Chapter - I

INTRODUCTION

1.1 Background of the Study

Banks play a vital role in developing the economy of any country. The level of overall development of a nation is characterized by the level of economic growth it possesses. The economic growth further consists of various factors like social, cultural, political and economical growth. The core of the economic growth lies in the development of well managed banking system. Hence, Bank can be considered and are extremely necessary for healthy and perennial progress of any country. By creating and mobilizing the capital and rendering various financial services, banks are contributing a lot to the establishment and development of so many small and large scale industry and domestic industries along with international trade and commerce. Though the term “Banks” refers to the transaction of money, modern banks are established mainly to facilitate the channeling of fund from the surplus units (savers) to the deficit or spending units (investors) in the economy. Moreover, banks also encourage industrial innovations and business expansion through the funds provided by them to the entrepreneur. Beside this, they discharge various function on behalf of their customer and are get paid for their services. Commercial banks undertake the payment of subscription, insurance premium, rent etc and purchase and discount bill of exchange, promissory notes and exchange foreign currency. Furthermore commercial banks also arrange to remit money from one source to another at very low price by means of Cheques, Draft, and Swift etc. They buy and sell shares and securities on behalf of the customer. Banks are very important to individual business and for the whole country. In fact, the economic development of country is not possible without a sound banking system.

Banks assist both the flow of goods and services from the producer to the consumer and the financial activities of the government. Banking provides the country with a monetary system of making payment and is an important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy.

The word “Bank” is itself derived from the French word “Banque” and Italian word “Banco”. It referred to a bench. Before, there were some moneylenders sitting in the bench for keeping, lending and exchanging of money in the market place. That was the origin of commercial in the banking history.

The origin of commercial bank in the banking history was started in 1171 AD. The first modern bank named “Bank of Venice” was established in Italy in 1157 AD. In 1401 AD, “Bank of Barcelona” was established. In Spain, Bank of Amsterdam was established in 1609 AD. The credit of development of modern banks goes to “The Bank of England” which was established in 1694 AD in London. The growth of banking accelerated only after the introduction of the banking act 1883 in United Kingdom as it allowed opening joint stock company banks.

At the end of 14^{th} centuries among the 64 castes classified based on occupation, “Tanka Dhari” Meant moneylenders provided loans at fixed rate of interest. In 1877 AD Adda was established which main purpose was to provide credit facilities to the public at minimum rate of 5%. “In the overall development of banking system in Nepal, the Adda may be regarded as the father of modern banking institution and for quite a long time it tendered a good servants as well as to the general public.

Nepal Bank Limited established in 1937 AD is the first modern bank of Nepal. The bank was established with authorized capital of 10 million out of which government contribution 51% and remaining by public i.e. 49%. It started providing services as accept deposit, extend loan, render customer related service, invest in government bonds and securities, perform agency function and act as banker to the government.

With the feeling of the need of separate institution or body to issue national currencies and promote financial organization in the country, “Nepal Rastra Bank” was established in 1956 AD as the central bank of Nepal according to the Nepal Rastra Bank act 1955. In 1865 AD, Rastriya Banijya Bank was established. In 1957 AD, Industrial Development Bank was established to promote the industrialization in Nepal that was later converted into Nepal industrial Development Corporation (NIDC) in 1959 AD. In 1990 AD, after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of NG is to get permission to invest in banking sector from private and foreign investor under commercial Bank Act 2031 BS, different private bank are getting permission to establish with the joint venture of other countries.

The banks takes almost care in analyzing the credit worthiness of the borrowing customers to ensure that the interest and the principal amount on loans are timely recovered without much trouble and legal process for the recovery. A sound lending policy is essential for the good performances of the bank. Lending policy should be carefully analyzed and the bank should be careful for effective credit creation and to minimize the risk factor.

1.2 Status of Financial Sector in Nepal

The Nepalese financial sector is composed of the banking sectors and the non-banking sectors. Banking sectors comprises of Nepal Rastra bank and commercial banks. The non-banking sector consists of development banks, finance companies, micro credit development banks, co-operative financial institutions and even non-banking sector also includes financial institutions such as Insurance companies, Employee’s Provident Fund, Citizen Investment Trust, Postal Saving offices and Nepal Stock Exchange.

During the last two and half decades the number of financial institutions has grown significantly. At the beginning of the 1980s there were only two commercial bank and two development banks in the country. After the induction of economic liberalization policy, particularly the financial sector liberalization, that impetus in the establishment of new bank and non-banks financial institutions. Consequently, by the end of mid-July 2008 altogether 235 banks and non-banks financial institutions licensed by NRB are in operation. Out of these, 25 are "A" class commercial banks, 58 "B" class development banks, 78 "C" class finance companies, 12 "D" class micro-credit development banks, 16 saving and credit cooperatives, and 46 NGOs. The following table provides the growing population of banking and non banking sectors in Nepal.

Table No. 1.1

Lists of Financial Institutions

Financial Institutions	1980	1990	1995	2000	2005	2006	Mid-June’08
Commercial Banks	2	5	10	13	17	18	25
Development banks	2	2	3	7	26	28	58
Finance companies	-	-	21	45	60	70	78
Micro credit dev banks	-	-	4	7	11	11	12
Saving and credit co-operatives	-	-	6	19	20	19	16
NGO’s	-	-	7	47	47	47	46
Total	4	7	44	98	181	193	235

Source: List of Banks and Non-bank Financial Institutions, NRB

Along with increase in the number of financial institutions and their activities the total assets/liabilities of the whole financial system witnessed continuous growth over the last six and half years. During the period of 2001 to 2007 the total assets/liabilities increased by on an average of 13.51 percent. Propelled by the strong growth of the major component of total assets/liabilities, the overall assets/liabilities of financial system increased by higher rate of 16.49 percent in the first six months of 2007/08 over 4.79 percent in the same period of last year. In mid-Jan 2008, the total assets/liabilities of financial system reached to Rs.678516.93 million from Rs.582477.30 million in mid July 2007. It was recorded Rs.273946.20 million at the end of mid July 2001. The ratio of total assets/liabilities of the financial system to GDP at nominal prices climbed by 2.55 percentage point to 82.66 percent at mid-Jan 2008 from 80.11 percent in mid-July 2007.

Banking sector, as being the largest financial sector, alone held more than 80 percent of the total assets/liabilities of the financial system. As of mid-January 2008 commercial banks group occupied the 82.11 percent followed by finance companies 10.52 percent, development bank 4.72 percent, micro credit development bank 1.77 percent and others 0.88 percent. Likewise, the respective shares were 84.23 percent, 3.89 percent, 9.18 percent, 1.77 percent and 0.93 percent in mid July 2007.

Of the component of liabilities the total deposit occupied 65.01 percent followed by other liabilities 26.86 percent, borrowing 5.62 percent and capital fund 2.44 percent in mid Jan 2008. Similarly, in the assets side loans and advances, other assets, investment and liquid fund occupied 51.27 percent, 22.27 percent, 17.63 percent and 9.84 percent respectively. The total deposit, a major source of fund for financial system accelerated by 12.91 percent and reached to Rs.441634.23 million in mid Jan 2008 compared to 9.19 percent growth in the same period of last year. The average annual growth rate was registered at 12.18 percent during the last six year.

1.3 NRB and Financial institutions: An overview

The role of Nepal Rastra Bank is clearly evident on the financial sectors whether it is the banking sector or the non-banking sector. Being a component of the banking sectors in itself Nepal Rastra Bank actively promotes supports and provided licenses to the entire banking sectors in Nepal. To further clarify the role of NRB in the financial area, a brief definition of the banking and non-banking sectors and their financial status and present position is a must for all. For this, different association affiliated with banking and non-baking sector are broadly defined below by putting more emphasis on their growth and promotions. (The data used for the basis of comparison were only up to mid July 2008. Data beyond this date was not published for the writer to include in the thesis).

The banking and non-banking sector can be further divided in to the following five major categories.

A. Commercial Banks
B. Development Banks
C. Finance Companies
D. Micro Credit Development Banks
E. Co-operatives and NGOs

A. Commercial Banks

The number of commercial banks has reached to 25 by the mid July 2008. The number of commercial bank branches operating in the country reached to 574 in mid Jan 2008.The total sources of fund of commercial bank increased by higher rate of 14.18 percent in mid Jan 2008 compared to 9.53 percent in the same period of the last year. At end of the mid Jan 2008, the total sources of fund of the commercial banks reached to Rs. 557142.3 million. It was Rs. 487970.3 million in mid July 2007.

Loans and advances, the major component of uses of fund, constituted the 48.86 percent in mid Jan 2008. Similarly, investment and liquid funds, another component of assets, registered the 18.10 percent and 8.12 percent in the same period. In the mid July 2007 the respective share of loan and advances, investment and liquid funds were 46.66 percent, 19.06 percent and 8.98 percent.

The status of non-performing loan of commercial banks shows that, they are making positive improvement over it. The proportion of non-performing loan to total gross loan of commercial banks declined by 5.14 point and remained to 8.94 percent in mid Jan 2008 over 14.08 percent in mid July 2007. At the end of mid Jan 2008, the total amount of NPL of commercial banks slightly inched up to Rs. 24360.0 million compared to Rs.24215.85 million in mid July 2007.

B. Development Banks

The number of development banks has reached to 58 by the mid June 2008. By the end of mid July 2006 it was only 28. The conversion of ADB/N into commercial banks resulted to decline in overall component of assets and liabilities of development banks by around 60% in mid July 2007 compared to the previous year. However, the first six months of 2007/08 the total assets/liabilities of development banks increased by 41.49 percent as against the 62.30 percent declined in the same period of previous year. An increase in the number of development banks attributed to expand these assets and liabilities. At the end of mid Jan 2008, these reached to Rs.32059.90 million over Rs. 22658.2 million in the mid July 2007. In mid January 2007 it was 18645.20 million.

Of the liabilities side, deposit constituted the highest share of 67.35 percent followed by capital fund 17.00 percent and borrowing 8.54 percent in mid Jan 2008. In the previous year the respective share of deposit, capital fund and borrowing were 67.84 percent, 17.92 percent and 9.85 percent. Similarly, the proportion of loans and advances to the total asset registered of 65.63 percent followed by liquid funds 15.41 percent and aggregate investment 9.09 percent in the same period

During the first six months of fiscal year 2007/08, capital funds, borrowing and deposit of development banks increased by 34.23 percent, 22.69 percent and 40.48 percent respectively. At the end of mid Jan 2008, the respective amount of capital fund, borrowing and deposits reached to Rs.5449.64 million, Rs. 2738.37 million and Rs. 21591.5 million over Rs.4060.04 million, Rs.2231.87 million and Rs.15370.0 million in mid July 2007 respectively.

At end of mid Jan 2008, on assets side, the amount of liquid fund, investment and loans & advances stood at Rs.4940.45 million, 2912.78 million and Rs.21041.8 million over Rs.3731.35 million, Rs.1430.98 million and Rs.12392.2 million in mid July 2007 respectively. The ratio of Non-performing loan of the development banks declined to 4.50 percent in mid Jan 2008 as against 5.16 percent in mid July 2007. The total amount of NPL remained to Rs.810.5 million at end of mid Jan 2008.

C. Finance Companies:

Subsequent to the financial sector liberalization a number of finance companies came in to operation in the country. By the end of mid Jan 2008, total number of finance companies increased 79 from 74 in mid July 2007. During this period one finance company is upgraded into B class development banks while 6 other new finance companies came into operation. Out of that, only 25 companies have been operating outside the Kathmandu valley.

The total assets/liabilities of the finance companies increased by 33.48 percent and reached to Rs.71365.76 million in mid-Jan 2008 from Rs. 53466.3 million in mid-July 2007. Of the total liabilities deposits held the largest share of 57.29 percent followed by borrowing 12.78 percent and capital fund 7.86 percent. On the assets side, loans and advances, liquid funds and investment held 62.81 percent, 20.37percent and 7.86 percent respectively.

Based on un-audited financial results of second quarter revealed that the proportion of NPL to total loan declined by more than two point to 4.39 percent in mid Jan 2008 from 6.17 percent in mid July 2007. By the end of mid Jan 2008 the total amount of NPL remained to Rs.194.4 million from Rs. 213.9 million in the last year.

D. Micro Credit Development Banks:

The total number of "D" class micro credit development banks remained the same as last year. As of mid Jan 2008 there were altogether 12 micro credit development banks. Out of these five are Regional Rural Development Banks.

During the first six months of 2007/08 the total assets/liabilities of micro credit development banks increased by 16.70 percent and reached to Rs.11998.94 million from Rs.10281 million in mid July 2007. Of the total assets/liabilities the proportion of Regional Rural Development Banks decreased to 34.31 percent in mid Jan 2008 from 38.57in the last year. In mid Jan 2008, the total outstanding of micro credit increased by 11.54 percent amounting to Rs.6447.6

million from Rs.5780.6 million in mid July 2007. Out of the total micro credit only 28.62 percent is held by Regional Rural Development Banks.

- Rural Development Banks

There are five regional level rural development banks involved in micro credit activities. The total assets/liabilities of these Banks inched up by 3.82 percent and reached to Rs.4117.1 million in mid Jan 2008 from Rs. Rs. 3965.5 million in mid July 2007. Of the total liabilities, borrowing constituted 70.47 percent, deposit 13.29 percent and capital fund 7.35 percent. Similarly on the assets side, loans and advances held the highest share of 44.83 percent followed by aggregate investment 38.76 percent and liquid fund 4.71 percent in the mid Jan 2008.During the first six months of 2007/08, deposit and borrowing increased by 4.35 and 5.64 percent respectively while the capital fund decreased by 10.61 percent. Likewise, in the assets side, the total credit and investment increased by 4.21 percent, 3.51 percent respectively.

However, the liquid funds decrease by 1.77 percent in the same period. By the end of mid Jan 2008, capital funds, borrowings, and deposit accounted to Rs. 302.5 million, 2901.5 million and 547.1 million respectively. Likewise, the liquid funds, investment and loans & advances stood at Rs. 194.0 million, 1595.9 million and 1845.6 million respectively.

- Micro Credit Development Banks

The total assets/liabilities of other micro credit development banks increased by 24.79 percent and reached to Rs. 7881.8 million in mid Jan 2008. It was Rs. 6315.9 million in mid July 2007.

In mid Jan 2008, the borrowing constituted 59.14 percent followed by capital fund 10.30 percent and deposit by 9.81 percent respectively. On the assets side, loans and advances a major chunk of assets, held the 58.39 percent while other components aggregate investment 20.39 percent and liquid fund 8.65 percent in the same period. During the first six months of current fiscal year 2007/08, capital fund borrowing and deposit increased by 4.04 percent, 11.96 percent and 32.18 percent compared to the previous year respectively.

The growth rate of respective components in the last year was 17.96 percent, 74.98 percent and 40.03 percent. As of mid Jan 2007, the capital fund, borrowing and deposit reached to Rs. 811.6 million, Rs.4661.6 million and Rs.773.5 million respectively.

On the assets front, aggregate investment increased substantially by 252.81 percent and reached to Rs.1607.4 million over 15.97 percent growth in the same period of last year. During the first six months of 2007/08 outstanding of micro credit increased by 14.77 percent and reached to Rs.4602.0 million from Rs.4009.6 million in mid July 2007. The liquid fund in the mid Jan 2008, decreased by 56.73 percent compared to mid July 2007and remained to 681.7 million from Rs.1575.3 million.

E. Cooperatives and NGOs:

The number of financial cooperatives licensed by NRB to conduct limited banking activities decreased to 16 in mid-Jan 2008 from 17 in mid July 2007. As against the decline in the number, the aggregate assets/liabilities of the cooperatives increased by 9.04 percent and reached to Rs. 3914.85 million in mid-Jan 2008 from Rs. 3590.39 million in mid-July 2007. Of the total liabilities, deposits accounted 67.90 percent, capital funds 9.32 percent and borrowings 4.88 percent. Similarly, loans and advances held 67.78 percent of total assets. Other components of total assets namely liquid funds and investments held 17.26 percent and 5.59 percent respectively.

During the first six months of 2007/08 the capital fund increased by 5.50 percent compared to 6.51 percent in the last year. The total deposit, a major chunk of sources of fund, grew by slower rate of 4.45 percent as against the 14.35 percent growth in same period of last year. By the end of mid Jan 2008, it reached to Rs.2658 million. Similarly, the borrowing accounted a higher rate of 97.53 percent growth in mid July 2007 compared to the last year. In mid Jan 2008, loans and advances the major component of uses of fund, increased by 9.13 percent and reached to Rs. 2433.58 million from Rs.2229.81 million in mid July 2007. Similarly, liquid fund and investment increased by 26.55 percent and 12.91 percent in the same period of last year. By the end of mid Jan

2008 liquid fund and investment reached to Rs.619.75 million and Rs.200.65 million respectively.

The total number of NGOs licensed by NRB to perform as a financial intermediaries remained the same to 47 in the mid Jan 2008. However, the total sources and uses of fund of these NGOs increased significantly and reached to Rs. 2034.17 million in mid Jan 2008 from Rs.1842.26 million in mid July 2007. By the end of mid Jan 2008 total outstanding micro credit of these NGOs stood at Rs. 786.89 million. It was Rs. 775.69 million in mid July 2007. Similarly, during this period Rs. 143.78million was mobilized as a macro saving. As of mid Jan 2008, borrowing stood at Rs.1281.36 million.

1.4 Brief Introduction to Commercial Banks

Commercial Bank is a financial institution, which transfer monetary sources to users to users. In the process of such intermediation, Commercial Bank deploys funds raised from different sources into different assets with a prime objective of profit generation and administration assistance. According to commercial bank act 2031, “A Commercial Bank means the bank which deals in exchanging currency, accepting deposit, giving loan and doing commercial transaction”. The Commercial Banks pool together the savings of the community and arrange for their productive uses. They supply financial needs of modern business.

The main purpose of establishing Commercial banks was to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

All commercial banks barely follow the directives and policies of Nepal Rastra Bank. NRB functions as the central bank of Nepal. NRB formulates financial and monetary policies under which commercial banks and financial institution are functioning.

Till mid June 2008 there are 25 commercial banks operating in Nepalese financial market.

1.5 Focus of the Study

Commercial bank performs multiple functions among them lending and recovery or fund mobilization is the most important function. Here focus has been given how the concern banks have lent their loan, how the lent loan has been performing and what is the recovery status. The target has been done to identify whether or not the directives of NRB are followed.

1.6 Profile of the Concerned Banks

As there has been number of commercial banks established, the research has been taken in to consideration of Everest Bank limited, Himalayan Bank Limited, NABIL Bank Limited and Nepal Investment Bank Limited.

1.6.1 Everest Bank Limited (EBL)

Everest Bank Limited was established in 19th November, 1993 (2049/09/03) and started banking transaction in 16th October 1994 (2051/07/01). This is the joint venture bank with Punjab national bank of India and Nepalese promoters. A team of professional departed by Punjab National Bank under the Technical Service Agreement manages it, and managing director is the executive director depute by PNB under this arrangement. Now the bank has 29 branches including main branch (i.e. head office) in Nepal.

It has the following share holding patterns.

I.	Punjab National Bank (India)	20%
II.	Nepalese promoters	50%
III.	General public	30%

It provides following facilities and services to their customer

- Deposit
- Loan and Advances
- FC Deposits/Lending

- Trade Finance Activities
- Remittance Facilities
- Foreign Exchange
- Facilities for NRN
- Other Facilities

1.6.2 Himalayan Bank Limited

Himalayan Bank Limited (HBL) was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with employee's provident fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by Nepalese private sector. Besides commercial banking services, the bank also offers industrial and Merchant Banking services.

It provides following facilities and services to their customer

- Deposits
- Loans
- Locker Facility
- Remittance
- Foreign Trade
- Internet Banking
- SMS Banking
- Evening Counter
- Weekend Banking
- Internet Banking

1.6.3 NABIL Bank Limited

NABIL Bank Limited, the first foreign joint venture commercial bank of Nepal, started operations in July 1984. Nepal Arab Bank Limited was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objectives, the bank provides a full range of commercial banking services through its 28 branches across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

NABIL bank is a full services bank providing an entire range of product and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Product for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides in being "Your Bank at Your Service".

It provides following facilities and services to their customer:

- Deposits
- Loans
- Remittances
- Cards & ATMs
- E-Banking
- Consortium loans
- Letter of credit
- Bid bond

1.6.4 Nepal Investment Bank Limited

Nepal Investment Bank limited (NIBL), Previously Nepal Indosuez Bank ltd, was established in 1986 as joint venture between Nepalese and French partners. The French partner (holding 50% of the capital) was credit agricole Indosuez, subsidiary of one of the largest banking groups in the world.

With the decision of credit agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialist and businessperson, in April 2002, acquired 50% of the holdings credit agricole Indosuez in Nepal Indosuez Bank.

It provides following facilities and services to their customer:

1.	Deposits	2.	Trade finance
3.	e-Banking	4.	Remittances
5.	ATM	6.	Export Credit
7.	Ezee Saving	8.	Bills purchased
9.	365 Days Banking	10.	Tele Banking Services
11.	NTC Mobile Bill Payment	12.	Any Branch Banking
13.	Loans and advances	14.	Safe deposit locker
15.	Vehicle Loans	16.	Banks Guarantees
17.	Debit Card	18.	Clearing/ Collection

1.7 Statement of the Problems

However, subsequent development of Commercial Banks in quality has not been satisfactory. Commercial banks in Nepal have been facing various challenges and problems. Some of them are arising due to the economic conditions of the country, some of them are arising due to lack of policy clarity of government and many of them are arising due to default borrowers. After liberalization of economy, banking sector has growth and various opportunities have emerged.

However the financial institutions do not seem to be performing well, liquidity is high with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited sectors available. Banks and financial institution are investing in house loan, hire purchase loan for safety purpose. Due to lack of good lending opportunities, banks appear to be facing problems of excess liquidity. Nowadays, banks have increasing amount of deposit in fixed and saving account but have decreasing trend in lending behaviors. So, this has caused major problems to the commercial banks. Due to competition among banks, the recovery of the banks credit is going towards negative trends. Non-performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of banks and financial institutions, NRB Has Renewed its directives of the credit provision.

Therefore, it is necessary to analyze the credit management' or credit disbursement recovery provision for loss and write off of the credit.

The research work intends to explore the followings questions:

1. Are the lending practices of the Commercial Banks match with the lending policy they adopted?
2. Do commercial banks follow NRB (Nepal Rastra Bank) directives in terms of lending?
3. What are the trend of deposit, credit and profitability of commercial banks?
4. What is the portion of non-performing loan in total lending?
5. What is the situation of liquidity of commercial Banks?

