Lending Management Policy of Nepalese Commercial Banks
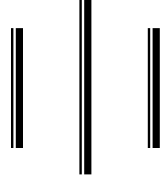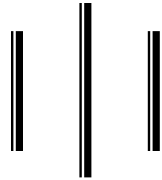
(With Comparative study of Everest Bank Ltd. and Lumbini Bank Ltd.)

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A Thesis

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Submitted by:

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T.U. Registration No.: 7-1-297-242-97

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Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements for the

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Bhairahawa, Rupandehi

April, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by:

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has been prepared as approved by this department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

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and found that thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Head of Research Committee   ……………………….

Member (Thesis Supervisor)   ……………….……..

Member (External Expert)   ……………….……..

Date: ... ...

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BHAIRAHAWA, NEPAL

DECLARATION

I hereby, declare that the thesis entitled, **Lending Management Policy of Nepalese Commercial Banks (With Comparative study of Everest Bank Ltd. and Lumbini Bank Ltd.)** submitted to the Office of the Dean, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the Master's Degree in Business Studies (M.B.S.) under the supervision and guidance of Mr. Keshev Raj Joshi, Thesis Supervisor.

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iii

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CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

C.V	:	Coefficient of Variation
FY	:	Fiscal Year
EBL	:	Everest Bank Limited
LBL	:	Lumbini Bank Limited
NPA	:	Non Performing Asset
NPL	:	Non Performing Loan
NRB	:	Nepal Rastra Bank
PE	:	Probable Error
r	:	Correlation Coefficient
Rs.	:	Rupees
S.D.	:	Standard Deviation
TU	:	Tribhuvan University

CHAPTER – 1

INTRODUCTION

1.1 GENERAL BACKGROUND

Loan management policy plays an important role in economic development of different sector of the country such as industrial, commercial, business sector and so on. In past, loaning or lending policy was not in a discipline manner, but with the development of advancement of modern financial activities loaning has been recently developed in a discipline manner. Banking sector acts a vital role in the economic development of the country. Commercial banks are one of the important aspects of this sector, which deals in the process of channeling and available resources in the needed sector.

Commercial banks are major financial institutional, which occupy quite important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks maximizing quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushes forward the forces of economic growth.

Lending policy is the essence of commercial banking. Consequently the formulation and implementation of lending policies are among the most important responsibilities of directors and managers. Better concerned lending policies and careful lending practices are essential if a bank is to perform its credit. Loan policy effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks. The banks takes almost care in analyzing the creditworthiness of the borrowing customer to ensure that the interest and the principal among on loans are timely recovered without much trouble and legal

process for the recovery. A sound policy is essential for the good performance of the bank. Lending policy should be carefully analyzed and the banks should be careful while performing its credit creation effectively to minimize the risk factor.

Loaning policies are not systematic and no clear cut vision of policy is available on loaning aspect. In Nepal it has been found that on approval and loaning decisions are made flexible to favour the personal networks. A new customer finds that loan providing process being very complicated and sometimes the documents submitted for loan sanctioning being fraudulent and for formality purpose only.

The need of financial resources in the developing country like Nepal is essential for the economic development of the country. All the sectors from industrial and commercial to agriculture and infrastructure are in need of finding. Although the growth of industrial loan has not been encouraging in the recent years, there is sizeable growth in the commercial and other short-term credits. Commercial banks are focusing loans on consumer loans like housing, vehicle, education loan etc. It is encouraging to explore new sector for loan management but it should also be considered that industrial loan should be given prime importance as the economy largely depends on this sector.

Loan is essential aspects of commercial bank. "First, income from loan contributes substantially to the revenues and profit of the bank. Second, lending money to people in the community strengthens the community-bank relationship. Third, loaning money encourage business development and supports a growing economy".

Loaning operation of commercial banks is very risky one. For this commercial banks have to pay due consideration while formulating loaning policy. A well loaning policy attracts of borrowers and lenders, which help to increase the volume and quality of deposits, loans and investment. Loan procedure strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the approved terms and conditions. The goal of the credit risk strategy is to maximize a bank's risk

adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loan is the largest and most obvious sources of credit risk. However, other sources of credit risk exist throughout the activities of a bank, including in the banking book, trading book and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlement of transactions. The loaning policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. A firm has to establish and use standards in making loaning decision, develop appropriate sources of credit information and method of loaning.

1.2 STATEMENT OF THE PROBLEM

Lending is one of the most important terms of investment method. So every financial institution should concentrate on loaning as important means of investment. But the sufficient return cannot have been found to be earned as well stable and appropriate loaning policy hasn't been followed by these commercial banks.

Loan enrolling is the major important factor for promoters, shareholders and managers. After 1984, in a short period of time, several joint venture banks have been established in Nepal. Fund enrolling policy of joint venture banks may differ from each other but there is no optimum utilization of shareholder's fund to have greater return in any bank. Nepal Rastra Bank played vital role to make commercial bank enroll their fund in good sector. For this purpose, NRB has imposed many rules and regulations as the bank can have sufficient liquidity and security.

None of the commercial banks can survive without implementing its lending functions efficiently. In present situation liquidity with public is quite high and banks are not getting promising lending opportunities properly. They are collecting adequate amount from the mass, however they couldn't find new lending sectors to mobilize funds on the changing context of Nepal. Increasing rate of liquidity has

caused a downward trend in investment sectors. It has ensued bad impact on interest rate to the depositors, lower dividend to the shareholders, lower market values of shares, lower contribution to national revenue etc.

Loaning portfolio position of the banks is not satisfactory. They are not following a sound diversification principle. At one time commercial banks lending had invested a large proportion of their loan to garment, hotel, carpet industries but these sectors became weak and banks are in trouble of their loan repayment. Commercial banks in Nepal has been facing several challenges, some of them arising from lack of smooth functioning of economy, some of them arising due to confused policies and many of them arising due to default of the borrowers. Thus, in this scenario of Nepalese commercial banking sector this study deals with the following listed issues.

> How aggressively is the loaning policies of commercial banks are being followed?
> Whether over liquidity is caused due to the lack of good opportunities?
> Whether the trend of the deposit and loans of the commercial banks are sufficient?
> What step should be taken under consideration in order to improve the loaning policy of commercial banks?
> How the commercial banks measure the liquidity position and impact of deposit on liquidity?

1.3 OBJECTIVES OF THE STUDY

The main objective of the study is to analyze the lending policy implemented by the sampled banks i.e. EBL and LBL. The specific purpose of this paper is to;

1) To measure the effectiveness and strength of lending policy of the selected sampled banks.
2) To measure the lending performance in quality and efficiency.

3) To identify major weakness of lending policy of these commercial banks.

4) To provide suggestion and recommendation for the proper loan management system.

1.4 LIMITATION OF THE STUDY

This study will have some limitations. Reliability of statistical tools used and limited research experience is the major limitation and remaining limitations for the study are:

➢ The study will be limited to the lending aspect mainly with the loan and advances only.

➢ The major portions of analysis and interpretation have been done on the basis of the available secondary data and information. So, the consistency of findings and conclusions are strictly depends upon the reliability of secondary data and information.

➢ Only two commercial banks (EBL and LBL) of five years (2003/04 to 2007/08) have been taken into consideration.

➢ Foreign information and rules affecting the loaning policy are ignored.

➢ The study will be based on secondary data collected from annual reports, financial statements and related websites.

➢ There may be many factors affecting loaning policy. But only those factors related with selected topic has been considered in this study.

1.5 ORGANIZATION OF THE STUDY

Chapter 1: Introduction

The first chapter deals with introduction of the subject matter. This includes introduction, statement of the problem, objectives of the study, limitations and organization of the study.

Chapter 2: Review of Literature

Second chapter deals with the review of available literature. It includes review of books, articles, journals and previous dissertations.

Chapter 3: Research Methodology

Third chapter explains the research methodology used in the study, which includes research design, nature and sources of data, sample and population, method of data analysis and limitations of the study.

Chapter 4: Data Presentation and Analysis

The fourth chapter is the most important chapter of the study which is related with analytical framework. It includes presentation and analysis of data.

Chapter 5: Summary, Conclusion and Recommendations

Lastly, the fifth chapter summarizes the main conclusion that flows from the study and also offers suggestions for further improvement of lend ing policy and conclusion of the study.

A bibliography and appendices are also attached at the end of the study.

CHAPTER 2

REVIEW OF LITRATURE

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of the study is to find out what works have been done in the area of the research problem under study. In this chapter, an attempt has been made to review some of the basic literature pertaining to the loaning management. The relevant literature and articles were reviewed from international journals and national publications availed from various libraries and institutions. This chapter is divided into three sections-the first section deals with the conceptual framework, the second section includes reviews of empirical work and section third includes concluding remarks.

2.1 Conceptual Framework

"Banking is the business of collecting and safeguarding money as deposits and lending of some. The banker's business is then to take the debt of other people to offer his own in exchange and thereby to create money. He may be a dealer in debt, but in distress is only the observe of wealth and it will be equally permissible to describe the banker as a liquefies of wealth." (Crowther, 2001, 81)

2.1.1 Concept of Commercial Bank

Commercial bank is a business organization which deals in money, it borrows and lends money. In the borrowing and lending of money, it makes profit. The distinction between moneylender and a commercial bank may note. Whereas moneylender only lends to other and that too from his owned sources, a commercial bank does both the lending and borrowing businesses. A commercial bank raises its resources through borrowing from public in the form of deposits and lends them to the businessmen. Its lending rate of interest is greater than that it pays to its depositors. It is because of this difference in lending and borrowing rates of interest that it is able to make profit. Commercial bank is a business organization that receives and holds deposits from others, makes loans or extends credit and transfer

funds by written order of depositors. Actually modern banks perform all the required financial function and provide its service to every needy.

The commercial banks are established under the rules and legislation of the central bank of the country. Though bank are established for mobilization of the saved funds central banks makes certain rules so that the public or the customer of the bank may not under gone on loss of their hard earned money by the disinvestments procedures of the bank. Thus, commercial banks have to consider government and NRB's instructions and national and their own interest as well. Good lending policy ensures maximum amount of investment to all sector with proper utilization. Commercial bank Act 2031 B.S. of Nepal has defined that "A commercial bank is one which exchanges money, deposits money, accept deposits, grant loans and performs commercial banking function and which is not an bank meant for cooperative, agriculture, industries or for such specific purpose."

2.1.2 Origin and Development of Commercial Bank

According to the Alfred Marshal, in Greece, the temple of Delphi and other sacred acted as storehouse for the precious metals before the days of coinage and private purpose at interest, through they paid none themselves. Private money changers began with the task of reducing many metallic currencies, more or less exactly, to a common unit of value and went on to accept money on deposit rate interest and to lend it out at higher interest.

The ancient Rome of the 15th century we can find some history about the practice of various banking function like money changing, transfer of funds, issue of loans etc which are similar as to those of modern banking system. In the 7th century the use of commercial instruments was recorded. The revival of banking practices took place only towards the beginning of the 12th century A.D. In case of eastern countries it started very late in comparison to western countries. In England, banking had its origin with London goldsmith who, in the 17th century, began to accept deposits

from merchant and other for safe keeping of money and other valuables, crude money lending and money changing were present during the reign of Elizabeth-I(1533 to 1603A.D) and the Tower of London, which served as the British mint. "The bank of Venice" was the first public banking institution established in 1157 A.D. The famous bank "Bank of Amsterdam" opened in 1609. it had occupied a very important place in the 17th century enjoying for a long time position of international commerce as prominent as the "Bank of England" in 1694 with capital of 1.2 million pound by a group of wealth London merchants and financiers. Napoleon founded the "Bank of French" in 1800 A.D. in France.

The 19th century comes with the vast scope for development of commercial banking. Accordingly to M.C Vanish the 19th century witnessed not only the phenomenal development of modern is banking but also witnessed the solution of many stubborn monetary problems enabling banks to turn their attention away from old money changing business to many new important jobs that comes in the wake of industrial process. The 20th century observed development of various banking institutions highly specialized, sophisticated particularly in advance countries like the U.S.A, U.K and other. Today various international organizations like I.B.R.D, A.D.B etc have been developed. In England the commercial bank used to be referred to as the joint stock bank. In London, it has been called as clearing bank. In Western Europe commercial banks used to be called credit bank and investment bank.

The commercial banks in India established by the British in colonial age were called "Exchange Banks". So, the term banking system is different in various countries. According to Sayers the general acceptable term The typical commercial bank in most countries is very large institution having a number of branches scattered all over the countries i.e. England, Canada and Australia.

2.1.3 Development of Commercial Bank in Nepal

In ancient time, there was also a lending business in Nepal. During those days people used to borrow money from moneylenders paying some interest. There was no accurate interest rate. Moneylenders determined interest rate. So there was monopoly in interest rate. Moneylenders are like Shaumahajans, Jamindars, Relatives, Friends and few informal organizations limited to ethnic group such as guthi. The borrowing from the other people and the informal organization was limited and based on personal understanding. At that time people deposit their gold, silver and valuable goods for the sake of security, thus, the private moneylender can be taken as forerunner of the concept of financial institution.

In this regarding Prof. J.C. Ojha said "but it is impossible to give correct chronological history in view of the fact that no authentic historical records are available in respect to banking. It can be inferred from the history of Nepal regarding the rebuilding of Kathmandu in 723 A.D by Gunakam Dev, the king of the Kathmandu and that of Shankhadharl's (a merchant) action of introduction Nepal Sambat' some fifty seven years thereafter to make lending has been prevalent long before that." Thus the above statement shows that lending system was introduced very long before 723 A.D. But there is o recorded document about lending. Then in 14th century during the rule of Malla King Jayasthiti Malla working occupation was divided in 64 categories. Among them "Tanka Dhari" was one. The main occupation of "Tanka Dhari" was lending money. It also shows that lending process was prevailing during the Malla Rule in Nepal.

During the period of Rana Prime minister, Ranodip Singh a government institution called "Tejarath" was established. In this regarding Ojha States "Ranodip Singh, a Rana Prime Minister for 8 years (1877 to 1885) got interested in this problem an took concrete stops by establishing a government financial institution known as " Tejarath". The Tejarath helped the public by supplying easy and cheap credit at 5 percent interest on the security of gold and silver ornaments. The function of

Tejarath was it supplies credit at 5 percent interest rate per annum. It had benefited to government officials. There was no business of collecting deposit in Tejarath. So, it was not actually a banking institution. From 1901 to 1929 A.D. Tejarath opened some limited branches to extend the credit facilities. Tejarath did not granted to general people; it was limited only for government officials. Tejarath was regarded as the new area in history of banking development in Nepal.

Tejarath could not fulfill the credit needs of the whole society. It was a government institution that benefited government officials only. So the general people had to depend on moneylenders. The moneylenders exploited the rural people in different ways. On the other hand there was need of trade and industries development programs. To make free the rural people from the grips of lenders and to develop trade and industry in the country the need for a commercial bank was realized in the country. So, the Nepal Bank Limited was established in 1937 A.D (1994 B.S), which is first commercial bank in Nepal. It was established under the Nepal Bank Act of 1963 A.D. at the beginning 49% of the ownership belong to the promoters as well as general public and 51% belongs to government. It also acted as Central Bank for more than three decades. "Nepal Rastra Bank" established in Baisakh 14, 2013 B.S (1956) under Nepal Rastra Bank Act 2012B.S as the Central Bank of Nepal. The main objective of the central bank is to maintain internal and external stability. Besides the commercial banking functions, NRB is heavily assisting for the development of whole economy. It is giving timely directives to all financial institutions operated and conducted in all over the country.

