LENDING OPERATION AND PRACTICE OF COMMERCIAL BANKS IN NEPAL

(A Comparative Study of Nabil Bank, Everest Bank and NIC Bank)

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CHAPTER-I

INTRODUCTION

1.1 Background of the Study

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. Civil Bank has been the youngest one till now. Relating to the commercial banks, they have been altogether 30 in number. These banks attempted to introduce foreign management skills, technical know-how and foreign capital. This situation created an environment of healthy competition among the existing financial institutions. The Nepalese financial system comprises of commercial banks, Development banks, finance companies, co-operatives societies, non government organizations (permitted to perform limited banking activities), insurance companies, Nepal stock exchange, citizen investment trust, employee's provident find and postal saving service. However, information in this thesis is necessary about the effort that the commercial banks are contributing for the up boost of the Nepalese economy which is under the direct regulation of Nepal Rastra Bank (NRB, 2010:7).

Every financial institution is on of the key economic development of a country. Every financial institution including finance companies, commercial banks and other financial institutions collect scattered financial resources from the mass and invest them among those are associates with The economics, commercial and social activities of the country. Nowadays the financial institutions are viewed as catalyst in the process of the economics growth. The well-organized financial system of the country has played a great role, it collects financial resources from public and provided fund for commercial and economic activities. As a financial system, commercial banks are the major media which occupy quite as important place in the framework of the every economy, trade and business and other resource deficit sector contribute to the economic growth of the nation. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of a country (NRB, 2010:11).

Commercial banks plays an important part for economic development of a country as they provide capital for the development of industry, trade and business by investing the saving collects as deposits for public. They are the most important ingredients for integrated and speedy development of a country they render various services to their customer's facilities, their economic and their social life. Therefore for a competitive and reliable banking to every country, commercial banks have played a very significant role in creating banking habit among the people, winding area and business communities and the government in various ways. Commercial banks act as the bank of the general public

The word credit conceptualized the investment of incomes, saving or other collected fund. It is commonly known fact that an investment is only possible where there is a adequate saving. If all the incomes and saving are consumed to solve the problem of hand to mouth and to the other basis needs. Then there is no existence of investment. So, both saving and investment are interrelated. A distinction is often made between investments and saving, saving is foregone consumption; investment is restricted to real investment of the sort that increases national output in the future. It is always true all people want to invest their money in the best firm for good return but the return may be both favorable and unfavorable. It is conceptually the investment of the investment of the collected funds or wealth, like income or saving (Charles, 1999:35).

Investment is a very well known and prestigious word in financial term which manages an investor's wealth for positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk, the investors assume. It is concerned with the management of an investor's wealth which is the sum of current income and present values of all future income funds to be invested come from assets owned borrowed money and saving or foreign consumption by the investor. The main objective of their investment is to secure financial benefit in future. Businessman invest to carry on their own business, other may invest to increase their own wealth. Any way goal of investment is the maximization of owner's economic welfare (Francis, 1990:25).

Till the date there are 30 commercial banks in Nepal. Mega Commercial Bank has also been listed in 'A' class financial institution recently. Therefore, there are 30 'A' class financial institutions (commercial banks). Till the period of this study, a new commercial bank has also been found to be licensed to practice commercial banking operations in Nepal. The name and the year of establishment of the commercial banks operating in Nepal have been listed below:

Name of the bank	Year of establishment (A.D.)
1. Nepal Bank Limited	1937
2. Rastriya Banijya Bank	1965
3. NABIL Bank Limited	1984
4. Nepal Investment Bank Limited	1985
5. Standard Chartered Bank Nepal Limited	1986
6. Himalayan Bank Limited	1993
7. Nepal SBI Bank Limited	1993
8. Nepal Bangladesh Bank Limited	1994
9. Everest Bank Limited	1994
10. Bank of Kathmandu Limited	1995
11. Nepal Credit & Commerce Bank Limited	1996
12. Nepal Industrial and Commercial Bank Limited	1998
13. Lumbini Bank Limited	1998
14. Machhapuchchhree Bank Limited	1999
15. Kumari Bank Limited	2001
16. Laxmi Bank Limited	2002
17. Siddhartha Bank Limited	2003
18. Agriculture Development Bank Limited (ADB)	1965
19. Global Bank Limited	2007
20. Citizen Bank Limited	2007

21. Prime Bank Limited	2007
22. Bank of Asia Limited	2007
23. Sunrise Bank Limited	2007
24. NMB Bank Ltd.	2008
25. Development Credit Bank Ltd	2008
26. KIST Merchant Bank Limited	2009
27. Janta Bank Limited	2010
28. Mega Commercial Bank Limited	2010
29. Commerce and Trust Bank Limited	2010
30. Civil Bank Limited	2010

1.1.1 Introduction of the Sample Banks

Three banks have been taken as sample out of thirty banks operating within tertiary of Nepal. These banks are established in different time period. Nabil bank is the first commercial bank in the history of Nepal where as Everest Bank is established as the joint venture with Punjab National Bank (India) which directly helps those businessmen and individuals who have direct relation with India and NIC bank deals with Nepalese businessmen whose business area lies within the territory of Nepal.

a. Nepal Industrial and Commercial Bank Limited (NIC)

Nepal Industrial and Commercial Bank Limited (NIC Bank), which commenced operation on 21st July 1998, is the first commercial bank in the country to be capitalized at Rs. 500 million. The Bank which has been in profitable operation from its inception, has managed robust growths in its overall business and profitability during the recent years. The Bank offers a complete suite of commercial banking products and services including transaction banking, international trade finance, business banking, project finance, corporate banking and consumer banking. NIC Bank is one of the most widely held banking companies in Nepal with close to 35,000 shareholders.

NIC is committed to provide superior banking products and financial services to its patrons through efficient and cost-effective service delivery; offering of new innovative products and friendly customer service; and at the same time maintaining confidentiality, professionalism & good governance. It consistently upgrades its processing systems and technology support besides broadening its scope, range and quality of services. All its branches are inter-connected through VSAT with micro-wave/leased line/optical fibre back-ups and are capable of providing on-line real-time banking services.

b. Nabil Bank Limited

Nabil 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 country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., Nepal Electricity Authority, Nepal Oil Corporation, Nepal Television, Water Supply and the 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.

c. Everest Bank Limited (EBL)

Everest Bank Limited started its operation in 1994 with the view and objective of extending professionalized and efficient banking services to various segments 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 112 years of banking history with more than 4500 offices all over the India. Of which 1400 branches are interconnected.

The bank is providing its services through a wide network of 38 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 50 ATMs and over 500 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.

1.2 Statement of the Problem

Nepal could never cultivate a culture of "National priority, sincerity and commitment". Often Economists, Industrialists and even Politicians think that the economic policies pursued by the post political regime have been the culprit of less development. That 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, Korea, Singapore, Thailand, Taiwan, Indonesia and Malaysia. Indo-Chinese nations will shortly follow this. Why only Nepal has been exception to this? Even Bangladesh and Bhutan are going ahead.

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-lockedness has been one of the strong factors in this case. Lack of infrastructural support 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. The policy of promoting import substitution and indigenous raw material based industries was the target and the guiding points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., and its factors, therefore, provide the base as well as guide to future course of industrial development in Nepal.

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 are 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. The problem of the study has been laid on the issues related to the comparative strength 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.

Banking business in Nepal though seemed developed and mushroomed only in urban areas of the country in recent days, has its own limitations and problems as regards to security, profitability and financial soundness. Currently there are 30 commercial banks under ‘A’ class financial institutions operating in the country. The inflow of money in the banks in the form of several kinds of deposits is huge but it could not be invested in more profitable, sustainable and riskless projects. In addition, many banks are found centered in the urban areas of the country. Therefore, there is a situation that needy people and small entrepreneurs residing in rural areas are still deprived from institutional credit. points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services

(including trade finance) to leading Government institutions like Nepal Telecom Ltd., picture of the profitability of the three commercial banks in Nepal.

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 research questions of the study are as follows:

a) What is the lending procedure of the banks?
b) What is the proportion of lending over total deposit of the bank?
c) What is the proportion of investment in different sectors by the sample banks?

1.3 Objective of the Study

The main objective of this research is to get information about the credit policy and the overall lending procedure of Everest Bank, NIC Bank and Nabil Bank. Besides, the other specific objectives are as follows:

a) To study the lending procedure of the banks.
b) To find out the proportion of lending over total deposit of the bank.
c) To find out the proportion of investment in different sectors.
d) To provide the appropriate suggestion and recommendations on the basis of the findings of the study.

1.4 Significance of the Study

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 commercial banks. Banks have today gained paramount trust of the public. Banking industry offers a wide range of services addressing the needs of public in different walks of life. At present, a large number of banks are operating in Nepal. Naturally, they are rendering a wide range of services. They are trying to keep up pace with the changes taking place in the world. But quantity does not count for quality. The financial institutions of all classes 'A' to 'D' are increasing every year. In a small economy like Nepal, it is a question of great concern as points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., Therefore, the report will try to concentrate on three major private sector banks of Nepal, i.e., Everest Bank Limited (HBL), Nabil Bank Limited (NABIL) and NIC Bank Limited (NIC). It will focus on the comparative credit policy and its implementation of these three banks regarding profitability, liquidity, leverage positions, cost minimization, NPA status etc. 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. The research will be helpful for joint venture banks to formulate strategies to face the increasing competitions. Besides, it also helps to identify the importance of shareholders, policy formulators, professionals and outside investors.

1.5 Limitations of the Study

This research explains and analyzes the subject matter with the help of published data and surveyed data. The present study is not free from limitations. Therefore, following are the limitations of the research:

a) The analysis period of research covers only five years (FY 2005/06 to FY 2009/10)
b) The study mainly focuses on the loan & advances and doesn't cover other banking services and facilities provided by the banks.
c) In this study only limited financial and statistical tools and techniques of credit analysis are used. The truth of the research result is based upon the available data from the survey and other sources.
d) Due to the small sample size, it may not fully represent complete banking credit concept as a whole.

e) Out of total 30 commercial banks operating in Nepal only three commercial banks are taken as sample.
f) The study is mainly based on the published secondary data and data gathered from the survey conducted at various places i.e. secondary data gathered from related sources hence the reliability would depend on it.

1.6 Organization of the Study

The study is divided into five chapters, they are as follow:

Chapter One: Introduction: It deals with introduction of the main topic of the study like background of the study, statement problem, objectives and significance with limitation of the study and other introductory frame work.

Chapter Two: Review of Literature: It deals with the review of available relevant studies. It includes the conceptual review and review of the related books, journals and the published and unpublished research works as well as thesis. It also includes the investment policy of commercial bank.

Chapter Three: Research Methodology: It deals with methodology pf the study i.e. research carried out in this size and shape. For this purpose various financial tools and statistical tool are defined with will be used for the analysis of the presented data.

Chapter Four: Presentation and Analysis of Data: It deals with the presentation and analysis of the relevant collected data. Analysis is done as per described in chapter three. This chapter is the heart of the study.

Chapter Five: Summary, Conclusion and Recommendation: It consists of the summary, conclusion and recommendation of the study.

CHAPTER-II

REVIEW OF LITERATURE

The second chapter is categorized under three main heading. Conceptual review is concern with fundamental of supportive text that will ensure the interpretation whether it is under the principles and doctrine of the theories related to the topic. Review of related studies is about the NRB directives related to commercial banks, studies of previous thesis, related books and previous researcher in similar topics. The last is research gap which has been described the difference between the previous thesis and current thesis.

2.1 Conceptual Review

Generally investment means to flow cash different sector with motive. But in broad sense, investment means to sacrifice current rupee in the present and certain for the future purpose rupees, which comes later and is uncertain. According to F. Amling " Investment may be defined as purchase by an individual or the institutional investor of a financial or real assets that produces a return proportional to the risk assumed over some future investment period." Similarity according to Fischer and Jordan, An investment is commitment of funds made in the expectation of some positive rate of return. If the investment is properly undertaken the return will be commensurate with the risk the investor assumes. The development of every country is always measured by its economic indices therefore; every country has given emphasis on enlistment of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth (Chone, 1997:12).

