CHAPTER - I

INTRODUCTION

1.1 General Background

Nepal is one of the least developed countries in the world. Wedged strategically between two large countries, china and India, the kingdom of Nepal is basically an agricultural, mountainous and landlocked country. The country spans 147,181 square kilometers and has three main geographical areas, the high mountains bordering Tibet, the middle hills, and the terai belt in the south. Over 80% of population of Nepal depends on the agricultural sector to earn its livelihood. Despite its large share in the labor market, it paradoxically, contributes 40% of the total GDP. As most of the labor forces are unemployed it is necessary to transform the huge labor force are unemployed it is necessary to transform the huge labor force into industrialized sector. The economic development of Nepal is still in initial stage. For the economic growth and development, government has now initiated various economic policies such as industrial policies such as industrial policy, foreign investment policy, privatization policy, privatization policy and trade and transit policy.

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

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

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

Nepal as adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. Especially after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principal and stat policies. This liberalization has helped in establishing many companies, banks, finance companies and manufacturing industries. Thus these establishments help the country for its development

1.1.1 Commercial Bank:

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

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

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

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

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

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

Bank plays an important role in the economic development of a country. Banking sector Modern bank prefers varieties of functions. Therefore, it is difficult to decide the function of modern bank because of their complexity and versatility in operation. "A commercial bank is dealer in money and it substitutes for money such as cheque or bill of exchange and it also provides a variety of financial services"*(Baxley;1987:154).*

1.1.2 Service of Commercial Bank

Commercials bank can mainly undertake measure such as organizational reforms, maximum utilization of resources and increase in non-cash reserve transaction to reduce the spread between interest rates on deposits and credit. They deploy founds raised from different sources into different assets with a primary objective of profit generation, They also play an important role for the economic development and poverty alleviation of the country through providing credit facilities, quality banking services to a people both business community as well as common man, Concerted efforts of all types of banks and financial institution support by a dynamic policy of central bank are needed to achieve the desired economic growth.

Credit and marketing department in bank plays the vital role in providing different loan facilities services to the people. Marketing helps not only in the sector of collecting deposit but it importantly helps in providing loans and other facilities and different scheme in the market. Credit and marketing department has to deal with actual and possible customers, in one hand credit department keeps in touch with client and offers services that suit to their needs, and in the other hand, credit and marketing department tries to attract new customers.

In order to make customers made services, credit and marketing department studies each environment, client's expectations and an offer proposal adapted to his expectation, The conclusion is focused on advantages that bank can take from the relationship. Credit and marketing department of banks introduce different schemes in the market as desired by the customer

Many facilities can be proposed to client:

- Mobile banking services
- Corporate (separate) counter facility,
- Tele-banking facility for free i.e. consultation of your balance by telephone (protected by a password); ordering a statement of account by telephone
- Incoming and outgoing telex transfers for free.
- Purchase of personal cheques/traveler cheques will be done free of cost
- Insurance of travelers cheque for free
- Insurance of convertible currency draft for free
- An attractive rate of exchange while buying US
- Loan facilities.

A lender, such as a mortgage company, saving and loan or bank, makes these loans. Guarantee on the loan protects the lender against loss if the payments are not made, and is intended to encourage lenders to offer various loans with more favorable terms.

The word ' investment sounds very good, attractive and prestigious too. It is the well knows fact, that every people of the world like the word "investment". In layman's senses, there is always a return in investment. But the word investment conceptualized income savings or the collected fund. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there are adequate saving. Therefore, both the saving and investment are interrelated.

Investment is concern with the management of and investor's wealth. They are invested to increase wealth. Investment is the use of money to earn income or profit. Many people invest part of their income for the future financial gain.

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in saving account in a bank. For example the bank many invest by lending the funds of various business and equipment to increase their production. In addition to borrowing from the banks, most companies issue stock and bonds that they sell to investors to raise capital needed for business expansion, Government and also issues bonds to obtain funds to invest in such projects as the construction of dams, roads and schools. All such investment by individuals, business and government involves a present sacrifice of income to get an expected future benefits. As a result, investment raises a nation’s standard of living.

1.1.3 Development of Bank in Nepal

The growth of banking in not so long in Nepal. In comparison with other de3veloping or developed country, the institutional development in banking system of Nepal is far behind, Even through the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the Mandev the coin Manak and Gunak during the rign of the king Gunakamadev were in use, After the unification of Nepal, Pritivi Narayan shaha, the great king had used coin "mohat" in his name. An institution called taksar was established in 1989 and it started ti issue the coin scientifically. During the reign of Ranodip singh and office name Tejarat was established in kathmandu in 1933. It used to provide loans to the government officials and the people against deposit of gold and sliver. Ti had also extended its branches out side kathmandu valley for providing loan, But this office had no right to accept deposit of public and it had no characteristics of modern banks *(Bhandari; 2004:6-9).*

Banking is the financial institution, which deals with monetary transactions, The world 'bank' is derived from the Italian world "Banco". In the sense of Italian language the term banco refers to the different activities concerning with giving and taking of money. It also implies accumulation of money or stock, so bank can be defined as an organization, which collects the savings from the general publics and lends the money to them who want it. The banking history begins in 1764 (1994 B.S). From the time to exits it tends to prosper. His majesty of government of Nepal adapted the liberal economy after the restoration of democracy in the country. As a result several commercial banks ere established and came up to operation, at present, the number of commercial banks act 2031 B.S and regulate the company act. Commercials banks are helping, not only in the sector of deposits mobilization and lading but also to areas like different products and service development and employment generation etc. Nepal can take pride in remarkable growth and progress in the banking sector. Now a days altogether operating 26 commercial bank in Nepal.

1.1.4 Introduction of Sample Bank

Nepal Bank Limited (NBL)

As there have been number banks established, the research has taken into consideration of Nepal Bank linited. Therefore short glimpses of these commercial banks are given as:

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

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

In the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing service to the people and for the betterment of the country, this law in hereby promulgated for the establishment of the bank and its operation.

The total deposit for the first year was NRS 1702025 where current deposit was about NRS 1298898 fixed was about NRS 388964 and saving was NRS 14163. Loan DISBURSED AND OUTSTANING AT THE END OF THE FIRST YEAR WAS NRS 1985000.

From the very conception and its creation, Nepal Bank Ltd, was as joint venture between the government and the private sector. Out 2500 equity shares of NRS 100 face value, 40% was subscribed by the government and balanced i.e. 60% was offered for the sale to private sector. There were only 10 shareholders when bank first started.

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

Nepal Bank Limited has the following objectives

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

Table: 1.1

Shareholding Composition

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

Composition of Board of Directors

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

Management Term

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

Table: 1.2

Interest Rate Structure

Deposit Types	Duration	Interest rate
Saving Deposit	-	2%
Fixed Deposit	1month to 2years	2% to 3.5%

Table: 1.3

Loan Products

S.N	**Product / services**	**Interest Rate**
1	Gold and Silver	10%
2	Loan against First class Bank Guarantee	7%
3	Loan against mortgage of Government Security	6.50%
4	Working Capital (Demand loan, Overdraft, Pledge loan, Hypothecation) Hire Purchase, Project Loan	10% 10.50% 10%
5	Consumers Lending Home Loan Margin Lending Auto Loan Personal Loan	 7.5% 6.50% 6.50% 9-10%
6	Trust Receipt Loan	8% to 11%
7	Structure Demand Loan	5%

Consumer Loan

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

Personal Loan

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

Types

- Personal Term Loan
- Personal Overdraft

Eligibility

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

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

1.2 Focus of the Study

This study will focus on the effectiveness of consumer loan in the market. In today's competitive market bank has introduce different personal loan to the customer in the market. This study will analyze how for the banks are achieving their goals in meeting customer needs and satisfaction. It focuses on the status and the practices of personal loan offered by banks in this competitive market. However it is getting more impotence of loan for the personal for many purposes. So this study will show the impact of personal loan and also analyze to meet their requirement of personal loan with these products

1.3 Statement of the Problem

Commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to poor economic condition of the country, some of them arising due to confused policy of government and many of them arising due of default borrowers. The problem of the study will ultimately find out the reasons about the consumer lending of commercial bank especially reference to Nepal Bank limited. A study on the lending of the commercial banks would be highly beneficial for pointing out their strength and weakness. Focus of the present study is on the consumer lending of Nepal Bank Ltd. The bank have been facing a very tough competition against one another fluctuating and low interest rates on deposits, poor deposit mobilization trade, commerce etc. have affected on the return of funds, total assets, total deposits and shareholders wealth position. One of the main problems of bank is wobble management. Since the joint venture banks have been established gradually because of the liberal and market–oriented economic policy of Nepal. Bank have been facing though competition from other commercial banks and of course each other. Financial companies have been emerging rapidly and the bank has to compete with them. Since, finance companies are making investment in the same sectors where commercial banks typically invest. Commercial banks are more interested in providing loans on short -term projects due to safety and security of their loans. Thus, they are following conservative lending policy based on strong security. Similarly, these banks do not have a well-organized credit management. They rely much on the instructions and guidelines of Nepal Rastrya Bank. Even if they have formulated some guidelines, they fail to implement it due to poor supervision and lack of professionalism.

After liberalization of economy, banking sector has various opportunities. Lending in industries and production sectors are very risky projects. Banks are investing in house loan, hire purchase loan, for safety purpose. Nowadays banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays due to competition among banks, the interest rate change for loan is in decreasing trend. Non-performing assets have become a large problem in the commercial banks. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Lack of good lending opportunities, banks is facing problems of over liquidity. It has been able to control and capture a remarkable leadership of Nepalese banking sector. Project appraisal method followed by commercial banks is not scientific and appropriate. Granting loan against insufficient deposits overvaluation of goods pledged, land and building mortgaged, risk–averting decision regarding loan recovery and negligence in recovery of overdue loans are some of the drawbacks of unsound investment policy. Similarly, loan supervision and follow-up mechanism is lacking in many commercial banks. Due to unhealthy competition among the banks, the recovery of the banks credit is going towards negative trends. Non-performing Credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, Nepal Ratra Bank has make certain criterion of loss provision of commercial bank.

- Is lending efficiency of Napal Bank influences the profitability?
- What is the impact of deposit and loan advance in liquidity?
- What is the proportion of Non-performing Asset on total loans and advances of the bank?
- Is Nepal bank maintaining consumer lending efficiently?
- Is the bank mobilizing consumer lending effective and efficient?

1.4 Objectives of the Study

The main target of this study is to analyze consumer loans effectiveness in market. Following is the specific objectives of the present study.

- To evaluate various financial ration of the Nepal Bank.
- To analyze Loan and advances to Total deposit, Details of Approval loan and Priority sector lending ratio.
- To observe the lending policy and Profit of Nepal Bank Limited.
- To study about the loans and advances provided to the customer by the bank
- To offer suitable suggestions based on findings of this study.

1.5 Significance of the Study

Lending and marketing department has important role and has many functions. One of the most important functions is consumer loan. Credit and marketing has kept concern towards the requirements of consumer so they introduce different scheme and facilities for the consumer. Which helps them to get financial support as an when required by the consumer with very reasonable interest rate and service charge. If the consumer benefited it will be advantages for individual. At the same time it is getting vast with the competitive environment so banks are fully focusing to the consumer needs and requirement therefore they are offering new schemes and services to the consumer in the market. How far the banks are achieving its goal and to analyses the satisfaction of consumer needs and demands

1.6 Limitation of the Study:

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

- The study mainly concentrates on those factors related with consumer lending activities.
- The study will be centered on the loan department of the conceded bank and other banks too to show the impact of consumer loan in the market. This study is based on secondary data.
- Study is based on data provided by bank.
- Some of the statistical as well as financial tools of comparison & analysis Shall be used in the study.

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

1.7 Organization of the Study:

The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters, which are as follows:

Chapter – I: Introduction

This chapter describes the basic concept and background of the study, introduction commercial bank origin of bank in Nepal, introduction of Nepal bank ltd, statement of the problems, objectives of the study, significance of the study and limitations of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter – II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. This chapter includes conceptual review, review of related study, different thesis, and review of journals, articles and research studies published by various authors.

Chapter – III: Research Methodology

Research methodology describes various source of data related with the study and various tools techniques such as statistical and financial employed for presenting the data. This chapter includes research design, data collection, methods and analysis and research variables.

Chapter – IV: Presentation and Analysis of Data

This chapter is the main part of the research. This chapter analyses the data related with study and presents the finding of the study. Data processing, data analysis and interpretation are given in this chapter.

Chapter – V: Summary, Conclusions and Recommendations

The last chapter contains the findings of whole study after which major conclusions and recommendations are provided. It also gives important suggestions to the concerned organization for the better improvement.

CHAPTER - II

REVIEW OF LITERATURE

This chapter is concerned with review of literature relevant to the topic consumer lending and several research works have been done in various aspects of commercial banks especially investment policy, resource mobilization compliance of NRB by banks etc. Hence, some of the related articles, journals, thesis & website visit in brief are review below. This chapter has been divided into three parts:

- Conceptual Review
- Review of NRB Directives
- Review of Related Studies
    - Review of Journal and Articles
    - Review of Thesis

2.1 Conceptual Review

2.1.1 Meaning and Function of the Commercial Banks

Commercial banks are those banks that pool together the saving of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on condition that they are repayable on demand or on short notice. In other words, a bank is a financial intermediary, a dealer in loans and in debts. It borrows from one set of people and lends to hiring money and hiring out again. Some banks draw their capital mainly from their shareholders, other's mainly from depositors. Some lend mainly to industry, others mainly to government, central and local. Some deal in short loans, borrowings and lending for short periods, others deal in long periods. However the business of individual bank may differ, their essential function is to gather saving together and lend out what they collect.

A bank is a business organization that receives and holds deposits of funds others and makes loans or extends credits and transfer funds by written order of depositors.

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

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

In the Nepalese context, the Nepal Commercial Bank Act 2031 B.S. defines a commercial bank as one, which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions.

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

The American Institute of Banking has laid down the four major functions of the commercial banks such as receiving and handling deposit, handling payments for its clients, making loans and investments and creating money by extension of credit. Nepal Commercial Bank Act 2031 BS has emphasized the major functions of commercial bank, which are mentioned below.

- They accept custody of funds with or without interest and open fixed accounts and saving accounts in the name depositors.
- They make available credit in the form of loan, overdraft and co-financing to the industry, commerce, agriculture, expert and service.
- They help to issue shares and debentures of any company or any other corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but do not become a managing agent.
- Conduct transactions in bonds, provisionary notes or bills of exchange, foreign exchange relating to commerce or corporation.
- Collection, sale and purchase of bills, collection and dissemination of trade information, provide service of opening and making payment of letter of credit, help industry and business by providing bank gurantee.
- They issue letter of credit, draft and traveler’s cheque. They remit or transit find to different place within or outside the nation. They purchase, sell or accept the securities of government.

2.1.2 Meaning and Definition of Consumer Lending

"Commercial bank as of its primary function makes lending activity. It is apparent that loan is defined as a thing is lent, esp. a sum of money. Likewise, debt means a sum of money owed to somebody. However in financial terms loan or debt means principal or interest availed to the borrowers against the security. Debt means money that owes or will lend to individual or person" *(Ghimire; 2005:48).*

Further the term loan is defined as a lending. Delivery by one party and receipt by another party, a sum of money upon agreement expressed or implied, to repay it with or with out interest. Any thing furnished for temporary use to a person at his request, on that condition it shall be returned or its use. Therefore, loan includes-

- The creation of debt by lender's payment of or agreement to pay money to the debtor or to a third party for him account of the debtor
- The creation of debt by a credit to an account with the lender upon which the debtor is entitled to draw immediately
- The creation of debt pursuant to a lender credit card or similar arrangement
- The forbearance of debt arising from a loan: Uniform consumer credit code: 3-106.

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

"The supreme court of India has defined the debt during the decision of the case United Bank of India vs. DRT (1999 ISJ Banking). in the case of his hand, there cannot be any dispute that the expression 'debt' has to be given the widest amplitude to mean any ability which is alleged as dues from any person by bank during the course of any business activities undertaken by bank either in cash of otherwise, whether secured or unsecured, whether payable under a degree of order of any court or otherwise and legally recoverable on the application" *(Gupta; 2002:56)*

2.1.3 Features of Sound lending Policy

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

A) Safety

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

B) Liquidity

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

C) Purpose

The purpose should be productive so that the money not only remains safe but also provide a definite source of repayment. The banker must closely scrutinize the purpose for which the money is required, and ensure, as far as he can, that the borrower applies the money borrowed for a particular purpose accordingly.

