# CHAPTER – ONE
# INTRODUCTION

## 1.1 Background of the Study

Unification of Nepal began from 1799 B.S by the initiation of Prithivi Narayan Shah, successively continued by his successor. Forceful geographical integration process set the foundation of Modern Nepal but it causes the economic slow down and downward development while relatively comparing the developmental pace of western and eastern globe. Right from the date, many economic activities and plan were taken again it was worthless as we are confronting today with deep crisis. The understated and undervalued poor country Nepal in the interpretation and eyes of international alliances though she stands in the strategic position shaped with varied characteristics like agro-based economy, high rate of population growth, low rate of capital investment, depends upon foreign aid and unequal distribution of national income, rich in water and natural resources.

History of Nepal as begins from Gopal dynasty; economic development should be traced out in the precise manner from the time onwards. During Gopal, Mahispal, Kirat, lichhivi, Malla regime, Nepal was self-reliant country with economic boom up. During that time, though there was the existence of money system, mainly as population and transactions were in small size, barter system was in existence and people adopted more cooperative practices. Mutual lending of some goods in return of goods which are commonly understood as the ‘Paichho’ in local terms was more popular. Credit practice was in existence during that time in the personal level than in the institutional level.

The successor of Shah Dynasty mainly involved in the extension of political map of Nepal. They also involved in the war with China and India which then ruled by British East India Company. Due to which economic acceleration was not focused. Similarly, because of the internal clash and other reasons, Rule of Shah Dynasty became weaker and Janga Bd. Rana en-cashed this opportunity and captured the total power in his hand which imprisoned Nepali and Nepal for around 104 years. There was no remarkable growth of industry and trade along with finance. The un-ruled and despotic ruling of Rana regime resulted nothing by their action for nation and citizen. But again due to the changes appeared in the world, mainly, involvement of many countries in the war either internal or external inspired them to set some of the foundations of industry though for their personal stake.

Nepal was the country of closed economy before 2007 B.S but later changed this policy introducing Nepal in the international arena. After the 2007 B.S. to the date, Nepal has been adopting the Mixed Economic Policy. At present, foreign direct investment is promoted in almost all sector/ sub-sector of the economy, including the development, operation and management of infrastructure like road, transportation and hydroelectricity, of which the nation has immerse potentiality.

In 1935 A.D Industrial Council was set forth so as to promote the industrial sector to capture the global and domestic market. Right after this many industrial unites were established like Biratnagar Jute Mill (1936 A.D), Raghupati Jute Mill (1946 A.D) etc. Just before the break of Second World War, a twenty-year plan was announced and National Planning committee was set up in 1949 AD. But the plan never came into the notice of people and this idea disappeared with the dissolution of National Planning Committee.

Nepal, in early 1950s, began the process of economic and social development despite of the lack of modern institutions and infrastructures. Budgetary system was introduced in 1952 AD. In the same year, a separate ministry for Planning and Development was established for uplifting the nation.

It is fifty two years since the first five year plan was executed. Up to now, tenth successive plans had already been implemented. A cursory look at these plans shows that; the major focus has been laid on agro-sector, industrial sector and in the field of infrastructure development.

Economic stabilization program, adopted in 2042 BS with the assistance of International Monetary Fund (IMF), can be taken as the beginning of economic liberalization in Nepal. Structural adjustment program brought in 2044 BS with the structural adjustment facility from IMF can be considered as the continuation of same policy. After the restoration of multiparty system, the first elected government (2047 BS) encouraged the process of globalization. In order to accelerate the process of economic liberalization and globalization, the government enforced the foreign Investment and Technology Transfer Act 2049 and Foreign Investment and one window policy 2049 B.S.

Similarly the government enforced 'Industrial Enterprises Act 2049', formulated new 'Industrial Policy 2049' and 'Commercial Policy 2049'. The policies include one window provision for internal and foreign investors, non-nationalization of new industries, implementation of full convertibility of Nepalese currency on current account etc. Non requirement of license for the establishment of the industries other than having social cost was another aspect of the policy.

In the similar way, the government enforced the 'Privatization Act 2050' including its regulations and guidelines. The government developed various criteria for promoting private sector organizations. They include management contract, partial privatization, and lease contract, asset selling and selling of shares. In case, the public enterprises are to be privatized, the government has the policy of selling 5% of shares to the employees of enterprise, 25% to the general public and management shares to the competent party or individuals.

Those policies have certainly contributed in the initial stage of globalization of Nepal. Their effectiveness can be measured in near future in terms of economy generating issues and enhancing overall Gross National Product (GNP) and Gross Domestic Product (GDP) of the country. Since last decade, there has been a considerable growth in service sector activities in Nepal, including a sharp increase in banking, insurance, transportation, airlines, finance companies, co-operatives societies, hydro power centers etc.

For all round development of the country, a higher economic growth is necessary. Nepal has a policy to obtain higher economic growth by broadening and strengthening stability and fiscal discipline. Developmental activities are focused in the rural areas through the participatory development and rural empowerment process.

Financial institutions are considered as the catalyst to the economic growth and development of a country. Banking is a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprise.

Commercial banks are the heart of the financial system. They hold the deposit of individual, government establishment and business units. They make funds available through their lending and investing activities to borrower, individual, business firms and government establishment. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

The concept of financial institution in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in Kartik 30, 1994 BS as a semi-government organization. In Baishakh 14, 2013 BS the first central bank named as Nepal Rastra Bank was established with the objectives of supervising, protecting and directing the function of commercial banking activities. With the growing activities in the country, the necessity of an addition commercial bank was realized in the country. Consequently another commercial bank fully owned by the government, named as Rastriya Banijaya Bank was established in 2022 BS.

"After the establishment of Agricultural Development Bank in 2024 BS, growth of banking institutions remained almost stagnant till 2040BS. No new banks opened in this period though some branches of previously established bank were extended. Liberalization policy of government formulated in 2038 BS allowed private sectors to open joint venture banks in foreign collaboration. Nepal Arab Bank limited (now it is known as Nabil bank limited) became the first commercial bank to register under new arrangement. The bank started its operation since 2041BS. It is an associate of Dubai Bank Limited, United Arab Emirates (UAE) and Nepalese promoters. Nepal Indosuez Bank Limited (now is also known as Nepal Investment Bank) and Nepal Grindlays Bank Limited (now it is known as Standard Chartered Bank Limited) were other joint venture Banks established afterwards." (NRB Report 1997)

After restoration of multiparty democracy in the country, the government formulated new policies along with the amendment of existing policies so as to accelerate the process of economic liberalization and globalization. As a consequence, 20 commercial banks came into existence. Sun Rise Bank has been the youngest one till the date. These banks attempted to introduce foreign management skills, technical know-how and foreign capital.

The Nepalese financial system comprises of commercial banks, Development banks, finance companies, co-operatives societies, non governmental organizations (permitted to perform limited banking activities), insurance companies, Nepal stock exchange, citizen investment trust, employee's provident find and postal saving service.

As an increased in number as well as business of the financial institutions, the total assets/liabilities of the financial system witnessed continuous growth over the last seven years. During this period such assets/liabilities increased persistently at an average rate of 18.87 percent per annum during 2001 to 2007 and reached to Rs.582477.3 million in mid-July 2007 from Rs.273946.2 million in mid-July 2001.The total assets/liabilities in the mid-July 2007 registered a higher growth of 15.12 percent compared to 6.7 percent in the previous year. The total assets/liabilities of the financial system to GDP ratio at nominal prices increased to 80.96 percent at mid-July 2007 from 78.29 percent in mid-July 2006.The same ratio was 62.04 percent in mid-July 2001. (NRB Bulletin 49)

The structure of financial assets/liabilities shows that commercial bank alone hold more than 80 percent of the total assets and liabilities of the financial system. As of mid July 2007 commercial bank group occupied the 84.23 percent share followed by finance companies by 9.18 percent, development bank by 3.89 percent micro credit development bank by 1.77 percent and others by 0.93 percent. The upgrade of ADB/N attributed to decline in the share of development bank group to the total assets/liabilities in mid-July 2007.In mid-July 2006, the market shares of commercial banks, development banks, finance companies and micro credit development banks and others to the total assets/liabilities were 84.73 percent, 5.22 percent, 7.68 percent and 1.62 percent and 0.75 percent respectively. (NRB Bulletin 49:17)

The composition of total assets/liabilities of the financial system shows that, the capital fund, of the component of liabilities, surge up remarkably and registered at the positive figure of 6901.70 million in current year from the negative figures in the last three years. In mid July 2007 the deposit and borrowing, the other component of liabilities, held the 67.15 percent and 4.58 percent of total liabilities respectively. The capital fund constituted the 1.18 percent of total liabilities in the same year. 7. In the assets side, loan and advances accounted a dominant position of 50.06 percent of total assets in the mid July 2007.Similarly other assets, investments and liquid funds occupied the 22.53 percent, 17.49 percent and 9.97 percent respectively. (NRB, Bulletin 49:19)

Commercial banks held dominate share on the major balance sheet components of financial system. Of the total deposits Rs.391152.60 million in mid-July 2007, the commercial banks occupied 86.28 percent of total liabilities followed by finance companies 8.82 percent, development banks 3.93 percent, micro credit development banks 0.28 percent and others 0.68 percent. Similarly, on the loans and advances the share of commercial banks stood at 79.50 percent, finance companies at 12.21 percent, development banks at 5.27 percent and micro credit development banks at 1.98 percent and others at 1.03 percent. In the same year the share of commercial banks in borrowings, liquid funds and investments of whole financial system constituted 47.75 percent, 86.28 percent and 91.64 percent respectively. (NRB - 2007:12)

The Capital fund considered as a major indicator of financial strength, recorded positive in the current fiscal year as against negative in the previous year. As of mid July 2007, such funds accounted of Rs.6901.70 million from Rs.-7461.47(negative) million in the last year. Deposits, investments, and loans and advances witnessed strong growth during 2001-07. During this period deposits grew at an average rate of 16.37 percent per annum, investments at 45.31 percent, and loans and advances at 22.51 percent. In mid July 2007, deposit accelerated by 19.28 percent compared to 15.42 percent in previous year and reached to Rs.391152.60 million. The loan and advances reported substantial growth of 26.55 percent in mid July 2007 compared to 10.22 percent in the last year and reached to Rs.291605.76 million. On an average it is increased by 22.51 percent during 2001 to 2007. (NRB Quarterly Bulletin no 49:06)

Lending has changed the relationship between banks and customers. Changing business models, cost relations, integration of global financial markets, technology convergence and incessant introduction of new products and services and lack of loyal customers insist to re-define customer relationship. The focus of lending has thus been constantly evolving. In the early 90s, it was product focus, in late 90s it was sales focus, and by 2000 A.D it became price focus and today it is relationship driven. There are 20 commercial banks in the country as of mid - July 2007. The number of commercial bank branches operating in the country reached to 552 including 45 commercial bank branches and 102 other non commercial bank branched of ADB/N in mid July 2007.Of the total bank branches more than 46 percent bank branches are concentrated in the central region. By the end of mid July 2007,254 branches are being operated in this region. In the eastern, western, mid-western and far- western region 119, 114, 36 and 29 bank branches are in operation respectively.

Loans and advances, the major component of assets, of these banks constituted the 6.66 percent of total assets in mid July 2007.Similarly, investment and liquid funds, another component of assets, registered the 19.06 percent and 8.98 percent of total assets in the same year. In the preceding year the respective share of loan and advances, investment and liquid funds were 40.44 percent, 19.15 percent and 9.06 percent.

In the current year the loan and advances increased by higher rate of 32.05 percent compare to 8.61 percent in the last year. By the end of mid July 2007 the total outstanding amount of loan and advances of commercial bank reached to Rs.228951.9 million. It was Rs.173383.4 million in mid-July 2006.

Of the component of liabilities, capital funds, despite the significant improvement, remained negative of Rs.4149.5 million in mid July 2007 as against Rs.17742.1 million negative in the last year. The composition of total liabilities shows that, the deposit held more than two third of total liabilities over the period of 2001-07.As of mid July 2007, it constituted the 68.79 percent. Similarly borrowing held the 2.60 percent in the same year. In the mid July 2006, the respective proportion of deposit and borrowing were 67.93 percent and 2.22 percent.

In the current fiscal year deposit mobilization of commercial bank marginally increased by 15.88 percent compare to 15.39 percent growth in the previous year. By the end of mid July 2007 it reached to Rs.337497.2 million from Rs.291245.6 in the last year. Of the component of deposit, current deposit accelerated by higher rate of 20.45 percent compared to 7.91 percent in last year. Fixed deposit increased slightly higher of 13.89 percent compared to 13.75 percent in the previous year. However, saving and call deposit growth rate slipped to 15.23 percent and 18.62 percent compare to 16.65 percent and 28.51 percent respectively.

Of the components of total deposit, saving deposit constituted the highest share of 51.77 percent followed by fixed deposit 25.84 percent, current deposit 12.84 percent and call deposit 7.99 percent in mid July 2007.In the last year the respective share of saving, fixed, current and call deposit were 52.07 percent, 26.29 percent, 13.34 percent and 7.80 percent.

The share of borrowings to total liabilities accounted to 2.60 percent in mid-July 2007.It was 2.20 percent in the last year. In the mid July 2007 the borrowing of commercial banks grew by slower rate of 33.93 percent compared to 39.12 percent in previous year. By the end of mid July 2007 it reached to Rs.12750.4 million from Rs.9519.6 million in the last year. Liquid funds increased by 14.45 percent and reached to Rs.44089.7 million in mid-July 2007 from Rs.38842.1 million in mid-July 2006.

In the purpose wise credit front, the total outstanding loans and advances reached to Rs.231844.7 million in mid July 2007.Out of them the production sector constituted the highest share of 26.90 percent followed by wholesale &retailers 19.68 percent, construction 8.53 percent, service industries 7.92 percent, finance, insurance &fixed assets 6.0 percent agriculture 5.98 percent transportation, communication & public services 5.66 and consumable loan 3.51 percent.

Subsequent decision of NRB to phase out priority sector lending, it will not be compulsory to provide such loan from the fiscal year 2007/08.By the end of mid July 2007, total priority sector credit reached to Rs.26957.40 million. The inclusion of financial figures of ADB/N in commercial bank resulted to increase significant proportion of priority sector credit to total credit in the current fiscal year. Consequently, it is recorded at 12.75 percent of total outstanding loan of six months ago. It was 5.7 percent (Rs.10104.1 million) in mid July 2006.

The deprived sector credit increased by 30.20 percent and reached to Rs.6842.0 million in mid-July 2007 as compared to Rs.5255.13 million in mid-July 2007.The ratio of deprived sector credit to total credit (six month ago) recorded at 3.24 percent in the current fiscal year. Last year it is was 2.97 percent.

By the end of mid July 2007, the credit/deposit ratio of the commercial banks increased to 67.84 percent from 59.53 percent in the last year. Higher growth rate of loans and advances compared to deposit mobilization contributed to increase in this ratio.

In the current fiscal year the net profit of the banking system grew by slower rate of 10.20 percent compared to 53.38 percent in the last year. By the end of mid July 2007 the net profit amounted to Rs.8797.9 million from Rs.7983.5 in mid July 2006.

In the capital adequacy front, it increased remarkably and turned to positive of 0.17 percent in the current fiscal year as against the negative in last four years. In the previous year this ratio was negative of 5.3 percent.

The status of non-performing loan of commercial banks shows that, they are making positive improvement over it. By the end of mid July 2007, the ratio of non-performing loans to total loan and advances declined to 9.65 percent. Total amount of non-performing loan remained to Rs.22182.9 million in the same year. In the last year the percent and amount of non-performing loan were 14.22 percent and Rs.26770.42 million respectively.

## 1.2 An Introduction of Under Study Banks

Everest Bank Limited, Nabil Bank Limited, Nepal Bangladesh Bank Limited and Nepal Industrial and Commercial Bank are four venture banks out of twenty commercial banks operating within tertiary of Nepal as at the end of mid July 2007.

These banks are established in different time period. Nabil bank is first JVB in the history of Nepal where as Everest Bank is established as the joint venture of Punjab National Bank (India) which directly helps with those business men and individuals who have direct relation with India and NIC bank deals with Nepalese business men whose business area lies within the territory of Nepal. So, it was clear that these sample banks with difference service can cover all information for the thesis and make meaningful.

### 1.2.1 Nabil Bank Limited

"Nabil Bank Limited (erstwhile Nepal Arab Bank Limited) was established on 12 July 1984 under a technical service services agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank Ltd., Dubai. Nabil bank is the first and major joint venture bank in the country with key points of representation all over the Kingdom of Nepal. The bank is managed by a team of qualified and highly experienced professionals." Nabil bank's Annual report 2007 shareholdings are distributed as 50% by N.B International Limited, Ireland, 20% by local financial institution and 30% by the Nepalese.

Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also was the introduce consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance)to leading Government institution like Nepal Telecom Ltd., Nepal Electricity Authority, Nepal Oil Corporation, Nepal Television, Water Supply and the Royal Nepalese Army. By virtue of the range of services provided by the banks and its strength in the market, Nabil is also a significant player in financing entities involved in various infrastructure products. (Nabil Bank Annual Report, 2007)

The bank is a major player in facilitating import export activities with modern and efficient trade finance and international trade support services, to large multinationals as well as established business conglomerates in the private sectors. Nabil bank rank among the top three financial institutions in Nepal terms of market shares of handling Nepal's trade.

Nabil is the sole bankers to a multitude on international Aid Agencies, Non-Government Organizations, Embassies and Consulates in the Kingdom. The bank has a dominant market share in these consumer segments which is a compliment to its image and servicing capabilities.

Nabil is almost the most successful joint venture organizations in Nepal registering strong growth in balance sheet footing as well as profits year after year. The initial capital of Rs. 30.00 million, invested in 1984, has grown to Rs. 2,057.00 million in mid – July 2007(Nabil Bank Annual Report, 2007)

Nabil Bank's Capital Adequacy Ratio stood at 12.04% as on mid – July 2007 against statutory minimum requirement of 10%. The bank's financial performance is detailed further in this report.

The bank provides a complete range of personal, commercial and corporate banking and related financial services through its 26 branches. It is the largest number amongst any private sector commercial banks in Nepal. Two branches are expected to added in this year,

### 1.2.2 Everest Bank Limited

Everest Bank Ltd. (EBL) started its operation in 1994 with the view and objective of extending professionalized and efficient banking services to various segment \s of the society. EBL joined hands with Punjab National Bank (PNB) India as its joint venture partner in 1997. PNB is the largest nationalized bank having 110 years of banking history with more than 4500 offices all over the India. Of which 1400 branches are interconnected. PNB has over 1000 Automatic Teller Machines (ATM) spreads across India. As on 31 March 2007, PNB had a total business of 193,000 crores and posted a net profit of INR 1510 crores. Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations, establishing itself as a lending Private sector Bank. EBL is ranked as No. 2 bank by NRB as per CAMELS. (EBL Annual report 2007)

Despite fragile law and order situation especially during last 3-4 years, the Bank has recorded spectacular performance. As per audited accounts of Fiscal Year 2006/2007, the Bank’s operating profit was Rs. 577.67 million registering a growth of 29.5% over the previous year. The Bank’s credit recorded a growth of nearly 39% over the last year reaching a figure of Rs 13,664.08 million. Similarly, the total deposits of the Bank posted a growth of 31.76% amounting to Rs 18,186.25 million over the preceding year. This sustained growth of the Bank is attributable to its strong systems and procedures, professional approach, quality lending and highly motivated staff members.

The bank is providing its services through a wide network of 23 branches across the nation and over 250 correspondents across the globe. All the major branches of the bank are connected through Anywhere Branch Banking System (ABBS), a facility which enables a customer to do banking transaction from any of the branches irrespective of their having accounts in other branch. The Bank in association with Smart Choice Technology (SCT) is providing ATM services to its customers. EBL Debit Card can be accessed at more than 110 ATMs and over 1200 Points of Sales across the nation. The bank is also managing the SCT ATM at Tribhuvan International Airport for the convenience of its customers and the travelers, the first and the only bank in Nepal to place ATM outlet at the Airport. (EBL Monthly Bulletin march 2007 Edition)

EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National Bank and remit their saving economically through banking channels to Nepal. The bank has channels to Nepal. The bank has Draft Drawing Arrangements with 175 branches of PNB all over India. With an aim to facilitate the remittance of Nepalese citizens working abroad, the bank has entered into arrangements with renowned banks and exchange companies across the globe. (EBL Boucher) .The Bank recognized the value of offering a complete range of services. EBL have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rentals), Home Equity Loan, Car Loan, Loan Against Shares, Loan Against Life Insurance Policies and Loan for

Professionals. We at EBL have always endeavored in delivering innovative products suiting the consumer’s requirements and needs thus enriching, enabling and beautifying their lives.

### 1.2.3 Nepal Industrial and Commercial (NIC) Bank Limited.

Nepal Industrial & Commercial Bank Ltd. (NIC Bank) was incorporated on 30th May 1997 (Jestha 17, 2054) and commenced business on 21st July 1998 (Shrawan 5, 2055). NIC Bank is one of the banks with the largest capital base with authorized capital of Rs. 1,000 million and paid up capital of Rs. 500 million.

The Bank was promoted by some of the renowned business houses in the country along with Rastriya Banijaya Bank (RBB). The Bank had been successful to register operating profit in the very first year of its operations, which is indeed historical. Within 7 years of commencement of business the Bank has established 8 branches, 2 in Kathmandu and 1 each in Biratnagar, Dharan, Birtamod, Birgunj, Jankapur and Pokhara.

However, rapidly progressing Nepal offers tremendous potential outside the Capital, as well. In order to provide the necessary impetus to the economic progress of Nepal, through banking support of international standards, NIC Bank established it’s Head Office at Biratnagar, the "Commercial Capital" of Nepal.

NIC Bank has an Authorized Capital of Rs. 1,000 million with paid-up capital of Rs. 660 million. The promoter group holds 65% of issued capital amounting to Rs.429 million. The remaining 35% of paid-up capital amounting to Rs.231 million is held by the general public. The shares are listed with Nepal Stock Exchange. (NIC Annual report 2007)

NIC Bank has been able to record substantial increments in balance sheet size and profit since last couple of years. In the financial year ended 16 July 2007, the Bank registered an impressive growth of 64% in net profit amounting to Rs. 158.47 million compared to Rs 96.58 million in the previous year. (NIC Annual report 2007)

### 1.2.4 Nepal Bangladesh Bank Ltd.

Nepal Bangladesh Bank Ltd. was established in June 1994 with an authorized capital of Rs. 240 million and Paid up capital of Rs. 60 million as a Joint Venture Bank with IFIC Bank Ltd. of Bangladesh. Its Head Office is situated at New Baneshwore, Bijuli Bazar, Kathmandu. It has now paid up capital of Rs.359.93 million. The total equity is participated as 50% by IFIC Bank Ltd, 30% by general public and 20% by local promoters.

The prime objective of this Bank is to render banking services to the different sectors like industries, traders, businessmen, priority sector, small entrepreneurs and weaker section of the society and every other people who need Banking Services. During the period of 10 years of its operation, it has accommodated a large number of clients and has been able to provide excellent services to its clients.

With a network of 17 branches and a corporate office, the Bank commands the largest network amongst the joint venture commercial banks in Nepal. The bank has introduced its first ATM facility at Kathmandu Plaza, Putali Sadak Branch to give 24 hours 365 days banking services to their valued costumers. The Bank has earned the glory of making available the services to almost all the top business houses of the country and it occupies one of the leading positions among the Joint Venture Banks in Nepal. The Bank is still pursuing to accommodate as many clients as far as possible.
Top Exporters and Importers of the country have established banking relationship with the Bank with a substantial volume of foreign business which has enhanced the Bank's popularity in the International Trade front. Bank has developed Agency and Correspondent relationship with more than 200 prominent Foreign Banks in the world.

With the continuous support of our valued customers the Bank has made all round progress in every sphere of its operation. The Bank Has mobilized deposit to the extent of Rs. 13015.14 million and advances loan to the extent of Rs. 9796.38 million as on Ashad end 2064 (Annual Report 2007)

## 1.3 Statement of Problem

When government introduced the liberalization policy, many banks, financial institution and other institution are established rapidly. These days many commercial banks, development banks and financial institution are operating their works to assist in the process of economic development in the country. Due to the high competition among these financial institutions, complications are faced in fund mobilization and investment practice. So, it raised the problems of proper fund mobilization activities, which may play the vital role in ensuring banking success and economic development of the nation.

Demand and floating of loan on the non productive sectors is leading the banking system in over liquidity. This has compelled banks to search alternative avenues to mobilize their funds, and thus emerged the new and alternative concepts in the area of lending.

Liquidity pressure in the commercial banks and lack of the best floats of loan sharply reduced the return on shareholders fund. NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of commercial bank has been successful to earn profit from fund mobilization, none of them seem to be capable to invest their entire fund in more profitable sector.

As the major motive of the commercial banks is to earn more profit, they want to disburse the deposit on loans and advance on different sectors. These days, most of commercial banks are moving towards to the consumer lending. Bank has to take minimum risk while making consumer lending the bank has been facing various problems while providing lending service.

Joint venture banks are helping to finance and support the industrial development and business houses in the country. It is because industrialization is one of the alternatives which help to develop the economy of a nation. But it has been common to signal out "Under-development" as one of the major hindrances of the industrial development. It is true to a greater extent and it is also true that land-locked-ness has been one of the strong factors in this case. Lack of infrastructural supports has been strongly believed to be another set of reasons. Apart from that, joint venture banks for the safe lending of the public saving are faced with a number of problems.

Nepal could never cultivate a culture of “National priority, sincerity and commitment”. Often times economists, industrialists and even politicians think that the economic policies pursued by the post political regime have been the culprit of less development, they may be true but who is to be blamed for this? There were evaluations, studies and experts' recommendation for the corrections of our economic policies. They are not unique to Nepal but a general solution followed by every one. There have been positive results and even miracles in certain countries of the Asian – Pacific region, and Korea Singapore, Thailand, Taiwan and New Indonesia and Malaysia. Indo-Chinese nations will shortly follow this. Why Nepal has been only exception to this? Even Bangladesh and Bhutan are going ahead.

In summary, the major reasons of Nepalese problem of non - industrialization is the part of economic failure and misuse of resources without proper utilization. Nepal primarily being agricultural country, its base of industrialization also lies on agriculture. The first sets of industries established are all agro industries. Therefore, it would not be out of context to mention agro industry playing a major role in this process.

Agriculture has still been the dominating sector in Nepal with around 54.25% share of GDP and it being the major source for raw materials. A cursory view at Nepali industries that occupy around 9.56% of GDP delineates agro-industry as a major contributing sector. Out of 2,987 total industrial establishments, there were 572 industries classified as Agro industries in Fiscal Year 2004/05 (tentatively around 23.71%). This is further confirmed by the fact that joint venture banks and Nepal Industrial Development Corporation (NIDC) are major industrial financing institutions in the country, holds around 36% of the total portfolio directly under Agro- sector.