After a long period, the second commercial bank named 'Rastriya Banijya Bank" has been established in 2022 B.S with cent percent government ownership. This bank has been established under the Rastriya Banijya Bank Act 2021 B.S. Both Nepal Bank Ltd and Rastriya Banijya bank have made a remarkable contribution by providing reliable banking service to the Nepalese people.

The government introduced commercial bank Act in Nepal in 2033 B.S to cover the vast field o financial sector. According to the act, this act has helped to emerge number of commercial bank with to maintain the economic interest in comfort of the public in general facilitated to provided loan for agriculture, industries and trade and make a available banking service to the country and people. Along vacuum in the banking in the banking sector got some rays of hope only when the government forwarded the economic liberalization policy in 2039 B.S and decided to allow foreign banks to operate their activities in Nepal. After democracy was restored in 2046 B.S flow of institutional financial activities began to grow and many commercial banks are established in Nepal.

2.1.4 Role of Commercial Bank in Economy Development

According to the Former Prime minister of India Morarji Desai said "The role of commercial bank play in economy development of a country needs no emphasis banking, when properly organized, aids and facilities the growth of trade". The objective of bank is to ideal resources for productive use after collecting those scattered resources. Its role in economic development is so immense; it brings about greater mobility of resources to meet the emerging necessity of the economy. The essence of commercial bank is the financial intermediate between the ultimate savers and borrowers. A bank's main function is to act as middle-man between the surplus and deficit units in the economy and as a bank like any other firm is in business to make profit for its shareholders.

The major problem in almost all under development countries like Nepal is lack of capital formation and their proper mobilization. In such countries the commercial banks have to take more responsibilities and should act as development bank due to the lack of other specialized institutions. The importance of bank in economic life is greater. Nepal has sufficient natural resources. The commercial banks can help in economic development which can uplift the life style of the general people directly as the tax contribution from its operation profit and collecting the tax from interest

from its account holders and generating the employment opportunity itself. Economic stability can be maintained as better by the commercial banks as that of than direct way. The commercial banks accumulate scattered saving in term of deposit grant long term as well as short-term loan in the several sectors. Because of this industries can be run better way and reduces import of foreign goods and increase exports. This helps the increase of foreign currency reserve. Due to development of industrial activity on the one hand people can enjoy employment opportunity and so far natural resources are exploited. Naturally, industrialization enhances to develop for agricultural sector. This "bank" can be rightly interpreted as the king of business world and promoter of economic development.

Commercial banks play vital role in economic development of the country. In brief the economy development so define is necessary and sufficient to generate high rates of saving and investment. The generation of high rates of saving and there by investment is possible only through banks. Banks occupies greater role in economic development by generating the saving towards the desired sectors from one place to another, communicating with its branches and agencies in different parts of the country and the world and advising to the commercial people.

2.1.5 Function of Commercial Bank

The function of commercial bank is governed by the Commercial Bank Act 2031 and directives issued by Nepal Rastra Bank from time to time. The function of Commercial Banks can be classified into three broad categories:

Primary Function

- Acceptance of Deposits:
- Advancing of Loans:

Secondary Function

- Bid Bond

- Work at trustee

- Agency Services

- Performance Bond

- Remittances of money

- Financial Bank Guarantee

- Safe Custody of Valuables

- Advance Payment Guarantee

- Underwriting of Capital Issue

- Issuance of Guarantee on behalf of customers

- Collection of Cheque, Bills and Other Instruments

- Sell and purchase of Foreign Currency (including Travel Cheque)

General Utility Services

- Underwriting of securities

- Providing trade information to customers

- Transfer of funds from one branch to another

- Accepting and discounting bills of exchange of export

- Providing reports on the credit worthiness of customers

- Issuing letter of credit and standing as surety for customers

- Accepting valuables, jewelry and securities for safe custody

- Providing foreign exchange to persons going abroad and to imports

- Advising customers with regard to investments and other financial matters

2.1.6 Financial Analysis

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of

the firm or by parties outside the firm viz. owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expressions" and "as the relationship between two things" (Adhakari," Evaluating the financial performance of NBL", p.40).

Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides the measure of the relationship between two variables or figures.

Webster's new collegiate dictionary defines a ratio as "The indicated quotient of two mathematical expressions and the relationship between two or more things". In financial analysis a ratio is used as benchmark for evaluating the financial position and performance of a firm. ("Webster's New Collegiate Dictionary"8th Edition Supering Field Mass).

Types of ratios

Several ratios calculated from the accounting data can be grouped into various classes according to financial activities or function to be evaluated. Long term creditors or the other are more interested in the long term solvency and profitability of the firm. Similarly owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of firm's performance. They have to protect the interests of all parties and see that the firm grows profitability. In view of the requirement of the various ratios they may classify into various groups.

Credit Practice Ratio

▪ **Total Loan to Total Deposit Ratio**

The main source of bank's lending depends on its deposit. The ratio is calculated to find out how successfully the banks are utilizing their deposits on loan and advances

for profit generating activities. Greater ratio indicates the better utilization of total deposit.

▪ Loan and Advances to Total Assets Ratio

Loan and advances is the major part of total assets for the bank. This ratio indicates the volume of loans and advances out of the total assets. A high degree of ratio indicates that the bank has been able to mobilize its funds through lending function. However lending always carries a certain risk of default. Therefore the high ratio represents low liquidity and low ratio represents low productivity with high degree of safety in terms of liquidity.

▪ Loan and Advances to Current Assets Ratio

Loan and advances is the major component in total assets, which indicate the ability of banks to canalize its deposits in the firm of loan and advances to earn high return. If sufficient loan and advances cannot be granted it should be pay interest on those utilized deposit funds and may lose earnings. So, commercial banks provide loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

▪ Interest Income to Loan and Advances

Interest income to loan and advances is one of the major sources of income of commercial banks. The high volume of interest income is indicator of good performance of lending activities.

▪ Loan Loss Provision to Total Loan and Advances Ratio

It describes the quality of assets that the bank is holding. NRB has directed the commercial banks to classify its loan and advances into the category of pass, standard, doubtful and loss and to wake the provision of 1, 25, 50 and 100 percent respectively. NRB has classified the pass and substandard loan as performing loan and other two types of loan as non-performing loans. The provision created against the pass and substandard loan is called the general loan loss provision and provision created against the doubtful and loss loan is called specific loan loss provision. The

provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduces the risk related to deposit. The low ratio indicates the good quality of assets in total volumes of loan and advances. High ratio indicates more risky assets in total volume of loan and advances.

▪ Non-Performing Loan to Total Loans and Advances Ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loans in balance sheet and profit and loss account. To measure the volume of non-performing loan to total loan and advances the main indicator of EBL and LBL has been used. This ratio shows the percentage of non-recovery loans in total loans and advances.

Credit Efficiency Ratio
▪ Interest Expenses to Total Deposit Ratio
This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has moved the profitability of generating loans and advances and vice-versa.

▪ Total Assets to Total Liability Ratio

Banks create credit through loans and advances and multiply their assets much more times than their liability permits. This ratio measures the ability of a bank to multiply its liability into assets. The higher ratio of total assets to total liability ratio is favorable as it increases overall capacity of the organization.

▪ Interest Expenses to Total Expenses Ratio

This ratio measures the percent of interest paid against total expenses. The high ratio indicates the low operational expenses and vice-versa. The ratio indicates the costly sources of funds.

▪ Non-Interest Bearing Deposit to Total Deposit Ratio

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposit was managed affectively in the total volume of expenses. The banks need to manage the portfolio of the deposits i.e. it has to maintain certain proportion between interest bearing deposits and non-interest bearing deposits by administering the interest rate structure. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix deposit liability.

▪ Interest Income to Total Income Ratio

Income is one of the most important factors of each and every organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measure the banks performance on other fee-based activities too. The high ratio indicate the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending and investment and high contribution by other fee-based activities in total income.

▪ Interest from Loan, Advances and Overdraft to Total Interest Income Ratio

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence this ratio measures how efficiently the banks have employed their fund and loan & advances and overdraft.

▪ Interest Suspense to Total Interest Income from Loan and Advances Ratio

Interest suspense means the interest due but not collected. NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in liability side of balance-sheet under the heading 'other liability'. This ratio, interest suspense to total interest income from loan and advances measures the

composition of the due but uncollected interest in the total interest income from loan and advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio is also helpful to analyzing the capacity of the bank in collecting the repayments of the loan and advances.

2.2 Review of Related Studies

2.2.1 Review of Books

Cross (1963) has mentioned in his book "Management Policy for Commercial Banks", that lending is the essence of commercial banking, consequently the formulation an implementation of sound lending policies are among the most import responsibilities of bank directors and management. Well-conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit. Before formulation a lending policy, many factors have to be taken into consideration because banks are not the real owners of deposits but rather the custodians of money. Crosse has further pointed out the various factors to be considered before planning for sound lending policy. The factors include community's need of money, determining the size of the loan portfolio and the character of loan payment, purpose and protection. Other factors for consideration for sound lending policy include credit worthiness, assets pledged to secure borrowing, interest rate policy etc. Cross strictly point out that the lending policy must be will spread. It should be of short-term character, repayable on demand, profitable and it should be with adequate securities.

Bhattacharya (1975) in his book "Banking Strategy, Credit Appraisal and Lending Decisions" has put the recommendation of Tondon Committee from the report submitted this committee. The committee has prepared this report in 1975; however these recommendation stills deserve great significance in the sector of credit appraisal and lending. Breaking away from the traditional methods of credit appraisal, the system proposed by the Committee enjoined upon the banker:

- To develop healthy banker-borrower relationship.
- To improve the financial discipline of the borrower
- To assess the need based credit of borrower on a rational basis
- To ensure proper end-use of bank credit by keeping a closer watch on the borrower's business and thus to ensure safety of the banks funds

The committee examined the examined the existing system if lending and recommended the following broad change in the lending system:

- The credit needs of borrowers assessed on the basis of their business plans.
- Credit be made available in different components only, depending upon the nature of holding of various current assets.
- Borrowers are required to hold inventory and receivables according to norms prescribed by the Reserve bank of India from time to time.
- Bank credit only supplementary to the borrower's resources and not in replacement of them. Banks not to finance 100 percent of borrower's requirement.

Singh (1983) the credit policies of bank are condition to great extend by national policy frame work, every banker has to apply his own judgment for arriving at a credit decision, keeping or course, his banker's credit policy also in mind. The further state, the field of credit is more challenging as it offers relatively greater scope to banker for judgment and discretion in selection their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanies greater risk. Particularly during recent years, the credit function has become more complex.

Cheney and Edward (1988) said that the lending objectives are to increase systematically the individual wealth, defined as asset, minus liabilities. The higher the level of desired wealth the higher must be received. An investor seeking higher return must be willing to face higher level of risk.

Baidhya (1996) has given his view on sound credit policy. He has said that, a sound credit policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to depositors and bank on the other hand, moreover risk in banking sector trends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn.

Frank (1999) defines, an credit may be define as current commitment of funds for a period of time to derive future flows that will compensate the investing unit for the time the funds are committed, for the expected rate of inflection and also for the uncertainty involved in the future flow of the funds. Loan management of a bank is guided by the credit policy adopted by the bank. The credit policy of the bank helps the lending operation of the bank to be efficient and profitable by minimizing the inherent risk.

2.2.2 Review of Articles

In this section, effort been made to examine and review of some related articles and journals published in different economic journals, which. Among the various reviews of various journals pertaining to the study, the major and mostly contributing to the study has been outlined below.

Moris (1990) in his article entitled "Latin America's banking system" in the 1980's has concluded with most of the banks concentrated on compliance with bank rules on reserve requirement, credit allocation and interest rates, while analyzing loan portfolio quality, sound investment policy, operating efficiency has largely been overlooked. In developing countries, there are huge losses found in the bank's portfolio due to poor quality of their oversight investment function. He further adds that poor management of financial institution has involved inadequate and over optimistic loan appraisal, tax, loan recovery, high risk diversification of lending and

investments, high risk concentration connected and insider lending, loan mismatching".

Shrestha (1998) in her article "Lending operation of commercial banks of Nepal and its impacts on gross domestic product" has presented with the objectives to make an analysis of contribution of commercial banks lending to the gross domestic product of Nepal. She has set hypothesis that there is a positive impact of lending of commercial banks to the gross domestic product. In research methodology, she has considered gross domestic product as the dependent variable and various sectors of lending viz. agriculture individual, commercial services, general and social sector as independent variable. The multiple regression analysis has shown that all the variables expect service sector lending have a positive on the gross domestic product.

Shrestha (1998) in his articles, "A study on deposit and credits of commercial banks in Nepal" concluded that the credit deposit ratio would be 51.30% other things remaining the same in 2004 AD, which was the lowest under period review. So he had strongly recommended that the commercial bank should try to give mote credit entering new field as far as possible. Other wise they might not be able to absorb even its total expenses.

Charles and Chirstopher (2002) in his articles "Do Banks provide financial slack?" in their main hypothesis is that the banks have the ability to accurately price financial claims thus including a preference for undervalued firms to choose bank debts as their marginal financial sources. They refer to this expect that this information benefit will be weighted against a varity of contracting costs in an firm's ultimate financing choice. In particular, they find that firms who exhibit small pronouncement stock price urn-ups and those with high stock return volatility are relatively more likely to announce new bank loans. Since they expect that these firms are the most likely to be undervalued, these findings are consist dent with the presence of an information benefit to bank debt finance. For identify the firms

weighted these information benefits of bank finance against other contracting costs, they examine the variation. They find that firms with public debt outstanding tend to exhibit a relatively low sensitivity of bank loan likelihoods to these variables. Since they expect that the contracting costs of bank debt finance are relatively that firm weights the information benefits of bank debt against the contracting costs. The results suggest for firms with public securities market for the firms to cross the threshold where the information benefits of bank debt finance out weight the relatives contracting costs.

Chettri (2002) in his article "Non-Performing Assets: A need for Rationalization", the writer has attempted to provide connation of the term non performing loan and its potential sources, implication of non performing loan in financial sector in the South East Asian region. He had also given possible measures to contain non performing loan. "Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of Loan settlement. Since the date becomes past dues, the loan becomes non-performing assets. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to remain loan performing." As stated by the writer, the definition of non performing loan differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation forum, a loan is classified as non-performing only after it has been area for at least 6 months. Similarly, it is after three months, in India. Loans thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPA are classified according to international practice into three categories namely substandard, doubtful and loss depending upon the temporal position of loan default. "Thus the degree of non performing assets depends solely on the length of time the assets has been in the form on none obliged by the loanee. The more time it has elapsed the worse condition of assets is being perceived and such assets are treated according. As per Mr Chhetri's view, failure of business which loan was used, defective and below

standard credit appraisal system, credit program sponsored by government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPA.

Shrestha (2002) in his article title "Modus Operandi of Risk Appraisal in Bank Lending" has tried to highlight different aspects of credit risk management. As per his view, as the effective risk management is central to good banking, the tradeoff between risk and return is one of the prime concerns of any investment decision whether long-term or short-term. He concludes, "Effective credit risk management allows a bank to reduce risks and potential non performing assets. It also offers other benefits. Once banks understand their risks and their costs, they will be able to determine their most profitable business, thus, price products according the risk. Therefore, the banks must have an explicit credit risk strategy and supported by organizational changes, risk measurement techniques and fresh credit process and systems. Approach to collateral, Concentration on correlated risk factors, Credit sanctioning and monitoring process, Credit risk arises from new business opportunities and Credit exposures relative to capital or total advances are the five crucial areas that management should focus.

