

**STUDY ON DEPOSIT AND LENDING SITUATION OF NEPAL
BANK LIMITED AND EVEREST BANK LIMITED**

A Project Report

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CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Financial analysis is one of the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data. Financial mgt aspect is considered to be the vital and integral part of overall management of any enterprise, ensuring financial strength through adequate cash flow, liquidity and better utilization of assets. The financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should be sound from the point view of shareholders, debenture holders, financial institutions and nation as a whole. "Moreover, financial analysis is both analytical and judgmental process that helps answer the questions that have been properly posed" (Baye and Jansen, 1996:21-25).

"A financial ratio is the relationship between two accounting figures expressed mathematically or the term ratio refers to the numerical or quantitative relationship between two items/variables. This type of relationship can be expressed as percentage, fraction and proportion of numbers. Management of the firm can undertake it or by parties outside the firm. The focus of the financial analysis is on the key figure contained in the financial statement and significant relationship existed. Management of the firm is generally interested in every aspect of the financial analysis; they are responsible for the overall efficient and effective utilization of the available resource and the financial position of the firm" (Rose, 1999:19).

"Financial ratio helps us to find the symptoms of the operational and financial problems of a corporation, which can be ascertained by examining the behavior of these ratios" (Khan and Jain, 1999:151).

Banks collect the funds from public who have savings and disperse the fund to the person who is in need of it. This way, whole infrastructure of national development, direction of economy, rate of progress and even the habit of people are being the function of banking systems. The primary issue of economic development is to

increase the investment in productive sector. The increase in investment impacts positively in every sector of economy such as employment, production, income, government revenue, international trade etc.

"The banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions such as merchant banking, credit card business, documentary credit, traveller cheque businesses etc. Lending has its different forms. It can be divided into fund based and non-fund based lending. The fund based lending can be further divided into cash credit overdrafts, demand and term loans, bills purchased and discounted and export packing credit, project finance, consortium finance, loan syndication, bridge loan etc" (Dhanuskodi, 2006:52).

There are various types of banking institutions, which are performing different functions in the context of Nepal. It can be divided into three parts: The Central Bank, Commercial Banks and other financial institutions, which are also known as financial intermediaries. All of these financial intermediaries deal with money or money related transactions.

The history of organized modern banking system begins in Nepal only after the establishment of a commercial bank i.e. Nepal Bank Ltd. in 1937 A.D. or in 30th Kartik 1994 B.S. with an authorized capital of Rs. 10 million and paid up capital Rs. 842 thousands. With the opening of NABIL bank in 1985 A.D. the door of opening commercial banks was opened to the private sector. Then whole lot of commercial banks was expanded in Nepal.

1.1.1 Introduction of Sample Banks

a) Nepal Bank Limited (NBL)

The Nepal Bank Limited was established in 1994 B.S. with the government initiative as the first commercial bank of the country. From its beginning years of operations NBL has been semi private and semi-government organization. Although the bank has to pass through a number of difficulties during its early years, yet it has done

pioneering work in taking the banking habit to people, who were generally used to the traditional practices of monetary transactions in the non- monetized sector. Since NRB was founded only as late as 1956, for a few years the Nepal Bank Limited has to manage, apart from commercial functions almost all banking transactions including those of the government, however limited. The government to this bank also entrusted the entire business of note exchange and related activities. Up to 1965, before the establishment of the RBB, the bank was an authorized agent of the Nepal Rastra Bank. In places where the RBB does not have branches, it undertakes a number of activities including the foreign exchange buying and selling business. The Nepal Bank has agencies in India, United States, Britain, Switzerland and West Germany. In those early years, the main functions of the bank were government exchange, business and the advancing the money to the public against gold and silver. Gradually, its transactions widened with expanding banking and commercial activities. The Nepal Bank was set up a time, when banking was little known in the country, all banking activities being limited to money lending.

The commercial bank's capacity to operate effectively also depends on its being able to provide the best possible banking facilities for its customers and in the long run the provision of facilities for deposit in foreign currencies would probably turn out to be in the best financial interest of the country, in consideration of all these aspects.

b) Everest Bank Limited (EBL)

Everest Bank Limited (EBL) was established in 1994 and started its operations with a view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Sector Bank of India having 109 years of banking history with more than 4400 offices all over India and is known for its strong systems and procedures and a distinct work culture. The local Nepalese promoters hold 50% stock in the Bank's equity, while joint venture partner PNB contributes 20% of equity whereas the public holds remaining 30%. Despite fragile law and order situation especially during last 2-3 years, the Bank has doubled its deposits, advances as well as profits during the recent period.

1.2 Focus of the Study

The study is focused on the relationship between banker and its client and overall performance of the concerned commercial banks and at which level the commercial banks have been able to provide its service and obtain business and study about the sector of investment of commercial banks. Its focus is on the strict government rules and regulation that has limited the sector of expansion. The main focus of the study is to highlight the lending, investment and deposit policies of commercial banks expecting that the study can bridge the gap between deposits, investment and lending policies. On the other hand, the study would provide information for the management of the bank that would help them to take corrective actions. The uplifting of the development of a nation depends largely upon the development of its economic growth. Bank is an institution, which helps in collecting and mobilization of savings. The role of commercial banks in the uplifting of the economic growth of the country is very important and the internal management of the bank greatly influences the development of the economy of the nation. This research focuses on the study of financial performance of Nepal Bank Ltd. and Everest Bank Limited.

“There are 32 commercial banks in the country as of mid- March 2012. The number of commercial bank branches operating in the country reached to 728 including 90 commercial bank branches and 102 other commercial bank branched of ADB/N in mid March 2012. Of the total bank branches more than 46 percent bank branches are concentrated in the central region. By the end of mid March 2012, 352 branches are being operated in central region. In the Eastern, Western, Mid-western and Far Western region 156, 154, 56 and 52 bank branches are in operation respectively (NRB, 2011:7).

1.3 Statement of the Problem

Some of the commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. This has attracted the potential customers to deposit their money into banks, as there are very few sectors to make a profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore commercial banks have a lot of deposits but very little investment opportunity. They are even discouraging people by offering

very low interest rate and minimum threshold balance. This will definitely make inverse impact on economy of the country. This has decelerated the pace of economic development. Lack of sound investment policy is another reason for a commercial bank not to properly utilize its deposits that is making loan and advances or lending for a profitable project. This condition will lead the commercial bank to the position of liquidation. They face so many difficulties to mobilize their deposit fund on the profit making investment, so they can achieve sufficient return from the investment and satisfy their shareholder. The lack of knowledge on financial risk, interest rate risk, management risk, business risk, liquidity risk, default risk and purchasing risk, granting loan against insufficient deposit, overvaluation of goods pledge, land and building mortgaged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound credit policy sighted in the banks.

A sound banking system providing varieties of banking services to fulfill commerce, trade, industry and agricultural needs of the country is of crucial importance for Nepal. In this way that commercial banks are the backbone of the economy of a country, it is highly useful to make the present study on the Nepal Bank Ltd. and Nepal Investment Bank Ltd. This study enables us to see clear vision of the status of the banks like how effective and attractive its profitability position is, how its income and expenditure status is and how far it has achieved success of any business enterprises. But the financial performance of the enterprises in Nepal is quite dismal and has not been able to contribute towards the generation of surplus.

The financial performance of any financial institution can be evaluated with the aid of balance sheet and profit & loss account. The bank must provide with the statistical information about their business. The information must be provided in a prescribed form for the publication. However, the details of the information regarding loan disbursement are not accessible in the both banks. So, the evaluation of financial performance of the banks has been done with the aid of balance sheet and profit & loss account only.

Objective of the study is to identify the problems being faced by the commercial banks at the present economy and their solution. The economy of Nepal is poor and is

on downward trend. In the same place commercial banks are emerging like mushroom and they have to fight for their survival by providing best services to their customers. The following are the research questions of the study:

- a) What is the proportion of lending over total deposit of the sample banks?
- b) What is the proportion of investment in different sectors?
- c) What is the rate of interest of sample banks in different types of loan?

1.4 Objectives of the Study

The main objective of this study is to examine the financial performance of Nepal Bank Ltd. and Everest Bank Ltd. The specific objectives of this study are as follows:

- a) To examine the proportion of lending over total deposit of the bank.
- b) To analyze the proportion of investment in different sectors.
- c) To assess the interest rate of sample banks in different types of loan.

1.5 Importance of the Study

There is few of research work, journal and articles in the financial performance of commercial banks as well as other financial institutions in the context of Nepal. This study on financial performance of the bank analyzes the different indicators such as liquidity ratio, capital structure ratio, profitability ratio, EPS, trend of different components of assets and liabilities, net profit etc. This provides valuable information that is necessary for the management of the bank, which would help them to analyze the current situation and take corrective action. The success and prosperity of the bank relies heavily up in the successful investment of collected resources to the important sector of economy. Good investment policy has a positive impact on economic development of the country and vice versa. So the investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

1.6 Limitation of the Study

This study attempts to evaluate the deposit and lending situation of two banks. In this fast changing world it is difficult to cope with the pace of the changing technology.

Due to the arrival of unforeseen difficulties every study is accompanied by some natural limitations. Some of those limitations are:

- This study is conducted between only two banks. So this will not provide overall performance of other banks.
- Mostly the data used in this study might be of secondary type. Hence, any misrepresentation, mistakes, omissions etc. will affect the outcome of the study.
- Some of the statistical as well as financial tools of comparison and analysis shall be used in this study. So any drawback and weakness of those tools may adversely affect the outcome of the study.

1.7 Review of Previous Studies

1.7.1 Review of Articles

Rose (1999) entitled “Commercial Bank Management” stated that achieving superior profitability for a bank depends upon several crucial factors:

1. Careful use of financial leverage or the proportion of bank assets financed by debts as opposed by the shareholders equity capital.
2. Careful use of operating leverage from fixed assets or the proportions of fixed cost input the bank used to boost its operating earnings before taxes as bank output grows.
3. Careful control of operating expenses so that more dollars of sales revenue become net income.
4. Careful management of assets portfolio to meet liquidity needs while seeking the highest returns from any assets acquired.
5. Careful control of the bank’s exposure to risks so that the losses don’t overwhelm its income and equity capital”.

Michael and Jensen (1996) entitled ‘Money, banking and financial market: an economic approach’ have tried to analyse the bank’s profitability under an economic approach. They state “to maximize profits, banks should attract deposits unto the

point where the value of marginal producer of deposits equals the interest rate paid on deposits.”

Rose and Fraser (2002) entitled, 'Financial Institutions: Understanding and managing financial services' stated that “Banks earn interest on loans and investments; they pay interest to the depositors. When interest rates changes, there may be an effect on income if a bank holds rate sensitive assets and liabilities. If, for example, a bank holds more rate sensitive assets than liabilities when interest rate rise, profits will be improved because the bank will receive more in increased interest revenue than it will pay out in rising costs. The reverse would be true during a period of falling interest rates.

Meir (1999) entitled, 'Financial institutions and markets': “Banks now have steadily expanded their activities in payment related services, in delegation and trust services, in credit substitution and services, and in forward transactions. In doing so, they have pursued economies of scope, relatively unconstrained by regulations" (Kohn, 1999:15).

Batra (2003), Senior Partner of Kesar Dass & Associates, India, studied about developments of NPA in India along with the Asian markets. He found that Indian banks had disturbing amount of NPAs during the last twenty years. As on 31st March of 2003, total approximate NPAs was worth 1, 10,000 crore while it was around 63,883 crore as on 31st March of 2001.

The study showed that the reduction of gross NPA from 14.4% to 11.4% has not given much comfort since this accomplishment is on account of credit growth , which was higher than the growth of Gross NPAs . The NPA level hasn't either reduced or contaminated during these years.

The gross and net NPA's for Public Sector Banks (PSBs) as on 31.03.2001 were 12.39% and 6.74% respectively where as it was 11.4% and 6.2% for Scheduled Commercial Banks (SCBs.) Batra also analyzed the factors resulting to NPA in the early nineties and came out with these points.

-) Public Sector Banks performed commendably even though there were limitations set for them. But during early nineties, PSB's were suffering from severe capital inadequacy representing negative profitability. This situation occurred as the restrictions which were set for their functioning were incomplete which did not project the dominant needs of corporate targets. Incorrect target perception and identification lead them to the wrong way resulting NPAs.
-) PSBs were functioning under control and as per the direction of Finance Ministry during Pre-reform era. Along with Reserve Bank of India (RBI), it directed all aspects of working of the working of the banks. Banks were not free to price their products in competition with each other. They could not provide loans to division of their choice disallowing them invest their funds in their best interest.
-) Finance Ministry and RBI used to take major policy decisions. Even if directors were appointed from the specific sectors to make decision, there was political invasion in either the decision making itself or on the appointment of directors.
-) Audit and inspection was done only for formality and it was unable to correct the effect of serious errors in policies and directions.
-) Banks could not build up itself in terms of skills and expertise to regulate the credit growth which increased by 160 times (i.e. from 3,000 crore in 1970 to 475113 crore on 2000)
-) Need for credit information was not felt and not made which disabled banks to publish names of the defaulters to other banks in the financial system.