The policy of promoting import substitution and indigenous raw material based industries was the target and the guiding factor during 1970s. Previously the closed economic policy constrained in harnessing the natural resources. Poverty, illiteracy and shy entrepreneurship were also responsible for the dismal growth of modern banking sector and industrial sector too. The present status and its factors, therefore, provide the base as well as guide to future course of industrial development in Nepal. In the context of the shy private sector role in the industrial development, public enterprises played important roles in the initial stages of development.

Agriculture is the backbone of the economy and the livelihood of more than 80 percent of total population associated with this sector. Manufacture industries and big trading business are the best choices of the joint venture banks for the investment but these sectors are small in quantity. The growth of the trading business and manufacturing industries means the economy growth and side by side it helps in reduction of under and unemployment problem. But these industries and business houses are not doing progress in their own field current situation of the economy are not in their favor, as the result these big business are moving towards the liquidation. The basic objective of the joint venture is to collect small saving and make huge investment is not fulfilling as the result new concept of the lending has emerged in the Nepalese market like housing loan, vehicle loan, flexi loan, education loan, professional loan etc. these retail lending is not productive for the nation, in this type lending only the borrower is benefiting.

With the prevailing economic condition of the country, the investment in agriculture, manufacturing and industrial sectors has not grown satisfactorily. Hence the joint venture banks also not succeeding perfectly to swift the deposit in profitable sectors. Competitions, being the burning issues at present the related JVBs are at the high time to focus their eye for the better management for the survival and growth.

From all the above, it can be concluded that effective and persistent investment towards the most benefiting sector is one of the prerequisite for the development of the nation. The quality and return of the investment depends upon the existing credit policy and its proper implementation. Thus, how far these things are applied in the banks and financial institutions and whether the existing credit policy is suitable as per the requirement of the country becomes a prominent issue in the present context. The problem of the study has been laid on the issues related to the comparative strengths and weakness of some banks pertaining to their respective credit policies and their implementation. For the sake of simplicity, and due to limited time allocated for the research only three banks- Nabil Bank limited, Everest Bank Limited and NIC Bank- has been taken for the study.

To solve such type of problems the investment policy of banks should be effective. The purpose of the study is to analyze and examine how far the present investment policy and procedure of joint venture banks is effective in encouraging the entrepreneurs to invest in different industrial and business sectors in different regions. In this regard however experience of banks reveals not encouraging relationship between investment policy and industrial development of the country.

The present problems related to the credit policy are:

a. What is the position of lending and advancing of sample commercial bank?
b. What is the future prospectus of credit in Nepal?
c. What problems are facing by commercial bank in availing lending service?
d. What types of major lending products are prescribed by consumer?

## 1.4 Objectives of the Study

The objectives of this study are:

1. To study the relationship between deposits and lending
2. To study the classification, provision for loan and advances and its effect in profitability.
3. To examine the sector wise and security wise lending
4. To identify and analyze the problems and prospects of lending practice of Nepalese commercial bank.

## 1.5 Significance of the Study

In this present era, joint venture bank are going a wide popularity through their efficient management and professional service and playing an eminent role in the economy. Considering the economic structure of the country, the banks do not have sufficient investment opportunities. Rapidly increasing financial institutions are creating threats to the joint venture banks. In this context, the study would analyze strengths, weaknesses, opportunities, and threats of selected joint venture bank. The research will be helpful for joint venture banks to formulate strategies to face the increasing competitions. Beside it also helps to identify the importance of shareholder, policy formulators academically professional and outside investors. So, an independent study in this sector will help people find their way to the solution for their investment.

The Significance of the study can be written as the following manner:

a. By the helps of this study, general public can know the lending activities and situation of the Nepalese commercial banks.
b. It is also beneficial for the government while formulating policy and rules regarding the credit policy.
c. The study of credit policy would provide information to the management of the concerned banks that would be helpful to take corrective actions in the banks activities.
d. This study provides valuable information that is necessary for the management of the banks, shareholders, general public and related parties.

## 1.6 Limitations of the study

The present study is not free from the limitations. The limitations of this study are as follows;

- This study is based on secondary as well as primary data. Accuracy depends upon the data collection and as provided by the banks.
- The analysis period of research covers only five years. (FY 2002/2003 to FY 2006/2007)
- The study mainly focuses on the loan & advances and doesn't cover other banking services and facilities provided by the banks.
- In this study only limited financial and statistical tools and techniques of credit analysis is used.
- This study has been carried out for the partial fulfillment of master's degree faculty of management of TU. So the time and resources are major limitation of the study.
- Only 4 commercial banks among 20 have been selected as sample for the study. Due to the small sample size, it may not fully represent complete banking credit concept as a whole.

## 1.7 Organization of the Study

The study has been organized into five chapters each devoted to some aspects of the study of the credit policy of banking in Nepal. The chapters one to five consist of introduction, review of literature, research methodology, presentation and analysis of the data & summary, conclusions and recommendations.

**Chapter 1: Introduction**

The first chapter is introduction chapter and deals with preamble of the main topic of the study like general background, statement of the problems, objective of the study and organization of the study and other introductory framework.

**Chapter 2: Review of literature**

It includes with the review of available relevant studies. It includes the conceptual review of the related books, journals, articles and the published and unpublished research works as well as thesis.

**Chapter 3: Research methodology**

The third chapter is Research Methodology which describes research methodology employed in this study i.e. research carried out in this size and shape. For the purpose various financial and statistical tools and techniques are defined which is used for the analysis of the presented data.

**Chapter 4: Presentation and Analysis of data**

This chapter is the main body of research which is data presentation and analysis. This chapter is the major part of the whole study in which all collected relevant data are analyzed and interpreted by the help of various financial & statistical tools. In this chapter we explained the major findings of the study.

**Chapter 5: Summary, Conclusion and Recommendations**

Finally, fifth chapter contains summary, conclusion and recommendations on the basis of study for further improvement. Besides these, bibliography and annex are also included.

# CHAPTER- TWO
# REVIEW OF LITERATURE

## 2.1 Introduction

Review of literature includes the whole study and review of those books, articles and thesis, which are related to our research. It provides the information about the research. By the detail study of literature, we can come to know up to how the researchers have researched. And what are the things remain to be researched. To make a research effective, the research must be new in the field of research. And without reviewing previous thesis, one can't know what is new? So as to know subject researched and remains to research, review of literature is so important like an investigation of disease before treatment in medical science. It includes related books, articles, journals, and thesis. The textual matters would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose. Actually, it is the best guideline for the research work.

From above it is clear that the purpose of literature review is to find out what research has been conducted is one's chosen field of study and what remarks to be done.
Thus the chapter is broadly discussed under three sections.

a. Conceptual framework
b. Review of Journals and Articles.
c. Review of previous research

## 2.2 Conceptual Review

This section is developed to discuss briefly about the theoretical frame work, which are closely related to the research work:

### 2.2.1 Lending : A Definition

Lending is to give someone the procession or use of something on the condition that it will be returned later. For our purpose, Lending is the act of giving out money, which has to be repaid after the specified time frame, so as to earn profit from interest. The

Capital Deficit Unit (CDU) borrows fund from Capital Surplus Unit (CSU) with an agreement to repay/pay back the loan with specified interest in some agreed terms and conditions.

When an organization or individual makes a sum available for one to borrow, then the act of granting credit is referred to as lending. Banks and financial institutions avail some funds towards its potential customers upon satisfying their terms and conditions. Talking about the term lending, there are few other implicit concepts that come together namely, the concept of repayment, the concept of interest rate and so on.
Credit is the confidence in a borrower's ability and intention to repay. People use the credit they have with financial institutions, businesses, and individuals to obtain loans. And they use the loans to buy goods and services. The credit a person has typically determines how much they will be permitted to borrow, for what purpose, for how long, and at what interest rates. The level of confidence lenders have in potential borrowers depends on many factors. A person's income is an indicator of a person's ability to repay, particularly when compared to the amount of debt they already have. The amount of borrowing a person has already done and how well they handled repayment is an indicator of their intention to repay.

The reasons people borrow are varied and personal. Loans allow people to obtain goods and services today, such as homes and automobiles, and spread the cost over time. This makes these purchases more affordable than they might otherwise be. Most Americans could not afford homes or cars without the ability to borrow. Many people who have built up their savings use loans instead because they consider rebuilding their savings more difficult than repaying the loan.

Responsible use of credit revolves around one’s budget and how much s/he can afford to devote to loan payments. As a general guideline, borrowing may be justified for automobiles, homes, recreational vehicles, education, home improvements, and other purchases that have value lasting beyond the time it takes to pay them off. Responsible use of credit also refers to living within one’s means. One should limit the size of the home s/he buy or the price of the car s/he drive by the size of the monthly payment s/he can comfortably afford.

### 2.2.2 Bank Lending : An Outline

There are two main types of credit that are available with the Nepalese commercial banks. One type of credit/loan is linked to a specific item like home loans, mortgages, personal loan, shop loans, vehicle loan, education loan, etc. The second type of loan, which is known as revolving credit, means that the client always has access to the amount of the line of credit that remains unspent. And every time s/he pay off some of the outstanding amount, that proportion of his/her credit limit becomes available for spending again.

Term and Demand Loans are normally repaid in regular installments over an agreed period of time. The amount of installments may be variable or fixed repayments of approximately equal amounts. In case of revolving credit facility, the client has an option to pay off the outstanding amount within the expiry date of that facility.

In order to cover the lending risk and to make a profit on their money, lenders generally charge interest on loans and revolving credit. With fixed repayment loans, the amount of interest is worked out in advance and added into the repayments. There is often a penalty if the customer wants to repay the outstanding amount earlier than agreed. With revolving credit, customer can repay as much or as little as s/he wanted, at any point.

### 2.2.3 Credit Policy : An Explanation

Credit policy provides a philosophical framework for day-to-day credit decisions. Policy will guide officers in balancing the bank's earnings objectives. Credit policy refers to the overall guidelines that spell out how to decide which customers are availed the credit, the exact repayment terms, the limits set and how to deal with delinquent accounts

It is the borrowing capacity provided to an individual by the banking system, in the form of credit or a loan. The total bank credit the individual has is the sum of the borrowing capacity each lender bank provides to the individual

A typical credit policy will address the following points:

- **Credit limits.** Depending upon the various factors, credit limit is set for each customer
- **Credit terms.** Decide when the repayment will start, prepayment and late payments conditions are to be set
- **Margin.** It may be required customers to pay a portion of the availed due in advance.
- **Customer information.** This section should outline what the lender wants to know about a customer before making a credit decision. Typical points include years in business, length of time at present location, financial data, credit rating with other vendors and credit reporting agencies, information about the individual principals of the company, and how much they expect to borrow from the lender, etc.
- **Documentation.** This includes credit applications, agreements, contracts, correspondence, and so on. It is also the most important part in establishing legal proof of evidences before the court, if the client is failed to fulfill the commitment made towards the lender.

### 2.2.4 Credit Culture : An Overview

Credit culture is the foundation of credit risk management in any bank provided it is effective. Some people define credit culture as simply the way things get done around here. Scholars define credit culture more narrowly as the sum of all the characteristics of an organization's unique behavior in its extension of credit. It not only encompasses the tangible written policies and procedures, but also intangible, such as ideas, traditions, skills, attitudes, philosophies, and standards. Credit culture is developed over time, and then communicated and passed on. It is the true spirit behind the rules. Credit culture is the critical micro piece of the credit risk management process, since an appropriate credit culture determines not only a bank's profitability but also its very survival.

The banking environment has changed dramatically from both an industry and regulatory perspective. Banking has evolved into a fiercely competitive business. Separate business line-specific risk management practices continue to evolve into consolidated enterprise risk management (ERM) frameworks, the purpose of which is to evaluate and manage the uncertainties the enterprise faces as it enhances value to shareholders. However, creating an ERM framework does provide even the smallest institutions with a structured and disciplined approach to aligning strategy, processes, people, technology, and knowledge.

Banks are expected by their boards of directors to effectively manage and compete in today's changing environment. Pressure to enhance shareholder value can lead to slippages in credit practices, such as approving marginal credits, waiving personal guaranties and other standards, and irrational pricing. That is, of course, unless an organization has a carefully defined and disciplined credit culture, supported by its board, as its first line of defense against imprudent credit and pricing decisions. In fact, credit culture concepts remain as immutable and relevant today as they were over thirty years ago.

**P. Henry Mueller,** the former chairman of the credit policy committee and chief lending officer of Citicorp and Citibank, New York, has offered 20 self-evident essentials of good banking. These essentials apply to the credit culture of any institution, regardless of size:

- Continuing commitment to excellence.
- Logical framework for day-to-day decision making.
- Sound value systems that will not break down under change.
- Uniform and consistent approach to risk taking.
- A common credit language.
- Business cycle perspective on the bank's credit experience.
- Supremacy of the bank's objectives over individual profit center goals.
- Can did and frank communication at all levels.
- Awareness of every transaction's effect on the bank.
- A portfolio with integrity and few exceptions.
- Individual accountability for decisions and actions.
- Balance of long-term insight with short-term view.
- Respect for credit basics.
- Common-sense reality checks against market practices.
- Encouragement of independent judgment over the herd instinct.
- Constant mindfulness of the bank's risk taking parameters.

- Realistic approach to markets and budgeting.
- An understanding of what the bank expects and the reasons behind its policies.
- Credit systems with early warning capabilities.
- Expectation that problems are identified early and that no tolerance for surprises exists.

Policy, process, auditing, and behavior are the underpinnings of a strong credit culture. As the starting point, credit policy provides a philosophical framework for day-to-day credit decisions. Policy will guide officers in balancing the bank's earnings objectives. Process is the line-driven operational arm of credit extension and credit strategy. Through the delegation of authority, a strong credit process will provide a policing mechanism for the integrity of the credit apparatus. Auditing is responsible for ensuring adherence to credit policy, procedures, and business plans. Behavior is related to the values held by bank employees. Each credit officer should be expected to reflect conservative risk-taking attitudes and a commitment to excellence. Exceptions to policy should be few and well documented when approved.

Each type of credit culture has its own characteristics with a driving force, which sets the priorities, stated or unstated, and produces a credit environment with different success factors. There are several determinants of a bank's credit culture that are beyond the scope of this article. However, the most significant determinant in developing an optimal culture is top management's unwavering commitment to credit quality. Any uncertainty or ambiguity opens the door for arguments to stretch, bend, or eliminate policies.

### 2.2.5 Bank Credit/Lending Policies

The principal reason banks are charted by state and federal authorities is to make loans to their customers. Banks are expected to support their local communities with an adequate supply of credit for all the Intimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. Indeed, making loans is the principal economic function of banks-to fund consumption and investment spending by businesses, Individuals and units of government. How well a bank performs its lending function has a great deal to do with the economic health of its region, because bank loans “support the growth of new businesses and jobs within the bank's trade territory and promote economic vitality. Moreover, bank loans often seem to convey positive information to the marketplace about a borrower's credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources. (Rose, June 1983:52, no.3)

### 2.2.6 Type, Nature and Feature of Loans

This report mainly focuses on the Lending Practice and Procedure of Everest Bank Ltd., Nabil Bank, NB Bank ltd and NIC Bank. So, it is rational to present the type, nature and feature of loan provided these Banks as the researcher has consulted from the books, information provided by the officers of the concern Bank

#### 2.2.6.1 Term Loan

Term loan is money lent to the borrowers in a lump sum. Term Loans are generally granted to finance capital expenditure, i.e. for acquisition of land, building and plant & machinery, required for setting up a new industrial undertaking or expansion/diversification of an existing one and also for acquisition of movable fixed assets. Term Loans are also given for modernization, renovation etc. to improve the product quality or increase the productivity and profitability.

Generally subsequent debt in the loan account is not allowed except by way of interest, incidental charges, insurance premiums, expenses incurred for the protection of the security. Term loans are generally granted for long period to finance fixed assets and are repayable on installments over the period of loan.

Term Loans are normally granted for periods varying from 3 to 5 years and in exceptional cases beyond 5 years. The exact period for which a particular loan is sanctioned depends on the circumstances of the case.

The basic difference between short-term facilities and term loans is that short-term facilities are granted to meet the gap in the working capital and are intended to be liquidated by realization of assets, whereas term loans are given for acquisition of fixed assets and have to be liquidated from the surplus cash generated out of earnings. They are not intended to be paid out of the sale of the fixed assets given as security for the loan. This makes it necessary to adopt a different approach in examining the application of the borrowers for term credits.

#### 2.2.6.2 Project loan

Project loan is granted to customers on the basis of the nature of the project. The financial institution asks the borrower to invest certain portion to the project from their equity and the rest will be financed as project loan. The debt equity ration in case of project loan is generally 60:40. The project loan includes the term loan and working capital loan required by the project.

#### 2.2.6.3 Working Capital Loan

Working capital is the difference between current assets and current liabilities. This type of loan is granted to the customer to meet their working capital gap. Working capital can be divided into fixed working capital and variable working capital. Fixed working capital is financed by way of short-term loan while variable working capital is financed by overdraft.

#### 2.2.6.4 Loan against Fixed Deposit Receipt

Fixed deposits are kept for a specified period by the depositor. If a depositor needs money before its maturity, he/she can obtain loan against the security of such deposits. Generally financial institutions allow up 90% of the fixed deposits as loans.
Before an advances is allowed against fixed deposit/recurring deposit/other deposit as security, a letter of pledge/lien signed by the depositor along with original fixed deposit receipt/recurring deposit/other deposit duly discharged is normally required by the institutions.

In case of term deposits under reinvestment plan, security for advances made there against is not merely the amount of original deposit but also the amount of interest accrued up to the last/preceding quarter. In such cases the interest accrued may be determined at quarterly compounding basis till the preceding quarter on the date of granting such advances and may be treated as deposit.

The prescribed margin applicable is maintained on the principal amount plus the accrued compound interest. When a credit balance in the current or savings fund account of the borrower is offered as security, advances can be permitted there against after maintaining the prescribed margin and obtaining proper documents.

In case of advance against Joint Deposit Accounts, the letter of Pledge/Lien should be signed by all the depositors as per the prevailing rules. Likewise Fixed Deposit receipt/Receipt of Recurring Deposit should be discharged by all the depositors. In case the number of borrowers is two or more, a letter of authority signed by all the borrowers to pay the consideration money to one of them is obtained by the bank/institution.

In case of third party advances against deposits with the Bank, the rate of interest to be charged may be different from that of advances against the borrower's own deposits. Advance to customer against deposits of other banks is also allowed but is rare in practice by the Nepalese Banks as it carries higher risk. Advances against deposits in the name of minors are allowed to natural guardian or guardian appointed by the court, by way of demand loan and/ or overdraft by taking an undertaking from the guardian to the effect that the advance is required for the benefit of the minor and that he/she shall indemnify the bank against any claim or loss in consequence of having allowed the said advances.

#### 2.2.6.5 Priority/ Deprived Sector Loan

Commercial banks are required to extend advances to priority sector and deprived sector. Out of the total credit facility of the commercial bank, 12% must be extend towards priority sector loan including deprived sector. Loan granted to agricultural sector and service sector up to Rs. 2 Millions and cottage industry up to Rs 2.5 Millions (for single borrowers) falls in the priority sector. Institutional credit to Agricultural Development Bank and Rural Development Banks also fall in this category. Similarly, advance for the purchase of Captive Generators and Export Credit up to Rs. 5.00 Millions are also considered as priority sector loan. Deprive Sector Loan include: -

- Advances to the poor/ weak/deprived people unto Rs. 30,000.00 for income generation or employment oriented schemes.
- Institutional credit to Rural Development Banks.

- Loans to NGOs those are permitted to carry on banking transaction for lending less than Rs. 30,000.00

#### 2.2.6.6 Overdraft

Overdraft facility is a kind of working capital loan. This facility is allowed in current accounts. Overdraft is an agreement by which the banker allows the customers to draw over and above the current account balance. The borrower can not exceed the limit sanctioned to him. In this account, the balance will be fluctuating because of withdrawal and repayment of money by the borrower. Interest on overdraft is charged on debit balance on daily basis. Overdraft is generally granted to the businessmen for the fulfillment of their short term needs. This type of loan is renewed every year if necessary.

#### 2.2.6.7 Cash Credit

Cash credit is similar to the overdraft amount by which the consumer is allowed to overdraw his account. The borrower may operate the account within stipulated limit and when required. Cash credit is provided against the pledge or hypothecation of stock in trade, goods, machinery, land and building etc.

#### 2.2.6.8 Hire Purchase Financing

Hire purchase is a type of installment credit under which the hire purchaser, called the hirer, agrees to take the goods on hire at a stated rental which is inclusive of repayment of principal as well as interest, with an option to purchase. Goods for the purchase of hire purchase may be bus, truck, car, jeep, machinery etc. Hire purchase facility can be granted to the person having fixed source of income. The facility can also be granted to the institutions.

#### 2.2.6.9 Bill Purchase and Discount

A Bill of Exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument. A cheque is also a Bill of Exchange except that it is drawn on a specific banker and not expressed to be payable otherwise than on demand.

Purchasing of bill of exchange of customers in whose favor limit is sanctioned is called purchasing of bills. Bills may be either documentary bills or clean bill. If a bill is accompanied documents of title to the goods (for example, Railway Receipt, Truck Receipt, Airway Bill, Bill of Lading) it is called documentary bill. In the absence of such documents, it is called clean bill. Although the term "bill purchased" seems to imply that the bank becomes the purchaser/ owner of such bills, the bank holds the bills (even if they are endorsed in its favor) only as security for the advance. In additions to any right the banker may make against the parties liable on the bills, the bank can also fully exercise a pledge's right over the goods covered by the documents. Bank for regular parties discount the usance / time bills. The banks also purchase cheques of approved customers. At he time of purchase of cheque, the amount is credited to the party's account by debiting bills purchased account and on receipt of the proceeds of the cheques, after collection, the bills purchased account is liquidated.

Advances against Inland Bills are sanctioned in the form of limits for purchase of bills or discount of bills or advance against bills sent for collection, to borrowers for their genuine trade transactions. Bills are payable on demand or after fixed period. Demand Bills which are payable on demand or at sight, are purchased from the parties who are sanctioned BP limits and Usance Bills which are payable on maturity after a certain period of time, after date or after sight, are discounted by the bank for parties who are sanctioned Bills discounting limits.

An advance against Government Supply Bills is a clean advance and therefore proper attention has to be paid to the means of the borrower, his financial position, business integrity, his credit worthiness in the market, his experience in the business. Wherever book debts finance is allowed against the Government Supply Bills/against receivables for higher amount, the position should be intimated to the respective Govt. Department/parties about financing against the said bills/receivables and to remit the proceeds directly to the Bank.

#### 2.2.6.10 Bridge-Gap Loan

If a term loan is approved to some customers and the approving institution can not disburse the facility because of incompletion of legal and other formalities, In this situation customer may ask as bridge gap loan.

#### 2.2.6.11 Consortium Loan

While a single financial institution cannot grant credit to a project because of single borrower limit or other reasons, two or more such institutions may agree to grant credit facility to the project. Such kind of loan is called consortium loan. Financial institutions may also go on consortium financing to share the risk of project between them selves. In case of consortium loan, the financiers will have ***paripassu*** charge on project assets.

#### 2.2.6.12 Housing loan

Financial institutions also extend housing loan to their customers. Housing loans may be of different nature, e.g. residential building, commercial complex, construction of warehouse etc. Housing loans are granted to the customer if they have regular source of income or if they earn revenue from the housing project itself. The purpose of housing loan is for construction of house or purchase of house/flat, for carrying out repairs / renovation / additions / alteration to the house/flat, for purchase of land

#### 2.2.6.13 Balance Sheet Transaction

The Bank provides the facilities to the client being the guarantor in some transaction. This facility provided to the client mainly in two ways namely, Bank Guarantee, Letter of Credit.

This transaction is also called Off Balance Sheet Transaction. Such type of liability called contingent liability. Contingent liability is such type of liability which may or may not arise during the transaction. It is possible liability but on happening of a certain event it may become actual liability. It is not usual to record contingent liabilities in the Books of Account but the reference is made to them by way of foot notes in the Balance Sheet. Because of that it is also known as Off Balance Sheet Transaction.

In the same for bank it is non-funded based remunerative facilities but more risky than the funded until sufficient collateral are taken. Because of the nature of risk, bank need to analysis of the financial standard, credit worthiness and for ascertaining the performance ability of the customer.

**i. Bank Guarantee**

No loan is disbursed in the transaction of Bank Guarantee. Hence the researcher would like to introduce it in a single sentence. Bank guarantee expresses a commitment of the bank to make good any financial loss and beneficiary of the Guarantee may sustain when the party named in Guarantee on whose behalf the Guarantee is issued falls to perform the contract and or discharge his/ her obligation.

**ii. Letter of Credit (L/C)**

L/C is a commitment / undertaking by a bank on behalf of its customer (known as buyer/importer) to pay the counter value of goods/services within a given date of its supplier (known as seller/exporter) according to agreed stipulated and against presentation of specified documents. A “Letter of Credit” is used as an instrument for settlement of payment obligation arising out of commercial transaction like sales/purchases. In such credit, payment obligation arises only upon fulfillment of specified conditions.

It can be also defined that L/C is a written instrument issued by a bank undertaking to pay a certain sum of money to certain party upon presentation of certain documents complying certain terms and conditions as specified in the Letter of Credit and under Uniform Customs and Practice for Documentary Credits (UCPDC) of International Chamber of Commerce (ICC) 500 (Revised).

The bank of importer normally opens a letter of credit not the exporter, hence it is known as importer letter of credit. However, the same import L/C is known as export L/C for the bank of exporter and the exporter himself. This should be understood that importer as well as exporter both do not open separate L/C for the trade of same commodities.

There are four parties involve in this operation The bank opening the L/C on behalf of his customer is called L/C issuing Bank, upon which bank it opened is called L/C advising Bank. After that the bank going to negotiate the export document is called Negotiating Bank and finally the bank makes the payment is called Reimbursement Bank.

In the process of operation of the Letter of Credit, the bank provides various import and export related financing which are associated with import and export L/C. Let us discuss the loan provided at the time of L/C issuance to settlement.

## 2.3 Import Financing

Opening Import L/C for the procurement of raw material for the production of finished goods as stipulated by the export L/C are made the financing is normally made in the following way:

### 2.3.1 Payment against Documents (PAD)

In Letter of Credit transaction, when the document arrives at the bank, principally the L/C opening bank should make the payment of the value to the reimbursing bank. In this situation bank make payment by booking the loan. This type of loan can be treated as forced loan. If the buyer is not able to make the settlement in the due date of the LC, bank makes the payment by financing forces loans. The period of this loan is too short.