"Bank assists both the flow of goods and service from the products to the consumers and financial activities of the government" (Chone, 1997:13).

Banks are such type of institutions, which seals in money and substitutes for money. They deal with credit and credit instrument. The most important thi points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., ery challenging task for the bank. The decision of an investment of fund may be the question of life and death of the bank. "The investment objectives are to increase systematically the individual wealth, defined as assets minus liabilities. The higher level of desired wealth the higher must be received. An investor seeking higher return must be willing to face higher level of risk" (Cheney and Mosses, 1995:13).

"Credit as the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all income" (Jones, 1991:92).

"In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profits. It may also be pointed out that investment decision affects the firm's value. The firm's will increase if investments are profitable and add to the shareholders wealth. Thus investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder's fund maximization. Investment will all to the shareholder's wealth if it yields benefits in excess on the minimum benefits as per the opportunity cost of capital" (Pandey, 1990:407).

"A sound investment policy of a bank is such that its funds are distributed in different types of assets with good profitability on the one hand and provide maximum safety and security to the depositor and banks on the other hands, moreover, risk in banking sec points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., ome uncollectible due to mismanagement illegal manipulation of loan, misguided leading policy or unexpected economic downturn. Therefore, the bank's investment policy must be such that it is sound and prudent in order to protect public funds" (Baidya, 1997:46-47).

"An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time. The funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the finds" (Frank & Reily, 1986:92).

It may be said that a bank must strike a balance sheet liquidity, profitability and safety. " The secret of successful banking is to distribute resource the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that is cash (on hand quickly realizable) to meet every claim and at the same times, enough income for the bank to pay its way earn profits for its shareholders" (Radhaswami, 1979:24).

"The investment (credit) policies of bank are conditioned, to great extent, by the national policy framework; every banker has to apply his own judgment for arriving at a credit decision, keeping, of course, his banker's credit policy also in mind" (Singh, 1983:5).

Investment management of bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk. So that, an investment word is attach in economics risk and return theory of future result. The commercial banks are inspired with the goal earning profit. There are many reasons after the goal of gaining profit. A bank is a legal person. The shareholders are the owner of the bank. The board of directors is the agent of the bank. It operates the ban. To run the banks many employees are appointed. It needs a great amount of expenses to run the bank, whether it is direct or indirect, there is continues expanse in the bank. In addition to it, the aim of any person or institution to invest the money to the bank is to earn more profit only. A bank established without the aim of gaining the profit is the central bank. Other banks are inspires with the objective of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of banking investment and to implement it such more carefully otherwise a bank may be unsuccessful in its goal (Bhandari, 2003:126).

2.1.1 Credit Policy of Bank

Without credit, a bank can't gain profit. The bank can't be successful until it gains profit. points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., loans. Thus, a great capital fund is formed in the bank from different sources. It is not better to keep such fund inactive. The bank should able to clear the policy of its investment by making a deep study on the subjects that which sector be the more trust-worth and dependable to invest the amount collected in the bank. If the bank applies following investment policies or principle it can be successful in its goal. Hence these principles or policies or theories are as follows (Frank & Reily, 1986:102):

1. **Principle of Liquidity**

Liquidity means the whole stock in the economy, in the case of Nepal the money in use, the money in the accounts of current saving and fixed period and the money in margin account refer to liquidity. The liquid property means cash stock of the commercial banks the amount of short term, account and short-term government and business security and the Treasury bill.

A bank should not forget the principle of liquidity while it is following its investment policy. The commercial banks are considered to be as financial mediators. The commercial banks have to the deposits and they immediately should give it in the time when the depositors asked. For this purpose, the bank should keep adequate liquid funds. And also they should gain profit by utilizing the deposit as a loan and advances, If the bank can't return the deposits at the time of demand it may lose the customers and their trust. If adequate liquid fund is kept, they can return the deposits at will of the depositors but such bank can’t run for a long time. In same way, if they invest the whole deposit loan and advances, they can’t give it at the time of demand by the depositors, so, the commercial bank try move the liquidity and profit together. It is a great challenge for the managers of the bank

The commercial banks should attract deposits because a deposit is called raw materials of banking, without which bank can’t run. It is important thing in which sectors the amount of each deposit is to be invested is not given for the amount of current account. But as it has to give payment immediately, plenty of liquidity is necessary for it. From the points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., to the bank. The quantity of liquidity is less for investment so maintenance of co-ordination between the property and the liquidity by keeping some parts of its own property as a liquid property to provide loan and to invest it is the success of the commercial banks. The central bank pays attention to this reality to give direction on liquidity to the commercial banks (Bhandari, 2003:127).

2. Principle of Profitability

The objective of the commercial banks is to earn profit. The bank should follow the objective by focusing it on the sectors in which it can earn much profit. The bank should not keep its means and materials inactive; it should keep on investing the means and materials in appropriate and safe area. The banks can gain much profit from the safe and long-term investment. But there is less liquidity in such investment. It may loss the points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., and the bank doesn't get profit. So it should maintain equality in it. The profit of the bank is the interest rate and the bank charge. So, the bank should always think to apply an appropriate policy in such sector from which can earn much (Bhandari, 2003:128).

3. Principle of Safety

A bank should pay special emphasis on safety. It the invested area is unsafe, it isn't good omen for the bank should pay much emphasis on the principle of safety, to follow investment policy. There will be no doubt of loss whether it is great or little, if the bank has not invested in a safe sector. The bank should think it with much sensibility. To invest in an unsafe with the hope of gaining much is to accept the security of low quality. To invest large loan against less securities by receiving commission, to invest in new places without care, observation and to flow the long-term loan including these all-various reasons will make unsafe bank's investment. They should be avoided as mush as can be. There will be no loss to the bank, if it invest in profitable sector. So, the bank should seriously study whether there is a possibility of investment or not. It should invest in a safe sector. IF the property taken as the securities are ruined, securities is low in standard or low valued and if there is no possibility of sale of the security, the bank suffers from loss. The bank should follow the principle of safety, should flow the short-term loan and invest in profitability sector. In such conditions there will be no possibility of loss. The secured sectors means the securities of the inland and foreign, company's shares debentures and government bond etc. (Bhandari, 2003:128).

4. Principle of Diversification

The principle of diversification means, the banking policy of investing the money in the various sectors. The bank should not follow the policy of investment policy of investment only in one or two sectors. If it follows such policy, certainly its investment policy will not be successful. The bank by studying and analyzing the different sectors where it is points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., investment of some sector and there will be maximum profit from some another sector. There may be loss too in some sector. On the whole a bank should be able to itself a competent. If it happens so, the banking transaction does not go up and down. It can run the bank comfortably and smoothly. In the case of earning profit, the bans should the policy of investing various fields. So, there is a statement "a bank should not lay all its egg in the same basket." By following this principle, on the basis of gold, silver, diamond, development bonds, shares of company, debentures, goods, imports and export bills and other appropriate securities, the bank have moved a head of their investment policy. The bank always gets success in their working from such investment. And the bank becomes successful in its goal. (Bhandari, 2003:129)

5. Principle of Marketability

A bank should adopt the principle of marketability in investment policy. In certain way, the bank moves its investment or flows loan against security. To invest the money, the bank should follow the policy of taking the security of high quality as far as possible. The market of Nepal is small. In such a small market in order to livingness to its banking transaction, a bank should flow its loan by taking the first class securities. The bank should keep in mind the mind the main principle of marketability while it makes investment. Are the goods taken as securities saleable in the market or not? Can the loan recovered by selling it in the market or not? The bank should adopt the investment policy by paying the attention to the different aspects, it should study the market evaluate of the goods which are taken as security. The bank should do such thing \, which would help to earn the profit and make the investment policy successful. The bank should not investment money by taking the securities of goods, which are not saleable in the market and through they are sold but not fetch the responsible price, and there is no value of such things. The bank should take as far as possible such goods which keeps may be safely and freshly in the market and the loan will be recovered like, gold, silver, diamond, company's shares certificates, debentures, development bonds and other similar types of securities of immovable property like house, land can't be sold in time. So if the bank provides loan by taking reasonable goods as securities it can be sold in the market easily and the bank can be saved from becoming insecure (Bhanadri, 2003:129).

2.2 Review of NRB Directives

NRB Directives manual 2004 edition complied by R. Bajracharya & company chartered accountants Maintenance of liquidity (Part Two Chapter ix, page 1-3)

Meaning

Liquid assets, as define as commercial banking Act (section 2 Jha) include cash in vault, points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., and other as specified NRB. However, for the purpose of cash reserve requirement, the following arrangements have been put into force by NRB.

Following arrangement are effective from 2060.4.12/ July 28 2003

- .Balance held with NRB 6% of total deposit liability

Procedure of compliance test

- The "balance held with the NRB " requirement shall be examined on a weekly basis (each Sunday through Saturday)
- In the case o full holidays during the entire week, cash reserve requirement for the week shall not be calculated,
- The "balance held with the NRB "Shall be examined against the average weekly balance of deposit liabilities of immediately preceding 4th week. In case of full holidays in any week, the average immediately preceding week shall be considered.

- For the purpose of calculation of weekly average of total deposit, and balance held with NRB; 5 shall divide the total aggregate amount daily balance from Monday through Friday. In case of any holiday befalling in the week, the balance of the preceding day shall be considered as the balanced for the day.

Penalty for Shortfalls

- For first time short fall in “Balance held with NRB”, at the rate of existing bank rate on such shortfall amount.
- For second time shortfall in “Balance held with NRB”, at double the rate of the existing rate on such shortfall amount.
- For third time and successive shortfall in “Balance held with NRB”, at triple rate of the existing bank rate on such shortfall amount.
- For the purpose of calculation of “times “ under sub-clauses (a), (b), and (c) above, the same shall be on each fiscal year basis.
- The penalty at the existing bank rate on shortfall amount shall be on weekly basis. Such shortfall shall be multiplied by the percentage of bank rate and divided by 52.
- For the purpose of application of bank rate, the highest refinance rate as prescribed by NRB shall be considered as the bank rate and penalty on the shortfall amount shall be calculated at such highest refinance rate. Regulations relating to investment in shares and securities by commercial banks (Part two, chapter xx, page1-3)

1. Arrangement as to implementation of Investment policy under approval of the Board of Directors.

Banks shall prepare written policy relating to investments in the shares and debenture of other organized institutions. Such policies shall be implemented only under the approval of the Board Directors.

2. Arrangement relating to investment in securities issued by His Majesty's Government and Nepal Rastra Bank.

There shall no restriction as to investment by the banks in the securities of His majesty's government and securities issued by Nepal Rastra Bank.

Restriction put by circular No Bai. Bi. Ni, ni. 94/059/60 dated 2059.9.19/ January. 3. 2003.

Banks and finance companies can purchase and get endorsed (transferred) in their name points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., issued in institution name. Information as to such purchases has to be provided to this bank's Public Debt Management Department.

Banks and finance companies cannot purchase and get endorsed in their name the securities, which were issued by public Debt Department for subscription by individuals only, as well as certificates issued in individual names.

3. Arrangement relating to investment in shares and securities of organized institutions.

a) Banks may invest in shares and securities of any one organized institution not exceeding 10 percent of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the core capital fund.

b) The amount of investment in shares and securities of any organized institution in which banks has financial interest shall be limited to 10 percent of the paid up capital of such company and the cumulative amount of such investment in all the companies in which the bank has financial interest shall be limited to 20 percent of the paid up capital of the bank. For the purpose of calculation of capital fund, the amount of such investment in shares and securities shall be deducted from the core capital fund.

c) The total amount of investment as per sub-clause (a) and (b) shall be restricted to 30 percent of the paid up capital of there bank. Any amount of investment made in excess of 30 percent of paid up capital of the bank, for the purpose of calculation of the capital fund, shall be deducted from the core capital fund.

d) Banks shall invest in the share and securities of organized institutions, which are already is listed in the stock exchange or where arrangement exists for listing within one year.

e) Where the shares and securities are not listed within the period per clause 3(d) above, providing equivalent to the whole amount of such investment be provided and credited to "Investment Adjustment Reserve". The outstanding amount in such reserve shall not be utilized for any other purpose till the said shares and securities of the organized are listed. The outstanding amount in "Investment Adjustment Reserve" shall be included under supplementary capital.

f) Banks shall not invest in any shares, securities and hybrid capital instruments issued by any banks financial institutions licensed by Nepal Rastra Bank. Where such investment exists prior to issue of this directive, such investment shall be through within restrictive limitations imposed by this directive within 3 years i.e. by close of fiscal year 2060/61.