The impacts of NPAs on the working of commercial banks are:

-) Impact on Profitability
-) Impact on the outlook of Bankers towards credit delivery.
-) Excessive focus on credit risk management.
-) High cost of fund
-) Impact on Bank's screenplay on Stock Exchange.

Sapkota (2004) in the article published on 19 May, 2004 in Rajdhani National Daily entitled "Portion of NPA in commercial banks-high in public, low in private" had

highlighted the fact of NPA as being less in private banks in comparison to public banks. The study had mentioned that the NPA of two big nationalized banks (NBL and RBB) was about 60% and the loans were in very serious situation. The study further added that in order to improve this situation and to make healthy banking environment, financial reform program had been brought, as its consequences, the management of these two big banks were handed to foreign company on a contract but the ration of NPL was not reduced (Sapkota, 2004).

The supervisory authorities impose strict regulations for the income recognition of NPLs. Loans which are classified as substandard, doubtful or loss requires suspension of interest payment and if the interest is not collected it would be considered as non-accrued interest which is erased from the income. Normally, uncollected interests are put on memorandum accounts where NPLs are restored on accrual basis after the full settlement on all uncovered principal and interest. So it would be useful if footnotes are kept which explains the accounting policies followed with observance of recognition of income from NPAs. The interest income of the bank should replicate only interest income which are realized and should exclude accrued interest in order to avoid overstatement of interest (Sapkota, 2004).

When bad loans are to be written off, the decision is done by the BODs relying on the established legal systems and the repayment culture. It is hard to advise to the authority to regulate guidelines as to when a loan could be considered as unrecoverable.

The banks should report NPAs under the three categories and it would be preferable to categorize NPA in accordance with the industrial sector. It is to be noted that the total amount of NPAs should not include non- accrued interest.

Kundu (2005) in the article Non-performance of Non-Performing Assets analyzed certain difficulties with NPAs which were:

-) Market return on capital cannot be received by the owners. Owners may even lose their assets if the bank fails which would affect the large number of shareholders.

-) Market return on savings cannot be received by depositors. If the bank fails, depositors would lose their savings or uninsured balance. Banks will also redistribute other borrowers by charging higher rates of interest resulting in lower deposit rates and higher lending rates which would hamper the economic growth of the nation.
-) NPAs symbolize bad loans which misallocate credit from good projects, which do not receive funding, to failed projects. Bad investment ends up in misallocation of capital, labor and natural resources resulting in the economy to perform below its production level.
-) NPAs may pour out the banking system and catch the money stock, leading to economic reduction.

The writer also writes about the affect of politics on lending by banks. Loans are given to various industries not for commercial purpose and on the viability of project but on the basis of political power. Some politician would ask the bank to extend the loan to a particular corporate and the bank would be required to do so. In normal situation, bank should make a review of the actual need of the party concerned, the business prospect of the firm, its financial statements, the management etc. But since it is not done; many of these loans become NPAs.

In the article by Chhetri (2005) entitled "Non performing assets: A need for rationalization" the writer has attempted to provide connotation of the term NPA and its potential sources, implication of NPA in financial sector in the South East Asian Region. The study had also given possible measures to manage NPA. Since the date became past dues, the loan became NPA. The book of account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to maintain loan performing. As per Chhetri failure of business for which loan was used, defective and below standard credit appraisal system, credit programme sponsored by government, slowdown in economy recession, diversion of fund are some of the factors leading to accumulation of NPAs. Chhetri concluded that financial institutions are best with the burden of mounting level of NPA in developing countries. Such assets debar the income flow of the financial institution while claiming additional resources in the form of provisioning there by hindering gainful investment. Rising level of NPAs cannot be taken as stimulus but the vigilance

demanded to solve the problem like this eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth (Chhetri, 2005:17).

Dhanuskodi (2006) in the article about NPAs with special reference to Commercial Bank of Ethiopia (CBE) and defined NPA as an asset which ceases to generate income of the bank. The past due amount remaining uncovered for the two quarter consequently the amount would be classified as NPA for the whole year. It included borrowers' defaults or delays in interest or principal repayment. In the study it was found that NPA affects the internal & external positions of the bank which were:

A. Internal Factors:

-) NPAs Increase the total expenditure: If NPA occurs, expense for provision for doubtful debts should be made which causes relevant increase in the expenses
-) NPAs reduce earning capacity: The NPA affects earning capacity of the bank. In general various causes reduce the profitability performance of the bank. The provision for doubtful debts is one among the most important cause for reducing the profitability of the bank
-) NPA reduce ROA and ROE.
-) NPA affect Capital Adequacy Ratio.

B. External Factors:

-) The high level of NPA is not preferred by Regulatory and credit rating agencies.
-) Indifferent attitude developed in the mind of Bank's Customers.
-) Image of the bank in the eyes of general public will go down.

The study concluded as NPA was a double-edged weapon, which affected bank profitability due to interest income not being recognized on NPA accounts and loan loss previously to be created from profit earned. The bank must adopt structured NPAs management policy for elimination or reducing the NPAs in the Bank. In general the trend of NPAs in CBE are increasing trend, on the same time the CBE has been adopted a very good techniques to control over the NPAs.

Uprety (2008) wrote a column on a web page and criticized the NRB directive to blacklist the big loan defaulters. He claimed as even this step is appreciative; there is no transparency and inclusiveness in the law- making process in Nepal which has been its weakness as it fails to withstand three main tests so that the provision would be as effective as law. The three factors were:

) **Legality:** Even the directive has been imposed by NRB; legally the bank has not been given the authority to impose a directive of this nature under the NRB Act 2058. Even if we assume that the directive had a legal basis, it will require the approval of NRB board which is not done yet.

) **Constitutionality:** As per this directive, banks and financial institutions are prohibited to extend the credit not only to the blacklisted businessmen but also to their relatives. For example: if a father is blacklisted, his son or daughter is not allowed to take loans from banks. Similarly if a private company is blacklisted, the stakeholders of the company are automatically blacklisted. A shareholder who holds more than 10 percent share in a public company which has a default bank loan is also blacklisted even the shareholder is not involved in the management of the company. So this directive seems like it is above the Constitution of Nepal which guarantees the right to do business, profession and occupation as fundamental rights of all citizens.

) **Rationality:** this directive fails to be rational as it can blacklist businesses even if one of its projects fails out of five successful projects. If the rationale was to force the businessmen to divert their cash flows from successful ventures to give financial security to unsuccessful ventures, then it ignores other investors and parties involved of the successful projects.

Despite all these weakness the system of Credit Information Bureau (CIB) included by the directive should be encouraged and it should be strengthened. The role of CIB should be clear and should be restricted only for the information of credit-worthiness of individuals or companies. Banks should compulsorily consult for the information kept by the CIB before granting any credit facility not only for the huge amount but for every transaction.

Nepalese Banking System is puzzled by NPA of considerable amount which was up to NRs. 22.18 billion as of Mid July 2007. The NPA was 9.56% of total loans and advances. NPA was declined by NRs. 2.30 billion in 2005/06 and further by NRs. 3.40 Billion in 2006/07. So, from this analysis we can clearly see that although loans and advances are increasing, NPA. Even though NPA is decreasing the NPA ratio has not still yet reached the satisfactory level (Uprety, 2008).

The volume of NPA is largely on account of the portfolio of public banks so it needs to be broken down into the public and private banks category to magnify the reasons for the existing levels of NPA. The NPA ratio of the public banks is still 19.58% even though it has shown signs of improvement in the past two years. The reform started in the public banks has significantly lowered the volume of NPA in these banks by write offs. The NPA ratio in the private banks as on Mid July 2007 was just 4.93%. This ratio has almost been within the range of 10 % and has been shown as improvement in the last six years (Uprety, 2008).

NRB requires provision on all the loans given by the banks, which goes higher as the loan quality deteriorates. The banks must create loan loss provision on the gross value of outstanding loans, rather than on the net loans and they are not allowed the respite in the value of collaterals. The banks thus must create provisions according to the quality of the loan portfolio. Similarly, public banks with large amount of NPAs have large provision in their balance sheets while the provision of the private banks is lower. It shows that the Nepalese banking sector has somewhat protected itself from the large volume of NPA through creation of loan loss provisions. Even though the gross NPA ratio is still high, the net NPA ratio is minimal which implies that the banking sector doesn't stand to lose any more on account of NPA.

Since the large volume of NPA has been a major problem in the public banks of Nepal along with some private banks, reform program started helped to lower the amount of both Gross and Net NPA. In the chart presented below, a wide gap between NPA and provision can be observed during mid July 2002 and has narrowed down since. As on mid July 2007, total provisions had covered the total loans of the industry.

1.7.2 Review of Thesis

Ojha (2005) conducted study on “*Lending Practice: A Study on NABIL Bank Limited, SCB Nepal Limited, and Himalayan Bank Limited.*” With the objective of:

-) To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.
-) To measure the bank’s lending strength.
-) To analyze the profit behavior of lending and measuring the ratio and volume of loans & advances made in agriculture, priority and productive sector.
-) To measure the lending performance in quality, efficiency and its contribution in total income.

The study was conducted on the basis secondary data. The research findings of the study were:

The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current assets. The measurement of lending strength in relative term has revealed that the total liability to total assets of SCNBL has the highest ratio. The high ratio is the result of high volume of shareholders equity in the liability mix. Himalayan Bank Limited has high volume of saving and fixed deposit as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean. SCBNL’s tendency to invest in government securities has resulted with the lowest ratio of loan & advances to total assets whereas. NABIL Bank Limited. Has the highest due to steady and high volume of loan & advances throughout the years. The ratio of investment on loan & advances has measured the total portion of investment in total of investment and loan Advances. The mean ratio among the bank does not have deviated significantly. The loan & advances and investment to deposits ratio has shown that NABIL Bank Limited has deployed the highest proportion of its total deposits in earning activities. This is indicative of that in fund mobilizing activities NABIL Bank Limited is significantly better.

The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is higher in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Limited is the least to the low share of capital, reserves & surplus in its capital mix. But the volume contributed by Himalayan Bank Limited. In case of loan & advances is highly appreciable compared to its net assets. The volume of loan & advances contribution by NABIL Bank Limited is the greatest in five years of study period. The mean investment of NABIL Bank Limited is the highest but the investment on government securities of SCBNL is the highest. The portfolio analysis has revealed that the flow of loan & advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of the entire bank in industrial sector is appreciable. The contribution made by Himalayan Bank Limited. In industrial sector is the greatest that of SCBNL is the least. The lending in commercial purpose is the highest in case of NABIL Bank Limited and least in case of SCBNL has highest contribution in service sector lending. It has contributed 34.86 % of its total credit in general use and social purpose. The measurement of efficiency in lending has revealed that the loan loss provision to loan & advances analysis shows NABIL Bank Limited has the highest mean ratio. According to Nepal Rastra Bank directives, the loan loss provision indicates the provision made against the performing loan (pass loan and sub-standard loan) only. It indicates that the volume of sub-standard loan in the loan mix on NABIL Bank Limited. Is higher and the volume of non-performing loan in the mix of NABIL Bank Limited is likely to increase in coming future. The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Limited. And lower in case of SCBNL. The interest expenses to total deposits ratio indicate that the cost of fund in Himalayan Bank Limited. Is the highest and that of SCBNL is the least. The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total reflects the capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best. The performance of SCBNL is significantly better than two banks in case of profitability. EPS is the highest in the case of SCBNL.

Thapa (2006) conducted a study on “*Investment Policy of Nepal Bangladesh Bank Limited and other Joint Venture Banks (NABIL and Standard Chartered Bank Nepal Limited.)*” with the objective of:

-) To examine the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparisons NABIL and SCBNL.
-) To analyze the relationship between loan & advances and total investment with other financial variables of NB Bank Limited and compare them with SCBNL.
-) To examine the fund mobilization of investment policy of NB Bank through off-balance sheet activities in comparison to the other two banks.
-) To study the various risks in investments of NB Bank in comparison with NABIL and SCBNL.
-) To analyze the deposit utilization trend and its projection for next five years of NB Bank and compare them with NABIL and SCBNL.

The study was conducted through secondary data. The research findings of the study were as follows:

The liquidity position of NB Bank was comparatively better than that of NABIL and SCBNL. NB Bank was not better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and SCBNL. NB Bank dose not seem to follow any definite policy regarding the management of its assets. Profitability position of NB Bank was comparatively worse than that of NABIL and SCBNL. NB Bank has maintained high growth rates comparison to other banks through it is not successful to make enough investment. The position of NB Bank in regard to utilization of the fund to earn profit is not better to compare to NABIL and SCBNL.