### 2.3.2 CT (Calcutta Transit) Loan

This loan is also just like the PAD but this loan is not treated as force loan. In case of the raw material procurement form the foreign country, transit may be through Calcutta, India. In this case bank make the payment of value, the document, financing CT loan called Calcutta Transit Loan. The period of the loan is until the raw material arrives up to customs points.

### 2.3.3 TR Loan (Trust Receipt Loan)

Trust Receipt Loan is the major loan in the import financing. If the payment of the import LC's are made, the financing is normally booked under Trust Receipt Loan.

Each TR loan is settled normally from the export proceeds or by cash deposits by the client if it matures before export. Each TR loan has normally three months of maturity.

### 2.3.4 Pre Export Loan

Disbursement in short tem loan in cash either in foreign currency or in local currency for the working capital requirement to complete the export order is as per the export order (as per the export LC) is known as pre export loan. This is also known as packing credit loan (PC Loan).

### 2.3.5 Post export loan

Upon making the shipment by the exporter, he may require another firm of financing from the bank. This might be conducted in terms of post export loan. Very popular export loan is the Foreign Documents Bills Purchase (FDBP). The export document which exporter submits at the bank for sending to the drawee bank for the further realization can be purchased by the exporter's bank which is known as negotiation of the export document. If this is done the bank provides the amount of negotiation to the exporter as a loan till the proceeds of the same documents realizes. This is known as FDBP.

In some cases, in LC transaction the importer may ask the loan form the exporter's bank adding the additional clause in LC. Exporter's Bank (Negotiating Bank) may provide the loan as per terms and condition mentioned in the Letter of Credit. This type of loan is availed as per the terms and condition mentioned in the Letter of Credit. This type of LC is called the Red Clause Letter. Banks can provide this type of loan against the terms and conditions mentioned in LC.

## 2.4 Credit Principles, Policy and Practice

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

Mr Sudir Karki, financial expert giving his view about the credit policy that:

- 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 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.
- If the loan is to be guaranteed, be sure that the guarantor's interest is served as well as the borrower's
- See where the bank's money is going to be spent.
- Think first for the bank. Risk increases when credit principles are violated.

## 2.5 Portfolio Management

Portfolio is defined as a combination of assets and portfolio theory deals with the selection of optimum portfolio that provides the highest possible return for any specified degree of risk or the lowest possible risk of any specified rate of returns. Hence an investor or investment company should invest its assets diversifying in several opportunities so that maximum return can be obtained with minimum risk.

## 2.6 Risk on Lending can be Categorized as follow:

NRB has clearly mention in their directives that the fund collected from the general public as deposit should invest in the profitable sector and as far as possible in the risk free sector. But there is no sector where there is risk free lending. So, to minimize the risk of lending commercial banks have to provision certain portion of investment at NRB according to the nature of credit.

### 2.6.1 Business Risk

Risk arises from the nature of business. Sales and operation expenses in business unit is uncertain. Change in the economy definitely affect to the business units. No business units can run with its of all variable expenses, there lies some proportion of fixed expenses/ There lies operating leverage due to irregular relationship in sales and expenses change. The risk arise due to the operating leverage is called business risk.

### 2.6.2 Financial Risk

The risk may arise in business unit or production unit may arise due to capital formation. This type of risk is called financial risk.

This risk has been facing by business units and many production units. Hence, an investing company or bank should consider it before approaching to lending.

**Basically Risk can be classified in two ways:**

#### 2.6.2.1Unsystematic Risk (Diversified Risk)

This risk may arise due to the nature of investment and seen in a particular sector. This risk can be minimized by diversifying of lending at various sectors.

#### 2.6.2.2 Systematic Risk (Non Diversified)

Such type of risk does not arise in a particular sector but in whole economy, Income level, inflation, taxation policy of the government may effect to the whole economy. This risk can not be minimized. Hence investors acquire external return on its investment. Portfolio management should be oriented towards the followings:

1. Portfolio Limit.
2. Portfolio towards risk and higher return.
3. Pricing management.
4. Key risk area must be defined.
5. Single Borrower limit.

## 2.7 NRB Directives

### 2.7.1 Directive Relating To the Single Borrower

Nepal Rastra Bank has issued the directive regarding the single borrower limit. The main purpose of the directives is to divers if the commercial banks' lending rather than focusing to the particular borrowers. The directive regarding single borrower limit is as follow:

### 2.7.2 Limit on Credit and Facilities

- Funded based credit up to 25% of core capital
- Non funded based facilities up to 50% of core capital

Core capital shall be included the following:

- Paid up capital
- Share premium
- Non Redeemable preference share
- General Reserve Fund

### 2.7.3 Directives Relating Loan Loss Provision

A bank should identify and recognize impairment in a loan or a collective assessed group of loans when it is probable that the bank will not be able to collect, or there is no longer reasonable assurance that the bank will collect all amount due accruing to the contractual term of the loan agreement. The impairment should be recognized by reducing the carrying amount of loans through and allowance or charge off and charging the income statement in the period in which the impairment occurs. A Bank should measure an impaired loan at its estimated revocable. A bank should adopt a sound system for managing credit risk. To be able to prudently value loans and to determine appropriate allowances, it is particularly important that banks have a system in place, where established by the institution itself or by the supervisor, to ratable classify all loans on the basis of risk. A credit risk classification system may include categories or designation that refers to varying the degree of credit deterioration such as substandard loans, designation that refers to varying the degree of credit deterioration such as substandard loans, doubtful loans and irrecoverable loans. A classification system typically takes into account the borrower's current financial condition and paying capacity, the current value and reliability of collateral and other factors that affect the prospects for collection of principle and interest. Hence, Bank should maintain reserve of fund as loan loss provision against the loan disbursed. Nepal Rastra Bank has issued the directive relating the provision of loan loss. We have many examples that most of the banks are taken into liquidation due to bad debt or not repayment of the loan by the borrowers. Hence, to relief from this situation NRB has issued the directives by which commercial bank should make some provision against the loan disbursed by them. For this purpose loan categorized as follow and required the certain percentage of reserve in accordance with the classification. Now, let us discuss the classification of loan and percentage required to maintain the provision as directive issued by the NRB.

**1. Pass (Performing Loan)**

All Loans and Advances the principal of which are not past due or past due for a period up to three months is included in this category. These are classified and defined as Performing Loans.

**2. Substandard**

All loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months shall be included in this category.

**3. Doubtful debt**

All loans and advances the principal of which are past due for a period of more than 6 months and up to 1 year shall be included in this category.

**4. Loss**

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

All loans and advances classified under substandard, doubtful and loss are categorized as Non performing loan.

## 2.8 Loan Loss provision

NRB issued Directive No. 2 dated 15th March 2001 as revised by their circular dated 14th September 2001 wherein fresh guidelines given for the classification of Loans &

Advances including bills purchased and discounted. The required loan loss provisioning on the basis of classification of outstanding credit shall be as follows:

| Classification of Loan | Loss Provisioning |
|---|---|
| Pass | 1% |
| Rescheduled/Restructured | 12.5% |
| Substandard | 25% |
| Doubtful | 50% |
| Loss | 100% |
| Only Against Personal Guarantee | Additional 20% |

**Directive for Sector wise Lending**

Commercial Banks are also required to grant loan and advances in the productive sector, priority sector and deprived sector of the total advances as follows:

- 40% to the productive sectors
- 12% to priority sector including deprive sectors.
- 0.70% to the deprive sector out of loan disbursed to the priority sectors.

## 2.9 Credit Policy and Flow of Credit

Looking at the credit policy of the bank the bank usually flow credit in the three sector

- **Industry Sector:** This sector includes manufacturers of the industrial goods and consumers goods.
- **Trading Sector:** This sector deals with the purchased and sales of finished goods which can be directly consume for the final use or it may be the industrial raw material for the manufacturing industry.
- **Consumer financing:** This type of policy focuses the investment of the bank to the individual citizen to the different sector.

## 2.10 Procedure for Application, Appraisal, Sanction / Disbursement of Loan

The various steps involved in the loan appraisal, approval and disbursement process are set out below:

### 2.10.1 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 information sheet available with the above division regional offices. In this the prospective borrower has to furnish the flowing:

–Technical details;

–Proposed financial structure;

-Expected raw material 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.

### 2.10.2 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 well 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' sectoral division chiefs and chiefs of the bank.

### 2.10.3 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 internal and external factors 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 will be advised to file the formal loan application from for financial assistance.

### 2.10.4 Loan Application

In the event of processing the loan application at the office, the application is forwarded by the credit department to the concerned sectoral division. Each sectoral division is entrusted with the following functions:

The concerned sectoral division appraises the project, and decides its viability 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.

### 2.10.5 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 terms and conditions to be implemented by the bank and the borrower.

The loan documentation charged charge by the banks is

- NPR 1,500 upto NPR 1 million loan
- NPR 3,000 upto NPR 10 million loan
- NPR 5,000 above NPR 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 required to adhere to the terms and conditions stipulated in the offer letter.

### 2.10.6 Execution of Legal Formalities

When the memo is approved from the top level, some legal formalities are obtained before sanction of loam. The legal formalities are obtained in accordance to the nature of securities and loan. Now, let us discuss about the type of securities and methods of execution.

#### 2.10.6.1 Moveable securities

Moveable securities include Current Assets, Business Stock, Merchandise Items, Shares, Debentures, Government Bond, Treasury Bills, Fixed Deposits Receipts, Vehicles under Hire Purchase and Export Documents.

#### 2.10.6.2 Immovable Securities

Immovable Securities are fixed properties such as land, land and building, heavy plant and machines installed within factory premised. Such types of security can not be replaced from one place to other place therefore it is called immovable securities.

So the way of charging according to various types of movable and immovable securities is different. Generally the major way of charging are as mentioned below:

### 2.10.6.3 Mortgage

The fixed properties of immovable properties are taken as a security by way of mortgage. Mortgage formality shall be done by preparing mortgage deed. Required information are carried out from Title Deed and from valuation report. Mortgage is the transfer of an interest in specific immovable property for the purpose of securing bank's finance. There are two kinds mortgage as mentioned below:

### 2.10.6.4 Equitable Mortgage

Equitable Mortgage is an agreement, express or implied where the interest of property shall pass to the bank as security for a debt due or to become due. It is created by a simple deposit of original title deed with an intent letter of property owner.

### 2.10.6.5 Legal Mortgage

In legal Mortgage the property owner transfer his legal title in favor of bank under "Dristi Bandhak" where the bank gets legal estate in the property and he will endow with all sorts of right and remedies if required.

### 2.10.6.6 Pledge

Various types of merchandise items and the business stocks can be considered as security for short term credit facilities by way of pledge arrangement. In this arrangement, bank has effective control over the security and the customer cannot allow transacting over the security before clearing dues outstanding. Furthermore, various types of Government Bond, Treasury Bills and Development Bonds where the lien from the issuing authority is not possible ( as observed from the present practice) is also considerable as a pledge item to provide bank advances to its customers. In this situation customers are required to simply pledge the certificates to the bank and bank will make necessary arrangement.

### 2.10.6.7 Hypothecation

Banks can make hypothecation fixed assets and current assets of their customers for the purpose of availing loans and advances against the security of the same. Hypothecation documents duly signed by authorized person of Loan company. Goods under hypothecation is under control of customers itself and he is allowed to do the transaction on goods solely, however he is also required to adjust the liability created against hypothecation according to change in the level of stocks/ goods. Under hypothecation there is also an arrangement by which bank can convert the hypothecated item into pledge, if required.

### 2.10.6.8 Lien

Various types of documents security such as share certificates of listed company, Fixed Deposit receipt of different banks and other negotiable instruments can also be considered as a security for loans and advances under lien arrangement of the same. It can be done with request to issuing authority by making lien over the same under permission of owner of such documents. The owner of such documents will provide such documents. The owner of such documents will provide such certificates duly discharge in favor of bank along with letter of lien signed by him.

### 2.10.6.9 Hire Purchase

Hire Purchase transaction is a king of bailment where the hirer pays money in consideration of the use of goods yet the ownership continues to remain with the bank and who gives the commodities/ goods on hire purchase finance.

After being finalized to grant the loan, bank obtained/ executed various documents to make legally liable to lone for repayment of sanctioned loan. This process is called documentation. Since, different documents are required to be executed accordance to the nature 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
- Letter of Arrangement 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.

#### 2.10.6.10 Loan Disbursement

Usually, loan is disbursed maintaining a 75:25 loan/equity ratio at any stage of the project. For example, the first disbursement may be made against land and building to the extent of 75%of the total cost of the land and building and the disbursement is made only when the promoter has purchased the land and completed the construction of the building at least up to plinth level through equity financing. Similarly, the bank may disburse loan for the purchase of machinery by opening a letter of credit, ensuring however that out of the total investment, including that to be made for the machinery, 40% is out of once operation are about the start, the concerned sectoral division appoints a team to prepare a project completion report (PCR)

At the time of disbursement of loan bank charged 1% as the service charge of loan amount.

## 2.11 Loan Recovery Procedure

After the client enjoys the facility they have to return the fund within the purposed time period. The working capital loan is given for the one-year period and has to renew every year on the renewal request of the client. The repayment schedule of the loan has different method. As mention below:-

- Term loans 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.
- Principal dues are payable in monthly installments where as interest is payable quarterly basis.
- 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 up to the 1 year is in the practice of the commercial bank.
- Short-term loans of working capital loans may be granted for a period of 1 to 3 years and are subject to renewal.
- Repayment of interest become due on quarterly basis, as follows:
  - End of Chaitra (Mid April)
  - End of Ashad (Mid July)
  - End of Ashwin (Mid October)
  - End of Poush (Mid January)

- 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.
- 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 if the month. In this method of repayment of the loan the borrower have to pay equal installment every month for the given time period
- If the borrower want to pay the loan before the maturity of the granted loan then the bank charged panel of additional 1% charged form the sanction loan as the premature settlement of the loan. And in generally practice of the commercial banks the prepayment charged 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 of loan sanction.

## 2.3 Review of Related Books, Articles and Journal

In this section, effort has been made to examine and review of some related article on different journals, magazines, newspapers and other related books.Commercial banks, now-a-days, playing a very dominant role for the development of industrial sector, business sector and individual live standard too. Due to open market policy and liberalization policy the establishment and growth of banks has boost the economy of the country.

Banks are currently viewed as catalyst and the key factor in the development of the economy by mobilization of domestic resources. The government in turn is required to regulate their activities and policies such as lending to the private sector, lending to the unemployed people, and creation of entrepreneurship in the society.

Dr. **Mali Ram** in the book “Currency and Banking” defines banking as “banking means accepting deposits for the purpose of lending or investing, the deposits of money from the public, repayable by cheque, drafts, order of otherwise”.

The above definition is too narrow and incomplete. However Dr. Mali Ram has tried to make the concept and function of bank to some extent border, since today's banking function cannot be confined only activities as said by the definition.

Dr. **Sunity sharestha** in her article "Lending operation of Commercial bank of Nepal and its impact on GDP" has presented with the objectives to make an analysis of contribution of Commercial Banks, lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP, IN research methodology, she has considered GDP as the dependent variable and various sector of lending are agriculture, industrial, commercial, service and general social sectors as independent variables. A multiple regression techniques have been applied to analyze the contribution.

The multiple analyze has shown that the entire variable except service sector lending has positive impact on GDP. Thus, in conclusion she had accepted the hypothesis i.e. there has been positive impact on GDP and also she has accepted the hypothesis i.e. there has been positive impact by the lending of Commercial banks in various investment (Shrestha, 2055:23-27).

**American Institute of Banking** defines commercial Banks, as "Commercial Bank is a corporation which accepts demand term loans to business, enterprise, regardless of the scope of its other service."

**American Institute of Banking Principal of Bank Operation, USA 1972**

Commercial Bank Act 2031 was formulated to facilitate the smooth run of commercial Banks. All the commercial Banks are ones which exchange money, accepts deposits, grants loans and advances.

**The Commercial Bank Act 2031 also pointed the function of CBs**

Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount the bill of exchange, promissory notes and exchange foreign currencies. They discharge the various functions on behalf of their customers provided that they are paid for their services.

“Banks and financial institutions are the vehicles through which public deposits are mobilized in various development activity i.e. Agricultural, Industry. Trade, Commercial Institution like commercial banks, development banks, financial companies and various micro-financing institution with different model.” (**Timalsina, 1999: 30**)

This thesis mainly focuses on the lending practice and Procedure of Nepalese four commercial banks ( i.e. Everest Bank, Nabil Bank, NB Bank And NIC Bank) Hence it is rational to state these articles and reports those may make a clear concept to understand the said topic.

“The investor or whether banks, financial institutions, individuals, private or government sector, most not took the proposal by making decision making without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as well as through thoroughly investment decisions to make its macro and micro level viability effective. (Lamichhane $50^{th}$ anniversary of NRB, 2063: 125)

*He added some test of tips before and after financing:*

- Rationality of short fall of funds (requirement of the funds) and goodness of the project proposal.
- The banker also before making any funding should prepare appraisal report by analyzing and assessing the components of project cost and the overall viability.
- The gravity of the capital.
- The banker should try to receive the appropriate financial segments (Loan characteristic) i.e. through overdraft, acceptance facilities, mortgage, and syndicate of through personal efforts.
- The Loan may be secured with the project itself or with clean collateral of on guarantee. The financial task may be facilitated in one currency or number of currencies.
- The interest rate in the loan may be fixed floating or simple calculated or discounted rate based.

- Borrowings and lending activities are based on the rate of cash flow coming from the assets, from financed funds and based also on general strength, security cleanliness and on credit worthiness.
- The borrowers should fulfill some convenience such as to safety the regulation of lenders, to maintain a certain financial rations or to produce essential information on time for the lenders.

"A Loan is Financial Assets resulting from the delivery of cash or to the assets by a lender to a borrower in return for an obligation repay on specified date or dates or on demand."

Usually Loan Comprise:

- Consumer installments, overdrafts and credit card loan.
- Residential mortgages.
- Non personal loans such as commercial loans to business, financial institution, governments and their agencies.
- Direct financing lease
- Other financial arrangements that are in substance loans.

A web site report of **Basel Committee**- A banking supervision committee, the group of ten countries established in 1975 AD. The Base Committee adds "when a bank becomes a party to the contractual terms comprising a loan and as consequence has legal right to receive principal and interest on the loan, it controls the economic benefits associated with loan. Normally, a bank become a party to the contractual provision that comprise a loan (i.e. acquire legal ownership of the loan) or the date of the advances of funds or repayment to a third party. As a result, a commitment to lend funds neither is nor recognized as an asset on the balance sheet. In certain jurisdictions, the acquisition of legal ownership is viewed more as a process than a discrete event. However providing consideration (the advancement of funds) is typically one of the more important factors constituting ownership."

**Khatiwada in 1987** stated that the organized financial system is only a small segment of the overall financial system and in the informal financial system interest rates are neither determined by the free market forces, nor by the authorities but by the monopoly market condition where there exit a few suppliers of credit in relation to a large number of borrowers. Since interest rates are administered and have remained sticky for quite a long period, the statistical relationship between demand for money and the interest has remained insignificant in Nepal (***Khatiwada, 1994, p. 4; S. Poudyal, 1987; G. Sharma, 1987).***

**Atreya M. in 2005** describes that the regulatory framework in South Asian Association for Regional Co-operation (SAARC) countries. Author says that the financial systems across the SAARC region show considerable diversity calling the need for harmonization of policies. The author efforts made towards harmonizing the banking policy has explored. The aim his paper is to describe the regulatory framework in SAARC countries.

The author from his academic analysis concluded that the effectiveness of intermediation role played by the banking sector ultimately contributes to the economic development of a country. No. doubt, the monetary and regulatory policies adopted by central banks to regulate and supervise the banks and financial institutions determine the extent of banking sector development. The trend thus far has been towards a more open and liberal policies that help the banking sector grow and flourish. Results visualized are increased competition, internationalization of banking business, economic cooperation and innovation in financial instruments. Banking is no longer a national phenomenon now. The banking business has crossed the national boundaries and this has created more risks and challenges to the regulatory framework in the SARRC countries and this call the needs for harmonization of banking policies to manage the banking business in this globalizes world.

The establishment of SARRC, economic cooperation initiatives through SAPTA and SAFTA, establishment of SAARC Finance, the concepts of SADB and SAEU are all geared towards building mutual cooperation and development in the SARRC countries. Although some efforts have been made in this direction, more efforts are needed to strengthen the banking environment in SARRC countries. SARRC countries must develop their human resources to make them capable to implement Basel Accord II, strengthened corporate governance system, develop regulatory framework to manage cross-border banking operations, forge partnerships and economic cooperation for better understanding and development and establish system for learning from the rich experience of each other.

**Professor Bonomo and Schotta** stated in 1970 that presented evidence on the nature of open market operations. Bonomo and Schotta used regression analysis to determine the fraction of changes in factors affecting free reserves and total reserves which have been offset by defensive open market operations. The principal hypothesis of their study is based on the feeling among the monetary economists that Open Market Operations (OMO) has had the effect of increasing the variation in reserves or in monetary base. The authors take the sample period September, 1931 to August 1968.The estimating procedure employed in their study makes use of the following equations.

$\Delta R = \sim_1 + \;_1 \Delta R^* + \mu_1$ *and* $\Delta FR = \sim_2 + \;_2 + \;_2 \Delta FR^* + \mu_2$

Where $\Delta R =$ week-to-week change in total reserves,

$\Delta FR =$ week-to-week change in free reserves,

$\Delta R^* =$ week-to-week change in factors affecting total reserves other than open market operations,

$\Delta FR^* =$ week-to-week change in factors affecting free reserves other than open market operations,

$\sim_1, \sim_2 =$ estimates, allegedly, of net of other factors influencing open market operations, i.e., dynamic objectives; and

$\hat{}_1, \hat{}_2 =$ estimates of $(1+k_1)$ and $(1+k_2)$

The authors' findings on their investigation are:

The authors find that proper characterization of OMO as defensive or dynamic should occur on the basis of free reserves and not total reserves. In addition, the authors find no support for the view that the net effect of OMO has been to increase the variation in the monetary base. This latter finding was based on a year-by-year comparison of the actual variance of reserves and free reserves with the estimates of the variance in these series which would have been obtained in the absence of OMO.

The study finds that the variance effect of OMO over the sample period examine indicates that the variance reduction attributable to OMO is quite sizable.

The results show the relative magnitudes of the variances of the series, illustrating the variance reduction effects of OMO. Moreover, the more favorable results with respect to an objective of reducing the variability of free reserves rather than of total reserves suggest an interpretation that the Federal Reserve has viewed short-run control of free reserves as its proximate objective in its quest for control of the cost and availability of credit.

The authors have claimed that the findings of their study with respect to reserves and free reserves would, in general, apply to the usual and the extended monetary base since week-to-week changes in reserves and free reserves constitute the dominant element of week-to-week changes in the other base measures. Extended monetary base is equal to usual monetary plus imputed reserves released (or bound) by reduction (or increases) in the reserve requirement against member bank deposit liabilities.

**Hendershott and Leeuw** stated in 1970 dealt with central bank operation and money stock of commercial bank. Their principal hypothesis of their study is that the economic implications of both deposits and short-term interest rates respond promptly to open-market operations, but that even bank behavior alone is sufficient to dilute the interest-rate effect somewhat as time passes. All of the varied forms of the relationship between central bank actions and the money stock that have been investigated can be traced back to a free reserves equation and the basic reserves identity. Short-term interest rate equations and commercial bank deposit "supply" functions (stock and flow) can be derived by solving the free-reserves equation or the free-reserves equation supplemented by either the first difference or level of the reserves identity for one's preferred dependent variable. Thus, the criterion for choosing among the various empirical results must be statistical in nature, not theoretical. By simple algebraic transformation, the authors show how the free-reserve equation and the banking-system identity are equivalent to:

- An equation "explaining" the level of short-term interest rates,
- An equation explaining the change in bank deposits, and
- An equation explaining the level of deposits.

The authors say that each of these derived equations, as well as the initial free- reserve equation, has been the subject of a body of recent empirical work. The authors estimates on non-seasonally adjusted quarterly data for the 1954 = mid-67 period. Their empirical work constitutes a genuine test of their model which takes the following form:

- *Free Reserves Equation*

$$\Delta Rf = a_1 + a_2 rdis - a\, rtb + a\, Rf_{-1} + \sim_1 \Delta Rue - \sim_2 \Delta CL .$$

- *Interest rate equation*

$$rtb = \frac{1}{2} + \frac{2}{3} rdis - \frac{1}{a_3}\Delta Rf - \frac{1}{3} Rf_{-1} + \frac{\sim_1}{a_3}\Delta Rue - \frac{\sim_2}{a_3}\Delta CI$$

- *Demand change equation*

$$\Delta D = -a_1 \frac{1}{q} - a_2 \frac{rdis}{q} + a_3 \frac{rtb}{q} + a \frac{Rf_{-1}}{q} + (1-\sim_1)\frac{\Delta Rue}{q} + \sim_2 \frac{\Delta CL}{q}$$

- *Level of Deposit Equation*

$$D = \frac{Ru}{q} - a_1 \frac{1}{q} - a_2 \frac{rdis}{q} + a_3 \frac{rtb}{q} - (1-a)\frac{Rf_{-1}}{q} - \sim_1 \frac{\Delta Rue}{q} + \sim_2 \frac{\Delta CL}{q}$$

Where

- $\Delta Rf$ is the change in the free reserves
- *Rf* is the free reserves
- $\Delta Rue$ is the change in effective un-borrowed reserves
- $\Delta CL$ is the change in commercial and industrial loan from commercial bank
- *rtb* is the three month Treasury bill rate
- *rdis* is the discount rate at Federal Reserve Bank
- *q* is average reserve requirement ratio
- $\Delta D$ is the change in the level of deposits
- *D* is level of deposits in the member commercial banks
- all other variables are the coefficient of the independent variables

The findings imply that a billion-dollar open-market purchase, holding income and deposits constant, lowers the Treasury bill rate by about three percentage points during the first quarter. Allowing for the response of deposits and income would, of course, reduce the bill-rate effect; in fact as time passes the lagged banking system response alone reduces the effect to about minus two. This reduction is attributable to their relatively low estimate of the banking system's quarterly speed of adjustment, 0.35.The short-run deposit multiplier is in the neighborhood of five; that is, holding interest rates constant, a dollar open-market purchase increases deposits by about five dollars.

The authors say that not too surprisingly, given that the relationships are simple algebraic transformations of one another, the ordinary least-squares estimates of the free- reserve and deposit-change and level equations are quite similar. The authors also apply a two –stage procedure for correcting a likely source of the great discrepancy between these estimates and those obtained in the short-term interest rate equation. The authors claim that a two- stage procedure for correcting the bias is successful in eliminating most of the discrepancy. Thus, authors suggest that not only are the four equations identical theoretically, but they yield very similar statistical estimates when a two-stage procedure is carefully applied in the investigation.

