CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Nepal is a small landlocked under developing country situated 26° 22” to 30° 27” northern latitude and 80°04" to 88°12” eastern longitude between two large country India and China. Total area of Nepal is 147181 km which is 0.3 percent of Asia and 0.03 percent of the world. Average length of eastern Mechi to western Mahakali is 885 kms and average gap between Northern sides to southern side is 11 93 kms. It is an underdeveloped country with per capita income of US$ 320 according to World Bank and almost 32 percent of the population lives below the poverty line.

Nepal is one of the countries in the world in terms of rich and unique in natural resources and attributes like it’s bio-diversity, socio-cultural, cultural heritage, manifested in its architecture, temples, sculptures, monuments etc. Beside from this, it is also richly gifted with natural resources like world’s toppest mountain Everest, green forests, many perennial rivers and source of minerals. Actually slow pace of developing of Nepal is due to illiteracy, lack, of finance, landlocked position, poor resources mobilization and its utilization, weak infrastructure development, institutional weaknesses, poor economic policy and unstable eco-political environment. For this to overcome, the process of capital accumulation among other perquisites should be enhanced. The economic development of nation is on initial stage. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade and transit policy.

Economic conditions show the actual value of any country. So bank and financial institution is the backbone of economic development. Bank and financial institution play vital role of developing economic condition under develop country like Nepal. Economic activities are guided by finance. Financial institutions provide capital to develop trade, industry and business. Bank, development banks, finance companies, co-operative societies, insurance companies, stock exchanges helps in the economic development of the country. Capital and financial instrument plays an important role in accelerating the economic growth of a nation, which in turn is determined among other, by saving and investment propensities. Liberalization, globalization as well as privatization are most common and essential part of investment and other activities in financial sector of Nepal. The liberalization policy attracts foreign investor as well as national investor to invest financial sector & commercial sector, as well as Joint Venture Company. Which help to rises the life standard of people and boost up national prosperity.

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the upliftment and prosperity of its economy. The financial institutes act as intermediaries or catalyst to transferring the required financial resources and other services. A new organized financial institution including financial companies, commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. They are indispensable part of the development process. Therefore, a competitive and reliable banking is essential to the nation for the development.

Government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development and overcome the current pitiable economic situation. Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets. Financial institution, in this economy plays a role of catalyst in the process of economic growth of the country. In this country, a bank is a financial institution, which plays a significance role in the development of a country. It facilitates the growth of trade and industry of national economy. However, bank is a resource for economic development, which maintains the self-confidence of various segments of society and extends credit to the people. Banking sector plays a vital role for the country's economic development opportunities to people. Such economy of the country secures proper growth. In this way, it is crystal clear that a sound banking system is must for the industrial development and creates employment and investment opportunities to people as well as overall economic development of the country.

1.1.1 Meaning of Commercial Bank:

Simply, a commercial bank is known as organize corporate business house that receives and holds deposits or fund from other and makes loans or extends credit and transfer funds by written orders of depositors or customer. A bank is an institution for keeping, lending and exchanging etc money. Generally Bank is known as Central bank, Commercial bank, Development bank, Exchange bank, Saving bank, Cooperative bank, Merchant bank, Housing bank, Equipment bank, Infrastructure bank and Mutual fund. As a whole Bank refers to Commercial Bank at present. A bank is a major player among of financial institutions. A bank involves in a process of collecting scattered money and to help its mobilization in different sectors according to need of customers. Bank helps to develop saving habit of people, which in-turns help to make other people to invest for their business. Banking loan helps to invest in industrial sector, commercial sector, production sector, trade & commerce and agriculture sector as well. Bank also helps to develop international business by initiating as a mediator to exporter & importer. This way banks help to strengthen the national development.

A commercial bank refers to such a type of bank which primarily established to perform the functions of accepting deposits and providing loans to customers. Deposits accepted by commercial banks are in the form of saving, current and fixed deposits. Advancing credit in the form of short term credit as well as long-term credit. Bank also perform other subsidiary function like safety vault, bank overdraft, documentary credit, traveler’s cheques, payment of bills, purchase of government bond and security, make guarantee hire purchasing, issue of draft and letter of credit(L.C), exchange of foreign currency, home banking etc. They also render or provide innumerable number of subsidiary services.

Banking plays significant role in the economic development of a country. Commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing. The objectives of commercial banks are to mobilize idle resources into the most profitable sector after collecting them from scattered sources. Bank accepts deposits from the public, which are repayable on demand or on short notice. They cannot afford to invest their funds in long-term securities or loans. They provide the working capital required by trade and industry in their day-to-day transactions. They grant loans in the form of cash, credits and overdrafts. They need to keep appropriate liquidity so that they can provide cash at the same time if needed.

The source of finance is most essential element for the establishment and operation of financial institute. Profit oriented institutions usually obtain these sources through ownership capital, public capital through issue of shares and debentures, borrowing through banking institution as credit or loan. Now days, the essential sources of the organization for financial supporting is the credit, overdrafts and others provided by banking institution. Now a day inter banking loan is maim source of every bank and financial institution. Its helps to fulfill short term demand of cash any bank must maintain adequate cash and bank balance to meet its day-to-day management of cash resources for remote contingencies. All the commercial banks are operates under rules, regulations and direct supervision of Central Bank.

The bank is an indispensable part for the upliftmen of a country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange & foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country. Banking industry has acquired a key position in mobilizing resources for finance and social economic development of a country. Bank assists both the flow of goods and services from the producers to the consumer and the financial activities of the government. Commercial banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post shipment finance to exporters.

Nowadays banking field is being very tough competition. So every bank launches verity of services and new technology. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. In recent times, many commercial banks are providing consumer-financing facilities also. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances hire purchase etc. in this way the bank provide advance technology and quick service to cope and sustain competitive global banking environment.

1.1.2 Execution of Financial Sector Reform Program in Nepal

Nepal began economic liberalization in mid 1980s with a view to enhance efficiency in economic activities, before that banking sector was not opened up for the private sector With the advent of liberalization, the financial sector made some progress and prudent regulatory measures have been introduced by the Nepal Rastra Bank, Central Bank of Nepal. As a result, the number of banks and financial institutions in Nepal has also increased substantially. Though significant growth in the quantity of banks and financial institutions have been observed during the last two decades, their quality and performance are still not satisfactory. There is no doubt that the financial system needs to be structured on the strong base and should be complied with adequate international norms and best international practices. Financial supervisors should be legally strong, professional and responsible for enforcing such best practices. But the scenario is still weak in various developing economies. Financial Sector Assessment Program (FSAP) conducted by the World Bank and the IMF in various developed and underdeveloped financial markets in 1999 highlighted that most of the developing countries were still in the vulnerable situation, as they were not complying with the Basel core principles. The indicators of the financial sector of Nepal as well as the procedures exercised in the system had indicated that the system was weak, vulnerable and risky up to recent past. Therefore, a reform strategy was felt necessary to be launched in the economy. In this way, the Financial Sector Reform (FSR) has been adopted as a strategy aimed at making the financial system well diversified, sound, competitive and supportive to the attainment of development objectives of the economy with the technical assistance of World Bank. The overreaching objective of Financial Sector Reform Program is to support the renewed effort of the Nepal government to improve the sector in order to bring macroeconomic stability and promote private sector-led economic growth. The financial sector reform program is in the form of sequential projects. (*NRB website, About Financial Sector Reform Program)*

1.2 Statement of Problem

As expected, a major outcome of Financial Sector Reform process that began in mid 1980s was the emergence of joint venture commercial banks, which brought modern and efficient banking services to Nepal. The entry of these joint venture banks led to the growth of the financial sector of Nepal in the form of increased deposits and disbursement of credit to various sectors of the economy. However, the financial sector remained largely dominated by the two huge state owned banks Nepal Bank Limited and Rastriya Banijya Bank. High level of Non Performing Assets and negative net worth of these two banks were a threat to Nepal's whole financial sector. The major focus of the reform program launched by the government is improving the condition of these two banks. A major focus of this study is on the impact of financial sector reform program in the performance of one of the huge state owned bank, Nepal Bank Limited. To sum up, this study deals with the following issues:

i) Banks still have huge negative net worth

ii) NPA recovery is not satisfactory

Iii) The current financial and operational status of Nepal Bank Limited.

1.3 Objective of the Study

The study focuses on the effect on overall financial position once the bank is taken over. And the reform program is effectively and efficiently supporting growth of the nation. The overall objectives of the study are as follows.

- To assess the effectiveness of Financial Sector Reform Program
- To make comparative analysis of performance of Nepal Bank Limited after the initiation of Financial Sector Reform Program
- To analyze the liquidity, asset and profitability ratio of NBL.
- To offer suitable suggestions based on findings of this study.

1.4 Significance of the Study

A well functioning financial sector plays a crucial role in the process of economic development by efficiently mobilizing resources and allocating capital for productive investment projects. After introduction of financial sector reforms, the number of banks and other financial institutions with variegated types of financial instrument had emerged up.

This study will have both academic as well as practical significance. The study and conclusion of the study will add to literature of Financial Sector Reform in general and review the previous findings. The study will be helpful for the banking industry to strengthen their financial position. This study adds new idea and findings about the concerned bank. This study no doubt will have importance to various groups but in particular is directed to a certain groups of people/organizations, which are:

- This study will provide importance information to those who are planning to invest in the study will give a clear picture of financial reform of the bank under study.
- Importance to the management bodies and shareholders of the bank for the evaluation of the performance of bank.
- Importance to "outsiders" which are mainly the customers, financing agencies, stock exchanges etc.
- Importance to the government bodies or the policy makers such as the central bank
- Interested outside parties such as- investors, customers (depositors as well as credit takers), and competitors, personnel of the banks, stockbrokers, dealers, and market makers.

So, this study helps to identify its hidden strength and weakness bank as well as regarding financial condition of bank. Likely after the completion, this report will be kept in the library, which plays the role of reference to the students making the similar study in future.

1.5 Limitation of the Study:

This study is done for the partial fulfillment of the requirement for the Master of Business Study MBS Degree of management faculty of T.U. So, this study has certain limitations and constraints and they are as follows.

- The study mainly concentrates on those factors related with reform and performance and lending activities.
- The up to date and complete data is difficult to obtain, due to inability of providing the required reports by concerned authorities.
- The study is only based on NRB and NBL‘s periodical reports etc.
- This study is mainly based on secondary data.

- Study is based on data of five years period.
- Some of the statistical as well as financial tools of comparison & analysis shall be used in the study.

Being a student, lack of the sufficient time resources are the major limitations. Therefore the study has been conducted.

1.6 Organization of the Study:

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

Chapter -I	**Introduction**
Chapter-II	**Review of Literature**
Chapter -III	**Research Methodology**
Chapter -IV	**Data Presentation and Analysis**
Chapter -V	**Summary, Conclusion and Recommendations**

Chapter- I: Introduction

Chapter one deals with introduction of the main topic of the study. . This chapter gives an account of the objectives and scope of the study, and also looks over the major issues to be investigated and explained. It includes general background, introduction of aNBL, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study and other introductory framework.

Chapter – II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. This chapter includes conceptual review and review of relegated studies. It includes the conceptual review of the related books, journals, articles published, research works as well as thesis.

Chapter – III: Research Methodology

It covers the research methodology employed in the study. This chapter further attempts to explain the nature and sources of data and data collection techniques. This chapters purpose is to provide information about various financial and statistical tools and techniques which is used for the analysis of the presented data. This chapter includes research design, data collection, methods and analysis and research variables.

Chapter - IV: Data Presentation and Analysis

It is the major part of the whole study in which all collected relevant data are analyzed and interpreted the help of different financial tools and graphical presentation. In this chapter there is explanation of major findings of study. Data processing, data analysis and interpretation are given in this chapter.

Chapter - V: Summary, Conclusion and Recommendations

Finally, summary and conclusions of the study are presented in chapter five. It also focuses on the major findings along with other empirical evidences. Recommendations for further research are also offered. The exhibits and bibliography are incorporated at the end of the study.

CHAPTER - II
REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted or done. It is an integral mandatory process in research works. It is a crucial part of all dissertations. In other words it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived. The focus of the review is portfolio management of commercial bank. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

We study the review of literature in dividing two headings:

- Conceptual Review
- Review of related Studies

2.1 Conceptual Review

2.1.1 Concept of Financial reform

Financial Sector Reform is defined as a set of actions aimed at reducing or eliminating distortions in financial markets, deepening the financial sector, and strengthening financial institution (World Bank, 1998).

In the process of building prudently and efficiently managed bank and nonblank financial network and ensuring strong and capable regulatory body to lead the financial system, broader and deeper reforms are required in the central banking, commercial banking and other areas of the financial system. Reform is vital for strengthening the financial system as well as improving its capability to face the vulnerability to the likely instability and other uncertainties that could affect the evolving financial system. Likewise, reform is also required for capacity building within the banking system, intend to promote a stable financial system and also foster an environment that enhances economic growth, productivity and sustainable development in Nepal.

With the economic liberalization initiated in mid 1980s, the Nepalese financial system witnessed significant developments in the growth of financial institutions. Along with the numerical growth and other institutional developments of the financial sector, the deposits and credits were expanding. However, due to weak operational management and imprudent lending practices government owned banks Nepal Bank Limited and Rastriya Banijya Bank had begun to exhibit serious portfolio problems as well as operational problems viz, the negative net worth, high level of non performing assets, poor risk management skills, weak governance and poor human resource management. The government then announced the strategy paper on financial sector reform program. Consequently, Nepal Rastra Bank initiated the first phase of financial sector reform program, funded by World Bank and International Monetary Fund (IMF), in the mid 1980s. In the first step of current comprehensive reform program, management of Nepal Bank Limited was handed over to foreign management team, ICC consulting group of Bank of Scotland. Bruce F Henderson got the management of Rastriya Banijya Bank on a contract basis. The ICC group has completed its term of management contract and currently the bank is under NRB management. On the other hand the contract of CEO in RBB has been renewed for next two years effective from 16 January 2006.Government is expecting a better result from the contracting out, and it is a matter of concern for the financial sector, as the success or failure of these banks will have significant impact on the management of government-owned banks.

2.1.2 Development of Bank in Nepal:

The words BANK was initiate form Latin words Bancus, French words Banque and Italian words Banca, which means refer that a Bench where sitting over there invest, exchange and keep record of money and cash. History tells us that initiation of bank in eastern side of world was mentioned in economics of Kautilya and Manusmirti. Likely in west banking system was started from ‘Bank of Venice, 1157 Bank of Barcelona. Actually banking system was inaugurated after established of Bank of England.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuable treasures under such arrangement the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuable treasures after paying a small amount as fee for safekeeping and saving.

The Banking system in Nepal was developed gradually from the past. The history states that King Gunakamadev had received loans from the public in the 8th century to renovate "Kathmandu City". The foundation of banking system in Nepal was established by a businessperson named Shankhadhar Shakha in 10th century. He had paid back all the loans taken from the public and since then Nepal Sambat had stated in our country. This tells us that the system of lending money and paying back started long time back in our country. Later on in the 14th century, King Jayasthiti Malla divided the people into 64 castes according to their occupation, amongst them 'TANKADHARI' one is that dealt with the lending of money to the public. Main objective of the 'TANKADHARI' was to earn profit by providing money as a loan to people and taking certain interest rate. Prime Minister Ranadeep Singh established 'TEJARATH ADDA' in the 1933th B.S In order to protect people from higher interest rate, The 'TEJARATH ADDA' was responsible for providing loans to the people working in the government offices based on the security and the public based on the collateral they deposited in the 'TEJARATH ADDA' was not to earn profit, it charged its creditors with a low interest rate of 5% per annum. It was only subjected to lend but did not accept deposits, hence it cloud not be counted as a bank. However, it can be said that 'TEJARATH ADDA' was the main financial institution that led to the development of modern banking system into the country.

The actual banking system of Nepal starts from the establishment of Nepal Bank Limited (NBL) as the first modern bank in our country Nepal in B.S. 1994 Kartik 30th according to the Nepal Bank Act 1993. NBL was the first bank to be established in Nepal and prior to this, there was no such organized banking system in the country. Therefore year B.S. 1994 is said to be the Golden year for modern banking system in Nepal.

After two decade Nepal Rastra Bank established in 14th Baisakh, 2013 BS as a being central bank of Nepal under “Nepal Rastra Bank Act 2012” to perform the function of the central banking in Nepal. It established to promote, control, direct, supervision and manages banking activities and to in the country under the provision of Brussels International monetary conference (IMC). Main objective of Nepal Rastra Bank was to make economic assistance, issue and exchange of Nepalese note and currency, good govern of banking system etc. and use of own Nepalese note in whole country Nepal.

Nepal Industrial Development Corporation (NIDC) was established In 2016 BS under NIDC act 2016.it established for promote industrialization in Nepal. Main objective of NIDC was to provide technical and financial assistant for industry and commerce. Subsequently another fully state owned commercial bank “Rastriya Banijya Bank” was established on 10th Magh, 2022 BS under Rastriya Banijya Bank act 2021 which was the second commercial bank of Nepal. With the establishment of RBB, a noticeable progress could be seen in banking industry of Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries. Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by the government. In 2024 magh 7th BS Agriculture Development Bank (ADB) was established under Agricultural Development Bank act 2024. ADB was established combined merge of cooperative bank and bhumisudhar Bachat Corporation.

Nepal adopted the free economic policy privatization, liberalization and globalization. Liberal free economic policy allowed establishing Joint venture bank under collaboration with foreign bank as well as on private sector. In 2041 Ashad 29 Nepal Arab Bank limited was first joint venture bank established in Nepal which is known as NABIL Bank in today. After that investment bank (Nepal Indoswis bank), standard charter bank (Greenland bank), Himalayan bank, SBI bank etc instigate accordingly. As the time passed, a need for the more commercial banks arose. At the present time various commercial bank established and some are in process for operation. Today there are altogether 25 commercial banks, 36 Development Banks, 72 Finance Companies, 11 Micro Credit Development Banks and various cooperative firm are functioning in the our country in Nepal. Still many other commercial banks are in the process of opening in the market. Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry. In this way we know origin and development of commercial bank in Nepal.

2.1.3 Restructuring of Nepal Bank Limited

In order to restructure the two largest and oldest commercial banks big troubled banks, In a bid to reform the management and structure of the two largest and oldest commercial banks of the country through contracting out the management to internationally recognized management groups the notice for the procurement of management teams was published in The Economist on September 30, 2000. In the meantime, the NBL, as a problematic bank, was taken over by the NRB on March 8, 2002 to facilitate the restructuring program. The Board of Directors of NBL was suspended and a new Management Committee was formed in NBL, exercising the power vested in Section 86 of the NRB Act, 2002. On the other hand, effective from August 1, 2002, full authority was provided to the NRB by cabinet decision to appoint all the Board of Directors in RBB for facilitating the restructuring works in the bank. Although international financial experts have been managing the NBL, the performance especially for reducing NPA is not satisfactory. The level of NPA of the bank has come down to 14.66 percent in mid October 2006 from 60.47 percent in Mid January 2003. (NRB 2003/4: page no.3)

ICC Bank Management Team “ICCMT” consisting of international bankers from Bank of Scotland (Ireland) Ltd. was appointed in the NBL, initially for two years on July 22, 2002 under the leadership of Mr. Craig McAllister. Upon completion of the initial two years the said contract was extended for another one year till July 21, 2005 and again for two months up to September 21, 2005 during the course of negotiation for further extension. On the basis of agreed negotiation, the management team contract has been extended for remaining period of two years ending July 21. 2007 under Phase II.