1.8 Objectives of the study

For any kind of research work or study, first of all the objectives should be determined. It shows the way to achieve desired goals. The Main objective this study is to analyze the lending policies of Commercial Banks. The specific objectives of this study are:

1. To measure the banks' lending strength and lending efficiency.

2. To analyze the effectiveness of lending practices of Commercial Banks.
3. To study the position and utilization of deposit, lending efficiency and its contribution to profitability of banks under study.
4. To analyze the recovery status of the credit disbursed.
5. To analyze the opinion of lenders and borrowers towards lending practice of the Banks.

1.9 Significance of the Study:

Lending policy has become an integral part of almost every banking operation. It is indisputable that the loans and advances are major sources for generating profit in case of financial institution. Fund collected by bank should be cautiously allocated under loans and advance. This undertaken venture is pivotal factor to know the true affairs and position of financial institution concerning management of disbursed loans and advances. This will also be guideline for improving their performance to achieve their objectives. This study will also help to identify the hidden weakness regarding loan management of financial institution.

In a nutshell, at present the commercial banks are gaining wide popularity through their efficient management and professional services a playing an eminent role in the economy. Lending is one of the main functions of commercial bank where whole banking business rested upon. Study on commercial bank especially their lending practice carry a great significance to the following group.

© To the management

© To the policy makers

© To the outsiders and Stakeholders

© To the Shareholders

As this research has made mainly to analyze the lending and their management, it will provide valuable insight to different stakeholders about the major problems of banks and bank's action for its management. Further, the bank will know not only the current performance but also the idea about their strength and weaknesses.

1.10 Limitation of the Study:

Every research has its own limitation and this research also has no exception. This study will be limited by the following factors:

- © Due to the time and resource factor only four joint venture banks are taken for the study. They are Everest bank ltd, Himalayan bank ltd NABIL Bank Limited and Nepal Investment Bank limited.
- © Tools used in the study have its assumption and characteristic which itself may provided some weakness on the outcome.
- © Mostly, Secondary data will be used for the result interpretations. For this, information from websites, journals, unpublished as well as published thesis works and other published articles and reports will be used.
- © The Study covers information of a period of five years only.
- © The study mainly concerns only on those factors related with credit management of the Banks under study.
- © Limited resources like time and cost factor have also constrained te study to conduct at desirable extent.
- © This study will be done for the partial fulfillment of master in business studies program of Tribhuvan University.

1.11 Scheme of the study

Chapter I: Introduction

The first chapter is an introductory chapter, which contains background of the study, introduction of commercial banks, focus of the study, profile of the concerned banks, statement of problem, objectives of the study, significance of the study, limitation of the study and scheme of the study

Chapter II: Review of literature

The second chapter of the study will assure reader that they will be familiar with important research that will be carried out in similar areas. It also established that the study as a link in a chain of research that is developing and emerging knowledge about concerted field.

Chapter III: Research Methodology

Research methodology will refer to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It will describe about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter IV: Presentation and Analysis of data

This chapter will analyze the data related with study and present the finding of the study and comment briefly on them.

Chapter V: Summary, Conclusion and Recommendation

Based on the results from data analysis, the researcher will conclude about the performance of the concerned organization in terms of credit management. It will also give important suggestion the concerned organization for better improvement.

Bibliography

The sources of literature reviews like Books, Articles, Journals, Thesis, and Websites are included in this heading.

Appendices

Various calculations, raw data, their classification and Tabulation are shown in this heading.

Chapter - II
REVIEW OF LITERATURE

This chapter is concerned with review of literature relevant to the topic "Lending Policies of the Commercial Banks of Nepal".

2.1 Conceptual Review

The chapter focuses to discuss briefly about the theoretical concept of the loans and advance and it's relation with other subject.

2.1.1 Commercial Banks

Commercial bank act 1974 defines commercial banks: 'A commercial bank means bank which deals in exchanging currency, accepting deposit, giving loan and doing commercial transactions.'

Commercial banks are the largest source of finance and its business is largely confined to business institutions. Hence, the name is termed as commercial banks. Though the commercial banks were established with the concept of supplying short term credit and working capital needs of the industries, they started to provide loan-term loans up to 10 years by the provision made in commercial bank act 1974. after the enforcement to lend in priority sector and deprived sector, these banks initiated to provide credit to small and cottage industries, agriculture and services etc.

2.1.2 Concept of Credit:

The word "credit" is derived from Latin word 'credo'. In Latin language, the meaning of 'Credo' is 'I believe'. Generally, credit signifies belief on circumstances or situation. Based on the belief banks provides much more loan on limited resources. Therefore, credit is the loan provided by the bank with its resources based on belief.

Credit is purchasing power not derived from income, but created by financial institution either as an offset to idle incomes held by depositors in the bank, or as a net addition to the total amount of purchasing power".

According to Dahal & Dahal "Credit means a direct or indirect promise to invest money and the right to recover such amount of investment in return and the interest of such credit or payment of other charges, the refinance given against the security of creditor investment. Credit restructuring and renewal of credit, the guarantee made for repayment of credit or any those promise for such repayment and the word also includes any type of debt.

Criteria for Lending Loan:

To put in simple words when a loan is made the following 5 C's of credit needs to be evaluated:

1. Character

Responsibility, truthfulness, serious purpose and serious intention to repay all money owed make up what a loan officer calls character. First, the loan offer must be convinced that the customer has a well-defined purpose for requesting bank credit and serious intention to repay. The loan officer must determine that the borrower has a responsible attitude towards using borrowed fund and is truthful in answering the banks questions. If the loan officer feels the customer in insincere in promising to use borrowed fund and in repaying as agreed, the loan should not be made to the applicant.

2. Capacity

Capacity refers to the borrower's ability to generate sufficient cash flow from normal operations to meet future obligations. It needs to be analyzed whether the business has the resources (funds, income and revenue) to repay the debt. The business should be sound enough to generate profit, which is sufficient for not only repayment of bank loans but also provides reasonable return for the promoters.

3. Capital

It represents the funds retained in the borrowing entity to provide a cushion against unexpected loss. A strong equity position will provide financial resiliency to help a firm whether periods of operational adversity. Capital is often looked at as the amount of money that you have invested into your own business. A financial lender or an investor may be curious as to why you are seeking financial assistance using your own assets. Many lenders of investors also want to know if you plan to use your own money to help your business succeed when needed.

4. Collateral

Collateral is the security proposed by the borrower. The loan officer must answer the question; does the borrower posses adequate net worth or own enough equity assets to provide adequate support for the loan? The loan officer is particularly sensitive to such feature as the age, condition and degree of specialization of the borrower's assets.

5. Condition

The credit analyst must be aware of trends in the borrower's line of work or industry. It must be clear that how the changing economics conditions might affect the loan. A loan can look very good on paper, only to have its value wear down by declining sales or income in a recession or by the high interest rate occasioned by inflation.

Principle of Credit policy

A banker has to follow a cautious policy and conduct the business of lending based on certain sound principle. These principles are as follows:

1. Principle of safety of funds

A banker's first duty is to see that money, which it lends, comes back to him. Scrupulous are must be taken to see that the funds lent are not subject to any undue risk of being lost due to deployment for unproductive or speculative ventures or due to dishonesty of the borrowers. The recovery of banks money will not only be safe at the time of lending but will remain so throughout.

2. Principle of liquidity

Liquidity means short-term solvency of the borrower. A banker is essentially the lender of short-term funds because he knows that the bulks on his deposits are repayable on demand. A banker ensures that the borrower employs money for his short-term requirement and not in fixed assets, which take a long-term finance, generally, term lending institution come to the rescue of the borrower.

3. Principle of Security

It acts as cushion to grant advances and credits. Adequate values of collateral ensure the recovery of credit correctly at the right time. Accepted security should be readily marketable, handy and free from encumbrances.

4. Principle of purpose of credit

Banks and other financial institution must examine study why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institution will have heavy bad debts. Therefore, they should collect detailed information about the plans and scheme of the borrowing

5. Principal of profitability

To maximize the return on investment and lending position, financial institutions must invest their collected fund in proper sectors. Finally, they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time and nature of investment on different securities and sectors.

6. Principle of spread

One of the tools of management of risk is to spread his advances portfolio not only among many borrowers but also to diversify lending to different types of industries and against different types of securities. A banker, who puts all his eggs in one basket, is not a prudent banker.

7. Principle of National Interest

An advance may satisfy all the previously mentioned cardinal principle of good lending and still may not be desirable, if it runs counter to national interest. Purpose of advances, given by government and national interest is assumed greater importance than security, especially in priority sector lending.

2.2 Review of Books

In this subject, effort has been made to examine and review some of the related Books. Various books have been written in the related topics. Efforts have been put to get the knowledge about the lending. Some of the reviews of the books are as under:

Khadka and Singh express their opinion as, “In bank, lending is the most risky business among all. There is n risk in collection of deposits but only small careless or mistake in the loan portfolio and procedure can shock the bank profitability and survival, when bank is unable to recover the loan with interest. Therefore, there should be well-managed regulations lending aspect of bank. Such regulation should be strictly followed while evaluating the loan proposal and providing loans.” (Khadka, Sherjung and Singh, Hridayabir; 2004).

Shrestha “The commercial banks fulfill the credit needs of various sectors of the economy as well as the investment on securities, whether it is government or non government. The lending policies of commercial banks are based on the profit maximizing of the institution as well as the economic enhancement of the country” (Shrestha, Madhu sundar; 2007).

National Association of Credit Research have expressed, “Dynamic credit management requires, addition to expertness in all technical phases of credit, the ability to analyze, plan and develop objectives, policies and program, build an organization, to delegate responsibility and maintain accountability for result, review and appraise operations for conformity with objectives, policies, standard and practices and effect remedial action wherever and whenever required” (National Association Of Credit Management; 1965).

Rose, expressed “Credit Management is on the lowest administrative level, the person holding the position of credit manger or its equivalent is responsible for the actual extension of credit in actual in analyzing requests, conducting investigations, evaluating risks, setting limits and referring credits to higher authority. Making collections is another chief duty, which entails maintenance of controls, following up accounts, calling upon customers, representing the company at creditors meeting and supervision of collection correspondence.” (Rose, Peter, 1988).

Munjal, express as “Bank credit serves two functions. It helps to bridge the resources gap of customers and acts as a catalyst to stimulate increase mental production/sales and income. The banker’s judgment of his customer’s integrity plays a crucial role in his decision to lend or not to lend.”

He Further states, “Successful lending, thus, depends upon careful selection of the customer, proper appraisal of his credit needs and adequate control to ensure that his dealings with the bank are above- board and that he is complying with the terms and conditions on which credit has been sanctioned to him” (Munjal, Satish, 1997).

Radhaswami, & Vasudevan, expresses their opinion, “The Mechanism of credit creation is used to expand the business. Fluctuation in the credit facilities granted by banks has an important bearing on the level economic activities. Expansion of bank credit is followed by increased production, employment, sales and prices. In a developing economy, the banks offer more and more bank credit and increase the resources of the industries, thereby causing faster economic development. The credit facilities extended by banks must be uniform and rational; otherwise there will be haphazard development of country. The flow of credit is very much like the circulation of blood. Just as the circulation of blood has to be smooth and uniform throughout all the organs of the human body, so also credit should flow steadily and evenly through various sectors of economy. If credit flow is artificially plugged or arrested, it would do irreparable harm to economy just at clotting of our blood vessels lead to fatal results”**(**Radhaswami & Vasudevan; 1979)

It the view of Gill and Smith, “Commercial Banks perform a very important service to all sectors of the economy by providing facilities by lending and investing activities to the people. The primary function of commercial banks is the extension of credit to worthy borrowers. In making credit available, commercial banks are rendering a great social service, through their actions production is increased, capital investments are expanded, and a higher standard of living is realized. Although the investment activities of commercial banks are usually considered separately from lending, the economic effects and social results are the same” (Reed, Cotter, Gill and Smith; 1980).

Clemens expresses his opinion, “The main function of the Bank has been to mobilize surplus credit and put it to work by careful lending. And if the once clear pattern of idle credit balances in the agricultural districts and heavy lending in the developing industrial areas how now become blurred, the traditional work of the banks as mobilizes of credit , persists” (Clemens; 1963).

Baxley writes, “It is obvious to most bankers that lending is the largest source of revenue for most banks. However, it is not as equally apparent that the bankers realize lending also provides the greatest exposure to loss of bank assets. This does not imply that there is a need for management to look at each and every detail that goes in to every loan” (Baxley, James; 1997).

In the view of Shekher and Shekhar, “Two essential functions of commercial banks may be best summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then it provides this money to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. Thus the primary function of commercial banker is that of a broker and a dealer in money. By discharging this function efficiently, a commercial banker renders a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development" (K. C. Shekhar & Shekhar, Lekshiny; 2000).

Shrestha said that the commercial banks should not concentrated on the specific sector but should fulfill the credit need of various sector of the economy including agriculture, industry, commercial and social sector of the economy service sector. The commercial banks should very effective while providing loans. While providing loans, the banks should think on the maximizing the economic growth of the country as well as the profit from providing the loan for the operation of the country**.** (Shrestha, 1995).

2.3 NRB Directives Review

The central bank (NRB) has established legal framework by formulating various rules and regulation (prudential norms) to mobilize the funds in term of investment, lending etc to different parts of the nation. While making strategic plan in terms of investment and lending decision, these directives should be considered vital as they have direct impact with the banks. NRB has issued these directives in order to maintain healthy competition between these banks an also for the development of the nation in the financial sector. NRB has formulated various rules and regulation related to the banking. some of them are about investment, credit limit, priority and deprived sector loan, single of them are about investment, credit limit, priority and deprived sector loan, single borrower limit; cash reserve ratio(CRR), loan loss provision, capital adequacy ratios, interest spread, productive sector fund, paid up capital etc. commercial Bank act 2031. Nepal Rastra foreign exchange regulation act 2019 along with the prevailing Nepalese law, guides the activities of these banks.

Capital Fund:

For a new commercial bank, minimum paid up capital is Rs. 250 million for operating all over Nepal except Kathmandu valley. The paid up capital for establishing a national level new commercial bank shall be Rs. 1 billion by mid July 2009 (Ashad 2066), all existing banks must raise capital fund to Rs. 1000 million through minimum 10% paid up capital increment each year.

Capital Adequacy Ratio (CAR):

The capital adequacy ratio is the relationship between shareholders fund (capital fund) to total risk weighted assets of the bank. Capital adequacy ratio is calculated on a quarterly basis. The shortfall should be covered within next 6 months when the minimum core capital in not met. The higher the CAR the less levered the bank and safer from depositor point of view. Distribution of dividend, expansion of branches, distribution of loans, available of refinance from NRB etc are not allowed until the fulfillment of shortfall of CAR.

On the basis of the risk-weighted assets, the banks shall maintain the prescribed proportion of minimum capital fund as per the following topics:

- Core Capital

The total capital fund is the sum of core capital and supplementary capital. The core capital comprises of paid up capital, share premium, non redeemable shares, general reserve fund, and accumulated profit and loss account. However the amount of goodwill should be deducted while calculating the core capital.

- Supplementary capital

Supplementary capital comprises of general loan loss provision, redeemable preference share capital, asset revaluation fund, exchange fund and any other unspecified reserves.

For the purpose of calculation of capital fund, the amount under the following heads, subject up to one hundred percent of the core capital should be included under the supplementary capital.

Cash Reserve Ratio:

Commercial banks are required to maintain minimum cash reserve as per NRB’s regulation 22 July 2002. it requires to maintain the cash at 2 percent of total deposits, balance at 7 percent of current and saving deposit and 4.5 percent of fixed deposit. Cash reserve ratio is not mandatory for foreign currency deposit and for margin deposits.

General loan loss provision:

Under this head, provision made against the pass loan should only be included. The amount should not exceed 1.25 percent of the risk weighted assets. However, loan loss provisioning on sub standard and doubtful loans should be available too be included under the supplementary capital during the following time period:

Loan classification and loan loss provisioning;

The classification criteria area as follows:

(a) **Pass category:** All loans and advances the principal of which are not past due or past due for a period up to 3 months. Only loans falling under PASS category are termed as “Performing loan”

(b) **Substandard category:** All loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months.

(c) **Doubtful Category:** All Loans and advances the principal of which are past due for a period of more than 6 month and up to a year.

(d) **Loss Category:** All loans and advances the principal of which are past due for a period of more than a year.

The respective overdue periods of Pass, Sub-standard and Doubtful loans shall be considered for higher classification from the next day of the date of expiry of the overdue period provided for each category.

Lending institutions are not restricted from classifying the loan and advances from low risk category to high-risk category. For instance, loans falling under sub-standard may be classified into Doubtful or loss, and falling under Doubtful may be classified into Loss category. Commercial Banks are required to classify their loan on the basis of overdue aging schedule and provide on a quarterly basis as follows:

Classification of loan	Loan loss provision
Pass	1 percent
Substandard	25 percent
Doubtful	50 percent
Loss	100 percent

Pass loans are also defined as performing loans. Loans and advances falling in the category of sub-standard, doubtful and loss are classified and define as non-performing loan.

Additional Arrangement in respect of “Pass Loan”

All loans and advances extended against gold and silver fixed deposited receipts, Credit Card and against security of HMG securities and NRB Bonds shall be included 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 collateral of fixed deposit receipt or HMG securities or NRB bonds is placed as additional security against loan for other purposes, such loans have to be classified as required for other loans. As per the clarification issued by Nepal Rastra Bank earlier, loans against fixed deposit receipt 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 maturity 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 basis of amount due period, means where the interest on working capital loan in not serviced regularly. Such loans will be considered as “overdue” and qualify for classification on the basis of the overdue period. Accordingly, working capital loan will simply become PASS loan on renewal of the facility provided interest is serviced regularly. The directives has not prohibited renewal of working capital facility with extended amount and outstanding interest amount is 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, loan having any of the following discrepancies shall be classified as "Loss" Loan.

a) Loans 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 bankruptcy law 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 be found.

d) Purchased or discounted bills not realized within 90 days from the date and non-fund base facilities like letter of credit and guarantee converted into fund base credit not realized within 90 days from the conversion date, be classified in to LOSS loan where they are not realized within 90 days from due date. This is departure from the normal classification rules applicable to other loans. According bills will have only two-classification, PASS and LOSS. The directive is not clear as to treatment of bills the amount of which is transferred to a separate loan account before expiry of 90 days and remain unpaid for more than 90 days.

e) Misuse of credit

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

f) Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.

g) Loans provided to the borrowers included in the blacklist of credit information center

No loans can be provided to a black listed person, firm, company. Such an act shall be punishable under NRB Act with imposition of equivalent amount in fine. However where a borrower is black listed through other banks or financial institutions, the lending institution may provide loan loss provision according to its own classification of the loan or facility provided (earlier) to such borrower.

h) Project/Business is not in condition to operate or not in operation.

The requisite condition is "not in operation or not in condition to operate". Accordingly, loan to entities no in operation but condition exists as to their operation may not qualify for LOSS categorization under this clause. Once restructuring process is considered, classification into LOSS category may not be necessary for temporarily closed down business.

i) Credit card is not written-off within the 90days from the due date

Additional Arrangement in Respect of Term Loan

In respect of term 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 due period of overdue installation of principal and interest.

As a matter of fact, this provision is seen as the most discouraged factor on the part of banks and financial institution to lend to the projects. Even in the event of non-payment of a small installment within the stipulated period, the entire project loan, 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 suggested.

Prohibition to Recover Principal and Interest by Exceeding the Overdraft Limit

Principal and interest on loans and advances shall not be recovered by overdrawing the borrower's current account exceeding the limit of overdraft facility.

However, this arrangement shall not be construed as prohibitive for recovering the principal and interest by debiting the customer's account. Where a system of recovery of principal and interest by debiting the customer 's account exists and recovery is made as such resulting in overdraft, which is not settled within one month, then such overdrawn principal amount shall also be 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.

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, Bank and financial institution may debit the borrower's current account, irrespective of the balance available, of recovery of interest and principal. By doing so, it may buy a month's time for collecting the same. This may save the lending institution 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

Letter of Credit and Guarantees

In the event of conversation of contingent liabilities e.g., letter of credit, guarantee and other contingencies, into the fund base liability and required to make payment, such amounts shall be classified as PASS loan up to 90 days from the date of conversion. Such credit facility shall be classified as LOSS loan if not realized within 90 days.

The above provision basically covers the guarantees provided by banks and financial institution that are converted into funded facility on account of non-fulfillment of the obligations by the customer. Letter of credit not retired or failure to fulfill the guaranteed activities etc. by the customers resulting in the liability of banks and financial institution come into this category. A general confusion that remains is whether the letters of credit settled by converting the amount into Trust Receipt Loan, which are not paid within 90 days of such conversion, qualify to be categorized as LOSS Loan. It is opined that since the Trust Receipt loans are a different type of facility [provided to the customer, such conversion should not be termed as conversion from Non-funded facility to funded facility.

Loan Rescheduling and Restructuring

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

   A. Evidence of existence of adequate loan documentation and securities.

   B. The lending institution is assured as to the possibility of recovery of restructured or rescheduled loan. The term “reschedule” means process of extending repayment 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 change in time limits.

2. In addition to submission of the written plan of action for rescheduling or restructuring of loan as above, at least 25% of accrued interest outstanding on date of restructuring or rescheduling should have been collected. Renewal of loan by collecting ALL INTEREST can be classified as PASS loan.

3. 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 His Majesty's government, Ministry of industry, 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 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 terms of rescheduling or restructuring may be as per the understanding between the BFI and the borrower. This is true even in the case of recommended sick industries.

At least 25 percent of total accrued interest up to the date of rescheduled or restructuring (12% for sick industries) should have been collected. In such a case the classification of 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 clear as to the requisite treatment where portion of interest is waived and balance is collected in full. Where the lending institutions agree to waive interest accruals, the same has to be accounted, first to facilitate calculation of 25% (or 12%) interest on reduced outstanding balance.

The case of sick industries recommended by the Committee, rescheduling or restructuring is allowed will 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 least 25% is mandatory for restructuring/rescheduling.

Loan Loss Provisioning

1. The loan loss provisioning on the outstanding loans and advances and bills purchase shall be done on the basis of classification, as follows:

Classification of loan	Loan loss provision
Pass	1 Percent
Substandard	25 Percent
Doubtful	50 Percent
Loss	100 Percent

2. Provisions on restructured or rescheduled loans shall be made as follows

   a. A minimum of 12.5% provision shall be made on restructured or rescheduled loans.

