Chapter – I
INTRODUCTION

1.1 Background of the study

Financial institution is an important branch of economy. It is one of the king of business world and promoter of economic activities. Economic is dominated by the ups and downs of financial activities, which play vital role for the development of the economy. Banks and financial institutions play vital role in economic growth. Economic development demands transformation of saving or resources in to actual investment. Capital formation is one of the important factors in economic development. A key factor of the economic development is the mobilization of the impossible only when competitive banking and financial services reach every nook and corners of the country. Most of the people earn and spend money. Rarely, their current money income exactly balances with their consumption. These imbalances will lead either to borrow or to save. Most people like to save some money when they have a chance. They may save money if they have no urgent need for money at that time and deposit it in bank and other who need money, borrow it from bank.

Banks are the creator and operator of money. In fact they are the backbone of economic development. The primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being listed among least development country is trying to embark up on the path of economic development by economic growth rate and developing all sectors of economy. Even though the process of economic development depends upon various factors, the economists are now convinced that the capital formation and its proper utilization play a paramount role for rapid economic development of resources. “It has widely been accepted that the economic activities of a country are greatly influenced by the development of a sound banking system. There is no step in business where banks have no influence. Today’s so called development with the help of their banking system.” (Encyclopedia Americana, 1976:p.748)

The most important feature of commercial bank is the work of financial intermediation between the final purpose of savers and borrowers. It produces its profit principally from the different of interest on deposits and lending. Commercial banks have become the hearts of financial system as they hold the deposit of millions of people, government and business units and make funds available through their lending, investing and to lay out money for profit to individual persons, business organization, government and use money that belongs to somebody else, and return it to bank at a later time with including interest.

Extremely most necessity functions of commercial banks are deposit of money and borrowing or lending of money. “The financial institution in Nepal refers to any institutions established with the objectives of providing loan to agriculture, co-operative, industry or any other specific economic sector or accepting deposits from public. The term also refers to any other institution called financial institution by HMG Nepal by publishing a notice in the gazette. However the tern does not signify Commercial Bank.” Financial companies are those mediators, which help to collect small saving and mobilize savings in various tasks like, hire purchase, purchase of land, housing loan etc. between the person who has got saving and investors and big financial companies and the person or organizations which need the loan of small amount. (NRB Act, 2012: no.2.7a)

Hence, lending is the act of giving loan. Bank provides the loan someone on condition that they pay it back over a period of time and pay interest on it. The efficiency of bank lies in how it multiplies the deposits of depositors. Lending should be accompanied by some basic policies and practices. Safety of funds, liquidity of funds, purpose of loan, profitability, spread of loan, interest rate, discount rate, reserve requirement, composition of deposits, margin requirement etc. are some of the principle of that a bank should follow while granting a loan. Besides these, the character of the borrower, capacity of the borrower, probability of utilization of fund, the percentage of borrower’s stake in the business etc. are the basic elements which measures the quality of the borrower and ultimately the quality of the loan. However any change in above variables or lending policy is always governed by the principles of liquidity versus profitability of the bank. As the lending is very risk aspect, a sound lending policy must be adopted by the bank.

The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then they provide this money to those who are in need of money by granting overdraft to fixed loan or by discounting bill of exchange or promissory notes. Thus, the primary function of commercial bank is that of broker and dealer in money. By discharging this function efficiently, a commercial banker render a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development. (Shekhar and Shekhar, 2000: p.4)

1.1.1 Brief History of the Evolution of Banking

History shows that moneylender, goldsmiths and the merchants as the pioneers of modern banking system. Customers used to deposit gold and silver with the goldsmiths for safekeeping and were given deposit receipts verifying their ownership of the gold deposited with the goldsmith. Those receipts could be used as money because they were backed by gold. But the goldsmiths soon discovered that they could take a chance and issue additional receipts against the gold to other people who need to borrow money. This work has long as the original depositors didn't withdraw all their gold and silver at one time. Hence, the amount of receipts or claims on the gold frequently exceeded the actual amount of the gold and the idea that bankers could create money was born.

The first public banking institution "The Bank of Venice" was established in 1157 AD. Originally it wasn't a banking modern sense being simply an office for the transfer of public debt. Than after, Bank of Barcelona and Bank of Geneva were established in 1402 AD and 1407 AD respectively. Bank of Barcelona in Spain was known as the first bank, which offered most of banking function used today. The famous bank 'Bank of Amsterdam' opened in 1609 AD has occupied a very important place in the 17th century. This bank was the foundation for modern bank of deposit and transaction. The most of the European banks now in existence were found on the model of the Bank of Amsterdam. A well-organized commercial bank was developed on England on 27th July 1694 called 'The Bank of England' as a private joint stock association with a capital of 1.2 million. The banking act of 1833 provided freedom for the establishment of joint stock bank. Then the leading countries of the world develop the modern joint stock commercial banking system. The 20th century observed development of various banking institutions highly specialized countries like UK, USA and other. (Sigdel, 2009: p.3)

1.1.2 Origin of Banking in Nepal

In Nepal, the origin of commercial banking activities can be traced to ancient Nepal. The first recorded borrowings were in 723 AD when King Guna Kam Dev borrowed money to rebuild Kathmandu. Then in 14th Century, in the prosperous age of Mall King Jayasthiti Malla, people were classified into 64 categories according to their occupations. One of them was 'Tanka Dhari' whose main occupation was the lending of money. The King used to borrow money for financing the wars, but the interest rate had not yet been fixed. Several Kings and Prime Ministers tried to solve that problem by trying to regulate commercial transaction and fixed property, but all were in vain. However, the institutional form of commercial banking activities has been performed at first instance by 'Tejarath Adda' during the reign of Rannodip Rana, Prime Minister of Nepal. The Adda was initiated to provide credit to the public at lower rate of interest of 5% against gold and silver. The areas of its functioning were further extended to some urban areas of Terai region. Later with the growing necessity of the commercial bank in the world, the Nepal Bank Limited, the first commercial bank of Nepal was established in 1937 AD. To help government in the formulation of monetary policy and for the institutional development of banking sector, Nepal Rastra Bank was established in 1956 AD. Similarly Rastriya Banijya Bank was established in the year 1965 AD with 100% government ownership as the second commercial bank of Nepal. Then, in 1956 AD Nepal Rastra Bank was established as a central bank as a regulatory body. Likewise government established Nepal Industrial Development Corporation (NIDC) to facilitate the industrial sector. Later on, other banks were established to promote financial transactions. Agriculture Development Bank of Nepal was established in1967 AD in Government sector for providing financial assistance in agriculture sector. Then in 1984 AD, Nepal Arab Bank Ltd. (Currently NABIL) was established as the first joint venture bank and started its operation. Now there are several commercial banks, finance companies, development banks, co-operatives etc are operated in Nepalese market.

The main focus of the study will be on the deposit collection and investment pattern of collected resources. Investment of the collected deposit is the major task of any bank because with out mobilization of resources, banks can't fulfill their aim of providing well banking services to the people, obviously country as a whole. (Shrestha, 2009: p.4)

1.1.3 Profile of Nabil Bank Limited:

The arrival of Nabil Bank in Nepal on the 12th of July 1984 through a joint venture with Dubai Bank Ltd. under a Technical Service Agreement (TSA) marks a new dawn in the Nepalese banking industry. What is more admirable is with the opening of then Nepal Arab Bank Ltd, Customer Service or marketing took a U-turn. That in substance accelerated the evolution in banking products and services thereafter in Nepal. The bank commenced with a team of about 50 staff members and Rs. 28 million as capital.

Today, Nabil entering the 25th year of operation has proved that it has through its past progressions and through different phases in the banking industry achieved two things Nabil can take pride in: first it has a large clientele base and supportive stakeholders, secondly, it has succeeded in positioning itself robustly in the market for which the credit goes to Team Nabil.

Today the bank has established itself as the Bank of 1st Choice. Nabil are the largest bank in terns of the network and number of branches amongst the commercial banks with a wide network of ATMs and offerings including a range of diversified service products. Nabil have a number of domains in its precedence of excellence that mirrors where Nabil stand in the market. In this span of 24 years of banking operation Nabil has already distributed rich cash dividends, spectacular returns on asset and equity even during the most trying times. All of which endorses the strength and drive with which Nabil proceeds.

Nabil, in order to make its presence felt in every walk of life and serve people across all social strata and segments, have expanded its network by adding 9 more branches that total to 28 points of representation in the nation. Nabil have diversified its realms of business in the interests of its customers and are also being inspired by the noble cause of adding value to economic development. Nabil have multiple sectors in focus to serve host of entrepreneurs as its new strategies are to expand dynamically, exploring new avenues and opportunities. Nabil thus have packaged its service products into well a diversified range consisting of corporate banking, trade finance, along with consumer and retail banking services specifically, card products, microfinance and the like to reach out to the masses.

Nabil Bank is one of the leading joint venture banks operating in Nepal. It is the pioneer to initiate customer focused and relationship marketing banking in Nepal. The UK based publication of Financial Times, London magazine, 'The Banker' has awarded NABIL bank limited, The " Bank of the Year 2004" award mainly on ground of banking operations, Quantity and Quality, Human Resource Management, Quality of Asset and Profitability .The statement of the Nabil Bank Limited is "Your Bank at Your Service." (Annual Report, 2008: p.3)

1.2 Statement of the Problem:

Lending determines the future of banks. It is very sensitive subject that what sort of lending policy a bank should make. A lending policy is a written document that bank designs to analyze, administer, monitor, recover and handle the lending operations. Every bank formulates its own lending policy but a strong, stable and appropriate lending practice has not been followed by the banks.

Nabil Bank Limited has been facing several challenges. Some of them arising due to confused policies and default of the borrower. Due to throat cut competition of financial environment, Nabil seems to be ready to grant much more loan, advance and other facilities to its clients against the policy. Nepal Rastra Bank ha played important role to make Nabil lend its fund in non-profitable sectors too. NRB has imposed many rules and regulation so that Nabil have sufficient liquidity and security. Also causes of the global financial crisis 2008 were affecting by the lending policy of Nabil bank limited. Therefore, this study will deal with the following issues:

1) What are the profitability positions of the bank?
2) How far Nabil is following the directives issued by NRB?
3) What are the lending compositions of the bank?
4) Whether the lending policy adopted by the bank concede with the lending practices or not?

1.3 Objectives of the Study:

The main objective of the study is to analyses about the lending policy of Nabil Bank Limited. Thus the current study mainly purpose at pointing causes of depression or crisis of bank. Other specified objectives of the study are as follows:

1) To analyze the profitability of the bank in the study period.
2) To verify the NRB directives toward Nabil Bank Limited.
3) To analyze the lending composition and its effect.
4) To analyze the trend values of different variables related to investment.

1.4 Significance of the Study:

Research itself has its own importance because it aims to gain knowledge and to add the new literature in existing field. The significance of this study lies mainly in filling a research gap on the study of lending policy of commercial bank with the respect to Nabil Bank Limited. This study will help to reveal the financial position of the bank and it occupies an important role in the series of the studies of commercial banks. There are some researchers in Nabil Bank Limited on other topic. Lending policy is one of the essential functions where the whole banking business rested upon. A small numbers of books dealing with aspects are found but not sufficient. So that will select this topic and done there work on various aspects of Nabil. A detailed study of past financial statements and related data provides valuable clues of determining the liability of historical business decisions and working results. If favorable trends in financial planning and operational efficiency are noticeable in the past accounting periods, a banker will seek firm assurances that these trends will be maintained in the future. This is where the need for projected financial statements arises. A banker lends on the firm assurance of continued future growth and productivity. This study may be important for researchers, scholars, investors, banking sector, students, government and other parties.

1.5 Limitation of the Study:

There are some limitations in this study. This study may not be able to expose every aspects of the topic. The study has following limitations:

- This is basically depended on secondary data collection from the banks financial statements, publications and journals.
- Data of last five years only has taken into consideration to conduct the study.
- Deposit and credits are inter-related. Credit alone is not sufficient to describe lending aspect. Therefore attention must also give on deposit aspect.

1.6 Research Methodology:

The whole study will be divided into five chapter introductions, review of literature, research methodology, data analysis and presentation and summary, conclusion and recommendations.

- Introduction is presented in the first chapter. This chapter deals with general background, statement of problem, objective of the study, significance of the study, limitation of the study, research methodology and chapter plan.
- Second chapter deals with the Review of Literature. It contained conceptual framework and review of related study, Journals, books, Articles and unpublished dissertations related to the study have been reviewed under this topic.
- The third chapter is related to the research methodology, which presents research design, population and sample, nature and source of data, data collection procedures and techniques, data analysis tools and limitations of the methodology.

- Chapter fourth deals with presentation and analysis of data through a definite course of research methodology. This chapter is to analysis different financial ratios and statistical analysis related to study.

- The final chapter is giving summary, conclusions and recommendation that explain the major findings and some solid suggestions for improvement to the concerned institution.

Chapter – II
REVIEW OF LITERATURE

2.1 Conceptual Framework

This chapter includes the review of previous studies and conceptual framework for the related studies. To present the real framework of the study mere analysis is not enough. Review of some related materials should be deals with to give the research a clear vision. Past study and knowledge provides foundation to the present study. This helps the research to explore what kind of research studies have already been conducted in his or her field of study and thus helps to reduce the probability of duplication.

2.1.1 Guiding Principles of lending Policy

The lending business is very risky. Therefore, commercial banks should adopt sound policy regarding loans. The loans which are provided by the commercial banks involve several considerations such as length of the time, types of borrowers, kinds of security etc. Generally a sound lending policy of bank is guided by three major principles. They are as following.

a. Safety or security

b. Liquidity

c. Profitability

a. Safety or Security

The first principle of lending is safety or security. When commercial bank is going to lend some money to the borrower, direct attention must be given toward the security of the loan. For the safety or security of loan, bank examines the economic condition and capability of the party. Moreover, the bank demands for collaterals. Gold and silvers are readily acceptable collaterals. However, other goods are also taken as collaterals by the Commercial Banks. For such goods, the bank studies the prevailing market price first, then only the bank grants loan to the lender. To minimize risk, commercial bank advances of market value of the security. The value, which is reduced by the bank for the purpose of safety is called margin. Nepal Rastra Bank fixes the margin rates according to the needs of the country. The margin rate depends on the nature and durability of goods and capacity and behavior of the party.

b. Liquidity

Liquidity generally means capacity to produce cash on demand for deposits. Bank provides loan from the deposit of depositors. The bank should return back depositor's money promptly if they demand. So, the bank has to maintain the capacity for payment as the demand of depositors. Over liquidity causes the lack of proper lending opportunities. On the contrary, under liquidity causes the less faith by depositors and shareholders upon the bank. So the bank should maintain proper degree of liquidity. Generally, liquidity of a bank is measured by the ratio of loan to total deposits of the bank. The higher is the ratio; the lower is the liquidity and vice-versa.

c. Profitability

Only safety and liquidity are not sufficient for a sound and viable lending policy of a bank. Profitability is also equally important. Therefore the bank should give attention to profitability too. The profit of a bank partially depends upon the volume of investment, the higher the volume of investment the greater will be the rate of profit. The bank earns profit from the difference of interest rates between lending and deposits. Profit is necessary to sustain the bank. In some cases of NRB directives, the CBs must invest their money in the sector even there is no profit.

Besides these, the bank should also consider other principles while lending.

- Principle of diversification
- Principle of marketability
- Principle of price stability
- Principle of tax facility
- Principle of national interest

2.1.2 Types of Loan

Banks make a wide variety of loans to a wide variety of customers for many different purposes. For customers, the cause of loan purchasing may be investment in business, purchasing automobiles, taking dream reactions, pursuing college educations, constructing home and office building etc. On the basis of loan purposes, bank loans can be divided into seven broad categories: (Singh, 2063: p.192)

- **Real Estate Loan**

  It is the credit extended to purchase or improve real property, such as land buildings. Such loans are secured by real property- land, buildings and other structure. Real estate loan include long-term loan to finance the purchase of farmland, houses, apartments, commercial structure and foreign properties.

