LENDING PROCEDURE ANALYSIS OF HIMALAYAN BANK LIMITED AND NABIL BANK LIMITED

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the Degree of

Master of Business Studies (MBS)

Submitted By

Shalik Budhathoki

Central Department of Management

Campus Roll No:-517/063

T.U. Regd. No:-7-2-2-1280-2003

Kirtipur, Kathmandu

March, 2013

RECOMMENDATION

This is certify that the Thesis

Submitted by:

ShalikBudhathoki

Entitled:

LENDING PROCEDURE ANALYSIS OF HIMALAYAN BANK LIMITED AND NABIL BANK LIMITED

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

……………………………..	……………………………………..
Lecturer GopiNathRegmi	**Prof. Dr. Bal Krishna Shrestha**
(Thesis Supervisor)	(Chairperson Research Committee and Head of Department)

Date:…………………………….

VIVA-VOCE SHEET

We have conducted the Viva-Voce of the thesis presented

By

ShalikBudhathoki

Entitled:

LENDING PROCEDURE ANALYSIS OF HIMALAYAN BANK LIMITED AND NABIL BANK LIMITED

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master Degree of Business Studies (MBS)

Viva-Voce Committee

Chairperson (Research Committee) ………………………………..

Member (Thesis Supervisor) ………………………………..

Member (External Expert) ………………………………..

Member (Head of Department) ………………………………..

Date:………………………………..

DECLARATION

I hereby declare that the work reported in this thesis entitled**"Lending Procedure Analysis of Himalayan Bank Limited and Nabil Bank Limited"**submitted to Office of the Dean, Faculty of Management, Tribhuwan University, is my original work done in the form of partial fulfillment of the requirement for the Master`s Degree in Business Study (M.B.S.) under the supervision of **GopiNathRegmi** of Center Department of Management.

..

ShalikBudhathoki
Center Department of Management
Campus Roll No.:- 517/063
T.U. Regd. No.:- 7-2-2-1280-2003

ACKNOWLEDGEMENT

I would like to express my deep gratitude towards reverend supervisor GopiNathRegmi who provided me valuable guidelines, insightful comments, encouragement and generous treatment to complete this thesis. It would not have been possible for me to complete this research work without their unflagging supervision, trenchant advice and direction. Therefore, I owe great debt of gratitude to him.

I want to express my deep gratitude to my colleagues who provided me the logistic support to prepare this thesis, specially to Mr. BinodKafle.

I extend my heartily thanks to staff of the Library and Administration of Central Library of Tribhuwan University who provided me required data to complete this work.

Thanks are also due to the staff of HBL and Nabil Bank for providing me the required materials. Without their incessant assistance to me this thesis would not have been completed. I highly appreciate to the staff of TU, who provided creative suggestions and time for me, thus, I could materialize this thesis.

Thank you,

ShalikBudhathoki

TABLE OF CONTENTS **Page No.**

CHAPTER-III RESEARCH METHODOLOGY

CHAPTER-IV PRESENTATION AND ANALYSIS

LIST OF TABLES

LIST OF FIGURES

CHAPTER-I

1.1 Introduction

Lending is regarded as the one of income generating sources of commercial bank lending is the credit provided by financial institutions of their client. Further, lending is regarded as the heart of the commercial bank in the sense that it occupies large volume of transition. It covers the main part of investment the most of the investment activities based on lending. It is the main factor of the creating profitability. It affects the overall economy of the country. It also affect on national economy to some extent. Since it provides loan to corporation and industry, government. It is proved from very beginning that lending is share holders wealth maximization derivative. Thus effective lending part socio management should seriously be considered by commercial bank.

The lending function is considered by the banking industry as the most important function for the utilization of funds. Since banks earn their highest gross profits from loans, the administration of loan portfolio seriously affects. The profitability of banks indeed, the large number of non performing loans is the main cause of bank failure. With respect to performance, banks now use various measures to assess bank efficiency and related function in the bank lending process traditionally, banks determined operating efficiency by using measures of bank profitability such as return on equity return on assets and return on investment, also banks used operational ratios such as monetary output per staff member and total operating expenses per unit of out put.

Lending patterns management is the system which helps to manage lending effectively in other words, lending management refers management of credit exposures arising from loans, corporate bonds, credit derivatives lending exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

1.2 Commercial Banks in Nepal

A commercial bank refer to such type of bank other than specified banks related to cooperative, agricultural, industrial and other which deals in money exchange, accepting deposit and advancing loan etc (commercial bank act 2031 BS Nepal). The commercial banks are those banks, which pool together the saving of the community and arrange them for the predictive use commercial banks transfer monetary sources from the savers to users. They provide loans and advance from the fund, which they received through deposit.

The history of modern banking system is not so long in Nepal. Nepal's banking history had began with the establishment of Nepal bank Ltd. in 1937 AD with Rs. 10 million of authorized capital and Rs. 842 thousand of paid up capital. It is the first commercial banking Nepal with semi government equity i.e. six of government ownership. After establishment of NBL, it replaced Tejarath Adda by taking over its operation and over its limitation. It has done pioneering function in spreading the banking habits among people. To manage and control banking system development, monetary policy development, to regulate issue of currency and to mobilize capital for economic development. "Nepal Rastra Bank" came into existence as central bank of Nepal in 2013 under Nepal Rastra Bank Act, 2012 BS. After this NRB diverted its attention towards development policies and procedure. Prior to this, their was regulate the monetary system in the country. It is an autonomous body and fully owned by the government of Nepal, who works for the development of banking system in the country. NRB started issuing currency in 1959. To fulfill the growing credit requirement of the country, the commercial bank "Rastriya Bahijya Bank" was established in 1966 under RBB Act, 1964, with fully government equity that of authorized capital Rs. 10 million and paid up capital 14 2.5 million. In 1980 the government introduced "Financial sector Reforms". Government allowed the entry of foreign banks in Nepal as joint venture bank entered to accelerate the economic development of nation and to service high banking system. The first joint venture is Nabil Bank ltd. is established in 1984.

The financial scenario has changed with the introduction of joint venture banks in 1984. The number of commercial bank has been increasing since then. Since 1984, various financial institutions like joint venture Banks, Domestic commercial bank, Development bank, Finance companies, co-operative society have come into existence to cate the financial need of the country there by assisting financial development of the country.

1.3 Selection of Bank

S.N.	Commercial Bank	Operation Date	Head Office
	Old Bank		Kathmandu
1.	Nepal Bank Ltd.	1937/11/15	Kathmandu
2.	Rastriya Bahijyan Bank Ltd.	1966/01/23	Kathmandu
3.	Agriculture Development Bank	1968/01/02	Kathmandu
4.	Nabil Bank Ltd.	1984/07/16	Kathmandu
5.	Nepal Investment Bank	1986/02/27	Kathmandu
6.	Standard Charactered Bank	1987/01/30	Kathmandu

	Ltd.		
7.	Himalayan Bank Ltd.	1993/01/18	Kathmandu
8.	Nepal Bangladesh Bank Ltd.	1993/06/05	Kathmandu
9.	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
	Middle Bank		
10.	Everest Bank Ltd.	1994/10/18	Kathmandu
11.	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
12.	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthnager
13.	Lumbini Bank Ltd.	1998/07/17	Narayanghat
14.	Nepal Industrial and Commercial Bank	1998/07/21	Biratnagar
15.	Machhapuchhre Bank Ltd.	2001/10/03	Pokhara
16.	Kumari Bank Ltd.	2001/04/03	Kathmandu
17.	Laxmi Bank Ltd.	2002/04/03	Birgunj
18.	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19.	**New Banks**		
20.	Global Bank Ltd.	2007/01/02	
21.	Citizens Bank International Ltd.	2007/06/21	
22.	Prime Commercial Bank Ltd.	2007/09/24	
23.	Bank of Asia Nepal Ltd.	2007/10/12	
24.	Sunrise Bank Ltd.	2007/10/12	
25.	DCBL (Grand) Bank Ltd.	2008/01/23	
26.	NMB Bank Ltd.	2008/11/26	
27.	Kist Bank Ltd.	2009/05/07	
28.	Janata Bank Nepal	2010/04/05	
29.	Mega Bank Ltd.	2010/07/23	

30.	Commerz and Trust Bank Ltd.	2010/09/20	
31.	Civil Bank Ltd.	2010/11/26	
32.	Century Commercial Bank	2011/01/23	
33.	Sanima Bank Ltd.	2011/	

Source- Nepal Rastra Bank

On the basic of operation date there are three kinds of banks:

Old Bank

Middle Bank

New Bank

1. Old Bank: There are nine old bank on the bank of operation data. From this old bank two bank are selected.

(i) Nabil Bank Ltd.

(ii) Himalayan Bank Ltd.

2. Middle Bank: There are nine middle bank. From this middle bank two banks are selected.

(i) Everest Bank Ltd.

(ii) Bank of Kathmandu

New Bank: There are fourteen new Bank and from this new bank two bank are selected.

(i) Prime bank ltd.

(ii) Sunrise Bank td.

1.4 Profile of Sample Banks

Authorized Nabil Bank limited, the first joint venture bank of Nepal. Started operations in July 1984 as the name of Nepal Arah Bank ltd under the company act. Dubai Bank ltd was the initial foreign joint venture partner of this bank with 50% equity investment. The shares owned by DBL were transferred to Emirates Bank International Ltd (EBIL), Dubai. Later EBIL sold its entire holding go National Bank Ltd. Bangaladesh (NBCB). Hence 50% of equity shares of Nabil bank ltd are hold by NBCB and out of remaining, financial institutions have taken 20% and 30% were issued to general public of Nepal. Nabil was incorporated with the objective of extenuating international standard modern banking service to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 28 points of representation across the nation and over 170 reputed correspondent banks across the globe.

1.4.2 Himalayan Bank Limited

Himalayan Bank Limited (HBL) is the largest private sector commercial bank of Nepal in terms of deposit base, loan portfocio and capital base. In July 2003 and again in July 2005 the bankers. Almance ranked HBL as country's no 1 bank. For the year 2005, it was ranked at 2368 in the worldwide ratings, which are fifty positions ahead of its nearest competitor in the country.

Himalayan bank ltd was incorporated in 1992 by a few distinguished business personalities of Nepal in part her ship with employees provident fund and habit of Pakistan Banking operation commenced from January 1993. It is the first commercial banking services. The bank also offers industrial and merchant banking services.

Himalayan bank has access to the world wide correspondent network of habits banks for fund transfer letter of credit or any is banking services.

1.4.3 Everest Bank Limited

Everest bank limited was established in 1992 under the company act. It is also foreign joint venture bank and the partner was united bank of India a and managed from very beginning till November 1996. Later on it handed over the management to the Punjab National Bank Ltd. India that holds 20% equity on the banks share capital. Altogether 29 branches of Everest bank are in operation.

Everest banks has always been committed to providing equality service to its valued customers with a personal touch. All customers are treated with utmost courtesy as valued clients. Everest bank has adopted the latest banking technology. This has not only helped the bank to improve its service level but also has prepared the bank for further adaptation to new technology.

1.4.4 Bank of Kathmandu Limited

Bank of Kathmandu limited was established in 1995 in collaboration with the siam commercial banks PLC, Thailand under the commercial bank PLC, Thailand under the company act. The siam commercial bank has diluted and reduced its equity to 25% by selling 25% of Nepalese citizen in 1998 of its initial holding. The bank has 26 branches in operation. Authorized capital and paid up capital of bank of Kathmandu limited are 1,000,000,000 and 603141300 respectively.

Bank of Kathmandu ltd is one of major lender in Nepal as well as in collecting deposits too, it is among the top it has also been lending in e-banking by having high numbers of e-banking customers currently.

Prime Commercial Bank Ltd

Prime commercial bank ltd was incorporated in September 2007 as the 21st commercial bank in Nepal. This is 'A' category financial institution registered under the "Banks and Financial instructions Act" of Nepal. It has been established by prominent business personnel and professional from diversified areas with a prime objectives of providing "Banking services to Everyone" in the country where still large number of population are deprived of Banking services. The Bank has in total 389 promotes holding 70% share of the bank.

The bank has established it self as an emerging player in financial sector with focus in customer service excellence maintaining excellent relationship with valued customers. It is counted among the top 10 commercial banks in Nepal by independent raters and publications in the country.

1.5 Focus of the Study

Financial institutions are currently viewed as catalyst in the process of economic growth of country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries the financial institution helps the process of resources mobilization. The importance of financial institutions in the economy has of late growth to an enormous extent. The government in turn is required to regulate their activities so that the financial policies are implemented as per the requirement of the country. Policy such as lending to priority and deprived sectors lending to the educated unemployed people lending for creation of entrepreneurs in the society are certain examples which the government in developing economy try to implement with the help of financial institutions.

With the growing activities of bank after. The commercial banks new banking policy was introduced for establishment of international investment banks and joint venture banks in foreign investment with Nepalese co-operation. It's objectives was to create healting competitive banking system and provide cheap banking facilities to people.

Commercial banks are the heart of financial system. They hold the deposit on many persons, government institutions and business units. They make funds available through their lending and investing activities to borrowing, individuals business firm and government. In doing so, they assist both the flow of goods and services from the products to consumers and the financial activities of the government. These show the commercial banking system of nation is important to the functioning of the economy.

Bank creates funds from its client to saving and lends the some to needing person or business institutions in terms of loan advances and investment. So proper financial decision making is more important in banking transaction for its efficiency and profitability. Most of the financial decision making are concerned with lending policy and lending management. It plays the vital role in the business succession, so efficient lending management is needed. This study deals with the lending positions, non performing loan, lending portfolio management and relations of lending in profitability of the selected banks.

1.6 Statement of the Problem

Capital resource is the prime source of the economic development of the country. Economic development of a country succeed only when the development of the capital formation Mechanism exists. The major cause of this chronic problem is the lack of economic development or the slow rate of the national economic growth. With the increased sophistication and liberalization of financial markets, this has made the problem of debt management as one of the most important issues in economic policy. More than 30% of the domestic debt have maturities of one year or shorter and less than 9% of domestic debt has maturities of 10 years or longer.

Banking, especially the commercial banking sectors can flourish the capital resources in the country. Commercial banks collect or deposit necessary capital from the people in the different parts of the country. The powerfully help in the creation of the capital resources for the national investment. Effective utilization of capital depends up on creditability position of the bank.

Commercial banks suffered from various types of problem such non-performing loan. They do not mobilize their deposit properly in terms of development of the nation. It is no debate that high profitable institutions can easily get their goals and can serve the society to improve the profitability situation of the bank is necessary to establish the higher credit ability position of the bank. Credit is most effective area in commercial bank. While granting the loan banks which do not analyze the documents submitted by the borrowers are resulting increasing non performing loan. Thus lending management is considered as the main issues is Nepalese banking sector. Commercial banks investment has been found to be have lower productive due to the lack of supervision regarding whether there is proper utilization of their investment or not.

Lending management concept has appeared as a major research gap in Nepalese commercial banks. There is lack of scientific research that could identity the issues of lending management in commercial banks in this regard; the performance of the commercial bank is to be analyzed in terms of lending. Some research question regarding to the credit practices, liability position, economic and industrial environment, management quality are considered as a clear evident in present situation.

(1) Is the lending practices adopted by sampled commercial banks are in good position?

(2) How does the commercial bank manager lending patterns?