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

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

Rescheduling/restructuring of loan resulting in improvement in classification to lowest risk category “(PASS) is not prohibited. However, such rescheduled loan shall require provisioning of at least 12.5%. The upper limit of such provisioning requirement is not specific 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 of minimum 12% outstanding interest is fixed at minimum 25%. Meaning, restructured loss loan can be provided provisioning at 25% (Upper limit is not prohibited though). The only concession provided in this case is rescheduled is made possible against collection of 12% interest (in other case, it is 25%). At the same time, the provisioning is required at minimum 25% (in other case it is 12.5%).

3. Full provisioning shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans. However, in case of insured loans, the provisioning requirement will be only 25% of the prescribed normal rates.

   Concession provisioning is not limited to priority/deprived sector and small/medium industries only as was the case earlier. The condition is purchase of insurance cover. Accordingly, all loans, including priority sector/deprived sector, not covered by the insurance ("presumably with deposit insurance and credit guarantee corporation) fall under normal category. The norms of classification remain same for these loans and advances also.

   In the case of rescheduling, restructuring of insured credit, the proportion of loan loss provisioning would be 3.125% (being 25% of 12.5%). However, in the case of recommended sick industries, the minimum provisioning requirement is 25%, and accordingly in the case of rescheduling, restructuring of insured credit of recommended sick industries, the minimum provisioning requirement will be 6.25%(25% of 25%)

4. Where the loan is extended only against personal guarantee, a statement of the assets, equivalent to the personal guarantee amount not claimable by any other, shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of pass , substandard and doubtful , in addition to the normal loan loss provision applicable for the category, an additional provision by <u>20-percentage point</u> shall also be provided. Additional loan loss provision as above shall also be provided for the loan which is partly covered by collateral of physical assets and

personal/institutional guarantee is obtained to cover the shortfall. Classification of such loan and advances shall be prepared separately.

By virtue of above, the loan loss provision required against a personal guarantee loan will be 21%, 45% and 70% for Pass, Substandard and Doubtful category respectively. Such an additional loan loss provisioning will be required where loan is extended against the personal guarantee only without having obtained other form of collateral. The directive also requires additional provisioning where the value of partial collateral falls short of the loan amount and partially covered by personal guarantee.

Some Additional Notes on Provisioning

The Unified Directives has withdrawn provisioning requirement at double the rate against credit and non-funded facilitates extended to the promoters or shareholders in the Promoter Group of the bank holding less than 1% of total issued capital. Now, such facility is entirely prohibited and disclosure is required of facilitates extended earlier.

A cent percent loan loss provisioning shall be provided for the amount due from blacklisted person, firm, company or organized institutions. Where such provisioning is found to have not been maintained, the concerned Chief Executive Officer shall be imposed with a penalty of up to Rs. 500,000 under section 100(2)(c) of Nepal Rastra Bank Act, 2058.

Lending to the family member of any black listed individual shall require provisioning at double the required amount under the existing arrangement. However, provision in excess of one hundred percent shall not be necessary.

The full amount of excess provisioning made against the pass, substandard, doubtful and bad loans that those prescribed by Nepal Rastra Bank, as well as loan loss provision made against restructuring and rescheduling loan can be included as the additional loan loss provision under supplementary capital. However, the total of above loan loss provisioning amount shall not exceed 1.25 percent of the total risk weighted Assets.

Where the financial guarantee is not provided as prescribed such guarantees shall be liable for provisioning at 100%.

Where a licensed institution has extended loan or facility to one customer, firm, company or group of related borrower in excess of the prescribed exposure limit, such excess credit of facilities shall be provided with cent percent additional loan loss provisioning to cover the concentration risk.

In the event of directives issued by Nepal Rasra Bank, an additional loan loss provision shall be provided at 100% for excess concentration in sector of the economy.

Adjustment in Provisioning

(1) Except under the following cases adjustment of loan loss provision is prohibited.

(a) The loan has been completely written off. This may be on account of part recovery and part written off. The requirement is complete wipe out of loan portfolio.

(b) In the event of repayment of installment or partial payment of loan, the loan loss provision has to be provided as per loan classification and write back the provisions related to the amount of repaid loans.

By virtue of this, adjustments in loan loss provision amount are permitted where the entire loans and advances have been classified and adequate provision is made against the same.

(c) Where the installment of principal and interest of restructured or rescheduled loan is serviced regularly for two consecutive years, the loan loss provisioning may be adjusted. However, the amount adjusted by writing back the loan loss provision cannot be used for distribution of dividend or issue bonus shares by showing in the profit.

By virtue of this, though rescheduling/restructuring of loan is possible, the advantage in terms of writing back previously provided loan loss provisioning would not be available unless service is regular consecutively for 2 years.

The written back provisioning amount against rescheduled or restructured loans cannot be used for distribution of dividend or even issue of bonus shares. It is not time bound, simply a non-permitted activity. How long this has to go is also not specified. The accounting treatment of this needs clarification from Nepal Rastra Bank Even if the “Profit” arising on account of provisions written bank is not distributed, it will have to be capitalized into Retained Earning. This will require maintenance of records so that the bonus issue at a later stage, if any, does not “consume” the provision written back amount.

2.4 Review of Articles

Under this heading, efforts has been made to examine and review some of the related articles published in different economics journals, bulletin of world bank, dissertation papers, magazines, newspapers and other related books.

Shrestha has presented a short scenario of investment management from his articles “Portfolio management in commercial banks, theory and practice” has stressed in case of investors having lower income, portfolio management may be limited to a small saving incomes but on the other hand portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for the individual as well as the institutional investors.

Shrestha in her articles, “Lending operation of commercial banks of Nepal and its impact on GDP” has presented with the objectives to make an analysis of contribution of commercial banks’ lending to the GDP of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered

GDP as the dependent variable and various sectors of lending Viz. agriculture, industrial, commercial service and general multiple regression technique has been applied to analyze the contribution.

Pradhan in his articles, “The importance of loan information center and its activities” published in NRB annual publication says that the loan information center was established to fulfill the necessity of a company working in relation to information related to loan. He further adds that the negative, trends like delaying the payments of principal and interest, deficient loan approval procedures, lack of constant inspection of project, lack of coordination between bank and finance companies have aided in the increase of non-performing loans ultimately affecting the national economy negatively. The author recommends the banks and finance companies to help the loan information center by following the directives of Nepal Rastra bank and utilizing the information obtained from the center so that positive changes can be witnessed.

2.5 Review of Thesis

Khadka, in his thesis paper “Non-Performing Assets of Nepalese Commercial Banks” provides details information about the non-performing assets of the related banks and the provision related to the non performing assets of Nepalese Commercial Banks. Significance, of this thesis is that it is able to overcome through the following questions passed in research; Whether or not Nepalese Commercial banks is following NRB’s regulations/directives regarding their lending, especially to maintain the provision? In addition, how does non-performing assets effect on return on shareholders equity and return on total assets? The study is based on secondary data, which may or may not provide exact vision of the field. The tool used is correlation analysis.

This thesis analysis has found that no one bank has been maintaining loan loss provision as per requirement of NRB’s directives. It may create legal hassles to the bank. It express that fundamental change are necessary to cover such system but what exactly is the fundamental change has not been explained. Recommendation of taking the loan and feasibility of the loans should be carefully analyzed. The liquidation of collateral does not turnout to be as simple as it sounds.

Maskey, in his thesis paper, “A study on lending performance with reference to Nabil Banks Ltd., Standard Chartered Bank Ltd and Nepal Investment Bank Ltd”. The thesis gives the objective of studying the relationship among different financial indicators relating to loans and advances, total investment, profitability, deposit and non-performing loan in commercial banks under the study. In this study, financial and statistical tools are used. The data used in this research is mainly secondary nature and extracted from the annual reports of concerned banks and website of Nepal Stock Exchange.

Conclusion is given as the banks are following NRB guidelines of loan classification and provisions which makes bank financially strong instead of holding high volume of NPA’s is addition to all the guidelines followed by NRB and the banks internal policy. The thesis is missing to give the fact of why the non-performing rates are not being relatively affected beyond the precautions of the banks to keep the collateral. Also primary data collection is limited through the questionnaire with banking officials only. The actual lender opinion about lending policies is missing.

Shilpakar, in her thesis paper “A study on lending practices of finance companies of Nepal”. The main objective is of highlighting the fact regarding lending and recovery and highlighting the NRB directives regarding loans and advances. The tools used in the thesis are financial and statistical tools.

This thesis is able to fulfill its objectives of what a loan actually is. What is the principle of good Loan? Quality of loans is objected to highlight. To measure the lending performance in quality, efficiency and it’s contribution in profitability secondary data are used. The liquidation of collateral, as regarded as security against the loans and advances is one very tedious job. Realization of default loan from the liquidation of collateral does not turn out to be as simple as it sounds qualitative analysis comes only on the theoretical base. A huge amount of primary data is necessary to be collected to be collected to fulfill the objective of qualitative analysis.

Parajuli, has concluded his study entitled, "Credit Management of Commercial Banks in the context of financial reform program". The researcher main objective was to study procedure of granting loans, to find relevancy of the financial sector reform program, to examine the level of NPL's. The data used in this research is both primary and secondary data. Financial and statistical tools are used in this research.

This research analysis has found that there should extra cautions for the financial liberalization and reforms of the financial sector. Therefore, financial sector reform program policies are equally viable to the private and public bank too. This thesis recommended that more focus should be given to improve the credit management of NBL such as credit granting procedures, updating the credit files, value of collateral and marinating the loan loss provision adequately.

In this research, the different procedures while granting loans and the loan loss provisions are missing,

Maharjan, has carried out research on "Loan Management of Nepalese Commercial Banks" has examined the loan management of the commercial banks in Nepal. The main objectives of the study were how far the banks are investing in the priority sector and the deprived sector, the trend of the deposit and the loan, loan loss provision made by banks. The data used in this research are secondary data and tools are statistical.

The researcher concluded that loan and advances are the profitable assets for the banks and it's very risky too. Due t this reason, the loans and advances should be effectively managed and controlled. The recommendation was to follow the NRB directives because thinking the beneficial in terms of the banks and the strength the financial condition of the country directives should be made.

In this research only how to lend is discussed but the recovery management is missing.

Shahi, in this thesis paper, “Lending Operation and Practice of joint Venture Banks in Nepal”, has examined the lending operation and practice of joint venture banks. The main objectives of the research is to determined the liquidity position, to measure the banks lending strength, to analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector. The data used in this research is of secondary type and tools are financial and statistical.

This research has concluded that the high volume of liquidity shows that the high degree of lending strength has been prevailing in all of these banks. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping these banks to less orient towards the lending function. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in rural economy.

Singh, in this thesis paper “NRB Directives implementation and in impact on selected commercial bank in Nepal” has examine the impact to the changes in the NRB Directives on the performance of the commercial banks, In addition, an effort was made to find out if the directives were implemented and that if NRB was taking enough steps to monitor the implementation. The study is limited to only HBL, SCBL, BOKL and NABIL Bank ltd.

This thesis concluded that the changes in the directives would bring prosperity not only to the shareholders but also to the depositors, the employee and the economy of the country as a whole.

The recommendation was commercial banks have to come up with a stronger internal audit department to make sure that the directives are properly implemented. Banks needs to give priority in Human Resource Development to monitor and collect already disburse loans. NRB should be more practical while issuing the directives. The directives should not be issued to meet the international standard only but also, they need to be applicable in the context of Nepal.

The major gap in this thesis study is that this study is related to analysis of implementation and impact of NRB directives of commercial banks in Nepal. So, the additional research can be made on the study of implementation and impact of NRB directives in finance companies.

Shrestha in her thesis paper "Impact and implementation of NRB Guidelines (Directive of commercial Banks- A study of Nabil Bank limited and Nepal SBI Bank have been fully implantation the NRB's directives. Capital adequacy Ratio of Nabil and Nepal SBI are 13.40% and 12.86% respectively, which are more than 9%. Banks are following the directives but in same cases such like supplementary capital and balance at NRB there is shortfall. The excurses amount of total deposit in balance of NRB there is shortfalls. The banks have categorized the loan amount into four diffident categories as per NRBs directives. The increasing loan loss- providing amount decreased the profit of the banks. The charge in the single borrower limit has brought down the limits of the fund based and non-fund based loans which have resulted to reduced loan exposure to banks.

In her thesis she has recommended that both Nabil and SBI banks to increase it supplementary capital as it has shortfall in comparison wit NRB guidelines and to meet the supplementary capital adequacy ratio even though it can be compensated by the excess amount of core capital. The supplementary capital needs to be increased by Rs.122.74 million in Nabil Bank and Rs.125.57 million in Nepal SBI Bank. She says liquidity and profitability are like two wheels of one cart so banks cannot run in the absence of any one of them. One can be activated only at the cost of the other. Only liquid banks can attract loan core deposit, which helps in reducing interest expenses and give loan to good customer at lower rate, which results in requirement of less provision and high net profit. So banks should increase their primary reserve now to maintain the liquidity risk due to scrap out the secondary reserve. On the basis of findings, Nabil Bank has a shortfall of Rs.140.74 million thus Nabil has to increase its balance at NRB by such amount for better performance even after adding 1% excess amount of ash of total deposit.

Primary data has been used in order to get the view of banks on the directives issued by NRB. Question related to NRB directives 1.5 are used to collect for the study and implementation of directive by commercial bank. Secondary data are also used for the analysis an this study the general directives issued in 2001 and 2002 are considered for the study. In issued directives of 2001 and 2002 there are 10 directives but only five directives i.e. (1-5) are highlighted and taken in the study.

2.6 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There have been lots of articles published related to investment policy and loans and advances of commercial banks. There are various researches conducted on investment policy of commercial banks, impact and implementation of NRB guideline in commercial banks but it has been found that no such research has been made in the lending policy of banking sector and the increasing challenges faced by Commercial Banks. Few theses have been prepared on the Credit Management. These researches are related only with trend of lending. So, this study can make further research on lending practices and their policy. Hence, the research had attempted to fill this research gap by taking reference to Everest Bank, Himalayan Bank Ltd., Nepal Investment Bank Ltd, and NABIL Bank Ltd.

Chapter - III
RESEARCH METHODOLOGY

Research is common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles: diligent investigation in order to ascertain something.

A systematic methodology is required to pick out an actual result for any special study. So, research methodology refers to various sequential steps to be adopted by a researcher in studying a problem with a certain objective in view. Thus, the chapter is to stress on the different method and conditions, which are used while conducting this study.

This chapter includes the research design, Data collection techniques, Data collection procedure, population and samples and method of data analysis

3.1 Research Design

Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Thus, a research design is a plan for the collection and analysis of data. It presents a series of guideposts for the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation a report writing, Generally, a common research design possesses the five basic elements Viz (i) Selection of Problem (ii) Methodology (iii) Data gathering (iv) Data analysis and (v) Report writing.

For the analysis of lending performance of selected commercial banks, analytical as well as descriptive designs applied to achieve the objective of the research.

3.2 Population and Samples

A population in most studies usually consists of large group because of its large size. It is fairly difficult to collect detailed information from each member of population rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub-group. The sampling allows the researches more time to make an intensive study of a research problem. The total commercial banks constitute the population of data and four banks under the study constitute the sample so for. So, among the various Commercial Banks under the banking industry NABIL Bank Limited, Everest Bank Limited, Nepal Investment Bank Limited and Himalayan Bank are selected for the study. The numbers of banks selected for study are 4 and the total numbers of banks by the mid June 2008 are 25 which cover approximately 16 percent of total population.

3.3 Data Collection Procedure

The Annual Report of concern bank was obtained from field visiting of these banks especially from their corporate office. NRB publication, such as Quarterly, Economic Bulletin, Banking and financial statistics, Economic Report, annual Report of NRB etc. has been collected from the personal visit of concerned department of NRB at Baluwatar. The data on some aspect of these banks was obtained from the website www.nepalstock.com.np of Nepal stock exchange. The primary data were collected through questionnaire, personal interview and so on and these data would be presented in required form.

3.4 Data Collection Techniques

The researcher used two types of data collection techniques. One is primary data collection and other is secondary data collection.

i. Primary Data

Primary data are those collected by the researcher on the concerned topic, which are original in nature. While studying about the lending performance, we came across primary data from different sources like: direct in-depth interviews with staffs of credit department unit of EBL, HBL, NABIL and NIBL as well as concerned customers of banks.

ii. Secondary Data

Secondary data are those collected by the researcher on the concerned topic, which are not original in nature or are originally collected for some other purposes. The main sources of secondary data were: statistical publication of Nepal Rastra Bank, Websites, Annual Reports of EBL, HBL, NABIL and NIBL different journals and business magazines etc.

In some cases primary data are also taken as personal interview, face to face and telephone interview but the study is mainly based on secondary data. So, the major sources of secondary data for this study are as follows.

- Annual reports of the banks
- Published and unpublished bulletins, reports of the banks.
- Published and unpublished bulletins, reports of the Nepal Stock Exchange
- Previous studies and reports
- Unpublished official records
- “Banking and financial Statistics” reports of Nepal Rastra Bank Magazines
- Journals and other published and unpublished related documents and reports for Central Library of T.U. and Library of Nepal Rastra Bank
- Various internet Websites
- Other published materials etc.

3.5 Methods of Data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research.

To make the study more specific and reliable, the researcher uses two types of tool for analysis.

i) Financial Tools and ii) Statistical tools

3.5.1 Financial Tools

For the analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, total deposit, total investment and total income analysis have been used.

Ratio Analysis

Ratio Analysis is a powerful and most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the relationship between two or more things.

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situation. For this study, ratios are categorized in to the following major headings.

A. Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short-term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined.

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earning performance. To find out the ability of the bank to meet their short term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

i. Current Ratio

Current ratio indicates the ability of the bank to meet its current obligation. It measures the relationship between current assets and current liabilities. 2:1 ratio is the standard ratio, which is expressed as:

$$Current\ Ratio\ \mathrm{X} \frac{Current\ Assets}{Current\ Liabilities}$$

Current assets are those assets which can be converted in to cash within a year and so it includes cash and bank balance, investment in treasury bills, bills purchased and discounted, customer acceptances liabilities, prepaid expenses, bills for collection, likewise current liabilities denotes current account deposits, saving account deposits, margin deposits, bills payable, call deposits, bank overdraft, inter-bank reconciliation account, provisions, customer's acceptance liabilities etc.

ii. Liquid Fund to Current Liability Ratio:

Since the current ratio gives only the short and crude idea of liquidity position of a firm, measuring its liquidity ratio depending on liquid fund is more significant. Liquid fund comprises of those assets, which can be converted into cash within a short period without decline in their value cash in hand balance with NRB balance with other banks and money at cell included in calculating the liquid fund. The ratio measures a bank ability to discharge its current liability in an adverse condition without undergoing its liquidity risk

$$Liquid\ Fund\ To\ Current\ Liabilities\ Ratio\ \mathrm{X} \frac{Liquid\ Fund}{Current\ Liabilities}$$

iii. Liquid Fund to Total Deposit Ratio

The deposit constitutes the major part of the banks' liability. Flow of deposit is always uncertain which make fund management of bank uncertain too. Hence, the ratio of liquid fund to total deposit indicates the banks' strength to meet uncertain flow of deposit.

$$Liquid\ Fund\ To\ Total\ Deposit\ Ratio\ \mathrm{X}\frac{Liquid\ Fund}{Total\ Deposit}$$

B. Measuring the Lending Strength

The relationship between various Assets and Liabilities of the balance-sheet will be established to show the active strength of lending of each bank comparatively. So these ratios are also called Assets/Liability management ratio. Since, the sampled banks are comparable in volume of deposit, loans and advances and other variables also; an attempt is made to determine the lending strength in relative figure between banks.

i. Loans & Advances to Total Deposit Ratio

Loans and advances are the major area of fund mobilization of Commercial Banks. Loans & Advances is the first type of application of funds, which has more risk. Loans & Advances and total deposit ratio indicates the firm's fund mobilization power in gross. The main sources of bank's lending are its deposit. Thus, this ratio measures how well deposits have been mobilized. This ratio measures the ability of a bank generating income from bank's deposit liability.

$$Loan\ \&\ advances\ to\ total\ deposit\ ratio = \frac{Total\ Loan\ \&\ advances}{Total\ Deposits}$$

ii. Loans & Advances and Investment to Total Deposit Ratio

Loans & Advances and Investment are the major area of fund mobilization of Commercial Banks. Loans and Advances is the first type of application of funds, which has more risk as compare to Investment and gives more returns. Investment is cushion against the liquidity risk and at the same time it gives return. Loans & Advances and investment to total deposit ratio indicates the firm's fund mobilizing power in gross. The main sources of bank's lending and investment is its deposit. Thus, this ratio measures how well the deposits have been mobilized. This ratio measures the ability of a bank in generating income from bank's deposit liability

$$\text{Loan \& advances and Investment to Total Deposit Ratio} = \frac{\text{Total Loan and investment}}{\text{Total Deposits}}$$

iii. Loans and Advances to Shareholders Equity

Shareholders' equity is consisted of share capital, share premium, reserves, funds and retained earnings etc. The ratio between loans and advances to shareholders' equity provides the measures regarding how far the shareholders equity has been able to generate assets to multiply its wealth. The shareholders equity refers to the net shareholders in take in the business. Thus, the ratio measures size of the business and their success in covering liabilities into assets.

$$\text{Loan \& advances to shareholders' equity ratio} = \frac{\text{Total Loan \& Advances}}{\text{Shareholders' equity}}$$

iv. Non Interest Bearing Deposit to Total Deposit Ratio

This ratio measures the volumes of non-interest bearing deposits to total deposits. The volume of interest expenses represents a large portion of the total expenses. How efficiently the deposits are managed, affects the total volume of expenses.