- **Financial Institution Loan**

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

- **Agricultural Loans**

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

- **Commercial and Industrial Loan**

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

- **Individual Loans**

  This is the loans extended to private individuals for private and households' purposes. Generally, individual loans are extended to finance the purchase of automobiles, appliances (TV, computer set, washing machine, refrigerator etc.) Customer can also use individual loans for medical care personal expenses.

- **Miscellaneous Loan**

  All those not classified above are included in this category. Higher education loan, marriage loan, dreams tour loan can be included in miscellaneous loans.

- **Lease Financing Receivables**

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

2.1.3 Elements of Effective Lending Policy

Lending policy should be effective for the well management of loan. Without the effective lending policy, loan management of a bank can not be regarded as successful. For effective lending policy, the following elements should be contained in the lending policy as suggested by the Federal Deposit Insurance Corporation of United States: (Singh, 2063: p.119)

1. Characteristics of a Good Loan Portfolio

The loan should specify the characteristics of a good loan portfolio for the bank in terms of types, maturities, sizes and quality of loans.

2. Specification of lending Authority

The specifications of the lending authority should be given to each loan officer and loan committee. This helps to measure the maximum amount and types of loan that each person and committee can approve.

3. Line of Responsibility

There should be the lines of responsibility in making assignment and reporting information within the loan department.

4. Operating Procedures

Appropriate operating procedures should be defined clearly for soliciting, reviewing, evaluating and making decisions on customer loan applications.

5. Documentation

All documents required for loan should be determined clearly. That is to accompany each loan application and bank's credit file. Basically, financial statement, security and agreements are the main documents to be attached with loan file.

6. Line of Authority to Review Credit Files

There should be clear line of authority within the bank, detailing who is responsible for maintaining and reviewing the bank's credit files.

7. Collateral Guidelines

All essential guidelines should be established for taking, evaluating and perfecting loan collateral.

8. Loan Procedures

There should be perfect policies and procedures for setting loan interest rates and fees and the terms for repayment of loans.

9. Quality Standards

There should be a statement of quality standards application to all loans.

10. Loan Limit

The preferred upper limit for total loans outstanding should be determined in the loan management. It specifics the maximum ratio of total loans to total assets allowed.

11. Loan Area

A description of the bank's principal trade area should be made in the loan management, which most loans should come from.

12. Solving Loan Problems

There should be a discussion of the preferred procedures for detecting, analyzing and working out problem loan situations.

Bank lending policy must be flexible due to continuing changes in economic conditions and regulation. Any exception to the bank's lending policy should be fully documented and the reasons why a variance from the lending policy was permitted should be listed in the loan file. The violation of a bank's lending policy should be infrequent events.

2.1.4 Criteria for Providing Loan

Set-up of well established criteria for disbursing advances and loan is the most essential to survive, thrive and enlargement of the banks. Loan should not be allowed to all demanding parties. Actions and inactions taken in haunch to flow loan and advances without systematic, scientific and thorough study cum analysis may lead to ditch. Ergo well defined and setup criteria to grant loan must be visible to the personnel. (Klisee, 1978)

1. Personal Character

Intensive analysis of loan demander is essential to determine loan disbursement policy. Persons' character must be studied to know the intention to pay the loan. Their practice to repay loan, credit worthiness, habit to use acquired fund, past trend regarding the receipt and payment of loan are to be reviewed. Dubious person's proposal should not be accepted.

2. Capacity/Competency

Whether the person is capable in making contract according to contract Act 2056 or not should be checked out at first considering the patent and expertise of persons in concerned field, decision about the flow of loan is to be taken.

3. Capital

Examination of loan demander is appropriate to match his demand with his status and business. This ultimately helps to know the amount of money he needs as investment. Indeed, their financial feasibility should be stronger than their demand to get the faith of the lenders.

4. Security

Priority should be given to readily marketable and handy collateral. Decision about the flow of loan is made considering nature of business and types of securities proposed. Accept bans having securities above and near about and denies the loan proposal containing inferior quality security.

5. Credit Information

It is appropriate to get the information relating with loan proponent form the persons or businessmen working together in the concerned sectors. Credit information denotes knowing whether he is black listed or not, his capacity and his demand etc. If information obtained is satisfactory, the proposal will be accepted and will be rejected in reverse plight.

6. External Environment

External environment of industry of business shown by loan proponent needs to be evaluated on the eve of providing loan to know the facts about use of right business. It is pivotal to evaluate external environment of business where business origins, thrives and survives since modification of external environment is almost impossible in accordance with own motto and plight.

2.1.5Loan Approval Process

Loan is approved by the approving authority only after being convinced that the loan will be repaid together with interest. There are many process involved to approve the loans which have been appended below. (Dahal and Dahal, 2002: p.212)

1. Application

A borrower is normally required to submit an application to the bank along with required documents: project proposal, historical financial statements and documents pertaining to company's legal existence.

2. Conducting the Interview

The documents submitted give much information about the borrower, but collecting information by interviewing the borrower is of great importance. Normally, such an interview takes place at the bank premise. Many pertinent questions as possible should be asked during the initial interview. The questions should be covered following contains:

- Loan Purpose
- Loan Amount
- Repayment Sources
- Repayment schedule
- History of the business
- Banking relationship

3. The Credit Analysis

There is a practice of analyzing five Cs of credit by the financial institutions. Except them historical analysis also conduct in credit analysis. These five Cs are considered as below.

- Character: It refers to the personal traits ethics, honesty and integrity of borrowers which is very important for lending decision.
- Capacity : It is being used in two sense
  - Legal capacity to borrow money
  - Capacity to generate enough income to repay loan or through liquidation of assets.
- Condition: It refers to the general economic condition beyond the control of the borrower that affects the business of the borrower.
- Collateral: Loan is given if the banker is satisfied that the borrower can repay money from the cash flow generated from operating activities. However, the bank wants to ensure that their loan is repaid even in case of default. In such cases the bankers ask for additional securities. Collateral can be fixed in nature land, building, machinery or working capital like inventories and account receivables.
- Capital: It refers to net worth of the borrower. This is covered under capacity above while analyzing the leverage ratio.

4. Forecasting and Risk Rating system

Based on the findings of historical analysis and in light of present and foreseeable future environment, the analyst has to forecast impending major risks, the analyst should also highlight to what extent inherent risks will be mitigated and how unmitigated risks can be covered.

5. Return

The amount of loan has got inherent cost as it is obtained from either shareholder or depositor or creditor. The analysis should be made to calculate total return (interest, fee and commission) and compare whether it meets bank's standard.

6. Liquidation

The analyst should ascertain bank's ability to recover loan in case of liquidation of the borrower. If liquidation analysis reveals insufficient security, additional security may be asked for.

7. Creditworthiness and Debt Structure

If the analyst finds the borrower creditworthy and decides to extend loan, he should structure the debt facility to be extended.

8. Preparation of Credit Report

Prepare the structured credit report containing the loan approval process in a precise order. It entails the answers to the vital questions during initial interview as well as consequences of checking various sources of credit information and the results of financial statement analysis. Sometimes on layer higher than analyst may be approving authority bet ultimately works as this authority.

Approving authority decides the approval decision of loan facility after analyzing the contents of appraisal farm. In this way, loan approval process comes to an end. Some writers have divided the entire process into five points as:

- Evaluation of loan proposal
- The types of loan
- Determination of necessary documentation
- Loan acceptance charge

2.1.6 Pricing of Loan

Pricing Commercial loan is a vague process that needs estimating the return the bank should earn on a particular loan and then forming a loan agreement that will generate the desired return. The yield on loan covers not only the interest rate charged for borrowed funds but also the charges a bank makes for commitments and compensating balance. In certain cases, service fee income also fall under total return.

The interest rate can either be fixed or variable rate terms to check evaluation in the general level of interest that increase bank's cost of fund, loan will be made on fixed rate if there is no possibility of rise in interest rate major pricing terms are: (Subedi, 2003: p.35)

1. Fixed Rate

Fixed interest rate is agreed at organization until maturity if there is no chance of in cline in rate of interest.

2. Variable Rate

Depending on the base rate varying interest rate is installed. It is classified as:

- Prime base: Highest graded customer obtains it.
- Prime plus: prime rate plus a fixed percentage is charged under it.
- Prime times: under it the rate will mount by the multiple and prime rate time a fixed multiple.

3. Commitment Fees

It is levied by bank to customer for agreement to availed fund. It is charged on used and unused portion of a credit line.

4. Compensating Balances

It is deposit balance to be kept as per the deed of lender until the over of loan period. It is to be kept on average rather than at a strict minimum.

2.1.7 Loan Review

Loan Review is the examination of outstanding loans to make sure whether borrowers are adhering to their credit agreement and the bank is following its own loan policies or not. After advance of loan, bank should maintain continuous relationship with the borrower until principal and interest are fully recovered. For this purpose, bank should conduct loan review of all borrowers. The changing environment affects the borrower's financial condition and his or her ability to repay the loan. The bank's loan department must be sensitive toward it. So the bank should periodically review all loans until they are fully recovered. There are certain general principles that should be followed by bank while conducting the loan review. The most common principles are: (Singh, 2063: p.213)

1. Regular

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

2. Large loans

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

3. Troubled Loans

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

4. Deflation

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

5. Structuring

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

- The completeness of loan documentation
- An assessment for whether the loan conforms to the bank's lending policies and to the standards applied to its loan portfolio by examiners from the regulatory agencies.
- The record of borrower payments.

- The quality and condition of any collateral pledged behind the loan.
- An evaluation of whether the borrower's financial condition and forecast have changed.

2.1.8 Nabil Investment

Nabil with its mission statement – "To be the 1st Choice Provider of Complete Financial Solutions" has ventured into Investment Banking Operations and for the purpose has created a subsidiary – Nabil Investment Banking Ltd. (Nabil Investment). Nabil Investment over the period will be managing public issues, underwriting of securities, management of client's portfolio & rendering the services of the registrar to securities to client institutions. In addition, the unit will also be delivering Bond/Debenture Trusteeship services, work as Assets Management Company of the mutual fund promoted by Nabil, provide investment advisory services etc. Further, the Unit will keep on exploring and introducing innovative instruments in the Nepalese capital market.

Thus, the ultimate goal would be to stabilize the unit as just not a Merchant Banker but as an Investment Banker providing innovative, quality and timely services to the investors at large. This would differentiate itself from its competitors and create a niche of itself in the market.

Bullish & Bearish trends in the capital market are regular phenomena whether it is on the international front or in the domestic market. However, a close scrutiny of the forward looking rules and regulations issued by the Regulators off late in the country clearly depicts instances of growth with the probability of the market upgrading itself to regional standards in the long run thus increasing its importance in the national economy. (Annual Report, 2008/09: p.43)

2.1.9 Nabil Personal Lending

Nabil offers a wide range of personal lending products to meet the consumer loan needs of its customers and turn their lifetime dreams into reality.

Nabil is dedicated to cater to customer's needs with a personal touch with each loan specifically tailor made and designed keeping in mind the specific needs of the individual customer. our extended branch network which covers from Mechi to Mahakali will be an additional benefit for our valued customers to experience our personalized services. this customer care can be experienced through the Bank's array of personal lending products that the Bank offers.

- Nabil Housing makes the dream of owning a home a reality with attractive features available beyond market offerings at competitive interest rates and extended loan tenures, with flexible repayment and partial payment features. Whether be it for land purchase, construction, refurnishing, renovation, extension, purchase of a readymade house or purchase of home appliances, our products serve all kinds of financial needs of our valued customers.
- Nabil Properties constitutes an all purpose loan scheme, not limited just for education, marriage, travel, equity infusion purposes only, but a wide variety of other purposes available to fulfill varied financial requirements just by simply mortgaging idle property. Application is easy and loan sanction and delivery expeditious. We have made it more flexible and customer friendly by way of extending the loan tenure up to 15 years.
- Nabil Auto makes commuting easier and owning a four wheeler a reality at attractive interest rates, loan tenures and flexible repayment options with financing available for a large variety of vehicles, with special facilities to draw cash by pledging a vehicle in the Bank's name also available under the 'Cash for Car' scheme. Our revised terms of NabilAuto can cater the entire need of the customer from brand new non-commercial and commercial vehicles to used non-commercial and commercial vehicles.
- Nabil Personal, an all purpose, small ticket size easy loan scheme, makes commitments comfortable by providing a hassle free finance facility at competitive interest rate options available. It even accommodates the rising need of medical doctors to purchase medical equipments.
- Nabil Education extends easy financial solution to the students going abroad for higher education. It is highly customer friendly loan available with partial disbursement facility and having revolving feature in Education Loan category. Our financing is not restricted to the education

expenses of the students but is also designed to accommodate other expenses of the students viz. boarding cost, traveling expenses, consultancy fees etc. Now we are only one of two banks in Nepal that the Australian Government has recognized as acceptable financial institutions in Nepal for processing their student visas.

- Personal Overdraft has been designed to meet contingent obligations of our valued customers. Though it is a supplementary product, this product helps our valued customers with easy and fast processing of loan with easy payback feature and reinstating credit facility.
- Apartment Financing is an extended product of NabilHousing, which is targeted at those customers who want to purchase a residential unit or apartment built under Community Housing Act (Sanyukta Aawash Ain). (Annual Report, 2008/09: p.39)

2.2 Review of Relevant Study

Some researchers have conducted their research on financial performance and lending policy compliance with NRB directive. Besides this there are some books, articles, dissertations and other relevant study concerned with the landing and investment. Some of the relevant studies, their objectives, finding and conclusion and other literature relating to the topic have been reviewed.