Overview of the Nepalese Financial Sector

With the economic liberalization initiated in mid-1980’s, the financial system witnessed significant developments. For instance, the financial system consisted of only two commercial banks and few other financial institutions before liberalization. During the post-liberalized regime spanning almost two decades, the financial system has reasonably developed, diversified, and enriched. As of April 2004, the financial system consisted of 27 commercial banks, 79 development banks, 5 regional rural development banks, 1165

2.1.4 Factors Motivating Financial Sector Reforms

There may be a large number of instances to motivate policy reforms. So long as maintaining the cost of status quo is reasonable in terms of economic stability and growth, policy changes seldom occur. Major factors behind economic policy and financial reforms (Abiad and Mody, 2003: 10) can be described as below:

1. Shocks,
2. Learning and
3. Politico-economic structure

1. Shocks

Nepal suffered a severe balance of payments problem for three continuous years in the early 1980s. A heavy government deficit escalated inflation and a surge in imports. Unsustainable deficit increased the supply of money more than output growth. Therefore, the rise in demand for more goods and services required meeting by more imports. Lack of foreign assistance inflows, and declining export earnings on one hand and rising imports on the other made the BOP problem terrible. Also, the BOP crisis in the early 1980s provided an opportunity to move towards outward oriented growth policy. Financial sector reform is one among many other economic policies, while far more effective to others. Macroeconomic shocks of the early 1980s affected Nepalese financial system hard. To get away from such a precarious situation, Nepal adopted the policy of economic reforms with the assistance and expertise of the World Bank and the IMF since 1985 under the Economic Stabilization Program, Structural Adjustment Program in 1987 and Enhanced Structural Adjustment Program (ESAF) in 1992 followed it. The Adjustment program covered a wider range of issues including opening up of the economy, civil service reform, reducing the size of the government, correcting prices and changes in policy measures as well as legal and institutional improvement. External influence was a major determinant of reforms in the Nepalese financial sector. Thus, most of the reforms in Nepalese financial sector have been undertaken by distinct events either due to a new government in power or in the circumstances of changes in global economy. Reforms were generated as a consequence of crises and status quo in good times. Extensive reforms were implemented immediately after the new government took charge after the restoration of democracy in 1990. But required reforms were delayed because reforms are not one stop action like policy announcement, rather it has taken several years to complete the implementation of the reform process.

2. Learning

Reform is multistage process and largely influenced by the experiences of own and to that of successful reforms of the South East Asian countries with a large learning impact for the financial sector reforms in Nepal. However, the experiences of financial trouble in the South-cone countries cautioned Nepalese policy-makers to follow a gradual path of reforms (Khatiwada, 1999; 11).

The global wave of liberalization and spread of democracy in the early 1990s notably encouraged Nepal to adopt market –oriented economic policy in general and financial sector reforms in particular. Further, experiences and expertise of the international financial institutions like the IMF, WB, ADB and academic professionals were quite appreciable in this context. Liberalization process did not only exert distinct impacts on different sectors of the economy but also it helped to bring changes in political, social and cultural aspects. However, slow moment of India towards market-oriented economic policy also had its impact in the pace of reforms of the Nepalese financial sector.

3. Politico-economic Structure

Although market oriented reforms were introduced during 1980s, the then existing party less political system failed to deliver the development benefits, which is generally closely linked with political stability (Thapa, 1992:2). The Nepali Congress government with majority in parliament confidently introduced and accelerated the new economic policy during the first half of the 1990s. However, coalition governments in the succeeding years were timid to implement reforms. As a result, the process of liberalization and reforms were obstructed. Thus, political stability and development of market discipline mechanism were crucial for the success of reforms. Ongoing broader reforms were introduced when for the second time the government was formed with full majority in 1998. Reforms are, thus, motivated, by strong political will and their commitment to implement the policy introduced. Nepal has introduced a comprehensive set of policy reforms in the financial sector aiming for wider financial intermediation between the savers and borrowers and reduced transaction costs. The objectives of financial sector reforms are to develop a sound financial system; reduce the control over the interest rates, introduce prudential regulation and effective supervision. Similarly, the promotion of capital market and decontrol over the credit flow were some other objectives. The policy changes were directed towards the promotion of a market oriented financial system, with more private sector participation, efficiency gained through more competition and development of the quality of the financial instruments and services. Thus, political stability and the development of market discipline mechanism were crucial for the success of reforms.

2.1.5 Financial Sector Reform in Nepal

2.1.5.1 Financial Repression and Liberalization

In Nepal, financial liberalization began since 1984 by easing entry restrictions and partial decontrol of interest rates in the banking sector. The elimination of interest rate control since 1989 not only affected the market for bank loans and deposit it attracted, but also attracted international capital flows (particularly capital inflow in the form of equity investment). In addition, the stock market began to grow as the extent of credit rationing diminished. Administered interest rate followed by simultaneous credit control led to widespread financial repression during 1970s and 1980s. Commercial banks were restricted to accept as well as lend foreign currency denominated deposits and loans. Another prevalent characteristic of Nepalese financial system was the existence of dual currency system. Besides, domestic private sector and foreign investors were also restricted from participating in the financial sector. Public sector banks were, thus, insulated from outside competition, poorly regulated and badly supervised. They did not have any external pressure to run efficiently. Influential growth experiences of many South East Asian countries encouraged Nepal to liberalize domestic financial sector. Liberalization efforts of 1980s focused mainly on policy deregulation and introduction of prudential regulation to improve domestic banking system during 1980s. The efforts during 1990s initiated improving financial health of domestic commercial banks, the development of stock market and further consolidation of liberalization. Thus, both the domestic banking sector and the stock market were jointly deregulated. A gradual move towards the liberalization of international transaction began since early 1990s. Financial liberalization largely followed by trade liberalization.

2.1.6 Objectives of the Financial Sector Reform Program

Following are the objectives of the Financial Sector Reform Program: i. To create sound, stable and healthy financial system. ii. To broaden and deepen the financial system.

iii. To enable policy makers to fully and timely avail the sound financial statistics.

iv. To utilize adequate resources, on lowest possible cost, to promote sustained, and broad based growth momentum.

v. To increase the autonomy and capability of Central Bank for making its monetary policy, supervisory and regulatory functions effective.

vi. To improve and update the legal and judicial framework for financial system.

vii. Reduce the level of Non Performing Assets

2.1.7 Past Reform Efforts and Outcomes

2..1.7.1 Financial Sector Reform in First Phase (1984- 1990)

The first phase of the financial sector reform was initiated in mid 1980s under the liberal economic policy of HMG/N. Under this policy, HMG/N first opened up the banking sector to foreign investors. In 1984, Nepal Arab Bank Limited was established as the first joint venture commercial bank of the country. The bank was established with 50 percent equity participation of a foreign bank. The establishment of this joint venture bank brought foreign investment in the banking industry and modern banking practices and technical skills. The Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited were established in 1985 and 1987 respectively as joint venture commercial banks. The banking operations of these three international commercial banks helped the economy to get modern banking services. It enhanced the competitive environment in the banking sector especially in the Kathmandu valley where more than 50 percent of the economic activities of the country take place. n July 1985, commercial banks were allowed, for the first time, to accept current and fixed deposits on foreign currencies (US dollar and sterling pound). Before May 26, 1986, the interest rates of commercial banks were totally controlled by Nepal Rastra Bank (NRB), the central bank of Nepal. Both deposits and lending rates were being heavily regulated by NRB. On May 26, 1986, NRB deregulated the interest rate regime and authorized commercial banks to fix interest rate at any level above its minimum prescribed levels. These bold steps of NRB had a far reaching impact in the development of the financial sector of the country, which was clearly evidenced in the growth of the assets, and banking activities of commercial banks. Effective from 29 May 1986, the liquidity requirement was also lowered to 9 percent from 25 percent (NRB, 1986).

Under the Structural Adjustment Program of the IMF, the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monetary control. The emphasis was laid on increased financial intermediation, deepening of financial markets and increase in the role of market forces in the financial system. The auction mechanism was introduced for the first time to sell treasury bills.

The Agriculture Development Bank of Nepal (ADBN) and the Nepal Industrial development Corporation (NIDC) were allowed to issue debentures to increase their financial resources. ADBN also issued agriculture savings bonds in 1985. These debenture and bond were introduced as new financial instruments to develop the financial markets of the country. HMGN also sold national savings certificates outside the financial system for the first time. The ADBN was also allowed to open commercial banking branches in urban areas. Commercial banks were allowed to determine their lending rates except for exports and productive sector credits. They were granted virtual freedom to fix their interest rates on deposits in July 1989 except for the priority sector credit; The Credit Information Bureau was established in 1989. NRB strengthened its regulation and supervision of banking and financial institutions. Commercial banks were required to increase their capital adequacy ratio (CAR) gradually. They were required to maintain CAR of 2.5% by mid July 1989 and 3% by mid July1990. Regulation on single borrower limit was also introduced. There were some new regulations issued on refinance policy and reserve requirements. The Finance Company Act was enacted in 1986 to increase competition in financial markets and especially for the merchant banking and leasing services and to provide loans for hire purchase, term finance and housing construction. But finance companies were not established during the first phase of the financial sector reform. There was a new development as the capital market opened its floor for corporate share trading in November 1994. The securities exchange center (SEC) also started to provide the some merchant banking services. The trading in the capital market was limited due to listing of very few company's shares in the SEC. By that time the government owned commercial banks had begun to exhibit serious portfolio problems and its severity was deepening. It was not because of their expansionary stages but because of the inappropriate operational performance, mismanagement and imprudent lending decisions that these banks made during those days. Therefore, corrective measures were necessary for which, the commercial banks problem analysis and strategy study (CBPASS) was also conducted in 1990 and in this period, reform measures initiated since 1989 under second structural adjustment lending program (SAL-II, 989-91) under the assistance of world bank. The first reform measures were concentrated on strengthening financial and operational performance, improving legal and institutional environment in the financial sector, enhancing the capacity of the central bank to supervise the banking sector, implementing the improved regulations and rationalizations of branch expansion policies. During this period the following reform activities were completed:

With a view to strengthen and improve the performance of the two commercial banks, the government provided Rs 443 million for recapitalization and further Rs 3.12 billion for provisioning and repayment of bad debts. Separate loan recovery department were established in RBB and NBL The government vested NRB with the responsibility of implementing specific measures to strengthen these two banks. For this guidelines on a new system of loan classification and accounting policies for interest suspension and provisioning were initiated Banks were provided freedom to fix interest rates on deposit and credits on their own discretion The government made a payment of Rs 400 million toward government guaranteed bank loans to public enterprises and second payment of Rs 260 million. Some technical assistance was also provided by the IMF to strengthen the

banking supervision and inspection function of NRB. Consequently the inspection department of NRB was expanded with additional manpower. Legislative changes were enacted to permit NRB to supervise NIDC Amendments to the Commercial Bank Act and the NRB act were made in 1989 and that in the NIDC Act in 1990. Credit Information Bureau (CIB) was set up in 1989 to disseminate credit information

Joint venture banks came into operation since 1984. These efforts were in right direction for improving the environment during that period. However the measures could not improve the system substantially and could not sustain the improvements for longer period as the reforms were initiated at piecemeal basis.

2.1.7.2 Financial Sector Reform in Second Phase (1991- 1998)

After the restoration of democracy, the democratic governments under its open and liberal economic policy gave more emphasis on the liberalization of the financial sector. As a result, the Nepalese financial sector has grown very rapidly since 1990s. There has been a dramatic rise in the number of banking and non-banking financial institutions. Till mid 1990, there were 5 commercial banks, 2 development banks, 2 insurance companies, and other few financial and quasi financial institutions. In mid-July 2000 there were 11 commercial banks, 2 development banks, 5 regional rural development banks (RRDB), 44 finance companies, 2 insurance companies, 29 savings and credit cooperatives societies and 30 NGOs licensed by NRB and few other financial and quasi financial institutions (Employee Provident Fund, Deposit Insurance and Credit Guarantee Corporation, Citizens Investment Trust, Nepal Stock Exchange Limited, Securities Board, Insurance Board, Credit Information Bureau). There has been a tremendous increase in the volume of financial transactions and financial markets during the last decade. The commitments of the government in the financial sector liberalization gave the needed boost to the confidence of the private sector for the establishment of commercial banks in the private sector. Himalayan Bank Limited and Nepal SBI Bank Limited were established in 1993 and Nepal Bangladesh Bank Limited and Everest Bank Limited in 1994. All of them were established as joint venture commercial banks. Nepal Housing Development Finance Company was established in the public sector as the first finance Company under the Finance Company Act 1986. Soon after the establishment of the first finance company, five other finance companies were established in the private sector in 1993. The rural development banks were established in five development regions to provide micro-finance services to the poor and the ultra-poor women. To provide limited banking services in the un-banked rural areas, saving and credit cooperative societies started to get operating licenses since 1993. Even the NGOs got operating licenses to undertake limited banking transactions. The separate act for development banks was felt necessary and it was enacted in 1996. The establishment of finance companies not only improved competition in the deposit and credit services, but also helped develop capital market through listing of their shares. Their shares are being traded along with the shares of commercial banks. They have been providing merchant banking services such as underwriters and market makers. To make the financial sector more liberal, the current account convertibility is very important. Nepal received the article VIII status of the IMF on May 30, 1994. The move towards financial liberalization helped the country receive this status. Under this status Nepal is obliged to keep the current account convertibility. NRB further liberalized the restrictive measures for providing banking and non-banking financial institutions and especially development banks and finance companies more freedom in their business operation. The commercial banks were required to increase CAR to 3.5% at Mid July 1991 and 4% at Mid July 1992. The credit ceiling was removed in 1991 except for government and non-financial government enterprise under the policy of indirect monetary control and Nepal entered into the Enhanced Structural Adjustment Facility (ESAF) in October 1992. NRB laid more emphasis on open market operation as main monetary policy instrument. Under the financial sector reforms 3 joint venture commercial banks were established and they started to provide modern banking services to their customers. They started to compete with Nepal Bank Limited (NBL) and Rastriya Banijya Bank Limited (RBB). They were already ailing even before the establishment of joint venture commercial banks. Because of new development financial, managerial and organizational problems of these banks became more serious. To study these problems and to prescribe necessary recommendations, NRB sought the financial and technical help from UNDP and a study team presented report on Commercial Banking Problem Analysis and Strategy Study (CBPASS) The CBPASS has recommended the government to address the following critical areas:

1. Full repayment of government guaranteed loans to state-owned enterprises and removal of lending obligations
2. Partial recapitalization of NBL and RBB
3. Establishment of a new Rural Finance Institution to assume priority sector lending of NBL and RBB

To strengthen and improve their performance, the government provided RS 443 million for the recapitalization of NBL and RBB. The government provided Rs 3.12 billion for provisioning and repayment of bad debts and Rs 660 million for the government guaranteed bank loans to public enterprises.

The CBPASS II report identified four critical areas where RBB and NBL had to make necessary improvements.

1. Loan recovery,
2. Credit
3. Personnel,
4. Branch operation and MIS

The CBPASS II report had revealed that an estimated 5 percent of the assets of NBL and 8 percent of RBB were problem loans and the recovery of these problem loans would significantly improve their liquidity profitability and capital base. Both NBL and RBB earned a negative spread on all new loans. Their capital and ability to earn profits to meet essential obligations would continue to be at risk until lending practices are improved. NBL and RBB faced critical human resources issues overstaffing, lack of skills, demoralized staff, ineffective utilization of human resources, and counter productive work culture.

Their own cost sources of funding i.e. current and savings accounts were found eroded and valuable customers were defecting to JV banks. Their cost structure was very high and it was nearly 4 percent of their assets. The reason for this higher administrative cost was overstaffing of 40 to 50 percent in the branches. Critical branch level information was not available and other data unreliable and untimely.

The CBPASS II report recommended following new systems for full implementation by the board and top management of NBL and RBB: Prompt approval of changes

Timely commitment of required financial and human resources

Active support of new systems

Active monitoring of implementation

Adherence to new systems and practices

Removal of key obstacles

Recognition of improved results

They also recommended for 3 years or more of technical assistance required to fully addressing operational weaknesses of NBL and RBB to make them healthy and effective banking institution. They also cautioned concerned authorities to continue the institutional process in the near future to avoid another government sponsored financial restructuring program. Both the CBPASS reports were implemented half-heartedly by concerned authorities. Both banks were recapitalized but their management and organizational structures could not be improved. They were run as any government enterprises. As a result, their financial health started to deteriorate and the government, NRB and the Top management of NBL and RBB became just silent spectators and waiting for more serious financial, managerial and organizational problems in the future. Until mid July 1998, 15 commercial banks were already in the financial market. The capital market increased due to listing of the shares of commercial banks and finance companies. The insurance activities also increased because of the entry of new insurance companies in the private sector.

2.1.7.3 Current Comprehensive Reform Program

Financial sector reforms introduced in the last one and a half decades made significant improvements in certain sectors such as liberalization of interest rates, creation of basic regulatory and supervisory frameworks, development of a longer term government securities market, establishment of several types of banking and financial institution, functioning of stock exchange, competitive environment in the insurance services. But serious problems still remained with two largest commercial banks (RBB and NBL) and two largest development banks (ADBN and NIDC). The World Bank, the IMF and the Asian Development Bank (ADB) identified some weaknesses in NRB's regulatory and supervisory capacity. There were Government mandates seriously distorting operation incentives of the banking sector.

Taking into account these serious problems in the financial sector GON adopted the Financial Sector Strategy Statement in December 2000. It has clearly mentioned about the need for the strengthening and autonomy of NRB, so that it can regulate and supervise commercial banks and financial institutions. It has pointed out the need for the enactment of new NRB Act to empower NRB to supervise financial institutions and take over the management of troubled banks and punish those financial institutions that are found engaged in serious irregularities. It has also pointed out the need of having deposit taking institution act, which is an umbrella act of all deposit taking institutions. Some of the main elements of financial sector reform strategy published by the government in December 2000 are as follow:

1. Implementing restructuring plans for the to large commercial banks, RBB and NBL
2. Identifying restructuring strategies for the two development banks, ADBN and NIDC
3. Strengthening banking sector regulation and accounting and auditing standards
4. Strengthening NRB's supervisory capacities and its ability to enforce compliance with prudential regulation.
5. Improving the regulation and supervision on non banking deposit taking institutions.
6. Modernizing the legislative framework with a view to reducing legislative overlap and the segmentation and fragmentation.
7. Strengthening corporate governance and the framework for loan recovery.
8. Phasing out the role of NRB and commercial banks in providing directed credit.

As per the commitment of the government to reform RBB and NBL, the Nepal Banking Reform Project was started with funding assistance of the World Bank and DFID (UK). The KPMG Barents Group, the international expert team associated with the Banking Reform Project, started the reform project since 15 November 1999. They broadly recognized that Nepal's financial sector still faced following systemic problems:

1. Poor bank governance
2. Political interference and Insider lending
3. Lack of rational baking strategies as well as modern skills and international banking experience to support them.
4. Lack of independent, capable supervision.
5. Weak legal and accounting practice.
6. Difficult and deep seated issue of RBB and NBL to be addressed

The KPMG Barents review of RBB and NBL found that both banks were deeply impaired in virtually all areas of their operations:

1. Overall bank governance and management weak by modern standards
2. Deep flaws in lending process, loan files and loan portfolio
3. Primitive financial accounting with large pockets of " double counting", unsubstantiated assets and major items that should be written off by international standards
4. No business strategies, weak planning and budgeting processes, lack in foundation, follow up, rewards and penalties.

5. Low morale of employees, low pay scales, low skills and counterproductive union oriented actives

Primitive management information record keeping and control system. The governance and management of RBB and NBL took politically driven decisions. They had negative net worth and insufficient capital adequacy. Their human resource management was found extremely weak in all. Their situation seemed clearly worse than in 1992. The KPMG Barents Group recommended following actions to be taken for RBB and NBL.

1. Support Government efforts to create an independent, commercially run ,banking system and declare banking reform policies fostering sound banking system
2. Upgrade Board, senior management and staff skills, capabilities and processes
3. Design and invest in comprehensive banks restructuring programs
4. Support and assist in implementing long range plans to correct environmental weaknesses
5. Support central bank strengthening and independence and provide full enforcement powers
6. Depoliticize and commercialize the banking system.

