reference check

The loan officer may contact other creditors, who have previously loaned money to this customer to see what their experience has been. Did the customer fully adhere to previous loan agreements and keep satisfactory deposit balance? This payment record often reveals much about the customer's character, sincerity of purpose, and sense of responsibility in making use of bank's loan.

6. Preparation of Necessary Documentation

If everything up to this point is favourable, the customer is, then, asked to submit several crucial documents in order to fully evaluate the loan request, including complete financial statements. In case of a corporation, the applicant is also asked for board of director's resolution authorizing of loan with the bank. Such documents are:

- The statement of income and expenditure
- Citizenship certificate.
- The certificate or income tax registration
- Scheme of the institution or the business
- Any contract or agreement.
- The memorandum of understanding
- Documents relating to security
- Documents relating to insurance.

7. Credit Analysis

Once all documents are on file, the credit analysis division of the bank conducts a thorough financial analysis of them aimed at determining whether the customer has sufficient cash flow and backup assets to repay the loan. The credit analysis division then prepares a brief summary and recommendation, which goes to the loan committee for approval a brief summary and recommendation, which goes to the loan committee for approval. In case of larger loans, member of the credit analysis division gives an oral presentation, and discussion will ensure between staff analysis and the loan committee over the strong and weak points of loan proposal.

7. Loan Amount

The bank may or may not give the amount, which proponent he has demanded. It is the matter depended on the will of the bank. Yet in determination of loan quantity is

made by paying attention to the need of the customer, evaluation of the securities and the state and position of the business.

8. Perfecting Collateral

When the loan committee approves the customer's loan request, the loan officer or the credit committee will usually check on the property to be pledged as collateral or can acquire title to the property involved in case the loan agreement is defaulted. This is often referred to as perfecting the bank's claim to collateral. Once the loan officer and the bank's loan committee are satisfied that both the loan and collateral are sound, the note and other documents are made up from a loan agreement.

9. Loan Acceptance Charge

After completing all processes, the bank decides to provide loan to the loan proponent. According to this decision, the proposed loan is made. According to the provision of the loan document, borrower can withdraw the money from the bank. But sometimes, such a situation may be created that the borrower doesn't take the loan after the bank accepts the loan. In such condition, the bank can recover the charge from the proponent if he does not take the loan. Because, the bank can't withdraw that amount until the period is not ended. The cash remains in unproductive form in the bank. Therefore the bank takes that charge for accepting that loan.

10. Monitoring

After advancing loan to the customer, it seems to be the end of lending process, but actually it is the beginning of lending process. Can the loan officer put the signed loan agreement on the shelf and forget about it? Hardly the new agreement must be monitored continuously to ensure that the terms and conditions are being followed and that all required payments of principal and interest are being made as promised. For larger commercial credits, the loan officer will visit the customer's business periodically to check on the firm's progress and to see what other services the customers may need.

2.1.8 Loan Review

Loan review is the examinations of outstanding loans to make sure borrowers are adhering to their credit agreement and the bank is following its own loan policies. After the borrower and the bank have endorsed loan, what should the bank do with the loan files? Should the bank keep the loan file in the shelf and forgotten, until the loan falls due? Obviously not. After advance of loan, bank should maintain continuous relationship with the borrower until principal and interest are fully recovered. For this purpose, bank should conduct loan review of all borrowers. The changing condition affects the borrower's financial condition and his or her ability to repay a loan. Fluctuations in the economy weaken some business and increases the credit needs. In case of individual loan, people may lose their jobs and serious health problems imperilling their ability to repay any outstanding loans. The bank loan department must be sensitive to these developments. So the bank should periodically review all loans until they are fully recovered. There are some certain general principles that should be followed by bank while conducting the loan review.

The most common principles are:

1. Regular

There must be regular loan review especially for all types of loans. It is important especially for large and criticized loan. Loan review should be carried out on periodic basis such as monthly, quarterly, half yearly or yearly.

2. Large Loans

In the case of the large loans, the more frequently loan review is essential, because default on these loan agreements can seriously affect the bank's own financial condition.

3. Troubled Loans

Even adequate carefulness and precautions the bank has taken, some may fall into trouble due to uncontrolled environmental circumstances. Such troubled loans should be reviewed more frequently.

4. Deflation

If the economy shows down or if the industries are which the bank has made a substantial portion of its loans develop signification problem, the frequency of loan review should be increased to safeguard the bank from unexpected risks.

5. Structuring

To make the loan review perfect, it should be structured carefully to ensure all-important aspects of loans and borrowers and checked properly. The loan review should be able to check the following aspects of loan the completeness of loan documentation, to make sure the bank has access to any collateral pledge and possesses the full legal authority to take action against the borrower in the courts if needed. An assessment for whether the loan conforms to the bank's lending policies and to the standard applied to its loan portfolio by examiners from the regulatory agencies. The record of borrower payments, to ensure that the customer is not falling behind the planned repayment schedule the quality and condition of any collateral pledge behind the loan.

2.1.9 Warning Signs of Weak Loan and Poor Bank Lending Policy

The manual given to bank examiners by the Federal Deposit Insurance Corporations of united stated discusses several indicators of problem loans and poor bank lending policies.

Table 2.1**Warning Signs of Weak Loan and Poor Bank Lending Policy**

Indicators of a weak or Troubled Loan	Indicators of Inadequate or Poor Banking Lending Policy
Irregular or delinquent loan payment	Poor selection of risks amount borrowing customers
Frequent alteration in loan terms	Lending money contingent or possible future
Poor loan renewal record(with little reduction of principal each time the loan is renewed)	Lending money because a customer promises a large deposit
Unusually or unexpected build-up or the borrowing customer's accounts receivable and inventories	High proportion of loans made to borrowers outside the bank's trade territory
Rising debt-to-net-worth ratio	incomplete credit files
Missing documentation (especially missing customer financial statement)	Substantial self-dealing credits (loans to insiders-employees, directors or stockholders)
Poor quality collateral	Tendency to overreact to competition(making poor loans to keep customers form going to other banks)
Reliance or reappraisals of assets to increase the borrowing customer's net worth	Lending money to support speculative purchases
Unusually high loan rate (perhaps an attempt to compensate the bank for a high risk loan)	Failure to specify a plan for the liquidation of each loan
Absence of cash flow statements or projections	Lack of sensitivity to changing economic conditions
Customer reliance on non recurring sources of funds to meet loan payment (e.g. selling buildings or equipment)	

(Source: Acharya; 2010: 33)

2.1.10 Non-Performing Loan

Non-Performing assets are those not generating income. Loans are normally considered to be non-performing when principle or interest on them is due and left unpaid 90 days or more. It is an international standard. The delinquency period for NPA is therefore typically introduced at 180 days and then tightened to 90 days after a period of time. Commercial banks are suffering from problems in credit management and also some obstacles beyond the area of credit management those are contribution raise the level of NPL. For the purpose of this analysis the factors contribution to have a high level NPL have been classified into two groups.

Internal Factors

The first is the internal factor which mainly comprise of weaknesses of the particular bank or financial institution in the credit management and oversight deficiencies in this regarded. If preventive measure is applied at the institutional level, the problem of NPL can resolve by bank them to some extent. Causes of NPL from internal factors are:

- Poor accounting and auditing capabilities
- Insider abuse and fraud in lending and recovery
- Poor recovery efforts even the loan is categorized under bad
- Significant NPL in the system due to poorly managed few banks
- Lack of Lending policy guidelines and loan write off policies in the past.
- Limited supervision by the bank itself and weak internal controls in the banks

External Factors

Another aspect related with the external factors, which are beyond the control of the banks and financial institution. While analysing the causes of the astounding level of NPL, we can point out some of the components as fallow:

- Lack of financial discipline within borrowers
- Security problems and conflicts in the economy
- Lack of judicial support to the banks in recovery
- Poor regulative and supervisory capacity of the central bank in the past
- Deterioration in economic growth rates and activities since last few years
- Lack of supportive institutions helping to reduce the NPL of commercials banks
- Poor legislative regime in the system specially governing financial system and poor implementation issues. Fragmented legal environment and lack of bankruptcy law.

2.1.11 Review of NRB Directive

NRB the central bank of Nepal is responsible for directing and supervising the activities of commercial banks. The major directives that are related to the study are listed below:

NRB Directives no 2/067: General Loan Loss Provision

Having exercised the powers conferred by section 79 of the Nepal Rastra Bank Act 2002. The following directives have been issued with regard to classification of credit/advances and provisions to be made for its possible loss by the institutions obtaining licenses for this bank to carry out financial transactions.

Under this head provision made only against the pass loan should be included. The amount should be limited up to 1.25% of the total risk weighted assets. However, loan loss provision on sub standard and doubtful loans should be available for inclusion under the supplementary capital during the period as follows.

The new regulation also address upon the classification of loan and advances. Loans are classified as performing and nonperforming loans. Regulation provides for overdue period of outstanding loans and advances as minimum criteria for classification of loans and advances. Existing grades of loans have been reduced from 6 to 4 performing loans including loans includes pass loan only, while non-performing loans includes substandard, doubtful and bad loans. Providing requirements are changed as under.

Classification of Loan and Advances

Entire loan and advances which extended by licensed institution have to be classified as follows base on expiry of the deadline of repayment of the principal and interest of such loan / advances.

S.N	Classification of Loan	Period of Overdue	Loan Loss Provision
1	Good	Not overdue or overdue up to 3 month	1%
2	Sub - standard	Overdue loan form 3 months to 6 month period	25%
3	Doubtful	6 to 12 month overdue loans	50%
4	Bad	More than 1 year period overdue loans	100%

(Source: www.nrb.org.np nrb directives; 45)

1. Good Loans

Loans and advance whose principle amount not due and past due for a period up to 3 month shall be included in this category. These are classified as Performing Loans.

2. Sub-Standard Loans

All loans and advances that are past due for a period of 3 month shall be included in this category.

3. Doubtful Loans

All loans and advances, which are past due for a period of 6 month to one year, shall be included in this category.

4. Bad/Loss Loans

All loans and advances which are past due for a period of more than one year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be include in this category.

2.2 Review of Journals and Articles

In this section, effort been made to examine and review of some related articles and journals published in different economic journals, which among the various reviews of various journals pertaining to the study, the major and mostly contributing to the study has been outline below

Zerith (2008), Publish an article on “ *Loan Portfolio Management*”, affirmed that to manage the loan portfolios, bankers must understand not only the risk posed by each credit but also how these risks of individual loans and portfolios are interrelated. These interrelationship can multiply risk may times beyond what it would be if thee risks were not related. Until recently, few banks used modern portfolio management concepts to control credit risk. Now, many banks view thee loan portfolio in its segments and as a whole and consider the relationship among portfolio segments as well as among loans. These practices provide management with a more complete picture of the bank's credit risk profile and with more tools to analyse a control the risk.

Zerith further concluded that effective loan portfolio management begins with oversight of the risk in individual loans. Prudent risk selection is vital to maintaining

favourable loan quality. Therefore, the historical emphasis on quality. Therefore the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential. But better technology and information systems have opened the door to better management methods. A portfolio manager can now obtain early indicators comprehensive view of the loan portfolio.

Ahmed (2010) publish a journal on “*Priority Sector Lending by Commercial Banks in India: A Case of Barak Valley*”. The priority sector lending is mainly intended to ensure that the assistance from the banking system to those sectors of the economy which has not received adequate support of institutional finance. The attainment of the socio economic priorities of the government like growth of agriculture, promotion of small entrepreneurs and development of backward area etc is the major responsibility of commercial banks. Since seventies reserve bank of India and government of India have stipulated guidelines for priority sector lending by banks. The some was devised on April 30, 2007 and overall priority sector lending target was fixed at 40 percent for domestic banks and 32 percent for foreign banks. However the banks are not able to reach the prescribed target of lending to priority sector.

The small entrepreneurs and farmers are continued to be both credit and demand constraints. Thus, it can be observed that the demand for funds for priority sector viz, small entrepreneurs and agricultural sector is enormous with this backdrop, the present treatise is an attempt to diagnose the various lacunas of priority sector lending by commercial banks in the area under consideration in the context of national scenario. The conclusion is that, however the analysis of priority sectors NPA in the study area viz, Barak Valley has not been included due to non availability of information.

Obamuyi (2011) publish a journal on “*Comparative Loan Performance in Banks and Micro Credit Institutions Nigeria: A Case Study of Ondo State*”. He has compares the performance of loans granted to small and medium enterprises by banks with that of micro credit institutions in Nigeria, using Ondo state as a case study. Descriptive statistics were used to analysis the data collected through primary source. He has found that the average repayment rate of 92.93% for banks was higher than the 34.06

% for the micro-credit schemes. That is, the banks performed at much higher levels than micro-credit scheme. Base on the finding; it was recommended that there should be stern efforts by the credit institutions in screening of loan applications, monitoring of approved loans and enforcing loan contract. He has concluded that government should provide the basic infrastructural facilities, which unnecessarily increases the cost of doing business in the country. He has recommended that there should be stern efforts by the credit institution in screening of loan applications, monitoring of approved loans and enforcing loan contract. The stakeholders in the financial system must always work together to reinforce the financial benefits arising from high loan performance because it has positive effects on the stability of the financial system.

Rayhan (2011) publish a Journal on “*Performance Evaluation and Competitive Analysis of State Owned Commercial Banks in Bangladesh*”. The broad objective of this study is performance evaluation and competitive analysis of state owned commercial banks in Bangladesh. This paper finds the development and growth of state owned commercial banks in Bangladesh. Secondary data was used for the research. The study reveals all the state owned commercial banks in Bangladesh are not able to achieve a stable growth, net profit, earning per share, return on equity, return on assets, net asset value per share but they are capable to achieve a stable growth of deposit, loan and advances, equity. It is also observed that all the of state owned commercial banks have high non-performing loan /classified loan and % of classified loan to total loan is very high. Employees of all state owned commercial banks are negative growth. Trend equations have been tested for different activities of the state owned commercial banks. Positive growth was found in deposit, asses and expense while negative trend was found in number of employees. In case of non-performing loan and % of classified loan positive trend was found in Sonali Bank Limited, while negative trend was in Janata Bank Limited and Agrani Bank Limited. Square of correlation coefficient has also been tested for all trend equations. The correlation coefficient of branches, employees, deposit, assets are more than 0.5. It indicates that the prospects of these indicators of state owned commercial banks are bright. All other indicators like net profit after tax, earning per share, non-performing loan, and % of classified loan to total loan correlation coefficient are more than 0.5 for all banks. It proves that all state owned commercial banks do not achieve these indicators during the period of 2005 to 2009.

Jha and Hui (2012) publish a journal on “ *A Comparison of Financial Performance of Commercial Banks: A Case Study of Nepal*”. The objectives of the study was to compare the financial performance of different ownership structured commercial banks in Nepal based on their financial characteristics and identify the determination of performance exposed by the financial ratios, which were based on CAMEL model. Eighteen commercial banks for the period 2005 to 2010 were financially analyzed. In addition, econometric model (multivariate regression analysis) by formulating two regression models was used to estimate the impact of capital adequacy ratio, non-performing loan ratio, interest expenses to total loan, net interest margin ratio and credit to deposit ratio on the financial profitability namely return on assets and return on equity of these banks. The results show that public sector banks are significantly less efficient than their counterpart are ; however domestic private banks are equally efficient to foreign owned (joint venture) banks. Furthermore, the estimation results reveal that return on assets was significantly influenced by capital adequacy ratio, interest expenses to total loan and net interest margin, while capital adequacy ratio had considerable effect on return on equity.

