COMPARATIVE STUDY OF LENDING POLICY OF COMMERCIAL BANKS OF NEPAL

A THESIS

SUBMITTED BY
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VIVA - VOCE SHEET

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

PRIYA SHRESTHA

Entitled

“COMPARATIVE STUDY OF LENDING POLICY OF CMMERCIAL BANKS IN NEPAL"

And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master’s Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Head of Research Department	……………………………
Member (Thesis Supervisor)	..............….....................
Member (External Expert)	…………………………….

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RECOMMENDATION

This is to certify that the thesis:

Submitted by

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Has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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Dr. Shilu Manandhar Bajracharya (Thesis Supervisor)	Dr. Bishweshwor Man Shrestha (Head of Research Department)	Prof. Dr. Kamal Deep Dhakal (Campus Chief)

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DECLARATION

I here by declare that the work reported in this thesis entitled **COMPARATIVE STUDY OF LENDING POLICY OF COMMERCIAL BANKS IN NEPAL** submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under the guidance and supervision of Dr. Shilu Manandhar (Bajracharya) Lecturer of Shanker Dev Campus,Putalisadak.

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- Priya Shrestha

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ABBREVIATION

BOK	Bank of Kathmandu Limited
BS	Bikram Sambat (Abbreviation of Bikram Era)
CB	Cash and Bank
CD	Credit Deposit
CR	Current Ratio
CV	Coefficient of Variation
EBL	Everest Bank Limited
GDP	Gross Domestic Product
I	Investments
IE	Interest Expenses
IILA	Interest Income from Loan and Advances
LA	Loans and Advances
LAI	Loans and Advance and Investment
MPS	Market Price of Share
NABIL	Nabil Bank Limited
NBL	Nepal Bank Limited
NP	Net Profit
NPA	Non Performing Asset
NPA	Non Performing Assets
NPV	Net Present Value
NRB	Nepal Rastra Bank
PV	Provision
ROA	Return on Total Asset Ratio
SCBNL	Standard Chartered Bank Nepal Limited
SD	Standard Deviation
TA	Total Advances
TD	Total Deposits
TI	Total Interest Income

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing country. Development of a country highly depends upon its economic growth. Domestic saving and foreign capital are two major sources of capital formation. Domestic saving is the most important and stable sources of capital.

Economic development is possible only with the development of industries, trades and so on and development of these sectors needs a regular supply of financial resources. In developing countries like Nepal there is always shortage of capital. Due to this government cannot support all activities at same time and an individual also cannot undertake large business because individual per capita income is very low, due to low income saving is considerably low as a result capital formation becomes harsh.

Capital formation is the key factors for economic development. It leads to increase national output, income and employment. It solves the problems of inflation, balance of payment etc. And it makes the economy free from burden of foreign debt.

The issue of development always rests upon the mobilization of resources. Lending function of bank ensures required volume of capital for resources mobilization. The liberalization of economy has posed more responsibility and challenges on Commercial banks. This has created new area of probability and posed high degree of competition risks. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development. Liberalization of financial sector in Nepal has opened a new horizon of expectancy in banking industry. But the liberalization is not easy game to play, it demands for expert to drive it.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the economy. It will be diverted aboard or channeled into unproductive conspicuous consumption including real estate speculation.

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

Lending is regarded as one of the income generating source of commercial banks. Lending is the heart of commercial banks in the sense that it occupies large volume of transactions. It covers the main part of investment. It can be said that investment activities are based on lending. It is the main factor of credit profitability. It affects overall economy of the country including national economy to some extent.

The lending function of commercial banks is the most important function for the utilization of funds. The quality of loan borrowers and security determines the condition of any financial institutions. It is very sensitive subject to find out sort of credit policy the bank should have increase its volume of transaction in profitable way. So, it must pay attention on loans and advances which are being provided by the bank.

Lending operation of commercial banks is very risky one. For this commercial banks have to pay due consideration while formulating Lending Policy. A healthy development of any commercial bank depends upon its Lending Policy. A good Lending Policy attracts of borrowers and lenders, which help to increase the volume and quality of deposits, loans and investment.

1.2 Statement of the Problem

Lending is one of the major term of investment Policy, so every financial institution should concentrate on lending as a major means of investment. But it is assumed that the sufficient return have not been found to be earned as well stable and appropriate investment policy has not been followed by these commercial banks. Most of the commercial banks performance in the field of lending is said to be bad.

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

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

- Do the commercial banks have sustainable lending environment?
- Are commercial banks lending aggressively?
- Are over or under liquidity caused by lack of good or excess lending opportunities?
- What steps should be taken to improve the lending policy of the commercial banks?

1.3 Objective of the Study

The main purpose of this study is to analyze the various aspects of the commercial bank lending in various sector of economy. The specific objectives of this study can be clearly explained as follows:

- To analyze the portfolio behavior of lending of selected commercial banks.
- To identify the commercial bank's strength and weakness in lending.
- To analyze the status of non-performing loans.
- To measure the lending performance in terms of quality, efficiency and its contribution in total profitability and income.

1.4 Significance of the Study

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

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

Since this study has purposed to measure the efficiency of commercial bank of their lending and investing behaviors putting their in the same footing, it deserve the great importance to all the people interested. This study is the first in its quality in comparing commercial bank to other commercial banks. So that its adds news idea and findings related to these commercial banks and add the substantial knowledge in management literature.

The main importance of this study is to highlight the lending policies of commercial banks expecting that this study can be bridge the gap between deposits and lending policies. On the other hand, the study would provide information to management of the bank that would help them to the take corrective action. Further from the study, the shareholders would get information to make decision while making investment on shares of various banks. This study will provide a useful feedback for academic institution, bank employee, trainees and investor and also for financial person, policy maker bodies and other persons concerned with commercial bank. This study will serve to be a guide to the management of banks, financial institution, related parties, shareholders, and general public.

1.5 Limitations of the Study

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

1.5.1 Time and cost factors are constrained.

1.5.2 This study concentrates only on those factors that are related with lending.

1.5.3 This study is mainly based on secondary data collected from banks.

1.5.4 This study is done only on the basic of the published financial documents like Balance sheets, Profit and Loss Account, and other related journals.

1.5.5 Some of the statistical and financial tools are used in the study. Hence the drawback and weaknesses of theses tools may affect the result of the study.

1.5.6 The analysis in this study has been conducted based on the data as of end the fiscal year i.e. mid July of respective years; any abnormality in this date may affect the conclusion of the study.

1.6 Organization of the Study

This study is organized in five chapters which will try to achieve the set objectives in systematic way.

The first chapter, Introduction describes the basic concept and background of the study. It has orient readers to know about the basic information of the research area, focus of the study, problems of the study, objectives of the study, need or significance of the study and limitation of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

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

The Third Chapter, Research methodology refers to the various sequential steps to be adopted by a researcher while studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

The fourth chapter, Presentation and Analysis of data analyze the data related with study and presents the finding of the study and also comments briefly on them.

In Fifth chapter, Summary, Conclusion and Recommendation On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Meaning and Definition of Commercial Banks

Commercial bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfer funds by written order of depositors. Actually modern banks perform all the required financial function and provide its service to needy person.

The commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though bank are established for mobilization of the saved funds central banks makes certain rules so that the public or the customer of the bank may not under gone on loss of their hard earned money by the disinvestments procedures of the bank. Thus, commercial banks have to consider government, Nepal Rastra Bank's instructions and their own interest as well. Good lending policy ensures maximum amount of investment to all sector with proper utilization.

Commercial bank Act 2031 B.S. of Nepal has defined that "A commercial bank is one which exchanges money, deposits money, accept deposits, grant loans and performs commercial banking function and which is not an bank meant for cooperative, agriculture, industries or for such specific purpose."

2.1.2 Development of Commercial Bank in Nepal

In ancient time, there was also a lending business in Nepal. During those days people used to borrow money from moneylenders paying some interest. There was no accurate interest rate. Moneylenders themselves determined interest rate, So there was monopoly in interest rate. Moneylenders are like shaumahajans, Jamindars, Relatives, Friends and few informal organizations limited to ethnic group such as guthi. Also borrowing from the other people and the informal organization was limited and based on personal understanding. At that time people deposit their gold, silver and valuable goods for the sake of security, thus the private moneylender can be taken as forerunner of the concept of financial institution.

In this regard Prof. Ojha said "It is impossible to give correct chronological history in view of the fact that no authentic historical records are available in respect to banking. It can be inferred from the history of Nepal regarding the rebuilding of Kathmandu in 723 A.D by Gunakam Dev, the king of the Kathmandu and that of Shankhadharl's (a merchant) action of introduction Nepal Sambat' some fifty seven years thereafter to make lending has been prevalent long before that."

Thus the above statement shows that lending system was introduced very long before 723 A.D. But there is a recorded document about lending. Only on 14th century during the rule of Malla King Jayasthiti Malla working occupation was divided in 64 categories. Among them "Tanka Dhari" was one. The main occupation of "Tanka Dhari" was lending money. It also shows that lending process was prevailing during the Malla Rule in Nepal.

During the period of Rana Prime minister, Ranodip Singh a government institution called "Tejarath" was established. In this regarding Ojha States "Ranodip Singh, a Rana Prime Minister for 8 years (1877 to 1885) got interested in this problem an took concrete stops by establishing a government financial institution known as " Tejarath". The Tejarath helped the public by supplying easy and cheap credit at 5 percent interest on the security of gold and silver ornaments. It had benefited to government officials. There was no business of collecting deposit in Tejarath. So it was not actually a banking institution. From 1901 to 1929 A.D. Tejarath opened some limited branches to extend the credit facilities. Tejarath was regarded as the new area in history of banking development in Nepal.

Since Tejarath could not fulfill the credit needs of the whole society. It was a government institution that benefited government officials only. So the general people had to depend on moneylenders. The moneylenders exploited the rural people in different ways. On the other hand there was need of trade and industries development programes. To make free the rural people from the grips of lenders and to develop trade and industry in the country the need of a commercial bank was realized in the country. So, the Nepal Bank Limited was established in 1937 A.D (1994 B.S), which is first commercial bank in Nepal. It was established under the Nepal Bank Act of 1963 A.D. at the beginning 49% of the ownership belong to the promoters as well as general public and 51% belongs to government. It also acted as Central Bank for more than three decades. “Nepal Rastra Bank” established in Baisakh 14, 2013 B.S (1956) under Nepal Rastra Bank Act 2012B.S as the Central Bank of Nepal. The main objective of the central bank is to maintain internal and external stability. It is totally owned by government. Besides the commercial banking functions, NRB is heavily assisting for the development of whole economy. It is giving timely directives to all financial institutions operated and conducted in all over the country.

After a long period, the second commercial bank named ‘Rastriya Banijya Bank” has been established in 2022 B.S with cent percent government ownership. This bank has been established under the Rastriya Banijya Bank Act 2021 B.S. Both Nepal Bank Ltd and Rastriya Banijya bank have made a remarkable contribution by providing reliable banking service to the Nepalese people.

The government introduced commercial bank Act in Nepal in 2033 B.S to cover the vast field in financial sector. This act has helped to emerge number of commercial bank to maintain the economic interest in comfort of the public in general to provide loan for agriculture, industries and trade and make banking service available to the country and people. Banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S and decided to allow foreign banks to operate their activities in Nepal. After democracy was restored, in 2046 B.S, flow of institutional financial activities began to grow and now there are 26 commercial banks are established in Nepal.

2.2 Review of Lending/Loan

2.2.1 Meaning of lending/loan

A dictionary definition of lending would say something like: that to lend is to allow another person the use of something, in the expectation that it will be returned to its original owner. Lending combines the sciences of obtaining and analyzing the facts of a loan request and art of making judgments about that information, feasibility of the business, and credibility of the borrower. It goes without saying that lender always expects that the money that is lent out will be return. However it is not always like this, sometimes the loan turns into a “bad debt”.

In general term loan means as a thing that lent, especially a sum of money and debt means a sum of money owned to somebody. However, in financial terms loan or debt means principal or interest availed to the borrowers against the security. Further debt means money that bank owes or will lend to individual or person and loan is a sum of money delivery by one party and receipt by another party, upon agreement expressed or implied, to repay it with or without interest. It also can be said that anything furnished for temporary use to a person at his request, on that condition; it shall be return or its equivalent in kind, with or without compensation for its use. Loan includes:

- The certain of debt by the lender’s payment or agreement to pay money to the debtor or to a third party.
- The creation of debt by creditor to an account with the lender upon which the debtor is entitled to draw immediately
- The creation of debt pursuant to a lender credit card or similar arrangement

2.2.2 Types of Loan

Banks make varieties of loans to its target customers for various purposes. For customers, the cause of loan purchasing may be investment in business, purchasing automobiles, take dream vacations, pursuing college educations, constructing home and office building so on. On the basis of loan purposes, bank loans can be dividing into Seven Broad following categories:

2.2.2.1 Agricultural Loans

Agricultural loans are the credit extended to support farm and branch operations. Agricultural loans loan is extended to assist in planting and harvesting crops, storing crops and marketing them. Agricultural loans also support the feeding and care of livestock.

2.2.2.2 Commercial and Industrial Loans

Commercial and industrial loans are extending to business firms to support the production, selling and distribution of their products and services. It is granted business to cover such expenses as purchasing inventories, paying taxes, and meeting payrolls and so on.

2.2.2.3 Financial Institution Loans

It is the credit extended to banks and other financial service providers. Mostly, finance companies, insurance companies, credit banks, co-operative firms, saving credit firms, money changers, money transfer firms are the customers of financial institution loan provided by bank.

2.2.2.4 Individuals Loans

An individual loan is the loans extended to private individuals for private and household's purposes. Generally, individual loans are extended to finance the purchase of automobiles, appliances TV, Computer set, furniture, Multimedia player, Washing machine, Refrigerator etc. Customers can also use individual loans for medical care personal expenses.

2.2.2.5 Lease Financing Receivables

Bank can lend physical equipments to the customer, in addition to money lending. People do not buy the heavy and costly equipment that is seldom needed for them. For example crosser machine, pressing machines and other plants used for constructions etc. they prefer to get them on pledge. Banks buy such equipment and vehicles and provide on lease to customers.

2.2.2.6 Real Estate Loans

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

2.2.2.7 Miscellaneous Loans

Banks are providing so many loans in different sectors. All those loans not classified above are included in this category. Higher education loan, Marriage loan, Dreams tours loan can be included in miscellaneous loans.

2.2.3 Criteria for providing loan

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

2.2.3.1 Personal Character

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

2.2.3.2 Capacity or Competency

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

2.2.3.3 Capital

If any person or businessman comes to make a proposal for a loan in a commercial bank, economic condition should be examined. His demand for money should be matched with the status of his household condition, how much the sum of money he wants to invest in his business. If the economic condition of the proponent is poor or less to the amount for loan, the commercial bank should reject his proposal. In brief, the quantity of proponent financial condition or capital should be stronger than the quantity of amount demanded.

2.2.3.4 Security/Collaterals

A bank is a legal person. It doesn’t provide the loan without securities or collaterals. It always studies and analyses whether the securities or collaterals recovers the banks principal and interest of the loan. Inspired by the same concept, it classifies the security. A security means property, which is pledge able under the existing law while giving loan, document relating there to, or any other security acceptable to the bank. However, the Nepalese banking law has not defined collateral. But the collateral falls under the security, itself. If a bank is satisfied on the basis of primary security, it does not require collateral, if the bank is not satisfied with the primary security, the bank may ask collateral, if the borrower can’t give collateral, then the bank does not provide loan to him.

2.2.3.5 Credit information

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

2.2.3.6 External Environment

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

2.2.4 Steps of Lending Process

Commercial banks follow several steps to disburse loan to the borrowers. The lending policies might be different from one commercial bank to another commercial bank. From the viewpoint of principle and practice, commercial banks lending process has the following steps:

2.2.4.1 Proposal Submission:

Proposal submission is the first step of loan appraisal. In this step customer submits proposal request of loan to the bank specifying the amount and types of loan.

2.2.4.2 Evaluation of Loan Proposal

After receiving proposal, bank will verify whether the received proposal fulfils all the criteria of loan disbursement set by bank. If bank feels the loan proposal satisfactory, it will move to further process.

2.2.4.3 Loan Interview

After verifying the proposal loan officer will have an interview of customer. That interview is particularly important because it provides an opportunity for the bank's loan officer to assure the customer's character. If the customer found fraudulent, this must be recorded as a strong factor evaluating against approval of the loan request.

2.2.4.4 Site visit

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

2.2.4.5 Reference Check

In this step, the loan officer may contact other creditors, who have previously loaned money to this customer to know their experience on the customer fully adhere to previous loan agreements and keep satisfactory deposit balance or not. This payment record often reveals much about the customer's character, sincerity of purpose, and sense of responsibility in making use of bank's loan.

2.2.4.6 Preparation of Necessary Documentation

If every thing is ok then, the customer is, then, asked to submit several crucial documents in order to fully evaluate the loan request, including complete financial statements. In case of a corporation, the applicant is also asked for board of director's resolutions authorizing the negotiation of a loan with the bank. Such documents are:-

- The statement of income and expenditure
- Citizenship certificate.
- The certificate or income tax registration
- The certificate of renewal.

- ☞ Scheme of the institution or the business
- ☞ Any contract or agreement.
- ☞ The memorandum of understanding
- ☞ Documents relating to security
- ☞ Certificate of registered institution
- ☞ Documents relating to insurance
- ☞ Power of attorney or authorized letter.
- ☞ Other necessary documents

2.2.4.7 Credit Analysis

Once all documents are received, the credit analysis division of the bank conducts a thorough financial analysis to verify whether the customer has sufficient cash flow and backup assets to repay the loan or not. The credit analysis division then prepares a brief report. On the basis of that recommendation is made for loan approval. In case of larger loans, credit analysis division makes a presentation to ensure the loan committee over the strong and weak points of loan proposal.

2.2.4.8 Loan Amount

The bank may or may not give the loan as demanded. It is the matter depends on the will of the bank. Also loan quantity can be defined on the basis of paying attention to the need of the customer, evaluation of the securities and the state and position of the business.