The KPMG report concluded that loan assets of RBB and NBL were highly overstated and extremely risky. As a result, both of them were technically insolvent. As of mid 1998, they had losses of around US$ 450 million, which was equivalent to around 46% of the annual budget of the government or 8.6 percent of GDP. The assessment confirmed that the management of two banks was basically dysfunctional. It recommended the reduction of the role of the government in the financial sector as a direct owner of bank and financial institutions beginning with RBB and NBL. As per the recommendation of the KPMG report, NRB removed the NBL Board on March 8, 2002, on account of failure to manage the bank properly and replaced it with an NRB appointed Board. In mid July, the management of NBL was handed over to ICC Bank Ireland, for RBB, an international banking expert has been selected after Deloitte Touché Tohmatsu broke the contract, there are several international and domestic banking and financial experts who have been working in RBB. These banking and financial experts have already completed HRD plan, Credit Policy and Guidelines, Computerization Policy and Programs, Portfolio

Review and Loan Recovery and restructuring of RBB and NBL, Both of them have implemented VRS plan and reduced their staff considerably. (Economic Report 2002/03, Nepal Rastra Bank)

2.2 Review of Related Studies

2.2.1 Financial Sector Reform Context

2.2.1.1 International Context

Financial Sector Reform is one of the main focuses of all the countries in the world. Each concerned government authorities are always curious to improve the sector, which may be in the form of policy reforms or any other media, the target being the same. The central bank of each country annually reviews its financial policies so as to access the impact on each sector. World Bank is one of the bodies, which reviews the financial sector of each country of its interest and grants financial aid for various projects. As per the review book of World Bank, 1989 the following were noted:

Argentina: The failure of a large private bank sparked the 1980-82. Banking crisis, by 1983, many financing institutions had been liquidated. The restructuring process took very long period.

Bangladesh: Four banks that accounted for 70% of total credit had an estimated 20% of non-performing assets in 1987. Loans to two loss-making public enterprises amounted to fourteen times the bank's total capital.

Bolivia: In late 1987 the central bank liquidated two of twelve private commercial banks; seven more reported huge losses. In mid 198 reported arrears stood at 92% of commercial banks' net worth.

Chile: In 1981 the government liquidated eight insolvent institutions that together held 35% of total financial system assets. In 1983 another eight institutions (45% of system assets) were taken over; three were liquidated, five restructured and recapitulated. In 1988, central bank's holding of bad commercial bank loans amounted to nearly 19% of GNP.

Greece: Non performing loans to ailing industrial companies amounted to several times the capital of the interest of the largest commercial banks, which held more than 80% of total bank assets.

Guinea: The government that assumed power in 1984 inherited a virtually defunct banking system; 99% of loans proved irrecoverable. All six state owned banks were liquidated and three new commercial banks were established, each with foreign participation.

Kuwait: Because of large losses sustained by speculators in stock and real estate markets, an estimated 40% of bank loans were non-performing by 1986. The government has supported banks by providing highly confessional loans.

Spain: Between 1978 and 1983 fifty-one institutions holding nearly a fifth of all deposits were rescued; two were eventually liquidated, and the rest were sold to sound banks (World Bank, 1989).

Indonesia and the Sequencing of Reform FSR; a Review of World Bank Assistance, 1998 had studied Indonesian financial reform which concluded as follows:

Financial adjustment operations in Indonesia were undertaken within the framework of Bank support for a broader structural adjustment program. Following a drop in oil process in the early 1980s and their collapse in 1986, Indonesia began a program that included a major depreciation of the rupiah, a reduction in public spending, measures to stimulate exports and encourage foreign investment, improvements to industrial efficiency by opening up the economy, basic financial reform, and a long-term strategy to diversify the economy away from and over-dependence on oil. This program entailed significant relaxation of the system of close regulation that had characterized the Indonesian economy. Lending support for adjustment was provided after the fact, endorsing actions that were judged to conform to the Bank's assessment of Indonesia's economic priorities. Initial support in the form of two trade policy loans in 1987-88 was followed by two private sector development loans (PSDLs) in 1989-90, all with financial sector components, and a financial sector development project in 1993. During this period the

Bank also approved six Financial Intermediary Loans (FILs). The Bank's operations have supported the evolution of Indonesia's financial system from a state –dominated one, with fixed interest rates and administered credit, to a liberalized, competitive and increasingly privately owned network, with market determined interest rates. This has meant developing an indirect means of monetary control and strengthening the central bank's supervisory framework and enforcement capabilities. The heart of the government's adjustment effort in the second half of the 1980s was to restore external equilibrium through real depreciation of the exchange rate, bringing public accounts into better balance, opening the economy gradually to increased competition. The liberalization of interest rates introduced under the trade policy adjustment loans, coupled with increased public confidence in the banking system, has led to substantial financial deepening. The measures introduced under the PSDLs-especially permitting the entry of foreign banks – increased competition in the banking sector to some extent. The overall structural adjustment program had been successful in generating high rates of saving and investment, and realizing rapid economic growth: but it did not succeed in reducing substantially the fragility of the banking system, which in 1977 became vulnerable to the effects of the currency crisis. After oil prices collapsed, Indonesia's immediate need was to depreciate its currency to restore external equilibrium and to cut public spending because of the decline in government revenues and borrowing prospects. But to restore rapid growth from non-oil sources required fundamental structural adjustment. Initiating structural adjustment after implementing the basic measures needed to restore macroeconomic stability was entirely appropriate. The early initiation of FSR was also appropriate. But liberalizing the financial sector without first ensuring that adequate legal, regulatory and supervisory infrastructure was in place led to the proliferation of weak banks and to a number of bank failures, as clearly shown during the currency crisis of 1977. The audit report for the PSDLs draws a number of important conclusions about the correct sequencing of reforms. First, the legal, regulatory and supervisory environment of the financial sector must be strengthened before or at the same time as entry is liberalized. Second, establishing a strong legal infrastructure for banking activities should have priority from the start, rather than be one item on the continuing agenda. This would have sent a clearer signal to the private sector that the government was irrevocably committed to a fundamental change in relationships. Only in November 1977, did the Bank approve a technical assistance loan to directly strengthen the structure and improve the soundness of the banking system (World Bank, 1998)

2.2.1.2 Nepalese Context

With the economic liberalization initiated in mid 1980s, the Nepalese financial system witnessed significant development. For instance the financial system consisted of only two commercial banks and few other financial institutions before liberalization. During the post liberalized regime spanning almost two decades, the financial system has reasonably well developed, diversified and enriched. as of mid June 2010, the Nepalese financial system consisted of 27 commercial banks, 79 development banks, 79 finance companies, 11 micro credit development banks, 16 saving and credit cooperatives involved in limited banking activity, 47 non government micro credit institutions, one stock exchange with the network of brokers and security dealers, 26 insurance companies, one employee provident fund, one credit guarantee and deposit insurance corporation, and one citizen investment trust. Of these institutions, the commercial banks, development banks, rural development banks finance companies, financial cooperatives and NGOs are under the regulatory framework of Nepal Rastra Bank. While the insurance board regulates the insurance companies and the securities board regulates the stock exchange, the other institutions are under the regulations of the government authorities. Along with the numerical growth and other institutional developments of the

Nepalese financial sector, the deposits and credit are expanding though the qualitative aspect of the financial system still require much improvements as reflected in the inadequacy of the banks and financial institutions in providing increased benefits to the general public and in contributing adequately to the economic development through raising income level, creating employment opportunities and building internal strength for the growth of the institution themselves. To create a healthy financial sector as a pre requisite to sustained economic growth by getting rid of the various institutional and structural deficiencies that still characterize the system, various financial sector reform measures need to be further initiated and implemented. Taking into account the above-mentioned facts, Government has initiated financial sector reform in different periods of time.

Reform or liberalization of financial sector is a continuous process. It takes a long prior to complete the process of financial reform. Even in a most developed financial market, innovation in financial products and services take place, which necessitates the changes in rules and regulations in the financial markets. The financial sector reform of Nepal was initiated in mid 1980s and it is still being continued. The financial sector reform process in Nepal has been analyzed in three phases as follows:

2.2.2 Review of Articles

Basyal (2002) in his article "*Financial Sector Reform: Need and Strategy*" mentions that "the overcharging goal of the F.S.R is to create a well regulated, sound, market oriented and stable financial system, which will help form the basis for fiscal consolidation, macroeconomic stability, private sector –led economic growth momentum and significant reduction in poverty on a sustainable basis." Again the same author presenting the challenges of the Nepalese financial sector opines that " the host of challenges and complexities that confront this sector could be categorized as the weak financial position of most of the government owned financial institutions, negative net worth and huge accumulated losses of the government owned commercial banks, higher proportions of non performing assets (NPA), predominance of the informal financial system, higher interest rate differentials between the formal and informal sector of the economy , large interest rate spread between lending and borrowing rates in the formal financial sector etc"

Pendleton (2004) in his article "*Nepal's Financial Reform: A Tardy Pace of Deliberate Race"* has tried to explore the need and relevancy of financial reform program in Nepal. In this article he suggests that "GON has way to go for complete financial reform, restore financial soundness to deserving public,, much work is left to do; however, the Government had set "Road Map" to complete this phase and continues to improve the reform process, a process vision to sustain the economy for generations to come. The upcoming World Bank sponsored Phase II of the Financial Sector Reform Program will support this vision. It is important that the citizens of Nepal, particularly the media services, support this effort as well.

Bhatta (2004) in his article, "*Need for Macro Prudential Appraisal of the Financial System Soundness*" has presented the interest of multilateral donor agencies in the financial soundness of the recipient countries. He writes "vulnerabilities in the financial system along with its development have become a common word in the recent years. There have been several efforts in the local, regional and global fronts to mitigate the risk and uncertainties in the financial system. Episodes of turmoil in the international financial markets particularly after mid nineties have underscored the need for better tools to monitor financial risks and vulnerability. Realizing this emerging need, the International Monetary Fund (IMF) initiated to strengthen its assessment of financial system soundness as part of its surveillance work".

Gautam (2004) in an article, "*WTO and Challenges of Financial Services Liberalization in Nepal*", has put his opinion in the context of financial service liberalization and financial reform in Nepal. According to him "the process of financial services liberalization in Nepal is very recent phenomenon. It has been gathering pace gradually, the process of liberalization started with the financial sector reform in mid eighties. It surged up after the initiation of Structural Adjustment Program and Enhanced Structural Adjustment Program with respective loan and assistance of the World Bank and International Monetary Fund. Financial sector reform was implemented on a phase wise basis. It was designed to address the institutional deficiencies and closed and controlled financial system. Various macroeconomic policies were modified and adjusted during the period to facilitate the liberalization process. The procedural relaxation on the entry of joint venture banks (with collaboration), determination of interest rate (first, in 1986 with certain limit and then in 1989 without any limit) and operation of various financial transactions are mainly attributable for the reform.

Ghimire (2005) in his article "*Contract of Rastriya Banijya Bank: Opportunities and Challenges*" opines that "although the management contract of Rastriya Banijya Bank was quite expensive in cost , when it started ,it is now starting to produce good results. Although there hasn't been good progress in loan recovery other aspects of management is starting to show progresses"

Neupane (2005) in his article titled "*Bad loans of Banking Sector- Challenges and Efforts to resolve it*" has thrown some views regarding bad loans of banking sector. As mentioned by him there was various types of risk inherent in the credit. One, who manages risk, earns profit. He further added that the recent financial crisis in banking sector is due to weak accounting procedures, defect in loan classification, lack of transparency, loss control measures etc.

Like the other writers, writer has also stated that NPL is the indicator of financial crisis and the factors leading to NPL is economic slowdown, recession, bad intention of borrower, lack of credit policy, increase in interest rate etc. NPL increases resource mobilization cost and reduce profit-earning capacity of the bank. He has also mentioned that the international standard of acceptable NPA is 4% but there us about 16% NPL in Nepalese banking sector which is due to high level of NPL of two nationalized banks, as stated by the writer, the major implications of NPL are banks can not return depositors money on demand and it limits lending capacity of the bank. The writer has suggested internal measures for reducing NPL and its effect. Internal measure comprises classification of loans and advances and providing provisions for probable loss and external measures comprises of help from Credit Information Bureau (CIB), appointment of Asset Management Company (AMC) and Debt Recovery Tribunal (DRT).

Writer concludes, Banks must give priority for reducing NPA. He has also mentioned that many countries are adopting various measures for reducing loan loss. Recently the president of Philippines has announced tax rebate system for reducing NPA. Cow it is high time to improve bad debts of banking sector with firm determination.

Sujit Mundul, (2008), Understanding of credit derivative" emphases Credit derivative enable financial institution and companies to transfer credit risk to a third parity and thymus reduce their exposure to the risk of an obligor's default. Credit enhancement technique, which helps reduce the credit risk of an obligation, play a key role in encouraging loans and investment in debts. In legal term credit derivative are privately negotiated bilateral contract to transfer credit risk from one party to another. Some credit enhancement methodologies have existed for the in debts. Some credit enhancement methodologies have existed for a longtime with the support of guarantee, letter of credit or insurance product. However such mechanism works best during economic upturns. As an alternative to commercial risk mechanism, various financial mechanisms have been developed over the past few decades. Such credit risks instruments are normally refer to as credit derivatives. Credit derivative helps to transfer credit risk away from the lender to some other party. Now credit derivative grew popular both as tools for hedging credit risk exposure as well as method of investing in certain types of credit risk.

2.2.3 Review of Thesis

Nepal, Ajaya Kumar (2002) in his thesis "Financial Sector Reform in Nepal: after Economic Liberalization" recommends "there is a critical need to reform, revitalize and modernize the financial sector. The government is endeavoring to achieve a privately owned and managed banking system, which provides economic and efficient financial intermediation in the economy. The inefficiency of the banking sector stems mainly because of the problems in the state owned banks viz. Nepal Bank Limited and Rastriya Banijya Bank. Meanwhile the Agriculture Development Bank and Nepal Industrial Development Corporation are also facing similar type of problem." Same author also concludes, "As the biggest commercial bank, Rastriya Banijya Bank has important role to play in the economy. However, political interference, weak management, poor financial information system and ever growing bad loans have extremely impacted on RBB's financial health. Current auditing work has also exposed a high negative net worth, weak internal control and information system and poor internal financial management"(ibid)

Pandey, Bibek (2003) in his thesis "Financial Sector Reform in Nepal: Assessment of Impact on Financial Sector" concludes that the financial reforms initiated by the government had remarkably increased the role of market forces in the financial system. However, reforms could not solve the problem of high liquidity of financial institutions. Similarly, little effect can be seen in the level of nonperforming assets of financial sector.

Bhetuwal, Khem Raj (2005) in his thesis "Assessing the Effectiveness of Financial Sector Reforms in Nepal" mentions that the comprehensive economic and structural reform of 1990s has achieved a relatively significant success in stabilizing its economy. This has resulted significant improvements in quantitative as well as qualitative dimensions of Nepalese financial system. However, public sector banks were suffering with severe problems making the system obsolete and unproductive. Public sector banks are found responsible for the deterioration of financial system as they hold a dominant position in terms of deposit, credit lending and asset holding. In these banks, still there are some structural and institutional weaknesses making reform efforts less effective.

Niraula, Hiramani (2006) in his thesis "A study on Loan Classification and Non- Performing Assets Management of Rastriya Banijya Bank" concludes that ineffective credit policy and overvaluation of collateral are the major causes for high non-performing assets in RBB. He further sites that the financial position of RBB has improved since the new management took over in January 2003. However, because of heavy accumulated losses, the bank is in no position to meet the capital fund requirements prescribed by Nepal Rastra Bank.

Shrestha Pratima (2008) in her thesis "The Impact of Financial Sector Reform Program on Human Resource Development of Nepal Bank Limited'. The study focuses on the improvement situation of Human Resource and its simultaneous effect on overall financial position. the reform program is effectively and efficiently supporting growth of the nation. The overall study are to show the effectiveness of the takeover of NBL in developing the Human Resource under the Financial Sector Reform Program and find the achievement of development of Human Resource in reforming the banking and also analyze the lending scenario and non- performing asset of NBL

The economic liberalization initiated in mid 1980's, Nepalese financial system witnessed significant development. Consequently Nepal Government re-enforced Extended Structural Adjustment Program (ESAP) which was basically aimed to restructuring, re-engineering and privatizing the public enterprises as well as involving private sector in all economic activities of the country except public health and defence. Though Nepal initiated banking sector reforms under the Financial Sector Reform Program back in late 1980's with donor assistance and initiative, the improvements was so less. After the restoration of democracy in 1990's efforts were launched for reforming the financial sector and harmonizing it with liberalization policy adopted by the government. The NBL, as a problematic bank, was taken over by the NRB on

March 8, 2002 to facilitate the restructuring program. The Board of Directors of NBL was suspended and a new Management Committee was formed in NBL, exercising the power vested in Section 86 of the NRB Act, 2002. Restructuring of Nepal Bank is one of the priority scopes of the program.

Bastola, Shrijana (2009) "Impact of Financial Sector Reform Program on Effectiveness of Rastriya Banijya Bank" This study was conducted with the objective to assess the effectiveness of the financial sector reform program, compare its costs and benefits and to make comparative analysis of performance of Rastriya Banijya Bank after the initiation of Financial Sector Reform Program. The reform process was mainly carried out for publicly owned banks. Out of four public owned banks in Nepal, Rastriya Banijya Bank was selected for the study purpose. Different ratios have been used to compare the performance of the bank before and after the initiation of the reform program. The analysis of financial and operational side of the bank shows that various achievements have been made under the reform program. The bank has introduced modern management practices in all sectors of its functioning and its profitability is also increasing. However, the problem still lies in its huge non-performing assets and negative net worth which can only be addressed by recapitalization of the bank. The bank has also not been able to optimally use its assets and recovery efforts seem inadequate.

The fundamental problems are with the ownership of the banking system. After a decade of reforms, it is increasingly apparent that the banking system needs to be privatized after a thorough cleaning up of the balance sheet and possible capitalization. Until this is done, all the other banking system reforms will remain incomplete.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance and credit management of various commercial banks. Here research done about financial sector reform. In order to perform those analysis researchers have used various ratio analysis.

In this research financial sector reform NBL is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. This study tries show financial sector reform by applying and analyzing various financial tools like liquidity ratio, asset management ratio, profitability ratio and, growth ratio as well as different statistical tools. On review of various studies related to financial sector reform, it has been found that they have focused on the financial sector in general terms. None of them have dealt with the performance efficiency of a particular bank after the initiation of financial sector reform program. This study attempts to look into the cost and benefit aspects of the reform program as a whole. It analyses the comparative performance of NBL financial sector reform program. Attempt has been made to look into the financial and operational efficiency of the selected bank. This study will further strengthen the results and findings of previous related studies and give updated information about the current performance of NBL. Probably this will be the appropriate research in the area of financial sector reform of Bank and financial institutions.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

The topic of the study has been selected As “Financial sector reform A case study of Nepal Bank Limited.” in order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2 Research Design

A Research Design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. A research design is arrangement of condition for the collection and analysis of data in a manner that aims to combined relevance to the research purpose with economic in procedure. Research design is the plan, structure and strategy of investigation conceived to obtain answers to the research question and to control variances. To achieve the objectives of the study, descriptive an analytical research design has been used. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adapted to financial sector reform of NBL Bank Ltd. The study is based on secondary data. So the descriptive and analytical research designs have been used.

3.3 Nature and Sources of Data

The study is mainly conducted on secondary data relating to the study of financial reform and performance of samples Banks, as they are they are available at concerned Banks. For the purpose of the study, various related books, booklets, magazine, journals, newspaper and thesis made in this field have been referred. Besides necessary suggestions are taken from various experts both inside and outside the bank whenever required. Secondary data are mostly used for this research purpose.

3.4 Population and Sample

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. A small portion chosen form the population for studying its properties is called sample. The researcher cannot normally survey everyone in the population so a small part of the total population is taken to represent the total population. Hence, a sample is a collection of items or elements from a population or universe. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection on part of the population on the basis of which a judgment or inference about the universe is made.

Here, the total 31 commercial banks shall constitute the population and one bank under the study constitute the sample under the study. The sample bank Nepal Bank Limited the first bank of Nepal is taken here.

3.5 Data collection procedure:

Especially the annual report of NBL and website of this bank is taken as main source of data collection for purpose of study. NRB publication such as economic report and bulletin, banking and financial statistics, annual report of NRB etc. other main source is website of NRB and web site of security Board. Most of the data and substance are obtain from above source.

3.6 Method of Data Analysis Technique

For the purpose of the study all collected primary as well as secondary data are arranged, tabulated under various heads and them after disunities and statistical analysis have been carried out to enlighten the study. Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. To make the study more specific and reliable, the researcher uses two types of tool for analysis,

1 Financial Analysis.
2 Statistical Analysis.

3.6.1 Financial Tools

Stakeholders of a business firm perform several types of analyses on a bank is financial statements. All of these analyses rely on comparisons or relationship of data that enhance the utility or practical value of accounting information.