The cost of deposits is the major expenses of the banks and it has to bear costly deposit costs. The banks need to manage the portfolio of deposits i.e. it has to maintain certain portion between interest bearing deposits and non-interest bearing deposits by administering the interest rate structure. The higher ratio is favorable but in practices interest bearing deposits always plays a significant role in the mix of deposit liability

$$\textit{Non-interest bearing deposit to total Deposit Ratio} = \frac{\textit{Non-interest bearing deposits}}{\textit{Total Deposits}}$$

C. Analyzing the Lending Efficiency and its contribution in Total Profitability

In this section, lending efficiency is measured in terms of quality and its turn over. A relationship between different variables related to lending efficiency is taken from Balance sheet and profit and loss account.

i. Interest Income to Total Income Ratio

Income is one of the most important parts of any business organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measure the banks performance on other fee-based activities also. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates the low contribution made by lending and investment and high contribution by other fee based activities in total income. The ratio measures the volume of interest income in total income of the bank. This ratio helps to measures the banks performance on how well they are mobilizing their fund for the purpose of income generation. This ratio also helps to measure the banks performance on other fee-based activities, since after investing functions fee based activities are the major source of banks income to total income

$$\textit{Interest income to Total income ratio} = \frac{\textit{Interest Income}}{\textit{Total Income}}$$

ii. Interest income to Interest Expenses Ratio

Interest income to interest expenses ratio measures the gap between interest rates offered and interest rate charged. NRB has restricted the gap between the interest taken in loan, advances and interest offered in deposits. The credit creation power of commercial banks has high impact on this ratio.

$$\text{Interest income to Interest Expenses Ratio} = \frac{\text{Interest Income}}{\text{Interest Expenses}}$$

iii. Interest Expenses to Total Deposit Ratio

This ratio measures the cost of total deposit in relative term. The commercial banks performance depends upon its ability to generate cheaper funds. More the cheaper fund more will be the profitability in generating loans and advances and vice-versa. The high ratio indicates of costly fund and this adversely affects its lending performance.

$$\text{Interest Expenses to total deposit ratio} = \frac{\text{Interest Expenses}}{\text{Total Deposits}}$$

iv. Interest suspense to Interest Income from Loans & Advances Ratio

Interest suspense means the interest due but not collected. NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in assets side of Balance sheet under the heading "other assets". This ratio of interest suspense to total interest income from loan & advance measures the composition of due but uncollected interest in the total interest income from loans and advances. The high degree of this ratio indicates to low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayment of the loan advanced

$$\text{Interest Suspense to Interest Income from Loan \& Advances} = \frac{\text{Interest Suspense}}{\text{InterestIincome}}$$

v. Loan Loss Provision to Total Loans and Advances Ratio

The ratio of loan loss provision to total loans & advances describes the quality of loan. NRB has directed all the commercial banks to classify its loans and advances into category and make provision according to these loan classified. The provision for loan loss reflects the increasing possibility of non-performing loan in the total volume of loan & advances. The provision also provides as cushion against future contingency made by default of the borrowers. The low ratio indicates the good quality of assets (loan) in the total volume of loans & advances whereas high ratio indicates more risky assets (loans having chances of default).

$$\textit{Loan loss Provision to Total Loans \& Advances} = \frac{\textit{Loan Loss Provision}}{\textit{Total loan \& advances}}$$

Although, various limitations of ratio analysis and doubt may arise about the valid measure of the financial performance but they are used widely to measure the financial performance of the firm.

Analysis of Growth Rate

Growth rates of various variables are calculated for this analysis. These Growth rates are directly related to fund mobilization, investment and loan & advances management of commercial banks. It represents how well the bank is maintaining its economic position. To examine and analyze following growth ratios are calculated under this study.

- Growth rate of total deposits
- Growth rate of loan & advances
- Growth rate of total investment
- Growth rate of net profit

To evaluate the growth ratio of total deposit as well as total credit growth ratio is examined. For this calculation, following formula is used

$$D_n = D_0 (1+g)^{n-1}$$

Where,

D_n = Total amount in n^{th} year

D_0 = Total amount in initial year

g = Growth rate

3.5.2 Statistical Tools

For supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, correlation, trend analysis and diagrammatic cum pictorial tools have been used under it.

I. Arithmetic Mean (X):

Average is statistical constants, which enable us to comprehend in a single effort of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\bar{X} \text{ X} \frac{x}{N}$$

Where,

$\bar{X}$ = Arithmetic Mean

N = Numbers of observation

$\sum x$ = Sum of observation

II. Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ (Shrestha, 1991:43). It is used as absolute measure of dispersion or variability. It is calculated as:

$$\pm \text{ X} \sqrt{\frac{(X \text{ Z} \bar{X})^2}{N}}$$

Where,

σ = Standard Deviation

III. Coefficient of variation (C.V.)

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

$$C.V\ \mathrm{X}\frac{\pm}{\overline{X}}$$

Where,

σ = Standard deviation

$\overline{X}$ = Mean

IV. Correlation Coefficient (r)

Correlation Coefficient is the important tool to analyze the degree of relationship between two or more variables. It is used t describe the degree to which one variable in the linearly related to other variables. It refers the closeness of the relationship between two or more variable. In other words, it is an analysis of covariance between two or more variables.

It is the statistical measure of the relationship. If any, between series of numbers representing data of any kind, from returns to test scores. If two series move in opposite direction, they are positively correlated; if the series move in opposite direction, they are negatively correlated.

The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively correlated series. Symbolically, correlation coefficient can be expressed as follows:

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

Correlation analysis describes the relationship between variables i.e. positive or negative. It helps to determine the following.

- A positive or negative relationship exists.
- The relationship is significant on insignificant.
- Establish cause and effect relation if any.

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

1. When, r = 1, then is perfect positive correlation.
2. When, r = 1, then is perfect negative correlation.
3. When, r = 0, then is no correlation.
4. When, 'r' lies between 0.7 to 0.999 (-0.7 to 0.999), then is high degree of positive (or negative) correlation.
5. When, 'r' lies between 0.5 to 0.6999 there is moderate degree of correlation.
6. When, 'r' is less than 0.5, there is low degree of correlation.

V. Coefficient of determination (R^2)

Coefficient of determination is the square of correlation coefficient. It denotes the extent of changes in dependent variables that can be explained by the independent variable. In this study, coefficient of determination is used to analyze the changes in collection by disbursement.

Coefficient of determination = r^2

VI. Probable Error (P.E.)

The probable error of the Coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$P.E. = 0.6745 \mid \frac{1-r^2}{\sqrt{N}} \quad 0.6745$$

Where,

r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e. the value of ‘r’ is significant.

Here, the researcher has been calculating the correlation coefficient between total deposits and total loan & advances as well as total loan & advances and net profit. This relationship result helps the management for policy formulation in the coming days.

VII. Trend Analysis

Trend analysis or Time series analysis enables us to forecast the future behavior of the variables under study, changes in the values of different variables and past behavior of a variable. In the data related to time span, there are three components of time series like secular trend or long term fluctuation, short term or periodic variations and random or irregular fluctuation, in this study, time series of loan disbursement and collection are shown in the figures. The experts to deal with variants, which changes, in value with time are, used time series. Variations of such quantities are analyzed by presenting on the graphs.

$$Y = a + b.X$$

The above trend equation can be calculated using following two normal equations:

$$\sum Y = na + b\sum X \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(i)}$$

$$\sum XY = a\sum X + b\sum X^2 \ldots\ldots\ldots\ldots\ldots\ldots \text{(ii)}$$

Where,

Y = Variable

X = Time span

3.6 Limitation of the Research Methodology

To carry out the research work, various financial and statistical tools are used. Similarly, descriptive as well as analytical analysis of credit management has been carried out however these tools and techniques have some limitations.

For research purpose, the six-year data are used in analyzing the financial and statistical tools, which may mislead the research work, as it is not sufficient to make projections for future regarding the performance of the bank. As far as the financial tools concerned, only ratio and trend analysis has been carried out to know the performance of the bank however there are various financial tools to measure the financial performance of the bank. With regard to statistical tools, the researcher carried out different statistical tools to make the result more concise but it may not be the valid measurement. Although, there were certain limitations during the research work, it is not so crucial that it can weaken the basic findings of the study.

Chapter - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, all the efforts have been made to analyze and present the collected data from the various sources. This chapter is the main part of the study because in this chapter collected data are presented and analyzed with the help of various financial and statistical tools, tables, graphs etc meaningfully and clearly. This chapter is performed to show the clear picture of the lending performances of the commercial banks.

4.1 Measuring the Liquidity Position of the Bank

To determine the liquidity position of the two banks under the following measures of liquidity ratio have been calculated and a brief analysis of the same has been conducted below.

4.1.1 Current Ratio

This is a crude measurement of liquidity ratio. It measures the ratio between total current assets and total current liabilities. The current asset include cash and bank balance with cheque in hand, balance with NRB, money at call and short notices, investment in government securities, bills purchased and discovered loans, and advances and other current assets, similarly, current liability includes borrowing from other banks, deposit, bills payable, and other current assets.

Table No. 4.1

Current Ratio

Fiscal Year (Mid July)								
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**	**SD**	**CV**
EBL	1.0636	1.0588	1.0923	1.0291	1.0535	1.0595	0.0227	2.14
HBL	0.7778	0.8282	0.8382	0.8486	0.8885	0.8363	0.0399	4.77
NABIL	0.9304	0.9521	0.9865	0.8959	0.9367	0.9403	0.0330	3.51
NIBL	0.9056	0.9239	0.9349	0.9282	0.9507	0.9287	0.0164	1.77
Combined Mean						**0.9412**		

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The Table 4.1 shows the ratio of current assets and current liability. The mean current ratio of EBL, HBL, NABIL, and NIBL is 1.0595, 0.8363, 0.9403 and 0.9287 respectively. The combined mean ratio is 0.9412. If we measure the performance of these banks based in combined mean, the performance of EBL is strong. Then come NABIL, NIBL and HBL in descending order of ratio.

The standard deviation of HBL is 0.0399 and CV is 4.77%, which is highest among four banks. So, it is less consistent and more risky than other bank. Standard deviation and CV of NIBL is lowest of all, which shows it is consistent and less risky.

This shows that EBL has maintained good liquid assets among these banks.

4.1.2 Liquid Fund to Current Liability Ratio

Since the current ratio gives only the short and crude idea of liquidity position of a firm, measuring its liquidity ratio depending on liquid fund is more significant. Liquid fund comprises of those assets, which can be converted into cash within a short period without decline in their value cash in hand balance with NRB balance with other banks and money at cell included in calculating the liquid fund. The ratio measures a bank ability to discharge its current liability in an adverse condition without undergoing its liquidity risk

Table No. 4.2

Liquid fund to Current Liability Ratio

Fiscal Year (Mid July)								
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**	**SD**	**CV**
EBL	0.1547	0.0923	0.1533	0.1105	0.1204	0.1262	0.0273	21.61
HBL	0.0981	0.1062	0.097	0.1004	0.1123	0.1028	0.0064	6.22
NABIL	0.1266	0.1263	0.0941	0.1169	0.0806	0.1089	0.0206	18.93
NIBL	0.1166	0.1274	0.1007	0.125	0.1133	0.1166	0.0106	9.11
Combined Mean						**0.1136**		

Source: Annual Reports of EBL, HBL, NABIL and NIBL

While observing the table 4.2 ratio of all the four banks, the combined ratio of total liquid fund to current liability is 0.1136. Based of this combined ratio, the highest ratio of liquid fund to current liability is of EBL i.e. 0.1262. NABIL and NIBL come at moderate position; 0.1089 of NABIL and 0.1166 of NIBL. HBL has lowest mean ratio of 0.1028.

In above table, the standard deviation and CV shows that the ratio of EBL is most volatile. NABIL is also near to EBL. But HBL and NIBL seem more consistent in maintaining liquid fund. It explains that EBL uses to maintain high level of liquid fund.

4.1.3 Liquid Fund to Total Deposit Ratio

The deposit constitutes the major part of the banks' liability. Flow of deposit is always uncertain which make fund management of bank uncertain too. Hence, the ratio of liquid fund to total deposit indicates the banks' strength to meet uncertain flow of deposit.

Table No. 4.3

Liquid Fund to Total Deposit Ratio

Fiscal Year (Mid July)								
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**	**SD**	**CV**
EBL	0.1702	0.1015	0.1604	0.1173	0.1314	0.136	0.029	21.32
HBL	0.1007	0.1076	0.0989	0.1027	0.1147	0.105	0.006	5.714
NABIL	0.1315	0.1316	0.0978	0.1211	0.0831	0.113	0.022	19.47
NIBL	0.1166	0.1274	0.1007	0.1249	0.1133	0.117	0.011	9.402
Combined Mean						**0.118**		

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The Table 4.3 indicates that throughout the study period of fives year the combined mean ratio of Liquid fund to Total Deposit was 0.118, which shows 11.80% of liquid fund is maintained against total deposit. EBL maintained highest level of liquid fund in respective to its deposit. The ratio is 0.136 for EBL during study period. NIBL, NABIL and HBL have Maintained 0.117, 0.113 and 0.105 fraction of total deposit as liquid fund respectively.

The calculation of Standard Deviation CV shows that EBL has volatile ratio of liquid fund to total deposit. The standard deviation and CV of NABIL is 0.022 and 19.47%, which is also close to highest standard deviation of EBL. By the analysis of SD and CV, HBL is consistent to maintain its liquid fund against total deposit.

4.2 Measuring the Lending Strength

The lending strength of these four Banks is measured in relative measures in this section. The relationship between various Assets and Liabilities of the balance-sheet has been established to show the active strength of lending of each bank comparatively. So these ratios are also called Assets/Liability management ratio. Since, these banks are comparable in volume of deposit, loans and advances and other variables also; an attempt is made to determine the lending strength in relative figure between banks.

4.2.1 Loans & Advances to Total Deposit Ratio

Loans and advances are the major area of fund mobilization of Commercial Banks. Loans & Advances is the first type of application of funds, which has more risk. Loans & Advances and total deposit ratio indicates the firm's fund mobilization power in gross. The main sources of bank's lending are its deposit. Thus, this ratio measures how well deposits have been mobilized. This ratio measures the ability of a bank generating income from bank's deposit liability.

Table No. 4.4

Loans & Advances to Total Deposit Ratio

Fiscal Year (Mid July)								
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**	**SD**	**CV**
EBL	0.7542	0.7559	0.7824	0.7344	0.7744	0.7603	0.0188	2.47
HBL	0.5162	0.587	0.5421	0.595	0.5922	0.5665	0.0354	6.25
NABIL	0.6034	0.6055	0.7505	0.6863	0.6813	0.6654	0.062	9.31
NIBL	0.7474	0.6182	0.7333	0.6963	0.7256	0.7042	0.0515	7.32
Combined Mean						**0.6741**		

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The table 4.4 shows loans & advances to total deposit ratio of sampled banks over the study period. The combined mean ratio, the banks have disbursed 67.41% of its deposit as Loan & Advances. Comparing among these Banks, EBL is most successful bank to lending its deposit as loan & Advances. The ratio, 0.7603, of EBL is the evidence of this fact that 76.03% percent of deposit is disbursed as Loan & Advances, Which is magnificently higher than the combined mean ratio of 67.41%. The NIBL is in second position in this race, which has maintained 0.6654 of Loan & Advances to total deposit ratio. The HBL has lowest of this ratio 0.5665. The cause behind its lowest ration is that this bank has divided its funds from deposit to investment in larger ration than other banks use to do.

Standard deviation and CV of loan & advances to total deposit ratio shows that NABIL has greater fluctuation in this ratio, which has 9.31% of CV during this period. The standard deviation of EBL, HBL and NIBL are 0.0188, 0.0354 and 0.0515 respectively, which shows that variability of this ratio of EBL is lowest.

4.2.2 Loans & Advances and Investment to Total Deposit Ratio

Loans & Advances and Investment are the major area of fund mobilization of Commercial Banks. Loans and Advances is the first type of application of funds, which has more risk as compare to Investment and gives more returns. Investment is cushion against the liquidity risk and at the same time it gives return. Loans & Advances and investment to total deposit ratio indicates the firm's fund mobilizing power in gross. The main sources of bank's lending and investment is its deposit. Thus, this ratio measures how well the deposits have been mobilized. This ratio measures the ability of a bank in generating income from bank's deposit liability.

Table No. 4.5

Loans & Advances and Investment to Total Deposit Ratio

Fiscal Year (Mid July)								
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**	**SD**	**CV**
EBL	1.0013	1.0704	0.9933	1.0387	1.0484	1.0304	0.0325	3.15
HBL	1.0006	1.0092	1.0133	1.006	0.9856	1.0029	0.0107	1.07
NABIL	1.0518	1.0188	1.0436	1.0057	1.0645	1.0369	0.0241	2.33
NIBL	0.9627	0.9533	1.0093	0.9923	0.9913	0.9818	0.0231	2.35
Combined Mean						**1.013**		

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The Table 4.5 shows that the combined ratio of Loan & Advances and Investment to Total Deposit ratio is 1.013. Taking combined mean as standard, EBL has top mean ratio, which maintained 1.0304 throughout the study period. NABIL and HBL has moderate ratio. NIBL has the least ratio i.e. 0.9818. So, it has not been able to mobilize the deposit efficiently.

However, the EBL has the best performance in mobilizing the fund collected for income generation; the EBL has greater variability in this ratio during this period. The Standard deviation and CV of EBL is 0.0325 and 3.15% respectively. The Standard deviation and CV of HBL is lowest, which shows HBL's Consistent performance in fund mobilization.

4.2.3 Loans & Advances to Shareholders Equity ratio

Shareholders' equity is consisted of share capital, share premium, reserves, funds and retained earnings etc. The ratio between loans and advances to shareholders' equity provides the measures regarding how far the shareholders equity has been able to generate assets to multiply its wealth. The shareholders equity refers to the net shareholders in take in the business. Thus, the ratio measures size of the business and their success in covering liabilities into assets.

Table No. 4.6

Loans & Advances to Share Holders' Equity

Fiscal Year (Mid July)								
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**	**SD**	**CV**
EBL	8.2399	8.9604	9.4892	10.528	11.721	9.7877	1.3652	13.95
HBL	10.201	9.7569	8.7247	8.9247	8.2898	9.1794	0.7811	8.51
NABIL	6.1739	5.7696	6.6038	7.0821	7.731	6.6721	0.7676	11.50
NIBL	9.2741	9.7719	8.8574	9.3104	9.4611	9.335	0.3314	3.55
Combined Mean						**8.7435**		

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The above table 4.6 indicates that the combined ratio of Loan & Advances to Shareholders' equity is 8.7435, which says that the Banks multiplied shareholders' equity by 8.7435 times to generate assets as loan & advances. The highest average ratio is 9.7877 of EBL whereas NABIL has lowest average ratio i.e. 6.6721. HBL and NIBL have moderate ratio but both have ratio lower than combined mean ratio. The above table also reveal that Standard Deviation of EBL is also highest, which indicates the greater variability of Shareholders' equity to Loan & Advances.

4.2.4 Non-Interest Bearing Deposit to Total Deposit Ratio

This ratio measures the volumes of non-interest bearing deposits to total deposits. The volume of interest expenses represents a large portion of the total expenses. How efficiently the deposits are managed, affects the total volume of expenses.

The cost of deposits is the major expenses of the banks and it has to bear costly deposit costs. The banks need to manage the portfolio of deposits i.e. it has to maintain certain portion between interest bearing deposits and non-interest bearing deposits by administering the interest rate structure. The higher ratio is favorable but in practices interest bearing deposits always plays a significant role in the mix of deposit liability.

Table No. 4.7

Non Interest Bearing Deposit to Total Deposit

Fiscal Year (Mid July)								
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**	**SD**	**CV**
EBL	0.1067	0.1079	0.1171	0.0969	0.1076	0.1072	0.0072	6.68
HBL	0.187	0.2077	0.2269	0.2082	0.1985	0.2057	0.0147	7.13
NABIL	0.2547	0.2134	0.2153	0.1693	0.161	0.2027	0.0382	18.83
NIBL	0.1522	0.1551	0.1381	0.1048	0.104	0.1308	0.0250	19.09
Combined Mean						**0.1616**		

Source: Annual Reports of EBL, HBL, NABIL and NIBL

While observing the table 4.2.4 mean of the mean ratio of four banks is 0.1616, which indicate that 16.16% of total deposit is non-interest bearing deposit. Taking combined mean as standard ratio HBL is most successful bank collecting cheapest fund. HBL has collected 0.2057 fraction of deposit as non-interest bearing deposit. The ratio of NABIL is Close to the ratio of HBL i.e. 0.2027. The ratio of NIBL is 0.1308 and lowest of all, EBL has 0.1072 of non-interest bearing deposit to total deposit.

4.3 Analyzing the Lending Efficiency and its contribution in Total Profitability

In this section efficiency is measured in terms of quality and its turn over. A relationship between different variables related to lending efficiency is taken from Balance sheet and profit and loss account.

4.3.1 Interest Income to Total Income Ratio

Income is one of the most important parts of any business organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measure the banks performance on other fee-based activities also. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates the low contribution made by lending and investment and high contribution by other fee based activities in total income. The ratio measures the volume of interest income in total income of the bank. This ratio helps to measures the banks performance on how well they are mobilizing their fund for the purpose of income generation. This ratio also helps to measure the banks performance on other fee-based activities, since after investing functions fee based activities are the major source of banks income to total income.

Table No. 4.8

Interest Income to Total Income Ratio (%)

Fiscal Year (Mid July)						
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**
EBL	81.87	83.72	83.74	84.71	83.49	83.506
HBL	82.6	81.99	82.15	79.56	82.05	81.67
NABIL	71.31	70.17	72.23	75.14	76.27	73.024
NIBL	79.51	80.05	77.41	80.84	82.00	79.962
Combined Mean						**79.541**

Source: Annual Reports of EBL, HBL, NABIL and NIBL

While observing above table 4.8, it can be seen that major part of commercial banks' income is interest income. Combined mean ratio, 79.54, shows that 79.54 of banks' total income are generated from interest income. The EBL is most successful bank to generate income from lending as its 83.51% of total income is generated from Interest income. Likewise, 81.67% of HBL's total income is interest income. The lowest ratio of interest income to total income is 73.02% of NABIL.

4.3.2 Interest Expenses to Total deposit ratio

This ratio measures the cost of total deposit in relative term. The commercial banks performance depends upon its ability to generate cheaper funds. More the cheaper fund more will be the profitability in generating loans and advances and vice-versa. The high ratio indicates of costly fund and this adversely affects its lending performance.

Table No. 4.9

Interest Expenses to Total Deposit Ratio (%)

Fiscal Year (Mid July)						
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	**Mean**
EBL	4.595	3.923	2.967	2.908	2.844	3.4474
HBL	2.638	2.233	2.265	2.449	2.554	2.4278
NABIL	2.36	2.004	1.67	1.846	2.381	2.0522
NIBL	2.388	2.83	2.487	2.594	2.799	2.6196
Combined Mean						**2.6368**

Source: Annual Reports of EBL, HBL, NABIL and NIBL

Table 4.9 indicates the interest expenses to total deposit ratio of four banks during period of study. By analyzing this table, the fact that which bank is using cheapest fund is comes out. The combined means ratio imply that the cost of deposit of sampled bank for the study period is 2.6368%.