2.2.4.9 Perfecting Collateral

Once the loan officer and the bank's loan committee are satisfied that both the loan and collateral are sound, the note and other documents are made up for a loan agreement. Then all parties to the agreement sign on loan deal.

Commercial banks valuate the subjected securities by recognized engineering consultancy. In the process of valuation of the property (Collateral), distress value is calculated on the following way. For example, current market price of property is Rs 1, 00,000 and government price of the same property is Rs 80,000. The distress value of the property is calculated as follows:

70 % of current market price	(Rs. 1,00,000 × 70%)	Rs. 70,000
30 % of government valuation price	(Rs. 80,000× 30%)	Rs. 24,000
Total valuation of property by Commercial banks		Rs. 94,000

From the total valuation of property, commercial bank provide upto 60%-80% of loan to borrower.

2.2.4.10 Loan Acceptance Charge

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

2.2.4.11 Monitoring

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

2.2.5 Features of Sound lending Policy

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

2.2.5.1 Safety

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

2.2.5.2 Liquidity

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

2.2.5.3 Purpose

The purpose of loan should be productive so that the money not only pay back on time but also it will support to economic activities. The banker must closely examine the purpose loan requested and ensure, that the borrower applies the money as per agreement.

2.2.5.4 Profitability

Commercial banks are profit making organization. Lending policy plays a vital role for commercial banks for profitability. So banks must be careful while lending.

2.2.5.5 Collateral/Security

As far as possible, Commercial banks do not lend except against security. Security can be considered as insurance. Security may be generally classified as personal and tangible, as well as primary and collateral. The banker carefully scrutinizes all the different aspects of an advance before granting it.

2.2.5.6 Legality

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

2.2.5.7 Spread

Another important principle of good lending is the diversification of advances. In fact, the entire banking business is one of taking calculated risks and successful banker is an expert in assessing such risks. Spreading the advances will help to minimize the losses because there is fewer chances of every recipient are bankrupt or fraudulent.

2.2.5.8 National Interest

Even when an advance satisfies all the aforesaid principles, it may still no be suitable if it counter to national interest. So it must take consideration of national interest also.

2.2.6 Basic elements for the effective Lending policy

A lending policy should contain scope of loan facilities and lending portfolio. It includes how loans are originated, serviced, supervised and collected. A good lending policy is not overly restrictive but also flexible for fast reaction and early adaptation to changing conditions. The elements for the effective lending polices including the following things:-

2.2.6.1 Credit concentrations

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

2.2.6.2 Limit on total outstanding loans

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

2.2.6.3 Geographic limits

These limits are usually a dilemma. If a bank lacks understanding of its diverse market and does not have quality managements, geographic diversification may become a reason for bad loan problems. On the other hand, the imposition of strict geographical limits can also create problems, particularly in the case of regions with narrow economies. Bank's officers should be fully aware of specific geographical limitations for lending purposes.

2.2.6.4 Maturities

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

2.2.6.5 Types of loans:

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

2.2.6.6 Distribution by category

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

2.2.6.7 Loan pricing

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

2.2.6.8 Lending authority

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

2.2.6.9 Appraisal Process

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

2.2.6.10 Maximum ratio of loan amount to the market value of pledged securities

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

2.2.6.11 Recognition

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

2.2.6.12 Impairment

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

2.2.6.13 Collections

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

2.2.6.14 Financial information

A lending policy should define the financial statement requirements for business and individuals at various borrowing levels and should included appropriate guidelines for audited, non-audited, interim, cash flow and other statements. It should included external credit checks required at the time of periodic updates. If the loan maturity is longer than one year, the policy should require that the bank’s officers prepare financial projections with horizon equivalent that the bank’s loan maturity, to ensure that the loan can be repaid from cash flow. The assumptions for the projections should be clearly outlined. All requirements should be defined is such a manner that any negative credit data would clearly violate the bank’s lending policy.

2.2.7 Method and Mechanism of Project Proposal Appraisal for lending

After the loan proposal is submitted, bank makes a deep study and analysis on the proposal. Such study can do in two ways. In first term, it is study after the loan proposal produced and in the second term, it is the study after the loan proposal accepted. The bank uses the following method and mechanism to accept or not the project proposal.

2.2.7.1 The First Aspect "Technical Feasibility"

Technical feasibility refers to analyses of the positive and negative aspects of the project. From this the real fact related to project comes out. Technical feasibility consists of following:

a) Location of Project

The bank need to identify whether the project area is good to establishment of project like basic needs like water, electricity, means of communications and means of transportation are in place or not. Market is easily accessible or not. Raw material and the labour facility are easily available or not..

b) Technology

The bank studies technological aspect like: How and what type of technology the project is using or what is the proposal? Is such technology easily available in the market? Is the technology good or bad? What is the value of technology? Is the technology suitable for the projection or not?

c) Efficiency of Plant and Equipment

The bank should examine the efficiency of plant and equipment used in the project like price, condition, availability, repairment option of plant and equipment. Banks should examine ownership aspect of such plant and equipment.

d) Legal Aspect

A bank should study from the viewpoint of legal aspect as well, whether the proposed project presented to the bank is restricted or prohibited by the government or not, should be studied. The project must be good from the legal point of view.

2.2.7.2 The Second Aspect "Financial Feasibility"

Generally, bank grants loan only to profit making project. It invests money in the industries or business only with the objective of making profit because the recovery of the loan depends on income generated from the project.. Banks studies the financial feasibility by the following methods

a) Cost of the Project

A bank should check how much amount is to be spent in the project proposed? If is new project, the estimate of expenses of the project needs to be done. The source of the finance of the project should be studied. The bank should examine the condition of the share capital of the project and its source of income. It should estimate how much expenses are necessary to buy house, land farms, machine, equipments and other such type fixed assets. How much amount has been spent, how much running capital is necessary to arrange furniture, raw material, wages, salary, fuel for the project or how much movable capital is necessary. The total amount of both the fixed asset and the running capital is called the total project expense. The bank should carefully check all these things.

b) Cash flow statement

A bank should study cash flow statement of a project. How much cash the project is flowing? Is it enough or not? The commercial bank can find out profit, saving and loss from it. It facilitates the bank to make to a decision as to whether the loan proposal of the project to be accepted or not. Such things can found from the balance sheet of the project.

c) Production and Profit

The bank should study the productive capacity and profitable condition of the project. Whether the project has productive capacity or not? Is the project gaining profit or not? It should think possibility of earning profit in the future or not? If a bank invests a great deal of amount in a project in the absence of productivity of the project, its loan may fail. The project can't be run, if an amount of less money than it requires is spent in the project.

2.2.7.3 The Third Aspect “Commercial Feasibility”

The commercial feasibility is the third way of appraising the proposal of project. It should appraise and analyses the present and the future of the project. C commercial aspect of a project is studied on the following grounds.

a) Competition

A bank should study about is the project competitive in the market or not? Can it survive or not in the competitive market.

b) **Attraction of the Project**

Before providing loan to the project, a bank should see the attraction of the project in the market too.

2.2.7.4 The Fourth Aspect “Management Feasibility”

Management feasibility is the most important studies of banks to provide loan. It is a key to be success in the project. Under management fesibility study of competency, experience, honesty of project runner, qualification etc are done by banks.

2.2.8 The Ten Commandments of Lending Policy Guide

Every commercial bank have their own Lending Policy. Within the policy, they have strong guidelines for the staffs working in investment division such directive are called "Ten commandments". Following are the commandments that most of banks include in their lending policy guide.

- ⇒ You shall place a high priority on the quality of bank’s credit exposure. New relationship must meet bank’s lending criteria and existing portfolio should be under continuing review to improve risk positions. Bank’s preference is for regulating amortizing and self-liquidating loans geared to borrower’s ability to repay.

⇒ You shall constantly be mindful of bank's urgent need for earnings from bank's existing and new credit exposures. Every profit opportunity should be explored and negotiation skills fully employed. Innovative employment of the bank's resources to increase return on assets must be encouraged.

⇒ You shall be constantly alert for profitable new business opportunities that increase the size of bank's customer base. You must not under any circumstances rest on bank's existing base of customers nor direct all bank's effort on their behalf. Growth through enlargement of bank's base is far more attractive in the long run. In our search for new customers, the stress should be on desirable ongoing relationships rather than on marginal performers.

⇒ Risk dispersion is basic to sound lending principles and policies. You should be careful about large and undue concentrations of lending by industries, 'one obligor' or any risk factors bearing on a group of borrowers. However, bank must not diversify itself into an unwanted or unnecessary problem just for the sake of diversification.

⇒ You shall constantly be aware of the expense burden in bank's lending operation. Is there a less costly means of accomplishing the bank's mission? Increase in customer base must be weighted against cost in term of expense, time and service.

⇒ Lending decisions must consciously focus on optimizing the use of the bank's capital funds. The benefits so gained must be quantifiable, adequate and lasting both for the bank and for borrower.

⇒ You shall use every effort to reduce and contain the size of bank's criticized loan portfolio. This is time killer and the very root of bank's losses.

⇒ Credit 'quality' is heavily impact by the structure of the credit. The risk of trouble along the line are increased materially as bank erodes basic protections which are designed the enable a timely and comfortable payback within the borrower's ability

⇒ You shall endeavor to improve both the bank's external and internal communications to limit unnecessary time and effort amongst the bank's customers and associates. Clear, concise and summary type communication should be emphasized and utilized where necessary.

⇒ You shall endeavour to make a contribution to all matters that involve your approval, concurrence or other actions. On the other hand, you shall not lend your name merely to see it in print. You shall avoid all temptations, which can jeopardize or compromise the bank's risk assets.

2.2.9 Loan Review

Loan review is the examinations of outstanding loans to make sure whether the borrowers are adhering to their credit agreement. After advance of loan, bank should maintain continuous relationship with the borrower until principal and interest are fully recovered. For this purpose, bank should conduct loan review of all borrowers. As we know that time, conditions and environment are always changing. The changing condition affects the borrower's financial condition and ability to repay a loan. Fluctuations in the economy weaken some business and increase the credit needs. In case of individual loan, people may lose their jobs and serious health problems imperiling their ability to repay any outstanding loans. The bank's loan department must be sensitive to these developments. So the bank should periodically review all loans until they are fully recovered. There are some certain general principles that should be followed by bank while conducting the loan review. The most common principles are:

Regular review:

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

Large loans review:

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

Troubled Loans:

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

Deflation:

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

Structuring:

To make the loan review perfect, it should be structured carefully to ensure all-important aspects of loans and borrowers are checked properly. The loan review should be able to check the following aspects of loan.

- The quality and condition of any collateral pledge behind the loan.
- The record of borrower payments, to ensure that the customer is not falling behind the planned repayment schedule
- An evaluation of whether the borrower's financial condition and forecasts have changed which may have increased or decreased the borrower's need for bank loan.
- An assessment for whether the loan conforms to the banks lending polices and to the standards applied to its loan portfolio by examiners from the regulatory agencies.
- The completeness of loan documentation, to make sure the bank has access to any collateral pledge and possesses the full legal authority to take action against the borrower in the courts if needed.

Loan review is not a luxury, but a necessity for a sound bank-lending program. It not only helps management spot loan-problem more quickly, but also acts as a continuing check on whether loan officers are adhering to the bank's loan policy. For this reason, and to promote objectivity in the loan review process, many of the largest banks separate their loan review personnel from the loan department itself. Loan reviews also aid senior management and the commercial bank's board of directors in assessing the bank's overall exposure to risk and its possible need for more capital in the future. Separate loan review divisions or department also helps to detect any mishaps and undue influences in the lending process.

2.2.10 The Management for Loan Recovery

After loan is provided, there is a mechanism to recovery interest and the principal. It is very necessary to know all functions wise method which are to be followed after the grant of loan. It is really important subject matter. The bank wishes that all the debtors could utilize the loan proper places. It is beneficial to both the bank and the debtor. The following processes are conducted:

2.2.10.1 Recovery of Interest on Loan

After a loan is provided, the borrower should pay interest in the time written in the deed of loan. The date of the recovery of the interest and principal of the loan is fixed according to the nature of the business and industry. The borrower should go on paying the interest and principal from time to time, written in deed of loan and in the time given by the bank, if the borrowers fails to pay the interest and loan within the date specified in the deed, the bank goes on adding interest according to bank's rule.

2.2.10.2 Hand Over of Securities

If the borrower pays the interest and principal in the time fixed in the loan deed or the time fixed or accepted by the bank, the bank must return the moveable and immovable assets taken by it as securities from borrower, or the property of third person taken as securities in the form of guarantee.

2.2.10.3 Maintenance of Data

The loan administration department should prepare a report by keeping data to show picture of the act and activities from the day of flowing loan until the day of recovery of the loans. From it, the real progressive statement of the loan investment can be known. It can be a guideline for the bank and new management can be get help in future.

2.2.10.4 Process of Recovering the Date Expired Loan

If a borrower breaches the terms and conditions of the loan deed by not paying the interest and principal, the bank starts the legal process under the law. The Commercial Bank Act 2031 (1974), states various types of legal provisions for the recovery of principal and interest. Bank can claim on securities in case it fails to repay by the borrower with consultation with law . There are many examples and cases in which the borrower has not paid his loan to the bank. The date expired loan is classified as good, acceptable, low quality, doubtable by the NRB.

2.2.10.5 Loan Recovery Process

The bank recovers the loan provided by it on the basis of terms and conditions fixed in the deed of loan. If it is written in the loan deed to recovery loan on installments basis or a fixed lump sum basis, it should be paid accordingly. The date of loan recovery can be extended, if another agreement with the bank between the parties. To do so there is another process. But such things depend on the bank’s self consideration. The loan administration department keeps the rights to recover the loan according to the loan recovery process written in the deed.

2.2.10.6 Audit of Credit

A bank must provide loan in proper place. Always every borrower may not use the loan provided by bank so the bank performs audit of the loan. A bank studies as whether the bank loan is properly utilized or not, financial condition of the project. The objective of such audit is to be in direct connection with the borrower until the loan is recovered. From such link, the economic condition of the debtor, the proper use of the loan and the statement of the loss and gain can be known. Thus, the audit is done from time to time by the bank, in addition to other function to find out a picture about loan utilization, is called audit.

2.2.11 Non-Performing Loan

Non-Performing assets are those not generating income. Loans are normally considered to be non-performing when principle or interest on them is due and left unpaid 90 days or more (this period may vary by jurisdiction). The introduction of asset classification that entails provisioning requirements is costly to the banking sector. The delinquency period for non-performing assets is therefore typically introduced at 180 days and then tightened to 90 days after a period of time.

Commercial bank are suffering from problems in credit management and also some obstacles beyond the area of credit management those are contribution to raise the level of NPL. For the purpose of this analysis the factors contribution to have a high level NPL have been classified into two groups.

Internal Factors:

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

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

External Factors:

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

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

2.2.12 Regulation and Supervision of Lending

Central Bank is the supreme monitory and banking system of the country, which regulates monitors and supervises all activities of commercial banks. The supervisor should pay special attention in the lending aspect of banks. In bank, lending is the most risky business among all. There is no risk in collection of deposits. But only small careless or mistake in the loan portfolio and procedure can shock the bank profitability and survival, when bank is unable to recover the loans with interest. So there should be well managed regulations lending aspect of bank. Such regulations should follow while evaluating the loan proposal and providing loans.

The loan portfolio of any bank is heavily influenced by regulations. The quality of bank's loan portfolio has more to do with risk and safety than any other aspect of the banking business. Law for banks restricts some loans. For example, generally, banks must get collaterals to provide loans to customers. The authority must evaluate the loan proposal to conform the loan safety. In most country, banks are prohibited from making loans collateralized by their own stock. Real estate loans granted by a bank cannot exceed the bank's capital and surplus or 70 percent of deposits whichever is greater. A loan to a single customer normally cannot exceed 15% of bank's capital and surplus. The main objective of supervision and followed up is to ensure the fund have been properly utilized according to plan so that result may obtained as envisaged which may enable timely repayment of loan. The tools for supervision and regulation are:

- ☞ Site Inspection
- ☞ Cash flow Statements
- ☞ Profitability Statements
- ☞ Performance Statements
- ☞ Stock Turnover Statements
- ☞ Balance Sheet and Profit and Loss Statements

The regulation and supervision by the use of above mentioned tools provides the following information.

- ☞ Is the security in order?
- ☞ Are there any adverse signals?
- ☞ Are the company properly managed?
- ☞ Have the terms and conditions of sanctions observed?
- ☞ Are the loan invested according to the original purpose?
- ☞ Have there been any changes in the ownership and management?

2.2.13 Right of Commercial Banks against Breach of Lending Agreement

A commercial bank reaches a decision as to whether it should provide loan and advances or not. After many discussions between the person or the businessmen who comes with a proposal of loan to the commercial bank and bank while carrying out any banking transaction, the bank and customer should follow the law, policy and instructions. The concerning law means, the Nepal Rastra Bank Act 2058 (2002) Commercial Bank Act 2031(1974) so on. Under section 47.A of the Commercial Bank Act 2031 (1974) the bank has been following rights and power to recover the loan: -

- The bank may write to the appropriate office for registration or transfer, in accordance with prevailing law, of the assets auctioned by it pursuant to this section in the name of the person whose bid has been approved.
- The concerned office shall do the registration or transfer if it receives such written request from any commercial bank for registration or transfer of assets pursuant to sub-section (5) of section 47 A. of the Commercial Bank Act 2031(1974).
- In case no one offers a bid in an auction held by a bank pursuant to this action, the bank may take over the ownership of such assets, and in such situation, government offices must register or transfer those assets in their records as notified by the bank.
- If any person, institution or industry fails to comply with the terms of agreement or any terms regarding loans and advances, with the bank, or fails to repay loans to the commercial bank within the time limit stipulated in the documents, or incase the bank finds through investigation that any person, institution or industries concerned has not invested the amount of the loan and advance for the concerned purpose, or has misappropriated in the documents or notwithstanding anything mentioned in prevailing law the bank may auction or otherwise dispose of any property pledged to it, or the security deposited with it, and thus recover the principal and interest.
- If the borrowing person, institution, or industry concern relinquishes in any manner title to the property pledge to the commercial bank as collateral, or in case the value of such collateral declines due to any other reason, the commercial bank may, not with outstanding anything mentioned in prevailing law, ask the concern to furnish

additional collateral within a period specified by it. In case the concerned person, institution or industry concern fails to furnish additional collateral within the specified time limit, the commercial bank may recover its principal and interest by auctioning or otherwise disposing of the collateral pledged to it.