3.6.1.1 Ratio Analysis:

A ratio is simply one number expressed in term of another and as such it express the quantitative relationship between any two numbers. Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with the other. A ratio can be expressed in term of percentage, proportion, and as a coefficient. A ratio is a figure or a percentage representing the comparison of two variables or any substance.

The relationship between two accounting figure, expressed mathematically is known as financial ratio. The technique of ratio analysis is part of the whole process of analysis of financial statement of any business and industrial company especially to tame output and credit decision. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Thus ratio analysis is useful to evaluate, judgment and taking appropriate decision.

3.7 Statistical Tools

Under this heading some statistical tool such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

3.7.1 Correlation Coefficient (r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is liner related to another. Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figure whether positive or negative. Its values lie somewhere ranging between - 1 to +1. If the both variables are constantly changing in the similar direction, the value of coefficient will be –1, two variables take place in opposite defection. The correlation is said to be perfect negative. In this study, simple correlation is use to examine the relationship of different factors with working capital and other variable.

$$\text{Correlation Coefficient (r)} = \frac{\text{CoVariance of X \& Y}}{\pm_{X} \ \pm_{Y}}$$

3.7.2 Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. The projections are based on the following assumptions:

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight-line trend of a series of data is represented by the following formula.

$Y = a + bx$

Here,

Y is the dependent variable,

a is y intercept or value of y when x=0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of relevant data NBL in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the data analysis and interpretation. With the help of this analysis, efforts have been made to highlight the financial condition reform of banks as well as other cases or problems of NBL can be visualized. For analysis, different types of analytical methods and tools such as financial analysis and statistical analysis are used. All the collected data are tabulated, analyzed and presented in a reasonable and wise manner. The data presentation and analysis are primarily based on secondary source of information

4.1 Financial Statement Analysis

Financial analysis is done by applying various financial tools in order to clear picture on the viability of the research. The financial analysis is done to ascertain the liquidity, asset management, profitability of the Bank. The concept of financial statement analysis has been already discussed in previous chapter. Here, we study and analyze the data by using financial and accounting tools.

4.2 Ratio Analysis

Ratio is the relationship between two figures. They provide two important facts about the management: the return on investment and the soundness of the company's financial position. A single ratio will not depict a true picture of the unit. Hence a combination of ratios must be analyzed to drive a true picture. Ratio analysis has been already discussed in previous chapter. Here, different ratios of NBL will be calculated, analyzed and interpreted.

4.2.1 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. Inadequate liquidity can lead to unexpected cash short falls that must be covered at excessive costs reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. To find -out the ability of the bank to meet their short-term obligations, which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

A). Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis. Following the states the cash and bank balance to current assets NBL during the study period.

Table No. 4.1

Cash &Bank Balance to Current Asset

In million

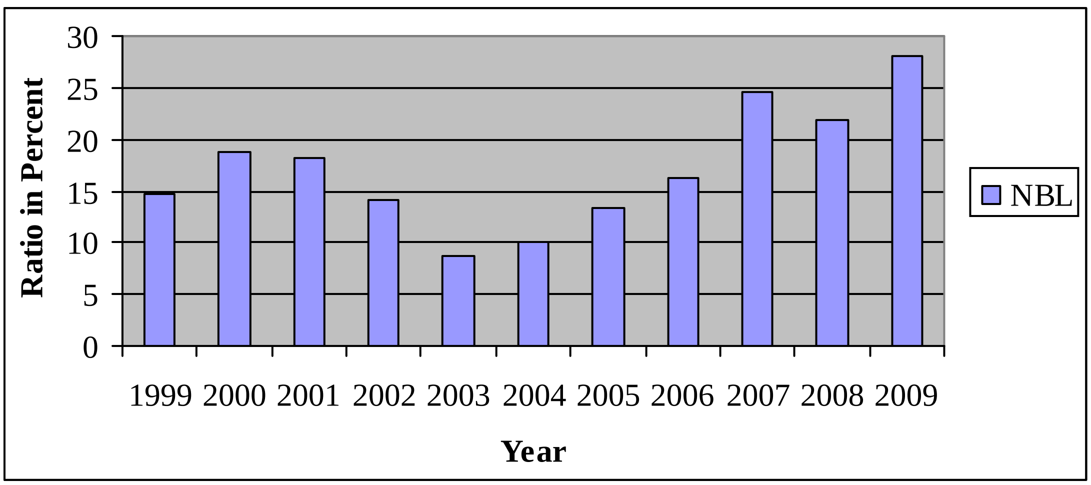
Year	Cash and Bank Balance	Current Asset	Ratio
Before FSRP			
1999	5415.77	29656.01	14.67
2000	5471.88	26180.71	18.78
2001	4662.21	22912.51	18.23
After FSRP			
2002	6627.12	23326.96	14.21
2003	4595.17	22592.26	8.74
2004	5861.07	24810.75	10.14
2005	6159.34	18927.76	13.27
2006	2355.49	25196.93	16.25
2007	7117.29	28985.58	24.55
2008	6616.99	30325.43	21.82
2009	9171.79	32662.67	28.08

Source: *Annul Report of NBL*

The Cash and Bank Balance to Current Asset ratio measures the portion of Cash and Bank Balance to Current Asset. The above table revels that the ratio of cash and bank balance to current asset is in fluctuating trend. Before introducing Financial Sector Reform Program the highest ratio is 18.78 in fiscal year 2000 and lowest ratio is 14.67 in F/Y 1999. During the study period the highest ratio is 28.08 in F/Y 2009 and lowest ratio is 8.74 in F/Y 2003. There are more fluctuations in ratio after introducing Financial Sector Reform Program, which indicates after takeover by foreign management, NBL still enables to maintain its cash and bank balance from its Current Assets properly.

Figure No. 4.1

Cash and Bank Balance to Current Asset



B). Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table No. 4.2

Investment on Govt. Securities to Current Asset

In million

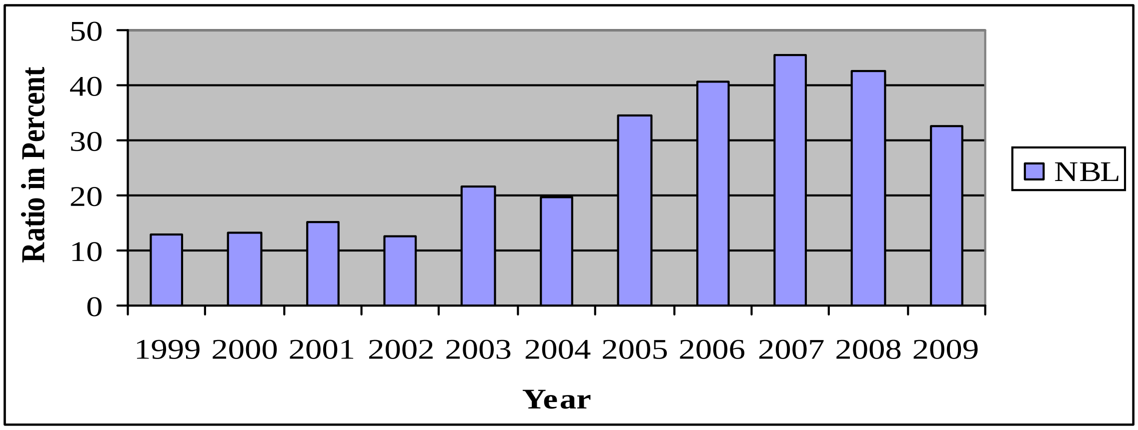
Year	Investment on Govt. Security	Current Asst	Ratio
Before FSRP			
1999	5072.862	29656.01	12.874
2000	5434.989	26180.71	13.278
2001	6736.789	22912.51	15.222
After FSRP			
2002	7166.151	23326.96	12.55
2003	7314.425	22592.26	21.49
2004	12059.49	24810.75	19.81
2005	10490.21	18927.76	34.42
2006	10238.5	25196.93	40.63
2007	13226.14	28985.58	45.63
2008	12918.47	30325.43	42.59
2009	10597.54	32662.67	32.45

Source: *Annul Report of NBL*

The ratio examines the portion of current asset which is invested on different government securities. NBL has fluctuating type ratios. Government Securities are as liquid as cash and easily sold in the market, so commercial banks interested to invest in it. It's also known as risk free investment. The highest investment on government securities to current assets ratio of NBL is 45.63% in FY 2007 and lowest is 12.55% in FY 2002. The figure shows fluctuating trend of investment on government securities on current assets during study period, it shows highly growth ratio of investment on government securities on F/Y 2006 2007 and 2008. Which indicate Bank has been improving after financial sector reform.

Figure No. 4.2

Investment on Govt. Securities to Current Asset



C). Loan and Advance to Current Asset

This ratio reflects the extent to which the banks are successful in mobilizing their current assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization of current asset as loan and advance and vice-versa.

Table No. 4.3

Loan & Advance to Current Asset

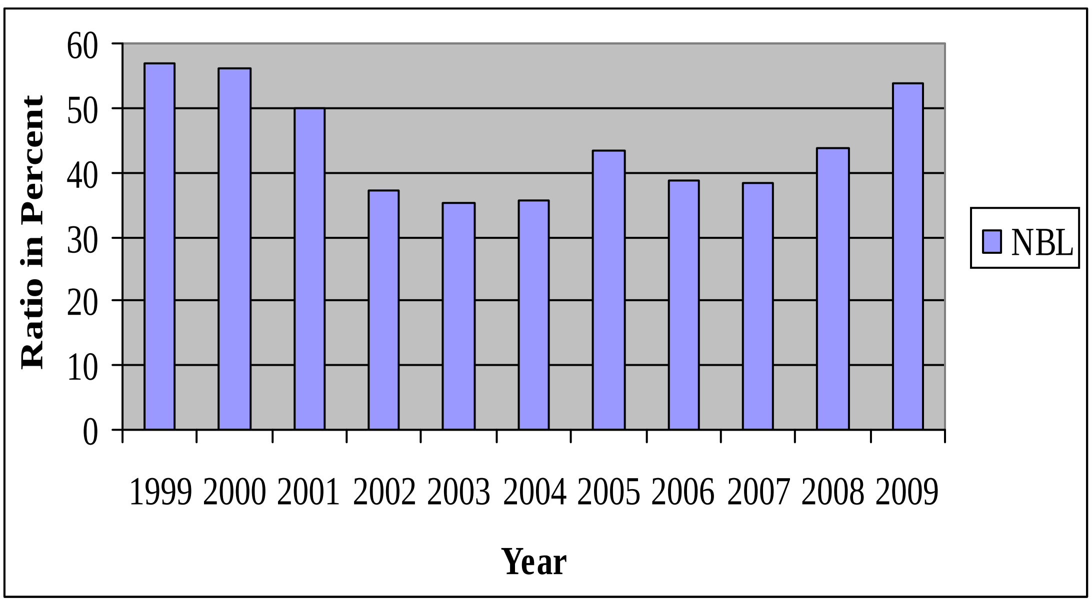
Year	Loan and Advance	Current Asset	Ratio
Before FSRP			
1999	16903.63	29656.01	56.99
2000	14702.3	26180.71	56.17
2001	11450.3	22912.51	49.97
After FSRP			
2002	8638.44	23326.96	37.03
2003	7971	22592.26	35.28
2004	8882	24810.75	35.79
2005	8219	18927.76	43.42
2006	9756	25196.93	38.72
2007	11058	28985.58	38.15
2008	13251	30325.43	43.69
2009	17614	32662.67	53.93

Source: *Annul Report of NBL*

The Loan and Advance to Current Asset ratio measures whether the bank is successful to mobilize its asset as loan and advance for profit generation. The table and figure shows fluctuating trend lending ration during the study period. The highest ratio is 56.99 in F.Y1999 before introducing reform program and lowest ratio is 35.282 in F/Y2003 after introducing reform program. The ratio are high in very beginning before reform program and lower in beginning time of reform process but in last year bank has doing well. Which indicates the foreign management of bank could not manage properly in very beginning but last year improving positively.

Figure No. 4.3

Loan & Advance to Current Asset



D). Fixed Deposit to Total Deposit

Fixed deposit is the most permanent liquid asset. Fixed deposit can be use freely because these deposits are kept in certain stipulated date. This ratio measures the percentage of fixed deposit in total deposit. Higher ratio shows the greater ability to invest or uses unreservedly. This ratio can be computed by dividing fixed deposit by total deposit and can be presented as: the following table shows the situation of fixed deposit to total deposit.

Table No. 4.4

Fixed Deposit to Total Deposit

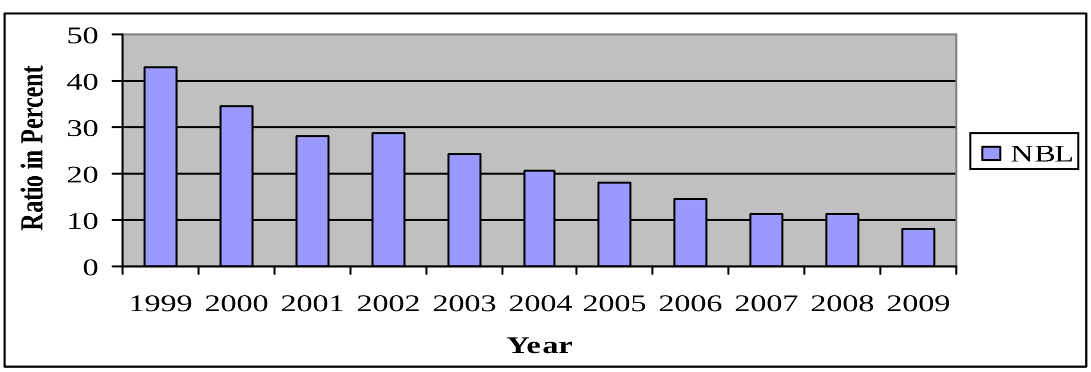
Year	Fixed deposit	Total Deposit	Ratio
Before FSRP			
1999	14195.72	33188.5	42.77
2000	12341.13	35768.27	34.50
2001	9946.683	35618	27.93
After FSRP			
2002	9790.153	34264.85	28.57
2003	8463.934	35014	24.17
2004	7366.77	35735	20.61
2005	6507.647	35934	18.11
2006	5222.449	35829	14.57
2007	4393.448	39014	11.26
2008	4757.919	41829	11.37
2009	3586.19	45194	7.94

Source: *Annul Report of NBL*

The ratio actually measures the portion of Fixed Deposit on Total Deposit of NBL. The table and figure revels that, the ratio of Fixed Deposit to Total Deposit in decreasing trend, which indicates that customers are not interested in long term deposit. The highest ratio is 42.77% in F/Y 1999 and lowest ratio is 7.94 in F/Y 2009. The management has to attract fixed deposit providing costumer higher interest and other benefits.

Figure No 4.4

Fixed Deposit to Total Deposit



E). Saving Deposit to Total Deposit

Saving deposit is the most liquid asset. Saving deposit cannot be use freely because these deposits are withdrawal anytime. So this deposit is not everlasting. This ratio measures the percentage of saving deposit in total deposit. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. Following table shows the situation of saving deposit to total deposit.

Table No. 4.5

Saving Deposit to Total Deposit

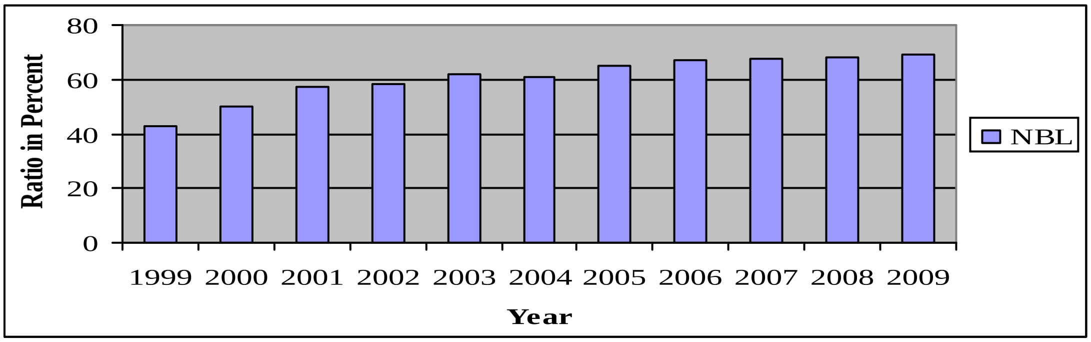
Year	Saving Deposit	Total Deposit	Ratio
Before FSRP			
1999	14255.79	33188.5	42.95
2000	17975.7	35768.27	50.25
2001	20332.54	35618	57.08
After FSRP			
2002	19970.93	34264.85	58.28
2003	21705.88	35014	61.99
2004	21726.52	35735	60.80
2005	23448.01	35934	65.25
2006	24122.92	35829	67.33
2007	26427.2	39014	67.74
2008	28565.39	41829	68.29
2009	31284.26	45194	69.22

Source: *Annul Report of NBL*

The ratio measures the portion of Saving Deposit on Total Deposit. The above table revels that, the ratio is increasing trend which means Financial Sector Reform Program positively impact on the Saving Deposit of NBL. The highest ratio is 69.22 in F/Y 2009 and lower ratio is 42.95 F/Y 1999 before reform program. The proportion of saving deposit is low in before reform. Lastly, the Financial Sector Reform Program positively impact on saving deposit to total deposit ratio of NBL.

Figure No 4.5

Saving Deposit to Total Deposit



F). Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of NBL during the study period.

Table No. 4.6

Cash & Bank Balance to Total Deposit

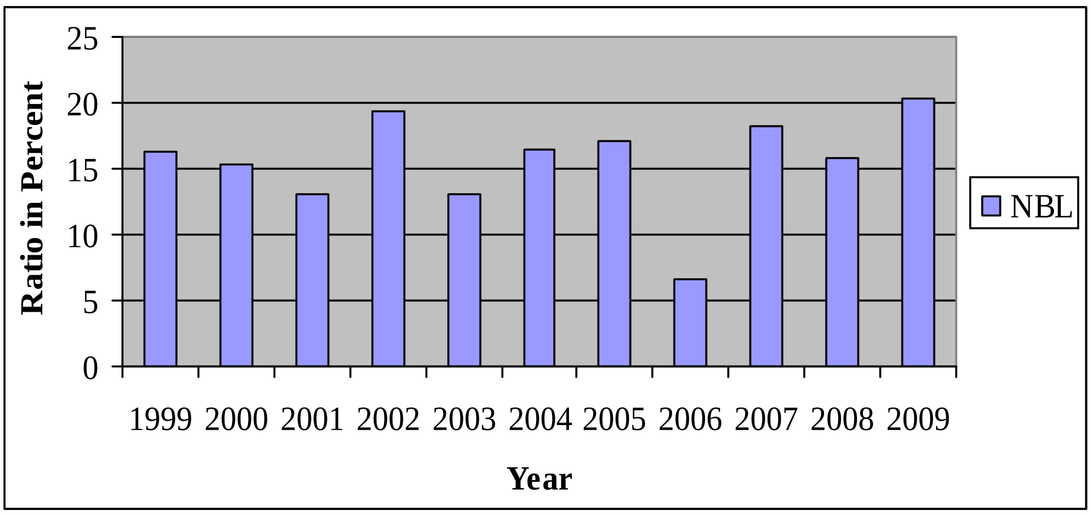
Year	Cash and Bank Balance	Total Deposit	Ratio
Before FSRP			
1999	5415.77	33188.5	16.32
2000	5471.88	35768.27	15.30
2001	4662.21	35618	13.09
After FSRP			
2002	6627.12	34264.85	19.34
2003	4595.17	35014	13.12
2004	5861.07	35735	16.40
2005	6159.34	35934	17.14
2006	2355.49	35829	6.57
2007	7117.29	39014	18.24
2008	6616.99	41829	15.82
2009	9171.79	45194	20.29

Source: *Annul Report of NBL*

The above table shows that, the cash and bank Balance to total deposit ratio of NBL is in fluctuating trend. The highest ratio is 20.29 in the Fiscal Year 2009 and the lowest ratio is 6.57 in the Fiscal Year 2006. Both of these ratios indicate new management under the Reform Program of NBL couldn't manage its deposit properly. However if we see the ratio NBL has sound liquid fund make immediate payment to the depositor but it reduces to profit due to excess burden of deposit. The following figure represents the condition of cash and bank balance to total deposit of NBL.