2.2.1 Review of Books

"Of course one of the primary functions of development in banking is deposit mobilization. Without deposits coming as they do from the public and the saver, banks will not have the resources to lend. With adequate resources lending can have a wider average to meet the credit needs of all the sectors of the economic. Deposits and credit operation always go together and each is interconnected. Unless there are advances, deposits cannot rise." (Robinson, 1962: p.7)

Lending is the essence of commercial banking; consequently the formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management. Well conceives lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit." (Cross, 1963: p.45)

The banks won this high place in public confidence by adopting their lending policies to the implications of their obligations to the depositors. It is true that the position reached is that their ability to meet their obligations to depositors now depends, in an important sense, more on the attitude of the central bank than on the nature of their lending. But this is not the whole truth and the attitudes of central bankers have themselves been partly shaped by their regard for the historical rules of successful commercial banking. Therefore, in looking for the basis of modern ideas about how a commercial bank should run the lending side of its business, we shall have to consider how earlier conditions, somewhat different from those of today, shaped the ideas of the bankers. Our aim will be to show how these historical forces, modified by some reaction to changing circumstances have shaped the lending practices of commercial bankers. (Sayers, 1967: p.176)

“Commercial banks still remain the heart of our financial system holding the deposits of millions of persons, governments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and governments. Commercial banks are the most important type of financial institutions in the nation in terms of aggregate assets.” (Edward & Richard, 1980: p.1)

The rate of return on assets is a valuable measure when comparing the profitability of one bank with another or with the commercial banking system. A low rate might be the result of conservative lending and investment policies or excessive operating expenses. Banks could, of course, attempt to offset this by adopting more aggressive lending and investment policies to generate more income. Investment policies include credit analysis and its principal purpose is to determine the ability and willingness of a borrower to repay a requested loan in accordance with the terms of the loan contract. Factors considered in credit analysis are capacity to borrow, economic, conditions, characters (honesty, integrity, industry, morality) ability to create income, ownership of assets etc. Loans are the more important assets held by banks and bank lending provides the bulk of bank income. (Edward & Richard, 1980: p.195)

More Commercial Banks have developed formal, written lending policies in recent years. They provide guidance for lending officers and there by established a greater degree of uniformity in lending practices since lending is important both to the bank and to the community it serves. Loan policies must be worked out carefully after considering many factors like:- (Edward & Richard,1980 : p.242)

- Capital Position
- Risk and profitability of various types of loans
- Stability of deposits
- Economic conditions
- Influence of monetary and fiscal policy
- Ability and experience of bank personnel
- Credit needs of the area served

Every commercial bank has its investment policy whether it is recognized or not. Even though a written statement of investment policy is desirable, few banks have them and few may not have them. The main objectives to a written investment policy are those who feel that the economic environment of banking changes so rapidly that a formal written statement would become dated within a short time. It is true that bank operates in a changing environment but changes do not occur so rapidly that they cannot be incorporated into a written policy. The basic factors that will determine the objectives of a bank's investment policy are its income opportunities and vice versa, which means accepting greater or lesser degrees of risk formulation of an investment policy must give cognizance to the entire risk exposure that bank management is willing to assume as well as the risk carried by the securities that comprise the investment account. One of the acceptable methods of reducing risk in the investment portfolio of commercial banks is by diversification, a basic and important rule of any investment policy. Risks cannot be completely avoided by diversification but they can be reduced. A commercial bank is most concerned with quality and maturity diversification so as to minimize the risk. A statement of investment policy should designate the person responsible for handling the investment program. This is fundamental to the efficient operation of an investment portfolio, in that "too many cooks may spoil the stew." Since the board of directors is responsible for the proper investment of the bank's funds, periodic reports regarding the investment portfolio should be prepared for the board's use in evaluating investment management and establishing investment policy. The investment policy of a bank should be reviewed occasionally and modified as economic conditions change. (Edward & Richard, 1980: pp 378-380)

"A bank is a government regulated, profit making business that operates in competition with other banks and financial institutions to serve the saving and credit needs of its customers. The primary business of banks is accepting deposit and lending money. Banks accept deposits from customers who want the safety and convenience of deposit service and the opportunity to earn interest on their excess funds. Banks put their depositors' funds to other individuals…… to business….. and to federal, state and local government." (Halter, 1992: p.2)

A sound investment policy of a bank is such that its funds are distributed on different types of asset with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become un-collected due to mismanagement, illegal manipulation of loan misguided lending policy of or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds. (Baidhya, 1997: pp 46-47)

2.2.2 Review of Dissertations

Acharya (2002) has conducted study on the topic of, "Investment and Deposit Pattern of Joint Venture Banks in Nepal". The major objectives of the study were to carry out the comparative analysis and evaluation of deposit collection and investment of Nepal Bangladesh Bank Ltd. and Himalayan Bank Ltd. The researcher has used various financial and statistical tools like liquidity, profitability, correlation coefficient, simple average, standard deviation etc. He has found that the average fixed deposit to total deposit of NBBL is greater than average ratio of HBL. But average ratio with respect to short-term loan to total deposit of HBL is greater than that of NBBL. In regard to investment in government securities HBL proved to be better than NBBL during the study period. As a whole HBL seems to be superior to NBBL with respect to total investment to total deposit ratio.

Agrawal (2002) has conducted a study entitled “ Deposit and Investment Position of Yeti Finance Company Ltd.” has mentioned the following specific objectives. The major objectives of the study were to determine the financial position. To determine the trend of deposit position and to determine the trend of investment position of the company for the period of five years. For this study purpose he has used various financial and statistical tools that are widely used to analyze the financial position of the organization. From this research he has found that the financial position of the financial company is rapidly in increasing trend. And the Yeti Finance Company has collected maximum amount of deposit from the fixed deposit which is good result for Yeti Finance Company but its term deposit, daily deposit and current deposit is increase and decreasing order. The total investment position to total deposit ratio of the company is seems to be slightly diversified in each year. He further added that the loan and advance to total working fund ratio of the company is quite normal. The quick ratio of each year has seen greater than the standard d ratio 2:1, it means the quick assets of the company remained idle in the every year, which is not good for the company.

Pandey (2002) in his thesis on, “NRB directives- their implementation and impact on the Commercial Banks: a case study of Himalayan Bank Limited” has put some outshining description on the performance of the joint venture Commercial Banks.

“The directives, if not properly addressed, have potential to wreck the financial system of the country as they are the only tools of the NRB to supervise and monitor the financial institutions. The directives in themselves are not important unless properly implemented. The implementation part depends on the commercial banks. So it is felt that there is a need to find out if the directives are being followed. In case the Commercial Banks are making such huge profit with full compliance of the directives, then the commercial banks would deserve votes of praise because they would then be instrumental in the economic development of the country.”

He further added that "The central bank has come up with the new directives. The directives are very good and meet the international standards. However, they become irrelevant if they are not implemented properly. It has been observed that the Commercial banks have been raising questions on the timing of the directives and Nepal Rastra bank believes that they are making excuses out of this. In this context, it is strongly recommended to NRB to hold meetings with the commercial banks and listen to their complaints. If the complaints are relevant and acceptable, the directives have to be amended so that they become implemental or else, convince the commercial banks that such complaints have no meaning and that NRB is right.

NRB has to strengthen the functioning of its Credit Information Bureau (CIB) so that the commercial banks receive the details of the blacklisted borrowers in quick time. This will reduce chances of creating bad quality assets in the bank’s balance sheet."

Pathak (2003) in his thesis on, "lending patterns: a comparative study of public and private sector commercial study of public and private sector commercial bank with special reference of priority sector lending" has concluded, "one significantly noticeable fact that has come forward from this study is that the commercial banks have plenty of total funds available with them without investment anywhere. This is a dilemma that the commercial banks are failing to meet the targets of the desired percentage of the total credit to the certain sector but they have plenty of funds idle.

Commercial banks are not willing to invest on such costly sectors. They rather prefer to keep their funds idle on the banks itself. The main focus of any planners should be directed toward the mobility of such idle funds to the rural places. For this the central bank should play a very effective role. It should be from any policy changes, stricter implementation procedures of the policies or making a 'carrot and stick' policy for the commercial banks. Since the cost of credit provided by different institutions rather than the banks are extremely high, the central bank should take initiative to provide credit either through the bank branches or employ any means to decrease such high cost.

Devkota (2005) in his thesis paper, "lending policy of joint venture banks in Nepal" has recommended that "The NRB must take care of a lending policy role to solve various problems, which are arising in the growth of banking development time to time. If it does not care the problems of the lending policy of the commercial banks, these problems may destroy the economic activities of country.

The implementation of lending policy of the banks has mainly affected the political and economic environment of the country. So the banks have given less priority on industry, hotel and other less security sector. Now banks have launched consumer loan in urban area i.e. home loan, auto loan and margin lending.

NRB has directed the commercial banks to extend a certain percentage (ranging from 7.25 to 10%) of their total outstanding loan to the priority sector. The commercial banks satisfied the priority sector lending requirement and also the deprived sector loan has lending satisfactory.

Pahari (2005) in his thesis paper, 'Financial sector reform program in NBL and RBB' Concluded that "Non-performing loans of both banks been crippling and is quite acute. The non-performing loan is a big problem not only for borrowers as well. Without minimizing NPL of these banks Nepalese financial sector cannot be improved. Without recovering large amount of NPL. Both banks cannot come back in better position. The new management taken by his majesty government in assist of World Bank, DFID and various donors for improve the whole situation of both banks. The main task assign to foreign management to improve the condition of both banks and set in motion of non-performing assets but above data does not shows the foreign management can achieve the main objective causes of different external environment. In conclusion FSR program could not reduce the non-performing loan effectively.

Shrestha (2006) has performed research work on the topic of Investment Portfolio of Pokhara Finance Ltd. in this study she has analysed the deposit mobilization and investment trend of Pokhara Finance Ltd. For analysis purpose she has used some financial tools and six years data are used for analysis. The researcher has found that the company has high liquidity during the study period and has paid more attention on loan and advance than on other government securities. In this research she has concluded that Pokhara Finance Ltd. has to relate to maintenance of appropriate risk return trade off between credit outflow by the way of loan and advance and investment and strict monitoring of its repayment to ensure timely cash inflows. She has further recommended launching demand driven or customer oriented schemes so as to initiate depositors and to focus on diversification of investment.

Sigdel (2009) on her study, "Deposit collection and investment pattern of Nabil Bank Limited" has mentioned the main objectives of the study is to analyze about the deposit collection and investment patterns of Nabil. The objectives were to analyse the general deposit and investment policy of Nabil Bank Limited, to measure the trend of current deposit collection and investment compositions of Nabil Bank Limited, to evaluate the liquidity, assets management efficiency, profitability and risk position of the Nabil Bank Limited, to analyze the growth ratio of total deposit, loan and advance, total investment and net profit, to analyze the trend values of different variables related to investment.

She has found that the total deposit volume consists of interest bearing deposit and interest free deposits, which is in increasing trend. The bank has been able to lure the customers of competitive market for deposit, the bank need to update customers demand and arrange for special schemes, facilities and services in order to increase the volume of deposit collection considerably by synchronizing the NRB directives as well. She has found that the maximum amount of deposit is collected from the saving account and it is in increasing trend which is good for the bank. The rate of net profit has highly fluctuated, the financial position and economic condition, the bank is suggested to keep stable and consistency growth ratio of net profit.

2.2.3 Review of Journals and Articles

In this sub section, different relevant studies and research articles published in magazine, newspaper and other electro media are presented.

Shrestha (1988) in his article, " A Study on Deposit and Credit of Commercial Banks in Nepal. " has conducted that the credit deposit ratio of commercial banks would be 51.30 % other things remaining the same in 2004 AD. Which was the lowest under the period of review? So, he was strongly recommended that the commercial banks should try to give more entering new field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Bajracharya (1990) in his article, "Monetary Policy and Deposit Mobilization in Nepal" has stated that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal, commercial banks are the active financial intermediary for generating resources in the form of deposit of private sector and providing credits to investor in different sector of the economy.

Thapa (1994) in his article, " Financial System in Nepal ", has explained the view that the commercial banks including foreign joint venture banks seems to be doing pretty well in mobilizing deposits. Likewise loans and advances of these banks are also increasing. But compared to high credit needs particularly by the new emerging industries, the banks still seem to lack of adequate funds. The banks are increasing their lending to non-traditional sectors along with traditional sectors.

Pradhan (1996) in his article entitles, "Deposit Mobilization, it's Problem and Prospects," told that the deposit is the lifeblood of any financial institution, be it commercial bank, finance companies, co-operative, or non-government organization. He further adds in consideration of most of the commercial banks and some finance companies, the latest figure does produce a strong feeling that a serious review must be made problems and prospects of deposit sector.

Through this research, he has pointed out following problems of deposit mobilization in Nepalese context.

- Unavailability of financial service in rural areas.
- Due to lack of proper education, most of Nepalese don't go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance to deal with institutional system are governed by their lower level of understanding about financial organizations, process requirement, office hours withdrawal system, availability of depositing facilities and so on.
- Due to lesser office hours of banking system people prefer for holding the cash in the personal possession.

- No more mobilization and improvement of the employment of deposits in the loan sector.

Shrestha (2001) in her articles, "Lending Operation of Commercial Banks of Nepal and Its Impact on GDP", has presented with the objectives to make an analysis of contribution of commercial banks lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there have been positive impact of lending of commercial bank to the GDP. In her research methodology she has considered GDP as the development variable and various sectors of lending agriculture, individual, commercial service, general and social sector as independent variables. Multiple regression technique has been used to analyze the contribution. This analysis showed that all variables except service sector lending have positive impact on GDP. Her hypothesis is there has been positive impact by the lending of commercial banks in various sectors of economy except service sector investment."

2.3 Review of Relevant NRB Directives

NRB is the apex institution in the money and capital market. Being the nation central bank, it directs, supervises and controls the functions of the commercial banks and other financial institutions. NRB has issued various directives in order to develop a healthy, competitive and secured banking and economic systems to ensure national development. The following are the some of the relevant directives that the NRB has circulated to the commercial banks.

2.3.1 Directives to Maintain Minimum Paid-up Capital

NRB has directed all the commercial banks established to operate in Kathmandu valley to maintain compulsorily in the minimum capital fund of Rs. 1 billion by the end of fiscal year 2003/04. The amount under the heading of the paid up capital, general reserve, share premium, non-redeemable preference share and retained earnings would be considered for calculating minimum capital funds. The commercial banks could not use the retained earning included in the core capital fund to the extent of the minimum capital funds of falling short of whose Rs. 1 billion. If the commercial banks could not maintain a minimum capital fund of Rs. 1 billion till the end of fiscal year 2003/04, they were not allowed to declare and distribute dividend and bonus. (Economic Report, 2003-04: p.57)

According to the revised policy, a commercial bank with its headquarters outside the Kathmandu Valley will be allowed to operate its office in Kathmandu and in other parts of the country provided that its functioning for 3 years is found satisfactory, its paid-up capital is in the minimum of Rs 1.0 billion and it has net other conditions as prescribed. Any regional level commercial bank, which is already in operation will be given permission, on request, to operation provided that its paid up capital is in the minimum of Rs. 1.0 billion and has also entered into a 3 years term technical contract with a foreign bank. Other conditions to be met by the banks operating outside Kathmandu for 3 years have been clearly laid down in the revised policy. (Sherestha, 2005: p.312)

2.3.2 New Nepal Rastra Bank Directives:

Review of its regulation and directives clarification of ambiguous points and elimination and improvisation thereof is a normal process of NRB. Accordingly, a promoter of the bank holding more than 1.0 percent of the total share is not allowed to use loan facility from the same bank. For fiscal year 2002/03 only banks were allowed to restructure those loans for which no interest is due. Loan provision of 1.0 percent was allowed in such an instance only. Loan flow to small framers development bank (SFDB) limited is deemed as loans to the deprived class.

- **Protective Provision:**

Provision of up to Rs. 10.0 million has been made to protect small and medium industries through the deposit insurance and credit guarantee corporation.

- **Bank Listing:**

Commercial banks and the finance companies have been issued directives on black listing and credit information for transparency and relevancy in their loan options and to regulate the process of blacklisting of loan defaulters. The directives will also enable accessing information from one single source.

- **Adjustment and Flexibility:**

Some of the revisions made to the directives cover bank's paid-up capital increase, credit swaps, formation of audit committee, adjustment of loan loss provision, various aspects of institutional governed, loan rescheduling and restructuring and so on. In addition, new directives were also issued on financial guarantee issuance, offering promoter's share as collateral, and assumption of non-banking assets by banks.

- **Relaxation of Standard Requirement:**

In view of present unfavorable circumstances, the commercial banks needed relief. Accordingly, requirement of marinating a minimum of 12 percent of the total capital fund was relaxed to 11 percent. Accordingly marinating 6 percent primary capital fund of the total capital fund was also reduced to 5.5 percent. Such a directive was issued in July 2003 to remain effective for fiscal year 2003/04 only. The previous system, however, will be resumed onward fiscal year 2004/05.

- **Imposition of Restriction:**

Restriction of inter-bank transaction in Indian currency has been removed recognizing the fact that such a restriction has caused inter-bank market to remain partially inactive. Commission charged to commercial banks for the purchase of Indian currency from NRB has also been waived which, in turn, is expected to help banks to reduce commission charged to the customers. Furthermore, individuals are also licensed to purchase Indian currency.

