Chapter I
INTRODUCTION

1.1 Nepalese Economy

Nepal is small country with an area of 1,47,181 square kilometer surrounded by Tibetan autonomous region of China in the North and India in the South, East and West. In view of it's location between two giant countries of Asia, King Prithivi Narayan Shah has rightly described Nepal as a "Yam between two boulders". Nepal is a landlocked country. It has no coastal border and is surrounded on all sides by foreign landmass. It's nearest assess to the sea is through India at a distance of 1126 kilometers from the border at Bay of Bengal.

In 1930 there was a big inflation in the world and it affected those countries which were preparing and implementing of planned economic development. After Second World War in 1945, the programme of planned economy development became popular in the world. In Nepal, some approach for planning development started only after 1951, just before Second World War. Serious efforts, however, were made only after the establishment of planning board in 1955, On October 1st 1955; His Majesty King Mahendra issued a Royal Proclamation announcing a five year plan for Nepal for attaining self sufficiency and for establishing a welfare state. It was, of course, a first systematic effort towards planned thinking. However, it was only after about one year on September 21, 1956 that the main feature of the first five year plan was released.

The history of industrial development in Nepal is not so long. The process of industrial development was started with the establishment of Biratnagar Jute Mill and Industrial council in 1936 Nepal's industrial sector is still in infancy. This sector has provided employment to only about 2% of the total labour force. (Joshi, 2058: 189) After then several industries were established in Nepal, like: Juddha Match Factory in 1938, Morang Cotton Mill in 1942, Nepal Plywood and Bobbin

Company in 1943, Morang Sugar Mill in 1944, and Ragupati Jute Mill. After the end of Second World War in 1945, Biratnagar Jute Mill and Juddha Match factory continued operating successfully, but most of the other industries could not perform well and either closed down or declined.

After launching the first five year plan in 1956, Industrial policy plan was announced in 1957 to promote and assist private industries. During this plan period, Private firm registration act 1957, Factory and factory's workers act 1959 were passed. Nepal industrial development corporation was established in the same year. It emphasized the need and development of private industries and welfare of factory workers. New industrial policy act 1973 and Industrial service centre 1974 was also set up during the forth five year plan (1970-1975). In this plan period it focused mainly on establishment of private sector industries especially based on agriculture, forest and natural resources.

During fifth five year plan (1975-1980) few small industries were established in the private sector and focused mostly on public sector. During sixth plan period (1980-1985) priority was given to private and foreign direct investment. New industry policy act 1982 was announced. Foreign investment and technology act 1981 was also formulated. It opened up all the sectors of the economy for private investment including foreign direct investment. Shoes, rice mills, brick factories, biscuit and confectionery were established. During the seventh five year plan (1985-1990) priority was given to industrial sector for the resources allocation, privatization of selected public enterprises. In the private sector several industries were established such as readymade garments, beer distillery, cement, cigarette and woolen carpets. New industry policy act 1987 and industrial enterprise act 1987 was also announced during that plan period. The main objectives of eighth plan (1992-1997) were sustainable economic growth, poverty alleviation and reduction of regional imbalance. It has adopted open and liberal economic policies and different policies were announced during that period such as: industrial policy 1992, industrial enterprise act 1992, foreign investment and technology transfer act 1992, company act 1996, privatization act 1994 etc. The privatization phase started when the privatization act was enacted in 1994. Under the programme of first phase in 1992, government has estimated the possibility of privatization for six public enterprises, which were: Bhrikiti Paper Factory, Harisiddhi Brick and Tile Factory, Bansbari Leather and Shoe Factory, Lumbini Sugar Mill, Birgunj sugar Mills and Bhaktpur Brick and Tile Factory. Out of six public enterprises, government privatized three public enterprises, namely Bhrikiti Paper Factory, Harisiddhi Brick and Tile Factory and Bansbari Leather and Shoe Factory. In second phase in 1993 government selected fourteen public enterprises for the privatization, out of which five public enterprises were privatized in 1993, namely, Nepal Film development corporation, Balaju Textile Factory, Raw Leather Collection and Procession Centre, Nepal Lube Oil and Nepal Bitumin and Barrel Industry. Up to the end of eight plans sixteen public enterprises were privatized in different forms. The ninth five year plan (1997-2002) had adopted poverty alleviation as its main objective. The key policies of ninth plan were privatization of public enterprises, encouragement to foreign investment, leading role of private sector, reform in legal framework and encouragement to clean technology etc. The main objectives of the privatization programme, as articulated in the Ninth Plan, are to promote the introduction of private sector participation in the economy with the role of the Government as facilitator and supporter of private sector activities and to reduce the financial burden to the State. The program aimed to privatize 30 PEs during the plan period. The tenth five year plan (2002-2007) has also been accomplished which continued the liberal economic policy and it has established longer-term goals for the country in terms of the major macroeconomic and social indicators. It includes the relation between industrialization and regional balance and industrial development and poverty alleviation.

The long-term vision of trade sector as has been spelt out in the Tenth Plan is to develop trade as one of the basic pillars of the Nepali economy through integration in globalization process and creation of competitive and market-oriented trade regime. The objective of trade sector in the national development perspective has remained in creating a liberal, competitive and market oriented trading regime with full participation of private sector, by ensuring the benefits to grass-root level and establishing backward linkage of industrial development and export promotion. The Trade policy 1992 has elaborated the principles governing export and imports with objectives of making meaningful contribution to national economy, developing backward and forward linkages and achieving sustainability through reducing imbalances in exports and imports.

Nepal is one of the least developed among developing countries of the world. So, Nepalese Economy may be explained as follows:

i. Wide Spread Poverty:

Nepal is one of the poorest developing countries of the world. About 38 percent of the total population of Nepal is estimated to be steeped in absolute poverty according to National Living Standard Survey (NLSS) 2003. About 50 percent of Nepalese people are living below Poverty line. Also Nepalese people have only about US $ 215 per capita income, which is very low income among the countries of south Asia.

ii. Dependence on Agriculture:

In Nepal over 70 percent of people derive their livelihood from agriculture sources. The agriculture sector generates over 39 percent of total national income in Nepal.

iii. Under utilization of Natural Resources:

Nepal is said to be rich in Natural resources. In reality, Nepal is a country without any important raw materials of international importance except hydroelectricity and mineral resources. Nepal has potential capacity of 83000 Mega Watt hydroelectricity productions. But due to various problems like; lack of capital, technical know-how and technology it has been able to produce less than 1 percent of total capacity.

iv. Low Level of saving and Investment:

Nepalese people per capita income is only about US $215 per year, due to this the rate of saving and capital formation has remained very low. When there is low capital formation, there will be low investment and low income.

v. Lack of Industries:

Nepal's industrial sector is still in its infancy. The contribution of manufacturing sector is only about 10 percent which is giving employment to only about 2 percent of the total labours force. But there is now a stronger move of Nepalese economy towards Privatization and Liberalization as per current trend occurring in country since the very first Bhrikuti Paper Mill's privatization scheme cum conversion from state enterprise into a private joint stock company during and after the 6th plan phase respectively.

1.2 Importance of Financial Institution in Nepal:

The concept of financial institution in Nepal dates back more than 65 years. In 1994 BS, first commercial bank, Nepal Bank Limited was established under the 'Banking Act-1993'. The government took 51% equity of the bank and the promoters shared the rest. Nepal Rastra Bank, the central bank emerged in 2013 BS under the 'Rastra bank Act-2012'. Since then it has been providing policies and guidance to the financial sector in one hand and is monitoring and controlling them in the other. Realizing the need of adequate banking services for the integrated and speedy development of industrial sector, Rastriya Banijya Bank came into existence in 2022 BS with 100% equity of government. After the establishment of Agriculture Development bank in 2040 BS growth of banking institutions remained almost stagnant till 2040 BS. No new bank had been opened in this period through some branches of previously established banks were extended. Liberalization policy of government formulated in 2038 Bs allowed private sectors to open Joint venture Banks in foreign collaboration. Nepal Arab bank became the first commercial bank to register under new arrangements. The bank started its operation since 2041 BS. It is an associate of Dubai Bank Limited, U.A.E.and Nepalese promoters. Nepal Indo Suez Bank Limited and Nepal Nepal Grindlays Bank Limited were other joint venture banks established after then and before the democracy. After restoration of multiparty democracy in the country, the government formulated new policies along with the amendment of existing policies to accelerate the process of economic liberalization and globalization. Altogether 25 commercial banks are running their business currently in Nepal. These banks attempts to introduce foreign management skills, technical expertise and foreign capital. This situation creates an environment of healthy competition among the existing banking institutions.

1.3 Background

The institutional development of modern banking in Nepal has just emerged 68 years before. In B.S.1993, the Tejarath Adda was established to provide credit facilities at a low rate; especially to the government officials; on collateral of gold and silver. It was only in Kartik 30, 1994 B.S. that the first commercial bank was established with the name of Nepal Bank Ltd as a semi-government organization.

A new banking policy was introduced in fiscal year 2039/40 for the establishment of new banks by the joint investment of foreign nations. The new policy allowed joint venture banks with foreign collaboration to operate in Nepal. Its objective was to create healthy competitive banking system and to provide cheap banking facilities. Indosuez Bank which is now Nepal Investment Bank was the pioneer Joint Venture Banks (JVBs) of Nepal making the history of joint venture banks twenty three years old, 2041 B.S. marked the beginning of a new era in Nepalese banking industry. More JVBs like: Himalayan Bank Ltd. (2049); Nepal SBI Bank Ltd. (2052) came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 BS. Under favorable environment, various other banks were established thereafter. In the current scenario, there are 25 commercial banks.

Nepalese banking sector has faced drastic change. From few government banks providing limited services, Nepalese banking sector has come a long way with large number of banks offering wide range of services. At present, the industry is witnessing a phase of intense competition. Consumers have seen a quantum leap in the quality and variety of service offered by the commercial banks. The role of commercial bank in every nation of the world is in pursuit of attaining the goal of rapid economic development.

The American Institute of Banking defines "commercial bank" as a corporation that accepts demand deposits subjects to check and makes short-term loans to business enterprise regardless of the scope of its other services.

In the Nepalese context, the Nepal Commercial Bank Act 2031B.S. defines a commercial bank as one that exchange money, accepts deposit, grants loans and performs commercial banking function.

Banks attract the inoperative saving of the public in the form of deposits. These deposits are maintained by banks as current accounts, saving accounts or fixed accounts according to the wish of their customers. Banks further invest these deposits or lend it to businessmen and traders for interest earning. Due to this function, bank is contributing a lot in boosting the economy of the nation in various activities of agricultural, commercial and industrial sectors.

1.4 Origin of Banking System:

In Vedic era, deposits, pledges, policies of loan and interest rate were mentioned but it was a crude system of banking. After the collapse of Roman Empire in the 15^{th} and 16^{th} century, revival of commerce and trade started in Europe. Therefore, according to Geoffrey Crowther, Modern commercial banking got revived by merchant traders, goldsmiths and money lenders.

During the Early periods, although private individuals mostly did the banking business, many countries established public banks either for the purpose of facilitating commerce or to serve the government. Modern banking made its first appearance in medieval Italy, despite strong Christian prohibitions against Usury (the charging of interest) according to cannon law. Florence, Genoa and Lucca became the centers of finance and trade in the twelfth and thirteenth centuries. The bank of Venice established in 1157 AD, is supposed to be the most ancient bank. Originally, it was not a bank in the modern sense, being simply an office for the transfer of the public debt. History shows the existence of a 'Monte' in Florence in 1336 AD, as "Monte a standing bank or mount of money, as they have in diverse cities of Italy." Banking slowly spread to rest of the Europe and by late thirteenth century, in Barcelona, even the clergy was engaged in banking.

1.5 Emergence of Commercial Banking in Country:

The history of banking in Nepal may be described as a component of the gradual and orderly evolution in the financial system, which still is in the evolutionary phase. The existence of unorganized money market consisting of landlords, shahukars (rich merchants), shopkeepers and other indigenous individual money lenders has acted as barrier to institutionalized credit. Before 1848 BC the Goldsmith used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848 BC. The bank means institute, which deals with money.

Commercial Bank is heart of our financial system. They hold the deposits of millions of persons, governments and business units. They make fund available through lending and investing activities to borrowers, individuals' business firms and government. But in our country Nepal, the history of modern banking system is very new. This becomes explicit when one compares Nepalese banking system with the banking system of other countries of the world. But this doesn't mean that there was the complete absence of banking activities in Nepal. The banking in the form of money lending can be traced back in the regime of Guna kama Dev towards the end of eighth century. According to the historical evidence in 723 AD Guna Kama Dev, the Lichhivi king of Kathmandu had borrowed money to rebuild and to rule Kathmandu.

The installation of "Kausi Tosha Khana' as a banking agency during the regime of king Prithivi Narayan Shah could lay claim to be regarded as the first step towards initiating banking development in Nepal. So, there was a close relationship between the Licchavi settlements and trade. Another historical example as to the pre-modern banking system is found when rana Prime Minister Ranoddipp Singh was administering Nepal around in 1877/1880 AD. During his regime one financial institution named Tejarath Adda was established to give loan facilities to the governmental staffs and to offer loan facilities to the public in general in the term of 5% interest. The "Tejarath Adda" disbursed credit to the people especially on the collateral of gold and silver. Another one great example of trade in ancient period is about he person named "Shabkhadhar Sakhwa" who cleared all the debts owing to the state on his own. Due to which Newari calendar is said to have been introduced by his name.

The central bank of Nepal, Nepal Rastra Bank was established on Baishak 14, 2013 B.S. (1955/56 AD) under Nepal Rastra bank Act 2012 which has helped to make banking system more systematic and dynamic during that time. As the time passed, the Rastriya Banijya Bank was established in 2022 B.S. in order to play major role not only in domestic banking but also in foreign trade.

Therefore, there are several joint venture banks operating in Nepal that aim at contributing to trade and commerce of the nation. The commercial banks including joint venture banks operating in Nepal are altogether 25 in Number.

1.6 Company's Profile(Nabil Bank Ltd.)

Nabil Bank Limited (Nabil); the first JVB of Nepal, commenced its operations in 12th July 1984 A.D. Dubai bank Ltd, Dubai (later acquired by Emirates Bank International Limited, Dubai-EBIL) was the first joint venture partner of NABIL. Later EBIL sold its entire stock to National Bank Ltd, Bangladesh (NBL). NABIL Bank Ltd. had the official name Nepal Arab Bank Limited till 31stDec 2001. Hence 50% equity shares of NABIL are held by NBL and out of another 50% shares, 20% shares has been hold by financial institutions and remaining 30% shares were issued to general public of Nepal. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, internet banking system and Tele-banking system. It is only Bank having its presence at Tribhuvan International Airport, only international airport of the country. Also, the number of outlets in the country is the highest among the joint venture and private banks operating in Nepal. Success of Nabil is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions.

Nabil has a mission which states-“we will become the pioneer in the financial community committed to economic development of the society.” In order to fulfill this mission Nabil has been operating with the objective of:

- To provide efficient and innovative service to the customer.
- To generate adequate resources for expansion and growth.
- To ensure optimum development of their human resources.
- To earn recognition as professionals from the society.

The fiscal year 2006/07 was truly an exceptional year for Nabil Bank, as they crossed the Rs. 1 billion milestone in Profit before Bonus & Taxes, registering a growth of 11% over the pervious year. Impressive growth in size and volume of major components of the balance sheet, both deposits and loans, yet maintaining both the mixture and quality alongside, have further ascribed the year as remarkable. It is continuously striving to surge ahead to be the Bank of 1st Choice of all stakeholders, even amidst the uncertainty and instability that prevailed in the nation. Nabil Bank registered a historic Rs. 1.09 billion profit before bonus and taxes and Rs.674 million profit after tax in the year 2006/07. The 100% cash dividend along with 40% stock dividend that the Bank has distributed that year was a record high in the annals of banking history in Nepal. This is in line with their commitment to increase paid-up capital of the Bank to a minimum of Rs. 1.6 billion by mid July 2013. Furthermore, 36% return on shareholders' funds and 2.72% return on bank's average assets denote_superior rate of profitability and puts them amongst the highest in the banking sector of the nation. The Bank has doubled the size of its loan portfolio in 5 years. As at mid July 2007 there risk asset base had reached Rs.15.9 billion, from Rs.7.8 billion in mid July 2002. Despite such a huge growth of loan volumes, the Bank has been able to reduce NPL volume to Rs.178 million, just 1.12% of total loans, at mid July 2007 from Rs.557 million of mid July 2002. Similarly, the Bank has held loan loss provision double of NPL volume at mid July 2007. In terms of capital, the Bank continues to be strong and sound with our Capital Fund totaling NPR 2.3 billion and with our capital adequacy at 12.04%, which is well above international standard.

1.7 Customer Loan Market Concept

Nepal is one of the economically developing country. For the economic development there should be investment, which will in return give the profit. Investment promotes economic growth and contributes to a nation's wealth. In today's time money makes money, but everyone doesn't have enough surpluses to invest on their own. So, banks are those financial institutions which take deposits from the people having surplus and gives to the people as loan against securities who needs them. A lender, such as a mortgage company and other financial institution also make these loans. Guaranty 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.

Banks attract the in operative saving of the public in the form of deposits. These deposits are maintained by banks as current accounts, saving accounts or fixed accounts according to the wish of their customers. Banks further invest these deposits or lend it to businessmen and traders for interest earning. Due to this function, bank is contributing a lot in boosting the economy of the nation in various activities of agricultural, commercial and industrial sectors.

Nepal is a country which is dependant upon the Foreign Aids and loan disbursement from bilateral and multilateral sources for the development of country. There are different types of loans, which are:

.i. Working Capital Loan:

It is to overdraft / Short term loans to finance day-to-day business activities. Basically, this loan will help to build up your inventory and receivables to a desired level, against which the loan will be disbursed.

ii. Fixed Capital Loan:

It is to finance projects or acquire fixed assets. Generally, this is a long term loan for acquiring or purchasing machinery, equipment, land and building. The tenure of repayment is cash flow based.

iii. Import loan:

It is for financing international and local trade transactions through letter of credit.

iv. Bills discounting facility Under Suppliers Credit:

It offers discounting facilities to suppliers against the import usance bills.

v. Export loan:

It is for funding requirement for completion of various stages of export processes such as pre-shipment loan, post-export loan (post-shipment loan), negotiation / documentary bill purchase etc. Such credit facility can be availed in foreign currency as well as local currency.

vi. Hire Purchase:

It finances the purchase of vehicles, exclusively used for commercial purpose.

vii. Project Finance:

For any feasible project, it fund from fixed capital to working capital loan - right from the establishment stage which may include financial services like letter of credit and guarantee.

viii. Mortgage Loan:

It is for loans to be used for any purpose by mortgaging your land and building.

1.8 Statement of Problem

Nepal as an economically developing country, most of the resources of the country is remained unused due to lack of proper financing system. This inadequacy of financing can be removed by participation of foreign investors in the commercial banks to some extent. Due to the same reason Joint venture banks are in many numbers these days.

Bank has special facilities for different loans but most of the people are not utilizing it due to unawareness and many other reasons. This study will find out the problems why they are not getting benefits of the customer loan and its facilities provided by bank. Many people are not aware of its procedures and techniques to apply also. Most customers have no idea how to apply for customer loan and don't know how effective it will be during the time of their need. But banks are keeping concern to the need of the customers and they are introducing different facilities in the market. Negative net worth and huge accumulated losses, higher proportions of NPA, high interest rate differential, large interest rate spread are the major ones. Nepalese banking industry is currently going through a phase of intense competition. Financial sector has really suffered because of the political and economical turmoil prevalent in the country. At present situation, country is facing poor performance in industrial, trading, tourism and in other fronts of the economy. The vicious circle of low income, low savings and low investment; which is the key factor responsible for low growth rate of the country enhances the need for vigorous efforts to increase the level of saving. But banks are keeping concern to the need of the customers and they are introducing different facilities in the market. The problems can also be given as follows:

- High Interest Rate
- Political Instability in the country
- Government rules and regulations
- Limited investment boundary due to geographical infrastructure
- Due to low customer banking knowledge
- Difficulty in getting loan repayment form bank view point.

1.9 Objective of the Study

The overall objective of the study is to over view the types of loans provided by the bank to the customers including the mechanism it uses to make profit through it. The specific objectives are as follows:

- To analyze customer loan's effectiveness in the market
- To understand the comparative interest rates and its affect in the market
- To compare the loan disbursement in terms of deposits collection in the market by Nabil bank.
- To measure the ability of bank in the field of short-term loan mobilization, long –term loan mobilization, operating efficiency and loan management.

- To present trend analysis
- To make comparative study of customer loan between different commercial banks
- To have a closer look at the profit mechanism of the Nabil bank through customer loan
- To provide suggestions and recommendations based on the findings of the analysis.

1.10 Significance of the study

This research study is the supporting study about Nabil bank Limited's policies cum performance in loan sector. It is the Joint Venture bank of Nepal. Banks have the top position in overall economic environment, so we cannot imagine the total development of economic sector in absence of banking development. In this global networking era, bank also tries to manage the trade activities by financial manner and the challenges are providing various opportunities and threat to the bank there itself. In bank, marketing department has an important role and has many functions. One of the most important objectives is to work for customer loan. Marketing department has kept concern towards the requirement of customers so they introduce different schemes and facilities for their customers. It helps customers to get financial support as and when they require with very reasonable interest rate and service charge. If the customer uses these benefits in the market it will be advantageous for both the parties as well. At the same time it is getting vast with the competitive environment, so banks are fully focusing to the consumers needs and requirement therefore they are offering new schemes and services to the customers. It has been very important these days to study the customers in the market. However the banks are achieving its goals to analyze the satisfaction of customers' needs and demand. And to make study in these entire factors is significant to the management students and to the concerned individual and organizations. However, the government can also get the various information relating with commercial bank, which may be supportive instrument to re course the banking policies of nation.