Ghimire (2003) in his article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what are common acres of most of the banks for increased size of non-performing assets? To resolve the problem of the losses or likely losses of this nature facing the industries NRB as the central bank, amended several old directives and issued many new circulars in the recent years." As opined by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisions now compared to precious arrangement would be dramatically higher. In the conclusions he has mentioned that in the recent years, NRB has worked for management and reforms of credit of the financial institution more seriously and NRB has adopted reforms aimed not just at

dealing with problem banks but also at strengthening banking supervision to reduce the like hood of future crisis. "All prudential directives of NRB in connection of credit sector reform have been made revised on after April 2001. To adapt such changes there can be some difficulties and for a better and harmonized reform NRB should continue to supportive proactive and also participative to take opinion of banker for change in regulation policy taking place in future.

Pradhan (2004) in his article "The Importance of Loan Information Center and its Activities" published in NRB Annual Publication says that the loan information center was established to fulfill the necessity of a company working in relation to information related to loan. He further adds that the negative trends like delaying the payment of principal and interest, deficient loan approval procedures, lack of constant inspection of projects, lack of coordination between bank have aided in the increase of NPL ultimately affecting the national economy negatively. He recommend the banks help the loan information center by following the directives of NRB and utilizing the information obtained from the center so that positive changes can be witnessed.

2.2.3 Review of Previous Dissertations

Many researchers have published their article about the lending policy in Nepal. There are many theses that have been conducted by students regarding the several of commercial banks in order to achieve their goal effectively. Some of these as supposed to relevant for the study are presented below.

Bhattarai (1994) in her thesis paper outlined, "Lending Policy of Commercial Banks in Nepal" has tried to examine the lending policy of the commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same Lower investment means lower capital formation that hampers economic development of the people and the country. Therefore, she recommended that bank should give emphasis on efficient utilization of resources.

Ojha (1997) has drawn her conclusion in her thesis "A study on priority sector investment in commercial bank with special reference to Rastriya Banijya Bank" that the bank was unable to meet the requirement of 12 % lending in the priority sector set under NRB directives. During study period, she further found low interest rate in priority sector but increasing trend of overdue and its miss utilization. She recommended improving evaluating borrower's paying capacity and reducing the over due through integrated program of priority sector loan.

Karmacharya (1980) in his thesis paper, "A study on the deposit mobilization by the Nepal Bank Ltd." Has concluded that the utilization side of NBL. Is weak as compares to the collection resources. Karmacharya has mentioned that the bank has successfully maintained its liquid asset position but could not mobilize its resources efficiently. Karmacharya has suggestion to set up more banking branches to increase the deposit collection and long-term as well as short-term credit.

Joshi (1982) in his thesis paper outlined "Lending policy of commercial banks in Nepal" concluded that commercial banks have collected many resources from people
but they are far behind in their utilization. Commercial banks in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the need of the economy.

Chaudhari (2001) has conduct his study entitled "A study on investment policy of Nepal Indosuez Bank Ltd, In comparison to Nepal State Bank of India Bank Limited" The researchers' main objective of the study was to examine the liquidity assets management and profitability position and investment policy of NIBL in comparison to NSBI to study the growth ratios of loan and advances and investment to total deposits and net profit of NIBL in comparison to NSBI. Through his research Mr. Shiv Raj Chaudhari has found that the NSBI and NIBL banks current assets have exceeded the current liabilities therefore the ratio is consider satisfactory. But there cash reserve ratios have flucted in high degree. However

NIBL has maintained both current ratio and cash reserve ratio better then of NSBI. He stated that NIBL has invested lesser amount on government securities and share and debenture than that of NIBI.

Dhungana (2002) in his thesis the "Investment policy of Nepal Bangladesh Bank Ltd. And Other Joint Venture Banks" summarizes that the mushrooming of joint venture banks is present situation of Nepalese financial system. There is a high flow of money in the market but less viable and invest able project. Few commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. This has attracted the potential customer to pour their money into banks, as there very few sectors to make a profitable investment and investors are always reluctant to risk. But lack of sound investment policy is one the reasons for commercial banks not to utilize properly its deposits in profitable projects. He recommends Nepal Bangladesh Bank Ltd. to implement a sound collection Policy. The policy should ensure rapid identification of delinquent loans, immediate contact with borrower and continual follow-up until a loan is recovered.

Gautam (2002) conduct a study "Lending Practices and procurers of NBBL" has outlined his major findings as follows: not concentrating only in big cities and large groups, he has suggested NBBL to expand branches in rural areas. Banks should invest in productive sector, develop the concept of micro of micro financing and group financing should maintain the balance in its loan portfolio and current requirement of the customers. Banks should give preferences to the short term lending. Banks should provide the consortium loan for those for those projects under government guarantee and security thereby uplifting the economic condition of the country.

Khadka (2002) has carried out research on "A Comparative Study on Investment Policy of Commercial Banks" with objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NBL. She concludes, "NBL is comparatively less successful in on balance sheet as

well as off-balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the competitive market of banking. Profitability positions of NBL are comparatively worse than that of other CBs. It predicts that NBL may not maintain the confidence of shareholders, depositors and its all customers if it cannot increase its volume even in future". As the bank experience many difficulties in recovering the loans and advances and their large amount is being blocked as NPA. She suggested that there is an urgent needs to workout a suitable mechanism through which the overdue loan can be realized.

Sharma (2002) in his study about "Priority Sector Investment of Commercial Banks in Nepal", with the objective of highlighting the priority sector investment and repayment state of commercial banks in Nepal through intensive banking programmed and to show the repayment position of the sector has concluded, "All the three commercial bank covered in this study have contributed to the credit to priority sector. But the efforts made by different banks are not in the same proportion. NABIL has contributed highest amount of credit to agriculture and cottage industry. NBBL has contributed highest amount to services sectors. So for the loan repayment from priority sector is concerned NABIL has very satisfactory performance where as NBBL has very low performance or loss repayment overdue loan have been observed more in agriculture". He has further suggested that, commercial banks should improve the repayment loan by generation the income of rural farmers. Reinvestment and right utilization of bank loan are the cost of the commercial banks since there is a need to increase assets by better arrangement of institution and organization, the manager and loan staff of the branches should be provided with adequate training so that they could identify right borrowers, right project and ensure correct project appraisal.

Shrestha (2002) study regarding the "Investment Practices of Joint Venture Banks in Nepal" has figured out that the bank are more emphasized to be making loan on short-term basis against moveable merchandise. Commercial banks have a lot of

deposits but very little investment opportunity. They are even discouraging people by offering very low interest rates and minimum threshold balances. Commercial banks invest their funds in limited areas to achieve higher amount of profit. This is regarded as a very risk step, which may lead to the loss of profit as well as the principal. The credit extended by commercial banks to agricultural and industrial sector is not satisfactory to meet the growing need of the present.

Ghimire (2005) explored in his research "NPA of Commercial Banks: Cause and Effect" and found that Nepalese banking sectors in recent days are facing several problems with increasing number of problems. With the level of increasing NPA profitability performances of the bank has been badly affected. To find out the causes of non performing assets increment with commercial banks basis of loan floating procedure follow up practice carried out by the bank for the recovery of overdue loan outstanding, internal responsible factor causing NPA growth have been tried to sort out. Analysis shows that relationships of borrowers with top management as the most adopted basis for floating loan in Nepalese commercial banks. Similarly respondent identified portfolio management consideration the second basis for floating loan in the certain sectors. Monitoring and control, security offered and financial strength were given average emphasis.

In regarding to the internal responsible factor that contributes turning good loan into bad loan. It was found that bad intension, week monitoring and miss management are the most responsible factor for NPA. Similarly weak legal provision and credit concentration are found as the least preferred factor in turning good loan into bad. Some factors such as lack of portfolio analysis not having effective credit policy and shortfall on security were identified as having average effect on non performing assets growth. In connection to the external factors, it has been found that recession political and legal issues more relevant factors in turning good loan into bad, likewise, legal provision for recovery as a reason for increment in non performing loan in Nepalese banks was found the factor having least impact. Supervision and monitoring system have been identified as average factor. It is therefore can be

generalized that economic and industrial recession and not having strong legal provision for loan recovery are the major external factors that have major contribution for the increasing level of NPA.

Tamang (2005) conduct a thesis "A Comparative Study on Credit Management in Himalayan Bank Ltd. and NABIL Bank Ltd." has found out that the credit practices of NABIL in terms of loans and advances to deposit ratio was found relatively low mean score than HBL. It indicates that NABIL has been strong to mobilize its total deposit as loan and advances in comparison to HBL. Efficiently in terms of loan and advances to current asset ratio was found higher in NABIL (i.e.3.2251>2.1426) in which indicates that short term lending practices of NABIL was found relatively good position. HBL has best performance to generate interest income from loan and advances in comparison to NABIL (i.e.839.42>781.66). Lending policy of NABIL in terms of loan loss provision to total loan and advances was found relatively better than of HBL because the mean score of the result was relatively low (i.e.0451<0.0777). Lending policy of NABIL with regard to NPL to total loan and advances was found relatively better in comparison to HBL.

The finding also showed meaningful that the quality of management in both banks was found to be good because the means score of the component management quality scored above the average (i.e.4.6527). Because all the items designed for study scored above the average and that resulted relatively high level of management quality. But in comparison, the means score of NABIL Bank was higher than the mean score of HBL (i.e. 4.7143>4.5979). It means that the employees of NBL perceived relatively higher-level management quality than HBL. The finding was not significant at 0.01 levels.

2.3 Concluding remarks

There are apparently a few research efforts or studies undertaken in the field of lending management policy of commercial banks in the context of less developed capital market. Nevertheless the study provides basis or foundation to develop a

framework for examining the credit management policy of commercial banks in Nepalese context.

Lending is the increasing challenges faced by commercial banks. Some researches have been done on this subject matter. Previous researchers also have analyzed the lending policy by using secondary data in term of investment policy and loaning practices. In this study lending policy is measuring by loaning practices and various statistical tools. The previous study could not submit the present facts. Hence the researcher had attempted to fill this research gap by taking reference to commercial banks. This research will be able to deliver some of the present issues, latest information and lending management policy of commercial bank.

CHAPTER – 3

RESEARCH METHODOLOGY

Research in common parlance refers to a search for knowledge. One can also define research as a scientific and systemic search for pertinent information on a specific topic. Infect, research is an art of scientific investigation. Methodology refers to the theoretical analysis of the methods appropriate to a field of study of principles particular to a branch used in market research by a researcher in studying his research problem. Thus, research methodology is the systematic method of finding solution to the problem i.e. systematic, collection, recording, analysis, interpretation and reporting of information. It is the way to systematically solve the research problem of the entire aspect of the study. (Kothari: 1994, 19)

"Research methodology is the way to solve systematically about the research problem". (Kothari: 2000, 39). The research is done within the circle of statistics and other information from secondary sources. It includes the testing and implementation in the related field. For proper evaluation and examination, methodology is the key factor. It makes or breaks the result of the research. There is a very essential importance of the methodology for any type of work. Information can be taken as lifeblood of any research. The information assemblage needs data collection is the major task to perform. Data collection and accumulation bridges the research and information. The research study has followed basically a loaning policy of selected commercial banks to examine analysis and interpret the loaning system in use.

3.1 Research Design: Research Design includes specification to the method of the purposed study and detailed plan for carrying out the study with various empirical data for the analysis for the problem. It is the organized way of research methods or techniques used through the entire study. Research Design is a plan, structure and strategy of investigation conceived so as to obtain answer to research question and

to control variances. (Kothari: 1991, 24) Research design is a framework of research. Its decisions happen to be in respect of:

1) What is the study about?

2) Why is the study being made?

3) Where will the study be carried out?

4) What type of data is required?

3.2 Nature and Sources of data: In this study, secondary data have been used. Secondary data are used to examine the historical background of commercial banks and loaning policy of EBL and LBL. Secondary data were collected from the following sources.

- ➢ Annual report of sampled banks.
- ➢ Financial statement of sampled banks.
- ➢ Published and unpublished official records.
- ➢ Previous study related with this field.
- ➢ Magazines, newspaper, booklets, Websites and documents.

3.3 Population and Sample: In statistics, population means whole. The populations refer to the industries of the same nature and its service and product in general. The total commercial banks constitute the population of the data and the bank under study constitutions the sample for the study.

A list of licensed commercial banks was obtained from NRB. A total number of 25 commercial banks were licensed. The commercial banks of Nepal can be categorized into two type namely public sector and private sector. Public commercial bank includes three banks - Nepal Bank Limited, Rastriya Banijya Bank & Agricultural Development Bank Limited. Private bank states other remaining 22 banks. Total population of commercial banks is listed below.

Table No. 1.1
Name of Commercial Banks

S.N	Name of the Bank
1	Nepal Bank Limited
2	Rastriya Banijya Bank
3	Nepal Arab Bank Limited (NABIL)
4	Nepal Indo-suez Bank Limited (Nepal Investment Bank Ltd.)
5	Nepal Grindlys Bank Limited (Standard Chartered Bank Ltd.)
6	Himalayan Bank Limited
7	Nepal SBI Bank Limited
8	Nepal Bangladesh Bank Limited
9	Everest Bank Limited
10	Bank of Kathmandu Limited
11	Bank of Ceylon(NCC Bank)
12	Lumbini Bank Limited
13	Nepal Ind. & Commercial Bank Limited (NIC Bank)
14	Machhapuchchhre Bank Limited
15	Kumari Bank Limited
16	Laxmi Bank Limited
17	Siddhartha Bank Limited
18	Agricultural Development Bank Limited
19	Global Bank Limited
20	Citizen International Bank Limited
21	Prime Commercial Bank Limited
22	Bank of Asia Limited
23	Sunrise Bank Limited
24	NMB Bank Limited
25	Development Bank Limited

(Source: Nepal Rastra Bank, Banking and Financial Statistics, Mid-July 2008)

Out of the total population following 2 banks are drawn as sample for this study:
1) Everest Bank Limited. (EBL)
2) Lumbini Bank Limited (LBL)

3.4 Method of Data Analysis: To achieve the objective of the study, various financial and statistical tools have used in this study. The analysis of data has been done according to pattern of data available. The various calculated results obtained through financial and statistic tool are tabulated under different heading. Then they are compared with each other to interpret the results. Various tools applied in this study are presented as follows:

3.4.1 Financial Tools : "Financial analysis is the starting point for making plans for before using any sophisticated forecasting and budgeting procedures." Hence ratio analysis is used under financial analysis to attain the result after tabulating the data. (Pandey, 1999:108)

A ratio is a quotient of the mathematical expression, establishment of quantitative relation of data furnished by the financial statement is called ratio analysis. In other words a financial ratio is the mathematical expression of relationship between two accounting figures. It helps in talking decision science it helps to established relationship among various ratios and interpretation there on, inter firm comparison and comparison between past and present ratios for the same firm gives enormous and fruitful results to test the financial performance. One of the authors has said that to evaluate the financial condition and performance of the firm, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data of each other. Analysis and interpretation of various ratios should give experienced, skilled analysis, better understanding of financial condition and performance of the firm then they would obtain from analysis of financial data alone. (Van Horne, 1997: 759)

3.4.1.1 Credit Practices Ratio
▪ **Total Loan to Total Deposit Ratio**

The ratio is to find out how successfully the banks are utilizing their deposits on loan and advances for profit generating activities. Greater the ratio indicates the better utilization of total deposits. It is calculated as,

Total loan to total deposit ratio $= \dfrac{Total\ Loan}{Total\ Deposit}$

▪ Loan and Advances to Total Assets Ratio

Loan and advances is the major part of total assets for the bank. This ratio indicates the volume of loans and advances out of the total assets. A high degree of ratio indicates that the bank has been able to mobilize its funds through lending function. This ratio is calculated as,

$$\text{Loan and Advances to Total Assets Ratio} = \frac{Loan\,and\,Advances}{Total\,Assets}$$