(3) Does internal performance caused for increase in non performing loan?

(4) Is credit position of bank influences the profitability?

(5) What is lending efficiency of the sampled Nepalese commercial bank?

1.7 Objectives of the Study

This study entitled "lending patterns analysis of commercial bank in Nepal covers following objectives.

(a) To examine efficiency of lending procedure of selected banks.

(b) To evaluate the impact of deposit, loan and non-performing loan on profit of selected banks.

(c) To analyze the patterns of lending procedure of selected banks.

1.8 Limitations of the Study

Limitations of this study are presented below:

(1) The study is based upon the secondary data and information mostly. Hence, the validity of results depends upon the accuracy of data supplied.

(2) The findings of this study depend upon the data and information of 5 year time horizon.

(3) This study concentrates only on the patterns of lending, impact of deposit, loan and non performing loan in profit. Also data and information of the sampled commercial banks only are used by the study.

(4) Only simple tools are used in this study.

1.9 Significance of the Study

Interest rates spend price signals to borrowers, lenders, savers and investor. For example, higher interests rates generally bring form a greater volume of saving and stimulate the lending of patterns. Lower rates of interest on the other hand, tend to dampen the flow of saving and reduce lending activity but increase the demand for loan. Higher interest Type equation here.rate tends to reduce the volume of borrowing and capital investment and lower rates stimulate borrowing and investment spending. Hence economic growth depends upon circulation of money and financial system facilities it.

Similarly inflation is also another important factor in the financial market. All countries in the world have some magnitude of in flatiron while this study is being conducted, the existing inflation rate in our country is around 5%. According to iruing fisher, inflation rate is added to real rate of return to determine the market interest rate. So higher the inflation higher will be the interest rate.

But in real world the aformentionect theory may not come true especially for developing country like Nepal because most of the theories of financial market are determined by the studies which had been conducted on developed countries like USA, UK and so on. So it is quite necessary to develop some ideas about the interest rate and its impact up on deposit credit and inflation in the Nepalese market. This study is also considered to be useful to various parties such as further researcher, student, teachers, financial, institutions, general individuals etc.

1.10 Organization of the Study

The present study is organized in such away that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report is designed in 5 chapters which are as follows:

Chapter I: Introduction

This chapter includes the basic concept and background of the study. it has served orientation for readers to know about the basic information of research area, various problem of the study objectives of the study, significance of the study and limitation of the study.

Chapter II: Review of the Literature

The second chapter of the study covers 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.

Chapter III: Research Methodology

Research methodology refers to the various steps to adopt by researcher in studying a problem with certain objectives in view. It incorporates various source of data related with the study and various tools techniques such as statistical and financial employed for presenting the data.

Chapter IV: Presentation and Analysis of Data

This chapter is the main part of the study of this chapter analyzes the data related with study and presents the finding of the study and also comments briefly on them.

Chapter V: Summary, Conclusion, and Recommendation and Suggestion

This chapter deals with the summary and conclusion. It also recommend to the concerned organization for the better improvement. Bibliography and appendices and includes at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Meaning and Function of Commercial Banks

Commercial banks are those banks that pool together the saving of the community and arrange for their productive use. They supply there financial needs of modern business by various means. They accept deposits from the public on condition that they are repayable on demand or on short notice. In the other words a bank is a financial intermediary, a dealer in loans and in depts. It borrows from one set of people and lends to hiring money and hiring out again. Some banks draw their capital mainly from their shareholders, others mainly from depositors. Some lend mainly to industry, other mainly to government central and local. Some deal in short loans, borrowing and lending for short periods, others deal in long periods. However the business of includable bank may differed, their essential function is to gather saving together and lend out what they collect. A bank is a business organization that receives and holds deposits of funds other and makes loans or extends credits and transfer funds by written order of depositors. A commercial banker is a dealer in money and a substitute for money, such as cheque or bill of exchange. He also provides a variety of financial services.

The primary economic function of the commercial banks is too hold demand deposits and to honor cheques drawn upon them. In short, to provide us, the economies, with the most important component of the money supply.

Commercial banks play an important role in directing affairs of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. For instance, the mass failure of commercial banks during 1980 has reflected the phenomenon of servable global depressions around the world. Commercial banks have played a vital role in giving direction financing the requirements of trade and industry in the country. In a planned economy, banks make the entire planned productive process possible by providing funds for all types of production incorporated in the plan, regardless of whether the production is in the public sector. Joint sector or in the private sector or combination of the organization or another. They endeavor to promote enterprise development by investing loans and sometimes through the investment in share and debentures. Therefore, they support the country's overall economic development process by financing in various easy. (Bhandari, 2007, pp 128-130)

In the Nepalese context, the Nepal Act 2031 B.S. defines a commercial banks as one. Which exchanges money, deposits money, accepts deposits, grants loans and performs commercial bankding functions.

As an outcome of the economic liberalization policy, government of Nepal has put its face in the international area so may investment opportunities are evolved within the nation that luster integrated and speedily development of the nation is possible, only when competitive banking services reach the hook sand corners of the nation commercials banks occupy an important place in the framework of every economy by providing required capital for the development of industry trade and business out of the saving collected as deposits, besides, commercial in view of facilitating the economic and social life. Banks and the essential part of the business activities, which are established to safeguard peoples money and utilizing the money in making loans and investments. With respect to Nepal, there are several commercial banks operating in various regions especially in the kingdom with foreign collaboration or joint investment.

The American institute of banking has laid down the four major functions of the commercial banks such as receiving and handling deposit, handling payments for its clients, making loans and investments and creating money by extension of credit. Nepal commercial bank act 2031 B.S has emphasized the major function of commercial banks which are mentioned below.

(1) They accept custody of funds with or without interest and open fixed accounts and saving counts in the name depositors.

(2) They make available credit in the form of loan, overdraft and co-financing to the industry, commerce, agriculture, expect and service.

(3) They help to issue shares and debentures of any company or any other corporate body, guarantee or under write such shares or dehenfures and understake any agency business but do not become a managing agent.

(4) Conduct transactions in bonds provisionary notes or bills of exchanges, foreign exchange relating to commerce or corporation.

(5) Collection, sale and purchase of bills, collection and dissemination of trade information, provide service of opening and making

payment of letter of credit help industry and business by providing bank guarantee.

(6) They issue letter of credit, draft and travelers cheque. They remit or transit find to different place within or outside the nation. They purchase, sellar accept the securities of government (Nepal commercial Bank Act, 2031 B.S.)

2.1.2 Meaning and Definition of Lending

Commercial banks as of its primary function makes lending activity. It is apparent that loan is defined as a thing is lent, esp. a sum of money likewise, indebt means a sum of money owed to somebody. However in financial terms loan or debt means principal or interest quailed to the borrowers against the security. Debt means money that owes or will lend to individual or person (Ghimire, 2005 p. 113)

Further the term loans is defined as a lending. Delivery by one party and receipt by another party, a sum of money upon agreement expressed or implied, to repay it with or without interest anything furnished for temporary use to a person at his request, on that condition it shall be returned or its use therefore loan includes.

(1) The creation of debt by lenders payment of or agreement to pay money to the debtor or to a third party for him account of the debtor.

(2) The creation of debt by a credit to an account with the lender upon which the debtor is entitiled to draw immediately.

(3) The creation of debt pursuant to a lender credit card or similar arrangement.

(4) The forbearance of debt arising from a loan. Uniform consumer credit code 3-106.

With respect to alternative view, debt means "principal and interest" provided to debtors by banks or financial institutions with the pledge of immovable or movable property or other securities or guarantee or without guarantee and the world also means over dues of the transaction beyond balance or fees, commission and interest incurred in that relation.

The supreme court of India has defined the debt during the decision of the case united bank of India US DRT (1995 1st banking). Sudhir Gupta stated that in the case of his hand, there can not be any dispute that the expression "debt" has to be given the widest amplitude to mean any ability which is alleged as dues from any person by bank during the course of any business activities under taken by bank either in cash of other wise, whether secured or unsecured, whether payable under a degree of order of any court or other wise and legally recover able on the application (Gupta, 2002, p. 2)

2.1.3 Loan Disbursement and Classification

One of the main functions of commercial bank is to create credit from its borrowed fund. Loan and advances are the assets coming from such activities. Loans and advance dominate the assets side of the balance sheet of any bank and also constitute the primary sources of income to the banks. They are also the least liquid of the banks entire asset. Loans and advances may take different form and are allowed against various types of securities loans, overdrafts, discounting of bills of exchange etc are some of the forms of the banking lending. Granting loans and advances always curry a certain degree of risk. This loan and advance are also regarded as risky assets of banks.

Loan classification refers to categories or grade based on the perceived risk and other relevant characteristics of loan and as per guideline of central bank. The process of continual review and classification of loan enables banks monitor the quality of their loan portfolios and when necessary to take remedial actions to counter deterioration in the credit quality in this portfolios. In most of the countries, a number of days a past due payment represents a minimum condition for loan classification purposes. However some enteria which exhibit forward looking features also considered. In the context of Nepal, as per guidelines of NRB loans are classified into four categories namely pass, substandard, doubtful and loss.

(1) Puss category: All loan and advances the principal of which are not past due or past due for a period up to three month. Only loans under pass category are termed as performing loan.

(2) Substandard category: All loans and advances the principal of which are past due for a period of more than three months and up to six months.

(3) Doubtful Category: All loans and advance the principal of which are past due for a period more than six month and up to one year.

(4) Loss category: All loans and advance the principal of which are past due for a period of more than one year.

Performing loans are these loans that repay principal and interest timely to the bank from the cash flow it generates. It the context of Nepal, the loans classified as a pass category is termed as performing loan.

These are the loans that do not ready principal and interest timely to the bank. Non per forming loan (NPL) has many different meaning which vary from the country to country. In some countries non performing loan means the loan impaired. In some countries it means that the payment are past due, nut there are significant differences among countries how many days a payment period should be in arrears before past due status is triggered. Nevertheless, a rather common feature of non performing loan appears to be that a payment of more than 90 days past due. In Nepal also, if the loan is past due for over 3 months it is non-performing loan. Hence the loans falling under substandard, doubtful and loss categories are regarded as non performing loan (Unified NRB directions 2062)

2.1.4 Loan Loss Provision

Loan loss provision is the accumulated amount or fund that is proved as a safeguard to cover possible losses upon classification of risk inherited by individual loans. There is risk inherent in every loan. Hence, provision is made as custom against possible losses and to reflect the true picture of the banks asset. There is practice of showing het loan (total loans-loan loss provision) in financial statements. The amount required for provisioning depends upon the level of non- performing asset and their quality. High amount of provision is an indication of the banks credit portfolio needs serious attention. One percent provision of total credit is an ideal position as it is the minimum requirement for all good loans. In Nepal 1%, 25%, 50%, 100%, provision are made for pass, substandard, doubtful loan and losses respectively (Unified NRB advections 2062).

2.1.5 Lending Process

Commercial bank follows several steps to disburse loan to the borrowers. The lending policies might be different form one bank to another. In general, these steps can be pointed out of follows:

I. Application

The needy are required to submit an application to the bank along with required documents. The documents required for credit proposal appraisal and processing by banks are as follows.

- Loan application
- Citizenship certificate of applicant
- Firm/company registration certificate (itself employed)
- In come tax registration certificate (if self employed)
- Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company.
- Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation and mortgage of fixed property owned by company or property of third party hammed.
- Letter of authority authorizing to sign loan ded and other relevant document paper which are demed necessary while dealing with bank on behalf of sirm/ company
- Feasibility report/ scheme (for new project)

"Lending appraisal and possessing"

Basically, appraisal of loan proposal is processing for the analysis of the variability of the scheme proposed. It also helps to assets the actual financial assistance needed to operate the scheme.

Commercial bank carries out loan appraisal on the basis of past performance, future forecast and information available from the documents submitted by aspirant borrowers.

The banks try to ascertain the following during loan processing.

(1) The cost of estimate us examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specific at in of machinery should be proper.

(2) Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.

(3) The return rates should be adequate like return on investment (RoI), internal rate of return (RR) and debt service coverage ratio (DSCR)

(4) The capacity, competency, integrity and commitment of promoters/ partners/pro praetors/ directors/ personnel should be intact.

(5) SWOT (Strength, weakness, opportunity, and threat) analysis of the proposal project must give reasonable assurance.

2.2 Lending in the Context of Nepal

Nepal Rastra Bank has issued unified directives to banks and financial institutions for implementation effective sharwan 1 2062. This also contains the new directive concern in loan portfolio and provisioning expect a few important changes, this directive has retained most of the previous provisions.

Classification of Loan and Advance

The class section criteria are as follows:

Pass category: All loans and advances the principal of which are not past due or past due for a period up to three months. Only loans under pass category are termed as performing loan.

Substandard category: All loans and advances the principal of which are past due for a period of more than in the month and up to six month.

Doubtful category: All loans and advances the principal of which are past due for a period of more than six-month and up to any year

Loss category: All loans and advances the principal of which are past due for a period of more than one year.

Lending institutions are not restricted from classifying the loan and advance from low risk category to high - risk category. For instances, loans falling under sub standard may be classified into doubtful or loss and loans falling under doubtful may be classified in to loss category.

Additional arrangement in respect of "pass loan". All loans and advances extended against gold and silver, fixed deposit receipts, credit card and against security of government and NRB bonds shall be induced under pass category. In other words, loan against these collateral shall be eligible for placing under pass category irrespective of the past due period. however, where collecteral of fixed deposit receipt or government securities or NRB hands is placed as additional securities against loan after other purpose, such loans have to be classified as required for other loans. As per the classification issued by Nepal Rastra Bank earlier, loan against fixed deposit receipts of other banks shall also quality for inclusion under pass loan. However, this is not clarified in the unified directives.

Renewal of working capital loan having one year materity period only may be classified as pass loan. Loans of working capital nature on which the service of interest is not regular shall be classified on the bases of total amount due period. Means, where the interest on working capital loan is not serviced regularly such loans will be considered as "overdue" and quality for class fiction on the basis of the overdue period. Accordingly, working capital loan will simple become pass loan on renewal of the facility provided interest is serviced regularly. The directive has not prohibited renewal of working capital facility with extended amount and outstanding interest amount is assumed collected by accommodating the same within that extended facility.

Additional Arrangement in Respect of "loss" loan

Irrespective of whether the loan is past due or not loans having any of the following discrepancies shall be classified as loan loss.

(a) Loan with inadequate securities

This is very subjective and may lead to a difference in opinion between the lending institutions and auditors /NRB/ inspectors.

(b) The borrower has been declared bankrupt the bank ruptey low is yet to be enacted in the absence of the same: definition of bankrupt person may be imported from the "civil code"

(c) The borrower is absconding or cannot he found

(d) Purchase of discounted hills not realized within 90 days from the due data and non-fund base facilities like letters of credit and guarntee converted into fund base credit not realized wim in 90 days from the conversion data.

(e) Misuse of credit

For this purpose, term "Misuse" means the credit has not been used for the purposed originally intended, non-operation of project income earned form the project /business are not used in repaying loan and advances but used for a other purposes, certified misuse if credit and facilities by the supervisions and auditors in course of the supervision or qudit. As per the clarification provided by NRB earlier, even partial diversification of the credit is of allowed.

Project/business are not condition to operate or not in condition to operate. Accordingly, loan to entities hot in operation hot condition exists as to their operation may not quality for loss categorization under this clause. Once restructuring process is considered classification in to loss category may not be necessary for temporarily closed down business.