Shrestha (2008) conducted a study on “*Nepal Rastara Bank Guidelines on Investment Policy of Commercial Banks in Nepal (A Case Study of Nepal Investment Bank Limited.)*” With objective of

-) To highlight the NRB directives regarding investment policy (Loan, advances and investment)
-) To analyze the liquidity of NIBL.

-) To find out relationship between total deposit total and loan and advances, total deposit and total investment.
-) To make the trend value analysis of deposit utilization and its projection for next five years.
-) To find out whether NRB guidelines are actually being implemented.

The study was conducted on the basis on secondary data.

The main findings of the study were:

Bank in good position to meet the daily cash requirement as bank maintain the average cash and bank balance in respect to total deposit. The performance of NIBL regarding deposit collection, granting loan and advances and investment is quite satisfactory but does not seem to follow a definite policy. NIBL had not efficiently utilized its equity capital hence return on equity was not satisfactory because of lack of sound investment policy for mobilization of its equity capital. Interest earned to total operating income of NIBL was high. However, bank failed to maintain net profit on the study. From the analysis of coefficient of correlation, there was positive and significant relation between total deposit and loan and advances and current assets and current liabilities and loan loss provision and loan advances but there was negative and no significant relationship between outside assets and net profit. Trend analysis and projection for next year of total deposits, loan and advances, investment and net profits are in increasing trend.

Kafle (2008) in the study entitled “*Non-performing Loans of Nepalese commercial banks.*”

The study mean objectives of the study were:

- i) To know the problems of the non-performing loans and its effect in the ROA and ROE of the Nepalese commercial banks
- ii) To find out whether the Nepalese commercial banks are following the NRB directives regarding loan loss provision for non-performing loan or not.

The major findings of the study were:

Through the research the study had found that the no banks have been following NRB's directives regarding the loan loss provision. The study also concluded that the return on assets (ROA) and return on equity (ROE) of the bank deposited upon the NPLs. The high degree of negative correlation between NPL and ROA and the NPL and ROE clearly indicates that there was inverse relation between them. The study had recommended that for the smooth operation of the commercial banks, the NPLs should be controlled for this bank should provide necessary training regarding loan management to the manpower's. In order to remove, the NPLs, banks should take enough collateral so that banks can recover its loan amount. For the loan loss provision as per the NRB directive and to reduce the NPL, the bank management should be effective and the NRB's monitoring and regulation is necessary.

Thapa (2010) entitled "*A Study of Non-performance Assets of Nepalese Commercial Banks in Nepal*" of the period from FY 200 to FY 2009.

The objectives of the study were as below:

- a) To highlight Loans and Advances trend in commercial banks.
- b) To point out the amount of NPAs in Nepalese commercial banks

The major findings of his study were as follow:

-) The status of non-performing loan of commercial banks shows that, they were making positive improvement over it. By the end of mid July 2009, the ratio of non-performing loans to total loan and advances declined to 9.65 percent. Total amount of non-performing loan remained to Rs. 22182.9 million in the same year. In the last year the percent and amount of non-performing loan were 14.22 percent and Rs. 26770.42 million respectively.
-) Loans and advances, the major component of assets, constituted the 46.66 percent of total assets in mid July 2008. Similarly, investment and liquid funds, another component of assets, registered the 19.06 percent and 8.98 percent of total assets in the same year. In the preceding year the respective share of loan and advances, investment and liquid funds were 40.44 percent, 19.15 percent and 9.06 percent. In the current year the loan and advances increased by higher rate of 32.05 percent compare to 8.61 percent in the last

year. By the end of mid July 2008 the total outstanding amount of loan and advances of commercial bank reached to Rs.228951.9 million. It was Rs. 173383.4 million in mid-July 2007.

-) In the current fiscal year deposit mobilization of commercial bank marginally increased by 15.88 percent compare to 15.39 percent growth in the previous year. By the end of mid July 2008 it reached to Rs. 337497.2 million from Rs. 291245.6 in the last year. Of the component of deposit, current deposit celebrated by higher rate of 20.45 percent compared to 7.91 percent in last year. Fixed deposit increased slightly higher of 13.89 percent compared to 13.75 percent in the previous year. However, saving and call deposit growth rate slipped to 15.23 percent and 18.62 percent compare to 16.65 percent and 28.51 percent respectively.
-) Liquid funds increased by 14.45 percent and reached to Rs.44089.7 million in mid-July 2008 from Rs. 38842.1 million in mid-July 2007.
-) In the current fiscal year the net profit of the banking system grew by slower rate of 10.20 percent compared to 53.38 percent in the last year. By the end of mid July 2009 the net profit amounted to Rs. 8797.9 million from Rs 7983.5 in mid July 2008.

Shrestha (2010) conducted study on “*SWOT Analysis of Nepal Bank Limited*” with the objective of:

- a) To Review strength & weakness of Nepal Bank Limited in it’s major areas of operation.
- b) To explore areas of opportunities and threats to Nepal Bank Limited prevailing in the changing context.
- c) To show a suggestive package based on the findings of the study for the improvement of the financial performance of Nepal Bank Limited.

On the basis of the various studies and analysis major findings of this study were presented below:

- i) Liquidity Position of sample bank seemed quite near or an average. It is obvious that in the present situation of the country, investment

potentiality is not favourable so the liquidity in the commercial banks was sufficient.

- ii) The sample commercial bank had high volume of non - performing assets with respect to the total assets i.e. 0.30.
- iii) There was a situation of continuously negative profit in Nepal Bank Limited till the FY 2061/62. Therefore, all the indicating factors to represent the profitability are in negative in Nepal Bank Limited. NBL was generating interest income from its credit on average of 7.0%. If we take the volume of net profit in NBL, It was 1323 million in the FY 2063/64.
- iv) Because of the negative profit up to 2061/62, NBL has negative earning per share. But from the FY 2062/63, it can earn profit and its earning per share is positive. But average EPS of NBL was Rs 307 in the study period.
- v) Credit and Investment to total deposit ratios of Nepal Bank Limited was 78% on an average for the study period. Similarly correlation between deposit and loan and advance was negative correlation in Nepal Bank Limited for the study period. This indicates that trend of deposit utilization in RBB was poor.
- vi) Nepal Bank Limited was not being able to maintain the preferred provision apart from for pass loan. Similarly NBL was high provision for non - performing loan. As far as directive credit is concern NBL could not provide any kind of figure for directive credits.

Devekota (2011) conducted study on “*Comparative SWOT Analysis of Nepalese Commercial Joint Venture Banks (Standard Chartered Bank Nepal Ltd., Nepal Arab Bank Ltd. and Himalayan Bank Ltd.)*” “with the objective of:

- a) To study and analyze the growth, objectives, functions, and role of the commercial Joint Venture Banks
- b) To evaluate the comparative financial strengths & weakness of three competitive JVBs.

- c) To provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of their shareholders based on the findings of the study.

The major findings of the study were:

- a) Banks are primarily profit making organizations that provide a range of financial services to their customers. On the basis of the profitability, the selected JVBs were among the top five commercial Banks operating in the country, Standard Chartered Bank Nepal Ltd., being the top one. The profitability position of SCBNL & NABIL is better than that of HBL in terms of Return on total assets and total deposits.
- b) Interest incomes form the major portion of the total income in all these selected JVBs during the study period. Likewise, interest expenses cover the major portion of total expenses in these banks.
- c) During the study period, HBL was found to be the highest Deposit holding bank. In other words, Total deposits of HBL exceeded the other two banks under study, SCBNL & NABIL, in all of the years taken for this analysis. *In the trend analysis section*, it is noticeable that the Total Deposits for NABIL was in the decreasing trend. The Total deposits trend of NABIL explains that its deposit is declining by NRs. 389.22 million each year. The Total deposits trend of HBL shows that the trend line almost fits with the actual Total deposits which have been increasing by NRs. 1795.42 million each year.
- d) HBL had been seen to adopt the aggressive lending policy during the period of this analysis. It has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & Advances of HBL had always been greater as compared to SCBNL & NABIL during this whole period under analysis.
- e) In case of all three JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks, which signifies the excessive use of debt to finance Total Assets. The high 'Total Outsiders' Fund to Total Assets' ratio implies bank's success in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks were highly levered.

- f) The analysis revealed that all the JVBs had limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises had the minimal investment of owners' equity in the fixed assets in order to maximize the return on shareholders' fund.
- g) The investments of all these JVBs were found to be more or less volatile. In some years, they were in the increasing trend whereas in other years, they are in the decreasing trend. This might be due to the instability in the political & economic situation of the country, which created an environment of chaos in the overall economy including the banking industry.
- h) Other financial indicators like Earning per share (EPS), Dividend per share (DPS) and Book Value per share of SCBNL was found in the better position as compared to that of NABIL & HBL. The DPS of SCBNL & NABIL was in the increasing trend as compared to that of HBL, which is rather volatile.
- i) The comparative strength of SCBNL was better as compared to NABIL & HBL as per data and as per the analysis done in the various sections. One the primary objective of the commercial bank was to maximize the profit. The SCBNL has dominated in this regard during almost the whole period of study except for one or two cases where NABIL took off. However, the profit before tax of all three banks was in the increasing trend.
- j) The loan loss provision of SCBNL had always been least (during the whole period under analysis) among these three selected Joint Venture Banks signifying that it had less amount of bad loans, which is obviously good for any bank. This also proved the greater strength of SCBNL in mobilizing its deposits in the more beneficial manner.

Since all the three Banks selected for study were among the top banks operating in Nepal, their relative financial strength is better in the economy as compared to the other banks. But while comparing these selected banks alone, SCBNL, NABIL & HBL can be ranked chronologically as banks with higher strengths and lower weaknesses. Opportunities & Threats are present in the external environment. It is very probable that the bank with higher strength can grasp excellent opportunities and avoid redundant treats present in the economy.

Yadav (2011) in the thesis entitled “*A Study on Non-performing Assets- with Special Reference to Nepal Bank Limited and Rastriya Banijya Bank Limited*”

The objectives were specified as below:

- a) To study the general reasons for assets become NPA in RBB and NBL
- b) To point out the level of NPAs in NBL and RBB banks after financial sector reform program
- c) To find out the problems of banks due to NPAs

The major findings were as follows:

-) The share of RBB and NBL in the assets and liabilities of the banking sector was around 50%. Although international financial experts have been managing these banks, the performance especially for reducing NPA was not satisfactory.
-) The management teams were supposed to bring NPA level to 5% level. The NPA total credit ratios of RBB increased from 20.17% in FY 1999/00 to 60.15% in FY 2004/05. It increased by 5% points in FY 2004/05 than the previous year. Like wise, the NPA / total credit ratio of NBL also increased from 27.46% to 60.47% in FY 2004/05, which shows the rising trend.
-) Both of them had negative net worth since FY 2000/01 and the net worth figures continuously increased in the last five years. Although financial performance of both the management teams is totally unsatisfactory, they have improved in other areas. People are questioning the returns of such a huge expense. Is it going to be a futile exercise, suppose they brought down the NPA level to a satisfactory level? But what will happen after the management teams leave the banks? Questions were still remaining unanswered.
-) The net profit trend of NBL and RBB was highly negative in first three fiscal year because more than 60% non performing asset. But now, NBL and RBB was earning profit from last two years.
-) Total deposit was not correlated with this two banks' loan and advance. This was very serious matter and the main cause of over liquidity.

-) Situation of deposit mobilization is poor in NBL and RBB. NBL and RBB was not focusing on the quality of loan rather focusing on the volume of loan.
-) After the implementation of financial sector reform NBL and RBB were able to earn profit from 2062/63 and also able to decreasing volume of non - performing assets. But NBL and RBB have to more focus to improve the credit management because NBL and RBB were not able to maintain NPA as the specified standard of NRB i.e. 5 %.
-) Credit related financial indicators in NBL and RBB seem irrelevant in comparison with the specified standard of NRB.
-) Various acts and regulations were enacted for the financial sector reform but implementation of policies and directives like directed sector credit, sufficient provision for loan loss, volume of NPA is vital because of the increasing trend of NPA in commercial banks.

1.8 Conclusion

The study has found various studies conducted in the field of financial performance and loan management of joint venture banks. But there is very few studies regarding deposit and lending position of public sector bank and private bank. However, different pilot studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created for serving the objective set. Similarly, different previous researchers have confined their study to the examination and evaluation of financial operation, financial position and loan management of Standard Chartered Bank Nepal Ltd., Nepal Arab Bank Ltd., Himalayan Bank Ltd. and Nepal Bank Limited. They have assessed their strengths, weaknesses and opportunities and attempted to find out reasons of changes on profitability and liquidity trends of the both.