4. Arrangement relating to Review of Investment Portfolios

Banks shall arrange for review of investment portfolio on half yearly basis. With respect to such review, a statement from the internal auditor of the bank certifying that the investment are made as per the existing investment policy and as per these directive be obtained and shall also be approved by the Board of Directors within one month. A copy of the minute of approval of the Board of Directors shall be submitted within Falgun 15 (end of February) and Bhadra 15 (end of August) of each fiscal operation Department and Inspection and Supervision Department of Nepal Rastra Bank.

2.2.1 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:

2.2.2 Limit on credit and facilities

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

Core capital shall be included with the following:

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

2.2.3 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 points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., 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)

No recovery problem. If the principal and interest is not past due for a period of three months.

2. Substandard

Past due during the period of three months to six months.

3. Doubtful debt

Past period for the period of six months to one year

4. Loss

Past due for a period of more than one year as well as advances which have least possible of recovery or considered uncollected and having thin possibility of even partial recovery in future.

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

2.2.4 Loan Loss Provision

The required loan loss provisioning on the basis of classification of outstanding credit shall be as follows:

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

2.3 Review of Related Studies

In the review of related studies, some of the related articles published in different economic journal, bulletins of World Bank, dissertation papers, magazines, newspapers and other related books have been reviewed as follows:

Bajracharya (1990), “Monetary policy and deposit mobilization in Nepal” Has conducted that mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal commercial banks and the more active financial intermediary for generating resource in the form of deposit of private and providing credit to the invest in different sectors of the economy.

Similarly, Shrestha (1991), in his article,” A study on deposit and credit of commercial banks in Nepal” Concluded the credit deposit ratio be 51.30 percent, other things remaining the same, in 2004 AD, which was the lowest under the period of review. So he points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., earning new filed as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Shrestha (1993), in her study entitled, "Lending operation of commercial banks of Nepal and its impact on GDP" has made remarkable efforts to examinee the investment planning of commercial banks in Nepal. On the basis of the study she concludes that bank portfolio (loans & investment) of commercial banks has been influenced by the variable securities rate. Investment planning of commercial banks in Nepal is directly traced to fiscal policy to government and heavy regulatory of the central bank (Nepal Rastrra Bank). So the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, liquidity, safety, productivity and social responsibility. To overcome this problem, she suggested that commercial banks should take their investment with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.

Govinda Bahadur Thapa (1994), has expressed his view that the commercial banks including foreign joint venture banks seems to be doing pretty well in mobilizing deposits. Likewise, loans & advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seems to lack adequate funds. The banks are increasing their lending to non-traditional sector along with the traditional sectors.

Out of the different commercial banks, Nepal Bank Limited, and Rastriya Banijya Bank is operating with a nominal profit and also turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest income is declining. These banks have not been able to increase their income from commission and discount, through traditional off-balance sheet operations. On the contrary, they have burden of personnel and administrative overheads.

Similarly, due to accumulated overdue and defaulting loans, profits position of these banks has been seriously affected.

On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year and have been distributing large amount of loans and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet activities and efficient personnel management has added to the maximization of their profits.

At the end of article, he concludes that by its varying nature of the public sector the domestic banks couldn't compete with the private sector banks. So, only remedy to the problem of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Pradhan (1996) on his study entitled "Stock market behaviour in a small capital market: A case of Nepal, the study mainly dealt with financial function. Sources and types of financing, financing decisions debt effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy.

The major finding of study connected with financing management is given as:

1. Banks and retained earning are the two most widely used financing sources.
2. The enterprises have a definite performance for bank loans at a lower level of debt.
3. Generally, there is no definite time to borrow the issues stocks, which is majorities of respondents are unable to predict when interest rate will low or go up are unable to predict when the stock will go down or up.
4. Most enterprises do not borrow from one bank only and they do switch between banks whenever offer best interest rates.
5. Most enterprises find that are flexible in interest rates and convenience.

To sum up it can be said that out of numbers studies on the capital market in Nepal, this study is established itself as a milestone and an outstanding one.

Shrestha (1997) has highlighted following issues in the article entitled, “Portfolio management in commercial banks; theory and practice”. The portfolio management becomes very important for individuals as well as institution investors. Investors would like to select a best mix of investment assets subject to the following aspects:

1. Higher return, which is comparable with alternative opportunities available according to the risk class of investors.
2. High liquidity with adequate safety and profitability of investment.
3. Maximum tax concession.
4. Flexible investment.
5. Certain capital gains.
6. Economic, efficient and effective investment mix.

According to above aspects, some following strategies are adopted:

1. Do not hold single se3curity i.e. try to have portfolio of different securities.
2. Do not put all the eggs in one basket i.e.; to have a diversified investment.
3. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return but with added objective of wealth maximization.

However, Shrestha has also presented following approach to be for designing a good portfolio and its management:

1. To find out invest able assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need. Disposition, liquidity, tax liability, etc.
2. To find out the risk of the securities depending upon attitude of investor toward risk.
3. To develop alternative investment strategies for selecting a better portfolio that will ensure a trade-off between risk and return, so as to attach the primary objective of wealth maximization at lower risk.
4. To identify securities for investment to refuse volatility of return and risk.

Shrestha has presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture or bonds and other money and capital market instruments. He has suggested that the banks points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., management information system (MIS) in any commercial banks to get success in portfolio management and customer's confidence.

Neupane (2004) conducted a study on "*Lending Practice: A Study on NABIL Bank Limited, SCB Nepal Limited, and Himalayan Bank Limited*." With the objective of:

- To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.
- To measure the bank's lending strength.
- To analyze the profit behavior of lending and measuring the ratio and volume of loans & advances made in agriculture, priority and productive sector.
- To measure the lending performance in quality, efficiency and its contribution in total income.

The study was conducted on the basis secondary data. The research finding of the study is:

The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current assets. The measurement of lending strength in relative term has revealed that the total liability to total assets of SCNBL has the highest ratio. The high ratio is the result of high volume of shareholders equity in the liability mix. Himalayan Bank Limited has high volume of saving and fixed deposit as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean. SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loan & advances to total assets whereas. NABIL Bank Limited. Has the highest due to steady and high volume of loan & advances throughout the years. points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., deviated significantly. The loan & advances and investment to deposits ratio has shown that NABIL Bank Limited has deployed the highest proportion of its total deposits in earning activities. This is indicative of that in fund mobilizing activities NABIL Bank Limited is significantly better. The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is higher in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Limited is the least to the low share of capital, reserves & surplus in its capital mix. But the volume contributed by Himalayan Bank Limited. In case of loan & advances is highly appreciable compared to its net assets. The volume of loan & advances contribution by NABIL Bank Limited is the greatest in five years of study period. The measurement of efficiency in lending has points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., loss provision indicates the provision made against the performing loan (pass loan and sun-standard loan) only. It indicates that the volume of sub-standard loan in the loan mix on NABIL Bank Limited. Is higher and the volume of non-performing loan in the mix of NABIL Bank Limited is likely to increases in coming future. The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Limited. And lower in case of SCBNL. The interest expanses to total deposits ratio indicate that the cost of fund in Himalayan Bank Limited. Is the highest and that of SCBNL is the least. The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL‘s ratio in this case is the best. The ratio of total income to total reflects the capacity of a rupee of expanses. The productivity of expanses in SCBNL is the best. The performance of SCBNL is significantly better than two banks in case of profitability. EPS is the highest in the case of SCBNL.

Thakur (2007) conducted a study on "*Investment Policy of Nepal Bangladesh Bank Limited and other Joint Venture Banks (NABIL and Grindlays Bank Limited.)*" with the objective of:

- To examine the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparisons NABIL and NGBL.
- To analyze the relationship between loan & advances and total investment with other financial variables of NB Bank Limited and compare them with NGBL.
- To examine the fund mobilization of investment policy of NB Bank through off-balance sheet activities in comparison to the other two banks.
- To study the various risks in investments of NB Bank in comparison with NABIL and NGBL.
- To analyze the deposit utilization trend and its projection for next five years of NB Bank and compare them with NABIL and NGBL.

The study was conducted through secondary data. The research findings of the study are as follows:

NB Bank dose not seem to follow any definite policy regarding the management of its points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., and NGBL. NB Bank is not better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL. NB Bank has maintained high growth rates comparison to other banks through it is not successful to make enough investment. The position of NB Bank in regard to utilization of the fund to earn profit is not better to compare to NABIL and NGBL.

Sharma (2008) conducted a study on "*Nepal Rastara Bank Guidelines on Investment Policy of Commercial Banks in Nepal (A Case Study of Nepal Investment Bank limited.)*" With objective of

- To highlight the NRB directives regarding investment policy (Loan, advances and investment)
- To analyze the liquidity of NIBL.
- To find out relationship between total deposit total and loan and advances, total deposit and total investment.
- To make the trend value analysis of deposit utilization and its projection for next five years.
- To find out whether NRB guidelines are actually being implemented.

The study was conducted on the basis on secondary data.

The main finding of the study is:

Bank in good position to meet the daily cash requirement as bank maintain the average cash and bank balance in respect to total deposit. The performance of NIBL regarding deposit collection, granting loan and advances and investment is quite satisfactory but does not seem to follow a definite policy. NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of lack of sound investment policy for mobilization of its equity capital. Interest earned to total operating income of NIBL is high. However, bank failed to maintain net profit on the study. From the analysis points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., outside assets and net profit. Trend analysis and projection for next year of total deposits, loan and advances, investment and net profits are in increasing trend.

Pant (2009) has conducted on "*Investment Policy Analysis of Joint Venture Bank with Special Reference to Nepal SBI Bank, Bank of Katmandu and Everest Bank Limited*" with the objective of :

- To evaluate whether the liquidity management assets, efficiency, profitability position, risk position and investment practices of Nepal SBI Ban, BOK and EBL.
- To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and outside assets.

The study was conducted on the basis of secondary data. The research finding of the study is:

At the study of assets management ratio shows that SBI Bank is not better position regarding its on balance activities. Liquidity position of SBI Bank is slightly good position in compare to other banks i.e. BOK and EBL. The liquidity of Banks is not so satisfactory so banks should improve their liquidity position to meet the current points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., indicates that BOK and EBL must be careful about risk. Growth ratio of SBI and BOK have not successful to increase their sources of fund, EBL has success to maintain its higher rate of total deposit. Trend analysis of total deposits, loan and advances, total investment and net profit and projection of next 5 years of SBI, BOK and EBL reveals that, SBI has increasing trend values in total deposit, total investment and loan and advances of BOK and EBL has increasing trend value of all types of trend analysis.

K.C. (2010) conducted a study on "*Investment Policy of Commercial Bank in Nepal: A Comparative Study of Everest Bank Limited with NABIL Bank Limited and Bank of Katmandu* "with the objective of:

- To discuss fund mobilization and investment policy of EBL, NABIL and BOK Limited.
- To evaluate the liquidity, efficiency and profitability and risk position.

The research finding of the EBL is comparatively better than NABIL and BO, EBL has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. NABIL has the lowest liquidity position than that of other two banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan & advances. From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to NABIL and BOK. The total investment of EBL is in between in compared to other two banks. In the study, loan & advances to points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., the coefficient of variation is higher in EBL. In analysis of profitability, total interest earned to total outside assets of EBL is lower at all.

2.4 Research Gap

There are various researches conducted on financial performance and credit management of commercial banks, impact and implementation of NRB guideline in commercial banks. The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to financial performance and credit management of commercial banks. Most of the thesis studies are of case study type. But at the same, the individual firm may have its own strategy for business. In such a case, comparative study may lead the researcher to analyze more meaningful. So, this is the exclusive study of comparative analysis of three banks. So, this study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective. Hope this study will help to others in future in the related field.