Credit and loan is not written off within 90 days from the due date. Additional Arrangement is respect of term loan. In respect of loans (having the maturity period of more than one year period), the classification shall be made against the entire outstanding loan on the basis of the past sue period of overdue installment of principal/interest. As a matter of fact, this provision is seen as the most discouraging factor on the part of banks and financial institutions to lend to the projects. Even in the event of non-payment of a small installment within the stipulated period, the entire project loan, which may be excessively large, shall require classification. This may have huge negative effect. In the profitability of the financial institution. Accordingly, with a view to facilitate project lending particularly in this hour of insecurity feeling some relent in the rule is suggested.

Prohibition to recover principal and interest by exceeding overdraft limit and interest on loans and advances shall not be recovered by overdrasing the borrower's current account exceeding the limit of overdraft facility. However, this arrangement shall not be considered as prohibitive for recovering the principal and interest by debating the costumers account exists and recovery is made as such resulting in overdraft, which is not settled within one month, then such over drawn principal amount shall also he liable to be included under the outstanding loan such loans shall be downgraded by one step from its current classification. In respect of recognition of interest, the same shall be as per the clause relating to income recognition mentioned in directives no 4.4.

Income recognition directives require that all interest accruals on loans shall be recognized on cash collection basis only. The above directive allowing the settlement of overdrawn account within one month period has led to believe that such accrued interest may be recognized if paid within a month's time.

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

Loan Rescheduling and Restructuring

Loans may be rescheduled or restructured only upon submission of a written plan on action by the borrower, which is restructuring on the following grounds

(1) Evidence of existence of adequate loan documentation and securities.

(2) The lending institution is assured as to the possibility of recovery of restructured or rescheduled loan. The term reschedule means process of extending prepayment period/time of credit taken by the borrower. And, restructuring means process of changing the nature or conditions of loan/ facility, adding or deleting of conditions and charge in time limit.

In case of restructuring or rescheduling of loan of an industry which is recommended by the sick industry preliminary enquiry and recommendation committee formed under the ministry of industry of Nepal, commerce and supply after recovery of 12% accrued interest and completion of all necessary procedure, provision for loan loss at a minimum of 25% will be required. However, where the loan is restructured or rescheduled by collecting less than 12% interest, such loan shall require loan loss provisioning on past due period basis as is applicable to all.

The term of rescheduling and restructuring may be as per the understanding between the loan provider and borrower. This is ture even in the case of recommended sick industries.

At least 25% of total accrued interest up to the date of rescheduling of restructuring should have been collected. In such a case, the classification of the loan will remain in the current position. However, where rescheduling or restructuring is done against collection of all interest meaning all outstanding interest, the loan (principal) will be eligible for classification under pass category. However, it is not dear as to the requisite treatment where portion of interest is waived and balance is collected in ful. Where the lending institutions agree wained interest occruals, the same have no be accounted first to facilitate calculation of 25% interest on reduced outstanding balance.

In the case of sick industries recommended by the committee, rescheduling, or restructuring is allowed with collection of less than 12% interest with the condition that loan shall be classified and normal provision is made. In other cases collection of at provision is made. In other cases collection of at least 25% is mandatory for restructuring and rescheduling.

Loan Loss Provisioning

The loan loss provisioning on the outstanding loans and advances and nills purchases shall be done on the basis of classification as follows:

Classification of loan	loan loss provision
(1) Pass	1 percent
Substandard	25 percent

doubtful	50 percent
Loss	100 percent

Source: NRB unified directives 20 July 2005.

Provisions on restructured or rescheduled loans made as follows:

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

(b) In interest of restructuring or rescheduling of deprived sector loan and guaranteed or insured priority sector loan, the requistie provisioning shall be only 25% of the rates stated above.

(c) Where the installment of principal and interest if restructured or rescheduled loan is serviced regularly for two consecutive years such loan can be converted in or pass loan.

Rescheduling /restructuring of loan resulting in improvement of classification to lowest risk category (pass) is not probibited. However, such rescheduled loan shall require provisioning after least 12.5%. The upper limit of such provisioning requirement is not specified even if a loss loan is reclassified and categorized as pass loan. However, adjustment to loan loss provisioning is allowed only on satisfactory service of the loan up to 2 consecutive years.

Loan loss provisioning on rescheduled/ restructured sick industries recommended by sick industry preliminary enquiry and recommendation committee, upon recovery 12% outstanding interest is fixed at minimum 25% meaning, restructured loss loan can be provided provisioning at 25% (upper limit is not provided though). The only concession provided in this case is rescheduling is made possible against collection of 12%. At the same time, the provisioning is required at minimum 25% (in other cases it is 12.5%). Full provisioning shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans.

Provisioning Against Priority Sector Lending

Full provisioning as per normal loan loss provisioning shall be made against the uninsured priority and deprived sector loans. However in respect of insured loans the requisite provisioning shall be 25% of the percentage normal loan loss provisioning. The required provisioning in the case of insured priority/deprived sector credit is as follows:

Pass	0.25%
Substandard	5%
Doubtful	12.5%
Loss	25%

2.3 Review of Related Studies

2.3.1 Review of Journal and Articles

2.3.1.1 Review of Global Literature

In the article by mass (2002) head of the credit products Europe, Bank of America, title "Active loan portfolio management through the use of credit derivatives" has to give the reader a brief overview of common derivatives the size and scope of their markets and their role on structured credit products. This case study uses as a reference a current deal that bank of America has structured using credit derivatives. In his study researcher show that credit derivatives market has grown and it continuing or grow at far greater rate.

Applying credit derivatives in loan portfolio management improved risk measurement systems have enable bank to isolate specific deponents of portfolio risks. The credit derivative market has developed tools to effectively manage these specific risks. Loan pattrans management has driven a convergence among credit derivative and assets securitization market activity. This convergence has led to an array of solutions of loan patterns management.

Researcher concluded that credit derivatives market are still relatively new and the market is set to continue to grow rapidly in the next few years. An increased focus and better credit derivative valuation models will continue to exacter hate this growth. The existence of credit derivatives and their increasing use in loan portfolio management is exciting. Moreover, structure will seek to find new applications for credit derivatives, which help loan providers, dissect and identify the credit exposure they desire and transfer unwanted exposure to another party. The prospects for the further use of credit derivatives and the increase in structures in which they will feature deserve a watnful eye (Mass 2002:47).

Barbara and Sotiris (2001) in the article title "service failures and service recovery in retail banking the customer's perspective", they focus on a empirical investigation of service failures and service rectory in retail banking. Different types of failures and recovery strategies used by Greek banks to them were identified suing the critical incident technique.

The importance and benefits of providing service quality are well documented in the academic literature, and business participations strive to design and implements programs to ensure that the customer is satisfied with his/her encounters with a service firm and in turn, with various dimensions of service quality. However, quality discrepancies and short falls are likely to occur, especially when human input is largely responsible for the production and delivery of the offering. The problem that arise for organizations are what happens when a service shortfall occurs; how can they recovery from service failure?

In the article, wei-shong, kuo-chung (2006) "The internal performance measures of bank lending a value added approach" define the lending function is considered by the banking industry as the most important function for the utilization of funds. Since, banks earn their highest gross profits from loans; the administration of loan portfolios seriously affects the profitability of banks. Indeed, the large number of non-performing loans is the main cause of bank failure. Banks are lending no review their risk portfolios using the criteria laid down by Basel II. Greenspan has indicated that base's goal is to induce bankers to improve their risk management capability, including. How the institutions price products, reserve for loss, and control their operations. This research is in line with the purpose of Basel II, i.e. to reduce a banks operational risk during the lending process through a better monitoring of the employees in the lending department.

According to them, with respect to performance, banks now use various measures to assess bank efficiency and related functions in the bank lending process traditionally, banks determined operating efficiency by using measures of bank profitability, such as return on equity, return on assets, and return on investment; also banks used operational ratios, such as monetary out put per staff members, and total operating expenses per unit of output.

Banks adopted data envelopment analysis (DEA) in the 1990, as the principal method for assessing bank efficiency. DEA is a liner programming method initially developed by Charnes et.al. (1978) to measure the comparative performance of homogenous organizations. The objective of DEA was to build an efficiency frontier of inputs and outputs, where production is maximized under fixed costs or costs are minimized under restricted production.

In this article they found that using final measures as the primary tools to evaluate lending performance, however, my result in the following problems.

Final measures used to evaluate final outputs of the lending process cannot predict in advance whether a lending operation may become a problem loan. That is, the final measures cannot reduce the operational risk of lending in advance.

In general, the period of lending will be long term a minimum of three or five years. Performance measures of the lending should concentrate on the quality rather than the quantity of the loan. Therefore, when using final measures as indicators of evaluating loan performance, quarterly or yearly measures are not incompatible with regular performance measures.

A borrower may day in accordance with the banks requirements for one period, but in the next period, he or she can violate or breach the agreement. The regular loan performance measure emphasizes cash flowing, but neglects the quality of each lending process, lending to possible biased performance measure.

To resolve the problems that can occur when using final measures as performance indicators, we should choose internal performance measures of bank lending activities as the main analytical core for out study for various reasons. First, the internal measures used can evaluate internal outputs of the lending process. Therefore, these measures can prevent problems loans from occurring in the future. Second, the internal measures can be compatible with a banks regular performance quarterly or yearly measures. Third, the internal measures are based on quality not quantity, and a quality based measure can prevent a possible bias in measuring banking loan performance.

Analytical structure and value-added analysis

This research indicates the importance of using internal measures to evaluate lending performance and resolve any problems derived from using final measures. The main purpose is to monitor and access the lending performance accurately and reduce probability of overdue loans and nad loans. Before constructing appropriate internal measures, we utilize the concept of a value-added approach to analyze the process of lending activities, which are as follows:

(1) Analyzing process of lending activities

(2) Finding out puts of process of lending activities

(3) Finding internal measures of output of lending activities

(4) Finding internal sub-measures to improve the correctness of capacity and condition.

(5) Improving performance of banking loan.

Then we find proper outputs of each lending activity and construct internal measures of outputs after those lending activities. Among these internal measures, the analysis of a borrower's capacity and condition is the key factor to estimate the probability of the borrowers ability to repay the loan and interest in the future. To improve loan performance, this research builds on internal sub-measures to monitor employees in the lending department.

The major benefit of using an internal measure to monitor the output quality of the employees in a lending department is a reduction in the likelihood of employee moral hazard behaviors. This reduction in turn would case the lending operational risk, one of the main purposes of Basel II. To cope with employee fraud, a monitoring system of double checks from upper level managers about the rightness of any loan is a must. However, the asymmetric information between scrior manager and the employee in a lending department about the employees wrong doing always will exist. To effectively use local knowledge about possible trade from a particular employee, assigning loan decision rights to teams might effectively prevent individual fraul. The final decision for a loan should be made through consensus or some type of voting mechanism among any team members who have participated in the evaluation process for the loan. Further study regarding team decision as well as the separation of decision management and control of lending inside a bank organization might be two of the directions future research can take regarding the prevention of employee fraul. (Lin peter wei-shong, mei Albert Kuo-chung, 2006:2).

2.3.1.2 Review of National Literature

Nepal Rastra Bank (NRB) hs issued directives to all commercial banks and financial institutions ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are new require3d to disclose the name of loan denatures in every six months. Until now there was now such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The credit information Bureaue (CIB) can blacklist the firm company or clear the debt within the stipulated period. as per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs. 1 Million. If the creditor fails to clear the amount within time, or is found mission the loans among others, the creditor can be blacklisted (Central bank tightens blacklisting procedures p. 9).

Due to slowdown in the world economy and deteriorating low and other situation of the country, many sectors if the economy is already sick. When any sector of economy catches cold, bank start sheezing from this perspective, the banking industry as a whole is not trust. In case of investors having lower income, patterns management may be limited to small saving income. But the other hand patterns management means to invest funds in various schemes of muted fund like deposits, shares, debenture for the investors with surplus income. Therefore, patterns management becomes every important for both on individuals as well as institutional investors. Large investors would like to select the best mix of investment assets. (Shresma 2008:15).

The investor or whether banks, financial institutions, individual, private or government sector, must not took the proposal by making decision with out having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will nest viable only if it has accessed through conscious analysis as well as through investment decisions to make its macro and micro level viability effective. (Lamichhance" forty-six year of NRB).

In the articles by Chhetri (2001) title "Non performing Assets: A need for Rationalization" the writer has attempted to provide comation of the term NPA and its potential sources, implication NPA in financial sector in the south East Asian Region. He had also given possible measures to contain NPA. Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed on stipulated time as agreed by the parties at the time of loan settlement. Since the date becomes past dues, the loan becomes non-performing asset. The book of the account with lending institution should be effectively operated by means of real transaction effected on the part of the debtor in order to remain loan performing.

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia pacific economic co-operation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months, in India. Loans thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. Chhetri also stated that NPA are classified according to international practice in to three categories namely substandard, doubtful and loss depending up on the temporal position of loan default. Thus the degree of NPA assets depends solely on the length of time the asset has been in the form of none obliged by the loaner. The more time it has elapsed the worse condition of the asset is being perceived and such assets are treated accordingly. As per Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system credit program sponsored by government, slowdown in economy recession, diversion of fund is some of the factors leading to accumulation of NPAS.

Chhetri, said that there is serious implication of NPAS, on financial institution. Further added that the liability of credit institution does not limit to the amount declared as NPA but extend to extra amount that required for provisioning depends upon the level of NPAS and their avality. As per his view, rising level of NPA create a psyche of worse environment especially in the financial sector. He mentioned that by reviewing the activities of the financial institution like waving interest, rescheduling the loan, writing off the loan, appolinting private recovery agent, taking help of tribunals' and low of land etc NPA can be reduced.

Finally he concluded that financial institutions are beset with the burden of mounting level of NPAS in developing countries. Such assets debar income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPAS can not be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth.

Shrestha, (2058 B.S.) has given a short foretaste on the portfolio management in commercial bank, theory and practice" Shrestha has highlighted the following issues in his article.

The portfolio management becomes very important for both individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to the following aspects.

- Higher return which is comparative with alternative opportunities available according to the risk class of investors.
- Good liquidity with adequate safety of investment.
- Cretain capital gain.
- Maximum tax concession.
- Flexible investment.
- Economic efficient and effective investment mix.

In view of above aspects, following strategies are adoped.

- Do not hold any single security i.e. try to have a portfolio of different securities.
- Do not put all the eggs in one basket i.e. to have a diversitied investment (making investment in different sectors)
- Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower of return nut added objectives of wealth maximization.

However, Shrestha also presented the following approaches to be adopted for designing a good portfolio and its investment.

- To find out the invisible assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need disposition, liquidity, tax liability etc.
- To find out the risk of securities depending upon the attitude of investor toward risk.
- To develop alternative investment strategies for selecting a better portfolio this will ensure a trade off between risk and return to attach the primary objective of wealth maximization at lowest risk.
- To identity securities for investment to retuse volatility of return and risk.

Shrestha, (2002) in his article "commercial banks comparative performance evaluation" concluded that the joint venture banks are new operationally more efficient, having supervisor performance while comparing with local banks that are operating in Nepal. Better performance of joint venture banks is due to their sophisticated technology, modern banking method and skill. Their better performance is also due to the government's branching policy in rural areas. Local banks are efficient and expertise in rural sectors but having number of deficiencies. Thus, local banks are facing growing constraints of socio-economic, political system on one hand spectrum and that of the issues and challenge of joint venture banks commanding significant banking business on other specturum.