The cost of deposit of NABIL is the least in all fives years of study period. It also has the least mean ratio among four banks. NABIL is successful in collecting cheaper fund by its modern and personalize services to the customer. NIBL and HBL are in moderate position. The ratio of EBL is highest of all. The cost of deposit of EBL is 3.4474%. Due to the lack of lending opportunity the supply of the fund is exceeding the demand of the fund. The overall decreasing trend of this ratio measures the overall liquidity of the bank.

4.3.3 Interest Income to Interest Expenses Ratio

The ratio of interest income to interest expenses ratio measures the difference between interest rates offered and interest rate charged. The spread between the interest income and interest expenses is the main foundation for the profit of the bank. NRB had restrictions on the interest rate spread of the commercial banks. The interest offered and the interest charged should not be more than 5 percent. The commercial banks are free to fix interest rate on deposit and loans. Interest rate on all types of deposit and loans should be published in the local newspapers and communicated to Nepal Rastra Bank quarterly and immediately when revised. Deviation of 0.50 percent from the published rate is allowed on all types of loans and deposit. However with the new Financial Ordinance 2061 it has again empowered NRB to interview in rate fixation but it does not specify the conditions that would oblige NRB to do so.

Table No. 4.10

Interest income to Interest Expenses ratio

Fiscal Year (Mid July)						
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**
EBL	1.691	2.077	2.401	2.251	2.213	2.1266
HBL	2.168	2.535	2.574	2.507	2.314	2.4196
NABIL	3.208	3.54	4.388	3.668	2.857	3.5322
NIBL	2.429	2.242	2.501	2.389	2.312	2.3746
Combined Mean						**2.6133**

Source: Annual Reports of EBL, HBL, NABIL and NIBL

Table 4.10 shows that the ratio of interest income to interest expenses. The combined mean ratio of four banks is 2.6133, which means that a rupee of expenses in deposit generates Rs. 2.6133 of interest income in average. The NABIL has the highest mean ratio i.e. 3.5322, which mean that a rupee of interest expenses has been able to earn Rs 3.5322 interest income. Low cost of deposit and high ratio of non-interest bearing deposit have resulted on highest ratio in interest income to interest expenses ratio. HBL and NIBL are in moderate position. EBL has lowest ratio of interest income to interest expenses ratio i.e. 2.1266

4.3.4 Interest suspense to Interest Income from Loans & Advances Ratio

Interest suspense means the interest due but not collected. NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in assets side of Balance sheet under the heading “other assets”. This ratio of interest suspense to total interest income from loan & advance measures the composition of due but uncollected interest in the total interest income from loans and advances. The high degree of this ratio indicates to low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayment of the loan advanced

Table No. 4.11

Interest suspense to Interest Income from Loan and Advances

Fiscal Year (Mid July)						
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**
EBL	0.0775	0.0826	0.0829	0.0885	0.0729	0.0809
HBL	0.2686	0.3351	0.2949	0.3	0.1896	0.2776
NABIL	0.1232	0.1123	0.1144	0.0837	0.0707	0.1009
NIBL	0.1049	0.042	0.0433	0.0665	0.0571	0.0628
Combined Mean						**0.1305**

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The table 4.11 shows the ratio of interest suspense to interest income from loan and advances. The combined mean is 0.1305, which means that during the study period the sampled banks has 13.05% of interest is due but not collected. The HBL has highest mean ratio of 0.2776, whereas NABIL, EBL, and NIBL have 0.1009, 0.0809 and 0.0628. It shows the high rate of interest suspense to loan and advances has been decreasing HBL’s profits. These banks have to concentrate more on recovery of the loan and advances, Plan and act according for the proper collection and repayments schedules. The above ratios indicate that NIBL is the best among the four banks.

4.3.5 Loan Loss Provision to Total Loans and advances ratio

The ratio of loan loss provision to total loans & advances describes the quality of loan. NRB has directed all the commercial banks to classify its loans and advances into category and make provision according to these loan classified. The loans are classified as pass, sub-standard, doubtful and loss and provision are to be made on 1, 25, 50 and 100 percent respectively. NRB has classified the pass loan as performing loan and substandard, doubtful and loss as non-performing is called specific loan loss provision. The amount of loan loss provision in balance sheet refers to the general loan loss provision. The provision for loan loss reflects the increasing possibility of non-performing loan in the total volume of loan & advances. The provision also provides as cushion against future contingency made by default of the borrowers. The low ratio indicates the good quality of assets (loan) in the total volume of loans & advances whereas high ratio indicates more risky assets (loans having chances of default).

Table No. 4.12

Loan Loss Provision to Total Loan & Advances ratio (%)

Fiscal Year (Mid July)						
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**
EBL	0.0279	0.0347	0.0356	0.033	0.0297	0.0322
HBL	0.0777	0.0749	0.0763	0.071	0.0447	0.0689
NABIL	0.0441	0.042	0.0329	0.0268	0.0225	0.0337
NIBL	0.0253	0.029	0.0313	0.0305	0.0272	0.0287
Combined Mean						**0.0409**

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The table 4.10 shows that HBL has the highest provision for total loan & advances. The combined mean is 0.0409. The HBL has 0.0689, which indicates 6.89% of total loan & advances is allocated for loan loss provision. NIBL has lower ratio in all years. NABIL has been significantly decreasing it’s ratio of loan loss provision, which is result of decreasing trend of NPL of NABIL. NABIL and EBL both are in moderate position. The banks need to make its credit policy more efficiently to decrease loan loss provision.

4.3.6 Loan Classification and provisioning

The assets side of balance sheet is dominated by loan and advances. The profit of the banks depends on the interest earned from the loan borrowers and paid to the depositors. Banks may not be able to pay the depositors if the banks fail to collect the loan amount.

The new directives regarding loan classification and provisioning was issued on 2001, was effectives from the fiscal year 2001/02. The NRB has classified the loan & advances as pass, substandard, doubtful and loss and provision should be made 1, 25, 50 and 100 percent respectively. NRB has classified the pass loan as performing loan and substandard, doubtful and loss as non-performing is called specific loan loss provision. The amount of loan loss provision in balance sheet refers to the general loan loss provision. The provision for loan loss reflects the increasing possibility of non-performing loan in the total volume of loan & advances. The provision also provides as cushion against future contingency made by default of the borrowers. The low ratio indicates the good quality of assets (loan) in the total volume of loans & advances whereas high ratio indicates more risky assets (loans having chances of default). One of the main purposes of NRB directives related to loan classification and provisioning is to protect the deposits of public.

The loan classification and provisioning of four banks for three years are presented and analyzed in the following tables

Table No. 4.13

Loan Classification and Provisioning of EBL

	Loan	**% of Loan**	**LLP**	**% of LLP**
2002/03				
Performing Loan	4938.39	97.80	80.42	57
Non-performing Loan	111.18	2.20	60.7	43
Total	5049.58	100	141.12	100
2003/04				
Performing Loan	5991.08	98.28	135.52	64
Non-performing Loan	104.75	1.72	76.2	36
Total	6095.84	100	211.72	100
2004/05				
Performing Loan	7771.28	98.37	112.26	39.89
Non-performing Loan	128.797	1.63	169.148	60.11
Total	7900.09	100	281.41	100
2005/06				
Performing Loan	10007	98.72	128.8	38.45
Non-performing Loan	129.23	1.275	206.1	61.54
Total	10136.23	100	335	100
2006/07				
Performing Loan	13969.5	99.2	164.87	39.39
Non-performing Loan	113.17	0.80	253.73	60.61
Total	14082.7	100	418.6	100

Source: Annual Reports of various years of EBL

Table 1.13 shows the Loan classification and provisioning of EBL. The loan and advances categorized under different category as per NRB directives requirements. In 2002/03 total loan & advances is 5049.58. Among them, 97.80% of total loan is performing loan and 2.20 is Non-performing loan, which includes substandard, doubtful, loss types of loan. . The loan loss provision has been maintained for the categorized loans.57% of Total loan loss provision is made for PL and 43% is made for NPL. Like wise, total loan & advances for the fiscal year 2003/04 is 6095.84 millions consisting 98.28% performing loan and 1.72% non-performing loan.

In 2004/05, total loan of EBL is 7900.09. The percentage of performing loan is 98.37, which includes pass loan. The percentage of NPL is 1.63. Out of total loan loss provision, 39.89% was made for performing loan, 60.11% of total loan loss provision is maintained for NPL.

Similarly, in the year 2005/06, EBL increased its lending to 10136 million. Out of total loan, there is 98.72% pass loan i.e. PL. The bank decreases its percentage of NPL by its efficiency. Total loan loss provision for the year 2005/06 is 385 million. 38.45% of Total Loan Loss Provision is for PL and 61.54% of provision is for NPL.

Likewise, in the year 2006/07, total loan and advances is 14072.7 millions, out of which, 99.2% is PL and 0.804% is NPL. It shows that the bank has been able to decrease the ratio of NPL. The Bank maintained 418.6 Millions to loan loss provision for the year 2006/07. Out of which, 39.39% is for PL and 60.6% is for NPL.

The Bank not only has been increasing the volume of total loan & advances but also increasing the quality of loan by decreasing the ratio of NPL.

Table No. 4.14

Loan Classification and Provisioning of HBL

	Loan	**% of Loan**	**LLP**	**% ofLLP**
2002/03				
Performing Loan	9751.76	90	119.18	14.14
Non-performing Loan	1092.83	10	723.57	85.86
Total	10844.59	100	842.75	100
2003/04				
Performing Loan	11772.17	91.11	174.8	18.06
Non-performing Loan	1147.46	8.89	793.0	81.94
Total	12919.63	100	967.8	100
2004/05				
Performing Loan	12449.82	92.56	183.92	17.93
Non-performing Loan	1001.35	7.44	842.73	82.14
Total	13451.16	100	1026.64	100
2005/06				
Performing Loan	14721	93.4	194.8	17.4
Non-performing Loan	1040.8	6.60	924.6	82.6
Total	15762	100	1119.4	100
2006/07				
Performing Loan	17152.1	96.39	307.29	38.62
Non-performing Loan	641.62	3.61	488.44	61.38
Total	17793.7	100	795.73	100

Source: Annual Reports of various years of HBL

The Table 4.14 shows the scenario of loans & advances and loan loss provision of HBL over the period of five year. The loan and advances categorized under different category as per NRB directives requirements. In 2002/03 total loan & advances is 10844.59. Among them, 90% of total loan is performing loan and 10% is Non-performing loan, which includes substandard, doubtful, loss types of loan. . The loan loss provision has been maintained for the categorized loans. 14.14% of Total loan loss provision is made for PL and 85.86% is made for NPL. Like wise, total loan & advances for the fiscal year 2003/04 is 12919.63 millions consisting 91.11% performing loan and 8.89% non-performing loan.

The total loan & advances for the year 2004/05. Out of which 92.56% consists of Performing loan and 7.44% NPL. The total provision for loan loss is 1026.64 millions, which consists 17.93 percentages for performing loan and 82.14% is for non-performing loan.

Further, the loan and advances increased to 15762 million in the year 2005/06, among the total loan and advances 93.4% is performing loan and 6.603% is Non-performing loan. A slight decrease in the ratio of non-performing loan can be seen. The total loan loss provision for the year 2005/06 is 1119 millions, among which 194.8 millions for pass loan i.e. performing loan and remaining 924.6 millions for non-performing loan. In relative amount, 7.40% of loan loss provision is for performing loan and 82.6% of provision is for non-performing loan.

Similarly, in the year 2006/07 the total loan and advances reached to 17793.7 millions. Out of which, 96.39% is performing loan and 3.606% is non-performing loan. Previous year non performing loan was 6.606 Percentage of total loan & advances, which is significant decrease in this ratio. The total loan loss provision for the year is comedown to 795.73 millions. Among which 38.62% is PL and 61.38% is for NPL.

The HBL is also improving the quality of its loan and advances over the study period.

Table No. 4.15

Loan Classification and Provisioning of NABIL

	Loan	**% of Loan**	**LLP**	**% of LLP**
2002/03				
Performing Loan	7664.05	94.46	122.58	34.27
Non-performing Loan	449.63	5.54	235.15	65.73
Total	8113.68	100	357.73	100
2003/04				
Performing Loan	8261.98	96.65	127.73	35.61
Non-performing Loan	286.68	3.35	230.93	64.39
Total	8548.66	100	358.66	100
2004/05				
Performing Loan	10802.23	98.68	235.34	65.27
Non-performing Loan	144.5	1.32	125.22	34.73
Total	10946.74	100	360.54	100
2005/06				
Performing Loan	13096	98.62	214.3	60.16
Non-performing Loan	182.58	1.38	141.9	39.84
Total	13279	100	356.2	100
2006/07				
Performing Loan	15724.2	98.88	255.34	71.48
Non-performing Loan	178.8	1.12	101.89	28.52
Total	15903	100	357.24	100

Source: Annual Reports of various years of NABIL

The Table 4.14 shows the scenario of loans & advances and loan loss provision of NABIL over the period of five year. The loan and advances categorized under different category as per NRB directives requirements. In 2002/03 total loan & advances is 8113.68. Among them, 94.46% of total loan is performing loan and 5.54% is non-performing loan, which includes substandard, doubtful, loss types of loan. . The loan loss provision has been maintained for the categorized loans. 34.27% of Total loan loss provision is made for PL and 65.73% is made for NPL.

Like wise, total loan & advances for the fiscal year 2003/04 is 8261.98 millions consisting 96.65% performing loan and 3.35% non-performing loan. 35.61% of LLP is made for performing loan and 64.39% is made for non-performing loan. The total loan for the year 2004/05 is 10946.74 millions. The PL covers 98.68% of the total loan. The remaining 1.32% is NPL. The total Loan loss provision for this year is 360.54 millions. From which, 65.27 percentage is provisioned for PL and 34.73 is for NPL.

Similarly, loan & advances for 2005/06 is 13279 millions. 98.62% of total loan is pass-loan, which is called PL. NPL, consisting sub-standard, doubtful and loss loan, is 1.375% of total loan. The total loan loss provision for the year 2005/06 is 356.2 among which 60.15% is for PL and 39.84% is for NPL.

In the year 2006/07, the loan & advance of NABIL is 15903. Out of which 98.88% is PL as pass loan. The remaining portion 1.122% is NPL, which is less than previous year. The total LLP for the year is 357.24, out of which 71.48% is for PL and 28.52% is for NPL.

t can be seen from the analysis of above table that the volume and quality of loan & advances of NABIL is improving throughout the study period.

Table No. 4.16

Loan Classification and Provisioning of NIBL

	Loan	% of Loan	LLP	% of LLP
2002/03				
Performing Loan	5804.7	98.02	57.21	38.23
Non-performing Loan	117.09	1.98	92.44	61.77
Total	5921.79	100	149.65	100
2003/04				
Performing Loan	6942.66	97.45	68.69	31.84
Non-performing Loan	181.43	2.55	140.61	68.16
Total	7124.09	100	206.30	100
2004/05				
Performing Loan	10172.3	97.31	101.06	30.89
Non-performing Loan	280.87	2.69	226.05	69.11
Total	10453.2	100	327.11	100
2005/06				
Performing Loan	12905.7	97.93	165.1	41.09
Non-performing Loan	272.5	2.066	236.8	58.91
Total	13178.2	100	401.9	100
2006/07				
Performing Loan	17347.1	97.63	178.2	36.92
Non-performing Loan	422	2.37	304.47	63.08
Total	17769.1	100	482.67	100

Source: Annual Reports of various years of NIBL

The table 4.16 shows about the details of loan classification and provision of NIBL for study period. Quality of loan of NIBL for study period is consistent. The loan and advances categorized under different category as per NRB directives requirements. In 2002/03, total loan & advances is 5804.7. Among them, 98.02% of total loan is performing loan and 1.98% is non-performing loan, which includes substandard, doubtful, loss types of loan. . The loan loss provision has been maintained for the categorized loans. 38.23% of Total loan loss provision is made for PL and 61.77% is made for NPL

Like wise, total loan & advances for the fiscal year 2003/04 is 7124.09 millions consisting 97.45% performing loan and 2.55% non-performing loan. 31.84% of LLP is made for performing loan and 68.16% is made for non-performing loan. The total loan & advances of NIBL for the year 2004/05 is 10453.2, out of which 97.31% PL and 2.687 is NPL which includes Sub-standard, Doubtful and Loss categories of loan.

The total Loan Loss Provision for the year 2004/05 is 327.11. 30.89% of whole Loan Loss Provision is provisioned for Pl and 69.11% of loan loss provision is provisioned for NPL. The 57.56% of total loan loss provision is from loss category.

The total loan for the year 2005/06 is increase to 13178.2 million, out of which, 97.93% is PL and 2.066% is NPL. The total loan loss provision for the period is 401.9 Million. Among which 41.09% is for PL and 58.91% is for NPL. The ratio of Loan loss provision for Loss type loan is very high 225.5 millions out of 236.8 millions is provisioned for loss category loan.

Similarly, in the year 2006/07 the amount of total loans & advances is 17769.1, which is remarkably increased in total lending. Out of which, 97.63% is categorized as PL and 2.375% is categorized as NPL. The total Loan loss Provision is 482.67 for the year 20006/07, out of which 36.92% is for PL and 63.08% is maintained for NPL.

This analysis shows that EBL, HBL, NABIL and NIBL have been classifying loans according to the NRB Guidelines. Increase in provision for loan loss means less profit and when there is less profit then the dividend will

be paid in lower rate or there might and less dividend. A decrease in dividend might sometimes disseminate the wrong information and it will negatively impact the company. In the past a major portion of profit were distributed as dividends and little portion were booked as capital. The most profitable amongst all parties were the shareholders. The new directives secured the depositors fund and helped to strengthen the financial health of the banks. The impact of the directives on the profitability of bank is short-term, after the banks have enough provisions for loan loss and sufficient capital to support the risks, the performance of the banks will again pick up. The bank will have better strength with adequate.

As per the NRB directives given to the finance companies commercial banks has to formula a specific loan loss provision against doubtful and bad debts. The substandard, doubtful and bad loans are categorized under Non-performing Loans. An increase in non-performing loan increase loan loss provision and interest suspense account which leads to profit deduction.

Table No. 4.17

Non-Performing Loans to Total Loans and Advances Ratio (%)

Fiscal Year (Mid July)						
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Mean**
EBL	2.20	1.70	1.63	1.275	0.804	1.5218
HBL	10.07	8.88	7.44	6.603	0.306	6.6598
NABIL	6.16	3.35	1.32	1.375	1.122	2.6654
NIBL	1.98	2.54	2.687	2.066	2.375	2.3296
Combined Mean						**3.2942**

Sources: Annual reports of EBL, HBL, NABIL and NIBL

Table 4.17 shows that the Non-performing loans to total loan and advances ratio of the four banks for the year 2002/03 to 2006/07, which combined mean ratio is 3.2942. It means that there is 3.2942% of NPL out of the total loan & advances. HBL has very high mean ratio than the combined mean ratio, which shows inefficiency of HBL in loan lending and recovery.

The NABIL and NIBL has moderate ratio of NPL to Total loan &

advances i.e. 2.6654% and 2.3296% respectively. Since, it is lower than combined mean ratio, it is acceptable. The EBL has lowest ratio of 1.5215%, which shows the efficiency of credit policy of EBL. However, there is no similarity in the ratio of NPL between four banks, the entire four banks has lower ratio than industry average ratio of NPA i.e.8%.

4.4 Analysis of Growth Rate

4.4.1 Growth Rate of Total Deposit

Deposits are the main source of fund for the commercial banks. Banks utilize these funds in loans & advances and investments.

Table No. 4.18

Growth Rate of Total Deposit

Fiscal Year (Mid July)						
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Growth Rate**
EBL	6694.96	8063.90	10097.69	13802.44	18186.25	22.12
HBL	21007.38	22010.33	24814.01	26490.85	30048.41	7.42
NABIL	13447.66	14119.03	14586.60	19347.40	23342.28	11.66
NIBL	7922.76	11524.67	14254.57	18927.30	24488.85	25.32

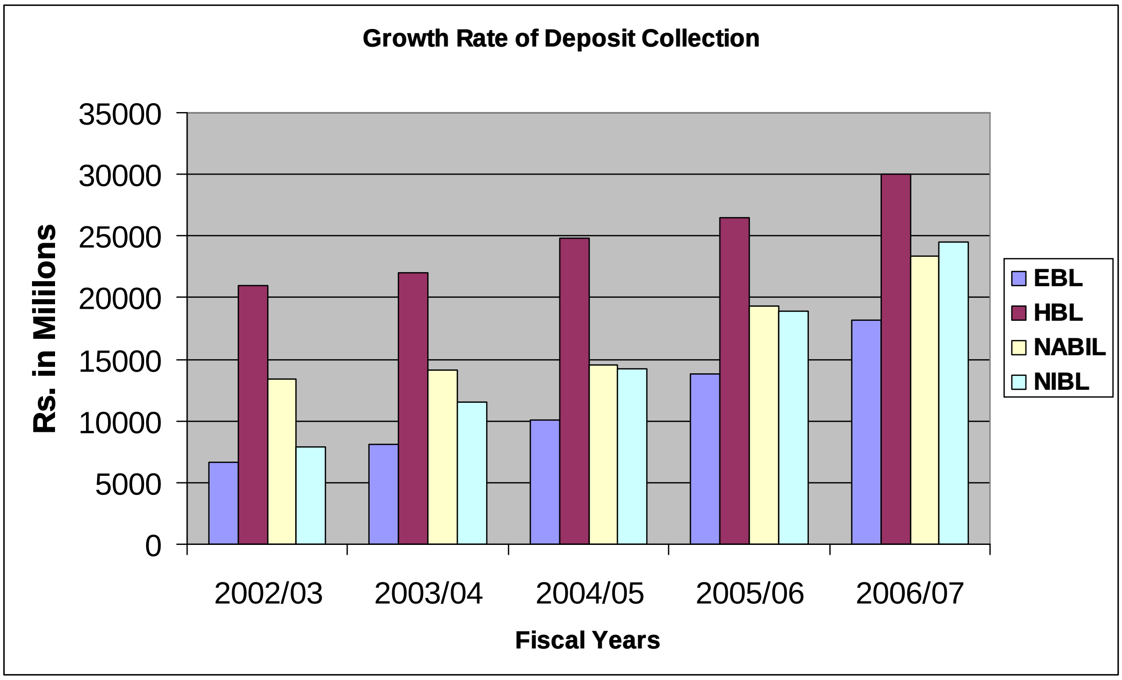
Source: Annual Reports of EBL, HBL, NABIL and NIBL

Table 4.10 shows the comparative growth of total deposit by analyzing of five year period of four banks. EBL, HBL, NABIL and NIBL is being successful to increase its deposit by 22.12, 7.42, 11.66 and 25.22 percentage respectively.