The Nepal Rastra Bank has also directed the commercial banks to provide some part of their priority sector loans to the deprived sector. On august 22, 1992, Nepal Rastra Bank issued some directives to commercial banks and financial institution to clearly spell out the interest rate on deposits. Nepal Rastra Bank also instructions to clearly spell out the interest rate on deposits. Nepal Rastra Bank also instructed the bank and financial institutions was issued in 2002, and now the interest rate spread required to be maintained by commercial banks and financial institutions has also been removed.

2.3.3 BASEL Committee on Banking Supervision (BCBS):

Internationally BASEL Committee has been coordinating since many years in the banking regulation, policy and directives. In 1975 the BASEL Committee was established by the central bank governors of ten group (G-10) countries. In 1999 New BASEL Accord was developed and published. The Basel Committee on Banking Supervision (BCBS) has also laid down certain minimum risk based capital standards that apply to all internationally active commercial banks. That is bank's capital should at least be 8% of their risk-weighted assets. This in fact helps bank to provide protection to the depositors and the creditors. Based on the Basel norms under the Basel capital Accord, 1988, the Indian Banks also issued similar capital adequacy norms. According to these guidelines, the banks will have to identify their Tier-I and Tier-II capital and assign risk weights to the assets. Having done this they will have to assess the capital to Risk Weighted Assets Ratio (CRAR). The minimum CRAR which the India banks are required to meet is set at 9%. It should be taken into consideration that the bank's capital refers to the ability of bank to withstand losses due to risk exposures.

In Nepal, for the commercial banks, Nepal Rastra Bank adopted the Basel Accord policies and directives. According to the Nepal Rastra Bank directives and policies under th 2060 provision to the development bank and commercial bank, at the end of fiscal year Ashwin, Poush, Chaitra and Ashad list of the classification of loan and advances should send within 1 week. Remaining loans to be collected is divided into four categories:

1. Pass
2. Sub-Standard
3. Doubtful
4. Loss

Pass loan is the performing loan and sub-standard, doubtful and loss is non-performing loan. In fiscal year 2062/03, half yearly (2062 Poush and 2063 Ashad) loan classification and provision should submit within 1 week to Nepal Rastra Bank. The NPA amount should be classified on the installment basis loan provision that is term loan. In each and every end of fiscal year Poush and Ashad

NPL of loan provision should be provided for the loan outstanding and bills purchased which are classified as follows:

S.n.	Classification of Loan	Loan Loss Provision
1	Pass	1.00%
2	Sub-standard	25.00%
3	Doubtful	50.00%
4	Loss	100.00%

If quality of asset of NPA is found default then rescheduling and restructuring of the bank should be done according to the need, situation and emphasis of the bank. Asset quality has direct impact on the financial performance of the bank. Measure of asset quality is the proportion of non-performing loans (NPLs) to total loans. If substandard asset is rescheduled, restructured then that asset can not be classified in pass assets loan. That asset is classified under substandard loan. But loan loss provision will not be 25% instead of 25%, 12.5% will be declared.

In rescheduling, restructuring or swap loan, loan loss provision will be minimum 12.5%. Bank loan is provided through personal guarantee classified on length of time and according to classification of loan that is pass, substandard and doubtful loan interest 20% more will be added as loan loss provision. The Bank has maintained adequately provision for possible loan losses as per the directives of Nepal Rastra Bank. The banks transactions have been carried out in accordance with the directives of Nepal Rastra Bank and are within the authority granted to it. The returns received from branches and sub-branches of the bank were adequate for the purpose of audit. The bank has maintained proper books of accounts as required by law and practice. The balance sheet and the profit and loss account have been prepared in accordance with the Commercial Bank Act and as per the directives of Nepal Rastra Bank and conform to the books of accounts maintained by the bank. The financial statements of the bank have been prepared in conformity with generally accepted accounting principles and directives of Nepal Rastra Bank. The significanct accounting policies pursued by the bank and notes to the accounts of the bank have been prepared on accrual basis. Interest income on loan and advances has been accounted on cash basis. In accordance with the approval received from Nepal Rastra Bank. Other than interest income on government securities, all other income has been recognized on cash basis. (NRB Publication, 2006:)

Table – 2.1

Timetable and the Categories to Classify the Loans and Advances

Classification	For FY 2004/05	For FY 2005/06	For FY 2006/07	For FY 2007/08	For FY 2008/09
Pass	Loans not past due and past up to 3 months	Loans not past due and past up to 3 months	Loans not past due and past up to 3 months	Loans not past due and past up to 3 months	Loans not past due and past up to 3 months
Sub-standard	Loans and advances past due over 3 months to 1 years	Loans and advances past due over 3 months to 1 years	Loans and advances past due over 3 months to 1 years	Loans and advances past due over 3 months to 6 months.	Loans and advances past due over 3 months to 6 months.
Doubtful	Loans and advances past due over 1 year to 3 years	Loans and advances past due over 1 year to 3 years	Loans and advances past due over 1 year to 3 years	Loans and advances past due over 6 months to 1 year.	Loans and advances past due over 6 months to 1 year.
Loss	Loans and advances past due over 3 years	Loans and advances past due over 3 years	Loans and advances past due over 3 years	Loans and advances past due over 1 years	Loans and advances past due over 1 years

The fixed assets of the bank have been accounted on the basis of historical cost concept. The assets have depreciated under reducing balance method at the rates and policies prescribed under the income tax rules. Investment in shares has been valued, with respect to the shares of listed companies, at the lower cost price and market value, and with respect to the shares of unlisted companies, at the cost price. The bank has provided for the loan loss provision on the outstanding balance of loan and advances according to the directives and approval of Nepal Rastra Bank. The bank management, in arriving at the taxable income, having consideration of the provision made towards loan loss and the income received on tax free government securities, as per the income Tax Act. (Nepal Guzzeette, 2063: p.32)

Non-banking assets acquired in settlement of outstanding loans is required, under the Commercial Bank Act, to be disposed off or capitalized for the bank's use within 7 years from the date of acquisition. There exist some of such assets in existence for more than 7 years to which necessary arrangements are being made. Nepal Rastra Bank as the Central Bank of Nepal has to achieve various objectives consistent with other national economic objectives. In designing the organizational structure of NRB, special attention has been paid to achieve the specific goals. Organization structure of Nepal Rastra Bank should achieve mainly three objectives:

a) Facilitate the flow of information and decision making to reduce uncertainty.
b) Define the positions and units with in the organization.
c) Help achieve the desired level of co-ordination.

For conducting the bank's day-to-day operations smoothly and efficiently, various departments, divisions, branch and sub-branches have been set up. The working of various offices and departments will be discussed separately. Banking and financial institution of highlight of new ordinance, 2060 has been issued to amend and consolidate the existing banks and financial institution acts. It maims to ensure reliable and quality banking and financial intermediation services through healthy competition among banks and financial institution safeguard and promote the interest of the depositors and people at large in the overall banking and financial system of the country. Strengthening the economy by liberalizing these institutions is also the objective of the ordinance. The ordinance also aims to facilitate the establishment, operation, management and regulation of these institutions with appropriate legal provisions.

2.3.4 Priority Sector Lending

Thus, with the objectives of mitigating the unemployment, poverty, economic inequality, etc and thus upgrading the deprived and low income people, the project of national development and priority, micro and small enterprises were declared priority sector and the lending to such sector has been categorized as priority sector loan. (Aryal, 2058: pp54-62)

With a view to make bank credit available to small agricultural, industrial and services sector and promote income and employment opportunities, the NRB has directed the Commercial Bank to extend a certain percentage (ranging from 7.25 percent to 10 percent) of their total outstanding loans to the priority sector. (Economic Report, 2002/2003: p.79).

2.3.5 Deprived Sector Credit

The NRB has directed the Commercial Banks to extent some portion of their priority sector lending towards the deprived sector. The deprived sector lending requirement is discriminatory with respect to the aging of commercial banks ranging from 0.25% to 3.00% of their six months total outstanding loans. The Table has presented the deprived sector loan percentage on their total priority sector lending of the respective banks.

Required Deprived Sector Credit to Different Commercial Banks (Economic Report, 2001/02: p.23)

Banks	Deprived Sector Lending (As % of Total Outstanding Loan)
NBL, RBB, Nabil, NIBL, SCBNL, HBL	3.00%
NSBIBL, NBBL,EBL,BOK	2.50%
BCCL,NICBL, LBL	0.75%
Other New Bank (if any)	0.25%

The loan not exceeding Rs. 30000 extended to a member of a group or member of a family, investment in shares of Gramin Bikas Bank, Rural Micro Finance Development Center and any other development established with the objectives of extending the loan to deprived sector and lending made, condition to flow the loan to the deprived sector only to the Gramin Bikas Bank, Finance Companies, Co-operatives society and any other licensed non government organization and categorized as deprived sector loan. (Aryal, 2058: pp54-62)

2.4 Research Different and Now

Some researches have conducted their research about Nabil Bank Ltd. at different topic. The major objectives of Acharya, the study were to carry out the comparative analysis and evaluation of deposit collection and investment of Nepal Bangladesh Bank Ltd. and Himalayan Bank Ltd. Agrawal mentioned the trend of deposit position and to determine the trend of investment position of the company. Pathak on his study is that the commercial banks have plenty of total funds available with them without investment anywhere. Devkota study on his dissertation the problems of the lending policy of the commercial banks, these problems may destroy the economic activities of country. Sigdel on her study, “Deposit collection and investment pattern of Nabil Bank Ltd.” has mentioned the main objective is to the analyzed about the deposit collection and investment patterns. She has study about only deposit and investment policy of the Nabil Bank Ltd., but not the lending policy adopted by the bank concedes with the lending practices. In this research I will study about the lending practice of Nabil. She has analyzed to measure the trend of current deposit collection and investment composition of the bank but I will analyze the trend values of different variables related to investment and how the global crises are affect the loan lending and investments policies. I will try to study about the effects of worldwide global crises and its depression in banking investment field. What are the causes and what are the roles that effect on loan lending policy.

Chapter III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the process of arriving at the solution of problems through a planned and systematic dealing with the collecting analysis and interpretation of the facts and figures. Research is a systematic method of finding out solution to a problem where a research methodology refers to the various sequential steps to adopt by a researcher as in studying the problems with certain objectives in view. Research methodology helps to find out accuracy, validity and stability of research. The justification in the present study can't be obtained without help of proper research methodology.

The main purpose of this chapter is to focus in different research methods and conditions which are used while conducting the study. To deal with the problem this chapter focuses on research design, sources of data, population and sample, data collecting procedures and methods of empirical analysis.

3.2 Research Design

A Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances". (Kerlinger, 1986: p.275)

A research design is the specification of methods and procedures for acquiring the information needed to structure or to solve problems. It is the overall framework of the research project. It is the arrangement of condition for collection and analysis of data.

In this study totally depends on the secondary source of information. All problems find in secondary source of information. The secondary source of information may be available in the form of publications of reputed individuals and institutions, reports of research organization, article published in trade and professional journals and magazines and government reports and documents. The whole study divided into introductions, review of literature, research methodology, data analysis and presentation and summary, conclusion and recommendations.

3.3 Nature and Source of Data

The data used in present study is secondary data which have been taken mainly form the annual report of the subjected bank. Besides these the following sources of data are also considered.

- NRB reports and directives.
- Various publications dealing in the subject matter of the study.
- Various articles published in the newspaper.
- Unpublished dissertations of previous years.
- Official Website of Nabil and Different websites related to the study etc.

3.4 Population and Sample

In general, the population refers to the whole industries of the same nature and its services and products. Thus the total number of commercial banks operated in Nepal is the population of the study. Among them only Nabil Bank Limited is taken as sample.

3.5 Data Collection Procedures

This study is mainly based on secondary data and such required data are gathered from the secondary sources mention above. The annual reports of the bank have been obtained from the field visiting of Head Office of Nabil Bank Limited and website of the bank. NRB publications such as Quarterly Economic Bulletins, Banking and Financial Statistic, Economic Report, Directives etc have been collected from the website of NRB. And other related data and information are taken from the official website of Nabil Bank Limited and NRB. Existing literature related to subject matter have been collected from various research papers, articles, books placed in the Central Library, Tribhuvan University, Kirtipur.

3.6 Analysis of Data

Data collected from various sources have been managed, analyzed and presented in proper tables and formats. To analyze the collected data various tools have been used.

3.6.1 Financial Tools

Financial analysis is the use for financial statement to analyze a company's financial position and performance and to assess future financial performance. (Wild, Subramanyam and Halsey, 2003:13) While adopting financial tools, a ratio analysis is used as benchmark for evaluating the financial position and performance of any firm.

Ratio analysis is a financial tool that is used to measure the financial position of a firm. It makes a relationship between the figure of strength and weakness of a firm. A ratio is simply one number expressed in terms of another and as such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in term of percentage, proportion and as a coefficient 'logarithmic graph' and 'Break even chart' are the graphic forms which are used to express a ratio. "The technique of ratio analysis is the whole process of any business of analysis of financial statements of any business of industrial concern especially to take output and credit decisions. Through this technique, a comparative study is made between different statistics concerning varied facts of a business unit. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic of financial health of a business concerns. Thus, “the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns" (Kothari, 1994:487). Ratio analysis is a mathematical relationship between two related items expressed in quantitative form. The ratio is the measurement of quantitative relationship between two or more items of financial statement connected with each others. The following ratios will be used which are relevant for the study.

Profitability Ratio

Profit is the key element for any business organizations. The bank should earn profit to survival and growth over a long period. It is a fact that sufficient profit must be carried to sustain the operation of the business, to be able to obtain funds from investors to expand and grow and to contribute towards the social overhead for the welfare of society.

Profitability ratio is useful to measure the overall efficiency or operations of the firm; it is a true indicator of the financial performance of any institution. Higher the profitability ratio betters the financial performances of the bank and vice versa, profitability ratio can be computed as:

Return on Total Assets

It measurer the profitability of fund invested in the banks assets. It is computed by dividing the net profit by total asset. It is expressed as:

$$\textit{Return on total asset ratio} = \frac{Net\ profit}{Total\ assets}$$

3.6.2 Statistical Tools

The major statistical tools used in this study are standard deviation (S.D.), coefficient of variation (C.V.) and correlation coefficient (r).

Standard Deviation (S.D.)

Standard deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. It measures the absolute dispersion. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter $(\pm)$.

Symbolically,

$$\pm = \sqrt{\frac{\phi(X \text{ Z} \overline{X})^2}{\rho}}$$

Where,

$\pm$ X Standard Deviation

X X Variant Values

$\overline{X}$ = Arithmetic Mean

N = No. of observation (Time Period)

Coefficient of Variation (C.V)

The standard deviation in the above form was gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation.

Symbolically,

$$\textit{Coefficient of S.D} \ \text{X} \frac{S.D}{Mean} \text{X} \frac{\pm}{\overline{X}}$$

The coefficient of dispersion based on standard deviation multiplied by 100 is known symbolically.

$$C.V. \text{X} \frac{\pm}{\overline{X}} \mid 100$$

Where,

$C.V.$ = Coefficient of Variation

$\pm$ = Standard Deviation

$\overline{X}$ = Arithmetic Mean

It is independent of unit. So, two distributions can be compared with the help of C.V. for their variability. Less the C.V, more will be the uniformity, consist etc and vice versa.

Time Series

When a series of data pertaining to a series of continuing period should be studied, it characteristics and its future direction is best estimated by the time series. Time series analysis a series of data keeping in mind the various short term and long term fluctuations. The straight line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Where,

Y= dependent Variable

X = Independent variable (times)

a = Intercept of the line

b = Slope of trend line

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

In this chapter, the data collected from various sources have been presented and analyzed to measures the various dimensions of the problems of the study. This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items, which have an impact on lending and fund mobilization of Nabil Bank Ltd.