Neupane (2006) his article titled "Bacl loans of Banking sector challenges and efforts to resolve it" has thrown some views regarding bad loans of banking sectors. As mentioned by him there was various types of risk inherent in the credit. One, who manages risk, earns profit. He further added that the recent financial crisis in banking sector is due to weak accounting procedures, defect in loan classification, lack of transparency, loss control measures etc.

Like the other writers, Neupane has also stated that NPL is the indicator of financial crisis and the factors leading to NPL is economic slow down, recession, bad intention of borrower, lack of credit policy, increase in interest rate etc. NPL increase resource mobilization cost and reduce profit earning capacity of the bank. He has also mentioned that the international standard of acceptable NPA is 4% but there us about 16% NPL is Nepalese banking sector which is due to high level of NPL of two nationalized banks, as stated by the writer, the major implications of NPL are banks cannot return depositors money on demand and it limits lending capacity of the bank. The writer has suggested internal measures for reducing NPL and its effect. Internal measure comprises classification of loans and advances and providing provisions for probable loss and external measures comprises of help from credit information Bureau (CIB), appointment at asset management company (AMC) and Debt Recovery Tribunal (DRT). Writer concludes, "Banks must give priority for reducing NPA. He has also mentioned that many countries are adopting various measures for reducing loan loss. Recently the president of Philippines has announced tax rebate system for reducing NPA. Cow it is high time to improve had debts of banking sector with firm determination.

Dr. Pokharel (2010), in the article entitled "Financial sector Reform and Challenges", stresses that highest liquidity makes the financial institutions un-bankable by creating unnecessary burden of bearing the cost of capital. Dr. Pokharel expresses that most of the financial institutions are lying on uneconomic situation due to ineffectiveness of portfolio management on the one hand and deficiencies of efficient modern management on the other. As for the betterment of the financial possibility in patterns projects, like health, residential buildings, communications, tea gardening etc. Pokhrarel further suggests that commercial banks heed to make strong strategy cogently with shifting the money from fixed deposit to saving reducing the interest between deposit and interest spread in both sectors. He highlights that fixed deposit has been increasing in the ratio of 44 to 95 from 201 to 2002.

2.3.2 Review of Related of Master's Thesis

Basnet (2007), thesis entitled "portfolio management of joint venture banks in Nepal" is based on study of four joint venture. They are Nepal Banglodesh Bank Ltd, standard chartered Bank ltd, Himalayan Bank ltd, and Everest bank ltd. The general objective of this study is to identify the situation of portfolio management of joint venture banks in Nepal.

The major findings of this study are given below.

- Among the selected banks on ratios of Everest Bank ltd. are more consistent among the four joint venture banks.
- SCBNL is providing very high amount of its loan and advances to private sector. It has also given the second priority to foreign hills purchase and discount.
- HBL is providing very high amount of its loans and advance to the private sector. It has also given the second priority to foreign hills purchase and discount.

Gurung, (2009), explored in his research "lending policy and recovery management of standard chartered bank Nepal ltd and Nabil bank ltd has found out that the deposit collection by the banks show 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 loan disbursement to deposit collection ratio of commercial banks, it is around 60%. Thus this ratio is quite low in cussing of sample bank especially of SCBNL. It is future provide by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

Tapol (2011) conducted a study on "Investment practice of commercial banks in Nepal."

- The objective of the study are as follows:
- To measure the financial performance.
- To find out comparative and competitive poison two Banks of Nepal.
- To measuring risk of two banks.
- To find out the relationship between different variable like investment, deposits, loan and advances net profit and compare them between two banks.

The main findings, of the study are as follows:

- The mean ratio of return on loan and advances of NIBL is lower than that of NABIL on the other hand, NIBLS variability between ratios is lower than that of NABIL.
- The mean ratio of credit risk ratio of NIBL is higher than that of NABIL and NIBLS ratios are more homogenous than that of NABIL.
- From the analysis of growth ratio, NABIL has lower growth rate on total deposits, loan and advances total investment and Nepal than NIBL. Therefore NIBL has successfully collected and utilized fund amount of its customer than NABL.

2.4 Research Gap

Previous researchers analyzed the lending policy in term of credit practices, credit management or lending practices. The past researcher in measuring the performance of bank lending have focused on the final measures that are incapable of solving the problems of overdue loans and had debts. Actually speaking lending management is determined by various factors. Researchers are not properly analyzed about patterns of lending and its impact on the profitability in Nepalese context. In this study patterns of lending is measuring by lending practices, trend analysis and various statistical as well as financial tools are used for analyzing survey data. Bank's internal performance for its lending is crucial and it has great value in lending management. Other factors such banking environment, quality of management in terms of lending may be the strong determinant for lending management in banks clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. This study tries to desire lending management by applying lending patterns management, priority sector lending, non-performing loan analysis and financial condition analysis probably this will be the new research in the area of lending management.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is away to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. Research it the process of a systematic in depth study or search of any particular topic, subject or area of investigation backed by the collection, complication, presentation and interpretation of relevant details or data. Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. So that it can explain how the research is done.

This chapter describes the employed in this study. research methodology is a way to systematically solve the research problem. In other words, research methodology describes the methods processes applied in the entire aspect of the study. this chapter describes research design, population and sample procedure, and sources of data and analysis of data.

3.1 Research Design

This study follows the descriptive as well as analytical method of the analysis to meet the stated objectives of the study. Descriptive studies are primarily concerned to find out "what is". The secondary data are analyzed as the part of the analytical study. Few financial statements of selected commercial banks are tabulated using spread sheet.

3.2 Sources of Data

The study is based on secondary sources of data. Published financial statements of commercial banks are collected similarly, financial statement of selected bank an NRIS related information are collected and tabulated in spread sheet. Such secondary information is gathered from the concerning department of the concerned banks.

3.3 Population and Sample

A small portion chosen from the population for studying its properties is called sample and the number of units in the sample is known as the sample size. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection on part of the population on the basis of which a judgment or inference about the universe is made.

All selected bank highly qualifical and experienced management team manages operations of the bank, inducing day to day operations and risk management. Banks are fully equipped with modern technology, which in clues ATMS, credit curds, state of art world renowned software from Infosys technologies system.

In this research only 2 banks are taken out of 32 commercial banks. First private sector joint venture bank and other joint venture bank are taken for study. the selected banks are as follows:

- Nabil banks ltd.
- Himalayan bank ltd.

3.4 Methods of Data Collection

The required data i.e. relevant reposts and statements for analysis are directly collected from the credit administration department, account department, account department of all selected bank annual reports, collected form website of the bank statistical published by NRB and other publication from NRB, magazine, newspaper and other relevant materials and information are collected from the centre's library NRB library and other related website.

3.5 Data Processing Technique

First at all raw information has been received. After collection of raw information the processing has been done. Then after, all collected data have been grouped accordingly to their nature in their tabular and chart selecting relevant data. The collected data are presented and retained for the purpose of the study. This processing procedure is required for sequential analysis of data to meet the objective of this research.

3.6 Tools and Techniques Employed

To make the study more specific and reliance, the following types of tools were used for analysis of data.

- Financial tools
- Statistical tools

To meet the objectives of the study data were analyzed by using financial tools such as ratio analysis, percentage etc Graph chart and table are used to support analysis. Similarly some data were analyzed through software package for studies (SPSS) version. Statistical tools such as mean, correlation coefficient ANOVA and probable error are also used for data analysis.

3.7 Tools Used

Financial Tools Used

The financial tools are used to examine the financial strengths and weaknesses of the banks. The tools used in this study are as follows:

(I) Loan and advances to deposit ratio

$$\frac{Loan\,and\,advance}{total\,deposit}$$

(II) Non-performing loan to loan advance ratio

$$\frac{Non-perfor\min\ g\ loan}{total\,loan\,and\,advance}$$

(III) Investment to deposit ratio

$$\frac{Investment}{total\,deposit}$$

(IV) Total profit to loan and advance ratio

$$\frac{total\ profit}{total\,loan\,and\,advance}$$

Statistical tools used

The statistical tools are used in this study.

(1) Coefficient of correlation analysis (r): correlation coefficient is used to define the relation ship between deposit, loan and advance.

$$correlance = \frac{N\sum y - \sum X \times \sum y}{\sqrt{N\sum x^2 - \left(\sum x\right)^2}\sqrt{N\sum y^2 - \left(\sum y\right)^2}}$$

(2) Coefficient of determination (r^2)

(3) Probable error (PE) = $0.6745 \times \frac{1 - r^2}{\sqrt{n}}$

(4) Regression and SPSS analysis: Regression analysis is used as a tool of determining the strength relationship between presit deposit loan and advance and NPL

(I) ANOVA

(II) Fam+ statistic

(III) Beta

CHAPTER IV

PRESENTATION AND ANALYSIS

Presentation and analysis of data is very important stage of research. Its main purpose is to change the un processed data in to understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable from 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, patterns of lending, priority sector lending, non performing loan correlation and trend analysis.

4.1 Financial Analysis of HBL and NBL

Financial analysis assist in identifying the major strengths and weaknesses of any institutions. It indicates whether a company has enough cash to meet its obligations and ability utilize properly their available resources. Financial analysis can also be used to assess the company's liability as an ongoing and determine whether a satisfactory return is being earned for the risks return. Thus, financial condition of the banks in terms of lending pattern management is necessary to find out the comparative credit practices between the competitors. The financial conditions are normally examined by comparing various types of finances tools such loan deposit ratio, profitability to loan ratio, profit to total assets etc between two more forms. In this section, comparative analysis of lending portfolio patterns or the HBL and NABIL has conducted.

I. Total Loan and Advance to Total Deposit Ratio

The main sources of banks lending depend on its deposit. The profitability of banks is more depend upon the deposit utilization and collection. This ratio is calculated to find out how successfully the banks are utilizing. Their deposit on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits. The ratios are presented in the following table.

Table 4.1

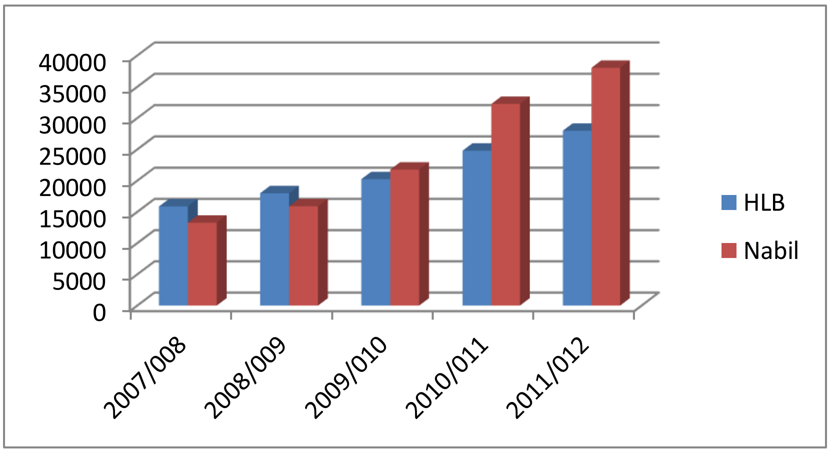
Total loan and advances to total deposit ratio

Year / Bank	7/8	8/9	9/10	10/11	11/12
HBL	0.5999	0.6015	0.6362	0.7148	0.7439
Nabil	0.6863	0.6813	0.6821	0.6953	0.7653

Source: Annual Report of HBL and Nabil

Figure 4.1

Total Loan and Advances to total Deposit Ratio



Above the table 4.1 and figure 4.1 shows total deposit, total loan and lending deposit ratio of HBL and NABIL. The ratio of HBL is in increasing with fluctuating trend; ratio of Nabil is in constant trend up to 2009/10 and then has increases. It seems that both bank are good and low risk.

Further Nabil has higher loan and advances to total deposit ration than HBL. It indicates that Nabukl seems to more efficient in mobilizing its deposit in the form of loan and advances. The table ideates that are high difference in loan to total deposit ratio 2009/010 between HBL and Nabil. Form the analysis Nabil has better performer in utilizing its collected fund in the form of loan and advances. In compare HBL less utilizing its collected deposit as loan and advance rather than Nabil. There are many reasons like the political crisis and instability for the lesser ration of total loan and advance and deposit. Borrower intention of not paying interest and principal in time is another reason for less utilizing collected funds of HBL.

II. Non Performing loans to total loan and advance Ratio

Non performing loan is the financial burden for the financial institution. In Nepal NRB has classified non performing loan as substandard, doubtful and loss NRB has directed at commercial banks to create loan loss provision against the different types of nonperforming loan in different ratio. The following table represents the non performing loan to total loan ratio.

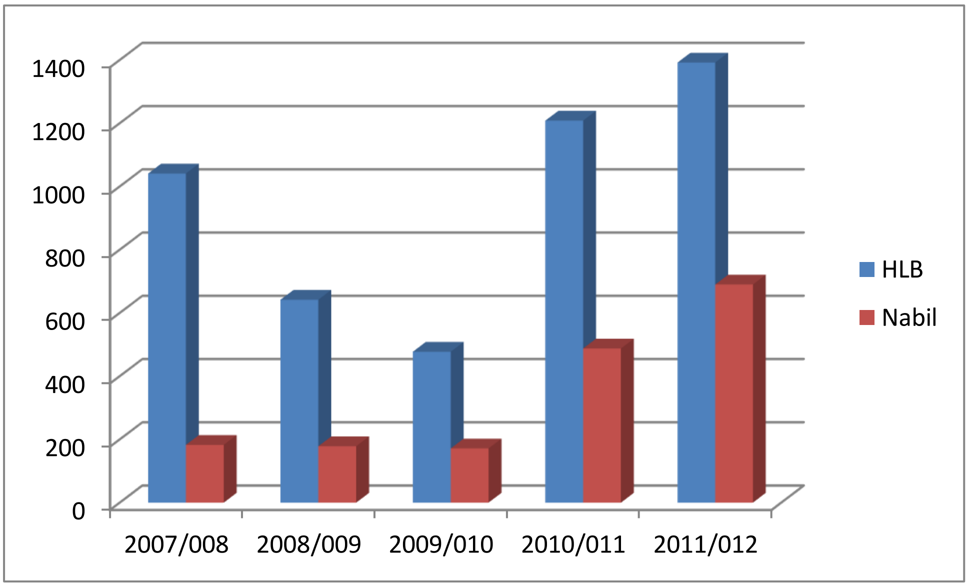
Table 4.2

Non-performing Loan to total Loan and Advances Ratio

Bank \ Year	2007/08	2008/09	2009/10	2010/11	2011/12
HBL	0.0656	0.0357	0.0236	0.0487	0.0497
Nabil	0.0136	0.0112	0.009	0.0151	0.0181

Figure 4.2

Non-performing Loan to total Loan and Advances Ratio



The table 4.2 and figure 4.2 indicates the ratio of non performing loan of Himalayan bank ltd and Nabil Bank ltd. In comparison HBL has more percentage of NPL than Nabil non performing loan of both banks 1st 34cr decreasing in trend and after 3 year increasing trend. The result showed banking sector is seriously affected by the non-performing loan. The higher volume of non-performing loan results increased in loan loss provision amount and then it eventually reduces the profit.