Figure No 4.6

Cash & Bank Balance to Total Deposit



G). Investment on Govt. Securities to Total Deposit

These ratios depict that portion of bank total deposit, which is invested on different government securities. More or less, each commercial bank is interested to invest their deposit on different securities issued by government in different times to utilize their excess funds and for other purpose. It shows the portion of total deposit to banks that are invested on various securities. Government securities are the more secured investment alternatives.

Table No. 4.7

Investment on Gov. Securities to Total Deposit

In million

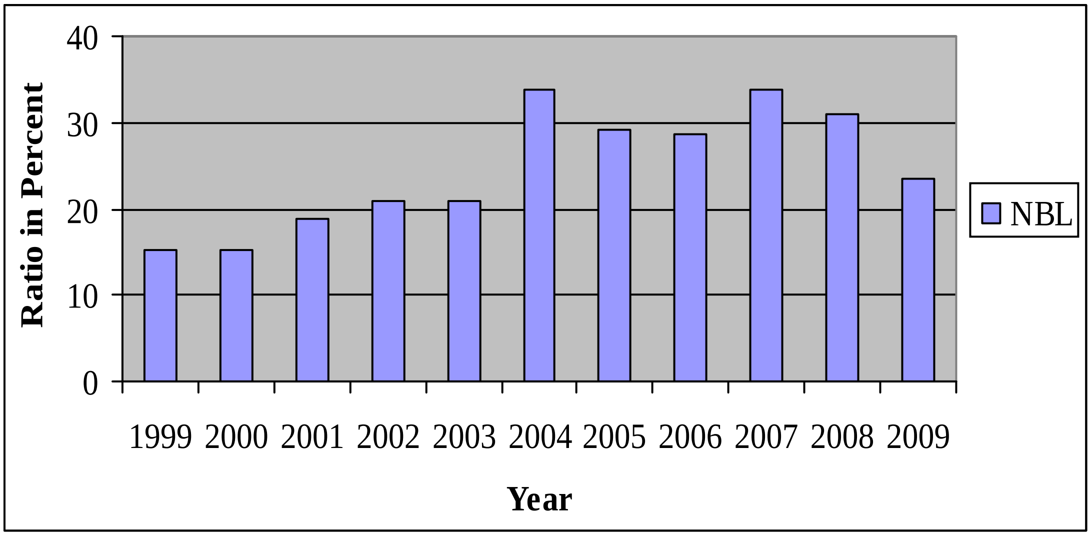
Year	Investment on Govt. security	Total Deposit	Ratio
Before FSRP			
1999	5072.862	33188.5	15.29
2000	5434.989	35768.27	15.19
2001	6736.789	35618	18.91
After FSRP			
2002	7166.151	34264.85	20.91
2003	7314.425	35014	20.89
2004	12059.49	35735	33.75
2005	10490.21	35934	29.19
2006	10238.5	35829	28.57
2007	13226.14	39014	33.9
2008	12918.47	41829	30.88
2009	10597.54	45194	23.45

Source: *Annul Report of NBL*

Above table shows the investment of government securities to total deposit ratio is in fluctuating trend. The highest ratio is 33.90 in F/Y2007 after manage by foreign management and the lowest ratio is 15.19 in F.Y 2000 before introducing reform program. The ratios are higher after reform program. It indicates that new management team utilizing its deposits by investing them in more in government securities. It is also known as risk free investment. This types of investment is more safe than other investment. The following figure represents the condition of investment on government security to total deposit.

Figure No. 4.7

Investment on Gov. Sec. to Total Deposit



4.2.2 Assets Management Ratio:

Asset management means manage or utilization of all about of asset. It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means how much number of times the assets flow through a firm's operations and into sales Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. There are some ratios are examined under.

A). Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks.

Table No. 4.8

Loan and Advance to Total Deposit

In million

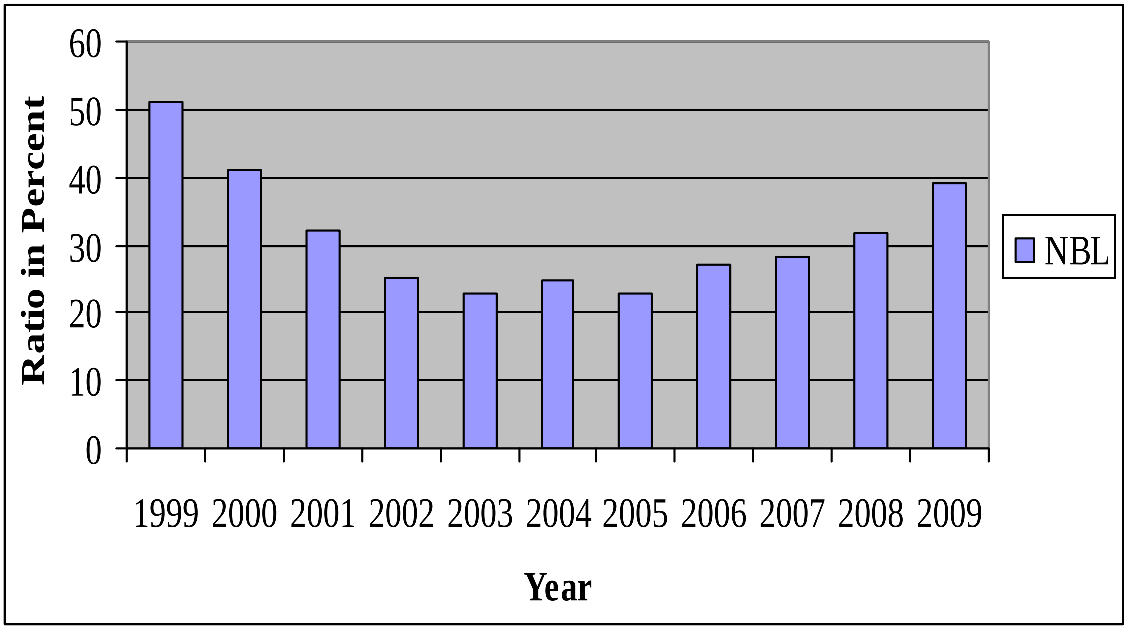
Year	Loan and advance	Total Deposit	Ratio
Before FSRP			
1999	16903.63	33188.5	50.93
2000	14702.3	35768.27	41.10
2001	11450.3	35618	32.15
After FSRP			
2002	8638.44	34264.85	25.21
2003	7971	35014	22.76
2004	8882	35735	24.85
2005	8219	35934	22.87
2006	9756	35829	27.23
2007	11058	39014	28.34
2008	13251	41829	31.68
2009	17614	45194	38.97

Source: *Annul Report of NBL*

Deposits are essential for better performance of any Commercial banks as well as Loan and Advance also very important to mobilize the collected Deposits. High ratio of Loan and Advance indicates better mobilization but too high ratio might not be good for its liquidity point of view. The above table shows the ratio of Loan and Advance to Total Deposit is decreasing trend first then increasing trend at last. The highest ratio is 50.93 in F/Y 2000 and lowest ratio is 22.76 in F/ Y 2003. New management team is capable to mobilize the deposits in proper way after reform program. The following figure reveals the condition of loan and advance to total deposit ratio of NBL.

Figure No 4.8

Loan and Advance to Total Deposit



B). Loan and Advances to Fixed Deposit Ratio:

Loan and advances clearly state that it is the assets of the bank and fixed deposit is the liability. It's also known as loan and advance ratio. So, this is the ratio between assets and liability. This helps to show the ratio of Loan & advances to fixed deposit. We can also conclude that what part of the credit and advances is initiated against fixed deposit.

Table No. 4.9

Loan and Advance to Fixed Deposits

In Million

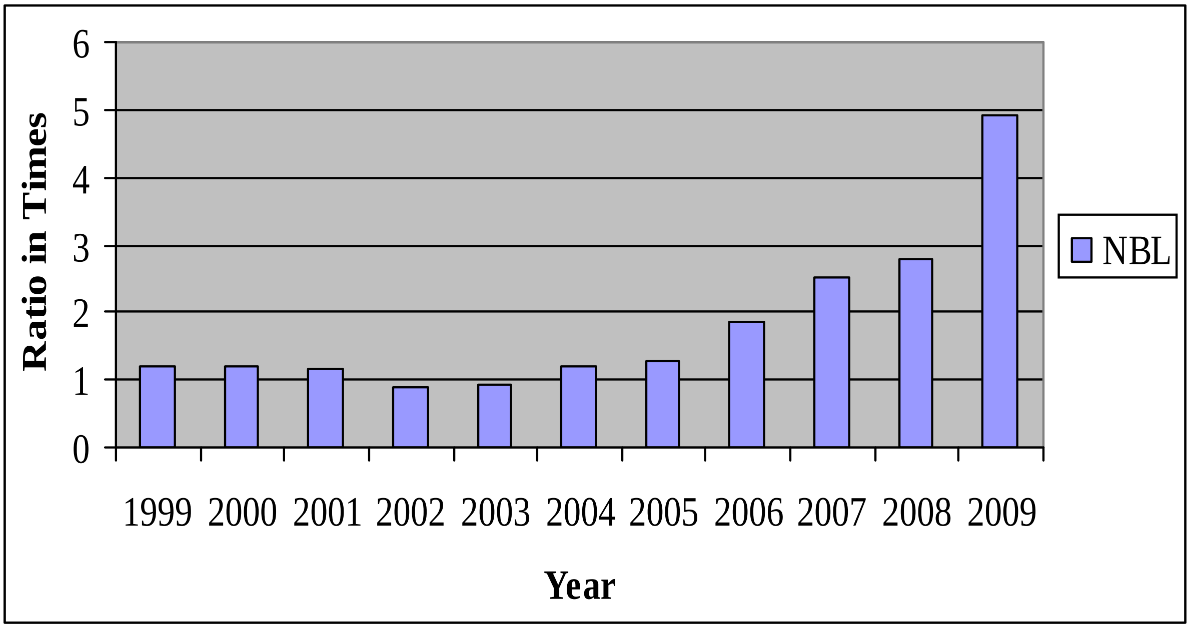
Year	Loan and Advance	Fixed Deposit	Ratio
Before FSRP			
1999	16903.63	14195.72	1.19
2000	14702.3	12341.13	1.19
2001	11450.3	9946.683	1.15
After FSRP			
2002	8638.44	9790.153	0.88
2003	7971	8463.934	0.94
2004	8882	7366.77	1.20
2005	8219	6507.647	1.26
2006	9756	5222.449	1.87
2007	11058	4393.448	2.52
2008	13251	4757.919	2.78
2009	17614	3586.19	4.91

Source: *Annul Report of NBL*

The above table shows the ratio of Loan and advance to fixed deposit is fluctuating increasing trend. The highest ratio is 4.91 in the F/Y2009 and the lowest rate is 0.88 in the F/Y 2002, the increasing trend of ratio are indicate that after financial reform the management has done well than before. This indicates that portion of mobilization of fixed deposit is increasing on loan and advances after the takeover by new management team. The following figure reveals the condition of loan and advance to fixed deposit ratio of NBL.

Figure No 4.9

Loan and Advance to Fixed Deposits



C). Loan and Advances to Saving Deposit Ratio:

Loan and Advances to saving deposit ratio is determined to find out the relationship between credit & advances to saving deposit. This helps to show the ratio of Loan & advances to saving deposit. It is calculated to find out how successfully the bank is able to utilize its saving deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of deposits. We can also conclude that what part of the credit and advances is initiated against saving deposit.

Table No. 4.10

Loan and Advance to Saving Deposit

In Million

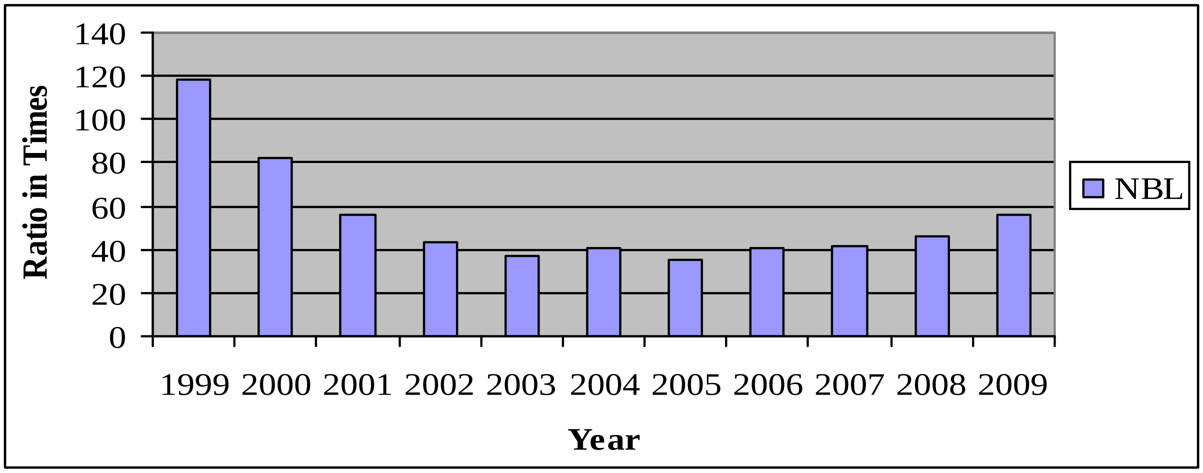
Year	Loan and advance	Saving Deposit	Ratio
Before FSRP			
1999	16903.63	14255.79	118.57
2000	14702.3	17975.7	81.79
2001	11450.3	20332.54	56.31
After FSRP			
2002	8638.44	19970.93	43.25
2003	7971	21705.88	36.72
2004	8882	21726.52	40.88
2005	8219	23448.01	35.05
2006	9756	24122.92	40.44
2007	11058	26427.2	41.84
2008	13251	28565.39	46.39
2009	17614	31284.26	56.30

Source: *Annul Report of NBL*

The above figurer revels that, the ratio of Loan and advance to saving deposit show in decreasing trend before reform program and constant afterwards, which indicates bank is unable to mobilize its saving in proper way after Financial Sector Reform Program. New management teams only mobilize its saving deposit as moderate way. Its seems that new management keeps it’s saving deposit as liquid asset for fulfill the prompt demand of depositor. The following figure reveals the condition of loan and advance to saving deposit ratio of NBL.

Figure No 4.10

Loan and Advance to Saving Deposit



D). Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of NBL are calculated and presentation below.

Table No. 4.11

Total Investment to Total Deposit

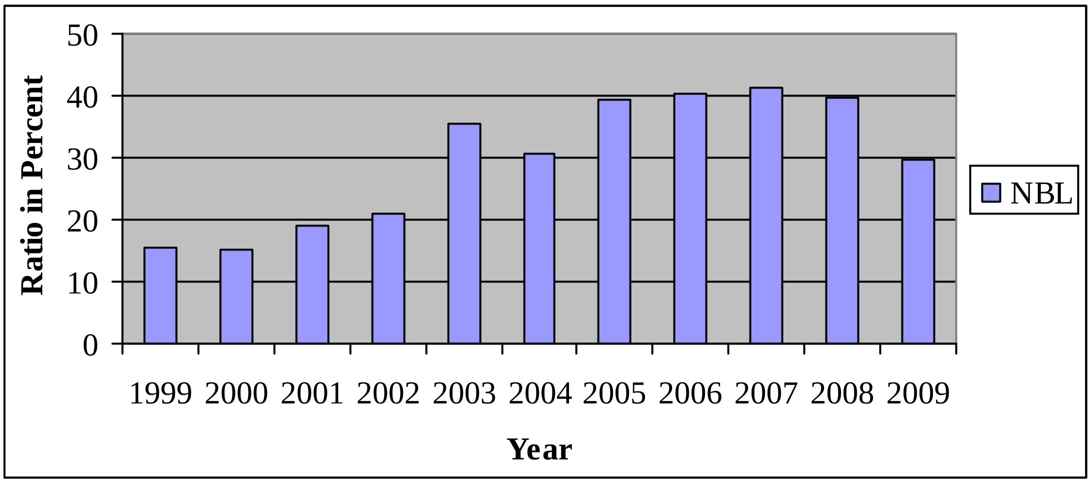
Year	Total Investment	Total Deposit	Ratio
Before FSRP			
1999	5124.56	33188.5	15.44
2000	5462.07	35768.27	15.27
2001	6776.33	35618	19.02
After FSRP			
2002	7151.38	34264.85	20.87
2003	12448	35014	35.55
2004	11005	35735	30.79
2005	14199	35934	39.51
2006	14490	35829	40.44
2007	16072	39014	41.19
2008	16570	41829	39.61
2009	13397	45194	29.64

Source: *Annul Report of NBL*

Above table revels that, the total investment to total deposit ratio of NBL is in fluctuating increasing trend. The highest ratio is 41.19 in F/Y2007 after manage by foreign management and the lowest ratio is 15.27 in F.Y 2000 before introducing reform program. The ratios are higher after reform program. It indicates that new management team well manages its deposits by investing them in more productive sector.

Figure No 4.11

Total Investment to Total Deposit



4.2.3 Profitability Ratio

Profit is major objective of any business organization. Profit is engine that drives the business enterprises. Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Profitability ratio is calculated based on sales and investment. In the context of banks, no bank can survive without profit. Profit is one the major indicates or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NBL. The following ratios are calculated:

A). Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of NBL.

Table No. 4.12

Interest Earned To Total Asset

In Million

Year	Interest Earned	Total Asset	Ratio
Before FSRP			
1999	2602.54	39948.55	6.51
2000	2477.57	43718.01	5.67
2001	2368.35	45599.13	5.19
After FSRP			
2002	1526.99	39559.8	3.86
2003	2200	39816.49	5.52
2004	1825.04	44161.88	4.13
2005	1987.12	47045.15	4.22
2006	2049.03	35918.91	5.70
2007	1848.61	39258.79	4.71
2008	2094.91	42053.44	4.98
2009	2690.06	47559.11	5.66

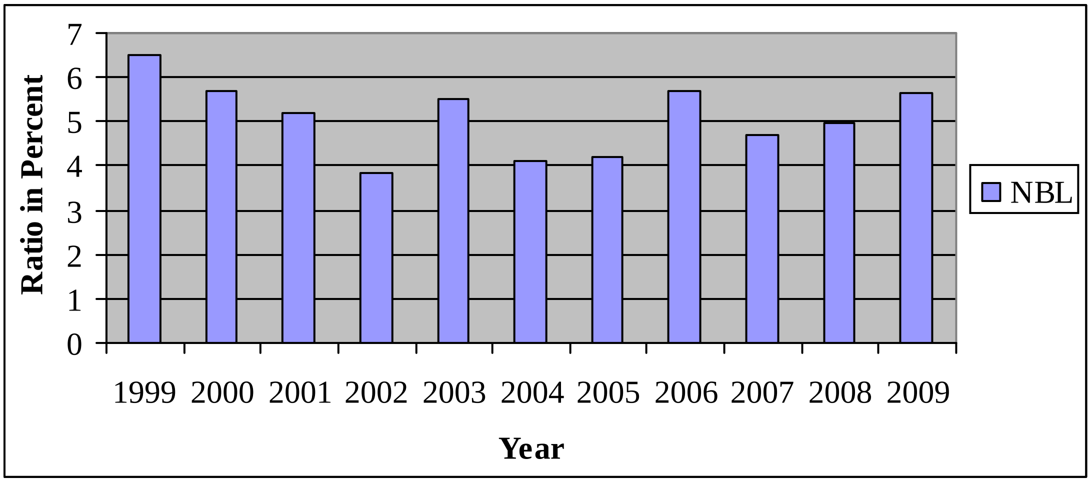
Source: *Annul Report of NBL*

Commercial bank must able to manage its fund and asset to get high profit for its own existence. So commercial bank must use its resource properly to get high return.

The above table reveals that the ratio of interest earned to total asset ratio is in fluctuating trend, which indicates the resources were mobilizing in productive sectors as moderately and the rate of income became swing after takeover of management. The highest ratio is 6.51 in F/Y 1999 and lowest ratio is 3.86 in F/y 2002. The ratios are decreasing till 2002 and there after fluctuating trend.

Figure No. 4.12

Interest Earned To Total Asset



B). Total Interest Paid to Total Assets Ratio

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of NBL.