4.1 Analyzing the Profitability Position

Profit is the key factor for the firm's expansion and development. Profit making is the main objective of the organizations. Thus it is regarded as the engine of diversification of the firm. Without generating profit organization can't survive in the society. Mainly profitability ratios are calculated to measure the economic efficiency of the organization. Sufficient amount of profit is to be earned or generated by every commercial bank for the successful day-to-day operation and long run survival in the present competitive environment. The operating efficiency and its ability to adequate return to its shareholders ultimately depend upon the profit earned by the company. Profitability denotes the value created by the use of available resources. It is more than the total of the input resources. A high profitability ratio refers as the symbol of good management capability of the banks. Some profitability ratios are calculated below.

4.1.1 Return on Total Assets Ratio:

This ratio is used to measure the profit earning capacity of the bank by utilizing is available resources i.e. total assets. This ratio is also called 'Profit to total assets ratio.' Return will be higher if the bank's available fund is well managed and efficiently utilized. This ratio shows the capacity of profit earning through the efficient utilization of total assets. This ratio is calculated by dividing net profit/loss by total assets.

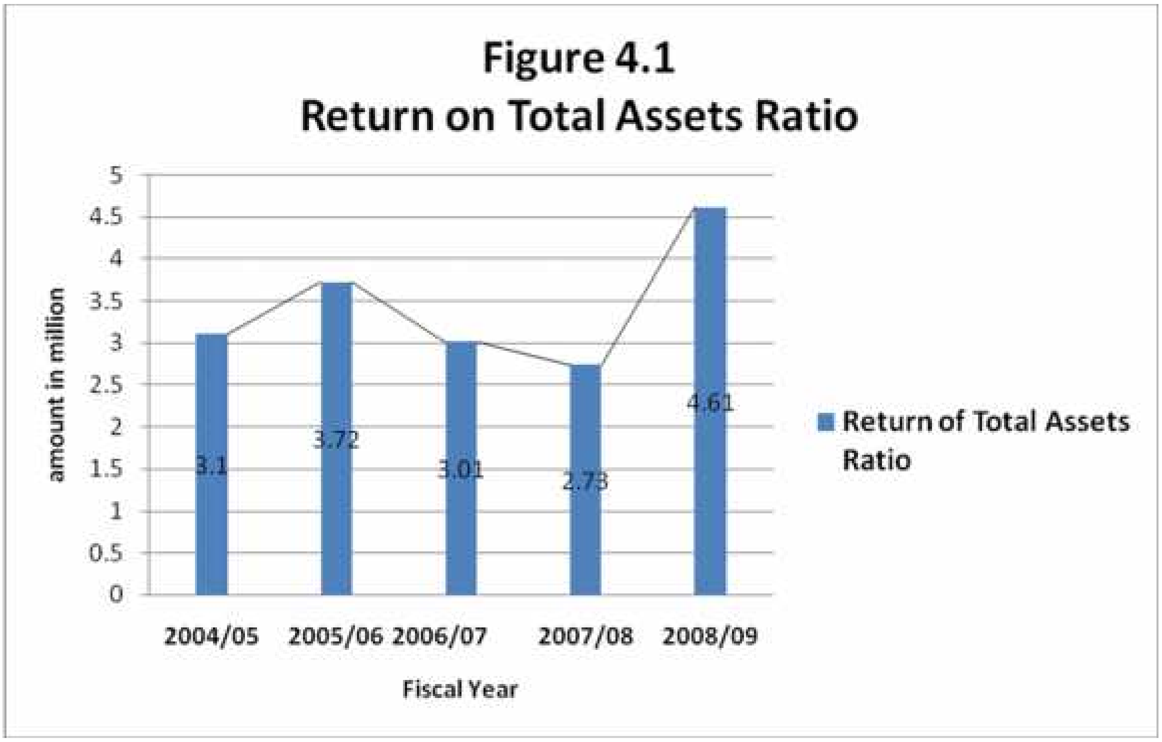
Table – 4.1

Return on Total Assets Ratio (in million)

F/Y	Net Profit	Total Assets	Ratio
2004/05	520.11	16,745.49	3.10
2005/06	635.26	17,064.08	3.72
2006/07	673.95	22,329.97	3.01
2007/08	746.46	27,253.39	2.73
2008/09	1031.05	22,329.97	4.61
Mean	721.366	21144.58	3.44
S.D.	*171.28*	*3902.05*	0.67
C.V.	*23.74*	*18.45*	19.48

Source: Annual Reports

This table 4.1 shows the return on total assets ratio during the study period started from F.Y. 2004/05 to F.Y. 2008/08.This ratios are 3.10%, 3.72%, 3.01%, 2.73% and 4.61% respectively. The trend of this ratio is increasing up to year 2005/06 and decreasing but increase in last year. The ratio has seen highest in F.Y.2008/09 i.e. 4.61% and the lowest in F.Y. 2006/07 i.e. 2.73%. The bank has been able to mobilize its total assets properly to gain more profit in F.Y 2008/09 with respect to its total assets. The average ratio of the bank is 3.44%. The ratio has mix trend during the study period. The bank is successful to generate profit in this competitive environment. Every year bank is being able to gain profit there is no loss occurs during the study period due to its efficiency in utilizing available resources or the management efficiency. The standard deviation and coefficient of variation are 0.67 and 19.48%. From the consistency stand point NABIL has 80.52% consistency in this ratio.



This figure 4.1 presents the return on total assets ratio of the bank during the study period. Return on total assets is changeable in trend. The ratio has increased in first two fiscal years and it has decreased in two fiscal years then last year highly increased. The ratio is higher in the final year of the study i.e. 4.61%.

4.1.2 Net Profit

The volume of Net profit measures the success of a firm in every aspect of its operation and strategy. Management of those banks who have been able to increase their net profits in a constant and sustainable manner over a period of time, are considered as efficient and successful, whereas management of the banks who have not been able to grow their earnings in a sustainable manner can be considered as inefficient.

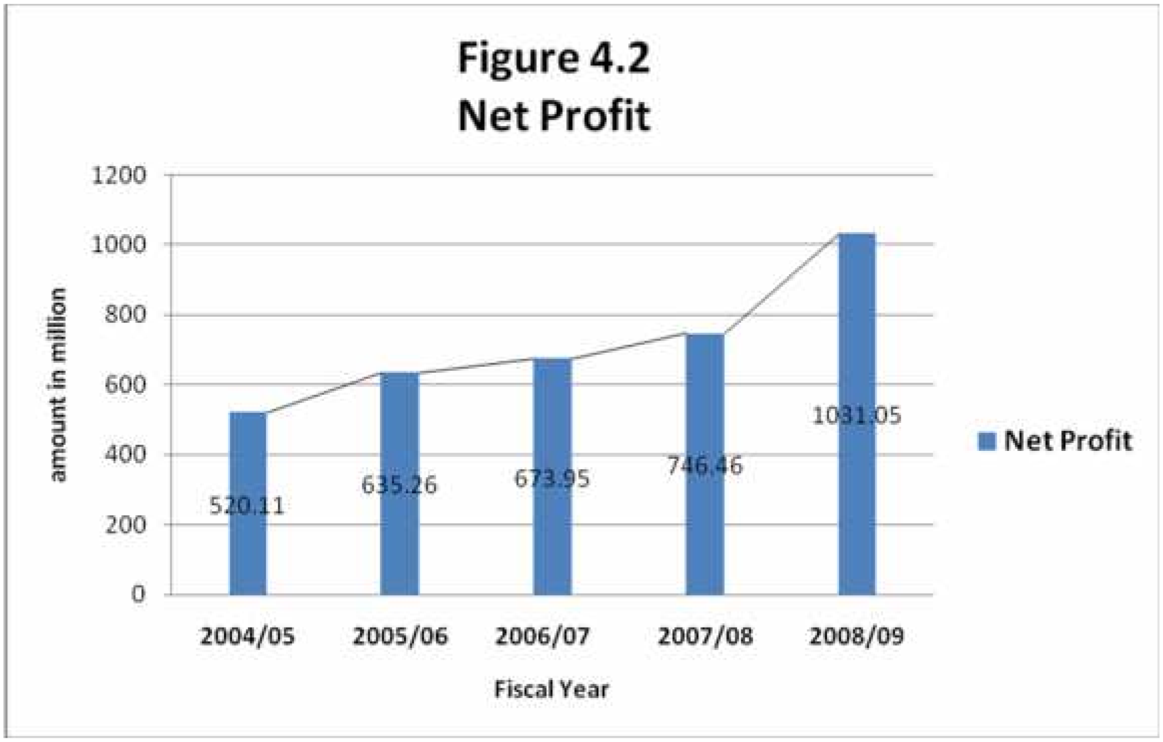
Table – 4.2

Net Profit (in million)

Fiscal Year	Net Profit
2004/05	520.11
2005/06	635.26
2006/07	673.95
2007/08	746.46
2008/09	1031.05
Mean	721.36
S.D.	171.28
C.V.	23.74

Source: Annual Reports

Table -4.2 shows the net profit of the bank during the research period. Net profit has increasing trend of this period. It increases from Rs. 520.11 million in the year 2004/05 to Rs. 1031.05 million in the year 2008/09. The volume of profit is increasing slightly. The average net profit of Nabil is Rs. 721.36 million. The Standard deviation and Coefficient of variation of net profit is 171.285 and 23.74%. The coefficient of variation 23.74% indicates that Nabil has 76.26% consistency in net profit.



Above figure-4.2 shows the volume of net profit is increasing every year. The bank's net profit has every year positive figure. In fiscal year 2004/05 to 2007/08 net profit has increased slow and increases very highly in last year. The volume of net profit measures the success of a firm in every aspect. Nabil has shown significant improvement of its operating and strategic activities.

4.1.3 Total Deposit

The deposit is the main source of bank's funds. So its volume in total liability plays a vital role in administering the lending and investing function of a bank. Total deposit consists of all types of deposits collected by the bank i.e. saving deposit, demand deposit, fixed deposit, call deposit and margin deposit. It includes deposit in foreign currency also.

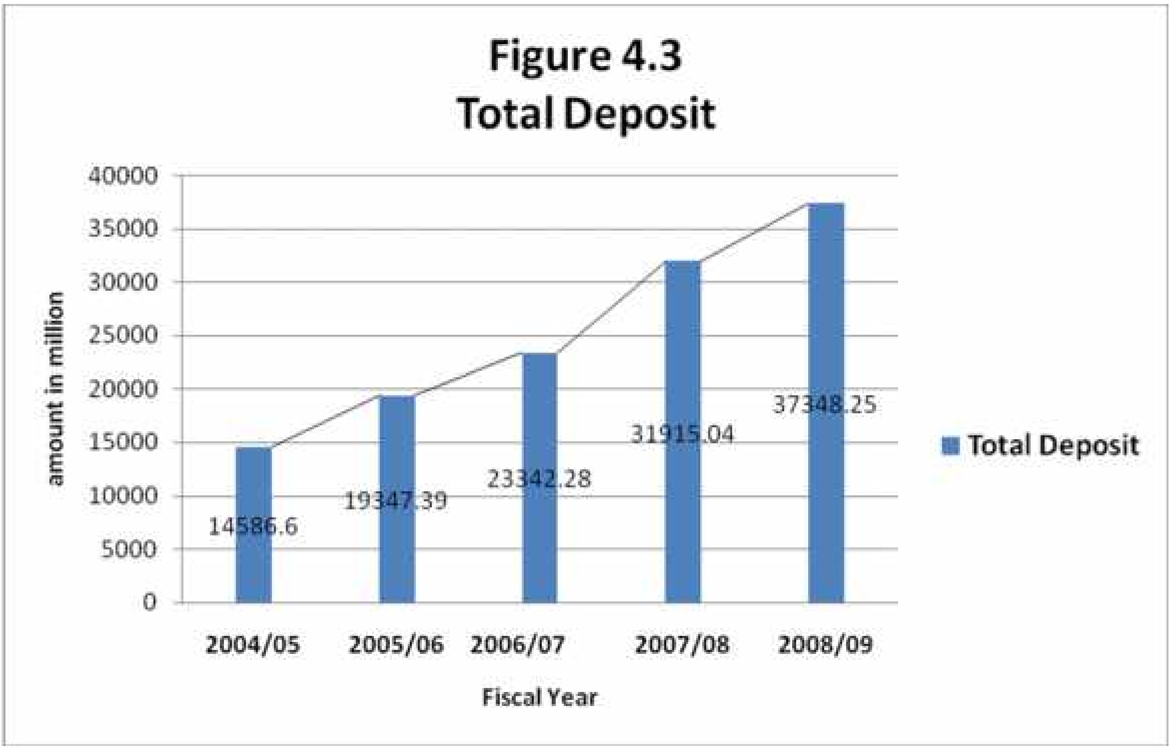
Table 4.3

Total Deposit (in million)

Fiscal Year	Total Deposit
2004/05	14586.60
2005/06	19347.39
2006/07	23342.28
2007/08	31915.04
2008/09	37348.25
Mean	25307.91
S.D.	8282.05
C.V.	32.72

Source: Annual Reports

As shown in the table 4.3 the total deposit collections of the bank 5 year study period. Fiscal year 2004/05 to 2008/09 has seemed to be in fluctuating in trend i.e. Rs.14586.60, 19347.39, 23342.28, 31915.04 and 37348.25 million respectively. The highest deposit volume seems with Rs.37348.25 in F.Y. 2008/09 and lowest deposit volume with Rs. 14586.60 in F.Y. 2004/05. The average deposit volume of the bank is Rs. 25307.91 millions, which seems to be satisfactory. The deposit volume of the bank is almost seems to be constant on previous three years due to immerse of so many other commercial banks and financial institutions that diverted the customers fund. But from the fiscal year 2008/09 the bank rose up its deposit collection dramatically by introducing new deposit schemes with comparatively higher rate of interest and other facilities. The above table shows that the Nabil Bank Limited has been successful in capturing the deposit from the market during the study period. The above volume of total deposit can be presented in bar diagram which is as follows.



The figure – 4.2 exhibits that the trend of Total Deposits of Nabil has been highly fluctuate. The overall trend of total deposit is increasing. The main cause of increase in deposit collection amount in previous years is good awareness to banking transaction in public as well as lack of alternative investment.

4.1.4 Interest Income

Volume of interest income shows how efficiently the banks have mobilized their resources in interest bearing assets i.e., loan and advances and investment in government securities. The high volume is indication of favorable contribution of lending and investing activities in income generation.