1.11 Focus of the Study

The study will focus on the effectiveness of customer loan in the market. In today's competitive market, banks have introduced different products to the customers. This study will analyze how far banks are achieving their goals in meeting customers need and satisfaction. It focuses on the status and the practices of customer loan offered by banks in this competitive market. However loan is getting more important and very useful for the customers for different purposes. So this study will show the impact of customer loan and also analyze the requirement of these products to the customers.

1.12 Limitation of Study

All research studies are done to solve the particular research problem. It requires various kinds of data, materials and other relevant information, which may not be sufficient to the researcher. So, the study cannot escape from the frame of limitations. The study will be centered on the marketing department of the concerned bank and other banks too to show the impact of customer loan in the market. This study will be limited with the Kathmandu valley customers only. It will also be limited to that banks that have customer loan facilities in the market. The research analysis and presentation will be analytical and descriptive. Lastly the limitation of time frame makes the study difficult.

1.13 Research Methodology

Research means definite procedure and technique, which guide to study and propounds way for research viability. In this research to fulfill, the objectives of this study will describe impact of customer loan in markets in the bank.

The data, which will be used in this study, will be of both primary as well as secondary data. Secondary data will be collected from different official records. Meanwhile primary data will be collected from the employees through direct communication.

- Annual reports of the concerned bank
- The journals, reports, newspaper, booklets, web site, published and unpublished documents of the banks
- The primary source of data will be through direct communication with the bank employees.
- Previous studies made in this field.

1.14 Chapters Plan

For the systematic presentation of the report, the research will be divided into following six chapters:

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Presentation and Analysis of Data

Chapter 5: Summary, Conclusion and Recommendation

Chapter 6: Bibliography and Appendix

Introduction: This chapter deals with the general background of the bank, background of the study, statement of problems, objective of study, significance of the study, focus of the study, limitation of the study, research methodology and organization of the study which is chapter planning.

Literature Review: This chapter includes conceptual framework of the subject matter i.e., customer loan. It studies the role and effectiveness of customer loan in the market, it also include the brief review of previous research works.

Research Methodology: This chapter deals with research design, population and sampling, source of data collection, data analysis tools and the method the data is analyzed.

Presentation and Analysis of Data: This is the main body of research. In this chapter, the collected data and information will be analyzed and presented in a pleasant manner. It mainly consist the analysis of market of customer loan and its impact. Some focus will also be given on competitors' move.

Summary, Conclusion and Recommendation: This chapter will illustrate summary of whole study, main conclusion that flow from the study, and offers suggestions and recommendation for the improvement in the future.

Bibliography and Appendix: Last but not least, last chapter present books and journals that are consulted and the appendices provide some supplementary material of the study.

Chapter- II

REVIEW OF LITERATURE

In this chapter, the focus has been made on the review of literature that is relevant to customer loan of commercial banks. Review of literature is the study of previous research or article or book in related field or topics for finding the past studies conclusion and deficiencies that may be known for further research. This chapter will help to check the chances of duplication in the present study. Thus the gap between the previous research and current research can be filled.

Therefore, the chapter is categorized under four main heading. Conceptual review is concern with fundamental of supportive text that will ensure the interpretation whether it is under the principles and doctrine of the theories related to the topic. Similarly, there will be some ideas about Profit Planning and Control. Review of related studies is about the legislations related to commercial banks studies of previous thesis, related books and previous researcher in similar topics. The last is research gap which will describe the difference between the previous thesis and current thesis.

2.1 Conceptual Review

2.1.1 Concept of Bank

The term "bank" was originated from Italian word "Banko" now it keeps a specific meaning. A bank is a business organization that receives and holds deposits and funds from other, makes loans and extends credits, and transfers fund by written order depositors. A Bank is an undertaking that carries on the business of banking. –Lawson, Etzal (2004);P276.

"The more developed financial system of the world characteristically falls under three parts: the central bank, commercial banks and other financial institution. They are also known as financial intermediations". –Sayer (1998);P16.

A bank is a commercial or state institution that provides financial services, including issuing money in various forms, receiving deposits of money, lending money and processing transactions. A commercial bank accepts deposits from customers and in turn makes loans based on those deposits. Some banks (called banks of Issue) issue banknotes as legal tender. Many banks offer ancillary financial services to make additional profit: for example, most banks also rent safe deposit boxes in their branches.

Currently in most jurisdictions commercial banks are regulated and require permission to operate. Operational authority is granted by bank a regulatory authority that provides rights to conduct the most fundamental banking services such as accepting deposits and making loans. A commercial bank is usually defined as an institution that accepts deposits and makes loans with the same collected deposits: their are also financial institutions that provide selected banking services without meeting the legal definition of a bank. Historically, the primary purpose of a bank was to provide loans to trading companies. Banks provided funds to allow business to purchase inventory, and collected those funds back with interest when the goods were sold. For centuries, the banking industry only dealt with business, not customers. Commercial lending today is a very intense activity, with banks carefully analyzing the financial condition of their business clients to determine the level of risk in each loan transaction.

A bank generates a profit from the difference between the level of interest it pays for deposits and other sources of funds, and the level of interest it charges in its lending activities. This difference is referred to as the spread between the cost of funds and the loan interest rate. Historically, profitability from lending activities has been cyclic and dependent on the needs and strengths of loan customers. In recent history, investors have demanded a more stable revenue stream and banks have therefore placed more emphasis on transaction fees, primarily loan fees but also including services charges on array of deposit activities and ancillary services (international banking, foreign exchange, insurance, investments, wire transfer etc.). However, lending activities still provide the bulk of commercial bank's income.

Financial transactions can be performed through different channels:

- A branch banking center or financial center is a retail location where a bank or financial institution offers a wide array of face to face center or financial center is a retail location where a bank or financial institution offers a wide array of face to face service to its customers.
- ATM is a computerized telecommunications device that provides a financial institution's customers a method of financial transaction in a public space without the need for a human clerk or bank teller.
- Mail is a part of the postal system which itself is a system wherein written documents typically enclosed in envelops, and also small packages containing other matters, are delivered to destinations around the world.
- Telephone banking is a service provided by a financial institution which allows its customers to perform transactions over the telephone
- Online banking is a term used for performing transactions, payments etc. over the internet through a bank, credit union or building society's secure website.

2.1.2. Types of Banks

Banks activities can be divided into *retail banking* which directly deals with individuals and small businesses; *business banking* which provides services to mid-market business; *corporate banking* which is directed at large business entities; and *investment banking* which works on activities related on the financial market. Most banks are profit-making, private enterprises. However, some are owned by government and are not- profit organization.

Central banks are non commercial bodies or government agencies often charged with controlling interest rates and money supply across the whole economy. They generally provide liquidity to the banking system and act as Lender of last resort in event of crisis. Similarly, the commercial banks refer to a bank or division of a bank that mostly deals with deposits and loan from corporations' or large businesses.

Commercial Banks are mainly established to facilitate the development of trade and commercial sector of the country. The first commercial bank in the world was "Bank of England", established in 1694 A.D, as the form of central Bank of Britain. Commercial banks are those financial institutions, which deal in accepting deposits of persons and trade, industry ad even to agricultural sectors. Moreover commercial banks also provide technical and administrative assistance to industries, trades and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sector of the economy.

According to the "Nepal Commercial bank Act, 2031 B.S", "A commercial bank is one which exchanges money, deposits money, accept deposits, grant loans and performs commercial banking functions."

Under the commercial bank Act 2031 B.S; it has also mentioned that, "The commercial banks are those banks, which provide short and long-term debts whenever necessary for trade and commerce. They accept deposits from the public and grant loans in different forms. They purchase and discount the bill for exchange promissory notes, and exchange foreign currency".
The American institute of banking has laid down the four major functions of the commercial bank such as receiving and handling deposits, handling payments for

its clients, making loan and investments, and creating money by extension of credit.

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government organization, and business units. They make fund available through their lending and investing activities to borrows, individual's business firms, and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of facts show that the commercial banking system of the nations is important for the functioning of the economy. -Cotter and Smith (2005); P145.

"A Commercial Bank is defined by law as a depository institution that takes deposits and makes business loans". -William & Sartories (2001); P52.

The Commercial Bank can also be defined as an "Investment bank". The investment banker is the link between the corporation in need of funds and the investor. As a middleman, the investment banker is responsible for designing and packaging a security offering and selling the securities to the public. -Block & Hirt (1997); 428.

There are various studies on financial aspect, which deals in the context of Nepalese commercial and joint ventures banks. There has been the rapid growth in financial sector in last few years; we can view it clearly with table below:

Table No. 2.1: RAPID GROWTH OF FINANCIAL SECTOR OF NEPAL

Year / Sector	2027	2037	2047	2057	2065
Commercial Banks	2	2	5	13	**25**
Development Banks	2	2	2	7	**58**
Finance Company	0	0	0	47	**78**

2.1.3 Historical Development of Banking System in Nepal

In the context of Nepal formally depositing and lending is new phenomenon, where as informally it was existed from the very beginning. The historical records show that Gunakam Dev, the king of Kathmandu borrowed money to rebuild his kingdom in 723 A.D. After 57 years a merchant 'Shankhadhar' introduced 'Nepal sambat' by clearing all the debt of the people in 808 A.D. This is proof for the practice of money lending prevalent at that time.

After Jayasthiti Malla's classification and declaration 'Tanakdhari' as the people engaged in money lending business. Money lending business became quite popular. Thus the role of Tanakdhari was similar to that of banking agent. But, the practice of Tankdhari activities was also not free of problem. In the history of banking Nepal may be described as a component of the gradual and orderly evaluation in the financial and economic sphere of Nepalese line. The existence of unorganized money market consisting landlords, Shanukars, shopkeepers and other indigenous money lenders has acted as barrier to institutionalized credit.

During the prime ministership of 'Ranodip Sing' around 1877 A.D. 'Tejarath Adda' fully subscribed by the government was established in Kathmandu. This is the first financial institution of the country. The primary tasks of the 'Tejarath Adda' was granting of loans and safeguarding of total national deposits. At the time Indian currency was commonly used in most part of the Terai. The primary task of 'Tajerath Adda' was to attract deposit in government exchequer at the beginning but letter on general public were also allowed to take the loan at same rate of interest with gold and silver ornaments as securities or collateral. Anyways, it played good role in development process of banking system in Nepal.

However, the institution of 'Kausi Tosha Khana' as a banking agency during the regime of King Prithiviarayan shah could also claim to be regarded as the first step toward initiating banking development in Nepal.

So, to eliminate these drawbacks in 1937 A.D. Tajerath Adda was replaced by commercial banks. Nepal Bank limited marked the beginning of a new era in the history of modern banking of Nepal. At the time of Rana prime minister 'Juddha Shamser', It was established as a semi government bank with the authorized capital of Rs. 10 million and the paid of capital 8.42 lakhs, Nepal bank limited, however was controlled by the private shareholders till 1951 A.D in 1952, Gov. of Nepal increased its share ownership in NBL up to 51 percent in the total share capital of bank in order to hold control over its management.

'Sadar Mulukikhana' started to issue currency notes since 1945 A.D. After that Nepal Rastra bank as the central bank was established in 14 Baikash, 2013 under Nepal Rastra Bank Act. 2012. The main objective of NRB is to ensure to facilities and to maintain economic interest of general public for safeguarding the issue of paper money to secure country wise circulation of the Nepalese currency to achieve stable system in its exchange rate and to develop banking system in its exchange rate and to development banking system in the country. Hence, NRB a regulatory body is the banks of the loans, which provides necessary directives to the other bank.

After a long gap, the second commercial bank was established in 1964 A.D. as Rastriya Banijya Bank with fully government ownership. It's authorized capital of Rs 10 millions and paid of capital of Rs. 3 million. The purpose of bank was to provide facilities and help in economic welfare of the general public. Likewise, for the purpose of developing agriculture sector, government established agriculture development bank in 2024 B.S.

When the government adopted liberal and market oriented economic policy in 2041 B.S., joint venture commercial banks were welcomed in Nepal. In the beginning three joint Venture banks like Nepal Arab Bank Ltd. Nepal Indo-Suez Bank (renamed Nepal investment bank), Nepal Grind-lays bank (renamed standard charterd bank) limited was established. At present, there are 78 finance companies & 5 rural development banks operating across the country. Additionally 19 co-operatives and around four dozen NGOs are involved in microfinance activities.

2.1.4 Legislations Related to Commercial Banks

Banks regulations are a form of government regulation which subject banks to certain requirement, restrictions and guidelines, aiming to uphold the soundness and integrity of the financial system. The combination of the instability of banks as well as their important facilitating role in the economy led the banking system to be thoroughly regulated. Another reason why the banks are thoroughly regulated is that ultimately, no government can allow the banking system to fail. Hence, there are many Acts formulated to facilitate the smooth operation of commercial banks. Which are as follows:

2.1.4.1 Commercial Bank Act, 2031: Commercial Bank Act, 2031 defines commercial bank as, "a bank which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industry or for specific purpose."

The Commercial Bank Act, 2031 also listed the functions of commercial banks to provide short-term credit necessary for trade and commerce to take deposits from public and grant loans in different forms. They should purchase and discount bill of exchange, promissory note, and exchange foreign currency. They are required to discharge various functions on behalf of their customers.

The preamble of Nepal Bank Act, 1994 B.S. clearly states the need of commercial bank in the country in these words: 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 services to the people and for the betterment of the country, this law is herby promulgated for the establishment of the bank and its operation.

2.1.4.2 Company Act, 2021 and Amendments, 2053 and 2063: The amendments in Company Act, 2021 states that Commercial Bank including JVBs in Nepal can be established only as a company with limited liability under the Company Act, 2021. The provisions mentioned in the Act are designed to regulate the commercial banks in all the aspects, starting from the incorporation to the winding up of the bank.

2.1.4.3 Commercial Bank Act, 2031 and Amendments, 2049: This Act has laid various provisions for the establishment of a commercial bank. These are as follows:

(a) Establishment of Bank

i. A bank shall be established under the Company Act. For obtaining the recommendation from Nepal Rastra Bank, an application shall be filled along with the particulars to the Rastra Bank. Only in case the Rastra Bank such bank can be registered according to the Company Act for working under this Act.

ii. The NRB may prescribe necessary conditions for the establishment of a bank and it should be the duty of the concerned bank to fulfill the conditions so prescribed.

iii. The bank shall be a autonomous corporate body with the perpetual succession. It may sue or be sued in its own name.

iv. The bank may determine the location of its head office with the approval of the Nepal Rastra Bank.

v. Subject to this Act and other current Nepal law, the bank may acquire, use and seal movable and immovable property.

vi. Any bank may open or shift the location of, or close branches depots or other officials with the approval of the NRB.

(b) Establishment of Branches of Joint Venture Foreign Banks

i. In case of foreign commercial bank desires to open a branch representative office or liaison such branch may be opened under the company Act with the approval of NRB, and provisions of the act shall apply to such foreign bank.

ii. The NRB shall obtain the consent of His Majesty's Government before granting approval to the joint venture foreign banks.

iii. While granting approval the NRB may prescribe conditions according to the need, and the foreign bank shall comply with the conditions according to the need, and the foreign bank shall comply with the conditions thus prescribed by the NRB.

2.1.4.4 Nepal Rastra Bank Act, 2012 and Amendments, 2058: As per the provision of NRB Act 2012, NRB may issue directives from time to time to the commercial banks regarding baking, currency and credit. The Act gives the following authorities to the NRB:

a. Development of Banking system and supply of credit to commercial banks

i. NRB shall make all the possible efforts to develop and regulate the banking system in Nepal.

ii. With the consideration of the monetary situation, the NRB may provide loans for refinancing facilities on the conditions prescribed by it against collateral or guarantee, to any commercial banks, which supplies agricultural or industrial credit.

b. Commercial banks must obtain the permission to accept deposits, supply loan and issue debentures

c. Determination of rate of interest

NRB can determine the rate of interest to be charged or paid by commercial banks on loans and deposits. But in the present context of open and liberalized economic system NRB doesn't prescribe any rate of interest to be charge by commercial banks for lending and borrowing. The NRB monitors the spread between the lending and borrowing rates.

d. Loans to be supplied to the prescribed sectors

NRB has prescribed the priority and deprived sectors, for commercial banks to advance 3 percent of its total loans and advances to these sectors in order to flow the credit in rural areas of the country.

e. Liquidity

Commercial banks shall maintain liquid assets (also called cash reserve) in such proportion of their domestic liabilities as the NRB may prescribe. The cash reserve ratio requirement after the amendment of NRB policy is 5% of total deposit either in NRB or in the vault of bank.

f. Fund to be maintained with NRB

Commercial banks must maintain funds with NRB according to the percentage of total deposit liabilities prescribed by NRB. Total deposit liabilities refers to the liabilities of amount covered by the term deposits defined in the 2031 Commercial Bank Act.

g. Core capital to be increased to 50 million

All the commercial banks including JVBs are informed by NRB that they must make their core capital at least 2 billion Rs. by 2010. Core capital includes paid up capital and statutory reserves. This provision has initiated all the banks in capitalizing those earnings by suing bonus shares. Earning per chare (EPS) and Dividend per share (DPS) of commercial banks is adversely affected by compulsion to issue bonus shares.

h. Power of NRB to Inspect, Supervise and Issue Directions

The NRB may inspect and supervise any office of commercial banks at any time, or make arrangement for doing so. NRB may issue, after the inspection, the necessary directives to commercial banks in respect to matters considered necessary after the inspection and supervision.

2.1.4.5 Other Policies

a. New arrangements for interest rate fixation

The Nepal Rastra Bank has made the following arrangement for the fixation of interest rate:

i. Commercial banks have to inform NRB and also communicate it to public through mass media about the interest rate offered on all types of deposit and interest charged on lending rates on different heading and for different purpose immediately after changes and regularly in every three months.

ii. While issuing notices on interest rate, commercial bank cannot state the provision that the rate will be fixed on the bases of mutual understanding.

b. Amendment and Adjustment to the Bank Rates

The following amendments have been made on reporting procedures to be followed by the banks for availing refinancing/ rediscounting facility.

i. These banks should compulsorily report to the credit information center on regular basis and the report should include updated defaulter's list. The NRB will stop refinancing facility for the banks that are detected of not sending such report from the inspection. Beside NRB will act in accordance with NRB Act.

ii. These banks will be charged interest at 2% rate as penalty, if they fail to repay the loan under refinancing facility on time.

c. New Arrangement for Compulsory Cash Balance

NRB has cancelled all pervious arrangements regarding compulsory cash balance necessary to maintain by the commercial banks. It has issued new regulations, which require commercial banks to deposit cash at NBR equivalent to 5% cash balance of all domestic deposit liabilities in their own account.

d. Capital requirement for establishing new commercial banks/ joint venture banks in Nepal

With a view to encourage opening of commercial banks outside the Kathmandu valley and also limiting the monopoly of single person, an individual or group or a company in banking business, NRB made certain provision effective from May 1,1994. According to new provisions, a minimum paid up capital of Rs. 700 million is required to open a new commercial bank with it's headquarter to be stationed in Kathmandu valley and operations expanding throughout the country. A minimum paid up capital of Rs. 700 million is required for establishing a bank with it's headquarter in any municipality of the kingdom and expanding its business allover the country except Kathmandu valley. Likewise, a minimum paid-up capital for Rs. 50 million is required to open a bank with headquarter to be stationed at the district and limiting its areas of operation to five districts outside the Kathmandu valley. In addition to these, NRB has also made some provisions regarding the ownership of new banks to be opened under the new regulations. Accordingly, any such bank is required to sell at least 30% of it's share to the general public. However, no single person, firm, companies and a group of companies can purchase more than 10% of the issued capital of the bank. Similarly, such person, firm, companies or groups of companies (except His Majesty's Government, Nepal Rastra Bank, Commercial Banks and Government financial institutions) is not allowed to purchase more than 15% of issued capital of all other banks.

2.1.4.6. Credit Principles, Policies and Practice

During the study, it becomes familiar about the credit principle, policy and practice of the banks. To reveal the essential aspect of this chapter, there are some empirical principle developed and expressed by the experts, NRB Directives and other evidence which will help to make clear concept to this chapter.

Mr. Sudir Karki, financial expert giving his view about the credit policies:

- Quality of credit is more important than exploiting new opportunities.
- Every loan should have two ways out that are not related and exist from the beginning.
- Successful completion of the transaction, realizing assets/ Drawing on the borrower's resources.
- The character of the borrower of in the case of corporations, the management and shareholders must be free of any doubt as to their integrity.
- Banks that associate with people of less than acceptable character damage their own image and reputation for beyond the profit obtained on the transaction.
- Where security is obtained a professional and impartial view of its value and marketability must be obtained.
- Do not let poor attention to detail and Loan Administration spoils an otherwise sound loan.
- It the loan is to be guaranteed; be sure that the guarantor's interest is served as well as the borrowers.
- See where the bank's money is going to be spent.
- Think first for the bank. Risk increases when credit principles are violated.

(Source: NRB Anniversary Publication)

2.1.4.7. Classification of Loan and Advances

The classification criteria are as follows:

a. PASS category: all loans and advances the principal of which are not past due or past for a period up to 3 (three) months. Only loans falling under PASS category are termed as "Performing Loan".
b. SUBSTANDARD category: all loans and advances, the principal of which are past due for a period of more than 3 months and up to 6 months.
c. DOUBTFUL category: all loans and advances the principal of which are past due for a period of more than 6 months and up to 1 (one) year.

d. LOSS category: all loans and advances the principal of which are past due for a period of more than 1 (one) year.

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

Loan Loss Provision as per Loan Classification:

Classification of Loan	Loan Loss Provision
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

(Source: Bank's Annual Report)

2.1.4.8. Procedure for Application, Appraisal, Sanction/ Disbursement of Loan

The various steps involved in the loan appraisal; approval and disbursement process. Which are as follows –

a. **Business Plan:** A borrower interested in taking a loan should approach the Marketing and Planning Division at the bank and make an application by filling out the project on formation sheet available with the above division regional offices. In this the prospective borrower has to furnish the following:
    - Technical details
    - Proposed financial structure
    - Expected raw materials requirement and
    - Certain legal information; relevant to the proposed project.