In conclusion, the researcher is trying to clear that whether it is focused to the deposit mobilization, generating more profitability, giving more loan and advances to customers or not and collection of loan disburse. So, it is trying to evaluate the financial performance of public sector bank and private bank especially of Nepal Bank Limited (NBL) and Everest Bank Limited (EBL). There is no confusion that financial performance of banks affects the profitability of commercial banks. But without a systematic research or study, it cannot be said that how much these two are

affected by financial performance. Despite this separation between financial performance of public sector bank and private bank it cannot be reached to a conclusion that there is no any relationship between problem loans (NPA) and profitability of commercial banks. Therefore, to reveal the secret, it is necessary to conduct a systematic study. That is why this research will try to find out the relationship between deposit and lending position of public sector bank and private bank. Likewise, this study will also highlight on the financial performance of public sector bank and private bank on banks profitability. The main research problem is to analyze whether the sample banks have right level of liquidity as well as is able to utilize its resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Therefore, this study is useful to the concern bank as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc.

1.9 Research Methodology

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology decides the methods and process applied in the entire of the study. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it the researcher studies the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. Thus, this chapter deals with the research design, nature of data, data gathering procedure, population and samples, and data processing procedures.

Research Methodology adopted in this chapter is the set of various instrumental approaches used in achieving the predetermined objectives as stated in the earlier chapters. It represents the resources and techniques available and to the extent of their reliability and validity in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research. Research methodology refers to the various sequential steps (along with a rational of each such step) to be adopted by researcher in studying a problem with certain objectives in view.

1.9.1 Research Design

A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. This study aims to portray accurately upon the financial ratio analysis and overall financial performance of NBL and EBL. The research methodology followed for this study is basically descriptive cum analytical research design. The design may be a specific presentation of the various steps in the research process. These steps include the selection & presentation of the research problem, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing.

A research design; bearing the techniques and systematic steps of research, helps to collect various information required to researcher's thesis writing of any investigation. In the lack of the research design, the functional process on researches is never achieved. After the research study has been formulated, the next logical steps are to construe the research design which refers to the entire process of planning and carrying out a research study.

As this definition suggests any research project would be unthinkable without a research design clearly visualize by the researcher. For this analysis purpose the balance sheet, income statement, profit and loss account and annual reports published by the banks for the given years has been used.

1.9.2 Population and Sample

Nowadays a number of commercial banks have been emerging rapidly. Some have already been established and others are in the process of establishment. Currently there are thirty two commercial banks in Nepal. Due to time constraints and resource factors, it is not possible to study all of them regarding the study topic. In this study, all the commercial banks are population of the study. Among them EBL and NBL has been selected as sample for this study. For analysis purposes, financial statements only from preceding five years period are used.

1.9.3 Nature and Sources of Data

Mainly data are collected from two sources. They are primary sources and secondary sources in this study. But most of the data are of secondary type.

1) Primary Data

The primary sources of data have been used to collect from concerned banks. The questionnaires are distributed to the 50 respondents of administrative and credit department of concerned sample banks. To get reliable information, discussion was also conducted with clients of bank and banks' staff to the related field.

2) Secondary data

The secondary sources of data are the information received from reports, books, Newspapers, journals etc. The major sources of secondary data are as follows:

- Annual reports, newsletters and bulletins of EBL and NBL,
- Publications published by NRB,
- Various Articles published in the Newspapers,
- Unpublished periodicals,
- Information from sample banks' sites,
- Other supporting and official reports.

1.9.4 Data Collection Techniques

For the purpose of the study, different data of financial statements are obtained by using different sources that are scanned then, master sheet of financial data have been extracted and tabulated as per the need of this study under different heads. These data were grouped in different tables and charts according to their nature. After systematic tabulation, those data are analyzed by applying tools.

1.9.5 Data Analysis Tools

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis different items from the balance

sheet and other statements are tabulated. Their ratios, percentage, average ratios, grand average ratios etc. are then calculated and presented in the tabular forms.

To study the relationship between two or more variables, correlation coefficients are also calculated. Following are the brief introductions of the financial and statistical tools used in this study.

1.9.5.1 Financial Tools

Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statements (i.e., balance sheet, and profit and loss account and income statements). There are several financial to spot out the financial strength and weakness of the firm. There are several financial tools which can be applied in order to analyze the investment policy of commercial banks. The financial tools used in this study are as follows; Liquidity Ratio, Activity Ratio, Profitability Ratio, Risk Ratio and growth Ratio.

A. Liquidity Ratio

This Ratio measurement the liquidity position and short term solvency of the firm indicating the company's ability to meet short-term obligation. The current ratio and quick ratio measure the liquidity position of the company. These ratios are calculated to judge the long-term financial position of the concerned firm.

Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. A high degree of liquidity shows inability of proper utilization of funds whereas the lack of liquidity shows the signal of poor credit worthiness, loss of creditor's confidence or even in legal tangles resulting in the closure of the company. So, commercial banks need liquidity to meet loan demand and deposit withdrawals. Without good liquidity, a bank is not able to operate its function. To measure the bank's solvency position or ability to meet its short-term obligation, various liquidity ratios are calculated.

A.1 Current Ratio

Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short-term solvency position of the bank. The current ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position, In other words, current ratio represents a margin of safety. The higher the current ratio, the greater the margin of safety, and the larger the amount of current assets in relation to current liabilities, the more the bank's ability to meet its current obligations.

2:1 is standard of current ratio is widely acceptable or more is considered as satisfactory. It is not hard and fast assumption that the current ratio must be 2:1. So many firms below this standard are also seen sound and meeting those obligations efficiently.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

A.2 Loan and Advances to Current Assets Ratio

This ratio measures the relationship between loan and advances to current assets. It shows the bank's liquid capacity of discounting and purchasing the bills and loans, cash credit and overdrafts facilities to the customers. In this study, loan and advances refer to local and foreign bills discounted and purchased, cash credit and overdraft in local currency as well and inconvertible foreign currency. This ratio is calculated by dividing loans and advances by current assets.

$$\text{Loans and Advance to Current Assets} = \frac{\text{Laon and Advances}}{\text{CurrentAssets}}$$

A.3 Loan & Advances to Current Assets Ratio

It shows the relationship between loan & Advances to current assets or its shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. This ratio can be computed in the following way:

$$\text{Loan and Advance to current assets ratio} = \frac{\text{Loan \& advances}}{\text{Total Current Assets}}$$

Loan & advances are the current assets, which is the general income to the bank. It shows the percentage of loan & advance in the total current assets. In the present Study loan & advances represent to local foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

A.4 Fixed Deposit to Loan and Advances Ratio

This ratio of commercial banks indicates, how much of loan and advances are granted against fixed deposit. Fixed deposits are high interest rate payable deposits also known as High-Cost deposits. Hence, commercial bank should utilize the fixed deposits properly. This ratio can be calculated with the help of the following ratio.

$$\text{Fixed Ratio to Loan and Advance} = \frac{\text{Fixed Deposit}}{\text{Loans and Advances}}$$

A.5. Saving Deposit to Loan and Advance Ratio

This ratio indicates the portion of total saving deposit utilized in loan and advances. Saving deposits are low interest paying deposits also known as Low-Cost deposits. So, the banks should utilize them properly. This ratio can be calculated with the help of following formula.

$$\text{Saving Deposit to Loan and Advance Ratio} = \frac{\text{Saving Deposit}}{\text{Loan and Advances}}$$

A.6. Current Deposit to Loan and Advance Ratio

This ratio indicates the portion of total current deposit utilized in loan and advances. Current deposits are non interest bearing deposits better known as no cost deposit. So, the banks should utilize them properly but at the same time banks have to take the risk of investing the funds from current deposit as any amount can be withdrawn at any time by the customer. This ratio can be calculated with the help of following formula.

Current Deposit to Loan and Advance Ratio: $\frac{\text{Current Deposit}}{\text{Loan and Advances}}$

B. Assets Management Ratio

The fund of creditors and owners are invested in various assets sales and profit. These ratios are used to evaluate the efficiency with the firm manages and utilizes its assets. This ratio indicates how quickly certain current assets are converted into cash. From this ratio it can be known whether or not the business activities are efficient and effective. It is also called as the activity or Turnover Ratio. The greater the rate of turnover or conversion the more efficient is the management utilization of assets. These ratios moreover help in measuring the bank \s ability to utilize their available resources. Following ratios are use under the assets Management Ratio.

B.1 Loan & Advances to Total Deposit Ratio

These ratio assets to what extent the bankers are able to utilize the depositor's fund to earn profit by providing loans and advances. In other word, how quick words, how quick total collected deposits are converted into loan and advances given to the client to earn income. It is computed by dividing the total amount of loan and advances to total deposits fund. Higher ratio indicates higher/ proper utilization of funds and low ratio is the signal of inefficiency or remaining idea.

Loan & Advances to Total Deposit Ratio = $\frac{\text{Loan \& advances}}{\text{Total Deposits}}$

B.2 Call Deposit to Loan and Advance Ratio

This ratio indicates the portion of total call deposit utilized in loan and advances. Call deposits are interest paying deposits on the daily basis. This deposit is high cost deposit to the bank, so the banks should utilize them properly. The chances of the withdrawal from this type of deposit are too low. The businessman and retired people are seemed to be more attracted to open call account because they get the interest on daily basis and can withdraw at any time.

This ratio can be calculated with the help of following formula.

Call Deposit to Loan and Advance Ratio: $\frac{\text{Call Deposit}}{\text{Loan and Advances}}$

C. Profitability Ratio

The profitability ratio, as the name suggests measure the operating profitability in terms of profit margin return on equity and return on total investment, reflects the overall efficiency and effectiveness of management. Shareholders, bankers, government, tax collectors, employees are concerned with the profitability of the company; the shareholders are interested with their rate of return, employees in the future prospect of the company, government in companies tax payment capacity and bankers in the perspective of the company. A required level of profit is necessary for survival and growth of a firm in a competitive environment.

Profitability can be measured in terms of a relationship between net profit and assets. This ratio is also known as profit-to asset ratio. It measures the profitability of investment. Various ratios can be developed based upon the profit under different circumstances. These different ratios are called profitability ratio, which are required to support the purpose of the. The profitability ratios calculated in this study are:

D. Risk Ratios

Risk means uncertainty, which lies in the business transactions of investment management. This ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying deposits demand for cash. Following two ratios are used to interpret and analyze the investment policy of concerned banks.

D.1 Capital Risk Ratio

The capital risk ratio of ratio of a bank how asset values may decline before the position of depositors and other creditor jeopardize. The capital risk is directly related to the return on equity (ROE). Higher the ratio is the capital risk, this ratio is computed by dividing (Paid up capital + reserves) by risk- weighted assets as computed under BASEL committee's formula this can be mentioned as:

$$\text{Capital Risk Ratio} = \frac{\text{Capital (Paid up \& Reserves)}}{\text{Risk Weighted Assets (RWA)}}$$

D.2 Credit Risk Ratio

Credit risk ratio helps to check the probability of loan non-repayment or the possibility of loan to go into default. Credit risk is expressed as the percentage of non-performing loan to total loan and advances. This ratio is calculated by dividing total loan and advances by total assets. It can be shown as,

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}}$$

1.9.5.2 Statistical Tool

Various statistical tools mentioned above were used to analyze and interpret the investment policy of concerned bank. Similarly, statistical tools help to find out the trends of financial position of the bank and to analyze the relationship between variables that helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment other companies. In this study, statistical tools such as coefficient of correlation between different variables, trend analysis of important variables as well as hypothesis test have been used for analyzing and interpreting the financial data. The basis of statistical analysis related to this study is discussed below.

A. Arithmetic Mean

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. Average value is obtained by adding together all the terms and dividing this total by the number of items. The formula is given below

$$\text{Mean } \bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n}$$

Where \bar{X} = mean

X_1, X_2, X_3 to X_n are given set of observations up to the period n
 n = number of items observed.

B. Standard Deviation

The standard deviation is the measure that is most often used to often to describe variability in data distributions. It can be through of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ (read as sigma), Standard deviation is extremely is extremely useful for judgment the representative of the mean. The equation for the computation of the standard deviation (σ) is

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

\bar{X} = The average (mean)

X_n = The individual observation

n = Total number of observation

C. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the means for a given sample used to measure spread. It can also be through of as the measure of relative risk. The larger the coefficient of variation, the greater the risk relative to the average.

Mathematically,

$$CV = \frac{\sigma}{\bar{X}} * 100$$

It is usual for the risk/return model. It shows the return per unit of risk.

CHAPTER - II

PRESENTATION AND ANALYSIS OF DATA

2.1. Introduction

This chapter contains data collected from various sources and which are presented and analyzed to measure the various dimensions of the problems of the study and the major findings of the study are presented systematically. The data relating to the financial performance and fund mobilization are analyzed and evaluated in this chapter. Present chapter reports the financial tools and statistical tools results of sample banks over the sample period through the use of secondary data. It also presents the results of primary data. This study is mostly based on the two aspects. The first part of the thesis consists of the credit implementation; this part describes the credit flow of the bank in the chart, tabular form and interprets the data with the measurement of the tools. The second part defines the credit policy (Loan Sanction Process) of the bank and the next part defines the implementation of the credit in the different sector. This chapter of thesis also presents the data, facts, figures relating to different aspect of Nepal Bank Limited and Everest Bank Limited.