▪ Loan and Advances to Current Assets Ratio

Loan and advances is the major component in total assets, which indicate the ability of banks to canalize its deposits in the firm of loan and advances to earn high return. If sufficient loan and advances cannot be granted it should be pay interest on those utilized deposit funds and may lose earnings. So, commercial banks provide loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances. Loan and advances includes short-term loans and advances, overdraft, cash, credit, local and foreign bills purchased and discounted. This ratio is calculated as,

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

▪ Interest Income to Loan and Advances

Interest income to loan and advances is one of the major sources of income of commercial banks. The high volume of interest income is indicator of good performance of lending activities. The ratio is calculated as,

$$\text{Interest income to loan and advances} = \frac{Interest\,Income}{Loan\,and\,Advances}$$

▪ Loan Loss Provision to Total Loan and Advances Ratio

The ratio describes the quality of assets that the bank is holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision for loan means the net profit of the banks will come down by such amount. Increase

in loan loss decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduces the risk related to deposit. So it can be said that loan suffer it only for short-term while good financial conditions and safety of loans will make banks prosperity resulting increasing profit for long-term. The low ratio indicates the good quality of assets in total volumes of loan and advances. High ratio indicates more risky assets in total volume of loan and advances. This ratio is calculated as,

$$\text{Loan Loss Provision to Total Loan and Advances Ratio} = \frac{Loan\,Loss\,\Pr ovision}{Total\,Loan\,and\,Advances}$$

§ **Non-Performing Loan to Total Loans and Advances Ratio**

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loans in balance sheet and profit and loss account. This ratio shows the percentage of non-recovery loans in total loans and advances. This ratio is calculated as,

Non-Performing Loan to Total Loans and Advances Ratio =

$$\frac{Non-\Pr efor\min g\,Loan}{Total\,Loan\,and\,Advances}$$

3.4.1.2 Credit Efficiency Ratio
§ **Interest Expenses to Total Deposit Ratio**

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has moved the profitability of generating loans and advances and vice-versa. This ratio is calculated as,

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{Interest\,Expenses}{Total\,Deposit}$$

▪ **Total Assets to Total Liability Ratio**

The total assets of the banks should play active role in profit generating through lending activities. Banks create credit through loans and advances and multiply their assets much more times than their liability permits. This ratio measures the ability of a bank to multiply its liability into assets. The higher ratio of total assets to total liability ratio is favorable as it increases overall capacity of the organization. This ratio is calculated as,

Total Assets to Total Liability Ratio $= \dfrac{Total\ Assets}{Total\ Liabilities}$

▪ **Interest Expenses to Total Expenses Ratio**

This ratio measures the percent of interest paid against total expenses. The high ratio indicates the low operational expenses and vice-versa. This ratio is calculated as,

Interest Expenses to Total Expenses Ratio $= \dfrac{Interest\ Expenses}{Total\ Expeness}$

▪ **Non-Interest Bearing Deposit to Total Deposit Ratio**

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposit was managed affectively in the total volume of expenses. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix deposit liability. This ratio is calculated as,

Non-Interest Bearing Deposit to Total Deposit Ratio =

$\dfrac{Non-Interest\ Bearing\ Deposit}{Total\ Deposits}$

▪ **Interest Income to Total Income Ratio**

This ratio measures the volume of interest income in total income. The high ratio indicate the high contribution made by lending and investment whereas low ratio

indicates low contribution made by lending and investment and high contribution by other fee-based activities in total income. This ratio is calculated as,

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

▪ **Interest from Loan, Advances and Overdraft to Total Interest Income Ratio**

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence this ratio measures how efficiently the banks have employed their fund and loan & advances and overdraft. This ratio is calculated as,

Interest from Loan, Advances and Overdraft to Total Interest Income Ratio =

$$\frac{Interest\ from\ Loan,\ Advances\ and\ Overdraft}{Total\ Interest\ Income}$$

▪ **Interest Suspense to Total Interest Income from Loan and Advances Ratio**

Interest suspense means the portion of interest which is due but not collected. This ratio measures the composition of due but uncollected interest in the total interest income from loan and advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio is also helpful to analyzing the capacity of the bank in collecting the repayments of the loan and advances. This ratio is calculated as,

Interest Suspense to Total Interest Income from Loan and Advances Ratio =

$$\frac{Interest\ Suspense}{Total\ Interest\ Income\ from\ Loan\ and\ Advances}$$

3.4.2 Statistical Tools :

Some important statistical tools are used to achieve the objectives of the study. In this study statistical tool such Arithmetic Mean, Standard Deviation, Correlation Coefficient, Coefficient of Determination and Probable Error analysis has been used.

1) Arithmetic Mean ($\overline{X}$)

The arithmetic mean or simple mean of a set of observation is the sum of all the observation divided by the number of observation. It is the best possible value of a group of variables that singly represents to whole group. In the statistical analysis the central value falls within the approximately middle value of the whole data. Mean is the arithmetic average of a variable. Arithmetic mean of a series is given by:

$$\text{Mean } (\overline{X}) = \frac{\sum X}{N}$$

Where,

$\overline{X}$ = Mean value of arithmetic mean

$\sum X$ = Sum of the observation

N = Number of observation

2) Standard Deviation (S.D.)

Standard deviation is the most popular and most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the value of standard deviation higher is the variability and vice versa. It is the positive square root of average sum of squares of deviations of observation from the arithmetic mean of the distribution. It can be calculated as follows.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \overline{X})^2}{N-1}}$$

3) Coefficient of Variance (C.V)

The percentage measure of coefficient of standard deviation is called coefficient of variation. The less is the C.V the more is the uniformity and consistency and vice versa. Standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variable is not equal it is not appropriate to compare two pairs of variables based in S.D. only. The coefficient of variation measures the relative

measures of dispersion, hence capable to compare two variables independently in terms of their variability.

$$\text{Coefficient of Variation (C.V)} = \frac{\sigma}{\overline{X}} \times 100$$

4) Coefficient of correlation (r)

Correlation refers to the degree of relationship between two variables. Correlation coefficient determines the association between the dependent variable and independent variable. If between the variables, increase or decrease in one cause increase or decrease in another, then such variables are correlated variables. "Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one is accompanied by the change of another variable."(A.B. Sthapit, Hiranya Gautam, P.R. Joshi, Prakash Man Dangol, 2003, p.362)

There are different techniques of calculating correlation coefficient. Among various techniques we have used Karl Pearson coefficient of correlation. It is calculated as follows:

$$\text{Correlation Coefficient (r)} = \frac{\sum XY}{N\sigma_x \sigma_y}$$

Where,

$x = X - \overline{X} \qquad y = Y - \overline{Y}$

$\sigma_x \quad$ = Standard Deviation of Series X

$\sigma_y \quad$ = Standard Deviation of Series Y

N $\quad$ = No. of pairs of observation

On simplification of the equation of r, we obtain the following formula for computing Correlation Coefficient (r).

$$\text{Correlation Coefficient (r)} \quad = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

The Karl Pearson Coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies, the negative correlation and in plus signifies the positive correlation. If,

$r = 0$, there is no relationship between the variables

$r < 0$, there is negative relationship between the variables

$r > 0$, there is positive relationship between the variables

$r = +1$, the relationship is perfectly positive

$r = -1$, the relationship is perfectly negative

The reliability of the correlation coefficient in judged with the help of probable error (P.E). It is calculated as follows:

Probable Error (P.E) $= \dfrac{0.6745(1 - r^2)}{\sqrt{N}}$

Where, r = correlation coefficient

N= No, of pairs of observation

Decision:

If r > 6 P.E, then the correlation coefficient is significant and reliable.

If r < 6 P.E, then the correlation coefficient is insignificant and there is no evidence of correlation.

5) Diagrammatic and Graphical Representation

Diagrams and line graphs are visual aids that give a bird eye view of a given set of numerical data. They represent the data in simple and readily comprehensive form. Hence various tables and line diagram have been used for presentation and analysis of data. After highlighting the research methodology, the next chapter concentrated on presentation and analysis of the study.

3.5 Limitations of the study: The main limitation of this study is that, the study is mainly based on secondary data, published books, unpublished reports, public documents, articles of different writers, annual reports and websites of selected banks and so on.

As the major portions of analysis and interpretation have been done on the basis of the available secondary data and information, the consistency of finding and conclusions are strictly dependent upon the reliability of secondary data and information. Foreign information and rules affecting the lending policy are ignored. Only Nepalese commercial banks have been considered for the study and two banks have been selected for the study. The selected banks are 1) Everest Bank Limited and 2) Lumbini Bank Limited. The period of the study will be limited from 2003/04 to 2007/08. The study will be limited to the loaning aspect mainly with the loan and advances only. The data published in annual reports of the respective banks, articles, publication, journals etc will be taken into consideration.

CHAPTER – 4

DATA PRESENTATION AND ANALYSIS

This chapter is the main part of the study. It describes the data presentation, analysis and interpretation. This chapter is also called the central nervous system which provides conclusion after detained analysis, so that proper recommendation can be given at the end of the study. The gist of research work presents in the form of major findings and recommendation in the third chapter.

In this course of analysis, data gathered from various sources have been inserted in the tabular form presented from appendix. In order to find out the strength and weakness of the banks in terms of their loaning policy, various calculations have been done which are presented as follows:

4.1 Measurement of Liquidity Position

In each and every large business organization, liquidity is known as lifeblood of the organization because the whole organization is related to this factor. Both excess amount of liquidity as well as inadequate amount hampers the entire business. The high degree of liquidity cause unnecessary amount of interest paid which is not a good sign. Whereas the liquidity shows the signal of poor credit, worthiness, less of creditors' confidence even in legal tangles resulting the closure of the company. In fact there is no hard and fast rule of liquidity. However, NRB has maintained a certain rules and regulation in this matter.

4.1.1 Liquid Fund to Total Deposit Ratio

The deposit constitutes the major part of the bank's liability. Flow of this liability is always uncertain in the bank's fund management. Hence, the ratio of liquid fund to total deposit indicates the bank's strength to meet uncertain flow of deposit.

Liquid fund to total deposit ratio $= \dfrac{Liquid\,Fund}{Total\,Deposit}$

Table 2.1

Liquid Fund to Total Deposit Ratio of EBL and LBL

Rs. in million

Fiscal Year	EBL			LBL		
	Liquid Fund	Total Deposit	Ratio	Liquid Fund	Total Deposit	Ratio
2003/04	3,354.90	8,063.90	0.42	1,119.32	3,777.61	0.30
2004/05	3,748.92	10,097.70	0.37	954.19	4,031.22	0.24
2005/06	5,820.44	13,802.40	0.42	1,125.75	4,786.44	0.24
2006/07	7,375.73	18,186.25	0.41	1,660.70	6,024.59	0.28
2007/08	8,073.52	23,976.30	0.34	1,527.78	5,703.73	0.27
Total	28,373.51	74,126.55	1.95	6,387.74	24,323.59	1.31
Mean			0.39			0.26
S.D			0.0357			0.03

Source: Annual Report of EBL and LBL
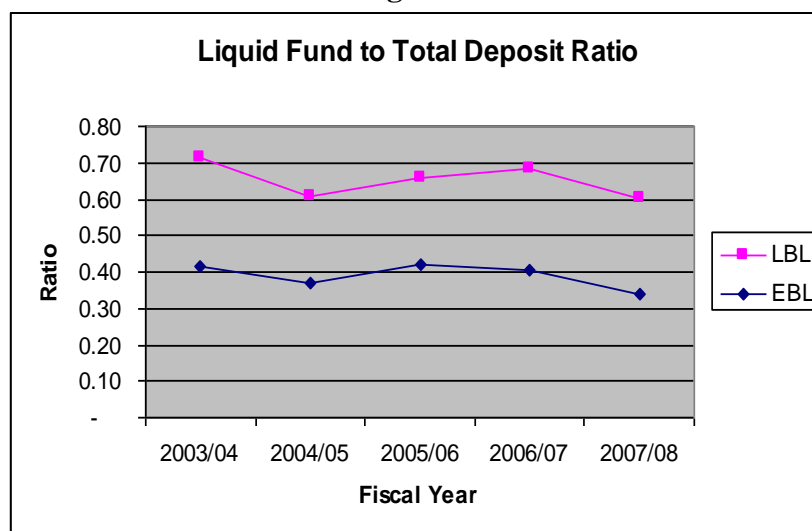
. **Figure 2.1**

Above table and figure 2.1 explains that the ratio is in fluctuating in every year of EBL. Whereas in LBL, the ratio is in decreasing trend up to 2005/06 and increases in fourth year i.e.0.28 and again in decreases. The trend of this ratio has not deviated from liquid fund to current liability ratio and the up and down in this ratio has caused by the same reason. The mean ratio and standard deviation of EBL is 0.39 and 0.035 and same ratio of LBL is 0.26 and 0.03.

4.1.2 Cash and bank balance to Interest Sensitive Deposit Ratio

Interest sensitive deposit means saving deposit. This deposit is deposited by public in the bank with an explicit objective of increasing their wealth. Their interest plays an important role in interest sensitive deposit. Fixed deposit has a fixed term of maturity and fluctuation in interest rates does not allow its investment in short run. Therefore it is not sensitive towards interest rate.

Cash and bank balance represents total of local currency, foreign currency and cash in hand and various bank balances in local as well as foreign banks. The ratio of cash and bank balance to interest sensitive deposit measures the ability of banks immediate funds to meet their deposits, margin and call due to change in interest rates. Higher the ratio higher the liquidity position and ability to cover the deposit and vice-versa.

Cash and bank balance to Interest Sensitive Deposit Ratio= $\dfrac{Cash\,and\,Bank\,Balance}{Saving\,Deposit}$

Table 2.2

Cash and bank balance to Interest Sensitive Deposit Ratio

Rs in million

Fiscal Year	EBL			LBL		
	Cash and Bank Balance	Saving Deposit	Ratio	Cash and Bank Balance	Saving Deposit	Ratio
2003/04	631.80	3,730.61	0.1694	531.13	833.25	0.63742
2004/05	1,050.00	4,806.83	0.2184	419.01	1,002.82	0.41783
2005/06	1,552.90	6,929.21	0.2241	402.13	1,768.93	0.22733
2006/07	2,391.30	9,029.25	0.2648	500.80	2,703.57	0.18524
2007/08	2,667.90	11,883.85	0.2245	642.60	3,404.40	0.18876
Total	8,293.90	36,379.75	1.1012	2,495.67	9,712.97	1.65657
Mean			0.2202			0.3313
S.D			0.0340			0.196

Source: Annual Report of EBL and LBL.

Figure 2.2
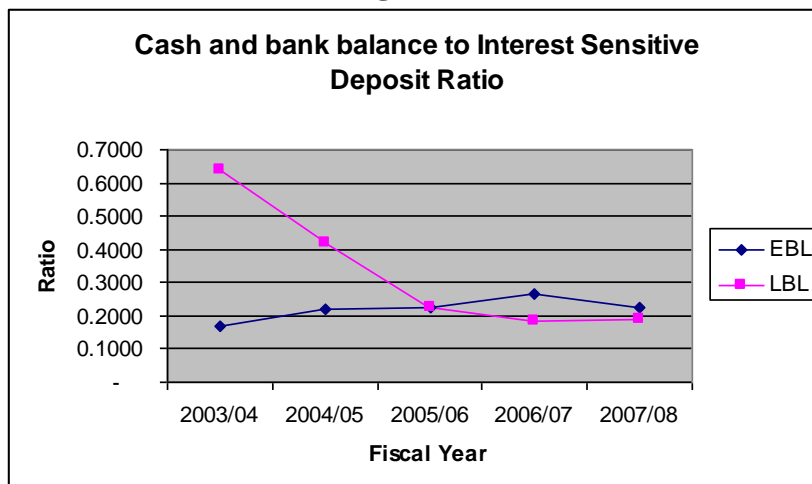
The above table and figure 2.2 shows that the mean ratio of cash and bank balance to interest sensitive ratio of LBL is high than EBL. In case of EBL, while observing the data of five years from 2003/04 to 2007/08, it is fluctuating i.e. in year 2005/06, 2006/07 it increases and in year 2007/08 it again decreases. This means the degree of increase in deposit is higher than the degree of increase in liquid fund with respect to previous year. Whereas, it is minimum in the year 2003/04 because there has been decrease in liquid fund but saving deposit have increased.