CHAPTER -III

RESEARCH METHODOLOGY

Research methodology describes are methods and process applied in the entire aspect of the study. It considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. The study will seek the conclusion to the point that what positions NIC has got among commercial banks in Nepal by highlighted the two commercial banks EBL and NABIL. And recommend the useful and meaningful points so that all concerned can achieve something from this study.

3.1 Research Design

The main objective of the study is to examine the facts and postulates in certain frame works on details and supplies the important information on subject matter, summer of the study, major findings, recommendations, conclusions etc are the most significant information among them, they are derived with the help of some financial and statistical tools were adopted to evaluate investment policies of commercial bank. They are NIC with EBL and NABIL in consideration not only to research about them but also to facilitate among them. Research design is an essential part for each research work. It is the plan, structure and strategy investigation conceive so as to obtain answer to reach question and to control the variance. It is overall operational pattern of framework of the study that stipulates what information is to be collected from which sources by what procedure. In this study both descriptive and analytical research designs have been followed.

3.2 Population and Sample

Recently numbers of commercial banks have been emerging rapidly. Some have already been established and other is in the process of establishment. Currently, there are 30 commercial banks functioning all over the Nepal and most of their stocks are traded actively in the stock market. In this study, all the commercial banks are population of the study. Among them EBL, NIC and NABIL have been selected as samples on the basis of their performance. The sample banks are as follows:

i. Everest Bank Limited (EBL)
ii. Nabil Bank Limited (NABIL)
iii. Nepal Industrial and Commerce Bank Limited (NIC)

3.3 Nature and Sources of Data

This study is based on both primary and secondary sources. The study is mainly based on secondary data. The secondary sources of data collections are balance sheet, profit and loss accounts, and loan & advances respectively, which are directly obtained from the annual report and financial statement of concerned banks. Some supplementary data and points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., taken. All the secondary data are complied, processed and tabulated in the time series as per the need and objectives. For primary data the researcher has collected the information through the questionnaire as a sample data only with the fifty staff members of the sample commercial banks.

The data for the study is collected from record available from security board and Annual reports of the concerned banks. And various stock exchange publications formed and important supplementary sources of the data for this project study, particularly on investment policy.

3.4 Data Presentation and Analysis

Range of Financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data has been done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis and the technique of least square are adopted in this study. In the same way, some strong financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The data extracted from annual report, financial statement and other available information are processed and tabulated in various tables and charts under different headings according to their nature.

3.5 Tools for Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. Their ratios, percentages, mean, standard deviations and coefficient of variations are then calculated and presented in the tables. To study the relationship between two or more variables, correlation coefficients are also calculated. Likewise, trend analysis is also used to know the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

3.5.1 Financial Tools

Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statements (i.e., balance sheet, and profit and loss account and income statements). There are several financial to spot out the financial strength and weakness of the firm. There are several financial tools which can be applied in order to analyze the investment policy of commercials banks. The financial tools used in this study are as follows; Liquidity Ratio, Activity Ratio, Profitability Ratio, Risk Ratio and growth Ratio.

A. Liquidity Ratio

This Ratio measurement the liquidity position and short term solvency of the firm indicating the company’s ability to meet short-term obligation. The current ratio and quick ratio measure the liquidity position of the company. These ratios are calculated to judge the long-term financial position of the concerned firm.

Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. A high degree of liquidity shoes inability of proper utilization of funds where as the lack liquidity shows the signal of poor points of representation all over the country. The bank is managed by a team of qualified and highly experienced professionals. Nabil has been a pioneer in introducing modern banking and numerous innovative products into Nepal. It also introduced consortium finance in Nepal and has had the privilege of rendering comprehensive banking services (including trade finance) to leading Government institutions like Nepal Telecom Ltd., deposit withdrawals. Without good liquidity, bank is not able to operate its function. Toe measure the bank's solvency position or ability meet its short-term obligation, various liquidity rations are calculated.

A.1 Current Ratio

Current ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short-term solvency position of the bank. The current ratios are the ratios of total current assets to current liabilities. Higher current ratio indicates better liquidity position, In other words, current ratio represents a margin of safety. The higher the current ratio, the greater the margin of safety, and the larger the amount of current assets in relation to current liabilities, the more the bank's ability to meet its current obligations.

2:1 is standard of current ratio is widely acceptable or more is considered as satisfactory. It is not hard and fast assumption that the current ratio must be 2:1. So many firms below this standard are also seen sound and meeting those obligations efficiently.

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

A.2 Loan and Advances to Current Assets Ratio

This ratio measures the relationship between loan and advances to current assets. It shows the bank's liquid capacity of discounting and purchasing the bills and loans, cash credit and overdrafts facilities to the customers. In this study, loan and advances refer to local and foreign bills discounted and purchased, 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.

$$\textit{Loans and Advance to Current Assets} = \frac{\text{Laon and Advances}}{\textit{CurrentAssets}}$$

A.3 Loan & Advances to Current Assets Ratio

It shows the relationship between loan & Advances to current assets or its shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. This ratio can be computed in the following way:

$$\text{Loan and Advance to current assets ratio} = \frac{\text{Loan \& advances}}{\text{Total Current Assets}}$$

Loan & advances are the current assets, which is the general income to the bank. It shows the percentage of loan & advance in the total current assets. In the present Study loan & advances represent to local foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

A.4 Fixed Deposit to Loan and Advances Ratio

This ratio of commercial banks indicates, how much of loan and advances are granted against fixed deposit. Fixed deposits are high interest rate payable deposits also known as High-Cost deposits. Hence, commercial bank should utilize the fixed deposits properly. This ratio can be calculated with the help of the following ratio.

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

A.5. Saving Deposit to Loan and Advance Ratio

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

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

A.6. Current Deposit to Loan and Advance Ratio

This ratio indicates the portion of total current deposit utilized in loan and advances. Current deposits are non interest bearing deposits better known as no cost deposit. So, the banks should utilize them properly but at the same time banks have to take the risk of investing the funds from current deposit as any amount can be withdrawn at any time by the customer. This ratio can be calculated with the help of following formula.

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

B. Assets Management Ratio

The fund of creditors and owners are invested in various assets sales and profit. These ratios are used to evaluate the efficiency with the firm manages and utilizes its assets. This ratio indicates how quickly certain current assets are converted into cash. From this ratio it can be known whether or not the business activities are efficient and effective. It is also called as the activity or Turnover Ratio. The greater the rate of turnover or conversion the more efficient is the management utilization of assets. These ratios moreover help in measuring the bank \s ability to utilize their available resources. Following ratios are use under the assets Management Ratio.

B.1 Loan & Advances to Total Deposit Ratio

These ratio assets to what extent the bankers are able to utilize the depositor’s fund to earn profit by providing loans and advances. In other word, how quick words, how quick total collected deposits are converted into loan and advances given to the client to earn income. It is computed by dividing the total amount of loan and advances to total deposits fund. Higher ratio indicates higher/ proper utilization of funds and low ratio is the signal of inefficiency or remaining idea.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& advances}}{\text{Total Deposits}}$$

B.2 Call Deposit to Loan and Advance Ratio

This ratio indicates the portion of total call deposit utilized in loan and advances. Call deposits are interest paying deposits on the daily basis. This deposit is high cost deposit to the bank, so the banks should utilize them properly. The chances of the withdrawal from this type of deposit are too low. The businessman and retired people are seemed to be more attracted to open call account because they get the interest on daily basis and can withdraw at any time.

This ratio can be calculated with the help of following formula.

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

C. Profitability Ratio

The profitability ratio, as the name suggests measure the operating profitability in terms of profit margin return on equity and return on total investment, reflects the overall efficiency and effectiveness of management. Shareholders, bankers, government, tax collectors, employees are concerned with the profitability of the company; the shareholders are interested with their rate of return, employees in the future prospect of the company, government in companies tax payment capacity and bankers in the perspective of the company. A required level of profit is necessary for survival and growth of a firm in a competitive environment.

Profitability can be measured in terms of a relationship between net profit and assets. This ratio is also known as profit-to asset ratio. It measures the profitability of circumstances. These different ratios are called profitability ratio, which are required to support the purpose of the. The profitability ratios calculated in this study are:

D. Risk Ratios

Risk means uncertainty, which lies in the business transactions of investment management. This ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying deposits demand for cash. Following two ratios are used to interpret and analyze the investment policy of concerned banks.

D.1 Capital Risk Ratio

The capital risk ratio of ratio of a bank how asset values may decline before the position of depositors and other creditor jeopardize. The capital risk is directly related to the dividing (Paid up capital + reserves) by risk- weighted assets as computed under BASEL committee’s formula this can be mentioned as:

$$\text{Capital Risk Ratio} = \frac{\text{Capital (Paid up } \Gamma \text{ Reserves)}}{\text{Risk Weighted Assets (RWA)}}$$

D.2 Credit Risk Ratio

Credit risk ratio helps to check the probability of loan non-repayment or the possibility of loan to go into default. Credit risk is expressed as the percentage of non-performing loan to total loan and advances. This ratio is calculated by dividing total loan and advances by total assets. It can be shown as,

$$\text{Credit Risk Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Assets}}$$

3.5.2 Statistical Tool

Various statistical tools mentioned above were used to analyze and interpret the investment policy of concerned bank. Similarly, statistical tools help to find out the trends of financial position of the bank and to analyze the relationship between variables that helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment other companies. In this study, statistical tools such as coefficient of correlation between different variables, trend analysis of important variables as well as hypothesis test have been used for analyzing and interpreting the financial data. The basis of statistical analysis related to this study is discussed below.

A. Arithmetic Mean

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. Average value is obtained by adding together all the terms and dividing this total by the number of items. The formula is given below

Mean $(\bar{X}) = \frac{X_1 + X_2 + X_3 \ldots\ldots\ldots\ldots X_n}{n}$

Where $\bar{X}$ = 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.

B. Standard Deviation

The standard deviation is the measure that is most often used to often to describe variability in data distributions. It can be through of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter ± (read as sigma), Standard deviation is extremely is extremely useful for judgment the representative of the mean. The equation for the computation of the standard deviation (±) is

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n - 1}}$$

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

X_n = The individual observation

n = Total number of observation

C. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the means for a given sample used to measure spread. It can also be through of as the measure of relative risk. The larger the coefficient of variation, the greater the risk relative to the average.

Mathematically,

$$CV = \frac{\sigma}{\bar{X}} * 100$$

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

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

The data relating to the investment management and fund mobilization are analyze and evaluated in this chapter. This chapter contains data collected from various sources and which are presented and analyzed to measure the various dimensions of the problems of the study and the major findings of the study are presented systematically. Present chapter reports the financial tools 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 of the thesis consists of the credit implementation; this part describes the credit flow of the bank in the chat, tabular form and interprets the data with the measurement of the tools. The second 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.

4.1 Ratio Analysis

Ratio analysis basically helps to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret the financial performance of a firm. Financial ratio analysis is reliable way to understand how a company is performing financially. Although there are various types of ratios to analyze and interpret the financial statement, only five ratios have been taken in this study, which are mainly related to the investment policy of the bank.

Liquidity ratios measure the ability of the firm to meet its current obligations. Difference between current assets and current liabilities is known as working capita, which provides liquidity in business organizations. Commercial banks must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposit withdrawal, pay maturity obligation in time and convert non cash into cash to satisfy immediate needs without loss to the bank and without consequent impact on long-run profitability of the bank.

Liquidity refers to the sound solvency position of a firm to meet its obligation. A liquidity ratio measures the ability of a firm to meet its short term obligations. Various ratios come under this category which is as follows:

4.1.1. Current Ratio / Quick Ratio

The calculation of current ratios is based on a simple comparison between current assets ratio of total current assets to total current liabilities calculated by dividing the company's current liabilities. In the service sectors like banks, current and quick ratios are the same.