III. Total Investment to total Deposit Ratio

This ratio measures the percentage of total deposit in the form of investment. Investment means here the amount invested on government securities and other institutions securities. Investment is the risky income for banking institutions. The proper utilization of deposit as loan, advance and investment by preparing optimal profit, banks are able to reduce its non-performing loan and which leads to increase profitability. The following table represents the ratio of total investment to total deposit.

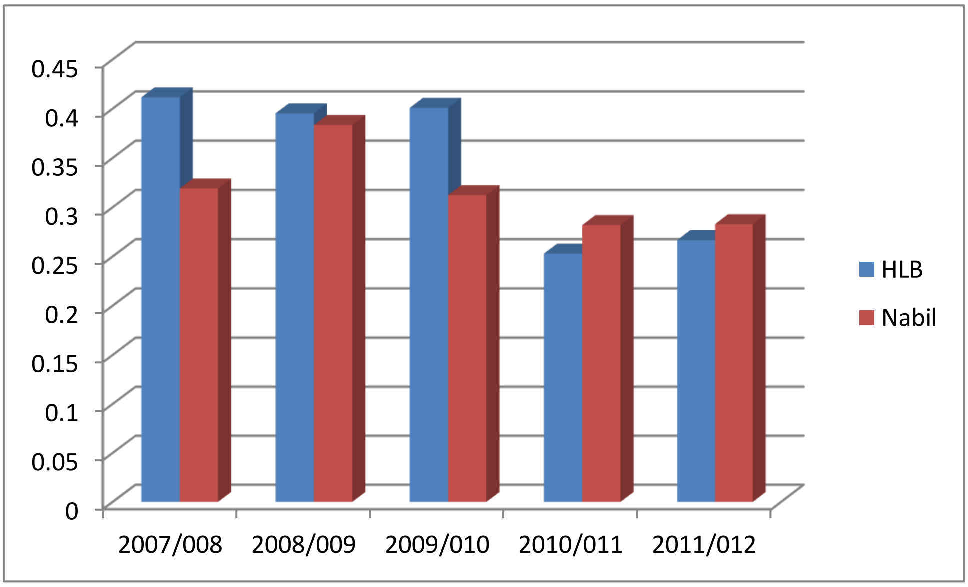
Table 4.3

Total Investment to Total Deposit Ratio

Year / Bank	2007/08	2008/09	2009/10	2010/11	2011/12
HBL	0.4116	0.3953	0.4009	2529	0.2667
Nabil	0.3191	0.3835	0.3123	0.2819	0.2828

Figure 4.3

Total Investment to Total Deposit Ratio



Above the table 4.3 and figure 4.3 enlightened the ratio of total investment to total deposit ratio of Himalayan bank ltd and Nabil bank ltd. The investment ratio of Nabil Bank is 208/09 increasing and after than decreasing trend. The investment ratio of HBL is in fluctuating trend. This mean it also titled its deposit as investment. Investment in government securities is in the highly secures investment. Investment made in lower risk securities helps to reduce overall riskiness of the bank.

IV. Total Deposit of Total Loan and Advance Ratio

These ratios measure the percentage of total income against loan and advances. The high ratio indicates the more earning. The following table represent ratio of total profit over total loan and advances.

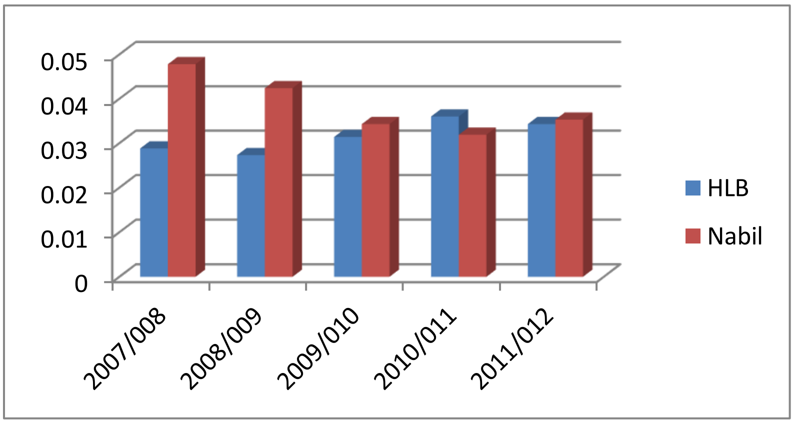
Table 4.4

Total Profit and Loan and Advance Ratio

Year / Bank	2007/08	2008/09	2009/10	2010/11	2011/12
HBL	0.0288	0.0273	0.0314	0.036	0.0343
Nabil	0.0478	0.0424	0.0343	0.0319	0.0353

Figure 4.4

Total Deposit to Loan and Advance Ratio



The table 4.4 and figure 4.4 depicted the total profit to loan and advance ratio of HBL and Nabil Banks. The profit to loan and advance ratio of HBL is in increasing trend. The profitability ratio of HBL is lesser than Nabil in each year. Nabil profitability ratio is in decreasing trend. It indicates that there is lower deviation between lending rate and deposit rate Nabil has same trend of profit ratio during the period. Profit trend of nabil is more fluctuated than the HBL. This table shows that the in the recent year of the study period there is lower afferent between the lending and deposit rate.

4.2 Lending Patterns Analysis

Lending patterns are composition of investment in various sectors which is turn are composed of expected risk and return of their component investments commercial banks lending patterns covers auto loan, bills purchase, hire purchase, constructions, productions, consumer loan, deprived sector loan priority sector loan, margin lending, industrial overdraft, term loan. In this patterns of leading means different types of loan granted by commercial banks. According to the NRB schedule these are twelve heading of patterns of leading (sector wise leading). This include agriculture, consumable loan, service industries, finance insurance and fixed assets transportation communication and public service mining, metal production machinery and electrical tools, transportation equipment production and fitting and others. The following table represents the Patterns of Lending

Table 4.5

Percentage of Patterns of Lending of BHL and Nabil

Patterns of Leading	HBL %	Nabil %	HBL %	Nabil %	HBL %	Nabil %	HBL %	Nabil %	HBL %	Nabil %
Agriculture	2.78	0.64	3.18	0.47	3.19	0.38	3.67	0.34	3.15	0.53
Consumable loan	2	0.63	1.66	0.71	1.15	0.65	1.79	0.53	1.3	0.54
Service inducting	9.1	11.14	10.45	12.67	9.33	7.64	8.76	7.93	8.92	7.14
Wholesaler/retails	14.33	18.12	14.87	18.18	12.12	15.58	14.42	15.46	13.70	16.47
Productions	44.70	47.55	41.53	39.97	49.15	38.46	44.93	35.85	43.41	30.50
Constructions	1.69	4.32	1.53	6.08	2.15	10.8	2.57	12.09	3.77	13.71
Finance insurance, fixed assets	5.84	3.21	7.38	3.05	5.28	3.62	5.35	5.16	6.8	5.77
Transportation communication public service	12.01	2.31	9.7	2.64	8.53	5.07	7.98	5.77	5.17	8.20
Mining	0.08	0	0.35	0.26	0.04	0.16	0.1	0.09	0.04	0.08
Metal production machinery electric tools	0.8	0.87	0.82	1.29	1.49	0.75	1.07	1.03	2.61	1.08
Transportation equipment productions fittings	2.57	6.43	1.66	9.17	0.29	9.86	0.4	9.23	0.29	8.23
Other	4.1	4.3	4.18	5.51	7.23	7.43	8.91	6.52	10.76	7.75

Source: Annex 5 and 6

Tbale 4.5 shows the percentage of patterns of lending of Himalayan bank ltd and Nabil bank ltd. In agriculture sector investment HBL dominate Nabil. HBL invest more percentages in agriculture where Nabil invest less then on e percent in each year HBL investment in consumable loan is decreasing each year ex2010/011. It seems that HBL invest more amounts in consumable loan than nabil. Both banks investment in service industries was in decreasing and fluctuating trend.

Nabil dominated HBL in wholesaler and retailers loan. Nabils investment in wholesale and radial is in decreasing trend and the end of year 2011/012 is increasing trend both bank invested more percentage in this sector. In production leading it seems that BHL dominated Nabil except 2007/08. Both banks invest more than 30% in this sector investment made in productions sector by both banks is in decreasing trend because of instability of politics in our country and unsecure investment in the production field. Both banks investment was in constructions sector is increasing in trend year by year. Nabil invest more percentage in constructions sector than HBL. Leading granted by HBL in finances insurance and fixed assets is higher ratio than Nabil. Both banks investment trend in this sector was increasing and fluctuating. In first year HBL was laminating Nabil in transportation, communication and public sectors. Nabil invested more percentage in this sector than the HBL in this research period HBL and Nabil invested less than 10% in mining sector. Nabil was not investing in mining in the year 2007/08. HBL dominated Nabil in metal production machinery and electronic tools. Both banks granted lower volume of leading in this sector. Investment made by HBL in transportation equipment production and fitting was lower than the Nabil it seems that Nabils increases its loan highly in this sector.

Both banks made patterns thorough investing all twelve sectors. But productions sector main focus sector because it covered more percent of loan out of total loan granted by both banks both bank invested more than 33% in this sector during the study period. Both banks have given second priority for wholesaler and retailer. It seems that HBL gives more priority than Nabil in agricultural investment. Agriculture being the back bone of the economy, it seems Nabil contribute less for the growth of agricultural sector. Nabil invested less than one percent in consumable loan than the HBL. Both banks gave priority to the service industries but investment made in this sector was in decreasing trend. Further more both banks made optimal portfocial for getting more return by minimizing the risk above analysis shows the both banks making optimal patterns of landing which helps to reduce NPL and increase profitability. Both banks give less priority to agricultural sector. Agricultural sector is not properly developed without investment some fund is commercial banks. Most of the private sector commercial banks give attention toward to develop agricultural.

4.3 Non-performing loan analysis of HBL an Nabil

Non performing loan is one of the growing problem for the loan granting institution in Nepal as well due to unfair intension of borrower and the economic and political crisis in Nepal NPL has become major problem since last 10 year. In Nepal, NRB has classified non performing loan as substandard, doubtful and loss. NRB has directed all commercial banks create loan loss provision against. The typees of nonperforming loan in different ratio as 25%, 50%, 100% respectively for the substandard doubtful and bad loan.

The following table represents the NBL of HBL

Table 4.6

NBL of HBL

In Million

Year	NBL	Sub-standard	Doubtful	Balance
2007/08	1040.76	107.23	228.50	705.03
2008/09	641.61	72.08	194.98	374.56
2009/10	477.23	53.92	214.98	208.83
2010/11	1024.83	122.76	220.52	681.55
2011/12	1203.28	216.05	73.46	913.77

Sources: Annual report

Figure: 4.5

NBL as HBL

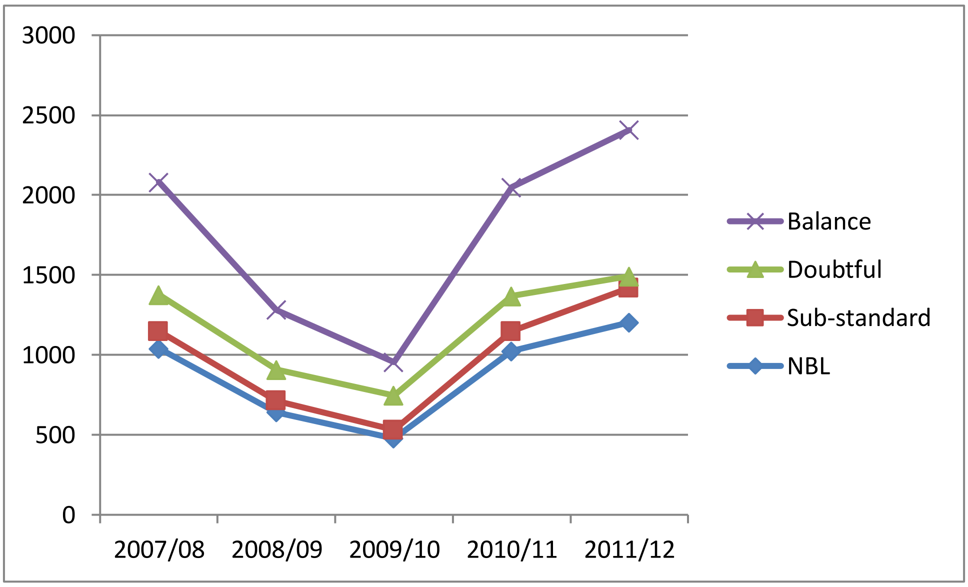


Table 4.6 and figure 5.4 shows the total NBL substandard, doubtful and had loan. Out of total NBL, HBL bas higher volume of had loan than others. If shows Himalayan bank ltd has higher volume of loan loss

provision. Higher loan loss provision reduced the total profit because it requires 100% loan loss provision. Doubtful loan is also more than substandard in every year of the study period. Above figure shows that total NPB of HBL is decreasing higher in year by year till 2009/10 and than also increasing. Following table represents the NPL of Nabil bank.

Table 4.7

NPL of Nabil

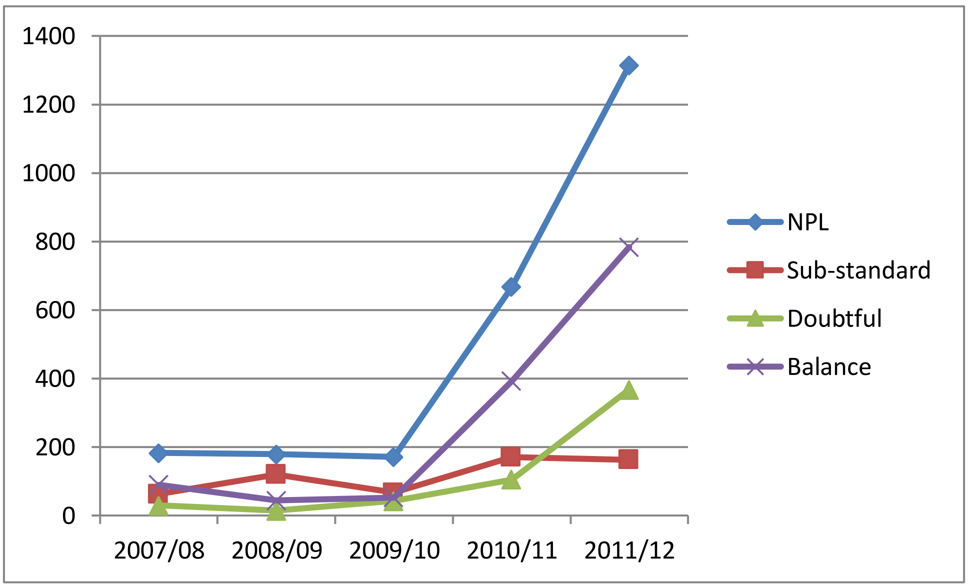
In Million

Year	NPL	Sub-standard	Doubtful	Balance
2007/08	182.6	62.7	29.5	90.4
2008/09	178.3	119.7	14.5	44.1
2009/10	171.09	66.22	42.58	52.19
2010/11	667.71	170.4	104.66	392.4
2011/12	1313.91	162.44	367.84	783.63

Sources: Annual Report

Figur4.6

NPL of Nabil



Above the table 4.7 and figure 4.6 shows the total nonperforming loan and substandard doubtful and had loan. Nabil has higher had loan in the year 2007/08 no 2011/12. In first three of the study period Nabil has low volume of doubtful loan. In the last year of the study period it has higher doubtful loan.