D) Profitability

Equally important is the principle of ‘profitability’ in bank advances. Like other commercial institutions, banks must make profit. They have to pay interest on deposits received by them. They have to incur expenses on establishment, rent, stationery, salary and other operating expenses so on. They have to make provision for depreciation of their fixed assets, and also for possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; otherwise, it will not be possible to carry anything to the reserve of pay dividend to shareholders. It is after considering all factors that a bank decides upon its lending rate.

E) Collateral/Security

It has been the practice of banks not to lend as far as possible except against security. Security can be considered as insurance. Security may be generally classified as personal and tangible, as well as primary and collateral. The banker carefully scrutinizes all the different aspects of an advance before granting it. At the same time, he provides for an unexpected change in circumstance, which may affect the safety or liquidity of advance.

F) Legality

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

G) Spread

Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance, however secure it might appear to be. In fact, the entire banking business is one of taking calculated risks and successful banker is an expert in assessing such risks. He is keen on spreading the risks involved in lending, over a large number of borrowers, over a large number of industries and areas, and over different type of securities.

H) National Interest

Even when an advance satisfies al the aforesaid principles, it may still no be suitable. The advance may run counter to national interest. It in the changing concept of banking factors such as purpose of the advance, viability of the proposal and national interest are assuming greater importance than security, small borrowers and export-oriented industries

2.1.4 Principle of lending Policy

Good lending policy is essential to carry out the business of lending more effectively. Some policies are as follows:

i) Principle of Safety Fund

Banks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.

ii) Principle of Liquidity

Liquidity refers to pay on hands on cash when it needed without having to sell long-term assets at loss in unfavorable market. A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

iii) Principle of Security

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

iv) Principle of Purpose of Credit

Generally, credit request would be accepted for productive sector only. Bank should be rejected credit request for speculation, social functions, pleasures trips, ceremonies and repayment of prior credit as they are unproductive.

v) Principle of Profitability

Profitability denotes the value created by the use of resource is more than the total of the input resources. Bank should provide to such project that can provide optimum amount of return. For such purpose, bank should take a little bit risk by providing to venturous project.

vi) Principle of Spread

Portfolio of credit advances is to be spread not only among many borrowers of same industry. It across the industries in order to minimize the risk of lending by keeping “Do not put your all eggs in the same basket” in mind.

vii) Principle of National Interest

In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances.

Every Bank should always follow the rule "Do not put your all eggs in the same basket". So every bank makes appropriate portfolio in their investment the credit management would be excellent.

2.1.5 Types of Lending

Overdrafts:

It denotes the excess amount withdrawn over their deposits. In other words bank provide sum limit of money to their value customer according to their believe ness and level of transaction.

Cash Credit:

The credit is not given directly in cash but deposit account is being opened on the name of credit taker and the amount credited to that account. In this way, every credit creates deposit.

Term Credit:

It refers to money lent in lump sum to the borrowers. It is principle form of medium term debt financing having maturities of 1 to 8 years.

Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs *(Richard; 1996:89).*

Working Capital Credit:

Working capital denotes the difference between current liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops in funds moving through the cycle are generated to repay a working capital credit.

Priority or Deprived sector Credit:

Commercial banks are required to extend advances to the priority and deprived sector 12% of the total Credit must be toward priority sector including deprived sector. Rs.2 million for agriculture cum service sector and Rs.2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to 'Agriculture Development bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes:

Advances to poor/downtrodden/weak/deprived people up to Rs 30,000 for generating income or employment.

Institutional Credit to Rural Development Bank.

Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs.30, 000.

Hire Purchase Financing (Installment Credit):

Hire-Purchase credits are characterized by periodic repayment of principle and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principle as well as interest with an option to purchase.

A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

Housing Credit (Real Estate Credit):

Financial institutions also extend credit to their customers. It is different types, such as residential building, commercial complex, construction of warehouse etc. It is given to those who have regular income or can earn revenue from housing project itself.

Project Credit:

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on developers for completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project . The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it *(Johnson; 1940:83).*

Consortium Credit:

No single financial institution grant credit to the project due to single borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project of which is baptized as consortium credit. It reduces the risk of project among them. Financials bank equal (or likely) charge on the project's assets.

Credit Cards and Revolving Lines of Credit:

Banks are increasingly utilizing cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administration cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Off-Balance Sheet Transaction:

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints

the liability, which may or may not arise during the happening of certain event. Footnotes are kept as references to them instead of recording in the books of accounts.
It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

Bank Guarantee:
It used for the sake of the customers in favor of the other party (beneficiary) up to the approved limit. Generally, a certain percent amount is taken as margin from the customer and the customer's margin account is credited.

Letter of Credit (L/C):
It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities *(Jhonson; 1940:85).*

2.1.6 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:
To assure compliance by lending personnel with the bank's polices and objectives regarding the portfolio of credits
To provide personnel with a framework of standards within which they can operate.

2.1.7 Lending Criteria

While screening a credit application, 5-cs to be first considered supported by documents.

i). Character
Character is the analysis of the applicant as to his ability to meet the obligations put forth by the lending institution. For this analysis, generally the following documents are needed.
Memorandum and Article of Association
Registration certification

Tax registration certificate (Renewed)

Resolution to borrow

Authorization-person authorizing to deal with the bank.

Reference of other lenders with whom the applicant has dealt in the past of bank A/C statement of the customer.

ii). Capacity

It's describes the customer's ability to pay. It is measured by applicants past performance records and followed by physical observation. For this, an interview with applicant's customers/suppliers/ will further clarify the situation. Documents relating to this area were:

Certified balance sheet and profit and loss account for at least past 3 years.

References or other lenders with whom the applicant has dealt in the past or bank A/C.

iii). Capital

This indicates applicant's capacity to inject his own money. By capacity analysis, it can be concluded that whether borrower is truing to play with lender's money only or is also injecting his own fund to the project. For capital analysis, financial statements, like certified balance sheet, profit and loss account is the only tools.

iv). Collateral

Collateral is the security proposed by the borrower. Collateral may be of either nature moveable or immovable. Moveable collateral comprises right from stock, inventories to playing vehicles. In case of immovable it may be land with or without building or fixture, plant machineries attached to it.

v). Conditions

Once the funding company is satisfied with the character, capacity, capital and collateral then a credit agreement (sanction letter) is issued in favor of the borrower stating conditions of the credit to which borrower's acceptance is accepted.

2.1.5 Lending / Credit Process

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

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

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

2.1.6 Lending appraisal and Possessing

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

Commercial bank carries out loan appraisal on the basis of past performance, future forecast and information available form the documents submitted by aspirant borrowers.
The bank tries to ascertain the following during loan processing:

- The cost of estimate us examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.
- Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.
- The return rates should be adequate like return on investment (ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).
- The capacity, competency, integrity and commitment of promoters/partners/proprietors/directors/personnel should be intact.
- SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

2.1.7 Loan Disbursement and Classification

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

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

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

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

Doubtful Category: All loans and advances the principal of which are past due for a period more than six months and up to one year.

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

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

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

2.1.8 Loan Loss Provision

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

2.1.9 Portfolio Analysis

In financial leverage, portfolio could be defined as the composite mixed of ownership to financial assets/investments in which a particular investor wishes to invest. Thus, portfolios are composition of investments in various sectors which in turn are composed of expected risk and return of their component investments. It helps an investor to make optimal investment decision minimizing overall risk and maximizing overall return. Portfolio theory was first developed by Markowitz in connection with the investment in stock market securities. The ground theory was that, if the correlation between the assets return is not perfectively positive, investing in two assets can minimize risk.

Portfolio Management

In general, portfolio management is the process of selecting a combination of investment alternatives that provide the investor a maximum attainable return for a given level of risk or a minimum risk for a given level of return. Portfolio management can also be taken as the management of risk and return. It aims to determine an appropriate mix of investments that attains optimum level of risk and return depending upon the attitude of investor.

"Portfolio management is the art of handling a pool of funds, so that it not only preserves its original worth but also overtime appreciates in value and yields an adequate return consistent with the level of risk assumed" *(Cohen, Zinbarg and Zeikel; 1993:124).*

"A portfolio simply represents the practice among investors of having their funds in more than one asset. The combination of investment assets is called a portfolio." *(Weston and Brigham; 1983:313)*

"Portfolio construction involves identifying those specific assets in which to invest as well as determining the proportions of the investors wealth to put in to each one" (*Sharpe, Alexander and Bailey; 2000:287).*

"The term 'portfolio' simply means collection of investments. For an investor through the stock exchange the portfolio will be a collection of shareholders in different companies. For a property investor, portfolio will be a collection of buildings. To a financial manager within an individual company, portfolio will be a collection of real capital projects. It will be apparent that the actual nature of the components of a portfolio depends on the population of opportunities from which the selection has been made" *(Raymond and Brockington; 2005:89)*

Portfolio management of banks' loan investments basically are the allocation of funds to different types of consumption and investment loans having different degrees of risk and varying rates of return in such a way that balances the conflicting goal of maximizing return and minimizing risk. The process of managing banks' loan investments considers a number of relevant and influencing factors such as the availability of funds, liquidity required, central bank's rules and regulations that abide banks, risk associated with the respective industries, and the expected rate of return on respective loan sanctioned sectors. In addition, the banks should carefully examine the macro economic indicators such as interest rates, inflation, aggregate expected money multiplier, national income; saving ratio etc. effective management of banks' loan investments can lead the banks into the success as loan investments constitute the major portion of a traditional bank's total assets.

2.2 Review of NRB Directives

Nepal Rastra Bank has issued unified directives to banks and financial institutions for implementation effective from 2063. This also contains the new directive concern in loan portfolios and provisioning. Except a few important changes, this directive has retained most of the previous provisions.

Classification of Loan and Advance

The classification criteria are as follows:

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

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

Doubtful Category: All loans and advances the principal of which are past due for a period more than six months and up to one year.

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

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

Capital Structure of Banks:

The current regulation of NRB prescribes that all the new commercial banks are to be established in Kathmandu at national level should have minimum paid up capital Rs.2000 million; the existing banks in operation are required to enhance the capital level to Rs.2000 million by the end of FY 2065/66 BS. For this purpose and objective all the commercial banks have furnished their plans to enhance the level of capital accordingly. With effect from fiscal year 2062/63, the commercial banks need to have minimum of capital adequacy as below:

Table: 2.1

Maintenance Minimum Capital Fund

Time Table	Required Capital on the basis of Risk weighted assets	
	Core Capital	**Capital Fund**
For FY 2061/62	5.5 %	11 %
For FY 2062/63	6.00%	12%
For FY 2063/64	5%	11%

Source: NRB unified directives; 2008

It is to be noted that capital fund comprises of both primary capital and supplementary capital. Similarly the risk-weighted assets will include both on-balance sheet items and off-balance sheet items. Standard format and weighted percentage is given in the directive itself and commercial bank need just to fill the columns to see whether required percentage is maintained or not.

General Loan Loss Provision

Under this head provision made only against the pass loan should be included. The amount should be limited up to 1.25 % of the total risk weighted assets. However, loan loss provision on sub standard and doubtful loans should be available for inclusion under the supplementary capital during the period as follows.

Table: 2.2

General Loan Loss Provision

Time Period	**Loan Loss Provision available for Supplementary Capital**
For FY 2058/59	Pass, Sub-Standard and Doubtful
For FY 2059/60	Pass, Sub-Standard
For FY 2060/61	Pass (Up to 1.25% of total risk weighted assets)
For FY 2061/62	Pass (Up to 1.25% of total risk weighted assets)
For FY 2062/63	Pass (Up to 1.25% of total risk weighted assets) and so on

Source: NRB unified directives; 2008

Classification of outstanding loan and advances on the basis of aging

From the effective Fiscal year 2058/59, banks should classify outstanding amount of Loans and Advances on the basis of aging. Loan and advantages should be classified into the following four categories:

1. Pass Loans

Loans and advance whose principle amount not due and past due for a period up to 3 month shall be included in this category. These are classified as Performing Loans.

2. Sub-Standard Loans

All loans and advances that are past due for a period of 3 month to 6 month shall be included in this category.

3. Doubtful Loans

All loans and advances, which are past due for a period of 6 month to one year, shall be included in this category.

4. Loss Loans

All loans and advances which are past due for a period of more than one year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be include in this category.

Provision for good loan

Loan and advances fully secured by gold, silver, fixed deposits receipts and Nepal Government securities should be included under “pass” category. Where collateral of fixed deposit receipt or Nepal Government securities or NRB bonds is placed as securities against loan for other purposes, such loan is classified on the basis of aging.

Additional arrangement for “Loss” Loan Provision

Even if the loan is not due, loans having any or all of the following discrepancies shall be classified as “Loss”

- The borrower has been declared bankrupt
- The credit has not been used for the purpose originally intend.
- The borrower is absconding or cannot be found
- Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.
- Loans provided to the borrowers included in the blacklist and where the credit information bureau blacklists the borrower
- Non-security at all or security that is not in accordance with the borrower's agreement with the bank
- Purchased or discounted bills are not realized within 90 days from the due date

Additional arrangement in respect of term loan

In respect of term loans, the classification shall be made against the entire outstanding loan on the basis of the past due period of overdue installment.

Loan Loss Provision Policy

NRB has issued the directives which commercial banks should make provision against the loan disbursed them. The loan loss provision on the basis of the outstanding loans and advances classified as per NRB Directives should be provides as follows:

Table: 2.3

Loan Loss Provision Policy

S.N	Classification of Loans	Define as	Age	Loans Loss Provision
01	Pass or Good	Performing Loan	Principle not overdue up to 3 months	1%
02	Sub-Standard	Non-Performing Loan	Principle overdue by more than 3 month to 6 months	25%
03	Doubtful	Non-Performing Loan	Principle overdue by more 6 month to 12 months	50%
04	Loss or Bad	Non-Performing Loan	Principle overdue by more than 12 months	100%

Source: NRB unified directives; 2008

Additional Provisioning for Personal Guarantee Loans

Where the loan is extended only against personal guarantee, a statement of the assets, equivalent to the personal guarantee amount not claimable by any other shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of Pass, Substandard and Doubtful in addition to the normal loan loss provision applicable for the category, an additional provision by 20 % point shall be provided. Classification of such loans and advances shall be prepared separately. Hence the loan loss provision required against the personal guarantee loan will be 21%, 45% and 70% for Pass, Standard and Doubtful category respectively.

Rescheduling and restructuring of Loan

In respect of loans and advances falling under the category of Substandard, Doubtful or Loss, banks may reschedule or restructure such loans only receipt of a written plan of action from the borrower citing the following reasons:

- Evidence of existing of adequate loan documentation
- The internal and external cause contribution to deterioration of the quality of loan.
- The reduced or risk inherent to borrower/enterprise determined by analyzing its balance sheet and profit and loss account in order to estimate recent cash flows and to project future ones, in addition to assessing market conditions.
- An evaluation of the borrower/enterprise's management with particular emphasis on efficiency, commitment and high standards of business ethics

Loan Loss Provision in respect of rescheduled, restructured or swapped loan

- Expect for priority sector, in respect of all types of rescheduling or restructured or swapped loan, if such credit falls under Pass category according to Nepal Rastra Bank directives, loan loss provision shall be provided at minimum 12.50%
- In case of rescheduling or restructuring or swapping or insured of insured or guaranteed priority sector credit, the loan loss provisioning shall be provided at one fourth of the percentage.

☞ In respect of swapped loans, the bank accepting the loans in swapping has to provide loan loss provision classifying the loan is swapping shall obtain certification from the concerned bank of financial institution as to the existing classification.