## 2.4 Reviews from Previous Thesis

**Mr. Ram Krishna Khatiwada (2004)** in his thesis entitled, "**Retail Banking an Emerging Trend in India**" has made an effort to analyzing the trend of retail banking product offered by Indian commercial banks and evaluating the contribution in Indian economy. He concluded that there is highly positive correlation co-efficient and co- efficient of determination of above 90% between pre capita GDP and retail banking indicated the direct relationship between them. When one Rs. per capita GDP increase, the retail banking player can enhance its retail banking segment and housing finance segment by Rs.3.26 core and Rs.1.36 core respectively. He finds that the retail banking segment has much low level of NPA then banking industry's NPA. Housing finance segment of the retail banking is the most leading segment. This segment contributes to retail banking by more than 40%. He suggests that there is tremendous upwards potential in this segment. The future of retail banking is dependent on technology facilities reduction in transaction cost and provides the ability to do business involutes. New kinds of management skill are required to mange the retail –landing portfolio.

**Mr. Om Bakhati (2006)** in his thesis entitled, "**A Comparative Study on Housing Finance of Everest Bank, Nepal Bangladesh Bank limited and Kumari Bank limited.**" concludes that the proportion of housing loan in total loan and advance for all the banks under study is in increasing trend. Among the sample banks, EBL has disbursed higher amount for housing loan. EBL is the pioneer bank in Nepal which initiates the housing loan scheme in Nepal. He suggests that the growth of housing loan depends upon interest rate, so the sample banks are requested to lower down the invest rate and make the procedure of getting loan easy.

**Mr. N.M Pradhan (1980)** in his thesis entitled, "**A Study on Investment Policy of Nepal Bank ltd**" has emphasized that there is a greater relationship between deposits and loans and advances. He can include that though loan and advance as well as deposits is increasing trend, their increase is not in proportionate manner. Immense increase in deposit had led to little increase in loan and advances due to the increase in the interest rates. His recommendation was to great loan and advances without its lengthy process. He has suggested enhancing banking transactions up to rural sector of the kingdom.

**Mr. Ramala Bhattarai (1978)** in her thesis entitled "**Lending Policy of Commercial Banks in Nepal**" has made on effort to examine the lending policy of commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hapless economic development of the people and the country. So, she recommended that bank should give emphasis on efficient utilization of resources.

**Mr. Jit Bahadur Joshi (1982)** in his thesis entitled, "**Lending Policy of Commercial Banks in Nepal**." concludes that commercial banks have collected such resources from people but they are far behind in their utilization. Commercial banks in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the need of the economy.

**Mr. Utam Raj Pant (2006)** in his thesis entitled, "**A Study of Commercial Bank Deposit and its Utilization**." He made an attempt to highlight the discrepancy between resource collection and research utilization. He concluded that commercial banks failure in resource utilization is due to their lending confined to short term only. He recommended the commercial banks to give emphasis also on long and medium term lending for better utilization of the deposit.

**Mr. Aryal (2006)** in his thesis entitled, “**An Analysis of Retail Leading in Market With Special Reference to Everest Bank limited**” concludes that the to get success in competitive banking environment depositors money must be utilized as loan and advance. The largest items of the bank in the assets sides in loan and advances. If it is neglected, it could be the main causes of liquidity Crisis in the banks and one of the main reasons for a banks failure. He recommended that bank should follow liberal lending policy and invests more and more percentage of total deposit in loan and advances and similarly, maintains more stability in the investment policy.

# CHAPTER - THREE
# RESEARCH METHODOLOGY

Simply research means to search again. The fist look may not always be adequate. So, we search the same problem again and again. The research defines the problem and identifies the variables causing scans and analyzes the existing stock of knowledge to introduce the furtherance knowledge, constructs models or formulates research questions, educated conjecture or hypothesis her testing. It objectively collects and analyzes the facts, evidence, or information to identify new thing. After finding new thing or knowledge that should be converted into general form so as to make understandable to general public

Research methodology is a research method used to meet specific objectives. It is a systematic way to find out the probable solutions. It includes research design, sample design, period of study, sources of data and collection procedure, data processing and terms methods, and tools techniques, theories to analyze and interpret.

## 3.1 Research Design

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 schemes or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for accomplishing operational research purpose. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problems encountered in the research will be tackled.

## 3.2 Population and Sample

The entire number of commercial banks functioning in Nepal is the population of this study. It was tried to blend sample on a hierarchy of most successful to the almost failure banks. In other words, Nabil bank was taken as one of the sample because it is a most successful and pioneer in the banking field of Nepal. Similarly Everest bank and NIC bank were included in the sample as they are rapidly growing and moderate ranked banks. Finally NB bank was taken as one of the sample to analyze and compare the reasons for failure with other successful sample banks. For the analysis of credit policy and its implementation four banks are taken as the sample namely,

1. Nabil Bank ltd.
2. Everest Bank ltd.
3. NIC Bank ltd.
4. Nepal Bangladesh Bank Ltd.

## 3.3 Nature and Sources of Data

To fulfill the objectives of this stu`dy, primary as well as secondary data had been used. To study the policy and its implementation in the portfolio of investment, historical data of sampled commercial banks are used. Both primary and secondary sources are used for the required data collection. The study heavily depends upon the secondary sources, since the main objective of research is to study the policy and its implementation by banks.

### 3.3.1 Sources of Primary Data

The primary sources of data were the opinion survey through questionnaire and information received from the concerned banks. The primary sources are

a. Discussion with Concerned officer
b. Personal approach and interview
c. Questionnaire Survey

For the survey from primary source, 50-sample size has selected from four different groups of respondents. The following table shows the group of respondents and sample size.

**Table3.1: Group of Respondents and Sample Size**

| S.N. | Group of Respondents | Sample Size |
|---|---|---|
| 1. | Commercial Bank Managers | 5 |
| 2. | Commercial Bank Officers | 10 |
| 3. | Academicians | 10 |
| 4. | Commercial Banks' customers | 25 |
| Total | | 50 |

### 3.3.2 Sources of Secondary Data

The secondary data for this research has been collected form the following different sources

- Publications and annual reports of Sample Banks (up to fiscal year).
- Textbooks of related subject.
- Published documents, Bulletins of Nepal Rastra Bank.
- Research and thesis reports submitted by different researchers
- Web sites, etc.

## 3.4 Period of Observation

Five years data of four commercial banks was taken for the study. The amount of investments and deposits during the sample period by sampled banks from 2003 to 2007 is taken for study.

## 3.5 Data Analysis Tools

Relevant statistical tools and financial tools are used to find out the best appropriate outcomes as per designed objectives of the present study. The present research has used mix of following tools in the analysis.

### 3.5.1 Statistical Tools

Brief explanations of the statistical tools used in this study are given below.

#### 3.5.1.1 Arithmetic Mean (Mean)

The simple or arithmetic average in which all the observations are treated equally, is the sum of all the individual numbers divided by the number of observations.

$$\text{Mean } \left(\overline{X}\right) = \frac{X_1 + X_2 + X_3 \text{..........} X_n}{n}$$

Where $\overline{X}$ = mean

$X_1$, $X_2$, $X_3$ to $X_n$ are given set of observations up to the period n

n = number of items observed.

**3.5.1.2 Standard Deviation**

In order to indicate the variability of the individual observations, standard deviation is used in this study. Standard deviation measures the dispersion or variability around the mean. The equation for the computation of the standard deviation $(\pm)$ is

$$\pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}}$$

$\overline{X}$ = The average (mean)

$X_n$ = The individual observation

n = Total number of observation

**3.5.1.3 Coefficient of Variation (CV)**

Coefficient of variation (CV) is used to adjust for such difference in scale. It is a relative measure of dispersion and is defined as the ratio of the standard deviation divided by the mean. That is,

$$CV = \frac{\pm}{\overline{X}}$$

It is usual for the risk/return model. It shows the return per unit of risk.

## 3.5.2 Financial Tools

Financial ratios are computed and interpreted from two perspectives. They are complied for a number of years to perceive trends, which is usually known as time-series analysis. Next, they are compared at a given time for sample banks, known as cross-sectional analysis. Some of the selected tools are explained as below.

**3.5.2.1 Current Ratio**

Current ratio is the ratio of current assets to current liabilities. It is a measure of liquidity.

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

Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm includes cash, bank balance, investment in treasury bills, discounts, overdrafts, short term advances loans, foreign currency loan, bills for collection, customer acceptance, stock, receivable and prepaid expenses.

Similarly current liabilities include those liabilities of a firm which are paid within one year, like current payments, cash margin, current deposits, saving deposits, inter bank reconciliation accounts, bills payable, provision for overdraft, accrued expenses, bills for collection, customer acceptance, outstanding expenses, dividend payable, and provision for taxation. Although there is no hard and fast rule for measuring this ratio, conventionally a CR ratio of 2:1 is considered satisfactory.

**3.5.2.2 Loan and Advances to Current Assets Ratio**

Loan and Advances to Current Assets Ratio measures the relationship between loan and advances to current assets. It shows the banks liquid capacity of lending, discounting and purchasing the bills and loans, cash credit and overdrafts facilities to the customers. Loan and advances refers to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well and inconvertible foreign currency. The ratio can be computed by dividing the total amounts of loans and advances by total deposited funds.

$$Loan\ and\ Advances\ to\ Current\ Assets = \frac{\text{Loan and Advances}}{CurrentAssets}$$

**3.5.2.3 Loan and Advance to Total Deposit Ratio**

Most of the commercials banks earn more profit by using funds of outsider deposited in terms of loan and advances. The ratio shows whether the banks are efficient to utilize the outsiders’ fund (i.e. total deposits) for the purpose of profit generation on the loans and advances thus provided.

Generally higher ratio reflects higher efficiency of in utilizing outsiders’ fund and vice versa. The ratio can be computed by dividing the total amounts of loans and advances by total deposited funds.

Loan and advance to total deposits ratio = $\frac{Loan\ and\ \ Advance}{Total\ Deposits}$

Loans and advance refers to the total amount of loan and advance and overdraft (i.e. in local currency plus convertible foreign currencies) and total deposit refers the total of all kinds of deposits.

#### 3.5.2.4 Fixed Deposit (F.D) to Loan and Advances (L&A) Ratio

This ratio represents how many times the funds are used is loans and advances against fixed deposits. Loan and advances are the main sources of earning of the bank. In other ways, this ratio of commercial banks indicates, how much of loan and advances are granted against fixed deposit. Fixed deposits long term interest bearing obligations and are the higher interest rate payable deposits. Hence, commercial bank should utilize the fixed deposits properly. This ratio can be calculated as

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

A high ratio indicates idle cash balance i.e. cash is not being utilized properly.

#### 3.5.2.5 Saving Deposit (S.D) to Loan and Advances Ratio

This ratio indicates the portion of total saving deposit utilized in loan and advances. Saving deposits are interest paying deposits. So, the banks should utilize them properly. This ratio can be calculated with the help of following formula.

*Saving Deposit to Loan and Advance Ratio* = $\frac{\text{Saving Deposit}}{\text{Loan and Advances}}$

Stated differently, this ratio examines how many times the funds are used to loans and advance against saving deposits. Saving deposits are interest bearing short term obligation and loan and advance are the major sources of generating income.

#### 3.5.2.6 Current Deposit (C.D) to Loan and Advance Ratio

This ratio indicates the portion of total current deposit utilized in loan and advances. Current deposits are non interest paying deposits. So, the banks should utilize them properly at the same time bank have to aware of heavy withdrawal at any time. Here, margin deposit, credit balance in overdraft accounts and other non interest bearing deposits are considered as the total current deposit. This ratio can be calculated with the help of following formula.

Current Deposit to Loan and Advance Ratio: $\frac{\text{Current Deposit}}{\text{Loan and Advances}}$

### 3.5.2.7 Non Performing Loan (NPL) to Total Gross Loan Ratio

This ratio indicates the quality of assets by showing the portion of non performing loan to total gross loan and advances. It is one of the tools in CAMEL's model for exploring the assets quality of the bank. As per the directives of NRB, non-performing loan consists of the three categories of loans, namely, substandard loan, doubtful loan and loss loan. Similarly, total gross loans means total of loan and advances with bills purchased and discounted before provisioning.

The ratio of Non-Performing loan to total loan is taken as one of the important tool/indicator in identifying the institutions' soundness. NRB, the governing organization of commercial banks, also monitors this ratio closely. This ratio is calculated with the help of following formula.

Non Performing Loan to Total Gross Loan = $\frac{\text{Non Performing Loan}}{\text{Total Gross Loan and Advances}}$

Lower the ratio means the institution is wise enough in credit administration. So as lower as possible of this ratio is desirable by all the stakeholders of the organization.

### 3.5.2..8 Loan Loss Provision to Non Performing Loan Ratio

To evaluate the quality of assets of commercial banks, the ratio of loan loss provision to non performing loan is used. It is one of the tools in CAMEL's model for exploring the assets quality of the bank. Here, non-performing loan consists of the three categories of loans, namely, substandard loan, doubtful loan and loss loan. Similarly, loan loss provision means total of applicable provision amount in all kinds of loan and advances with bills purchased and discounted.

The ratio of Loan Loss Provision to Non-Performing loan is taken as one of the important tool/indicator in identifying the institutions' soundness. This ratio is calculated with the help of following formula.

Loan Loss Provision to Non Performing Loan Ratio = $\frac{\text{Loan Loss Provision}}{\text{Non Performing Loan}}$

### 3.5.2.9 Interest Income to Total Loan and Advances Ratio

This ratio indicates the contribution of loan and advances in operating profitability. In other words, this ratio is used to find the average yield of the assets/lending. Here, Interest income refers to the interest yield from performing assets. Similarly, total loan and advances means total of loan and advances with bills purchased and discounted.

The ratio of interest income to total loan and advances is taken as one of the important tool/indicator in identifying the institutions' position. This ratio is calculated with the help of following formula.

$$\text{Interest Income to Loan and Advances Ratio} = \frac{\text{Interest Income}}{\text{Total Loan and Advances}}$$

Higher the ratio means the institution is generating higher rate of yield in its assets, which is desirable by all the stakeholders of the organization.

### 3.5.2.10 Net Profit to Total Loan and Advances Ratio

This ratio indicates the contribution of loan and advances in profitability. In other words, this ratio is used to find the yield efficiency of the lending. Here, Net Profit refers to the profit of the year after deducting necessary provision, tax, bonus and other expenses and liabilities. Similarly, total loan and advances means total of loan and advances with bills purchased and discounted.

The ratio of net profit to total loan and advances is taken as the important tool/indicator in identifying the institutions' position. This ratio is calculated with the help of following formula.

$$\text{Net Profit to Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Total Loan and Advances}}$$

Higher the ratio means the institution is generating higher yield in its assets, which is desirable by all the stakeholders of the organization.

# CHAPTER - FOUR
# DATA PRESENTATION AND ANALYSIS

## 4.1 Presentation and Analysis of Data

Present chapter reports the financial and statistical tools, results of sample banks over the sample period through the use of secondary data. It also presents the results of primary data. This study is mostly based on the two aspects. The first part defines the credit policy (Loan Sanction Process) of the bank and the next part defines the implementation of the credit in the different sector. This chapter of thesis also presents the data, facts, figures relating to different aspect of NABIL Bank, NIC Bank, NB Bank and EBL. These available data are tabulated, analyzed and interpreted so that the credit flow of the above bank can be easily understood. Though there are many financial tools but due to some curbs and constraints, only selected tools have been taken to analyze the credit policy of the commercial banks. The types of loans offered by the banking sector have been mentioned in the second chapter as all the banks have identical type of loan in the competitive market. This chapter defines only the credit flow procedure and the different sector of investment.

The second part of the thesis consists of the credit policy implementation. This part describes the credit flow of the bank in the chart and tabular form; later on it is analyzed and interpreted using different measurement tools

## 4.2 Analysis of Primary Data

The information that has been collected from the primary data is though the questionnaire distributed to the various staff of the banks, banks' customers, individual academicians. Additionally personal visit with the concern staff has helped to collect the information. Not only the interview is held with the bank staff but the researcher has also taken interview with the various credit client of the bank. One set of the question is been attached with this thesis in the Annex I, and the average answer is interpreted by the researcher.

While collecting data from primary source, more than one respondent have been included from the same organization as possible. The respondent of the data cover personalities involving bank managers, officers, bank customers, academicians. This study is mainly based on questionnaire survey of the opinions of 50 respondents. Out of 50 respondents, 5 persons belong to commercial banks managers, 10 respondents belong to commercial bank officers, 10 belong to academicians and 25 respondents belong to commercial bank's customers.

The first question is asked which sector is the most secure lending, most of the banks staffs reply that the housing financing is the most secure lending. The staff of Everest Bank Limited Mr. Ujwal Kumar Pokhrel told that Everest Bank is the pioneer bank to introduce the housing loan in the history of Nepal and is the successful and secure scheme so out of many ‘consumer financing’ the housing financing is the secure financing. But Nabil bank staff focus on the manufacturing industry is the secure investment, they told investment in the industry sector helps in the growth of the nation too, they do not go with the consumer financing because it do not contribute to the nation only the individual will be benefited. And the operating cost in the consumer financing is high and amount of financing is low. The manager of NIC bank (Birgunj) Mr. B.N Gharti and many other sample members told that government bond is the most secure source for lending and lending in these sector has zero percentage of risk or it is the risk free investment.

The second question is asked for the common security that the bank demands at the time of granting the loan the common answer is that commercial banks usually accept the fixed assets as the security. Government bond is also highly preferred by the banks by the duration of these bond are for the short period commercial banks usually accept fixed assets as the collateral. Personal guarantee is also accepted by the bank only to the prime client. But the banks do not usually accept personal guarantee. Because bank has to provision 100% of it’s lending on the personal guarantee. Bank usually takes more value of securities than the necessary. In this question one of the option was gold and sliver and found that that these assets as the collateral is value less or simply we can say that commercial banks has no any policy to grant loan against the gold and silver.

The third question was asked how long does the commercial banks takes to disburse the loan form the date of loan application, the answer in this question is found positive In an average of within 30 days from the date of loan application bank sanctions loan but due to unavailable of sufficient information from the client it may take some more time. It means we can analyze that commercial banks are quick in their services.

In the fourth query, respondent were asked whether they have bought or not credit products of any banks, 31 respondent tick to yes and 19 respondent tick to No. On this note, the researcher has observed that majority of respondents have still not purchased credit products offered by bank.

The fifth query was "what factor will motivate to get loan in the market?" Six different statement were provided and requested to assign in rank as one for they strongly agree, two for agree, three for they do not know, for disagree and five for strongly agree.

Following table contains response of respondent against the different factors. Panel A contains response score and Panel B contains composite mean and ranking.

| **Factors** | **Rank** | | | | | **Mean** | **Ranking** |
|---|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | | |
| Low interest rate | 24 | 10 | 4 | 2 | 3 | 1.76 | 1 |
| Promotion & advertisement campaign | 10 | 15 | 7 | 4 | 6 | 2.38 | 2 |
| Innovation product offered by bank | 8 | 10 | 10 | 4 | 7 | 2.42 | 3 |
| To maintain social status | 4 | 6 | 16 | 2 | 8 | 2.49 | 4 |
| For better life style | 4 | 5 | 17 | 2 | 9 | 2.62 | 5 |
| To make future secure | 2 | 3 | 20 | 3 | 9 | 2.78 | 6 |

(Sources: Annex I)

Among the six factors provided, most of the respondents ranked that the customer would motivate to get the loan in the market if the loan interest rate decreases. Different promotion and advertisement campaign would tend to motivate the customers in the second position considered by respondents. They ranked that they are motivated by innovation product in the third. They also ranked maintaining social status, better life style and future security on fourth, fifth and sixth respectively.

The sixth query was about the problem or difficulties faced by commercial banks in the growth of lending and availing credit facilities. Following table is the collection of respondent's opinion on the above question. Panel A contains response score and Panel B contains composite mean and ranks.

| **Factor** | **Rank** | | | | | **Mean** | **Ranking** |
|---|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | | |
| The legal process is tedious & lengthy | 35 | 5 | 1 | 2 | 1 | 1.36 | 1 |
| Bank has not sufficient customer segment to match the requirements of customer | 8 | 12 | 8 | 7 | 5 | 2.42 | 2 |
| The staffs are not highly competent | 13 | 11 | 5 | 10 | 4 | 2.44 | 3 |
| Banking industry is very competitive | 15 | 10 | 4 | 8 | 7 | 2.53 | 4 |
| Present rules & regulations are not sufficient for the growth of credit activities | 2 | 11 | 8 | 5 | 7 | 2.69 | 5 |

(Sources: Annex I)

Above table shows that the mean score of the statements under the study was found to be 2.20, which is below the average 3.17, indicates that the Nepalese commercial bank faces many difficulties is the growth of lending. From the results, the mean score of the factor "the legal process is tedious and lengthy" was found the coyest. It indicates that the procedure of getting loan is lengthy and tedious. To improve the situation, commercial bank, should imprudence new technology and revised its process.

Insufficient customer segment has been found to be the second relevant factor facing by commercial bank in the opinion of the respondent followed by less competent staff and increase in competitive market. They also ranked insufficient rules and regulation in the fifth.

The seventh question is which product of credit facility is most profitable and the answer on this question is in the mixed form everyone comes in his or her view. So, we can convince that every product of the banks is the profitable scheme.

The eighth question is asked for the follow-up for the over due of the loan to the borrower is done immediately. Because due to the high technology and software they are using the bank gets information about the overdue immediately and tries to take action of recovery soon and effectively.

The ninth question is asked to that while floating loans your banks gives some extent of priority on the following sector i.e. industrial, trade, service and others. Additionally, it was also mentioned that the priority in each sector are independent with each other. In the answer of the ninth question that they found the question is vast. Because the question is not clear to them but also trade financing from NIC bank and Nabil bank got the highest percentage of score but staff from Everest bank support other Sector marking as the retail lending.

The tenth question is asked for the most important reason that leads to the NPA (Non Performing Assets). The most common answer is due to irregular follow up and inspection in the site visit. Further the respondent has given the clear and most happening situation of Nepal bank limited. But investment in the wrong sector also leads to the increase in the NPA. Staffs of the banks do not agree on the due to higher interest rate there is no chances for turning loan from good to bad. They support that interest rate they offer to the client is reasonable. And further more they told that the option given in the questionnaire is equally important and have to consider all the precaution. Like investment in wrong sector, excess credit flow than the necessary, lack of documentation process at the time of loan disbursement, high interest and irregular inspection and field visit.

The eleventh question is asked for the banks procedure to reduce NPA. The bank’s first procedure to reduce the NPA is the regular follow up to the client forcing them to pay back all the due amount the second alternative is to rebate the interest amount and forcing to the client to pay the principal amount immediately. The last actions for the bank to get the loan amount recover with the help of the legal action. According to their answer, in question no. eleven it indicates that banks can go to any up to level to get public’s money back.

The twelfth question is asked for external factors that may cause for NPA growth. And the below the researcher has presented the result of most common answer of the respondent.

a) Economic and industrial recession in the case of increasing NPA. (Totally Agreed)
b) In consistency Government policy is of the case for NPA increment. (Agreed)
c) High and conservative provisioning requirement has caused for increment on NPA level. (Slightly Agreed)
d) Lacking on monitoring and supervision from NRB has played significance role on NPA increment. (Totally Agreed)
e) In absence of strong legal provision for loan recovery, there is some lacking which ultimately leads to high NPA. (Agreed)
f) Due to political, bureaucratic and external pressure loan is being floated without choosy and this has cause for NPA Increment. (Neutral)

The thirteenth and the fourteenth question was of same nature so the answer for the questions came together, in the thirteenth question it was asked that the which authority approves the credit policy and all respondent reply that the board of directors approves the credit policy it means that the decision making authority is hold by the top level and rest of the employee is exercise the policy. Although the policy making is done by the top level but communication flow is based on both top-bottom approach and bottom-top approach. So from this approach we can say that the banks staffs are working as the team.

In the fourteenth question it is asked that does your bank have the hierarchy for the loan sanction and it is found that every level above the branch manager has the certain credit limit to sanction credit facility then power beyond branch manager passes to the deputy general manger and again power beyond deputy general passes to Executive director and final decision goes to board director. The hierarchy is made for the loan sanction and to provide the loan to its client as soon as possible and to make fewer burdens to the higher authority.

## 4.3 Analysis of Secondary Data

Liquidity of the firm refers to the sound solvency position of a firm to meet its obligation, liquidity ratios measures the ability of a firm to meet its short term obligations. Various ratios come under this category.

### 4.3.1. Current Ratio / Quick Ratio

It is the ratio of total current assets to total current liabilities calculated by dividing the company's current liabilities. In the service industries like banks doesn't have their stock, so current and quick ratio are same.

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

Current assets of commercial banks refers to cash and near cash items like cash and bank balance, money at call and short notice, loans and advances, cash credit, bills discounted, investment, interest receivables, miscellaneous current assets. Similarly current liabilities are fixed deposit, current deposit, call deposit and other deposit of maturity less than a year, other bill's payable and miscellaneous liabilities. Following table shows the current ratio of NABIL, EBL, NBBL and NICBL

**Table No. 4.1**

**Current Ratio**

| YEAR | NABIL | | | EBL | | | NICBL | | | NBBL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CA | CL | Ratio | CA | CL | Ratio | CA | CL | Ratio | CA | CL | Ratio |
| 2003 | 10616 | 3762 | 2.82 | 6391 | 2335 | 2.74 | 5024 | 1990 | 2.52 | 9219 | 4068 | 2.27 |
| 2004 | 11329 | 5388 | 2.1 | 6750 | 2902 | 2.33 | 5540 | 2392 | 2.32 | 9826 | 5006 | 1.96 |
| 2005 | 8819 | 4147 | 2.13 | 8150 | 3302 | 2.47 | 6174 | 2629 | 2.35 | 11171 | 6148 | 1.82 |
| 2006 | 13858 | 6661 | 2.08 | 11399 | 4784 | 2.38 | 7983 | 4450 | 1.79 | 11434 | 6771 | 1.69 |
| 2007 | 16954 | 9259 | 1.83 | 14227 | 7364 | 1.93 | 9002 | 5563 | 1.62 | 12412 | 7690 | 1.61 |
| Mean | 2.19 | | | 2.37 | | | 2.12 | | | 1.87 | | |
| S.D | 0.37 | | | 0.29 | | | 0.39 | | | 0.26 | | |
| C.V | 0.17 | | | 0.12 | | | 0.18 | | | 0.14 | | |

(Source: Annual Report, Appendix I, II, III, IV)

From the table 4.1, it is noticed that the current ratio of NABIL bank over the study period has been ranged between 1.83 in the year 2007 and 2.82 in year 2003. From the above table, we can see that the change of ratios is in decreasing trend by the change in time. Whereas the ratio of Everest bank is in between 2.74 in year 2003 to 1.93 in year 2007. Similarly, the lowest ratio of NIC bank is 1.62 in the year 2007 and highest ratio is recorded as 2.52 in year 2003. Finally, the ratio of NB Bank is noticed between 2.27 in the year 2003 and 1.61 in the year 2007.