Table No. 4.13

Interest Paid To Total Asset

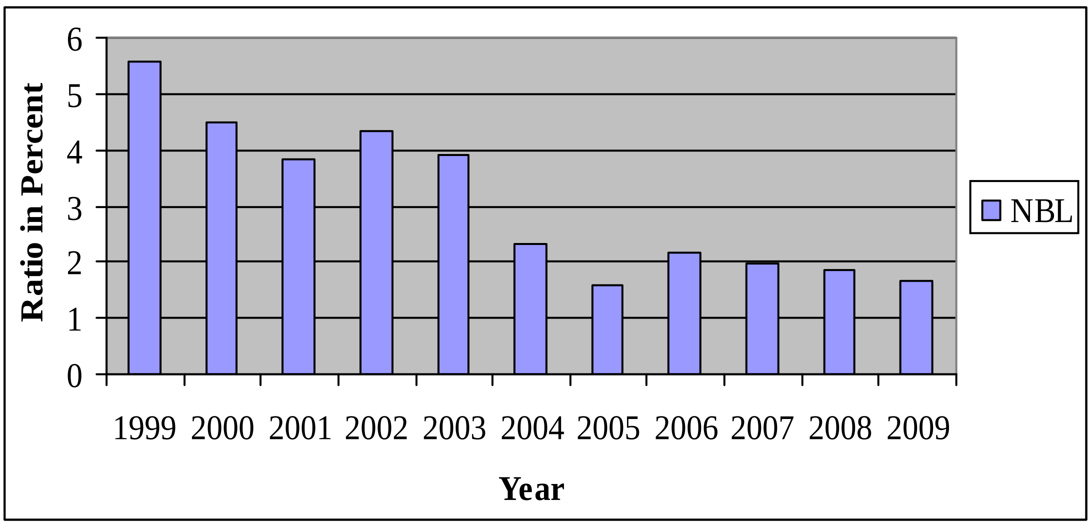
Year	Interest Paid	Total Asset	Ratio
Before FSRP			
1999	2224.71	39948.55	5.57
2000	1957.23	43718.01	4.48
2001	1744.65	45599.13	3.82
After FSRP			
2002	1713.2	39559.8	4.33
2003	1558.6	39816.49	3.91
2004	1025.53	44161.88	2.32
2005	748.95	47045.15	1.59
2006	774.32	35918.91	2.15
2007	772.64	39258.79	1.97
2008	772.66	42053.44	1.84
2009	791.71	47559.11	1.66

Source: *Annul Report of NBL*

The above table shows that the ratio of interest paid is in fluctuating decreasing trend which indicates the decreasing in its interest expenses of NBL. The highest ratio is 5.57 in F/Y 1999 and lowest ratio is in 1.59 in F/Y 2005 respectively. During the study period the lowest ratio is 1.5 which is after financial reform. The decreasing tendency of ratio indicates decreasing in its interest paid expenses. So the new management after reform works very well then before. The following figure reveals interest paid to total asset of Nepal Bank Limited.

Figure No 4.13

Interest Paid To Total Asset



C). Return on Total assets

This ratio shows the relationship of Net Profit and total assets is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets.

Table No. 4.14

Net Profit to Total Asset

In Million

Year	Net Profit	Total Asset	Ratio
Before FSRP			
1999	loss	39948.55	NA
2000	loss	43718.01	NA
2001	loss	45599.13	NA
After FSRP			
2002	loss	39559.8	NA
2003	loss	39816.49	NA
2004	loss	44161.88	NA
2005	768.99	47045.15	1.63
2006	1207.26	35918.91	3.36
2007	226.95	39258.79	0.58
2008	239.21	42053.44	0.57
2009	894.25	47559.11	1.88

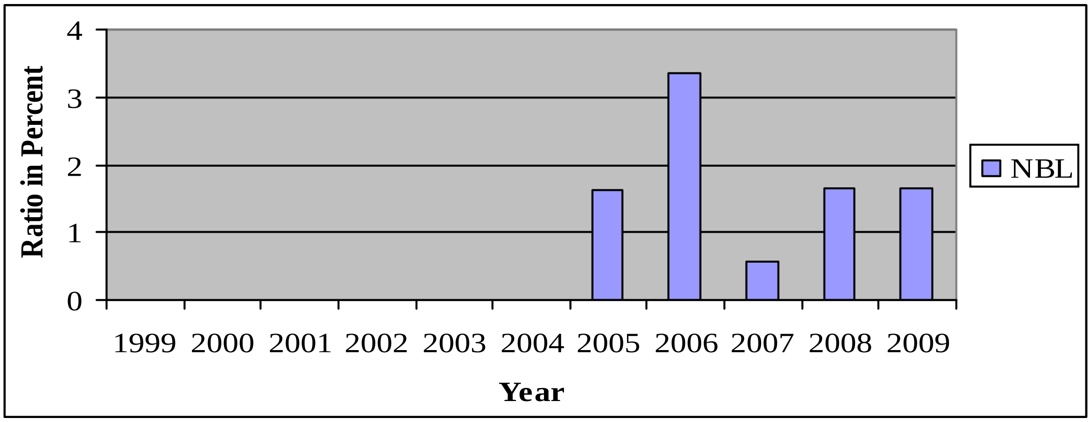
Source: *Annul Report of NBL*

The above table reveals that the net profit to total asset ratio of NBL is in fluctuating after it has gain profit from F/Y 2005, it indicates that after takeover by new management team, and the financial position of bank is recovering slowly. The highest ratio is 3.36 in F/Y 2005 and lowest ratio is 0.57% in F/Y 2008. After reform program the management has done well to earning profit

Those ratios cannot be compared with Financial Sector Reform Program due to non-available data. Therefore year wise comparison after Financial Sector Reform Program is made. The following figure reveals the condition of net profit to total asset ratio of NBL.

Figure No 4.14

Net Profit to Total Asset



D). Return on Loan & advances

Every financial institution tries to mobilize their deposits on loan & advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan & advances ratio of selected banks are presented as follows.

Table No. 4.15

Net Profit to Loan and Advance

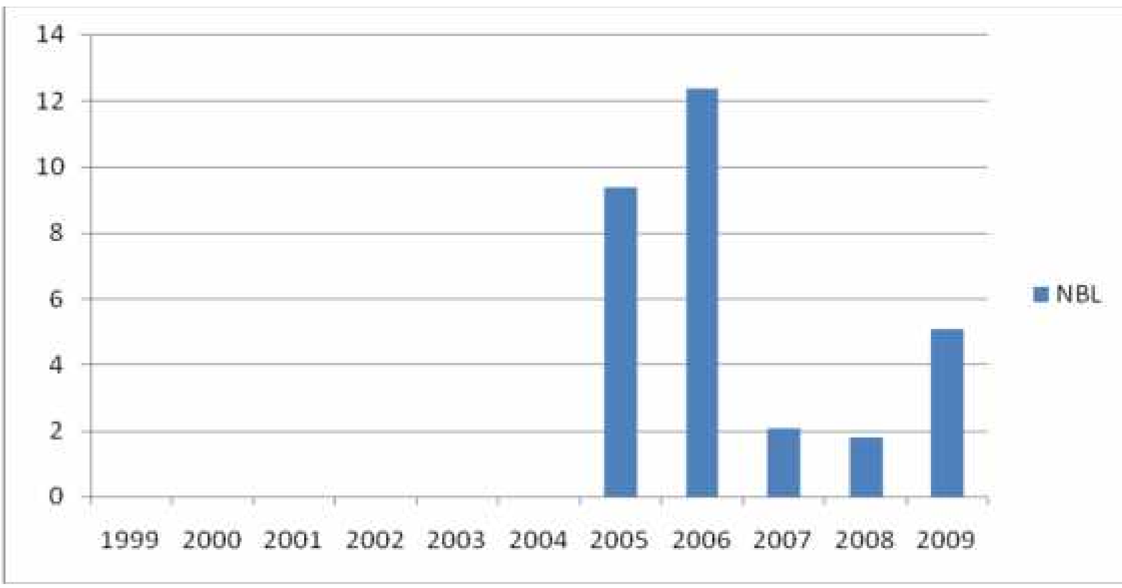
Year	Net Profit	Loan and Advance	Ratio
Before FSRP			
1999	loss	16903.63	NA
2000	loss	14702.3	NA
2001	loss	11450.3	NA
After FSRP			
2002	loss	8638.44	NA
2003	loss	7971	NA
2004	loss	8882	NA
2005	768.99	8219	9.356
2006	1207.26	9756	12.375
2007	226.95	11058	2.05
2008	239.21	13251	1.805
2009	894.25	17614	5.077

Source: *Annul Report of NBL*

The bank must provide loan and advance to earn profit. The above table reveals that the ratio of net profit to loan and advance ratio of NBL is in fluctuating trend. The highest ratio is 12.375% in F/Y 2006 and lowest ratio is 1.805 in F/y 2008. The net profit to loan and advance ratio are not available before financial sector reform due to loss. The new management has doing better performance due to gaining profit. The ratios are cannot be compared with Financial Sector Reform Program due to non available data. Therefore year wise comparison after Financial Sector Reform Program is made. The following figure reveals the condition of net profit to loan and advance ratio of NBL.

Figure No 4.15

Net Profit to Loan and Advance



E). Return on Total Deposit

It measures the extent to which the banks are successful to mobilize the total deposit for the purpose of profit generation. This ratio measures the overall profitability of all deposits. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. A firm has to earn satisfactory return on deposit funds for its survival. The following table shows return on deposits ratio of NBL bank.

Table No. 4.16

Net Profit to Total Deposit

In Million

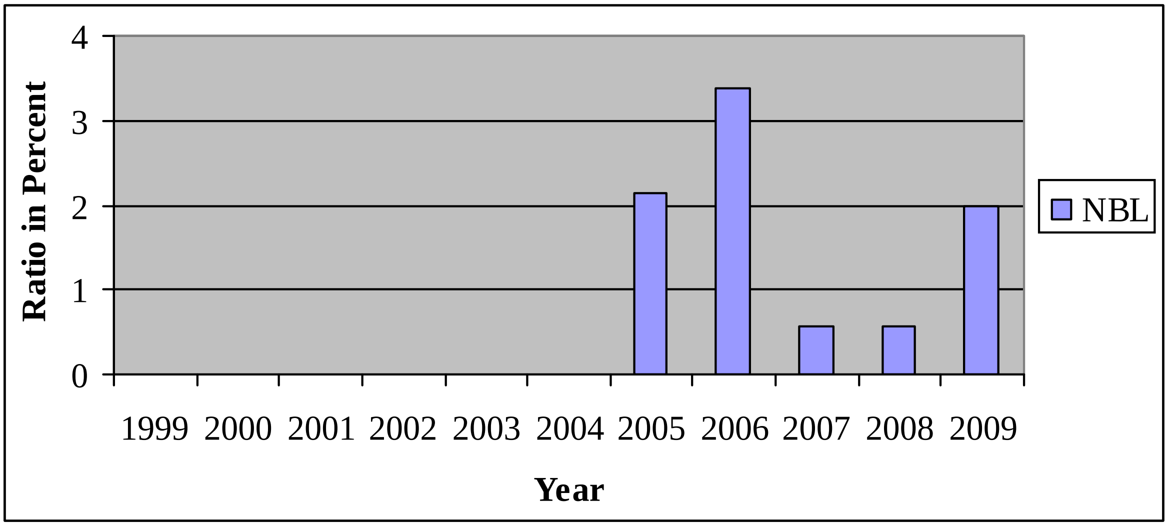
Year	Net Profit	Total Deposit	Ratio
Before FSRP			
1999	loss	33188.5	NA
2000	loss	35768.27	NA
2001	loss	35618	NA
After FSRP			
2002	loss	34264.85	NA
2003	loss	35014	NA
2004	loss	35735	NA
2005	768.99	35934	2.14
2006	1207.26	35829	3.37
2007	226.95	39014	0.58
2008	239.21	41829	0.58
2009	894.25	45194	1.98

Source: *Annul Report of NBL*

The above table reveals that the ratio of net profit to total deposit ratio of NBL. The bank must mobilize its deposit to earn profit. The above figure reveals that the ratio of net profit to total deposit ratio of NBL is in fluctuating trend. The highest ratio is 3.37% in F/Y 2006 and lowest ratio is 0.58 in F/Y 2008. The net profit to total deposit ratio are not available before financial sector reform due to loss. It means during the study period new management team has been successful to get profit form their collected Deposits. The following figure reveals the condition of net profit to total deposit ratio of NBL.

Figure No 4.16

Net Profit to Total Deposit



4.2.4 Growth Ratio

Growth means incensement of value of particular substance. Simply growth means more than previous year. Here we have analyzed growth of total deposit and loan and advance of NBL.

A). Growth Ratio of Total Deposits

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} | 100$$

Table No 4.17

Growth Ratio of Total Deposits

Year	Before FSRP			After FSRP							
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Deposit	NA	7.77	-0.42	-0.379	2.18	2.09	0.55	-0.29	8.88	7.22	8.45

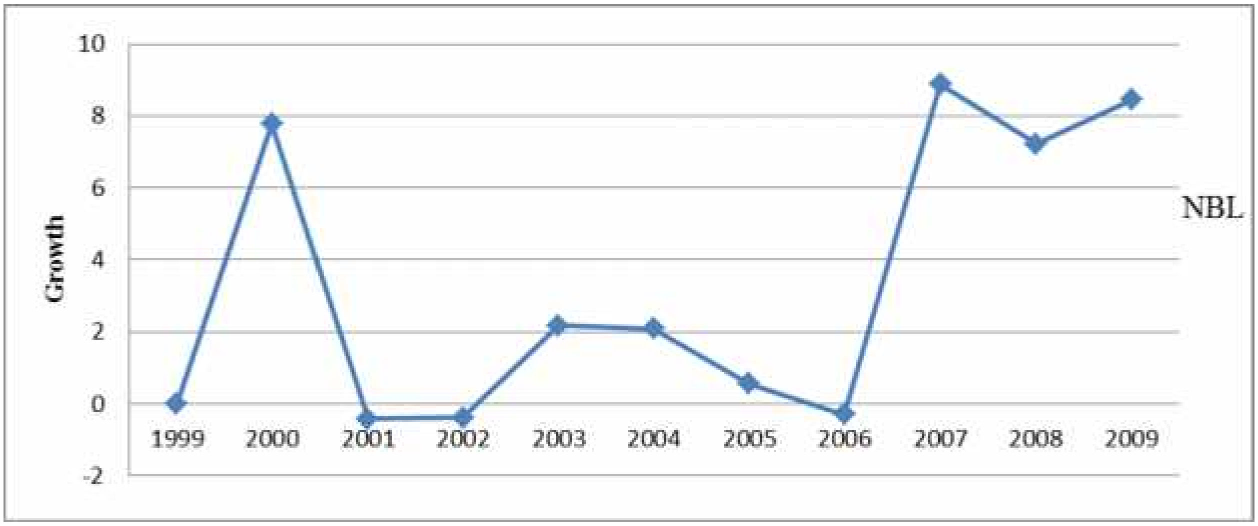
Source: *Through SPSS Data Editor*

The above table shows that the ratio of total deposit is in fluctuating trend during study period. The highest percent of growth ratio is 8.88% in F/Y 2007 and highest reduction is 0.42% in

2001. The growth is positive beside F/Y 2006. The present condition of growth of deposit is better than before FSRP. It indicates that management has emphasis on collecting deposit. In aggregate new management is doing fine in collecting deposit than before FSRP. The following figure reveals the growth ratio of total deposit of NBL.

Figure No 4.17

Growth Ratio of Total Deposits



B). Growth Ratio of Loan and Advances

To measure such growth percentage and analysis the following formula are used:

$$\text{Growth Percentage} = \frac{\text{Ending Value - Beginning Values}}{\text{Beginning Value}} \times 100$$

Table No. 4.18

Growth Ratio of Loan and Advance of NBL

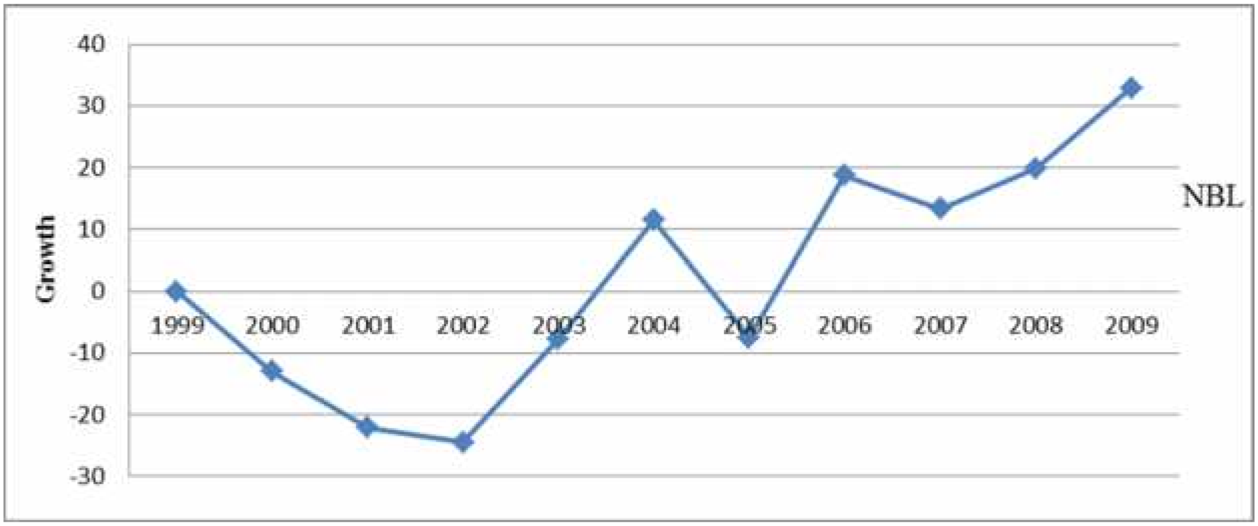
Year	Before FSRP			After FSRP							
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Loan and Advance	NA	-13.02	-22.12	-24.55	-7.73	11.43	-7.46	18.7	13.35	19.83	32.92

Source: *Through SPSS Data Editor*

The above figure reveals that the ratio of Loan and advance of NBL is fluctuating trend of growth rate. The highest percent of growth rate is 32.92% in F/Y 2009 and highest decrease is F/Y 24.55 in 2002. The present condition of growth is better than before FSRP. It indicates that management has mobilized its deposit through loan and advances. The new management has been doing better job for growth of loan and advances. The following figure reveals the growth ratio of loan and advance of NBL.

Figure No 4.18

Growth Ratio of Loan and Advance of NBL



4.3 Statistical Analysis

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is used following convenient statistical tools are used in this thesis study.

4.3.1. Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan & advances, deposit and investment, deposit and total asset, total assets and loan and advances of NBL using Karl Persons coefficient of correlation, value of coefficient of determination (R^2) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

4.3.1.1 Co-efficient of Correlation between Deposit and Loan and Advance

Co-efficient of Correlation between Deposit and Loan and Advance measures the degree of relation between these two variables. In this analysis Deposits is independent variables (x) and Loan and Advances are dependent variable (y). The purpose of computing these variables is to justify whether the Deposits are significantly used or not as well as to find the relation between these variables.

The following table shows relation between those variables of NBL during the study period.

Table No. 4.19

Co-efficient of Correlation between Total Deposit and Loan and Advance

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NBL	0.456	0.2079	0.1611	0.9665

Source: *Through SPSS Data Editor*

From the above table it found the Co-efficient of Correlation between Deposit and Loan and Advance is 0.456. It shows positive relationship between these two variables. And the Co-efficient of Determination (R^2) is 0.2079 which means 20.79% of variation in the dependent variable (Loan and Advances) has been explained by independent variable (Deposits) and least are determine by other factor. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er. The value of "r" i.e 0.456 is lower comparing with 6P.Er i.e. 0.9664 It refers that there is insignificant relationship between total deposit and loan and advance of NBL. This indicates, new management team is not enough capable to manage the deposits in proper way.

4.3.1.2 Co-efficient of Correlation between Deposit and Investment

Co-efficient of Correlation between Deposit and Investment measures the degree of relation between these two variables. In this analysis Deposits is independent variables (x) and Investment is dependent variable (y).

The purpose of computing these two variables is to justify whether the Deposits are significantly used or not as well as to find the relation between these variables.