Form the table 4.7 and figure 4.6 figure analyses Nabil has higher volume nonperforming loan and it has higher had loan than others. Higher had loan indicates that the poor performance and ineffective credit policy of the bank, in sum NPL. Nabil has also more volume doubtful loan. Higher the bad and doubtful loan higher volume of loan loss provision. In comparison Nabil perform better while making shows the Nabil has effective recovery system than the HBL.

4.4 Correlation Analysis

Correlation coefficient is used to define the relationship between two or more variable. In this study it is used to see the close consistency between two banks.

4.4.1 Correlation Coefficient between Deposit and Loan and Advances of HBL

The correlation and coefficient of partial determination of HBL is presented in the table 4.8

Table 4.8

Correlation Coefficient between Deposit and Loan and Advances of HBL

Correlation Coefficient	Coefficient of determination	Probable error	G.P.E.
0.99098.56	0.9820524	0.0049421	0.0296527

Source: Annex-7

The above table shows that the correlation coefficient between deposit and land and advances is 0.9909854. There is highly positive correlation between loan and advances and deposit collection.

Determination is 0.9820524 which depict that 98.21% of loan has been explained by the deposit collection. It shows that increase in deposit lead to increase loan and advance. In accordance to increase in deposit HBL's loan and advances is increasing in trend.

Probable error (P.E.) is calculated to be 0.0049421 and 6 P.E. 0.0296527. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the than 6 p.e then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and deposit.

4.4.2 Correlation Coefficient between deposit and Loan and advances of Nabil Bank Ltd.

The correlation and coefficient of determination of Nabil is presented in the table 4.4.2.

Table 4.9

Correlation Coefficient between deposit and loan and advances of Nabil

Correlation Coefficient	Coefficient of Determination	Probable Error	G.P.E.
0.98824579	0.9766297	0.006435	0.038612

Sources: Annex-8

The table 4.9 shows the correlation coefficient deposit and loan advances are 0.98824579. There, is highly positive correlation between loan and advances and deposit collection. It means there is significant relationship between deposit and loan granted. The coefficient of determination is 0.9766297 which depicts 97.66% of loan has been explained by the deposit collection. It shows that increases in deposit leads to increase loan and advances. In accordance to increase in deposit Nabils loan and advance is increasing trend.

The correlation is statistically significant. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here 'r' is greater than 6 p.e. (0.9882>0.03861) then there is evidence of significant correlation between loan and deposit. That reveals there is significant relationship between loan and advances and deposit. It indicates that credit manager of the bank consider deposit collection to determine the lending.

4.4.3 Correlation coefficient between non-performing loan and advances of HBL

The table 4.10 shows represent the correlation coefficient between NPL and loan and advances.

Table 4.10

Correlation coefficient between non-performing loan and advances of HBL

Correlation Coefficient	Coefficient of determination	Probable error	G.P.E.
-0.908197	0.82482	0.07152	0.42909

Source Annex-9

Table 4.10 shows that correlation coefficient between the non-performing and loan is -0.908197. There is highly negative correlation between NPL and loan. That indicates the NPL decreasing and loan amount is increasing. The coefficient of determination is 0.82482 which depicts 82.482% of NPL has explained by the loan. Here 'r' is lesser than 6 time value p.e., meaning that the correlation coefficient is statistically in significant.

4.4.4 Correlation coefficient between non performing loan and advance of Nabil.

The correlation and coefficient of determination of NPL and loan of Nabil is presented in table 4.11

Table 4.11

Correlation Coefficient between non-performing loan and Advance of Nabil

Correlation Coefficient	Coefficient of determination	Probable error	G.P.E.
-0.614376	0.377459	0.26497	1.58982

Source: Annex-10

The table 4.11 explains the relationship between non performing loan and advances of nabil. The correlation coefficient of Nabil is highly negative (-0.614376). it shows that there is negative relation between loan and NPL here correlation coefficient is lesser than 6 time value, it is not statistically significant. Coefficient of determination is 0.377459 which mean 37.75% total NPL is explained by loan and advances. This indicates that NPL of Nabil has lower volume and decreasing in trend.

4.4.5 Correlation coefficient between loan loss provision LLP and Loan and Advances of HBL and Nabil

The table 4.12 indicates the correlation and coefficient of determination of LLP and Loan of HBL and Nabil.

Table 4.12

Correlation coefficient between loan loss provision LLP and Loan and Advances of HBL and Nabil

Banks	Correlation Coefficient	Coefficient of determination	Probable error	G.P.E.
HBL	-0.43329113	0.187741	0.245	1.471
Nabil	0.7844532	0.615367	0.1160212	0.696127

Source: Annex-11 and 12

Table 4.12 shows the correlation coefficient between loan loss provision and loan and advances of HBL and Nabil. Here correlation coefficient of HBL is -0.43329113 and it is lesser than 6 times value of P.E. is 1.471, the correlation coefficient is insignificant. The correlation coefficient of Nabil is 0.7844532 and 6 time value of P.E. is 0.696127. There is positive correlation between loan loss provision and loan of Nabil. Here 'r' is lesser than 6 times value of P.E. the relationship is not statistically significant. It seems that Nabil has lower volume of LLB, this indicates it has lower volume of NPL.

4.5 Regression Analysis

Regression analysis is used as a tool of determining the strength relationship between two or more variables. Thus is is a statistical device that helps predicting the value of one variable when the values of other variables are known.

4.5.1 Impact of Loan and Advance and Non-performing Loan on Net Profit of HBL.

Total loan and non-performing loan have high implication for determining net profit. Effective performing loan and non performing loan directly affects the net affects of the firm. The net profit of the firm depends on total loan and non-performing loan and the organization. Thus, it is more significance to know the impact of total loan and non-performing loan in net profit.

To find out the impact of the total loan and non-performing loan on profit, multiple regression analysis was used. The following table represents the regression analysis of the independent variables total loan and advance and non-performing loans on dependent variable net profit of HBL

Table 4.13

Impact of Loan and Advance and Non-performing loan on net-profit of HBL

Model Summary

R	R Square	Adjusted R Square	Std. error of the Estimate
0.993 (a)	0.986	0.972	24.99863

a. Predictors: (Constant), NPL, Loan

ANOVA (a)

Model	Some of Squares	D.F.	Mean Square	F	Sig.
Regression	88390.481	2	44195.24	70.72	0.014 (a)
Residual	129.863	2	624.932	-	-

a. Predictors: (Constant), NPL, Loan

b. Dependent Variable: Profit

Coefficients (a)

Model	Unstandadized Coefficient		Standardized coefficients	F	Sig
	B	Std. Error	Beta		
Constant	-810.13	310.336		-2.610	0.121
Loan	0.066	0.012	1.345	5.326	0.033
NPL	0.1990.199	0.132	0.382	1.512	0.270

Source: Annex 13

Regression and SPSS Analysis

The calculated R was found 0.993 indicates that there is high positive relationship dependent variable profit on two independent variable total loan and advance and non performing loan after considering the error term, the adjusted R square value was found 0.972 which indicates that of total variation in the dependent variable profit has been explained by the two independent variables.

Similarly, ANOVA table shows that the result presented above was significant at 0.10 levels the result of net profit volume and volume of loan and advance results relatively higher level of significance. Although, it seems that the result of loan and advance and non-performing loans was significant with regard to profit of HBL. Coefficients table indicates that the loan was significant and NPL was not significant at 0.10 levels. It indicates that the loan is affects on the profitability and NPL. Other factors such as investments and foreign exchange gain other income leads to increase in profit.

The table 4.13 represents the regression analysis of dependent variable profit and independent variables loan and advance and NPL of Nabil.

Table 4.14

Impact of loan and advance and non-performing loan on net profit of Nabil

R	R Square	Adjusted R Square	Std. error of the Estimate
0.960 (a)	0.922	0.845	42.48931

a. Predictors: (Constant), NPL, Loan

ANOVA (b)

Model	Some of Squares	D.F.	Mean Square	F	Sig.
Regression	42901.197	2	21450.599	11.882	0.278 (a)
Residual	3610.682	2	1805.341	-	-
Total		4			

a. Predictors: (Constant), NPL, Loan

b. Dependent Variable: Profit

Coefficients (a)

Model	Unstandadized Coefficient		Standardized coefficients	F	Sig
	B	Std. Error	Beta		
Constant	328.451	134.95		2.434	0.135

Loan	0.020	0.005	0.958	4.222	0.052
NPL	-0.010	0.448	-0.005	0.023	0.984

a) Dependent Variable Profit

Source: Annex 14

The R was found to be 0.960 indicates that there is high positive relationship between dependent and independent variables. The adjusted R square was found to be 0.845 considering independent variables outstanding loan and advance, non-performing loan and dependent variable profit. It means that 84.5% of total variation in dependent variable profit has been explained by independents variables loan and advance and NPL. Thus loan and NPL high influence on profit volume. Loan and nonperforming loan can be described as strong determinate for determining of profit.

Similarly, ANOVA table show that the result presented above was significant at 0.16 levels. The result of profit, loan and advance and non-performing loan resulted relatively higher level of F statistic resulted relatively higher level of significance. Although coefficients table shows it was significantly at overall evaluation, t statistics indicates that the result of loan and advance was significant and NPL was not significant with regard of profit NABIL at 0.10 level so significance. It can be concluded that loan and advances leads to increased in the profit.

oefficients (a)

Model	Unstandadized Coefficient		Standardized coefficients	F	Sig
	B	Std. Error	Beta		
Constant	328.451	134.950		2.434	0.135

Loan	0.020	0.005	0.958	4.222	0.052
NPL	-0.010	0.448	-0.005	-0.023	0.984

a. Dependent Variable: Profit

4.5.2 Impact of total loan and advance and deposit on net profit of HBL

Total deposit and loan and advance are the strong determinants of profit. Amount deposit and loan and advance directly affection the profitability of the firm. In the form of loan and advance, efficient mobilization of deposit results to increased profitability of the firm. Therefore profit of firm depends upon deposit and loan. The table 4.15 represents the regression analysis between dependent variable profit and independent variable deposit and loan and advances of HBL.

Table 4.15

Impact of Total loan and advance and deposit on net profit of HBL

Model	R	R. Square	Adjusted R Square	Std. Error of the Estimate
1	0.986 (a)	0.973	0.946	34.87498

a) Predictors (constant), Deposit, loan

ANOVA (b)

Model	Some of Squares	D.F.	Mean Square	F	Sig.
Regression	8727.816	2	43603.908	35.851	0.027 (a)
Residual	2432.528	2	1216.264	-	-

Total		4			

a. Predictors: (Constant) NPL, Loan

b. Dependent Variable: Profit

Coefficients (a)

Model	Unstandadized Coefficient		Standardized coefficients	F	Sig
	B	Std. Error	Beta		
Constant	-252.65	240.39		-1.051	0.404
Loan	0.065	0.034	1.293	1.859	0.204
Deposit	-0.013	0.028	-0.313	-0.450	0.697

a. Dependent Variable: Profit

Source: Annex-15

The R 0.986 indicates that there was high degree of positive relationship between the dependent variable profit and independent variables deposit and total loan and advance. The adjusted R square was found to be 0.946 considering independent variables deposit and loan and advance and dependent variable profit. It means that the variation on profit has been expedited by loan and advance and deposit. It can be concluded that deposit and loan and advance highly influenced on profit volume and deposit and loan and advance are strong determinate for determining of profit.

Similarly, ANOVA table shows there was significant difference in profit due to deposit and loan and advance. F statistic was higher level and it seems that there was higher level of significance. Coefficients table indicates that the results of loan and deposit were not significant at 0.10

levels of significance. This means there is sufficient evidence that the profit has caused from the two independent variables. So, deposit and loan and advance were significance with regard of the profit. The following table represents the regression analysis between dependent variable profit and independent variables deposit and loan and advances of Nabil.

Table 4.16

Impacet of Total Loan and Advance and Deposit on net profit of Nabil

R	R. Square	Adjusted R Square	Std. Error of the Estimate
0.961 (a)	0.924	0.848	42.09457

a) Predictors (constant), Deposit, loan

ANOVA (b)

Model	Some of Squares	D.F.	Mean Square	F	Sig.
Regression	42967.974	2	21483.987	12.124	0.076 (a)
Residual	3543.906	2	1771.953	-	-
Total		4			

a. Predictors: (Constant) NPL, Loan

b. Dependent Variable: Profit

Coefficients (a)

Model	Unstandadized Coefficient	Standardized coefficients	F	Sig

	B	Std. Error	Beta		
Constant	323.579	62.249		5.198	0.035
Loan	0.015	0.029	0.7	0.519	0.656
Deposit	0.004	0.020	0.264	0.196	0.863

a. Dependent Variable: Profit

Source: Annex-16

The R 0.961 indicates that there was high degree of positive relationship between the dependent variable profit and independent variables deposit and total loan and advance. The adjusted R square was found to be 0.848 considering independent variables deposit and loan and advance and dependent variable profit. It means that 84.8% the variable on profit has been explained by loan and advance and deposit. There fore, deposit and loan and advance has highly influenced on profit volume. Deposit and loan and advance are strong determinate for determining of profit.

The result of ANIVOVA shows there was significance difference in profit due to the deposit and loan and advanced at 0.1 levels. The higher level of F statistic means relatively higher level of significance. This mean profit is highly depend on the deposit collection and loan and advances. T statistic shows deposit and loan and advance were not significance difference with regard to profit in 0.10 levels of significance. This mean there was no sufficient evidence that the profit has caused form the two independent variables.

4.6 Major Findings

The major findings of the study are as follows:

- The deposit collected of both banks during the five year period is in increasing but fluctuating trend. The lending deposit ratio of Nabil is in increasing trend. It seems that both banks have utilized the most of its collected funds.

- Nabil seems to be efficient in mobilizing its total deposit in the form of loan and advances. Nabil seems to be the best performer in utilizing its collected fund in the form of loan and advances efficiency where as HBL has less utilizing its collected funds than Nabil in terms of loan and advances.

- The ratio of nonperforming loan to loan and advances of Himalayan bank ltd is higher than that of Nabil bank ltd. Non-Performing loan of both banks seem decreasing in trend.HBL was able to decrease the ratio of NPL during this period. The result showed banking sector is affected by the non-performing loan.

- The investment ratio of Nabil bank is in increasing trend except the year 2007\2008.This mean Nabil bank highly utilized its deposit as investment. The investment ratio of HBL is also increasing but in-fluctuating trend.

- While analyzing of total profit to loan and advance ratio, HBL profitability ratio is in increasing trend. Nabil had same trend of profit ratio in the research period. Nabil has the best profit earning ration in the study period.

- In lending patterns analysis, both bank invested in different sector. Productions sector is the dominant sector because it covered more percent of loan out of total loan granted by both babks. Both banks invested more than 33% in this sector every year of the research period. Production represents industry and more invested in industrial sector helps to economic development of the nation. Both banks give more priority than Nabil in agricultural investment. Agriculture is the back bond of the economy, Nabil invested less than one percent in consumable loan in this sector is in decreasing trend. Furthermore, both banks made optimal lending pattern for getting more return from then by minimizing the risk.