2.3 Review of Thesis

Sharma (2004) conducted a study on “*Priority Sector Investment of Commercial Banks in Nepal*” with the objective of highlighting the priority sector investment and repayment state of commercial banks in Nepal through intensive banking programmed and to show the repayment position of the sector has concluded, “All the three commercial bank covered in this study have contributed to the credit to priority sector. But the efforts made by different banks are not in the same proportion NABIL has contributed highest amount of credit to agriculture and cottage industry. NBBL has contributed highest amount to services sectors. So for the loan repayment from priority sector is concerned NABIL has very satisfactory performance where as NBBL has very low performance or loss repayment overdue loan have been observed more in agriculture. He has further suggested that, commercial banks should improve the repayment loan by generation the income of rural farmers. Reinvestment and right utilisation of bank loan are the cost of the commercial banks since there is a need to increase assets by better arrangements should provided with adequate training so that they could identify right borrowers, right projected and ensure correct project appraisal.

Maharjan (2005) conducted a study on “*Loan Management of Nepalese Commercial Banks*” has examined the loan management of three commercial banks in Nepal. The main objectives of the study were how far the banks are investing in the priority sector and 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 strong financial condition of the country directives should be made. In this research only how to lend is discussed but the recovery management is missing.

Maskey (2006) has conducted a study on “*A Comparative Study of Lending Performance with Reference to Nabil Bank Ltd, Standard Chartered Bank Ltd and Nepal Investment Bank Ltd.*”. The thesis gives the objectives of studying the relationship among different financial indicators relating to loan 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 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 makes banks financially strong instead of holding high volume of NPA in addition to all the guidelines followed by NRB and the bank's 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.

Tuladhar (2008) conducted a study on “*A Study on Lending Practices of Finance Companies of Nepal*”. The main objectives is highlighting the fact regarding lending and recovery and highlighting the NRB Directives regarding loans and advances. The tools used in the thesis are financial and statistical tools.

The conclusion is that, this thesis is able to fulfil its objectives of what a loan actually is, what is the principle of good loan? Quality of loans is objected to highlight to measure the lending performance in quality, efficiency and its contribution in profitability. The liquidation of collateral as regarded as secondary against the loans and advances is one a 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 theoretical base.

Bhattarai (2010) study regarding the “*Lending management of Nepalese commercial banks (with reference to Nepal Bank Ltd and Nabil Bank Ltd)*”. Objectives of the study are to examine position of the priority sector lending of selected banks, to analysis the portfolio of lending of selected banks, to examine the impact of loan and deposit on profit of the selected banks, to explore the relationship of total loan with deposit and no performing loan and profitability.

The major findings of the study are:

- Deposit collected of both banks is increasing but fluting trend
- Lending deposit ratio of NBL is in decreasing trend but other is increasing trend 2005/06 and then falls.
- NABIL seems to be the best performance in utilizing its collected fund in the form of loan and advance efficiently where as NBL has no more utilizing the collected funds
- Nonperforming loan of other banks seems decreasing in trend.

NABIL is more conscious about priority sector investment for the economic development of the country. It seems that both banks reduced their investment in priority sector in year by bear. There is negative relation between loan loss provision and loan of NABIL, this mean NABIL has lower volume of NPL and loan and Advances. The correlation coefficient of NABIL highly negative and NBL has highly positive between NPL and loan. This means both NPL and loan and advances of NBL is in decreasing trend. The analysis of nonperforming loan in categorized NBL has high volume of bad loan in every year of the study period and NABIL has higher bad loan in the year 2004/05 to 2006/07 NBL has higher volume of non-performing loan

and it has higher bad loan than other higher bad loan indicates that the poor performance and effective credit policy of bank. In lending portfolio analysis both bank investing in different sector. Productions sectors is the dominant sector because it covered more % of loan out of total loan granted by both bank NABIL invested more than 33% in this sector every year of the research period. Production represents industry an more investment in industrial sector helps to economic development of the nation. The ration of priority sector to loan and advance NABIL has maintained higher PSL to total loan and advance ratio as compare NBL. Therefore NABIL is more conscious about prior sector. It seems that both bank reduced their investment in priority sector in yearly

Ale (2011) in this master's thesis, "*Lending Practice of Commercial Banks of Nepal with reference to NABIL, EBL, NCC, NBB*" has the main objectives of this study are to analyse performance of NABIL, EBL, NCC and NBB regard the lending quality and quantity.

Some of other objectives are:

- To analyse the portfolio behaviour of lending and measuring the ratio and volume of loans and advance made in different sectors.
- To determine the lending efficiency of the commercial banks.
- To examine the impact of deposit, loan and non-performing loan on profit of selected banks.

Major finding of the study are as follow:

- The mean ratio of non-performing loan of NBB is highest of all and the lowest of that is of EBL.
- While analysing the lending efficiency and its contribution in total profitability loan loss provision to total loan and advance, NCC has the highest among all.
- It is highly recommended to NCC and NB bank that they should carefully consider NPL, LLP, CD ratio, loan and advance growth to ensure sustainable growth for the long term period.

Research Gap

Lending is the increasing challenges faced by commercial banks. Some researchers have been done on this subject. Previous researcher analysis the lending policy by using secondary data in term of investment policy and lending practices. In this study lending policy is measuring by lending practices, trend analysis and various statistical tools used in analysing questionnaire. The previous study could not submit the present facts. Hence the researcher had attempted to fill this research gap by taking reference to commercial banks. This research will be able to deliver some of the present issues, latest information and lending policy of commercial bank.

CHAPTER –III

RESEARCH METHODOLOGY

The research methodology is the systematic way of solving research problems. Research methodology refers to the overall research processes, which a researcher conducts during his/her study. It includes all the procedures from theoretical foundation to the collection and analysis of data. The chapter includes research design, population and sample, sources of data so on.

3.1 Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances. Research design is the arrangement of conditions for collection and analysis of data. To achieve the objective the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate lending of commercial banks.

3.2 Population and Samples

In statistics, population means whole. The populations refer to the industries of the same nature and its service and product in general. The total commercial banks constitute the population of the data and bank under study constitutes the sample for the study. The following two banks are selected as sample for the Study:

- NABIL Bank Limited
- Everest Bank Limited

3.3 Period of Study

The study covers five fiscal years from 2007/08 to 2011/12.

3.4 Natures and Sources of Data

Secondary sources of data have been collected in order to achieve the real and fact data as far as available. The secondary data, on the other hand, are those which have already been collected by some else and which have already been passed through the statistical process.

The major sources of secondary data are as follows:

- Books related to loan portfolio
- Annual General Reports of the Bank
- Economic survey, GON, Ministry of Finance
- NRB Directives and Reports, NRB Samachar
- National Newspaper, Journals, Websites and Magazines
- Previous Studies and Reports
- Various internet websites

This study is mainly based on secondary data, obtained from various sources mentioned above. Nepal Rastra Bank publications such as quarterly economic bulletins, banking and financial statistics, economy report soon have been collected by the personal visit of concerned departments of Nepal Rastra Bank at Baluwatar. The data on some aspects of bank has also been obtained from the publications and websites. Most of data are taken from each and every commercial banks websites. Some supplementary data and information and literature review have been collected from the Shanker Dev Campus Library, NRB Library, different journal and magazines.

3.5 Method of Analysis

To achieve the objective of study various financial, statistical and accounting tools have used in this study. The Analysis of data will be done according to pattern of data available. The various calculated results obtained through financial accounting and statistic tool are tabulated under different heading then they are compared with each other to interpret the results, various tools applied in this study are presented as follows

3.5.1 Financial Ratio

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. A ration is simply one number expressed in term of another and such it expresses the quantitative relationship between any two numbers. Ration can express in terms of percentage and proportion. Different kinds of char are

the graphic forms of expressing a ratio. Ratio analysis is a part of the whole process of analysis of financial statements of any business or individual concern especially to take output and credit decision. Ratio analysis is used to compare a firm's financial performance and status to that of the other firms or to it overtime. Even though there are ratios to analyse and interpret the financial statement, only those ratios that are related to lending operation to the have been covered in this study. A large numbers of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situation for this study ratios are categorized in the following major heading.

Measurement of Lending Strength

3.5.1.1 Loan and Advances to Total Deposit Ratio

Commercial banks can collect deposit only ten times more than their authorized capital. Commercial bank cannot provide all deposit for loan and advance, Investment so on. According to NRB directives, commercial bank can provide only up to 88% of loan from fixed deposit, 50% from saving deposit and call deposit. However, they cannot provide loan from current deposit. Commercial bank must deposit two or five percentage of their total deposit in Nepal Rastrya Bank account. This percentage is fixed by their type of deposit. Total Loan and Advances to total deposit ratio is calculated by total loan and advances divided by total deposit.

$$\text{Loan and Advance to Total Deposit} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

3.5.1.2 Non Interest Bearing Deposit to Total Deposit Ratio

The cost of deposits is the major expenses of commercial banks. Banks cannot avoid costly deposits at all but they can maintain the certain proportion between interest bearing deposits and non-interest bearing deposit by administering the interest rate structure. Current deposit is known as non interest bearing deposit. This ratio measures the volume of non-interest bearing deposits in total deposits. in practices interest-bearing deposits has always been playing a significant role in the mix of deposit liability. Noninterest bearing deposit to total deposit ratio is calculated by non interest bearing deposit divided by total deposit.

$$\text{Non Interest Bearing Deposit to Total Deposit} = \frac{\text{Non Interest Bearing Deposit}}{\text{Total Deposit}}$$

3.5.1.3 Loan and Advances to Total Assets Ratio

Loan and advances is the major components of the assets, which indicate the ability of banks to utilize its deposits in the form of loans and advances to earn high return. It is an appropriate level to generate profit. The higher degree of this ratio indicates the good performance of the commercial banks in mobilizing its funds by way of lending function. However, its reverse side, the high degree of this ratio is representative of low liquidity ratio either. This ratio is calculated dividing Loan and advances by Total Assets.

$$\text{Loan and Advances to Total Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Total Assets}}$$

3.5.1.4 Loan and Advances and Investment to Total Deposit Ratio

Loan and advances and investment are the major area of fund mobilization of commercial banks. Loan and advances is the first type of application of funds, which has more risk as compare to investment and gives more return. Investment is cushion against the liquidity risk and at the same time, it gives return. The infesting activity of commercial banks has low level of risk and low level of return. Loans and Advances and investment to total deposit ratio indicates the form's fund mobilization power. The main sources of bank's lending and investment is its deposits. This ratio is calculated divided Loan and advances and investment by total deposit.

Loan and advances and Investment to Total Deposit Ratio

$$= \frac{\text{Loan and Advances and Investment}}{\text{Total Deposit}}$$

3.5.1.5 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are assets that constitute the commercial banks first live of defence and consist of cash in hand, foreign cash on hand, cheques and other cash items balance with domestic commercial banks, financial institutions and balance held in abroad. Cash and bank balance to total deposit ratio measures the proportion of most liquidity assets i.e. cash and bank balance among the total current assets of bank.

This ratio is calculated dividing cash and bank balance by total deposit.

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Measurement of Lending Performance in Quality, Efficiency and its Contributed in Total Profitability

3.5.1.6 Loan Loss Provision to Loan and Advances Ratio

It is occurred when the debtors fail to pay their loan. Loss of loan is not only the default of debtors but it is because of the failure of recovery of loan by the commercial bank. Negligence in its part makes a negative impact on the earning and capital of a bank very badly. Greater loan loss provision is made in income statement if high loss is expected. However, this will lead to low profit and possible losses and product low increase or decrease capital. This ratio is calculate dividing loan loss provision by total loan and advances.

$$\text{Loan Loss Provision to Loan and Advances Ratio} = \frac{\text{Loan Loss Provision}}{\text{Loan and Advances}}$$

3.5.1.7 Interest Expenses of Deposit to Total Deposit

Commercial banks should be give priority to collect the cheaper deposit from various sources. The commercial banks performance depends upon its ability to generate cheaper funds. More the cheaper fund will be the profitability in generating loan and advances and vice versa. The high ratio indicates of costly deposit collection and this adversely affects its running cost and lending performance of banks. This ratio is calculated interest expenses of deposit divided by total deposit.

$$\text{Interest Expenses of Deposit to Total Deposit Ratio} = \frac{\text{Interest Expenses of Deposit}}{\text{Total Deposit}}$$

3.5.1.8 Total Interest Expenses to Total Assets Ratio

Total interest expenses to total assets ratio measures the percentage of total interest expenses against total assets. This ratio is calculated by dividing total interest expenses by total assets.

$$\text{Total Interest expenses to Total Assets Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Assets}}$$

3.5.1.9 Total Interest Income from Loan and Advances to Total Income

Loan and advances plays a big role in interest income. This ratio measures the contribution made by interest from loan and advances to total income. Commercial bank's main source of income is generating from loan and advances. This ratio measures how efficiently the banks have employed their fund in lending. It is calculated dividing total interest income from loan and advances by total income.

$$\begin{aligned} &\text{Total Interest Income from Loan and Advances to Total Income} \\ &= \frac{\text{Total Interest Income from Loan and Advances}}{\text{Total income}} \end{aligned}$$

3.5.1.10 Capital Risk Ratio

The capital risk ratio indicates how much assets value may decline by bank before the position deposition and other creditors. Therefore, a bank needs to maintain sufficient capital in relation to be nature and condition of its assets, its deposits liability and other corporate responsibilities. Capital risk ratio measures ability of bank to attract deposit and interbank funds. It also determines the level of profit. This ratio calculated capital fund dividing by risky weighted assets.

$$\text{Capital Risk Ratio} = \frac{\text{Capital Fund}}{\text{Risk Weighted Assets}}$$

3.5.1.11 Return on Loan and Advances Ratio

Return on loan and advances ratio measure the earring capacity of banks on its deposit mobilized on loan and advances. Mostly loan and advances included loan cash credit, overdraft bills purchased and discounted. In other words, this ratio indicates how efficiently the banks have employed its resources in the firm of loan and advances. Return on loan advances ratio calculated by dividing interest income from loan and advance by loan and advances.

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Interest Income from Loan and Advance}}{\text{Loan and Advances}}$$

3.5.1.12 Return on Total Assets Ratio

The commercial bank has to earn a satisfactory return on total assets. Commercial banks have to well manage their assets, efficiently utilize their assets to get higher return from their assets. Return on total assets ratio measures the profit earning capacity by mobilizing their available total assets. This ratio is calculated as Net profit dividing by Total assets.

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

3.5.1.13 Non performing loan to Gross loan

The loans falling under category of substandard, doubtful and loss loan are regarded as non-performing loan. The bank should try to decrease NPL so that profitability of the banks can be strong. The effective loan management decrease the percentage of NPL. As per international standard, only 5% of total loan is allowed as Non-performing loan. The higher ratio indicates that the loss of capital. Hence the lower ratio of NPL to total gross loan is performed.

$$\text{Non Performing Loan to Gross loan} = \frac{\text{Non Performing Loan}}{\text{Gross Loan}}$$

3.5.2 Statistical Tools

Some important statistical tools are used to achieve of the study. In this study statistical tools such Trend Analysis. Correlation of coefficient and regression analysis has been used.