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

Current assets of joint venture bank refers to cash and near cash items (i.e. cash and bank balance, money at call and short notice, loans and advances, cash credit, bills discounted, investment, interest receivables, miscellaneous current assets) and current liabilities are Miscellaneous liabilities). The following table shows the current ratio of NABIL Bank, Everest Bank and NIC Bank

Table 4.1
Current Ratio in Times

Amount in Million

Year	Nabil			EBL			NIC		
	C.A	C.L	Ratio	C.A	C.L	Ratio	C.A	C.L	Ratio
2005/06	4162.1	13437.7	0.31	1156.1	6694.9	0.17	348.0	3143.9	0.11
2006/07	3616.9	14098.0	0.26	869.7	8064.0	0.11	448.8	5146.4	0.09
2007/08	1345.2	14658.1	0.09	1624.2	10115.4	0.16	1095.0	6271.6	0.17
2008/09	2365.2	19462.2	0.12	1619.6	13813.6	0.12	1097.5	8857.3	0.12
2009/10	1963.1	23436.6	0.08	3329.7	19124.5	0.17	858.8	10100.0	0.09
Mean	0.17			0.15			0.12		
S.D	0.10			0.03			0.04		
C.V	0.58			0.22			0.31		

Financial Report of Banks, 2005-2010

It is observed that the current ratio of Nabil bank over the study period 2005/06 to 2009/10 has been ranged between 0.31 to 0.08, whereas the ratio of Everest bank is in between 0.17 to 0.17. Similarly the ratio of NIC bank lies at 0.09 in the year 2009/10 and the highest ratio 0.17 in year 2007/08. It is also observed that the ratios in all the banks have been fluctuating over the years. Looking at the above ratios, it is concluded that the banks are not maintaining the standard ratio of 2:1 though the ratios has been fixed for the manuf of good investment and indicates that there is no idle cash balance or other non-productive assets in the bank. It also shows that these banks' liquidity position is not sound.

Calculating the average return (or arithmetic mean) over a given number of periods will generate an expected return on the asset. Standard deviation measures the dispersion or variability around the mean. A large standard deviation indicates that the data points are far from te mean. In the table, all the three banks's S.D. is close to the mean. This means the datas are uniform and consistent.

However Nabil bank has the highest consistency in its current ratio with C.V. of 0.58 and that of EBL and NIC with 0.22 & 0.31 respectively.

4.1.2. Loan and Advances to Current Assets Ratio

This ratio measures the relationship between loan and advances to current assets. It shows the bank's liquid capacity of discounting and purchasing the bills and loans, cash credit and overdgn bills discounted and purchased, 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.

$$\textit{Loans and Advance to Current Assets} = \frac{\text{Laon and Advances}}{\textit{CurrentAssets}}$$

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

Table 4.2

Loan and Advance and Current Assets

(Amount in million)

Year	Nabil			EBL			NIC		
	L &.A	**C.A**	**Ratio**	**L &.A**	**C.A**	**Ratio**	**L &.A**	**C.A**	**Ratio**
2005/06	7328.2	4162.1	1.76	3982.7	1156.1	3.44	2369.9	348.0	6.81
2006/07	8267.8	3616.9	2.29	5049.6	869.7	5.81	2564.3	448.8	5.71
2007/08	8769.7	1345.2	6.52	6131.1	1624.2	3.77	3746.6	1095.0	3.42
2008/09	13021.3	2365.2	5.51	10124.2	1619.6	6.25	6882.9	1097.5	6.27
2009/10	15657.0	1963.1	7.98	14059.2	3329.7	4.22	9107.6	858.8	10.61
Mean	4.81			4.70			6.56		
S.D	2.70			1.25			2.60		
C.V	0.56			0.27			0.40		

Financial Report of Banks, 2005-2010

It is observed that the loan and advance to current assets ratio of Nabil Bank is highest in the year 2009/10 with 7.98 and the lowest in the year 2005/06 with 1.76. Whereas Everest bank limited has the highest ratio of 6.25 in the year 2008/09 and lowest of 3.44 in the year 2005/06. In the same way, NIC bank has the highest ratio of 10.61 in the year 2009/10 and the lowest of 3.42 in the year 2007/08. The highest ratio of NIC bank is the highest ratio among the above sampled banks during all those years.

In Financial Institutions, standard deviation is a representation of the risk associated with a given investments, stocks, bonds, property, etc., or the risk of a portfolio of securities. Risk is an important factor in determining how to efficiently manage a portfolio of investments because it determines the variation in returns on the asset and/or portfolio and gives investors a mathematical basis for investment decisions.

Calculating the average return (or arithmetic mean) over a given number of periods will gr from the mean and a small standard deviation indicates that they are clustered closely around the mean. Co-efficient of Variation is used for comparing the homogeneity, uniformity and variability of two or more distributions.

In the year 2009/10, Nabil and NIC bank's ratio is seen to be the highest than the previous years. This means the banks are disbursing more loans and advances in 2009/10 than the previous years.

Among the three sampled banks, Nabil Bank has more consistency than other banks The C.V of Nabil Bank is 0.56 and that of NIC Bank and Everest Bank is 0.40 and 0.27 respectively. But the standard deviations of all the three banks are observed to be too far from the mean. So, in the case of loans and advances to current assets ratio, it is concluded that risk factor is more and there is a lack of homogeneity, uniformity and variability.

4.1.3. Loan and Advance to Total Deposit Ratio

This ratio measures whether the banks are successfully utilizing customer's deposit in loans and advances or in what ratio the funds are being used.

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

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

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

The figure of total loans and advance to total deposit is presented in the following table:

Table 4.3

Loan and Advance to Total Deposit

(Amount in million)

Year	Nabil			EBL			NIC		
	L &.A	Deposit	Ratio	L &.A	Deposit	Ratio	L &.A	Deposit	Ratio
2005/06	7328.2	4162.1	1.76	3982.7	1156.1	3.44	2369.9	348.0	6.81
2006/07	8267.8	3616.9	2.29	5049.6	869.7	5.81	2564.3	448.8	5.71
2007/08	8769.7	1345.2	6.52	6131.1	1624.2	3.77	3746.6	1095.0	3.42
2008/09	13021.3	2365.2	5.51	10124.2	1619.6	6.25	6882.9	1097.5	6.27
2009/10	15657.0	23342.3	0.67	14059.2	19097.8	0.74	9107.6	10068.2	0.90
Mean	0.61			0.74			0.80		
S.D	0.08			0.01			0.07		
C.V	0.13			0.02			0.09		

Financial Report of Banks, 2005-2010

From the above result, it is observed that most of the funds have been floated from the customer in the form of deposits. The average ratios of Nabil, Everest and NIC bank are 0.61, 0.74 & 0.80 respectively. Higher ratio indicates the banks are disbursing more amount of loans from deposit and lower ratio indicates the banks are disbursing less amount of loans. The ratio of Nabil bank is tnd advances in the productive fields to earn more interest and to maintain a good liquidity position. Arithmetic mean is the average of the sum of all the individual numbers divided by the number of observations. Standard deviation is a function of the differences between each individual score and the overall mean score. Standard deviation measures the dispersion or variability around the mean. When two frequency distributions have the same arithmetic mean, the variability of these two distributions may be compared by calculating their respective standard deviations. The one with the higher standard deviation will be more variable. CV is used for comparing the homogeneity, uniformity and variability of two or more distributions

Everest bank and NIC bank are successfully utilizing its resource in profit generating field than Nabil Bank. Higher ratio between loan and advances to deposit brings the bank in the risk to pay back the customer deposit and chances of recover in time may not occur. Likewise, lower ratio indicates that th 0.07 respectively. Similarly, C.V of Nabil bank, EBL & NIC bank is 0.13, 0.02 & 0.09 respectively. S.D. of all the three banks is more or less in the same ratio closer to mean and C.V is also near about of the same value. This shows the bank's data are in a way uniform & consistent.

4.1.4. Fixed Deposit to Loan and Advances Ratio

This ratio of commercial banks indicates, how much of loan and advances are granted against fixed deposit. Fixed deposits are high interest rate payable deposits also known as High-Cost deposits. Hence, commercial bank should utilize the fixed deposits properly. This ratio can be calculated with the help of the following ratio.

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

The following table displays the ratio of loans and advances to fixed deposit of Nabil Bank, Everest Bank and NIC bank.

The table 4.4 shows the total ratio of fixed deposit to loans and advances. Looking at the average of the five year ratio of total lending from the fixed deposit, the average ratio of lending of Nabil bank is lower than Everesxed deposit is known to the bank. Despite, Nabil bank is lending only the fewer portion of the fixed deposit. The Everest bank and the NIC bank has utilized the benefit of the fixed deposit and they have utilized the high portion of the fixed deposit i.e. 0.51 & 0.52 respectively to the loans and advance.

Table 4.4

Fixed Deposit to Loans and Advances

(Amount in million)

Year	Nabil			EBL			NIC		
	F.D.	**L &.A.**	**Ratio**	**F.D.**	**L &.A.**	**Ratio**	**F.D.**	**L &.A.**	**Ratio**
2005/06	7328.2	4162.1	1.76	3982.7	1156.1	3.44	2369.9	348.0	6.81
2006/07	8267.8	3616.9	2.29	5049.6	869.7	5.81	2564.3	448.8	5.71
2007/08	8769.7	1345.2	6.52	6131.1	1624.2	3.77	3746.6	1095.0	3.42
2008/09	13021.3	2365.2	5.51	10124.2	1619.6	6.25	6882.9	1097.5	6.27
2009/10	15657.0	23342.3	0.67	14059.2	19097.8	0.74	9107.6	10068.2	0.90
Mean	0.30			0.51			0.52		
S.D	0.04			0.01			0.07		
C.V	0.14			0.02			0.13		

Financial Report of Banks, 2005-2010

Thus the above table clearly indicates that the fixed deposit to loan and advances ratio are being efficiently and properly utilized by Everest and NIC bank in almost the same ratio. But the ratio of Nabil bank is the lowest among the three banks as it is seen that it has not utilized or invested its fund in the proper way. The reason could be its high interest rate in industrial and commercial loan in comparison to the other two banks. So, Nabil bank requires revising its interest rates and invests more of its fund in various productive and profitable sectors.

Standard deviation is a function of the differences between each individual score and the overall mean score. Standard deviation measures the dispersion or variability around the mean. When two frequency distributions have the same arithmetic mean, the variability of these two distributions may be compared by calculating their respective standard deviations. ing the homogeneity, uniformity and variability of two or more distributions. So, in terms of consistency, variability and homogeneity, Nabil bank and NIC bank is seen to be more than Everest Bank Ltd because the standard deviation of both the banks is more near towards the mean. Also the co-efficient of variance is almost of the same value of both the banks. The mean of EBL and NIC is almost of the same value. But the S.D. of NIC is more than that of EBL. This indicates, the data of NIC bank is more variable that EBL.

4.1.5. Saving Deposit to Loan and Advance Ratio

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

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

Following table shows the ratio of total Loans and Advances and Saving Deposit

Table 4.5

Saving Deposit to Loans and Advance Ratio

(Amount in million)

Year	Nabil			EBL			NIC		
	S.D.	L &.A	Ratio	S.D.	L &.A	Ratio	S.D.	L &.A	Ratio
2005/06	7328.2	4162.1	1.76	3982.7	1156.1	3.44	2369.9	348.0	6.81
2006/07	8267.8	3616.9	2.29	5049.6	869.7	5.81	2564.3	448.8	5.71
2007/08	8769.7	1345.2	6.52	6131.1	1624.2	3.77	3746.6	1095.0	3.42
2008/09	13021.3	2365.2	5.51	10124.2	1619.6	6.25	6882.9	1097.5	6.27
2009/10	15657.0	23342.3	0.67	14059.2	19097.8	0.74	9107.6	10068.2	0.90
Mean	0.66			0.58			0.33		
S.D	0.02			0.10			0.06		
C.V	0.03			0.17			0.20		

Financial Report of Banks, 2005-2010

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. And withdrawal chances from the saving deposit is also low. Looking at the above table Nabil bank has invested the highest average ratio of 0.66 among the three banks. Everest bank has the average ratio of 0.58 but NIC bank seems to be the conservative bank investing only 0.33 from the saving deposit. In the year 2007/08, Nabil banks ratio is the highest at 0.68 and the lowest is at 0.63 in the year 2006/07 Similarly, Everest bank has the highest ratio of 0.68 in yearghest ratio of investment of 0.41 in year 2009/10 and lowest of 0.24 in 2005/06.