The project information sheet (PIS) is to be submitted along with a project feasibility report and documents certifying the legal status of the company.

b. **Processing of Business Plan:** In the event of processing of business plan at the branch, the plan is scrutinized by the branch officials related to credit department. They prepare the loan proposal, which includes the feasibility of the plan.

At the central office business plan along with the loan proposal submitted by the branch will be recommended by branch in-charge/ credit in-charge is scrutinized by a project screening committee headed by the general manager and consisting of deputy general managers' sector division chiefs and chiefs of the bank.

c. **Screening the Business Plan:** The duly filled out PIS along with detailed feasibility report will be processed by credit department and then referred to the project screening committee for review as to the desirability of the project in the context of national priorities legal obligations, national and international policies and banks own credit policies.

   After analysis of the international and external favors the credit in charge focuses to the security against the lending. Such credits are extended by bank against security of properties. Security may be collateral of fixed nature of stock of the unit or both. Credit in-charge observes the sight of the properties. The parameters for good security define the approaches of road, electricity, water and other civil amenities. Importance is given to the property situated in the urban areas.

   If the proposal is accepted the applicant is advised to file the formal loan application from for financial assistance.

d. **Loan Application:** In the event of processing the loan application at the office, the application is forwarded by the credit department to the concerned sector division. Each sector division is entrusted with different functions as; the concerned sector division appraises the project, and decides its liability on the basis of technical and financial soundness of the loan proposal, the marketability of the products as well as the proposal credit worthiness of the applicant borrower. Once the viability of the project is ascertained, the credit division at central office takes a decision as of whether the project will be financed solely by concerned bank or by a consortium formed with some other banks; age criteria for co- applicant is 21 years at the time of application received and not older than 75 years at loan maturity. Subsequent to appraisal an appraisal report is tabled before the sanctioning authority for final decision and approval. Any individual having steady regular income source is eligible to apply for loan.

e. **Loan Sanction:** Upon proper scrutiny of the loan appraisal the sanctioning authority approves the proposal and prepares a loan sanction letter. The sanction letter spells out the details of the loan, the amount and its purpose, the manner of disbursement the securities to be pledged against the loan (usually, the entire fixed assets of the project are pledged; extra collateral is taken for working capital loan is for those term loans which are intended to finance a movable assets like machinery) the repayment schedule, and other terms and conditions of financing.

   Upon receipt of the approval from sanctioning authority at the branch the credit department issues a credit facility offer letter to the borrower. This letter spells out the details of the loan, the amount and its purpose, details of charges, the manner of disbursement the securities to be pledged against the loan and other termsa and conditions to be implemented by the bank and borrower.

   The loan documentation charged by the banks is:

   - NRs 1,500 upto NRs. 1 million loan
   - NRs. 3,000 upto NRs. 10 million loan
   - NRs. 5,000 above NRs. 10 million loan

   If the borrower is satisfied with the offer the borrower signs the offer letter and the agreement is made. Upon acceptance of the offer of the bank the borrower is requested to adhere to the terms and conditions stipulated in the offer letter.

f. **Execution of Legal Formalities:** When the memo is approved from the top level, some legal formalities are obtained before sanction of loan; the legal formalities are obtained in accordance to the nature of securities and loan. The securities could be movable, immovable, mortgage, equitable mortgage, legal mortgage, pledge, hypothecation, lien, hire purchase etc. After being finalized to grant the loan, bank obtained/ executed various documents to make legally liable to loan for repayment of sanctioned loan.

This process is called documentation. Since, different documents are required to be executed accordance to the mature of loan, normally following documents are necessary.

- Promissory Note
- Letter of Request
- Letter of Continuity
- It is filled up for the continue use of those facilities as provided
- Letter of Arrangement: It is the commitment to the bank by the borrower to arrange the repayment of loan.
- Letter of disbursement
- Hypothecation of entire current assets and fixed assets.
- Personal guarantee of all the directors and the property owners.
- Mortgage Deed

g. **Loan Disbursement:** Usually, loan is disbursed maintaining a 75:25 loan /equity ratio at any stage of the project. At the end of the project the concerned sector division appoints a team to prepare a Project Completion Report (PCR). At the time of disbursement of loan bank charges 1% service charge on loan amount also.

2.1.4.9. Loan Recovery Procedure

After client enjoys the facility they have to return the fund within the proposed time period. The working capital loan is given for the one- year period and has to be renewed every year on the renewal request of the client. The repayment schedule of the loan has different methods as:

a. Term loan are granted for a maximum period of 15 years, depending on the nature and debt-servicing ability of the project. And whole amount of principal as well as interest must settle within the given time period.
b. Principal dues are payable in monthly installment where as interest is payable in quarterly basis.

c. A grace period (moratorium) for repayment of principal is granted on the basis of the time required for the project to come in to operation and interest dues during the construction period are capitalized. And this moratorium period uoto the 1 yearis in practice of the commercial banks.
d. Short term loans of working capital loans may be granted for a period of 1 to 3 years and are subject to renewal.
e. Repayment of interest become due on quarterly basis as:
   - End of Chaitra (Mid April)
   - End of Ashad (Mid July)
   - End of Ashwin (Mid October)
   - End of Poush (Mid January)
f. In the event of failure of payment of interest, the interest charged on Ashad (Mid June to Mid July) and Paush (Mid December to Mid January) will automatically be capitalized after one month and the capitalized interest will carry the same interest rate as on the pertinent loan.
g. The payment of the retail lending is based in the EMI (Equal Monthly Installment) basis where the principal and the interest is paid every end of the month. In this method of repayment of loan the borrower have to pay equal installment every month for the given time period.
h. It the borrower want to pay the loan before the maturity of the granted loan then the bank charges panel of additional 1% charge from the sanction loan as the premature settlement of the loan. And in general practice of the commercial banks the payment charge are:
   - 2% of amount prepaid before 1 year
   - 1% of amount prepaid after 1 year
   - Partial payment allowed after 1 year only
   - Service charge 1% of loan amount sanctioned

2.1.5 Function of Commercial Banks

Commercial Banks are the important type of financial institution for the nation in term of aggregate assets. The business of banking is very broad in modern business age. The number and variety of services provided by commercial bank will probably expand in future. Recent innovation in banking includes the introduction of credit cards, accounting services in banking business firms, factoring, and leasing participation in the Euro dollar market and lock-box banking. -Cotter and Smith (2005); P123.

The function of commercial banks can be defined as in several area and disburse cash, they provide short-term credit, they offer several kinds of short- term investments, they serve as a fiduciary, they provide consulting services in cash management and other fields, they may provide as brokerage function that permits customers to buy and sell securities like commercial papers, bond and stocks, and they can offer some kinds of insurance. The following sections discuss some of these functions in more brief -Hill & Sartoris (2005); P49.

2.1.5.1 Depository Function

Banks offer several types of depository accounts. There are two basic types of depository accounts, time and demand. For time deposits, the cash in the account receives interest and must be held in a bank for a specified time period. Demand deposits may be withdrawn at any time by the account holder or other party on presentation of a valid draft or cheque drawn on the account.

2.1.5.2 Collection, Concentration, and Disbursement Functions

Banks serve as clearing house for cheque. When a firm receives a cheque in payment for some goods or service, the firm deposits the cheque in a bank. The bank gives there firm credit for the cheque and returns the cheque to the bank on which it was drawn. Banks also serve as initiating receiving points for wires and automated clearing house transfers.

After cash has been collected in one bank, the cash balance generation is usually concentrated or pooled into a larger account at a centralized bank. Banks offer a number of services to assist firms to concentrating their cash. On the outflow side, disbursement cheques sent to vendors are drawn on banks.

2.1.5.3. Short-Term Credit Function

Banks provide financing to corporations to help meet short-term cash needs. Since banks take in cash in the form of short-term deposits, they in turn led cash primarily in the form of short-term loans. The short-term loans may be as the form of a credit line, revolving credit line, and term loans acceptance financing, letter of credit etc.

2.1.5.4 Investment Function

In addition to the interest-bearing deposits mentioned, commercial banks provide other opportunities for cash managers to invest short-term funds. They are major brokers of notes and bonds, government agency securities, and municipal note and bonds. They also sell bank commercial paper and deal extensively in repurchase agreements.

2.1.5.5 Fiduciary Function

Many banks are empowered to operate a trust department. Banks that provide trust services invest, manage and distribute money as requested in wills, trusts, estates and retirement plans. A trust department may be appointed to serve as a corporate trustee or overseer for a corporate bond or preferred stock issue. The bank monitors compliance with indenture agreements, ensures that the corporation pays interest to the bondholders, and redeems bond as required by the agreement. In addition, a bank may serve as a transfer agent to deep records of the sale and purchase of a corporations stocks and bonds, or as a registrar to maintain lists of current stockholders and bondholders for the purpose for remitting dividend and interest payments.

2.1.5.6 Consulting services Function

Large banks generally offer consulting services, especially in area of cash management. Such services are used in designing optimal collection, disbursement and concentration systems.

2.1.5.7 Brokerage and Insurance Function

Banks were permitted to purchase brokerage firm to help their customers buy and sell stocks and bonds. The law states, however, that a bank can own only a discount brokerage firm one that performs transactions but does not give investment advice. Additionally, banks can now offer certain types of insurance to bank customers.

2.1.6. Role of the Bank in the Money Supply

A bank raises fund by attracting deposits, borrowing money in inter- bank market, or issuing financial instruments in the money market or a capital market. The bank then lends out most of these funds to borrowers.

However, it would not be prudent for a bank to lend out all of its balance sheet. It must keep a certain proportion of its funds in reserve so that it can repay depositors who withdraw their deposits. Bank reserves are typically kept in the form of a deposit with the central bank. This behavior is called fractional reserve banking and it is a central issue of monetary policy.

2.2. Concept of Profit Planning and Control

Any firms are established with broad, long-range objectives. The long run objectives are pursued in successive, short run steps in the future periods of time. As all firms are profit motive in present time, the perfect profit planning and control is needed to grab its objective i.e. gaining profit.

In simple sense, **profit** means unusual gain excess of return over outlay. Profit is said to be rewarded for the enterprises, which is the fourth factor of production. Profit plays great role in measuring utility, for better incentive to work, in selection proper resources and allocating it along with maximizing social economic welfare. Generally, profit requires good deal of managerial capability and talent. Profits are associated with entrepreneur and his functions. But different people from different time have expressed diverse and conflicting views about the nature, origin and role of profits. Till today, there is no complete agreement among different people about the true nature and origin of profit.

There is several different interpretation of term" Profit". In the view of an economist, it may be the reward for entrepreneurship for taking risk. Similarly, in the view of an investor it may be the return of money. The accountant may define it as the excess of firms' revenue over the expenses of producing revenue over a given fiscal year. An internal revenue agent may consider profit as the base for determining income taxes.

"Profit in the accounting sense is the excess of revenue over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits."(Cavery, R-1997, P122)

J. M. Keynes held the view that *"profits resulted from favorable movements of the general price level."*

The economists like **Mrs. Joan Robinson, Chambering**, *"greater the degree of monopoly power, the greater the profits made by the entrepreneur."*

Planning involves deciding in advance what to do, where to do, when to do and who is to do it. A plan is the future course of action and hence it is based on forecasts. The benefit from the planning in the management is that it helps to do things in an orderly manner by reducing chaotic action and disorder. It compels management to plan in a comprehensive and coherent way. In addition, it enables to face risk and uncertainty and increases economy by efficient mobilization of resources.

In the word of **Mary Cushing Niles**, *"Planning is the conscious process of selecting and developing the best course of action to accomplish an objective."*

G. R. Terry, *"Planning is the selecting and relating of facts in the visualization and formation of proposed activities believed necessary to achieve desired results."*

Controlling is the fundamental function of the management. The responsibility of the management doesn't end with the formulation of effective plan, but encompasses the task of control of strategy. Controlling is the management function for effectively getting things done in the organization. It is the maintaining of balance in activities desired towards a goal or set of goals. Control maintains the equilibrium between ends and means, output and effort.

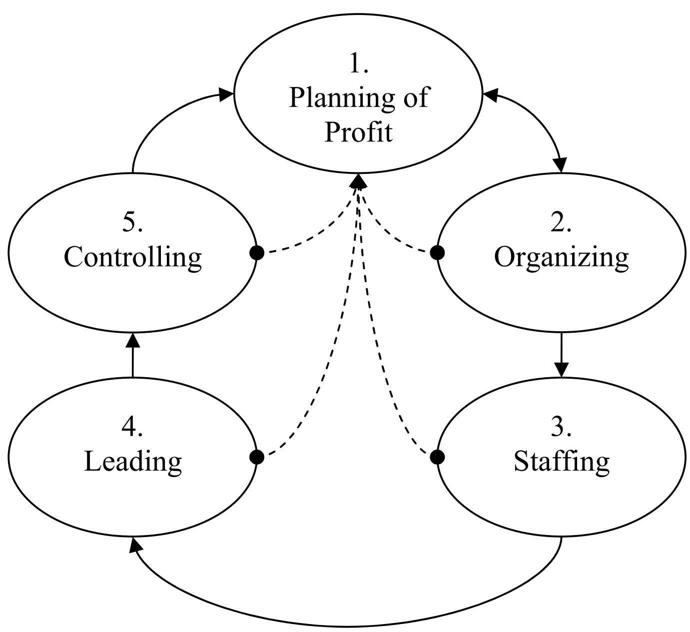
Controlling involves monitoring the implementation of the plan and taking corrective action as needed. The control process is continuous because it is impossible to predict the timing and impact of external environmental factors or the effects of planned actions. Control is based on the use of feedback about the activity being controlled. All control systems must have some kind of feedback mechanism. In the case of a heating system, for example, the thermostat is the control device that obtains feedback from temperature readings. In a similar manner, managers control operations by getting feedback from many sources. To some extent, managers directly observe what is happening. In addition, they rely on verbal and written reports, which they receive daily, weekly, monthly, annually, irregularly, or on demand. Using this feedback, corrective action can be taken when necessary.

Joseph L. Massie has defied, *"Control is the process that measures current performance and guide it towards some predetermined goals."*

Likewise, **Prof. Theo Haimann**, *"Control is the process of checking to determine whether of not plans are being adhered to, whether or not proper progress is being made towards the objectives and goals and acting, if necessary, to correct deviation."*

Figure: 2.1

Management Planning System



2.2.1. Limitation of (Profit/ Financial) Planning and Control

Profit/ Financial plans are based upon estimates. Inevitably, many conditions expected when the plan was prepared will change. Crystal balls are often cloudy. The further down the road one attempts to forecast, the cloudier they become. In a year, any number of factors can change, many of them beyond the control of the company. Customers' economic fortunes may decline, suppliers' prices may increase, or suppliers' inability to deliver may disrupt your plan.

The plan requires the support of all responsible parties. Sales quotas must be agreed upon with those responsible for meeting them. Expense budgets must be agreed upon with the people who must live with them. Without mutual agreement on objectives and budgets, they will quickly be ignored and serve no useful purpose. Plans must be changed from time to time to meet changing conditions. There is no point in trying to operate a business according to a plan that is no longer realistic because conditions have changed (Web Office, 2000: 3).

The limitation of profit/ financial planning and control can be described as follows:

a. **Based on estimate:** Profit planning is not an exact science. It is based on estimates. The success of profit planning depends to large degree on the accuracy with which the basic estimates are made. Therefore estimates should be made on the basic of all the facts available. Using correct and modified statistical techniques and managerial judgment can make the estimates accurate.
b. **Danger of rigidity:** PPC is estimate and quantitative expression of all relevant data. So there can be the tendency to attach some sort of rigidity of finality to them. But rigid ness makes PPC useless. For usefulness, the PPC must be flexible various techniques must be tried, improved or discarded and replaced with others. In other words, a PPC program must be dynamic in every sense of the world.

c. **Application for long period:** The installation of a complete PPC is not possible in a short period should be continuously used in the business and should be revised and modified with the changed situation in the business.

d. **Execution is not automatic:** A skillfully prepared PPC will not itself improve the management of an enterprise unless it is properly implemented. For the success of PPC it is essential that it is understood by all the related persons inside the enterprise. It is necessary that each executive must feel the responsibility and should make efforts to attain the budget goals. Departmental heads should seriously think that it is their individual responsibility to fulfill the target set up in their departmental budget. The success of a budgeting system totally depends upon efficient management and administration.

e. **Not a substitute for management:** PPC is a management tool. It is not a substitute for the management. It is totally wrong to think the introduction of PPC is alone sufficient to ensure success and to guarantee future profits. It is only for achieving the end.

f. **Costly affairs:** The installation of PPC system is an elaborate process involving too much time and costs. Normally it is so costly that small concerns cannot afford it. Even for a large concern it is suggested that there should be some correlation between the cost of operation a budgeting system and benefits derived from it. The system should be adopted only when benefit exceed the cost.

g. **Proper evaluation:** For finding the inefficiencies, proper evaluation should be made. In the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performance, standards also should be examined regularly.

h. **Lower moral and productivity:** Unrealistic target should not be set and used as a pressure tactic. By doing in PPC will lower morale and productivity. To some extent PPC may be used as pressure device, but its extent must be carefully determined (Dongol, n. d. “Unpublished Hands-out”).

2.2.2 Budgeting

A budget is a comprehensive, formal plan that estimates the probable expenditures and income for an organization over a specific period. Budgeting describes the overall process of preparing and using a budget. Since budgets are such valuable tools for planning and control of finances, budgeting affects nearly every type of organization from governments and large corporations to small businesses as well as families and individuals. A small business generally engages in budgeting to determine the most efficient and effective strategies for making money and expanding its asset base. Budgeting can help a company use its limited financial and human resources in a manner which best exploit existing business opportunities.

Intelligent budgeting incorporates good business judgment in the review and analysis of past trends and data pertinent to the business. This information assists a company in decisions relating to the type of business organization needed, the amount of money to be invested, the type and number of employees to hire, and the marketing strategies required. In budgeting, a company usually devises both long-term and short-term plans to help implement its strategies and to conduct ongoing evaluations of its performance. Although budgeting can be time-consuming and costly for small businesses, it can also provide a variety of benefits, including an increased awareness of costs, a coordination of efforts toward company goals, improved communication, and a framework for performance evaluation (Keven and Collier, 2006: 1).

A budget is a detailed, quantitative plan to guide its operations in the near future. The concept of a comprehensive budget covers its use in planning organizing and controlling all the financial and operating activities of the firm in the forthcoming period (Lynch and Williamson, 1991: 142).

2.2.2.1 Function and Benefit of Budgeting

Budgeting has two primary functions: planning and control. The planning process expresses all the ideas and plans in quantifiable terms. Careful planning in the initial stages creates the framework for control, which a company initiates when it includes each department in the budgeting process, standardizes procedures, defines lines of responsibility, establishes performance criteria, and sets up timetables. The careful planning and control of a budget benefit a company in many ways, including:

1. **Enhancing Managerial Perspective:** In recent years the pace and complexity of business have outpaced the ability to manage by "the seat of one's pants." On a day-to-day basis, most managers focus their attention on routine problems. However, in preparing the budget, managers are compelled to consider all aspects of a company's internal activities. The act of making estimates about future economic conditions and about the company's ability to respond to them; forces managers to synthesize the external economic environment with their internal goals and objectives.
2. **Flagging Potential Problems:** Because the budget is a blueprint and road map, it alerts managers to variations from expectations which are a cause for concern. When a flag is raised, managers can revise their immediate plans to change a product mix, revamp an advertising campaign, or borrow money to cover cash shortfalls.
3. **Coordinating Activities:** Preparation of a budget assumes the inclusion and coordination of the activities of the various segments within a business. The budgeting process demonstrates to managers the inter-connectedness of their activities.
4. **Evaluating Performance:** Budgets provide management with established criteria for quick and easy performance evaluations. Managers may increase activities in one area where results are well beyond expectations.

In other instances, managers may need to reorganize activities whose outcomes demonstrate a consistent pattern of inefficiency.

5. **Refining the Historical View:** The importance of clear and detailed historical data cannot be overstated. Yet the budgeting process cannot allow the historical perspective to become crystallized. Managers need to distill the lessons of the most current results and filter them through their historical perspective. The need for a flexible and relevant historical perspective warrants its vigilant revision and expansion as conditions and experience warrant (Keven and Collier, 2006: 4).

2.3. Review of Published (Journals & Articles) and Unpublished report

2.3.1. Review of Newsletter

Sharada Thapaliya (2004) in the monthly newsletter of a Nepal Investment bank has written that it is pertinent to discuss NIB's achievement during the last nine months (as of mid-April, 2004) in terms of magnitude and quality. Operating profit of about Rs. 216 million represents their efforts on deposit mobilization in the productive sectors of their economy. The well- guided marketing team was able to collect Rs. 2681 million deposits in the past three quarters. In term of lending, despite Nepal's sluggish economic state, they are able to stretch their credit portfolio to a comfy limit of Rs.7.5 billion for this year has to be enhanced and supported by increased capital base next year.

All the private sector banks have been successful in increasing their deposit and credit portfolio remarkably over the last one year. Most of these banks have been cautious about loans and advances. The operating profit of all the private sector commercial banks has gone up, so has the provision for loan loss. In short, the banking sector in Nepal is somehow doing well even though it has to face a number of hurdles during the past few years. (Thapaliya, S. -2004, vol 7)

2.3.2. Review of Articles

Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institution encoring transparency during loan disbursement. As per provision, all commercial banks as well as financial institution are now required to disclose the name of loan defaulters in every six months. Until then there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institution from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (CIB) can blacklist the firm, company or clear the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principal loans of above Rs. 1 Million. If the creditors fails to clear the amount within time or is found mission the loan among others, the creditors can be blacklisted. (Central Bank tightens blacklisting procedure)

2.3.3. Review of Report

.Anil Shah, Chief Executive Officer (2007) in his message to stakeholders in website of Nabil Bank has written that the fiscal year 2006/07 was truly an exceptional year for Nabil Bank, as we crossed the Rs. 1 billion milestone in Profit before Bonus & Taxes, registering a growth of 11% over the pervious year. Impressive growth in size and volume of major components of the balance sheet, both deposits and loans, yet maintaining both the mixture and quality alongside, have further ascribed the year as remarkable. Needless to say, this achievement is a reflection of our success in continuously striving to surge ahead to be the Bank of 1st Choice of all our stakeholders, even amidst the uncertainty and instability that prevailed in the nation.