3.5.2.1 Mean (Average)

Mean is the sum of all the observation divided by the number of observations. The arithmetic mean can be computed as:

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

3.5.2.2 Standard Deviation

The standard deviation measures the absolute dispersion. The greater amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series, a large Standard Deviation mean just the opposite.

$$S.D = \sqrt{\frac{(\sum X - \bar{X})^2}{N}}$$

3.5.2.3 Coefficient of Variation (CV)

The coefficient of variation (CV) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (*Shrestha; 1991:45*). It is independent of units hence, it is a suitable measure for comparing variability of two series with same or difference units. A series with smaller CV is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the other and vice versa. It is calculated as standard deviation divided by mean.

$$CV = \frac{\sigma}{X}$$

3.5.2.4 Correlation Coefficient

Correlation is the statistical tool that we can use to describe the degree to which one variable are linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Person's method is applied in the study. The result coefficient of correlation is always between + 1 and -1.

When $r = +1$, is means there is perfect relationship between two variables and vice versa.

Where $r = 0$, it means there is no relationship between two variables.

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}}$$

3.4.2.5 Coefficient of Determination

Coefficient of determination is the square of correlation coefficient. It denotes the extend of changes independent variable that can be explained by independent variable.

Coefficient of determination $(r)^2 = r \times r$

3.5.2.6 Probable Error (P.Er)

With correlation coefficient, probable error is calculated to measures the extent of dependent variable that can be explained by the independent variable.

Probable error (P.Er) = $0.6745 \times \frac{1-r^2}{\sqrt{n}}$

3.5.2.7 Trend Analysis

When a series of data pertaining to a series of continuing periods should be studied it characteristics and its future direction is the best estimated by the time series. Time series analysis a series of data keeping in minds the various short terms fluctuations.

$$Y = a + bx$$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter is concerned with the presentation and analysis of data collected. In this chapter, the data collected from various sources have been presented and analysed to measure the various dimensions of the problems of the study. In this process numerical implies two parts. The first part of study deals with presentation and analysis of data while second part includes major finding of the study.

4.1 Measurement of Lending Strength

The relationship between various assets and liabilities of the balance sheet has been established to show the lending strength of lending of commercial banks comparatively. An attempt is made to determine the lending strength in absolute figure of each commercial bank.

4.1.1 Loan and Advances to Total Deposit Ratio

The main sources of bank's lending are its deposit. Thus, Loans and Advances to total deposits ratio actually measures how successfully the commercial banks are able to mobilize their total deposits on loans and advances for the purpose profit generation of total deposits, but too high ratio is not being better from its liquidity point of view. Lower ratio indicates the idle amount of deposit. So that higher ratio is favourable. Total loan and advances to total deposit ratio is calculated by total loan and advances divided by total deposit.

Table 4.1
Loan and Advance to Total Deposit Ratio

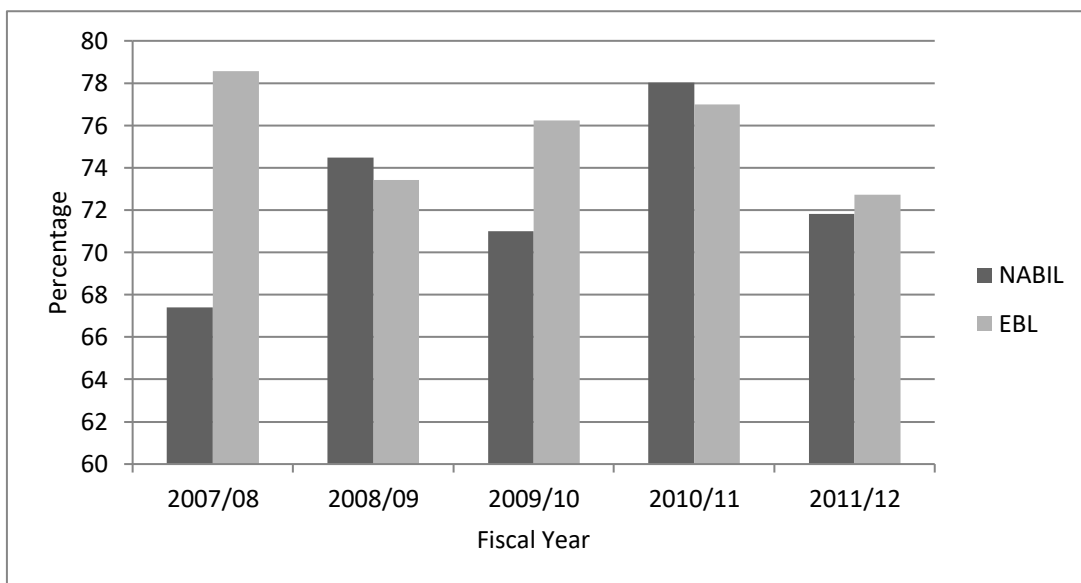
Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	67.41	74.48	71.01	78.01	71.83	72.55	3.54	4.88
EBL	78.56	73.43	76.24	76.98	72.74	75.59	2.19	2.89

Source: Annual reports of NABIL and Appendix 1

EBL is able to mobilize its deposit in right way in comparison of NABIL, The mean ratio is 72.55% & 75.59% respectively NABIL and EBL bank. EBL have the greater mean ratio than NABIL, Therefore EBL is able to get more profit from its loan and

advances where NABIL is unable to utilize their deposit for the profit generating purpose in effective way. It means, NABIL have many idle amount of deposit which increase its deposit expenses. Deposit expenses will decreases the NABIL bank profit. NABIL have higher risk then EBL. Standard deviation of NABIL is 3.54 where EBL have 2.19. Coefficient of variation of NABIL is also higher than EBL, which indicates that NABIL have idle deposit amount which is harmful to the organization. The figure no 4.1 show the five year average total loan and advances and total deposit of NABI and EBL Banks.

Figure 4.1
Loan and Advance to Total Deposit Ratio



Lastly, it can concluded that the EBL ratio was stronger and better position regarding mobilization of total deposit on loan and advance and acquiring higher profit than NABIL Bank. Higher ratio is not good from the view point of liquidity as the loans and advances are not liquid as cash and bank balance.

4.1.2 Non Interest Bearing Deposit to Total Deposit

Table no 4.2 explain the ratio of five year average noninterest bearing deposit to total deposit ratio of NABIL and EBL.

Table 4.2
NIBD to Total Deposit Ratio

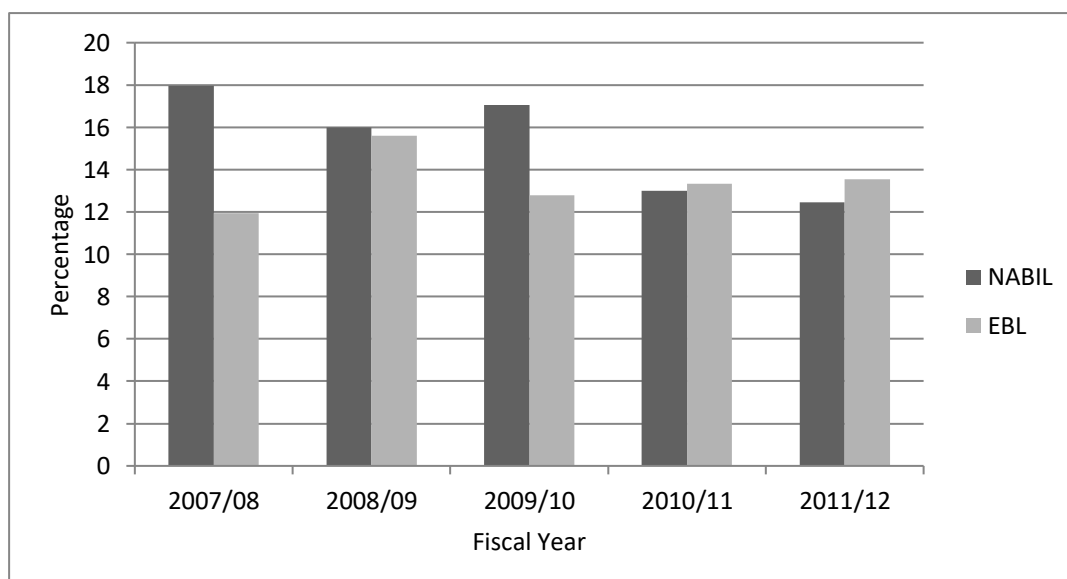
Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	17.95	16.01	17.06	12.99	12.47	15.3	2.19	14.3
EBL	11.95	15.59	12.78	13.32	13.55	13.44	1.2	8.92

Source: Annual reports of NABIL and EBL and Appendix 1

In the last five year study NABIL Bank's NIBD ratio is higher than EBL. This indicates that NABIL Bank was successful to collect cheapest fund. Higher ratio decrease the bank interest expenses and it will increases its profit. Where EBL Bank have lower ratio than NABIL which indicates that EBL Bank is not successful in collecting cheapest fund. NABIL and EBL Banks mean ration is 15.3% and 13.44% respectively. EBL has lower percentage of mean which means they have mostly interest bearing deposit which increases their deposit expenses. Their interest expenses will high which affect their deposit expenses. Their interest expenses will high which affect their interest income in negatively i.e. lower ration decreases their profit.

The standard deviation and CV of EBL is lower than NABIL bank. Which indicate that NIBD and total deposit pattern is in consistent over the period of study? Figure 4.2 show the five year average NIBD and total deposit of NABIL and EBL.

Figure 4.2
NIBD to Total Deposit Ratio



4.1.3 Loan and Advance to Total Assets

Loan and advance is the major components of total assets which indicates the ability of banks to utilised its deposits in the form of loan and advances to earn high return. It must be in an appropriate level to balance risk and return. The high degree of this ratio indicates the good performance of the commercial banks to mobilise its fund by way of lending, on the other side it also represents that low liquidity which means higher risks Table 4.3 show the five years average loan and advances to total asset ratio of NABIL and EBL banks.

Table 4.3
Loan and Advances to Total Assets Ratio

Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	55.91	60.5	60.3	63.2	59.7	59.94	1.53	2.56
EBL	65.94	64.39	66.95	67.52	65.17	66	1.14	1.72

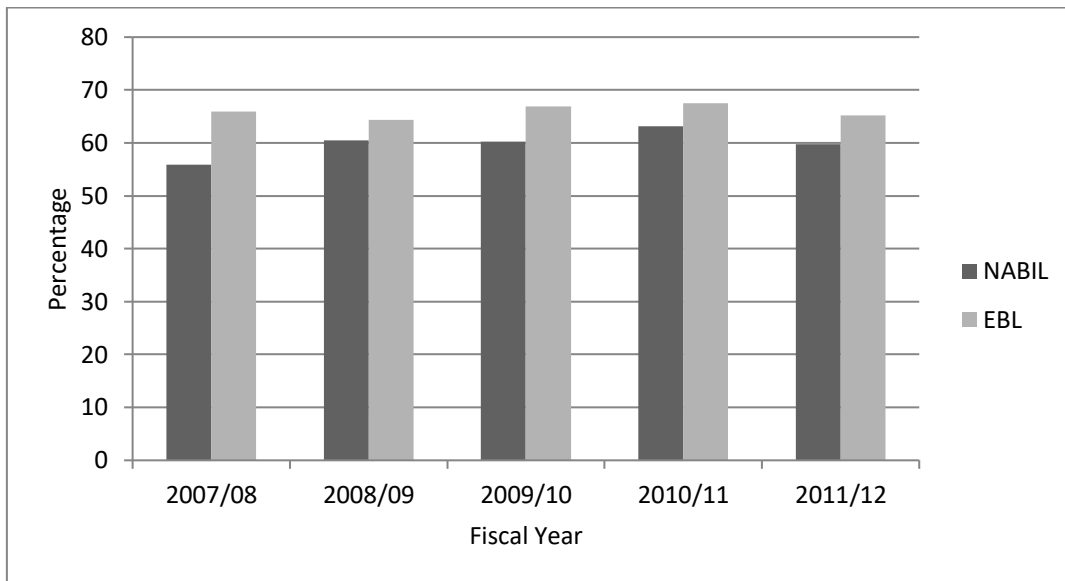
Source: Annual reports of NABIL and EBL Appendix 1

The investment ratio of NABIL and EBL bank is in increasing trend except year 2011/12. This means both banks are highly utilised their deposit as investment in loan and advances. In average, the 59.94% and 66% of assets are representative by loan and advances of NABIL and EBL respectively. It is clearly show that the NABIL has the lowest share of loan and advances in total assets.

Standard deviation and coefficient of variation of EBL is lower than NABIL bank which means EBL has the consistent pattern of loan and advances to total assets and variability over the time is lower. Figure 4.3 show per year loan and advances and total assets of EBL and NABIL bank from 2007/08 to 2011/12.

Figure 4.3

Loan and Advances to Total Assets Ratio



4.1.4 Loan and Advances, Investment to total Deposit Ratio

Loan and advances, investment are the major area of fund mobilisation of commercial banks. Loan and advances, investment to total deposit ratio major the ability of bank in generating income from bank's deposit liability. Loan and advances, investment to total deposit ratio is favourable when it is 85% or higher. Table 4.4 show the five year average loan and advances, investment to total deposit ratio of NABIL and EBL banks.

Table 4.4

Loan and Advances, Investment to Total Deposit Ratio

Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	82.73	85.13	88.55	95.96	85.63	87.6	4.57	5.22
EBL	99.03	88.87	88.03	94.36	88.47	91.75	4.3	4.69

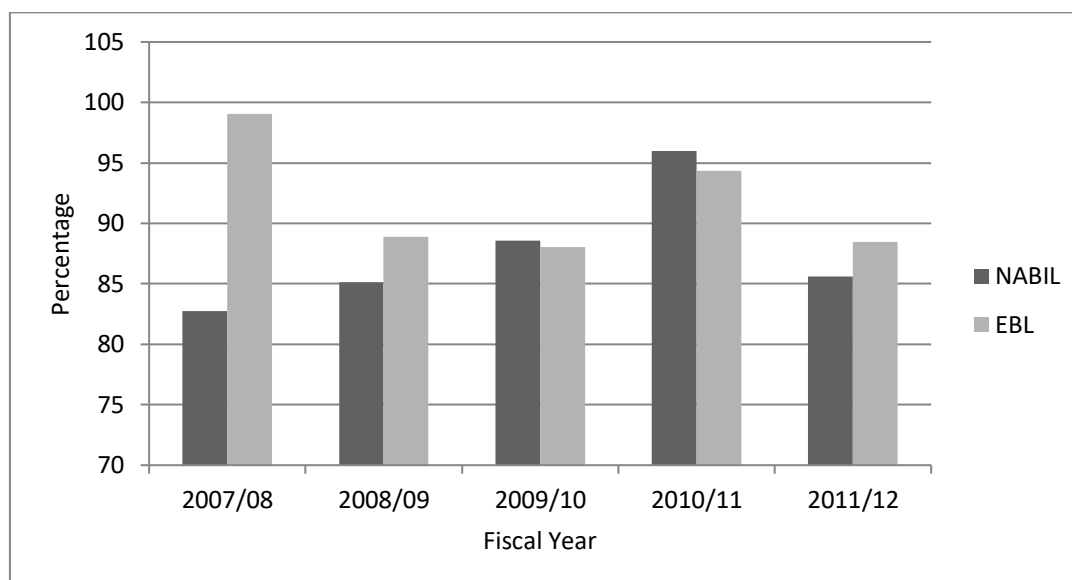
Source: Annual reports of NABIL and EBL and Appendix 1

The mean ratio of loan and advances, investment to total deposit of NABIL and EBL is higher than 85%. They are able to mobilize their deposit in the form of loan and advances and investment. So that they are able to generate higher profits. They have lowest deposit expenses. In the comparative study, EBL is the best performer in utilisation of its deposit in the form of loan and advance and investment.