Loss Loan Provision for Priority Sector Lending

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

Table: - 2.4

Loss Loan Provision for Priority Sector Lending

Classification of Loans	Loans Loss Provision for priority/deprived sector lending
Pass or Good	0.25%
Sub-Standard	5.00%
Doubtful	12.50%
Loss or Bad	25.00%

Source: NRB unified directives; 2008

2.3 Review of Related Studies

2.3.1 Review of Journal and Articles

Shiva Raj Shrestha, (2004) has explained in his article " *Portfolio Management Plays the Vital Role in Individual as well as Institutional"* that due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors if the economy is already sick. When any sector of economy catches cold, bank start sneezing. Form this perspective, the banking industry as a whole is not trust. Incase of investors having lower income, portfolio management may be limited to small saving income. But the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important for both an individuals as well as institutional investors. Large investors would like to select the best mix of investment assets.

Him Pd. Neupane (2062) in his article titled “*Bad loans of Banking Sector- Challenges and Efforts to resolve it*” has thrown some views regarding bad loans of banking sector. As mentioned by him there was various types of risk inherent in the credit. One, who manages risk, earns profit. He further added that the recent financial crisis in banking sector is due to weak accounting procedures, defect in loan classification, lack of transparency, loss control measures etc.

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

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

2.4 Review of Thesis

This dissertation has been written after studying various books journals article website and previous thesis. I here comprise the some previous thesis review, which are mainly concerned about financial performance and fund mobilization policy, lending practices and investment policy, credit management and loan management of commercial bank.

Bhoj Raj Bohara, (1992). In this thesis made endeavor to examine the "*Comparative Financial Performance of NABIL and BIBL"*. In term of their liquidity activity and profitability along with other parameter.

The specific objectives of this study are as follows:

- To find out the empirical relationship between total investments, deposits, loans and advances net profit and asset and compare them
- To compare various ratio between NABIL and BIBL
- To make a comparative study on fund mobilization and investment patterns of the selected banks.

The major findings of the study are as follows:

Current ratio of NABIL is ranging from 1.18 to 1.16 and BIBL is ranging from0.54 to 0.67 over the study period. The mean ratio of NABIL and BIBL are 1.16 and 0.63 respectively. Cash and bank balance to current of NABIL and BIBL are ranging from 14.35% and 13.58% respectively over the study periods. The mean ratio of NABIL and BIBL are 10.23% and 10.76% respectively. Investment on government securities to total current assets ratio of NABIL is ranging from 19.36% to 17.00% during the study period and the ratio of BIBL is ranging from 39.86% to 41.34% of the same period. Loan & advances to current assets ratio of NABIL ranging from 61.80% to 64.26% but the ratio of BIBL is 51.16% to 53.37%. The ratio of NABIL is low due to the greater portion invested in the government securities.

Cash and bank balance to total deposit ratio of NABIL and BIBL are ranging from 17.02% and 8.06% respectively over the study periods. Total investment to total deposit ratio of NABIL is ranging from 24.70% where as the ratio of BIBL is 54.47%. Return on equity (ROE) of NABIL is in between 15.37% and 24.67% where as the ROE of BIBL is in between 37.03% and 32.68%. It signifies that the shareholders of NABIL are getting higher return. The mean ratio of NABIL is more than that of BIBL. Total interest expenses to total working fund ratio of NABIL is in between 3.82% and 2.41% where as the ratio of BIBL is in between 1.22% and 1.44%.. The mean ratio of NABIL and BIBL are 210.87% and 124.04% respectively.

Loan loss provision to total loans & advances ratio of NABIL is in between 0.66% to 1.34% where as the ratio of BIBL is in between 0.04% to 0.53%.. Loan loss provision shouldn't be more than 1.25% of risk bearing assets according to NRB directives. So, in all of the year, both the bank have met the NRB requirement. Non-performing loans to total loans & advances ratio of NABIL and BIBL is in between 0.94% & 2.20% and 1.89% to 4.35% respectively These ratio indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, EBL has efficient operating of credit management than that of NABIL.

He has concluded that bank performance cannot be judge solely in term of profit, as it may have earned profit by maintaining adequate liquidity and safety position. But it, should also be evaluate on the ground of the contribution, it has made to the community, government and national economy or on the social and national priority discharged by banks. This means, the banks should come forward with national priority tasks i.e. more deposit collection, resource mobilization. The tasks are possible when they expend branches, more employment opportunities, service to more customers, developing skills and expertise in local staffs, satisfactions on profit earning and exchange of autonomy provided by them. Following their rules, regulations, instruction directives and priorities can discharge the accountability.

Prem Bahadur Shahi, (1999). Conducted a study on "*Investment Policy of Commercial Banks in Nepal*" with the main objectives of:

- To evaluate the liquidity, asset management efficiency and the profitability and risk position of Nepal bank limited to Joint venture banks.
- To discuss fund mobilization and investment policy of Nepal bank limited in respect to its fee based off-balance sheet transaction and fund based on-balance sheet transaction in comparison to the Joint venture banks.
- To find out the empirical relationship between various important variables i.e., deposits, loan and advances, investment, net profit, etc. And compare them with the Joint venture banks.
- To analyze the deposit utilization trend and its projection for next five years of the Nepal bank limited and compare it with that of the Joint venture banks.
- To provide a package of workable suggestions and possible guidelines to improve investment policy of Nepal bank limited and the Joint venture banks based on the finding of the analysis, for the improvement of financial performance of Nepal bank limited in future.

The research was conducted mainly on the basis of the secondary data.
The research findings of the study are as follows:

- The liquidity position of NBL is comparatively better than that of the JVBs. Highly fluctuation liquidity position shows that the bank has not formulated any stable policy. It can also be conducted that NBL has more portions of current assets as loan and advances but less portion as investment on government securities.
- The mean ratio of loan and advances to total deposit of NBL is slightly lower than that of the JVBs. The mean ratio of total investment to total deposit of NBL is lower than that of the JVBs. The mean ratio of investment on government securities to total working fund of NBL is slightly lower than that of the JVBs.
- The mean ratio of total off-balance sheet operation to loan and advances of NBL is found significantly lower than that of JVBs. So it was concluded that NBL is comparatively less successful in on-balance sheet as well as off-balance sheet operations than that of the JVBs. It hasn’t followed any definite policy with regard to the management of its assets.

- Profitability position of NBL is comparatively not better than that of the JVBs. It indicates that NBL must maintain its high profit margin in future.
- From the analysis of different growth ratios it can be concluded that NBL has not been more successful to increase its sources of funds i.e., deposits and mobilization of it, i.e. loan and advances and total investment. Similarly it seems to have failed to maintain high growth rate of profit in comparison to that of other JVBs.
- It has been found that there is significant relationship between deposits and loan and advances. There is negative relationship between deposits and investment in case on NBL and positive in case of the JVBs.
- NBL has higher trend analysis values of loan and advances and deposit, but lower trend values of net profit and total investment in comparison to the JVBs for next 5 years.
- Highly fluctuating ratios of NBL show that it has not formulated any stable policy to maintain its liquidity in a consistent manner.

High portion of cash and bank balance in NBL shows its negligence and inefficiency in its best utilization. It has not considered the cost of fund and its opportunity costs. Higher percentage of loan loss ratios shows that NBL is weak in credit collection. There is absence of a sound credit collection policy. NBL has not followed innovative appraisal, improper collateral evaluation, irregular supervision, etc. is a severe problem for the bank's success.

Upendra Tuladhar, (2000). Conducted a study on *"A Study on Investment Policy of Nepal Grindlays Bank Limited in Comparison to other Joint Venture Banks of Nepal*" with the objective of:

- To study the fund mobilization and investment policy with respect to fee-based off - balance sheet transaction and fund based on balance sheet transactions.
- To study the liquidity, efficiency of assets management and profitability position.
- To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

- To perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint venture banks.

The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.

The research findings of the study are as follows:

- From the analysis of primary data concerning in which sector should JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial sector (18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.
- The mean of total investment to total deposits ratio of Nepal Grindlays Bank Ltd. Is higher than the other JVBs. The mean of the loan and advances to total deposits ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd.
- Loan and advances to working fund ratio of Nepal Grindlays Bank Ltd. was found less than the mean ratio of other banks. Investment on government securities to working fund ratio of Nepal Grindlays Bank Ltd. had the highest mean ratio than NABIL Bank Ltd. and Himalayan Ltd. during the study period**.**
- It was found that total Off-balance sheet operation to loan and advances ratio of Nepal Grindlays Bank Ltd. is found to be of highest mean ratio than that of NABIL Bank Ltd., and Himalayan Bank Ltd. it means Nepal Grindlays Bank Ltd. used to perform highest off-balance sheet operation than the other two JVBs i.e., used to give priority to provide letter of credit, guarantee and others (e.g. trade finance) excessively than to others. The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL Bank Ltd. but higher than Himalayan Bank Ltd.
- The profitability position of Nepal Grindlays Bank Ltd. is higher than NABIL Bank Ltd. and Himalayan Bank Ltd. as well as it use to provide interest to the customers for different activities consistently. The volume of growth ratio of loan and

advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL Bank Ltd. but lower than Himalayan Bank Ltd. It indicates that all the JVBs used to provide loan and advances in increasing manner. From the analysis of growth ratio of total investment it is found that Nepal Grindlays Bank Ltd. and NABIL Bank Ltd. have negative growth ratio i.e., they Used to reduce the investment during the study period. But it is increasing in the case of Himalayan Bank Ltd.

- The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more Satisfactory than NABIL Bank Ltd. but in case of Himalayan Bank it seemed to be very high.

Samiksha Thapa, (2002). On her study "*A Comparative Study on Investment Policy on Nepal Bangladesh Bank Limited and Other Joint Venture Bank*." On her study, the major objectives were as follow

- To evaluate the liquidity, asset management efficiency profitability and risk position of NB bank in comparison to NABIL and NGBL.
- To analyze the relationship between loan and advance and total investment with other financial variables of sample banks. To examine the fund mobilization and investment policy of NB Bank through off balance sheet and on-balance sheet activities in comparison to the other two banks.
- To study the various risk in investment and to analyze the deposit utilization trend and its projection for next five years of the sample banks. And to provide the suggestion for improving the investment policy of NB bank on the basis of the findings of the analysis.

M/S Thapa, has found that the liquidity position of NB bank is comparatively better than that if NABIL and NGBL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. It has good deposit collection, it has made enough loan and advance but it has made the negligible amount of investment in government securities. The NB bank is not in better position regarding its on balance as- well-as off-balance activities in compare to NABIL and NGBL. It does not deem to follow any definite policy regarding the management of its assets. She further found that the profitability position of NB bank is comparatively worse than that of NABIL and NGBL. The bank must maintain its high profit margin for the well being in future. NB bank has maintained high a growth rate in comparison to other banks through it is not successful to make enough investment and can say that the bank is successful in increasing its sources of funds and its mobilization. Finally she concluded that there is significant relationship between 'deposit and loan and advance' and 'outside assets and net profit' of NB bank, NABIL and NGBL. But there is no significant relationship between deposit and its investment of NB bank only. NB bank has maintained high growth rates in comparison to other banks through it are not successful to make enough investment. The position of NB bank in regard to utilization of the fund to earn profit is not better in compare to NABIL and NGBL. NB bank has not provided ATM facility, credit card facility, any branch bank facilities and web sit etc. But these facilities are providing by the NABIL and NGBL.

Durgesh Gopal Shrestha, (2004). On his thesis entitled ***"****Role of Rastriya Banijya Bank in Priority Sector Credit & Its Recovery****"*** has tried to reveal the following objectives:

- To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
- To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
- To examine the situation of deprived sector credit (DSC) of RBB.
- To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:

- Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.
- RBB is very much success in complying the NRB policy.
- Bank was not able to fully utilize the collected deposits in a proper way.
- The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.

- Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.
- The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

A. K. Gurung, (2006). Explored in his research "*Lending Policy and Recovery Management of Standard Chartered Bank Nepal Ltd and Nabil bank Ltd*"

The specific objectives of this study are as follows:

- To evaluate various financial ration of the SCBNL and NABIL Bank.
- To analyze Loan and advances to Total deposit, Details of Approval loan and Priority sector lending ratio.
- To observe the lending policy and Profit of SCBNL and NABIL Bank..
- To study about the loans and advances provided to the customer by the bank
- To offer suitable suggestions based on findings of this study.

The researcher has found out the following result and findings

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

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

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

Pradip Sedai, (2007) in his dissertation "*An Analysis on Lending Policy and Strength of Nepal Investment Bank Ltd*" highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder‘s equity indicate a good performance of NIBL in its lending activities.

The main objective and target of this study is to observe the loan disbursement of Nepal Investment Bank Ltd. they are

The breakdowns of the objectives of the study are as follows:

- To evaluate various financial rations of the NIB.
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To analyze trend of deposit utilization towards loan and advances and net profit.
- To offer suitable suggestions based on findings of this study

The main finding and recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision, required proper market analysis, diversify the investment sector etc. finally however, performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, pe5rsonal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business new and attractive lending scheme would be launched to the customer.

Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio incate that bank is good enough to judgment in their value customer. The better activity ratio of this bank been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

Ram Limbu, (2008). In his dissertation, "*Credit Management of NABIL Bank Limited*" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition.

The main objectives of the research study are as follow.

- To evaluate various financial ration of the Nabil Bank.

- To analyze the portfolio of lending of selected sector of banks
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

The main finding and conclusion are according to calculated ratio. In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The Price earning ratio of NABIL is in increasing trend. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances. Trend analysis tools are done for future forecasting. Trend analysis for total, loan & an advance, Total asset and Net profit is done to see future prospect.

CHAPTER - III

RESEARCH METHODOLOGY

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

Research methodology describes the methods processes applied in the entire aspect of the study. This chapter indicates research design, population and sample procedure, and sources of data and analysis of data.

3.1 Research Design

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

3.2 Sources of Data

There are two sources of data collection. The research is based on secondary source of data. Even though adequate data are collected from secondary sources. The research is based on secondary source of data.

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

Annual Report of concern Bank.

Internet and E-mails.

NRB directives.

Economy survey of Government of Nepal and Ministry of finance.

Newspaper, journals, articles and various magazines.

Dissertation of Central Library of T. U. and Library of Shanker Dev Campus.

3.3 The Institution under Study

The objective of the research is to explore and describe the lending management in Nepal from the investor's point of view. However, with regard to the availability of the financial information, two samples were identified purposively from the banking sector, which comprise of nineteen among the listed. The population here, the total 26 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. The main reason of selecting this bank is its government and public holding bank and its found rarely done research by other and also want to know how the bank provide loan to its customer. So among the various commercial banks in the banking industry, Likewise, financial statements of five years are selected as samples for the purpose of it. the bank selected for this research is Nepal Bank Limited.

3.4 Methods of Data Collection

The required data i.e. relevant reposts and statements for analysis were directly collected from the credit administration department, account department of NBL, annual report of NBL collected form website of the bank, statistical bulletin published by NRB and other publication from NRB, magazine, newspaper.

3.5 Data Processing Technique

All collected data have been grouped accordingly to their nature in their tabular and chart y selecting relevant data. The collected data are presented and refined for the purpose of the study. This processing procedure is required for sequential analysis of data to meet the objective of this research.