NIBL is most successful bank in this respect which has highest percentage of growth rate i.e. 25.32%. EBL has second highest percentage of growth of deposit i.e. 22.12%. NABIL has growth rate of 11.66%. Although, HBL has highest deposit collection in absolute measure, it has lowest rate of growth rate i.e. 7.42.

Figure No. 4.1

Growth of Total Deposit



4.4.2 Growth Rate of Loans & Advances

Lending loan & advances is the major function of the commercial banking and it shows fund mobilization of commercial bank

Table No. 4.19

Growth Rate of Total Loan & Advances

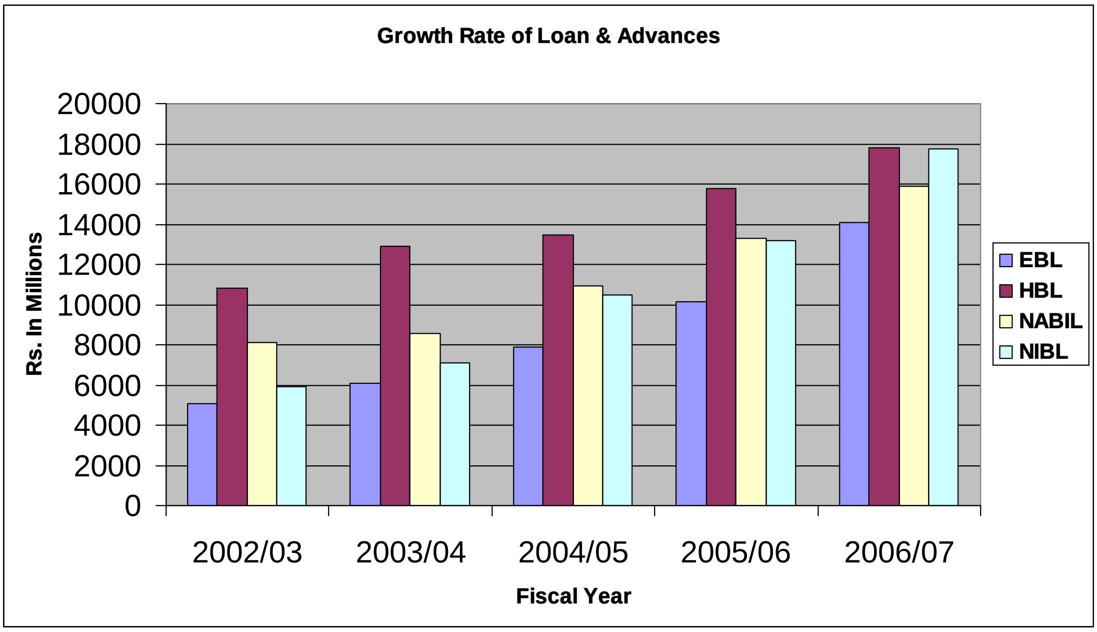
Fiscal Year (Mid July)						
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Growth Rate**
EBL	5049.58	6095.84	7900.70	10136.25	14082.69	22.77
HBL	10844.59	12919.63	13451.16	15761.97	17793.72	10.41
NABIL	8113.68	8548.65	10946.73	13278.78	15903.02	14.41
NIBL	5921.79	7124.09	10453.16	13178.15	17769.09	24.58

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The Table 4.19 indicates that NIBL and HBL have disbursed highest loan & advances in absolute term. By analyzing growth rate of various banks, NIBL has the highest growth rate of 24.58%, which explains its aggressive policy to disburse loan & advances. EBL significantly has been increasing its total loan & advances by 22.77%. HBL seems weak in growth of loan & advances.

Figure No. 4.2

Growth of Total Loan & Advances



4.4.3 Growth Rate of Total Investment

Investment is another important function of banking. Investment determines the proper utilization of funds.

Table No. 4.20

Growth Rate of Total Investment

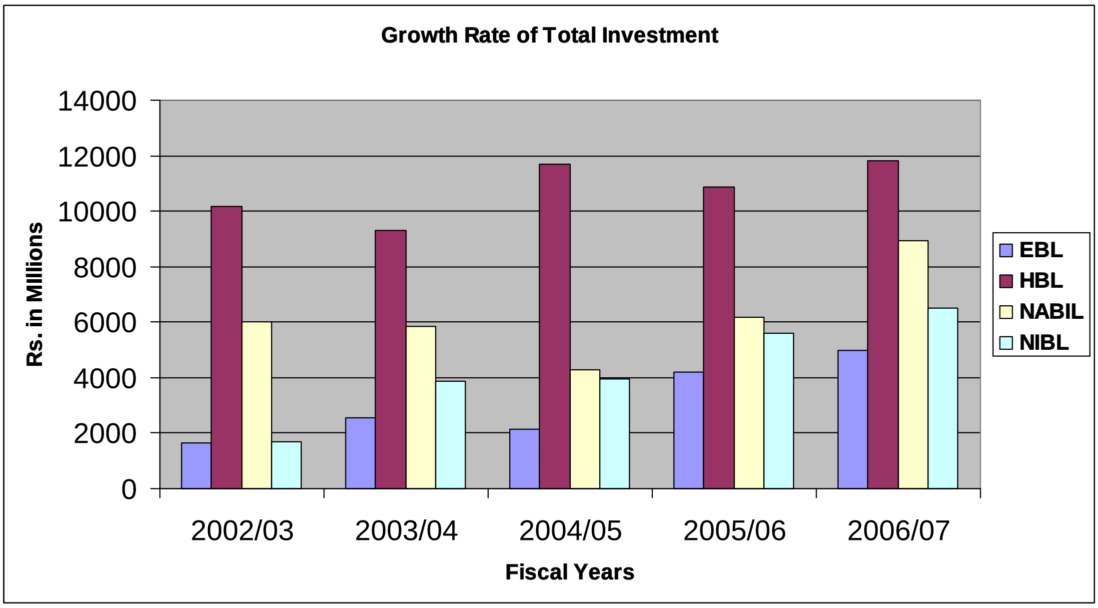
	Fiscal Year (Mid July)					
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Growth Rate**
EBL	1653.97	2535.65	2128.93	4200.51	4984.31	24.69
HBL	10175.43	9292.10	11692.34	10889.03	11822.98	3.047
NABIL	6031.17	5835.94	4275.52	6178.53	8945.31	8.20
NIBL	1705.24	3862.48	3934.18	5602.86	6505.67	30.71

Source: Annual Reports of EBL, HBL, NABIL and NIBL

The table 4.20 indicates the same symptom as the growth rate loan & advances indicated. The growth rate of NIBL can be seen highest. Total investment was significantly increased by 30.71% over the five year period. EBL has average growth of 24.69% in its total investment per year. NABIL and HBL have growth rate of 8.20 and 3.047 percentages in its total investment respectively. HBL performance is too weak in this respect even it has highest volume of investment in absolute measure.

Figure No. 4.3

Growth to Total Investment



4.4.4 Growth Rate of Net Profit

A commercial bank's performance measuring criteria is its net profit. The growth of net profit reveals the overall performance of the banks.

Table No. 4.21

Growth Rate of Net Profit

	Fiscal Year (Mid July)					
Banks	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Growth Rate**
EBL	94.18	143.56	168.21	237.29	296.41	25.77
HBL	212.12	263.05	308.27	457.45	491.82	18.32
NABIL	416.23	455.31	520.11	635.26	673.96	10.12
NIBL	116.81	152.67	232.14	350.53	501.39	33.83

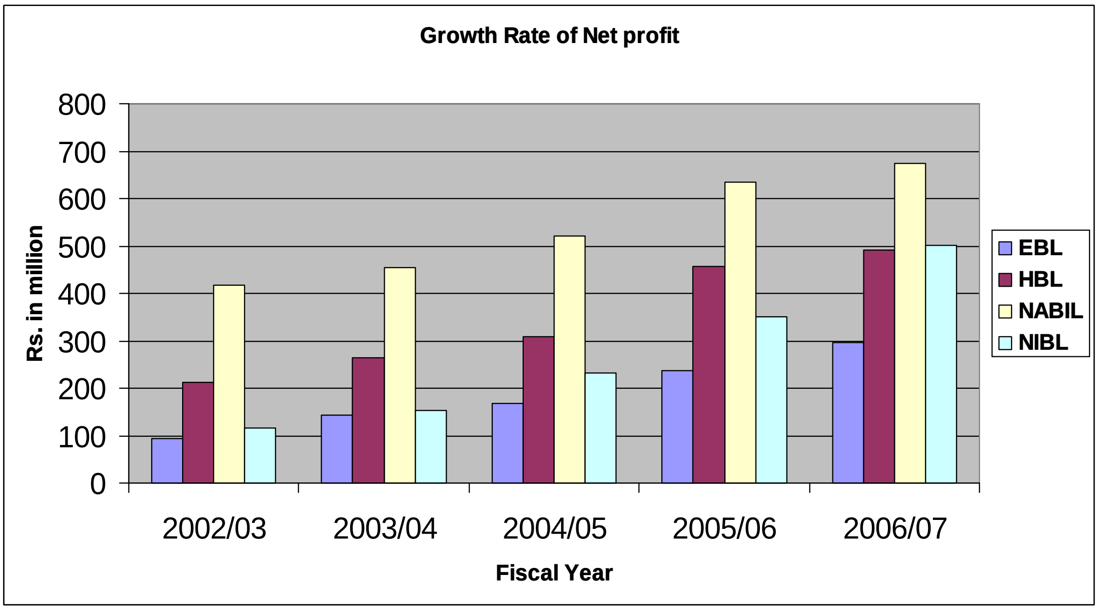
Source: Annual Reports of EBL, HBL, NABIL and NIBL

The table 4.21 shows the growth of Net Profit of four banks during study period. This growth rate can be said real growth of bank as every commercial bank is born for profit.

NIBL wins the race as it has highest rate of growth in its net profit i.e. 33.83%. EBL has 22.77% growth rate in net profit over the study period. HBL and NABIL have 18.32 and 10.12 percentage of growth rate in their net profit over the study period respectively, which show NABIL has lowest growth of its net profit.

Figure No. 4.4

Growth of Net Profit



4.5 Correlation Coefficient Analysis

Correlation coefficient is the measure of correlation between two variables that summarizes correlation in one figure. If the change in the value of are variable is accompanies by the charge in the value of the other, the variables are said to be correlated. Analysis of correlation coefficient explains to what extent two variables are correlated. In this analysis Karl Pearson's Correlation Coefficient has been used to find out the relationship between variables.

4.5.1 Co-efficient of Correlation between Deposits and Loan & Advances

The Coefficient of correlation between deposit and Loan & Advance is to measure the degree of relationship between these two variables. Deposit is independent variable and loan & advances is dependent variable. The main objectives of computing between two variables are to find out whether deposits are significantly used as loan and advances in a proper manner or not.

Table No. 4.22

Co-efficient of Correlation between Deposits and Loan & Advances

Banks	Evaluation Criterions			
	r	**R^2**	**P.Er**	**6*PEr**
EBL	0.9977	0.9954	0.0014	0.0083
HBL	0.9718	0.9444	0.0168	0.1006
NABIL	0.9671	0.9353	0.0195	0.1172
NIBL	0.9922	0.9846	0.0047	0.0279

The table 4.22 exhibits the value of r, r^2, P.E. and 6*P.E. between deposit and loan & advance and sampled banks for the study period. The value of 'r' of EBL is 0.9977, which means the loan and advance is highly correlated with total deposit, the coefficient of determination 'r^{2}' for EBL is 0.9954, which mean 99.54% of the variation in the dependent variable (Loan & Advances) has been explained by the independent variable (deposits). Further, value of P.E. and 6*P.E. is 0.0014 and 0.0083. The value of 'r' is greater than 6*P.E., which shows that the calculated value of 'r' is significant. It means the bank is mobilizing its deposit as, loan and advances successfully. Likewise, the value of coefficients of correlation of HBL, NABIL, and NIBL are 0.9718, 0.9671 and 0.9922 respectively. It shows the loan and advance of all banks are highly positively correlated with total deposit.

The coefficient of determination, r^2, for HBL is 0.9444. It shows that 94.44% change in the loan & advances can be explained by the independent variable i.e. deposit. Further, the value of 6*PE is 0.1006, it mean the value of ‘r’ is greater than 6 times of PE. Therefore value of ‘r’ is significant. The value of ‘r^{2}’ of NABIL and NIBL is 0.9353 and 0.9846 respectively, which means 93.53% of change in Loan & Advances of NABIL and 98.46% change in loan & advances of NIBL can be explained by the change in the value of deposit. The value of 6*PE of both, NABIL and NIBL, are less that its respective value of ‘r’, which means that the value of ‘r’ of both banks are significant.

Form the analysis of above analysis; we can conclude that the four banks are successful in mobilizing their deposit as loan & advances. There value of ‘r’ is highly positively correlated, EBL has the highest value of ‘r’, which indicates that it is in better position on mobilizing deposit as loan & advances in comparison to other three banks. However, other three banks are also in satisfactory position.

4.5.2 Co-efficient of Correlation between Investment and Loan & Advances

This correlation measures the degree of relationship between investment and loans and advances. These measures of correlation explain where the banks have a rigid policy to maintain a consistent relationship between two assets or other factor such as seasonal opportunity, economic demand, NRB directives etc. has impact on the volume of these two variables. Since the volume of investment does not impact on loans and advance as every bank has first priority an loans and advance directly reduce or increases the level of ideal fund and this idleness of fund increases the investments.

Table No. 4.23

Co-efficient of Correlation between Investment and Loan & Advances

Banks	**Evaluation Criterions**			
	r	**R^2**	**P.Er**	**6*PEr**
EBL	0.9391	0.8819	0.0356	0.2137
HBL	0.6288	0.3954	0.1824	1.0943
NABIL	0.6693	0.4479	0.1665	0.9992
NIBL	0.9301	0.8651	0.0407	0.2441

The table 4.23 shows that there is high degree of positive correlation between Total Investment and Total Loan & Advances in case of EBL and NIBL. The value of ‘r’ is 0.9391 and the value of ‘r’ for NIBL is 0.9301. It shows that both banks have the policy to decrease the investment along with lending in Loan & Advances. The value of 6*PE is greater than the value of ‘r’ which indicates that the calculated value of ‘r’ is significant.

The HBL and NABIL have moderate degree of positive correlation between Investment and Loan & advances, but the values of ‘r’ in these banks, HBL and NABIL, are less than 6*PE. So, the calculated values of ‘r’ are insignificant. It is likely to conclude that the volume of investment is accidental and there may be no relationship between these variables.

There is positive relation between investment and loan & advances, though it is relatively low, increase in loan and advances in these banks do not necessarily increase the volume of investment. The volume of increase in loan & advances in these banks is caused by the increase volume of business activity. However, the increase in investment has caused due to unavailability of good opportunity of lending over liquidity in banking industry and increase in risk element in lending.

4.5.3 Coefficient of Correlation between Shareholders Equity and Loan & Advances

Coefficient of correlation between shareholders’ equity and loan & advances measures the degree of relationship between these two variables. Here, loan & advances are the independent variable and shareholders’ equity is dependent variable.

Table No. 4.24

Coefficient of Correlation between Shareholders' Equity and Loan & Advances

Banks	Evaluation Criterions			
	r	**R^2**	**P.Er**	**6*PEr**
EBL	0.9978	0.9957	0.0013	0.0079
HBL	0.9910	0.9820	0.0054	0.0326
NABIL	0.9856	0.9715	0.0086	0.0517
NIBL	0.9974	0.9948	0.0016	0.0094

The above table 4.24 shows that the shareholders equity & loan and advances of all four banks are highly positively correlated. The value of 6*PE all four banks are less than the calculated value of 'r', which says that the calculated value of 'r' is significant.

4.5.4 Coefficient of Correlation between Total Income and Loan & Advances

The correlation between total income and loans and advances measures the degree of relationship between these two variables. The value of r explains whether a percentage change in loans and advances it is independent variable and total income is dependent variable

Table No. 4.25

Coefficient of Correlation between Total income and Loan & Advances

Banks	Evaluation Criterions			
	r	**R^2**	**P.E.**	**6*PE**
EBL	0.9952	0.9904	0.0029	0.0174
HBL	0.9639	0.9292	0.0210	0.1282
NABIL	0.9578	0.9174	0.0250	0.1495
NIBL	0.9898	0.9797	0.0061	0.0368

The table 4.25 shows the correlation coefficient between total income and loan & advances of sampled banks. It shows that there is high positive correlation between these two variables. The value of 'r' of EBL is 0.9952, which is highest value among four. It is near to perfect correlation. The lowest value of ‘r’ is 0.9578 of NABIL. The value of ‘r’ is greater than value of 6*PE of all four banks. So, it can be said that all values of ‘r’ are significant. The high values of coefficient of determination, r^2, on the table means that the dependent variables i.e. total income can be explained by the independent variable i.e. Total loan & advances

4.5.5 Coefficient of Correlation between Interest Suspense and Interest Income

This correlation measures the relationship between interest suspense and interest income. Interest suspense is earned but uncollected interest is the outcome of the interest income in this analysis interest suspense is the dependent variable and interest income is the independent variable. Interest income which is due and uncollected for three months are transferred to interest suspense and thus interest income is reduced.

Table No. 4.26

Coefficient of Correlation between Interest Suspense and Interest Income

Banks	Evaluation Criterions			
	r	R^2	P.Er	6*PEr
EBL	0.9547	0.9114	0.0267	0.1604
HBL	0.1575	0.0248	0.2942	1.7650
NABIL	-0.5712	0.3263	0.2032	1.2194
NIBL	0.8329	0.6936	0.0924	0.5545

The table shows that EBL has high positive correlation between interest suspense and interest income. The reason of the positive correlation have seen the interest income is increasing and at the same time due interest is also increasing and value of 6*PE of EBL is less than value of ‘r’, which indicate that the calculated value of ‘r’ is significant. The value of ‘r’ of NIBL is 0.8228, this calculated value of ‘r’ is also significant as 6*PE is less than the value 0.8228. The value of ‘r’ of HBL is 0.1575, which indicate there is low degree of positive correlation between interest suspense and loan & advances.

The calculated value of ‘r’ is less than 6*PE, so the calculated value of ‘r’ is insignificant. This shows that the volume of interest suspense can not be predicted by increasing trend of loan & advances.

The value of ‘r’ of NABIL is -0.5712, which shows that there is moderated degree of negative correlation. The reason for the negative correlation is the trend of loan & advances, which is increasing and the bank is being able to decrease the due interest which is uncollected. The calculated of value ‘r’ of NABIL is not significant as the value of 6*PE is greater than ‘r’.

4.5.6 Coefficient of Correlation between Provision for Loan loss and Loan & Advances

The correlation between provision for loan loss provision and loan & advances measures the degree of relationship between these two variables. Provision for loan loss is dependent variable and loan & advances independent variable. Loan loss provision is the product of loan & advances and these two variables are correlated. The main objective of computing ‘r’ between these two variables is to justify whether loan loss provision increase in the same proportion of increase in loan and advances.

Table No. 4.27

Coefficient of Correlation between Provision for Loan loss and Loan & Advances

Banks	**Evaluation Criterions**			
	r	**R^2**	**P.Er**	**6*PEr**
EBL	0.975617	0.951829	0.014531	0.087183
HBL	-0.00702	4.93E-05	0.30163	1.809783
NABIL	-0.41382	0.17125	0.249988	1.49993
NIBL	0.983692	0.96765	0.009758	0.05855

Table 4.27 shows that the correlation between loan loss provision and loan & advances of EBL and NIBL is highly correlated and the calculated value of ‘r’ of these two banks are significant as the value of r is greater than

the value of 6*PE. This shows that as the loan & advances is in increasing trend the loan loss provision is also increasing.

The value of ‘r’ of HBL and NABIL is -0.00702 and -0.4138. Both banks have low degree of negative correlation. The bank have been increasing loan & advances and decreasing total loan loss provision to some extent by its good recovery policy. However, these is negative correlation but the calculated value of ‘r’ of both banks are insignificant as the value of ‘r’ is les than the value of 6*PE.

4.5.7 Coefficient of Correlation between Interest Income and Net Profit

The correlation between Interest Income and Net profit measures the degree of relationship between these two variables. The interest income contributes a major portion of total volume of commercial banks income. In this analysis, interest income is independent variable and net profit is dependent variable.

Table No. 4.28

Coefficient of correlation between Interest Income and Net Profit

Banks	Evaluation Criterions			
	r	R^2	P.Er	6*PEr
EBL	0.995102	0.990227	0.002948	0.017687
HBL	0.979202	0.958837	0.012417	0.074501
NABIL	0.930431	0.865702	0.04051	0.243063
NIBL	0.989162	0.978441	0.006503	0.03902

The table 4.28 explained the fact that the Net Profit of commercial bank is dependent variable of interest income. All four banks have highly positive correlation between interest income and net profit. The absolute value of ‘r’ of EBL is highest among all. Since the value of 6*PE for all four banks is less than calculated value of ‘r’, the calculated value of ‘r’ are significant. It shows that the dependent variable net profit can be explained by the trend of interest income.

4.6 Trend Analysis

4.6.1 Trend Analysis of Deposit Collection

The trend of deposit collection in the coming years is computed by using the trend method. The following trend line shows the projection of total deposit of EBL, HBL, NABIL and NIBL up to the fiscal year 2011/12.