In case of LBL, it is more fluctuating than EBL. It is in decreasing trend by every year, which means that there has been increase in saving deposit and cash and bank balance have decreased.

4.2 Measurement of Lending Strength

The loaning strength of these two banks is measured in relative measures in this section. The relationship between various assets and liabilities of the balance-sheet has been established to show the active strength of loaning of each bank comparatively. An attempt is made to determine the loaning strength in absolute figure of each bank, since these two banks are comparable in volume of deposit loans and advances and other variable also.

4.2.1 Total Assets to Total Liabilities Raito

The ratio of total assets to total liabilities measures the volume of total liability in total assets of the firm. The banking organization creates credit by way of loaning activities and multiplies their assets many items, than their liability permits. Thus, this ratio measures the banks ability to multiply its liability into assets. It is always recommended to have higher ratio of total assets to total liabilities ratio. Since it signifies overall increase of credit and overall development of the organization, the higher the ratio, higher the productivity and higher the assets conversion and vice-versa.

$$\text{Total assets to total liabilities ratio} = \frac{Total\ Assets}{Total\ Liabilitie s}$$

Table 2.3
Total Assets to Total Liabilities Ratio

Rs in million

Fiscal Year	EBL			LBL		
	Total Assets	Total Liabilities	Ratio	Total Assets	Total Liabilities	Ratio
2003/04	9,608.57	8,928.25	1.08	4,364.20	4,067.71	1.07
2004/05	11,732.51	10,899.89	1.08	4,434.90	4,249.89	1.04
2005/06	15,959.28	14,996.47	1.06	4,259.34	4,981.41	0.86
2006/07	21,432.57	20,231.05	1.06	5,705.02	6,134.69	0.93
2007/08	27,149.34	25,228.10	1.08	6,151.47	5,857.78	1.05
Total	85,882.27	80,283.76	5.35	24,914.93	25,291.48	4.95
Mean			1.0700			0.99
S.D			0.0080			0.093

Source: Annual Report of EBL and LBL.

Figure 2.3
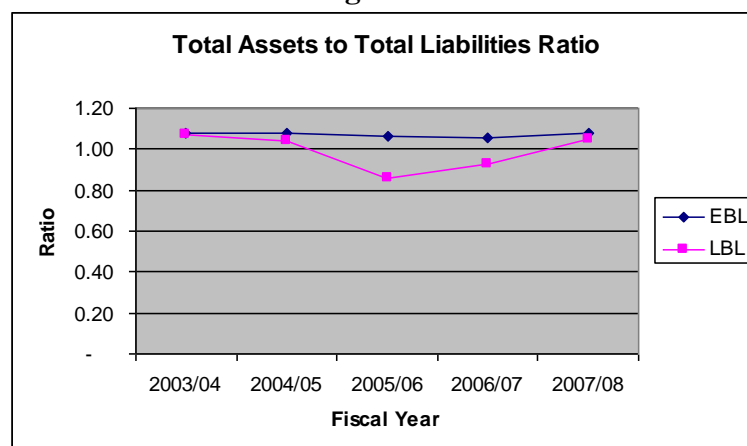
The above table and figure 2.3 shows the total assets to total liabilities ratio of two banks. The highest of EBL and LBL is 107.64 and 107.29 respectively through the highest ratio of total assets to total liabilities is considered best. The ratio of EBL is almost same but the ratio of initial three years of LBL is in decreasing trend and after that it increases by last two years. From this it is clear that the ratio of EBL is highest than LBL so EBL has higher productivity and higher assets conversion than LBL.

4.2.2 Loan and Advances to Total Assets Ratio

Loans and advances are the major area of fund mobilization of commercial banks. Loans and advances is the first type of application of funds, which has more risk. Loans and advances and total assets ratio indicates the firm's fund mobilization power in gross. The high degree of ratio indicates the good performance of banks in mobilizing its funds by the way of loaning functions. However, in its reserve side the high degree of ratio is representative of low liquidity ratio.

Granting the loan and advances always carries a certain degree of risk. Thus, this asset of banking business is related as risky assets. The low ratio shows low productivity and high degree of safety in liquidity and vice-versa. The interaction of risk and return determine this ratio.

Loan and Advances to Total Assets Ratio $= \dfrac{Loan\,and\,Advances}{Total\,Assets}$

Table 2.4
Loan and Advances to Total Assets Ratio

Rs in milllion

Fiscal Year	EBL			LBL		
	Loan and Advances	Total Assets	Ratio	Loan and Advances	Total Assets	Ratio
2003/04	6,095.80	9,608.57	0.6344	3222.75	4364.2	0.73845
2004/05	7,900.00	11,732.51	0.6733	3685.13	4434.9	0.83094
2005/06	10,136.20	15,959.28	0.6351	4321.58	4259.34	1.01461
2006/07	14,082.70	21,432.57	0.6571	4944.5	5705.02	0.86669
2007/08	18,836.40	27,149.34	0.6938	5367.3	6151.47	0.87252
Total	**57,051.10**	**85,882.27**	**3.2938**	**21541.26**	**24914.93**	**4.32322**
Mean			**0.6588**			**0.864**
S.D			**0.0254**			**0.0995**

Source: Annual Report of EBL and LBL.

Figure 2.4
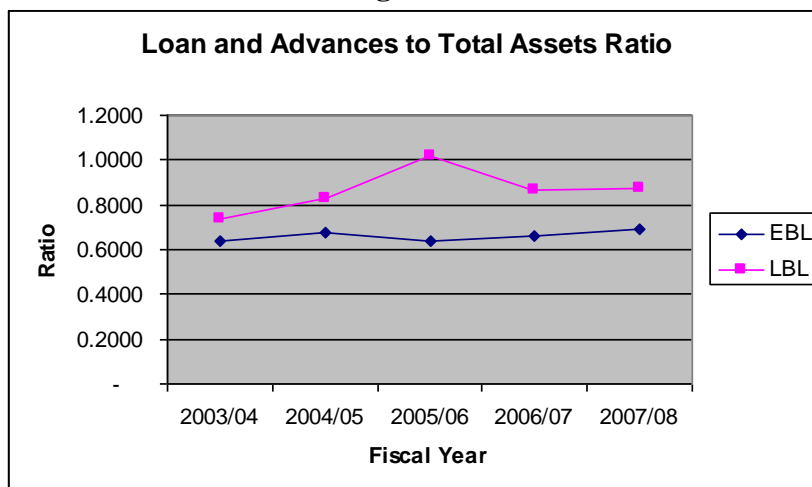
The above table and figure 2.4 indicates that the performance of LBL comes at first with its mean ratio of 0.864 and the ratio of EBL seems to be 0.6588 The ratio of EBL of different period is ups and down but the ratio of LBL is at increasing by first three years and decreases and again increases by last year. By this we can say that LBL has good performance in mobilizing its funds by the way of loaning function than that of EBL.

4.2.3 Investment to Loan and Advances Ratio

This ratio measures the contribution made by investment in total amount of loans and advances. The proportion between loan and advances measures the management attitudes towards risky assets and safety assets. In this case, the total mobilized fund i.e. investment in total amount of loans and advances in whole does not provide the quality of assets that a bank has created. Thus, it measures the risk of banking business too. The high ratio indicates the mobilization of funds in safe area and vice-versa. However, safety does not provide with satisfactory return. So, a compromising ratio between risk and profit should be maintained.

$$\text{Investment to Loan and Advances Ratio} = \frac{Investment}{Loan\,and\,Advances}$$

Table 2.5
Investment to Loan and Advances Ratio

Rs. in million

Fiscal Year	EBL			LBL		
	Investment	Loan and Advances	Ratio	Investment	Loan and Advances	Ratio
2003/04	2,535.70	6,095.80	0.42	558.19	3,222.75	0.17
2004/05	2,128.90	7,900.00	0.27	535.13	3,685.13	0.15
2005/06	4,200.50	10,136.20	0.41	673.71	4,321.58	0.16
2006/07	4,984.30	14,082.70	0.35	846.33	4,944.50	0.17
2007/08	5,059.60	18,836.40	0.27	817.47	5,367.30	0.15
Total	18,909.00	57,051.10	1.72	3,430.83	21,541.26	0.80
Mean			0.34			0.16
S.D			0.07			0.01

Source: Annual Report of EBL and LBL.

Figure 2.5
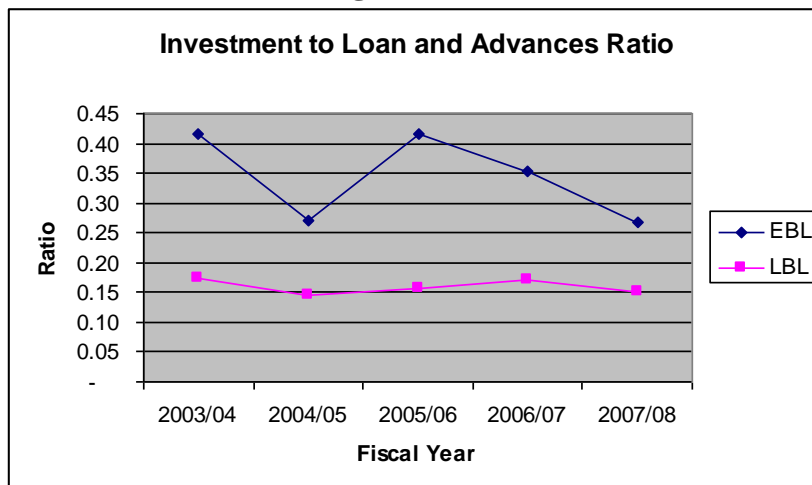
Above given table and figure 2.5 indicate the ratio of Investment to Loan and Advances. This ratio measures the contribution made by investment i.e. EBL ratio is higher than LBL. The ratio of LBL seems to closer in each year but the ratio of LBL increases by first three years and decreases by last two years. The overall mean of EBL and LBL is 34.45 and 15.96 respectively.

4.2.4 Loan and Advances to Total Deposit Ratio

Loans and advances are the major area of fund mobilization of commercial banks. Loans and advances is the first type of application of funds, which has more risk.

Loans and advances and total deposit ratio indicates the firm's fund mobilization power in gross. The main sources of bank's loaning are its deposit. Thus, this ratio measures how well deposits have been mobilized. This ratio measures the ability of a bank generating income from bank's deposit liability.

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

Table 2.6
Loan and Advances to Total Deposit Ratio

Rs in Million

Fiscal Year	EBL			LBL		
	Loan and Advances	Total Deposit	Ratio	Loan and Advances	Total Deposit	Ratio
2003/04	6,095.80	8,063.90	0.76	3,222.75	3,777.61	0.85
2004/05	7,900.00	10,097.70	0.78	3,685.13	4,031.22	0.91
2005/06	10,136.20	13,802.40	0.73	4,321.58	4,786.44	0.90
2006/07	14,082.70	18,186.25	0.77	4,944.50	6,024.59	0.82
2007/08	18,836.40	23,976.30	0.79	5,367.30	5,703.73	0.94
Total	57,051.10	74,126.55	3.83	21,541.26	24,323.59	4.43
Mean			0.7665			0.89
S.D			0.0213			0.0485

Source: Annual Report of EBL and LBL.

Figure 2.6
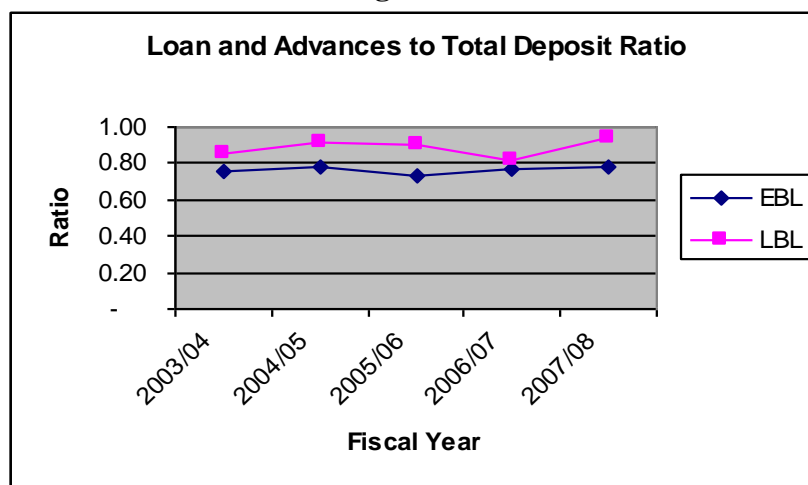
The above ratio is used to measure the bank's ability to utilize their deposits in terms of lending loans and advances. Higher the ratio higher the utilizing the deposit and higher the change to make more profit. The above table and figure shows that

the ratio of LBL is higher than that of EBL which means that LBL has higher deposit utilization than EBL. The more decreasing trends of loan and advance the possibility of fewer income of banks.

4.2.5 Investment to Total Deposit Ratio

Its shows the aggregate percentage of total deposit which have been invested. Investment includes investment in government securities and others. Some portion of the total deposit fund is used for investment. However, it is seen that investment is much lesser than that of loans and advances. Most of the investment is done on government securities which yield less return.

$$\text{Investment to Total Deposit Ratio} = \frac{Investment}{Total\ Deposit}$$

Table 2.7
Investment to Total Deposit Ratio

Rs in million

Fiscal Year	EBL			LBL		
	Investment	Total Deposit	Ratio	Investment	Total Deposit	Ratio
2003/04	2,535.70	8,063.90	0.31	558.19	3,777.61	0.15
2004/05	2,128.90	10,097.70	0.21	535.13	4,031.22	0.13
2005/06	4,200.50	13,802.40	0.30	673.71	4,786.44	0.14
2006/07	4,984.30	18,186.25	0.27	846.33	6,024.59	0.14
2007/08	5,059.60	23,976.30	0.21	817.47	5,703.73	0.14
Total	**18,909.00**	**74,126.55**	**1.31**	**3,430.83**	**24,323.59**	**0.71**
Mean			**0.26**			**0.14**
S.D			**0.05**			**-**

Source: Annual Report of EBL and LBL.

Figure 2.7
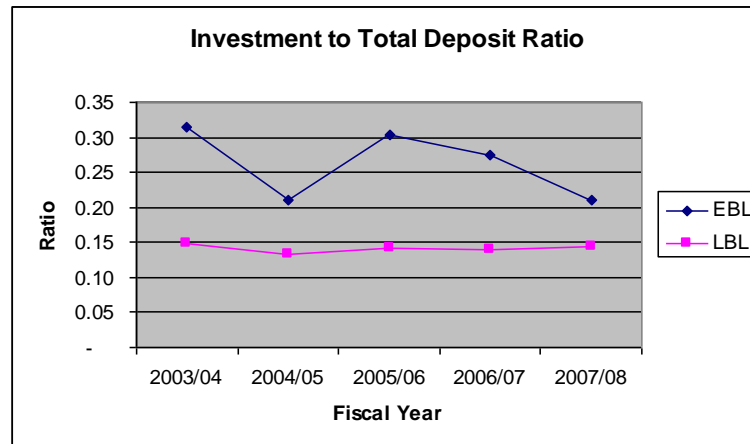
The ratio shows the percentage of total deposits that have been invested. Higher the ratio, higher the fund has been invested and vice-versa. The bank generates income out of investment. The above table and figure shows the ratio of EBL is greater than that of LBL, which means that the EBL has deposit more total deposit than LBL. This can be made clear by the mean ratio, where mean ratio of EBL is greater than LBL. From this we can say that EBL has been able to invest more of its total deposit and has generated more income because income can be generated out of investment.