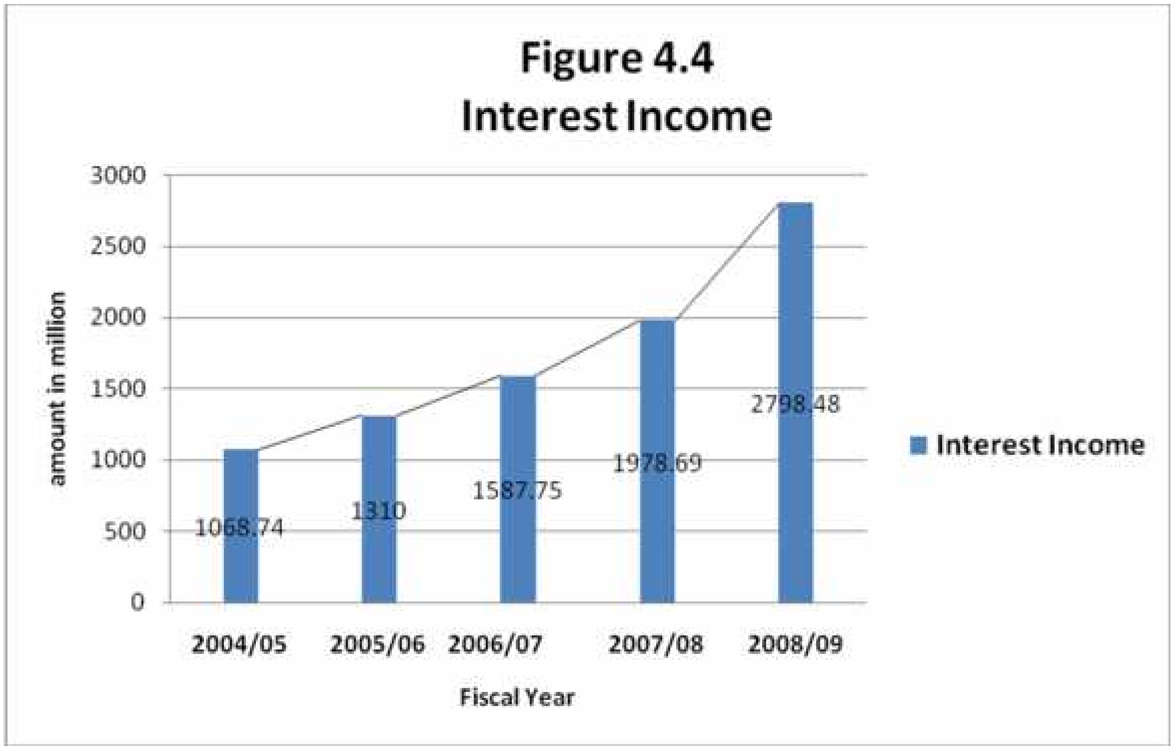
Table – 4.4

Interest Income

Fiscal Year	Interest Income
2004/05	1068.74
2005/06	1310.00
2006/07	1587.75
2007/08	1978.69
2008/09	2798.48
Mean	1748.73
S.D.	605.92
C.V.	34.64

Source: Annual Reports

Above table – 4.4 shows the volume of interest income earned by the bank during the research period. Total interest income has reached from Rs. 2798.48 million in the year 2008/09 to Rs. 1068.74 million in the year 2004/05. The volume of interest income is increasing slightly and has reached at Rs. 2798.48 million in the last year of study period. The average interest income of Nabil is Rs. 1748.73 million. The Standard deviation and Coefficient of variation of interest income is 605.92 and 34.64%. The coefficient of variation 34.64% indicates that Nabil has 65.36% consistency in interest income.



The figure – 4.4 shows that the interest income of Nabil in the initial years. In the study period the volume of interest income is increasing every year. The trend of interest income is increasing highly which shows the great future of the bank. The increasing trend of interest income is the result of the bank's success on strong recovery of non-performing assets.

4.1.5 Investment

Investment is the employment of funds with the aim of achieving additional income or growth in value. It is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all income. Since the mobilization of fund in investment is depends upon the available market option and unavailability of lending situation this assets does not carry a certain direction at all.

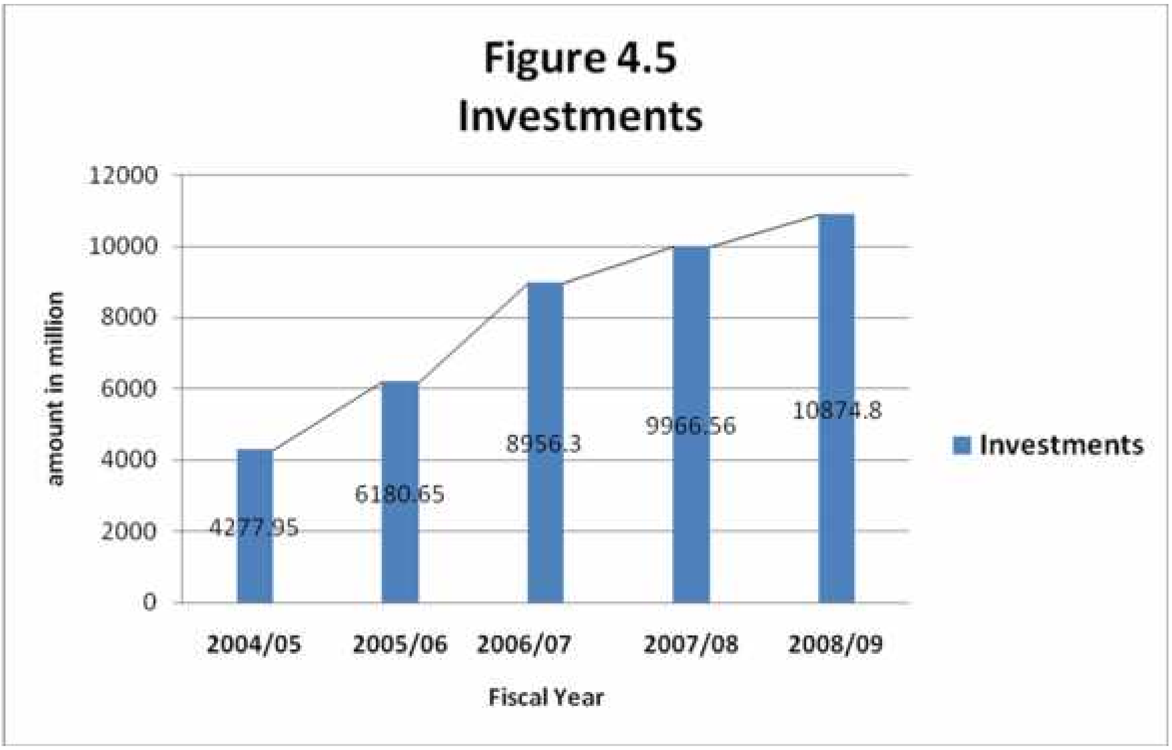
Table – 4.5

Investment (in million)

Fiscal Year	Investment
2004/05	4277.95
2005/06	6180.65
2006/07	8956.30
2007/08	9966.56
2008/09	10874.80
Mean	8051.25
S.D.	2457.52
C.V.	30.52

Source: Annual Reports

Figure 4.5 exhibits the observed total investment ratio of the bank for last five fiscal years. The ratio is seen fluctuating every year. The volume of investment is in increasing trend of the study period of year 2004/2005 to 2008/2009. The investment of Nabil has reached upto Rs.10874.40 million in the year 2008/09 from Rs. 4277.95 million in the year 2004/05. The mean and standard deviation of investments are 8051.25 million and 2457.52 respectively. The coefficient of variation 30.52 indicates that Nabil has 69.48% consistency in investments. From this, it is observed that the NABIL has successful to mobilize its fund in productive sector effectively to generate more profit in fiscal years.



The above figure – 4.5shows the volume of investment is increasing every year. The increasing trend indicates the bank's obligation of investing funds in low yield sector due to unavailability of lending situation. The regular increment on investment signifies that the bank is able to manage its available funds properly.

4.2 Analyzing the Lending Strength towards NRB Directives

In this section, the lending performance of the bank in terms of its quality and turnover is measured. Nabil has invested its collected fund in different investment alternatives like Nepal Govt. securities, shares of different companies, debentures and bonds issued by various institutions and other l investment such as mutual fund, swift investment, local banks and foreign banks etc.

4.2.1 Nepal Government Securities

Lending activities are classified into two different categories, investment in government securities and share, bonds, and debenture of other non-government companies. Government securities are secured but they don't give more return to the investors. Government securities are considered as the liquid as cash balance of the commercial banks, which can be easily converted into cash or can be sold easily in the market. From the risk point of view, government securities are less risky as compare to investment in other securities of different companies and loan and advance. So, they are known as the safe locker. Commercial banks are the profit making organization; their target is to generate more profit by making investment in different sector of the economy. So, they invest excess fund on government securities for diversification of investment. They don't prefer to invest their fund on government securities due to their objective of profit maximization. As per directives of NRB, the total amount of investment of a commercial bank in share and securities of organized institution should be limited up to 30% of paid up capital of the bank. The following table shows the lending policy of Nabil Bank Ltd in Nepal Government Securities. (Appendix I)

Table – 4.6

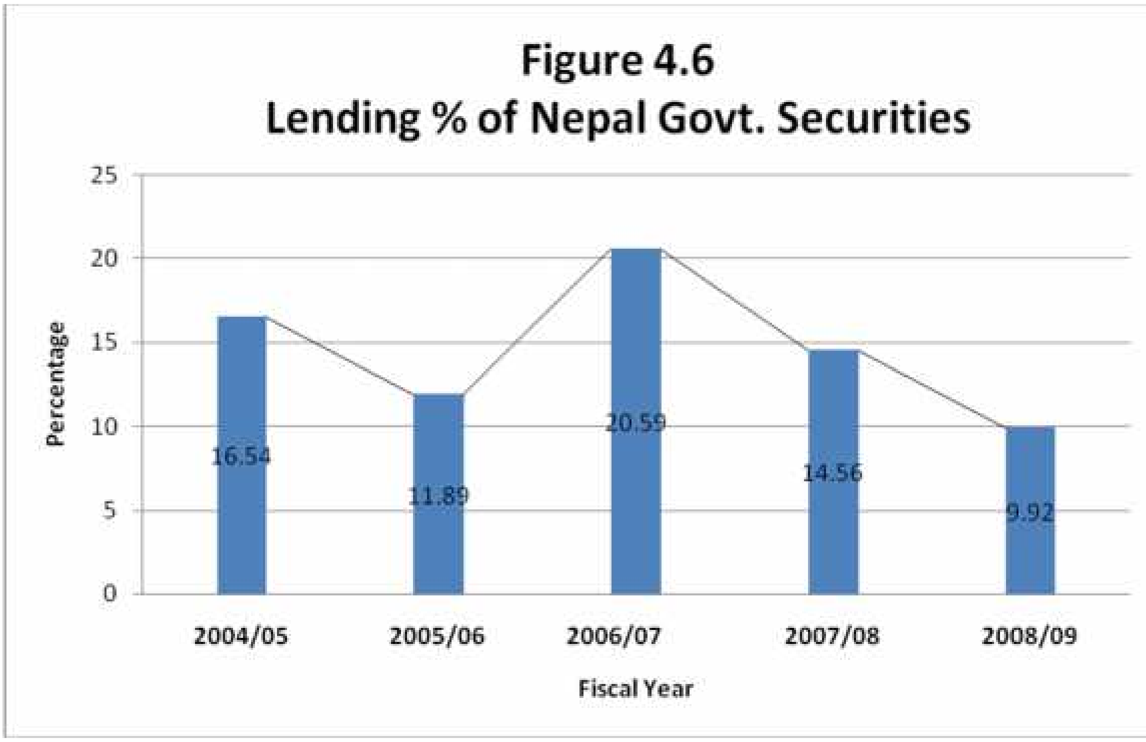
Lending Percentage of Nepal Government Securities at Total Deposits

Year	Nepal Government Securities	Total Deposits	Lending % of Nepal Government Securities
2004/05	2,413.93	14587	16.54
2005/06	2,301.45	19347	11.89
2006/07	4,808.34	23342	20.59
2007/08	4,646.87	31915	14.56
2008/09	3,706.09	37348	9.92

Source: Annual Reports

As shown in the table 4.6 the volume of lending percentage of Nepal government securities at total deposits by the bank during the research period.

Fiscal year 2004/05 to 2008/09 has seemed to be in fluctuating in trend i.e. 16.54, 11.89, 20.59, 14.56 and 9.92% respectively. The highest percentage seems with 20.59 in F.Y. 2006/07 and lowest 9.92 % in F.Y. 2004/05.



Above figure - 4.6 shows the percentage of investment in government at total deposit of Nabil Bank Ltd. In fiscal year 2004/05 to 2005/06 decrease in lending percentage of government securities and then increase in year 2006/07 there after decrease in last year of the study period of total deposit amount.

4.2.2 Company's Shares

Nabil has lending its available fund on shares issued by different financial companies, banks & agencies and foreign banks. Nabil invested its resources on rural development banks and other banks and agencies. The following table shows the lending on some deposits amount of Nabil Bank Ltd in other company's shares. (Appendix II)

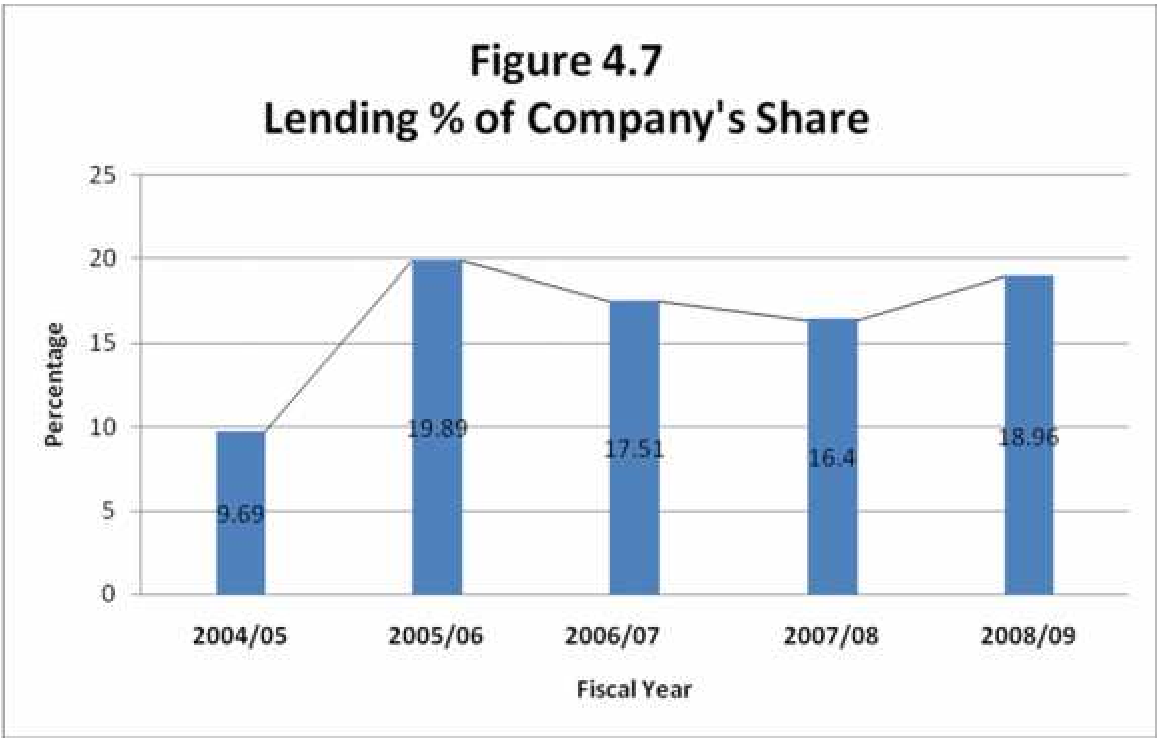
Table – 4.7

Lending % of company's shares in Total Deposit (in million)

Year	Company's shares	Total Deposits	% of company's shares in total deposit
2004/05	1,414.17	14587	9.69
2005/06	3,849.26	19347	19.89
2006/07	4,087.79	23342	17.51
2007/08	5,236.57	31915	16.40
2008/09	7,083.14	37348	18.96

Source: Annual Reports

As shown in the table 4.7 the volume of lending percentage of company's shares at total deposits by the bank during the research period. Fiscal year 2004/05 to 2008/09 has seemed to be in unpredictable in trend i.e. 9.69, 19.89, 17.51, 16.40 and 18.96 % respectively. The highest percentage seems with 19.89 in F.Y. 2005/06 and lowest 9.69 % in F.Y. 2004/05. The trend of lending percentage of company's share increase in first two years and decrease in middle of study period and increase in last two years.



Above figure - 4.7 shows the percentage of company's shares at total deposit of Nabil Bank Ltd. In fiscal year 2004/05 to 2005/06 increase in lending percentage to reach up the highest percentage of the study period and slowdown the next two years and again increase the last year of the study period of company's shares of total deposit amount.