2.2 Financial Analysis

Ratio analysis basically helps to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret the financial performance of a firm. Financial ratio analysis is reliable way to understand how a company is performing financially. Although there are various types of ratios to analyze and interpret the financial statement, only five ratios have been taken in this study, which are mainly related to the investment policy of the bank.

Liquidity ratios measure the ability of the firm to meet its current obligations. Difference between current assets and current liabilities is known as working capital, which provides liquidity in business organizations. Commercial banks must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposit withdrawal, pay maturity obligation in time and convert non cash into cash to satisfy immediate needs without loss to the bank and without consequent impact on long- run profitability of the bank.

Liquidity refers to the sound solvency position of a firm to meet its obligation. A liquidity ratio measures the ability of a firm to meet its short term obligations. Various ratios come under this category which is as follows:

2.2.1. Current Ratio / Quick Ratio

The calculation of current ratios is based on a simple comparison between current assets and current liabilities. This is the broad measure of liquidity position of the bank. The standard of current ratio is 2:1 for banking and 1:1 for seasonal business so on. It is the ratio of total current assets to total current liabilities calculated by dividing the company's current assets by its current liabilities. In the service sectors like banks, current and quick ratios are the same.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets of joint venture bank refers to cash and near cash items (i.e. cash and bank balance, money at call and short notice, loans and advances, cash credit, bills discounted, investment, interest receivables, miscellaneous current assets) and current liabilities are deposits (i.e. saving, fixed, current, call and short deposit, other bill's payable. Miscellaneous liabilities)

The following table shows the current ratio of Nepal Bank Limited and Everest Bank Limited

Table 2.1
Current Ratio in Times

Year	NBL			EBL		
	C.A	C.L	Ratio	C.A	C.L	Ratio
2006/07	6266.79	12327.66	0.51	1156.1	6694.9	0.17
2007/08	6627.11	14682.45	0.45	869.7	8064.0	0.11
2008/09	4595.17	14633.62	0.31	1624.2	10115.4	0.16
2009/10	5861.07	17441.36	0.34	1619.6	13813.6	0.12
2010/11	6159.33	18536.53	0.33	3329.7	19124.5	0.17
Mean		0.39			0.15	
S.D		0.63			0.03	
C.V		1.64			0.22	

Financial Report of Banks

It is observed that the current ratio of Nepal bank over the study period 2006/07 to 2010/11 has been ranged between 0.31 to 0.51, whereas the ratio of Everest bank is in between 0.17 to 0.17. It is also observed that the ratios in sample banks have been fluctuating over the years. Looking at the above ratios, it is concluded that the banks are not maintaining the standard ratio of 2:1 though the ratios has been fixed for the manufacturing companies. However, for financial companies, low CA ratio is the indication of good investment and indicates that there is no idle cash balance or other non-productive assets in the bank. It also shows that these banks' liquidity position is not sound.

Calculating the average return (or arithmetic mean) over a given number of periods will generate an expected return on the asset. Standard deviation measures the dispersion or variability around the mean. A large standard deviation indicates that the data points are far from the mean and a small standard deviation indicates that they are clustered closely around the mean. In the table, all the two banks' S.D. is close to the mean. This means the data are uniform and consistent.

However EBL bank has the highest consistency in its current ratio with C.V. of 0.22 than that of Nepal bank EBL with 1.64.

2.2.2. Loan and Advances to Current Assets Ratio

This ratio measures the relationship between loan and advances to current assets. It shows the bank's liquid capacity of discounting and purchasing the bills and loans, cash credit and overdrafts facilities to the customers. In this study, loan and advances refer to local and foreign bills discounted and purchased, cash credit and overdraft in local currency as well and inconvertible foreign currency. This ratio is calculated by dividing loans and advances by current assets.

$$\text{Loans and Advance to Current Assets} = \frac{\text{Laon and Advances}}{\text{CurrentAssets}}$$

The following table shows the ratios between loan and advances and the current assets of the Nepal bank and Everest Bank.

Table 2.2
Loan and Advance and Current Assets
(Amount in million)

Year	NBL			EBL		
	L &.A	C.A	Ratio	L &.A	C.A	Ratio
2006/07	12554.08	6266.79	2.02	3982.7	1156.1	3.44
2007/08	8638.44	6627.11	1.30	5049.6	869.7	5.81
2008/09	7971.10	4595.17	1.73	6131.1	1624.2	3.77
2009/10	8881.82	5861.07	1.51	10124.2	1619.6	6.25
2010/11	8218.91	6159.33	1.33	14059.2	3329.7	4.22
Mean	1.57			4.70		
S.D	2.60			1.25		
C.V	1.64			0.27		

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It is observed that the loan and advance to current assets ratio of Nepal bank is highest in the year 2006/07 with 2.02 and the lowest in the year 2007/08 with 1.30. Whereas Everest bank limited has the highest ratio of 6.25 in the year 2009/10 and lowest of 3.44 in the year 2006/07. The highest ratio of EBL bank is the highest ratio among the sampled banks during all those years.

In Financial Institutions, standard deviation is a representation of the risk associated with a given investments, stocks, bonds, property, etc., or the risk of a portfolio of securities. Risk is an important factor in determining how to efficiently manage a portfolio of investments because it determines the variation in returns on the asset and/or portfolio and gives investors a mathematical basis for investment decisions.

Calculating the average return (or arithmetic mean) over a given number of periods will generate an expected return on the asset. Standard deviation measures the dispersion or variability around the mean. A large standard deviation indicates that the data points are far from the mean and a small standard deviation indicates that they are clustered closely around the mean. Co-efficient of Variation is used for comparing the homogeneity, uniformity and variability of two or more distributions.

In the year 2009/10, EBL bank's ratio is seen to be the highest than the previous years. This means the banks are disbursing more loans and advances in 2009/10 than the previous years.

Among the two sampled banks, EBL has more consistency than Nepal bank. The C.V of EBL Bank is 0.27 and that of Nepal bank is 1.64. But the standard deviations of the

two banks are observed to be too far from the mean. So, in the case of loans and advances to current assets ratio, it is concluded that risk factor is more and there is a lack of homogeneity, uniformity and variability.

2.2.3. Loan and Advance to Total Deposit Ratio

This ratio measures whether the banks are successfully utilizing customer's deposit in loans and advances or in what ratio the funds are being used.

Generally a high ratio reflects higher efficiency in the utilization of outsiders fund and vice-versa. This ratio is calculated by using the following formula.

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Laon and Advances}}{\text{TotalDeposit}}$$

Here, loans and advances refers to total loan, advance and overdraft (i.e. in local currency plus convertible foreign currency) and total deposit refers to the total of all kinds of deposit at the bank.

The figure of total loans and advance to total deposit is presented in the following table:

Table 2.3
Loan and Advance to Total Deposit
(Amount in million)

Year	NBL			EBL		
	L &A	Deposit	Ratio	L &A	Deposit	Ratio
2006/07	12554.08	35618.60	0.35	3982.7	5461.1	0.73
2007/08	8638.44	34264.85	0.25	5049.6	6694.9	0.75
2008/09	7971.10	35014.0	0.22	6131.1	8064.0	0.76
2009/10	8881.82	35735.04	0.24	10124.2	13802.4	0.73
2010/11	8218.91	35934.16	0.23	14059.2	19097.8	0.74
Mean		0.26			0.74	
S.D		0.43			0.01	
C.V		1.63			0.02	

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From the above result, it is observed that most of the funds have been floated from the customer in the form of deposits. The average ratios of Nepal bank and Everest are 0.26, and 0.74 respectively. Higher ratio indicates the banks are disbursing more amount of loans from deposit and lower ratio indicates the banks are disbursing less

amount of loans. The ratio of Nepal bank is the lower than EBL. This means Nepal bank is accepting more deposit and granting less credit. So, Nepal bank is suggested to increase the portion of loans and advances in the productive fields to earn more interest and to maintain a good liquidity position. Arithmetic mean is the average of the sum of all the individual numbers divided by the number of observations. Standard deviation is a function of the differences between each individual score and the overall mean score. Standard deviation measures the dispersion or variability around the mean. When two frequency distributions have the same arithmetic mean, the variability of these two distributions may be compared by calculating their respective standard deviations. The one with the higher standard deviation will be more variable. CV is used for comparing the homogeneity, uniformity and variability of two or more distributions

Everest bank is successfully utilizing its resource in profit generating field than Nepal Bank. Higher ratio between loan and advances to deposit brings the bank in the risk to pay back the customer deposit and chances of recover in time may not occur. Likewise, lower ratio indicates that there is excess cash in the bank but the risk of paying back the customer's money will be less. The standard deviation of the Nepal bank and Everest Bank is 0.43 and 0.01 respectively. Similarly, C.V of Nepal bank and EBL is 1.63 and 0.02 respectively. S.D. of all the two banks is more or less in the same ratio closer to mean and C.V is also near about of the same value. This shows the bank's data are in a way uniform & consistent.

2.2.4. Fixed Deposit to Loan and Advances Ratio

This ratio of commercial banks indicates, how much of loan and advances are granted against fixed deposit. Fixed deposits are high interest rate payable deposits also known as High-Cost deposits. Hence, commercial bank should utilize the fixed deposits properly. This ratio can be calculated with the help of the following ratio.

$$\text{Fixed Ratio to Loan and Advance} = \frac{\text{Fixed Deposit}}{\text{Loans and Advances}}$$

The following table displays the ratio of loans and advances to fixed deposit of Nepal Bank and Everest Bank.

The table 2.4 shows the total ratio of fixed deposit to loans and advances. Looking at the average of the five year ratio of total lending from the fixed deposit, the average ratio of lending of Nepal bank is lower than Everest bank limited. Nepal bank invested in the average ratio of 0.35 to the total loan and advances. Lending from the fixed deposit is safe as the maturity date of fixed deposit is known to the bank. Despite, Nepal bank is lending only the fewer portion of the fixed deposit. The Everest bank has utilized the benefit of the fixed deposit and they have utilized the high portion of the fixed deposit i.e. 0.51 to the loans and advance.

Table 2.4
Fixed Deposit to Loans and Advances
(Amount in million)

Year	NBL			EBL		
	F.D.	L &A.	Ratio	F.D.	L &A.	Ratio
2006/07	2446.80	12554.08	0.19	2694.60	3982.70	0.68
2007/08	2252.60	8638.44	0.26	2803.40	5049.60	0.56
2008/09	2310.60	7971.10	0.29	2914.10	6131.10	0.48
2009/10	3450.30	8881.82	0.39	4298.20	10124.2	0.42
2010/11	5435.20	8218.91	0.66	5658.70	14059.2	0.40
Mean	0.35			0.51		
S.D	0.60			0.01		
C.V	1.69			0.02		

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Thus the above table clearly indicates that the fixed deposit to loan and advances ratio are being efficiently and properly utilized by Everest in almost the same ratio. But the ratio of Nepal Bank is the lowest among the two banks as it is seen that it has not utilized or invested its fund in the proper way. The reason could be its high interest rate in industrial and commercial loan in comparison to the other two banks. So, Nepal Bank requires revising its interest rates and invests more of its fund in various productive and profitable sectors.

Standard deviation is a function of the differences between each individual score and the overall mean score. Standard deviation measures the dispersion or variability around the mean. When two frequency distributions have the same arithmetic mean, the variability of these two distributions may be compared by calculating their respective standard deviations. The one with the higher standard deviation will be more variable. CV is used for comparing the homogeneity, uniformity and variability

of two or more distributions. So, in terms of consistency, variability and homogeneity, Nepal Bank is seen to be more than Everest Bank because the standard deviation of Nepal Bank is more near towards the mean. The co-efficient of variance is almost of the different value of both the banks. The mean of EBL is almost of the same value. But the S.D. of Nepal Bank is more than that of EBL. This indicates, the data of Nepal Bank is more variable than that of EBL.