The following table shows relation between those variables of NBL during the study period.

Table No.20

Co-efficient of Correlation between Total Deposit and Investment

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NBL	0.598	0.3576	0.1306	0.7838

Source: Through SPSS Data Editor

From the above table it found the Co-efficient of Correlation between Deposit and Investment is 0.3122. It shows positive relation ship between these two variables. . In addition, coefficient of determination of NBL is 0.0.3576, It means only 35.76 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er (i.e. 0.598 > 0.7838) It refers that there is insignificant relationship between total deposit and total investment of NBL.

From the above analysis, we can draw a conclusion that there is moderate positive relation between Deposits and Loan & Investment. The “r” shows lower percentage than 6P.Er which indicates the relation is not significant. So the has recommended to more mobilized deposit as investment.

4.3.1.3 Coefficient of Correlation between Total Deposits and Total Asset

The coefficient of correlation between deposit and asset measures the degree of relationship between these two variables. The following Table shows the coefficient correlation between deposits and total assets i.e. r, R^2, P Er. and 6 P Er. of NBL during the study period. The following table shows the correlation coefficient between Total Deposits and Total assets

Table No. 4.21

Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NBL	0.387	0.1498	0.1729	1.0375

Source: Through SPSS Data Editor

The above table shows that the coefficient of correlation between total deposit and total assets of NBL is 0.387. This indicates both variable move same direction but not proportionately. It shows the moderate positive correlation. In addition, coefficient of determination of NBL is 0.1498. It means there is only 14.98 percent of total assets is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient r is very less than 6 P Er. i.e. 0.378 < 1.0375. It refers that there is insignificant relationship between total deposit and total Asset.

4.3.1.4 Correlation between Total asset and Loan & Advances

Asset is most important thing of commercial banks. Similarly loan & advances are very important to mobilize the asset and collected deposits. Co-efficient of correlation between asset and loan & advances measures the degree of relationship between these two variables. The main objectives of computing ‘r’ between these two variables is to justify whether asset are significantly used as loan & advances in proper way or not. Coefficient of correlation determination between asset and loan and advances of NBL

Table No 4.22

Coefficient of Correlation between Total Asset and Loan & Advance

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NBL	0.251	0.0630	0.1905	1.1433

Source: Through SPSS Data Editor

The above table shows that the correlation coefficient between total asset and loan and advances is 0.251. There is mediocre positive correlation between total asset and loan and advances. This indicate variable move same direction consistently. The coefficient of determination is 0.0630, which depicts that only 6.30% of loan has been explained by the total asset and least are determined by other factor. The correlation coefficient is insignificant because the correlation coefficient r is very less than 6 P Er. i.e. 0.251 < 1.1433. It refers that there is insignificant relationship between total Asset and loan and advance. Loan and advance are not enough moves according to total asset. Above data indicates that NBL has not properly mobilized their asset in proper way as loan and advances. The new management has properly managed the asset.

4.3.2 Trend Analysis:

Here, trend analysis of total deposits and loan and advances is projected for the three years. The measure of trend analysis shows the behavior of given variables in series of time. This trend analysis is carried out to see average performance of the banks for next three years.

Trend analysis is based on some assumptions;

All the other things will remain unchanged.

The bank will run in present condition.

The economy will remain in present stage.

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. Here, the trend value of total deposit of NBL has been calculated for further three year. The following Table shows the actual and trend values of NBL.

Let trend line be

Y = a + b x……………………. (I)

Where,

Y = dependent variable,

a =Y- intercept,

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Table No. 4.23

Trend of Total Deposit

(Amount in million)

Year(x)	Total Deposit
1999	75436.51
2000	113837.7
2001	152238.9
2002	190640.1
2003	229041.2
2004	267442.4
2005	305843.6
2006	344244.8
2007	382646
2008	421047.1
2009	459448.3
2010	497849.5
2011	536250.7
2012	574651.9

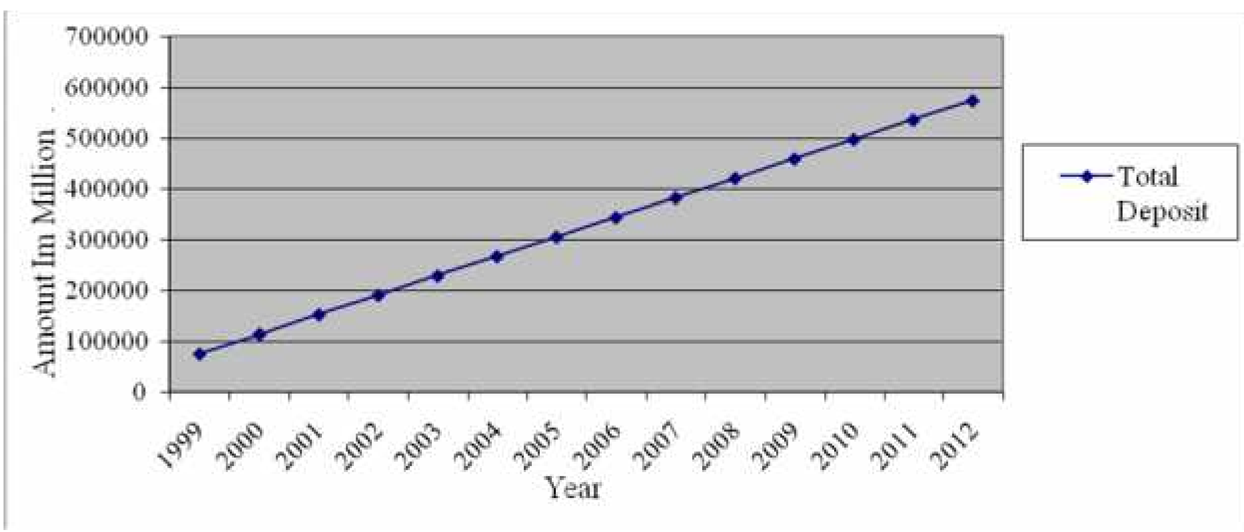
Source: Annul Report of NBL

Appendix - 2

The following graph helps to show the trend lines of total deposit for the projected three years. The equation is Yc = 37035.33 + 38401*X

Figure No 4.19

Trend line of Total Deposit



Above table and figure shows that total deposit of NBL. The trend of total deposit of NBL is in increasing trend. The rate of increment of total deposit for NBL seems to be smoothly increasing trend. The trend analysis has projected deposit amount in fiscal year FY 1999 to FY 2012 further three year.

B) Trend Analysis of total Loan and Advance:

Loan and advance is the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. Here, the trend values of Loan and advance of NBL has been calculated for further three year. The following Table shows the actual and trend values of NBL.

Let trend line be

Y = a + b x……………………. (I)

Where,

Y = dependent variable, a =Y- intercept, b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Table No 4.24

Trend Analysis of total Loan and Advance

Year(x)	Loan and Advance
1999	26245.39
2000	40813.9
2001	55382.41
2002	69950.92
2003	84519.43
2004	99087.94
2005	113656.5
2006	128225
2007	142793.5
2008	157362
2009	171930.5
2010	186499
2011	201067.5
2012	215636

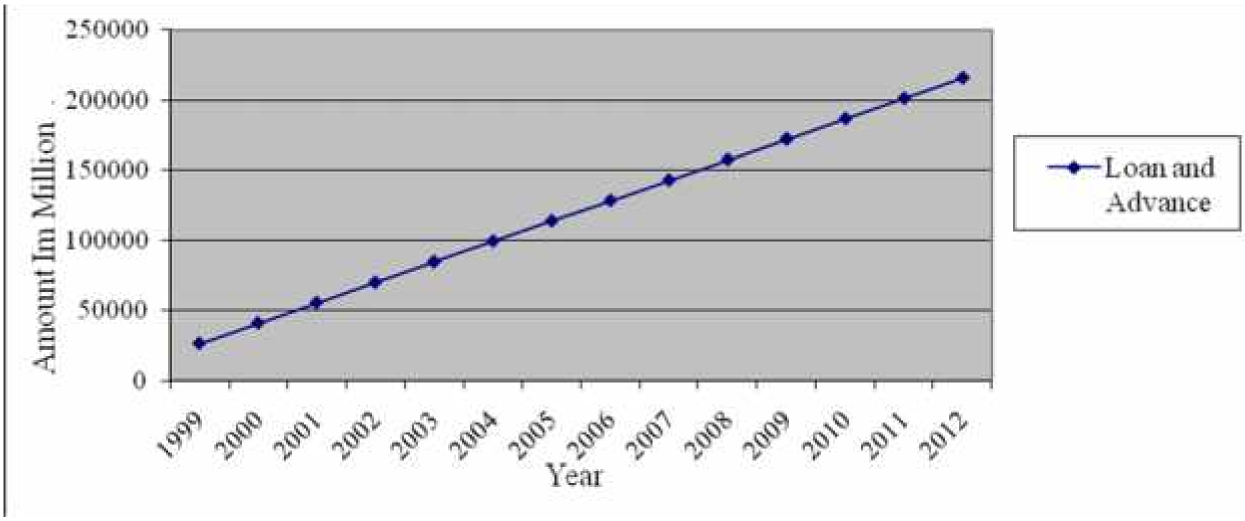
Source: Annul Report of NBL

Appendix - 3

The following graph helps to show the trend lines of Loan and advance for the projected three years. The equation is Yc = 11676.88 + 14568.51*X

Figure No 4.20

Trend line of Loan and advance



Above table and figure shows trend values of loan & advances of NBL. The trend of trend values of loan & advances of NBL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend line has been analyzed from fiscal year FY 1999 to FY 2012 further three year and projected from 2010 respectively.

C) Trend Analysis of Total Asset

Assets are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. Here, the trend value of total asset of NBL has been calculated for further seven year. The following Table shows the actual and trend values of NBL.

Let trend line be

Y = a + b x……………………. (I)

Where,

Y = dependent variable, a =Y- intercept, b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Table No 4.25

Trend Analysis of Total Asset

Year(x)	Total Assets
1999	85081.13
2000	127922.3
2001	170763.5
2002	213604.7
2003	256445.9
2004	299287.1
2005	342128.3
2006	384969.5
2007	427810.7
2008	470651.9
2009	513493.1
2010	556334.3
2011	599175.5
2012	642016.7

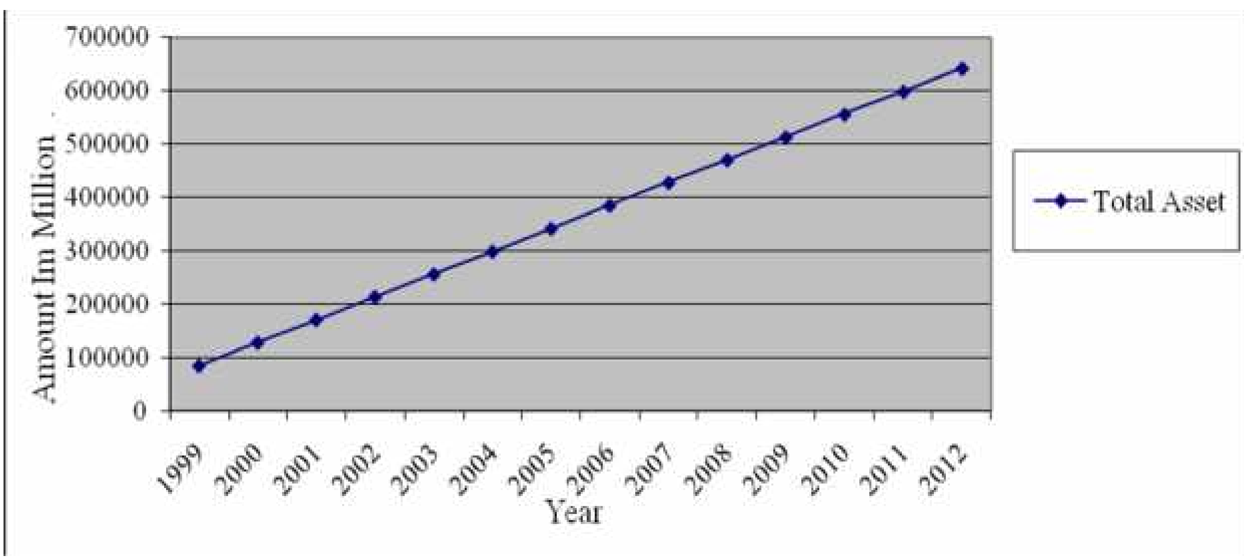
Source annual report of NBL

Appendix - 4

The following graph helps to show the trend lines of Total Asset for the projected three years. The equation is Yc = 42239.93 + 42841.2*X

Figure No 4.21

Trend Line of Total Asset



Above table and figure shows that Trends line of Total Assets of NBL. The trend of Total Assets of NBL is in increasing trend. The rate of increment of Total Assets for NBL seems to be aggressive increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected fiscal year FY 1999 to FY 2012 respectively for further three year.

D). Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of NBL and EBL for further three years

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Table No. 4.26

Trend Analysis of Total Investment

Year(x)	Total Investment
1999	21466.82
2000	31779.54
2001	42092.26
2002	52404.98
2003	62717.7
2004	73030.42
2005	83343.14
2006	93655.86
2007	103968.6
2008	114281.3
2009	124594
2010	134906.7
2011	145219.5
2012	155532.2

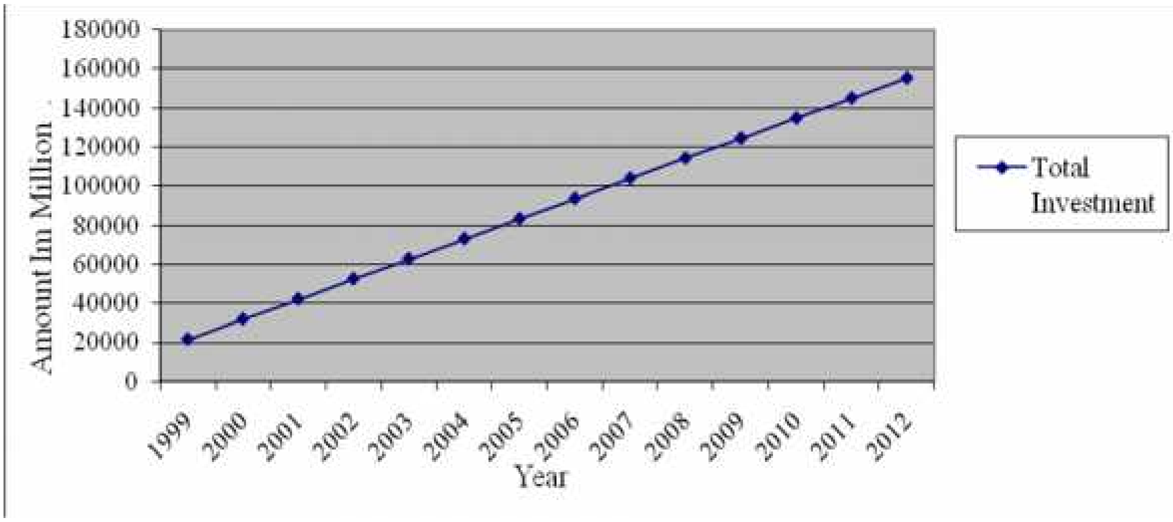
Source: Annul Report of NBL

Appendix - 5

The following graph helps to show the trend lines of Total Asset for the projected three years. The equation is Yc = 11154.1 + 10312.72 X of NBL

Figure No 4.22

Trend line of Total Investment



Above table shows the Trend ling of Total Investment of NBL. NBL has increasing trend of making investment. The rate of increment of Total investment for NBL seems to be regular increasing trend. It is better for company. This type of increment should maintain regularly. The trend analysis has projected fiscal year FY 1999 to FY 2012 respectively. Here analyze trend analysis total investment of NBL for further three years.

4.4 Major Finding of the Study

1. The Cash and bank balance to current asset is in fluctuating trend. Before introducing Financial Sector Reform Program the highest ratio is 18.78 and lowest ratio is 14.67. During the study period the highest ratio is 28.08 and lowest ratio is 8.74 after FSRP. There is more fluctuation in ratio after introducing Financial Sector Reform Program.

2. The highest investment on government securities to current assets ratio of NBL is 45.63% and lowest is 12.55%. The figure shows fluctuating trend of investment on government securities on current assets during study period. It shows highly growth ratio of investment

on government securities after FSRP. Which indicate Bank has been improving after financial sector reform.

3. The Loan and Advance to Current Asset ratio of NBL is fluctuating trend during the study period. The highest ratio is 56.99 before introducing reform program and lowest ratio is 35.282 after introducing reform program. The ratio are high in very beginning before reform program and lower in beginning time of reform process but in last year bank has doing well. Which indicates the foreign management of bank could not manage properly in very beginning but last year improving positively.

4. The analysis revels that, the ratio of Fixed Deposit to Total Deposit in decreasing trend, which indicates that customers are not interested in long term deposit. The highest ratio is 42.77% and lowest ratio is 7.94. The management has to attract fixed deposit providing costumer higher interest and other benefits.

5. The Saving Deposit on Total Deposit ratio is increasing trend which means Financial Sector Reform Program positively impact on the Saving Deposit of NBL.

6. The cash and bank Balance to total deposit ratio of NBL is in fluctuating trend. The highest ratio is 20.29 and the lowest ratio is 6.57. Both of these ratios indicate new management under the Reform Program of NBL couldn't manage its deposit properly. However if we see the ratio NBL has sound liquid fund make immediate payment to the depositor but it reduces to profit due to excess burden of deposit.

7. The investment of government securities to total deposit ratio is in fluctuating trend. The highest ratio is 33.90 after manage by foreign management and the lowest ratio is 15.19 before introducing reform program. The new management team has utilizing its deposits by investing them in more in government securities. It is also known as risk free investment.

8. High ratio of Loan and Advance indicates better mobilization but too high ratio might not be good for its liquidity point of view. The ratio of Loan and Advance to Total Deposit of NBL

is decreasing trend first then increasing trend at last. The highest ratio is 50.93 and lowest ratio is 22.76. New management team is proficient to mobilize the deposits in proper way after reform program.

9. The ratio of Loan and advance to fixed deposit of NBL is fluctuating increasing trend. The highest ratio is 4.91 and the lowest rate is 0.88. The increasing trends of ratio are indicates that after financial reform the management has utilized deposit well than before.

10. The ratio of Loan and advance to saving deposit of NBL shows decreasing trend before reform program and constant afterwards, which indicates bank is unable to mobilize its saving in proper way after Financial Sector Reform Program. New management teams only mobilize its saving deposit as moderate way.

11. The total investment to total deposit ratio of NBL is in fluctuating increasing trend. The highest ratio is 41.19 after manage by foreign management and the lowest ratio is 15.27 before introducing reform program. The ratios are higher after financial reform program. It indicates that new management team well manages its deposits by investing them in more productive sector.

12. The ratio of interest earned to total asset ratio of NBL is in fluctuating trend, which indicates the resources were mobilizing in productive sectors as moderately and the rate of income became swing after takeover of management. The highest ratio is 6.51 and lowest ratio is 3.86 percent.

13. The ratio of interest paid is in fluctuating decreasing trend which indicates the decreasing in its interest expenses of NBL. The highest ratio is 5.57 and lowest ratio is in 1.59 respectively. During the study period the lowest ratio is 1.5 which is after financial reform. The decreasing tendency of ratio indicates decreasing in its interest paid expenses. So the new management after reform works very well to reduce interest expenses than before FSRP.

14. The net profit to total asset ratio of NBL is in fluctuating. it indicates that after takeover by new management team, and the financial position of bank is recovering slowly. The highest ratio is 3.36 and lowest ratio is 0.57. After reform program the management has done well to earning profit.

15. The bank must provide loan and advance to earn profit. The ratio of net profit to loan and advance ratio of NBL is in fluctuating trend. The highest ratio is 12.375% and lowest ratio is 1.805 percent. The net profit to loan and advance ratio are not available before financial sector reform due to loss. The new management has doing better performance due to gaining profit.

16. The ratio of net profit to total deposit ratio of NBL is in fluctuating trend. The highest ratio is 3.37% and lowest ratio is 0.58 percent. The net profit to total deposit ratio are not available before financial sector reform due to loss. It means during the study period new management team has been successful to get profit form their collected Deposits.