3.6 Tools and Techniques Employed

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

Financial tools

Statistical tools

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

3.7 Tools Used

Financial tools used

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

Loan and advances to deposit ratio

Non-performing loan to loan and advance ratio

Priority sector lending to loan and advance ratio

Total profit to loan and advance ratio

Total Profit to total Deposit ratio

Details of Approved loan heading

Consumer lending portfolio analysis

i, Loan and Advances to Total Deposit Ratio:

This ratio is also called credit- deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under;

$$\text{Loan \& Advances to total deposit ratio} = \frac{\text{Loan \& advances}}{\text{Total deposits}}$$

ii, Non-Performing Loans to Total Loans and Advances Ratio:

This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice- versa. This ratio is computed by dividing the non-performing loans by total loans and advances as under;

Non-performing loans to total loans & advances ratio =

$$\frac{\text{Total non - performing loans}}{\text{Total loans \& advances}}$$

iii, Priority sector lending to loan and advance ratio

This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the priority sector lending of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as; Commercial banks invest some part of loan to the priority and deprived sector. For example, banks grant loan on agriculture, domestic industries, services, and power sector and machine and import raw materials is called priority sector lending.

$$\text{Priority sector lending to loan and advance Ratio} = \frac{\text{Cash Priority sector lending}}{\text{Total Loan and Advance}}$$

iv, Return on Loan and Advances Ratio:

This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

$$\text{Return on loan and advances ratio} = \frac{\text{Net profit (loss)}}{\text{Loans \& advances}}$$

3.8 Statistical Tools

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

i) Mean:

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

$$\overline{X}\ \mathrm{X}\frac{X}{N}$$

Where, $\overline{X}$ = Mean of the values

X = Summation of the values

N = No. of Observations

ii) Coefficient of variation:

The calculated standard deviation 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 coefficient of variation (C.V.) is given by the following formula in the percentage basis:

Coefficient of variation (C.V.) = $\frac{\exists}{\overline{\overline{\mathbf{X}}}} \mid \mathbf{100}$

iii) Measures of Correlation:

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively or negatively. This tool analyses the relationship between those variables by which it is helpful to make appropriate investment policy for profit minimization. The Karl Pearson coefficient of correlation (r) is given by following formula:

Coefficient of Correlation (r) = $\frac{xy}{N\pm_1\pm_2}$

Where, x = $\int \mathbf{X}\ Z\,\overline{\mathbf{X}} /$

y = $\int \mathbf{Y}\ Z\,\overline{\mathbf{Y}} /$

$\pm_1$ = Standard series of X

$\pm_2$ = Standard series of Y

N = Number of pairs of Observations

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of zero, it is said that there is no significant relationship between the variables.

iv) Trend Analysis:

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends line following formula can be used:

y = a + bx

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter pact with the analysis, presentation, interpretation and major finding of relevant data of Nepal Bank limited in order to fulfill the objectives of research study. To obtain better result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight consumer lending of Nepal Bank limited as well as other cases or problems also. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used. This chapter deals with the various aspects of lending management such as financial ratios, impact of loan and advance to deposit, priority sector lending, lending efficiency, non-performing loan correlation and trend analysis.

4.1 Financial Condition Analysis of Nepal Bank Limited

Financial analysis assists in identifying the major strengths and weaknesses of any institutions. It indicates whether a company has enough cash to meet its obligations and ability utilize properly their available resources. Financial analysis can also be used to assess the company's liability as and ongoing and determine whether a satisfactory return is being earned for the risks return. Thus, financial condition of the banks in terms of lending management is necessary to find out the comparative credit practices between the competitors.

The financial conditions are normally examined by comparing various types of financial tools such loan deposit ratio, profitability to loan ratio, profit to total assts etc between two more forms.

i) Total Loan and Advance to Total Deposit Ratio

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

Table 4.1

Total Loan and Advances to Total Deposit Ratio

Year	**Total Loan & Advance**	**Total Deposit**	**Ratio**
2002/03	18132.33	35014	0.5179
2003/04	17937.66	35735.04	0.502
2004/05	16866.55	35934.16	0.4694
2005/06	12441.55	35829.77	0.3472
2006/07	13756.62	38715.2	0.3553
N = 5	Mean		0.43836

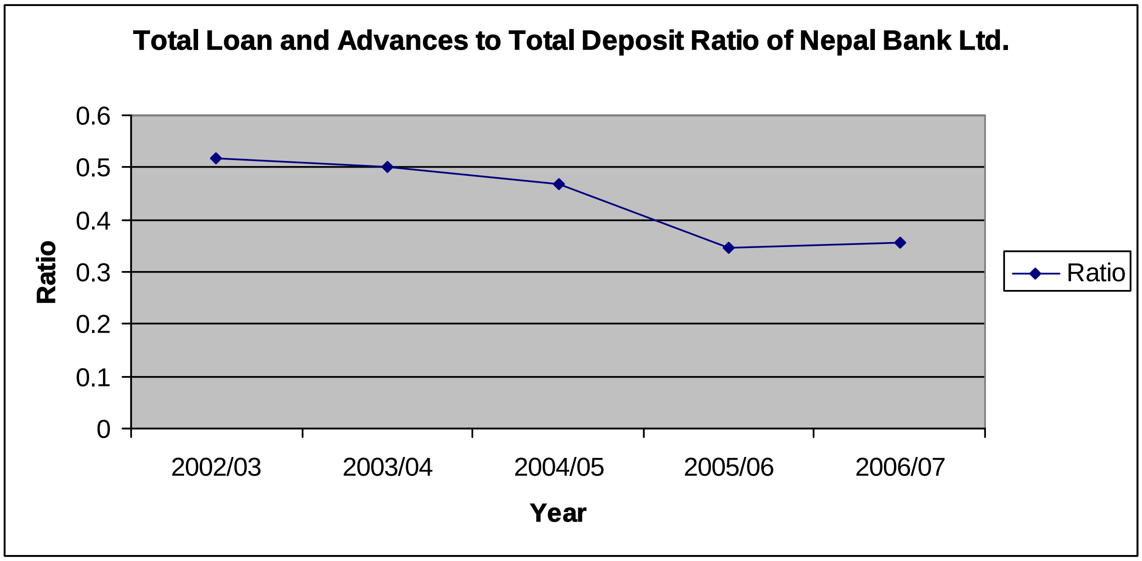
Source: Annual Report and concerning department of NBL.

Table 4.1 shows total deposit, total loan and lending deposit ratio of Nepal Bank Limited. The ratio of NBL is in decreasing trend to 2005/06 and little increasing trend in 2006/07. It seems low utilization of total deposit in loan and advances. The average mean ratio of NBL is 0.438. The highest ratio is 0.5179 in 2003/04 and lowest ratio is 0.3472 in 2005/06. It indicates that NBL seems to be efficient in mobilizing its total deposit in the form of loan and advances in 2002/03.

There are many reasons like, the political crisis and instability for the lesser ratio of total loan and advance and deposit, borrower intention of not paying interest and principal in time is another reason for less utilizing collected funds of NBL.

Total Loan and Advances to Total Deposit Ratio is represented in figure as follow.

Figure No 4.1



ii) Non-performing loans to total loan and advance ratio

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

Table 4.2

Non-Performing Loan to Total Loan and Advances Ratio

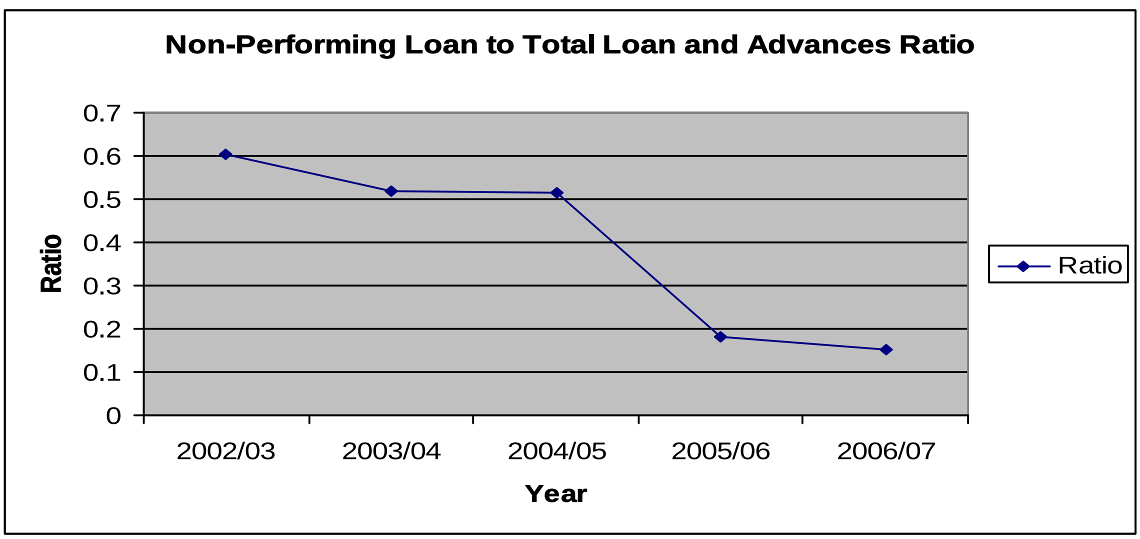
Year	NPL	Total Loan	Ratio
2002/03	10960.8	18132.33	0.6045
2003/04	9324	17937.66	0.5198
2004/05	8689.3	16866.55	0.5152
2005/06	2263	12441.55	0.1819
2006/07	2110.1	13756.62	0.1534
N = 5	Mean		0.395

Source: Annual Report and concerning department of NBL

The table 4.2 indicates the ratio of nonperforming loan to loan and advances ratio of Nepal bank ltd. The government, owned bank NBL has more proportion than private sector. The average mean ratio of NBL is 0.395. Non-performing loan of NBL banks seem continues decreasing in trend. The highest ratio is 0.6045 of non-performing loan in 2002/03 and lowest ratio is 0.1534 in 2006/07. NBL was able to decrease the ratio of Non-performing loan during the study period. After the privatization of Management, NPL of Nepal bank has tremendously decreased. it indicate good performance of Bank. However, NPL of Nepal bank was decreased, yet it was beyond international standard ratio of 3%.

The result showed banking sector is seriously affected by the non-performing loan. The higher volume of non-performing loan results increased in loan loss provision amount and then it eventually reduces the profit. Higher amount of provisioning reduced the profitability of the firm. Non- performing loan to Total loan and advance Ratio is represented in figure as follow.

Figure No 4.2



iii) Priority Sector Lending (PSL) To Total Loan and Advance Ratio

Commercial banks invest some part of loan to the priority and deprived sector. For example, banks grant loan on agriculture, domestic industries, services, and power sector and machine and import raw materials is called priority sector lending. There are two categories of priority sector credit such as insured and uninsured. The table 4.3 represents priority sector lending to total loan and advance ratio.

Table 4.3

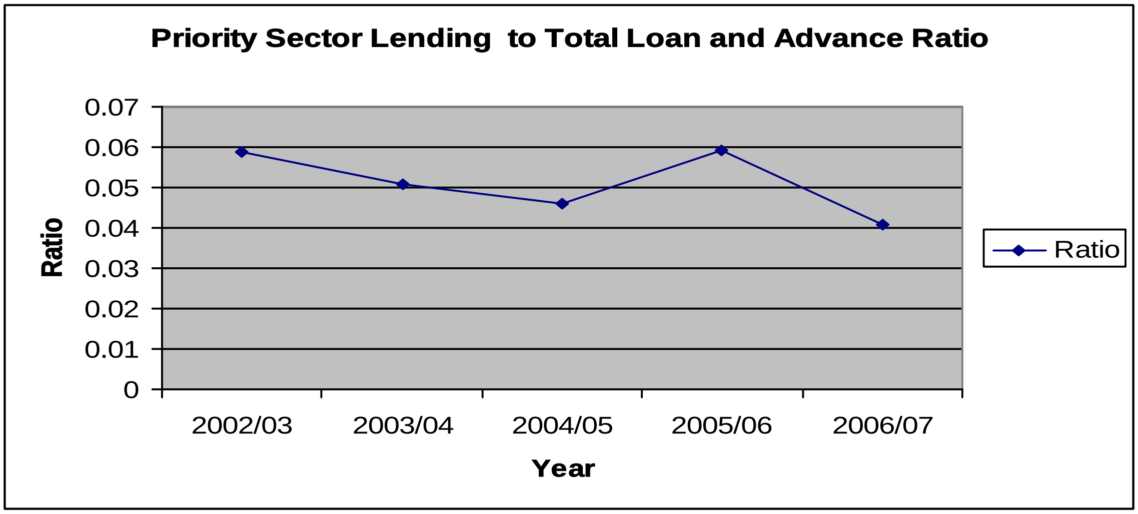
Priority Sector Lending (PSL) to Total Loan and Advance Ratio

Year	PSL	Total Loan	Ratio
2002/03	1067.67	18132.33	0.0589
2003/04	909.34	17937.66	0.0507
2004/05	774.24	16866.55	0.0459
2005/06	734.48	12441.55	0.059
2006/07	560.63	13756.62	0.0408
N = 5	Mean		0.0511

Source: Annual Report and concerning department of NBL

The table 4.3 shows the Priority sector lending to loan and advances ratio of Nepal bank ltd. The average mean ratio of Priority sector lending to loan and advances NBL is 0.0511. Priority sector lending to loan and advances of NBL banks seem to be fluctuating trend. The ratios are 0.0589, 0.0507, 0.0459, 0.059 and 0.0408 in fiscal year 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The highest ratio is 0.059 of Priority sector lending to loan and advances of NBL banks in 2005/06 and lowest ratio is 0.0408 in 2006/07. Priority sector lending to loan and advances of NBL banks is fluctuating and decreasing trend. It seems that NBL reduced their investment in priority sector. NBL is not more conscious about priority sector investment for the economic developments of the country Lower percent of total loan invest in PSL indicates NBL bank give less priority for this sector. The following figure shows the Priority sector lending to loan and advances ratio of Nepal bank ltd.

Figure No 4.3



iv) Total Profit to Total Loan and Advance Ratio

This ratio measures the percentage of total income against loan and advances. It represent total income and total profit by utilizing the total loan and advance. The high ratio indicates the more earnings and lowest ratio indicate low earning by the company. The following table represents ratio of total profit over total loan and advance.

Table 4.4

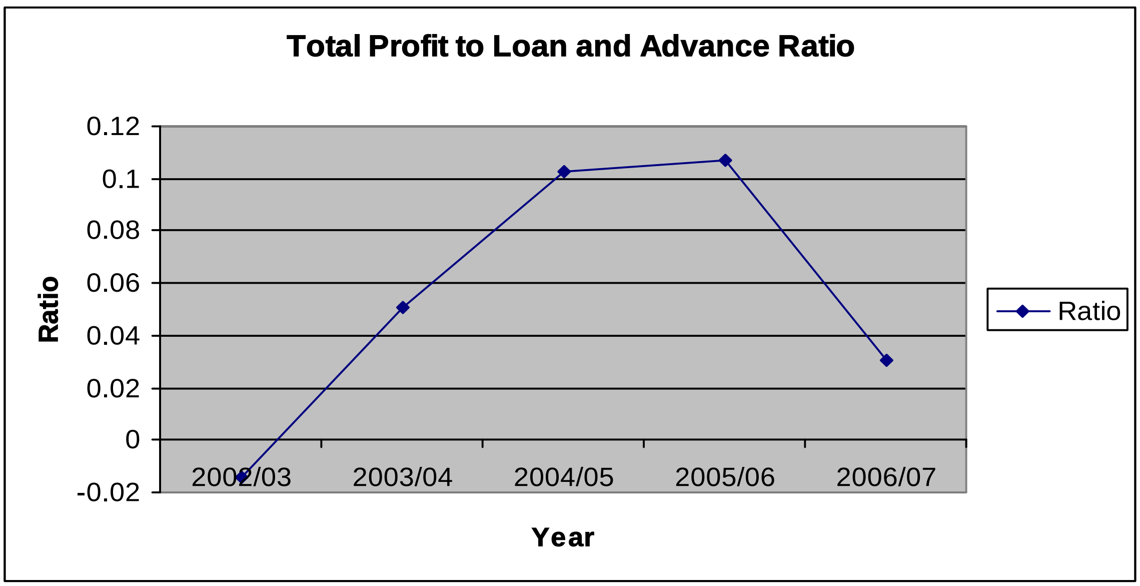
Total Profit to Loan and Advance Ratio

Year	Total Profit	Total Loan	Ratio
2002/03	-251.73	18132.33	-0.0139
2003/04	710.39	17937.66	0.051
2004/05	1730.13	16866.55	0.1026
2005/06	1327.99	12441.55	0.1067
2006/07	417.71	13756.62	0.0304
N = 5	Mean		0.0554

Source: Annual Report and concerning department of NBL

The table 4.4 shows the Total Profit to Total Loan and Advance Ratio of Nepal bank ltd. In the year, 2002/03 NBL suffered the loss. After fiscal year 2003/04 profit of NBL tremendously increased but in the year 2006/07 profit was diminished in high ratio. The average mean ratio of Total Profit to Total Loan and Advance Ratio of NBL is 0.0554. The highest ratio is 0.1067 in 2005/06 and lowest negative ratio is -0.0193 in 2002/03. Total Profit to Total Loan and Advance Ratio of NBL banks seem continues increase and last in decreasing in trend. The main cause of increased in profit is collecting of NPL and due interest after privatization of management. The following figure shows the Total Profit to Total Loan and Advance Ratio of Nepal bank ltd

Figure No 4.4



v. Total Profit to Deposit Ratio

This ratio measures the percentage of total income against Total deposit. It represents total income and total profit by utilizing the total deposit. The high ratio indicates the more earnings and lowest ratio indicate low earning utilizing total deposit by the company. The following table represents ratio of total profit over Total deposit.