- ☞ If principal and interest can't be recovered through the auction sale of the collateral pledge to the bank pursuant to subsection (1) and (2) section 47.A of the Commercial Bank Act 2031(1974), the bank may recover the balance by auctioning the other assets of the concerned person, institution or industries concern.
- ☞ The amount of principal and interest, and expenses incurred in auction, or in other kind of disposal shall be deducted from the amount raised through the auction or disposal otherwise of assets pursuant to this section and the balance shall be refunded to the concerned person, institution, or industry concern.
- ☞ In case a complaint is field to the effect that the person who is required to relinquish the assets after their transfer under sub-section (6) and (7) of section 47.A of the Commercial Bank Act 2031 (1974) of the has created any obstacle or used force while the concerned person or the commercial Bank Act 2031 (1974) bank itself seeks to utilized such assets, action shall be taken according to prevailing law to have possession in the assets.

2.3 Review of Related Studies

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

Moris (1980) in his article entitled "Latin America's banking system” in the 1980's has concluded with most of the banks concentrated on compliance with bank rules on reserve requirement, credit allocation and interest rates, while analyzing loan portfolio quality, sound investment policy, operating efficiency has largely been overlooked. In developing countries, there are huge losses found in the bank's portfolio due to poor quality of their oversight investment function. He further adds that poor management of financial institution has involved inadequate and over optimistic loan appraisal, tax, loan recovery, high risk diversification of lending and investments, high risk concentration connected and insider lending, loan mismatching". This has lead many banks in developing countries to the failure in 1980's.

Frank (1999) defines, an credit may be define as current commitment of funds for a period of time to derive future flows that will compensate the investing unit for the time the funds are committed, for the expected rate of inflection and also for the uncertainty involved in the future flow of the funds. Loan management of a bank is guided by the credit policy adopted by the bank. The credit policy of the bank helps the lending operation of the bank to be efficient and profitable by minimizing the inherent risk.

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adopted by the bank. The credit policy of the bank helps the lending operation of the bank to be efficient and profitable by minimizing the inherent risk.

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

Charles and Chirstopher. (2002), “Do Banks provide financial slack?” in their main hypothesis is that the banks have the ability to accurately price financial claims thus including a preference for undervalued firms to choose bank debts as their marginal financial sources. They refer to this expect that this information benefit will be weighted against a varity of contracting costs in an firm’s ultimate financing choice. In particular, they find that firms who exhibit small pronouncement stock price urn-ups and those with high stock return volatility are relatively more likely to announce new bank loans. Since they expect that these firms are the most likely to be undervalued, these findings are consist dent with the presence of an information benefit to bank debt finance. For identify the firms weighted these information benefits of bank finance against other contracting costs, they examine the variation. In the sensitivity of the bank loan likelihood to their variables measuring potential under valuation. They find that firms with public debt outstanding tend to exhibit a relatively low sensitivity of bank loan likelihoods to these variables. Since they expect that the contracting costs of bank debt finance are relatively that firm weights the information benefits of bank debt against the contracting costs. The results suggest that for firms with public securities market for the firms to cross the threshold where the information benefits of bank debt finance out weight the relatives contracting costs.

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

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

Dr. Shrestha (1998), in her article “Lending operation of commercial banks of Nepal and its impacts on gross domestic product” has presented with the objectives to make an analysis of contribution of commercial banks lending to the gross domestic product of Nepal. She has set hypothesis that there is a positive impact of lending of commercial banks to the gross domestic product. In research methodology, she has considered gross domestic product as the dependent variable and various sectors of lending viz. agriculture individual, commercial services, general and social sector as independent variable. A multiple regression technique has been analyzed in the contribution. The multiple regression analysis has shown that all the variables expect service sector lending have a positive on the gross domestic product.

Mr. Ghimire (1999) in his article titled “Credit sector reform and NRB” has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. “Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what are common acres of most of the banks for increased size of non-performing assets? To resolve the problem of the losses or likely losses of this nature facing the industries NRB as the central bank, amended several old directives and issued many new circulars in the recent years." As opined by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisions now compared to precious arrangement would be dramatically higher.

In the conclusions he has mentioned that in the recent years, Nepal Rastra Bank has worked for management and reforms of credit of the financial institution more seriously and Nepal Rastra Bank has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the like hood of future crisis. "All prudential directives of Nepal Rastra Bank in connection of credit sector reform have been made revised on after April 2001. To adapt such changes there can be some difficulties and for a better and harmonized reform NRB should continue to be supportive proactive and also participative to take opinions of bankers for a change in regulation policy taking place in the future.

Mr. Shrestha (2002), in his article title "Modus Operandi of Risk Appraisal in Bank Lending" has tried to highlight different aspects of credit risk management. As per his view, as the effective risk management is central to good banking, the tradeoff between risk and return is one of the prime concerns of any investment decision whether long-term or short-term. He concludes, "Effective credit risk management allows a bank to reduce risks and potential non performing assets. It also offers other benefits. Once banks understand their risks and their costs, they will be able to determine their most profitable business, thus, price products according the risk. Therefore, the banks must have an explicit credit risk strategy and supported by organizational changes, risk measurement techniques and fresh credit process and systems. There are five crucial areas that management should focus on:

- ☞ Credit sanctioning and monitoring process
- ☞ Approach to collateral
- ☞ Credit risk arises from new business opportunities

- ☞ Credit exposures relative to capital or total advances
- ☞ Concentration on correlated risk factors.

Apart from these, the bank management should regularly review all asset quality issues including portfolio composition, big borrower exposures, and development in credit management policy and process. He is hopeful that the banks adopt good risk management practices and will be able to reap both strategic and operational benefit.

Mr. Khadka (2002) has carried out research on “A Comparative Study on Investment Policy of Commercial Banks” with objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NBL. She concludes, “NBL is comparatively less successful in on balance sheet as well as off-balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the competitive market of banking. Profitability positions of NBL are comparatively worse than that of other CBs. It predicts that NBL may not maintain the confidence of shareholders, depositors and its all customers if it cannot increase its volume even in future”. As the bank experience many difficulties in recovering the loans and advances and their large amount is being blocked as non-performing assets. She suggested that there is an urgent needs to workout a suitable mechanism through which the overdue loan can be realized.

Mr. Gautam (2002) conduct a study “Lending Practices and procurers of NBBL” has outlined his major findings as follows: not concentrating only in big cities and large groups, he has suggested NBBL to expand branches in rural areas. Banks should invest in productive sector, develop the concept of micro of micro financing and group financing should maintain the balance in its loan portfolio and current requirement of the customers. Banks should give preferences to the short term lending. Banks should provide the consortium loan for those for those projects under government guarantee and security thereby uplifting the economic condition of the country.

Mr. Pradhan (2004) in his article “The Importance of Loan Information Center and its Activities” published in NRB Annual Publication says that the loan information center was established to fulfill the necessity of a company working in relation to information related to loan. He further adds that the negative trends like delaying the payment of principal and interest, deficient loan approval procedures, lack of constant inspection of projects, lack of coordination between bank and finance companies have aided in the increase of non-performing loans ultimately affecting the national economy negatively. The author recommends the banks and finance companies to help the loan information center by following the directives of Nepal Rastra Bank and utilizing the information obtained from the center so that positive changes can be witnessed.

Mr. Ghimire (2005) explored in his research “Non Performining Assets of Commercial Banks: Cause and Effect” and found that Nepalese banking sectors in recent days are facing several problems with increasing number of problems. With the level of increasing NPA profitability performances of the bank has been badly affected. To find out the causes of non performing assets increment with commercial banks basis of loan floating procedure follow up practice carried out by the bank for the recovery of overdue loan outstanding, internal responsible factor causing NPA growth have been tried to sort out.

Analysis shows that relationships of borrowers with top management as the most adopted basis for floating loan in Nepalese commercial banks. Similarly respondent identified portfolio management consideration the second basis for floating loan in the certain sectors. Monitoring and control, security offered and financial strength were given average emphasis. It was found that commercial banks are giving least weight on personal integrity of the borrower while giving loan.

In regarding to the internal responsible factor that contributes turning good loan into bad loan. It was found that bad intension, week monitoring and miss management are the most responsible factor for non performing assets. Similarly weak legal provision and credit concentration are found as the least preferred factor in turning good loan into bad. Some factors such as lack of portfolio analysis not having effective credit policy and shortfall on security were identified as having average effect on non performing assets growth. In connection to the external factors, it has been found that recession political and legal issues more relevant factors in turning good loan into bad, likewise, legal provision for recovery as a reason for increment in non performing loan in Nepalese banks was found the factor having least impact. Supervision and monitoring system have been identified as average factor. It is therefore can be generalized that economic and industrial recession and not having strong legal provision for loan recovery are the major external factors that have major contribution for the increasing level of NPA.

Mr. Tamang (2006) conduct a thesis “A Comparative Study on Credit Management in Himalayan Bank Ltd. and NABIL Bank Ltd.” has found out that the credit practices of NABIL in terms of loans and advances to deposit ratio was found relatively low mean score than HBL. It indicates that NABIL has been strong to mobilize its total deposit as loan and advances in comparison to HBL. Efficiently in terms of loan and advances to current asset ratio was found higher in NABIL (i.e.3.2251>2.1426) in which indicates that short term lending practices of NABIL Bank was found relatively good position. HBL has best performance to generate interest income from loan and advances in comparison to NABIL (i.e.839.42>781.66). Lending policy of NABIL Bank in terms of loan loss provision to total loan and advances was found relatively better than that of HBL because the mean score of the result was relatively low (i.e.0451<0.0777). Lending policy of NABIL Bank with regard to non-performing loan to total loan and advances was found relatively better in comparison to HBL because the means scores of the result was found relatively greater (i.e.1.077>1.044 and 0.03278>0.0220) respectively.

The finding also showed meaningful that the quality of management in both banks was found to be good because the means score of the component management quality scored above the average (i.e.4.6527). Because all the items designed for study scored above the average and that resulted relatively high level of management quality. But in comparison, the means score of NABIL Bank was higher than the mean score of HBL (i.e. 4.7143>4.5979). It means that the employees of NBL perceived relatively higher-level management quality than HBL. The finding also showed that result was not significant at 0.01 levels of significance.

Bohora, (2007) explored in his Thesis “lending policy and recovery management of Standard Chartered Bank Nepal ltd and Nabil bank ltd” has found out the following result.

The deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. This ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2003. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

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2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There is various researchers conduct on lending practice, credit policy and financial performance of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about lending and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature. The selected banks are not studies before in terms of their lending policies.

In this study of lending policy of Everest Bank Limited, Bank Of Kathmandu Limited and NIC Bank Limited are presented with applying various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Thesis of Regmi (2004) “Credit management of Commercial bank with reference to Nepal Bangladesh Bank and Bank of Kathmandu Limited” and Gurung, (2006) “Lending Policy and recovery management of Standard chartered and Nabil Bank Ltd” has not use correlation, probable error and trend analysis. This study tries to define lending policy of selected commercial banks by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio other ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of lending policy of Banks.

CHAPTER-III

RESERACH METHODOLOGY

The research methodology is the systematic way of solving research problems. Research methodology refers to the overall research processes, which a researcher conducts during his/her study. It includes all the procedures from theoretical foundation to the collection and analysis of data. As most of the data are quantitative, the research is based on the scientific models. It is composed of both parts of technical aspect and logical aspect, on basis of historical data. Research is systematic and organization effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well through out activities of gathering, recording and analyzing and interpreting the data with the purpose of finding answer to the problem. Research methodology describes the methods and process applied in entire study. It is preferable to call this study an in depth analysis of the lending policy of commercial bank. To accomplish the goal, the follows the research methodology describe in this chapter

3.1 Research design

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

3.2 Source of Data and Data Collection Procedures

3.2.1 Sources of data

Secondary sources of data have been collected in order to achieve the real and fact data as far as available. The major sources of the data are as follows:

3.2.1.1 Secondary data

The secondary data, on the other hand, are those which have already been collected d by someone else and which have already been passed through the statistical process. The major sources of secondary data are as follows:

- NRB Directives and Reports
- Nepal Rastra Bank Samachar
- Books related to loan portfolio
- Annual General Reports of the Bank
- Economic survey, HMG, Ministry of Finance
- National Newspaper, Journals, Websites and Magazines

3.2.2 Data collection procedures

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

3.3 Populations and Sample

The objective of the research is to explore and describe the portfolio management in Nepal from the investor’s point of view. However, with regard to the availability of the financial information, two samples were identified purposively from the banking sector.

Here, the total 26 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here Everest bank Limited, Bank Of Kathmandu Limited and NIC Bank limited and has been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it.

The Following three banks are selected as samples for the study.

Everest Bank Limited

Bank Of Kathmandu Limited

NIC Bank Limited

3.4 Period of Study

The study covers five fiscal years from 2003/04 to 2007/08 mid July.

3.5 Method of Analysis

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

3.5.1 Financial Ratio

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. A ratio is simply one number expressed in term of another and such it expresses the quantitative relationship between any tow numbers. Ratio can express in terms of percentage and proportion. Different kinds of char are the graphic forms of expressing a ratio. Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or individual concern especially to take output and credit decision. Ratio analysis is used to compare a firm’s financial performance and status to that of the other firms or to it overtime. Even though there are ratios to analyze and interpret the financial statement, only those ratios that are related to lending operation to the have been covered in this study.

3.5.2 Statistical Tools

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

3.5.2.1 Trend Analysis

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

3.5.2.2 Mean (Average)

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

Mean (average) = $\frac{\sum X}{n}$

3.5.2.3 Correlation Coefficient

Correlation is the statistical tool that we can use to describe the degree to which one variable are linearly related to another. The coefficient of correlation measures the degree of relationship between tow sets of figures. Among the various methods of finding out coefficient of correlation, Karl Person’s method is applied in the study. The result coefficient of correlation is always between +1 and –1. When r = +1, is means there is perfect relationship between two variables and vice versa. When r = 0, it means there is no relationship between two variables.

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - \left(\sum x\right)^2}\sqrt{n\sum y^2 - \left(\sum y\right)^2}}$$

3.5.2.4 Coefficient of Determination

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

Coefficient of determination (r^2) = r × r

3.5.2.5 Probable error (P.Er)

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

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

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

Presentation and analysis of data is very important stage of research. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable form by using various table, figures and sources. Lending management is one of the most important factors that have developed to facilitate effective performance of bank management. Lending management is the formal expression of the commercial banks' goals and objectives sated in financial term for specific future period. Credit is the very basic indicator for determining profit. This chapter deals with the various aspects of lending management such as financial analysis, portfolio analysis, priority sector lending, nonperforming loan and trend analysis.

4.2 Financial Analysis of BOK, EBL and NIC

Financial analysis assists in identifying the major strengths and weaknesses of any institutions. It indicates the company's status in terms of various factors like liquidity, long term sustainability, capital structure, profitability etc. Financial analysis analyses the financial position, financial performance and cash flow of an organization. It helps in making various decisions by the users of accounts. Thus, for the financial institutions, the financial condition in terms of lending portfolio management is important aspects of financial management. The financial conditions are normally examined by comparing various types of financial tools such as loan deposit ratio, profitability to loan ratio, profit to total assets etc between two more forms. For the financial institution, size and pattern of credit lending determines the performance of the financial institution and also the financial position as on any date. Comparative study of the three financial institutions of Nepal BOK, EBL and NIC has been carried out to assess the lending behavior of Nepalese financial institution.

4.2.1 Total Loan and Advance to Total Deposit Ratio

Deposits collected from the public are the main sources for lending by financial management. The profitability of bank depends on the deposit utilization and collection. This Loan and advances ratio is calculated to find out the success of the banks on utilizing their deposits on loan and advances for profit generating activities. Greater ratio indicates the better utilization of total deposits. Commercial banks are allowed to collect deposit to the extent of 10 times of their authorized capital and some part of deposits has to be kept as reserve in the form of cash and other liquid assets. Hence, there is restriction on collection of deposit and issue of loan and advances by the commercial banks. Profitability of the banks depend on effective management of deposits and advances.

According to NRB directives, commercial bank can provide only up to 88% of loan from fixed deposit, 50% from saving deposit and call deposit. However, they can not provide loan from current deposit. Commercial bank must deposit two or five percentage of their total deposit in Nepal Rastra Bank account.

For the banks BOK, EBL and NIC, the ratio of loan to deposits have been given in table 4.1.