Despite optimistic hopes and anticipation for the year 2006/07, the country did not perform well economically, as instability and lawlessness seemed to increase and the political uncertainties continued. Bandhs, strikes and extortion in various parts of the country including Kathmandu valley crippled daily life on numerous instances over the year. At a time when our neighboring countries registered impressive economic growth, we have managed a meager growth of 2.5% in the year. Regardless of this, Nabil Bank experienced a successful year and delivered excellent results.

As already indicated above, Nabil Bank registered a historic Rs. 1.09 billion profit before bonus and taxes and Rs.674 million profit after tax in the year 2006/07. The 100% cash dividend along with 40% stock dividend that the Bank has distributed this year was a record high in the annals of banking history in Nepal. This is in line with our commitment to increase paid-up capital of the Bank to a minimum of Rs. 1.6 billion by mid July 2013. Furthermore, 36% return on shareholders' funds and 2.72% return on bank's average assets denote superior rate of profitability and puts us amongst the highest in the banking sector of the nation. The Bank has doubled the size of its loan portfolio in 5 years. As at mid July 2007 our risk asset base had reached Rs.15.9 billion, from Rs.7.8 billion in mid July 2002. Despite such a huge growth of loan volumes, the Bank has been able to reduce NPL volume to Rs.178 million, just 1.12% of total loans, at mid July 2007 from Rs.557 million of mid July 2002. Similarly, the Bank has held loan loss provision double of NPL volume at mid July 2007. We believe that this is true vindication of the structural change we implemented in 2004 separating business generation and risk analysis and removing all conflict of interest therein. When the nation is passing through a phase of transition, we at Team Nabil believe that just registering higher profits, yielding higher returns, strengthening the financials and enhancing the books of accounts, is not enough in our journey to achieve our mission to be Nepal's Bank of 1st Choice.

Nabil has earned strong market confidence, which is clearly reflected through the enormous growth in our share price. The share price that was NRs. 740 four years back has soared up to NRs.5,050 on 16th July 2007, the closing day of the fiscal year. Year end market capitalization was NRs. 24.8 billion, the highest in the banking industry. Currently Nabil's shares are trading close to NPR 6,000. An achievement that we feel is comprehensive evidence that Nabil's share is a true blue chip investment for our shareholders and a lucrative opportunity to those looking for investment.

The Bank has always felt responsible towards the betterment of the society and the community of which we are a part. In this regard, we continue our three pillars approach to great corporate citizenship through our partnerships in: Health, Education and Sports. For example partnership with the Glaucoma Eye Center at the Tilganga Eye Hospital etc. Federation of Nepalese Chamber of Commerce & Industry (FNCCI) has awarded the National Excellence Award to Nabil for its achievement and service as Commendations for Significant Achievement in Institutional Policy Planning & Commitment during the past year. Central Bank has continuously upgraded our CAMEL rating through onsite inspections and regularly seeks our views on crucial issues and policies.

In today's business context where competition is getting more intense with the number of new banks and financial institutions increasing, one of the main strengths of our Bank is our 'People'. The consistent achievements that Nabil recorded this year was possible due to the team effort put up by each and every individual member of the Nabil Team. The team which, comprises of highly skilled and talented individuals across the Bank, is proud to have amongst the very best banking professionals in our high performing synergistic team. (Shah. A. -2007)

2.3.4. Review of Previous Thesis

Mr. Lila Prasad Ojha, (2002) conducted study in **"Lending Practices; a Study on Nabil bank Ltd., Standard Chartered Bank Ltd., and Himalayan bank Ltd."** In his research it is found that the liquidity positions of all these banks are found to be high so they are recommended to search for appropriate areas of lending and investments. SCBNL's contribution in loans and advances is the lowest and this has low degree of variation and low growth rate as compare to Nabil and HBL. Thus SCBNL is recommended to give extra priority on productive and priority sector loan.

The increasing provision on loan loss and high volume of non- performing assets in Nabil and HBL is certainly attracts the high attention of any person interested with these banks. The high volume of non-performing assets of HBL may be failure due to industrial and agriculture sector. Nabil's increased non- performing assets may have caused sue to the accumulated bad debts that is kept behind the curtain to show the high efficiency of management. He adds that the over confidence in commercial banks regarding credit appraisal efficiency and negligence in taking information from Credit Information Bureau has caused many of the bad debts in these banks. Hence these banks are recommended to follow NRB directives strictly and be more realistic while granting loans and advances. The low provisioning on loan loss and low percentage of non-performing loans in SCBNL is not due to the proper lending and investment of this bank bit the bank tends to have less concentration towards lending and investment. (Ojha, L.P.-2002)

Mr. Raja Ram Shrestha (1998) in his study titled: "**A Study in Investment Policy of NABIL in Comparisons to Other JVBs of Nepal"** has found that liquidity position of Nabil is worse than of SCBNL and NIBl during the study period. Nabil has more portion current assets as loan and advances but fewer portions as investment on government securities. Profitability positions of Nabil are comparatively not better than that of other JVBs. Nabil is more successful in deposit mobilization but failure to maintain high growth rate of profit in comparisons to SCBNL and NIBL. He has suggested the JVBs to be careful in increasing profit in real sense to maintain the confidence of share, deposit and customers. He has strongly recommended Nabil to utilize its risk assets and share fund to gain highest profit margin and reduce its expenses and collect cheaper fund for more profitability, (Shrestha, R.R.- 1998)

Mr. Bishnu Hari Koirala (2007) in his study titled," **Revenue Planning & its Impact on Profitable Operation of Nepal SBI Bank Limited"** has found that the Nepal SBI bank has no proper revenue plan; income from off- balance sheet items are not given proper attentions; bank has given attention to increasing interest income by giving best effort in utilization of the deposits and decreasing the risk from on balance sheet items by investing mare in deposits; and income from loans, investment has major role in interest income. Bills purchase is playing major role in commission and discount income. Remittance fee is major in commission income. Similarly L/C contributes more in commission income. He has recommended that bank should analyze internal as well as external factors before giving budget. Also proper attention should be given on revising bills purchase and discount. The bank is recommended to give more priority to increase the fee- based off- balance sheet transaction to generate more income. (Koirala, B.H -2007)

Mr. Dipesh Tamrakar (2007) in his study titled, "**Study on Loan and Advances of the Commercial Banks with special reference to Nepal Investment Bank Ltd, Everest Bank Ltd. and Nepal Industrial and Commercial bank Ltd."** has found that along with increment in deposits the volume of loan and advances of the commercial banks are increasing. The lending and recovery trend of the commercial banks is inconstant; however the lending and recovery process is continuously going on. The study reveals that the lending capacity of the commercial banks is increasing bay by day. The portion of non- performing loan in total loan portfolio is improving year after year, however among the non-performing loan portion of the bad loan is highest, this mean turning new loans into non- performing are still not recovered and degraded every year.

The banks are recommended to follow the perfect credit appraisal to avoid the bad loans. Banks should thoroughly analyze the capital, character, management capability and cresit information if the customer as the primary factor and external environment and collateral as the secondary factor before taking leading decisions. (Tamrakar, D-2007)

Mr. Tuk Prasad Pandey (2008) in his study titled,**" Credit Policy of Everest Bank Limited"** has found that Everest Bank has been maintaining a steady growth rate over his study period. EBL earned net profit of Rs.296.4 million for the fiscal year 2006/07 and which came to be 24.96% more as compared to the same period in the previous fiscal year. It was also found that EBL has sufficient liquidity which shows that bank has not got investment sector to utilize their liquid money. Remittance has also helped to increase the amount of deposit in bank. On the other hand due to political crisis economic sectors have been damaged and most of the projects have been withdrawn due to security problem. But equity position of the bank was slightly increasing due to directives of Nepal Rastra Bank (NRB) directives to the entire banks to increase it's paid up capital. Here in this research, researcher has recommended to make policy to ensure rapid identification of delinquent loans and to make immediate follow-up of loan until it is recovered. Also it is recommended to fulfill some social obligation by extending their resources to rural areas and promoting in development of poor and disadvantages group.

2.4 Research Gap

Commercial Bank invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to direction of NRB. Nepal Rastra Bank's policy and guidelines are changing according time. So, the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial Data and analysis is done within the latest guidelines and curriculum of Nepal Rastra Bank.

There is a certain gap between the present research and past research. Previous research conducted generally on comparative loan analysis of two or three banks.

Those analyses expressed all items in the statement in the form of amount. The previous researchers did not disclose the practical comparative analysis, which is practiced by the commercial banks. Thus to fulfill this gap the present research is conducted. The analysis based on expressing all items in the statement as a percentage taking the most recent data.

Most important point to remember about performance analysis is that every financial measure should be compared across time and across over same line of companies to be meaningful. Banks as a service-organization, however different sources and different analyses use different lists or combination of financial ratio analysis. Prior research has been conducted on the basis of traditional financial ratio analysis. The value of the approach was quantitative relations.

This research is based upon the modern approaches to loan analysis; in which individual bank is taken for consideration of economic and strategic factors where feasible.

Chapter- III

RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology describes the methods and process applied in the entire of the study. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher in studying his/ her research problem along with the logic behind them. Thus, this deals with the research design, nature of procedures and tools of analysis.

The topic of the problem has been selected as "Analysis of Customer Loan with reference to Nabil bank Ltd." The sole objective of the study is to evaluate the investment policy of Nabil Bank Ltd. In order to reach and accomplish the objective of the study, different activities are carried out and different stages are crossed during the study period. For this purpose the chapter aims to present and reflect the methods and technique those are carried out and followed during the study period. The research methodology adopted for the present study is mentioned in this chapter which deals with research design, source of data, data collection, processing and tabulating procedure and methodology.

3.1 Research Design

A research design is the plan structure & strategy of investigation. It is the arrangement of condition purpose with economy in procedure. It is a blueprint for the collection measurement and analysis of data. "Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do form the writing the hypothesis and their operational implications to the final analysis of data". - Kerlinger, (2006);P275.

3.2 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, the total commercial banks constitute the population of the data and the bank under study constitutes the sample for the study. So, from the population of 25 Commercial banks operating in Nepal, Nabil Bank Limited has been selected as the sample for the study. .

3.3 Nature and Sources of Information/ Data Collection Procedure

To carry out the research, both primary as well as secondary data have been used in the study.

Primary data are those that are collected for the first time and are fresh. Thus, happens to be original in character.

Secondary data on the other hand are those, which have already been collected by someone else for some other purpose and already published for that matter.

The study is mainly based on secondary data whose collection source are:

- Annual reports of the concerned banks.
- Related websites of concerned banks.
- NRB Samachar, NRB Directives.
- Survey, reports, journals issued by NRB.
- Annual reports, NEPSE.
- Previous Dissertations.
- News paper, Journals and Business magazines.
- Other publications etc.

Some of the primary data which has been used in this study are collected through ocular inspection and /or informal chat and interview with the officials and staffs of the bank.

3.4 Data Processing and Presentation Procedure

The information or data obtained form the different sources were in raw form. From that information, direct presentation was not possible so it was necessary to process data and converts it into required form. Only after then, the data were presented for this study. For this study, only required data were taken from the secondary sources (Bank's publications) and presented in this study. For presentation different tables were used. Similarly in same case graphical presentation were also made. So far as computation was concerned, it has been done with the help of scientific calculator and computer software program (SPSS).

3.5 Data Analysis Tools

Various percentage data were collected as per the nature of the study and this study required more financial tools cum statistical tools for analysis and presentation of used data to attain the objectives of the study.

3.5.1 Financial Tools

Financial tools basically help to analyze the financial strength and weakness of a firm. Several financial tools were used to measure the strength and weakness of commercial banks. Ratio analysis is one of the important financial tools that have been used in the study. A ratio is simply a number expressed in term of another and such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient. Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decision. Even though there are many ratio to analyze and interpret the financial statement, only those ratios that are related to the Loan operation of the bank have been covered in this study as:

- Current ratio
- Activity ratio
- Loan and Advance to Total Deposits
- Loan and Advance to Fixed Deposits
- Loan and Advances to Saving Deposits

3.5.2 Statistical Tools

Some important statistical tools which are used to achieve the objective of the study are:

- Arithmetic Mean: A mean is an average value or the sum of all observations divided by the number of observations.
- Standard Deviation (S.D.): The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa.
- Coefficient of Variation (C.V): The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation.
- Trend Analysis: Using the least square method, trend has been estimated for the future value of different variables.

Chapter IV
PRESENTATION AND ANALYSIS OF DATA

Data collected has to be processed and analyzed in accordance with the outlines laid down for the purpose at the time of developing the research plan. This chapter presents and analyzes the data collected. The main objective of this study is to highlight the current practice of formulation and implementation of customer loan in Nabil Bank Limited. To achieve this objective, the various functional ratio analyses, related data presentation, presentation in tabular forms, graphs and charts are done systematically to measure various dimension of the problem of the study and in major findings of the study.

4.1. Ratio Analysis

Ratio analysis is the process of identifying the financial strength and weakness. It truly helps to exploit maximum benefits and contributes to repair the weakness to meet challenges. Ratio is a parameter to improve the future performance. Ratio is generally expressed in percentage, proportion and charts. Ratio analysis is useful both as a way to anticipate future conditions and more important as a starting point for planning actions that will influence the future course of events. Some statistical tools have been also used as:

- **Arithmetic Mean:** An arithmetic mean of a gain given set of observations is the sum of the observation divided by the number by the number of observations. In such a case all the items are equally important. Simple arithmetic mean is used in this study as per necessary for analysis. We have,

Mean ($\bar{X}$) = $\frac{\Sigma X}{n}$

Where, ΣX = Sum of all values of the observations.

n = Number of observations.

X = Values of variables.

- **Standard Deviation:** The standard deviation is usually denoted by the letter sigma (σ). Karl Pearson suggested it as a widely used measure of dispersion and is defined as the given observation from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation in this study is used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis. -Gupta, (2002); P238.

We have,

Standard deviation = $\sqrt{\frac{\Sigma(X-\bar{X})^2}{n}}$

Where,

X = Values of variables.

n = Number of observations.

- **Coefficient of Variation (C.V):** The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V. Thus,

CV = $\frac{\sigma}{\bar{x}}$

Where,

σ = Standard deviation

$\bar{X}$ = Mean value of variables

Coefficient of variation being a pure number is independent of the units of measurement and thus is suitable for comparing the variability or uniformity of two or more distributors. The distribution having less C.V. is said to be less variable or more consistent or more stable. A distribution having greater C.V. is said to be more variable or less consistent or less stable. C.V. is used in this for comparing the variable of sample banks.

4.1.1. Current Ratio/ Quick Ratio

Current Ratio reflects the strength of current assets available with the company over its current assets into cash in one year. It shows the relationship between current assets and current liabilities. It reflects the position of strength and weakness of the company which includes cash and bank balance, marketable securities, debtors, bills receivable and prepaid expenses etc. current liabilities are financial obligation that must be met in a year.

The current ratio is the total current assets to total current liabilities which measures the short- term solvency that is availability to meet short- term obligation measures of creditors versus current assets available for each rupee of current liabilities. The current assets include cash and bank balance with cheques in hand, balance with NRB, money at call and short notice, investment in government securities, bills purchased and discounted, loans and advances and other current assets. Similarly, current liabilities includes borrowings from other banks, deposits, bills payable and other current liabilities.

$$\text{Current Ratio} = \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

Table-4.1

Nabil Bank Limited

Current Assets to Current Liability ratio **Amt. in Million**

Year	Current Assets	Current Liabilities	Ratio
03/04	15915.16	14522.19	1.10
04/05	16281.21	14723.43	1.11
05/06	21466.22	19633.21	1.09
06/07	26454.45	24308.37	1.09
07/08	35928.33	33513.47	1.07
Mean	1.09		
S.D.	0.11		
C.V	0.1		

(Source: Bank's Annual Reports & Appendix-I)

From the above table, it is found that the ratio of Nabil Bank has been ranged between 1.07 in year 07/08 to 1.11 in year 04/05 which shows decreasing ratio. In actual the assets of the company should be double to its liabilities i.e. the ratio should have been 2:1; but from above study bank has not been able to maintain such ratio which indicates that the bank has low level of liquidity ratio. Also in other hand, the conventional measure of liquidity is not applicable in banking business. Banking business holds big portion of deposit on a core deposits and this deposit remains all the time throughout the year. This core deposit forms the fixed liability of the bank though it is current in nature. Hence, the calculated ratio of Nabil bank can be regarded as good and sufficient to meet the normal contingencies.

4.1.2. Loan and Advances to Current Assets Ratio

The ratio of loans and advances to total assets ratio measures the volume of loans and advances on the structure of total assets. The high degree of this ratio indicates the good performance of the banks in mobilizing its funds by way of lending function. However, in its reverse side, the high degree of this ratio is representative of low liquidity ratio either. Thus, this asset of banking business is regarded as risk assets. The low ratio indicates low productivity and high degree of safety in liquidity and vice- versa. The ratio is calculated by dividing loans and advances by current assets.

Loan and Advances to Current Assets= $\frac{\textit{Loan and Advances}}{\textit{Current Assets}}$ –

Following Table shows the ratio of Loan and Advances to Current Assets

Table-4.2

Nabil Bank Limited

Loan and Advances to Current Assets ratio **Amt. in Million**

Year	Loans & Advances	Current Assets	Ratio
03/04	8548.66	15915.16	0.54
04/05	10946.74	16281.21	0.67
05/06	13278.78	21466.22	0.62
06/07	15903.02	26454.45	0.60
07/08	21759.46	35928.33	0.61
Mean	0.61		
S.D.	0.048		
C.V	0.08		

(Source: Bank's Annual Reports & Appendix-II)

From the above ratio table, it is found that the ratio between loan & advances and Current Assets are fluctuating every year. As it is seen that the ratio was 0.54 in year 03/04, which was minimum of all and in subsequent year it increased to 0.67 which is the maximum of all. Similarly, it went on fluctuating in other years also. Its average ratio calculated is 0.61. The fluctuation in ratio of loan and advances and current assets is due to the irregular growth of loan and advances.

This ratio is more consistent that the previous ratio of Current Assets to Current Liabilities as its CV is 0.08, which is lesser than CV of Loan & Advances to Current Assets ratio which was0.1. Anyways from research it is found that Nabil Bank is utilizing its current assets in loan & advances.

4.1.3. Loan and Advances to Total Deposit Ratio

This ratio measures whether the banks are successfully utilizing outsider's fund in profit generating purpose by extending for use of loan and advances. Generally, a high ratio reflects higher efficiency to the utilization of outsiders fund and vice-versa. This ratio is calculated by using following formula.

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\textit{Loan and Advances}}{\textit{Total Deposit}}$$

Here, loan and advances refer to total of loan, advances and overdraft (i.e. in local currency plus convertible foreign currency) and total deposit refers to total of all kinds of deposits at the bank.

Table-4.3

Nabil Bank Limited

Loan and Advances to Total Deposit ratio **Amt. in Million**

Year	Loans & Advances	Total Deposit	Ratio(in times)
03/04	8548.66	14119.03	0.61
04/05	10946.74	14586.6	0.75
05/06	13278.78	19347.4	0.69
06/07	15903.02	23342.29	0.68
07/08	21759.46	31915.05	0.68
Mean	0.68		
S.D.	0.046		
C.V	0.067		

(Source: Bank's Annual Reports & Appendix-III)

From the above result, it is found that most of the funds that have been floated to the customer as loan & advances are from the deposits received from the customers. The lowest ratio of loan & advances to deposit is 0.61 in year 03/04 and highest ratio is 0.75 in the subsequent year 04/05. But in average the ratio is 0.68 which is quite good using of deposit for lending purpose. The CV of the bank is 0.067, by which it can also be said that the deposit use has been consistent.

Nabil Bank has utilized 61% to 75% of its deposited fund for lending purpose, which has been decreased in recent years. This could be due to the regulation made in flow of loan & advances in real state market .It will be better for Nabil bank to increase the portion of Loan & Advances in productive sector which will help in enhancing the economy of the county to earn more interest and pay back to the depositors as their interest.

4.1.4. Ratio of different types of Deposits

This ratio of commercial banks indicates, how much of the deposits are made in different types of deposit saving plans. The deposits could be; the fixed deposits, which are higher interest rate payable deposits; saving deposits, which are also interest paying deposits but are saved in lower amount by the people having average income; current deposits, which are non interest paying deposits made specially by business firms; call deposits, which are interest paying deposits on daily basis; other deposits, which are not interest paying deposits. The ratios of different types of deposits are shown in the following table

Table-4.4

Nabil Bank Limited

Ratio Between Different Types of Deposits **Amt. in Million**

Year	Total Deposits	Fixed Deposits		Saving Deposits		Current Deposits		Call Deposits		Other Deposits	
			%		%		%		%		%
03/04	14119.03	2310.57	16%	5994.12	42%	2688.97	19%	2801.4	20%	304.68	2%
04/05	14586.6	2078.54	14%	7026.33	48%	2799.18	19%	2341.33	16%	296.98	2%
05/06	19347.4	3449.09	18%	8770.76	45%	2910.59	15%	3854.16	20%	322.9	2%
06/07	23342.29	5435.19	23%	10187.35	44%	3395.24	15%	3961.63	17%	312.06	1%
07/08	31915.05	8464.09	27%	12159.97	38%	5284.37	17%	5563.44	17%	361.78	1%
Mean		19.60%		43.60%		16.80%		18%		1.60%	
S.D.		5.36		3.72		2.01		1.87		0.55	
C.V.		0.27		0.085		0.12		0.1		0.34	

(Source: Bank's Annual Reports & Appendix-IV)

The above table shows the total ratios of different types of deposits for five fiscal years. From the above table it is found that Nabil Bank's fixed deposits seem to be in increasing trend with lowest ratio of 14% in year 2005/06 to highest ratio of 27% in year 2007/08. Since the bank can invest the fixed deposit money without any risk of withdrawal, it is good for Nabil bank to have increasing trend in fixed deposits. The reason for increase in fixed deposit could be the high saving of people. On the other hand, saving deposits seem to be declining trend with maximum of 48% in year 2005/06 to minimum of 38 % in year 2007/08 and the reason for its decline is found that people are increasing their saving in fixed accounts. Similarly, current deposits, call deposits and other deposits are also seem to be fluctuating in the study period.