4.2.3 Debentures and Bonds

Nabil has invested some fund of its total deposits on debentures and bonds. The following table shows the lending policy of Nabil Bank Ltd in debentures and bonds.

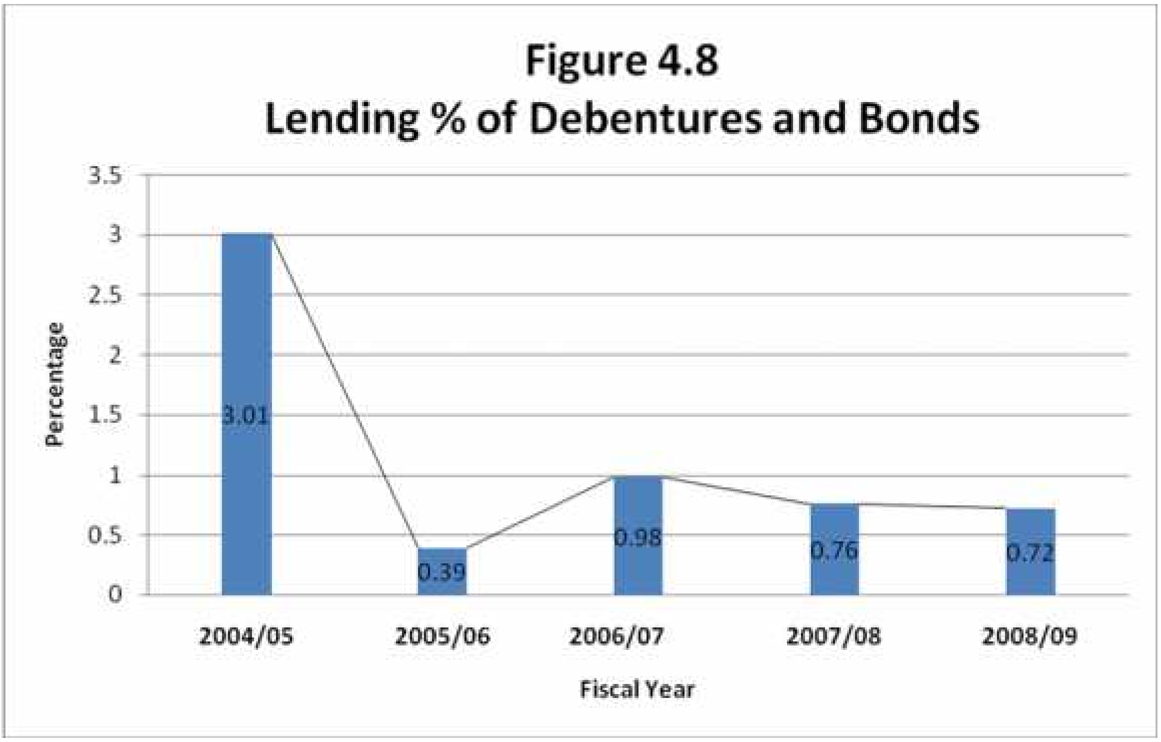
Table – 4.8

Lending % of Debentures and Bonds in Total Deposit (in million)

Year	Debentures and Bonds	Total Deposits	% of company's shares in total deposit
2004/05	440.28	14587	3.01
2005/06	76.62	19347	0.39
2006/07	229.10	23342	0.98
2007/08	242.68	31915	0.76
2008/09	272.42	37348	0.72

Source: Annual Reports

The table - 4.8 shows the percentage of lending in organization's debenture and bonds at total deposit of Nabil Bank Ltd. Bank lending on organization's debenture and bonds in n fiscal year 2004/05 to 2008/09 is 3.01, 0.39, 0.98, 0.76, and 0.72% respectively. In starting of the study period is the highest percentage of lending and then after very fewer of lending of debenture and bonds and then increase in fiscal year 2006/07 and there after decrease slowdown up to study period.



The figure – 4.8 shows the percentage of debentures and bonds at total deposit of Nabil Bank Ltd. In fiscal year 2004/05 to 2005/06 highly decreases in lending percentage of debentures and bonds of Nabil bank ltd and then increase fewer percentage in fiscal year 206/07 and thereafter decrease up to study period.

4.2.4 Other Investment

Nabil has made investment on the topic of other investment. This topic includes swift investment, mutual fund, local banks, certificate of deposits and others. The following table shows the other investments of the bank. (Appendix table III)

Table – 4.9
Lending % of Other Investments in Total Deposit (in million)

Year	Other Investment	Total Deposits	Lending % of Other Investment
2004/05	1.25	14587	0.008
2005/06	2.35	19347	0.012
2006/07	2.3	23342	0.009
2007/08	2.54	31915	0.007
2008/09	3.03	37348	0.008

The table - 4.9 shows the percentage of lending in other investment at total deposit of Nabil Bank Ltd. Bank lending on organization's debenture and bonds in n fiscal year 2004/05 to 2008/09 is 0.008, 0.012, 0.009, 0.007, and 0.008% respectively. In the study period is the highest percentage of lending of other investment is 0.012% in fiscal year 2005/06 and lower is 0.007 in fiscal year 2007/08.

4.3 Analyzing the Lending Composition

The commercial bank diversified their market risk by investing their available fund in different secured and unsecured sectors. In earlier time, commercial banks are interested to invest their fund only in loan and advance but now a days they also pay their attention to invest their fund in government securities like treasury bills national saving bonds and development bonds and non government securities like shares debentures, bonds etc. of different companies.

Investment activities are classified into two different categories, investment in government securities and share, bonds, and debenture of other non-government companies. Government securities are secured but they don't give more return to the investors. Government securities are considered as the liquid as cash balance of the commercial banks, which can be easily converted into cash or can be sold easily in the market. From the risk point of view, government securities are less risky as compare to investment in other securities of different companies and loan and advance. So, they are known as the safe locker. Commercial banks are the profit making organization; their target is to generate more profit by making investment in different sector of the economy. So, they invest excess fund on government securities for diversification of investment. They don't prefer to invest their fund on government securities due to their objective of profit maximization. As per directives of NRB, the total amount of investment of a commercial bank in share and securities of organized institution should be limited up to 30% of paid up capital of the bank.

Table – 4.10

Lending composition of Nabil Bank Ltd

1	Nepal Government Treasury Bills
2	Nepal Government Saving Bonds
3	Nepal Government Other Securities
4	Nepal Rastra Bank Bonds
5	Foreign Securities
6	Local licensed Institutions
7	Foreign Banks
8	Organized Institutions Shares
9	Organized Institutions Bond and Debentures
10	Other Investment • Mutual funds • SWIFT Investment

The commercial bank diversified their market risk by investing their available fund in different secured and unsecured sectors. In earlier time, commercial banks are interested to invest their fund only in loan and advance but now a days they also pay their attention to invest their fund in government securities like treasury bills national saving bonds and development bonds and non government securities like shares debentures, bonds etc. of different companies. The given table shows the lending composition of Nabil bank. (Appendix table IV)

Table – 4.11

Lending composition of Nabil (in percentage)

Year	2004/05	2005/06	2006/07	2007/08	2008/09
Nepal Govt. Securities	56.53	36.94	52.67	45.90	33.49
Company's Shares	33.12	61.78	44.78	51.70	64.01
Debentures and Bonds	10.31	1.22	2.50	2.40	2.46
Other Investments	0.02	0.03	0.02	0.025	0.02
Total	100	100	100	100	100

Above table shows the lending composition of Nabil Bank Limited for five years period. Nabil has invested its collected fund in different investment alternatives like Nepal Government securities, shares of different companies, debentures and bonds issued by various institutions and other l investment such as mutual fund, swift investment, local banks and foreign banks etc.

Nabil has invested his collected fund in Nepal Government Securities 53.53%, 36.94%, 52.67%, 45.90%, and 33.49% in fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Bank has invested also non government company's share 33.12%, 61.78%, 44.78%, 51.70% and 64.01% in fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Bank has invested 10.31%, 1.22%, 2.50%, 2.40% and 2.46% at institutions bond and debentures in fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Finally bank has lending 0.02%, 0.03%, 0.02%, 0.025% and 0.02% at other investment in fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively.

As observed in above table, lending made on Nepal Government securities cover highest percentage as compare to other alternatives of lending. Lending percentage of Nepal Government securities is in fluctuating trend. In F/Y 2004/05 Nabil has lending on Nepal Government Securities which has the highest percentage of amount is 53.56%. In F/Y 2005/06 Nabil has invested on Company's Shares which is 61.78%. In F/Y 2006/07 the bank lend the more percentage of total lending again in Nepal Government Securities which is 52.67%. The study period in F/Y 2007/08 and F/Y 2008/09 the bank has invested highest fund in Company's Shares which is 51.70 and 64.01% respectively. Bank has lending his collected maximum fund in secured sector to secure his lending.

4.4 Least Square Trend (Regression) Analysis:

Regression is the statistical tool, which is used to determine the statistical relationship between two or more variables and to make prediction of one variable on the bass of other variables. The trend analysis exhibits the behavior of given variables in series of time. Commercial banks don't carry consistency over all the period and several factors cause the increase or decrease in the volume of various items of banks operation. Under this study we shall measure the trend analysis of deposit, investment and net profit of Nabil Bank Limited.

4.4.1 Trend Analysis of Total Deposit

Deposit is one of the very sensitive liabilities of commercial banks. The following table shows the trend values of total deposit and projection of total deposit of Nabil up to the fiscal year 2013/14. The calculation of trend forecasted has been presented in appendix- V.

Table - 4.12

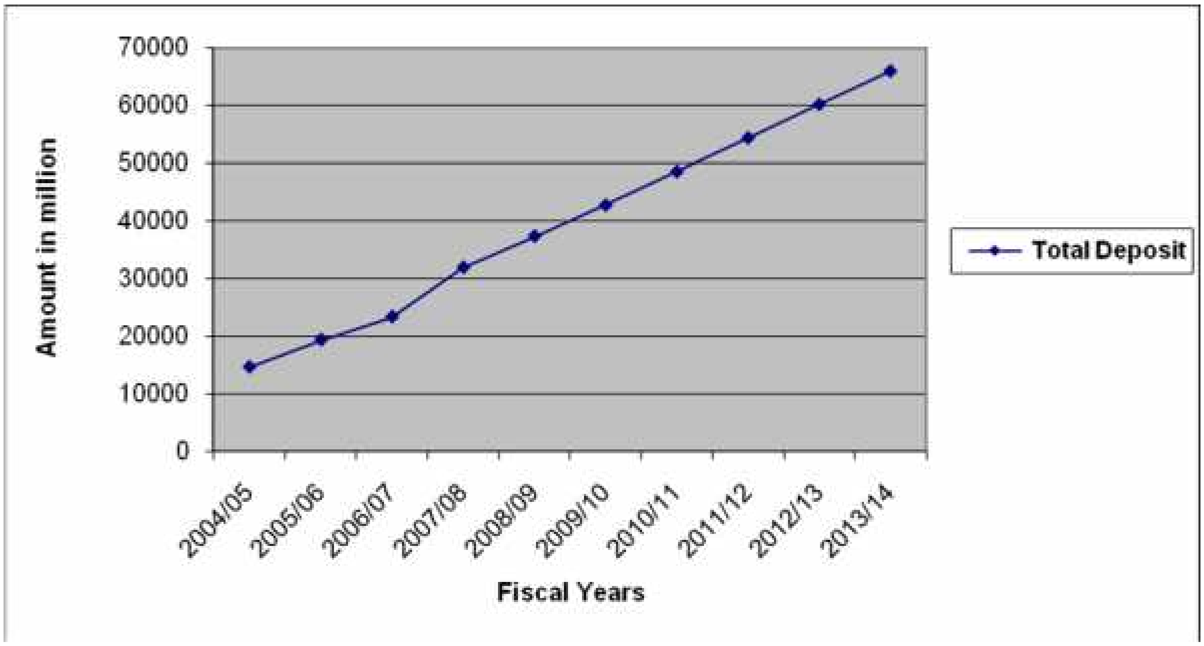
Trend Analysis of Total Deposit (in million)

F/Y	Trend Value of Total Deposit
2004/05	14586.6
2005/06	19347.39
2006/07	23342.28
2007/08	31915.04
2008/09	37348.25
2009/10	42735.17
2010/11	48544.26
2011/12	54353.35
2012/13	60162.44
2013/14	65971.53

The above table shows that the deposit collection by the bank is in increasing trend. The trend values of total deposit of the bank are fitted in the trend lines given in diagram 4.8 below.

Figure - 4.9

Trend of Total Deposit



The figure illustrates that the deposit amount of Nabil for coming five years based on previous data. The trend of total deposit of the bank is increasing. If other things remain same, the deposit of Nabil is predicted to be Rs.65971.53 millions by the end of fiscal year 2013/14. The reason of increasing trend of total deposit is rise in banks others income as well as the lack of alternative opportunities created by the current political scenario.

4.4.2 Trend Analysis of Total Investment

Under this topic, based on the trend values of investment from fiscal year 2004/05 to 2008/09, an attempt has been made to forecast the projection for next five years, i.e. up to fiscal year 2013/14. The calculation has been presented in appendix VI.

Table - 4.13

Trend Analysis of Total Investment (in million)

F/Y	Trend Value of Total Investment
2004/05	4277.95
2005/06	6180.65
2006/07	8956.3
2007/08	9966.56
2008/09	10874.8
2009/10	13145.13
2010/11	14843.09
2011/12	16541.05
2012/13	18239.01
2013/14	19936.97

From the above table-4.12 it is clear that the trend value of investment of Nabil is in increasing. The above calculated trend values of investment of Nabil are shown in the trend line given in figure 4.9.

Figure - 4.10

Trend of Total Investment

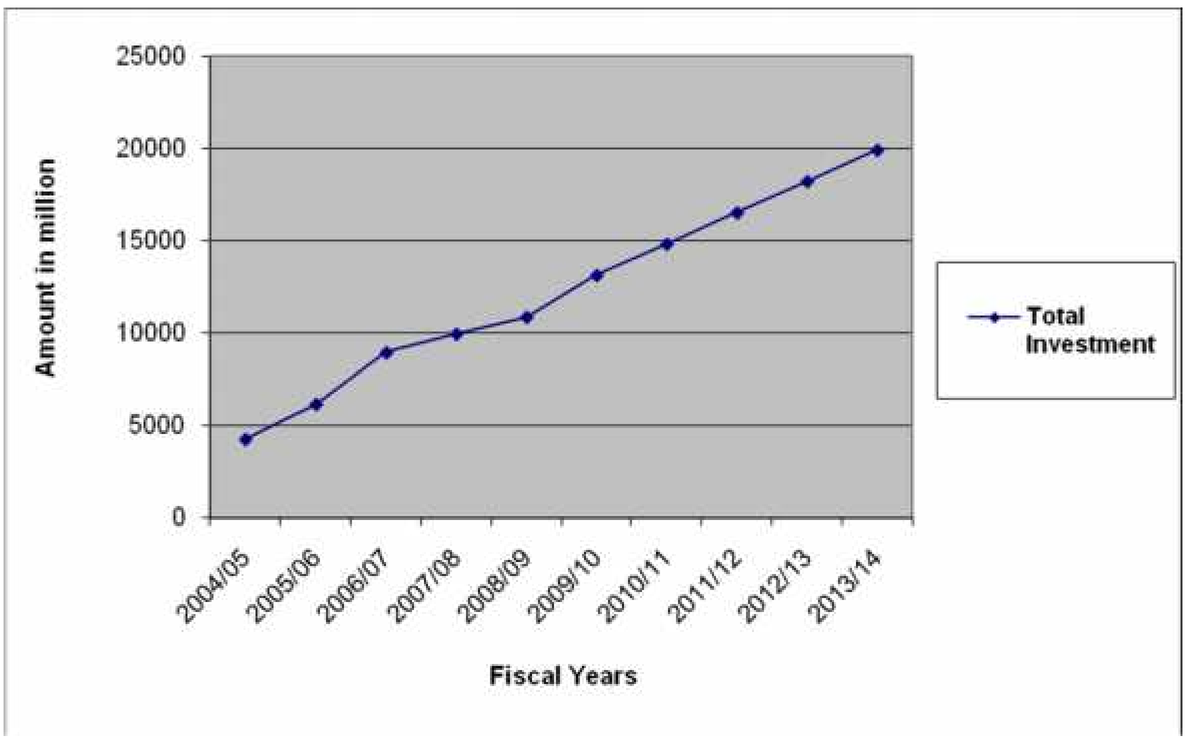


Figure-4.10 illustrates that the trend of investment of Nabil for upcoming five years. From this, it is found that if present trend continuously arise, then the investment of Nabil will make better hugely in future.