Table 4.1

Loan and Advance to Total Deposit Ratio

Banks	Fiscal Years					Mean	S.D	C.V
	2003/04	2004/05	2005/06	2006/07	2007/08			
BOK	72.94%	66.12%	69.23%	75.87%	78.71%	72.57%	5.04	6.94%
EBL	72.97%	75.45%	71.01%	75.13%	76.49%	74.21%	2.07	2.81%
NIC	69.20%	75.49%	75.93%	88.81%	86.09%	79.10%	8.13	10.27%

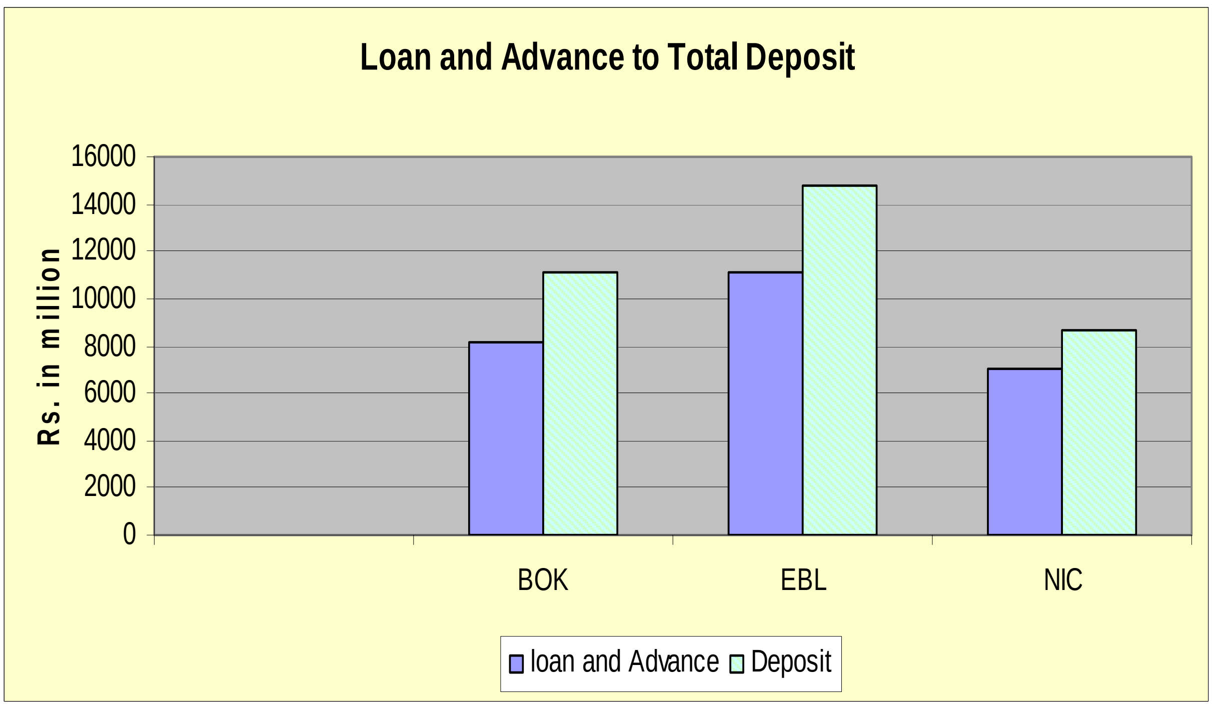
Source: Annexure -1,2,3

The loan and advances to total deposit ratio of BOK has increased to 78.71% in 2007/08 from 72.94% in 2003/04 and 66.12% in 2004/05 which shows an increasing trend from 2004/05 onwards. For EBL, the ratio is fluctuating over the years and for NIC, the ratio is in increasing trend. The mean of the ratio shows that NIC is capable of utilizing 79.10% of the deposits which is highest among three banks followed by EBL (74.21%) and

BOK(72.57%). BOK has more idle amount of deposit which increases it deposit expenses than other two banks. Deposit expenses will decrease the BOK's profit. NIC's deposit is fluctuating over time as shown by higher coefficient of variation. The lower CV of EBL shows the consistent deposit utilization over the period of study.

The five year total loan and advances and total deposit of EBL, BOK and NIC banks are shown below in figure 4.1.

Figure 4.1



From the above analysis it can be seen that though the percentage of loan and advances to deposits is lowest of three banks the total deposit and loan and advances of EBL is highest and also coefficient of variation is lowest. This shows the stable pattern of deposit collection and loan and advances disbursement. Higher ratio of loan and advances of NIC and BOK may result in liquidity problem.

4.2.2 Loan and Advance to Total Assets:

Loan and advance is the major components of the total assets which indicate the ability of banks to utilize its deposits in the form of loans and advances to earn high return. It must be in an appropriate level to balance the risk and return. The high degree of this ratio indicates the good performance of the commercial banks in mobilizing its funds by way of lending on the other side it also represents low liquidity which means higher risks.

Table 4.2 shows the five years ratio of average loan and advances to total assets of BOK, EBL and NIC banks.

Table 4.2

Loan and advances to total assets ratio

Banks	Fiscal Years					Mean	S.D	C.V
	2003/04	2004/05	2005/06	2006/07	2007/08			
BOK	59.46%	59.98%	59.12%	64.46%	70.32%	62.67%	4.79	7.65%
EBL	61.24%	64.94%	61.41%	63.75%	67.55%	51.62%	2.63	4.12%
NIC	60.05%	62.76%	64.10%	76.56%	73.92%	67.48%	7.29	10.81%

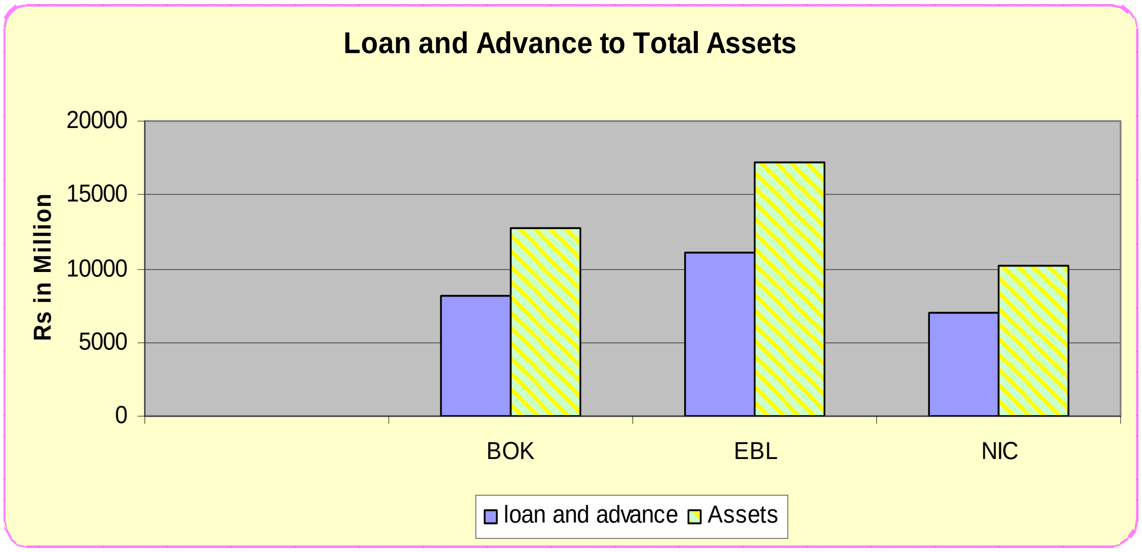
Source: Annexure -1,2,3

The investment ratio of BOK and EBL is in increasing trend except the year 2005/06. This means BOK highly utilized its deposit as investment in loans and advances. The investment ratio of NIC also shows increasing trend but it reduces in year 2007/08. All three institutions is able to increase their investment in the form of loan and advances over the period of time. In average, the 67.48% of the assets are represented by Loan and Advances in case of NIC bank. The EBL has lowest share of Loan and Advances in total assets.

Standard deviation and coefficient of variation of EBL is lower than BOK and NIC banks which means EBL has consistent pattern of Loan and Advances to total assets and variability over the period is lower.

Figure: - 4.2 shows average loan and advances and total assets of BOK, EBL and LBL from 2003/04 to 2007/08.

Figure 4.2



The above chart shows that Loan and Advances of EBL and Total assets of three banks are highest in case of EBL bank. The mean of the ratio of loan and advances to total assets is 57.62% only, which represents the higher security in terms of default by the loan holder.

4.2.3 Loan and Advance and Investment to Total Deposit Ratio:

Loans and advances and investments are the major area of fund mobilization for Commercial banks. Loan and advances are the first type of application of funds, which has more risk as compare to investment and gives more return. Loan and advances and investment to total deposit ratio indicates the firm's fund mobilization power and it also measures the ability of bank in generating income from bank's deposit. This ratio is calculated by total of loan, advance and investment dividing by total deposit. Loan and advances, investment to total deposit ratio is favorable to the bank if it is 85% or higher. Table 4.3 shows the five years average loan and advance and investment to total deposit ratio of BOK, EBL and NIC.

Table 4.3

Loan and Advance and Investment to Total deposit ratio:

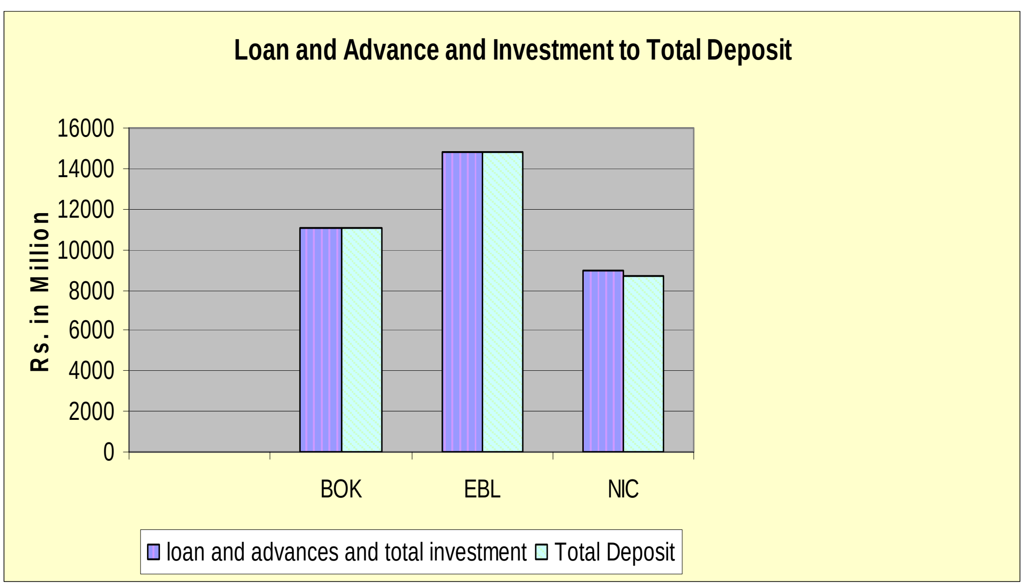
Banks	Fiscal Years					Mean	S.D	C.V
	2003/04	2004/05	2005/06	2006/07	2007/08			
BOK	104.94%	95.17%	101.45%	100.02%	98.95%	100.11%	3.57	3.56%
EBL	104.41%	96.53%	101.44%	102.54%	97.59%	100.50%	3.34	3.32%
NIC	103.41%	100.69%	104.22%	104.69%	103.76%	103.35%	1.56	1.51%

Source: Appendix- 1,2,3

The mean ratio of loan and advances, investment to total deposit of BOK, EBL and NIC bank is higher than 85%. That means these banks are able to mobilize their deposit in the form of loan and advances and investment and generating higher profits with lowest deposit expenses. NIC is the best performer in utilization of its deposit in the form of loan and advances and investment.

Figure 4.3 shows the average of five years loan and advance and investment and Total deposit.

Figure 4.3



The loan and Investment and deposit of EBL is highest and coefficient of variation shows that the loan and advance and investment pattern is consistent over the period of study.

There is only slight differences in utilization of deposit in the form of loan and advances and investment of three banks. (Fluctuating over 100% to 103%).

4.2.4 Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balance are most liquid assets of commercial banks. Cash and bank balance to total deposit ratio measures the proportion of most liquidity assets i.e. cash and bank balance among the total current assets of bank.

This ratio is calculated by dividing cash and bank balance to total deposit. Higher ratio shows the bank's ability to meet demand for cash, but it also shows the amount of idle fund in the form of liquid assets which would otherwise have been used for income generating investment by bank. Hence, cash and bank balance ratio should be balanced. 12 % of the deposit in the form of cash and bank balances is taken as adequate to meet its demand for deposit liability.

Table 4.4 shows the five year average Cash and bank balance to total deposit ratio of BOK, EBL and NIC banks.

Table 4.4

Cash and Bank Balance to Total Deposit Ratio

Banks	Fiscal Years					Mean	S.D	C.V
	2003/04	2004/05	2005/06	2006/07	2007/08			
BOK	10.11%	8.28%	6.95%	10.62%	9.10%	9.01%	1.47	16.27%
EBL	7.83%	10.40%	11.25%	13.15%	11.13%	10.75%	1.92	17.87%
NIC	6.20%	16.11%	8.55%	5.96%	9.11%	9.19%	4.11	44.78%

Sources: Appendix-1,2,3

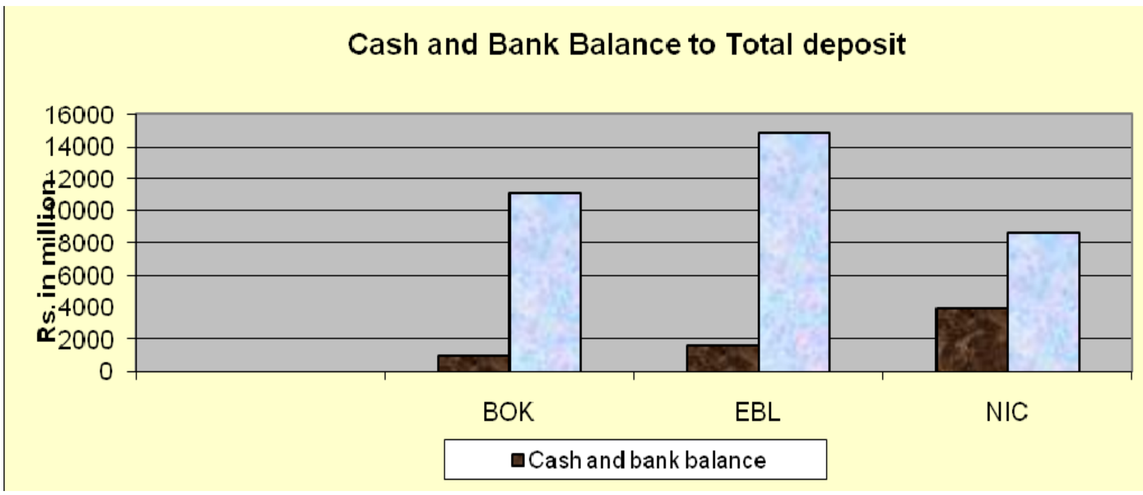
Mean ratio of cash and bank balance to total deposit ratio of BOK, EBL and NIC banks are less than 12%. BOK, EBL and NIC are not unable to maintain the average. On the one side they may not be able to meet their customer daily requirement for cash but on the other side they are able to utilize their fund successfully.

Standard deviation and coefficient of variable of BOK is lower than other banks which means BOK cash and bank balance to total deposit are less variable than other banks.

Higher ratio of Cash and bank balance to total deposit of EBL and lower standard deviation shows the adequate liquidity and consistent pattern of cash and bank balance over the period of study.

Figure 4.4 show five years average cash and bank balance to total deposit of BOK, EBL and NIC banks

Figure 4.4



4.3 Measuring the Lending Performance in Quality, Efficiency and its Contribution in Total Profitability.

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

a) Interest Expenses of Deposit to Total Deposit.

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

Table 4.5

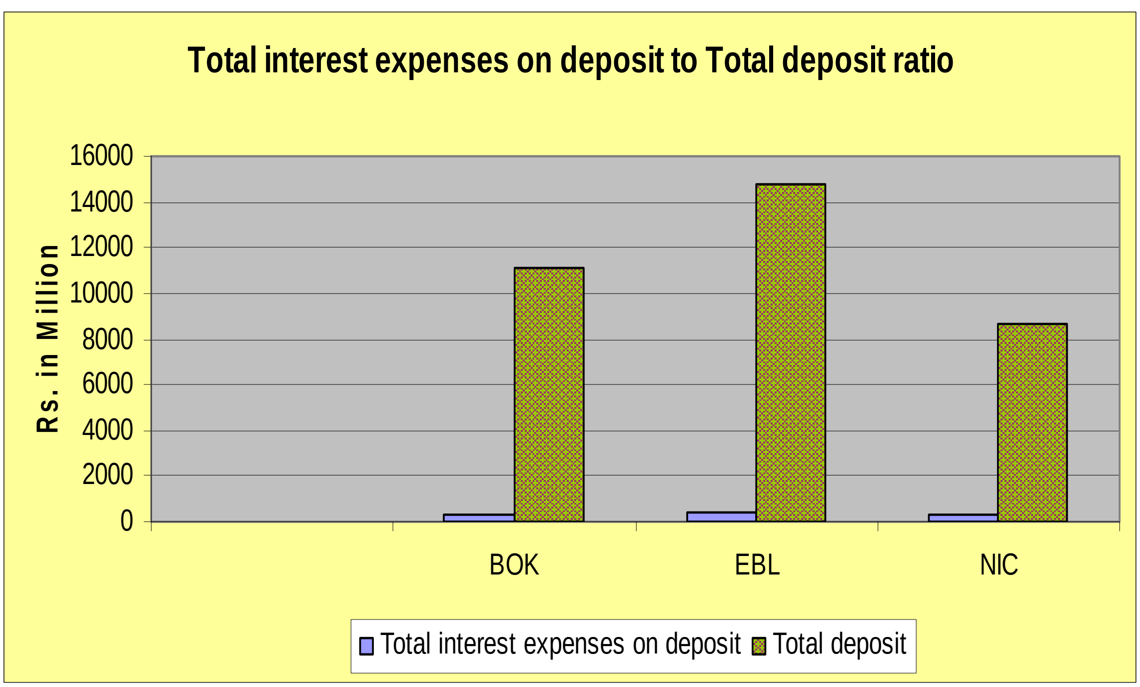
Interest Expenses of Deposit to Total Deposit

Banks	Fiscal Years					Mean	S.D	C.V
	2003/04	2004/05	2005/06	2006/07	2007/08			
BOK	3.70%	2.70%	2.94%	2.74%	2.64%	2.94%	0.44	14.85%
EBL	3.92%	2.97%	2.91%	2.84%	2.64%	3.06%	0.50	16.37%
NIC	3.57%	3.62%	3.88%	4.19%	3.87%	3.82%	0.25	6.44%

Source: Annexure -1,2,3

The above table 4.5 shows the five years average total interest expenses of deposit to total deposit ratio of BOK, EBL and NIC banks. BOK is able to manage its deposit in lower cost which means it can use its deposit in efficient way and get more profit. On the contrary NIC have costly deposit expenses and higher running cost among the selected banks. Figure 4.5 shows five years average interest Expenses of deposit to total deposit of BOK, EBL and NIC banks.