From the above calculation the average ratio of fixed deposit is 19.6%, the average ratio of saving deposit is 43.60%, the average ratio of current deposit is 16.80 %, the average ratio of call deposit is 18% and the average ratio of Other deposits are 1.60%.From the calculation, it is found that the saving deposit has the consistency level as it has the lowest C.V. of 0.085.

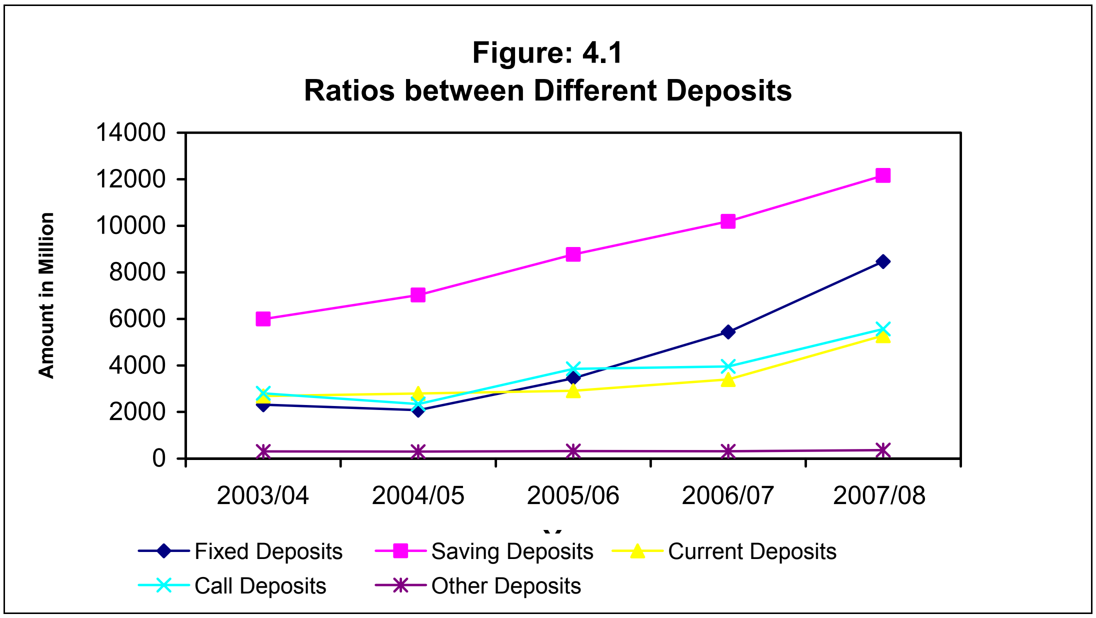


Figure: 4.1Showing Ratio of Deposits

From the above figure it is found that the fixed deposit is in increasing trend, whereas call deposit as well as current deposit seems to be fluctuating. Same way other deposits have very negligible impact but from all study it is found that saving deposit has large market in customers.

4.1.5. Ratio of Fixed Deposit to Loan and Advances

This ratio indicates, how much of loan and advances can be granted against fixed deposits. Fixed deposits are the higher interest rate payable deposits. Hence, commercial bank should utilize the fixed deposit properly. This ratio can be calculated with the help of following formula.

$$\text{Fixed Deposit to Loan and Advances Ratio} = \frac{\textit{Fixed Deposits}}{\textit{Loan and Advances}}$$

Table 4.5

Nabil Bank Limited

Fixed Deposit to Loan and Advances ratio

Amt. in Million

Year	Loans & Advances	Fixed Deposits	Ratio
03/04	8548.66	2310.57	0.27
04/05	10946.74	2078.54	0.19
05/06	13278.78	3449.09	0.26
06/07	15903.02	5435.19	0.34
07/08	21759.46	8464.09	0.39
Mean	0.29		
S.D.	0.077		
C.V	0.266		

(Source: Bank's Annual Reports & Appendix-V)

The above table shows the total ratio of the fixed deposits to loan and advances looking at the average of five fiscal year ratio. The lowest ratio calculated is 0.19 in year 04/05 and the highest ratio is 0.39 in year 07/08. But in average the ratio is 0.29. From the study it was found that the ratio of fixed deposit to total deposit was 19.06% in average and the maximum utilization of fixed deposit can be done up to 29% in average to grant loan and advances. As fixed deposits are deposited for certain fixed time so it should be utilized upto maximum limit as there is no risk of untimely withdrawal. Fixed deposits should be invested more in various productive and profitable sectors for economic development of the country.

4.1.6. Saving Deposit to Loan and Advance ratio

This ratio indicates what portion of loan and advances can be granted against saving deposits. Saving deposits are interest paying deposits. So, the bank should utilize them properly. This ratio can be calculated with the help of following formula.

Saving Deposit to Loan and Advances Ratio= $\frac{\textit{Saving Deposits}}{\textit{Loan and Advances}}$

Table 4.6

Nabil Bank Limited

Saving Deposit to Loan and Advances ratio **Amt. in Million**

Year	Loans & Advances	Saving Deposits	Ratio
03/04	8548.66	5994.12	0.70
04/05	10946.74	7026.33	0.64
05/06	13278.78	8770.76	0.66
06/07	15903.02	10187.35	0.64
07/08	21759.46	12159.97	0.56
Mean	0.64		
S.D.	0.052		
C.V	0.081		

(Source: Bank's Annual Reports & Appendix-VI)

Lending from the saving deposits is also a safe lending because this type of deposits is made by the individuals who have excess saving from their income. And withdrawal chances from the saving deposits are also low.

Looking at the above table, it is found that the lowest ratio is 0.56 in year 07/08 and the highest ratio is 0.70 in year 03/04. But in average the ratio is 0.64. Here, the ratio seems fluctuating as the loan & advances has increased with high ratio in year 2007/08 due to opportunity of investment and simultaneously the deposit has not been increased in same ratio. From the study it was found that the ratio of saving deposit to total deposit was 43.60% in average and the maximum utilization of saving deposit can be done up to 64% in average for granting loan and advances. The CV of the bank is 0.081, by which we can also say that the saving deposit use has been consistent.

As saving deposit is interest bearing deposit, it must be invested in proper way. And Nabil bank seems to have proper investment of deposits in loan and advances.

4.1.7. Current Deposit to Loan and Advance Ratio

This ratio indicates the maximum of total current deposit which can be utilized in loan and advances. Current deposits are non interest paying deposits. So, the bank should utilize them properly at the same time bank have to be aware of heavy withdrawal at any time. This ratio can be calculated with the help of following formula.

$$\text{Current Deposit to Loan and Advances Ratio} = \frac{\textit{Current Deposits}}{\textit{Loan and Advances}}$$

Table 4.7

Nabil Bank Limited

Current Deposit to Loan and Advances ratio **Amt. in Million**

Year	Loans & Advances	Current Deposits	Ratio
03/04	8548.66	2688.97	0.31
04/05	10946.74	2799.18	0.26
05/06	13278.78	2910.59	0.22
06/07	15903.02	3395.24	0.21
07/08	21759.46	5284.37	0.24
Mean	0.25		
S.D.	0.04		
C.V	0.16		

(Source: Bank's Annual Reports & Appendix-VII)

From the above data it is found that the ratio of Nabil bank's current deposits to loan and advances lowest ratio is 0.21 in year 06/07 and the highest is 0.31 in year 03/04. And in average the ratio is 0.25, which is fluctuating. From the study it is found that the ratio has been decreasing from year 2003/04 to year 2006/07 but in year 2007/08 it has rise to 0.24 due to the increase in demand for loan &

advances. Since current deposit is non interest bearing deposit, the withdrawal could be at any time and any amount. So it should be utilized with maximum care. The calculated CV of the ratio is 0.16 which also doesn't seem consistent.

4.1.8. Call Deposit to Loan and Advance Ratio

This ratio indicates the maximum of total call deposit which can be utilized in loan and advances. Call deposits are interest paying deposits on daily basis. This deposit is highly costly deposit to the bank. So, the bank should utilize them properly. The chances of withdrawal from this type of deposit are too low. The business person and retired people seems more attracted to open call account because they get the interest on daily basis and can be withdrawn at any time, the deposited amount. The ratio can be calculated with the help of following formula.

Call Deposit to Loan and Advances Ratio= $\frac{\textit{Call Deposits}}{\textit{Loan and Advances}}$

Table 4.8

Nabil Bank Limited

Call Deposit to Loan and Advances ratio **Amt. in Million**

Year	Loans & Advances	Call Deposits	Ratio
03/04	8548.66	2801.4	0.33
04/05	10946.74	2341.33	0.21
05/06	13278.78	3851.16	0.29
06/07	15903.02	3961.63	0.25
07/08	21759.46	5563.44	0.26
Mean	0.268		
S.D.	0.043		
C.V	0.16		

(Source: Bank's Annual Reports & Appendix-VIII)

From the above table it is found that the ratios between call deposits and loan & advances are fluctuating with the passage of time. As it is found that the ratio was 0.33 in year 03/04 but in its subsequent year it decreased to 0.21. The reason for which is people made investment in other sectors as share & business rather than keeping in bank.

From the above study of Nabil bank for five years, the lowest ratio is 0.21 in year 03/04 and the highest is 0.33 in year 03/04. In average the ratio is 0.26.
Actually call deposits can be utilized up to high limit, as the chance of withdrawal of call deposit is very low. Nabil bank should use call deposit in other various profitable sectors also.

4.1.9. Other Deposits to Loan and Advance Ratio

This ratio indicates the maximum of total other deposits which can be utilized in loan and advances. Other deposits are not interest paying deposits. This deposit is non- costly deposit to the bank so, the bank should utilize them. Actually other deposits are margin deposits and the maturity if the fixed deposit but the claim are not made by the customers. These deposits should be refunded by the bank if the customer claims on the amount. It can be said that withdrawal chances of these amounts can be at any time. The ratio can be calculated with the help of following formula.

Other Deposit to Loan and Advances Ratio= $\dfrac{Other\ Deposits}{Loan\ and\ Advances}$

Table 4.9

Nabil Bank Limited

Other Deposits to Loan and Advances ratio **Amt. in Million**

Year	Loans & Advances	Other Deposits	Ratio
03/04	8548.66	304.68	0.04
04/05	10946.74	296.98	0.03
05/06	13278.78	322.9	0.02
06/07	15903.02	312.06	0.02
07/08	21759.46	361.78	0.02
Mean	0.024		
S.D.	0.0074		
C.V	0.31		

(Source: Bank's Annual Reports & Appendix-IX)

Other deposits are not the bank deposits to use for the long-term investment. That is why bank has invested only the few portions from the other deposit. From the above table it is found that Nabil bank's highest ratios is 0.04 in year 03/04 and 0.02 ratios in lowest in all three years 05/06, 06/07 and 07/08.Therefore, in average it is about 2%. The calculated CV of other deposits to loan & advances is 0.31 which seems quite consistent also.

From the study it is found that, other deposits are in very low ratio as its average collection ratio is only 1.60% of total deposit and its investment in loan & advances should be also made in very less quantity.

4.1.10. Interest Income on Loan & Advance to Loan and Advance

This ratio indicates the portion of interest income earned by giving loan and advances to the customer. Interest income is the interest earned by the bank through charging the customer interest for using the money of banks as loan and advances. Here the rate of interest varies according to the use of money which rate from 5% to 13% with regard to Nabil Bank Limited. In banks, interest income plays vital role in its profit. So, it cannot be ignored. In fact interest income contributes the large portion in bank's total profit. Hence, the ratio of interest income on loan & advances to loan and advances can be calculated with the help of following formula.

$$\text{Interest Income on Loan \& Adv. to Loan \& Adv. Ratio} = \frac{\textit{Interest Income on Loan \& Adv.}}{\textit{Loan and Advances}}$$

The following table shows the ratio of Interest income on loan & advances to total loan & advances

Table 4.10

Nabil Bank Limited

Int. Income on Loan & Adv. to Loan and Advances ratio **Amt. in Million**

Year	Loans & Advances	Interest Income on Loan & Adv.	Ratio
03/04	8548.66	761.62	0.09
04/05	10946.74	831.83	0.08
05/06	13278.78	988.41	0.07
06/07	15903.02	1167.26	0.07
07/08	21759.46	1462.24	0.07
Mean	0.076		
S.D.	0.339		
C.V	4.46		

(Source: Bank's Annual Reports & Appendix-X)

From the above table, it is found that the ratios between interest income on loan & advances to loan & advances lowest ratio is 0.07 in three years 05/06, 06/07 and 07/08 and the highest ratio is 0.09 in 03/04. And in average the ratio is 0.076. This clearly shows that the interest payments by the customers are decreasing year by year which is not good for the bank.

But from the profit point of view, the interest earned by Nabil bank through lending seems impressive; as the interest charged rate range from 5% to 13% and the interest earned is 7.6% in average.

4.1.11. Relationship between Interest Incomes on Loan & Advance to Total Interest Income

This ratio indicates the portion of interest earned by giving loan & advances with respect to total interested earned by the bank. This will show the contribution of income through loan & advances in total interest income where the high ratio indicates the high contribution in profit by lending process. The ratio can be calculated with the help of following formula.

Interest Income on Loan & Adv. to Total Interest Ratio= $\frac{\text{Interest Income on Loan \& Adv.}}{\text{Total Interest Income}}$

Table 4.11

Nabil Bank Limited

Int. Income on Loan & Adv. to Total Int. Income ratio **Amt. in Million**

Year	Total Interest Income	Interest Income on Loan & Adv.	Ratio
03/04	1007.62	761.62	0.76
04/05	1068.75	831.83	0.78
05/06	1309.99	988.41	0.75
06/07	1587.76	1167.26	0.74
07/08	1978.7	1462.24	0.74
Mean	0.752		
S.D.	3.362		
C.V	4.47		

(Source: Bank's Annual Reports & Appendix-XI)

From the above table it is found that the ratio between interest incomes on Loan & Advances to total interest income is in decreasing ratio. The lowest ratio calculated is 0.74 in two years 06/07 and 07/08. Similarly the highest ratio is 0.78 in a year 04/05. But in average the ratio is 0.75 which is very good ratio regarding the income to the bank through lending.

From the above study it is now clear that Nabil bank is earning profit by providing loan & advances to the customers who are in need through taking deposits from the customers who do not need their money at the moment.

4.1.12. Loan & Advances to Total of Loan & Advances and Investment ratio

This ratio measures the contribution made by loan and advances in total amount of loans and advances and investment. Loan & Advances and Investment are the major income generating activity of the banks. Thus the ratio is conducted with purpose of analyzing the portion of loan & advances in major income generating fund. Between these loan & advances, the loan & advances is the area which relatively earns high interest than investment. So the ratio conducted to measure how much of total major income generating fund is loan & advances, or it can be said that this ratio reflects the proportion of high interest earning fund in total income generating fund. Loan & advances is the high interest earning assets for the banks, side by it is also riskier one as bad debt losses may be born. So, investing all the funds only on loan & advances for high interest is not a wise job. Thus, optimal proportion is to be maintained between loan & advances and investment. The ratio can be calculated with the following formula.

$$\text{Loans \& Adv. to Investment and Loan \& Adv. Ratio} = \frac{\textit{Loan \& Advances}}{\textit{Loans \& Advances and Investment}}$$

Table 4.12

Nabil Bank Limited

Loan & Advances to Loan & Advances and Investment ratio **Amt. in Million**

Year	Loan & Advances	Loan & Advances and Investment	Ratio
03/04	8548.66	14383.71	0.59
04/05	10946.74	15213.97	0.72
05/06	13278.78	19457.31	0.68
06/07	15903.02	24848.33	0.64
07/08	21759.46	31699.23	0.69
Mean	0.66		
S.D.	0.049		
C.V	0.07		

(Source: Bank's Annual Reports & Appendix-XII)

From the above table, it is calculated that the minimum ratio is 0.59 in year 03/04 and maximum ratio is 0.72 in year 04/05 and its average ratio is 0.66. From the study it is found that in year 2007/08, bank has been succeed to increase the ratio of loan & advances to 0.64 which is may be due to the people's interest in investment as, at that time there came political stability in the country. From overall study it is found that the ratio is fluctuating but still Nabil bank has average degree of risk.

4.1.13. Security Wise Loan and Advances of Nabil Bank

None of the banks invest without the security. Holding the security means to be assure that the bank will recover the lending amount if the client would not pay back the principal and interest in the due course of time. In the present time there has been international economic crisis due to flow of loan & advances without collateral. This has taken the banks into bankrupts also, so banks should take the securities while granting the loan & advances for their own shake also.

The table below shows the ratio wise securities in different sectors for assuring the lending money.

Table-4.13

Security wise Loan & Advance of Nabil Bank **Amt. in Million**

Years	03/04	04/05	05/06	06/07	07/08	Mean	S.D	CV
Securities	Ratios(in times)							
Movable/ Immovable Assets	0.9385	0.9300	0.9012	0.9454	0.9540	0.9338	0.0194	0.0208
Local Banks & financial Guarantee	0.0000	0.0030	0.0142	0.0000	0.0000	0.0034	0.0061	1.7761
HMG's Guarantee	0.0003	0.0000	0.0000	0.0000	0.0000	0.0001	0.0005	8.3810
A+ Rated International Bank Guarantee	0.0019	0.0143	0.0330	0.0307	0.0228	0.0205	0.0128	0.6212
Export Documents	0.0029	0.0115	0.0152	0.0008	0.0037	0.0068	0.0062	0.9065
Fixed Deposit Receipt (Own Bank)	0.0122	0.0124	0.0138	0.0128	0.0078	0.0118	0.0023	0.1949
Fixed Deposit Receipt (Other Bank)	0.0056	0.0062	0.0088	0.0084	0.0060	0.0070	0.0015	0.2140
Government Securities	0.0355	0.0225	0.0137	0.0019	0.0055	0.0158	0.0136	0.8589
Counter Guarantees	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Personal Guarantees	0.0000	0.0000	0.0000	0.0001	0.0001	0.0000	0.0000	0.0000
Other Securities	0.0030	0.0000	0.0000	0.0000	0.0000	0.0006	0.0042	7.0345

(Source: Bank’s Annual Reports & Appendix-XIII)

The above ratio table gives information about the securities kept by Nabil bank for assurance of loan & advances given to the customers. As from the table it is found that the bank has taken movable/ immovable assets as securities in large ratio which is above 90% of the total securities kept. Despite the assets, Nabil bank has also kept International bank Guarantee, Government Securities, Fixed Deposits(Own & Other banks), Export Documents etc. as securities. It seems that Nabil bank has not taken Counter Guarantees for all the five fiscal years. Also, Nabil has not showed much interest in securities like; Local Bank and Financial Guarantees, HMG's Guarantees, Personal Guarantees etc.

As stated earlier, Nabil bank has taken assets as securities in large scale which is about 93.38% in average. After assets as securities bank has taken International bank Guarantee, Government Securities and Fixed Deposit on own bank respectively with ratios of 2.05%, 1.58% and 1.18% respectively. Regarding the consistency, assets are very consistent as its CV is 0.02 which is very low than other securities except negligible securities and the most inconsistent security is HMG's Guarantee whose CV is 8.38.

From all the above study, it is very clear that Nabil bank has found the assets as most secured security for payback of the loan & advances and which is the true fact also.

4.2. Interest Rate of Nabil Bank in different types of Loans

The interest are charged with the borrowers of the bank for using the banks money in different sectors and commercial banks do not charge uniform rate of interest to all types of loans. As per the need and benefit from the credit facility the interest rate also varies.

The following table gives the different interest for different types of Loans.

Table 4.14

Interest Rate of Nabil Bank **Rates in %**

Types of Loans & Advances			Interest Rates
Deprived Sector	Institutional Prime		6.00
	Institutional Others		7.00
	Others		10.00
	Corporate Multinational		8.75
Export Finance	Prime		9.00
	Standard		9.50
	Others		10.50
	Corporate Multinational		10.00
Term Loan	Prime		10.50
	Standard		11.00
	Others		12.00
	Corporate Multinational		9.50
Working Capital Loan	Prime		10.00
	Standard		10.50
	Others		11.50
	Corporate Multinational		9.00
Import Loan	Prime		9.50
	Standard		10.00
	Others		11.00
Personal Loan	Housing	Housing Upto 5 Years	9.00
		Housing Upto 8 Years	9.50
		Housing Upto 15 Years	10.00
		Housing Upto 20 Years	10.50
	Auto	Personal Prime	9.00
		Personal Others	9.50
		Commercial	10.00-10.50
	Mortgage	Upto 5 Years	9.00
		Upto 8 Years	9.50
		Upto 15 Years	10.00
		Others	12.00-13.00
Loan Against	Fixed Deposit	Own Bank	8.75
		Other Banks	9.50
	1st class Bank Guarantees		9.50
	Other bank Guarantees		10.00
Government Securities	Prime		8.75
	Others		9.25
Loan % in FCY			5.00
LCY Loan against FCY Deposit			9.00
Other Loans			12.00

(Source: Bank's Publication)

From the above table it is seen that Nabil bank has been charging interest rate from minimum of 5% to maximum of 13%, but all these rates are indicative and are negotiable on the basis of risk and volume. So, the above are the interest rates on loan & advances through which bank is being able to earn interest income. This type of interest rates may vary from bank to bank.

4.3. Correlation Coefficient Analysis

Correlation is the statistical tool, which studies the relationship between tow variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. There are different methods of correlation analysis but in this research, Karl Pearson's coefficient of correlation has been used which is simply denoted by 'rxy' or 'r' and if the value of r is +1, there is perfect positive correlation, if the value of r is-1, there is perfect negative correlation and if the value of r is "0" there is perfect co-variation (i.e. no relationship) between the variables. In practice, perfect correlation cannot be found.