4.2.6 Loans and Advances to Shareholders Equity Ratio

Shareholder's equity consists of share capital, share premium, reserve fund and retained earning. The ratio between loans and advances to shareholders equity has been able to generate assets multiply its wealth. The shareholders equity refers to the net shareholders intake in the business. Thus, this ratio measures the size of business and their success while converting liabilities into assets.

$$\text{Loans and Advances to Equity Ratio} = \frac{Loan\,and\,Advances}{Net\,Worth}$$

Table 2.8
Loans and Advances to Shareholders Equity Ratio

Rs in million

Fiscal Year	EBL			LBL		
	Loans and Advances	Net Worth	Ratio	Loans and Advances	Net Worth	Ratio
2003/04	6,095.80	540.3	11.2823	3222.75	296.49	10.869675
2004/05	7,900.00	692.6	11.4063	3685.13	245.5	15.010713
2005/06	10,136.20	822.8	12.3192	4321.58	-722	-5.985568
2006/07	14,082.70	1,106.60	12.7261	4944.5	-429.66	-11.50794
2007/08	18,836.40	1,581.20	11.9127	5367.3	293.69	18.275392
Total	57,051.10	4743.5	59.6465	21541.26	-315.98	26.662276
Mean			11.9290			5.332
S.D			0.6081			13.2622

Source: Annual Report of EBL and LBL.

Figure 2.8
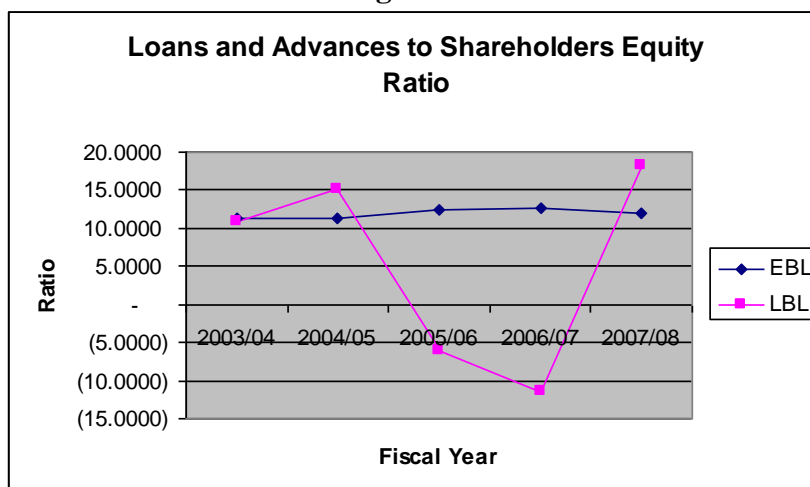
In the above figure, the ratio of loans and advances of these banks are not consistency in the entire period of the study. Among these two banks, EBL is higher as compared to the LBL. LBL's ratio is in fluctuating trend. The performance of EBL is highest in the year 2006/07 i.e. 12.7261 million. The mean ratio of EBL and LBL is 11.9290 and 5.332 respectively. The combined mean of both banks is 8.63.

4.3 Analyzing the Loaning Strength in Absolute Term

In this topic, the various variables in their absolute value is measured unlike ratio analysis different variables are measured individually. The volume of variable and its variability are measured. The value of individual variables enables to measure the gross contribution of respective banks in those aspects. The ratio analysis solely describes the ratio between the two variables but does not tell about the absolute value of those variables. Therefore, some of the important individual variables in their absolute values of mean and standard deviation are measured in this chapter.

4.3.1 Net Assets

A net asset of a firm refers to the total value of assets less total outsiders' liability. This figure measured shareholders wealth in a firm. The higher amount represents the higher volume and vice-versa.

Net assets = Total assets − Total outsiders liabilities

Table 2.9
Net Assets

Net Assets (EBL)

Rs. In Million

Year	Total Assets	Total Liabilities	Net Assets (EBL)
2003/04	9,608.57	8,928.25	680.32
2004/05	11,732.51	10,899.89	832.62
2005/06	15,959.28	14,996.47	962.81
2006/07	21,432.57	20,231.05	1,201.52
2007/08	27,149.34	25,228.10	1,921.24
Total	**85882.27**	**80283.76**	**5,598.51**
Mean			**1,119.70**
S.D			**220.73**
C.V			**0.20**

Net Assets (LBL)

Rs. In Million

Year	Total Assets	Total Liabilities	Net Assets (LBL)
2003/04	4364.2	4067.71	296.49
2004/05	4494.9	4249.89	245.01
2005/06	4259.34	4981.41	(722.07)
2006/07	5705.02	6134.69	(429.67)
2007/08	6151.47	5857.78	293.69
Total	**24974.93**	**25291.48**	**(316.55)**
Mean			**(63.31)**

S.D		**479.62**
C.V		**(7.58)**

Source: Annual Report of EBL and LBL.

The above table 2.9 shows the net assets of EBL & LBL. The net assets of EBL have increased up to 1921.24 million in the year 2007/08 from 680.32 million in the year 2003/04. As it is an increase by every year. The mean S.D and CV of EBL is 1119.7, 220.73 and 0.20 respectively. So its performance is satisfactory. Same as, in case of LBL net assets goes on negative in year 2005/06 & 2006/07. Its performance is not as good as EBL.

4.3.2 Total Deposit

It consists of all types of demand and fixed deposit. It includes margin deposit and deposit in foreign currency. Since, the deposit is the main source of banks funds its volume in total liabilities plays a vital role in administering the loaning and investing function of the banks.

Table 2.10
Total Deposit

Rs. in million

Year	Total Deposit (EBL)	Total Deposit (LBL)
2003/04	8,063.90	3,777.61
2004/05	10,097.70	4,031.22
2005/06	13,802.40	4,786.44
2006/07	18,186.25	6,024.59
2007/08	23,976.30	5,703.73
Total	**74,126.55**	**24,323.59**
Mean	**14,825.31**	**4,864.72**
S.D.	**6406.048744**	**991.4502455**
C.V.	**0.432102178**	**0.203804259**

Source: Annual Report of EBL and LBL.

The above table 2.10 shows the total deposit of both banks. EBL has total deposit of Rs. 8,063.90 million in the year 2003/04 and Rs.23,976.30 million in the year 2007/08. Hence, in case of EBL, total deposit is in increasing trend. Whereas, the total deposit of LBL is increasing from 3777.61 million in the year 2003/04 to

6024.59 million in the year 2006/07. It decreases in the year 2007/08 by 5703.73 million.

The above table shows that the mean ratio, S.D. and C.V. of EBL is higher than that of LBL. It means that the total deposit performance of EBL is better.

4.3.3 Loans and Advances:

Loans and advances are the major area of fund mobilization of commercial banks. Loans and advances is the first type of application of funds, which has more risk as compare to investment and gives more returns. The high volume of loan and advances indicates the good performance in credit sector. The main sources of bank's loaning and advances is its deposit. Since, the survival of banking business is depended of good performance of loaning function. The high volume of well performing loan and advances in economy is the symbol of healthy business.

Table 2.11
Loans and Advances

Rs. in million

Year	Loan and Advances (EBL)	Loan and Advances (LBL)
2003/04	6,095.80	3,222.75
2004/05	7,900.00	3,685.13
2005/06	10,136.20	4,321.58
2006/07	14,082.70	4,944.50
2007/08	18,836.40	5,367.30
Total	57,051.10	21,541.26
Mean	11,410.22	4,308.25
S.D.	5,110.73	879.37
C.V.	0.45	0.20

Source: Annual Report of EBL and LBL.

The above table 2.11 represents that the volume of EBL is highest than the volume of LBL. The loan and advances of EBL is highest in 2007 i.e. 18,836.40 million. The performance of both banks is in increasing by every year. The volume of loan and advances of EBL increases from 6,095.80 million in year 2003/04 to 18,836.40 million in year 2007/08. Same as, in case of LBL the volume of loan and advances increases from 3,222.75 million in year 2003/04 to 5,367.30million in year 2007/08.

Hence, The loaning performance of EBL is better than the loaning performance of LBL. The mean, S.D. and C.V. of EBL is comparatively greater than LBL.

4.3.4 Investment:

The nature of investment is more liquid than loan and advances. Thus, investment provides soften against liquidity ratio.

Investment = Investment in government securities + other investment

Table 2.12
Investment

Rs. in million

Year	Investment (EBL)	Investment (LBL)
2003/04	2535.7	558.19
2004/05	2128.9	535.13
2005/06	4200.5	673.71
2006/07	4984.3	846.33
2007/08	5059.6	817.47
Total	18,909.00	3,430.83
Mean	3,781.80	686.17
S.D.	1,372.86	143.39
C.V.	0.36	0.21

Source: Annual Report of EBL and LBL.

Above table 2.12 indicates that investment of EBL is rapidly increases in every year except in year 2004/05. Likewise, in LBL, the investment position is decreases by year 2004/05. It again increases in next two years and decreases at last year by 817.47 million.

EBL has invested 2535.7 million in the year 2003/04 to 5059.6 million in the year 2007/08 which means that it is an increase of 99.53%. Investment of LBL is 558.19 million in the year 2003/04 to 817.47 million in the year 2007/08 which shows it is an increase by 46.45%. Hence, mean, S.D. and C.V. of EBL & LBL is 3,781.80, 1,372.86, 0.36 and 686.17, 143.39, 0.21 respectively. These ratios show that the investment performance of EBL is in good condition than that of LBL.

4.3.5 Total Interest Income:

Income is one of the most important parts of any business organization. Interest occupies a greater portion of the total income in a banking business. It helps to measure the bank performance on other fee-based activities also. The high Total Interest Income indicates the high contributions made by loaning and investment whereas low indicates the low contribution made by loaning and investment and high contribution by other fee- based activities in the total income.

Table 2.13
Total Interest Income

Rs. in million

Year	Total Interest Income (EBL)	Total Interest Income (LBL)
2003/04	657.24	361.23
2004/05	719.29	384.59
2005/06	903.41	343.82
2006/07	1144.4	458.64
2007/08	1548.65	535.8
Total	4,972.99	2,084.08
Mean	994.60	416.82
S.D.	363.09	79.63
C.V.	0.37	0.19

Source: Annual Report of EBL and LBL.

The above table 2.13 shows that the total interest income of EBL is 657.24 million in the year 2003/04 and 1548.65 million in the year 2007/08 which is an increase of 135.62%. Similarly, LBL has an incensement of 48.32%. The mean, S.D and C.V of EBL shows higher ratio than LBL.

4.3.6 Total Expenses:

The total expenses include all types of expenses which are charged against profit and loss account.

Table 2.14
Total Expenses

Rs. In million

Year	Total Expenses (EBL)	Total Expenses (LBL)
2003/04	468.7	382.54
2004/05	483.8	621.94
2005/06	613.4	1191.18
2006/07	772.8	502.63
2007/08	1024.3	392.11
Total	**3,363.00**	**3,090.40**
Mean	**672.60**	**618.08**
S.D.	**231.55**	**334.79**
C.V.	**0.34**	**0.54**

Source: Annual Report of EBL and LBL.

The above table 2.14 depicts that the total expenses of EBL is in increasing by every year. But in LBL, total expenses increases for three years and again decreases next two years. Here the EBL is always successful to run the business in lowest possible cost. EBL and LBL total expenses are ranged from 468.7 million in year 2003/04 to 1024.3 million in year 2007/08 and 382.54 million in year 2003/04 to 1191.18 million in year 2005/06.

The above table shows the mean total expenses of EBL is highest but the moderate value of standard deviation and coefficient of variation of LBL is highest.

4.3.7 Loan Loss Provision:

Provision of doubtful debts in balance sheet shows the figure that is the summation of provision made against pass and substandard loans as per NRB directives.

Table 2.15
Loan Loss Provision

Rs. in million

Year	Loan Loss Provision (EBL)	Loan Loss Provision (LBL)
2003/04	211.71	242.35
2004/05	281.41	517.41
2005/06	334.94	1337.69
2006/07	418.6	1103.81

2007/08	497.34	877.81
Total	**1,744.00**	**4,079.07**
Mean	**348.80**	**815.81**
S.D.	**112.32**	**440.75**
C.V.	**0.32**	**0.54**

Source: Annual Report of EBL and LBL.

The above table 2.15 shows that the loan loss provision of EBL has increasing character. Whereas, loan loss provision of LBL increasing to first three years and decreases in last two years. However, the trend of LBL is decreased through out the study period. This is good sign for the better future of the bank.

The above table shows that the mean loss provision of LBL is highest as well as S.D. and C.V. because its loan loss provision is in increasing trend in absolute value as compared to EBL. EBL has least C.V. of 0.32 EBL comes at last with least S.D. of 112.32.

4.3.8 Net Profit:

The volume of net profit measures the success of a firm in every aspect of its operation and strategy.

Table 2.16
Net Profit

Rs. in million

Year	Net Profit (EBL)	Net Profit (LBL)
2003/04	143.6	18.64
2004/05	170.8	-196.77
2005/06	237.2	-806.06
2006/07	296.4	192.4
2007/08	451.2	327.65
Total	**1,299.20**	**(464.14)**
Mean	**259.84**	**(92.83)**
S.D.	**122.38**	**444.43**
C.V.	**0.47**	**(4.79)**

Source: Annual Report of EBL and LBL.

The above table 2.16 shows that the net profit of EBL is getting higher in every year. But the net profit of LBL goes on negative in second and third year. The volume of net profit of EBL is increased by 214.20%. The mean ratio of EBL is higher than LBL with less S.D. and the C.V. of LBL is negative.

4.4 Analyzing Loaning Efficiency and its Contribution towards Profitability

4.4.1 Non Performing Loan to Total Loan and Advances Ratio

NRB has directed all the commercial banks to formulate a specific loan loss provision against the doubtful and bad debts. But non of them willingly provide data in non performing loans nor they show the figure of specific reverse made a doubtful and bad debts in their profit and loss account or balance sheet.

Table 2.17
Non Performing Loan to Total Loan and Advances Ratio

Rs.   in million

Fiscal Year	EBL			LBL		
	Non Performing Loan	Gross Loan	Ratio	Non Performing Loan	Gross Loan	Ratio
2003/04	104.75	6,095.80	0.02	137.3	3,222.75	0.04
2004/05	128.80	9,700.00	0.01	561.13	3,685.13	0.15
2005/06	129.23	10,136.20	0.01	1339.24	4,321.58	0.31
2006/07	113.17	14,082.70	0.01	1007.04	4,944.50	0.20
2007/08	127.31	18,836.40	0.01	800.66	5,367.30	0.15
Total	**603.26**	**58,851.10**	**0.06**	**3845.37**	**21,541.26**	**0.86**
Mean			**0.01**			**0.17**
S.D			**0.004**			**0.10**

Source: Annual Report of EBL and LBL.