Figure 4.5



Standard deviation and Coefficient of variance of NIC is lower than other banks which means it has lower risk and its interest expenses of deposit to total deposit are less variable than other banks.

b) Total Interest Expenses to Total Assets

Total interest expenses to total assets ratio measures the percentage of total interest expenses against total assets. This ratio is calculated by dividing total interest expense by total assets. Higher ratio indicates the higher interest expenses on total assets and vice versa. Table 4.6 shows the five years mean ratio of total interest expenses of deposit to total deposit ratio of BOK, EBL and NIC banks**.**

Table 4.6

Total Interest Expenses to Total Assets Ratio

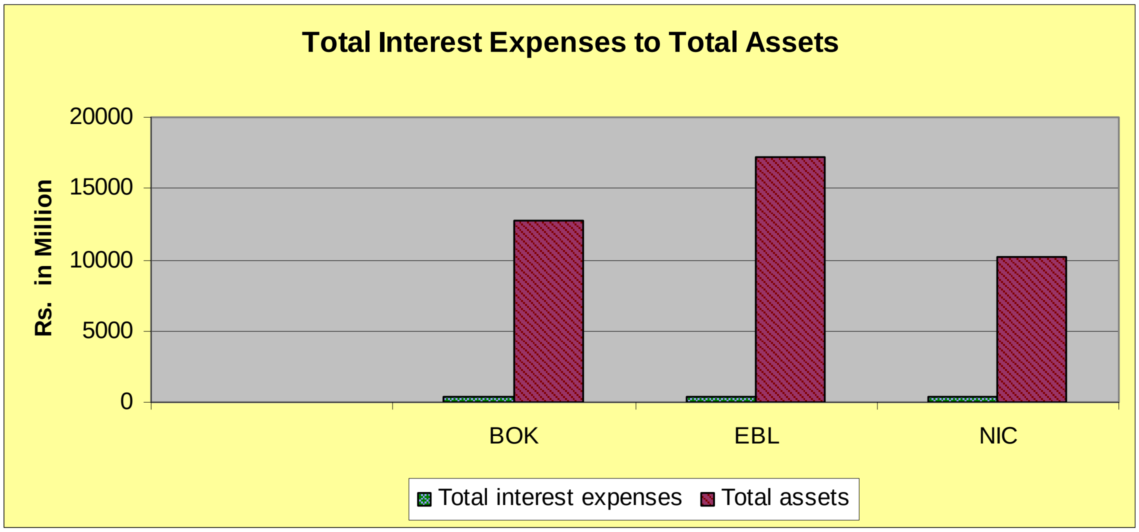
Banks	Fiscal Years					Mean	S.D	C.V
	2003/04	2004/05	2005/06	2006/07	2007/08			
BOK	3.01%	2.45%	2.51%	2.33%	2.36%	2.53%	0.28	11.06%
EBL	3.29%	2.55%	2.52%	2.41%	2.33%	2.62%	0.39	14.71%
NIC	3.09%	3.01%	3.28%	3.61%	3.32%	3.26%	0.23	7.13%

S ource: Appendix-1,2,3

From the above table it is found that five years average interest expenses to total assets ratio of EBL is less than other two banks which means it is able to mobilize its assets with lower expenses and success to generate more profit. However other two banks need to minimize their expenses. It can be concluded that EBL position form payment of interest point of view is better than other two banks.

SD and CV of NIC banks is lower than other two banks which means NIC bank has lower variability in its total interest expenses to total assets ratio for the period of study. Figure 4.7 shows five years average Total interest expenses to Total assets Ratio of BOK, EBL and NIC banks.

Figure 4.6



c) Total Interest Income from Loan and Advances to Total Interest Income

Loan and advance plays a vital role in interest income and it is main sources of income generation. This ratio measures the contribution made by interest from loan and advances to total interest income. It also measures how efficiently the banks have employed their fund in lending. It is calculated by dividing interest income from loan and advances by total interest income. Higher ratios indicate higher profit from loan and advances. Table 4.7 shows the five years average total interest income from loan and advance to total interest income ratio of BOK, EBL and NIC banks.

Table 4.7

Total Interest Income from Loan and Advance to Total Interest Income Ratio

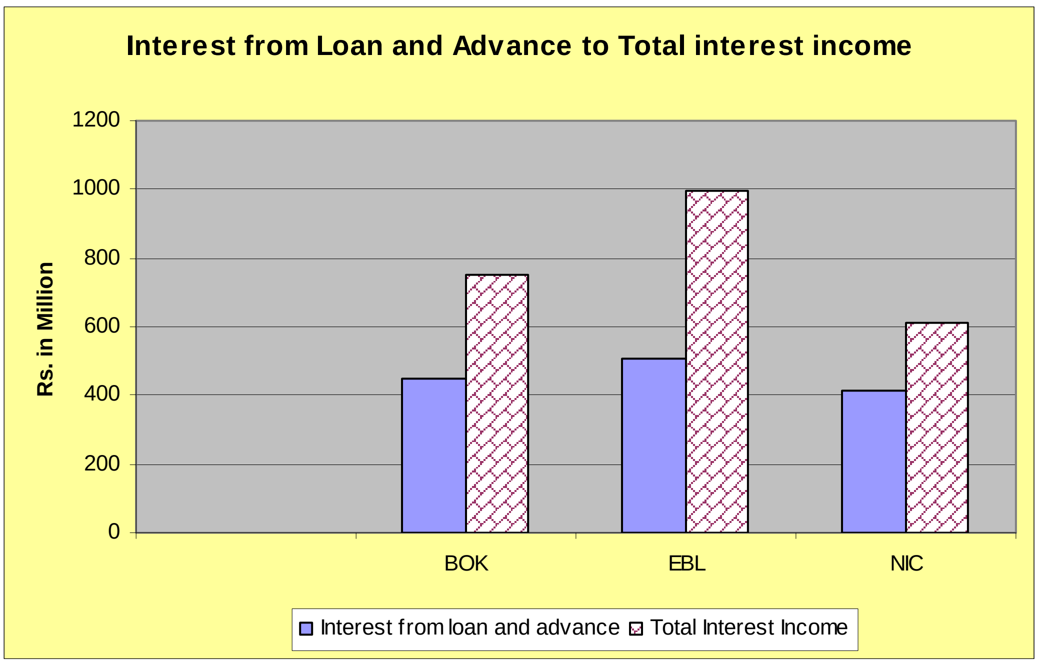
Banks	Fiscal Years					Mean	S.D	C.V
	2003/2004	2004/05	2005/06	2006/07	2007/08			
BOK	54.28%	59.11%	59.43%	57.89%	64.98%	59.14%	3.85	6.51%
EBL	46.90%	54.04%	50.83%	51.07%	51.33%	50.83%	2.55	5.02%
NIC	60.70%	65.88%	67.62%	68.25%	70.38%	66.57%	3.65	5.49%

Src: *Appendix -1,2,3*

Loan and advances is the main sources for commercial bank's income. NIC bank has the highest ratio among these three banks which means NIC is able to get more income from their lending.

Standard deviation and coefficient of variance of EBL is lowest among three banks which means total interest form loan and advance to total interest is consistent and less variable than other banks which shows lower risk over the period of time. Figure 4.7 shows average of five years total interest income from loan and advance to total interest income of BOK, EBL and NIC banks.

Figure 4.7



d) Capital Risk Ratio

Capital risk ratio measures ability of bank to attract deposits and inter bank funds. Moreover it also determines level of profit. Capital risk ratio is calculated by dividing capital fund by risk weighted assets. Capital fund includes reserve, share premium, paid up capital, retained earning and so on. Table 4.8 shows the five years average capital risk ratio of the selected banks.

Table 4.8

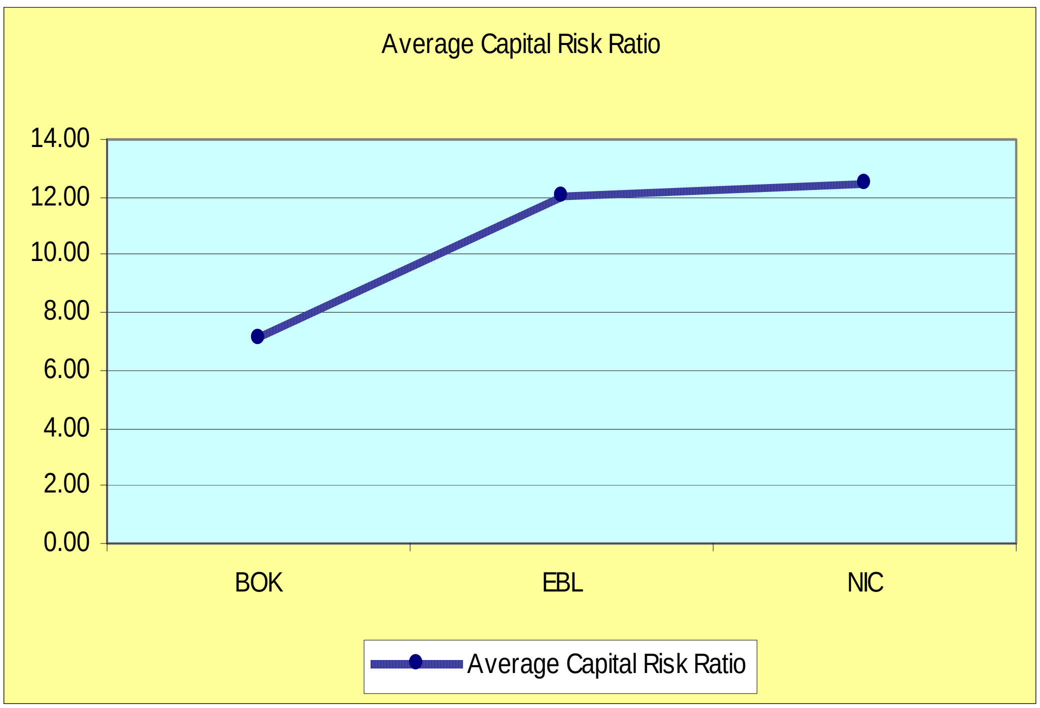
Five Years Average Capital Risk Ratio

Banks	Fiscal Years					Mean	S.D	C.V
	2003/04	2004/05	2005/06	2006/07	2007/08			
BOK	6.06	6.31	7.89	7.58	7.77	7.12	0.87	12.17
EBL	11.94	13.57	12.32	11.19	11.44	12.09	0.94	7.73
NIC	13.75	13.29	13.54	12.20	9.58	12.47	1.72	13.82

NIC bank has highest capital risk ratio which means it has strong capital base. Similarly EBL banks also have higher capital risk than BOK.

Figure 4.10 shows the five years average capital risk ratio of BOK, EBL and NIC banks.

Figure 4.8



e) Return on Loan and Advances Ratio:

Return on loan and advances ratio measures how efficiently the banks have employed its resources in the firm of loan and advances. It also measures the earning capacity of banks on its deposit mobilized on loan and advance. Return on loan and advances ratio is calculated by dividing interest income from loan and advance by loan and advances. High ratio indicates high success to mobilize fund as loan and advance and vice versa.

Table 4.9 shows the five years average return on loan and advances ratio of BOK, EBL and NIC Banks

Table 4.9

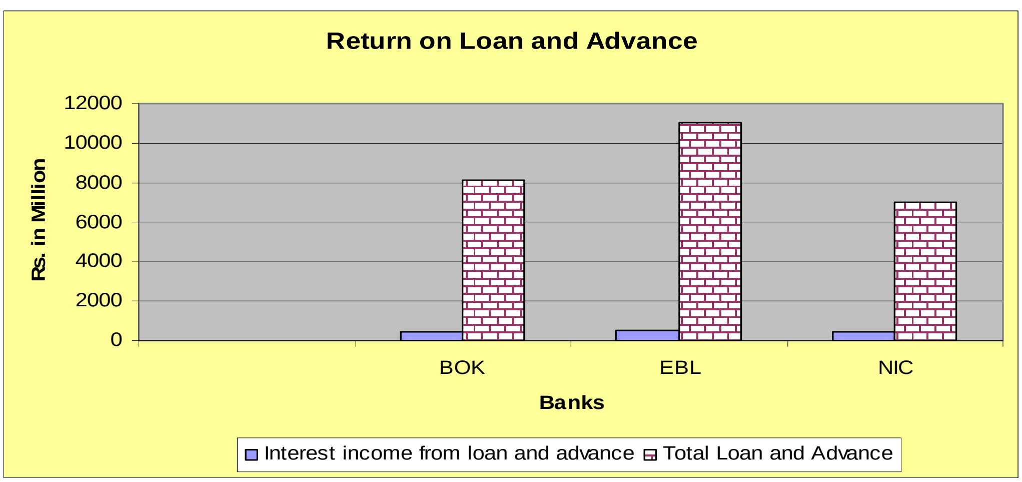
Average Return on Loan and Advances

Banks	Fiscal Years					Mean	S.D	C.V
	2003/04	2004/05	2005/06	2006/07	2007/08			
BOK	5.45%	6.07%	5.88%	5.04%	5.39%	5.57%	0.41%	7.33
EBL	5.24%	5.10%	4.68%	4.28%	4.33%	4.73%	0.44%	9.23
NIC	6.19%	6.40%	5.89%	5.54%	5.82%	5.97%	0.33%	5.58

Source: Annexure -1,2,3

The average return on loan and advances of NIC banks is highest among the above three banks which indicates NIC is getting more return form their loan. Also standard deviation and coefficient of variance of NIC is lowest among three which indicates its return on loan and advance is consistent and uniform over time. Figure 4.9 shows five average return on loan and advances of BOK, EBL and NIC banks.

Figure: 4.9



f) Return on Total Assets Ratio:

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

Return on total assets ratio is calculated by dividing net profit by total assets. Higher ratio is preferable because higher ratio indicates the higher return from the total assets and lower ratio indicates the underperformance of utilization of total assets. Table 4.10 shows the five years average return on total assets of BOK, EBL and NIC banks.

Table 4.10

Return on Total Assets Ratio

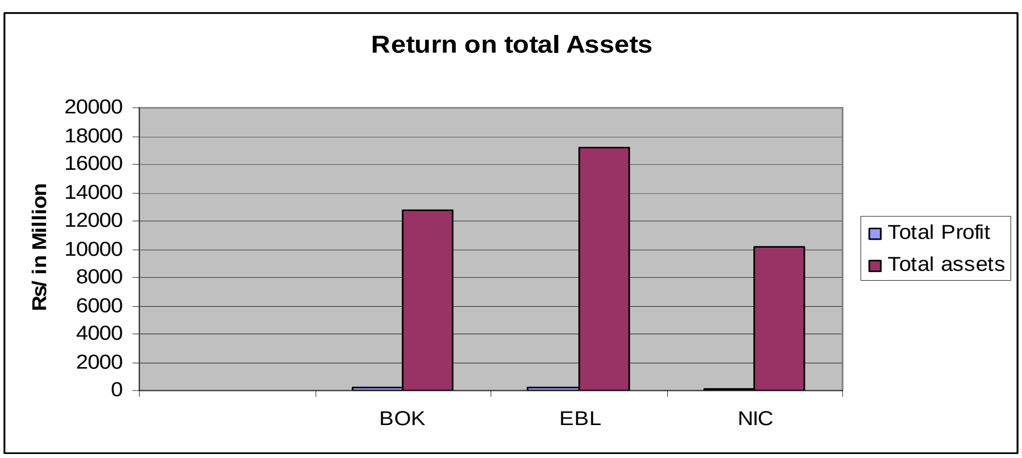
Banks	Fiscal Years					Mean	S.D	C.V
	2003/2004	2004/05	2005/06	2006/07	2007/08			
BOK	1.34%	1.42%	1.65%	1.80%	2.04%	1.65%	0.28	17.26%
EBL	1.50%	1.46%	1.49%	1.38%	1.66%	1.50%	0.10	6.85%
NIC	1.15%	1.52%	0.93%	1.36%	1.60%	1.31%	0.27	20.76%

Source: Annexure -1,2,3

BOK's return on assets is higher than other two banks. NIC has lowest average return on total assets over time.

Standard deviation and Coefficient of variance of EBL is lower than other banks which mean EBL has consistent and low variability on its return which indicate lower risk in future against variability of return. Figure 4.10 shows the BOK, EBL and NIC banks five years average return on total assets.

Figure 4.10



g) Net Profit of Commercial Banks

Profit is life blood of commercial banks to survive in long run. The volume of Net profit measures the success of a firm in every aspect of its efficiency. Table 4.11 shows the five years average net profit of BOK, EBL and NIC banks.