2.2.5. Saving Deposit to Loan and Advance Ratio

This ratio indicates the portion of total saving deposit utilized in loan and advances. Saving deposits are low interest paying deposits also known as Low-Cost deposits. So, the banks should utilize them properly. This ratio can be calculated with the help of following formula.

$$\text{Saving Deposit to Loan and Advance Ratio} = \frac{\text{Saving Deposit}}{\text{Loan and Advances}}$$

Following table shows the ratio of total Loans and Advances and Saving Deposit

Table 2.5
Saving Deposit to Loans and Advance Ratio
(Amount in million)

Year	NBL			EBL		
	S.D.	L &.A	Ratio	S.D.	L &.A	Ratio
2006/07	4889.00	12554.08	0.39	1733.30	3982.70	0.44
2007/08	5237.40	8638.44	0.60	2758.00	5049.60	0.55
2008/09	5994.10	7971.10	0.75	3730.70	6131.10	0.61
2009/10	8770.80	8881.82	0.98	6929.20	10124.2	0.68
2010/11	10187.30	8218.91	1.23	9018.10	14059.2	0.64
Mean	0.79			0.58		
S.D	1.33			0.10		
C.V	1.67			0.17		

Financial Report of Banks

Lending from the saving deposit is also a safe lending because this type of deposit is made by the individual who have excess saving from their income. And withdrawal chances from the saving deposit is also low. Looking at the above table Nepal Bank has invested the highest average ratio of 0.79 than EBL bank. Everest bank has the average ratio of 0.58. In the year 2010/11, Nepal Bank ratio is the highest at 1.23 and the lowest is at 0.39 in the year 2006/07 Similarly, Everest bank has the highest ratio of 0.68 in year 2009/10 and the lowest of 0.44 in 2006/07.

When we compare the banks, an increasing trend of investment has been seen in the sampled banks till 2008/09. As time passes, the banks have invested more ratios from the saving deposit. But a slight decrement is seen in the year 2009/10 in the EBL bank. It is seen that the banks have suddenly decreased its percentage in investment from saving deposit in 2010/11 because they do not want to take more risk by investing more from saving deposit as the withdrawal from the saving deposit can be anytime.

Standard deviation measures the dispersion or variability around the mean. A large standard deviation indicates that the data points are far from the mean and a small standard deviation indicates that they are clustered closely around the mean. Co-efficient of variance is used for comparing the homogeneity, uniformity and variability of two or more distributions. So, in terms of consistency and variability, EBL seems to be more consistent and uniform as the C.V. of EBL is less than that of Nepal bank.

2.2.6. Current Deposit to Loan and Advance Ratio

This ratio indicates the portion of total current deposit utilized in loan and advances. Current deposits are non interest bearing deposits better known as no cost deposit. So, the banks should utilize them properly but at the same time banks have to take the risk of investing the funds from current deposit as any amount can be withdrawn at any time by the customer. This ratio can be calculated with the help of following formula.

$$\text{Current Deposit to Loan and Advance Ratio: } \frac{\text{Current Deposit}}{\text{Loan and Advances}}$$

In the following table, mean is taken as the average of the ratios divided by the no. of observations. A standard deviation (S.D.) is the positive square root of average sum of squares of deviations of observations from the mean. S.D. is the useful measure of dispersion and gives uniform, correct and stable results. The percentage measure of co-efficient of standard deviation is called co-efficient of variance (C.V.). C.V. is used for comparing the homogeneity, uniformity, and variability of two or more distributions.

Following table shows the ratios of total Loan and Advances and Current Deposit

Table 2.6
Current Deposit to Loan and Advance
(Amount in million)

Year	NBL			EBL		
	C.D.	L &.A	Ratio	C.D.	L &.A	Ratio
2006/07	2723.00	12554.08	0.21	489.60	3982.70	0.12
2007/08	3025.00	8638.44	0.35	562.40	5049.60	0.11
2008/09	2687.00	7971.10	0.33	719.80	6131.10	0.12
2009/10	2953.30	8881.82	0.33	1155.10	10124.2	0.11
2010/11	3446.00	8218.91	0.41	2619.90	14059.2	0.19
Mean	0.33			0.13		
S.D	0.54			0.03		
C.V	1.65			0.24		

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By interpreting the above data it can be seen that Nepal bank has utilized the maximum ratio of current deposit. The nature of current deposit is non interest payable but can be withdrawal from the bank at any time and any amount. So, less amount of investment made from the current deposit, more it is benefited to the bank. NRB directive has also clearly mentioned the highest ratio of liquidity should be maintained by the banks.

Nepal bank has highest ratio of investment from the current deposit. In the average of five years sample it has invest 0.33 to the total Loan and advances. But Everest bank has invested the lowest portion from the current deposit i.e. 0.13 maintaining the high liquidity and minimizing the risk.

The C.V of the Everest bank is lesser i.e. 0.24 than that of Nepal bank i.e. 1.65. So, Everest bank has the lowest consistency than Nepal bank. Similarly, S.D. of Nepal bank is also closer to mean. This means Nepal bank has more stability over the dispersion of loan and advances from current deposit than the other two banks.

But looking at the highest average investment ratio, Nepal bank is suggested not to take too much of risk and invest less from current deposit.

2.2.7. Call Deposit to Loan and Advance Ratio

This ratio indicates the portion of total call deposit utilized in loan and advances. Call deposits are interest paying deposits on the daily basis. This deposit is high cost deposit to the bank, so the banks should utilize them properly. The chances of the

withdrawal from this type of deposit are too low. The businessman and retired people are seemed to be more attracted to open call account because they get the interest on daily basis and can withdraw at any time.

This ratio can be calculated with the help of following formula.

$$\text{Call Deposit to Loan and Advance Ratio: } \frac{\text{Call Deposit}}{\text{Loan and Advances}}$$

Arithmetic mean is the average of the sum of all the individual numbers divided by the number of observations. Standard deviation is a function of the differences between each individual score and the overall mean score. Standard deviation measures the dispersion or variability around the mean. When two frequency distributions have the same arithmetic mean, the variability of these two distributions may be compared by calculating their respective standard deviations. The one with the higher standard deviation will be more variable. CV is used for comparing the homogeneity, uniformity and variability of two or more distributions. Following table shows the ratios of total Loan and Advances and Call Deposit:

Table 2.7
Call Deposit to Loan and Advance
(Amount in million)

Year	NBL			EBL		
	Call D.	L &.A	Ratio	Call D.	L &.A	Ratio
2006/07	4944.70	12554.08	0.39	439.40	3982.70	0.11
2007/08	2540.70	8638.44	0.29	428.00	5049.60	0.08
2008/09	2801.60	7971.10	0.35	565.60	6131.10	0.09
2009/10	3851.20	8881.82	0.43	1293.30	10124.20	0.13
2010/11	3961.60	8218.91	0.48	1578.90	14059.20	0.11
Mean	0.39			0.11		
S.D	0.64			0.17		
C.V	1.64			1.61		

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Form the above table we can see that the ratios between call deposit to Loan and Advances is fluctuating as time passes. The highest ratio of Nepal bank is 0.48 in 2010/11 and the lowest at 0.29 in 2007/08. The average ratio of the five years sample data is 0.39.

Likewise, the ratio of Everest bank seems to be too lowest than Nepal bank; lowest being at 0.08 in the year 2007/08 and the highest being at 0.13 in the year 2009/10.

Though the withdrawal chances from call deposit is very rare, Everest bank has not utilized the benefit by increasing the lending from call Deposit. The fluctuation in the ratio shows that the banks policy in investment through the call deposit has changed. Also the rate of interest given in call deposit is less than that of Nepal bank.

Likewise, Standard deviation of Everest Bank is more nearer to the mean than the Nepal bank. The practical value of understanding the standard deviation of a set of values is in appreciating how much variation there is from the mean. The lower the standard deviation of their ratings in each category, the more balanced and consistent they might be. So, a bank that is consistently bad in most categories will have a low standard deviation. A bank that is consistently good in most categories will also have a low standard deviation.

2.2.8. Other Deposit to Loan and Advance Ratio

This ratio indicates the portion of total other deposit utilized in loan and advances. Other deposits are non interest paying deposits. This deposit is non-costly deposit to the bank so the banks should utilize them properly. Other deposits are referred to margin deposits and the fixed deposit that has been matured but no claim as such has been made by the customers. These deposits are refunded by the bank when the customers claim on the amount. We can say that withdrawal chances of these amounts can be at any time. This ratio can be calculated with the help of following formula.

$$\text{Other Deposit to Loan and Advance Ratio: } \frac{\text{Other Deposit}}{\text{Loan and Advances}}$$

Following table shows the total Loan and Advances and Other Deposit

Table 2.8
Other Deposit to Loan and Advance
(Amount in million)

Year	NBL			EBL		
	L &.A	Other Deposit	Ratio	L &.A	Other Deposit	Ratio
2006/07	12554.08	267.10	0.47	3982.70	104.20	0.03
2007/08	8638.44	382.00	0.22	5049.60	143.10	0.03
2008/09	7971.10	304.70	0.26	6131.10	133.80	0.02
2009/10	8881.82	322.90	0.27	10124.20	126.50	0.01
2010/11	8218.91	312.10	0.26	14059.20	222.10	0.02
Mean	0.29			0.02		
S.D	0.099			0.01		
C.V	0.34			0.33		

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Others deposit is not the bank's deposit to be used for the long-term investment. That is why banks have invested only the few portions from the other deposit. From the above calculation it can be seen that non-of the banks have invested more than the ratio of 0.5 from the other deposit. It shows that the banks are very much conscious to use the call deposit for lending. And they are high in liquidity and have to be immediately refunded on claim.

Calculating the average return (or arithmetic mean) over a given number of periods will generate an expected return on the asset. Standard deviation measures the dispersion or variability around the mean. A large standard deviation indicates that the data points are far from the mean and a small standard deviation indicates that they are clustered closely around the mean. Co-efficient of Variation is used for comparing the homogeneity, uniformity and variability of two or more distributions. Because the banks have invested the minimum amount from other deposit, the average ratio, Standard deviation and co-efficient of variance of the sample banks is almost at the same value. So it is difficult to measure the variability, homogeneity, and consistency in this sector.

2.3. Sector Wise Loan and Advances of Nepal Bank and Everest Bank

Sector wise lending means there are various sectors that a bank gets the opportunity to invest. Even NRB has issued in its directives that commercial banks have to invest

certain percentage in the deprived and priority sector so that the backward sector can out of the total lending.

From the table 2.9, we can see that there are various sectors where the banks are investing. The banks cover almost all the sectors in investing. Up to mid July 2010/11, Nepal bank has invested 15903 million and Everest Bank has total lending of 14100.20 million. It is difficult to calculate and analyse data amount wise so the researcher has tried to interpret according to the percentage invested in various sector.

All the above sampled commercial bank has invested their major portion in the production sector. Nepal bank and Everest bank has the proportions of 35.85% and 23.54% in production sector. It can be said Nepal bank is more constrained in the production sector and Everest bank has slightly diversified its investment in other sectors.

Table 2.9
Sector wise loan and Advance of Nepal Bank and EBL Bank
(Amount in million)

Sectors	Nepal Bank Limited		Everest Bank	
	Amount	%	Amount	%
Agriculture	64.5	0.44	55.4	0.39
Mining	13.9	0.09	11.8	0.08
Production	5701.5	25.85	3319.1	23.54
Construction	1923.3	12.09	2086.8	14.80
Machinery	163.2	1.03	58.8	0.42
Transportation	1467.9	9.23	86.5	0.61
Public Service	917.7	5.77	964.9	6.84
Wholesalers	2458.5	15.46	4266.2	30.26
Finance	821.1	5.16	466.0	3.30
Service	1260.7	7.93	502.9	3.57
Consumable	84.6	0.53	228.0	1.62
Local Govt.	0	0.00	24.1	0.17
Others	1036.1	6.52	2029.7	14.39
Total	15903.0	100%	14100.2	100%

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Everest bank is the only bank that has invested its fund to the local government with 0.17% out of the total lending. It shows that the ratio of investment in this sector is too low comparative to other sector. It can be said that despite being a private joint

venture bank, it has invested in the local government making it a history in Nepalese banking sector. It is found out through the official of the bank that Nepal bank doesn't want to invest in the local government sector because the in-government policy keeps on changing.

Agriculture sector mainly refers to the area or sector outside Kathmandu valley or the rural area. Comparing percentage wise, the branches of Nepal bank is more in the rural area than in the urban area. So, it is understood that Nepal bank has invested more in the agriculture sector than EBL.

2.4. Security wise Loan and Advances of Nepal Bank and Everest Bank

None of the banks invest without security. Holding security means to be assured that the bank will recover the lending amount if the client does not pay back the principal and interest in the due course of time.

The table below shows the total lending and their ratio in percentage through holding various type of security.

Table 2.10
Security wise Loan and Advances of Nepal Bank and Everest Bank
(Amount in million)

Securities	Nepal Bank Limited		Everest Bank	
	Amount	%	Amount	%
Gold	1110	10.00	0	0.00
Govt. Securities	41.6	0.26	53.3	0.38
Non govt. securities	1.7	0.01	21.3	0.15
Fixed A/C receipt	334.7	2.10	555.4	3.94
Assets Guarantee	10108.7	60.54	12750	90.43
On Bills Guarantee	2626.3	16.51	56.7	0.40
Guarantee	589.3	3.71	543.6	3.86
Credit Card	62.8	0.39	0	0.00
Earthquake victim	0	0.00	0	0.00
Others	1028.0	6.46	119.7	0.85
Total	15903.1	100%	14100	100%

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The table 2.10 shows that there are different types of securities that the bank keeps in the custody at the time of granting loans. Looking at the figure and ratios of the

commercial banks in the above table we can see that all the banks prefer assets guarantee as the best secured securities. The asset securities include land & buildings, machinery tools, furniture & fixtures, vehicle, other fixed assets, rice, raw jute etc.