Probable Error of Correlation Coefficient:

Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value and test of significance of correlation coefficient. If r is the observed correlation coefficient in a sample of n pairs of observations than its standard error, usually denoted by S.E. (r)

P.E. is used in interpretation whether the calculated value of r is significant or not.

- If r< P.E. (r) i.e. If, the observed value of r is less than its P.E., then correlation is not at all significant.
- If r< 6P.E. (r) = i.e. If, observed value of r is greater than 6 times its P.E., then r is definitely significant.
- If P.E. <r< 6P.E, nothing can be concluded with certainty.

The upper and lower limits within which the correlation coefficient in the population is expected to lie r+ Pe and r- Pe respectively.

4.3.1. Correlation between Total Deposit and Loan & Advances

Correlation Coefficient between total deposits and loan & advances of Nabil bank Limited during the study period determines as well as indicates the degree of relationship between two variables. This correlation measures the impact of increase in deposit in the volume of loans & advances. Karl Pearson correlation coefficient has been used to find out the relation between two variables.

Table 4.15

Correlation Coefficient between Total Deposit and Loan & Advances Of Nabil Bank Limited

Correlation Coefficient	Remark
0.98	High degree of Positive correlation

(For details visit Appendix XIV)

Above table shows the correlation of coefficient between total deposits and loans & advances of Nabil bank Ltd. is 0.98, which indicates there is high degree of positive correlation between total deposit and investment in loan & advances during the study period. Coefficient of correlation of 0.98 can be considered as perfect positive correlation. Total deposits are considered independent variable and loan & advance are close as well as in the same direction. So, increase in the value of the total deposits increases averagely value of loan and advances and vice- versa.

Table 4.16

Probable Error between Total Deposits and Loan & Advances

Correlation Coefficient (r)	Probable Error (Pe)	6 x Pe	Remark
0.98	0.0064	0.38	r > 6 Pe, i.e. Significant

(For details visit Appendix XIV)

Above table shows that r > 6 Pe, which means the value of r is significant and practically correlation is certain between total deposits and loan & advances of Nabil Bank during the study period.

4.3.2 Correlation between Interest Income on Loan & Advances and Loan & Advances

Correlation Coefficient between interest income on loan & advances and loan & advances of Nabil bank Limited during the study period determines as well as indicates the degree of relationship between two variables. This correlation measures the impact of increase in interest income in the volume of loans & advances. Karl Pearson correlation coefficient has been used to find out the relation between two variables.

Table 4.17

Correlation Coefficient between Interest Income on Loan & Adv. and Loan & Advance

Of Nabil Bank Limited

Correlation Coefficient	Remark
0.99	High degree of Positive correlation

(For details visit Appendix XV)

From the above table, the calculated correlation of coefficient between interest income on loan & advances and loans & advances of Nabil bank Ltd. is 0.99, which indicates there is high degree of positive correlation between interest income on loan & advances and total investment on loan & advances during the study period. Coefficient of correlation of 0.99 can be considered as perfect positive correlation. Interest on Loan & Advances is considered independent variable and loan & advance are close as well as in the same direction. So, increase in the value of the interest on loan & advance increases averagely value of loan and advances and vice- versa.

Table 4.18

Probable Error between Interest on Loan & Advances and Loan & Advances

Correlation Coefficient (r)	Probable Error (Pe)	6 x Pe	Remark
0.99	0.0026	0.015	r > 6 Pe, i.e. Significant

(For details visit Appendix XV)

Above table shows that r > 6 Pe, which means the value of r is significant and practically correlation is certain between interest on loan & advances and loan & advances of Nabil bank during the study period.

4.3.3 Correlation between Total Interest Income and Interest Income on Loan & Advances

Correlation Coefficient between total interest income and interest income on loan & advances of Nabil bank during the study period determines as well as indicates the degree of relationship between two variables. This correlation measures the impact of increase in total interest income in the volume of interest income on loans & advances. Karl Pearson correlation coefficient has been used to find out the relation between two variables.

Table 4.19

Correlation Coefficient between Total Interest Income and Interest Income on Loan & Advance

Of Nabil Bank Limited

Correlation Coefficient	Remark
0.99	High degree of Positive correlation

(For details visit Appendix XVI)

From the above table, the calculated correlation of coefficient between total interest income and interest income on loans & advances of Nabil bank Ltd. is 0.99, which indicates there is high degree of positive correlation between total interest income and gained interest on loan & advances during the study period. Coefficient of correlation of 0.99 can be considered as perfect positive correlation. Total Interest income is considered independent variable and interest income on loan & advance are close as well as in the same direction. So, increase in the value of the total interest increases averagely value of interest on loan and advances and vice- versa.

Table 4.20

Probable Error between Total Interest Income and Interest Income on Loan & Advances

Correlation Coefficient (r)	Probable Error (Pe)	6 x Pe	Remark
0.99	0.0009	0.00008	r > 6 Pe, i.e. Significant

(For details visit Appendix XVI)

Above table shows that r > 6 Pe, which means the value of r is significant and practically correlation is certain between total interest income and interest income on loan & advances of Nabil bank during the study period.

4.4 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 trend line following formula has been used.

$$y = a + bx$$

Where,

y = Dependent variable

x = Independent variable

a = y intercept

b = slope of the trend line

4.4.1 Trend Analysis of Total Deposits

Here, an attempt has been made to analyze the trend values of total deposits of Nabil bank from 2003/04 to 2007/08 and forecast the same for next 5 years till 2012/13. The following table shows the trend values of total deposits of Nabil bank for 10 years from 2003/04 to 2007/08.

Table 4.21

Trend Value of Total Deposits of Nabil Bank **Amt. in Million**

Years	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Trend Values	11792.5	16227.3	20662.1	25096.8	29531.6	33966.4	38401.2	42835.9	47270.7	51705.5

(For details visit Appendix XVII)

From the above table it is clear that the Total Deposit of Nabil bank is in increasing trend. If other things remain same then the deposit will be Rs. 51705.5 million in year 2012/13. Hence, the main factor of banking transaction will be in increasing trend.

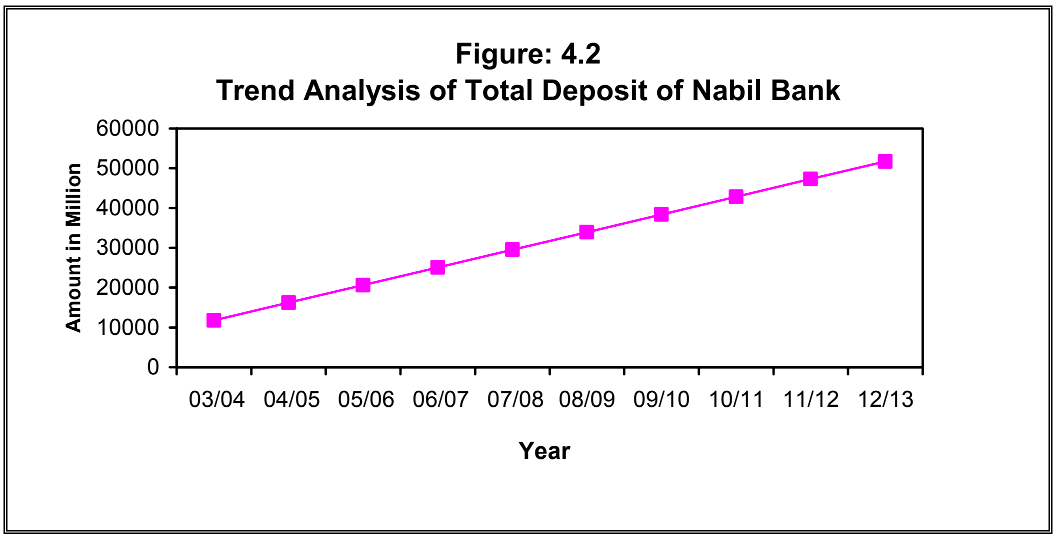


Figure: 4.2 Showing Trend analysis of Total Deposit

4.4.2 Trend Analysis of Total Loan & Advances

Trend value analysis is an attempt to analyze the value of loan and advances of Nabil bank from 2003/04 to 2007/08 and forecast the same for next 5 years till

2012/13. Hence, the following table shows the trend values of total deposits of Nabil bank for 10 years from 2003/04 to 2007/08.

Table 4.22

Trend Value of Total Deposits of Nabil Bank **Amt. in Million**

Years	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Trend Values	7811.8	10949.5	14087.3	17225.1	20362.9	23500.7	26638.5	29776.3	32914.1	36051.9

(For details visit Appendix XVIII)

From the above table, it is very clear that the amount of loan & advances are increasing year by year which means it is growing every year. If other things remain same, then the loan and advances will be Rs. 36051.9 million in 2013. So, one of the main sensitive factor of banking is loan and advances which is in increasing trend.

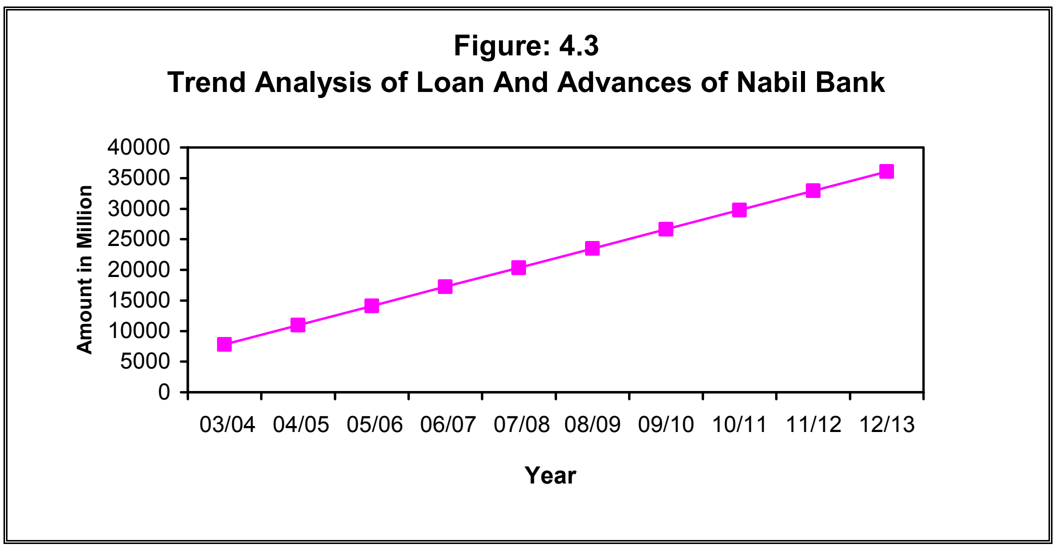


Figure: 4.3 Showing Trend analysis of Loan & Advances

4.4.3 Trend Analysis of Total Interest Income

Trend value analysis is an attempt to analyze the value of total interest income of Nabil bank from 2003/04 to 2007/08 and forecast the same for next 5 years till

2012/13. Hence, the following table shows the trend values of total interest income of Nabil bank for 10 years from 2003/04 to 2007/08.

Table 4.23

Trend Value of Total Interest Income of Nabil Bank **Amt. in Million**

Years	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Trend Values	898.3	1144.4	1390.6	1636.7	1882.8	2128.9	2375.1	2621.2	2867.3	3113.4

(For details visit Appendix XIX)

From the above table, it is very clear that the amount of interest income is increasing year by year which means income of the bank is growing every year. And if other things remain the same then the interest income will reach to Rs. 3113.4 million in years 20012/13. This will obviously help bank to earn more profit.

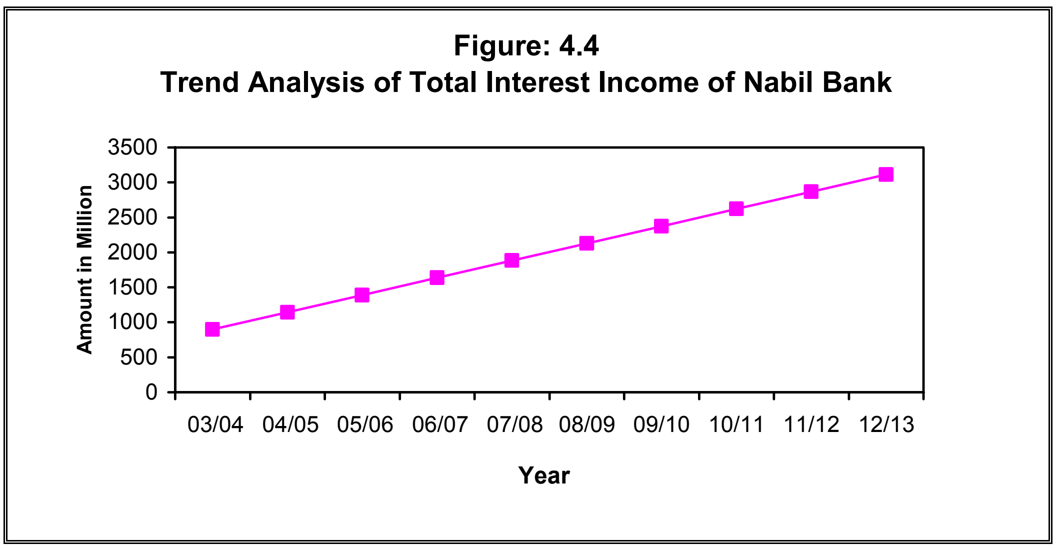


Figure: 4.4 Showing Trend analysis of Total Interest Income

4.5. Calculation of Bank's achievement with analyzing their Budgeted Data

Budgeting plays the vital role in finance and makes control on it. Budgeting is a necessary part in every type of institution; it gives the target for the firm to achieve some goal in given time period. The primary purposes of a budget are: to reduce uncertainty about future revenue, to incorporate management judgments and decisions. Budgeting involves:

- Forecasting
- The marketing plan
- The advertising and promotion plan
- The expenses plan
- The profit plan etc.

Nabil Bank Ltd is the banking institute, which is very sensitive organization. It takes deposits from the customers and invests the same deposited money in different sectors. So, banks need to make correct planning and budget for utilizing the customers' money in good way and other hand bank should also earn profit. Therefore, budgeting plays a great role in banking sector. In this research, the assumed budgeted data has been used as actual budgeted data could not get from the bank sources.

4.5.1. Achievement of Total Deposits

Here, attempt is made to find out the bank's achievement in collecting the deposit for last five fiscal years from 1003/04 to 2007/08. The following table shows the targeted deposit and actual achievement of Nabil bank.

Table 4.24

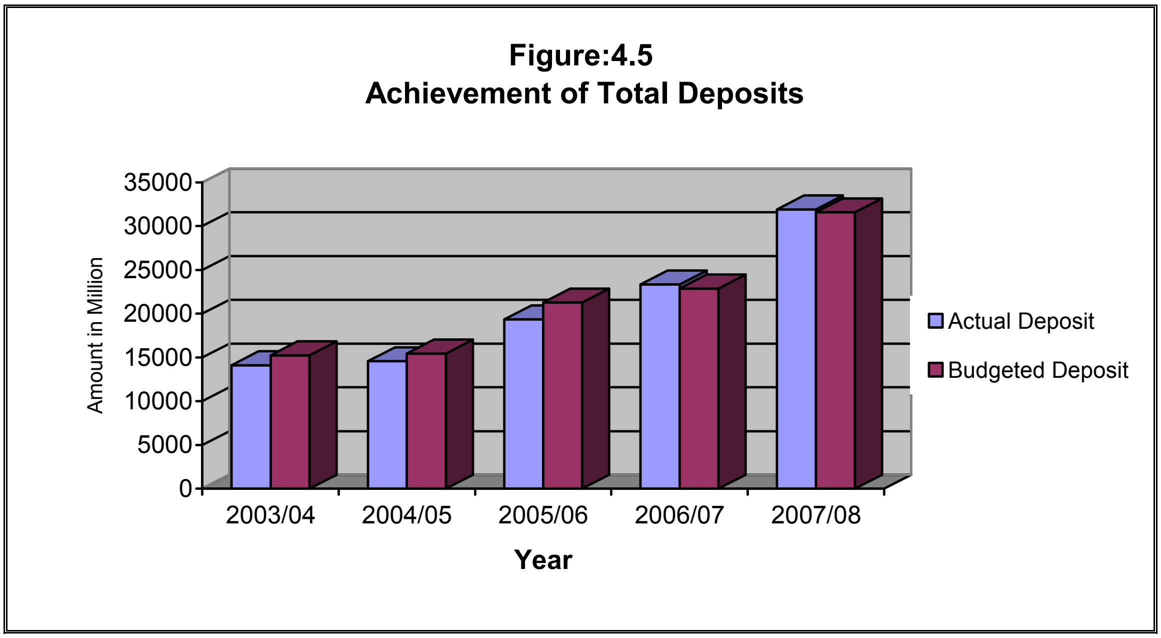
Budgeted Deposit and Actual Deposit of Nabil Bank **Amt. in Million**

Year	Actual Total Deposit	Budgeted Total Deposit	% Of Achievements
03/04	14119.03	15248.55	93%
04/05	14586.6	15461.80	94%
05/06	19347.4	21282.14	91%
06/07	23342.29	22875.44	102%
07/08	31915.05	31595.90	101%

(Source: Bank's Annual Reports)

The above table shows the budgeted total deposit and actual deposit for the five years period. It indicates that the actual total deposit is almost near to the budgeted deposits in first 3 years and was slightly more achieved in last 2 years. It shows that the total actual deposit is not that much fluctuating. Therefore, the budget has been made very satisfactorily and achievement is also satisfactory.

The total budgeted deposit and actual achievement of Nabil Bank from 2003/04 to 2007/08 can be represented in the following bar diagram.



. Figure: 4.5 Showing achievement of Total Deposits

However, for the proper analysis of budgeted/actual deposit difference and the nature of variability of deposit target and actual achievement in different years, the calculation of the arithmetic mean, standard deviation and coefficient of variation of budgeted and actual total deposits of Nabil bank is done with reference of five years.

Budgeted or Planned Deposit = X

Achieved or Actual Deposit = Y

Calculated Statistical Tools

Table 4.25

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	21292.77	20662.07
Standard Deviation	6693.14	2319.14
Co-efficient of Variation	0.31	0.11

(For details visit Appendix XX)

From the above table, it is conclude that the actual mean is less than the budgeted mean. Similarly, coefficient of variation of actual deposit is less than that of budgeted deposit; so actual deposit is more consistent than the budgeted deposit.

4.5.2. Achievement of Total Loan and Advances

Here, attempt is made to find out the bank's achievement in disbursing loan & advances to the customers for last five fiscal years from 1003/04 to 2007/08. The following table shows the targeted deposit and actual achievement of Nabil bank.

Table 4.26

Budgeted Loan & Advances and Actual Loan & Advances of Nabil Bank

Amt. in Million

Year	Actual Loans & Advances	Budgeted Loans & Advances	% Of Achievements
03/04	8548.66	7693.79	111%
04/05	10946.74	13136.09	83%
05/06	13278.78	14606.66	91%
06/07	15903.02	17175.26	93%
07/08	21759.46	22629.84	96%

(Source: Bank's Annual Reports)

The above table shows the budgeted loan & advances and actual achieved loan & advances of Nabil bank for the last five years period. It shows that the actual loan & advance is achieved more in year 03/04 and after that year, the actual loan & advances are slightly less achieved that the budgeted loan & advances. But still it can be said that bank has made the satisfactory achievement.

The total budgeted loan & advances and actual achievement of Nabil Bank from 2003/04 to 2007/08 can be represented in the following bar diagram.

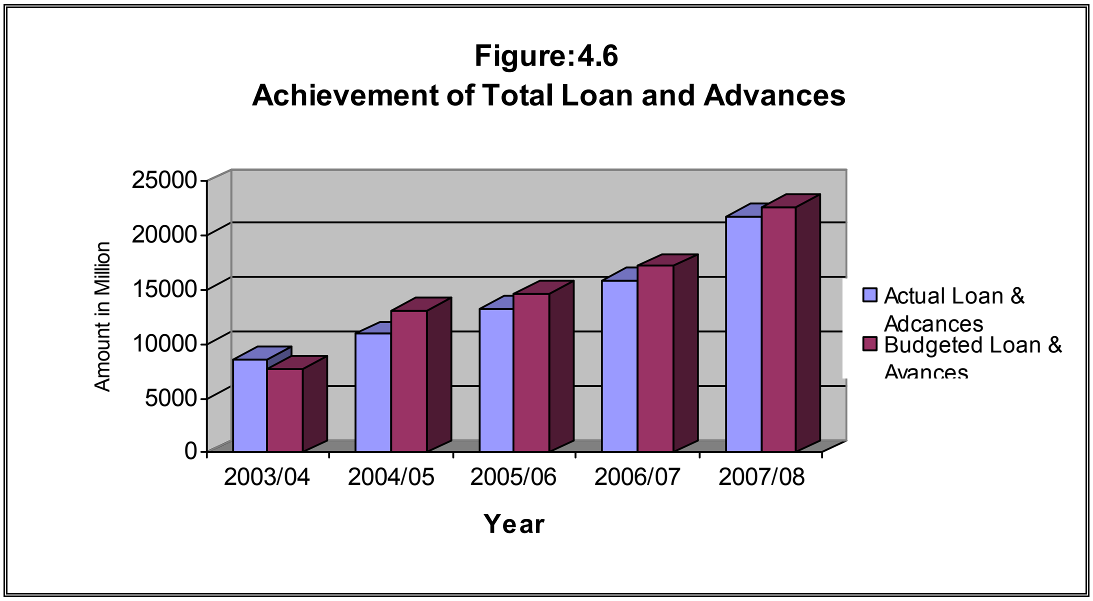


Figure: 4.6 Showing achievement of Total Loan & Advances

However, for proper analysis of budgeted/actual loan & advances difference and the nature of variability of loan & advances target and actual achievement in different years, the calculation of the arithmetic mean, standard deviation and coefficient of variation of budgeted and actual total loan & advances of Nabil bank are done with reference of five years.