Further, the NIC bank and NABIL bank have less consistency in its current ratio with S.D of 0.39 and 0.37 respectively as compared to other sample banks. Looking at the above ratios, it can be said that the banks are meeting the universal standard principle of current ratio i.e. 2:1, in an average. We can say that NABIL bank, Everest Bank, NIC Bank has maintained the standard but NB Bank has relatively low in the standard of the ratio, so it is difficult to measure the liquidity position. We can say the low liquidity position means that the bank is not getting the good opportunity to invest in the profitable sector and holding the amount.

### 4.3.2. Loan and Advances to Current Assets Ratio

This ratio measures the relationship between loan and advances to current assets. It shows the banks liquid capacity of lending, discounting and purchasing the bills and loans, cash credit and overdrafts facilities to the customers. In this study loan and advances refers to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well and inconvertible foreign currency. This ratio is calculated by dividing loans and advances by current assets.

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

The following table shows the ratios between loan and advances and the current assets of the NABIL Bank, Everest Bank, NIC Bank and NB Bank

**Table - 4.2**

**Loan and Advances to Current Assets Ratio**

Rs In Million(000000)

| Year | NABIL | | | EBL | | | NICBL | | | NBBL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **L&A** | **CA** | **Ratio** | **L&A** | **CA** | **Ratio** | **L&A** | **CA** | **Ratio** | **L&A** | **CA** | **Ratio** |
| 2003 | 8114 | 10616 | 0.76 | 5050 | 6391 | 0.79 | 2563 | 5024 | 0.51 | 7962 | 9219 | 0.86 |
| 2004 | 8549 | 11329 | 0.75 | 6096 | 6750 | 0.90 | 3743 | 5540 | 0.68 | 9645 | 9826 | 0.98 |
| 2005 | 10947 | 8819 | 1.24 | 7900 | 8150 | 0.97 | 4909 | 6174 | 0.80 | 9627 | 11171 | 0.86 |
| 2006 | 13279 | 13858 | 0.96 | 10155 | 11399 | 0.89 | 6659 | 7983 | 0.83 | 8479 | 11434 | 0.74 |
| 2007 | 15903 | 16954 | 0.94 | 14100 | 14227 | 0.99 | 9129 | 9002 | 1.01 | 9159 | 12412 | 0.74 |
| Mean | | | 0.93 | | | 0.91 | | | 0.77 | | | 0.84 |
| S.D | | | 0.20 | | | 0.08 | | | 0.19 | | | 0.10 |
| C.V | | | 0.21 | | | 0.09 | | | 0.24 | | | 0.12 |

(Source: Annual Report, Appendix V, VI, VII, VIII)

The above table shows that the loan and advance to current assets ratio of NABIL Bank is highest in the year 2005 i.e. 1.24 and the lowest in the year 2004 is 0.75 whereas EBL has the highest ratio of 0.99 in the year 2007 and lowest of 0.79 in the year 2003. NICBL has highest ratio of 1.01 in the year 2007 and lowest of 0.51 in the year 2003. Similarly, NBBL has ratio between 0.98 and 0.74.

In this way we can observe that there is high variance in the ratio of NICBL and NBBL as the ratio swings heavily during the study period. The highest ratio of 1.24 of NABIL bank is the highest ratio among the above sampled banks.

Among the sampled banks, EBL has more consistency compared to other banks as it has lowest CV of 0.09 and similarly, NABIL, NICBL and NBBL has the C.V of 0.21, 0.24 and 0.12 respectively.

The above table shows that the utilization of current assets in terms of loan and advance of NICBL is relatively low compared among the sample banks. So it should increase the utilization of its current assets in terms of loan and advance

### 4.3.3. Loan and Advance to Total Deposit Ratio

This ratio measures whether the banks are successfully utilizing outsider's fund in profit generating purpose by extending for credit facilities.

Generally' a high ratio reflects higher efficiency to the utilization of outsiders fund and vice-versa. This ratio is calculated by using following formula.

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

Here, loan and advances refers to total of loan, advance and overdraft and total deposit refers to sum of all kinds of deposit at the bank. The figure of total loan and advances and total deposit is presented in the Table 4.3.

**Table - 4.3**

**Loan and Advances to Total Deposit Ratio**

Rs In Million(000000)

| Year | NABIL | | | EBL | | | NICBL | | | NBBL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **L&A** | **Dep.** | **Ratio** | **L&A** | **Dep.** | **Ratio** | **L&A** | **Dep.** | **Ratio** | **L&A** | **Dep.** | **Ratio** |
| 2003 | 8114 | 13438 | 0.60 | 5050 | 6695 | 0.75 | 2563 | 3144 | 0.82 | 7962 | 10584 | 0.75 |
| 2004 | 8549 | 14098 | 0.61 | 6096 | 8064 | 0.76 | 3743 | 5146 | 0.73 | 9645 | 12747 | 0.76 |
| 2005 | 10947 | 14587 | 0.75 | 7900 | 10098 | 0.78 | 4909 | 6243 | 0.79 | 9627 | 12126 | 0.79 |
| 2006 | 13279 | 19348 | 0.69 | 10155 | 13803 | 0.74 | 6659 | 8766 | 0.76 | 8479 | 13015 | 0.65 |
| 2007 | 15903 | 23342 | 0.68 | 14100 | 19098 | 0.74 | 9129 | 10068 | 0.91 | 9159 | 9464 | 0.97 |
| Mean | | | 0.67 | | | 0.75 | | | 0.80 | | | 0.78 |
| S.D | | | 0.06 | | | 0.017 | | | 0.069 | | | 0.12 |
| C.V | | | 0.09 | | | 0.023 | | | 0.086 | | | 0.15 |

(Source: Annual Report, Appendix IX, X, XI, XII)

Table 4.3 depicts the fact that most of the fund received from the capital surplus unit has been floated in the form of loan and advances to the capital deficit unit. The lowest ratio of loan and advances to deposit is 0.60 of NABIL Bank in the year 2003 and highest ratio is 0.97 of NB Bank in the year 2007.

The C.V of EBL bank is lowest i.e. 0.023 among the sampled bank so it has high level of consistency. Likewise, it can be observed that the NBBL has highest CV i.e. 0.15, which reveals the greater disparity in the ratio.

The table 4.3 shows that the utilization of deposit to loan and advances of NABIL bank is lowest among the sample banks. It will be better for NABIL Bank to increase the portion of loan and advances to earn more interest.

Higher ratio between loan and advances to deposit indicates that the bank is mobilizing high volume of deposit into loan and advances, which results in the positive contribution to profitability. Contradictorily, high ratio between loan and advances to deposit brings the bank in the liquidity risk. There might be the chances, surprisingly, to pay back the customer deposit before maturity. In such cases, higher ratio is less preferred as mobilizing most of the deposit in the form of lending may not meet the liquid obligations, which could occur unexpectedly.

### 4.3.4. Fixed Deposit (F.D) to Loan and Advances (L&A) Ratio

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

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

The following table displays the ratio of fixed deposit to loan and advances of NABIL Bank, Everest Bank, NIC bank and NB Bank

**Table - 4.4**

**Fixed Deposit to Loan and Advances Ratio**

Rs In Million(000000)

| Year | NABIL BANK | | | EBL | | | NIC BANK | | | NB BANK | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | L&A | FD | Ratio | L&A | FD | Ratio | L&A | FD | Ratio | L&A | FD | Ratio |
| 2003 | 8114 | 2253 | 0.28 | 5050 | 2803 | 0.56 | 2563 | 1143 | 0.45 | 7962 | 5032 | 0.63 |
| 2004 | 8549 | 2311 | 0.27 | 6096 | 2914 | 0.48 | 3743 | 2083 | 0.56 | 9645 | 4876 | 0.51 |
| 2005 | 10947 | 2079 | 0.19 | 7900 | 3445 | 0.44 | 4909 | 2931 | 0.60 | 9627 | 3537 | 0.37 |
| 2006 | 13279 | 3450 | 0.26 | 10155 | 4298 | 0.42 | 6659 | 4065 | 0.61 | 8479 | 2867 | 0.34 |
| 2007 | 15903 | 5435 | 0.34 | 14100 | 5659 | 0.40 | 9129 | 4075 | 0.45 | 9159 | 1578 | 0.17 |
| Mean | | | 0.27 | | | 0.46 | | | 0.53 | | | 0.40 |
| S.D | | | 0.05 | | | 0.06 | | | 0.08 | | | 0.17 |
| C.V | | | 0.20 | | | 0.14 | | | 0.15 | | | 0.43 |

(Source: Annual Report, Appendix XIII, XIV, XV, XVI)

The above table shows the total ratio of the fixed deposit to loan and advances. Looking at the average of the five year ratio of total lending from the fixed deposit the average lending of the NABIL bank is lowest among other banks. Cost of deposit is relatively higher for the fixed deposit compared to other sources of deposit. Fixed deposit is termed as safe deposit for the banks because of the predefined maturity. Though the lending from the fixed deposit is safe, NABIL bank is lending only the fewer portions. NIC bank, Everest bank and NB bank have utilized the benefit of the fixed deposit. So they have utilized high portion of the fixed deposit i.e. 0.53, 0.46, 0.40 respectively to the loan and advance. Additionally, NABIL and NB bank have high CVs of 0.20 and 0.43, which reveals that the pattern of lending from the fixed deposit is fluctuating more.

Thus, the above table clearly indicates that the fixed deposit to loan and advances ratio are being efficiently and properly utilized by the Everest and NIC bank. But, NABIL bank requires utilizing the benefit of fixed deposit and invests more the portion of fixed deposit in various productive and profitable sectors. Similarly, the trend of lending from the fixed deposit of NB bank is decreasing remarkably, so, it also needs to keep its eye open to optimize the benefit from fixed deposit.

### 4.3.5. Saving Deposit (S.D) to Loan and Advance Ratio

This ratio indicates the portion of total saving deposit utilized in loan and advances. Saving deposits are interest paying deposits. So, the banks should utilize them properly. This ratio can be calculated with the help of following formula.

$$\textbf{Saving Deposit to Loan and Advance Ratio} = \frac{\text{Saving Deposit}}{\text{Loan and Advances}}$$

The following table displays the ratio of saving (Plus call) deposit to loan and advances of NABIL Bank, Everest Bank, NIC bank and NB Bank

**Table - 4.5**

**Saving Deposit (with Call) to Loan and Advances Ratio**

Rs In Million(000000)

| Year | NABIL BANK | | | EBL | | | NIC BANK | | | NB BANK | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **L&A** | **SD** | **Ratio** | **L&A** | **SD** | **Ratio** | **L&A** | **SD** | **Ratio** | **L&A** | **SD** | **Ratio** |
| 2003 | 8114 | 7778 | 0.96 | 5050 | 3186 | 0.63 | 2563 | 1700 | 0.66 | 7962 | 4353 | 0.55 |
| 2004 | 8549 | 8796 | 1.03 | 6096 | 4296 | 0.70 | 3743 | 2697 | 0.72 | 9645 | 6435 | 0.67 |
| 2005 | 10947 | 10368 | 0.95 | 7900 | 5511 | 0.70 | 4909 | 3016 | 0.61 | 9627 | 7246 | 0.75 |
| 2006 | 13279 | 12622 | 0.95 | 10155 | 8223 | 0.81 | 6659 | 4257 | 0.64 | 8479 | 8778 | 1.04 |
| 2007 | 15903 | 14149 | 0.89 | 14100 | 10597 | 0.75 | 9129 | 5402 | 0.59 | 9159 | 6739 | 0.74 |
| Mean | | | 0.96 | | | 0.72 | | | 0.64 | | | 0.75 |
| S.D | | | 0.05 | | | 0.07 | | | 0.05 | | | 0.18 |
| C.V | | | 0.052 | | | 0.09 | | | 0.08 | | | 0.24 |

(Source: Annual Report, Appendix XVII, XVIII, XIX, XX)

Lending from the saving deposit is also a safe lending because this type of deposit is made by the individual who have excess saving from their income. The chance of withdrawal from the saving deposits is also low.

Looking at the above table NABIL bank has invested highest ratio in the year 2004 of 1.03 and lowest of 0.89 in the year 2007. Everest bank has the highest ratio of 0.81 in year 2006 and lowest of 0.63 in 2003. NIC bank has recorded highest ratio of investment of 0.72 in year 2004 and lowest of 0.59 in 2007. Finally, NB bank has the highest ratio of 1.04 in year 2006 and lowest of 0.55 in 2003.

The average ratio of investments from the saving deposit of NABIL bank is 0.96, which is the highest among the average ratio of other banks. Everest bank and NB bank have average ratio of 0.72, 0.75 respectively. But NIC bank seems to be the conservative bank which invests only 0.64 from the saving deposit.

The C.V of the NABIL Bank is lowest of 0.052 among other sampled banks, so, we can say that it has the highest consistency. The C.V of the Everest bank and NIC bank has 0.09 and 0.08 respectively. From the above calculation we can say NB bank has low consistency which fluctuates in the high ratio. It also means that NABIL bank is utilizing its saving deposit properly than Everest Bank, NB Bank and NIC Bank.

### 4.3.6. Current Deposit (C.D) to Loan and Advance Ratio

This ratio indicates the portion of total current deposit utilized in loan and advances. Current deposits are non interest paying deposits. So, the banks should utilize them properly at the same time bank have to aware of heavy withdrawal at any time. Here, margin deposit, credit balance in overdraft accounts and other non interest bearing deposits are considered as the total current deposit. This ratio can be calculated with the help of following formula.

*Current Deposit to Loan and Advance Ratio:* $\frac{\text{Current Deposit}}{\text{Loan and Advances}}$

Following table shows the ratio of current deposit to loan and advances of NABIL Bank, Everest Bank, NIC bank and NB Bank

**Table - 4.6**

**Current Deposit to Loan and Advances Ratio**

Rs In Million(000000)

| Year | NABIL | | | EBL | | | NICBL | | | NBBL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | L&A | CD | Ratio | L&A | CD | Ratio | L&A | CD | Ratio | L&A | CD | Ratio |
| 2003 | 8114 | 3407 | 0.42 | 5050 | 706 | 0.14 | 2563 | 301 | 0.12 | 7962 | 1163 | 0.15 |
| 2004 | 8549 | 2992 | 0.35 | 6096 | 854 | 0.14 | 3743 | 367 | 0.10 | 9645 | 1437 | 0.15 |
| 2005 | 10947 | 3141 | 0.29 | 7900 | 1142 | 0.14 | 4909 | 297 | 0.06 | 9627 | 1343 | 0.14 |
| 2006 | 13279 | 3276 | 0.25 | 10155 | 1282 | 0.13 | 6659 | 445 | 0.07 | 8479 | 1369 | 0.16 |
| 2007 | 15903 | 3758 | 0.24 | 14100 | 2842 | 0.20 | 9129 | 592 | 0.06 | 9159 | 1147 | 0.13 |
| Mean | | | 0.31 | | | 0.15 | | | 0.08 | | | 0.15 |
| S.D | | | 0.08 | | | 0.03 | | | 0.03 | | | 0.01 |
| C.V | | | 0.24 | | | 0.19 | | | 0.33 | | | 0.08 |

(Source: Annual Report, Appendix XXI, XXII, XXIII, XXIV)

By interpreting the above data we can see that NABIL bank has utilized the maximum ratio of current deposit. But the nature of current is non interest payable deposit and can be withdrawal from the bank at any time. So, less amount of investment made from the current deposit more it is benefit to the bank. NRB directive has also clearly mentioned the highest ratio of liquidity should be maintained by the banks.

NABIL bank has highest ratio of investment from the current deposit. In the average of five years sample, it has invested 0.31 to the total Loan and advances. Other sample banks EBL, NICBL and NBBL has invested the lowest portion from the current deposit i.e. 0.15, 0.08 and 0.15 respectively. The C.V of the NB bank has the lowest of 0.08 and has the highest consistency. But C.V of NIC bank is 0.33 showing the lowest consistency among the sample banks.

### 4.3.7 Non Performing Loan (NPL) to Total Gross Loan Ratio

This ratio indicates the quality of assets by showing the portion of non performing loan to total gross loan and advances. It is one of the tools in CAMEL's model for exploring the assets quality of the bank. As per the directives of NRB, non-performing loan consists of the three categories of loans, namely, substandard loan, doubtful loan and loss loan. Similarly, total gross loans means total of loan and advances with bills purchased and discounted before provisioning.

The ratio of Non-Performing loan to total loan is taken as one of the important tool/indicator in identifying the institutions' soundness. NRB, the governing organization of commercial banks, also monitors this ratio closely. This ratio is calculated with the help of following formula.

$$\text{Non Performing Loan to Total Gross Loan} = \frac{\text{Non Performing Loan}}{\text{Total Gross Loan and Advances}}$$

Lower the ratio means the institution is wise enough in credit administration. So as lower as possible of this ratio is desirable by all the stakeholders of the organization.
Following table shows the ratio of non-performing loan to loan and advances of NABIL Bank, Everest Bank, NIC bank, NB Bank and Banking Industry as a whole.

**Table - 4.7**

**Non Performing Loan to Total Gross Loan Ratio (in %)**

Rs In Million(000000), Ratio in %

| Year | NABIL BANK | | | EBL | | | NIC BANK | | | NB BANK | | | Industry |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Loan | NPL | % | Loan | NPL | % | Loan | NPL | % | Loan | NPL | % | % |
| 2003 | 8114 | 450 | 5.54 | 5050 | 111 | 2.20 | 2563 | 171 | 6.66 | 7962 | 1013 | 12.73 | 28.80 |
| 2004 | 8549 | 287 | 3.35 | 6096 | 105 | 1.72 | 3743 | 147 | 3.92 | 9645 | 1042 | 10.81 | 22.77 |
| 2005 | 10947 | 145 | 1.32 | 7900 | 129 | 1.63 | 4909 | 185 | 3.78 | 9627 | 1833 | 19.04 | 18.94 |
| 2006 | 13279 | 166 | 1.25 | 10155 | 122 | 1.20 | 6659 | 173 | 2.60 | 8479 | 1040 | 12.27 | 14.22 |
| 2007 | 15903 | 178 | 1.12 | 14100 | 107 | 0.76 | 9129 | 100 | 1.10 | 9159 | 3218 | 35.13 | 9.65 |
| Mean | | | 2.52 | | | 1.50 | | | 3.61 | | | 17.99 | 18.88 |
| S.D | | | 1.93 | | | 0.55 | | | 2.05 | | | 10.09 | 7.42 |
| C.V | | | 0.77 | | | 0.36 | | | 0.57 | | | 0.56 | 0.39 |

Source: NRB Quarterly Bulletin 49, Appendix XXV, XXVI, XXVII, XXVIII, XXIX

From the above table, it is observed that the ratio of NPL to total loan is in decreasing trend except that of NB Bank. The ratio of NABIL Bank is 5.54% in the year 2003 and came down to 1.12% in the year 2007. Similarly, the ratio of EBL is 2.20% in the year 2003 and came significantly down to 0.76% in the year 2007. In the same trend, NIC bank is good enough in reducing the ratio from 6.66% of year 2003 to 1.10% of year 2007. But NB bank's ratio is deviating largely in the study period from 10.81% of year 2004 to 35.13% of year 2007 Comparing among the sample banks, EBL has the lowest average ratio i.e. 1.50%, which reveals banks effectiveness and efficiency in the process of credit administration and recovery. Similarly NABIL, NIC has the average ratio of 2.52% and 3.61% cespectively. However NB Bank's average ratio stands out to be 17.99%, which is remarkably high showing management's inefficiency and ineffectiveness.

Comparing the ratio with the industry average ratio, the average ratio of all banks seems to be lower than that of the industry average. But when we look at the data of individual years, the ratio of NB bank is even higher than the industry average in the year 2005 and 2007. Taking help of standard deviation to analyze the above data, EBL has maintained the smooth trend of NPL to total loan ratio i.e. 0.55, which further exhibits the less fluctuation of the ratio during the study period. Similarly NABIL and NICBL have standard deviation of 1.93 and 2.05 respectively, showing the moderate fluctuation in the above ratio. But standard deviation of NBBL is 10.09, even higher than that of industry i.e.7.42, which shows higher fluctuation in the ratio of NPL to total gross loan.

### 4.3.8 Loan Loss Provision to Non Performing Loan Ratio

To evaluate the quality of assets of commercial banks, the ratio of loan loss provision to non performing loan is used. It is one of the tools in CAMEL's model for exploring the assets quality of the bank. Here, non-performing loan consists of the three categories of loans, namely, substandard loan, doubtful loan and loss loan. Similarly, loan loss provision means total of applicable provision amount in all kinds of loan and advances with bills purchased and discounted.

The ratio of Loan Loss Provision to Non-Performing loan is taken as one of the important tool/indicator in identifying the institutions' soundness. This ratio is calculated with the help of following formula.

$$\text{Loan Loss Provision to Non Performing Loan Ratio} = \frac{\text{Loan Loss Provision}}{\text{Non Performing Loan}}$$

Following table shows the ratio of Loan Loss Provision to Non Performing Loan of NABIL Bank, Everest Bank, NIC bank and NB Bank.

**Table - 4.8**

**Loan Loss Provision (LLP) to Non Performing Loan (NPL) Ratio**

Rs In Million(000000)

| Year | NABIL | | | EBL | | | NICBL | | | NBBL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | LLP | NPL | Ratio | LLP | NPL | Ratio | LLP | NPL | Ratio | LLP | NPL | Ratio |
| 2003 | 358 | 449.6 | 0.80 | 141 | 111.2 | 1.27 | 193 | 170.7 | 1.13 | 714 | 1013.3 | 0.70 |
| 2004 | 359 | 286.7 | 1.25 | 212 | 104.8 | 2.02 | 182 | 146.6 | 1.24 | 996 | 1042.2 | 0.96 |
| 2005 | 361 | 144.5 | 2.50 | 281 | 128.8 | 2.18 | 198 | 185.4 | 1.07 | 1839 | 1832.9 | 1.00 |
| 2006 | 356 | 166 | 2.14 | 335 | 121.9 | 2.75 | 246 | 173.1 | 1.42 | 3336 | 1040.3 | 3.21 |
| 2007 | 357 | 178.3 | 2.00 | 419 | 107 | 3.92 | 187 | 100.3 | 1.86 | 3634 | 3217.6 | 1.13 |
| Mean | 1.74 | | | 2.43 | | | 1.34 | | | 1.40 | | |
| S.D | 0.69 | | | 0.99 | | | 0.32 | | | 1.02 | | |
| C.V | 0.40 | | | 0.41 | | | 0.24 | | | 0.73 | | |

(Source: NRB Bulletin 49, Annual Report, Appendix XXXVIII, XXXIX, XL, XLI)

From the above table, it is observed that the ratio of Loan Loss Provision to Non Performing Loan is found in between of 3.92 of EBL being highest and 0.70 of NBBL being least.

The ratio of NABIL Bank is 0.80 in the year 2003 and gone up to 2.00 in the year 2007. Similarly, the ratio of EBL was 1.27 in the year 2003 and gone significantly up to 3.92 in the year 2007. In the same trend, the ratio of NIC bank was 1.13 in the year 2003 and gone slightly up to 1.86 in year 2007. But NB bank's ratio is deviating largely in the study period from 0.70 of year 2003 to 3.21 of year 2006 and again down to 1.13 in the year 2007.

Comparing among the sample banks, EBL, NABIL, and NICBL seems to be the effective and efficient in the process of credit administration and recovery. In the other hand NBBL is relatively weaker in the management and administration of advancing of loan. So, it is recommended to NBBL for the improvement of recovery process and proper management of credit.

### 4.3.9 Interest Income to Total Loan and Advances Ratio

This ratio indicates the contribution of loan and advances in operating profitability. In other words, this ratio is used to find the average yield of the assets/lending. Here, Interest income refers to the interest yield from performing assets. Similarly, total loan and advances means total of loan and advances with bills purchased and discounted.

The ratio of interest income to total loan and advances is taken as one of the important tool/indicator in identifying the institutions' position. This ratio is calculated with the help of following formula.

$$\text{Interest Income to Loan and Advances Ratio} = \frac{\text{Interest Income}}{\text{Total Loan and Advances}}$$

Higher the ratio means the institution is generating higher rate of yield in its assets, which is desirable by all the stakeholders of the organization.

Following table shows the ratio of interest income to loan and advances of NABIL Bank, Everest Bank, NIC bank and NB Bank.

**Table - 4.9**

**Interest Income to Loan & Advances Ratio**

Rs In Million(000000), Ratio in %

| Year | NABIL BANK | | | EBL | | | NIC BANK | | | NB BANK | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | L&A | Int Inc | % | L&A | Int Inc | % | L&A | Int Inc | % | L&A | Int Inc | % |
| 2003 | 8114 | 1018 | 12.55 | 5050 | 520 | 10.30 | 2563 | 272 | 10.61 | 7962 | 1014 | 12.74 |
| 2004 | 8549 | 1002 | 11.72 | 6096 | 657 | 10.78 | 3743 | 363 | 9.70 | 9645 | 1096 | 11.36 |
| 2005 | 10947 | 1069 | 9.77 | 7900 | 719 | 9.10 | 4909 | 458 | 9.33 | 9627 | 877 | 9.11 |
| 2006 | 13279 | 1310 | 9.87 | 10155 | 903 | 8.89 | 6659 | 580 | 8.71 | 8479 | 785 | 9.26 |
| 2007 | 15903 | 1588 | 9.99 | 14100 | 1144 | 8.11 | 9129 | 726 | 7.95 | 9159 | 998 | 10.90 |
| Mean | 10.78 | | | 9.44 | | | 9.26 | | | 10.67 | | |
| S.D | 1.27 | | | 1.09 | | | 1.00 | | | 1.52 | | |
| C.V | 0.12 | | | 0.12 | | | 0.11 | | | 0.14 | | |

Source: Annual Reports, Appendix XXX, XXXI, XXXII, XXXIII

From the table 4.9, it is observed that the trend of interest income to loan and advances ratio is decreasing, which shows the rate of yield is decreasing with the time. In the year 2003, NABIL is having 12.55% of yield, which lows down to 9.99 in the year 2007. Similarly, the yield of EBL was 10.30% in 2003 but decreases to 8.11 while coming to year 2007. Likewise, NICBL also maintained the same trend of decreasing, from 10.61% of 2003 to 7.95% of 2007. But we can notice relatively different trend of the ratio of NBBL, which was 12.74% in 2003 decreases to 9.11 in year 2005 again increases to 10.90 in year 2007.

Further, NABIL and NBBL are found to be the higher yield gaining organization compared to EBL and NICBL. The average ratio of NABIL, NBBL is 10.78 and 10.67 respectively, whereas the average ratio of EBL and NICBL is 9.44 and 9.26 respectively. Hence, NICBL is found to be the lowest yield generating organization from its performing assets.