Table No. 4.29

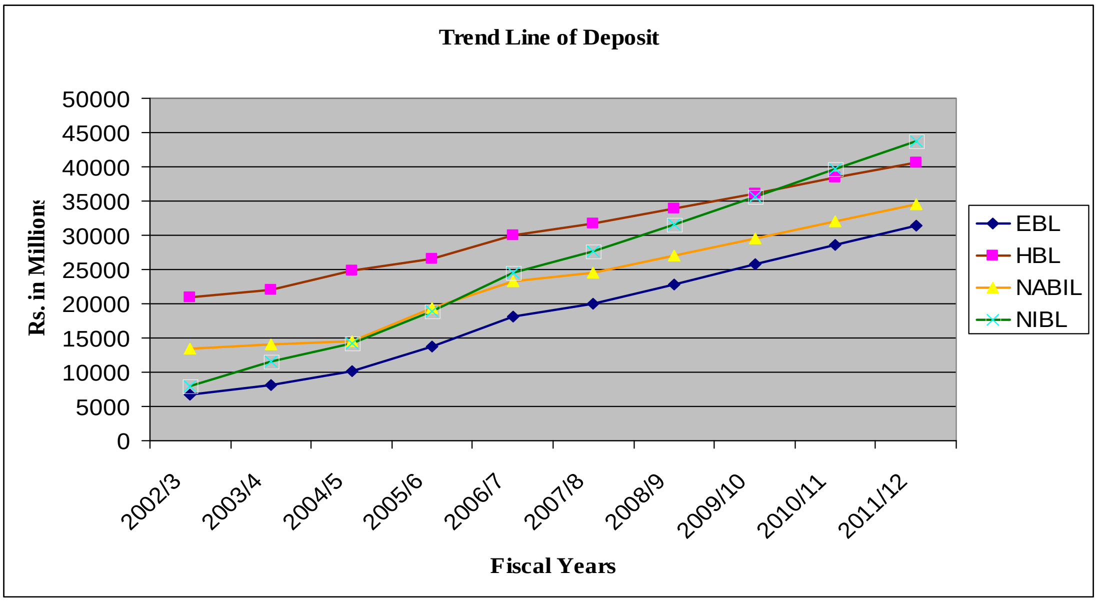
Trend Analysis of Deposit Collection

Year	EBL	HBL	NABIL	NIBL
2002/3	6694.96	21007.38	13447.66	7922.76
2003/4	8063.90	22010.33	14119.03	11524.67
2004/5	10097.69	24814.01	14586.60	14254.57
2005/6	13802.44	26490.85	19347.40	18927.30
2006/7	18186.25	30048.41	23342.28	24488.85
2007/8	19985.38	31642.97	24473.88	27584.07
2008/9	22857.50	33899.23	26975.64	31637.55
2009/10	25729.61	36155.49	29477.40	35691.04
2010/11	28601.72	38411.74	31979.16	39744.52
2011/12	31473.83	40668.00	34480.92	43798.00

The table 4.29 shoes that the trend of deposit of all four banks is in increasing trend, if other things remain constraints. NIBL has higher increasing trend among all four. Highest forecasted value of deposit of NIBL is 43798 million, which is also highest among all four banks. The second highest forecasted trend value is 40668 millions of HBL. However the future is uncertain but the forecast of deposit collection is in increasing trend.

Figure No. 4.5

Trend Line of Deposit Collection



4.6.2 Trend Analysis of Loan Disbursement

he trend forecast of the total loan disbursed in the coming years is calculated by using the trend analysis method. The following trend line shows the projection of total loan disbursement of EBL, HBL, NABIL and NIBL up to the fiscal years 2011/12.

The table 4.30 shows that forecasted value of loan for four year, which shows the total loan of all four bank is in increasing trend. Higher growth rate of total loan of NIBL shows that its total loan within five year will be highest among sampled four banks. The highest forecasted value is 31713.32.

Table No. 4.30

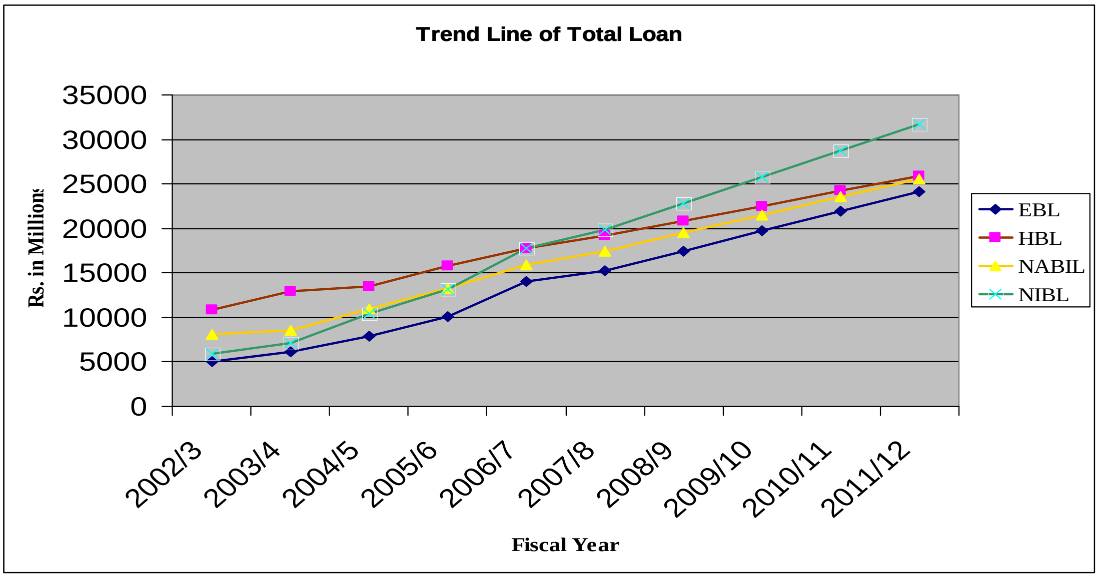
Trend of Loan Disbursement

Year	EBL	HBL	NABIL	NIBL
2002/3	5049.58	10844.59	8113.68	5921.79
2003/4	6095.84	12919.63	8548.65	7124.09
2004/5	7900.70	13451.16	10946.73	10453.16
2005/6	10136.25	15761.97	13278.78	13178.15
2006/7	14082.69	17793.72	15903.02	17769.09
2007/8	15285.00	19176.39	17450.82	19813.85
2008/9	17495.66	20850.45	19481.70	22788.72
2009/10	19706.33	22524.51	21512.58	25763.59
2010/11	21916.99	24198.57	23543.46	28738.45
2011/12	24127.65	25872.63	25574.34	31713.32

However, the forecasting is increasing trend and NIBL has highest trend values but it depends upon various internal and external factor. The banks credit policy is main factor to determine the future value of total loan of any bank.

Figure No. 4.6

Trend line of Loan Disbursement



4.6.3 Trend Analysis of Loan Loss Provision

The trend of loan loss provision in the coming years is calculated by trend analysis technique. The following trend line shows the projection of Loan Loss provision of EBL, HBL, NABIL and NIBL up to the fiscal Year 2011/12.

Table No. 4.31

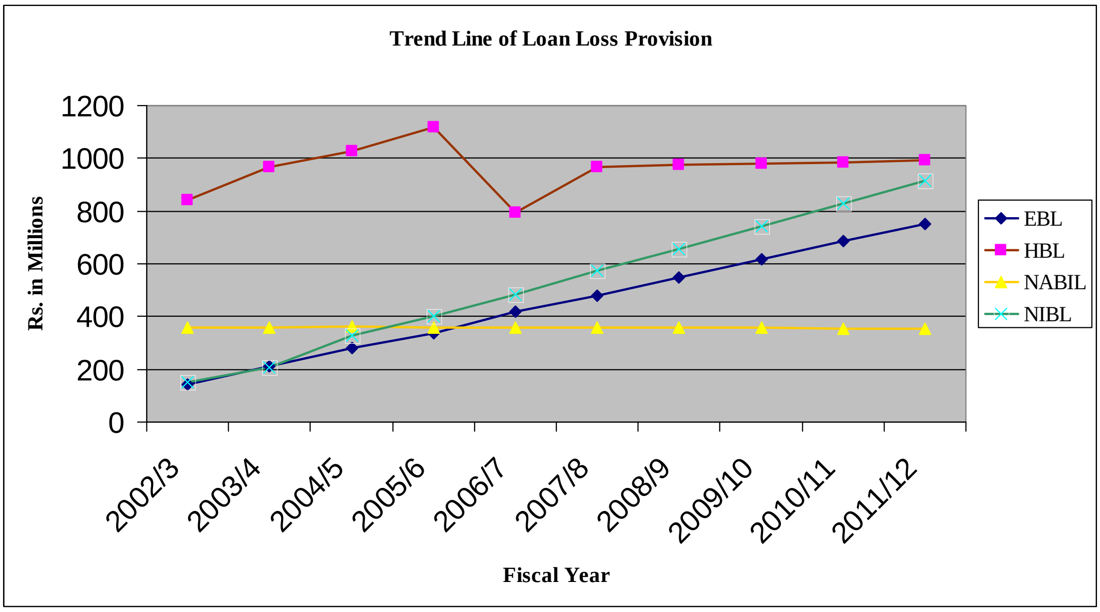
Trend Analysis of Loan Loss Provision

Year	EBL	HBL	NABIL	NIBL
2002/3	141.12	842.75	357.73	149.64
2003/4	211.71	967.76	358.66	206.29
2004/5	281.41	1026.64	360.56	327.11
2005/6	334.94	1119.41	356.23	401.94
2006/7	418.60	795.72	357.24	482.67
2007/8	481.01	967.73	357.06	572.04
2008/9	548.83	973.49	356.72	658.21
2009/10	616.65	979.25	356.38	744.39
2010/11	684.47	985.01	356.04	830.56
2011/12	752.29	990.77	355.70	916.73

The table 4.6.3 shows the forecasted value of Loan Loss Provision. It shows that the EBL, HBL and NIBL has increasing trend of Loan Loss provision but NABIL has very little decreasing trend. The highest value of Loan Loss Provision is for HBL and the forecasted value is 990.76. It shows that the bank need to work hard for improving the quality of it's lending.

Figure No. 4.7

Trend Line of Loan Loss Provision



4.6.4 Trend Analysis of Net Profit

The trend of Net Profit in the coming years is calculated by trend analysis technique. The following trend line shows the projection of Net Profit of EBL, HBL, NABIL and NIBL up to the fiscal Year 2011/12

Table No. 4.32

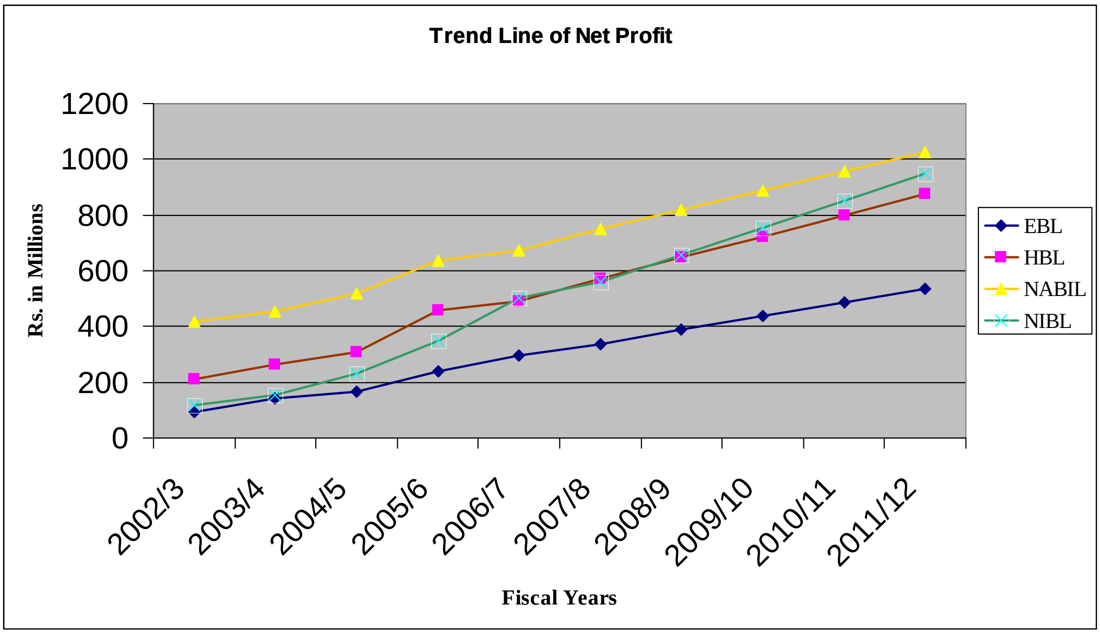
Trend analysis of Net Profit

Year	EBL	HBL	NABIL	NIBL
2002/3	94.18	212.12	416.23	116.81
2003/4	143.56	263.05	455.31	152.67
2004/5	168.21	308.27	520.11	232.14
2005/6	237.29	457.45	635.26	350.53
2006/7	296.41	491.82	673.96	501.39
2007/8	337.39	572.68	748.80	560.81
2008/9	387.21	648.06	818.34	657.52
2009/10	437.03	723.44	887.88	754.22
2010/11	486.84	798.82	957.42	850.92
2011/12	536.66	874.20	1026.96	947.62

The table 4.32 shows the trend of Net Profit is in increasing trend, if other things remain constant, NABIL has high increasing trend and highest forecasted trend value. The highest trend value is 1026.96. The net profit is depends of various things of the banks, lending policy is one of the factor that influence the net profit of bank. However, future is uncertain but the forecast is in increasing trend.

Figure No. 4.8

Trend line of Net Profit



4.7 Analysis of Primary Data

Analysis of credit practices provides the knowledge about the financial condition in terms of credit and credit efficiency of selected commercial banks. In this section, researcher tried to focus on the important areas of credit policy. The researcher designed structured questionnaire to analyze the meaning and importance of credit components.

In order to find out various opinions of existing employee of the sample banks regarding their credit policy, 40 selected employees (10 employees from each bank) were approached randomly and asked to fill up the questionnaires as mentioned in the annex. Out of them, 32 employees were convinced to fill up and provide response.

Likewise, to find out various problems of credit customers in the sample banks, 40 credit customers (10 credit customer from each bank) were approached randomly and asked to fill up structured questionnaire as mentioned annex. All of them were convinced to fill up and provide response.

4.7.1 Interpretation of Questionnaire's Responses Given by Employees of EBL, HBL, NABIL and NIBL

Table No. 4.33

Analysis of responses given by employees of EBL, HBL, NABIL and NIBL

Particulars	Yes % (No.)	No % (No.)	Total % (No.)
Is there credit related problems in your banks	100 (32)	- -	100 (32)
Does the service charges taken by banks is satisfactory?	62.5 (20)	37.5 (12)	100 (32)
Have you granted the entire credit to same sector as specified at the time of policy formulation?	62.5 (20)	37.5 (12)	100 (32)
Does any bank officer visit the project site at the time of granting credit	87.5 (28)	12.5 (4)	100 (32)
Do the borrowers need to submit the detail proposal in the bank	100 (32)	- -	100 (32)
The relation to the top authority sometimes influences in loan decision rather than credit appraisal.	25 (8)	75 (24)	100 (32)
The past track record of the borrower is analyzed before floating loan	100 (32)	-	100 (32)
The installment payment ability and regular income mechanism of the borrower is ensured while granting credit.	100 (32)	- -	100 (32)
This bank provides the loan to large parties without much analysis.	16 (5)	84 (27)	
Taking sufficient collateral is the basis for granting loan here.	91 (29)	9 (3)	100 (32)
This bank has the system of periodic valuation of the collateral.	100 (32)	- -	100 (32)
Does your bank make provision for loan loss as per NRB directive?	100 (32)	- -	100 (32)
Are you satisfied with the bank's credit policy and practices?	62.5 20	37.5 12	100 (32)

Source: Survey of Commercial Banks: 2009

Table 4.33 shows the responses given by employees of EBL, HBL, NABIL and NIBL over structured questionnaires. According to the primary survey, following was obtained:

- 100% survey employees of both banks agreed on that there are present credit-related problems during the working time.
- 37.5% survey employees agreed that service charges taken by the bank is not satisfactory and 62.5% replied that it is satisfactory.
- Similarly, 37.5% sampled employees replied that both bonks do not grant the entire credit to same sectors as specified at the time of policy formulation but 62.5% replied that entire credit is granted in same sector as specified in the time of policy formulation.
- Only 87.5% respondents agreed with that bank officers use to visit the projects site at the time of granting credit but 12.5 replied not.
- 100% sample employees agreed with that entire borrower need to submit detail proposal in the bank for credit taking.
- 25% respondents replied that the relation with top authority sometimes influences the loan decision rather than the credit appraisal but 75% said does not influence in loan decision according to the relation with top authority.
- 100% sampled employees agreed on that the past record of the borrower is analyzed before granting loan as well as installment payment ability and regular income mechanism of the borrower is ensured while granting credit
- 84% sampled employees did not agree with that the banks provides the loan to large parties without much analysis but 16% agreed because of high and regular transaction.
- 91% respondents agreed that sufficient collateral is the basis of granting loan but 9% respondents did not agree with that.
- All of the sampled respondents, i.e. 100% employees of both banks said that bank has the system of periodic valuation of collateral as well as

bank makes provision for loan loss as per NRB directives to survive from future loss.

- Although all the above response are satisfactory, only 62.5% sample employees are satisfied with the bank's credit policy and rest, i.e. 37.5% are not satisfied because of availability of loan to large parties without much analysis influence in loan decision by the relation to top authority, sufficient collateral to the base of floating loan, higher services charges etc.

4.6.5 Interpretation of Questionnaire's Responses Given by Credit Customers of EBL, HBL, NABIL and NIBL

Table No. 4.34

Analysis of responses given by credit customers

Particulars	Yes % (No.)	No % (No.)	Not clear % (No)	Total % (No.)
Do you have all knowledge about bank's credit policy?	50 (40)	50 (40)	- -	100 (40)
Are you satisfied with the rate of interest on credit charging by bank?	20 (8)	80 (32)	- -	100 (40)
Have you received any notice before credit expiration date?	70 (28)	10 (4)	20 (8)	100 (40)
Does any bank officer visit your project site at the time of granting credit?	90 (36)	- -	10 (4)	100 (40)
Do you want to take further credit from the bank?	70 (28)	10 (4)	20 (8)	100 (40)
Have you utilized the entire credit to the same sector as specified at the time of taking credit?	90 (36)	- -	10 (4)	100 (40)
Are you satisfied with the bank services?	70 (28)	30 (12)	- -	100 (40)

Source: Survey of Commercial Banks: 2009

- Only the 50% of total sample customers said that they are up to date with the bank's credit policies and remaining said 'No'.
- 32 customers, out of 40 are dissatisfied with the banks' interest rate. Only four customers said, "We are more or less satisfied".
- 70% of the total sample customers of bank received information of repaying credit from the bank, 20% of the total customers were uncooperative with the researcher, and remaining 10% said 'NO'.
- 90% of the sample customers said that the bank officer visited their project site at the time of granting credit. 4 customer said 'no' because there was representative of the credit-taking group.
- 28 customers, out of 40 responded that they would take credit from the same bank in the near future, 4 said 'No' and the remaining 8 customers did not respond clearly.
- 90% of the sample customers said that they utilized the credit for the same sector as specified at the time of taking loan. 4 customers did not respond clearly. Nobody said 'NO'.
- 70% of sample customers of the bank said that they are satisfied with the banks' services and the remaining percentage said 'No'.

4.8 Major Findings of the study

In the research data mainly secondary data are used and the analysis is computed with the help of different financial and statistical tools. In financial tools ratio analysis has been used and on statistical tools correlation coefficient, and trend analysis has been used. A primary data analysis is done from the information collected from structured interview with the concerned banks officials. This chapter focuses on the major findings from analysis of data of four banks.

Measuring the Liquidity Position of the Bank

1. Current ratio of four banks showed slightly fluctuating trend. All of the banks could not maintain the conventional standard of 2:1. The combined ratio is 0.9412. However, the average of the ratios appeared higher in EBL, which signifies that EBL is more capable of meeting immediate liabilities in contrast other banks. The ratio was found more consistent in NIBL.
2. Liquid fund to current liability ratio of EBL is highest and NABIL in fluctuating trend. After analyzing the ratio, we can conclude that all the sample banks do not differ significant with respect to this ratio
3. The average ratio of Liquid fund to total deposit ratio of EBL is highest, which shows that EBL maintain highest level of liquid fund against its deposit collection i.e. 0.1360. The HBL has the least ratio of liquid fund to total deposit i.e. .1050.

Measuring the Lending Strength

4. The combined ratio of Loans & Advances to Total Deposit ratio is 0.6741. EBL has mobilized 76.03% of it total deposit, which is highest among all. The HBL has mobilized least ratio of deposit to loan, i.e. 0.5665.
5. The combined ratio of loan & advance and investment to total deposit is 1.013. The NABIL has the highest mean ratio and the NIBL has lowest, i.e. 1.0369 and 0.9818.
6. The sampled commercial banks have jointly generated loan & advances 8.7435 times of total shareholders equity. EBL has the highest ratio of all, i.e. 9.7877 and the NABIL has the lowest ratio of all, i.e. 6.6721.
7. The combined ratio of non-interest bearing deposit to total deposit is 0.1616. HBL has highest ratio of 0.2057, which means HBL uses low cost fund.

8. Interest income to total income ratio of EBL is highest over the year 2002/03 to 2006/07, which reveals the EBL invested the fund rose from more successfully to earn the interest.
9. The combined ratio of Interest expenses to total deposit ratio is 2.6368%, which reveals that the average cost of deposit of four banks is 2.6368%. NABIL uses cheapest fund and EBL uses most expensive fund.
10. The combined ratio of interest income to interest expenses shows that the sampled banks generating Rs. 2.6133 interest income from a rupee of interest expenses. The HBL has the highest ratio, 3.5322, of interest income to interest expenses.
11. The interest suspense to interest income of HBL is 0.2776, which is far higher than combined mean ratio, i.e. 0.1305
12. The Loan loss provision to total loan & advances of HBL is highest and NIBL has the lowest. It reveals that the quality of loan of NIBL is better than others'. The combined ratio is 0.0409.
13. It was found that Loan Classification and provisioning of all the banks are followings directives from NRB to classify loan and making provision for default. The combined mean ratio of NPL and total loans & advances is 3.2942. HBL has the poorest quality of loan among them as the mean ratio of NPL to total loan & advance is 6.6598. The EBL has the lowest ratio of NPL to total loan and advances i.e. 1.5218. NABIL substantially decreased the ratio over the period from 6.16 to 1.122.

Analysis of Growth Rate

14. Growth ratio of total deposit of NIBL is highest of all by analysis over the study period, so it seems better performance of NIBL in total deposit. EBL is in second position.

15. Growth ratio of loans and advances of NIBL is highest of all over the study period. Significant growth over the period explains its aggressiveness.

16. Growth ratio of total investment of NIBL is 30.71%, highest of all. Whereas, the HBL has the very creeping growth in investment i.e.3.047.

17. The growth of Net profit of NIBL is highest, i.e. 33.83%. It can be sai.d outstanding performance of NIBL. The EBL has the second highest growth rate of Net profit, i.e. 25.77%.

Correlation Co-efficient Analysis

18. The correlation coefficient between deposit and loan and advances shows, that there is high positive correlation between these variable.
19. Correlation coefficient between investment and loan & advance shows that these two variables are positively correlated. There is high degree of correlation between these two variables in case of EBL & NIBL and Moderately correlated in case of HBL and NIBL.
20. The correlation coefficient between Shareholders' equity and loan & advances shows that the relationship between these two variables is highly positive.
21. The correlation coefficient between interest suspense to interest income is positive for EBL and NIBL and there is negative relationship between these variables of NABIL and there is no relationship incase of HBL.
22. The correlation analysis between loan loss provision and loan & advances shows that there is the there is positive relationship between these variable incase of EBL and NIBL and there is low degree of negative correlation incases of HBL and NABIL.
23. The coefficient of correlation between interest income and net profit shows that there is high degree of positive relationship between these two variables.