Budgeted or Planned Deposit = X

Achieved or Actual Deposit = Y

Calculated Statistical Tools

Table 4.27

Statistical Tools	Budgeted Loan & Advances(X)	Actual Loan & Advances(Y)
Mean	15048.33	14087.33
Standard Deviation	5475.95	5083.12
Co-efficient of Variation	0.36	0.36

(For details visit Appendix XXI)

From the above table, it can be conclude that the actual mean is less than the budgeted mean. Similarly, coefficient of variation of actual loan & advances and budgeted loan & advances are very same; so actual as well as budgeted loan & advances are equally consistent.

4.6. Major Findings of the Study

The preceding chapter have discussed and explored the facts and matters required for the various parts of the study. Analytical part, which is the heart of the study, makes an analysis of various aspects of customers' loan & advances of Nabil bank by using some important financial as well as statistical tools.

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist findings issues and gaps of the study and give suggestions for further improvement. This would be meaningful to the top management of the bank to initiate action and achieve the desired result. The objective of the researcher is not only to point errors and mistakes but also to correct them and give direction for further growth and improvements.

The main findings of the study that are derived on the basis of financial data analysis of Nabil Bank Limited are presented below.

4.6.1. Findings from the Ratio Analysis

1. The ratio of Current Assets to Current Liabilities are fluctuating over the study period ranging from maximum of 1.11 in 2004/05 to minimum of 1.07 in 2007/08. The mean of the ratio is 1.09 and the C.V. between them is 0.1, which shows the consistency of the ratio over the study period.

The ratio between Current Assets to Current Liabilities has to be 2:1; but Nabil bank has not been able to maintain that ratio which means the bank has low level of liquidity ratio.

2. The ratio of Loan and Advances to Current Assets are also fluctuating over the study period ranging from minimum of 0.54 in year 2003/04 to maximum of 0.67 in 2004/05. The mean of the ratio is 0.61 and the C.V. between them is 0.08, which shows the consistency in the ratios over the study period. This ratio shows that Nabil bank is utilizing current assets in loan & advances for good profit.

3. The ratio of Loan and Advances to Total Deposit over the study period range minimum of 0.61 in year 2003/04 to maximum of 0.75 in 2004/05. The mean of the ratio is 0.68 and the C.V. between them is 0.067, which shows the consistency in ratios over the study period.

The ratio between Loan and Advances and Total Deposit shows that Nabil bank has utilized the deposits of customers in Loan & Advances.

4. The ratio of Fixed Deposit to Loan and Advances are fluctuating over the study period ranging from minimum of 0.19 in year 2004/05 to maximum of 0.39 in year 2007/08. The mean of the ratios is 0.29 and the C.V. between them is 0.266, which shows the less consistency in ratios over the study period.

Nabil bank has utilized good amount of fixed deposit in Loan & Advances but it can use more of it in Loan & Advances as in fixed deposit there is no risk of withdrawal untimely by the depositors.

5. The ratio of Saving Deposit to Loan and Advances are in decreasing trend over the study period ranging from minimum of 0.56 in year 2007/08 to maximum of 0.70 in year 2003/04. The mean of the ratios is 0.64 and the C.V. between them is 0.081, which shows the good consistency in ratios over the study period.

Saving deposit is interest bearing deposits and it must be invested in proper way. The study shows, Nabil bank has managed the proper investment of saving deposit in loan & advances.

6. The ratio of Current Deposit to Loan & Advances seems to be fluctuating throughout the study period. The minimum ratio is 0.21 in year 2006/07 and maximum ratio is 0.31 in year 03/04. But the mean ratio is 0.25 and the C.V. between them is 0.16, which show the less consistency ratio over the study period.

Current Deposits are non interest bearing deposits which can be withdrawn at any time and any amount by the depositors. But still Nabil bank has managed to use such deposit in good amount.

7. The ratio of Call Deposit to Loan & Advances are fluctuating over the study period with minimum ratio of 0.21 in year 04/05 and maximum of 0.33 in year 03/04. The mean ratio is 0.26 and the C.V. is 0.16 which shows the less consistency in the ratios.

Nabil bank could utilize more of call deposits as; the chances of withdrawal of call deposits are very less.

8. The ratio of Other Deposits to Loan & Advances are in decreasing trend over the study period with minimum ratio of 0.02 in three last study years and maximum of 0.04 in years 03/04. The mean ratio is 0.02 and the calculated C.V. is 0.31 which doesn't show the good consistency in the ratios during the study period.

9. The ratio of Interest Income on Loan & Advances to Loan & Advances are in decreasing trend during the study period with the minimum ratio of 0.07 in three last years and maximum of 0.09 in year 2003/04. The mean value of the ratios is 0.07 and the calculated C.V. is 4.46 which don't seem consistent at all.

Here we can say that Nabil bank has managed to earn the satisfactory income from loan & advances.

10. The ratio of Interest Income on Loan & Advances to Total Interest Income is fluctuating over the study period. The minimum of ratio is 0.74 in last 2

study period and the maximum is 0.78 in year 2994/05. The mean value is 0.75 and the C.V. is 4.47.
Hence, Nabil bank is contributing in income through Loan & Advances.

11. The ratio of Loan & Advances and Investment is also fluctuating over the study period with minimum of 0.59 in year 2003/04 and maximum of 0.72 in year 2004/05. The mean value is 0.66 and C.V. is 0.07 which shows that the ratios have satisfactory consistency.

4.6.2. Findings from Security Wise Loan and Advances

From the calculations, Nabil bank has more moveable/ immovable assets as securities which are above 90% of the total securities kept. Despite the assets, Nabil bank has also kept International bank Guarantee, Government Securities, Fixed Deposits(Own & Other banks), Export Documents etc. as securities. It seems that Nabil bank has not taken Counter Guarantees for all the five fiscal years. Also, Nabil has not showed much interest in securities like; Local Bank and Financial Guarantees, HMG's Guarantees, Personal Guarantees etc.

As stated earlier, Nabil bank has taken assets as securities in large scale which is about 93.38% in average. After assets as securities bank has taken International bank Guarantee, Government Securities and Fixed Deposit on own bank respectively with ratios of 2.05%, 1.58% and 1.18% respectively. Regarding the consistency, assets are very consistent as its CV is 0.02 which is very low than other securities except negligible securities and the most inconsistent security is HMG's Guarantee whose CV is 8.38.

Nabil bank has found the assets as most secured security for payback of the loan & advances and which is good for the bank itself.

4.6.3. Findings From Interest Rates

From the study; Nabil bank has been charging interest rate from minimum of 5% to maximum of 13%, but all these rates are indicative and are negotiable on the basis of risk and volume. So, the interest rates on loan & advances; through which bank is being able to earn interest income is helping a lot in increasing profit of the bank.

4.6.4. Findings From Correlation Coefficient Analysis

From the study, correlation between Total Deposit and Loan & Advances; similarly Interest Income on Loan & Advances and Loan & Advances and Total Interest Income and Interest Income on Loan & Advances seems very positively correlated and are certain.

4.6.5. Findings From Trend Analysis

From the study, it is found that the Total Deposit of Nabil bank is in increasing trend. If other things remain same then the deposit will be Rs. 51705.5 million in years 2012/13. Similarly, the amount of loan & advances are also increasing year by year which means it is growing every year. If other things remain same, then the loan and advances will be Rs. 36051.9 million in 2013. Also, the amount of interest income is increasing which means income of the bank is growing every year. And if other things remain the same then the interest income will reach to Rs. 3113.4 million in years 20012/13.

4.6.6. Findings From Bank's Budgeted Data

1. The budgeted total deposit and actual deposit for the five years period indicates that the actual total deposit is almost near to the budgeted deposits in first 3 years and was slightly more achieved in last 2 years. It shows that the total actual deposit is not that much fluctuating.

2. The budgeted loan & advances and actual achieved loan & advances of Nabil bank for the last five years period shows that the actual loan & advance is achieved more in year 03/04 and after that year, the actual loan & advances are slightly less achieved that the budgeted loan & advances.

Nabil bank has made the satisfactory achievement with meeting the budget in the studied area.

Chapter- V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

This chapter includes two aspects of the study. First aspect of the study focuses on summarizing the fact- findings of the study and making concluding remarks upon them. While the second aspect of the study; focuses on making some useful suggestion and recommendations which would be beneficial for the management of the bank based on findings of the study to improve the flow of customer loan and income of Nabil Bank Limited.

5.1. Summary

The development of any country largely depends upon its economic development. Economic development demands transformation of savings or invest able resources into the actual investment. Capital formation is the prerequisite in setting the overall pace of the economic development of a country. It is the overall pace of the economic development of a country. It is the financial institution that transfers funds from surplus spending units to deficit units.

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the economy. It will be diverted abroad or channeled into unproductive conspicuous including real estate speculation.

The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loans and advances. Hence loan is known as risky asset. Performing loans have multiple benefits to the society by helping for the growth of economy while non- performing loans erodes even existing capital.

Though several commercial banks have been established in Nepal within short period of time, stable and appropriate customer loan and income planning through loan has not been followed by the commercial banks to earn sufficient return. They have not been able to utilize their funds more efficiently and productively. Thus proper utilization of resources has become relevant and current issue of the banks. The directions and guidance provided by Nepal Rastra Bank are the major policy statement for Nepalese Commercial Banks. However, a long term and published policy about their operation is not found even in the joint venture banks.

This research will try to pave the way to those people who wants to get loan easily and get informed about the facility provided by the Nabil bank. For this purpose various features and nature of the loan is discussed that are granted by the bank. Before this history of banking practices in Nepal, general concept, function of the commercials, its role in economic development for the country has been conduced so that our study could go in chain way. According, what the function of Joint Venture Banks, what are the norms, internal rules and its objectives are discussed. In this process, it has been tried to portray the way of loan initiation and appraisal process and discussed types of data needed, the way of making category of the client, the way of selecting the most attractive prospect so that the new credit client would feel easy. Similarly, nature of loans provided accordance to nature of security and nature of business. For the security purpose various movable and immovable security such as land and building, entire factory, business stocks, share, debenture, government bonds, fixed deposit receipt are used and the way of executing the ownership i.e. legal mortgage, equitable mortgage, pledge, lien, hypothecation found in the practices. There are different types of risk during the process of lending and precaution action that should be adopted by the bank. The saying is that “ Any fool can lend money, but it takes a lots of skill to get it back” hence an investor or an investment company should inc\vest its assets diversifying in several opportunity so that maximum return can be obtained with minimum risk.

The main objective of the study is to evaluate the management of customer loan of Nabil Bank Limited and to suggest measures to improve loan flow of the bank. The study has been constrained by various common limitations.

This study is based on secondary data from F/Y 2003/04 to 2007/08. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master’s thesis. Beside this, personal contacts with the bank personnel have also been made. Despite all these resources, some assumptions have been also made to complete the thesis study.

Financial as well as statistical tools have been deployed in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to customer loan of Nabil bank like current ratio, assets management ratio etc. have been analyzed and interpreted. Similarly under statistical analysis, some relevant statistical tools like co- efficient of correlation and trend analysis have been used. This analysis gives the clear picture of the performance of the bank with regard to its loan operation.

5.2. Conclusion

As the assets of the company should have been double to its liabilities i.e. the ratio should have been 2:1. But ratio of the assets to liabilities of the bank is almost in decreasing trend, whose average ratio is 1.09. Similarly, bank has utilized the good amount of total deposited amount in loan and advances i.e. in average 68% of the deposits has been used in loan and advances to the customers. Again, 29% of the loan & advances are given through the fixed deposited money which is very good ratio. Nabil bank has been able to earn interest income of 7% in loan & advances which is 75% on loan and advance in overall interest income and has been a very good contribution in profit of the bank.

Nabil bank has taken movable/ immovable assets as securities in large ratio which is above 90% of the total securities kept. And it has charged interest rate from minimum of 5% to maximum of 13% which are indicative and also negotiable on the basis of risk and volume.

Correlation between total deposit and loan & advances as well as the correlation between income on loan & advances to loan & advances shows the very positive correlation between them. Hence, these factors are correlated to each other.

5.3. Recommendations

On the basis of analysis and findings of the study, following recommendations can be made as suggestions to overcome the weakness and less effectiveness in the existing Customer Loan of Nabil Bank Limited.

1. It is found that the bank's procedure in term of lending is too lengthy. Commercial banks are established in the motive of profit earning from secure lending. So, bank tries to gather more and more information and collateral from the borrower which ultimately consumes more time. It is recommended to the bank to go to the short procedure of lending so that the borrower will get the necessary fund on time.
2. Nabil bank should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records should be obtained for proper assessment of the proposal.

3. Bank is suggested to make policy to ensure rapid identification of delinquent loans. Bank should make immediate follow-up of loan until it is recovered. The recovery of loan is very challenging as well as important for the bank. There bank must be careful to strengthen credit collection policy.
4. It is recommended to follow the NRB directives which will help to reduce credit risk arising from defaulter, lack of roper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial banks. So, Nabil Bank is suggested as much information about borrowers and only lend to non- risky area and to non- defaulter.
5. Fixed Deposits are that type of deposit which can be withdrawn at the time of maturity only. So, Nabil bank is advised to utilize the maximum deposit and get benefit from the nature of fixed deposit by investing it in the long term loans.
6. Nepal is rich in natural resources but these resources are not properly utilized due to lack of financial support and technical assistant. Numerous opportunities like electricity, tourism, mines etc. are unused due to the lack of financial support. So, Nabil bank should make more investment in utilization of natural resources.
7. It is found that commercial bank as Nabil bank prefers to accept land and building only as the collateral from the customers. It means that bank is taking higher risk for accepting only single nature of collateral. So, it is recommended to accept other assets as the secure collateral.
8. The interest rate charged by the Joint Venture banks are little higher. The spread rate between the lending to the deposit is 7% to 9%. This higher spread rate doesn't show good image for the commercial bank among the Nepalese people. The interest rates of the commercial banks are like; interest rate in the deposit is too low and interest rate in the lending is too high. NRB has also mentioned in its directive that the spread rate should be higher that 5%.

9. Considering the present scenario and risk management, it is justified that the risk can be minimized through short term lending than long term. Hence preference to be given for short trade financing and discourage long term loan financing and also focusing multiple returnable loan rather than dry as far as possible.
10. The bank should give high emphasis on goodwill and its proper marketing. Customer satisfaction should be center point for goodwill.
11. Nabil bank has been rewarded "Bank of the Year 2004". This achievement has made the bank to be more committed to the customers and society not only in the financial sector but also to give contribution in the social welfare sector. As the bank has already started its contribution in the health, education and sports. It is recommended to the Nabil bank to give continuous support in these sectors to gain constant customer satisfaction.

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Tamrakar, Dipesh (2007).***Study on Loan and Advances of Commercial Banks with special reference to Nepal Investment Bank Ltd, Everest Bank :td. And Nepal Industrial and Commercial Bank Ltd.*** An unpublished thesis for degree of M.B.S. submitted to Faculty of Management, Tribhuvan University.

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Websites:

www.nrb.org.np

www.nabilbankltd.com

Appendix- XIII

Security wise Loan and Advances

Years	03/04		04/05		05/06		06/07		07/08				
Sectors	Security	Ratio	Security	Ratio	Security	Ratio	Security	Ratio	Security	Ratio	Mean	S.D	CV
Movable/ Immovable Assets	8023.33	0.9385	10180.57	0.9300	11967.49	0.9012	15035.22	0.9454	20758.68	0.9540	0.9338	0.0194	0.0208
Local Banks & financial Guarantee	0	0.0000	32.45	0.0030	188.67	0.0142	0	0.0000	0	0.0000	0.0034	0.0061	1.7761
HMG's Guarantee	2.55	0.0003	0	0.0000	0	0.0000	0	0.0000	0	0.0000	0.0001	0.0005	8.3810
A+Rated International Bank Guarantee	15.9	0.0019	156.76	0.0143	438.8	0.0330	487.5	0.0307	496.68	0.0228	0.0205	0.0128	0.6212
Export Documents	25.02	0.0029	125.83	0.0115	202.41	0.0152	12.81	0.0008	81.07	0.0037	0.0068	0.0062	0.9065
Fixed Deposit Receipt (Own Bank)	104.71	0.0122	135.95	0.0124	182.82	0.0138	203.25	0.0128	169.75	0.0078	0.0118	0.0023	0.1949
Fixed Deposit Receipt (Other Bank)	47.93	0.0056	68.37	0.0062	116.96	0.0088	132.83	0.0084	131.39	0.0060	0.0070	0.0015	0.2140
Government Securities	303.69	0.0355	246.79	0.0225	181.63	0.0137	30.52	0.0019	119.8	0.0055	0.0158	0.0136	0.8589
Counter Guarantees	0	0.0000	0	0.0000	0	0.0000	0	0.0000	0	0.0000	0.0000	0.0000	0.0000
Personal Guarantees	0	0.0000	0.3	0.0000	0	0.0000	0.85	0.0001	2.08	0.0001	0.0000	0.0000	0.0000
Other Securities	25.52	0.0030	0	0.0000	0	0.0000	0	0.0000	0	0.0000	0.0006	0.0042	7.0345
Total	8548.65		10947.02		13278.78		15902.98		21759.45				

Contd….of appendix- XII

Years		03/04	04/05	05/06	06/07	07/08	Σx^2
Movable/ Imovable Assets	$x=X-\bar{x}$	0.0047	-0.0039	-0.0326	0.0116	0.0202	
	x^2	0.0000221	0.0000149	0.0010625	0.0000000	0.0004065	0.0015060
Local Banks & financial Guarantee	$x=X-\bar{x}$	-0.0034	-0.0005	0.0108	-0.0034	-0.0034	
	x^2	0.0000118	0.0000002	0.0001161	0.0000118	0.0000118	0.0001517
HMG's Guarantee	$x=X-\bar{x}$	0.0002	-0.0001	-0.0001	-0.0001	-0.0001	
	x^2	0.0000001	0.0000000	0.0000000	0.0000000	0.0000000	0.0000001
A+Rated International Bank Guarantee	$x=X-\bar{x}$	-0.0187	-0.0062	0.0125	0.0101	0.0023	
	x^2	0.0003490	0.0000387	0.0001564	0.0001023	0.0000052	0.0006515
Export Documents	$x=X-\bar{x}$	-0.0039	0.0047	0.0084	-0.0060	-0.0031	
	x^2	0.0000153	0.0000217	0.0000706	0.0000364	0.0000097	0.0001537
Fixed Deposit Receipt (Own Bank)	$x=X-\bar{x}$	0.0004	0.0006	0.0020	0.0010	-0.0040	
	x^2	0.0000002	0.0000004	0.0000039	0.0000010	0.0000160	0.0000214
Fixed Deposit Receipt (Other Bank)	$x=X-\bar{x}$	-0.0014	-0.0008	0.0018	0.0013	-0.0010	
	x^2	0.0000020	0.0000006	0.0000032	0.0000018	0.0000009	0.0000085
Government Securities	$x=X-\bar{x}$	0.0197	0.0067	-0.0022	-0.0139	-0.0103	
	x^2	0.0003877	0.0000450	0.0000046	0.0001936	0.0001067	0.0007377
Personal Guarantees	$x=X-\bar{x}$	0.0000	0.0000	0.0000	0.0001	0.0001	
	x^2	0.0000	0.0000000	0.0000000	0.0000000	0.0000000	0.0000000
Other Securities	$x=X-\bar{x}$	0.0024	-0.0006	-0.0006	-0.0006	-0.0006	
	x^2	0.0000057	0.0000004	0.0000004	0.0000004	0.0000004	0.0000071

Appendix- XIV
Correlation Coefficient between Total Deposit and Loan & Advances

Amt. in Million

Year	Loan & Advances (X)	Total Deposit (Y)	$x = X - \bar{x}$	$y = Y - \bar{y}$	x^2	y^2	xy
03/04	8548.66	14119.03	-5538.67	-6543.04	30676865.37	42811372.44	36239739.36
04/05	10946.74	14586.6	-3140.59	-6075.47	9863305.55	36911335.72	19080560.33
05/06	13278.78	19347.4	-808.55	-1314.67	653753.10	1728357.209	1062976.429
06/07	15903.02	23342.29	1815.69	2680.22	3296730.18	7183579.248	4866448.652
07/08	21759.46	31915.05	7672.13	11252.98	58861578.74	126629558.9	86334325.45
n=5	$\sum X$= 70436.66	$\sum Y$= 103310.37			$\sum x^2$=103352232.92	$\sum y^2$=215264203.5	$\sum xy$=147584050.2

i) Mean $$(\bar{x}) = \frac{\sum X}{5} = \frac{70436.66}{5} = 14087.33$$

$$(\bar{y}) = \frac{\sum Y}{5} = \frac{103310.37}{5} = 20662.07$$

ii) Coefficient of Correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2}.\sqrt{\sum y^2}} = \frac{147584050 \cdot 20}{\sqrt{103352232 \cdot 92}.\sqrt{215264203 \cdot 5}} = 0.9894$$

iii) Calculation of Probable Error (PEr)

$$= .6745 \times \frac{1-r^2}{\sqrt{n}} \qquad = .6745 \times \frac{1-0.9894^2}{\sqrt{5}} = .0064$$

Appendix- XV
Correlation Coefficient between Interest Income on Loan & Adv. and Loan & Advance