### 4.3.10 Net Profit to Total Loan and Advances Ratio

This ratio indicates the contribution of loan and advances in profitability. In other words, this ratio is used to find the yield efficiency of the lending. Here, Net Profit refers to the profit of the year after deducting necessary provision, tax, bonus and other expenses and liabilities. Similarly, total loan and advances means total of loan and advances with bills purchased and discounted.

The ratio of net profit to total loan and advances is taken as the important tool/indicator in identifying the institutions' position. This ratio is calculated with the help of following formula.

$$\text{Net Profit to Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Total Loan and Advances}}$$

Higher the ratio means the institution is generating higher yield in its assets, which is desirable by all the stakeholders of the organization.

Following table shows the ratio of net profit to loan and advances of NABIL Bank, Everest Bank, NIC bank and NB Bank.

**Table - 4.10**

**Net Profit (NP) to Loan & Advances (L&A) Ratio**

Rs In Million(000000), Ratio in %

| Year | NABIL BANK | | | EBL | | | NIC BANK | | | NB BANK | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | L&A | NP | % | L&A | NP | % | L&A | NP | % | L&A | NP | % |
| 2003 | 8114 | 416 | 5.13 | 5050 | 94 | 1.86 | 2563 | 49 | 1.91 | 7962 | 1244 | 15.62 |
| 2004 | 8549 | 455 | 5.32 | 6096 | 144 | 2.36 | 3743 | 68 | 1.82 | 9645 | 2.64 | 0.03 |
| 2005 | 10947 | 519 | 4.74 | 7900 | 168 | 2.13 | 4909 | 114 | 2.32 | 9627 | (782) | (8.12) |
| 2006 | 13279 | 635 | 4.78 | 10155 | 237 | 2.33 | 6659 | 97 | 1.46 | 8479 | (1,797) | (21.19) |
| 2007 | 15903 | 674 | 4.24 | 14100 | 296 | 2.10 | 9129 | 158 | 1.73 | 9159 | 577 | 6.30 |
| Mean | | | 4.84 | | | 2.16 | | | 1.85 | | | (1.47) |
| S.D | | | 0.41 | | | 0.20 | | | 0.31 | | | 14.03 |
| C.V | | | 0.09 | | | 0.09 | | | 0.17 | | | (9.53) |

(Source: Annual Reports, Appendix XXXIV, XXXV, XXXVI, XXXVII)

From the table 4.10, it is observed that the NABIL bank is making highest net profitability ratio as compared to other sample banks. In the year 2003, NABIL is having 5.13% of yield, which reduces down to 4.24 in the year 2007. Similarly, the yield of EBL was 1.86% in 2003 and increases to 2.10 while coming to year 2007. Likewise, NICBL also maintained the same trend and the ratio remained 1.91% in the year 2003 gone up to 2.32 in the year 2005 but again downs to 1.73% by the year

2007. But we can notice relatively different trend of the ratio of NBBL, which was 15.62% in 2003 decreased to -21.19 in 2006 again increased to 6.30 in year 2007.

Further, NABIL and EBL are found to be the higher profit gaining organization compared to others. The average ratio of NABIL, EBL is 4.84 and 2.16 respectively, whereas the average ratio of NICBL and NBBL is 1.85 and -1.44 respectively. Hence, NBBL is found to be the negative yield generating organization.

### 4.3.11 Sector wise Loan and Advances

There are various sectors in the market that the bank has an opportunity to invest in. Even NRB have issued in its directives that commercial banks have to invest certain percentage in the deprived and priority sector. So that the backward sector will also get the benefit form the financial facility.

The table below shows the sector wise loan and advances and their ratio in percentage out of the total lending.

**Table - 4.11**

**Sector Wise Loan & Advances**

Amount in Million(000000)

| Sectors | NABIL | | EBL | | NICBL | | NBBL | |
|---|---|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| Agriculture | 54.5 | 0.34 | 55.4 | 0.39 | 139.7 | 1.5 | 47.7 | 0.52 |
| Mining | 13.9 | 0.09 | 11.8 | 0.08 | 0 | 0.0 | 25.5 | 0.28 |
| Production | 5701.5 | 35.85 | 3319.1 | 23.54 | 3511.1 | 38.5 | 3332.9 | 36.39 |
| Construction | 1923.3 | 12.09 | 2086.8 | 14.80 | 1698.2 | 18.6 | 512.9 | 5.60 |
| Machinery | 163.2 | 1.03 | 58.8 | 0.42 | 2.3 | 0.0 | 150.2 | 1.64 |
| Transpiration | 1467.9 | 9.23 | 86.5 | 0.61 | 0 | 0.0 | 76.3 | 0.83 |
| Public Service | 917.7 | 5.77 | 964.9 | 6.84 | 252 | 2.8 | 1072.7 | 11.71 |
| Wholesalers | 2458.5 | 15.46 | 4266.2 | 30.26 | 1712.8 | 18.8 | 1716.3 | 18.74 |
| Finance | 821.1 | 5.16 | 466 | 3.30 | 647.5 | 7.1 | 535.3 | 5.84 |
| Service Industry | 1260.7 | 7.93 | 502.9 | 3.57 | 368.4 | 4.0 | 952.6 | 10.40 |
| Consumable | 84.6 | 0.53 | 228 | 1.62 | 41.2 | 0.5 | 100.8 | 1.10 |
| Local Govt. | 0 | 0.00 | 24.1 | 0.17 | 0 | 0.0 | 0 | 0.00 |
| Others | 1036.1 | 6.52 | 2029.7 | 14.39 | 755.5 | 8.3 | 635.8 | 6.94 |
| TOTAL | **15903** | **100%** | **14100** | **100%** | **9128.7** | **100%** | **9159** | **100%** |

(Source: NRB Quarterly Bulletin mid- July 2007)

From the above table we can see that there are various sectors that the banks are investing. Almost all the sectors the banks are trying to invest their funds. Up to the mid July 2007 NABIL banks has invested total of 15903 million, Everest Bank has total lending of 14100 million, NIC bank has the lending of 9128.7 million and NBBL has lending of 9159 million. So it is difficult to calculate and analysis data amount wise, researcher has tried to interpret according to the percentage into the various sector.

All the above sampled commercial banks have invested their major portion in the production sector. The NIC banks have made the highest portions in production sector of 38.5%. NBBL and NABIL bank have also investment of 36.39%, 35.85% respectively in the production sector. Everest bank has also invested major portion of lending in production sector of 23.54%. We can say the NIC bank, NBBL and NABIL bank are more constrained in the production sector but Everest bank has slightly diversified the investment in other sectors.

EBL is the only one bank which has invested its fund to the local government of 0.17% out of the total lending. It shows that the ratio of investment in this sector is too low comparative to other sector. But we can say that as a private bank has invested to the local government in the Nepalese banking history.

Further, we can conclude the sector wise lending of sampled commercial banks by saying that productions, constructions, wholesaler & retailers, transportation, communication & public services are the few sectors which consumes higher portion of the lending of commercial banks.

### 4.3.12 Security wise Loan and Advances

None of the banks invest without the security from clients. Holding the security is to assure the bank in the creation of credit transaction. Bank will recover the fund from the security if the client will not pay back the principal and interest in the due course of time.

The table below shows the total lending and their ratio in percentage through holding various type of security.

**Table - 4.12**

**Security Wise Loan & Advances**

Amount in Million(000000)

| Security | NABIL | | EBL | | NICBL | | NBBL | |
|---|---|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| Gold | 0.0 | 0.00 | 0.0 | 0.00 | 4.2 | 0.05 | 0.0 | 0.00 |
| Govt. Securities | 41.6 | 0.26 | 53.3 | 0.38 | 0.0 | 0.00 | 1.1 | 0.01 |
| Non govt. security | 1.7 | 0.01 | 21.3 | 0.15 | 506.7 | 5.55 | 8.9 | 0.10 |
| Fixed A/C receipt | 334.7 | 2.11 | 555.4 | 3.94 | 226.1 | 2.48 | 123.9 | 1.35 |
| Assets Guarantee | 11218.7 | 70.54 | 12750.0 | 90.43 | 7931.3 | 86.88 | 7030.2 | 76.76 |
| On Bills G'tee | 2626.3 | 16.51 | 56.7 | 0.40 | 12.7 | 0.14 | 1019.3 | 11.13 |
| Guarantee | 589.3 | 3.71 | 543.6 | 3.86 | 220.2 | 2.41 | 944.0 | 10.31 |
| Credit Card | 62.8 | 0.40 | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 | 0.00 |
| Earthquake victim | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 | 0.00 |
| Others | 1028.0 | 6.46 | 119.7 | 0.85 | 227.5 | 2.49 | 31.5 | 0.34 |
| Total | **15903** | **100%** | **14100** | **100%** | **9128.7** | **100%** | **9159** | **100%** |

(Source: NRB Quarterly Bulletin mid- July 2007)

The table 4.12 shows that there are different types of securities that the bank keeps in the custody at the time grating the loan. Looking at the figure and ratios of the commercial bank in the above table we found that all the banks prefer assets guarantee as the best secured securities. The assets securities include land and buildings, machinery tools, furniture & fixtures, vehicle, other fixed assets, rice, raw jute agriculture etc.

First choice and priority in taking security of NABIL is assets guarantee as it contributes 70.54% out of total security. The second prior security for the NABIL bank is on bills guarantee i.e. 16.51%. On bills guarantee includes domestic bills, foreign bills, import bill, letter of credit, export bill, against export bill and other foreign bills. Banks usually reject the gold and silver as the securities because calculation of the actual market value of gold is difficult and the value of these securities keeps in fluctuating all the time.

Everest bank has accepted highest percentage of assets guarantee as the best securities i.e. 90.43%, and lowest of gold and non-government securities. Similarly NIC bank and NB bank have also invested 86.88% and 76.76% respectively against the security of assets guarantee.

## 4.4. Major Findings of the Study

From the above analysis made through information from primary sources as well as secondary sources, the researcher has divided the major findings drawn from this study into two categories as

### 4.4.1 Major Findings from Primary Data

Researcher has observed the following important findings from the analysis of primary data, which are enumerated below.

- Most respondent agree that the consumer financing and manufacturing industry are the most secure sector of lending
- On the basis of the responses of respondents, the common security that the bank demands at the time of granting the loan is fixed assets followed by government bond
- Most respondent are positive in the time taken by commercial banks in disbursing loan. They have experienced the time taken was less than 30 days from the date of loan application
- Majority of respondent have not yet purchased credit products offered by any banks. Only 19 out of 50 respondents purchased the credit banking products.
- Most of the respondents agree that the low interest rate is the most motivating factor to get the loan in the market followed by promotion & advertisement campaign.
- Most of the respondents agree that the tedious and lengthy legal procedure is the main barrier in the growth of lending and availing credit facilities.
- Most of the respondents agree that irregular follow up and inspection in the site visit are most important reason that leads to the NPA
- Most of the respondents agree that the bank's first procedure to reduce the NPA is the regular follow up to the client forcing them to pay back all the due amount

the second alternative is to rebate the interest amount and forcing to the client to pay the principal amount immediately.

- Most of the respondents totally agree that economic and industrial recession is the prime external factors to increase NPA
- From the responses of the bankers, it is noticed that the decision making authority is hold by the top level and rest of the employee is exercise the policy decided by the top management.
- Comparative analysis of Borrowers before granting a loan is major positive aspect of all the sample banks. General interview to sophisticated financial observation is obtained before granting the loan. For uniformity in the procedure in appraising, particular format has been designed separately by the management and officers of banks. But the necessary information relating to the client is enough in their credit application format. Though the banks wants more information form the credit clients but some where it is seems that the information collected form the banks are more than the necessary to the banks.
- The criteria of appraising the proposal on the basis of project feasibility and viability is attractive and innovative aspect of the bank. It is though that the repayment of the loan should be made through the earning of the particular projects. Bank thinks that “man with the knowledge is more securing than man with wealth”.
- Observation on lending portfolio of the bank reveals that major portion of loan and advances goes to productive sector. This show that bank has been playing vital role in the development of industrial activities realizing the situation that industries are the pillar to the economy developments. Although the industries are getting the financial support from the bank they are not able to take advantage from the financial support due to strike, lockout, changes in government policy etc. Banks are ready to invest in productive sector but due to lack of investment opportunity new concept has been arrived for lending in individual customers i.e. retail lending.
- On the basis of better performance of the client bank provide the interest reduce or rebate to its prime client and provides certain facility and discount as the prizes. On the other hand if negligence arises from the client bank can charge panel so that client are forced for timely repayment of borrowings.

- Nature of loan has been designed considering the nature of the project and business activity and Interest rate has been charged according to the nature of loan. As per present interest rate issued by NABIL Bank, Everest Bank, NB Bank and NIC Bank the researcher found discrimination on the interest is mainly relies on the basis of industry and trading, on the basis of prime client and ordinary client, on the basis of nature of loan
- In my study, it seems that most of the portion of loan granted by sample banks goes to industrial sector only the future of the banks depends to the prosperity of the industry. Low diversification of loan shows higher risk hence the bank lending policy can be treated poorer also the branches of the bank are situated at the highly urban area of the country. According to the verbal information provided by the officer concern bank the collateral of the land and building against the security of the loan should be within the urban area near by the bank location. Branches of these banks are concentrated to sophisticated urban area. Also bank does not entertain collateral outside the urban area. In Nepal 80% of the total population resides in the village area which directly shows that commercial banks are providing its facility to 20% of the population living in urban area.

### 4.4.2 Major Findings from Secondary Data

Researcher has observed the following important findings from the analysis of secondary data, which are listed below.

- Current ratio of the banks under study is meeting the universal standard principle of current ratio i.e. 2:1, in an average.
- Mean of the current ratio of NABIL, EBL, NICBL and NBBL is 2.19, 2.37, 2.12 and 1.87 respectively. NIC bank and NABIL bank have less consistency in its current ratio with S.D of 0.39 and 0.37 respectively as compared to other sample banks. Looking at the above ratios, we can say that NABIL bank, Everest Bank, NIC Bank has maintained the standard but NB Bank has relatively low in the standard of the ratio. We can say the low liquidity position means that the bank is not getting the good opportunity to invest in the profitable sector and holding the amount.

- In utilizing current assets in terms of loan and advances, EBL has more consistency compared to other banks as it has lowest CV of 0.09 and similarly, NABIL, NICBL and NBBL has the C.V of 0.21, 0.24 and 0.12 respectively.
- It is observed that there is high variance in the ratio of NICBL and NBBL as the ratio swings heavily during the study period. The highest ratio of 1.24 of NABIL bank is the highest ratio among the above sampled banks.
- Utilization of deposit to loan and advances of NABIL bank is lowest among the sample banks. Higher ratio between loan and advances to deposit indicates that the bank is mobilizing high volume of deposit into loan and advances, which results in the positive contribution to profitability. Contradictorily, high ratio between loan and advances to deposit brings the bank in the liquidity risk.
- The lowest ratio of loan and advances to deposit is 0.60 of NABIL Bank in the year 2003 and highest ratio is 0.97 of NB Bank in the year 2007. The C.V of EBL bank is lowest i.e. 0.023 among the sampled bank so it has high level of consistency. Likewise, it is observed that the NBBL has highest CV i.e. 0.15, which reveals the greater disparity in the ratio.
- It is found that the fixed deposit to loan and advances ratio are being efficiently and properly utilized by the Everest and NIC bank. Similarly, the trend of lending from the fixed deposit of NB bank is decreasing remarkably. The five year ratio of total lending to fixed deposit shows the average lending of the NABIL bank is lowest among other banks.
- Though the lending from the fixed deposit is safe, NABIL bank is lending only the fewer portions. NIC bank, Everest bank and NB bank have utilized the benefit of the fixed deposit. So they have utilized high portion of the fixed deposit i.e. 0.53, 0.46, 0.40 respectively to the loan and advance. Additionally, NABIL and NB bank have high CVs of 0.20 and 0.43, which reveals that the pattern of lending from the fixed deposit is fluctuating more.
- From the ratio of lending to saving deposit, it is revealed that NB bank has low consistency which fluctuates in the high ratio. It also means that NABIL bank is utilizing its saving deposit properly than Everest Bank, NB Bank and NIC Bank.

- The average ratio of investments from the saving deposit of NABIL bank is 0.96, which is the highest among the average ratio of other banks. Everest bank and NB bank have average ratio of 0.72, 0.75 respectively. But NIC bank seems to be the conservative bank which invests only 0.64 from the saving deposit. The C.V of the NABIL Bank is lowest of 0.052 among other sampled banks, showing highest consistency. The C.V of the Everest bank and NIC bank has 0.09 and 0.08 respectively.
- From the ratio of lending to current deposit, it is found that NABIL bank has highest ratio of investment from the current deposit. In the average of five years sample, it has invested 0.31 to the total Loan and advances. Other sample banks EBL, NICBL and NBBL has invested the lowest portion from the current deposit i.e. 0.15, 0.08 and 0.15 respectively. The C.V of the NB bank has the lowest of 0.08 and has the highest consistency. But C.V of NIC bank is 0.33 showing the lowest consistency among the sample banks.
- The ratio of Non-Performing Loan to Total Loan is in decreasing trend except that of NB Bank. The ratio of NABIL Bank is 5.54% in the year 2003 and came down to 1.12% in the year 2007. Similarly, the ratio of EBL is 2.20% in the year 2003 and came significantly down to 0.76% in the year 2007. In the same trend, NIC bank is good enough in reducing the ratio from 6.66% of year 2003 to 1.10% of year 2007. But NB bank's ratio is deviating largely in the study period from 10.81% of year 2004 to 35.13% of year 2007
- Comparing among the sample banks, EBL has the lowest average ratio i.e. 1.50%, which reveals banks effectiveness and efficiency in the process of credit administration and recovery. Similarly NABIL, NIC has the average ratio of 2.52% and 3.61% respectively. However NB Bank's average ratio stands out to be 17.99%, which is remarkably high showing management's inefficiency and ineffectiveness.
- Comparing the ratio with the industry average ratio, the average ratio of all banks seems to be lower than that of the industry average. But when we look at the data of individual years, the ratio of NB bank is even higher than the industry average in the year 2005 and 2007
- EBL has maintained the smooth trend of NPL to total loan ratio i.e. 0.55, which further exhibits the less fluctuation of the ratio during the study period.

Similarly NABIL and NICBL have standard deviation of 1.93 and 2.05 respectively, showing the moderate fluctuation in the above ratio. But standard deviation of NBBL is 10.09, even higher than that of industry i.e.7.42, which shows higher fluctuation in the ratio of NPL to total gross loan.

- From the ratio of Loan Loss Provision to Non Performing Loan, it is found that EBL, NABIL and NICBL seem to be the effective and efficient in the process of credit administration and recovery. In the other hand NBBL is relatively weaker in the management and administration of advancing of loan.
- It is observed that the ratio of Loan Loss Provision to Non Performing Loan is found in between of 3.92 of EBL being highest and 0.70 of NBBL being least. The ratio of NABIL Bank is 0.80 in the year 2003 and gone up to 2.00 in the year 2007. Similarly, the ratio of EBL was 1.27 in the year 2003 and gone significantly up to 3.92 in the year 2007. In the same trend, the ratio of NIC bank was 1.13 in the year 2003 and gone slightly up to 1.86 in year 2007. But NB bank's ratio is deviating largely in the study period from 0.70 of year 2003 to 3.21 of year 2006 and again down to 1.13 in the year 2007.
- The trend of interest income to loan and advances ratio is decreasing, which shows the rate of yield is decreasing with the time. In the year 2003, NABIL is having 12.55% of yield, which lows down to 9.99 in the year 2007. Similarly, the yield of EBL was 10.30% in 2003 but decreases to 8.11 while coming to year 2007. Likewise, NICBL also maintained the same trend of decreasing, from 10.61% of 2003 to 7.95% of 2007. But we can notice relatively different trend of the ratio of NBBL, which was 12.74% in 2003 decreases to 9.11 in year 2005 again increases to 10.90 in year 2007.
- Further, NABIL and NBBL are found to be the higher yield gaining organization compared to EBL and NICBL. The average ratio of NABIL, NBBL is 10.78 and 10.67 respectively, whereas the average ratio of EBL and NICBL is 9.44 and 9.26 respectively. Hence, NICBL is found to be the lowest yield generating organization from its performing assets.
- From the ratio of net profit to loan and advances, it is observed that the NABIL bank is making highest net profitability ratio as compared to other sample banks.

- In the year 2003, NABIL is having 5.13% of yield, which reduces down to 4.24 in the year 2007. Similarly, the yield of EBL was 1.86% in 2003 and increases to 2.10 while coming to year 2007. Likewise, NICBL also maintained the same trend and the ratio remained 1.91% in the year 2003 gone up to 2.32 in the year 2005 but again downs to 1.73% by the year 2007. But we can notice relatively different trend of the ratio of NBBL, which was 15.62% in 2003 decreased to -21.19 in 2006 again increased to 6.30 in year 2007. The average ratio of NABIL, EBL is 4.84 and 2.16 respectively, whereas the average ratio of NICBL and NBBL is 1.85 and -1.44 respectively. Hence, NBBL is found to be the negative yield generating organization.
- From the analysis of sector wise loan & advances, it is noticed that productions, constructions, wholesaler & retailers, transportation, communication & public services are the few sectors which consumes higher portion of the lending of commercial banks. Up to the mid July 2007 NABIL banks has invested total of 15903 million, Everest Bank has total lending of 14100 million, NIC bank has the lending of 9128.7 million and NBBL has lending of 9159 million.
- All sampled banks have invested their major portion in the production sector. The NIC banks have made the highest portions in production sector of 38.5%. NBBL and NABIL bank have also investment of 36.39%, 35.85% respectively in the production sector. Everest bank has also invested major portion of lending in production sector of 23.54%. We can say the NIC bank, NBBL and NABIL bank are more constrained in the production sector but Everest bank has slightly diversified the investment in other sectors. EBL is the only one bank which has invested its fund to the local government of 0.17% out of the total lending. It shows that the ratio of investment in this sector is too low comparative to other sector.
- From the analysis of security wise loan & advances, it is noticed that there are different types of securities that the bank keeps in the custody at the time granting the loan. Looking at the figure and ratios, we found that all the banks prefer assets guarantee as the best secured.
- First choice and priority in taking security of NABIL is assets guarantee as it contributes 70.54% out of total security. The second prior security for the

NABIL bank is on bills guarantee i.e. 16.51%. On bills guarantee includes domestic bills, foreign bills, import bill, letter of credit, export bill, against export bill and other foreign bills. Banks usually reject the gold and silver as the securities because calculation of the actual market value of gold is difficult and the value of these securities keeps in fluctuating all the time. Everest bank has accepted highest percentage of assets guarantee as the best securities i.e. 90.43%, and lowest of gold and non-government securities. Similarly NIC bank and NB bank have also invested 86.88% and 76.76% respectively against the security of assets guarantee.

# CHAPTER - FIVE
# SUMMARY, CONCLUSION &RECOMMENDATIONS

This chapter is the final chapter of the study. Summary, Conclusions and Recommendations are the three heads included in this chapter.

## 5.1. Summary

In the history of Nepal, financial sector has undergone a signified evolution in the past two decades. Commercial banking activities in Nepal started in 1973 with the establishment of Nepal Bank Ltd in the public sector. At present there are 22 commercial banks in operation. Many commercial bank, development banks and financial institutions are operating is the economy to assist in the process of economic development is the country. Due to high competition between the financial institutions, the collected high amount of deposit from public is not properly invested. It is due to lace of demand for fund. So, it raised the problems of investment and proper mobilization of activities play a vital role in the overall development of economy of the nation.

This study *"Credit Policy and Its Implementation in Nepalese Commercial Banks"* is primarily prepaid for the partial fulfillment of the requirements of master of business studies (MBS). This study is mainly based on secondary and primary data provided by concerned banks and respondents. Here 4 commercial banks are selected as a sample. The main objective of the study is to draw out the existing situation of credit / lending procedure, to study the relationship between deposits and loan and advances, to study the classification of loan and advances, provision for loan and advances and its effect in profitability, to examine the utilization of resources (fund) in various sectors. Information is collected during the period FY 2002/2003 to FY 2006/2007. The collected information is presented, analyzed and conclusion is drawn from the study.

The researcher has tried to go through the practical aspects, which has been followed by above sample bank. Normally, this study focuses on the credit policy and its implementation, which has been adopted by above four banks. In this process the researcher had consulted many books, booklets, magazine, newspaper in most case; the researcher undertook verbal interviews with officers of the concern banks and their selected client and general public too.

***Chapter one*** is concerned with the introduction of the whole study. It explained about the selected banks, concentration of the study objectives, statement and organization of the study, which provides guideline for entire study.

***Chapter two*** is concerned with the review of study as well as the review of related previous studies, journals and article etc

***Chapter third*** specifies the guidelines, tools and research design to achieve the objectives of the study.

***Chapter four,*** for the analysis of data mean, standard deviation, coefficient of variation are considered as the main statistical tools in this study. Data are collected through different sector and annual report of related banks. But the primary data are generated through personal interview of banks officers, customer and academicians.

## 5.2. Conclusion

This study "Credit Policy and Its Implementation in Nepalese Commercial Banks" tried to analyzed and draw out the existing situation of credit / lending procedure, the relationship between deposits and loan and advances, the study of classification of loan and advances, provision for loan and advances and its effect in profitability, examine the utilization of resources in various sectors based on the data provided in the financial statement as well as other concerned information. Present study is successful to explore the findings of the result designed for the study various statistical tools were used as requirements of nature of data. A secondary as well as primary source of information was used for analysis of data. Based on the data analysis and finding of the result, the conclusion can be drawn as:

From this study, the researcher concludes that lending activities in Nepal is remarkably increasing. Bank lending has started playing an important role in economic development of the country. In response to this there have been active

efforts within the Nepalese banks to be more focused on the financial products and services.
Again, the researcher found that the Nepalese banks need to remain in the competition in lending, banks will need to operate efficiently, package and deliver products on time, leveraging the multiple channels of delivery such as the internet, mobile banking, e-cash and the ATMs. The future of lending is dependent on technology, marketing and capital employment on the sector. Technology facilitates reduction in transaction cost and provides the ability to do business in volumes. Banks have to prepare themselves to face a soft interest regime. New kinds of management skills are required to manage the lending portfolio. Banks are competing in the lending products on the basis of product innovation, rationalization of service charges, competitive pricing and simplified procedures for documentation.