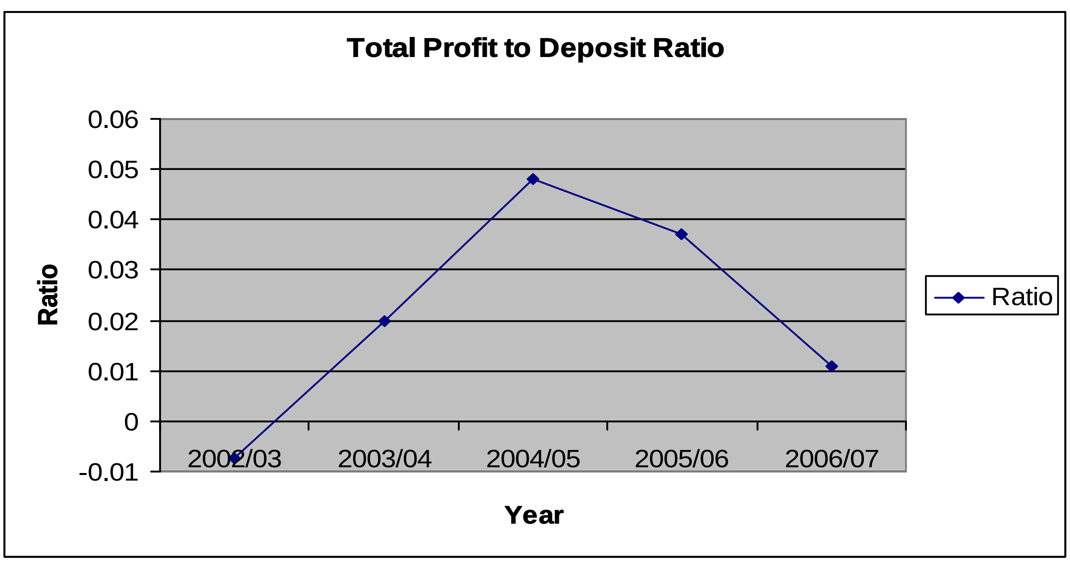
Table 4.5

Total Profit to Deposit Ratio

Year	Total Profit	Total Deposit	Ratio
2002/03	-251.73	35014	-0.007189
2003/04	710.39	35735.04	0.019879
2004/05	1730.13	35934.16	0.048147
2005/06	1327.99	35829.77	0.037064
2006/07	417.71	38715.2	0.010789
N = 5	Mean		0.0217

The table 4.5 shows the Total Profit to Total deposit Ratio of Nepal bank ltd. In the year, 2002/03 NBL suffered from the loss. After fiscal year 2003/04 profit of NBL immensely increased but in the year 2006/07 profit was diminished in high ratio. The average mean ratio of Total Profit to Total deposit Ratio of NBL is 0.0217. The highest ratio is 0.048147 in 2004/05 and lowest negative ratio is -0.0072 in 2002/03. Total Profit to Total deposit Ratio of NBL banks seem fluctuating trend. The main cause of increased in profit is collecting of NPL and due interest after privatization of management. The following figure shows the Total Profit to Total Deposit Ratio of Nepal bank ltd

Figure 4.5



4.2 Detail of Loan Exposure of Nepal Bank Limited

The Nepal Bank Limited has divided its function in following major sector and areas viz. Consumer Banking, Business Banking, Special Assets Management, Treasury and Liability Marketing and Transaction Banking etc. The Bank is committed towards providing financial services to delivery through its Transaction Banking, Consumer Banking, Business Banking and Treasury divisions.

Consumer Banking comprises of consumer lending, retail credit products and banking services for individuals with dedicated teams. Consumer Banking services include home loans, auto loans, personal loans, education loans, travel loans, etc. Liability Marketing & Transaction Banking comprises of institutional and personal deposit products and transaction banking services including debit cards, ATMs, safe deposit lockers, payment services, drafts, remittance, SMS Banking, Travelers' Cheques, etc. here consumer loan heading, approval limit and interest on loan are present detailed here

4.2.1 Details of Approval loan heading

Details of Approved loan heading of 2063

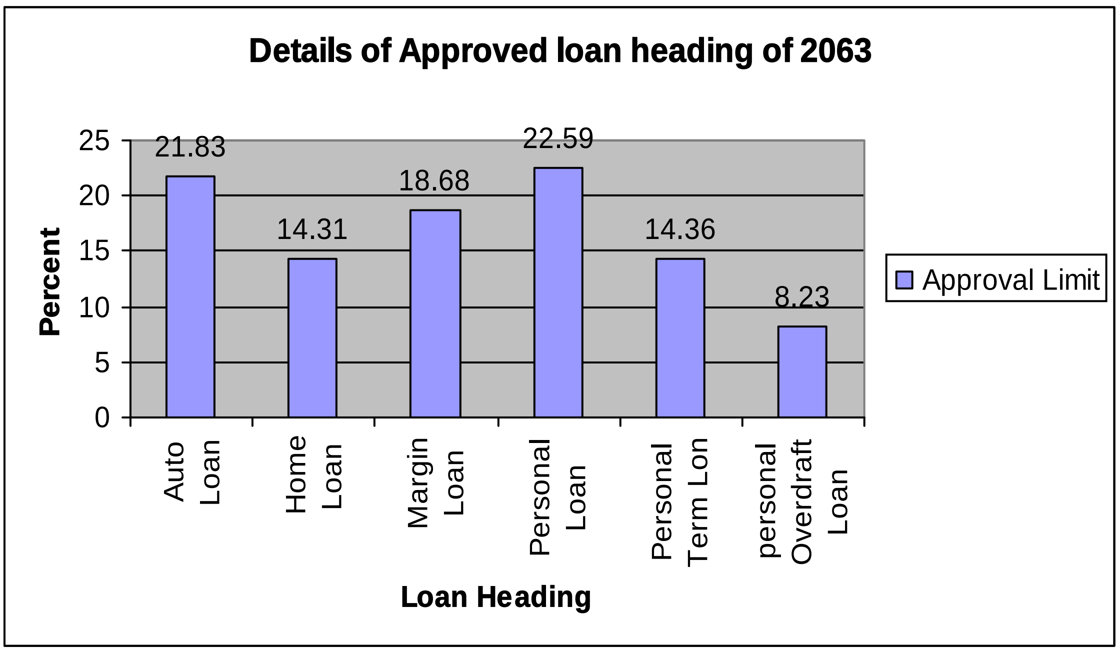
Nepal Bank Limited has provided various Loans in various sectors. Nepal Bank Limited categorized consumer loan in Auto loan, Home loan, Margin Loan, Personal loan, Personal Term Loan and Personal Overdraft Loan etc. Approval of loan in 2063

Table No 4.6

Details of Approved loan heading of 2063		
Loan heading	**Approved Limit**	**Percent**
Auto Loan	1501222936	21.83
Home Loan	984017074	14.31
Margin Loan	1284726650	18.68
Personal Loan	1554026000	22.59
Personal Term Lon	987816000	14.36
personal Overdraft Loan	566210000	8.23
Total	6878018660	100

Table and Figure no 4.6 shows the Detail of approval loan heading of consumer loan of Nepal Bank Ltd. In 2063, total approval of loan is Rs 6,87,80,18,660. The highest portion of loan is apportioned to Personal loan, which is 22.59 percent. Similarly 21.83 i.e. Rs 1501222936 is allocated in Auto loan. in margin lending Rs 1284726650 i.e. 18.68 percent allocated. The lowest amount 8.23 percent i.e. 566210000 is apportioned in personal Overdrafts. In same way, 14.31 and 14.36 percent is allocated home loan and personal loan in fiscal year 2063.

Figure No 4.6



Details of Approved loan heading of 2064

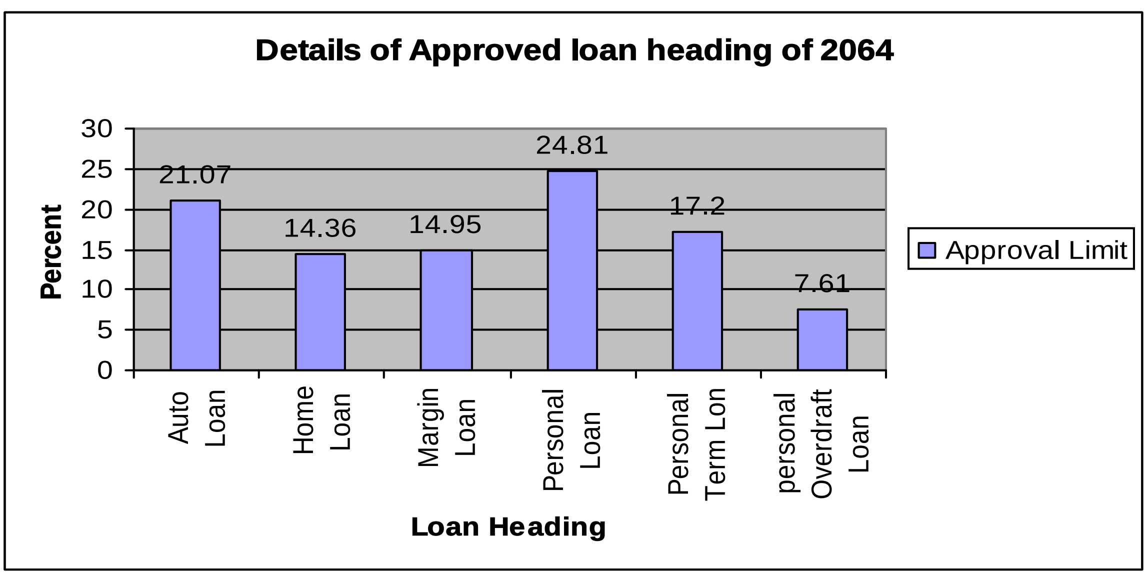
Nepal Bank Limited has provided various Loans in various sectors. Nepal Bank Limited categorized consumer loan in Auto loan, Home loan, Margin Loan, Personal loan, Personal Term Loan and Personal Overdraft Loan etc. Approval of loan in 2064

Table No 4.7

Details of Approved loan heading of 2064		
Loan heading	**Approved Limit**	**Percent**
Auto Loan	1208287827	21.07
Home Loan	823422806	14.36
Margin Loan	857365275	14.95
Personal Loan	1423179750	24.81
Personal Term Lon	986777250	17.20
Personal Overdraft Loan	436402500	7.61
Total	5735435408	100

The Table and Figure no 4.7 shows the Detail of approval loan heading of consumer loan of Nepal Bank Ltd of 2064. Total approval of loan is Rs 5735435408. The highest 34.81% of loan is apportioned to Personal loan. Similarly second highest 21.08 i.e. Rs 1208287827 is allocated in Auto loan. In Margin lending and Home loan 14.94% and 14.36% are apportioned. The apportion in this two heading is quite equal to each other allocated. The lowest amount 7.61 percent i.e. Rs 436402500 is apportioned in personal Overdrafts. In same way, 17.20 percent is allocated in personal term loan in fiscal year 2064.

Figure No 4.7



Details of Approved loan heading of 2065

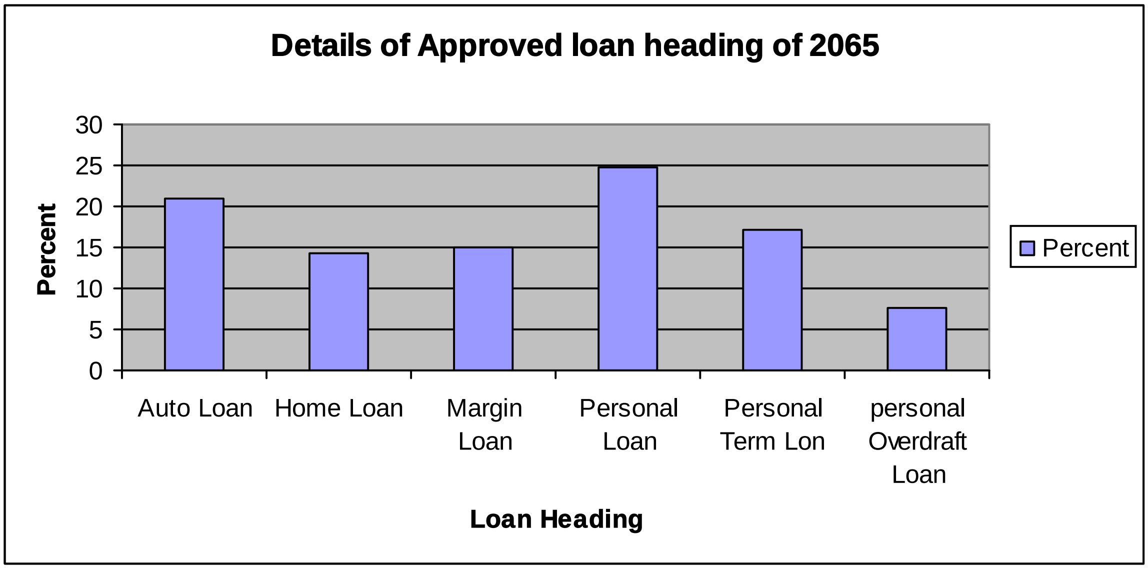
Nepal Bank Limited has provided various Loans in various sectors. Nepal Bank Limited categorized consumer loan in Auto loan, Home loan, Margin Loan, Personal loan, Personal Term Loan and Personal Overdraft Loan etc. Approval of loan in 2064

Table No 4.8

Details of Approved loan heading of 2065		
Loan heading	**Approved Limit**	**Percent**
Auto Loan	1611050436	21.07
Home Loan	1097897074	14.36
Margin Loan	1143153700	14.95
Personal Loan	1897573000	24.81
Personal Term Lon	1315703000	17.20
personal Overdraft Loan	581870000	7.61
Total	7647247210	100

Above Table shows the Detail of approval loan heading of consumer loan of Nepal Bank Ltd In 2065. Total approval of loan is Rs 7647247210. The highest portion of loan is allocated to Personal loan, which is 24.95 percent i.e. Rs 1611050436. The second highest 21.07 is allocated in Auto loan. The 17.20% is allocated in personal term loan. Similarly, there is 14.95 percent is allocated on Margin loan and 14.36 percent is apportion in home loan. The lowest amount 7.61 percent i.e. 581870000 is apportioned in personal Overdrafts loan

Figure No 4.8



4.2.2 Detail of Interest income through Approve Loan

Interest Income through Approved loan of 2063

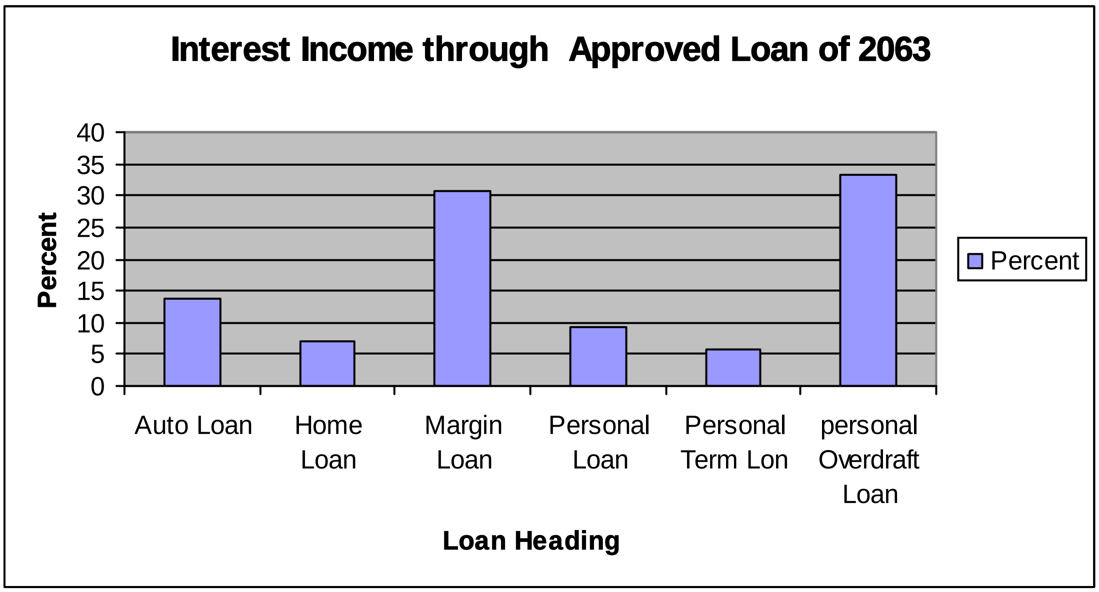
Loan composition of investments in various sectors, which in turn are composed of expected risk and return of their component investments. Nepal Bank Limited categorized in Auto loan, Home loan, Margin Loan, Personal loan, Personal Term Loan and Personal Overdraft Loan etc. the interest income through approved loan of NBL are as follows.