The standard deviation and coefficient of variation of EBL shows that loan and advances and investment pattern is consistent over the period of the study. Figure no 4.4 shows the per year loan and advances and investment and total deposit of NABIL and EBL bank from the year 2007/08 to 2011/12.

Figure 4.4

Loan and Advances, Investment to Total Deposit Ratio



4.1.5 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are most liquid assets of commercial banks. Cash and bank balance to total deposit ratio measures the proportion of most liquidity assets among the total current assets of the bank. Higher ratio shows the bank’s ability to meet demand for cash another way higher ratio also show idle of cash in bank. However, high ratio is unfit as capital will be tied up and opportunity cost will be higher. Hence, cash and bank balance ratio should be balance. 12% of this ratio is taken as adequate to meet its demand for deposit liability. Table 4.5 shows the five year average cash and bank balance to total deposit ratio of NABIL and EBL banks.

Table 4.5

Cash and Bank Balance to Total Deposit Ratio

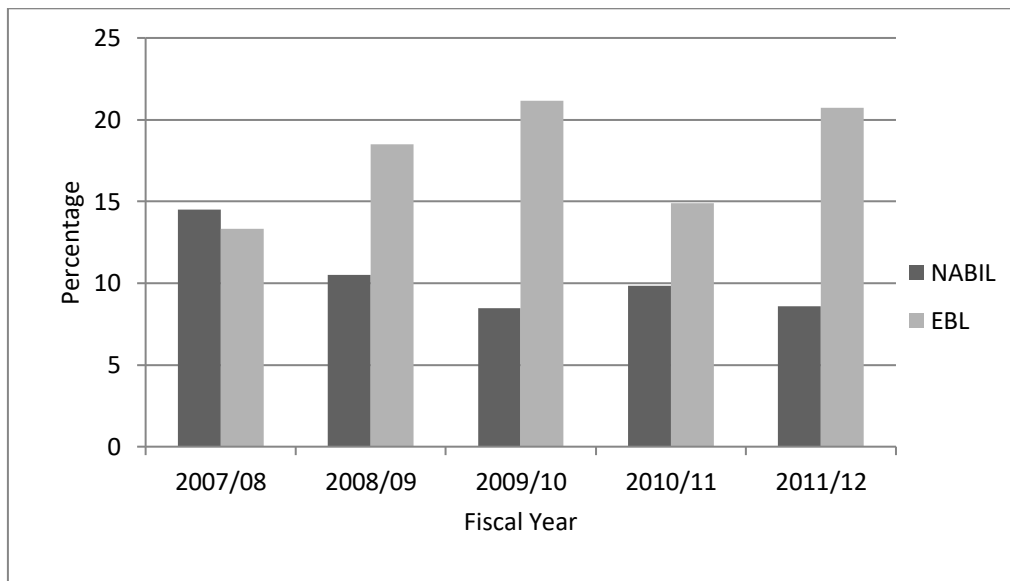
Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	14.49	10.51	8.47	9.83	8.57	10.37	2.16	21.17
EBL	13.34	18.5	21.17	14.89	20.72	17.72	3.12	17.62

Source: Annual reports of NABIL and EBL and Appendix 1

The mean ratio of cash and bank balance to total deposit ratio of EBL is above 12% EBL bank is able to meet their customer daily requirement for cash. but NABIL is less than 12% which means NABIL bank is not able to maintain the average cash and bank balance and also unable to maintain their customer daily cash need. In other side EBL has mostly higher ratio of cash and bank balance to total deposit .i.e. 17.72% which indicates that EBL is unable to utilize their fund successfully therefore opportunity cost will be high. NABIL bank's mean ratio of cash and bank balance to total deposit is lower than EBL, this cause by they are utilize their funds in productivity way.

Coefficient of variation of EBL is lower than NABIL. It is clears that EBL bank is less variable than NABIL bank. Figure 4.5 show per year cash and bank balance to total deposit of NABIL and EBL.

Figure 4.5
Cash and Bank Balance to Total Deposit Ratio



4.2 Measuring the Lending Performance in Quality, Efficiency and its Contributed in Total Profitability

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

4.2.1 Loan Loss Provision to Total Loan and Advances Ratio

The ratio of loan loss provision to total loan and advances describes the quality of loan. NRB has directed all the commercial banks to classify its loan and advances into category and make provision according to these loan. Table 4.6 show the five year average total loan loss provision to total loan and advances ratio of EBL and NABIL banks.

Table 4.6
Loan loss Provision to Total Loan and Advances

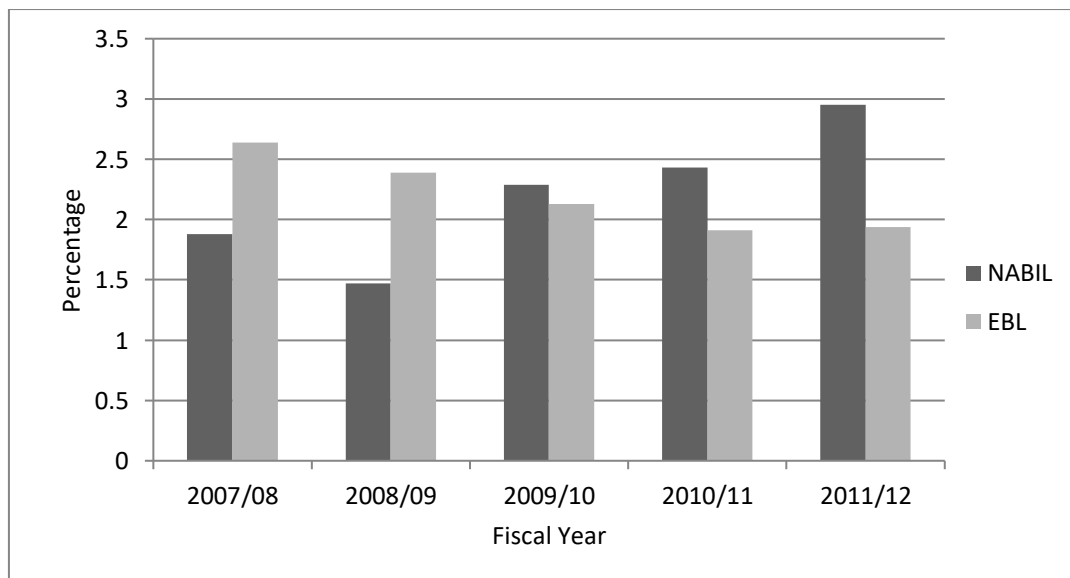
Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	1.88	1.47	2.29	2.43	2.95	2.2	0.5	22.73
EBL	2.64	2.39	2.13	1.91	1.94	2.2	0.83	12.85

Source: Annual reports of NABIL and EBL and Appendix 1

The mean ratio of loan loss provision to loan and advances of NABIL and EBL banks are the same i.e. 2.2%, which indicates that 2.2% of total loan and advances is allocated for loan loss provision.

The coefficient of variation of EBL bank is lower than NABIL, which indicates that EBL is less variable than NABIL. Table no 4.6 shows per year loan loss provision to total loan and advance ratio from the year 2007/08 to 2011/12.

Figure 4.6
Loan loss Provision to Total Loan and Advances



4.2.2 Interest Expenses of Deposit to Total Deposit Ratio

The commercial banks performance depends upon its ability to generate cheaper funds. More the cheaper fund more will be the profitability. The high ratio indicates of costly fund and this adversely affects its lending performance. Table no 4.7 shows the five year average interest expenses of deposit to total deposit of NABIL and EBL.

Table 4.7

Interest Expenses of Deposit to Total Deposit

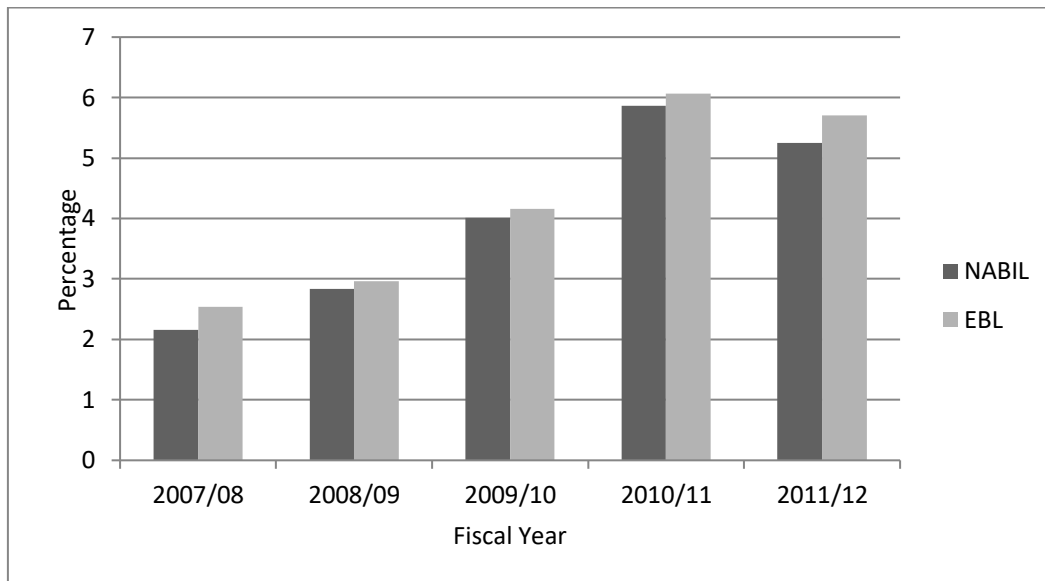
Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	2.16	2.84	4.01	5.86	5.25	4.02	1.39	34.74
EBL	2.54	2.96	4.16	6.07	5.71	4.29	1.41	32.96

Source: Annual reports of NABIL and EBL and Appendix 1

The above table 4.7 shows the five year average total interest expenses of deposit to total deposit ratio of NABIL and EBL banks. The mean interest expenses of deposit to total deposit ratio of NABIL and EBL is 4.02% and 4.29% respectively. There is slightly different between NABIL and EBL bank. In comparative study NABIL bank was able to manage its deposit in lower cost than EBL. So that NABIL can use its deposit in efficiency way and get more profit. But EBL has higher ratio, which indicates that EBL has higher cost of deposit. Higher ratio increases their running cost. It decreases their lending performance, efficiency and profit. EBL have costly deposit fund than NABIL. EBL have higher running cost in comparison of NABIL bank. NABIL was able to manage its deposit for lowest cost among these two commercial banks.

Coefficient of variance of NABIL is higher than EBL so its interest expenses of deposit to total deposit are more variable. Figure 4.7 shows five years average interest expenses of deposit to total deposit of NABIL and EBL.

Figure 4.7
Interest Expenses of Deposit to Total Deposit



4.2.3 Total Interest Expenses to Total Asset Ratio

Table 4.8 show the five year mean ratio of total interest expenses of deposit ratio of NABIL and EBL banks.

Table 4.8
Total Interest Expenses to Total Asset Ratio

Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	1.97	2.51	3.59	4.82	4.41	3.46	1.09	31.39
EBL	2.21	2.67	3.74	5.41	5.15	3.84	1.18	30.81

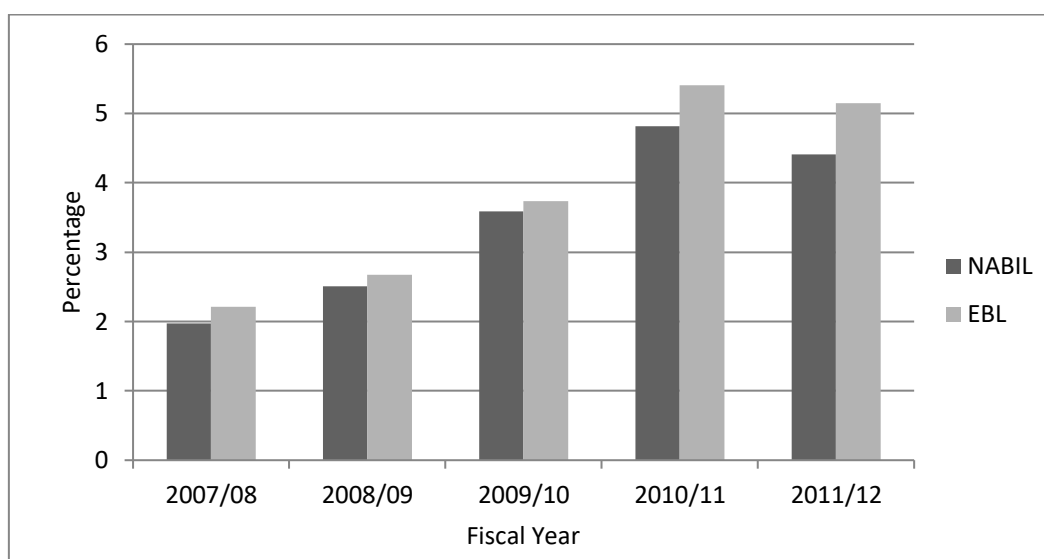
Source: Annual reports of NABIL and EBL and Appendix 1

Five year mean ratio of total interest expenses to total assets of NABIL and EBL bank is 3.46% and 3.84 % respectively. Both banks are able to mobilize their assets efficiently, there is slightly different between two banks but in comparative study NABIL bank is more efficient. It can be concluded NABIL bank was in better position from payment of interest point of view. It seems to be that NABIL bank successful to collect its assets from less expensive sources in comparison to EBL bank.

Standard deviation and coefficient of variation of EBL is lower than NABIL. Therefore EBL bank has lower variability in its total interest expenses to total asset ratio for the period of study. Figure 4.8 shows five year total interest expenses to total assets ratio of NABIL and EBL banks.

Figure 4.8

Total Interest Expenses to Total Asset Ratio



4.2.4 Total Interest income from Loan and Advances to Total Income

High ratios indicate higher profit form loan and advances. Table no 4.9 show the five year average total interest income from loan and advance to total income ratio of NABIL and EBL banks

Table 4.9

Total Interest Income from Loan and Advance Total Income

Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	75.62	77.99	83.23	85.25	85.75	81.57	4.05	4.96
EBL	71.95	72.2	79.23	89.35	90.82	80.71	8.1	10.03

Source: Annual reports of NABIL and EBL and Appendix 1

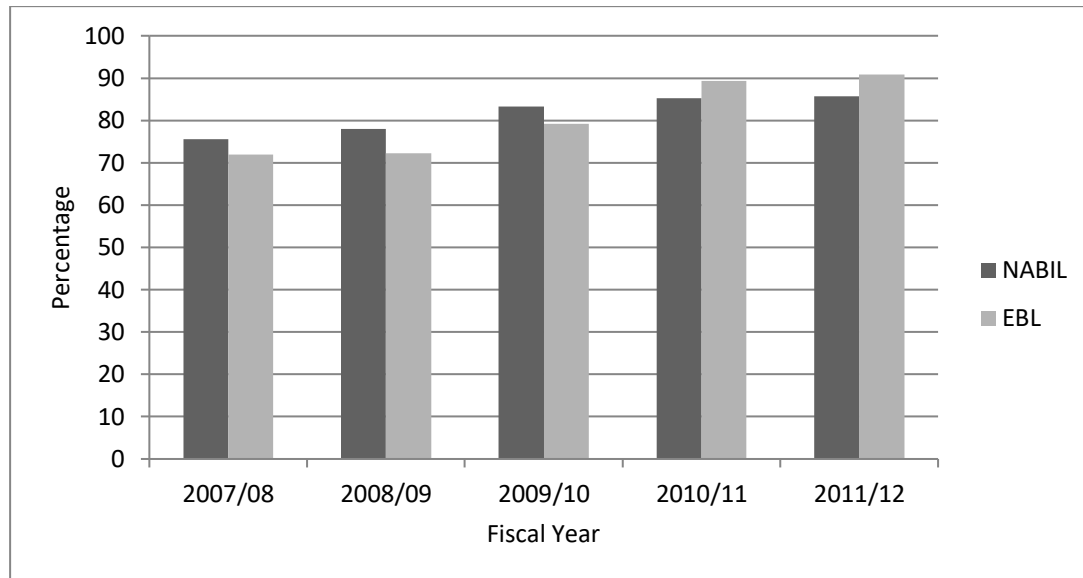
Loan and advances is the main sources for commercial bank’s profit. The five year average mean ratio of loan and advances to total interest income ratio of NABIL and EBL are 81.57% and 80.71% respectively. EBL have lowest ratio then NABIL bank, therefore EBL bank was unable to get more income from their lending. NABIL bank is able to earn more interest from loan and advances than EBL. NABIL bank is success to utilized their lending for generating profit.