Amt. in Million

Year	Loan & Advances (X)	Int. Income on Loan & Adv. (Y)	$x = X - \bar{x}$	$y = Y - \bar{y}$	x^2	y^2	xy
03/04	8548.66	761.62	-5538.67	-280.65	30676865.37	78764.4225	1554427.736
04/05	10946.74	831.83	-3140.59	-210.44	9863305.55	44284.9936	660905.7596
05/06	13278.78	988.41	-808.55	-53.86	653753.10	2900.8996	43548.503
06/07	15903.02	1167.26	1815.69	124.99	3296730.18	15622.5001	226943.0931
07/08	21759.46	1462.24	7672.13	419.97	58861578.74	176374.8009	3222064.436
n=5	∑X= 70436.66	∑Y= 5211.36			$\sum x^2$=103352232.92	$\sum y^2$=317947.62	∑xy=5707889.53

i) Mean

$$(\bar{x}) = \frac{\sum X}{5} = \frac{70436.66}{5} = 14087.33$$

$$(\bar{y}) = \frac{\sum Y}{5} = \frac{5211.36}{5} = 1042.27$$

ii) Coefficient of Correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2}.\sqrt{\sum y^2}} = \frac{5707889.53}{\sqrt{103352232.92}.\sqrt{317947.62}} = 0.9957$$

iii) Calculation of Probable Error (PEr)

$$= .6745 \times \frac{1-r^2}{\sqrt{n}} \qquad = .6745 \times \frac{1-0.9957^2}{\sqrt{5}} = 0.0026$$

Appendix- XVI

Correlation Coefficient between Total Interest Income and Interest Income on Loan & Advance

Amt. in Million

Year	Total Interest Income (X)	Int. Income on Loan & Adv. (Y)	$x = X - \bar{x}$	$y = Y - \bar{y}$	x^2	y^2	xy
03/04	1007.62	761.62	-382.94	-280.65	146643.04	78764.4225	107472.111
04/05	1068.75	831.83	-321.81	-210.44	103561.68	44284.9936	67721.6964
05/06	1309.99	988.41	-80.57	-53.86	6491.52	2900.8996	4339.5002
06/07	1587.76	1167.26	197.2	124.99	38887.84	15622.5001	24648.028
07/08	1978.7	1462.24	588.14	419.97	345908.66	176374.8009	247001.1558
n=5	∑X= 6952.82	∑Y= 5211.36			$\sum x^2$=641492.74	$\sum y^2$=317947.62	∑xy=451182.49

i) Mean

$$(\bar{x}) = \frac{\sum X}{5} = \frac{6952.82}{5} = 1390.56$$

$$(\bar{y}) = \frac{\sum Y}{5} = \frac{5211.36}{5} = 1042.27$$

ii) Coefficient of Correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2}.\sqrt{\sum y^2}} = \frac{451182.49}{\sqrt{641492.74}.\sqrt{317947.62}} = 0.999$$

iii) Calculation of Probable Error (PEr)

$$= .6745 \times \frac{1-r^2}{\sqrt{n}} \qquad = .6745 \times \frac{1-0.999^2}{\sqrt{5}} = 0.0009$$

Appendix- XX
Statistical Calculation of Budgeted Deposit and Actual Deposit of Nabil Bank

Amt. in Million

Year	Budgeted Total Deposit(X)	Actual Total Deposit(Y)	$x = X - \bar{x}$	$y = Y - \bar{y}$	x^2	y^2	xy
03/04	15248.55	14119.03	-6044.22	-6543.04	36532566.4	42811372.44	39547557.53
04/05	15461.80	14586.6	-5830.97	-6075.47	34000257.79	36911335.72	35425907.61
05/06	21282.14	19347.4	-10.63	-1314.67	112.9969	1728357.209	13974.9421
06/07	22875.44	23342.29	1582.67	2680.22	2504857.623	7183579.248	4241915.044
07/08	31595.90	31915.05	10303.13	11252.98	106154477.5	126629558.9	115940910.2
n=5	∑X= 106463.83	∑Y= 103310.37			$\sum x^2$=179192272.3	$\sum y^2$=215264203.5	∑xy=195170265.3

i) Mean

$$(\bar{x}) = \frac{\sum X}{5} = \frac{106463.83}{5} = 21292.77$$

$$(\bar{y}) = \frac{\sum Y}{5} = \frac{103310.37}{5} = 20662.07$$

ii) Standard Deviation

$$\sigma X = \sqrt{\frac{1}{n-1}\sum(X-\bar{x})^2} = \sqrt{\frac{1}{5-1}\times 179192272.3} = 6693.14$$

$$\sigma Y = \sqrt{\frac{1}{n-1}\sum(Y-\bar{y})^2} = \sqrt{\frac{1}{5-1}\times 215264203.5} = 2319.71$$

iii) Coefficient of Variation (C.V.)

$$X = \frac{\sigma X}{\bar{x}} = \frac{6693.14}{21292.77} = 0.31$$

$$Y = \frac{\sigma Y}{\bar{y}} = \frac{2319.71}{20662.07} = 0.11$$

Appendix- XXI
Statistical Calculation of Budgeted Loan & Advances and Actual Loan & Advances of Nabil Bank

Amt. in Million

Year	Budgeted Loans & Advances (X)	Actual Loans & Advances (Y)	$x = X - \bar{x}$	$y = Y - \bar{y}$	x^2	y^2
03/04	7693.794	8548.66	-7354.536	-5538.67	54089199.78	30676865.37
04/05	13136.088	10946.74	-1912.242	-3140.59	3656669.467	9863305.548
05/06	14606.658	13278.78	-441.672	-808.55	195074.1556	653753.1025
06/07	17175.2616	15903.02	2126.9316	1815.69	4523838.031	3296730.176
07/08	22629.8384	21759.46	7581.5084	7672.13	57479269.62	58861578.74
n=5	$\sum X = 75241.64$	$\sum Y = 70436.66$			$\sum x^2 = 119944051.00$	$\sum y^2 = 103352232.9$

i) Mean

$$(\bar{x}) = \frac{\sum X}{5} = \frac{75241.64}{5} = 15048.33$$

$$(\bar{y}) = \frac{\sum Y}{5} = \frac{70436.66}{5} = 14087.33$$

ii) Standard Deviation

$$\sigma X = \sqrt{\frac{1}{n-1}\Sigma(X-\bar{x})^2} = \sqrt{\frac{1}{5-1}\times 119944051.00} = 5475.95$$

$$\sigma Y = \sqrt{\frac{1}{n-1}\Sigma(Y-\bar{y})^2} = \sqrt{\frac{1}{5-1}\times 103352232.9} = 5083.12$$

iii) Coefficient of Variation (C.V.)

$$X = \frac{\sigma X}{\bar{x}} = \frac{5475.95}{15048.33} = 0.36$$

$$Y = \frac{\sigma Y}{\bar{y}} = \frac{5083.12}{14087.33} = 0.36$$

Appendix-I

Current Assets to Current Liabilities

Amt. in Million

Year	Current Assets	Current Liabilities	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	15915.16	14522.19	1.10	0.01	0.000035048
04/05	16281.21	14723.43	1.11	0.02	0.000249728
05/06	21466.22	19633.21	1.09	0.00	0.000011308
06/07	26454.45	24308.37	1.09	0.00	0.000002939
07/08	35928.33	33513.47	1.07	-0.02	0.000321973
			$\sum X = 5.46$		$\sum((X - \bar{x})^2 = 0.000621$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{5.46}{5} = 1.09$$

$$\sigma = \sqrt{\frac{1}{n-1}\sum(X-\bar{x})^2} = \sqrt{\frac{1}{5-1}\times 0.000621} = 0.11$$

$$CV = \frac{\sigma}{\bar{x}} = \frac{0.11}{1.09} = 0.10$$

Appendix-II

Loan and Advances to Current Assets ratio

Amt. in Million

Year	Loans & Advances	Current Assets	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	15915.16	0.54	-0.07	0.005308662
04/05	10946.74	16281.21	0.67	0.06	0.003888047
05/06	13278.78	21466.22	0.62	0.01	0.000073781
06/07	15903.02	26454.45	0.60	-0.01	0.000078371
07/08	21759.46	35928.33	0.61	0.00	0.000019052
			$\sum X = 3.03$		$\sum(X - \bar{x})^2 = 0.009368$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{3.03}{5} = 0.61$$

$$\sigma = \sqrt{\frac{1}{n-1}\sum(X-\bar{x})^2} = \sqrt{\frac{1}{5-1}\times 0.009368} = 0.048$$

$$CV = \frac{\sigma}{\bar{x}} = \frac{0.048}{0.61} = 0.08$$

Appendix-III

Loan and Advances to Total Deposit ratio

Amount in Million

Year	Loans & Advances	Total Deposit	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	14119.03	0.61	-0.0745	0.0056
04/05	10946.74	14586.6	0.75	0.0705	0.0050
05/06	13278.78	19347.4	0.69	0.0063	0.0000
06/07	15903.02	23342.29	0.68	0.0013	0.0000
07/08	21759.46	31915.05	0.68	0.0018	0.0000
Total			$\sum X = 3.41$		$\sum(X - \bar{x})^2 = 0.0106$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{3.41}{5} = 0.68$$

$$\sigma = \sqrt{\frac{1}{n-1}\sum(X-\bar{x})^2} = \sqrt{\frac{1}{5-1}\times 0.0106} = 0.0455$$

$$CV = \frac{\sigma}{\bar{x}} = \frac{0.045}{0.68} = 0.066$$

Appendix-IV
Ratios of different types of Deposits

Amt. in Million

Year	Total Deposits	Fixed Deposits	%	Saving Deposits	%	Current Deposits	%	Call Deposits	%	Other Deposits	%
03/04	14119.03	2310.57	16%	5994.12	42%	2688.97	19%	2801.4	20%	304.68	2%
04/05	14586.6	2078.54	14%	7026.33	48%	2799.18	19%	2341.33	16%	296.98	2%
05/06	19347.4	3449.09	18%	8770.76	45%	2910.59	15%	3854.16	20%	322.9	2%
06/07	23342.29	5435.19	23%	10187.35	44%	3395.24	15%	3961.63	17%	312.06	1%
07/08	31915.05	8464.09	27%	12159.97	38%	5284.37	17%	5563.44	17%	361.78	1%
Total			98%		218		84		90		8

Mean	Total/5	$\bar{x}$ =19.6		$\bar{x}$ =43.6		$\bar{x}$ =16.8		$\bar{x}$ =18		$\bar{x}$ =1.6
03/04	$x = X - \bar{x}$	-3		-1.6		2.2		2		0.4
	x^2	9		2.56		4.84		4		0.16
04/05	$x = X - \bar{x}$	-5		4.4		2.2		-2		0.4
	x^2	25		19.36		4.84		4		0.16
05/06	$x = X - \bar{x}$	-1		1.4		-1.8		2		0.4
	x^2	1		1.96		3.24		4		0.16
06/07	$x = X - \bar{x}$	4		0.4		-1.8		-1		-0.6
	x^2	16		0.16		3.24		1		0.36
07/08	$x = X - \bar{x}$	8		-5.6		0.2		-1		-0.6
	x^2	64		31.36		0.04		1		0.36
$\sum x^2$		115		55.4		16.2		14		1.2

	Formula	03/04	04/05	05/06	06/07	07/08
S.D.	$\sigma = \sqrt{\frac{1}{n-1}\sum(X-\bar{x})^2}$	5.36	3.72	2.01	1.87	0.55
C.V.	$\frac{\sigma}{\bar{x}}$	0.27	0.085	0.12	0.1	0.34

Appendix-V
Fixed Deposit to Loan and Advances ratio

Amount in Million

Year	Loans & Advances	Fixed Deposits	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	2310.57	0.27	-0.02	0.000388702
04/05	10946.74	2078.54	0.19	-0.10	0.010024508
05/06	13278.78	3449.09	0.26	-0.03	0.000915396
06/07	15903.02	5435.19	0.34	0.05	0.00268023
07/08	21759.46	8464.09	0.39	0.10	0.009797907
			$\sum X = 1.45$		$\sum(X - \bar{x})^2 = 0.023806$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{1.45}{5} = 0.29$$

$$\sigma = \sqrt{\frac{1}{n-1}\sum(X - \bar{x})^2} = \sqrt{\frac{1}{5-1} \times 0.0238} = 0.077$$

$$\text{CV} = \frac{\sigma}{\bar{x}} = \frac{0.077}{0.29} = 0.2655$$

Appendix-VI
Saving Deposit to Loan and Advances ratio

Amt. in Million

Year	Loans & Advances	Fixed Deposits	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	5994.12	0.70	0.06	0.0037425713
04/05	10946.74	7026.33	0.64	0.00	0.0000034785
05/06	13278.78	8770.76	0.66	0.02	0.0004206385
06/07	15903.02	10187.35	0.64	0.00	0.0000003507
07/08	21759.46	12159.97	0.56	-0.08	0.0065875918
			$\sum X = 3.20$		$\sum(X - \bar{x})^2 = 0.0107546$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{3.20}{5} = 0.64$$

$$\sigma = \sqrt{\frac{1}{n-1}\sum(X - \bar{x})^2} = \sqrt{\frac{1}{5-1} \times 0.01075} = 0.052$$

$$\text{CV} = \frac{\sigma}{\bar{x}} = \frac{0.052}{0.64} = 0.081$$

Appendix-VII
Current Deposit to Loan and Advances ratio

Amt. in Million

Year	Loans & Advances	Current Deposits	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	2688.97	0.31	0.06	0.004166536
04/05	10946.74	2799.18	0.26	0.01	0.00003259
05/06	13278.78	2910.59	0.22	-0.03	0.00094919
06/07	15903.02	3395.24	0.21	-0.04	0.001332501
07/08	21759.46	5284.37	0.24	-0.01	0.00005107
			$\sum X = 1.25$		$\sum(X - \bar{x})^2 = 0.006531$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{1.25}{5} = 0.25$$

$$\sigma = \sqrt{\frac{1}{n-1}\Sigma(X - \bar{x})^2} = \sqrt{\frac{1}{5-1} \times 0.006531} = 0.040$$

$$\text{CV} = \frac{\sigma}{\bar{\text{x}}} = \frac{0.040}{0.25} = 0.016$$

Appendix-VIII
Call Deposit to Loan and Advances ratio

Amt. in Million

Year	Loans & Advances	Call Deposits	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	2801.4	0.33	0.05970	0.003564148
04/05	10946.74	2341.33	0.21	-0.05412	0.002928567
05/06	13278.78	3851.16	0.29	0.02202	0.00048504
06/07	15903.02	3961.63	0.25	-0.01889	0.000356764
07/08	21759.46	5563.44	0.26	-0.01232	0.000151804
			$\sum X = 1.34$		$\sum(X - \bar{x})^2 = 0.007486$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{1.34}{5} = 0.268$$

$$\sigma = \sqrt{\frac{1}{n-1}\Sigma(X - \bar{x})^2} = \sqrt{\frac{1}{5-1} \times 0.007486} = 0.043$$

$$\text{CV} = \frac{\sigma}{\bar{\text{x}}} = \frac{0.043}{0.268} = 0.016$$

Appendix-IX
Other Deposits to Loan and Advances ratio

Amt. in Million

Year	Loans & Advances	Other Deposits	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	304.68	0.04	0.0116407	0.00013551
04/05	10946.74	296.98	0.03	0.0031295	0.00000979
05/06	13278.78	322.9	0.02	0.0003170	0.00000010
06/07	15903.02	312.06	0.02	-0.0043773	0.00001916
07/08	21759.46	361.78	0.02	-0.0073737	0.00005437
			$\sum X = 0.12$		$\sum(X - \bar{x})^2 = 0.000218$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{0.12}{5} = 0.024$$

$$\sigma = \sqrt{\frac{1}{n-1}\sum(X - \bar{x})^2} = \sqrt{\frac{1}{5-1} \times 0.000218} = 0.0074$$

$$\text{CV} = \frac{\sigma}{\bar{x}} = \frac{0.0074}{0.024} = 0.31$$

Appendix-X
Int. Income on Loan & Adv. to Loan and Advances ratio

Amt. in Million

Year	Loans & Advances	Interest Income on Loan & Adv.	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	761.62	0.09	-0.29	0.084627275
04/05	10946.74	831.83	0.08	-0.30	0.09242279
05/06	13278.78	988.41	0.07	-0.31	0.093369785
06/07	15903.02	1167.26	0.07	-0.31	0.094004395
07/08	21759.46	1462.24	0.07	-0.31	0.097843717
			$\sum X = 0.38$		$\sum(X - \bar{x})^2 = 0.462267$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{0.38}{5} = 0.076$$

$$\sigma = \sqrt{\frac{1}{n-1}\sum(X - \bar{x})^2} = \sqrt{\frac{1}{5-1} \times 0.462267} = 0.339$$

$$\text{CV} = \frac{\sigma}{\bar{x}} = \frac{0.339}{0.076} = 4.46$$

Appendix-XI
Int. Income on Loan & Adv. to Total Int. Income ratio

Amt. in Million

Year	Total Interest Income	Interest Income on Loan & Adv.	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	1007.62	761.62	0.76	-3.00	9.024855072
04/05	1068.75	831.83	0.78	-2.98	8.890412833
05/06	1309.99	988.41	0.75	-3.01	9.032926801
06/07	1587.76	1167.26	0.74	-3.02	9.14964804
07/08	1978.7	1462.24	0.74	-3.02	9.126499933
			$\sum X = 3.76$		$\sum(X - \bar{x})^2 = 45.22434$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{3.76}{5} = 0.752$$

$$\sigma = \sqrt{\frac{1}{n-1}\Sigma(X-\bar{x})^2} = \sqrt{\frac{1}{5-1} \times 45.22434} = 3.362$$

$$\text{CV} = \frac{\sigma}{\bar{\text{x}}} = \frac{3.362}{0.752} = 4.47$$

Appendix-XII
Loan & Advances to Loan & Advances and Investment ratio

Amt. in Million

Year	Loan & Advances	Loan & Advances and Investment	Ratio	$x = X - \bar{x}$	$(X - \bar{x})^2$
03/04	8548.66	14383.71	0.59	-0.07	0.004312644
04/05	10946.74	15213.97	0.72	0.06	0.003542508
05/06	13278.78	19457.31	0.68	0.02	0.000504323
06/07	15903.02	24848.33	0.64	-0.02	0.000399857
07/08	21759.46	31699.23	0.69	0.03	0.000698808
			$\sum X = 3.32$		$\sum(X - \bar{x})^2 = 0.009458$

$$\text{Mean } (\bar{x}) = \frac{\sum X}{5} = \frac{3.32}{5} = 0.66$$

$$\sigma = \sqrt{\frac{1}{n-1}\Sigma(X-\bar{x})^2} = \sqrt{\frac{1}{5-1} \times 0.009458} = 0.049$$

$$\text{CV} = \frac{\sigma}{\bar{\text{x}}} = \frac{0.049}{0.66} = 0.07$$

Appendix-XVII

Computation of Linear Trend for Total Deposits

Year(t)	Total Deposits (y)	t-05/06 (x)	x^2	xy	Trend Value y=a+bx
03/04	14119.03	-2	4	-28238.06	11792.53
04/05	14586.6	-1	1	-14586.60	16227.3
05/06	19347.4	0	0	0.00	20662.07
06/07	23342.29	1	1	23342.29	25096.84
07/08	31915.05	2	4	63830.10	29531.61
	∑y= 103310.37	∑x=0	$\sum x^2=10$	∑xy=44347.73	

In the above table, year 2005/06 is assumed as base year, and the value of X = 0

Straight-line trend,

$$Y_c = a + bx$$

$$a = \frac{\sum Y}{n} = \frac{103310.37}{5} = 20662.07$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{44347.73}{10} = 4434.77$$

Now, Substituting the value of 'a' and 'b' in straight line equation.

$$Y_c = a + bx$$

$$= 20662.07 + 4434.77X$$

<u>Trend Value of Total Deposits for next five years</u>

Year(t)	t-05/06 (x)	Trend Value y=a+bx
08/09	3	33966.38
09/10	4	38401.15
10/11	5	42835.92
11/12	6	47270.69
12/13	7	51705.46

Appendix-XVIII
Computation of Linear Trend for Loan & Advances

Year(t)	Loan & Advances (y)	t-05/06 (x)	x^2	xy	Trend Value y=a+bx
03/04	8548.66	-2	4	-17097.32	7811.75
04/05	10946.74	-1	1	-10946.74	10949.54
05/06	13278.78	0	0	0.00	14087.33
06/07	15903.02	1	1	15903.02	17225.12
07/08	21759.46	2	4	43518.92	20362.91
	$\sum y= 70436.66$	$\sum x=0$	$\sum x^2=10$	$\sum xy=31377.88$	

In the above table, year 2005/06 is assumed as base year, and the value of X = 0

Straight-line trend,

$$Y_c = a + bx$$

$$a = \frac{\sum Y}{n} = \frac{70436.66}{5} = 14087.33$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{31377.88}{10} = 3137.79$$

Now, Substituting the value of 'a' and 'b' in straight line equation.

$$Y_c = a + bx$$

$$= 14087.33 + 3137.79X$$

Trend Value of Loan & Advances for Next Five Years

Year(t)	t-05/06 (x)	Trend Value y=a+bx
08/09	3	23500.7
09/10	4	26638.49
10/11	5	29776.28
11/12	6	32914.07
12/13	7	36051.86

Appendix-XIX
Computation of Linear Trend for Interest Income

Year(t)	Interest Income (y)	t-05/06 (x)	x^2	xy	Trend Value y=a+bx
03/04	1007.62	-2	4	-2015.24	898.32
04/05	1068.75	-1	1	-1068.75	1144.44
05/06	1309.99	0	0	0.00	1390.56
06/07	1587.76	1	1	1587.76	1636.68
07/08	1978.7	2	4	3957.40	1882.8
	$\sum y$= 6952.82	$\sum x$=0	$\sum x^2$=10	$\sum xy$=2461.17	

In the above table, year 2005/06 is assumed as base year, and the value of X = 0

Straight-line trend,

$$Y_c = a + bx$$

$$a = \frac{\sum Y}{n} = \frac{6952.82}{5} = 1390.56$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{2461.17}{10} = 246.12$$

Now, Substituting the value of 'a' and 'b' in straight line equation.

$$Y_c = a + bx$$

$$= 1390.56 + 246.12X$$

<u>Trend Value of Interest Income for Next Five Years</u>

Year(t)	t-05/06 (x)	Trend Value y=a+bx
08/09	3	2128.92
09/10	4	2375.04
10/11	5	2621.16
11/12	6	2867.28
12/13	7	3113.4