- The analysis of non – performing loan in categorized HBL has high volume of bad loan in every year of the study period and Nabil has higher had loan in the year. Higher bad loan indicates that the poor performance and ineffective credit policy of the bank. Doubtful loan is also more than substandard in every year of the study period. Higher the bad and doubtful loan higher volume of loan loss provision. In comparison Nabil perform good while making credit policy. From that analysis, it is shows that Nabil has effective recovery system than the HBL.
- The correlation coefficient deposit and loan and advances of HBL and Nabil are 0.990816 and 0.98824579 respectively. There is highly positive correlation between loan and advances and deposit collection. After the correlation analysis both banks show that increase in deposit lead to increase loan and advances.
- The correlation coefficient between the non- performing and loan of HBL -0.908197 and Nabil -0.614376 respectively. The correlation coefficient of HBL and Nabil highly negative. This mean NPL of HBL is in decreasing trend.
- Correlation between loan loss provision and loan and advances of HBL and Nabil are -0.45329 and -0.79535 respectively. There is a Negative relation between loan loss provision and loan of HBL.
- The value of adjusted R square value was found to be 0.972 and 0.845 of HBL and Nabil considering independent variables. Loan

and advances and non- performing loan and dependent variable profit. It was found to be total variation in the dependent variable profit has been explained by the two independent variables. In the analysis of variance shows that the result o HBL and Nabil was found significant at 0.1 levels of significance. In compare in coefficients, loan was evidence that loan has significantly changed the probability of the firm.

- The adjusted R square was found to be 0.9946 and 0.848 of HBL Nabil respectively considering independent variables deposit and loan and advance and dependent variable profit. It means that the variation on profit of HBL and Nabil have been explained by loan and advance of deposit. ANOVA table shows there was significant difference in profit due to deposit and loan and advance. Although, t statistics shows there was significant difference in profit due to deposit and loan and advance.

CHAPTER V

SUMMARY AND CONCLUSION AND RECOMMENDATION

5.1 Summary

Bank and financial institutions are the backbone of the economic development of a country. They promoted industrialization and economic development by channeling the public deposit into industrial as well as agricultural sector .commercial banks play an important in the economic development of the country as they provide capital for the development of industry, trade as well as agriculture by disbursing the saving collected as deposit from the people. Commercial bank invests strongly support for the economic condition of the country. Loan granted no small sector and agriculture sector support to increment of per capital income of the rural people .Banks loans help the growth of trade and commerce, energy sector as well as agriculture and empower the economics activates of the country.

The study is about the lending patterns of commercial banks with reference to HBL and Nabil. The first chapter of the study deals about basic assumption. Basically it highlighted the concept, problems, significance, objectives of the study. Second chapter help the researcher to provide the knowledge about the conceptual review and national and international researcher review. Third chapter deals with various methodology used for the study such as sources of data, population and sample of data, data collection technique and procedure and tools used.

Fourth chapter deals with data presentation and analysis. In this chapter financial condition, nonperforming loan, pattern of lending, correlation and regression are analyzed. The analysis is conducted with the data collected from various sectors. The cursory looking for the two banks in terms of lending deposit ratio Nabil seems dominant. Our of total deposit collection Nabil has disbursed more than 60% as loan where as HBL has disbursed around 50% to 60% of its deposit collection as a loan. It seems that Nabil is the best performer while utilizing its collected fund. HBL is able to decrees its non- performing loan. In comparison Nabil meet international standard after the year 2006\7. Political crisis of the nation, political lender famousness to the borrower, borrower intention, trade deficit, owner worker worse relationship for industry failure are the main caused for the increment of the NPL.

Both banks made optimal portfolio for getting more return from then by minimizing the risk. It seems that both banks invest more than 33% as production loan out of total. For the development of nation banks must be investment their fund in the rural area. But in the analysis of the patters of lending both banks invest lower percentage in agriculture which represents rural investments. Privative sector banks are not interested to open their branch in the rural area.

The correlation coefficient deposit and loan and advances of HBL are 0.9909856. There is highly positive correlation between loan and advances and deposit collection. The correlation coefficient deposit and loan and advances of Nabil are 0.9671.The correlation coefficient between deposit loan and advance of Nabil is 0.98824579.

The value of adjusted R square value was found to be 0.972 and 0.845 of Nabil and HBL considering independent variables loan and advance and non- performing loan and dependent variable profit. It was found to be total variation in the dependent variable profit has been explained by the two independent variables. In the analysis of variance both banks result was not seem to be significant at 0.1 levels. The adjusted R square was found to be 0.4216 and 0.848 of HBL and Nabil respectively considering independent variables deposit and loan advance and dependent variable profit. ANOVA shows HBL and Nabil were significance difference in profit due to the deposit and loan and advance at 0.1 levels. Although, t statistic shows there was significance in profit due the deposit and loan and advance of Nabil at 0.1 levels.

An overall analysis both bank manages its lending effectively and efficiently and it recovers its bad loan taking necessary action in time. Nabil seems good in managing deposit and earning more profit.

5.2 conclusions

- Banks and financial institutions in Nepal will have to benchmark themselves against some of the best in the world, for a strong and resilient banking and financial system. Therefore, banks needs to go beyond peripheral issues and tackle significant issues like improvements in profitability, efficiency and technology. While achieving ecomomies of scale through available cost effective solutions. These are some of the major issues that need to be addressed by banks in recent scenario, for their success and not just survival, in the changing milleu.

- Lending function is considered by the banking industry as the most important function for the utilization of funds. Since, banks earn their highest gross profits from loans; the administration of loan patterns seriously affects the profitability of banks. Indeed, the large number of non- performing loans is the main cause of bank failure non- performing loan is seems to be major problems for Nepalese commercial banks. Banks are learning to review their risk portfolios' lending is the most income generating sources for Nepalese commercial banks but there is risk, inherent in banks lending patterns banks have to make loan loss provision by categorizing the loans into different category as per the NRB directives.

- It has been found that HBL has high portion of non- performing loan than Nabil which need higher provision results lower profit. Out of total NPL, HBL has more volume of loss loan. Analysis of variance indicated that all indicators are found significance of both banks. From these indicators it can be said that to preserve its position as a successful and dominant commercial bank both bank have to give attention on its lending and recovery device.

5.3 Recommendations

- The high portion of non- performing loan accompanied by higher provision of these banks which reduced the profitability and competency of the bank in this competitive environment.NPL of HBL is higher in the ratio and recommended to take remedial actions for recovering bad loans. To reduce the NPL they are also recommended take following action while granting the loan.

- The bank analyzes the borrower's strategies and organizational architecture to be the most important determinants of firm profitability and the firm's ability to repay the banking loan. So, banks have constructed a comprehensive analytical framework that will improve the accuracy of analyzing a borrower's capacity and condition.

- The bank showed provide more training programs in business strategy and organizational management to the employees in the lending department training is the most important for the employees to make them efficient and proper risk management.

- The efficient employees properly evaluate proposal of borrower and monitor his or capacity and conclusion. So it is recommended for the banks to evaluate the job performance of employees of lending department.

- Following the directives of NRB is also reduces many of credit risks. Hence both banks are recommended to adhere to the directives and they are also suggested to come up with a stronger internal audit department to ensure that the directives are properly implemented.

- Portfolios are composition of investments in various sectors which in turn are composed of expected risk and return of their component investments. It helps an investor to make optimal investment decision minimizing overall risk and maximizing overall return. So both banks make optimal lending patterns to reduce its bad loan risk, maximizing profit and development of economy of the nation.

- The investment opportunities should be grabbed to optimize their investment portfolio. Nepal commercial banks should invest in different projects, finance developing industries like tourism and hydro- electricity with the help government, which provides security to them.

- Entire economy is largely dependent upon the proper execution of lending function by commercial banks. Low level of lending means, low level of investment resulting to low level of productivity, which may ultimately affect negatively on the national economy. Loan and advance in one hand is the highest income generating assets and on the other hand it also helps to upgrade the economic position of the country. Hence both banks increase lending in productive sector.

- Both banks concentrating its operation in urban areas. Most of the people who live in rural areas are not benefited from it. To making investment in agricultural sector which is need to development for the economic growth of the nation Nabil and HBL strengthen its branches in rural areas. Financial support from the bank helps to improve the financial condition of the rural people. To meet the poverty alleviation objectives of the government the banks helps by expanding their branches in rural areas.

- The government has to encourage the coming up new entrepreneurs, encourage the small- scale industries, give priority to export business, encourage should extend support from their side in every possible way.

- Position of priority and deprived sector loan and its impacts on target groups should be study material for the future study.

- The lending proportion on various infrastructural projects like hydro- electricity and its development should be study material for future study. The investment made in different sector and its contribution on total profitability should be study material.

- Position of priority and deprived sector loan and its impacts on target groups should be study material for the future study.
- The study based on secondary data and information mostly. Hence, the primary data should be followed for the future study to calculate management efficiency ratio to make it more practical.

BIBILOGRAPHY

Books

Athanassopolos, A.D. and Giokas, D. (2000), The use of Data Envelopment analysis in Banking Institutions: Evidence from the Commercial Bank of Greece, Interfaces Vol.30.

Banking and Financial Statistics, Banks and Financial Institutions Regulation Department NRB, (2005 to 2010) Vol. 45 to 55.

Barbara, R.L and Sotiris S.Service Failures and Service Recovery in Retail Banking the Customers Perspective.

Besanko, D. Drahove, D. and Stanley, M.(1996), Economics of Strategy, Wiley, New York Bhattacharya, H.(1998), Banking Strategy, Credit Appraisal and Lending Decision –A Risk Return Framework, New Delhi, Oxford University Press.

Boucher,J.(1996), Management Maximizing Loan Officer Productivity with Sales Analysis, Commercial Lending Review and Vol.11

Bricky, J.A. Smith,C.W.Jr and Zimmerman,J.L.(2001), Managerial Economics and Organizational Architecture, Second Edition, McGraw-Hill, New York.

Chaplin A. and Gerge Ehassel,(1963) Credit and Collection Principles and Practices, New York; Mac Graw Hill Book Inc.

Charnes, A. Cooper, W.W. and Rhodes, E. (1978), Measuring the Efficiency of Decision Making Units. European Journals of Operational Research, Vol.2, George, B.Cohen Edward, D.Zinberg, Arthur, Z.(1993), Investment Analysis and Portfolio Management, Third Edition.

Ghimire G. 9(2005), Non- Performing Assets of Commercial Banks Causes and Effect, Unpublished thesis submitted to research department Nepal Commerce Campus, Kathmandu.

Gitman, L.G (1994), Principal of Managerial Finance Fifth Edition, New York Harper and Row Publishes.

Golany, B and Storbeck, j.E.(1999), A Data Environment Analysis of the Operational Efficiency of Bank Branches, Interfaces, Vol.29.

Gupta, S.N. (2002) Problem in recovery a Debt in India, Report of SAARC Law Conference, Kathmandu.

Hempel, G.H. and Simon, D.G.(1999), Bank Management, Dryden Press Chicago.

Journals

Pant,Prem R. (2006), Social Science Research and Thesis Writing, Kathmandu; Buddha Academic Publishters and Distributor Pvt.Ltd.

Singh S.P and S.Singh, (1997), Financial Analysis for Credit Management in Banks, New Delhi, Vikas Publishing House.

Zenios,c.v.Zenios, S.A. Agathocleous, K and soterious, A.C.(1999). Benchmarks of the Efficiency of Bank Ghimire M.(2008) Comparative Analysis of Financial Transaction of RBB, Nepal Rastra Bank Samachar, Vol 19, NRB.

Thesis

Thapa (2005) “A Comparative Study on Investment Policy of Nepal Bangladesh Bank and Other Joint Venture Banks” Thesis Submitted to Research Development, Shankar Dev Campus. Kathmandu.

Basnet,(2008) “Investment Portfolio Analysis of Joint Venture Banks” Unpublished thesis Submitted Research Department Shanker Dev Campus.

Gurung A.K (2009), Lending Policy and Recovery Management of Standard Chartered Bank Nepal Ltd and Nabil Bank Ltd, Unpublished Thesis Submitted to Research Department Shanker Dev Campus.

Tiwari (2010) “Investment Policy of Commercial Banks in Nepal.

Thapa Mukesh (2011) “Investment Analysis of Commercial Banks in Nepal”

Annex 1

Year	Total loan and advance		Total deposit		Ratio	
	HLB	Nabil	HLB	Nabil	HLB	Nabil
2007/008	15872.5	13278.8	26456.2	19348.4	5999	6863
2008/009	17987.3	15903	29905.8	23342.4	0.6015	0.6813
2009/010	20233.9	21769.8	318.05.3	31915	0.6362	0.6821
2010/011	24793.15	32268.86	34682.3	46410.7	0.7148	0.6953
2011/012	27980.63	38034.41	37611.2	49696.11	0.7439	0.7653

Sources: Annual Report of HBL and Nabil

Annex. 2

Total non Performing loan (NBL) to Total Loan and Advances Ration

Rs, in million

Year	Total loan and advance		Total deposit		Ratio	
	HLB	Nabil	HLB	Nabil	HLB	Nabil
2007/008	1040.75	182.62	15872.5	13278.8	0.0656	0.1375
2008/009	641.6	178.29	17987.3	15903	0.0357	0.0112
2009/010	477.23	171.4	20233.9	21769.8	0.0236	0.0079
2010/011	1208.11	487.54	24793.15	32268.86	0.0487	0.0151
2011/012	1391.75	689.85	27980.63	38034.41	0.0497	0.0181

Annex. 3

Investment to total deposit Ratio

Rs, in million

Year	Total loan and advance		Total deposit		Ratio	
	HLB	Nabil	HLB	Nabil	HLB	Nabil
2007/008	10890.5	6174.8	26456.2	193484	0.4116	0.3191
2008/009	11921.6	8952.3	29905.8	23342.4	0.3953	0.3835
2009/010	12751.7	9966.6	31805.3	31915	0.4009	0.3123
2010/011	8769.28	13081.2	34682.3	46410.7	0.2529	0.2819
2011/012	10031.58	14055.85	37611.2	49696.11	0.2667	0.2828

Annex. 4

Total Profit to Total Loan and Advance Ratio

Rs, in million

Year	Total loan and advance		Total deposit		Ratio	
	HLB	Nabil	HLB	Nabil	HLB	Nabil
2007/008	457.46	635.26	15872.5	13278.8	0.0288	0.0478
2008/009	491.82	673.96	17987.3	1540.3	0.0273	0.0424
2009/010	635.87	746.47	20233.9	21769.8	0.0314	0.0343
2010/011	893.12	1031	24743.15	32268.86	0.036	0.0319
2011/012	958.64	1344.18	27980.63	38034.41	0.0343	0.0353

Annex-5

Sector wise of Lending of HBL

In Million

Year	2007/08		2008/09		2009/10		2010/11		2011/12	
Patterns of Leading	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
Agriculture	362.1	2.78	516.7	3.81	507.6	3.19	660.2	3.67	639.2	
Consumable loan1415.8	369.8	2	224.5							
Service inducting	1183.2	9.1	1415.8	10.45	1481.2	9.33	1575.8	8.76	1805.6	8.92
Wholesaler/retails	1863.3	14.33	2013.9	14.87	1921	12.1	2595	14.42	2774	13.7
Productions	5812	44.7	5623.8	41.33	7803	49.15	8083.2	44.93	8783.6	43.41
Constructions	219.8	1.69	208	1.53	342.2	2.15	462.4	2.57	764.6	3.77
Finance insurance, fixed assets	759	5.84	999.3	7.38	838.6	5.28	963	5.35	1377	6.8
Transportation communication public service	1561.5	12.01	1313.6	9.7	1355.4	8.53	1436.5	7.98	1048	5.17
Mining	10	0.08	48.2	0.35	7	0.04	19.6	0.10	9.9	0.04
Metal production machinery electric tools	104.1	0.8	11.6	0.82	237.9	1.49	192.9	1.07	528.4	2.61
Transportation equipment productions fittings	334.4	2.57	226.1	1.66	46.6	0.29	72.3	0.4	60.7	0.29
Other	532.9	4.1	837.1	6.18	1178.1	7.28	1603.7	8.91	2177.9	1076
Total	1302.1	100	13539.6	100	15872.7	1000	17987.3	100	20233.9	100

Source: Annual Report and banking and financial statistical NRB.