Standard deviation and coefficient of variance of NABIL is higher than EBL, it’s clear that NABIL bank’s total interest income from loan and advances and total interest

income is less variable than EBL bank. Figure 4.9 show the total interest income from loan and advances and total interest income from loan and advances and total interest income and their ratio of NABIL and EBL.

Figure 4.9

Total Interest Income from Loan and Advance Total Income



4.2.5 Return on Loan and Advances Ratio

High ratio indicates a high success to mobilise fund as loan and advances and vice versa. Table 4.10 show the five year average return on loan and advances ratio of NABIL and EBL bank

Table 4.10

Return on Loan and Advances

Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	6.95	7.85	10.24	11.55	12.31	9.78	2.07	21.17
EBL	7.06	7.57	9.95	12.22	12.38	9.84	2.23	22.74

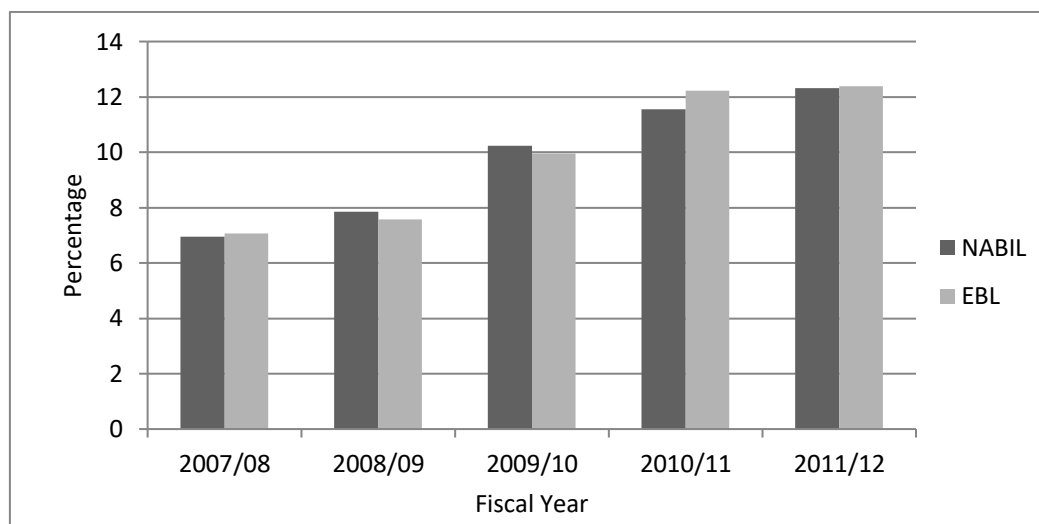
Source: Annual reports of NABIL and EBL and Appendix 1

The average mean return on loan and advances of NABIL and EBL is 9.78% and 9.84% respectively. NABIL bank have lower return from its loan, where EBL get more return from their loan and advance.

The Standard deviation and Coefficient of variance of NABIL is lower than EBL bank. It's clear that NABIL bank's return on loan and advances is less variable then

EBL bank. Figure: 4.10 show the NABIL and EBL bank's average return on loan and advances from year 2007/08 to 2011/12.

Figure 4.10
Return on Loan and Advances



4.2.6 Return on Total Assets Ratio

Return on total assets ratio was calculated net profit divided by total assets. Higher ratio is preferable because higher ratio indicates the higher return from the total assets and lower ratio indicates the bad performance of total assets. Table no 4.11 show the five year average return on total assets of NABIL and EBL bank

Table 4.11

Return on Total Assets Ratio

Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	1.95	3.54	3.29	2.07	2.41	2.65	0.65	24.52
EBL	1.58	1.68	1.98	1.99	1.95	1.84	0.17	9.41

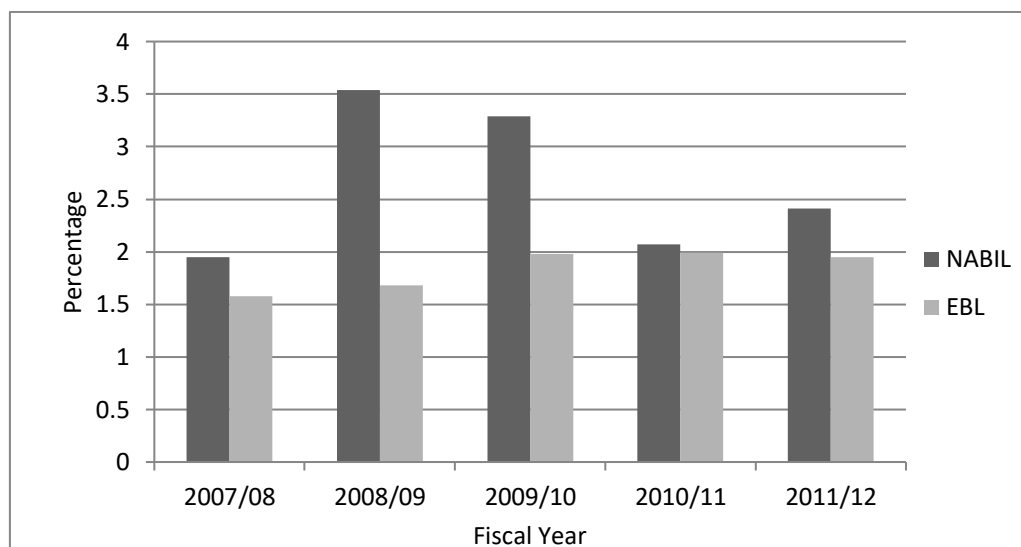
Source: Annual reports of NABIL and EBL and Appendix 1

The mean return on total assets of NABIL and EBL is 2.65% and 1.84% respectively. EBL is unable to mobilize its assets in effective way comparison of NABIL bank so that it returns on total assets is lower than NABIL. NABIL bank is success to mobilize their assets effectively and they are able to get more profit.

Standard deviation and coefficient of variance of EBL is lower than NABIL bank so EBL bank's return on total assets is less variable then NABIL bank. Figure: 4.11 show

the NABIL and EBL bank's average return on total assets from year 2007/08 to 2011/12.

Figure: 4.11
Return on Total Assets Ratio



4.2.7 Capital Risk Ratio

A bank can earn if a bank chose to take high capital risk. Capital fund included the reserve, share premium, paid up capital, retain earning so on. Table 4.12 shows the five year average capital risk ratio of the selected banks.

Table 4.12
Capital Risk Ratio

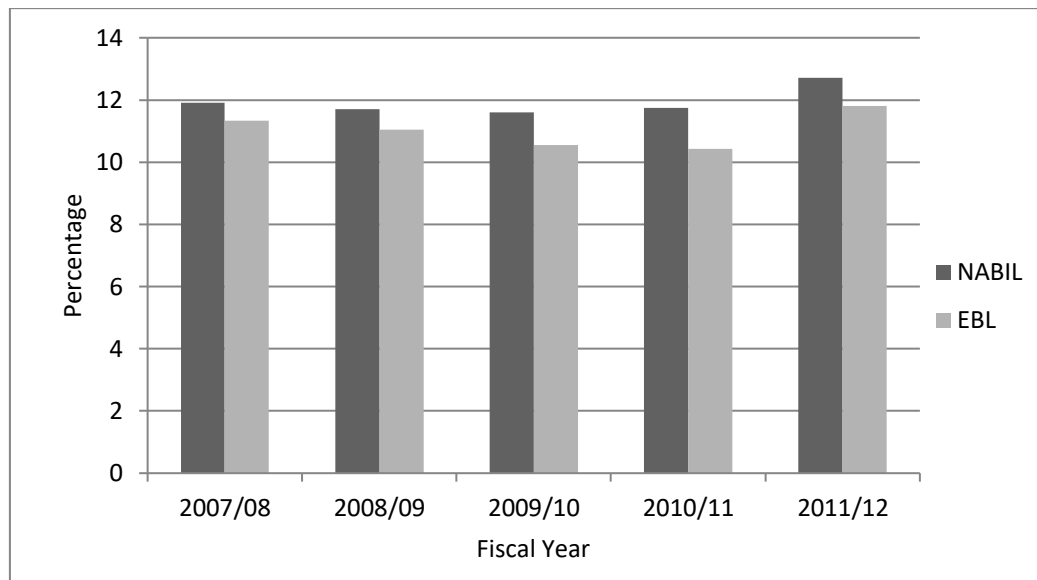
Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	11.91	11.71	11.61	11.75	12.71	11.94	0.4	3.35
EBL	11.34	11.04	10.56	10.43	11.8	11.03	0.5	4.53

Source: Annual reports of NABIL and EBL and Appendix 1

The five year average mean ratio of capital risk ratio of NABIL and EBL is 11.94% and 11.03% respectively. There is slightly different between two banks. This is indicated that both banks have equal strong capital base. In comparative study of two banks NABIL bank has higher ratio than EBL, therefore NABIL bank is success to mobilize their capital fund.

The standard deviation and coefficient of variance of NABIL bank is lower than EBL which indicates that NABIL has less variable capital risk ratio. Figure no 4.12 shows the five years average capital risk ratio of NABIL and EBL.

Figure 4.12
Capital Risk Ratio



4.2.8 Non Performing Loan to Gross Loan

The higher ratio indicates that the loss of capital. Hence the lower ratio of NPL to total gross loan is performed. Table no 4.13 shows the last 5 years average non-performing loan in percentage of NABIL and EBL banks.

Table 4.13

Non Performing Loan to Gross Loan

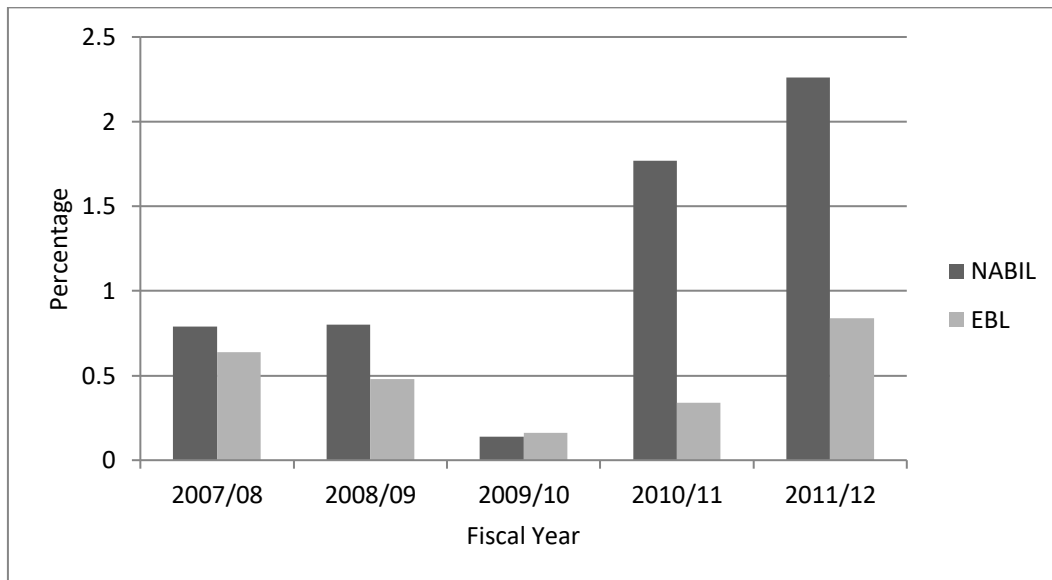
Banks	Fiscal Years					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
NABIL	0.79	0.8	0.14	1.77	2.26	1.15	0.76	66.1
EBL	0.64	0.48	0.16	0.34	0.84	0.49	0.24	49.98

Source: Annual reports of NABIL and EBL and Appendix 1

From the above table it can be seen that NABIL and EBL has lower than 5% NPL, which means these are not only maintaining the Nepalese standard but also maintaining international standard too. In comparative study, EBL bank has lowest ratio than NABIL which clearly shows that EBL is able to maintain Non-performing loan.

Standard deviation and coefficient of variance of EBL also lower than NABIL, that means EBL has less variable non-performing loan to total gross loan ratio. Figure 4.13 shows the five year non-performing loan to total gross loan from the year 2007/08 to 2011/12.

Figure 4.13
Non Performing Loan to Gross Loan



4.3 Coefficient of Correlation Analysis

4.3.1 Correlation between Deposit and Loan and Advances

It Measures the intensity, magnitudes, or degree of relationship between the two variables. In the analysis, deposit is independent variable and loan and advances is variable. The main objectives of computing coefficient of correlation (r) between two variables are to justify whether deposit used as loan and advances or not. The Table 4.20 show the value of ' r ', ' r^2 ', P.Er, and 6 P.Er.

Table 4.14
Correlation between Deposit and Loan and Advances

Banks	Evaluation Criterion			
	r	r^2	P.Er	6P.Er
NABIL	0.978	0.956	0.0132	0.0792
EBL	0.994	0.988	0.0036	0.0217

Source: Appendix 3

The table given above shows the value of 'r', ' r^2 ', P.Er, and 6P.Er between total deposit and loan and advances of NABIL and EBL bank. We found that coefficient of correlation (r) between total deposit and loan and advances of NABIL and EBL is 0.978 and 0.994 respectively. It shows the high degree of positive relationship between two variable loan and advances and deposit. The value of coefficient of determination (r^2) of NABIL and EBL is 0.956 and 0.988 respectively. That means 95.6% and 98.8% of variation in the dependent variable (loan and advances), has explained by independent variable (total deposit) respectively.

Similarly, considering the value of 'r' of NABIL and EBL and comparing it with 6P.Er i.e. 0.0792 and 0.021 respectively, we can find, it is greater than the value of 6P.Er which reveals the value of 'r' is significant. One the other hand, we can say that there is significant relation between total deposit and loan and advances of the banks. After analysing, the conclusion can be drawn that NABIL and EBL are successful to grant loan and advances to mobilize the collected deposit in a proper way.

4.3.2 Correlation between Loan and Advances to Interest Income from Loan and Advances

The correlation between total loan and advances and interest income from loan and advances measures the degree of relationship between these two variables. Loan and advances is independent variable(x) and interest income from loan and advances is dependent variable(y). The relationship between these variables describes the degree of relationship between loan and advances and income from loan and advances. The Table 4.21 show the value of 'r', ' r^2 ', P.Er and 6P.Er between loan and advances and interest income from loan and advances of banks.