Figure 2.9
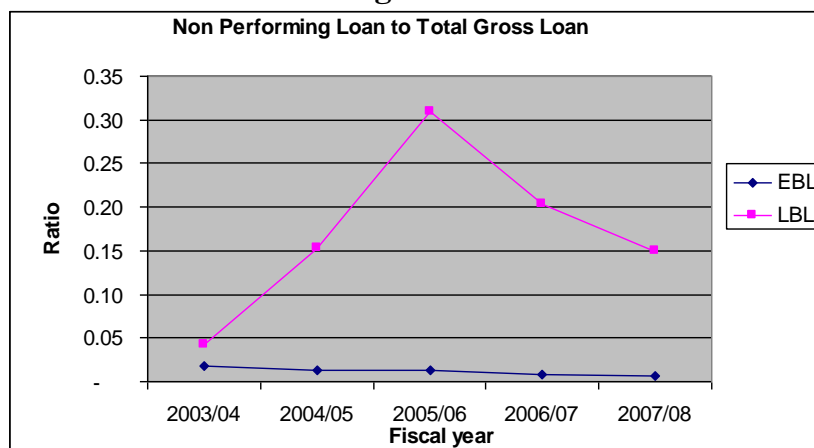
The above table and figure exhibits that in the total mean volume of gross loans and advances of non performing assets LBL represents 17% and EBL 1% respectively. Between these two banks LBL has the greater value. This volume of non performing assets in the volume of these joint venture banks seems very strange, since these banks are regarded as the best performer in the industry.

4.4.2 Total Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income. This ratio also helps to measure the banks performance on other fee-based activities. The high ratio indicates the high contribution made by lending and investing activities.

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

Table 2.18
Total Interest Income to Total Income Ratio

Rs. in million

Fiscal Year	EBL			LBL		
	Total Interest Income	Total Income	Ratio	Total Interest Income	Total Income	Ratio
2003/04	657.24	785.10	0.84	361.23	401.18	0.90
2004/05	719.29	855.90	0.84	384.59	425.18	0.90
2005/06	903.41	1,066.50	0.85	343.82	395.85	0.87
2006/07	1,144.40	1,670.70	0.68	458.64	743.99	0.62
2007/08	1,548.65	1,848.20	0.84	535.8	812.14	0.66
Total	**4,972.99**	**6,226.40**	**4.05**	**2084.08**	**2,778.34**	**3.95**
Mean			**0.81**			**0.79**
S.D			**0.07**			**0.14**

Source: Annual Report of EBL and LBL.

Figure 2.10
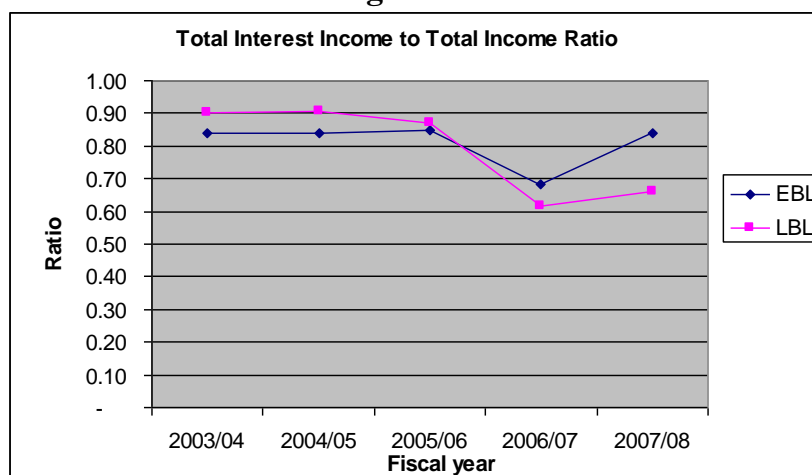
The above table and figure explains that the Total Ratio of EBL is highest between two banks. The overall trend of ratios in both banks is grossly decreasing. The highest degree of EBL indicates its greater degree of dependency on funds basis activities than LBL. In the contrary, LBL's lowest ratio indicates its low dependency in funds based activities.

4.4.3 Interest Expenses to Total Deposit Ratio

This ratio measures the cost of total deposit in a relative term. The performance of a commercial bank is dependent upon its ability to generate cheaper fund. Cheaper the fund, more the probability of generating loans & advances and vice-versa. The high ratio indicate costly fund and this adversely affects the lending activities of the banks.

Interest Expenses to Total Deposit Ratio $= \dfrac{Interest\,Expenses}{Total\,Deposit}$

Table 2.19
Interest Expenses to Total Deposit Ratio

Rs in million

Fiscal Year	EBL			LBL		
	Interest Expenses	Total Deposit	Ratio	Interest Expenses	Total Deposit	Ratio
2003/04	316.40	8,063.90	0.04	197.32	377.61	0.52
2004/05	299.60	10,097.70	0.03	193.47	4,031.22	0.05
2005/06	401.40	13,802.40	0.03	215.55	4,786.44	0.05
2006/07	517.20	18,186.25	0.03	264.76	6,024.59	0.04
2007/08	632.60	23,976.30	0.03	260.39	5,703.73	0.05
Total	**2,167.20**	**74,126.55**	**0.15**	**1131.49**	**20,923.59**	**0.71**
Mean			**0.03**			**0.14**
S.D			**0.01**			**0.21**

Source: Annual Report of EBL and LBL.

Figure 2.11

Interest Expenses to Total Deposit Ratio
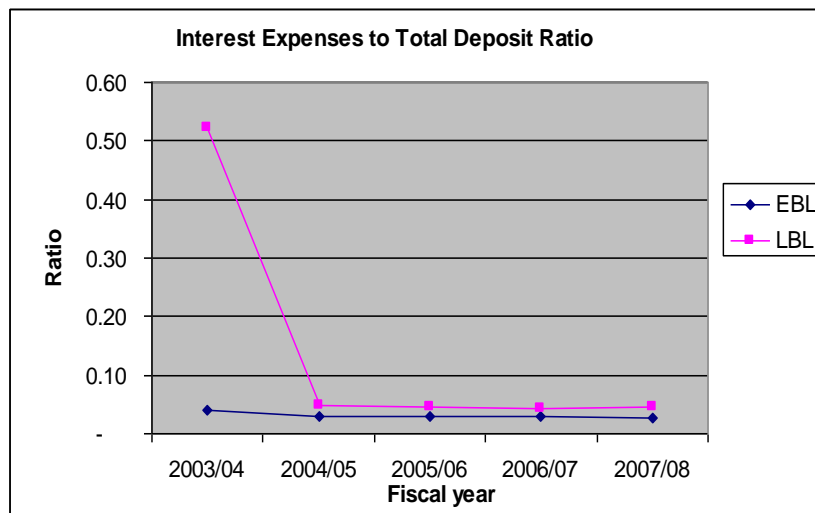
The above table and figure shows that the ratio of EBL is always successful in collecting cheaper fund by using its modern and personalized services to the customer. The ratio of LBL is greater in every year whereas the ratio of EBL is in low position.

The ratio is in decreasing trend and it may impact positively in lending activity. Due to lack of lending opportunities, the supply of the fund exceeding the demand of the fund. The overall decreasing trend of this ratio shows over liquidity in the banks. The initial deposit of EBL is higher than the LBL.

4.4.4 Interest Suspense to Interest Income Ratio

Interest suspense refers to that portion of interest, which is due but not collected. NRB circular does not allow the commercial bank due but unpaid interest into income. Such interest is shown in liability side of balance sheet. This ratio measures the uncollected but due interest in the volume of total interest income from loan and advances. The high degree of ratio refers to the poor interest turnover and vice-versa.

Interest Suspense to Interest Income Ratio

$$= \frac{Accured\ Interest\ on\ Loan}{Interest\ Income\ from\ Loan,\ Advances\ and\ Overdraft}$$

Table 2.20
Interest Suspense to Interest Income Ratio

Rs.   in million

Fiscal Year	EBL			LBL		
	Interest Suspense	Interest Income	Ratio	Interest Suspense	Interest Income	Ratio
2003/04	54.26	657.24	0.08	73.91	361.23	0.20
2004/05	59.60	719.29	0.08	111.95	384.59	0.29
2005/06	79.92	903.41	0.09	238.91	343.82	0.69
2006/07	83.37	1,144.40	0.07	260.93	458.64	0.57
2007/08	92.21	1,548.65	0.06	241.29	535.80	0.45
Total	**369.36**	**4,972.99**	**0.39**	**926.99**	**2,084.08**	**2.21**
Mean			**0.08**			**0.44**
S.D			**0.01**			**0.20**

Source: Annual Report of EBL and LBL.

Figure 2.12
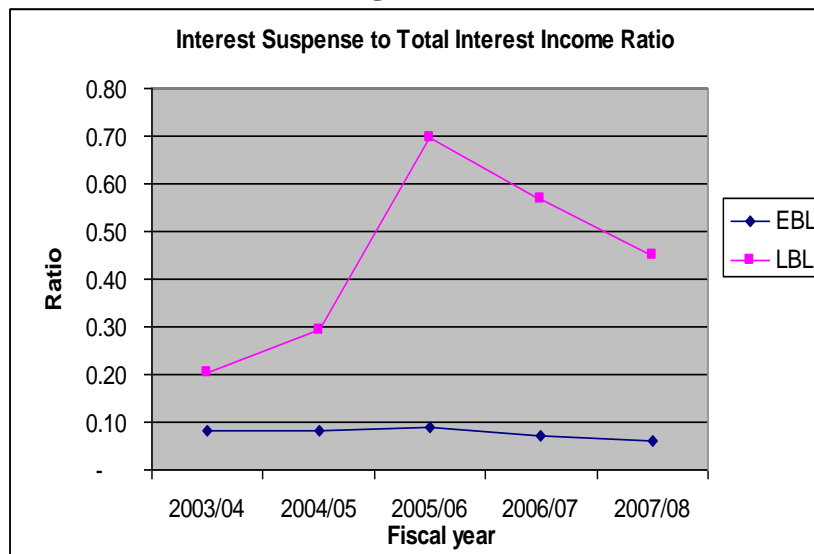
The above table and figure explain that the Interest Suspense to Interest Income Ratio of LBL is significantly higher than EBL. This ratio indicates that the interest turnover of EBL is best among two banks. . LBL should decrease its interest turnover to increase its ratio. If this increasing ratio is same on coming future, the volume of non performing loan of LBL, resulting from bad interest may cause to the failure of the banks.

4.4.5 Interest from Investment to Total Interest Ratio

This ratio measures the contribution made by interest from investment in total interest income. The major portion of income is generated by the lending function

and investment. Hence, this ratio measures how efficiently the banks employed their trend in investment.

Interest from Investment to Total Interest Ratio $= \dfrac{Interest\ from\ Investment}{Total\ Interest\ Income}$

Table 2.21
Interest from Investment to Total Interest Ratio

Rs in million

	EBL			LBL		
Fiscal Year	Interest from Investment	Interest Income	Ratio	Interest from Investment	Interest Income	Ratio
2003/04	92.50	657.24	0.14	15.62	361.23	0.04
2004/05	77.99	719.29	0.11	12.12	384.59	0.03
2005/06	97.27	903.41	0.11	23.58	343.82	0.07
2006/07	134.25	1,144.40	0.12	23.78	458.64	0.05
2007/08	193.22	1,548.65	0.12	30.08	535.80	0.06
Total	**595.23**	**4,972.99**	**0.60**	**105.18**	**2,084.08**	**0.25**
Mean			**0.12**			**0.05**
S.D			**0.01**			**0.01**

Source: Annual Report of EBL and LBL.

Figure 2.13
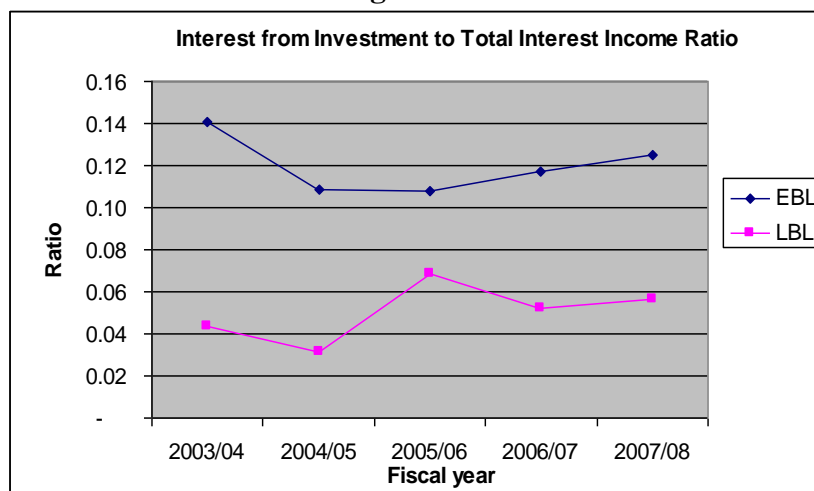
From the table and figure, ratio of EBL is higher throughout the years as compared to LBL banks. The overall ratio of EBL is ringing from 0.11 to 0.14 and the ratio of LBL is ranging from 0.03 to 0.07. The mean ratio of EBL and LBL is 0.12 and 0.05 respectively. The highest mean of EBL is caused by its high investing activities. The increase in investment and subsequent in the ratio of interest from investment to total interest income indicate the over liquidity in banking business and loaning activity.

4.4.6 Total Interest Income to Interest Expenses Ratio

The ratio of Total Interest Income to Interest Expenses measures the gap between interest rates offered and interest rates changed. Since, NRB has restricted the gap between interest rates offered and interest rates changed, in average should not be more than 5%. The difference in this ratio is mainly caused by the ratio of fund mobilization and fund collected. The credit creation power of commercial banks has highly impact in this ratio.

Total Interest Income to Interest Expenses Ratio $= \dfrac{Total\ Interest\ Income}{Interest\ Expenses}$

Table 2.22
Total Interest Income to Interest Expenses Ratio

Rs. in million

	EBL			LBL		
Fiscal Year	**Total Interest Income**	**Interest Expenses**	**Ratio**	**Total Interest Income**	**Interest Expenses**	**Ratio**
2003/04	657.24	316.40	2.08	361.23	197.32	1.83
2004/05	719.29	299.60	2.40	384.59	193.47	1.99
2005/06	903.41	401.40	2.25	343.82	215.55	1.60
2006/07	1,144.40	517.20	2.21	458.64	264.76	1.73
2007/08	1,548.65	632.60	2.45	535.80	260.39	2.06
Total	**4,972.99**	**2,167.20**	**11.39**	**2084.08**	**1,131.49**	**9.20**
Mean			**2.28**			**1.84**
S.D			**0.15**			**0.19**

Source: Annual Report of EBL and LBL

Figure 2.14
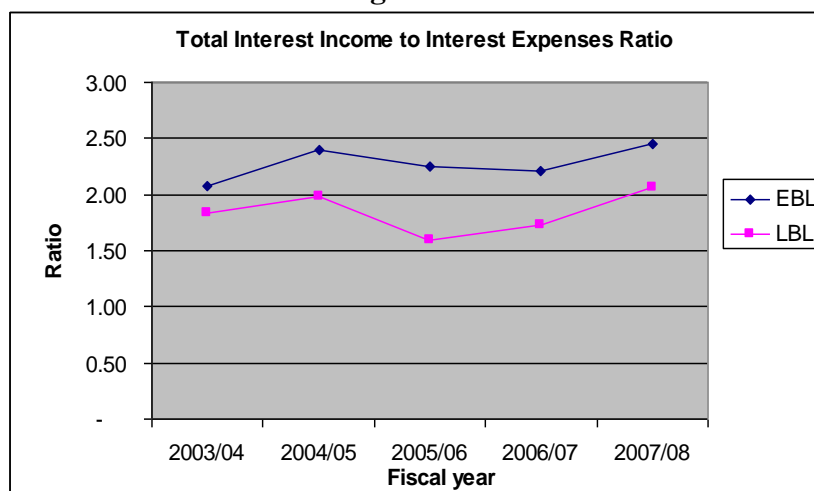
The above table and figure exhibits that the ratio of EBL and LBL has a high degree of gap between interest offered and interest charged. EBL and LBL is charging high interest to the borrowers and offering low interest to the depositors. The mean ratio of EBL and LBL is 2.28 and 1.84 respectively. The combined mean ratio of these two banks is 2.06. This indicates a rupee of expenses in deposit has generated 2.06 rupees of interest income from these banks.