Table 4.11

Net Profit of Commercial Banks

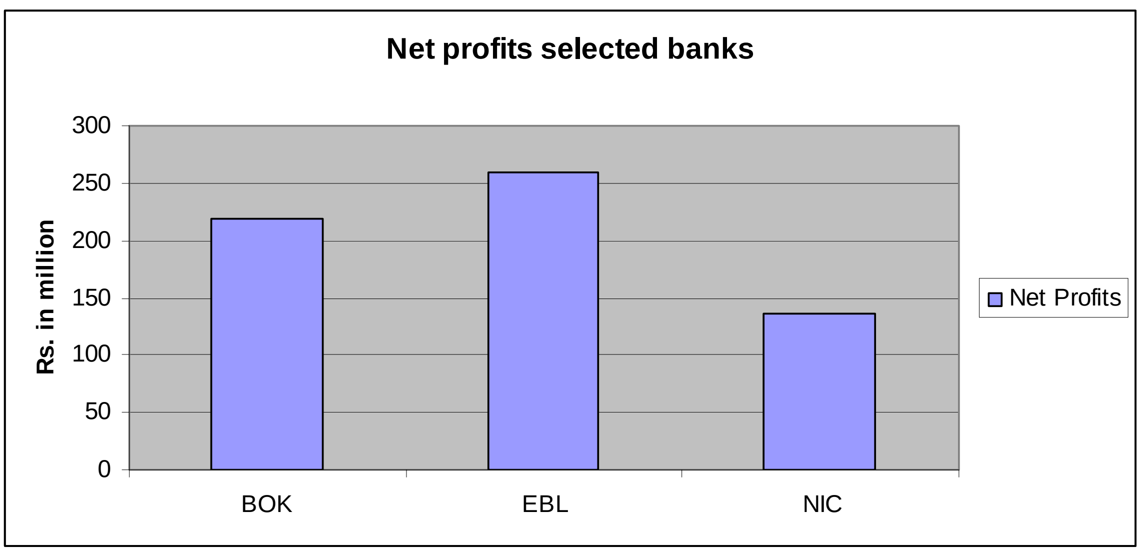
(Rs. in million)

Banks	Fiscal Years					Mean
	2003/2004	2004/05	2005/06	2006/07	2007/08	
BOK	127.48	139.52	202.44	262.39	361.49	218.664
EBL	143.66	170.8	237.3	296.41	451.2	259.874
NIC	68.26	113.76	96.59	158.48	243.06	136.03

Source: Annexure -1,2,3

From the table 4.11 it can be shown that BOK, EBL and NIC are earning profits from its lending. BOK has highest profit among the three banks. The average profit of these three banks are shown in below figure 4.11

Figure 4.11



4.4 Non Performing Loan Status of Commercial Banks

The Loans falling under category of substandard, doubtful and loss loan are regarded as non performing loan. The bank should try to decrease NPL so that profitability of the banks can be strong. The effective loan management decreases the percentage of NPL.

As per international standard, only 5% of total loan is allowed as NPL but in the context of Nepal maximum 10% of total loan may be acceptable as NPL. The higher ratio indicates the loss of capital. Hence, the lower ratio of NPL to total gross loan is preferred. Table 4.12 shows the last five years average non performing loan in percentage of BOK, EBL and NIC banks.

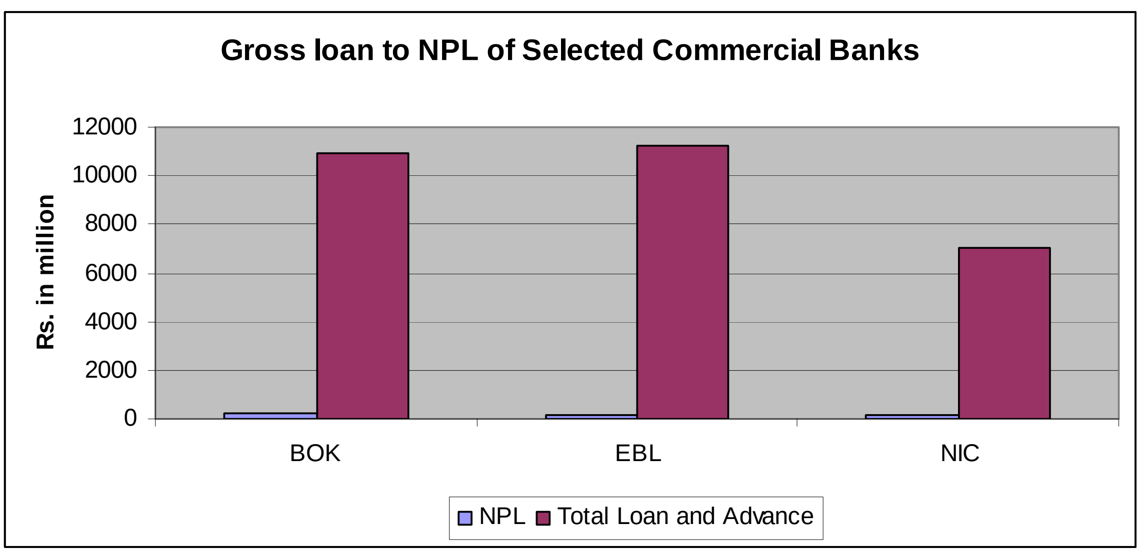
Table 4.12
Non Performing Loan to Gross Loan

Banks	Fiscal Years					Mean
	2003/2004	2004/05	2005/06	2006/07	2007/08	
BOK	0.00%	0.00%	0.00%	2.59%	1.90%	0.90%
EBL	1.72%	1.63%	1.27%	0.83%	0.69%	1.23%
NIC	4.12%	3.94%	2.70%	1.13%	0.87%	2.55%

Source: Annexure -1,2,3

From the above table it can be seen that BOK, EBL and NIC banks has lower than 5% NPL which means these are not only maintaining the Nepalese standard but maintaining international standard too. Also the decreasing NPL indicates trend of their profit and good performance.

Figure 4.12



4.5 Trend Analysis and Projection for Next Five Years.

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

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

a) Trend Analysis of Total Deposit

Deposit is very sensitive liability of commercial banks. Its trend and behaviors are determined by various seasonal and cyclical factors. Here the trend values of total deposit of commercial banks have calculated for five fiscal years from 2003/04 to 2007/08 and on the basis of these trend forcasting of next five years i.e. up to 2012/13 have been made. The table 4.16 shows the trend value of ten years of all three banks

Table 4.13

Trend Analysis of Total Deposit of BOK,EBL and NIC

Rs. In Million

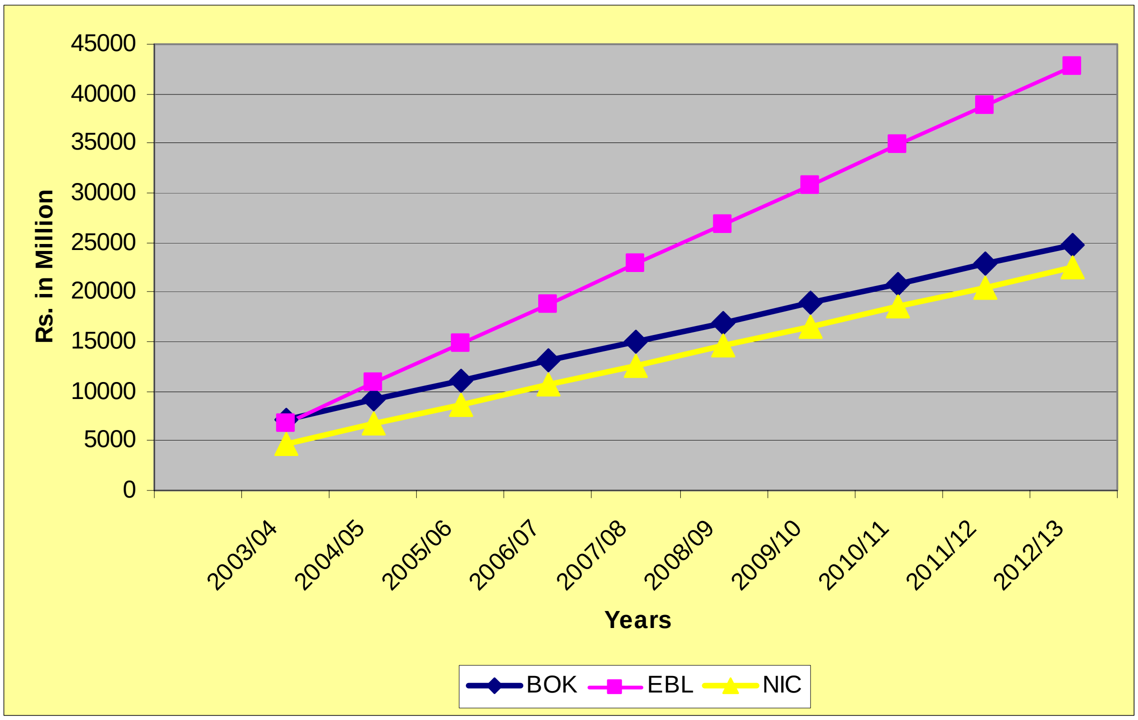
Fiscal Year	BOK		EBL		NIC	
	Amount	% Change	Amount	% Change	Amount	% Change
2003/04	7152.34		6842.65		4720.692	
2004/05	9115.38	27.45%	10833.98	58.33%	6691.019	41.74%
2005/06	11078.41	21.54%	14825.32	36.84%	8661.346	29.45%
2006/07	13041.45	17.72%	18816.65	26.92%	10631.673	22.75%
2007/08	15004.49	15.05%	22807.99	21.21%	12602	18.53%
2008/09	16967.52	13.08%	26799.323	17.50%	14572.327	15.64%
2009/10	18930.56	11.57%	30790.658	14.89%	16542.654	13.52%
2010/11	20893.59	10.37%	34781.993	12.96%	18512.981	11.91%
2011/12	22856.63	9.40%	38773.328	11.48%	20483.308	10.64%
2012/13	24819.67	8.59%	42764.663	10.29%	22453.635	9.62%

Source: Annexure - 4

Here the amount of total deposit of BOK, EBL and NIC banks are in increasing trend but the growth rates are in decreasing trend. Figure 4.13 shows total deposit trend on these three banks.

Figure 4.13

Trend Values of Total Deposit of BOK, EBL and NIC



b) Trend Analysis of Loan and Advances

Trend line is fitted from available data for the period 2003/04 to 2007/08 and on the basis of fitted trend line, the forecasting of Loan and Advances is made for the period 2008/09 to 2012/13. The table 4.14 shows the trend value of ten years loan and advances of all three banks.

Table 4.14

Trend Analysis of Loan and Advances of BOK, EBL and NIC

(Rs. in million)

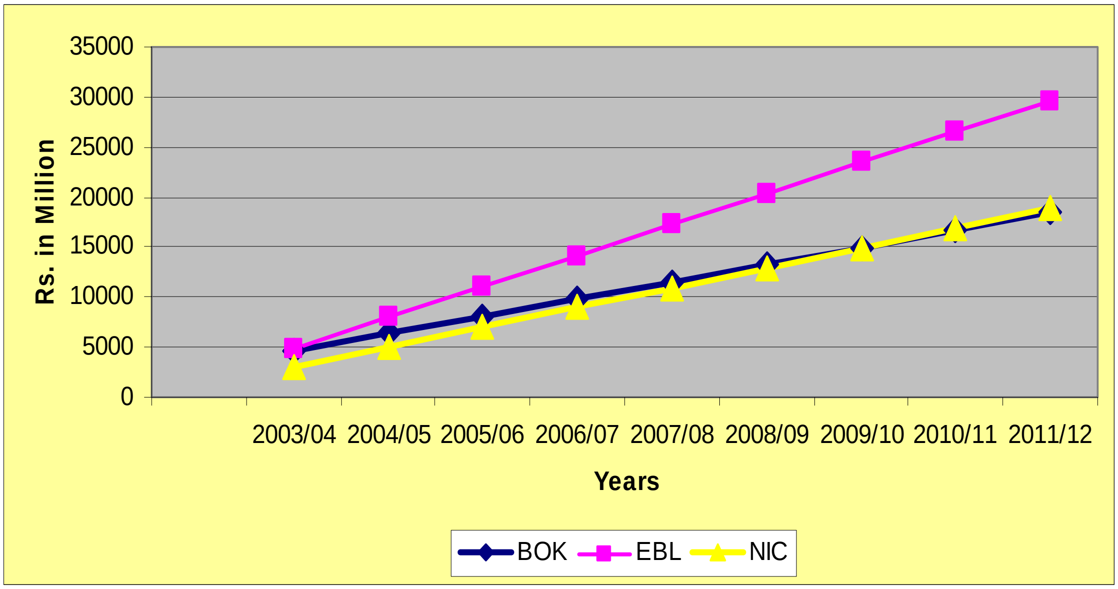
Fiscal Year	BOK		EBL		NIC	
	Amount	% Change	Amount	% Change	Amount	% Change
2003/04	4712.33		4870.38		3099.62	
2004/05	6424.20	36.33%	7965.92	63.56%	5063.30	63.35%
2005/06	8136.06	26.65%	11061.46	38.86%	7026.98	38.78%
2006/07	9847.93	21.04%	14156.99	27.98%	8990.66	27.94%
2007/08	11559.79	17.38%	17252.53	21.87%	10954.33	21.84%
2008/09	13271.66	14.81%	20348.07	17.94%	12918.01	17.93%
2009/10	14983.52	12.90%	23443.61	15.21%	14881.69	15.20%
2010/11	16695.39	11.42%	26539.15	13.20%	16845.36	13.20%
2011/12	18407.25	10.25%	29634.69	11.66%	18809.04	11.66%
2012/13	20119.12	9.30%	32730.23	10.45%	20772.72	10.44%

Source: Annexure - *4*

The amount of loan and Advance of BOK, EBL and NIC banks are in increasing trend with decreasing growth rate. Figure 4.14 shows total deposit trend on these three banks.

Figure: 4.14

Trend Analysis of Loan and Advance



c) Trend Analysis of Non-Performing Loan

Trend value Non Performing Loan of commercial banks has calculated of from 2003/04 to 2007/08. Then forecast for next five year up to 2012/13 have done. The table 4.15 shows the trend value and growth rate of non performing loan of BOK, EBL and NIC banks.

Table 4.15
Trend analysis of NPL of BOK, EBL and NIC

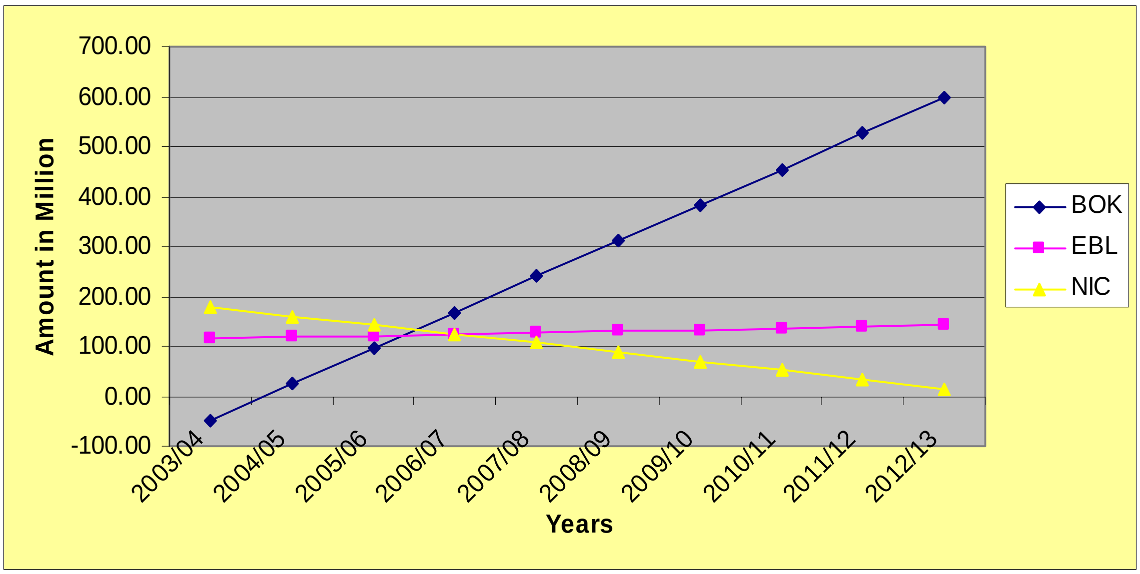
Fiscal Year	BOK		EBL		NIC	
	Amount	% Change	Amount	% Change	Amount	% Change
2003/04	-47.38		114.72		178.40	
2004/05	24.33	-151.35%	117.68	2.58%	160.29	-10.15%
2005/06	96.04	294.74%	120.64	2.52%	142.18	-11.30%
2006/07	167.75	74.67%	123.60	2.45%	124.06	-12.74%
2007/08	239.46	42.75%	126.56	2.39%	105.95	-14.60%
2008/09	311.17	29.95%	129.52	2.34%	87.84	-17.10%
2009/10	382.88	23.05%	132.48	2.29%	69.72	-20.62%
2010/11	454.59	18.73%	135.44	2.23%	51.61	-25.98%
2011/12	526.30	15.77%	138.40	2.19%	33.50	-35.10%
2012/13	598.01	13.63%	141.36	2.14%	15.39	-54.07%

Annexure - 4

Table 4.18 shows BOK and EBL bank's nonperforming loan is in increasing trend. Where as NIC's NPL is in decreasing trend. This shows NIC is best on the basis of NPL of these selected banks. Figure 4.15 shows trend of NPL of these banks.

Figure 4.15

Trend of NPL of BOK, EBL and NIC Banks



d) Trend Analysis of Net Profit

Trend values of net profit of selected commercial banks have calculated from 2003/04 to 2007/08, then forecast for next five year up to 2012/13 have been done. The trend line represents the net profit behaviors of BOK, EBL and NIC Banks.