When we compare all the three banks, an increasing trend of investment has been seen in all the banks till 2008/09. As time passes, the banks have invested more ratios from the saving deposit. But a slight decrement is seen in the year 2009/10 in all the banks. It is seen that the banks have suddenly decreased its percentage in investment from saving deposit in 2009/10 because they do not want to take more risk by investing more from saving deposit as the withdrawal from the saving deposit can be anytime.

Standard deviation measures the dispersion or variability around the mean. A large standard deviation indicates that the data points are far from the mean and a small standard deviation indicates that they are clustered closely around the mean. Co-efficient of variance iutions. So, in terms of consistency and variability, EBL and NIC seem to be more consistent and uniform as the C.V. of EBL and NIC bank is more than that of Nabil bank.

4.1.6. Current Deposit to Loan and Advance Ratio

This ratio indicates the portion of total current deposit utilized in loan and advances. Current deposits are non interest bearing deposits better known as no cost deposit. So, the banks should utilize them properly but at the same time banks have to take the risk of investing the funds from current deposit as any amount can be withdrawn at any time by the customer. This ratio can be calculated with the help of following formula.

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

In the following table, mean is taken as the average of the ratios divided by the no. of observations. A standard deviation (S.D.) is the positive square root of average sum of squares of deviations of observations from the mean. S.D. is the useful measure of dispersion and gives uniform, correct and stable results. The percentage measure of co-efficient of standard deviation is called co-efficient of variance (C.V.). C.V. is used for comparing the homogeneity, uniformity, and variability of two or more distributions.

Following table shows the ratios of total Loan and Advances and Current Deposit

Table 4.6

Current Deposit to Loan and Advance

(Amount in million)

Year	Nabil			EBL			NIC		
	C.D.	L &.A	Ratio	C.D.	L &.A	Ratio	C.D.	L &.A	Ratio
2005/06	7328.2	4162.1	1.76	3982.7	1156.1	3.44	2369.9	348.0	6.81
2006/07	8267.8	3616.9	2.29	5049.6	869.7	5.81	2564.3	448.8	5.71
2007/08	8769.7	1345.2	6.52	6131.1	1624.2	3.77	3746.6	1095.0	3.42
2008/09	13021.3	2365.2	5.51	10124.2	1619.6	6.25	6882.9	1097.5	6.27
2009/10	15657.0	23342.3	0.67	14059.2	19097.8	0.74	9107.6	10068.2	0.90
Mean	0.30			0.13			0.08		
S.D	0.07			0.03			0.02		
C.V	0.24			0.24			0.28		

Financial Report of Banks, 2005-2010

By interpreting the above data we can see that Nabil bank has utilized the maximum ratio of current deposit. The nature of current deposit is non interest payable but can be withdrawal the current deposit, more it is benefited 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 invest 0.30 to the total Loan and advances. But other two banks, Everest bank and NIC bank have invested the lowest portion from the current deposit i.e. 0.13 and 0.08 respectively maintaining the high liquidity and minimizing the risk.

The C.V of the Everest bank and Nabil bank is at 0.24 and that of NIC bank is at 0.28. So, Nabil bank and Everest bank has the lowest consistency than NIC bank. Similarly, S.D. of NI of loan and advances from current deposit that the other two banks.

But looking at the highest average investment ratio, Nabil bank is suggested not to take too much of risk and invest less from current deposit.

4.1.7. Call Deposit to Loan and Advance Ratio

This ratio indicates the portion of total call deposit utilized in loan and advances. Call deposits are interest paying deposits on the daily basis. This deposit is high cost deposit to the bank, so the banks should utilize them properly. The chances of the withdrawal from this type of deposit are too low. The businessman and retired people are seemed to be more attracted to open call account because they get the interest on daily basis and can withdraw at any time.

This ratio can be calculated with the help of following formula.

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

Arithmetic mean is the average of the sum of all the individual numbers divided by the number of observations. Standard deviation is a function of the differences between each individual score and the overall mean score. Standard deviation measures the dispersion or variabi will be more variable. CV is used for comparing the homogeneity, uniformity and variability of two or more distributions. Following table shows the ratios of total Loan and Advances and Call Deposit:

Form the table 4.7 it can seen that the ratios between call deposit to Loan and Advances is fluctuating as time passes. The highest ratio of Nabil bank is 0.67 in 2005/06 and the lowest at 0.30 in 2008/09. The average ratio of the five years sample data is 0.37.

Likewise, the ratio of Everest bank seems to be too lowest among the three banks; lowest being at 0.08 in the year 2006/07 and the highest being at 0.13 in the year 2008/09.

Table 4.7
Call Deposit to Loan and Advance

(Amount in million)

Year	Nabil			EBL			NIC		
	Call D.	**L &.A**	**Ratio**	**Call D.**	**L &.A**	**Ratio**	**Call D.**	**L &.A**	**Ratio**
2005/06	7328.2	4162.1	1.76	3982.7	1156.1	3.44	2369.9	348.0	6.81
2006/07	8267.8	3616.9	2.29	5049.6	869.7	5.81	2564.3	448.8	5.71
2007/08	8769.7	1345.2	6.52	6131.1	1624.2	3.77	3746.6	1095.0	3.42
2008/09	13021.3	2365.2	5.51	10124.2	1619.6	6.25	6882.9	1097.5	6.27
2009/10	15657.0	23342.3	0.67	14059.2	19097.8	0.74	9107.6	10068.2	0.90
Mean	0.37			0.11			0.32		
S.D	0.17			0.17			0.09		
C.V	0.46			1.61			0.28		

Financial Report of Banks, 2005-2010

The fluctuation of the ratio between call deposit to loan and advances of NIC bank is as same as the other two banks. The lowest ratio is calculated at 0.21 in the year 2008/09 where as highest ratio is calculated at 0.40 in 2005/06. And the average ratio is calculated at 0.32.

Though the withdrawal chances from call deposit is very rare, Everest bank has not utilized the benefit by increasing the lending from call Deposit. The fluctuation in the ratio shows that the banks policy in iosit is less than that of Nabil bank and NIC bank.

Likewise, Standard deviation of Everest Bank is more nearer to the mean than the other two banks. But NIC has the lowest standard deviation among the three banks. The practical value of understanding the standard deviation of a set of values is in appreciating how much variation there is from the mean. The lower the standard deviation of their ratings in each category, the more balanced and consistent they might be. So, a bank that is consistently bad in most categories will have a low standard deviation. A bank that is consistently good in most categories will also have a low standard deviation.

4.1.8. Other Deposit to Loan and Advance Ratio

This ratio indicates the portion of total other deposit utilized in loan and advances. Other deposits are non interest paying depotured but no claim as such has been made by the customers. These deposits are refunded by the bank when the customers claim on the amount. We can say that withdrawal chances of these amounts can be at any time. This ratio can be calculated with the help of following formula.

Other Deposit to Loan and Advance Ratio: $\dfrac{\text{Other Deposit}}{\text{Loan and Advances}}$

Following table shows the total Loan and Advances and Other Deposit

Table 4.8

Other Deposit to Loan and Advance

(Amount in million)

Year	Nabil			EBL			NIC		
	L &.A	**Other.D.**	**Ratio**	**L &.A**	**Other.D.**	**Ratio**	**L &.A**	**Other.D.**	**Ratio**
2005/06	7328.2	4162.1	1.76	3982.7	1156.1	3.44	2369.9	348.0	0.02
2006/07	8267.8	3616.9	2.29	5049.6	869.7	5.81	2564.3	448.8	0.03
2007/08	8769.7	1345.2	6.52	6131.1	1624.2	3.77	3746.6	1095.0	0.02
2008/09	13021.3	2365.2	5.51	10124.2	1619.6	6.25	6882.9	1097.5	0.01
2009/10	15657.0	23342.3	0.67	14059.2	19097.8	0.74	9107.6	10068.2	0.01
Mean	0.03			0.02			0.02		
S.D	0.01			0.01			0.01		
C.V	0.31			0.33			0.48		

Financial Report of Banks, 2005-2010

Others deposit is not the bank's deposit to be used for the long-term investment. That is why banks have invested only the few portions from the other deposit. From the above calculation we can see that non-of the banks have invested more than the ratio of 0.05 from the other deposit. It shows that the banks are very much conscious to use the call deposit for lending. And they are high in liquidity and have to be immediately refunded on claim.

Calculating the average return (or arithmetic mean) over a given number of periods will generate an expected return on the asset. Standard deviation measures the dispersion or variability around the mean. A large standard deviation indicates that the data points are far from the nd variability of two or more distributions. Because the banks have invested the minimum amount from other deposit, the average ratio, Standard deviation and co-efficient of variance of all the three banks is almost at the same value. So it is difficult to measure the variability, homogeneity, and consistency in this sector.

4.2. Sector Wise Loan and Advances of Nabil Bank, Everest Bank and NIC Bank

Sector wise lending means there are various sectors that a bank gets the opportunity to invest. Even NRB has issued in its directives that commercial banks have to invest certain percentage in the deprived and priority sector so that the backward sector can out of the total lending.

From the table 4.9, we can see that there are various sectors where the banks are investing. The banks cover almost all the sectors in investing. Up to mid July 2009/10, Nabil bank wise so the researcher has tried to interpret according to the percentage invested in various sector.

All the above sampled commercial bank has invested their major portion in the production sector. The NIC bank has invested the highest portion in production sector of 38.46%.While Nabil bank and Everest bank has the proportions of 35.85% and 23.54%. We can say the NIC bank and Nabil bank are more constrained in the production sector and Everest bank has slightly diversified its investment in other sectors.

Table 4.9

Sector wise loan and Advance of Nabil, EBL and NIC Bank

(Amount in million)

Sectors	**Nabil Bank**		**Everest Bank**		**NIC Bank**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Agriculture	54.5	0.34	55.4	0.39	139.7	1.53
Mining	13.9	0.09	11.8	0.08	0	0.00
Production	5701.5	35.85	3319.1	23.54	3511.1	38.46
Construction	1923.3	12.09	2086.8	14.80	1698.2	18.60
Machinery	163.2	1.03	58.8	0.42	2.3	0.03
Transportation	1467.9	9.23	86.5	0.61	0	0.00
Public Service	917.7	5.77	964.9	6.84	252	2.76
Wholesalers	2458.5	15.46	4266.2	30.26	1712.9	18.76
Finance	821.1	5.16	466.0	3.30	647.5	7.09
Service	1260.7	7.93	502.9	3.57	368.4	4.04
Consumable	84.6	0.53	228.0	1.62	41.2	0.45
Local Govt.	0	0.00	24.1	0.17	0	0.00
Others	1036.1	6.52	2029.7	14.39	755.5	8.28
Total	**15903.0**	**100%**	**14100.2**	**100%**	**9128.8**	**100%**

Financial Report of Banks, 2010

Everest bank is the only bank that has invested its fund to the local government with 0.17% oparative to other sector. We can say that despite being a private joint venture bank, it has invested in the local government making it a history in Nepalese banking sector. It is found out through the official of the banks that Nabil bank and NIC bank doesn't want to invest in the local government sector because the in-government policy keeps on changing.

NIC bank hasn't invested a penny in the transportation & mining sectors. Because of the risk factause the bank has not got the opportunity to invest in the mining sector, the percentage of investment in these sector stands to be nil.

In agriculture sector, the percentage of NIC bank is a little higher than the other two banks. A area. Comparing percentage wise, the branches of NIC bank is more in the rural area than in the urban area. So, it is understood that NIC bank has invested more in the agriculture sector than Nabil and EBL.