Table No 4.9

Interest Income through Approved loan heading of 2063		
Loan heading	**Income**	**Percent**
Auto Loan	81718726	13.74
Home Loan	42448084	7.14
Margin Loan	182839539	30.75
Personal Loan	54341762	9.14
Personal Term Lon	34462622	5.80
personal Overdraft Loan	198791401	33.43
Total	594602134	100

The Table shows the interest income through approved loan of Nepal Bank Ltd In 2063. The highest percent of interest income is 33.43% in Personal overdraft loan. Second highest interest income 30.75% is earned from margin loan. Lowest interest income 5.80% is generated from personal term loan. Similarly, interest income generated 7.14%, 9.14% and 13.74% from home loan, personal loan and auto loan. Total interest income is Rs 7647247210 in 2063.

Figure No 4.9



Interest Income through Approved loan of 2064

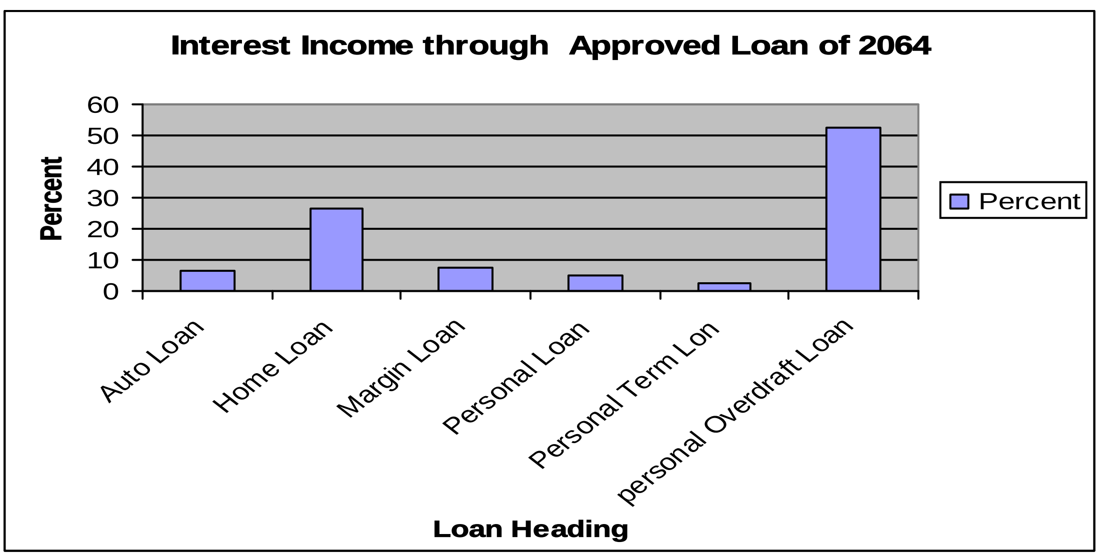
Nepal Bank Limited categorized in Auto loan, Home loan, Margin Loan, Personal loan, Personal Term Loan and Personal Overdraft Loan etc. the interest income through approved loan of NBL

Table No 4.10

Interest Income through Approved loan heading of 2064		
Loan heading	**Income**	**Percent**
Auto Loan	40369969	6.43
Home Loan	165404829	26.37
Margin Loan	46090313	7.35
Personal Loan	30813759	4.91
Personal Term Lon	15276553	2.44
personal Overdraft Loan	329309855	52.50
Total	627265278	100

The Table shows the interest income through approved loan of Nepal Bank Ltd In 2064. The highest percent of interest income is 52.50% in Personal overdraft loan. Similarly, Second highest interest income is 26.37% is earned from Home loan. Lowest interest income 2.44% is generated from personal term loan. Similarly, interest incomes generated are 7.35%, 6.43% and 4.91% from Margin loan, Auto loan and personal loan respectively. Total interest income is Rs 637265278 in 2064.

Figure No 4.10



Interest Income through Approved loan of 2065

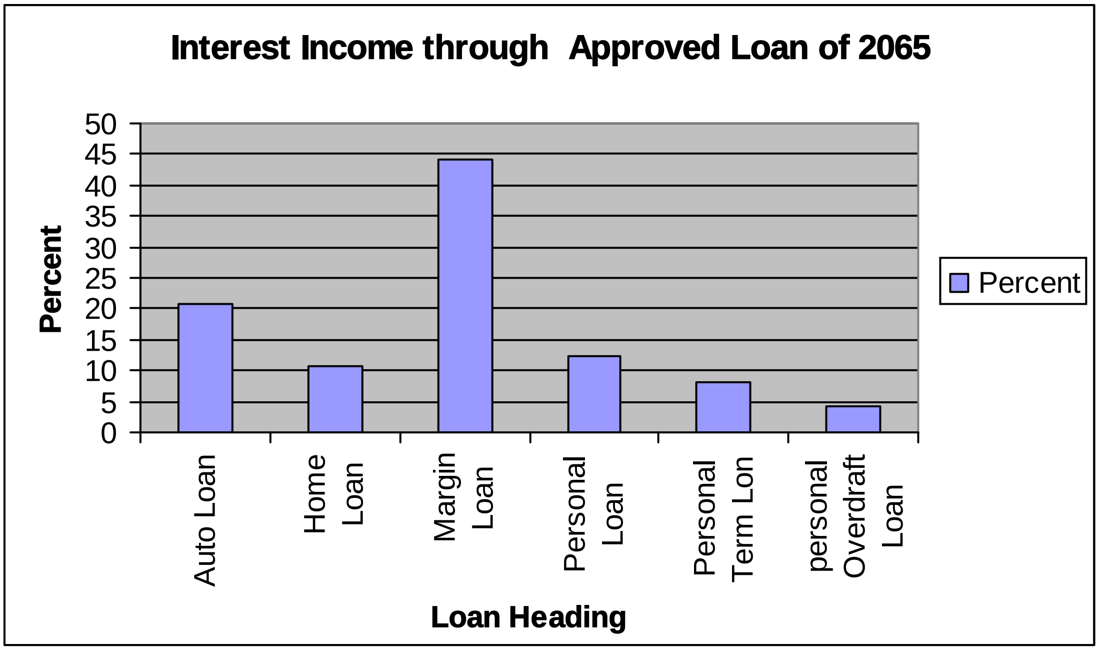
Nepal Bank Limited categorized in Auto loan, Home loan, Margin Loan, Personal loan, Personal Term Loan and Personal Overdraft Loan etc. the interest income through approved loan of NBL

Table No 4.11

Interest Income through Approved loan heading of 2065		
Loan heading	**Income**	**Percent**
Auto Loan	103259659	20.62992
Home Loan	53826626	10.75385
Margin Loan	220539772	44.06094
Personal Loan	61453750	12.27765
Personal Term Lon	41085012	8.208243
personal Overdraft Loan	20368738	4.069405
Total	500533557	100

The Table shows the interest income through approved loan of Nepal Bank Ltd In 2065. The highest percent of interest income generated 44.06% from Margin loan. Second highest interest income 20.63% is earned from Auto loan. In the same way 12.27%, income makes from Personal loan. Lowest interest income 4.07% generated from personal overdraft loan. Similarly, interest earned 8.21% and 10.75% from Personal term loan and Home loan. Total interest income is Rs 7647247210 in 2065.

Figure No 4.11



4.3 Consumer Lending Portfolio Analysis

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

Table 4.12

Sector Wise Portfolio of Lending of Nepal Bank Ltd.

Rs in million

Year Portfolio of lending	**2002/03**		**2003/04**		**2004/05**		**2005/06**		**2006/07**	
	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
Agriculture	697	3.84	884.2	4.93	831.1	4.93	615.9	4.95	478.3	3.48
Consumable loan	1126	6.21	2487	13.86	1871.2	11.09	2748.3	22.09	3644.1	26.49
Services industries	2574	14.20	2265	12.63	1852.3	10.98	527.5	4.24	470.1	3.43
Wholesaler and retailers	4079	22.50	3751	20.91	3817.7	22.63	2553.3	20.52	2558.6	18.60
Productions	6708.2	37.0	6070.1	33.84	6137.9	36.39	3916	31.48	3419.1	24.85
Constructions	339	1.87	331	1.85	332.4	1.97	275.3	2.21	372.9	2.71
Finance insurance & fixed assets	487.4	2.69	418.4	2.33	788.4	4.68	659.1	5.30	693.3	5.04
Transportation, communication & public services	384	2.12	389	2.17	301.7	1.79	703	5.65	864.2	6.28
Mining	47.6	0.26	29.2	0.16	11.9	0.07	12.3	0.10	7.4	0.05
Metal production machinery & electrical tools	154.2	0.85	197.9	1.10	316.3	1.88	137.6	1.11	80.2	0.58
Transportation equipment production fitting	49	0.27	87	0.49	73.1	0.43	29.9	0.24	84	0.61
Others	1486.9	8.20	1027.9	5.73	532.6	3.16	263.4	2.12	1084.4	7.88
Total	**18132.3**	**100**	**17937.7**	**100**	**16866.6**	**100**	**12441.6**	**100**	**13756.6**	**100**

Source: Concerning department of NRB and banking and financial statistics of NRB

Table 4.12 shows the Sector wise Portfolio of lending of Nepal Bank Ltd. In agriculture sector investment of NBL is 3.84, 4.93, 4.93, 4.95 and 3.48 percent in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Investment in agriculture sector is increasing trend and last 2006/07 has little decreased. Similarly consumable loan is 6.21, 13.86, 11.09, 22.09 and 26.49 percent in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Percentage of investment in consumable loan is continuously increasing. Sum of 26.49 percent is taken by consumable loan by total lending in fiscal year 2006/07. Investment in services industries sector is decreasing trend. and NBL's investment in consumable loan is increasing. Investment in services industries sector is 14.20, 12.63, 10.98, 4.24 and 3.43 in respective fiscal year. it indicate that NBL regularly minimizing the investment in services sector industries so far.

Investment in wholesale and retail is main part of Nepal Bank ltd. high percentage of loan is allocated to wholesales and retail banking or transaction. Wholesale and retail loan is 22.50, 20.91, 22.63, 20.52, and 18.60 percent in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Investment in wholesales and retail is fluctuating trend. Production sector is mostly focus by NBL because highest portion of lending amount is allocated in this heading. In total 37, 33.84, 36.39, 31.48 and 24.85 percent is dispensing in Production sector in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Lending in this production sector is fluctuating. The highest percentage in 2002/03 and lowest in 2006/07. In aggregate percent in investment in production sector is decreasing.

Investment in constructions sector is increasing in trend year by year. Investment in constructions sector 1.87 percent in 2002/03 and 2.71 percent in 2006/07. In aggregate investment in construction sector is continuously increasing trend. Similarly, Lending granted in finances insurance and fixed assets. Percent in investment in Finance, insurance & fixed assets loan is 2.69, 2.33, 4.68, 5.3 and 5.04 percent in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The lending ratio in finance, insurance and fix asset is fluctuating trend. In the same way, investment in Transportation, communication & public services is continuously increasing due to increasing percentage.

Transportation, communication & public services loan is 2.12, 2.17, 1.79, 5.65 and 6.28 percent in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The lowest percent is 1.79 in 2004/05 and highest percent in 6.28 in 2006/07. Priority sector lending in Mining is fluctuating and decreasing trend. In total 0.26, 0.16, 0.07, 0.10 and 0.05 percent is dispensing Mining sector in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively.

Investment in Metal production machinery & electrical tools allocate low portion than other. In total 0.85, 1.10, 1.88, 1.11 and 0.58 percent is dispensing in Metal production machinery & electrical tools sector in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The lowest percent is allocate 0.58 in 2006/07 and highest percent is 1.88 in 2004/05 fiscal year. Similarly, investment in Transportation equipment production & fitting sector is fluctuating. Transportation equipment production & fitting sector loan is 0.27, 0.49, 0.43, 0.24 and 0.61 percent in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Transportation equipment production & fitting sector loan is high 0.61 in 2006/07 and lowest is 0.24 in 2005/06 in this year NBL is contribute high and low in Transportation equipment production & fitting sector. Every company allocates their fund other sector. Investment in other sector allocate considerable portion than other. In total 8.2, 5.73, 3.16, 2.12 and 7.88 percent is dispensing in others in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The percent in fist fiscal year high and then decrease and last year increasing trend. The highest percent is 8.2 in fiscal year and low in 2.12 in fiscal year. The high percent indicate high allocation and low percent indicate low allocate of others in sector wise portfolio lending.

Nepal Bank Limited made portfolio through investing all twelve sectors. But productions sector is the dominant sector because it covered more percent of loan out of total loan granted by banks. NBL has given second priority for wholesaler and retailer and third priority given to service sector. It seems that NBL gives little priority in agricultural sector. Agriculture being the back bond of the economy of the country. so it is suggest to invest in more agriculture. The bank has allocated least portion in mining and second last in Transportation equipment production & fitting. Anyway, NBL made optimal portfolio for getting more return by minimizing the risk.

4.4 Priority sector lending (PSL) Analysis

All commercial banks must invest at least 3% in priority sector out of total loan and advances. The small loan amount directly and indirectly invest in agriculture, domestic industries, services, power sector and machine and import raw materials is called priority sector lending. There are two categories of priority sector loan insured and uninsured. Uninsured PSL shall need full loan loss provision. However, in case of insured loans, the provisioning requirement will be 25% of the prescribed normal rates.

The table 4.13 represents the total, insured and uninsured PSL of NBL

Table 4.13

Priority Sector Lending of NBL

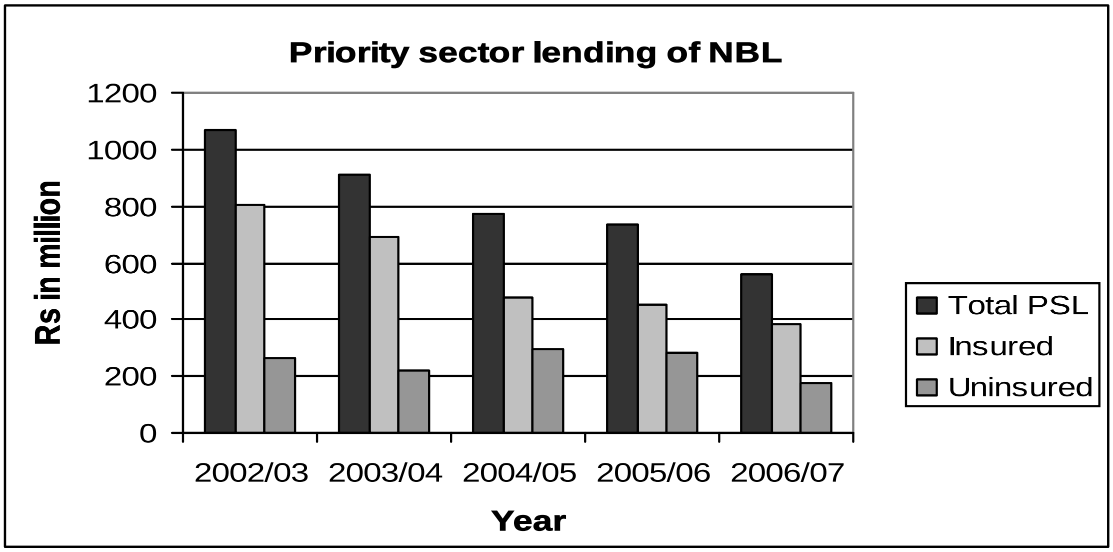
Rs in million

Year	Total PSL	Insured	Uninsured
2002/03	1067.67	804.51	263.16
2003/04	909.34	691.07	218.07
2004/05	774.24	479.28	294.96
2005/06	734.48	452.12	282.36
2006/07	560.63	382.24	178.39

Source: Annual Report of NBL

Above table 4.13 shows the priority sector lending under insured and uninsured. Insured PSL is higher than uninsured in the year till 2002/03 to 2006/07. Insured PSL requires small percentage of loan loss provision i.e.0.25%, 5% 12.5%, 25% respectively for pass, substandard, doubtful and loss category Uninsured loan requires 100% loan loss provisioning. It indicates that NBL performed well while making investment in priority sector. The following figure shows the Priority Sector Lending of Nepal bank ltd

Figure 4.12



4.5 Correlation Analysis

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

4.5.1 Correlation coefficient between deposit and loan and advances of NBL

The correlation and coefficient of partial determination of NBL is presented in the table 4.14

Coefficient of correlation determination between deposit and loan and advances of NBL

Table 4.14

Correlation Coefficient	Coefficient of determination	Probable error	6 P.E
-0.5398	0.2914	0.2137	1.2825

Source: Through SPSS

The above table shows that the correlation coefficient between deposit and loan and advances is -0.5398. There is highly negative correlation between loan and advances and deposit collection. The coefficient of determination is 0.2914, which depicts that 29.14%

of loan has been explained by the deposit collection. It shows that increase in deposit does not lead to increase loan and advances. In accordance to increase in deposit NBL's loan and advances is decreasing in trend.