17. The growth ratio of total deposit is in fluctuating trend during study period. The highest percent of growth ratio is 8.88% and highest reduction is 0.42%. The growth is positive beside F/Y 2006. The present condition of growth of deposit is better than before FSRP. It indicates that new management has emphasis on collecting more deposit than before FSRP.

18. The growth rate of Loan and advance of NBL is fluctuating. The highest percent of growth rate is 32.92% and highest decrease is 24.55. The present condition of growth is better than before FSRP. It indicates that management has mobilized its deposit through loan and advances.

19. The Co-efficient of Correlation between Deposit and Loan and Advance of NBL is 0.456. It shows positive relationship between these two variables. The Co-efficient of Determination (R^2) is 0.2079 which means 20.79% of variation in Loan and Advances has been explained by Deposits and least are determine by other factor. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er.

20. The Correlation between Deposit and Investment of NBL is 0.3122. It shows positive relation ship between these two variables. The coefficient of determination of NBL is 0.0.3576, It means only 35.76 percent of total investment is explained by total deposit. It refers that there is insignificant relationship between total deposit and total investment of NBL due to correlation coefficient is less than 6 P.Er. it indicate both variable moves same direction but not relativel.

21. The correlation between total deposit and total assets of NBL is 0.387. This indicates both variable move same direction but not proportionately. It shows the moderate positive correlation. The coefficient of determination of NBL is 0.1498. It means there is only 14.98 percent of total assets is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient r is very less than 6 P Er. i.e. 0.378 < 1.0375. It refers that there is insignificant relationship between total deposit and total Asset.

22. The correlation coefficient between total asset and loan and advances is 0.251. There is low positive correlation between total asset and loan and advances. This indicate variable move same direction but not consistently. The coefficient of determination is only 0.0630, which depicts that only 6.30% of loan has been explained by the total asset and least are determined by other factor. The correlation coefficient is insignificant because the correlation coefficient r is very less than. It refers that there is insignificant relationship between total Asset and loan and advance.

23. The trend of total deposit of NBL is in increasing trend. The rate of increment of total deposit for NBL seems to be smoothly increasing trend. The trend analysis has projected deposit amount in fiscal year FY 1999 to FY 2012 further three year.

24. The trend of trend values of loan & advances of NBL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend line has been analyzed for further three year.

25. The trend line of Total Assets of NBL is in increasing trend. The rate of increment of Total Assets for NBL seems to be aggressive increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected fiscal year FY 1999 to FY 2012 respectively for further three year.

26. NBL has increasing trend of making investment. The rate of increment of Total investment for NBL seems to be regular increasing trend. It is better for company. This type of increment should maintain regularly. The trend line analysis total investment of NBL for further three years.

CHAPTER - V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about credit management of selected commercial banks as described in introduction chapter. The main objective of the study is to analyze the financial sector reform a case study of Nepal Bank Limited. The specific objectives of the study are: to assess the effectiveness of Financial Sector Reform Program, to make comparative analysis of performance of Nepal Bank Limited after the initiation of Financial Sector Reform Program, to analyze the liquidity, asset and profitability ratio of NBL and offer suitable suggestions based on findings of this study. The research is based on secondary source of data. To make this study more effective, related literatures have been reviewed. This section includes conceptual review and review of related studies. In conceptual review includes concept of financial sector reform, development of bank and restructuring, factor motivating financial sector reform, financial sector reform in Nepal as well as reform and management. In the review of related studies includes financial sector reform context related national and international, unified NRB directives, review of books articles and journals and review of previous thesis as well.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. This study is mainly conducted on the basis of secondary data collected from annual reports, official report, economic journal, financial statement etc. and authorize web site of concern bank and Nepal stock exchange. The eleven years financial statement has been examined for the purpose of the study.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. Financial tools consists liquidity, assets management, profitability and growth ratio. Various statistical tools such as arithmetic mean, coefficient of correlation, trend analysis have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter. In this fifth chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for all concerned person, management of the bank and other stakeholder

Financial sector reform plays a crucial role in the economic growth of the country. Financial system is regarded as the engine of growth. It works as the lubricator for the economic machinery. Nepal's financial sector has witnessed rapid expansion over the past three decades, mainly due to the liberalized policy adopted by the government. In fact the financial sector has grown faster compared to other sectors in the process of economic liberalization. It has resulted in the increasing role of the private sector. Development of money market, capital market and insurance business has contributed towards increased economic activities. Innovative banking technology, products and services have been introduced in the financial market. Financial Sector Reform through different phases has helped the financial sector grow in many ways. This study was conducted with the objective to assess the effectiveness of the financial sector reform program, compare its costs and benefits and to make comparative analysis of performance of Nepal Bank Limited after the initiation of Financial Sector Reform Program. Out of thirty commercial banks in Nepal, Nepal Bank Limited the first bank of Nepal has been selected for the study purpose. Financial sector reform program helps to improve Nepal Bank limited. Different ratios have been used to compare the performance of the bank before and after the initiation of the reform program. The analysis of financial and operational side of the bank shows that various achievements and progress have been made under the reform program.

5.1 Conclusions

Thus this research is conducted with the major objective of highlighting financial sector reform of NBL. The observation and conclusion is Derived by analyzing. Here make analyze the financial reform in terms of liquidity, asset management, profitability and other various ratio of NBL as well as relevant financial and statistical ratios. This has helped to reach conclusion and provide workable solution for the financial reform of NBL. Following conclusion has been drawn from the study.

The Cash and bank balance to current asset is in fluctuating trend of NBL. There is more fluctuation in ratio after introducing Financial Sector Reform Program. Investment on government securities to current assets ratio of NBL is 45.63% and lowest is 12.55%. There highly growth ratio of investment on government securities after FSRP. The Loan and Advance to Current Asset ratio of NBL is changing trend. The ratio are high in very beginning before reform program and lower in beginning time of reform process but in last year bank has doing well. The ratio of fixed deposit to total deposit of NBL is decreasing trend, which indicates that customers are not interested in long term deposit but saving deposit on total deposit ratio is increasing trend which means Financial Sector Reform Program positively impact on the saving deposit of NBL. The cash and bank Balance to total deposit ratio and investment of government securities to total deposit ratio of NBL is fluctuating trend. The ratio of loan and advance to total deposit, Loan and advance to fixed deposit of NBL is decreasing trend first then increasing trend at last. The increasing trends of ratio are indicates that after financial reform the management has utilized deposit well than before. The total investment to total deposit ratio of NBL also follows same way. The ratios are higher after financial reform program, but ratio of Loan and advance to saving deposit of NBL shows decreasing trend before reform program and constant afterwards.

The ratio of interest earned to total asset ratio of NBL is in fluctuating. The ratio of interest paid is in fluctuating decreasing trend which indicates the decreasing in its interest expenses of NBL. So the new management after reform works very well to reduce interest expenses than before FSRP. The net profit to total asset ratio of NBL indicates that after takeover by new management team, and the financial position of bank is recovering slowly. The ratio of net profit to loan and advance ratio of NBL is in changeable trend. The new management has doing better performance due to gaining profit and same condition follow in the case of net profit to total deposit. The growth ratio of total deposit and Loan and advance of NBL is fluctuating. The present condition of growth of deposit and loan & advance are better than before FSRP. It indicates that management has mobilized its deposit through loan and advances.

The Co-efficient of Correlation between Deposit and Loan and Advance of NBL is positive by 0.456. The relation is insignificant. The Correlation between Deposit and Investment of NBL is positive relationship. The coefficient of determination of NBL is 0.0.3576, It means only 35.76 percent of total investment is explained by total deposit but relationship is insignificant. Similarly, correlation between total deposit and total assets of NBL is positive correlation. There is only 14.98 percent of total assets is explained by total deposit. The correlation coefficient is insignificant. The correlation between total asset and loan and advances is low positive correlation. This indicate variable move same direction but not consistently. There is insignificant relationship between total Asset and loan and advance.

The trend of total deposit of NBL is in increasing trend. The rate of increment of total deposit for NBL seems to be smoothly increasing trend. The trend of trend values of loan & advances of NBL is also increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend line of Total Assets of NBL is in increasing. The rate of increment of Total Assets for NBL seems to be aggressive increasing trend. Similarly, NBL has increasing trend of making investment. The rate of increment of Total investment for NBL seems to be regular increasing trend. It is better for company. This type of increment should maintain regularly.

Though Nepal initiated banking sector reforms under the Financial Sector Reform Program back in late 1980's with donor assistance and initiative, the improvements was so less. After the restoration of democracy in 1990's efforts were launched for reforming the financial sector and harmonizing it with liberalization policy adopted by the government. In this way NBL has increasing performance gradually. In this way conclusion are drawn that after financial sector reform program in present Nepal Bank has done well and better than before. Above drawn assumption represent more precisely in this regards.

5.3 Recommendations

Different analysis gives different recommendation and suggestion to the bank. On the basis of above analysis and descriptions the recommendations have been made for this origination. The following recommendations have been drawn for further improvement efficiency.

1. From the study it is found under the comprehensive financial Sector Reform Program, the management of the NBL was handed over to the foreign management team. Restructuring of NBL is one of the priority scopes of the program. In light of the performance of this program several changes can be found in this bank's financial and managerial aspects
2. The liquidity position of the bank can be effected by external as well as internal factors. Excess liquidity is another problem of the bank. High portion of total deposit is in the cash and bank balance. The liquidity should be decreased up to 10% of the total deposit for prompt demand for depositor.
3. The interest earning of the bank is slow but increasing and interest paying is decreasing condition is good for bank and but emphasis on more than before. Interest expenses still comprise a major portion of expenses. The bank should put efforts to decrease interest bearing deposits and take initiatives to recover interests on credit and investment in time.
4. The bank should analyze risk and return before providing loans to the customers. Custom of providing loans on the political pressure should be discouraged. The management should show strong will to penalize the willful defaulters. The question that still arises is whether the bank's ability to appraise credit risk and take prompt corrective action in the case of problem accounts has improved sufficiently
5. High portion of non-performing assets is a primary reason for the negative net worth of the NBL. So the focus should be given to decrease the non-performing assets. To do this all the non-performing loans should be recovered. The new management should show strong will to penalize the willful defaulters. Government should support the bank in its endeavor to recover all bad debts.
6. To get success in competitive banking environment, deposit money must be utilized as loan and advances. So NBL needs to increase its deposit mobilization capacities and find out more profitable sector in order to capture the market share.
7. Training and Development aims to developing variety of competences of employees and developing a culture in the organization to utilize these competencies and contribute the organizational growth. In the same way new management is organizing "Manager's Training" to increase capability to meet the challenges and carry out their

responsibilities. The banks should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level, they should remain consistently vigilant in enhancing their more and motivation.

8. The overstaffing was leading the institution towards the bankruptcy due to the unbearable operating expenses. Since staffing pattern is in declining order through VRS, bank could be able to earn profit in increasing order after takeover of management. After Financial Sector Reform Program, NBL has announced Voluntary Retirement Scheme 3 times and start regular basis Recruitment, Selection, Training & Staffing standard created.
9. In competitive market Bank should make more energetic and competitive by hiring new staff qualification with Master Degree" in Commerce or Business Administration eligible for Officer Level. It has hired professional Chartered Accountants in sufficient number to improve its account manual as well as IT engineers for computerizing some of its branches. It indicates new bloods were injected and qualified manpower would enter for betterment of NBL.
10. Growing competition in the banking sector, the bank should be customer oriented. So it should always prepare to cope in changing environment of the banking business.
11. The shares of NBL has delisted from NEPSE, due to negative net worth, earning per share and other documentation error of the bank. So it recommended to improve in above mention heading and makes listed its share in stock exchange.

Appendix - 1

Nepal Bank Limited (NBL)

As there have been number banks established, the research has taken into consideration of Nepal Bank linited. Therefore short glimpses of these commercial banks are given as: It is the first his majesty King Tribhuvan inauguarted Nepal Baank Linited on Kartik 30, 1994 Bikram Sambat. This marked the beginning of an era of formal banking in Nepal. Until then all monetary tractions were carried out by private dealers and ttrading center. Then Prime Minister Maharaja juddha shumsher J.R.B speaking on the occasion with the kind permission of His Majesty the king stated this work, which is being done in the larger interest of the nation, is a great moment for me. Until today a bank could not be opened in Nepal. Therefore this banks, which is being established under the of Nepal Bank Limited to fill that, need and to be inaugurated by His Majesty the king is a moment of great joy and happiness.

The Banks main objective is to render service to the people whether rich or poor and to contribution to the nation's development. In that era, very few understood or had confidence in this new concept of formal banking. Rising equity shares were not easy and mobilization of deposits even more difficult. This was evident when the bank floated equity shares worth NRS 2500000 but was successful only in raising NRS 842000.

In the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing service to the people and for the betterment of the country, this law in hereby promulgated for the establishment of the bank and its operation. The total deposit for the first year was NRS 1702025 where current deposit was about NRS 1298898 fixed was about NRS 388964 and saving was NRS 14163. Loan Disbursed and Outstaning At The End of The First Year was Nrs 1985000.

From the very conception and its creation, Nepal Bank Ltd, was as joint venture between the government and the private sector. Out 2500 equity shares of NRS 100 face value, 40% was subscribed by the government and balanced i.e. 60% was offered for the sale to private sector.

There were only 10 shareholders when bank first started. The oldest bank of Nepal, Nepal Bank Limited was established on 1994 B.S Karitk 30, Monday (November 15, 1937) NBL'S authorized capital was Rs 10 million and issued capital Rs 2.5 million of which paid-up capital was Rs 842 thousand with bank of Nepal to establish under the principal of Joint venture (Joint venture between govt & general Public).

Nepal Bank Limited has the following objectives

Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country. Provide competitive and customer oriented banking services to all customers through staff. Reclaim leadership within the national financial community.

Table: 1.1

Shareholding Composition (Share Owership)

S.N	Ownership	Percent
1	Government of Nepal	40.49
2	'A' Class Financial Institution	4.92
3	NRB Licensed Financial Institution	3.42
4	Other Institutions	0.52
5	General Public	49.94
6	Others	0.71
	Total	100

The bank has been providing banking through its branch offices in the different geographical locations of the country. There was a vast expansion of NBL during its 25th year of inception to 50th year.

Region wise branches	No. of branches
Kathmandu Region	25
Biratnagar Region	26
Birgunj Region	16
Pokhara Region	16
Nepalgunj Region	16
Total no. of branches	**99**

Source: (www.nepalbank.com.np)

In consideration of overstaffing, bank decided to reduce some number of staff and started to decrease through the Voluntary Retirement Scheme (VRS). Through the VRS program, bank has decreased the number of staff to 2932 up to August 2008.

However, owing to the traditional bureaucratic pattern, undue political interference and improper personnel management this institution has gone worse over some years. In view of this critical situation NRB has taken over it for sake of improving its financial managerial and human resource condition. In this course management of the NBL has been handed over to foreign management team. ICC Consulting bank group of Scotland was selected after evaluating the technical and financial proposals submitted by different applicants in June 2002 for the management of NBL. In the meantime, the NBL, as a problematic bank was taken over by the NRB on March 8, 2002 to facilitate the restructuring program. The Board of Director of NBL was suspended and a new management committee was formed in NBL, exercising the power vested in section 86 of NRB act, 2002.Under the Chief Executive Officer ship of Crage Mc Allister of ICC Bank, new management was formed.

“Upon completion of two years, it extended the contract for another one year till July 21, 2005 and again for two months up to September 21, 2005 during the course of negotiation for further extension. The entire management of the NBL will be in the hands of central bank till March 2009. Mc.Allister was the CEO of the bank from July 2002 to July 2006. John E Fitzgerald, who was appointed as the successor to Mc Allister resigned from his post earlier citing non co-operation from NRB, the central bank, on NBL’s operation.” Now, the bank is under the control of Central Bank of Nepal, Nepal Rastra

Composition of Board of Directors

The bank is under the control of Central Bank of Nepal, Nepal Rastra Bank (NRB). NRB has appointed a seven members management committee, This management committee performs as the board of director of the bank.

Management Term

The bank is running under the leadership of Nepal Rastra Bank appointed management under the convenorship of Dr, Binod Atreya, Director of NRB other members of the team are Mr. Laxmi Prapanna Niraula, Director, NRB and Mr. Numanath Poduel, Action Deputy Director of NRB.

Consumer Loan

Bank provides, at most competitive terms, various loan facilities such as loan against fixed deposits / government bonds, loan against gold and silver, loan against stable future income etc that help to manage personal needs of the customers.

Personal Loan

- Provided to fulfill the personal needs of an induvidual
- Provided against the land and building

Types

- Personal Term Loan
- Personal Overdraft

Eligibility

- Borrower must have regular and stable source of income
- Borrower must be Nepalese citizen
- The collateral must be accessible by at least eight feet wide road
- Borrower must have experience of at least 3 years

The credit manager of bank must try to understand the needs wants and demand. Needs are the basic human requirements. These needs become wants when directed to specific objective that might satisfy the need, Credit and marketing department must measure not only how many people want their schemes but also how many people want to go for the process. Credit personal loan activities should be carried out under well thought our philosophy of efficiently, effectiveness and social responsibility. Therefore with above consideration banks offer different schemes to the consumer to the consumer to meet the requirements and needs of customer.

Appendix - 2

Calculation of Nepal Bank Limited

Year(x)	Total deposit (Y)	X=x-2004	X2	XY
1999	33188.5	-5	25	829712.5
2000	35768.3	-4	16	572292.3
2001	35618	-3	9	320562
2002	34264.9	-2	4	137059.4
2003	35014	-1	1	35014
2004	35735	0	0	0
2005	35934	1	1	35934
2006	35829	2	4	143316
2007	39014	3	9	351126
2008	41829	4	16	669264
2009	45194	5	25	1129850
Tot N = 11	ΣY = 407388.6	0	ΣX2 = 110	ΣXY = 4224130

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX2}$$

a = 37035.33

b = 38401.18

Where as

Yc = 37035.33 + 38401*X of NBL

Appendix - 3

Calculation of Nepal Bank Limited

Year(x)	Total Asset (Y)	X=x-2004	X2	XY
1999	39948.6	-5	25	998713.8
2000	43718	-4	16	699488.2
2001	45599.1	-3	9	410392.2
2002	39559.8	-2	4	158239.2
2003	39816.5	-1	1	39816.49
2004	44161.9	0	0	0
2005	47045.2	1	1	47045.15
2006	35918.9	2	4	143675.6
2007	39258.8	3	9	353329.1
2008	42053.4	4	16	672855
2009	47559.1	5	25	1188978
Tot N = 11	ΣY = 464639.3	0	ΣX2 = 110	ΣXY = 4712532

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX2}$

a = 42239.93

b = 42841.2

Where as

Yc = 42239.93 + 42841.2*X of NBL

Appendix - 4

Calculation of Nepal Bank Limited

Year(x)	Loan and Advance (Y)	X=x-2004	X2	XY
1999	16903.6	-5	25	422590.8
2000	14702.3	-4	16	235236.8
2001	11450.3	-3	9	103052.7
2002	8638.44	-2	4	34553.76
2003	7971	-1	1	7971
2004	8882	0	0	0
2005	8219	1	1	8219
2006	9756	2	4	39024
2007	11058	3	9	99522
2008	13251	4	16	212016
2009	17614	5	25	440350
Tot N = 11	ΣY = 128445.7	0	ΣX2 = 110	ΣXY = 1602536

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX2}$

a = 11676.88

b = 14568.51

Where as

Yc = 11676.88 + 14568.51*X of NBL

Appendix – 5

Calculation of Nepal Bank Limited

Year(x)	Total Investment (Y)	X=x-2004	X2	XY
1999	5124.56	-5	25	128114
2000	5462.07	-4	16	87393.12
2001	6776.33	-3	9	60986.97
2002	7151.38	-2	4	28605.52
2003	12447.7	-1	1	12447.7
2004	11004.8	0	0	0
2005	14199.2	1	1	14199.22
2006	14490	2	4	57960
2007	16072	3	9	144648
2008	16570	4	16	265120
2009	13397	5	25	334925
Tot N = 11	ΣY = 122695.1	0	ΣX2 = 110	ΣXY = 1134400

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX2}$

a = 11154.1

b = 10312.72

Where as

Yc = 11154.1 + 10312.72 X of NBL

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