Trend Analysis

24. Trend analysis of total deposit shows that total deposit is in increasing trend and highest trend value is of NIBL i.e. 43798

25. Trend analysis of loan & advances shows that there is increasing trend of loan & advances of all four banks. The highest projected value of loan & advances is of NIBL, i.e. 31713.32.

26. Trend analysis of net loan loss provision shows that EBL, HBL and NIBL has the increasing trend and NABIL has very low decreasing trend of loan loss provision.

27. Trend analysis of net profit shows that the net profit of all four banks is in increasing trend. The NABIL has the highest projected value of net profit, i.e. 1026.96.

Analysis of Primary Data

28. Analysis of questionnaire's responses given by 32 employees of four banks shows that even there is some credit related problems, which hurdles there credit related works, there practices are satisfactory. Most of them said that entire credit is granted to the same sector as specified at the time of policy formulation. They use to visit the project site at the time of granting loan and borrowers' past track records are analyzed. Some of them think top authority influences during taking credit related decisions. 62.5% of them are satisfied with banks' credit policy and practices and remaining are not.

29. analysis of responses of questionnaire given by 40 credit customers of four banks shows that even they are not satisfied with interest rate charge by the banks, they are quite satisfied with there banks services. 70 % of them want to further credit from the bank and remaining is not. 70% of them are satisfied with the bank services and remaining is not.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter highlights some selected actionable conclusions and recommendation on the basis of the major findings of the study derived from the comparative analysis of EBL, HBL, NABIL and NIBL. The study has covered 5 years data from the year 2002/03 to 2006/07. The major findings of the study based on financial and statistical analysis listed in chapter-4 of this report. In order to carry out this study, mainly secondary data are used. The analysis of the data is carried out with the help of various financial and statistical tools. The findings of the study are summarized and conclusion and some recommendation drawn as below:

5.1 Summary

Lending is one of the most important functions of a commercial bank and the composition of loans and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available. Every bank is facing the problem of default loan and there is always possibility of certain portion of the loan & advances turning in non-performing loan. A study on the liquidity position, loans and advances, profitability, deposit position of EBL, HBL, NABIL and NIBL is analyzed and the banks lending strength, lending efficiency and its contribution in total profitability has been measured.

In this study, the financial tools-ratio analysis viz. asset management ratios and profitability ratios are calculated to find out the lending strength of this commercial bank. Also growth ratios, statistical tools like Mean, Correlation Coefficient and trend analysis conducted for analysis and interpretation of the data. The data used in this research is mainly secondary nature and extracted from the annual reports of the concerned bank and website of Nepal stock exchange. The financial statements of five years (2002/03 to 2006/07) were selected for the study purpose. And Analysis of primary data structured interview done with the concerned bank official and customers has also presented.

By analyzing liquidity position over the study period, EBL has kept highest mean of current ratio. But, the ratios of HBL have more variation and less consistency. Though the optimal standard of current ratio should be 2:1 for convention measure of liquidity, if is not appraisable on banking business. So, analyzing over the study period, it indicates the satisfactory liquidity position with both banks.

Both the mean ratios, liquid fund to current liability ratio and liquid fund to total deposit ratio, show that EBL has the highest ratio. It means EBL use to keep more liquid fund than other banks. NABIL has the second highest ratio of both liquid fund to current liability ratio and liquid fund to total deposit ratio. EBL also has more variation and less consistency in these ratios. It indicates that EBL has relatively sound and better liquidity position. But beyond some limit, high liquidity position is not so better because of interest expenses and it causes inverse impact in overall performance.

By analyzing the lending strength of banks, utilization of liability to create assets are assessed. EBL is best in utilizing its fund from total deposit to create assets as loan and advances. EBL also has more consistency and less variation in these ratios. The HBL has lowest ratio of loan & advances to total deposit because the HBL has been investing its fund proportionately more to short term and long term investment too. The mean ratio of loan & advance and investment to total deposit of NABIL is highest but the mean ratio of EBL, HBL and NABIL are almost the equal. From the analysis, we can say that the banks have sound investment policy so that they are able to converts their deposit liabilities into assets.

Similarly, EBL is successful in converting liability into assets in terms of investment made from shareholders' equity. It has successfully generated proportionately higher volume of loan & advances. Similarly, HBL is most successful in collecting cheaper fund as its major portion of deposits consists of non-interest bearing deposits.

Bu analyzing the lending efficiency and its contribution in total profitability, it is revealed that EBL has the highest mean ratio of interest income from loan & advances to total income, which shows a large contribution of interest income to total income. Interest expenses to total deposit ratio shows NABIL is successful in collecting lowest cost deposits by its modern and personalized customer services but the EBL is bearing highest cost for its deposit. NABIL has the highest mean of interest income to interest expenses ratio, which reveals that the NABIL has high degree of gap between interest offered and interest charged. NABIL has charged high interest rate to borrowers and offering low interest rate to depositors. NIBL has the lowest interest suspense ratio. HBL has the very high interest suspense ratio, which shows inefficiency of HBL in recovery practices.

The commercial banks have been following NRB directives in terms of loan loss provision and loan classification. The HBL has the highest loan loss provision to total loan and & advances ratio, which also affected the profit of HBL. NIBL has the lowest loan loss provision to total loan & advances ratio. The EBL has least ratio of non-performing loans to total loan & advances; it shows EBL has good quality loans. HBL has the highest mean ratio of non-performing loan to total loan & advances.

Analysis of growth rate shows NIBL has maintained highest ratio of growth in total deposit, total loan & advances, total investment and net profit. The EBL is in second position in this race.

By correlation coefficient analysis shows that there is high positive relationship between independent variable deposit and dependent variable loan & advances of all banks. The correlation between total investment and loan & advances of EBL and NIBL is high positive but for HBL and NABIL has moderate degree of positive relationship. The calculated correlation coefficient between shareholders' equity and loan & advances is evidence for positive correlation relationship between these variables. Correlation coefficient between total income and total loan & advances of all four banks shows there is high positive relationship. Coefficient of correlation between interest suspense to interest income shows EBL and NIBL has high positive correlation between these two variables but NABIL has very low degree of negative relationship between these two variables. The correlation coefficient between provision for loan loss and loans & advances shows positive relationship for EBL and NIBL and negative for HBL and NABIL. The correlation coefficient between interest income and net profit shows that net profit is dependent variable of independent variable interest income because there is high positive relationship between these two variables.

Trend analysis of different variables shows that deposit collection, loan disbursement, net profit of all banks are in increasing trend. Trend of Loan loss provision of EBL, HBL and NIBL are in increasing trend but it is slightly decreasing trend in case of NABIL.

Primary data analysis reveals that all of the sample employees of all banks agreed on that points; the bank have credit related problem, borrowers need to submit the credit proposal in the bank for loan for loan flotation, past track record of the borrower is analyzed before floating loan, installment payment ability and regular income mechanism of the borrower is ensured while granting credit as well as bank makes provision for loan loss. Less than 50% of survey respondents are not satisfied with the sampled banks because of high service charges, credit is not granted to the same sector as specified at the time of policy formulation, relationship with top authority influenced the loan decision rather than credit proposal as well as more than 50% of the survey respondents are not satisfied with the banks credit policy.

According to the questionnaire survey of credit customers of sample banks, almost 50% customers are not up to date with the lending policy of bank, almost 80% customers are dissatisfied with interest rate charging by bank on loan &

advances, nearly 70% credit customers received notice about the credit expiration date as well as they want to take further credit from the bank, 90% sample respondents replied that the bank officer visited the project site at the time of granting credit so that they utilized the entire credit to the same sector as specified at the time of taking credit . But, almost 30% credit customers of the banks are not satisfied with the banking services and they want to divert on another bank.

5.2 Conclusion

Present study is successful to explore the findings of the results designed for the study. Various financial as well as statistical tools were used as per requirement of nature of data. Primary as well as secondary sources of information were used for analysis of data. Based on the data analysis and findings of the result, the following conclusion can be drawn.

The overall performance of all the commercial banks is satisfactory. The banks are maintaining sufficient liquidity to discharge its current liability in an adverse condition without undergoing its liquidity risk. From the analysis, it can be concluded that EBL is the bank with greater liquidity. But EBL has greater variability and less consistent in liquid fund ratios. The banks have successfully been generating income by mobilizing its fund from liabilities such as deposit collection and shareholder’s equity into assets as loan & advances and investment. By modern and personalized services to the customer, some banks are being able to collect large proportion of non-interest bearing deposits and low interest rate offering deposit, like NABIL and HBL in our study. They are collecting cheaper fund than other banks. Particularly, NABIL has high degree of gap between interest offered and interest charged i.e. spread rate, which can be concluded from the highest interest income to interest expenses ratio. But interest suspense, interest due but not collected, is problem for HBL which shows the ineffectiveness of recovery mechanism. NABIL significantly has been decreasing interest suspense ratio.

From analysis of loan classification and provisioning, it can be concluded that the bank has been classifying and making provision of loan as per NRB directives. The EBL has negligible proportion of NPL. So, the quality of loan of EBL is superior to other banks. HBL has high more risky assets (loans having chances of default) comparing to other banks. So, HBL has highest ratio of loan loss provision to total loan & advances. But it has been increasing its quality of loan by decreasing the proportion of NPL. NABIL also has increased the quality of loan by significantly decreasing the proportion of NPL.

By the analysis of growth rate, it can be found the business of all banks has been growing. From analysis it is revealed that NIBL is growing its business very swiftly. The pace of growth of variables, taken for analysis of growth rate, is very high. Deposit collection, loan disbursement, total investment and net profit of NBL have been increasing appreciably.

rom trend analysis, it can be concluded that the overall business of commercial banks are in increasing trend. Deposit collection, loan & advances, investment and net profit, all are in increasing trend. Because of highest growth rate of business of NIBL, trend values of NIBL in total deposit collection, total loan & advances and investment are highest. NABIL has highest projected net profit.

All the banks have good lending procedures. Analysis of questionnaire's responses given by employees of four banks shows that even there is some credit related problems, which hurdles there credit related works, there practices are satisfactory. Most of them said that entire credit is granted to the same sector as specified at the time of policy formulation. They use to visit the project site at the time of granting loan and borrowers' past track records are analyzed. Some of them think top authority influences during taking credit related decisions. 62.5% of them are satisfied with banks' credit policy and practices and remaining are not. Analysis of responses of questionnaire given by credit customers of four banks shows that even they are not satisfied with interest rate charge by the banks, they are quite satisfied with there banks services. 70% of them are satisfied with the bank services and remaining is not.

herefore, the management of these banks must revise the lending policy and invest in profitable as well as productive sectors rather than only to increase lending ratio.

5.3 Recommendation

Findings of the study may provide important information for those who are concerned directly or indirectly with the credit policy of commercial banks (with respect to EBL, HBL, NABIL and NIBL). On the basis of analysis and findings of the study, following suggestions and recommendations can be outlined:

A. Search for the new area of investment

Lending is the most important function of commercial banks. The low tendency of lending and investment affects the performance of banks and eventually affect the economy of country by low level of productivity and employment opportunities. Therefore, all the commercial banks are recommended to increase the volume of lending in coming years too. Specifically, the management of EBL should search for new area of investments as well as bank should follows the NRB directives to reduce its surplus liquid fund.

B. Strictly follow the NRB directives

The banks are suggested to strictly follow the NRB directives. Following of NRB directives will help to reduce to credit risk arising from borrower's defaulter, leak of proper credit appraisal, defaulter by black listed borrowers and professional defaulter. Government has established credit inebriation bureau, which will guide commercial banks. So the bank is suggested to follow project-oriented.

C. Banks are suggested to avoid more risky areas of lending

D. Reduce the cost of funds

The banks are suggested to collect more non-interest bearing deposit from its modern and personalized service and also reduce the interest rate of interest bearing deposits. The ratio of non-interest bearing deposit to total deposit of EBL is the lowest and as a result of this it has highest ratio in interest expenses to total deposits. There is high propensity to grow in loan & advances. Therefore, this bank is suggested to collect more non-interest bearing deposit from its modern and personalized service and also reduce the interest rate of interest bearing deposits. Consequently the volume of interest bearing deposit in its deposit mix will reduce, which will result in increase in the gap between interest income and interest expenses providing new lending opportunities.

E. Adopt sound recovery policy

The banks are suggested to adopt sound recovery policy. Specifically, HBL should adopt the sound credit collection policy, which helps to decrease its loan loss provision and non-performing loan of the bank.

F. Decrease non-performing loan and loan loss provision

The credit management of HBL must follow the policy as rapid identification of delinquent loans, immediate contact with borrower and continual follow-up until a loan is recovered to decrease its non-performing loan and loan loss provision.

G. Reduce interest suspense Account

It is also suggested to the commercial banks to reduce the interest suspense account by its efficient recovery. The interest suspense to interest income from loan & advances is high in case of HBL. The increase in interest suspense account will increase risk and the profitability of the bank will decrease. Therefore, these banks have to improve their interest turnover rate to decrease the ratio of interest suspense to interest income from loan & advances.

The banks have to concentrate on recovery of interest and loans & advances, plan and act accordingly for proper collection of interest repayment schedules.

H. Increase the growth rate of business

Looking a current trend of business it is recommended to the management of HBL and NABIL that they must be very careful on formulating marketing strategies to serve customers because the study shows that HBL and NABIL has poor growth rate comparing to EBL and NIBL. Size of business of HBL is largest of all sampled banks in absolute term but the growth rate of business is lowest. So, it should launch different schemes and more aggressive marketing campaigns to boost its business. Both banks are recommended to develop an innovative approach of bank marketing for its well-being and sustainability in the market. They are suggested also to carry out competitors' analysis to retain old customers and gain new customers.

I. Develop Innovative approach of marketing and competitors' analysis

Banks are recommended to develop an innovative approach of bank marketing for its well-being and sustainability in the market. They are suggested also to carry out competitors' analysis to retain old customers and gain new customers, which increase deposit and eventually can earn profit from lending loan and other investments.

J. Acknowledge grievances & complains and carry out regular follow-up of credit customers

Most of the customers are dissatisfied with the service charges and interest rates of credit. Therefore, the banks' management should consider on these

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APPENDIX-I

Current Assets

Fiscal Year	EBL	HBL	NABIL	NIBL
2002/03	7833.83	16875.53	13337.18	7505
2003/04	9395.36	18487.96	14240.08	11143.72
2004/05	11540.31	21221.23	14971.87	13739.42
2005/06	15079.72	23016.31	18129.06	17876.65
2006/07	20930.99	27432.77	22824.32	23555.38

Current Liabilities

Fiscal Year	EBL	HBL	NABIL	NIBL
2002/03	7365.15	21695.16	14334.52	8287.67
2003/04	8873.73	22323.83	14956.11	12061.69
2004/05	8873.73	25318.99	15176.44	14696.66
2005/06	14653.73	27122.17	20235.74	19259.49
2006/07	19868.38	30875.39	24366.1	24776.84

Liquid Funds

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	1139.5	2129.2	1814.8	966.53
2003/04	819.1	2370	1889.1	1536.92
2004/05	1619.8	2455.4	1427.7	1480.47
2005/06	1619.8	2722.4	2365	2406.51
2006/07	2391.2	3467.2	1963.3	2807.47

Total Deposits

Banks	EBL	HBL	NABIL	NIBL
2002/03	6694.96	21007.38	13447.66	7922.76
2003/04	8063.9	22010.33	14119.03	11524.67
2004/05	10097.69	24814.01	14586.6	14254.57
2005/06	13802.44	26490.85	19347.4	18927.3
2006/07	18186.25	30048.41	23342.28	24488.85

APPENDIX-II

Total loans & Advances

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	5049.58	10844.59	8113.68	5921.79
2003/04	6095.84	12919.63	8548.65	7124.09
2004/05	7900.7	13451.16	10946.73	10453.16
2005/06	10136.3	15761.97	13278.78	13178.15
2006/07	14082.7	17793.72	15903.02	17769.09

Total Investments

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	1653.97	10175.43	6031.17	1705.24
2003/04	2535.65	9292.1	5835.94	3862.48
2004/05	2128.93	11692.34	4275.52	3934.18
2005/06	4200.51	10889.03	6178.53	5602.86
2006/07	4984.31	11822.98	8945.31	6505.67

Non-interest Bearing Deposits

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	714.19	3927.68	3424.69	1205.47
2003/04	869.75	4570.46	3012.93	1787.08
2004/05	1182.54	5631.2	3140.41	1969.05
2005/06	1337.6	5516.18	3276.38	1984.14
2006/07	1956.84	5964.6	3758.1	2546.69

Shareholders Equity

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	612.82	1063.13	1314.18	638.53
2003/04	680.31	1324.15	1481.67	729.04
2004/05	832.6	1541.74	1657.63	1180.16
2005/06	962.8	1766.1	1874.99	1415.43
2006/07	1201.51	2146.48	2057.04	1878.12

APPENDIX-III

Interest Income

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	520.17	1201.23	1017.87	459.5
2003/04	657.24	1245.89	1001.61	731.4
2004/05	719.29	1446.46	1068.74	886.8
2005/06	903.41	1626.43	1309.99	1172.74
2006/07	1144.4	1775.58	1587.75	1584.98

Interest Expenses

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	307.63	554.12	317.34	189.21
2003/04	316.37	491.54	282.94	326.2
2004/05	299.56	561.96	243.54	354.55
2005/06	401.39	648.84	357.16	490.96
2006/07	517.16	767.41	555.71	685.53

Total Income

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	635.33	1454.3	1427.45	577.93
2003/04	785.06	1519.61	1427.43	913.71
2004/05	858.96	1760.68	1479.57	1145.62
2005/06	1066.51	2044.16	1743.45	1450.67
2006/07	1370.71	2164.15	2081.85	1932.95

APPENDIX-IV

Interest Suspense

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	40.33	322.67	125.45	48.21
2003/04	54.26	417.49	112.44	30.74
2004/05	59.6	426.53	122.3	38.38
2005/06	79.92	487.95	109.67	77.94
2006/07	83.37	336.71	112.19	90.44

Loan Loss Provision

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	141.12	842.75	357.73	149.64
2003/04	211.71	967.76	358.66	206.29
2004/05	281.41	1026.64	360.56	327.11
2005/06	334.94	1119.41	356.23	401.94
2006/07	418.6	795.72	357.24	482.67

Net Profit

Fiscal Years	EBL	HBL	NABIL	NIBL
2002/03	94.18	212.12	416.23	116.81
2003/04	143.56	263.05	455.31	152.67
2004/05	168.21	308.27	520.11	232.14
2005/06	237.29	457.45	635.26	350.53
2006/07	296.41	491.82	673.96	501.39

APPENDIX-V

Coefficient of Correlation between Deposit and Loan and Advances of EBL

Year	**Deposit (X)**	**Loan & Advances (Y)**	**X^2**	**Y^2**	**XY**
2002/03	6694.9	5049.6	44822489.4	25498258.2	33806736.12
2003/04	8063.9	6095.8	65026483.21	37159265.3	49156244.18
2004/05	10097.7	7900.7	101963343.3	62421060.5	79778819.38
2005/06	13802.4	10136	190507350	102743564	139904982.5
2006/07	18186.2	14083	330739689.1	198322158	256111321
Total	56845.2	43265.1	733059355	426144305.7	558758103.1

Now, we have
n = 5
$\sum X$ = 56845.24
$\sum Y$ = 43265.1
$\sum X^2$ = 733059355
$\sum \mathbf{Y^2}$ **=** 426144305.7
$\sum XY$ = 558758103.1

Coefficient of correlation can be calculated by using following formula:

$$\text{Correlation coefficient (simply, r)} = \frac{n\sum xy - \sum x \sum y}{\sqrt{\left[n\sum x^2 - \left(\sum x\right)^2\right]\left[n\sum y^2 - \left(\sum y\right)^2\right]}}$$

Correlation of coefficient (r) = 0.9977
Coefficient of determination (r^2) = 0.9954
Calculation of Probable Error

PE of coefficient of correlation can be calculated by following formula

$$\text{P.Er.} = 0.6745\ \frac{1Zr^2}{\sqrt{N}}$$

P.Er = 0.0014
Now,
6 P.Er = 6 × 0.0014
= 0.0083
The correlations of coefficient of other items are calculated accordingly.

APPENDIX-VI

Trend Analysis of Total Deposit of EBL

Year	**X**	**x = X-** $\bar{X}$	**Deposit (Y)**	x^2	y^2	**xy**
2002/03	1	-2	6694.96	4	44822489.4	-13389.9
2003/04	2	-1	8063.9	1	65026483.21	-8063.9
2004/05	3	0	10097.69	0	101963343.3	0
2005/06	4	1	13802.44	1	190507350	13802.44
2006/07	5	2	18186.25	4	330739689.1	36372.5
N = 5	X = 15		Y= 56845.24	x^2 = 10	y^2 = 733059355	xy = 28721.12

X= 15

$$\bar{X} = \frac{X}{N} = 3$$

x^2 = 10

y= 56845.24

y^2 = 733059355

xy = 28721.12

Since, x = 0

So,

$$a = \frac{y}{n} = \frac{56845.24}{5} = 11369.05$$

$$b = \frac{xy}{x^2} = \frac{28721.12}{10} = 2872.1$$

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

y = 11369.05 + 2872.1x

For Trend Values

Year	**x = X-3**	**Trend Values**		
2002/03	-2	y = a + bx	11369.05 + 2872.1 × -2 =	5624.85
2003/04	-1	y = a + bx_1	11369.05 + 2872.1 × -1 =	8496.95
2004/05	0	y = a + bx_2	11369.05 + 2872.1 × 0 =	11639.05
2005/06	1	y = a + bx_3	11369.05 + 2872.1 × 1 =	14241.15
2006/07	2	y = a + bx_4	11369.05 + 2872.1 × 2 =	17113.25
2007/08	3	y = a + bx_5	11369.05 + 2872.1 × 3 =	19985.38
2008/09	4	y = a + bx_6	11369.05 + 2872.1 × 4 =	22857.5
2009/10	5	y = a + bx_7	11369.05 + 2872.1 × 5 =	25729.61
2010/11	6	y = a + bx_8	11369.05 + 2872.1 × 6 =	28601.72
2011/12	7	y = a + bx_9	11369.05 + 2872.1 × 7 =	31473.83

The Trend Values of other items are calculated accordingly.