Annex-6

Sector wise of lending of Nabil Bank Ltd

In million

Year	2007/08		2008/09		2009/10		2010/11		2011/12	
Patterns of Leading	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
Agriculture	54.4	0.64	51.9	0.47	51.1	0.38	54.5	0.34	115.9	0.53
Consumable loan1415.8	54.154.1	0.63	77.2	0.71	86.7	0.65	84.6	0.53	116.8	54
Service inducting	952.1	11.14	1387.3	12.67	1014.3	7.64	1260.7	7.93	1555.5	7.14
Wholesaler/retails	1548.8	18.12	1990.1	18.18	2068.5	15.58	2458.5	15.46	35865	16.47
Productions	4064.6	47.55	4375.8	39.97	5107.1	38.46	5701.5	35.85	6640.7	30.50
Constructions	369.4	4.32	665.2	6.08	1378.8	10.38	1923.3	12.09	2985	13.71
Finance insurance, fixed assets	274	3.21	333.5	3.05	480.2	3.62	84.1	5.16	1256.6	5.77
Transportation communication public service	197.4	2.31	289.3	2.64	673.7	5.07	917.7	5.77	17.85.3	8.2
Mining	0	0	28.9	0.26	21.9	0.16	13.9	0.09	18.5	0.08
Metal production machinery electric tools	74.2	0.87	140.9	1.29	100	0.75	163.2	1.03	234.9	1.08
Transportation equipment productions fittings	592	6.93	1003.7	9.17	1309.6	9.86	1467.9	2.23	17910.	8.23

Other	367.7	4.3	602.9	5.51	986.8	7.43	1036.1	6.52	1686.1	7.75
Total	85487	100	10946.7	100	13278.7	1000	15903	100	21769.8	100

Annex-7

Correlation Coefficient between deposit and loan and advances of Himalayan Bank

In million

Year	Deposit X	Loan Y	X^2	Y^2	XY
2007/08	26456.2	15872.5	699930518.4	251936256.3	419926034.5
2008/09	29905.8	17987.3	894356873.6	323542961.3	537924596.3
2009/010	31805.3	20233.9	1011577108	40941709.2	643545259.7
2010/011	34682.3	24793.15	1202861933	614700286.9	859883466.2
2011/012	37611.2	27980.63	1414602365	782915655.2	1052385071
Total	160460.8	106807.48	5223328798	232505869	3513664428

Correlation (r) = $\frac{N\sum XY-\sum X.\sum Y}{\sqrt{N\sum X^2-(\sum X)^2}\sqrt{N\sum Y^2-(\sum Y)^2}}$

$= \frac{5.3513664428-160460.8.106867.48}{\sqrt{5.5223328798-(10460.8)^2}\sqrt{5.2382505869-(106807.48)^2}}$

= 0.99098.56

Coefficient of determination (r^2) = $(0.9909856)^2$=0.9820524

Probable error (P.E) = $0.6745\frac{1-r^2}{\sqrt{n}}$ = 0.0049421

6 P. C. = 6×0.0049421=0.0296527

Annex-8

Correlation coefficient between deposit and loan and advances of Nabil

Year	Deposit X	Loan Y	X^2	Y^2	XY
2007/08	19348.4	13278.8	374360582.6	176326529.4	256923533.9
2008/09	23342.4	15903	544867637.8	252905409	37144187.2
2009/010	31915	21769.8	1018567225	473924192	694783167
2010/011	46410.7	32268.86	2153953074	1041279.326	1497620381
2011/012	41696.11	38034.41	2469703349	1446616344	1890162223
Total	170712.61	121254.87	65614518638	3391051800	4710703492

Correlation (r) = $\frac{N\sum XY-\sum X\times\sum Y}{\sqrt{N\sum X^2-(\sum X)^2}\sqrt{N\sum Y^2-(\sum Y)^2}}$

= $\frac{5\times4710703492-170712.61\times121254.87}{\sqrt{5\times656145868-(170712.61)^2}\sqrt{5\times3391051800-(121254.87)^2}}$

= 0.98824579

Coefficient of determination (r^2) = $(0.98824579)^2$

= 0.9766297

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

$0.6745\frac{1-0.98824579^2}{\sqrt{5}}$

= 0.0064353

6 P. C. = 6×0.0064353

= 0.0386120

Annex-9

Correlation coefficient between Loan and advances and NPL of HBL

Year	Deposit X	Loan Y	X^2	Y^2	XY
2007/08	15872.5	1040.75	251936256.3	1083160.563	16519304.38
2008/09	17987.3	641.6	323342961.3	411650.56	1154.651.68
2009/010	20233.9	477.23	409410709.2	226385.64	9627289.68
2010/011	24793.15	1024.83	614700286.9	1050276.529	2504863.91
2011/012	27980.63	1203.28	782915655.2	1447882.758	33661143
Total	106867.48	4387.69	2382505869	4219356.05	9675715265

Correlation (r) = $\frac{N\sum XY-\sum X\times\sum Y}{\sqrt{N\sum X^2-(\sum X)^2}\sqrt{N\sum Y^2-(\sum Y)^2}}$

= $\frac{5\times96757152.65-160867.48\times4387.69}{\sqrt{5\times2382505869-(106867.48)^2}\sqrt{5\times4219356.05-(4387.69)^2}}$

r = -0.908197

Coefficient of determination (r^2) = 0.82482

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

$0.6745\frac{1-0.8248^2}{\sqrt{5}}$

= 0.07152

6 P. C. = 6×0.07152

= 0.42909

Annex-10

Correlation between Loan and advances and NPL of Nabil

Year	Deposit X	Loan Y	X^2	Y^2	XY
2007/08	13278.8	182.62	176326529.4	33350.06	244974.456
2008/09	15903	178.29	252905409	31787.32	2835345.87
2009/010	21769.8	171.4	473924192	29377.96	3731343.72
2010/011	32268.86	667.71	1041288361	445823.3	21555692
2011/012	38034.41	1313.91	1446585156	1726333.2	49976676
Total	121254.87	2513.92	3391029647	226671.84	779740321

Correlation (r) = $\frac{N\sum XY-\sum X\times\sum Y}{\sqrt{N\sum X^2-(\sum X)^2}\sqrt{N\sum Y^2-(\sum Y)^2}}$

$= \frac{5\times7797403032-121254.87\times2513.92}{\sqrt{5\times3391029647-(121254.87)^2}\sqrt{5\times2266671.84-(2513.92)^2}}$

r = -0614376

Coefficient of determination (r^2) = 0.82482

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

$0.6745\frac{1-0.377459^2}{\sqrt{5}}$

= 0.26497

6 P. C. = 6×0.26497

= 1.58982

Annext-11

Correlating between LLP and Loan advances of HBL

Year	Loan X	LLP Y	X^2	Y^2	XY
2007/08	15872.5	1149.4	251936256.3	1321120.36	18243851.5

2008/09	17987.3	795.7	323542961.3	633138.49	14312494.61
2009/010	20233.9	682.1	409410709.2	465260.41	13801543.19
2010/011	24793.15	1401.3	614700286.9	1963641.69	34734993
2011/012	27980.63	1003	782915655.2	1006009	28064541.8
Total	106867.48	5031.5	2382505869	5389169.95	109157424.1

Correlation (r) = $\frac{N\sum XY - \sum X \times \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

$= \frac{5 \times 7797403032 - 121254.87 \times 2513.92}{\sqrt{5 \times 2382505869 - (106867.48)^2}\sqrt{5 \times 5389169.95 - (5031.5)^2}}$

r = - 0.43329113

Coefficient of determination (r^2) = 0.187741

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

$0.6745\frac{1-0.187741^2}{\sqrt{5}}$

= 0.245

6 P. C. = 6×0.245

= 1.471

Annex -12

Correlation between LLP and Loan and Advances of Nabil

Year	Loan X	LLP Y	X^2	Y^2	XY
2007/08	13278.8	356.2	176326529.4	126878.44	4729908.56
2008/09	15903	357.2	252905409	127591.84	5680551.6
2009/010	21769.8	394.4	473924192	155551.36	8586009.12
2010/011	32268.86	762.09	1041288361	580781.168	24591775.52
2011/012	3803441	781.4	1440585156	759337.96	33143184.87

Total	121254.87	2741.29	3391029647	1750140768	76731429.67

Correlation (r) = $\frac{N\sum XY - \sum X \times \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

= $\frac{5\times7673142907 - 121254.87\times2741.29}{\sqrt{5\times3391029647 - (121254.87)^2}\sqrt{5\times1750140.768 - (2513.92)^2}}$

r = -7844532

Coefficient of determination (r^2) = 0.615367

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

$0.6745\frac{1-0.384633^2}{22361}$

= 0.1160212

6 P. C. = 6×0.1160212

= 0.696127

Annex-13

Multiple regression analysis between loan NPL and Profit of HBL

Year	Loan	NPL	Profit
2007/08	15872.5	1040.75	457.46
2008/09	17987.3	641.6	491.82
2009/10	20233.9	177.23	635.87
2010/11	24793.15	1024.83	893.115
2011/12	27980.63	1203.28	958.64
Total	106867.48	4387.69	3436.9

Regression

Variables entered/Removed (b)

Module	Variables Entered	Variables Removed	Method Enter
1	NPL, Loan (a)	-	

a. All Requested Variables entered

b. Dependent variable: Profit

Model Summary

Model	R	R. Square	Adjusted R Square	Std. Error of the Estimate
0.993 (a)	0.986	0.972	24.99863	24.99863

a. Predictors: (Constant), NPL, Loan

ANOVA (b)

Model	Some of Squares	D.F.	Mean Square	F	Sig.
Regression	88390.481	2	44195.24	70.72	0.014 (a)
Residual	129.863	2	624.932	-	-

a. Predictors: (Constant) NPL, Loan

b. Dependent Variable: Profit

Coefficients (a)

Model	Unstandadized Coefficient		Standardized coefficients	F	Sig
	B	Std. Error	Beta		
Constant	-810.13	310.336		-2.610	0.121
Loan	0.066	0.012	1.345	5.326	0.033
NPL	0.1990.199	0.132	0.382	1.512	0.270

a. Dependent Variable: Profit

Annex-14

Multiple Regression Analysis between Loan NPL Profits of Nabil

Year	Loan	NPL	Profit
2007/08	13278.8	182.6	635.26
2008/09	15903	178.3	673.96
2009/10	21769.8	171.4	746.47
2010/11	32268.86	667.71	1140.52
2011/12	38034.41	1313.91	1344.18
Total	121254.87	2513.91	4540.39

Regression

Variables entered/Removed (b)

Module	Variables Entered	Variables Removed	Method
1	NPL, Loan (a)	-	Enter

a. All Requested Variables entered

b. Dependent variable: Profit

Model Summary

Model	R	R. Square	Adjusted R Square	Std. Error of the Estimate
1	0.960 (a)	0.922	0.845	42.48931

a. Predictors: (Constant), NPL, Loan

ANOVA (b)

Model	Some of Squares	D.F.	Mean Square	F	Sig.
Regression	42901.197	2	21450.599	11.882	0.078 (a)
Residual	3610.682	2	1805.341	-	-

a. Predictors: (Constant) NPL, Loan

b. Dependent Variable: Profit

efficients (a)

Model	Unstandadized Coefficient		Standardized coefficients	F	Sig
	B	Std. Error	Beta		
Constant	328.451	134.950		2.434	0.135
Loan	0.020	0.005	0.958	4.222	0.052
NPL	-0.010	0.448	-0.005	-0.023	0.984

a. Dependent Variable: Profit

Annex-15

Multiple Regression Line between Deposit, loan and Advance Profit of HBL

Year	Deposit	Loan	Profit
2007/08	26456.2	15872.5	4577.87
2008/09	29905.8	17987.3	491.87
2009/10	31805.3	20233.9	635.887
2010/11	56742.9	24793.15	893.115
2011/12	456.24	27980.63	958.64
Total	162566.03	106867.48	3436.9

Regression

Variables entered/Removed (b)

Module	Variables Entered	Variables Removed	Method
1	Deposit, Loan (a)	-	Enter

a. All Requested Variables entered

b. Dependent variable: Profit

Model Summary

Model	R	R. Square	Adjusted R Square	Std. Error of the Estimate
1	0.986 (a)	0.973	0946	34.87498

a. Predictors: (Constant), NPL, Loan

ANOVA (b)

Model	Some of Squares	D.F.	Mean Square	F	Sig.
Regression	87207.816	2	43603.908	35.851	0.027 (a)
Residual	2432.528	2	1216.204	-	-
Total		4			

a. Predictors: (Constant) NPL, Loan

b. Dependent Variable: Profit

Coefficients (a)

Model	Unstandadized Coefficient		Standardized coefficients	F	Sig
	B	Std. Error	Beta		
Constant	-252.650	240.39		-1.051	0.404
Loan	0.064	0.034	1.293	1.859	0.204
Deposit	-0.013	0.028	-0.313	-0.450	0.697

a. Dependent Variable: Profit

Annex-16

Multiple Regression Line between Deposit, loan and advance and profit of Nabil

Year	Deposit	Loan	Profit
2007/08	19347.4	13278.8	635.27
2008/09	23342.28	15903	673.96
2009/10	31915	21769.8	764.47
2010/11	37789.8	32268.86	1140.52

2011/12	43239.4	38034.41	1344.18
Total	155633.88	121254.87	4540.39

Regression

Variables entered/Removed (b)

Module	Variables Entered	Variables Removed	Method
1	Deposit, Loan (a)	-	Enter

a. All Requested Variables entered

b. Dependent variable: Profit

Model Summary

Model	R	R. Square	Adjusted R Square	Std. Error of the Estimate
1	0.961(a)	0.924	0.848	42.09457

a. Predictors: (Constant), NPL, Loan

ANOVA (b)

Model	Some of Squares	D.F.	Mean Square	F	Sig.
Regression	42967.974	2	21483.987	12.124	0.076 (a)
Residual	3543.906	2	1771.953	-	-
Total		4			

a. Predictors: (Constant) NPL, Loan

b. Dependent Variable: Profit

Coefficients (a)

Model	Unstandadized Coefficient		Standardized coefficients	F	Sig
	B	Std. Error	Beta		
Constant	323.579	62.249	-	5.198	0.035
Loan	0.015	0.029	0.700	0.519	0.656
Deposit	0.004	0.02	0.264	0.196	0.863

a. Dependent Variable: Profit