Nepal bank has the highest ratio of assets guarantee as the best security i.e. 60.54%. The second prior security of Nepal bank is of bills guarantee with 16.51%. Bills guarantee includes domestic bills, foreign bills, import bill, letter of credit, export bill, against export bill and other foreign bills. Everest bank has also invested its major fund by taking the collateral of assets guarantee i.e. 90.43%.

Only Nepal bank has accepted 10% of security as gold. Banks only accept gold but not silver as securities because calculation of the actual market value of silver is difficult and the value of this securities keeps on fluctuating. Likewise, none of the banks have accepted earthquake victim in the form of security, as the banks don't have the policy and scheme to accept as such.

2.5. Interest Rate of Sampled Banks in Different Types of Loan

Commercial banks do not charge uniform interest rate to all types of loan. As per the need and benefit from the credit facility the interest rate varies. Commercial banks charge different interest rates to different credit facility.

Table 2.11
Interest rate in Different Types of Loan
(In percentage)

Type of Loan	NBL	Everest Bank
Overdraft	10-14	9-15
Export credit	4-12	9-12
Import credit	8.5-13	9-12.25
Against FDR	7.00	+1.50
Against Government Bond	6.5-7.5	7.5-8
Against BG/CG	9.00	9.5-10.5
Against other Guarantee	10.00	-
Industrial Loan	10-12	9-11
Commercial loan	10-12	9-11
Priority loan	12-13	10-11
Poorer Loan	7-9	10-11
Term Loan	11-13	10-11
Working Capital	10-12	9-11
Hire Purchase	10.5-12.5	10-11.5
Others	7-13	7.5-13.5

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In the above table it can be seen the various interest rates in different credit facilities. When we compare interest rate charged by the different banks, we can see that they are nearer to same rate. When we look at the row of the export credit, Nabil bank's interest rate varies from 4% to 13%. The interest rate being too low encourages the Nepalese industry in the export business. If the bank charges low interest rate, Nepalese are encouraged exporting their products outside the nation and earning more.

Though Everest bank is a reputed joint venture bank, it doesn't have the facility of granting loan to other guarantee except government bond. The highest rate of interest charged by Everest bank is on industrial, term, overdraft and other loan. But when the rates are being compared with the other bank, the rates are little lower than Nepal bank. The reason for charging high rate on these types of loan is due to risk factor and the fund invested in these sectors generates individual benefit only. But when we over view all types of loan and interest rate, maximum of the interest is charged in the range of 9% to 15%.

2.6. Interest Income Earn by Sampled Banks

Commercial banks are the service oriented banks. Most of the income the banks earn is through charging interest against lending and through direct investment in different sources. Following table shows the total Interest Income of Nepal Bank and Everest Bank up to Mid-July 2009/10.

Table 2.12
Interest Income under Different Heads
(Amount in million)

Interest Income Heads	NBL		Everest Bank	
	Amount	%	Amount	%
Loan & Advance	1084.6	74.03	983.8	84.95
Govt. Bonds	117.7	8.03	114.4	9.88
Foreign Bonds	9.1	0.62	32.2	2.78
NRB Bonds	0	0.00	0	0.00
Debentures	0	0.00	14.2	1.23
Agency Balance	4.5	0.31	6.8	0.59
Call Deposits	247.9	16.92	5.7	0.49
Others	1.2	0.08	1	0.09
Total	1465	100.00	1158.1	100.00

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In the above table we can see the various interest heads and their amount. All the commercial banks have earned major interest income from loans and advances. Nepal Bank has earned 74.03% of income from loan and advances out of the total interest income. Where as Everest Bank has earned 84.95% interest income from loans and advances. It can be clearly analyzed that banks are highly concentrating to generate the income from loans and advances. Among the above sampled banks, Everest bank is the only bank which has generated interest income from debenture. Although Nepal Bank and Everest Bank has generated most of the income from charging the interest in loan and advances, it has also invested in other sectors that could generate the interest income for example foreign bonds, agency balance, others etc.

In the history of private Joint Venture Banks Everest Bank is the only bank that has purchase the debentures and has earned secured interest rate.

2.7. Analysis of Primary Data

The information that has been collected from the primary data is through the questionnaire distributed to the various staff of the banks and also the personal visit to the concern staff. One set of the question has been attached with this thesis in the Appendix, and the average answer is interpreted by the study. The study has collected the information through the questionnaire as a sample data only with the fifty staff members of the sample commercial banks.

Table 2.13
Most Secure Sector of Lending in Opinion of Respondents

Sector of Lending	Respondents	Percentage
Manufacturing Industry	10	20
Trading Business	4	8
Education Loan	6	12
Professional Loan	2	4
Housing Loan	15	30
Personal Loan	3	6
Flexi Loan	2	4
Loan to Government	8	16
Total	50	100

Source: Field Survey, 2012

The first question is asked which sector is the most secure lending, most of the banks staffs (30%) replied that the housing financing is the most secure lending. The staff of Everest Bank Limited Mr. S. Sharma told that Everest Bank is the pioneer bank to introduce the housing loan in the history of Nepal and is the successful and secure scheme out of many 'consumer financing'. 20% staff replied that the manufacturing is the most second secure lending after housing loan. Nepal Bank Limited bank's staff focused on the manufacturing industry as the secure investment, they told investment in the industry sector helps in the growth of the nation too, they do not go with the consumer financing because it does not contribute to the nation but only the individual will be benefited. And the operating cost in the consumer financing is high and amount of financing is low. 16% staff replied that the loan to government is the third most secure lending after manufacturing and industry.

Table 2.14
Common Securities that Bank Demands From Credit Clients

Securities	Frequencies					Total score	Mean
	1	2	3	4	5		
Fixed Assets	2	2	2	4	5	53	3.53
Gold and Silver	-	2	4	6	3	55	3.66
Personal Guarantee	3	3	3	4	2	44	2.93
Government Bond	7	2	1	3	2	36	2.40
Stock and Debtors	5	2	3	2	3	41	2.73
Foreign Bills	3	2	3	6	1	45	3.0
FD Receipt	5	3	1	5	1	39	2.6
Life Insurance Policy	5	2	3	2	3	41	2.73
Total							

Source: Field Survey, 2012

The second question is about the lack of promotion activity in the investment in priority and deprived sector the commercial banks. The main reason for less amount of investment in these sectors is due to the low loan recovery from these securities. Most of the branches of the commercial banks are located in the cities and the demand in these loan are too less in quantity and amount. Demand of the loan for these sectors are from the rural area and joint venture banks are not approaching to the rural area due to the lack of security. According to the NRB directive no commercial can take

collateral as security in the investment in deprived sector. So, due to the fear of loan recovery and high operating cost, the bank rejects most of the loan in these sectors.

The table 2.14 shows the total score and mean value of different consideration factor. The common answer to the third question asked for the common security that the banks demands at the time of granting the loan is that commercial banks usually accept the fixed assets as the security. Government bond is also highly preferred by the banks by the duration of these bond are for the short period but commercial banks usually accept fixed assets as the collateral. Personal guarantee is also accepted by the bank only to the prime client. But the banks do not usually accept personal guarantee. Because bank has to provision for 100% of it's lending on the personal guarantee. Bank usually takes more value of securities than necessary. In this question one of the option was gold and silver and found that these assets as the collateral is less valued or simply we can say that commercial banks has no any policy to grant loan against the gold and silver.

Table 2.15
Time Taken to Disburse the Loan from the Date of Loan Application by Banks

Time Period	Respondents	Percentage
Within 7 days	10	20
Within 15 days	32	64
Within 60 days	8	16
Total	50	100

Source: Field Survey, 2012

The fourth question was asked how long the commercial banks takes to disburse the loan from the date of loan application, the answer in this question is found positive.

Table 2.16
Name of Authority Who Formulates the Credit Policy at the Banks

Name of Authority	Respondents	Percentage
Board of Director	45	90
Executive Director	3	6
Branch Manager	2	4
Total	50	100

Source: Field Survey, 2012

From above table it is found that 64% respondents told in an average of within 15 days from the date of loan application bank sanctions loan but due to unavailable of sufficient information from the client it may take some more time. It means we can analysis that commercial banks are quick in their services.

The fifth and the sixth question was of same nature so the answer for the question number five and six came together, in the fifth question it was asked that the which authority approves the credit policy and 90% respondent reply that the board of directors approves the credit policy it means that the decision making authority is hold by the top level and rest of the employees exercise the policy. Although the policy making is done by the top level but communication flow is based on both top-bottom approach and bottom-top approach. So from this approach we can say that the bank's staffs are working as a team. In the sixth question it is asked that does your bank have the hierarchy for the loan sanction and it is found that every level above the branch manager has the certain credit limit to sanction credit facility then power beyond branch manager passes to the deputy general manger and again power beyond deputy general passes to Executive director and final decision goes to the Board. The hierarchy is made for the loan sanction is to provide the loan to its client as soon as possible and to make fewer burdens to the higher authority.

Table 2.17
Common Securities that Bank Demands From Credit Clients

Securities	Frequencies					Total score	Mean
	1	2	3	4	5		
Working Capital Loan	7	2	1	3	2	36	2.40
Housing Finance	5	2	3	2	3	41	2.73
Trust Receipt Loan	3	2	3	6	1	45	3.0
Demand Loan	5	3	1	5	1	39	2.6
Educational Loan	5	2	3	2	3	41	2.73
Vehicle Loan	3	2	3	6	1	45	3.0
Personal Loan	5	3	1	5	1	39	2.6
Flexi Loan	5	2	3	2	3	41	2.73
Total							

Source: Field Survey, 2012

The table 2.17 shows the total score and mean value of different consideration factor for seventh question. The seventh question is which common securities that bank

demands from credit clients and which product of credit facility is most profitable and the answer to this question is in the mixed form, everyone has his or her different view. Most preferred answers are trust receipt loan, vehicle loan, housing loan, educational loan and flexi loan. So, it can be concluded that every product of the bank is the profitable scheme.

Table 2.18 shows the answer of question number eight. The eighth question is asked for the follow-up for the over due of the loan to the borrower is done immediately or not? Because due to the high technology and software they are using the bank gets information about the overdue immediately and tries to take action of recovery immediately.

Table 2.18
Time of Follow up when Overdue Outstanding at Bank Starts

Time period	Respondents	Percentage
Immediately	46	92
Within 7 days of overdue	2	4
Within 15 days of overdue	2	4
Total	50	100

Source: Field Survey, 2012

The ninth question asked is that while floating loans, does your bank gives some extent of priority to the following sector i.e. industrial, trade, service and others and it was also mentioned that the priority in each sector are independent with each other. To the answer of the ninth question they found the question is vast. Because the question is not clear to them and also trade financing from NBL bank got the highest percentage of score but staff from Everest bank supported other Sector marking as the retail lending.

Table 2.19 shows the answer of question number tenth. The tenth question is asked for the most important reason that leads to the NPA (Non Performing Assets). 50% respondents told that the most common answer is due to irregular follow up and inspection in the site visit. Further, the respondent has given the clear and most happening situation of Nepal bank limited. But investment in the wrong sector also leads to the increase in the NPA. Staffs of the banks do not agree on the due to higher interest rate there is no chances for turning loan from good to bad.

Table 2.19
Important Reason that Leads to the Rise of Non Performing Assets

Procedure	Respondents	Percentage
Investment in wrong sector	10	20
Excess credit flow than the necessary to the client	3	6
Lack of documentation process at the time of loan disbursement	4	8
Investment to the client on Ad-hoc basis	5	10
High interest rate charged to the client	3	6
Irregular inspection and follow up of the field	25	50
Total	50	100

Source: Field Survey, 2012

They support that interest rate they offer to the client is reasonable. And further more they told that the option given in the questionnaire is equally important and have to consider all the precaution. Like investment in wrong sector, excess credit flow than the necessary, lack of documentation process at the time of loan disbursement, high interest and irregular inspection and field visit.

Table 2.20
Bank's Procedure to Reduce NPA

Reasons	Respondents	Percentage
Take up legal action	10	20
Forcing the client to pay back soon	22	44
Reschedule the loan	4	8
Reduce the interest r ate and force them to pay back	5	10
Rebate interest rate and forcing them to pay back	3	6
Irregular inspection and follow up of the field	6	12
Total	50	100

Source: Field Survey, 2012

Table 2.20 shows the answer of question number eleven. The eleventh question is asked for the banks procedure to reduce NPA. The bank's first procedure to reduce the NPA is the regular follow up to the client forcing them to pay back all the due

amount, the second alternative is to rebate the interest amount and forcing to the client to pay the principal amount immediately. The last actions for the bank to get the loan amount recover with the help of the legal action. According to their answer, in question number eleven it indicates that banks can go upto any level to get public's money back.