4.3. Security wise Loan and Advances of Nabil Bank, Everest Bank and NIC Bank

None of the banks invest without security. Holding security means to be assured that the bank will recover the lending amount if the client does 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 4.10

Security wise Loan and Advances of Nabil Bank, Everest Bank and NIC Bank

(Amount in million)

Securities	Nabil Bank		Everest Bank		NIC Bank	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Gold	54.5	0.34	55.4	0.39	139.7	1.53
Govt. Securities	13.9	0.09	11.8	0.08	0	0.00
Non govt. securities	5701.5	35.85	3319.1	23.54	3511.1	38.46
Fixed A/C receipt	1923.3	12.09	2086.8	14.80	1698.2	18.60
Assets Guarantee	163.2	1.03	58.8	0.42	2.3	0.03
On Bills Guarantee	1467.9	9.23	86.5	0.61	0	0.00
Guarantee	917.7	5.77	964.9	6.84	252	2.76
Credit Card	2458.5	15.46	4266.2	30.26	1712.9	18.76
Earthquake victim	821.1	5.16	466.0	3.30	647.5	7.09
Others	1260.7	7.93	502.9	3.57	368.4	4.04
Total	**15903.1**	**100%**	**14100**	**100%**	**9128.7**	**100%**

Financial Report of Banks, 2010

The table 4.10 shows that there are different types of securities that the bank keeps in the custody at the time of granting loans. Looking at the figure and ratios of the commercial banks in the above table wset securities include land & buildings, machinery tools, furniture & fixtures, vehicle, other fixed assets, rice, raw jute etc.

Nabil bank has the highest ratio of assets guarantee as the best security i.e. 70.54%. The second prior security of Nabil bank is of bills guarantee with 16.51%. Bills guarantee includes domestic bills, foreign bills, import bill, letter of credit, export bill, against export bill and other foreign bills.

Everest bank has also invested its major fund by taking the collateral of assets guarantee i.e. 90.43%. Same as NIC bank has also invested 86.88% against the security of assets guarantee.

Only NIC bank has accepted 0.05% of security as gold. Banks usually don’t accept gold and silver as securities because calculation of the actual market value of gold is difficult and the value of these securities keeps on fluctuating.

Only Nabil bank has accepted 0.39% of credit card as security because Everest bank and NIC bank don't have the fn the form of security, as the banks doesn't have the policy and scheme to accept as such.

4.4. Interest Rate of Commercial Banks in Different Types of Loan

Commercial banks do not charge uniform interest rate to all types of loan. As per the need and benefit from the credit facility the interest rate varies. Commercial banks charge different interest rates to different credit facility.

Table 4.11

Interest rate in Different Types of Loan

(In percentage)

Type of Loan	Nabil Bank	Everest Bank	NIC Bank
Overdraft	10-14	9-15	12-15
Export credit	4-12	9-12	10-14
Import credit	8.5-13	9-12.25	8.5-12.50
Against FDR	10-14	9-15	12-15
Against HMG Bond	4-12	9-12	10-14
Against BG/CG	8.5-13	9-12.25	8.5-12.50
Against other Guarantee	10-14	9-15	12-15
Industrial Loan	4-12	9-12	10-14
Commercial loan	8.5-13	9-12.25	8.5-12.50
Priority loan	10-14	9-15	12-15
Poorer Loan	4-12	9-12	10-14
Term Loan	8.5-13	9-12.25	8.5-12.50
Working Capital	10-14	9-15	12-15
Hire Purchase	4-12	9-12	10-14
Others	8.5-13	9-12.25	8.5-12.50

Financial Report of Banks, 2010

In the above table it can be seen the various interest rates in different credit facilities. When we compare interest rate charged by the different banks, we can see that they are nearer to same rate. When we look at the row of the export credit, Nabil bank's interest rate varies from 4% to 13%. The interest rathe nation and earning more. On the other side if banks encourage Nepalese industry in the export business, banks will have stronger holding of foreign currency in foreign banks.

Though Everest bank is a reputed joint venture bank, it doesn't have the facility of granting loan to other guarantee except government bond. The highest rate of interest charged by Everest bank is on industrial, term, overdraft and other loan. But when the rates are being compared with the other two banks, the rates are little lower than NIC and Nabil bank. The reason for charging high rate on these types of loan is due to risk factor and the fund invested in these sectors generates individual benefit only. But when we over view all types of loan and interest rate, maximum of the interest is charged in the range of 9% to 15%.

4.5. Interest Income Earn by Commercial Banks

Commercial banks are the service oriented banks. Most of the income the banks earn is through charging interest against lending and through direct investment in different sources. Following table shows the total Interest Income of Nabil Bank, Everest Bank and NIC Bank up to Mid-July 2009/10.

Table 4.12
Interest Income under Different Heads

(Amount in million)

Interest Income Heads	Nabil Bank		Everest Bank		NIC Bank	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Loan & Advance	1084.6	74.03	983.8	84.95	621	84.43
Govt. Bonds	117.7	8.03	114.4	9.88	51.8	7.04
Foreign Bonds	9.1	0.62	32.2	2.78	0	0.00
NRB Bonds	0	0.00	0	0.00	0	0.00
Debentures	0	0.00	14.2	1.23	0	0.00
Agency Balance	4.5	0.31	6.8	0.59	1.3	0.18
Call Deposits	247.9	16.92	5.7	0.49	60.8	8.27
Others	1.2	0.08	1	0.09	0.6	0.08
Total	**1465**	**100.00**	**1158.1**	**100.00**	**735.5**	**100.00**

Financial Report of Banks, 2010

In the above table it can be seen the various interest heads and their amount. All the commercial banks have earned major interest income from loans and advances. Nabil Bank has earned 74.03% of income from loan and advances out of the total interest income. Where as Everest Bank and NIC Bank has earned 84.95% and 84.43% interest income from loans and advances respectively. We can clearly analysis banks are highly concentrating to generate t is the only bank which has generated interest income from debenture. Although Nabil Bank and Everest Bank has generated most of the income from charging the interest in loan and advances, it has also invested in other sectors that could generate the interest income for example foreign bonds, agency balance, others etc.

In the history of private Joint Venture Banks Everest Bank is the only bank that has purchase the debentures and has earned secured interest rate.

4.6. Analysis of Primary Data

The researcher has collected the information through the questionnaire as a sample data only with the fifty staff members of the sample commercial banks.

Table 4.13
Most Secure Sector of Lending in Opinion of Respondents

Sector of Lending	Respondents	Percentage
Manufacturing Industry	10	20
Trading Business	4	8
Education Loan	6	12
Professional Loan	2	4
Housing Loan	15	30
Personal Loan	3	6
Flexi Loan	2	4
Loan to Government	8	16
Total	50	100

Source: Field Survey, 2010

The first question is asked which sector is the most secure lending, most of the banks staffs (30%) replied that the housing financing is the most secure lending. The staff of Everest Bank Limited Mr. J. Shrestha told that Everest Bank is the pioneer bank to introduce the housing loasumer financing'. 20% staff replied that the manufacturing is the most second secure lending after housing loan. Nabil bank's staff focused on the manufacturing industry as 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 does not contribute to the nation but only the individual will be benefited. And the operating cost in the consumer financing is high and amount of financing is low. 16% staff replied that the loan to government is the third most secure lending after manufacturing and industry. The Manager of NIC bank, Mr. Y.M Shakya and many other members told that loan to 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.

Table 4.14

Common Securities that Bank Demands From Credit Clients

Securities	Frequencies					Total score	Mean
	1	2	3	4	5		
Fixed Assets	2	2	2	4	5	53	3.53
Gold and Silver	-	2	4	6	3	55	3.66
Personal Guarantee	3	3	3	4	2	44	2.93
Government Bond	7	2	1	3	2	36	2.40
Stock and Debtors	5	2	3	2	3	41	2.73
Foreign Bills	3	2	3	6	1	45	3.0
FD Receipt	5	3	1	5	1	39	2.6
Life Insurance Policy	5	2	3	2	3	41	2.73
Total							

Source: Field Survey, 2010

The second question is about the lack of promotion activity in the investment in priority and deprived sector the commercial banks. The main reason for less amount of investment in these sectors is due to the low loan recovery from these securities. Most of the branches of the commity and amount. Demand of the loan for these sectors are from the rural area and joint venture banks are not approaching to the rural area due to the lack of security. According to the NRB directive no commercial can take collateral as security in the investment in deprived sector. So, due to the fear of loan recovery and high operating cost, the bank rejects most of the loan in these sectors.

The table 4.14 shows the total score and mean value of different consideration factor. The common answer to the t. Government bond is also highly preferred by the banks by the duration of these bond are for the short period but 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 for 100% of it's lending on the personal guarantee. Bank usually takes more value of securities than necessary. In this question one of the option was gold and sliver and found that these assets as the collateral is less valued or simply we can say that commercial banks has no any policy to grant loan against the gold and silver.

The fourth question was asked how long the commercial banks takes to disburse the loan from the date of loan application, the answer in this question is found positive. 64% respondents told that in an average of within 15 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 analysis that commercial banks are quick in their services.

Table 4.16

Name of Authority Who Formulates the Credit Policy at the Banks

Name of Authority	Respondents	Percentage
Board of Director	10	20
Executive Director	3	6
Branch Manager	4	8
Total	50	100

Source: Field Survey, 2010

The fifth and the sixth question was of same nature so the answer for the question number five and six came together, in the fifth question it was asked that the which authority approves the credit policy and 90% 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 employees 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 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 the Board. The hierarchy is made for the loan sanction is to provide the loan to its client as soon as possible and to make fewer burdens to the higher authority.

Table 4.17

Common Securities that Bank Demands From Credit Clients

Securities	Frequencies					Total score	Mean
	1	2	3	4	5		
Working Capital Loan	7	2	1	3	2	36	2.40
Housing Finance	5	2	3	2	3	41	2.73
Trust Receipt Loan	3	2	3	6	1	45	3.0
Demand Loan	5	3	1	5	1	39	2.6
Educational Loan	5	2	3	2	3	41	2.73
Vehicle Loan	3	2	3	6	1	45	3.0
Personal Loan	5	3	1	5	1	39	2.6
Flexi Loan	5	2	3	2	3	41	2.73
Total							

Source: Field Survey, 2010

The table 4.17 shows the total score and mean value of different consideration factor for seventh question. The seventh question is which common securities that bank demands from credit clients and which product of credit facility is most profitable and the answer to this question is in the mixed form, everyone has his or her different view. Most flexi loan. So, it can be concluded that every product of the bank is the profitable scheme.

Table 4.18

Time of Follow up when Overdue Outstanding at Bank Starts

Time period	Respondents	Percentage
Immediately	46	92
Within 7 days of overdue	2	4
Within 15 days of overdue	2	4
Total	50	100

Source: Field Survey, 2010

Table 4.18 shows the answer of question number eight. The eighth question is asked for the follow-up for the over due of the loan to the borrower is done immediately or not? 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 immediately.

The ninth question asked is that while floating loans, does your bank gives some extent of priority to the following sector i.e industrial, trade, service and others and it was also mentioned that the priority in each sector are independent with each other.

Table 4.19

Important Reason that Leads to the Rise of Non Performing Assets

Procedure	Respondents	Percentage
Investment in wrong sector	10	20
Excess credit flow than the necessary to the client	3	6
Lack of documentation process at the time of loan disbursement	4	8
Investment to the client on Ad-hoc basis	5	10
High interest rate charged to the client	3	6
Irregular inspection and follow up of the field	25	50
Total	50	100

Source: Field Survey, 2010

To the answer of the ninth question they found the question is vast. Because the question is not clear to them and also trade financing from NIC bank and Nabil bank got the highest percentage of score but staff from Everest bank supported other Sector marking as the retail lending.

Table 4.19 shows the answer of question number tenth. The tenth question is asked for the most important reason that leads to the NPA (Non Performing Assets). 50% respondents told that the most common answer is due to irregular follow up and inspection in the site visit. Further, the respondent has given te to higher interest rate there is no chances fo 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.

Table 4.20

Bank's Procedure to Reduce NPA

Reasons	Respondents	Percentage
Take up legal action	10	20
Forcing the client to pay back soon	3	6
Reschedule the loan	4	8
Reduce the interest r ate and force them to pay back	5	10
Rebate interest rate and forcing them to pay back	3	6
Irregular inspection and follow up of the field	25	50
Total	50	100

Source: Field Survey, 2010

Table 4.20 shows the answer of question number eleven. 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 forciding to their answer, in question number eleven it indicates that banks can go upto any level to get public's money back.