Probable error (P.E.) is calculated to be 0.2137 and 6 P.E. is 1.2825. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, 'r' is smaller than 6 P.E. then there is evidence of insignificant correlation between loan and deposit. That further reveals there is insignificant relationship between loan and advances and deposit.

4.5.2 Correlation between non-performing loan and loan and advances

The table 4.15 shows represents the correlation coefficient between NPL and loan and advances

Table 4.15

Correlation Coefficient	Coefficient of determination	Probable error	6 P.E
0.9740	0.9487	0.0155	0.093

Source: Through SPSS

Table 4.15 shows that correlation coefficient between the non-performing and loan is 0.974. There is highly positive correlation between NPL and loan. That indicates the both NPL and loan decreasing simultaneously. The coefficient of determination is 0.9487 which depicts 94.87% of NPL has explained by the loan. Here "r" is greater than 6 times value P.E., meaning that the correlation coefficient is statistically significant.

4.5.3 Correlation coefficient between sector wise lending and loan and advances of NBL

Table 4.16

Correlation Coefficient	Coefficient of determination	Probable error	6 P.E
0.782	0.6115	0.118	0.71

Source: Through SPSS

The above table 4.16 shows that the correlation coefficient between sector wise lending and loan and advances of NBL. The correlation coefficient between sector wise lending and loan and advances of NBL is 0.782. There is positive correlation between wise lending and loan and advances. The coefficient of determination is 0.6115, which depicts that 61.15% of loan has been explained by the priority sector wise lending. Probable error (P.E.) is calculated to be 0.118 and 6 P.E. is 0.71. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6 P.E. then there is evidence of significant correlation between PSL and Loan and advance ratio. That further reveals there is insignificant relationship between loan and advances and deposit

4.5.4 Correlation between loan loss provision (LLP) and loan and advances of NBL

The table 4.17 indicates the correlation and coefficient of determination of LLP and loan of NBL.

Table 4.17

Correlation Coefficient	Coefficient of determination	Probable error	6 P.E
0.9730	0.9467	0.0161	0.0964

Source: Through SPSS

Table 4.17 shows the correlation coefficient between loan loss provision and loan and advances of NBL. There is positive correlation between loss loan provision and loan and advances. Here correlation coefficient of NBL is 0.9730 and 6 times PE is 0.0964. It is shown that 'r' is higher than 6times value of P.E., the correlation coefficient is significant.

4.5.5 Correlation coefficient Total Profit and loan and advances of NBL

Table 4.18

Correlation Coefficient	Coefficient of determination	Probable error	6 P.E
-0.331	0.1096	0.2698	1.6188

Source: Through SPSS

The above table shows that the correlation coefficient between Total profit and loan and advances. The correlation coefficient between Total profit and loan and advances. is -0.331. There is highly negative correlation between loan and advances and deposit collection. The coefficient of determination is 0.1069, which depicts that 10.96% of profit is explained by the loan and advance. Probable error (P.E.) is calculated to be 0.2698 and 6 P.E. is 1.6188. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, ‘r’ is smaller than 6 P.E. then there is evidence of insignificant correlation between loan and deposit. That further reveals there is insignificant relationship between loan and advances and total profit.

4.6 Regression Analysis

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

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

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

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

Table 4.19

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.410	.168	-.663	999.70588

a. Predictors: (Constant), NPL, Loan

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	404544.829	2	202272.415	.202	.832
	Residual	1998823.705	2	999411.852		
	Total	2403368.534	4			

a. Predictors: (Constant), NPL, Loan

b. Dependent Variable: Profit

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6005.830	10159.281		.591	.614
	Loan	-.414	.856	-1.376	-.483	.677
	NPL	.199	.529	1.074	.377	.742

a. Dependent Variable: Profit

The calculated R was found 0.410 indicates that there is low positive relationship dependent variable profit on two independent variables total loan and advance and non-performing loan. After considering the error term, the adjusted R square value was found -0.663 which indicates that of total variation in the dependent variable profit has not been explained by the two independent variables.

Similarly, ANOVA table shows that the result presented above was not significant at 0.10 levels. The result of net profit volume and volume of loan and advance and NPL results relatively lower level of F statistics. The lower level of statistic resulted relatively higher level of significance. Although, it seems that the result of loan and advance and non-performing loans was not significant with regard to profit of NBL. It means loan and advance and NPL do not affect on profit. Coefficients table indicates that the loan and NPL were not significant at 0.10 levels. It indicates that the loan and NPL were not results to increase the profit of the firm. Other factors such as investments and foreign exchange gain other income leads to increase in profit.

4.6.2 Impact of total loan and advance and deposit on net profit

Total deposit and loan and advance are the strong determinants of profit. Amount deposit and loan and advance directly affect on the profitability of the firm. In the form of loan and advance, efficient mobilization of deposit results to increased profitability of the firm. Therefore, profit of firm depends upon deposit and loan. The table 4.6.2 represents the regression analysis between dependent variable profit and independent variables deposit and loan and advances of NBL.

Table 4.20

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.410(a)	.168	-.664	999.97586

a. Predictors: (Constant), Loan, Deposit

ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	403465.082	2	201732.541	.202	.832(a)
	Residual	1999903.452	2	999951.726		
	Total	2403368.534	4			

a. Predictors: (Constant), Loan, Deposit

b. Dependent Variable: Profit

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8760.783	17333.351		.505	.663
	Deposit	-.156	.416	-.288	-.375	.743
	Loan	-.146	.230	-.486	-.634	.591

a. Dependent Variable: Profit

The R 0.41 indicates that there was low degree of positive relationship between the dependent variable profit and independent variables deposit and total loan and advance. The adjusted R square was found to be – 0.664 considering independent variables deposit and loan and advance and dependent variable profit. It means that the variation on profit has not been explained by loan and advance and deposit. It can be concluded that deposit and loan and advance has not high influenced on profit volume and deposit and loan and advance are not strong determinant for determining of profit.

Similarly, ANOVA table shows there was not significant difference in profit due to deposit and loan and advance. F statistic was lower level and it seems that there was lower level of significance. Coefficients table indicates that the results of loan and deposit were not significant at 0.10 levels of significance. This mean there is no sufficient evidence that the profit has caused form the two independent variables. So, deposit and loan and advance was not significance with regard of the profit. Deposit and loan and advances do not impact on the profit, other factors such as other investment, foreign exchange gain etc are the determinant of the profit.

4.7. Time Series Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

- Trend analysis of Total Deposit
- Trend analysis of loan and advance
- Trend analysis of Total Deposit

a) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next eight years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of NBL for further eight years.

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Where as

Yc = 36245.63 + 749.713 X

Table 4.21

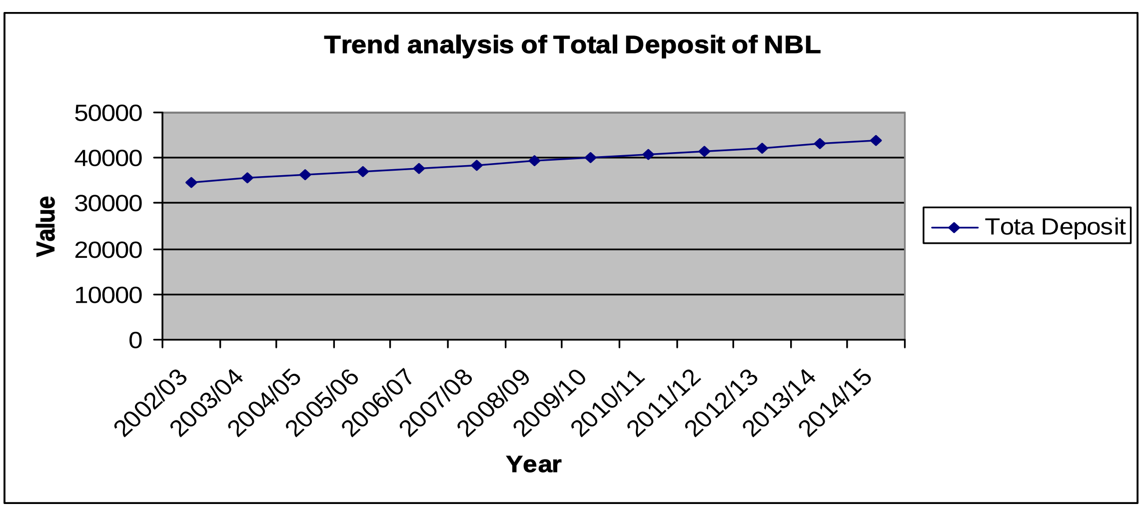
Trend analysis of Total Deposit of NBL

Year(x)	Total Deposit(Y)
2002/03	34746.2
2003/04	35495.92
2004/05	36245.63
2005/06	36995.34
2006/07	37745.06
2007/08	38494.77
2008/09	39244.48
2009/10	39994.2
2010/11	40743.91
2011/12	41493.62
2012/13	42243.33
2013/14	42993.05
2014/15	43742.76

Source: Annul Report of NBL

Appendix - I

Figure No 4.13



The Table and figure shows that total deposit of NBL. The trend of total deposit of NBL is in increasing trend. The rate of increment of total deposit for NBL seems to be smoothly increasing trend. The trend analysis has projected deposit amount in fiscal year FY 2007/08 to FY 2014/15.

b)Trend analysis of loan and advance

Here, the trend values of loan & advances NBL have been calculated for further Eight year. The following Table shows the actual trend values of loan & advances

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where as

Yc = 15823.94 - 1424.75 X

Table 4.22

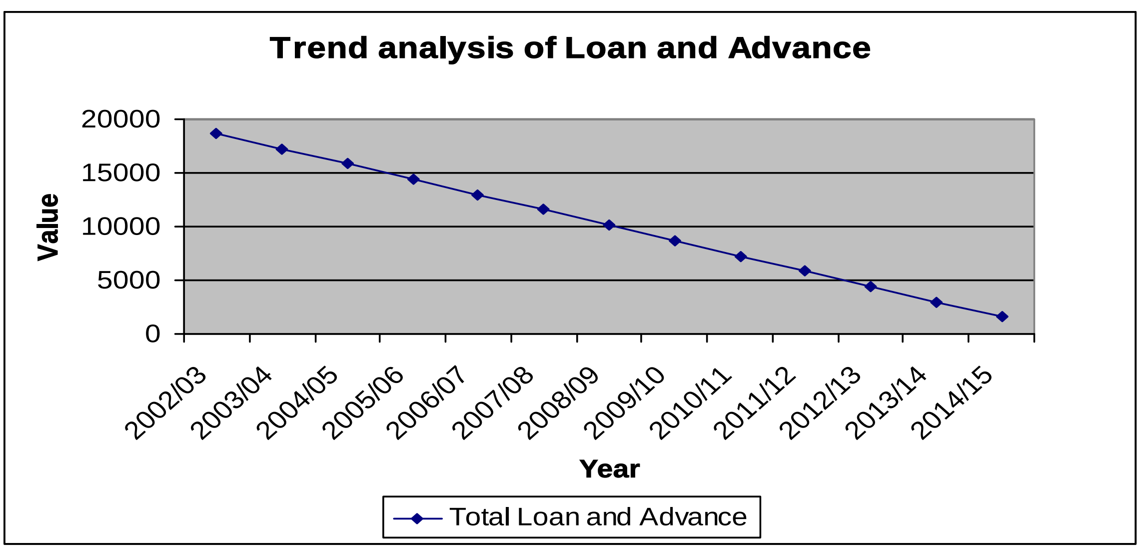
Trend analysis of loan and advance

Year(x)	Total Loan and Advance
2002/03	18673.44
2003/04	17248.69
2004/05	15823.94
2005/06	14399.19
2006/07	12974.44
2007/08	11549.69
2008/09	10124.94
2009/10	8700.19
2010/11	7275.44
2011/12	5850.69
2012/13	4425.94
2013/14	3001.19
2014/15	1576.44

Source: Annul Report of NBL

Appendix - II

Figure 4.14



The Table and figure shows trend values of loan & advances of NBL. The trend of trend values of loan & advances of NBL is in decreasing trend. it is suggest to increase in loan and advance to make better profit. The trend analysis has projected deposit amount in fiscal year FY 2007/08 to FY 2014/15.

c) Trend Analysis of Total Profit:

Profit is the important part in banking sector hence its trend for next eight years will be forecasted for future analysis. Here the effort has been made to calculate the trend values of Total Profit of NBL for further eight years.

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where as

Yc = 786.898 + 195.648 X

Table 4.23

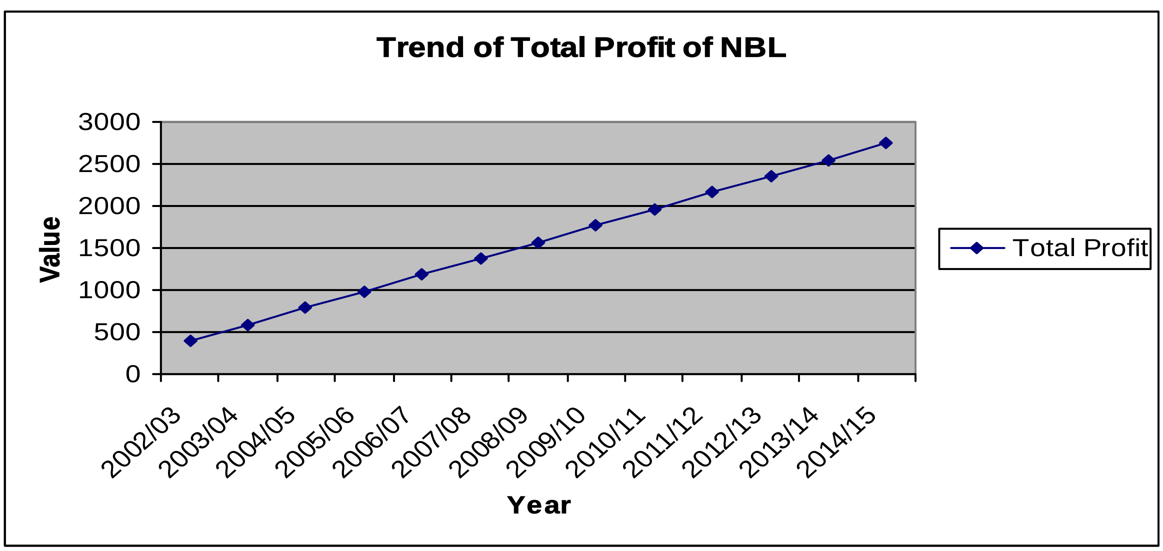
Trend Analysis of Total Profit

Year(x)	Total Profit
2002/03	395.602
2003/04	591.25
2004/05	786.898
2005/06	982.546
2006/07	1178.194
2007/08	1373.842
2008/09	1569.49
2009/10	1765.138
2010/11	1960.786
2011/12	2156.434
2012/13	2352.082
2013/14	2547.73
2014/15	2743.378

Source: Annul Report of NBL

Appendix - III

Figure 4.15



The table and figure shows that Total Profit of NBL. The trend of Total Profit of NBL is in increasing trend. The rate of increment of Total Profit for NBL seems to be aggressively increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected deposit amount in fiscal year FY 2007/08 to FY 2014/15.