Further, researcher has found that the consumer financing and manufacturing sectors are the most secure sector of lending. It is also found that the common security that the bank demands at the time of granting the loan is fixed assets followed by government bond. Low interest rate is the most motivating factor to get the loan in the market followed by promotion & advertisement campaign. Tedious and lengthy legal procedure is the main barrier in the growth of lending and availing credit facilities. Irregular follow up and inspection in the site visit are most important reason that leads to the NPA. Economic and industrial recession is the prime external factors to increase NPA. Bank’s first procedure to reduce the NPA is the regular follow up to the client forcing them to pay back all the due amount the second alternative is to rebate the interest amount and forcing to the client to pay the principal amount immediately. Finally, It is noticed that the decision making authority is hold by the top level and rest of the employee is exercise the policy decided by the top management.

## 5.3. Recommendations

The following recommendations are drawn from the findings and conclusion of the study

**1. Lending Procedure should be short**

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 these institutions try 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. Need to grab more benefit from Fixed Deposit**

Fixed deposits are that type of deposit which can be withdrawal at the time of maturity only. So, the banks are advice to utilize the maximum benefit from the nature of fixed deposit by investing in the long term loans.

**3. Need to Invest Small Entrepreneur Development Program**

Talking all in all, it is recommended that transaction of commercial banks has concentrated with big clients, large group of traders, business networks and large industries. Loan should go to those who are economically backward and uplifting the condition of these orphan people. So bank should come forward to increase the number of clients, develop entrepreneurs, and diversify its business with large no to small investors according with investing to small entrepreneur development program.

**4. Need to Invest in Productive Area that utilized the Natural Resources**

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 banks have to divert their investment in the natural resources too.

**5. Needs to Diversify Lending**

Though the banks are establishment to earn the profit but besides profit making it has to invest in those sector where the society is really in need of investment. Analyzing in the previous chapter it is found that most portions of the investment is made in the service or retail sector only. So it is recommended to the bank to invest in other sector too. Over concentration of lending reveals the excessive level of risk. Hence bank should take the steps to diversify its lending. So that risk can be minimized and small borrowers are promoted. Also bank should develop the concept of micro financing. In additional, commercial banks are recommended to the group financing there by diversifying new avenues rather than focusing merely in one sector.

**6. Need to reduce spread rate**

Since, interest rate charged by the Joint Venture Banks is 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 rate of the commercial banks in the dopiest and lending is not attractive. The interest rate in the deposit is too low and interest rate in the lending is too high. NRB has also mention in its directive that the spread rate should not be higher than 5%.

**7. Preference to Support Short Term Lending**

Considering the present scenario and risk management, it is justifies that risk can be minimized through short term lending than long term. Hence preference to be given for short trade financing and discouraging long term loan finance and also focusing multiple returnable loan rather than dry as far as possible.

**8. Explore the un-banked sectors**

Banks should not only concentrate on the city, valley but they also have to find and serve the un-banked areas. Banks should increase effort to cover the wide areas by increasing the branch network as well more geographical coverage. In the new area, bank should make effort to tap these areas consumer by providing the product suitable and reasonable for them rather than copied product.

**9. Target the agricultural sector**

The world is now facing problem from the scarcity for the food. As a result of which price for food is rising day by day. Fortunately, Nepal is the agricultural country, so the financial players should focus on this part as a corporate social responsibility. To tap these consumer, agriculture related financial product like Agricultural financing, micro credit should be introduced.

## APPENDIX - I

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NABIL Bank considering current assets (CA) and current liability (CL)**

| YEAR | CA | CL | RATIO ($X$) | ($X$- $\bar{X}$ ) | ($X$- $\bar{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 10,616 | 3,762 | 2.82 | 0.63 | 0.3969 |
| 2004 | 11,329 | 5,388 | 2.10 | -0.09 | 0.0081 |
| 2005 | 8,819 | 4,147 | 2.13 | -0.06 | 0.0036 |
| 2006 | 13,858 | 6,661 | 2.08 | -0.11 | 0.0121 |
| 2007 | 16,954 | 9,259 | 1.83 | -0.36 | 0.1296 |
| **Total** | | | **$\sum X$ =10.96** | | **$\sum (X- \bar{X})^2$ = 0.5503** |

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

$$\text{Mean } (\bar{X}) = \frac{\sum \text{x}}{N} = \frac{10.96}{5} = \mathbf{2.19}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.5503}{5-1}} = \mathbf{0.37}$$

$$\textbf{CV} = \frac{\pm}{\bar{X}} = \frac{0.37}{2.19} = \mathbf{0.17}$$

Where,

CA= Current Assets

CL= Current Liability

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-II

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering current assets (CA) and current liability (CL)**

| YEAR | CA | CL | RATIO ($X$) | ($X$- $\bar{X}$ ) | ($X$- $\bar{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 6,391 | 2,335 | 2.74 | 0.37 | 0.1369 |
| 2004 | 6,750 | 2,902 | 2.33 | -0.04 | 0.0016 |
| 2005 | 8,150 | 3,302 | 2.47 | 0.10 | 0.0100 |
| 2006 | 11,399 | 4,784 | 2.38 | 0.01 | 0.0001 |
| 2007 | 14,227 | 7,364 | 1.93 | -0.44 | 0.1936 |
| **Total** | | | **∑ $X$ =11.85** | | **∑($X$- $\bar{X}$ )$^2$ = 0.3422** |

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

$$\text{Mean } ( \bar{X} ) = \frac{\sum \text{x}}{N} = \frac{11.85}{5} = \mathbf{2.37}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.3422}{5-1}} = \mathbf{0.29}$$

$$\textbf{CV} = \frac{\pm}{\bar{X}} = \frac{0.29}{2.37} = \mathbf{0.12}$$

Where,

CA= Current Assets

CL= Current Liability

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - III

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering current assets (CA) and current liability (CL)**

| YEAR | CA | CL | RATIO ($X$) | ∑ ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 5,024 | 1,990 | 2.52 | 0.40 | 0.1600 |
| 2004 | 5,540 | 2,392 | 2.32 | 0.20 | 0.0400 |
| 2005 | 6,174 | 2,629 | 2.35 | 0.23 | 0.0529 |
| 2006 | 7,983 | 4,450 | 1.79 | -0.33 | 0.1089 |
| 2007 | 9,002 | 5,563 | 1.62 | -0.50 | 0.2500 |
| **Total** | | | **∑ $X$ =10.60** | | **∑($X$- $\overline{X}$ )$^2$ =0.6118** |

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

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{10.60}{5} = \mathbf{2.12}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.6118}{5-1}} = \mathbf{0.39}$$

$$\mathbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.39}{2.12} = \mathbf{0.18}$$

Where,

CA= Current Assets

CL= Current Liability

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - IV

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering current assets (CA) and current liability (CL)**

| YEAR | CA | CL | RATIO ($X$) | $\sum (X-\overline{X})$ | $(X-\overline{X})^2$ |
|---|---|---|---|---|---|
| 2003 | 9,219 | 4,068 | 2.27 | 0.40 | 0.1600 |
| 2004 | 9,826 | 5,006 | 1.96 | 0.09 | 0.0081 |
| 2005 | 11,171 | 6,148 | 1.82 | -0.05 | 0.0025 |
| 2006 | 11,434 | 6,771 | 1.69 | -0.18 | 0.0324 |
| 2007 | 12,412 | 7,690 | 1.61 | -0.26 | 0.0676 |
| **Total** | | | $\sum X = 9.35$ | | $\sum(X-\overline{X})^2 = 0.2706$ |

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

$$\text{Mean } (\overline{X}) = \frac{\sum \mathrm{x}}{N} = \frac{9.35}{5} = \mathbf{1.87}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.2706}{5-1}} = \mathbf{0.26}$$

$$\mathbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.26}{1.87} = \mathbf{0.14}$$

Where,

CA= Current Assets

CL= Current Liability

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-V

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Loan and Advances (LA) and Current Assets (CA)**

| YEAR | L & A | CA | RATIO ($X$) | ($X-\bar{X}$) | ($X-\bar{X}$)$^2$ |
|---|---|---|---|---|---|
| 2003 | 8,114 | 10,616 | 0.76 | -0.17 | 0.0289 |
| 2004 | 8,549 | 11,329 | 0.75 | -0.18 | 0.0324 |
| 2005 | 10,947 | 8,819 | 1.24 | 0.31 | 0.0961 |
| 2006 | 13,279 | 13,858 | 0.96 | 0.03 | 0.0009 |
| 2007 | 15,903 | 16,954 | 0.94 | 0.01 | 0.0001 |
| **Total** | | | **$\sum X$ = 4.65** | | **$\sum(X-\bar{X})^2$ = 0.1584** |

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

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{4.65}{5} = \mathbf{0.93}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.1584}{5-1}} = \mathbf{0.20}$$

$$\textbf{CV} = \frac{\pm}{\bar{X}} = \frac{0.20}{0.93} = \mathbf{0.21}$$

Where,

CA= Current Assets

L &A=Loan and Advances

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-VI

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Loan and Advances (LA) and Current Assets (CA)**

| YEAR | L & A | CA | RATIO ($X$) | ($X-\overline{X}$) | $(X-\overline{X})^2$ |
|---|---|---|---|---|---|
| 2003 | 5,050 | 6,391 | 0.79 | -0.12 | 0.0144 |
| 2004 | 6,096 | 6,750 | 0.90 | -0.01 | 0.0001 |
| 2005 | 7,900 | 8,150 | 0.97 | 0.06 | 0.0036 |
| 2006 | 10,155 | 11,399 | 0.89 | -0.02 | 0.0004 |
| 2007 | 14,100 | 14,227 | 0.99 | 0.08 | 0.0064 |
| **Total** | | | **$\sum X = 4.54$** | | **$\sum (X-\overline{X})^2 = 0.0249$** |

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

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{4.54}{5} = \mathbf{0.91}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum (Xn-\overline{X})^2}{n-1}} = \sqrt{\frac{0.0249}{5-1}} = \mathbf{0.08}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.08}{0.91} = \mathbf{0.09}$$

Where,

CA= Current Assets

L &A=Loan and Advances

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-VII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Loan and Advances (LA) and Current Assets (CA)**

| YEAR | L&A | CA | RATIO ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 2,563 | 5,024 | 0.51 | -0.26 | 0.0676 |
| 2004 | 3,743 | 5,540 | 0.68 | -0.09 | 0.0081 |
| 2005 | 4,909 | 6,174 | 0.80 | 0.03 | 0.0009 |
| 2006 | 6,659 | 7,983 | 0.83 | 0.06 | 0.0036 |
| 2007 | 9,129 | 9,002 | 1.01 | 0.24 | 0.0576 |
| **Total** | | | **∑ $X$ =3.83** | | **∑ ($X$- $\overline{X}$ )$^2$ = 0.1378** |

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

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{3.83}{5} = \mathbf{0.77}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum(Xn - \overline{X})^2}{n-1}} = \sqrt{\frac{0.1378}{5-1}} = \mathbf{0.19}$$

$$\mathbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.19}{0.77} = \mathbf{0.24}$$

Where,

CA= Current Assets

L &A=Loan and Advances

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-VIII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Loan and Advances (LA) and Current Assets (CA)**

| YEAR | L&A | CA | RATIO ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 7,962 | 9,219 | 0.86 | 0.02 | 0.0004 |
| 2004 | 9,645 | 9,826 | 0.98 | 0.14 | 0.0196 |
| 2005 | 9,627 | 11,171 | 0.86 | 0.02 | 0.0004 |
| 2006 | 8,479 | 11,434 | 0.74 | -0.10 | 0.0100 |
| 2007 | 9,159 | 12,412 | 0.74 | -0.10 | 0.0100 |
| **Total** | | | **$\sum X$ = 4.18** | | **$\sum (X- \overline{X})^2$ = 0.0404** |

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

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{4.18}{5} = \mathbf{0.84}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum \left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0404}{5-1}} = \mathbf{0.10}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.10}{0.84} = \mathbf{0.12}$$

Where,

CA= Current Assets

L &A=Loan and Advances

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - IX

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Loan and Advances (L&A) and Total Deposit**

| YEAR | L&A | Deposit | RATIO ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 8114 | 13438 | 0.60 | -0.07 | 0.0049 |
| 2004 | 8549 | 14098 | 0.61 | -0.06 | 0.0036 |
| 2005 | 10947 | 14587 | 0.75 | 0.08 | 0.0064 |
| 2006 | 13279 | 19348 | 0.69 | 0.02 | 0.0004 |
| 2007 | 15903 | 23342 | 0.68 | 0.01 | 0.0001 |
| **Total** | | | **∑ $X$ =3.33** | | **∑ ($X$- $\overline{X}$ )$^2$ = 0.0154** |

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

Mean ( $\overline{X}$ ) = $\frac{\sum x}{N}$ = $\frac{3.33}{5}$ = **0.67**

**(S.D)±** $= \sqrt{\frac{\sum\left(Xn-\overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0154}{5-1}}$ **= 0.06**

**CV** = $\frac{\pm}{\overline{X}} = \frac{0.06}{0.67}$ = **0.09**

Where,

L &A=Loan and Advances

Deposits= Total Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - X

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Loan and Advances (L&A) and Total Deposit**

| YEAR | L&A | Deposit | RATIO ($X$) | ($X$- $\bar{X}$ ) | ($X$- $\bar{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 5050 | 6695 | 0.75 | 0.00 | 0.0000 |
| 2004 | 6096 | 8064 | 0.76 | 0.01 | 0.0001 |
| 2005 | 7900 | 10098 | 0.78 | 0.03 | 0.0009 |
| 2006 | 10155 | 13803 | 0.74 | -0.01 | 0.0001 |
| 2007 | 14100 | 19098 | 0.74 | -0.01 | 0.0001 |
| **Total** | | | **∑ $X$ =3.77** | | **∑ ($X$- $\bar{X}$ )$^2$ = 0.0012** |

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

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{3.77}{5} = \mathbf{0.75}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum (Xn - \bar{X})^2}{n-1}} = \sqrt{\frac{0.0012}{5-1}} = \mathbf{0.017}$$

$$\textbf{CV} = \frac{\pm}{\bar{X}} = \frac{0.017}{0.75} = \mathbf{0.023}$$

Where,

L &A=Loan and Advances

Deposits= Total Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XI

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Loan and Advances (L&A) and Total Deposit**

| YEAR | L&A | Deposit | RATIO ($X$) | ($X$- $\bar{X}$ ) | ($X$- $\bar{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 2563 | 3144 | 0.82 | 0.02 | 0.0004 |
| 2004 | 3743 | 5146 | 0.73 | -0.07 | 0.0049 |
| 2005 | 4909 | 6243 | 0.79 | -0.01 | 0.0001 |
| 2006 | 6659 | 8766 | 0.76 | -0.04 | 0.0016 |
| 2007 | 9129 | 10068 | 0.91 | 0.11 | 0.0121 |
| **Total** | | | **$\sum X$ =4.01** | | **$\sum (X- \bar{X})^2$ = 0.0191** |

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

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{4.01}{5} = \mathbf{0.80}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum (Xn - \bar{X})^2}{n-1}} = \sqrt{\frac{0.0191}{5-1}} = \mathbf{0.069}$$

$$\textbf{CV} = \frac{\pm}{\bar{X}} = \frac{0.069}{0.80} = \mathbf{0.086}$$

Where,

L &A=Loan and Advances

Deposits= Total Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Loan and Advances (L&A) and Total Deposit**

| YEAR | L&A | Deposit | RATIO ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 7962 | 10584 | 0.75 | -0.03 | 0.0009 |
| 2004 | 9645 | 12747 | 0.76 | -0.02 | 0.0004 |
| 2005 | 9627 | 12126 | 0.79 | 0.01 | 0.0001 |
| 2006 | 8479 | 13015 | 0.65 | -0.13 | 0.0169 |
| 2007 | 9159 | 9464 | 0.97 | 0.19 | 0.0361 |
| **Total** | | | **∑ $X$ =3.92** | | **∑ ($X$- $\overline{X}$ )$^2$ = 0.0544** |

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

$$\text{Mean } (\overline{X}) = \frac{\sum \text{x}}{N} = \frac{3.92}{5} = \mathbf{0.78}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0544}{5-1}} = \mathbf{0.12}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.12}{0.78} = \mathbf{0.15}$$

Where,

L &A=Loan and Advances

Deposits= Total Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-XIII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Fixed Deposit (FD) to Loan and Advances (L&A)**

| YEAR | L&A | FD | RATIO ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 8113.68 | 2252.60 | 0.28 | 0.01 | 0.0001 |
| 2004 | 8548.66 | 2310.60 | 0.27 | 0.00 | 0.0000 |
| 2005 | 10946.74 | 2078.60 | 0.19 | -0.08 | 0.0064 |
| 2006 | 13278.78 | 3450.20 | 0.26 | -0.01 | 0.0001 |
| 2007 | 15903.00 | 5435.20 | 0.34 | 0.07 | 0.0049 |
| **Total** | | | **$\sum X$ =1.34** | | **$\sum$ ($X$- $\overline{X}$ )$^2$ = 0.0115** |

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

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{1.34}{5} = \mathbf{0.27}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0115}{5-1}} = \mathbf{0.05}$$

$$\mathbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.05}{0.27} = \mathbf{0.20}$$

Where,

L &A=Loan and Advances

FD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-XIV

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Fixed Deposit (FD) to Loan and Advances (L&A)**

| YEAR | L&A | FD | RATIO ($X$) | ∑ ($X-\bar{X}$) | ($X-\bar{X}$)$^2$ |
|---|---|---|---|---|---|
| 2003 | 5,050 | 2,803 | 0.56 | 0.10 | 0.0100 |
| 2004 | 6,096 | 2,914 | 0.48 | 0.02 | 0.0004 |
| 2005 | 7,900 | 3,445 | 0.44 | -0.02 | 0.0004 |
| 2006 | 10,155 | 4,298 | 0.42 | -0.04 | 0.0016 |
| 2007 | 14,100 | 5,659 | 0.40 | -0.06 | 0.0036 |
| **Total** | | | **∑ $X$ = 2.29** | | **∑ ($X-\bar{X}$)$^2$ = 0.0160** |

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

Mean ( $\bar{X}$ ) = $\frac{\sum x}{N}$ = $\frac{2.29}{5}$ = **0.46**

**(S.D)±** $= \sqrt{\frac{\sum\left(Xn - \bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.0160}{5-1}}$ **= 0.06**

**CV** = $\frac{\pm}{\bar{X}} = \frac{0.06}{0.46}$ = **0.14**

Where,

L &A=Loan and Advances

FD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-XV

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Fixed Deposit (FD) to Loan and Advances (L&A)**

| YEAR | L&A | FD | RATIO ($X$) | ∑ ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 2,563 | 1,143 | 0.45 | -0.09 | 0.0081 |
| 2004 | 3,743 | 2,083 | 0.56 | 0.03 | 0.0009 |
| 2005 | 4,909 | 2,931 | 0.60 | 0.07 | 0.0049 |
| 2006 | 6,659 | 4,065 | 0.61 | 0.08 | 0.0064 |
| 2007 | 9,129 | 4,075 | 0.45 | -0.08 | 0.0064 |
| **Total** | | | **∑ $X$ = 2.66** | | **∑ ($X$- $\overline{X}$ )$^2$ = 0.0267** |

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

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{2.66}{5} = \mathbf{0.53}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0267}{5-1}} = \mathbf{0.08}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.08}{0.53} = \mathbf{0.15}$$

Where,

L &A=Loan and Advances

FD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-XVI

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Fixed Deposit (FD) to Loan and Advances (L&A)**

| YEAR | L&A | FD | RATIO ($X$) | ∑ ($X$- $\bar{X}$ ) | ($X$- $\bar{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 7,962 | 5,032 | 0.63 | 0.23 | 0.0529 |
| 2004 | 9,645 | 4,876 | 0.51 | 0.10 | 0.0100 |
| 2005 | 9,627 | 3,537 | 0.37 | -0.04 | 0.0016 |
| 2006 | 8,479 | 2,867 | 0.34 | -0.06 | 0.0036 |
| 2007 | 9,159 | 1,578 | 0.17 | -0.23 | 0.0529 |
| **Total** | | | **∑ $X$ = 2.02** | | **∑ ($X$- $\bar{X}$ )$^2$ = 0.1210** |

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

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N} = \frac{2.02}{5} = \mathbf{0.40}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn-\bar{X}\right)^2}{n-1}} = \sqrt{\frac{0.1210}{5-1}} = \mathbf{0.17}$$

$$\textbf{CV} = \frac{\pm}{\bar{X}} = \frac{0.17}{0.40} = \mathbf{0.43}$$

Where,

L &A=Loan and Advances

FD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-XVII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Saving Deposit (SD) to Loan and Advances (L&A)**

| YEAR | L&A | SD | RATIO ($X$) | ∑ ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 8,114 | 7,778 | 0.96 | 0.00 | 0.0000 |
| 2004 | 8,549 | 8,796 | 1.03 | 0.07 | 0.0049 |
| 2005 | 10,947 | 10,368 | 0.95 | -0.01 | 0.0001 |
| 2006 | 13,279 | 12,622 | 0.95 | -0.01 | 0.0001 |
| 2007 | 15,903 | 14,149 | 0.89 | -0.07 | 0.0049 |
| **Total** | | | **∑ $X$ = 4.78** | | **∑ ($X$- $\overline{X}$ )$^2$ = 0.01** |

$$\text{Saving Deposit to Loan and Advances} = \frac{\text{Saving Deposit}}{\text{Loan and Advances}}$$

Mean ( $\overline{X}$ ) = $\frac{\sum x}{N} = \frac{4.78}{5}$ = **0.96**

**(S.D)**$\pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.01}{5-1}}$ **= 0.05**

**CV** = $\frac{\pm}{\overline{X}} = \frac{0.05}{0.96}$ = **0.052**

Where,

L &A=Loan and Advances

SD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-XVIII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Saving Deposit (SD) to Loan and Advances (L&A)**

| YEAR | L&A | SD | RATIO ($X$) | $\sum (X-\overline{X})$ | $(X-\overline{X})^2$ |
|---|---|---|---|---|---|
| 2003 | 5,050 | 3,186 | 0.63 | -0.09 | 0.0081 |
| 2004 | 6,096 | 4,296 | 0.70 | -0.02 | 0.0004 |
| 2005 | 7,900 | 5,511 | 0.70 | -0.02 | 0.0004 |
| 2006 | 10,155 | 8,223 | 0.81 | 0.09 | 0.0081 |
| 2007 | 14,100 | 10,597 | 0.75 | 0.03 | 0.0009 |
| **Total** | | | $\sum X = 3.59$ | | $\sum (X-\overline{X})^2 = 0.0179$ |

$$\text{Saving Deposit to Loan and Advances} = \frac{\text{Saving Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{3.59}{5} = \mathbf{0.72}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum (Xn - \overline{X})^2}{n-1}} = \sqrt{\frac{0.0179}{5-1}} = \mathbf{0.07}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.07}{0.72} = \mathbf{0.09}$$

Where,

L &A=Loan and Advances

SD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XIX

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Saving Deposit (SD) to Loan and Advances (L&A)**

| YEAR | L&A | SD | RATIO ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 2,563 | 1,700 | 0.66 | 0.02 | 0.0004 |
| 2004 | 3,743 | 2,697 | 0.72 | 0.08 | 0.0064 |
| 2005 | 4,909 | 3,016 | 0.61 | -0.03 | 0.0009 |
| 2006 | 6,659 | 4,257 | 0.64 | 0.00 | 0.0000 |
| 2007 | 9,129 | 5,402 | 0.59 | -0.05 | 0.0025 |
| **Total** | | | **$\sum X$ = 3.22** | | **$\sum (X- \overline{X})^2$ = 0.0102** |

$$\text{Saving Deposit to Loan and Advances} = \frac{\text{Saving Deposit}}{\text{Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum \mathrm{x}}{N} = \frac{3.22}{5} = \mathbf{0.64}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0102}{5-1}} = \mathbf{0.05}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.05}{0.64} = \mathbf{0.08}$$

Where,

L &A=Loan and Advances

SD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XX

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Saving Deposit (SD) to Loan and Advances (L&A)**

| YEAR | L&A | SD | RATIO ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 7,962 | 4,353 | 0.55 | -0.20 | 0.0400 |
| 2004 | 9,645 | 6,435 | 0.67 | -0.08 | 0.0064 |
| 2005 | 9,627 | 7,246 | 0.75 | 0.00 | 0.0000 |
| 2006 | 8,479 | 8,778 | 1.04 | 0.29 | 0.0841 |
| 2007 | 9,159 | 6,739 | 0.74 | -0.01 | 0.0001 |
| **Total** | | | **∑ $X$ = 3.75** | | **∑ ($X$- $\overline{X}$ )$^2$ = 0.1306** |

$$\text{Saving Deposit to Loan and Advances} = \frac{\text{Saving Deposit}}{\text{Loan and Advances}}$$

Mean ( $\overline{X}$ ) = $\frac{\sum x}{N}$ = $\frac{3.75}{5}$ = **0.75**

**(S.D)±** $= \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.1306}{5-1}}$ **= 0.18**

**CV** = $\frac{\pm}{\overline{X}} = \frac{0.18}{0.75}$ = **0.24**

Where,

L &A=Loan and Advances

SD= Fixed Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXI

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Nabil Bank considering Current Deposit (CD) to Loan and Advances (L&A)**

| YEAR | L&A | CD | RATIO (*X*) | ∑ (*X*- $\overline{X}$ ) | (*X*- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 8,114 | 3,407 | 0.42 | 0.11 | 0.0121 |
| 2004 | 8,549 | 2,992 | 0.35 | 0.04 | 0.0016 |
| 2005 | 10,947 | 3,141 | 0.29 | -0.02 | 0.0004 |
| 2006 | 13,279 | 3,276 | 0.25 | -0.06 | 0.0036 |
| 2007 | 15,903 | 3,758 | 0.24 | -0.07 | 0.0049 |
| **Total** | | | **∑ *X* =1.55** | | **∑ (*X*- $\overline{X}$ )$^2$ = 0.0226** |

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

Mean ( $\overline{X}$ ) = $\frac{\sum \text{x}}{N}$ = $\frac{1.55}{5}$ = **0.31**

**(S.D)±** $= \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0226}{5-1}}$ **= 0.08**

**CV** = $\frac{\pm}{\overline{X}} = \frac{0.08}{0.31}$ = **0.24**

Where,

L &A=Loan and Advances

CD= Current Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX-XXII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Current Deposit (CD) to Loan and Advances (L&A)**

| YEAR | L&A | CD | RATIO ($X$) | ∑ ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 5,050 | 706 | 0.14 | -0.01 | 0.0001 |
| 2004 | 6,096 | 854 | 0.14 | -0.01 | 0.0001 |
| 2005 | 7,900 | 1,142 | 0.14 | -0.01 | 0.0001 |
| 2006 | 10,155 | 1,282 | 0.13 | -0.02 | 0.0004 |
| 2007 | 14,100 | 2,842 | 0.20 | 0.05 | 0.0025 |
| **Total** | | | **∑ $X$ =0.75** | | **∑ ($X$- $\overline{X}$ )$^2$ = 0.0032** |