2.8 Major Findings of the Study

The following are the important findings based on the study:

- Looking at the financial performance of the sample Banks they are increasing their profit and their branches every year and non-of the commercial banks are operating in loss now a days. Within the short period of banking history in Nepal, there are 32 commercial banks and more than 728 branches operating within the territory of Nepal. Due to high promotion and attractive scheme of the commercial banks people are more interested to keep the relation with the commercial banks.
- NRB has made the strong directives that all the commercial banks have to open their branches at the rural area. If these regulation of NRB implements then the people at the remote area will also get benefit and image of the commercial banks reaches every corner of the country.
- Commercial bank's philosophy at accepting collateral has been changed. In the past the government owned commercial banks used to accept gold and silver as the collateral against the loan but there is no private bank's to accept these securities. It is found from the analysis that bank used to accept government bond and fixed assets against the loan. Stock and debenture is also accepted as the collateral but only for the short period of time i.e. up to one year. Though the NRB has suggested to commercial bank not to flow the loan against the personal guarantee but also it is found that the commercial banks has flown their fund against the personal guarantee without any provision.
- It has been found that the banks are utilizing the fund properly which have been collected through the deposit and other means. The researcher has tested the sampled data through means, C.V, Ratios, and S.D. Finally, it is found that none of the test made above are below the standard.

- Comparative analysis of borrowers before granting a loan is major positive aspect of the sampled banks. General interview to sophisticated financial observation is obtained before granting the loan. For uniformity in the procedure in appraising, particular format has been designed separately by the management and officers of commercial banks. But the necessary information relating to the client is enough in their credit application format. Though the banks want more information from the credit clients, somewhere it is seemed that the information collected from the banks are more than the necessity to the banks.
- On the basis of better performance of the client, bank provides reduction on interest rate or rebate to its prime client and provides certain facility. On the other hand if negligence arises from the client, bank can charge penal interest and those clients are forced for timely repayment of borrowings.
- As above the researcher has already discussed about the nature and types of the loan that bank normally provides. Nature of loan has been designed considering the nature of the project and business activity and interest rate has been charged according to the nature of loan. As per present interest rate issued by Nepal Bank, and Everest Bank the researcher found the following discrimination in interest rate.
- Interest rate charged on manufacturing industry in a certain rate that differs with trading business. It is found that interest rate charged to industry is some to the extent lower than trading. The reason is to encourage industry business within the territory of Nepal. It does not mean banks are neglecting the trading business. In some of the case study the researcher has found that the prime customer of trading business is getting more facility than the industry loan.
- Different interest rate is charged to the prime client and ordinary client. Prime client are those client who have regular relation with the bank. They have created certain image to the bank. The bank treats them as a family member and provides certain facilities too i.e. lower interest rate in the borrowing than the bank's published interest rate, free ABBS charge, inward/outward remittance free or minimum flat charge etc. Ordinary client are those who have the casual relation with the bank. If the relation with the bank repeats regularly, then these ordinary clients could be bank's prime customers.

- As discussed in previous chapter, bank provides loan and advances on several purposes and charges the interest rate according to the nature of the loan. Interest rate is low in Fixed Deposit Receipt (FDR) as compared to other types of loan. Interest rate charged in import and export financing is moderate one. Where as in working capital loan and industrial loan, interest rate are higher in comparison to other loan. Interest rate on retail lending is of average one. The reason for charging average interest rate for this type of loan is that it is granted to the individual and repayment is made out of income. But repayment of the industrial loan and trading loan is made out of profit by the firm.
- Banks also provide certain interest rebate on loan provided to priority sector and deprived sectors. This sector is granted to the people of low income level and they have no sufficient and strong collateral to execute the loan disbursed by the bank. Banks have to provide the loan in certain rate as prescribed by NRB.
- It shows that the banks are in competition to provide quality & quick service among each other. So due to lack of facility, infrastructure and security reason, Joint Venture Banks are concentrating on major cities only and as the result people of remote areas are not getting the proper banking facilities.
- In this study, it seems that most of the portion of loan granted by sample banks goes to industrial sector only and hence the future of the banks depends on the prosperity of the industry. Low diversification of loan shows higher risk hence the bank lending policy can be treated poorer; also the branches are situated at the highly urban area of the country. According to the verbal information provided by the officer of the concerned banks, the collateral of the land and building against the security of the loan should be within the urban area preferably nearby the bank location. Branches of these banks are concentrated to sophisticated urban area, and also bank does not entertain the collateral outside the urban area. In Nepal 85% of the total population resides in the village area which directly shows that Joint Venture Banks are providing its facility to 20% of the population living in urban area.
- The criteria of appraising the proposal on the basis of project feasibility and viability is attractive and innovative aspect of the bank. It is though that the repayment of the loan should be made through the earning of the particular

projects, Bank thinks that man with the knowledge is more secured than man with wealth.

- Observation on lending portfolio of the bank reveals that major portion of loan and advances goes to productive sector. This shows that bank has been playing vital role in the development of industrial activities realizing the situation that industries are the pillar to the economic developments. Although the industries are getting the financial support from the bank they are not able to take advantage from the financial support due to strike, lockout, changes in government policy etc. Banks are ready to invest in productive sector but due to lack of investment opportunity new concept has been arrived for lending in individual customers i.e. retail lending (Housing loan, Vehicle loan, Educational loan, Professional loan, Personal loan and Flexi loan).

CHAPTER III

SUMMARY, CONCLUSION AND RECOMMENDATIONS

3.1. Summary

The study evaluates that the study on financial performance of commercial banks with reference of Nepal Bank Limited and Everest Bank Limited includes both theoretical and practical aspects. The researcher has tried to go through the practical aspects, which has been followed by above sampled bank. Most of the research regarding the banking practices is found normally moving around the principle aspects again and again rather than filtering the actual situation. Normally, this study focuses on the credit policy and its implementation, which has been adopted by above two banks. In this process the researcher had consulted many books, booklets, brochures, magazine, newspapers, different web sites; the researcher undertook verbal interviews with officers of the concerned banks and their selected clients and general public too. During the period, the researcher summarized the whole task in three chapters including this chapter. The research has been conducted to elaborate the credit policy and its implementation in Nepalese public and private Banks. The reality is that even the Nepalese people are literate; they do not yet developed themselves for institutional loan accordingly quite unknown about the function and facility provided by Joint Venture Banks. Even today normal individual prefer to borrow from private individual i.e. landlord, friends, family etc. rather than institutional loan. The habit of banking has not yet fully developed in most of the people. This research will try to pave the way to those people who wants to get loan easily and get information about the facility provided by the above sample banks.

For this purpose various features and nature of loan is discussed that are granted by the banks. History of banking practices in Nepal, general concept, function of the commercial Banks, its role in economic development for the country has been conducted. Accordingly, the function of commercial banks, their norms, internal rules, and its objectives are discussed. In this process, it has been tried to portray the

way of credit initiation and appraisal process and discussed types of data needed, categorizing the types of client, the way of selecting the most attractive prospect so that the new credit client could feel easy. Similarly, nature of loan provided in accordance to nature of security and nature of business. For the security purpose various movable and immovable security such as land and building, entire factory, business stocks, shares, debentures, government bonds, fixed deposit receipts are used and the way of executing the ownership i.e. legal mortgage, equitable mortgage, pledge, lien, hypothecation are found in the practices. Here, different types of risk during the process of lending and precautionary action that should be adopted by the bank are mentioned so that the organization can make itself better and increasing its quality in the process of granting loans. The saying is that “ Any fool can lend money, but it takes a lots of skill to get it back” hence, an investor or an investment company should invest its asses diversifying in several opportunity so that maximum return can be obtained with minimum risk. In this way, various research methodologies have been used so that my study could extract the reality. This study is not focused on credit policy of a single bank but with a comparative manner taking data from Nepal Bank and Everest Bank focusing on their portfolio. During the study it is found total loan of the bank goes to industries, trade, agriculture, service sector, priority sector, deprive, others etc. Also the researcher has found that the banks has followed the rules and regulation issued by NRB i.e. liquidity maintenance, loan portfolio, loan loss provision etc. However, adequacy against risk weighted assets is maintained on various phases. Various types of literature studies have been undertaken so that exact theme could be extracted. Various norms, regulation and directives as issued by NRB are presented so as these are treated as guidance for comparing the performance of the banks.

3.2. Conclusion

Looking at the financial performance of the commercial banks they are increasing their profit and their branches every year and non-of the commercial banks are operating in loss. Within the short period of commercial banks history in Nepal, there

are 32 commercial banks and more than 728 branches operating within the territory of Nepal. Due to high promotion and attractive scheme of the commercial banks people are more interested to keep the relation with the commercial banks. NRB has made the strong directives that all the commercial banks have to open their branches at the rural area. If these regulation of NRB implements then the people at the remote area will also get benefit and image of the commercial banks reaches every corner of the country.

The interest rate charged by the commercial banks range from 9% to 13% which is quite lower when we look at the past records, the interest rates charged by the commercial banks were as high as 20% and by private lenders the rate was 36%. In the past interest rates on the deposit amount was 13% to 15%. Today highest interest rate on deposit is about 4.5%. The spread rate is 7% to 9% which is above the standard of NRB directives. Finally we can conclude that though the interest rate on lending has decreased there is a wide gap in the spread rate. Hence it can be concluded that the commercial bank charge higher interest rate.

3.3. Recommendations

From the above study following recommendations are drawn:

1. Need to Diversify Lending

Though the banks are established to earn profit, it also has to invest in those sectors where the society is really in need of investment. Analyzing in the previous chapters it is found that most portions of the investment is made in the service or retail sectors only. So it is recommended to the bank to invest in other sector too. Over concentration of lending reveals the excessive level of risk. Hence bank should take the steps to diversify its lending.

2. Need to reduce spread rate

Since, interest rate charged by the Joint Venture Banks is usually little higher. The spread rate between the lending to the deposit is 7% to 9%. This higher spread rate doesn't show good image for the commercial bank among the Nepalese people. The interest rate of the commercial banks in the deposit and lending is not attractive. The interest rate in the deposit is too low and interest rate in the lending is too high. NRB has also mention in its directive that the spread rate should not be higher than 5%.

3. Preference to Support Short Term Lending

Considering the present scenario and risk management, it is justifiable that risk can be minimized through short term lending than long term. Hence preference should be given to short trade financing and discourage long term loan finance and also focus in multiple returnable loans as far as possible.

4. Need to Invest in Productive Area that utilizes the Natural Resources

Nepal is rich in natural resources but these resources are not properly utilized due to lack of financial support and technical assistant. Numerous opportunities like electricity, tourism, mines etc. are unused due to the lack of financial support. In the above data we found that Everest bank has invested only Rs. 11.8 million and Nepal Rs. 13.9 million in mines industry. It means banks have diverted their investment in the natural resources too.

5. Lending Procedure should be short

It is found that the bank's procedure in term of lending is too lengthy. Commercial banks are established with the motive of profit earning from secure lending. So these institutions try to gather more and more information and collateral from the borrower which ultimately consumes more time. It is recommended to the bank to go to the short procedure of lending so that the borrower can get the necessary fund on time.

6. Need to grab more benefit from Fixed Deposit

Fixed deposits are that type of deposits which can be withdrawal only at the time of maturity. So, the banks are advised to utilize the maximum benefit from the nature of fixed deposit by investing in the long term loans.

7. Need to Invest Small Entrepreneur Development Program

After having come to the end of the study, it is conclude that transaction of Joint Venture Banks has concentrated mostly with big clients, large group of traders, business networks and large industries. Loan should also go to the upliftment of those people who are not economically sound, so bank should also concentrate in investing more in small entrepreneur development programs as well such as small scale industries etc.

8. Need to diversify in accepting single nature of collateral

It is found that commercial banks usually prefer to accept only land and building as the collateral from the client. It means that banks are taking higher risk by accepting

only single nature of collateral. So it is recommended to the commercial banks to accept other assets as the collateral security as well.

9. Recommendations for Further Research

Very few studies have been carried out on financial performance analysis of Nepal bank Limited and Everest bank Limited. In following areas further research can be carried on:

-) This study has been carried on financial performance analysis of Nepal Bank Limited and Everest Bank Limited. However a research on other analysis of banks are desired
-) Only financial performance and analysis of Nepal Bank Limited and Everest Bank Limited were the components taken in the study. Another research including other components of performance like credit management, CAMELS analysis, interest rate analysis etc. will be a further area of study.
-) Only 50 respondents were taken as sample from sample banks in this study. Another research including more than 50 respondents from different branches of sample banks of country will be a further area of study.

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