4.8 Major findings

The major findings of the study are as follows:

- The deposit collected of the banks during the five-year period is in increasing but fluctuating trend. The lending deposit ratio of NBL is in decreasing trend. NBL seems efficient in mobilizing its total deposit in the form of loan and advances. NBL seems to be the best performer in utilizing its collected fund in the form of loan and advances efficiently.
- The ratio of nonperforming loan to loan and advances of Nepal bank ltd is excellent. In the year 2002/03 to 2004/05 more than 50% of loan of NBL was NPL. Non-performing loan of NBL seem decreasing in trend. NBL was able to decrease the ratio of NPL during the period, in 2002/03 it has 0.6045 NPL out of total loan but in 2006/07 it is only 0.1534. After the privatization of Management, NPL of Nepal bank has tremendously decreased. The result showed banking sector is seriously affected by the non-performing loan.
- The ratio of priority sector to loan and advances, NBL has maintained moderate PSL to total loan and advance ratio. It seems that NBL reduced their investment in priority sector. NBL is not more conscious about priority sector investment for the economic developments of the country Lower percent of total loan invest in PSL indicates NBL bank give less priority for this sector. It seems that NBL reduced their investment in priority sector in year by year.
- While analyzing of total profit to loan and advance ratio, in the year 2002/03 NBL suffered from the loss. In the year 2003/04 to 2005/06 NBL's profit tremendously increased and in the year 2006/07 profit was diminished in high ratio. Total Profit to Total Loan and Advance Ratio of NBL banks seem continues increase and last

in decreasing in trend. The main cause of increased in profit is collecting of NPL and due interest after privatization of management.

- In Details of Approval loan heading, The Approved of loan in 2063 was Rs 6878018660. Similarly, Details of Approved loan heading of 2064 was 5735435408 and The Approved of loan in 2065 was Rs 7647247210. Here highest amount of approval loan is in 2065 and lowest in 2064.
- While analyzing Detail of Interest income through Approve Loan in 2063 was Rs 594602134. Similarly, Interest Income through Approved loan of 2064 was 627265278 and Interest Income through Approved loan of 2065 was 500533557. Interest Income through Approved loan is highest in 2064.
- In lending portfolio analysis, NBL invested in different sector. Productions sector is the dominant sector because it covered more percent of loan out of total loan granted by the banks. Production represents industry and more investment in industrial sector helps to economic development of the nation. The banks give second priority for wholesaler and retailer. It seems that NBL gives more priority in agricultural investment. Agriculture is the back bond of the economy; NBL invested less than one percent in consumable loan in this study period. NBL give priority to the service industries but investment made in this sector is in decreasing trend. Furthermore, the banks made optimal portfolio for getting more return from then by minimizing the risk.
- While analyzing the priority sector lending, Insured PSL is higher every year till 2002/03 to 2006/07 of NBL. NBL invest high volume in insured priority sector. Uninsured priority sector investment reduces profit because it requires full loan loss provisioning. So, NBL performed well while making investment in PSL
- The analysis of non-performing loan in categorized NBL has high volume of bad loan in every year of the study period. NBL has higher volume nonperforming loan and it has higher bad loan than others. Higher bad loan indicates that the poor performance and ineffective credit policy of the bank. In total NPL, NBL has also more volume doubtful loan. Higher the bad and doubtful loan higher volume of loan loss provision (100% and 50% respectively

- The correlation coefficient deposit and loan and advances of NBL is -0.5398 respectively. There is highly negative correlation between loan and advances and deposit collection of NBL. There is evidence of insignificant correlation between loan and deposit of NBL. That further reveals there is insignificant relationship between loan and advances and deposit
- The correlation coefficient between the non-performing and loan of NBL is 0.974 respectively. The correlation coefficient of NBL has highly positive between NPL and loan. Coefficient of determination of NBL is 94.87% this mean both NPL and loan of advance of NBL is in decreasing trend. The correlation coefficient is significant due to Coefficient of determination is greater than 6 times value P.Error
- The correlation coefficient between sector wise lending and loan and advances of NBL is 0.782. There is positive correlation between wise lending and loan and advances. The coefficient of determination is 61.15% of loan has been explained by the priority sector wise lending. There is evidence of insignificant correlation between sector wise lending and loan and advances ratio.
- Correlation between loan loss provision and loan and advances of NBL is 0.9730 respectively. There is positive correlation between loss loan provision and loan and advances. The correlation coefficient of NBL is significant.
- The correlation coefficient between profit and loan and advances is -0.331. There is highly negative correlation between loan and advances and deposit collection. The coefficient of determination is 10.96%, which depicts that profit is explained by the loan and advance. There is evidence of insignificant correlation between loan and deposit. That further reveals there is insignificant relationship between loan and advances and total profit.
- The value of adjusted R square value was found to be -0.663 of NBL. Considering independent variables loan and advance and non-performing loan and dependent variable profit. It was found to be total variation in the dependent variable profit has not been explained by the two independent variables whereas 89.7% variation has been explained by two independent variables. In the analysis of variance shows that the result of NBL was not found significant at 0.1 level of significance.

This means, there was evidence that loan has significantly changed the profitability of the firm.

- The adjusted R square was found to be – 0.664 of respectively. Considering independent variables deposit and loan and advance and dependent variable profit. It means that the variation on profit of NBL has not been explained by loan and advance and deposit. ANOVA shows NBL results shows that there was not significance difference in profit due to the deposit and loan and advances at 10% level. Although, t statistic shows there was significance difference in profit due the deposit and loan and advance of NBL
- The trend of total deposit of NBL is in increasing trend. The rate of increment of total deposit for NBL seems to be smoothly increasing trend. It indicates moderately increasing in collection of deposit.
- The trend of trend values of loan & advances of NBL is in decreasing trend. It indicates continuously decreasing rate in providing loan and advance by NBL. It is suggest to increase in loan and advance to make better profit.
- Profit is the important part in banking sector hence its trend for next eight years will be forecasted for future analysis. The trend of Total Profit of NBL is in increasing trend. The rate of increment of Total Profit for NBL seems to be aggressively increasing trend. it is better for company but this type of increment should maintain regularly.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The research is about the Consumer Loan Practice of Nepal Bank limited. In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for the management of the bank and other stakeholder.

Banks & financial institutions are the backbone of the economic development of a country. They have promoted industrialization & economic development by channeling the public deposit into industrial as well as agricultural sector. Commercial banks play an important role in the economic development of the country as they provide capital for the development of industry, trade as well as agriculture by disbursing the saving collected as deposits from the people. Commercial banks investment strongly support for the economic condition of the country. Loan granted to small sector and agricultural sector support to increment of per capita income of the rural people. Banks loans help the growth of trade and commerce, energy sector as well as agriculture and empower the economic activities of the country.

In the research consumers loan practice in Nepal special reference to Nepal Bank Limited. The first chapter of the study deals about basic assumption. Basically it highlighted the concept, problems, significance, objectives of the study. Second chapter help the researcher to provide the knowledge about the conceptual review and national and international researches review. Third chapter deals with various methodology used for the study such as sources of data, population and sample of data, data collection technique and procedure and tools used.

Fourth chapter deals with data presentation and analysis. In this chapter financial condition, nonperforming loan, portfolio of lending, correlation and regression and trend analysis are analyzed. The analysis is conducted with the data collected form various sectors. This chapter make summary conclusion and make suggestion according to previous data analysis and study.

The research shows the total loan and lending to deposit ratio of Nepal Bank Limited is in decreasing trend to 2005/06 and little increasing trend in 2006/07. It seems low utilization of total deposit in loan and advances. The average mean ratio of NBL is 43.8 percent. It indicates that NBL seems to be efficient in mobilizing its total deposit in the form of loan and advances in 2002/03. Non-performing loan of NBL banks seem continues decreasing in trend. The highest ratio is 0.6045 of non-performing loan in 2002/03 and lowest ratio is 0.1534 in 2006/07. NBL was able to decrease the ratio of Non-performing loan during the study period. After the privatization of Management, NPL of Nepal bank has tremendously decreased. it indicate good performance of Bank. However, NPL of Nepal bank was decreased, yet it was beyond international standard ratio of 3%. The average mean ratio is 0.395 of nonperforming loan to loan and advances ratio of Nepal bank ltd. The result showed banking sector is seriously affected by the non-performing loan. The higher volume of non-performing loan results increased in loan loss provision amount and then it eventually reduces the profit. The Priority sector lending to loan and advances ratio of Nepal bank ltd. is 0.0511. Priority sector lending to loan and advances of NBL banks seem to be fluctuating and decreasing trend. It seems that NBL reduced their investment in priority sector.

The analysis shows Total Profit to Total Loan and Advance Ratio of Nepal bank ltd. in the year, 2002/03 suffered the loss. After fiscal year 2003/04 profit of NBL tremendously increased but in the last year profit was diminished. The average ratio is 0.0554. Total Profit to Total Loan and Advance Ratio of NBL banks seem continues increase and last in decreasing in trend. Similarly The Total Profit to Total deposit Ratio of Nepal bank ltd same as before In the year, 2002/03 NBL suffered from the loss. After fiscal year 2003/04 profit of NBL immensely increased but in the year 2006/07 profit was diminished in high ratio. The average mean ratio of Total Profit to Total deposit Ratio of NBL is 0.0217. Total Profit to Total deposit Ratio of NBL banks seem fluctuating trend. The main cause

of increased in profit is collecting of NPL and due interest after privatization of management.
In Details of Approval loan heading, The Approved of loan in 2063 was Rs 6878018660. Similarly, Details of Approved loan heading of 2064 was 5735435408 and The Approved of loan in 2065 was Rs 7647247210.

Personal loan, which is allocated 22.59 percent. Similarly 21.83 % is allocated in Auto loan. in margin, 18.68 percent allocated. The lowest amount 8.23 percent is apportioned in personal Overdrafts. In same way, 14.31 and 14.36 percent is allocated home loan and personal loan in fiscal year 2063.

In fiscal year 2064, The highest 34.81% of loan is apportioned to Personal loan. Similarly second highest 21.08% is allocated in Auto loan. In Margin lending and Home loan 14.94% and 14.36% are apportioned. The lowest amount 7.61 is apportioned in personal Overdrafts. In same way, 17.20 percent is allocated in personal term loan

The highest portion of loan is allocated to Personal loan, which is 24.95 percent. The second highest 21.07 is allocated in Auto loan. The 17.20% is allocated in personal term loan. Similarly, there is 14.95 percent is allocated on Margin loan and 14.36 percent is apportion in home loan. The lowest amount 7.61 percent i.e. 581870000 is apportioned in personal Overdrafts loan in 2065.
While analyzing Detail of Interest income through Approve Loan in 2063 was Rs 594602134. Similarly, Interest Income through Approved loan of 2064 was 627265278 and Interest Income through Approved loan of 2065 was 500533557. Interest Income through Approved loan is highest in 2064

The research shows the Sector wise Portfolio of lending of Nepal Bank Ltd as follows. In agriculture sector investment of NBL is average 4.43 percent in study year respectively. Investment in agriculture sector is increasing trend. Similarly consumable loan is 6.21, 13.86, 11.09, 22.09 and 26.49 percent in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Percentage of investment in consumable loan is continuously increasing. Investment in services industries sector is decreasing trend and investment on consumable loan is increasing. Investment in services industries sector is decreasing in respective fiscal year. Investment in wholesale and retail is allocated to high percentage of loan. Investment in wholesales and retail is fluctuating trend. Production sector is mostly focus by NBL because highest portion of lending amount is allocated in this heading. In total 32.71 percent is dispensing in Production. Lending in this production sector is fluctuating. In aggregate investment in construction sector is continuously increasing trend. Similarly, Lending granted in finances insurance and fixed assets is low. The lending ratio in finance, insurance and fix asset is fluctuating trend.

In the same way, investment in Transportation, communication & public services is continuously increasing due to increasing percentage. Transportation, communication & public services loan is 3.64 percent in study. Priority sector lending in Mining is fluctuating and decreasing trend. In total 0.26, 0.16, 0.07, 0.10 and 0.05 percent is dispensing Mining sector in fiscal year respectively. Investment in Metal production machinery & electrical tools allocate low portion than other. Similarly, investment in Transportation equipment production & fitting sector is fluctuating. Transportation equipment production & fitting sector loan is only 0.41 percent. NBL is contributed high and low in Transportation equipment production & fitting sector. Investment in other sector allocate considerable portion than other. In total 8.2, 5.73, 3.16, 2.12 and 7.88 percent is dispensing in others in fiscal year 2002/3, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The percent in fist fiscal year high and then decrease and last year increasing trend. The high percent indicate high allocation and low percent indicate low allocate of others in sector wise portfolio lending.

The correlation coefficient between deposit and loan and advances of NBL is -0.5398. There is highly negative correlation between loan and advances and deposit collection. Correlation coefficient between the non-performing and loan is 0.974. There is highly positive correlation between NPL and loan. That indicates the both NPL and loan decreasing simultaneously.

The correlation coefficient between sector wise lending and loan and advances of NBL is 0.782. There is positive correlation between wise lending and loan and advances and the correlation coefficient between loan loss provision and loan and advances of NBL is 0.9730 and 6 times PE is 0.0964. It is shown that 'r' is higher than 6times value of P.E., the correlation coefficient is significant. The correlation coefficient between Total profit and loan and advances. is -0.331. There is highly negative correlation between loan and advances and deposit collection.

The trend of trend values of loan & advances of NBL is in decreasing trend. it is suggest to increase in loan and advance to make better profit. Similarly The trend of Total Profit of NBL is in increasing trend. The rate of increment of Total Profit for NBL seems to be aggressively increasing trend. It is better for company but this type of increment should maintain regularly.

Nepal Bank Limited made portfolio through investing various sectors. But productions sector is the dominant sector because it covered more percent of loan out of total loan granted by banks. NBL has given second priority for wholesaler and retailer and third priority given to service sector. It seems that NBL gives little priority in agricultural sector. Agriculture being the back bond of the economy of the country. So it is suggest to invest in more agriculture. The bank has allocated least portion in mining and second last in Transportation equipment production & fitting. Anyway, NBL made optimal portfolio for getting more return by minimizing the risk.

5.2 Conclusion

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

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

It has been found that NBL has high portion of non-performing loan need higher provision results lower profit. Out of total NPL, NBL has more volume of loss loan. Analysis of variance indicated that all indicators are not found significant difference at 0.1 levels of significance of NBL. Form these indicators it can be said that to preserve its position as a successful and dominant commercial bank NBL has to give attention on its lending and recovery device. It can be concluded that government owned bank NBL is not able to manage lending efficiently.

5.3 Recommendation

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

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

- It seems that NBL gives little priority in agricultural sector. Agriculture being the back bond of the economy of the country. So it is suggest to invest in more agriculture

- The bank should provide more training programs in business strategy and organizational management to the employees in the lending department. Training is the most important for the employees to make them efficient and professional in credit appraisal, monitoring and proper risk management.

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

- Share of Nepal bank limited was de-listed from stock exchange so shareholders deprive to transact their share in market. its recommended to list their share price in NEPSE.

- Bank should measures internal performance. The major benefit of using an internal measure to monitor the output quality of the employees in a lending department is a reduction in the likelihood of employee moral hazard behaviors. To effectively use local knowledge about possible fraud from a particular employee, assigning loan decision rights to teams might effectively prevent individual fraud. The final decision for a loan should be made through consensus or some type of voting mechanism among any team members who have participated in the evaluation process for the loan. To reduce the individual fraud, team decision is more effective. Therefore, it is recommended that team decision should be followed while the loan should be disbursed.

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

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

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

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