4.4.3 Trend Analysis of Net Profit

The following table shows the trend values of net profit of Nabil has been calculated for five years from fiscal year 2004/05 to 2008/09 and the forecast for next five years i.e. from fiscal year 2009/10 to 2013/14 has been made. The calculation of trend forecast has been presented in appendix- VII.

Table - 4.14

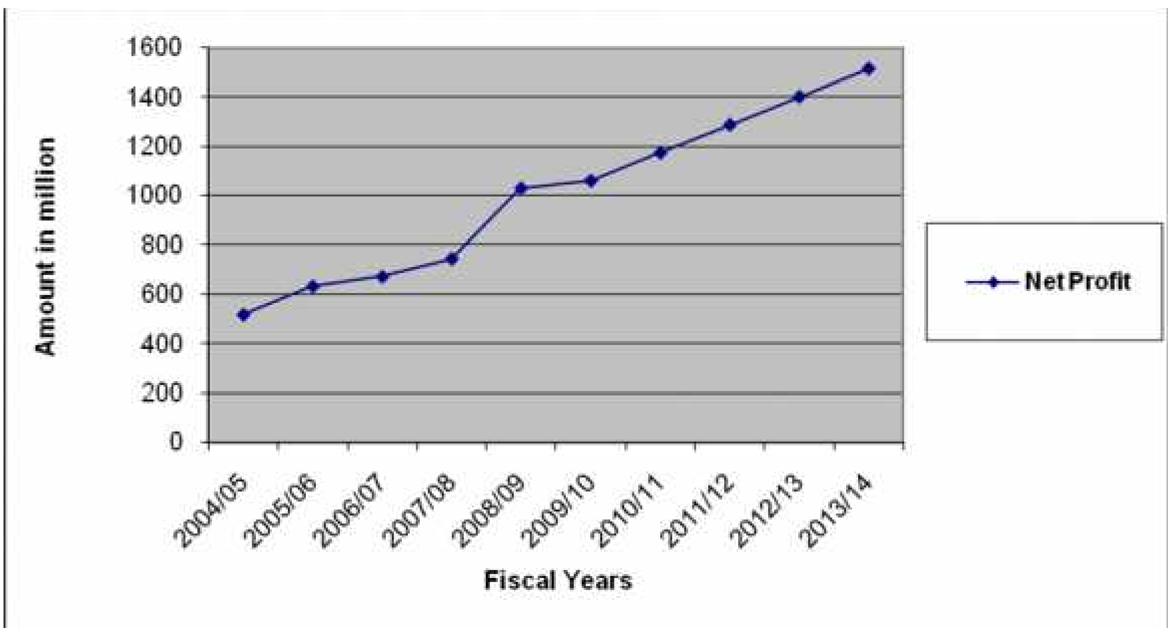
Trend Analysis of Net Profit (in million)

F/Y	Trend Value of Net Profit
2004/05	520.11
2005/06	635.26
2006/07	673.95
2007/08	746.46
2008/09	1031.05
2009/10	1061.26
2010/11	1174.56
2011/12	1287.86
2012/13	1401.16
2013/14	1514.46

The above table shows the net profit of Nabil is in increasing trend. If other things remain same, the net profit of the bank will reach up to Rs.1514.46 millions in fiscal year 2013/14. The trend values of net profit of the bank are plotted in the trend lines given in diagram 4.10 below.

Figure - 4.11

Trend of Net Profit



The trend line of net profit shows that the net profit of the Nabil Bank Limited is in increasing trend for the coming years.

4.5 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the research is to enlist the findings. This will give meaning to the desired results. On the basis of various categories of analysis adopted in this study, a comprehensive summary of the major findings of this study is presented below:

- Nabil bank invested their fund in government securities like treasury bills, national saving bonds and development bonds and non government securities like shares debentures, bonds etc. of different companies.
- Return on total assets ratio of the bank has fluctuated every year, in the starting first two years increasing trend then next two years decreasing trend and last year highly increased in the study period.
- The bank's net profit has every year positive figure. In the study period the volume of net profit is increasing every year and the bank earned the highest profit in last year at the study period.
- The overall trend of total deposit is increasing trend. The fiscal year 2008/09 the bank raised up its deposit collection which amount is 37384.25 million.
- The trend of interest income shows the volume of interest income is increasing highly of the bank at during the research period. Total interest income has reached from Rs. 2798.48 million in the year 2008/09 to Rs. 1068.74 million in the year 2004/05.
- The volume of investment is in increasing trend of the study period of year 2004/2005 to 2008/2009. The investment of Nabil has reached upto Rs.10874.40 million in the year 2008/09 from Rs. 4277.95 million in the year 2004/05.
- The bank invests the highest percentage of government securities in fiscal year 2006/07 and lowest percentage in fiscal year 2008/09 of total deposits.
- The volume of lending percentage of company's shares at total deposits by the bank lowest percentage is 9.69 in fiscal year 2004/05 and highest percentage is 19.89 in fiscal year 2005/06.

- lending percentage of debentures and bonds of Nabil bank ltd in fiscal year 2004/05 is 3.01% and 2005/06 is 0.39% which is highly decreases and then increase fewer percentage in fiscal year 2006/07 and thereafter decrease up to study period.
- In the study period is the highest percentage of lending of other investment is 0.012% in fiscal year 2005/06 and lower is 0.007 in fiscal year 2007/08.
- Bank has invested much collected fund in Nepal Government Securities and Company's Shares. Analyzing the data of lending composition of Nabil bank shows the bank has invest highest percentage at Nepal Government Securities in F/Y 2004/05 and 2006/07 and at Company's Shares in F/Y 2005/06, 2007/08 and 2008/09.
- Bank has decreasing the investment percent of Nepal Government Securities since F/Y 2007/08 and increasing the Company's Shares thereafter.
- Trend value of total deposit is in increasing trend. The total deposit of the bank is predicted to be Rs. 65971.53millions in the F/Y 2013/14.
- If present trend continuously occurs, the net investment of the bank is predicted to be 19936.97millions in F/Y 2013/14.which seems to have much focused on investment policy that contain the lower risk.
- The net profit of NABIL is in increasing trend. The net profit of the bank is predicted to be or increased up to Rs. 1514.46millions in F/Y 2013/14.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

Introduction

As the last part of the thesis report, this chapter presents with the summary, conclusions, and recommendations for corrective measures to be undertaken by the concerned institution.

The first part of the chapter briefly summarizes the total study in respect with the general introduction of the study, various theoretical and application-associations of the present study, study methodology, and key findings of the study. The second part of the chapter deals with the present researcher's conclusions drawn on the basis of this research. Finally, the recommendations have been presented in the third section of the chapter.

5.1 Summary

The commercial bank plays a vital role in accelerating the tempo of growth in developing country like Nepal. It mobilizes the savings of the people and then diverts them into productive channels through lending function. So lending seems as an index for commercial, industrial and financial stability and growth of the nation. Lending is one of the essential functions where the whole banking business is rested upon. The lending policy of the bank has to be considered in this respect otherwise, the bank may not be able to accelerate economic growth rate of the country. So the lending policy should be laid down and made more liberal for mobilize the idle fund to productive sector.

Nabil Bank Ltd. is the pioneer banking institution of the country, Established on 12th of July 1984 through a joint venture with Dubai Bank Ltd. Nabil has played a major role in the economic development of the country. Although established with the initial vision of supporting trade, it has, with passage of time, contributed remarkable to the development of all fields of economic activity in the country. At present, the bank is operating through 28 branches of the country with 416 staffs. Nabil Bank Ltd., till recently was being managed by the management committee of national and foreign management team under control of Nepal Rastra Bank.

The basic objective of this study is to analyze the profitability of the bank, to verify the NRB directives toward Nabil Bank Ltd., to analyze and the interpret the lending policy adopted by Nabil, to analyze the trend values of different variables related to investment from the year 2004/05 to the year 2008/09 has been examined for the analysis of the subject lending policy of Nabil Bank Ltd.

For the analysis purpose, NABIL has taken as study unit with applying convenience-sampling techniques out of 27 commercial banks. The required data for the analysis are collected from the secondary sources. The data mainly obtained from the annual reports, financial statements, web sites etc. To analyze and interpret the data and information, financial and statistical tools have been employed. Under financial tools profitability position, analyze the lending strength, analyzing the lending composition, trend analysis are calculated under statistical tools mean, standard deviation and regression analysis or trend analysis have been done to get result. Deposit is the amount that customers have put on the banks to get security against possible loss and to generate more money from the certain amount of money. This fund helps the banks to grow up. The utilization of the bank's collected deposit indicates the effectiveness of the management. Commercial bank is going to lend some money to the borrower; direct attention must be given toward the security of the loan. The bank studies the prevailing market price first, then only the bank grants loan to the lender. To minimize risk, commercial bank advances of market value of the security.

In addition, the lending policy of NABIL revels that it has mainly focused on lending on government securities, other investment, bond and debentures, shares of other companies. Likewise total amount of loan disbursement has been made for different purpose.

Nabil bank invest their fund in government securities like treasury bills national saving bonds and development bonds and non government securities like shares debentures, bonds etc. of different companies. In the analysis profitability ratios of the bank is also calculated like; return on total assets, net profit, total interest earned, and level of total investment it is at satisfactory. Analyzing the lending strength towards NRB directives the bank has lending most of the fund in Nepal Government Securities and Company's Shares. In analysis of lending composition the bank lend the most of the fund in secured area. Bank has lending in the highest fund in company's share in second, fourth and fifth year in study period and government securities in first and third year. Lastly, the calculating trend values of total deposit, total investment and net profit, if other things remain same, the projection for next five years is in increasing trend.

5.2 Conclusions

The overall lending policy of Nabil on the basis of various categories of analysis adopted in this study, the following conclusions have been derived on the basis of the major findings of this study is presented below:

Analyzing the profitability position of the bank return on total assets ratio of the bank has fluctuated every year. In initial period of the study, bank has shows the increasing trend, after that decreasing and finally bank change highly positive figure of the study period.

Profit is the key factor of any organization. Without profit organization can't perform their work well. The bank's net profit has every year in positive figure. In the study period the volume of net profit is increasing every year and last year bank earned highest profit of the study. The average net profit of Nabil is Rs. 721.36 million. It's net profit increases from Rs. 520.11 million in the year 2004/05 to Rs. 1031.05 million in the year 2008/09.

Total deposit consists of all types of deposits collected by the bank i.e. saving deposit, demand deposit, fixed deposit, call deposit and margin deposit. It includes deposit in foreign currency also. The overall trend of total deposit is increasing. Nabil Bank Limited has been successful in capturing the deposit from the market during the study period. Deposit volume of Nabil is Rs.14586.60, 19347.39, 23342.28, 31915.04 and 37348.25 million respectively in study period.

Volume of interest income has indicated the favorable contribution of lending and investing activities in income generation. The banks interest income shows the great future of the bank.

The bank has successful to mobilize its fund in productive sector effectively to generate more profit in fiscal years. Bank investment trend has increasing every year. The regular increment on investment signifies that the bank is able to manage its available funds properly. The investment of Nabil is Rs.4277.95 million in fiscal year 2004/05 and Rs.10874.40 in year 2008/09.

Government securities are less risky as compare to investment in other securities of different companies and loan and advance, so the Nabil uses that safe locker. Nabil has lending in government securities maximum 20.59% at fiscal year 2006/07 and minimum 9.92% at fiscal year 2008/09 of the total deposit. Nabil follows up NRB directives to lending some fund in government sector.

Nabil has been lending its available fund on shares issued by different financial companies, banks & agencies and foreign banks. Commercial banks are the profit making organization; their target is to generate more profit by making investment in different sector of the economy. So, they invest excess fund on government securities for diversification of investment. According to NRB directives, Nabil has been lending his collected fund in company’s shares. Nabil been has lending maximum 19.89% of total deposit fund in company’s shares in fiscal year 2005/06.

Nabil has been lending some fund of total deposited fund also organized institutions bond and debenture. Initial period of the study bank has been lending at debenture and bonds is 3.01% of total deposit fund and then after decrease its debenture and bonds and fall down the end of the study 0.72%.

Nabil has been lending his collected fund in other investment such as mutual fund SWIFT investment and others. Nabil has been lending fewer percentage funds in lending at other investment.

Nabil invests their fund in government securities like treasury bills national saving bonds and development bonds and non government securities like shares debentures, bonds etc. and other investment of different companies. Nabil bank diversifies their maximum fund in Nepal Government Securities and Company's Share. Nabil has been lending his fund according to NRB directives and diversified the maximum percentage of total lending in Government Sector and Non Government Sector. Nabil diverses his maximum fund of total lending in government sector is 53.57% and 52.67% at fiscal year 2004/05 and 2006/07 respectively, which is the maximum fund of total investment. Nabil has not reduced the lending percentage below 30% of the total investment. So that Nabil has secured his invested. Nabil also invested highest percentage of fund in non government sector.

The trend/regression analysis finds that the projection of deposit, investment and net profit for next five years is increasing continuously that means there is good possibility to be in lighted in the field of banking.

5.3 Recommendations

The following recommendations are made based on the conclusion regarding Lending Policy of the Nabil Bank Limited.

Profitability position of the bank return on total assets ratio of the bank has seen increasing trend in initial period, then decreasing and finally bank change highly positive figure on the study period. Since the profitability of the bank seems to be fluctuated so the bank should look after new area of investment.

Bank net profit has positive figure in every year. In the study period the volume of net profit is increasing trend and last year bank earned highest profit of the study period. So the bank should invest riskless sector to continue earn profit.

The volume of deposit is increasing every year. So the bank should formulate new idea and alternative policy of like giving high interest rate in fixed deposit and other deposit to maintain the customer's in the deposit process.

Interest income of the bank has been observed increasing trend so the bank should mobilize its total assets where there is least chance of crisis as productive sector.

Banks investment trend has been increasing every year. The regular increment on investment signifies that the bank is able to manage its available funds properly. So the bank should advise to give importance to invest more on government securities for safety and diversification of investment in accordance with record of collateral.

To get the targeted objectives of the bank, bank should make and use the better lending policy. Lending on those securities issued by government i.e. treasury bills, government bonds and national saving bonds which are free of risk and highly liquid in nature but such securities yield lower rate of interest at stated maturity due to lower risk. If bank has to earn more return by the investment portfolio, it should invest its fund on other investment alternatives like invested on company's shares, bonds and debentures etc. but bank should consider the risk.

Bank has been lending there funds in government securities and company's share so the bank has been suggested to be the other investment sector for the diversified portfolio risk like mutual fund and SWIFT investment.

The main objective of every bank is to earn high profit. Nabil bank earns maximum profit because of it mobilizes its fund properly. So the bank has suggested that maintain the ratio of NRB directives to lend there funds in poor sector.

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