Table 4.15
Correlation between Loan and Advances and
Interest Income from Loan and Advances

Banks	Evaluation Criterion			
	r	r^2	P.Er	6P.Er
NABIL	0.0775	0.0060	0.0132	0.0792
EBL	0.99	0.974	0.0078	0.047

Source: Appendix 3

The table given above shows the value of 'r', ' r^2 ', P.Er and 6P.Er between loan and advances and interest income from loan and advances of NABIL and EBL. We found that coefficient of correlation(r) of loan and advances and interest income from loan and advances of NABIL and EBL is 0.0775 and 0.987 respectively. It shows the high degree of positive relationship between two variable loan and advances and interest income from loan and advances. The value of coefficient of determination (r^2) of NABIL and EBL is 0.0060 and 0.974 respectively. That means 0.6% and 97.40% of variation in the dependent variable has explained by independent variable respectively.

Similarly, considering the value of 'r' of NABIL and EBL, and comparing it with 6P.Er i.e. 0.0792 and 0.047 respectively, we can find, it is greater than the value of 6P.Er which reveals the value of 'r' is significant. On the other hand, we can say that there is significant relationship between loan and advances and interest income from loan and advances of the commercial banks.

After analysing the conclusion can be drawn that NABIL and EBL are successful to grant loan and advances to mobilise the collected deposit in a proper way. That means if loan and advances is increase from loan and advances also increases in same way.

4.3.3 Correlation between Total Deposit and Net Profit

The coefficient of correlation between deposit and net profit measures the degree of relationship between these two variables. Here deposit(x) is independent variables and net profit (y) is dependent variable. The main objectives of computing between deposit and net profit are to justify whether net profit is significantly correlated with deposit or not. The Table no 4.21 show the value of 'r', ' r^2 ', P.Er, and 6P.Er between total deposit and net profit

Table 4.16
Correlation between Total Deposit and Net Profit

Banks	Evaluation Criterion			
	r	r^2	P.Er	6P.Er
NABIL	0.533	0.284	0.216	1.296
EBL	0.986	0.972	0.004	0.023

Source: Appendix 3

The table given above shows the value of 'r', ' r^2 ', P.Er and 6P.Er between total deposit and net profit of NABIL and EBL. We found that coefficient of correlation(r) of total deposit and net profit of NABIL and EBL is 0.533 and 0.986 respectively. It shows the NABIL and EBL have high degree of positive relationship between tow variable total deposit and net profit. The value of coefficient of determination(r^2) of NABIL and EBL is 0.284 and 0.972 respectively. That means 28.4% and 97.20% of variation in the dependent variable (net profit), has explained by independent variable (total deposit) respectively.

Similarly, considering the value of 'r' of NABIL and EBL, comparing it with 6P.Er i.e. 1.296 and 0.023 respectively, we can find the EBL coefficient of correlation (r) is greater than the value of 6P.Er which reveals the value of 'r' is significant. On the other hand we can say that there is significant relation between deposit and net profit of EBL bank. But the NABIL 6P.Er is greater than its coefficient of correlation (r) which reveals the value of 'r' is not significant. After analysing, the conclusion can be drawn that EBL is successful to grant its deposit to generate the profit in a proper way or there exists a significant relationship between total deposit and net profit of EBL but the NABIL was unable to mobilize its deposit to generate profit.

4.3.4 Correlation Between Total Assets and Net Profit

The coefficient of correlation between the total assets and net profit measures the degree of relationship between them. Here a total asset was taken as independent variable (x) and net profit is taken as depended variable(y). the main purpose of calculating coefficient of correlation between these two variables is to justify where total assets are significantly used to generate profit or in other words, whether these variables are significantly correlated or not. The Table no 4.22 show the value of 'r', ' r^2 ' P.Er and 6P.Er between total assets and net profit of commercial banks.

Table 4.17

Correlation between Total Assets and Net Profit

Banks	Evaluation Criterion			
	r	r^2	P.Er	6P.Er
NABIL	0.506	0.256	0.225	1.35
EBL	0.994	0.988	0.0032	0.0217

Source: Appendix 3

The table given above shows the value of 'r', ' r^2 ', P.Er and 6P.Er between total assets and net profit of NABIL and EBL. We found that coefficient of correlation (r) of total assets and net profit of NABIL and EBL is 0.506 and 0.994 respectively. It shows that NABIL and EBL have high degree of positive relationship between two variable total assets and net profit. Coefficient of determination (r^2) of NABIL and EBL is 0.256 and 0.988 respectively. That means 25.60% and 98.80% of variation in the dependent variable (assets), has explained by independent variable (net profit) respectively.

Similarly, considering the value of 'r' of NABIL and EBL, and comparing it with 6P.Er i.e. 1.35 value and 0.0217 respectively we can find the EBL coefficient of correlation(r) is greater than the value of 6P.Er which reveals the value of 'r' is significant. On the other hand, we can say that there is significant relation between assets and net profit of NABIL banks 6P.Er is greater than its coefficient of correlation(r) which reveals the value of 'r' is not significant relation. Conclusion can be drawn the EBL is successful to grant their assets to generate the profit in a proper way or there exists a significant relationship between total assets and net profit of EBL. But NABIL bank unable to mobilize its assets to generate profit.

4.3.5 Correlation Between Loan and Advances to Net Profit

The coefficient of correlation between total loan and advances to net profit measures the degree of relationship between these two variables. Loans and advances is independent variable(x) and net profit is dependent variable(y).The relationship between these two variables the degree of relationship between loan and advances and net income. The Table 4.23 show the value of 'r', ' r^2 ', P.Er and 6P.Er between loan and advances and net profit of commercial banks.

Table 4.18

Correlation Between Loan and Advances and Net Profit

Banks	Evaluation Criterion			
	r	r^2	P.Er	6P.Er
NABIL	0.516	0.266	0.221	1.32
EBL	0.876	0.767	0.0645	0.38

Source: Appendix 3

The table given above shows the value of 'r', ' r^2 ', P.Er and 6P.Er between total loan and advances and net profit of NABIL, EBL. We found that coefficient of correlation

(r) of total loan and advances and net profit of NABIL and EBL is 0.516 and 0.876 respectively. It shows the NABIL and EBL have high degree of positive relationship between two variable total loan and advances and net profit. The value of coefficient of determination (r^2) of NABIL and EBL is 0.266 and 0.767 respectively. That means 26.60% and 76.70% of variation in the dependent variable (net profit) has explained by independent variable (loan and advances) respectively.

Similarly, considering the value of 'r' of EBL and NABIL, and comparing it with 6P.Er i.e. 1.32 and 0.38 respectively, we find the EBL coefficient of correlation(r) is greater than the value of 6P.Er which reveals the value of 'r' is significant. On the other hand, we can say that there is significant relation between loan and advances and net profit of EBL bank. But he NABIL bank 6P.Er is greater than the value of coefficient(r) which reveals the value of 'r' is no significant relation.

Conclusion can be drawn EBL is successful to grant their assets to generate the profit in a proper way or there is exists a significant relationship between total loan and advances and net profit of EBL but the NABIL was unable to mobilise its loan and advances to generate profit.

4.3.6 Correlation Between Loan and Advances and Non Performing Loan

This correlation measures the degree of relationship between loan and advances and non performing loan. Loan and advances is independent variable (x) and non performing loan is dependent (y) variable. The objective of computing coefficient of correlation between loan and advances and non performing loan is to find out whether non performing loan is significantly correlated with loan and advances or not. The Table 4.24 shows the value of 'r', r^2 , P.Er, 6P.Er between loan and advances and non performing loan of NABIL and EBL banks.

Table 4.19

Correlation between Loan and Advances and Non Performing Loan

Banks	Evaluation Criterion			
	r	r^2	P.Er	6P.Er
NABIL	0.85	0.722	0.0837	0.502
EBL	0.573	0.3283	0.220	1.21

Source: Appendix 3

The table given above shows the value of 'r', ' r^2 ' P.Er and 6P.Er between loan and advances and nonperforming loan of NABIL and EBL. We found that coefficient of correlation(r) of loan and advances and non performing loan of NABIL and EBL is 0.85 and 0.573 respectively. It shows the both bank have the high positive relation between two variable loan and advances and non performing loan. If loan and advances increase then non performing loan also increase of NABIL and EBL, which is bad for the banks. The value of coefficient of determination (r^2) of NABIL and EBL is 0.722 and 0.3283 respectively. That means 72.20% and 32.83% of variation in the dependent variable (non performing loan), has explained by independent variable (loan and advances) respectively.

Similarly, considering the value of 'r' of NABIL and EBL comparing, it with 6P.Er i.e. 0.502 and 1.21 respectively, we can find that NABIL bank coefficient of correlation(r) is greater than the value of 6P.Er which reveals the value of 'r' is significant. This significant result is bad for NABIL bank, it increase non performing loan. EBL coefficient of correlation value of 'r' is lower than the value of 6P.Er which reveals the value of 'r' is insignificant, which is good for EBL bank. Conclusion can be drawn that EBL bank is successful to grant their loan and advances to decrease their non performing loan but NABIL bank is unable to manage their non performing loan and advances.

4.4 Trend Analysis and Projection for Next Five Years

In this section trend line is fitted for the variables total deposit, loan and advances, net profit, non performing loan and interest income from loan and advances of two banks and these variables will be predicted for next five year. Performance of commercial bank may not consistent due to increase or decrease in volume of various items of commercial bank's lending. The projections are based on following assumptions

- The economy remains same.
- NRB will not change its guidelines for commercial banks.
- Limitation of least square method.

4.4.1 Trend Analysis of Total Deposit

Deposit is one very sensitive liability of commercial banks. Its trend and behaviours are determined by various seasonal and cyclical factors. Here the trend values of total deposit of commercial banks have calculated for five year from 2007/8 to 2011/12. Then forecast for next five year up to 2016/17 have done. The table 4.15 shows the trend value of ten years of two banks.

Table 4.20
Trend Analysis of Total Deposit of NABIL and EBL

(Rs in Million)

Fiscal Year	NABIL (Y=a+bx)		EBL (Y=a+bx)	
	Actual	Forecast	Actual	Forecast
2007/08	31915		23976.3	
2008/09	37348.30		33322.9	
2009/10	46334.80		36932.3	
2010/11	49691.40		41127.9	
2011/12	59489		50006.1	
2012/13		65203.03		55032.48
2013/14		71952.14		61018.94
2014/15		78701.25		67005.4
2015/16		85450.36		72991.86
2016/16		92199.47		78978.32

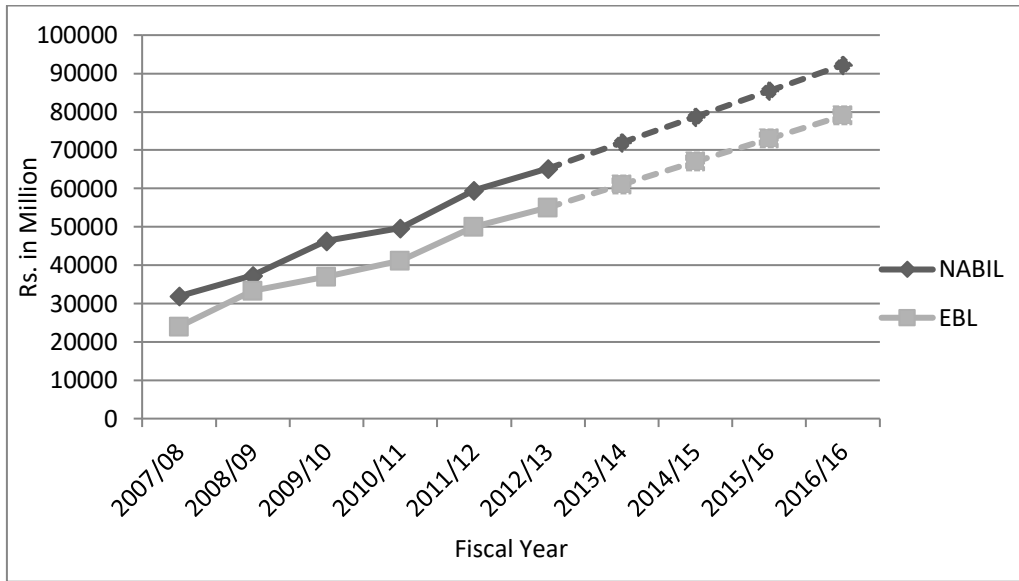
Source: Appendix 2

The volume amount of deposit of all two commercial banks is in increasing trend. With the comparison today, if other things remain the same, the total deposit of NABIL will be reach to Rs 92199.47 million in years 2016/17 which is highest among the study period. Similarly the total deposit of EBL will be in increasing and will be reaching to Rs 78978.32 million in years 2016/17. In other side, growth rate of total deposit of banks is going to decreasing each and every year.

From the above analysis it is found the total deposit position of EBL is comparatively lower than NABIL. Figure 4.14 show the trend line of trend value of total deposit of banks.

Figure 4.14

Trend Analysis of Total Deposit of NABIL and EBL



4.4.2 Trend Analysis of Interest Income from Loan and Advances

The trend value of interest income from loan and advances of commercial banks have calculated from 2007/08 to 2011/12. Then forecast for next five year up to 2016/17 have done. The trend line represents the interest income from loan and advances behaviours of banks.

The Table 4.16 shows the trend value of interest income from loan and advances of NABIL and EBL. The volume of interest income from loan and advances is increasing each year. In other hand, the growth rate of interest income from loan and advances is decreasing per year. With the comparison today, if other things remain the same, the total interest income from loan and advances of NABIL bank will be reach to Rs 10233.42 million in year 2016/17. Similarly the total interest income from loan and advances of EBL will reach to Rs 8729.27 million in year 2016/17.

Table 4.21

Trend Analysis of Interest Income from Loan and Advances

(Rs in Million)

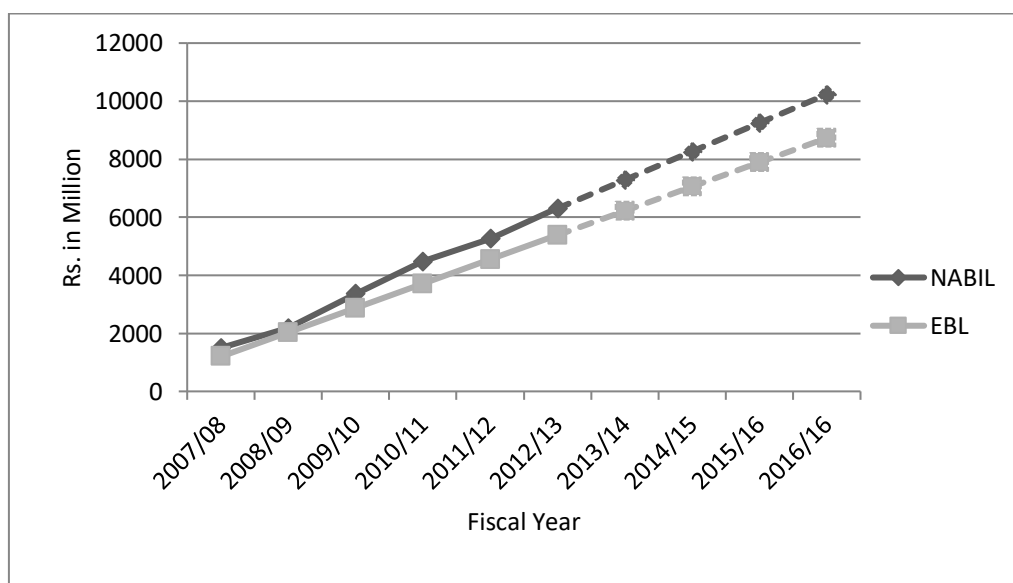
Fiscal Year	NABIL (Y=a+bx)		EBL (Y=a+bx)	
	Actual	Forecast	Actual	Forecast
2007/08	1496.24		1197.93	
2008/09	2182.67		2034.75	
2009/10	3368.72		2871.56	
2010/11	4479.06		3708.38	
2011/12	5259.59		4545.19	
2012/13		6304.18		5382.01
2013/14		7286.49		6218.83
2014/15		8268.8		7055.64
2015/16		9251.11		7892.46
2016/16		10233.42		8729.27

Source: Appendix 2

Figure 4.15 show the trend line of interest income from loan and advances of NABIL and EBL.