4.7 Major Findings of the Study

The findings based on the information from primary and secondary sources of data are given below:

1) On the basis of better performance of the client, bank provides reduction on interest rate or rebate to its prime client and provides certain facility. On the other hand if negligence arises from the client, bank can charge penal interest and those clients are forced for timely repayment of borrowings.
2) Interest rate charged on manufacturing industry in a certain rate that differs with trading business. We found interest rate charged to industry is some to the extent lower than trading. The reason is to encourage industry business within the territory of Nepal. It does not mean banks are neglecting the trading business. In some of the case study the researcher has found that the prime customer of trading business is getting more facility then the industry loan.

3) Different interest rate is charged to the prime client and ordinary client. Prime client are those client who have rek treats them as a family member and provides certain facilities too i.e. lower interest rate in the borrowing than the bank's published interest rate, free ABBS charge, inward/outward remittance free or minimum flat charge etc. Ordinary client are those who have the casual relation with the bank. If the relation with the bank repeats regularly, then these ordinary clients could be bank's prime customers.

4) As discussed in previous chapter, bank provides loan and advances on several purposes and charges the interest rate according to the nature of the loan. Interest rate is low in Fixed Deposit Receipt (FDR) as compared to other types of loan. Interest rate charged in import and export financing is moderate one. Where as in working capital loan and industrial loan, interest rate are higher in comparison to other loan. Interest rate on retail lending is of average one. The reason for charging average interest rate for this type of loan is that it is granted to the individual and repayment is made out of income. But repayment of the industrial loan and trading loan is made out of profit by the firm.

5) Banks also provide certain interest rebate on loan provided to priority sector and deprived sectors. This sector is granted to the people of low income level and they have no sufficient and strong collateral to execute the loan disbursed by the bank. Banks have to provide the loan in certain rate as prescribed by NRB.

6) Till now, Nabil bank has 21 branches in Katmandu valley out of 43 branches. And rests of the branches are also constricted in the major cities of Nepal. Everest bank has 38 branches out of which 22 branches are operating within the valley. And rests of the other branches are in the commercial cities of Nepal. Similarly, NIC Bank has 28 branches out of which 15 branches are in Kathmandu valley and rests are outside the valley.

7) It shows that the banks are in competition to provide quality & quick service among each other. So due to lack of facility, infrastructure and security reason, Joint Venture Banks are concentrating on major cities only and as the result people of remote areas are not getting the proper banking facilities.

8) The interest rate charged by the commercial banks range from 9% to 13% which is quite lower when we look at the past records, the interest rates charged by the commercial banks were as high as 20% and by private lenders the rate was 36%.In the past interest rates on the deposit amount was 13% to 15%. Today highest interest rate on deposit is about 4.5%. The spread rate is 7% to 9% which is above the standard of NRB directives. Finally we can conclude that though the interest rate on lending has decreased there is a wide gap in the spread rate. Hence we can say that the commercial bank charge higher interest rate.

9) In this study, it seems that most of the portion of loan granted by sample banks goes to industrial sector only and hence the future of the banks depends on the prosperity of the industry. Low diversification of loan shows higher risk hence the bank lending policy can be treated poorer; also the branches are situated at the highly urban area of the country. According to the verbal information provided by the officer of the concerned banks, the collateral of the land and building against the security of the loan should be within the urban area preferably nearby the bank location. Branches of these banks are concentrated to sophisticated urban area, and also bank does not entertain the collateral outside the urban area. In Nepal 85% of the total population resides in the village area which directly shows that Joint Venture Banks are providing its facility to 20% of the population living in urban area.

10) Looking at the financial performance of the Joint Venture Banks they are increasing their profit and their branches every year and non-of the Joint Venture Banks are operating in loss. Within the short period of Joint Venture Banks history in Nepal, there are 30 commercial banks and more than 600 branches operating within the territory of Nepal. Due to high promotion and attractive scheme of the commercial banks people are more interested to keep the relation with the Joint Venture Banks.

11) NRB has made the strong directives that all the commercial banks have to open their branches at the rural area. If these regulation of NRB implements then the people at the remote area will also get benefit and image of the commercial banks reaches every corner of the country.

12) JVB's philosophy at accepting collateral has been changed. In the past the government owned commercial banks used to accept gold and silver as the collateral against the loan but there is no JVB's to accept these securities. It is found from the analysis that bank used to accept government bond and fixed assets against the loan. Stock and debenture is also accepted as the collateral but only for the short period of time i.e. up to one year. Though the NRB has suggested to JVB's not to flow the loan against the personal guarantee but also it is found that the commercial banks has flown their fund against the personal guarantee without any provision.

13) It has been found that the banks are utilizing the fund properly which have been collected through the deposit and other means. The researcher has tested the sampled data through means, C.V, Ratios, and S.D. Finally, it is found that none of the test made above are below the standard.

14) Comparative analysis of Borrowers before granting a loan is major positive aspect of all the sampled 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 Joint Venture Banks. But the necessary information relating to the client is enough in their credit application format. Though the banks want more information form the credit clients, somewhere it is seemed that the information collected form the banks are more than the necessity to the banks.

15) 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 secured than man with wealth.

16) Observation on lending portfolio of the bank reveals that major portion of loan and advances goes to productive sector. This shows that bank has been playing vital role in the development of industrial activities realizing the situation that industries are the pillar to the economic 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 (Housing loan, Vehicle loan, Educational loan, Professional loan, Personal loan and Flexi loan).

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

The study evaluates that the study on lending operation and practices of commercial banks with reference of Nabil Bank, NIC Bank and Everest Bank Limited includes both theoretical and practical aspects. The researcher has tried to go through the practical aspects, which has been followed by above sampled bank. Most of the research regarding the banking practices is found normally moving around the principle aspects again and again rather then filtering the actual situation. Normally, this study focuses on the credit policy and its implementation, which has been adopted by above three banks. In this process the researcher had consulted many books, booklets, brochures, magazine, newspapers, different web sites; the researcher undertook verbal interviews with officers of the concerned banks and their selected clients and general public too. During the period, the researcher summarized the whole task in five chapters including this chapter. The research has been conducted to elaborate the credit policy and its implementation in Nepalese Joint Venture Banks. The reality is that even the Nepalese people are literate; they do not yet developed themselves for institutional loan accordingly quite unknown about the function and facility provided by Joint Venture Banks. Even today normal individual prefer to borrow from private individual i.e. landlord, friends, family etc. rather than institutional loan. The habitility provided by the above sample banks.

Accordingly, the function of Joint Venture Banks, their norms, internal rules, and its objectives are discussed. In this process, it has been tried to portray the way of credit initiation and appraisal process and discussed types of data needed, categorizing the types of client, the way of selecting the most attractive prospect so that the new credit client could feel easy. Similarly, nature of loan provided in accordance to nature of security and nature of business. For the security purpose various movable and immovable security such as land and building, entire factory, business stocks, shares, debentures, government bonds, fixed deposit receipts are used and the way of executing the ownership i.e. legal mortgage, equitable mortgage, pledge, lien, hypothecation are found in the practices. Here, different types of risk during the process of lending and precautionary action that should be adopted by the bank are mentioned so that the organization can make itself better and increasing its quality in the process of granting loans. The saying is that " Any fool can lend money, but it takes a lots of skill to get it back" hence, an investor or an investment company should invest its asses diversifying in several opportunity so that maximum return can be obtained with minimum risk. In this way, various research methodologies have been used so that my study could extract the reality. This study is not focused on credit policy of a single bank but with a comparative manner taking data from Nabil Bank, Everest Bank and NIC Bank focusing on their portfolio. During the study it is found total loan of the bank goes to industries, trade, agriculture, service sector, priority sector, deprive, others etc. Also the researcher has found that the banks has followed the rules and regulation issued by NRB i.e. liquidity maintenance, loan portfolio, loan loss provision etc. However, adequacy against risk weighted assets is maintained on various phases. Various types of literature studies have been undertaken so that exact theme could be extracted. Various norms, regulation and directives as issued by NRB are presented so as these are treated as guidance for comparing the performance of the banks.

5.2. Conclusion

On the basis of better performance of the client, bank provides reduction on interest rate or rebate to its prime client and provides certain facility. On the other hand if negligence arises from the client, bank can charge penal interest and those clients are forced for timely repayment of borrowings. In the former chapter we have already discussed the priority sector lending out of total lending of the commercial banks. NRB has previously (till 2010) issued a directive that the commercial bank should disburse at least 12% out of total loan and advance in priority seeprived sector to 3% & no such compulsion for maintaining the priority sector ratio. Disbursement in priority sector by the Joint Venture Banks is more than the ratio mentioned by the NRB.

Banks also provide certain interest rebate on loan provided to priority sector and deprived sectors. This sector is granted to the people of low income level and they have no sufficient and strong collateral to execute the loan disbursed by the bank. Banks have to provide the loan in certain rate as prescribed by NRB. It shows that the banks are in competition to provide quality and quick service among each other. So due to lack of facility, infrastructure and security reason, Joint Venture Banks are concentrating on major cities only and as the result people of remote areas are not getting the proper banking facilities.

The interest rate charged by the commercial banks range from 9% to 13% which is quite lower when we look at the past records, the interest rates charged by the commercial banks were as high as 20% and by pr 9% which is above the standard of NRB directives. Finally we can conclude that though the interest rate on lending has decreased there is a wide gap in the spread rate. Hence we can say that the commercial bank charge higher interest rate. In this study, it seems that most of the portion of loan granted by sample banks goes to industrial sector only and hence the future of the banks depends on the prosperity of the industry. Low diversification of loan shows higher risk hence the bank lending policy can be treated poorer; also the branches are situated at the highly urban area of the country. According to the verbal information provided by the officer of the concerned banks, the collateral of the land and building against the security of the loan should be within the urban area preferably nearby the bank location. Branches of these banks are concentrated to sophisticated urban area, and also bank does not entertain the collateral outside the urban area. In Nepal 85% of the total population resides in the village area which directly shows that Joint Venture Banks are providing its facility to 20% of the population living in urban area.

Looking at the financial performance of the Joint Venture Banks they are increasing their profit and their branches every year and non-of the Joint Venture Banks are operating in loss. Within the short period of Joint Venture Banks history in Nepal, there are 30 commercial banks and more than 580 branches operating within the territory of Nepal. Due to high promotion and attractive scheme of the commercial banks people are more interested to keep the relation with tnks have to open their branches at the rural area. If these regulation of NRB implements then the people at the remote area will also get benefit and image of the commercial banks reaches every corner of the country. JVB's philosophy at accepting collateral has been changed. In the past the government owned commercial banks used to accept gold and silver as the collateral against the loan but there is no JVB's to accept these securities. Though the NRB has suggested to JVB's not to flow the loan against the personal guarantee but also it is found that the commercial banks has flown their fund against the personal guarantee without any provision.

5.3. Recommendations

From the above study following recommendations are drawn:

1. Need to Diversify Lending

Though the banks are established to earn profit, it also has to invest in those sectors where the society is really in need of investment. Analyzing in the previous chapters it is found that most portions of the investment is made in the service or retail sectors 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.

2. Need to reduce spread rate

Since, interest rate charged by the Joint Venture Banks is usually 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%.

3. Preference to Support Short Term Lending

Considering the present scenario and risk management, it is justifiable that risk can be minimized through short term lending than long term. Hence preference should be given to short trade financing and discourage long term loan finance and also focus in multiple returnable loans as far as possible.

4. Lending Procedure should be short

It is found that the bank's procedure in term of lending is too lengthy. Commercial banks are established with 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 can get the necessary fund on time.

5. Need to grab more benefit from Fixed Deposit

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

6. Need to Invest Small Entrepreneur Development Program

After having come to the end of the study, I conclude that transaction of Joint Venture Banks has concentrated mostly with big clients, large group of traders, business networks and large industries. Loan should also go to the upliftment of those people who are not economically sound, so bank should also concentrate in investing more in small entrepreneur development programs as well such as small scale industries etc.

7. Need to diversify in accepting single nature of collateral

It is found that commercial banks usually prefer to accept only land and building as the collateral from the client. It means that banks are taking higher risk by accepting only single nature of collateral. So it is recommended to the commercial banks to accept other assets as the collateral security as well.

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