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

Mean ( $\overline{X}$ ) = $\frac{\sum x}{N}$ = $\frac{0.75}{5}$ = **0.15**

**(S.D)**$\pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0032}{5-1}}$ **= 0.03**

**CV** = $\frac{\pm}{\overline{X}} = \frac{0.03}{0.15}$ = **0.19**

Where,

L &A=Loan and Advances

CD= Current Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

**APPENDIX - XXIII**

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Current Deposit (CD) to Loan and Advances (L&A)**

| YEAR | L&A | CD | RATIO (*X*) | ∑ (*X*- $\overline{X}$ ) | (*X*- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| | | | Int | | |
| 2003 | 2,563 | 301 | .12 | 0.04 | 0.0016 |
| 2004 | 3,743 | 367 | 0.10 | 0.02 | 0.0004 |
| 2005 | 4,909 | 297 | 0.06 | -0.02 | 0.0004 |
| 2006 | 6,659 | 445 | 0.07 | -0.01 | 0.0001 |
| 2007 | 9,129 | 592 | 0.06 | -0.02 | 0.0004 |
| **Total** | | | **∑ *X* = 0.41** | | **∑ (*X*- $\overline{X}$ )$^2$ =0.0029** |

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

Mean ( $\overline{X}$ ) = $\frac{\sum \text{x}}{N} = \frac{0.41}{5}$ = **0.08**

**(S.D)**$\pm = \sqrt{\frac{\sum\left(Xn-\overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0029}{5-1}}$ **= 0.03**

**CV** = $\frac{\pm}{\overline{X}} = \frac{0.03}{0.08}$ = **0.33**

Where,

L &A=Loan and Advances

CD= Current Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

**APPENDIX - XXIV**

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Current Deposit (CD) to Loan and Advances (L&A)**

| YEAR | L&A | CD | RATIO ($X$) | $\sum (X-\overline{X})$ | $(X-\overline{X})^2$ |
|---|---|---|---|---|---|
| 2003 | 7,962 | 1,163 | 0.15 | 0.00 | 0.0000 |
| 2004 | 9,645 | 1,437 | 0.15 | 0.00 | 0.0000 |
| 2005 | 9,627 | 1,343 | 0.14 | -0.01 | 0.0001 |
| 2006 | 8,479 | 1,369 | 0.16 | 0.01 | 0.0001 |
| 2007 | 9,159 | 1,147 | 0.13 | -0.02 | 0.0004 |
| **Total** | | | $\sum X = 0.73$ | | $\sum (X-\overline{X})^2 = 0.0006$ |

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

$$\text{Mean } (\overline{X}) = \frac{\sum \text{x}}{N} = \frac{0.73}{5} = \mathbf{0.15}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.0006}{5-1}} = \mathbf{0.01}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.01}{0.15} = \mathbf{0.08}$$

Where,

L &A=Loan and Advances

CD= Current Deposits

S.D= Standard Deviation

C.V= Coefficient of Variance

**APPENDIX - XXV**

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NABIL Bank considering Non Performing Loan (NPL) to Total Gross Loan (TGL) Ratio**

| YEAR | L & A | NPL | RATIO in % (*X*) | (*X*- $\overline{X}$ ) | (*X*- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 8114 | 450 | 5.55 | 3.03 | 9.1809 |
| 2004 | 8549 | 287 | 3.36 | 0.84 | 0.7056 |
| 2005 | 10947 | 145 | 1.32 | -1.20 | 1.4400 |
| 2006 | 13279 | 166 | 1.25 | -1.27 | 1.6129 |
| 2007 | 15903 | 178 | 1.12 | -1.40 | 1.9600 |
| **Total** | | | **∑ *X* = 12.60** | | **∑(*X*- $\overline{X}$ )$^2$ = 14.8994** |

$$\text{Non Performing Loan to Total Gross Loan} = \frac{\text{Non Performing Loan}}{\text{Total Gross Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum X}{N} = \frac{12.60}{5} = \mathbf{2.52}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{14.8994}{5-1}} = \mathbf{1.93}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{1.93}{2.52} = \mathbf{0.77}$$

Where,

L &A = Loan and Advances

NPL = Non Performing Loan

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXVI

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Non Performing Loan (NPL) to Total Gross Loan (TGL) Ratio**

| YEAR | L & A | NPL | RATIO in % ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 5050 | 111 | 2.20 | 0.70 | 0.4900 |
| 2004 | 6096 | 105 | 1.72 | 0.22 | 0.0484 |
| 2005 | 7900 | 129 | 1.63 | 0.13 | 0.0169 |
| 2006 | 10155 | 122 | 1.20 | -0.30 | 0.0900 |
| 2007 | 14100 | 107 | 0.76 | -0.74 | 0.5476 |
| **Total** | | | **∑ $X$ = 7.51** | | **∑($X$- $\overline{X}$ )$^2$ = 1.1929** |

$$\text{Non Performing Loan to Total Gross Loan} = \frac{\text{Non Performing Loan}}{\text{Total Gross Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{7.51}{5} = \mathbf{1.50}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn-\overline{X}\right)^2}{n-1}} = \sqrt{\frac{1.1929}{5-1}} = \mathbf{0.55}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.55}{1.50} = \mathbf{0.36}$$

Where,

L &A=Loan and Advances

NPL = Non Performing Loan

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXVII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Non Performing Loan (NPL) to Total Gross Loan (TGL) Ratio**

| YEAR | L & A | NPL | RATIO in % ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 2563 | 171 | 6.67 | 3.06 | 9.3636 |
| 2004 | 3743 | 147 | 3.93 | 0.32 | 0.1024 |
| 2005 | 4909 | 185 | 3.77 | 0.16 | 0.0256 |
| 2006 | 6659 | 173 | 2.60 | -1.01 | 1.0201 |
| 2007 | 9129 | 100 | 1.10 | -2.51 | 6.3001 |
| **Total** | | | **∑ $X$ = 18.07** | | **∑($X$- $\overline{X}$ )$^2$ = 16.8118** |

$$\text{Non Performing Loan to Total Gross Loan} = \frac{\text{Non Performing Loan}}{\text{Total Gross Loan and Advances}}$$

Mean ( $\overline{X}$ ) = $\frac{\sum x}{N}$ = $\frac{18.07}{5}$ = **3.61**

**(S.D)±** $= \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{16.8118}{5-1}}$ **= 2.05**

**CV** = $\frac{\pm}{\overline{X}} = \frac{2.05}{3.61}$ = **0.57**

Where,

L &A=Loan and Advances

NPL = Non Performing Loan

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXVIII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Non Performing Loan (NPL) to Total Gross Loan (TGL) Ratio**

| YEAR | L & A | NPL | RATIO in % ($X$) | ($X$- $\bar{X}$ ) | ($X$- $\bar{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 7962 | 1013 | 12.72 | -5.27 | 27.7729 |
| 2004 | 9645 | 1042 | 10.80 | -7.19 | 51.6961 |
| 2005 | 9627 | 1833 | 19.04 | 1.05 | 1.1025 |
| 2006 | 8479 | 1040 | 12.27 | -5.72 | 32.7184 |
| 2007 | 9159 | 3218 | 35.13 | 17.14 | 293.7796 |
| **Total** | | | **∑ $X$ = 89.96** | | **∑($X$- $\bar{X}$ )$^2$ =407.0695** |

$$\text{Non Performing Loan to Total Gross Loan} = \frac{\text{Non Performing Loan}}{\text{Total Gross Loan and Advances}}$$

Mean ( $\bar{X}$ ) = $\frac{\sum x}{N}$ = $\frac{89.96}{5}$ = **17.99**

**(S.D)** ± $= \sqrt{\frac{\sum (Xn - \bar{X})^2}{n-1}} = \sqrt{\frac{407.0695}{5-1}}$ **= 10.09**

**CV** = $\frac{\pm}{\bar{X}} = \frac{10.09}{17.99}$ = **0.56**

Where,

L &A=Loan and Advances

NPL = Non Performing Loan

S.D= Standard Deviation

C.V= Coefficient of Variance

**APPENDIX - XXIX**

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Banking Industry as a whole considering Non Performing Loan (NPL) to Total Gross Loan (TGL) Ratio**

| YEAR | L & A | NPL | RATIO in % (*X*) | (*X*- $\overline{X}$ ) | (*X*- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 111,901 | 32,227 | 28.80 | 9.92 | 98.4064 |
| 2004 | 127,065 | 28,933 | 22.77 | 3.89 | 15.1321 |
| 2005 | 147,201 | 27,878 | 18.94 | 0.06 | 0.0036 |
| 2006 | 188,309 | 26,770 | 14.22 | -4.66 | 21.7156 |
| 2007 | 229,783 | 22,183 | 9.65 | -9.23 | 85.1929 |
| **Total** | | | **∑ *X* = 94.38** | | **∑(*X*- $\overline{X}$ )$^2$ =220.4506** |

$$\text{Non Performing Loan to Total Gross Loan} = \frac{\text{Non Performing Loan}}{\text{Total Gross Loan and Advances}}$$

Mean ( $\overline{X}$ ) = $\frac{\sum x}{N}$ = $\frac{94.38}{5}$ = **18.88**

**(S.D)** ± $= \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{220.4506}{5-1}}$ **= 7.42**

**CV** = $\frac{\pm}{\overline{X}} = \frac{7.42}{18.88}$ = **0.39**

Where,

L &A=Loan and Advances

NPL = Non Performing Loan

S.D= Standard Deviation

C.V= Coefficient of Variance

**APPENDIX - XXX**

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NABIL Bank considering Interest Income (Int. Inc.) to Total Loan and Advances (L&A) Ratio**

| YEAR | L & A | Int Inc | RATIO in % ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2004 | 8114 | 1018 | 12.55 | 1.77 | 3.1329 |
| 2005 | 8549 | 1002 | 11.72 | 0.94 | 0.8836 |
| 2006 | 10947 | 1069 | 9.77 | -1.01 | 1.0201 |
| 2007 | 13279 | 1310 | 9.87 | -0.91 | 0.8281 |
| 2008 | 15903 | 1588 | 9.99 | -0.79 | 0.6241 |
| **Total** | | | **∑ $X$ = 53.90** | | **∑($X$- $\overline{X}$ )$^2$ = 6.4888** |

$$\text{Interest Income to Loan and Advances Ratio} = \frac{\text{Interest Income}}{\text{Total Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum X}{N} = \frac{53.90}{5} = \mathbf{10.78}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{6.4888}{5-1}} = \mathbf{1.27}$$

$$\mathbf{CV} = \frac{\pm}{\overline{X}} = \frac{1.27}{10.78} = \mathbf{0.12}$$

Where,

L &A=Loan and Advances

Int. Inc = Interest Income

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXXI

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Interest Income (Int. Inc.) to Total Loan and Advances (L&A) Ratio**

| YEAR | L & A | Int Inc | RATIO in % ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 5050 | 520 | 10.30 | 0.86 | 0.7396 |
| 2004 | 6096 | 657 | 10.78 | 1.34 | 1.7956 |
| 2005 | 7900 | 719 | 9.10 | -0.34 | 0.1156 |
| 2006 | 10155 | 903 | 8.89 | -0.55 | 0.3025 |
| 2007 | 14100 | 1144 | 8.11 | -1.33 | 1.7689 |
| **Total** | | | **$\sum X$ = 47.18** | | **$\sum(X- \overline{X})^2$ = 4.7222** |

$$\text{Interest Income to Loan and Advances Ratio} = \frac{\text{Interest Income}}{\text{Total Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum \text{x}}{N} = \frac{47.18}{5} = \mathbf{9.44}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{4.7222}{5-1}} = \mathbf{1.09}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{1.09}{9.44} = \mathbf{0.12}$$

Where,

L &A=Loan and Advances

Int. Inc = Interest Income

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXXII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Interest Income (Int. Inc.) to Total Loan and Advances (L&A) Ratio**

| YEAR | L & A | Int Inc | RATIO in % ($X$) | ($X-\overline{X}$) | ($X-\overline{X}$)$^2$ |
|---|---|---|---|---|---|
| 2003 | 2563 | 272 | 10.61 | 1.35 | 1.8225 |
| 2004 | 3743 | 363 | 9.70 | 0.44 | 0.1936 |
| 2005 | 4909 | 458 | 9.33 | 0.07 | 0.0049 |
| 2006 | 6659 | 580 | 8.71 | -0.55 | 0.3025 |
| 2007 | 9129 | 726 | 7.95 | -1.31 | 1.7161 |
| **Total** | | | **$\sum X$ = 46.30** | | **$\sum(X-\overline{X})^2$ = 4.0396** |

$$\text{Interest Income to Loan and Advances Ratio} = \frac{\text{Interest Income}}{\text{Total Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum \text{x}}{N} = \frac{46.30}{5} = \mathbf{9.26}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn-\overline{X}\right)^2}{n-1}} = \sqrt{\frac{4.0396}{5-1}} = \mathbf{1.00}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{1.00}{9.26} = \mathbf{0.11}$$

Where,

L &A=Loan and Advances

Int. Inc = Interest Income

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXXIII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Interest Income (Int. Inc.) to Total Loan and Advances (L&A) Ratio**

| YEAR | L & A | Int Inc | RATIO in % ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 7962 | 1014 | 12.74 | 2.07 | 4.2849 |
| 2004 | 9645 | 1096 | 11.36 | 0.69 | 0.4761 |
| 2005 | 9627 | 877 | 9.11 | -1.56 | 2.4336 |
| 2006 | 8479 | 785 | 9.26 | -1.41 | 1.9881 |
| 2007 | 9159 | 998 | 10.90 | 0.23 | 0.0529 |
| **Total** | | | **$\sum X$ = 53.37** | | **$\sum(X-\overline{X})^2$ = 9.2356** |

$$\text{Interest Income to Loan and Advances Ratio} = \frac{\text{Interest Income}}{\text{Total Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{53.37}{5} = \mathbf{10.67}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn-\overline{X}\right)^2}{n-1}} = \sqrt{\frac{9.2356}{5-1}} = \mathbf{1.52}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{1.52}{10.67} = \mathbf{0.14}$$

Where,

L &A=Loan and Advances

Int. Inc = Interest Income

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXXIV

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NABIL Bank considering Net Profit (NP) to Total Loan and Advances (L&A) Ratio**

| YEAR | L & A | N.P. | RATIO in % (*X*) | (*X*- $\overline{X}$ ) | (*X*- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 8114 | 416 | 5.13 | 0.29 | 0.0841 |
| 2004 | 8549 | 455 | 5.32 | 0.48 | 0.2304 |
| 2005 | 10947 | 519 | 4.74 | -0.10 | 0.0100 |
| 2006 | 13279 | 635 | 4.78 | -0.06 | 0.0036 |
| 2007 | 15903 | 674 | 4.24 | -0.60 | 0.3600 |
| **Total** | | | **∑ *X* = 24.21** | | **∑(*X*- $\overline{X}$ )$^2$ = 0.6881** |

$$\text{Net Profit to Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Total Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{24.21}{5} = \mathbf{4.84}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.6881}{5-1}} = \mathbf{0.41}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.41}{4.84} = \mathbf{0.09}$$

Where,

L &A=Loan and Advances

N.P = Net Profit

S.D= Standard Deviation

C.V= Coefficient of Variance

**APPENDIX - XXXV**

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Net Profit (NP) to Total Loan and Advances (L&A) Ratio**

| YEAR | L & A | N.P. | RATIO in % ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 5050 | 94 | 1.86 | -0.30 | 0.0900 |
| 2004 | 6096 | 144 | 2.36 | 0.20 | 0.0400 |
| 2005 | 7900 | 168 | 2.13 | -0.03 | 0.0009 |
| 2006 | 10155 | 237 | 2.33 | 0.17 | 0.0289 |
| 2007 | 14100 | 296 | 2.10 | -0.06 | 0.0036 |
| **Total** | | | **∑ $X$ = 10.78** | | **∑($X$- $\overline{X}$ )$^2$ = 0.1634** |

$$\text{Net Profit to Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Total Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{10.78}{5} = \mathbf{2.16}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum(Xn-\overline{X})^2}{n-1}} = \sqrt{\frac{0.1634}{5-1}} = \mathbf{0.20}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.20}{2.16} = \mathbf{0.09}$$

Where,

L &A=Loan and Advances

N.P = Net Profit

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXXVI

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Net Profit (NP) to Total Loan and Advances (L&A) Ratio**

| YEAR | L & A | N.P. | RATIO in % ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 2563 | 49 | 1.91 | 0.06 | 0.0036 |
| 2004 | 3743 | 68 | 1.82 | -0.03 | 0.0009 |
| 2005 | 4909 | 114 | 2.32 | 0.47 | 0.2209 |
| 2006 | 6659 | 97 | 1.46 | -0.39 | 0.1521 |
| 2007 | 9129 | 158 | 1.73 | -0.12 | 0.0144 |
| **Total** | | | **$\sum X$ = 9.24** | | **$\sum(X- \overline{X})^2$ = 0.3919** |

$$\text{Net Profit to Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Total Loan and Advances}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{9.24}{5} = \mathbf{1.85}$$

$$\textbf{(S.D)}\pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.3919}{5-1}} = \mathbf{0.31}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.31}{1.85} = \mathbf{0.17}$$

Where,

L &A=Loan and Advances

N.P = Net Profit

S.D= Standard Deviation

C.V= Coefficient of Variance

## APPENDIX - XXXVII

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Net Profit (NP) to Total Loan and Advances (L&A) Ratio**

| YEAR | L & A | N.P. | RATIO in % ($X$) | ($X$- $\overline{X}$ ) | ($X$- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 7962 | 1244 | 15.62 | 17.09 | 292.07 |
| 2004 | 9645 | 2.64 | 0.03 | 1.50 | 2.25 |
| 2005 | 9627 | (782) | (8.12) | (6.65) | 44.22 |
| 2006 | 8479 | (1,797) | (21.19) | (19.72) | 388.88 |
| 2007 | 9159 | 577 | 6.30 | 7.77 | 60.37 |
| Total | | | **∑ $X$ = (7.36)** | | **∑($X$- $\overline{X}$ )$^2$ = 787.79** |

$$\text{Net Profit to Loan and Advances Ratio} = \frac{\text{Net Profit}}{\text{Total Loan and Advances}}$$

Mean ( $\overline{X}$ ) = $\frac{\sum x}{N}$ = $\frac{-7.36}{5}$ = **- 1.47**

**(S.D)**± $= \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{787.79}{5-1}}$ **= 14.03**

**CV** = $\frac{\pm}{\overline{X}} = \frac{14.03}{-1.47}$ = **- 9.53**

Where,

L &A=Loan and Advances

N.P = Net Profit

S.D= Standard Deviation

C.V= Coefficient of Variance

**APPENDIX – XXXVIII**

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NABIL Bank considering Loan Loss Provision (LLP) to Non Performing Loan (NPL) Ratio**

| YEAR | LLP | NPL | RATIO (*X*) | ($X-\overline{X}$) | ($X-\overline{X}$)$^2$ |
|---|---|---|---|---|---|
| 2003 | 358 | 449.63 | 0.80 | -0.94 | 0.8826 |
| 2004 | 359 | 286.68 | 1.25 | -0.49 | 0.2374 |
| 2005 | 361 | 144.51 | 2.50 | 0.76 | 0.5755 |
| 2006 | 356 | 165.98 | 2.14 | 0.41 | 0.1643 |
| 2007 | 357 | 178.30 | 2.00 | 0.26 | 0.0690 |
| **Total** | | | **$\sum X$ = 8.70** | | **$\sum(X-\overline{X})^2$ = 1.9288** |

$$\text{Loan Loss Provision to Non Performing Loan Ratio} = \frac{\text{Loan Loss Provision}}{\text{Non Performing Loan}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{8.70}{5} = \mathbf{1.74}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn-\overline{X}\right)^2}{n-1}} = \sqrt{\frac{1.9288}{5-1}} = \mathbf{0.69}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.69}{1.74} = \mathbf{0.40}$$

Where,

LLP = Loan Loss Provision

NPL = Non Performing Loan

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX – XXXIX

**Work sheet for the calculation of Mean, Standard deviation and coefficient of Everest Bank considering Loan Loss Provision (LLP) to Non Performing Loan (NPL) Ratio**

| YEAR | LLP | NPL | RATIO (*X*) | (*X*- $\overline{X}$ ) | (*X*- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 141 | 111.19 | 1.27 | -1.16 | 1.3411 |
| 2004 | 212 | 104.76 | 2.02 | -0.40 | 0.1635 |
| 2005 | 281 | 128.81 | 2.18 | -0.25 | 0.0608 |
| 2006 | 335 | 121.85 | 2.75 | 0.32 | 0.1032 |
| 2007 | 419 | 107.00 | 3.92 | 1.49 | 2.2136 |
| **Total** | | | **∑ *X* = 12.14** | | **∑(*X*- $\overline{X}$ )$^2$ = 3.8822** |

$$\text{Loan Loss Provision to Non Performing Loan Ratio} = \frac{\text{Loan Loss Provision}}{\text{Non Performing Loan}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{12.14}{5} = \mathbf{2.43}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum (Xn - \overline{X})^2}{n-1}} = \sqrt{\frac{3.8822}{5-1}} = \mathbf{0.99}$$

$$\mathbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.99}{2.43} = \mathbf{0.41}$$

Where,

LLP = Loan Loss Provision

NPL = Non Performing Loan

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX – XL

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NIC Bank considering Loan Loss Provision (LLP) to Non Performing Loan (NPL) Ratio**

| YEAR | LLP | NPL | RATIO (*X*) | (*X*- $\overline{X}$ ) | (*X*- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 193 | 170.69 | 1.13 | -0.21 | 0.0462 |
| 2004 | 182 | 146.59 | 1.24 | -0.10 | 0.0107 |
| 2005 | 198 | 185.43 | 1.07 | -0.28 | 0.0768 |
| 2006 | 246 | 173.09 | 1.42 | 0.08 | 0.0058 |
| 2007 | 187 | 100.30 | 1.86 | 0.52 | 0.2698 |
| **Total** | | | **∑ *X* = 6.72** | | **∑(*X*- $\overline{X}$ )$^2$ = 0.4093** |

$$\text{Loan Loss Provision to Non Performing Loan Ratio} = \frac{\text{Loan Loss Provision}}{\text{Non Performing Loan}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{6.72}{5} = \mathbf{1.34}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum \left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{0.4093}{5-1}} = \mathbf{0.32}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{0.32}{1.34} = \mathbf{0.24}$$

Where,

LLP = Loan Loss Provision

NPL = Non Performing Loan

S.D = Standard Deviation

C.V = Coefficient of Variance

## APPENDIX – XLI

**Work sheet for the calculation of Mean, Standard deviation and coefficient of NB Bank considering Loan Loss Provision (LLP) to Non Performing Loan (NPL) Ratio**

| YEAR | LLP | NPL | RATIO (*X*) | (*X*- $\overline{X}$ ) | (*X*- $\overline{X}$ )$^2$ |
|---|---|---|---|---|---|
| 2003 | 714 | 1,013 | 0.70 | -0.70 | 0.4886 |
| 2004 | 996 | 1,042 | 0.96 | -0.44 | 0.1965 |
| 2005 | 1,839 | 1,833 | 1.00 | -0.40 | 0.1566 |
| 2006 | 3,336 | 1,040 | 3.21 | 1.81 | 3.2675 |
| 2007 | 3,634 | 3,218 | 1.13 | -0.27 | 0.0727 |
| **Total** | | | **∑ *X* = 7.00** | | **∑(*X*- $\overline{X}$ )$^2$ = 4.1819** |

$$\text{Loan Loss Provision to Non Performing Loan Ratio} = \frac{\text{Loan Loss Provision}}{\text{Non Performing Loan}}$$

$$\text{Mean } (\overline{X}) = \frac{\sum x}{N} = \frac{7.00}{5} = \mathbf{1.40}$$

$$\textbf{(S.D)} \pm = \sqrt{\frac{\sum\left(Xn - \overline{X}\right)^2}{n-1}} = \sqrt{\frac{4.1819}{5-1}} = \mathbf{1.02}$$

$$\textbf{CV} = \frac{\pm}{\overline{X}} = \frac{1.02}{1.40} = \mathbf{0.73}$$

Where,

LLP = Loan Loss Provision

NPL = Non Performing Loan

S.D = Standard Deviation

C.V = Coefficient of Variance

# Annex – 1

## Questionnaire

**Dear Sir/ Madam**

I would be very much thankful for your few minutes time to fill up the following questionnaires that have importance in finding the situation, problems of credit products under banking industry in Nepal. Your individual responses will be kept anonymous and only the general findings will be presented in the research report.

Biraj Shrestha

Name (optional): Designation:

Professional experience (in year): Age (in Year):

Organization:

Please answer the following questions as they relate to the bank lending

1) Which sector of the available market is the most secure for lending?

…………………………………………………

…………………………………………………

2) What is the common security that the bank demands before disbursing loan?

…………………………………………………

…………………………………………………

3) How long does the banks take to disburse the loan form the date of loan application?

…………………………………………………

…………………………………………………

4) Did you ever buy lending product offered by commercial banks?

▪Yes ▪No ▪Don't Know

5) What factor will motivate to get loan in the market?

Please rank the following alternatives.

1. Very relevant 2. Relevant 3. Indifference
4. Irrelevant 5. Very Irrelevant

| Factor | Rank | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Low interest rate | | | | | |
| Promotion and advertisement campaign | | | | | |
| Innovation product offered by bank | | | | | |
| For better lifestyle | | | | | |
| To make future secure | | | | | |
| To mellitus social status | | | | | |

6) Please rank the following statement that the Nepalese commercial bank faces difficulties for the growth of lending activities, in your opinion.

1. Strongly agree 2.Agree 3.Don't know

4. Disagree 5.Strongly disagree

| Statement | Rank | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| The legal procedure is tedious and lengthy | | | | | |
| The staffs are not highly competent | | | | | |
| Banking industry is very competitive | | | | | |
| Present rules & regulations are not sufficient for the growth of credit activities | | | | | |
| The bank has not sufficient customer segment to match the requirements of customers. | | | | | |

7) Which product of credit facility is most profitable?

…………………………………………………

…………………………………………………

8) What is the time taken in follow-up for the overdue loan?

…………………………………………………

…………………………………………………

9) Which of the following sector is given priority while floating loans?

1. Industrial Sector 2. Trading Sector

3. Service Sector 4. Other(s) _______________

10) What is the most important reason that leads to the NPA?

…………………………………………………

…………………………………………………

11) What is the procedure for the banks to reduce NPA?

…………………………………………………

…………………………………………………

12) What are the external factors that may cause for NPA growth?

…………………………………………………

…………………………………………………

13) Which authority approves the credit policy?

…………………………………………………

…………………………………………………

14) Does your bank have the hierarchy for the loan sanction?

…………………………………………………

…………………………………………………

15) What suggestion would you like to give to Nepalese bank regarding bank lending products and credit activates?

…………………………………………………

…………………………………………………

Thank you for your kind cooperation.