Figure 4.15

Trend Analysis of Interest Income from Loan and Advances



4.4.3 Trend Analysis of Net Profit

Trend values of net profit of commercial banks have calculated from 2007/8 to 2011/12 then it is forecast for next five year up to 2016/17 have been done. The trend line represents the net profit behaviours of NABIL and EBL banks.

Table 4.22

Trend Analysis of Net Profit of NABIL and EBL

(Rs in Million)

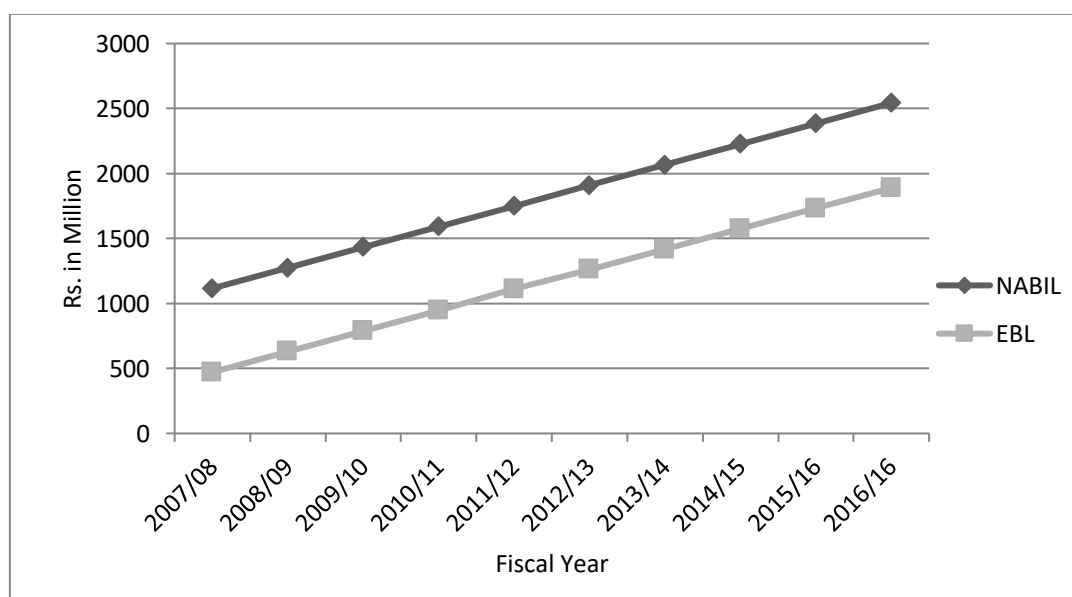
Fiscal Year	NABIL (Y=a+bx)		EBL (Y=a+bx)	
	Actual	Forecast	Actual	Forecast
2007/08	1115.76		471.4	
2008/09	1274.34		631.55	
2009/10	1432.92		788.7	
2010/11	1591.50		945.85	
2011/12	1750.08		110.3	
2012/13		1908.66		1260.15
2013/14		2067.24		1417.3
2014/15		2225.82		1574.45
2015/16		2384.4		1731.6
2016/16		2542.98		1888.75

Source: Appendix 2

The table no 4.17 show the trend value of net profit of NABIL and EBL banks. Both banks are in positive trend in each and every year. Each and every year growth rate of net profit is decreasing trend. EBL is better position than the NABIL in increasing trend in percentage of net profit change.

Figure 4.16

Trend Analysis of Net Profit of NABIL and EBL



4.4.4 Trend Analysis of Non Performing Loan

Trend value of Non Performing Loan of commercial banks has calculated from 2007/08 to 2011/12. Then forecast for next five year up to 2016/17 have done. The trend line represents the Non Performing loan behaviours of commercial banks. The decreasing trend shows the managing of loan and advances. The Table 4.23 show the trend value and growth rate of non performing loan of commercial banks.

Table 4.23
Trend Analysis of Non Performing Loan

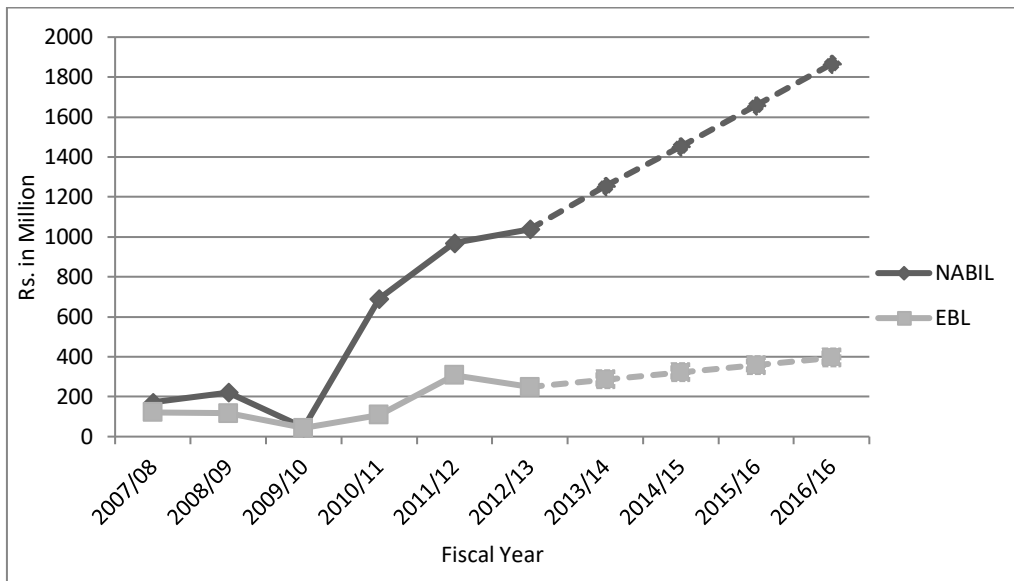
(Rs in Million)

Fiscal Year	NABIL (Y=a+bx)		EBL (Y=a+bx)	
	Actual	Forecast	Actual	Forecast
2007/08	171		121	
2008/09	220.72		117.45	
2009/10	45.58		43.71	
2010/11	689.85		108.4	
2011/12	969.34		307.4	
2012/13		1039.04		248.72
2013/14		1254.62		285.09
2014/15		1452.2		321.47
2015/16		1658.78		357.84
2016/16		1865.37		394.21

Source: Appendix 2

The value of NPL is in increasing trend. This is the cause of increasing of loan and advances each year. In other side, the growth rate of NPL is in decreasing trend. This decreasing trend of growth rate of NPL is very well significant for the commercial banks. This will be increasing their profit and mobilization their assets efficiently. With the comparison today, if other things remain the same, the total NPL of NABIL bank will be Rs 1865.37 million in years 2016/17. Similarly the total NPL of EBL will be increase and reach to Rs 394.21 million. Figure 4.17 show the trend line of value of NPL of these two banks.

Figure 4.17
Trend Analysis of Non Performing Loan



4.4.5 Trend Analysis of Total Loan and Advances

Here the trend value of loan and advances of commercial banks have calculated from 2007/08 to 2011/12. Then forecast for the next five year up to 2016/17 have done. The trend lines represent the lending behaviours of commercial banks. The volume amount of loan and advances of the banks is in increasing trend. Increasing trend of loan and advances indicates that in the future commercial banks are able to generate more profit from their lending activity. However, the growth rate is decreasing per year. With the comparison today, if other thing remains the same, the total loan and advances of NABIL bank will be Rs 70114.5 million in years 2016/17 which is highest among the study. Similarly the total loan and advances of EBL will be Rs 57490.02 million in year 2016/17.

Table 4.24

Trend Analysis of Total Loan and Advances

(Rs in Million)

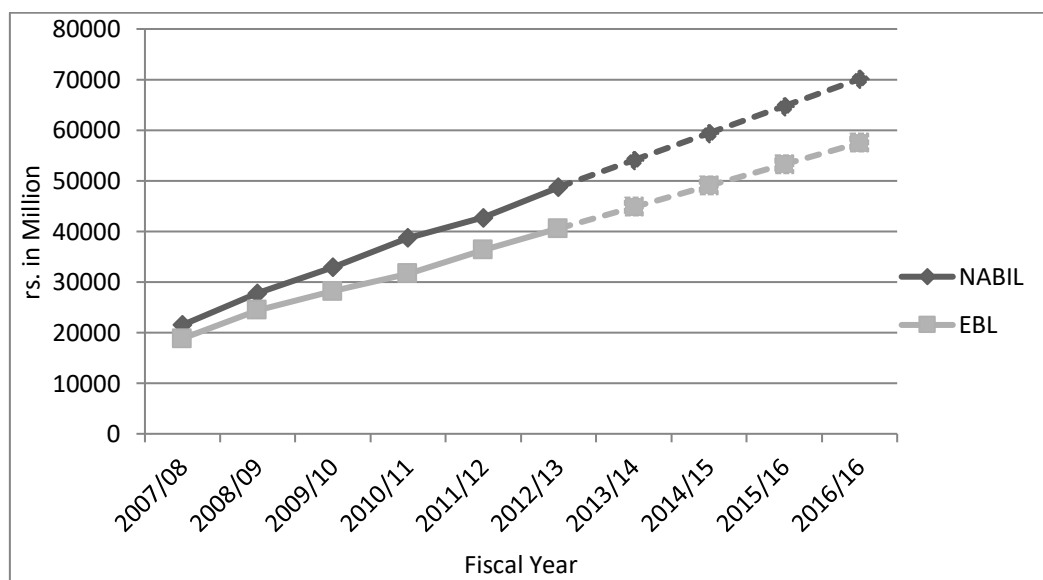
Fiscal Year	NABIL (Y=a+bx)		EBL (Y=a+bx)	
	Actual	Forecast	Actual	Forecast
2007/08	21514.6		18836.4	
2008/09	27816.6		24469.6	
2009/10	32902.8		28156.4	
2010/11	38765.6		31661.8	
2011/12	42731.7		36376	
2012/13		48761.22		40581.46
2013/14		54099.54		44808.6
2014/15		59437.86		49035.74
2015/16		64776.18		53262.88
2016/16		70114.5		57490.02

Source: Appendix 2

From the above analysis, it is found the total loan and advances position of NABIL is better position then EBL. Figure 4.18 show the trend line of trend value of Total Loan and Advance of two banks.

Figure 4.18

Trend Analysis of Total Loan and Advances



4.5 Major Finding of the Study

In the research data mainly secondary data are used and the analysis is computed with the help of different financial and statistical tools correlation coefficient and trend analysis has been used.

From the analysis of data, following finding can be made

- NABIL and EBL are able to mobilize their deposit in right way. Their mean ratio is 72.55% and 75.59% respectively. These two banks are able to get more profit form their loan and advances. But in comparison of these two banks EBL is performing more efficiently and NABIL bank was unable to utilize its deposit in comparison of EBL Bank. And also EBL bank has lower CV between these two banks. That means EBL is less riskier than EBL bank.
- The mean ratio of non interest bearing Deposit to total deposit of the NABIL and EBL bank is 15.30% and 13.44% respectively which indicates that NABIL bank is able to collect to non interest bearing deposit in comparison of EBL which directly effect the company profit .EBL bank has lower CV between these two banks which indicates that EBL bank is less variable than NABIL bank.
- EBL and NABIL bank have lowest credit risk. Lower ratio indicates the bad performing of the bank. The mean ratio of NABIL bank and EBL is 59.94% and 66% respectively. Which clearly shows that EBL is in better position then NABIL. EBL bank was able to utilized its assets in the form of loan and advances. In the comparative study, EBL is better position. The standard deviation and coefficient of variance of EBL is lower than NABIL which indicates that EBL is less variable than NABIL.
- The mean ratio of loan and advances, investment to total deposit of whole NABIL and EBL bank is higher then 85% that means loan and advances, investment to total deposit ration of these commercial bank above the standard. They have lowest deposit expenses. Although both bank are above the standard but in comparison of two bank EBL is able to utilise their deposit in productive way. The standard deviation and coefficient of variance of EBL is lower than NABIL bank, therefore EBL has less variable loan and advances and investment to total deposit ratio.

- Cash and bank balance to total deposit ratio of these two commercial banks is 10.37% and 17.72% respectively NABIL and EBL bank. NABIL bank is unable to maintain their cash balance ratio which can make cash cartage in near future. But in other side EBL has mostly higher ratio which indicates that EBL has idle fund which increases the opportunity cost.
- NABIL and EBL banks are able to manage their loan loss provision. Both commercial banks are able to maintain their loan loss provision but in comparison of these two bank NABIL bank is more riskier than EBL because it has greater coefficient of variance.
- There is slightly different between NABIL and EBL. But in comparative study NABIL bank was able to manage its deposit in lower cost. So NABIL bank has utilised its deposit in efficiency way and get more profit. EBL have the higher cost of deposit in comparison of NABIL bank. The standard deviation and coefficient of variance of EBL is lower than NABIL which indicates that EBL has less variable interest expenses on deposit to total deposit ratio.
- NABIL bank were able to utilize their Total Assets in efficient way in comparison of EBL. Total interest expenses to total assets ration is 3.46% and 3.84 % respectively NABIL and EBL bank. But CV of EBL is lower than NABIL bank therefore EBL bank seems to be less riskier than NABIL bank.
- Total Interest income from loan and Advance and to total total income ratio is 81.57% and 80.71% respectively of NABIL bank and EBL bank. According to this ratio NABIL bank able to get more return from loan and advances. NABIL is less riskier than EBL.
- Return on Loan and Adv ratio of NABIL bank and EBL bank is 9.78% and 9.84% respectively. NABIL bank have lower return from their lending in comparison of EBL bank therefore EBL get the higher income from their loan and advance. But NABIL is less riskier than EBL bank.
- Return on Total Asset mean ration is 2.65% and 1.84% respectively NABIL bank and EBL bank which indicates that NABIL bank is able to utilized their total assets in efficient way. But EBL bank is unable to mange their total assets therefore lower return gets by the EBL bank. But in other hand NABIL bank has higher CV which indicates that NABIL bank is risky than EBL.

- NABIL and EBL bank have higher capital risk ratio. That means they are success to mobilize their capital fund so that they are able to get higher return from their capital fund. In comparative study NABIL bank is success to make strong capital base than EBL. The standard deviation and coefficient of variance of NABIL bank is less than EBL which indicates that NABIL has less variable capital risk ratio.
- The volume amount of loan and advances of these two commercial banks are able to generate more profit form their lending activity. However, the growth rate is decreasing per year. The total loan and advances position NABIL bank is better position then EBL bank.
- Mean ratio of Non- performing loan to total gross loan is 1.15% and 0.49% respectively NABIL and EBL bank. In comparative study NABIL bank is more risky than EBL. Value of non performing loan of NABIL is in increasing trend. This is the cause of performing loan is in decreasing trend. This decreasing trend of growth rate of non performing loan is very well significant for the commercial banks. This will increase their profit and mobilization their assets efficiently.