Table 4.16

Trend Analysis of Netprofit of BOK, EBL and NIC

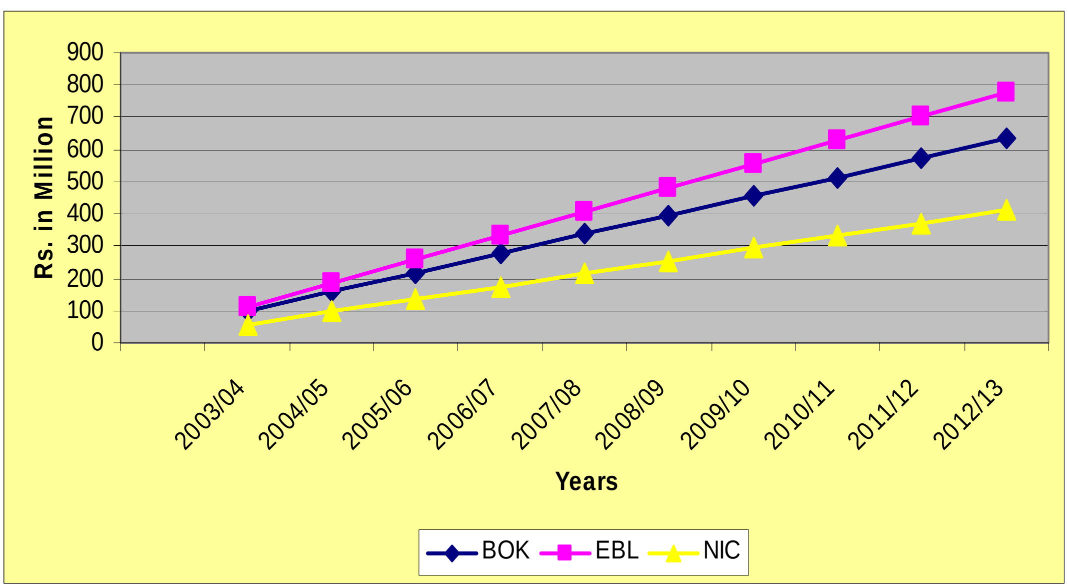
Fiscal Year	BOK		EBL		NIC	
	Amount	% Change	Amount	% Change	Amount	% Change
2003/04	100.49		111.74		57.17	
2004/05	159.58	58.80%	185.81	66.29%	96.60	68.98%
2005/06	218.66	37.03%	259.87	39.86%	136.03	40.82%
2006/07	277.75	27.02%	333.94	28.50%	175.46	28.99%
2007/08	336.84	21.27%	408.01	22.18%	214.89	22.47%
2008/09	395.93	17.54%	482.08	18.15%	254.33	18.35%
2009/10	455.02	14.92%	556.15	15.36%	293.76	15.50%
2010/11	514.11	12.99%	630.22	13.32%	333.19	13.42%
2011/12	573.20	11.49%	704.29	11.75%	372.62	11.83%
2012/13	632.29	10.31%	778.36	10.52%	412.05	10.58%

Annexure - 4

The above table 4.16 shows increasing trend of profit with decreasing growth rate. Figure 4.16 shows the increasing trend of net profit of BOK, EBL and NIC banks.

Figure: 4.16

Trend Analysis of Net profit of selected banks.



e) Trend Analysis of Interest Income from Loan and Advances

The trend value of interest income from loan and advances of commercial banks have calculated from 2003/04 to 2007/08. Then forecast for next five years up to 2012/13 have been done. The trend line represents the interest income from loan and advances of selected banks. The Table 4.17 shows the trend value of interest income from loan and advances of BOK, EBL and NIC banks.

Table 4.17

Interest income from Loan and Advances

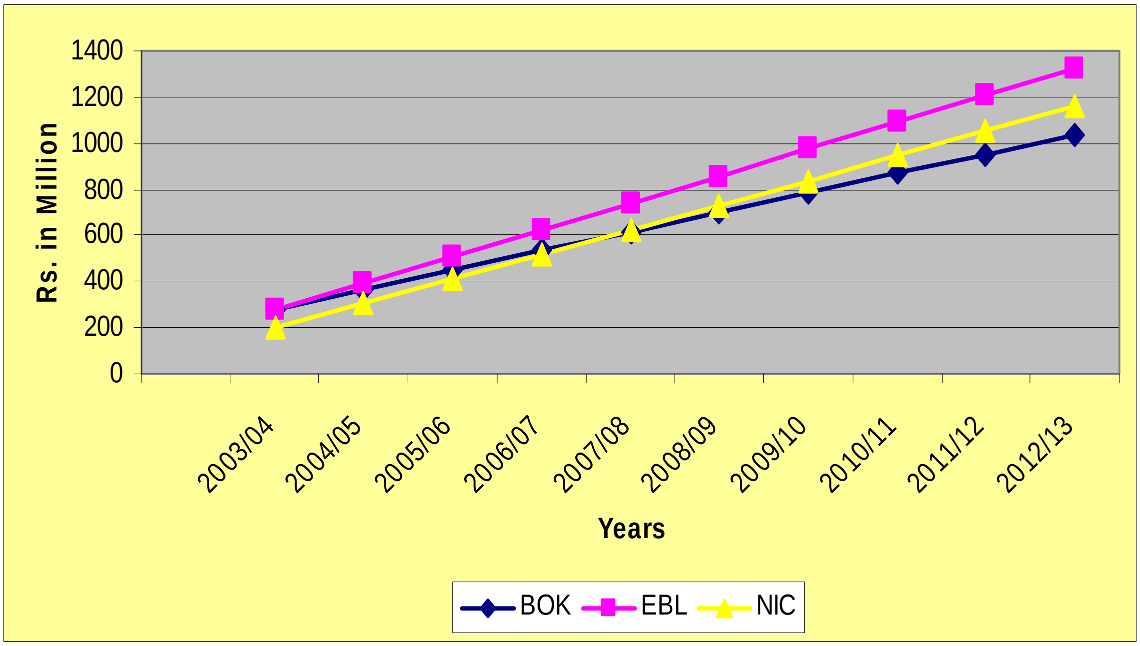
Fiscal Year	BOK		EBL		NIC	
	Amount	% Change	Amount	% Change	Amount	% Change
2003/04	279.20		273.31		200.13	
2004/05	363.55	30.21%	390.21	42.77%	306.56	53.18%
2005/06	447.91	23.20%	507.11	29.96%	412.99	34.72%
2006/07	532.27	18.83%	624.01	23.05%	519.42	25.77%
2007/08	616.62	15.85%	740.91	18.73%	625.85	20.49%
2008/09	700.98	13.68%	857.81	15.78%	732.29	17.01%
2009/10	785.33	12.03%	974.71	13.63%	838.72	14.53%
2010/11	869.69	10.74%	1091.61	11.99%	945.15	12.69%
2011/12	954.05	9.70%	1208.51	10.71%	1051.58	11.26%
2012/13	1038.40	8.84%	1325.41	9.67%	1158.01	10.12%

Source: Annexure 4

From above table it is shown that the volume of interest income from loan and advances is in increasing trend. On the other side, the growth rate of interest income from loan and advances is decreasing per year. Figure 4.17 shows trend analysis of interest income from Loan and Advance.

Figure 4.17

Trend Analysis of interest income from Loan and Advance



4.6 Coefficient of Correlation Analysis:

Two variables are said to have "correlated" when they are so related that the change in the value of one variable is accompanied by the change in the value of the other. The measure of correlation called the correlation coefficient summarized in one figure, the degree and direction of movement. But the important thing that is to be noted here is that correlation analysis only helps in determining the extent to which the two variables are correlated but it does not tell us about cause and effect relationship. Though, there is high degree of correlation between two variables one cannot say which one is the cause and which one the effect. The Table 4.18 shows the value of ‘r’, ‘r^2’, P.Er, and 6 P.Er

a) Correlation between Deposit and Loan and Advances

The relationship between Deposit and Loan and advances is shown below:

Table 4.18

Correlation between Deposit and Loan and Advances

Banks	Evaluation Criterions			
	r	**r^2**	**P.Er**	**6P.Er**
BOK	0.9926	0.9852	0.0045	0.027
EBL	0.9985	0.9970	0.0009	0.0054
NIC	0.9934	0.9868	0.004	0.024

Source: Annexure 5

The table above shows the value of ‘r’, ‘r^2’, P.Er, and 6 P.Er between total deposit and loan and advances of BOK, EBL and NIC banks. It is found that coefficient of correlation(r) between total deposit and loan and advance of BOK, EBL and NIC are 0.9926, 0.9985 and 0.9934 respectively. This shows the high degree of positive relationship between two variable loan and advances and deposit. The value of coefficient of determination (r2) of BOK, EBL and NIC banks are 0.9852, 0.9970 and 0.9868 respectively. That means 98.52%, 99.70% and 98.68% of variation in dependent variable (loan and advances), has explained by independent variable (total deposit) respectively. Similarly, considering the value of ‘r’ of BOK, EBL and NIC bankc and comparing it with 6P.Er i.e. 0.027, 0.0054 and 0.024 respectively, it is found that 6 P.Er is less than r which reveals the correlation of deposit and loan and advance of these banks are significant. On the basis of these it can be said that these banks are successful to grant loan and advances to mobilize the collected deposits in a proper way. With increase in deposits, the loan and advances also increases.

b) Correlation between Loan and Advances and interest from Loan and Advance

Here Loan and advance is independent variable and interest from loan and advance is dependent variable

Table 4.19

Correlation between Loan and Advance and Interest from Loan and Advance

Banks	Evaluation Criterions			
	R	r^2	P.Er	6P.Er
BOK	0.9841	0.9686	0.0095	0.057
EBL	0.9978	0.9956	0.0013	0.0078
NIC	0.9966	0.9932	0.0021	0.0126

Source: Annexure - *5*

The above table shows the value of ‘r’, ‘r^2’, P.Er, and 6 P.Er between loan and advances and interest income from loan and advances of BOK, EBL and NIC banks. It is found that coefficient of correlation(r) of loan and advances and interest income from loan and advances of BOK, EBL and NIC banks are 0.9841, 0.9978 and 0.9966 respectively. It shows the high degree of positive relationship between two variable loan and advances and interest income from loan and advances. The value of coefficient of determination (r^2) of BOK, EBL and NIC banks are 0.9686, 0.9956 and .9932 respectively. That means 96.86%, 99.56% and 99.32% of variation in the dependent variable has explained by independent variable respectively. Similarly, comparing the value of ‘r’ of BOK, EBL and NIC banks with 6P.Er i.e. 0.057, 0.0078 and 0.0126 respectively, it is found value of r is greater than the value of 6P.Er. That means there is significant relation between loan and advances and interest income from loan and advances of these banks.

At conclusion BOK, EBL and NIC banks are successful to grant loan and advances to mobilize the collected deposits in a proper way.

c) Correlation between Total deposit and Net profit

Here total deposit is independent variable and Net profit is dependent variable

Table 4.20
Correlation between Total deposit and Net profit

Banks	Evaluation Criterions			
	r	r^2	P.Er	6P.Er
BOK	0.9922	0.9845	0.0047	0.0282
EBL	0.9902	0.9805	0.0059	0.0354
NIC	0.9234	0.8527	0.044	0.264

Source: Annexure 5

The above table shows the value of ‘r’, ‘r^2’, P.Er, and 6 P.Er between total deposit and net profit of BOK, EBL and NIC. It is that coefficient of correlation(r) of total deposit and net profit of BOK, EBL and NIC banks are 0.9922, 0.9902 and 0.9234 respectively. It shows these banks have high degree of positive relationship between two variable total deposit and net profit. The value of coefficient of determination (r^2) of these banks are 0.9845, 0.9805 and 0.8507 respectively. That

means 98.45%, 98.05% and 85.07% of variation in the dependent variable (net profit), has explained by independent variable (total deposit) respectively. The value of 6P.Er i.e. 0.0282, 0.0354 and 0.264 respectively is less than value of r of these banks it is significant.

After analyzing these all conclusion can be drawn that BOK, EBL and NIC banks are successful to grant their deposit to generate the profit in a proper way and there is significant relationship between total deposit and net profit..

d) Correlation between Total Assets and Net profit

Here total assets is independent variable and Net profit is dependent variable

Table 4.21

Correlation between Total Assets and Net profit

Banks	Evaluation Criterions			
	r	**r^2**	**P.Er**	**6P.Er**
BOK	0.9768	0.9541	0.014	0.084
EBL	1	1	0	0
NIC	0.9219	0.8499	0.0453	0.27168

Annexure - 5

The above table shows the value of 'r', 'r^2', P.Er, and 6 P.Er between total assets and net profit of BOK, EBL and NIC banks. It is found that coefficient of correlation(r) of total assets and net profit of these banks are 0.9738, 0.9191 and0.9219. It shows BOK and NIC has high degree of positive relationship between two variable total assets and net profit. And EBL's Total assets and net profit is perfectly correlated. Coefficient of determination (r^2) of these banks is 0.9541, 1 and 0. 8499 respectively. That means 95.41%, 100% and 84.99% of variation in the dependent variable (assets), has explained by independent variable (net profit) respectively. The value of 6P.Er i.e. 0.084, 0 and 0.2717 respectively are less than value of r, there for value of r is significant.

From above analysis it can said that these banks are able to grant their assets to generate the profit in a proper way or there exists.

e) Correlation between Loan and advance and Net Profit

Here loan and advance is independent variable and Net profit is dependent variable

Table 4.22
Correlation between Loan and advance and Net Profit

Banks	Evaluation Criterions			
	R	r^2	P.Er	6P.Er
BOK	0.9842	0.9686	0.0095	0.057
EBL	0.9909	0.9819	0.0055	0.033
NIC	0.936	0.8761	0.0374	0.2244

Annexure - 5

The above table shows the value of ‘r’, ‘r^2’, P.Er, and 6 P.Er between total loan and advances and net profit of BOK, EBL and NIC banks. It is found that coefficient of correlation(r) of total loan and advances and net profit of these banks are 0.9842, 0.9909 and 0.936 respectively. It shows these banks have high degree of positive relationship between two variable total loan and advances and net profit. The value of coefficient of determination (r^2) of BOK, EBL and NIC is 0.9686, 0.9819 and 0.8761 respectively. That means 96.86% of BOK, 98.19% of EBL and 87.61% of NIC's variation in the dependent variable (net profit), has explained by independent variable (loan and advances) respectively. The value of ‘r’ of is greater than that of 6 P.ER i.e 0.057, 0.033 and 0.2244 of BOK, EBL and NIC banks respectively which means the correlation is significant.

From above conclusion can be drawn that BOK, EBL and NIC banks are successful to grant their loan and advance to generate the profit in a proper way.

f) Correlation between Deposit and Interest Income

Here deposit is independent variable and Interest Income is dependent variable.

Table 4.23

Correlation between deposit and interest income

Banks	Evaluation Criterions			
	R	**r^2**	**P.Er**	**6P.Er**
BOK	0.9976	0.9952	0.0014	0.0084
EBL	0.994	0.9880	0.0036	0.0216
NIC	0.9949	0.9898	0.0031	0.0186

Source: Annexure - *5*

The above table shows the value of 'r', 'r^2', P.Er, and 6 P.Er between total deposit and interest income of BOK, EBL and NIC banks. It is found that coefficient of correlation(r) of total deposit and interest income of these banks is 0.9976, 0.9940 and 0.9949 respectively. It shows these banks have high degree of positive relationship between two variable total deposit and interest income. The value of coefficient of determination (r^2) of BOK, EBL and NIC is 0.9952, 0.9880 and 0.9898 respectively. That means 99.52% of BOK, 98.80% of EBL and 98.98% of NIC's variation in the dependent variable has explained by independent variable respectively. The value of 'r' of is greater than that of 6P.Er i.e 0.0084, 0.0216 and 0.0186 of BOK, EBL and NIC banks respectively which means the correlation is significant.

From above conclusion can be drawn that BOK, EBL and NIC are successful to grant their deposit to generate the interest income in a proper way or there exists a significant relationship between total deposit and interest income. When deposits increase the interest income subsequently increased but when it is fall, the interest income also fell.

g) Correlation between loan and advance and Non Performing Loan.

Here loan and advance is independent variable and Non Performing loan is dependent variable.

Table 4.24

Correlation between loan and advance and Non performing loan

Banks	Evaluation Criterions			
	R	r^2	P.Er	6P.Er
BOK	0.8935	0.7983	0.0608	0.3648
EBL	0.3221	0.1037	0.2704	1.6224
NIC	-0.7636	0.5831	0.1258	0.7548

Annexure - 5

The above table shows the value of 'r', 'r^2', P.Er, and 6 P.Er between total deposit and interest income of BOK, EBL and NIC banks. It is found that coefficient of correlation(r) of total deposit and interest income of these banks is 0.8935, 0.3221 and -0.7636 respectively. It shows BOK and EBL banks have high degree of positive relationship between two variable total deposit and interest income. Whereas NIC r = -0.7636 which means negative relationship between two variables total deposit and interest income. The value of coefficient of determination (r^2) of BOK, EBL and NIC is 0.7983, 0.1037 and 0.5831 respectively. That means 79.83% of BOK, 10.37% of EBL and 58.31% of NIC's variation in the dependent variable has explained by independent variable respectively. Similarly, considering the value of 'r' of BOK, EBL and NIC banks and comparing it with 6P.Er i.e. 0.3648,1.6224 and 0.7548 respectively, it is found that coefficient of correlation(r) is less than the value of 6P.Er which reveals the value of 'r' is insignificant. This insignificant result is good for these banks because it decrease non performing loan.

From above conclusion can be drawn that BOK, EBL and NIC banks are successful to grant their loan and advances to decrease their non performing loan.

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The issue of development always rests upon the mobilization of resources. Lending function of bank ensures required volume of capital for resources mobilization. The liberalization of economy has posed more responsibility and challenges on Commercial banks. This has created new area of probability and posed high degree of competition risks. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources.

Lending operation of commercial banks is very risky one. For this commercial banks have to pay due consideration while formulating Lending Policy. A healthy development of any commercial bank depends upon its Lending Policy. A good Lending Policy attracts of borrowers and lenders, which help to increase the volume and quality of deposits, loans and investment.

This study has tried to focus on the evaluation of financial strength of three leading banks of Nepal, Bank of Kathmandu, Everest Bank Ltd. and NIC Bank. Following are the major findings of the study. The findings are based upon the financial data of these banks for the period 2003/04 to 2007/08.

1. The banks are able to utilize more than 70% of its deposit collection for the purpose of the lending which shows the capability of banks in utilizing its deposit for revenue collection. Ratio of Loan to advance of NIC is increasing over the period of study while there is fluctuating and more or less constant trend in case of BOK and EBL.

The deposit utilization ratio of NIC is 86.09% in 2007/08. BOK and EBL has deposit ratio of 78.71% and 76.49%.