Correlation Coefficient Analysis

- It shows the high degree of positive coefficient of correlation(r) between two variable loan and advances and deposit of two banks. NABIL and EBL banks are successful to grant loan and advances to mobilize the collected deposit in a proper way.
- It shows the high degree of positive coefficient of correlation(r) between two variable loan and advances and interest income from loan and advances. There is also significant relation between loan and advances and interest income from loan and advances of NABIL and EBL banks. That means if loan and advances is increase then interest income from loan and advances also increases in same way.
- NABIL and EBL have high degree of positive relationship between two variable deposit and net profit. Therefore both banks are successful to grant their deposit to generate the profit in proper way or there exists a significant relationship between total deposit and net profit.

- NABIL and EBL have high degree of positive relationship between two variable total assets and net profit
- it shows the NABIL and EBL have high degree of positive relationship between two variable total loan and advances and net profit. There is significant relationship between loan and advances and net profit.
- NABIL and EBL have high degree of positive relationship between total deposit and interest income. There is significant relationship between deposit and interest income.
- NABIL have high degree of positive relationship between two variable loan and advances and Non-Performing loan. If the loan and advances is increase then non-performing loan also increase of NABIL
- EBL and NABIL have positive or favourable relationship between total deposit and loan and advances. Deposit is able to increase the loan and advances.

Trend Analysis

- The volume amount of deposit of NABIL and EBL bank is in increasing trend. Total deposit of EBL is comparatively lower than the NABIL. The highest trend value of NABIL and EBL is Rs 92199.47 million and Rs 78978.32 respectively for the year of 2016/17, if the same trend observed for the period 2007/08 to 2011/12.
- The volume amount of loan and advances of all two commercial bank is in increasing trend. Increasing trend of loan and advances indicates that in the future commercial banks are able to generate more profit from their lending activity. However, the growth rate is decreasing trend per year. The total loan and advances position of NABIL bank is better position then the EBL bank.
- The value of non-performing loan is in increasing trend. This is the cause of increasing of loan and advances each year. In other side, the growth rate of non-performing loan is in decreasing trend. This decreasing trend of growth rate of non-performing loan is very well sign for the commercial banks. This will increase their profit and mobilization their assets efficiently. In comparative study of EBL and NABIL bank, EBL is in better position in managing non-performing loan.

- The trend analysis of Net Profit of NABIL and EBL bank is in increasing trend. But in other side each and every year growth rate of net profit is in decreasing trend. NABIL is better position than EBL bank.
- The volume of interest income from loan and advances is increasing trend each year. In other side, the growth rate of interest income from loan and advances is decreasing trend per year. With the comparison of these two banks NABIL bank is better position

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Commercial banks are major financial institution, which occupy quite an important place in the frame work of every economy because they provide capital for the development of industry, trade and business and other resources deflect sectors lending the saving collected as deposit bank, by playing active role have change the economy structure of the world. Bank has own role and contribution in the economic development; it maintains economic confidence of various segments and extends credit to people.

The income and profit of the NABIL and EBL depends upon its lending procedure, lending policy and investment policy of the fund utilize in different sectors. NABIL and EBL are able to utilize its deposit properly i.e. providing loan and advances for a profitable project, the reason behind it is lack of sound lending policy. The main objective of study is evaluating lending performance of commercial banks in Nepal

The study, which researcher have chosen “ Lending performance of commercial banks in Nepal”, researcher think that most of the research regarding the banking policy is founding normally moving around the principle aspect again and again rather then filtering the actual situation. Normally, this studies focus on the lending performance of commercial banks. Researcher had consulted many books, articles, booklets and searching related thing in the internet. Researcher under took verbal interviews with different person who are related financial and non financial installations. During the period, researcher summarized whole task in five chapters including this chapter.

Fist chapter of the study deal about basic assumptions of the study. Basically it highlighted the concept and importance if the study. It also presented research problem, objective of the study and limitation of the study and limitation of the study. Second chapter helped the researcher to provide knowledge about the lending policy of the commercial banks. It tried to know some concept used in this study. Moreover, it summarized the previous finding of the study to provide knowledge about the background of the work done. The third chapter of the study discussed about various research methodologies used for the study. Fourth chapter of the study dealt about

presentation and analysis of data. It first presented the generated data in tabular form and analyzed it systematically as per the objectives mentioned above. The last chapter of the study is summary, conclusion and recommendation.

Regarding the lending policies of commercial banks there are basically five basic principles of the commercial banks follow while providing loans. Those principles are Liquidity, Safety and security, Suitability, Diversification, and Profitability. The main object of commercial banks is to generate profit by providing quality service to client.

5.2 Conclusion

EBL and NABIL banks are able to mobilize their deposit in right way. Their mean ratio of loan and advance to total deposit is 75.59% and 72.55% respectively EBL and NABIL bank. NABIL bank was unable to utilize its deposits in comparison of EBL. NABIL bank was success to collect non interest bearing deposit than the EBL. NABIL have lower credit risk than EBL. NABIL bank is able to utilize its assets in the form of loan and advances. Loan and advances, and investment to total deposit of EBL and NABIL is higher than the standard ratio 85%. These two ratio of commercial banks are above the standard. Cash and bank balance to total deposit ratio of EBL is above 12%. EBL bank is able to manage their ratio above the average but NABIL is unable to maintain average ratio. NABIL and EBL bank able to manage their loan loss provision. NABIL bank is able to manage its deposit in lower cost than EBL, therefore EBL have the higher cost of deposit. NABIL and EBL bank is bale to mobilize its assets with lower expenses. NABIL and EBL bank is able to earned more than 80% interest from loan and advances but the NABIL have the greater capital risk ratio than EBL, therefore NABIL bank is able to mobilized their capital fund. NABIL bank is able to mobilize their assets effectively and they are able to get profit. NABIL bank is able to get highest profit in the study period.

EBL bank is able to maintenance its NPL than the NABIL bank. Their NPL is in decreasing trend. NABIL and EBL bank was above the international standard. The volume amount of deposit, loan and advances, interest income of NABIL and EBL banks is in increasing trend. Increasing trend indicates that in the future commercial banks are able to generate more profit from their lending activity. The value of non-

performing loan is in increasing trend. This is the cause of increasing of loan and advances each year. The trend of Net profit is in increasing trend of both banks. But each and every year growth rate of net profit is decreasing trend. NABIL bank is better position than the EBL.

NABIL and EBL banks have positive or favourable relationship between total deposit and loan and advances, loan and advances and interest income from loan and advances, deposit and net profit, total assets and net profit, loan and advances and net profit, deposit and interest income, loan and advance and non performing loan.

5.3 Recommendations

Following recommendation made for further improvement.

- Value of non-performing loan is in increasing trend. This is the cause of increasing of loan and advances each year. NABIL bank has higher non-performing loan than EBL therefore it is recommended to NABIL bank that before providing the loan, make sure that your Client is in good character and able to pay its loan or my take the collateral which is nearly two times more than that of your guaranteed.
- Deposit collection was in increasing trend. So that NABIL and EBL bank should be find out the new area for lending and investing to utilize their deposit. Otherwise they have to bear highly deposit expenses in near future, which decreases their profit.
- Cash and bank balance of NABIL bank is lower than the standard balance which indicates that NABIL bank is not able to maintained their customer's daily need. Therefore NABIL bank should increase liquid fund. EBL bank has mostly greater cash and bank balance ratio which indicates that there is idle fund which increases the cost of fund and decreases net profit. Therefore EBL should utilise their fund in productive sector.
- EBL bank has to try to increase non – interest bearing deposit to decrease their interest expenses on deposit and increase pro
- NABIL have high degree of positive relationship between two variable loan and advances and Non-performing loan, that means if the loan and advances is increase than non-performing loan also increase which is bad sign for NABIL. It

is highly recommended to NABIL bank to carefully consider about it.

- The volume of interest income from loan and advances is increasing trend each year. In other side, the growth rate of interest income from loan and advances is decreasing trend per year. Therefore it is recommended to the both bank to maintain interest income growth rate in increasing trend.
- An interest expenses on deposit of these two banks found high therefore both bank have to collect more non-interest bearing deposit to decrease their interest expenses. Both bank should try to collect cheaper fund which increases their profit.

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APPENDICES

Appendix-1

Analysis of Financial Data of NABIL bank

Variables	Total loan and advances	Total deposit	Total assets	Investment	Non interest bearing deposit
2007/08	21514.6	31915	38478.6	4889.6	5727.55
2008/09	27816.6	37348.3	45941.6	3978.7	5978.87
2009/10	32902.8	46334.8	54609.8	8128.3	7904.61
2010/11	38765.6	49691.4	61292.6	8920.3	6456.7
2011/12	42731.7	59489	71545.3	8211.5	7417.3

[Source: secondary data and website]

Variables	Risk weighted assets	Total Interest Income	Net Profit	Non-performing loan	Total gross loan
2007/08	17229.21	1978.69	750.4	171	21769.8
2008/09	20804.44	2798.48	1624.9	220.72	27589.93
2009/10	26954.35	4047.72	1798.7	45.58	33030.93
2010/11	32644.25	5254.03	1269.7	689.85	38922.74
2011/12	54453.19	6133.73	1720.9	969.34	42867.78

[Source : secondary data and website]

variables	Cash and bank balance	Total interest expenses	Loan loss provision	Interest expenses on deposit	Interest income from loan and adv
2007/08	4623.5	758.43	404.6	688.16	1496.24
2008/09	3925.4	1153.28	409.1	1061.67	2182.67
2009/10	3925.4	1960.1	752.2	1859.55	3368.72
2010/11	4884.5	2955.43	941	2911.69	4479.06
2011/12	5098.6	3155.49	1262	3121.05	5259.59

[Source : secondary data and website]

Analysis of Financial Data of EBL

Variable s	Total loan and advances	Total deposit	Total assets	Investment	Non Interest bearing deposit
2007/08	18836.4	23976.3	28565.9	4906.5	2865.61
2008/09	24469.6	33322.9	38000.3	5246	5196.63
2009/10	28156.4	36932.3	42053	4354.4	4719.19
2010/11	31661.8	41127.9	46895.6	7145	5476.82
2011/12	36376	50006.1	55813.13	7863.6	6777.17

[Source : secondary data and website]

Variables	Risk weighted assets	Total Interest Income	Net Profit	Non-performing loan	Total gross loan
2007/08	14122.57	1848.1	451.2	121	18836.4
2008/09	18718.29	2565.3	638.6	117.45	24469.56
2009/10	20867.61	3535.5	831.8	43.71	28156.4
2010/11	26453.88	4331.03	931.3	108.4	31661.84
2011/12	39348.3	4959.99	1090.6	307.4	36616.83

[Source : secondary data and website]

Variables	Cash and bank balance	Total interest expense	Loan loss provision	Interest expenses on deposit	Interest income from loan and advance
2007/08	3198.4	632.6	497.35	608.97	1496.24
2008/09	6164.4	1012.9	584.88	987.47	2182.67
2009/10	7818.8	1572.8	600	1537.51	3368.72
2010/11	6122.9	2535.88	604.15	2494.53	4479.06
2011/12	10363.31	2873.33	705.86	2856.34	5259.59

Source : website and secondary data

APPENDIX 2

Trend Analysis of Total Deposit of NABIL

year	x=t-2010	x ²	Deposit (Y)	xy
2007/08	-2	4	31915	-63830
2008/09	-1	1	37348	-37348.3
2009/10	0	0	36334.8	0
2010/11	1	1	49691.4	49691.4
2011/12	2	4	59489	118978
Total	0	10	224778.5	67491.1

$$a = \frac{\sum Y}{N} = \frac{224778.5}{5} = 44955.7$$

$$b = \frac{\sum xy}{x^2} = \frac{67491.1}{10} = 6749.11$$

Substituting the value of 'a' and 'b', the equation of the trend line is

$$Y = 44955.7 + 6749.11x$$

For trend values

Year	X= t - 2010	Trend Values		
2012/13	3	Y=a+bx	44955.7+6749.11×3	65203.03
2013/14	4	Y=a+bx	44955.7+6749.11×4	71952.14
2014/15	5	Y=a+bx	44955.7+6749.11×5	78701.25
2015/16	6	Y=a+bx	44955.7+6749.11×6	85450.36
2016/17	7	Y=a+bx	44955.7+6749.11×7	92199.47

The trend values of other items are calculated accordingly.

[Source s: secondary data and website]

Trend Analysis of select variable of NABIL Bank

(Rs in

million)

Forecasted year	IILA	TD	LA	NP	NPL
2012/13	6304.18	65203.03	48761.22	1908.66	1039.04
2013/14	7286.49	71952.14	54099.54	2067.24	1245.62
2014/15	8268.80	78701.25	59437.86	2225.82	1452.20
2015/16	9251.11	85450.36	64776.18	2384.4	1658.78
2016/17	10233.42	92199.47	70114.5	2542.98	1865.36

Trend Analysis of select variable of EBL Bank

Forecasted Year	IILA	TD	LA	NP	NPL
2012/13	5382.01	55032.48	40581.46	1260.15	248.71
2013/14	6218.83	61018.94	44808.6	1417.3	285.09
2014/15	7055.64	67005.4	49035.74	1574.45	321.47
2015/16	7892.46	72991.86	53262.88	1731.6	357.84
2016/17	8729.27	78978.32	57490.02	1888.75	394.22

APPENDIX 3

Coefficient of Correlation between Deposit and Loan and Advances of NABIL

Year	Deposit (X)	Loan and Advances (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2007/08	31915	21514.6	-13040.7	-11231.66	170059856	126150186	146468709
2008/09	37348.3	27816.6	-7607.4	-4929.66	57872534.8	24301547.7	37501895.5
2009/10	46334.8	32902.8	1379.4	156.54	1901916.81	24504.77	215884.31
2010/11	49691.4	38765.6	4735.7	6019.34	22426854.5	36232454	28505788.4
2011/12	59489	42731.7	14533.3	9985.44	211216809	99709012	145121395
Total	224778.5	163731.3	0	0	463477971	286417705	357813672

Calculation of mean of total deposit (\bar{X}) and Loan and Advances (\bar{Y})

$$\bar{X} = \frac{\sum X}{n} = \frac{224778.5}{5} = 44955.7$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{163731.3}{5} = 32746.26$$

Now we have,

$$n = 5$$

Coefficient of Correlation(r)

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{357813672}{\sqrt{463477971 \times 286417705}} = 0.978$$

$$r = 0.978$$

Coefficient of Determination (r^2) = $0.978 \times 0.978 = 0.956$

$$\text{Probable (P.Er.)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.745 \times \frac{1-0.956}{\sqrt{5}} = 0.0132$$

$$6(\text{P.Er.}) = 6 \times 0.0132 = 0.0792$$

The correlation of coefficient of other items is calculated accordingly.

Correlation of coefficient	NABIL				EBL			
	r	r ²	P.Er	6P.Er	r	r ²	P.Er	6P.Er
Deposit and Loan and advance	0.978	0.956	0.013	0.079	0.994	0.988	0.0036	0.0217
Loan and advance interest income from loan and advance	0.077 5	0.006	0.0132	0.0792	0.987	0.974	0.0078	0.47
Total deposit and net profit	0.533	0.284	0.216	1.296	0.986	0.972	0.004	0.023
Total assets and Net profit	0.506	0.256	0.225	1.35	0.994	0.988	0.0032	0.0217
Loan and advance and Net profit	0.516	0.266	0.221	1.32	0.876	0.767	0.0645	0.38
Loan and Advance and Non-performing loan	0.85	0.722	0.0837	0.502	0.573	0.328	0.220	1.21