2. Mean Loan and Advances to total assets ratio for the period of study is highest in case of NIC bank (67.48%). The mean ratio is 62.67% and 51.62% for BOK and EBL. This shows the capacity of NIC bank in mobilizing its resources.
3. Standard deviation and coefficient of variation of loan and advance to deposit ratio and loan and advance to total assets ratio is highest in case of NIC bank and lowest in case of EBL bank. Hence, though the NIC bank is able to mobilize its deposit and total assets, variability of the mobilization is high and shows the inconsistency of utilization over the period of study.
4. Investment in the form of loan and advance and investment to total deposit shows the more or less same pattern of three banks. All the banks are able to utilize its deposit in excess of 100% in the loan and advances and investment for generating regular income which can be taken as satisfactory pattern of investment. NIC bank is able to use highest mean ratio of 103.35% of the deposit as investment with lowest coefficient of variation of 1.51% which shows the capability of NIC bank in utilizing the deposits effectively and consistently over time.
5. The liquid fund maintained by EBL is highest (10.75% of total deposit) in comparison to the total deposit collected. NIC bank maintains in average 9.19% of total deposit in the form of cash and bank balance for meeting obligation of demand from deposit holder with highest variability of 44.78% coefficient of variation. This may cause inadequacy of cash for meeting deposit holder's demand and high cost for managing cash.
6. Mean ratio of interest expenditure paid to deposit holder to total deposit is highest in case of NIC bank (3.82%) followed by EBL Bank (3.06%) and BOK (2.94%). NIC have costly deposit expenses and higher running cost among the selected banks. BOK is able to manage its deposit in lower cost which means it can use its deposit in efficient way and get more profit. The observed pattern of the ratio is satisfactory for the all three banks.

7. it is found that five years average interest expenses to total assets ratio of EBL (2.62%) is less than other two banks (2.53% and 3.26% respectively for BOK and NIC) which means EBL is able to mobilize its assets with lower expenses and success to generate more profit. However other two banks need to minimize their expenses. It can be concluded that EBL position form payment of interest point of view is better than other two banks. SD and CV of NIC banks is lower than other two banks which means NIC bank has lower variability in its expenses to total assets ratio for the period of study.
8. Interest income from loan and advance cover about 66.57% of the total interest income in case of NIC bank which is highest among three banks. In case of BOK and EBL ratio is respectively 59.14% and 50.83% only. BOK has highest variability of the ratio over the period while EBL has lowest variability.
9. NIC bank has highest capital risk ratio of 12.47% which means it has strong capital base. Similarly EBL (12.09%) banks also have higher capital risk than BOK (7.12%). Lowest capital risk ratio of BOK shows the low capital base for conducting business.
10. The average return on loan and advances (Interest income divided by loan and advances) of NIC (5.82%) banks is highest among the three banks which indicates NIC is getting more return from their loan. Also standard deviation and coefficient of variance of NIC is lowest among three which indicates its return on loan and advance is consistent and uniform over time. Average return on loan and advances of BOK and EBL of 5.57% and 4.73% respectively is greater than the ratio of interest expenses to deposits. In case of EBL, there is only little difference between the interest income on loan and advance to loan and advance and interest on deposit to total deposit (1.67%) only.
11. Return on total assets of the three bank runs from 1.31% to 1.65%. All the banks are able to generate profit. BOK's return on assets is highest (1.65%) followed by EBL (1.50%) and NIC (1.31%). Coefficient of variation is highest in case of NIC (20.76%) followed by BOK(17.26%) and EBL (6.85%).

12. Net profits for all three banks are increasing over the period of study. The mean net profit over the period of study for BOK, EBL and NIC are respectively 218.66, 259.87 and 136.03 million respectively.

13. All three banks BOK, EBL and NIC banks has lower than 5% NPL which means these are not only maintaining the Nepalese standard but maintaining international standard too. Also the decreasing NPL indicates trend of their profit and good performance.

14. Trend analysis of deposit and loan and advances show increasing trend for all three banks. Slope of EBL is higher than BOK and NIC. Hence, EBL is able to increase deposit and loan and advance faster. If the same trend observed for the period 2002/03 to 2007/08, the loan and deposit of the three banks for the year 2012/13 will be as follow:

Rs. In Million

Bank	**Deposit**	**Loan and Advances**
BOK	24,819.67	20,119.12
EBL	43,764.66	32,730.23
NIC	22,453.63	20,772.72

15. The pattern of Non Performing loan of NIC is decreasing over time. There is only a small growth rate (around 2%) in case of EBL. NPL of BOK is increasing over the period of study. Though NPL is increasing over the period it is within the 5% of the total loan and advances. The forecasted non performing loan using the linear trend for the year 2012/13 is as follow:

Bank	**Deposit**
BOK	598.01
EBL	141.36
NIC	15.39

16. The net profit of the studied bank also shows the increasing trend over time. The forecasted net profit using the linear trend analysis of three banks for the year 2012/13 is as follow:

Bank	**Net Profit**
BOK	632.29
EBL	778.36
NIC	412.05

17. Total Deposit and Loan and advances are highly positively correlated. The correlation coefficient is higher than 0.99 in all cases. Observed data shows the significant correlation coefficient. Hence, increase in deposit results into increase in loan and advances.
18. There is high degree of positive relationship between loan and advances and interest from loan and advances as well as total deposit and net profit in case of all three banks. The observed correlation coefficients are also significant.
19. The loan and advances are positively and strongly correlated with net profit and total deposit in case of all three banks. The increase in Loan and advances results in increase in net profit. The observed correlation coefficient is significant.
20. The observed correlation coefficient between loan and advances and non performing loan shows mixed character. In case of NIC bank there is negative correlation coefficient between loan and advances and non performing loan due to decreasing NPL over the period of time. For the BOK and EBL, positive correlation coefficient is observed. But the observed correlation coefficient is insignificant hence correlation coefficient cannot explain the degree of relationship between loan and advances and non performing loan.

5.2 Conclusion

It is being found that Banks are able to utilize their deposit collection effectively. Variations exist among the banks, so risks are not constant for all banks and they do differ from banks to banks. Nepalese Bank maintains liquid fund to meet its demand for deposit in varying proportion. From the data for the period of study, it can be concluded that the liquid assets maintained is sufficient and as per the standard.

Interest collected on loan and advances is sufficient to meet the interest expenditure and other operating expenses and hence contributes to profitability. Return on total assets runs from 1.31% to 1.65% for the selected banks. Net profit of the bank are increasing over the study period.

Forecasting of the various variables were carried out from the observed data of the selected banks. It has been concluded that the forecasted values are consistent with the good lending behavior, liquidity and return on loans and advances in contribution to profitability.

The observed correlation coefficient also favors the positive outcome of the three selected banks. High degree of positive relationship were obtained between loan and advances and interest from loan and advances as well as total deposit and net profit. Loan and advances are positively and strongly correlated with net profit and total deposit. The observed correlation coefficients are also significant favoring the prospect for high profitability by increasing deposit and loan and advances.

Nonperforming loan for three banks are less than 5% and decreasing over time.

5.3 Recommendations

Following recommendations were made for further improvement:

1. Bank should find out the new area for lending and investing their deposits. Deposit utilization of BOK and EBL can be increased.

2. NIC bank is able to mobilize its resource effectively than EBL and BOK but variation in the utilization is high as compared to other two banks. So, NIC bank may focus more on consistency of lending and investment and deposit collection.
3. Banks should increase the liquid fund for meeting the cash demand of deposit holders. NIC Bank and Bank of Kathmandu have lower than 10% of deposit as liquid fund.
4. Capital base of BOK (represented by capital risk ratio) need to be improved.
5. EBL should focus on increasing the interest difference on loan and deposits.
6. Nonperforming loan of BOK is increasing over time. Bank should focus on collection of nonperforming loan.

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Annexure – 1
Analysis of Financial Data of Bank of Kathmandu (BOK)

Variables	Total Loan and Advances	Total Deposit	Total Assets	Investment	Loans and Advance and Investment	Cash and Bank	Provision	Interest Expenses (TD)	Interest Income from Loan and Advances	Total Interest Income	Net profit	Non Performing Loan
Year	**LA**	**TD**	**TA**	**I**	**LAI**	**CB**	**PV**	**IE**	**IILA**	**TI**	**NP**	**NPL**
2003/04	5646.69	7741.65	9496.34	2477.40	8124.09	782.85	361.61	286.30	307.83	567.09	127.48	
2004/05	5912.58	8942.75	9857.13	2598.25	8510.83	740.52	269.47	241.64	358.83	607.09	139.52	
2005/06	7259.08	10485.00	12278.30	3378.13	10637.21	728.70	229.62	308.15	426.79	718.12	202.44	
2006/07	9399.33	12388.93	14581.39	2992.43	12391.76	1315.90	294.77	339.18	474.15	819.00	262.39	243.30
2007/08	12462.64	15833.74	17721.93	3204.07	15666.71	1440.47	285.08	417.54	671.95	1034.16	361.49	236.90
Total	40680.32	55392.07	63935.09	14650.28	55330.60	5008.44	1440.55	1592.81	2239.55	3745.46	1093.32	480.20
Mean	8136.06	11078.41	12787.02	2930.06	11066.12	1001.69	288.11	318.56	447.91	749.09	218.66	240.10
Standard Deviation	2838.36	3177.18	3436.74	385.60	3094.02	347.09	48.02	65.74	140.43	187.35	96.38	4.53
CV	0.35	0.29	0.27	0.13	0.28	0.35	0.17	0.21	0.31	0.25	0.44	0.02

Annexure – 2

Analysis of Financial Data of Everest Bank Limited

Variables	Total Loan and Advances	Total Deposit	Total Assets	Investment	Loans and Advance and Investment	Cash and Bank	Provision	Interest Expenses (TD)	Interest Income from loan and advances	Total interest Income	Net profit	Non performing Loan
Year	**LA**	**TD**	**TA**	**I**	**LAI**	**CB**	**PV**	**IE**	**IILA**	**TI**	**NP**	**NPL**
2003/04	5884.12	8063.90	9608.57	2535.65	8419.77	631.80	81.80	316.36	308.26	657.25	143.66	104.70
2004/05	7618.67	10097.70	11732.51	2128.93	9747.60	1050.00	88.90	299.57	388.74	719.29	170.80	128.80
2005/06	9801.30	13802.44	15959.28	4200.52	14001.82	1553.00	70.50	401.39	459.17	903.41	237.30	129.20
2006/07	13664.08	18186.25	21432.57	4984.31	18648.39	2391.42	89.70	517.17	584.48	1144.41	296.41	113.18
2007/08	18339.11	23976.30	27149.34	5059.60	23398.71	2667.97	99.30	632.61	794.89	1548.66	451.20	127.31
Total	55307.28	74126.59	85882.27	18909.01	74216.29	8294.19	430.20	2167.10	2535.54	4973.02	1299.37	603.19
Mean	11061.46	14825.32	17176.45	3781.80	14843.26	1658.84	86.04	433.42	507.11	994.60	259.87	120.64
Standard Deviation	4999.59	6406.05	7175.72	1372.86	6237.18	864.83	10.69	140.83	190.17	363.09	122.36	11.11
CV	0.45	0.43	0.42	0.36	0.42	0.52	0.12	0.32	0.38	0.37	0.47	0.09

Annexure – 3

Analysis of Financial Data of NIC Bank Limited

Variables	Total Loan and Advances	Total Deposit	Total Assets	Investment	Loans and Advance and Investment	Cash and Bank	Provision	Interest Expenses (TD)	Interest Income from loan and advances	Total interest Income	Net profit	Non performing Loan
Year	**LA**	**TD**	**TA**	**I**	**LAI**	**CB**	**PV**	**IE**	**IILA**	**TI**	**NP**	**NPL**
2003/04	3561.14	5146.48	5930.07	1760.72	5321.86	319.31	181.95	183.58	220.36	363.04	68.26	146.59
2004/05	4711.71	6241.38	7508.07	1572.90	6284.61	1005.55	197.64	225.99	301.47	457.61	113.76	185.43
2005/06	6655.96	8765.95	10383.60	2479.91	9135.87	749.14	246.16	340.22	392.19	579.98	96.59	179.55
2006/07	8941.40	10068.23	11679.34	1599.48	10540.88	599.77	187.25	421.37	495.38	725.82	158.48	101.14
2007/08	11264.68	13084.69	15238.74	2311.47	13576.15	1192.35	200.66	506.00	655.56	931.40	243.06	98.17
Total	35134.89	43306.73	50739.82	9724.48	44859.37	3866.12	1013.66	1677.16	2064.96	3057.85	680.15	710.88
Mean	7026.98	8661.35	10147.96	1944.90	8971.87	773.22	202.73	335.43	412.99	611.57	136.03	142.18
Standard Deviation	3127.83	3153.04	3642.67	421.97	3325.36	341.45	25.44	133.73	170.00	224.62	68.20	41.56
CV	0.45	0.36	0.36	0.22	0.37	0.44	0.13	0.40	0.41	0.37	0.50	0.29

Annexure 4

Trend Analysis of Selected Variables of Bank of Kathmandu

Year	Ref	TD	LA	NPL	NP	IILA
2003/04	0	7,152.34	4,712.33	262.50	100.49	279.20
2004/05	1	9,115.38	6,424.20	256.10	159.58	363.55
2005/06	2	11,078.41	8,136.06	249.70	218.66	447.91
2006/07	3	13,041.45	9,847.93	243.30	277.75	532.27
2007/08	4	15,004.49	11,559.79	236.90	336.84	616.62
2008/09	5	16,967.52	13,271.66	230.50	395.93	700.98
2009/10	6	18,930.56	14,983.52	224.10	455.02	785.33
2010/11	7	20,893.59	16,695.39	217.70	514.11	869.69
2011/12	8	22,856.63	18,407.25	211.30	573.20	954.05
2012/13	9	24,819.67	20,119.12	204.90	632.29	1,038.40

Trend Analysis of Selected Variables of Everest Bank Limited

Year	Ref	TD	LA	NPL	NP	IILA
2003/04	0	6842.65	4870.38	114.72	111.74	273.31
2004/05	1	10833.98	7965.92	117.68	185.81	390.21
2005/06	2	14825.32	11061.46	120.64	259.87	507.11
2006/07	3	18816.65	14156.99	123.60	333.94	624.01
2007/08	4	22807.99	17252.53	126.56	408.01	740.91
2008/09	5	26799.32	20348.07	129.52	482.08	857.81
2009/10	6	30790.66	23443.61	132.48	556.15	974.71
2010/11	7	34781.99	26539.15	135.44	630.22	1091.61
2011/12	8	38773.33	29634.69	138.40	704.29	1208.51
2012/13	9	42764.66	32730.23	141.36	778.36	1325.41

Trend Analysis of Selected Variables of NIC Bank Limited

Year	Ref	TD7	LA8	NPL9	NP10	IILA11
2003/04	0	4720.69	3099.62	178.40	57.17	200.13
2004/05	1	6691.02	5063.30	160.29	96.60	306.56
2005/06	2	8661.35	7026.98	142.18	136.03	412.99
2006/07	3	10631.67	8990.66	124.06	175.46	519.42
2007/08	4	12602.00	10954.33	105.95	214.89	625.85
2008/09	5	14572.33	12918.01	87.84	254.33	732.29
2009/10	6	16542.65	14881.69	69.72	293.76	838.72
2010/11	7	18512.98	16845.36	51.61	333.19	945.15
2011/12	8	20483.31	18809.04	33.50	372.62	1051.58
2012/13	9	22453.64	20772.72	15.39	412.05	1158.01

Annexure 5

Correlation between variable under study - Bank of Kathmandu

Variables	LA	TD	TA	I	LAI	CB	PV	IE	IILA	TI	NP	NPL
LA	1	0.993	0.994	0.625	0.995	0.929	-0.174	0.958	0.983	0.996	0.997	-1.000
TD		1	0.993	0.681	0.995	0.895	-0.289	0.929	0.992	0.998	0.996	-1.000
TA			1	0.698	0.998	0.912	-0.243	0.954	0.977	0.995	0.999	-1.000
I				1	0.698	0.380	-0.725	0.630	0.676	0.686	0.687	-1.000
LAI					1	0.899	-0.250	0.957	0.986	0.999	1.000	-1.000
CB						1	0.083	0.875	0.853	0.894	0.908	-1.000
PV							1	-0.039	-0.293	-0.259	-0.239	1.000
IE								1	0.929	0.949	0.956	-1.000
IILA									1	0.993	0.985	-1.000
TI										1	0.998	-1.000
NP											1	-1.000
NPL												1

Everest Bank Limited

Variables	LA	TD	TA	I	LAI	CB	PV	IE	IILA	TI	NP	NPL
LA	1	0.998	0.997	0.876	0.994	0.971	0.644	0.985	0.997	0.996	0.991	0.327
TD		1	0.999	0.897	0.998	0.976	0.601	0.987	0.995	0.994	0.990	0.339
TA			1	0.908	0.999	0.983	0.597	0.989	0.991	0.991	0.984	0.315
I				1	0.922	0.929	0.262	0.917	0.847	0.865	0.850	0.156
LAI					1	0.983	0.574	0.992	0.986	0.989	0.981	0.297
CB						1	0.550	0.960	0.955	0.949	0.935	0.306
PV							1	0.591	0.658	0.641	0.623	0.040
IE								1	0.975	0.988	0.978	0.192
IILA									1	0.996	0.995	0.371
TI										1	0.997	0.305
NP											1	0.356
NPL												1

NIC Bank

Variables	LA	TD	TA	I	LAI	CB	PV	IE	IILA	TI	NP	NPL
LA	1	0.993	0.991	0.415	0.993	0.582	0.092	0.995	0.996	0.998	0.935	-0.758
TD		1	0.999	0.515	1.000	0.613	0.184	0.993	0.995	0.995	0.922	-0.703
TA			1	0.524	0.998	0.636	0.208	0.991	0.994	0.993	0.920	-0.679
I				1	0.518	0.343	0.781	0.461	0.440	0.432	0.271	0.016
LAI					1	0.591	0.186	0.995	0.993	0.993	0.914	-0.711
CB						1	0.260	0.547	0.643	0.626	0.725	-0.074
PV							1	0.164	0.109	0.094	-0.110	0.482
IE								1	0.988	0.989	0.897	-0.731
IILA									1	1.000	0.952	-0.726
TI										1	0.952	-0.742
NP											1	-0.738
NPL												1