4.4.7 Total Income to Total Expenses Ratio

This ratio measures the productivity of income in generating income. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio indicates higher productivity of expenses and vice-versa.

$$\text{Total Income to Total Expenses Ratio} = \frac{Total\ Income}{Total\ Expenses}$$

Table 2.23
Total Income to Total Expenses Ratio

Rs in million

Fiscal Year	EBL			LBL		
	Total Income	Total Expenses	Ratio	Total Income	Total Expenses	Ratio
2003/04	785.10	468.70	1.68	401.18	382.54	1.05
2004/05	858.90	483.80	1.78	425.18	621.94	0.68
2005/06	1,066.50	613.40	1.74	395.85	1191.18	0.33
2006/07	1,307.70	772.80	1.69	743.99	502.63	1.48
2007/08	1,848.20	1,024.30	1.80	812.14	392.11	2.07
Total	5,866.40	3,363.00	8.69	2778.34	3,090.40	5.62
Mean			1.74			1.12
S.D			0.05			0.68

Source: Annual Report of EBL and LBL.

Figure 2.15
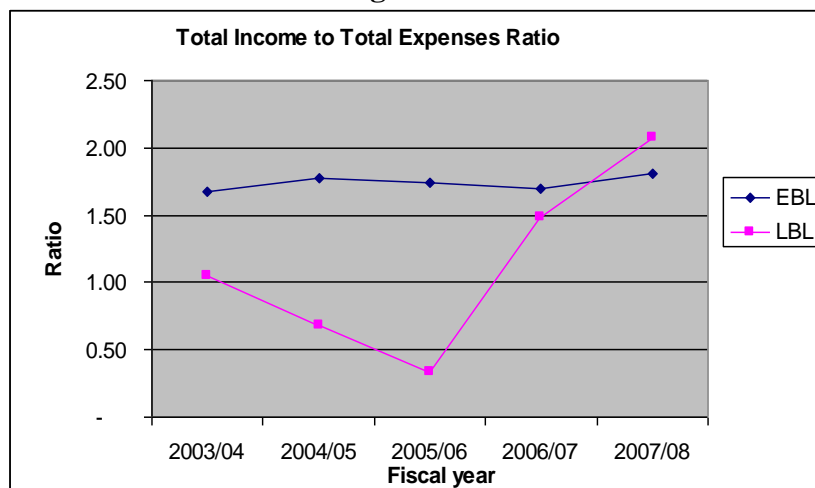
The above table and figure indicates that the ratio of EBL is higher than that of LBL. The ratio of EBL is increased in first two years and decreases thereafter. In last year it again increases by 1.80 million in the year 2007/08.

The mean ratio of EBL and LBL is 1.74 and 1.12 respectively. The combined mean of these two banks is 1.43.

4.4.8 Total Income to Total Assets Ratio

The ratio measures how efficiently the asset of business is utilized to generate income. It also measures the quality of assets in income generation.

$$\text{Total Income to Total Assets Ratio} = \frac{Total\ Income}{Total\ Assets}$$

Table 2.24
Total Income to Total Assets Ratio

Rs. in million

Fiscal Year	EBL			LBL		
	Total Income	**Total Assets**	**Ratio**	**Total Income**	**Total Assets**	**Ratio**
2003/04	785.10	9,608.57	0.08	401.18	4364.2	0.09
2004/05	858.90	11,732.51	0.07	425.18	4494.9	0.09
2005/06	1,066.50	15,959.28	0.07	395.85	4259.34	0.09
2006/07	1,307.70	21,432.57	0.06	743.99	5705.02	0.13
2007/08	1,848.20	27,149.34	0.07	812.14	6151.47	0.13
Total	**5,866.40**	**85,882.27**	**0.35**	**2778.34**	**24,974.93**	**0.54**
Mean			**0.07**			**0.11**
S.D			**0.01**			**0.02**

Source: Annual Report of EBL and LBL.

Figure 2.16
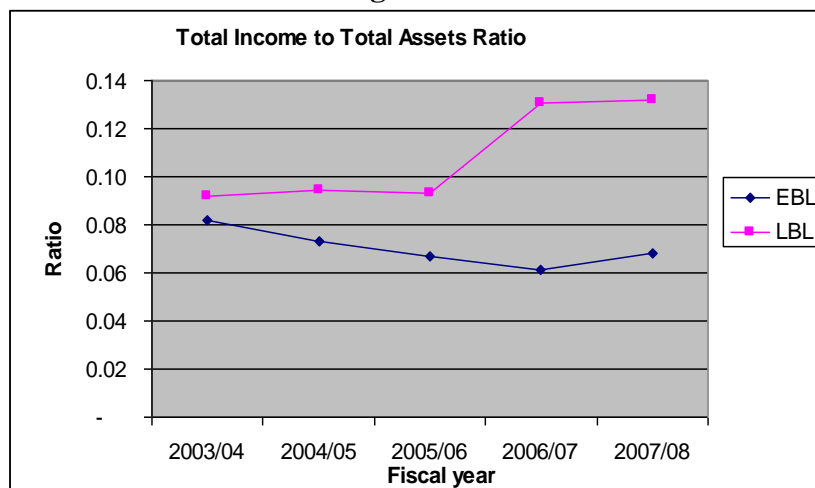
The above table and figure define that the ratio of EBL is decreasing year by year to 2006/07 and again increases in year 2007/08 by 0.07. Whereas, in case of LBL the ratio is constant in first three years i.e.0.09 and 0.13 in last two years. The mean ratio of EBL and LBL is 0.07 and 0.11 respectively. The combined mean of both banks is 0.09. The high volume of total expenses ratio has affected the ratio resulting in low earning per share. However the ratio measures the earning power of assets irrespective of expenditure involved in this.

4.4.9. Net Profit to Shareholders Equity Ratio:

The ratio measures the amount of profit that a rupee of shareholders fund has received. The high ratio indicates high return to shareholders and vice-versa.

Net Profit to Shareholders Equity Ratio = $\dfrac{Net\,Profit}{Net\,Worth}$

Table2. 25
Net Profit to Shareholders Equity Ratio

Rs. in million

Fiscal Year	EBL			LBL		
	Net Profit	Net Worth	Ratio	Net Profit	Net Worth	Ratio
2003/04	143.60	540.3	0.27	18.64	296.49	0.06
2004/05	170.80	692.6	0.25	-196.77	245.5	(0.80)
2005/06	237.20	822.8	0.29	-806.03	-722	1.12
2006/07	296.40	1,106.60	0.27	192.40	-429.66	(0.45)
2007/08	451.20	1,581.20	0.29	327.65	293.69	1.12
Total	1,299.20	4,743.50	1.35	-464.11	-315.98	1.05
Mean			0.27			0.21

S.D		0.02		0.88

Source: Annual Report of EBL and LBL.

Figure 2.17
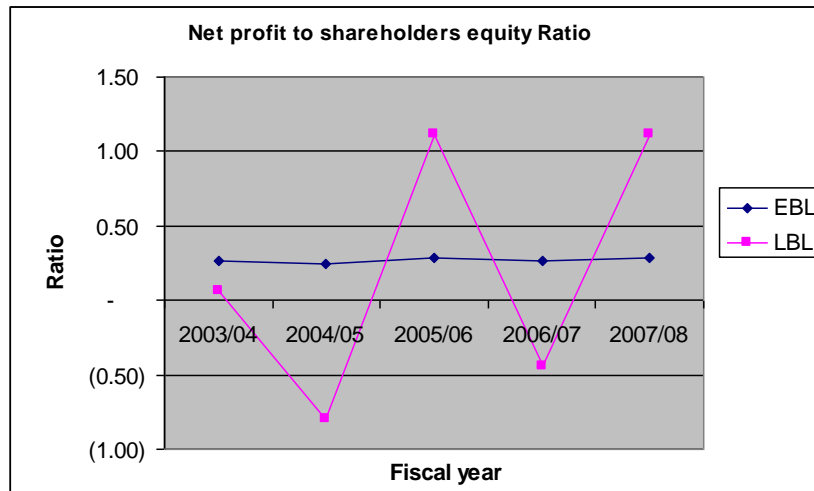
The above table and figure explains that the ratio of EBL is fluctuation in every year. Where as, the ratio of LBL is negative in year 2004/05 and 2006/07 i.e.(0.80) and (0.45) million. But in year 2005/06 and 2007/08 its ratio is higher than ratio of EBL i.e. 1.12 million.

The mean ratio of EBL and LBL is 0.27 and 0.21 respectively. The combined mean ratio of these two banks is 0.24 which shows that 24% of net profit is made by shareholders fund.

4.4.10 Loan and Advances Recovery Ratio :

Loan and Advances are the major area of fund mobilization of commercial banks. It is the first type of application of funds, which has more risks. Granting the loan and advances always carries degree of risk. Whereas, recovery means the act of recovering of loan from sickness. This ratio indicates the recovering of loan and advances from sickness. The high ratio shows the high recovery of loan and advances which indicates the good performance of credit sector of banks and vice-versa. The high ratio of recovery of loan and advances in economy is the symbol of healthy business.

Loan and Advances Recovery ratio = $\dfrac{Collection}{Distribution}$

Table2. 26
Loan and Advances Recovery Ratio

Rs. in million

Fiscal Year	EBL			LBL		
	Collection	Distribution	Ratio	Collection	Distribution	Ratio
2003/04	24,878.00	25,925.40	0.96	5,940.50	6,292.50	0.94
2004/05	25,651.00	69,686.70	0.37	6,105.30	6,566.90	0.93
2005/06	39,490.10	41,745.00	0.95	6,273.30	6,856.50	0.91
2006/07	53,599.90	57,544.40	0.93	9,160.90	9,846.50	0.93
2007/08	87,643.80	92,397.50	0.95	9,041.70	9,469.30	0.95
Total	231,262.80	287,299.00	4.15	36,521.70	39,031.70	4.67
Mean			0.83			0.93
S.D.			0.26			0.02

Source: Annual Report of EBL and LBL.

The above table shows the loan recovery ratio of both sampled banks. In year 2003/04 the ratio of EBL is 0.96 whereas LBL is 0.94. In case of EBL, the ratio is in fluctuating trend. But in case of LBL, the ratio decreases by two years and again increases by next two years.

The mean ratio of EBL and LBL is 0.83 and 0.93 respectively. The combined mean ratio of these two banks is 0.88 which shows the loan collection made by both banks. By this table it is clear that the loan recovery of LBL is in better position than that of EBL.

4.5 Analyzing correlation coefficient between different variables
4.5.1 Correlation between Total Deposit and Loans and Advances

The Correlation between Total Deposit and Loans and Advances describe the degree of relationship between two variables. How a unit increases in deposit impact the volume of loans and advances in measured by the correlation coefficient. Hence, the deposit is the independent variable and loans and advances is the depended variable.

Table 2.27
Correlation (r) between Total Deposit and Loans and Advances

Banks	Correlation coefficient
Correlation (EBL)	0.99856
Correlation (LBL)	0.95340
Probable Error (EBL)	0.00087
Probable Error (LBL)	0.02746
6*PE (EBL)	0.00522
6*PE (LBL)	0.16476

Source: from appendix 1 & 2

Table above explains the relationship between total deposit and loans and advances of two sampled banks. All banks have positive correlation between total deposit and loans and advances. That means increment in loans and advances leads to increment in total deposit. Here the correlation coefficients of EBL & LBL are 0.9986& 0.3518 and it is greater than six times the value of P.E. Hence there is positive correlation between total deposit and loans and Advances of EBL & LBL and its correlation coefficient is significant and reliable.

4.5.2 Correlation between Loans and Advances and Shareholders Equity

This correlation describes the degree of impact of the increase in loan and advances to shareholders equity. The loan and advances are the independent variable whereas the shareholders equity is the dependent variable.

Table 2.28
Correlation (r) between Loans and Advances and Shareholders Equity

Banks	Correlation coefficient
Correlation (EBL)	0.9958
Correlation (LBL)	(0.2648)
Probable Error (EBL)	0.00272
Probable Error (LBL)	0.28049
6*PE (EBL)	0.01632
6*PE (LBL)	1.68294

Source: from appendix 1 & 2

Table above describes the relationship between loans and advances and shareholders equity of two sampled banks. The correlation coefficient of EBL is greater than

6*P.E. and hence in this case the correlation coefficient is significant and reliable. But in case of LBL, the correlation is less than 6*PE so correlation coefficient is said to be insignificant.

4.5.3 Correlation between Investment and Loans and Advances

This correlation measures the degree of relationship between Investment and Loans and Advances. This measure of correlation explains whether the banks have a rigid policy to maintain a consistent relationship between assets and other factors such as seasonal opportunity, economic demand, NRB directives etc has impact on the volume of these two variables. Theoretically, increase or decrease in the volume of loans and advances directly reduces or increase the level of idle fund and this idleness of fund increase the investment.

Table 2.29
Correlation (r) between Investment and Loans and Advances

Banks	Correlation coefficient
Correlation (EBL)	0.8763
Correlation (LBL)	0.9395
Probable Error (EBL)	0.00462
Probable Error (LBL)	0.03541
6*PE (EBL)	0.02772
6*PE (LBL)	0.21246

Source: from appendix 1 & 2

Table above describes the relationship between investment and loans and advances of two sampled banks. All banks have positive correlation between investment and loans and advances. That means increment in loans and advances leads to increment in investment. The correlation coefficient of both banks is greater than 6*P.E. and hence the correlation coefficient is significant and reliable.

4.5.4 Correlation between Total Income and Loans and Advances

The correlation between total income and loans and advances measures the degree of relationship between these two variables. The loan and advances is an independent variable whereas the total income is the dependent variable.

Table 2.30
Correlation (r) between Total Income and Loans and Advances

Banks	Correlation coefficient
Correlation (EBL)	0.99583
Correlation (LBL)	0.88632
Probable Error (EBL)	0.00251
Probable Error (LBL)	0.06468
6*PE (EBL)	0.01506
6*PE (LBL)	0.38808

Source: from appendix 1 & 2

Table above shows the correlation coefficient, probable error and 6*P.E. of the sampled banks. It shows there is high degree of positive correlation between loans and advances and total income of both banks. The respective values of correlation coefficient of all banks are 0.9958, and 0.8863, which are greater than 6 times the value of their respective probable error. Hence, it can be interpreted that the correlation between these two variables of both banks is certain and significant.

4.5.5 Correlation between Interest Suspense and Total Interest Income

The correlation between Interest Suspense and Total Interest Income measures the degree of relationship between these two variables. Hence total interest income is the independent variable whereas interest suspense is dependent variable.

Table 2.31
Correlation (r) between Interest Suspense and Total Interest Income

Banks	Correlation coefficient
Correlation (EBL)	0.9164
Correlation (LBL)	0.5287
Probable Error (EBL)	0.04835
Probable Error (LBL)	0.21731
6*PE (EBL)	0.2901
6*PE (LBL)	1.30386

Source: from appendix 1 & 2

Table above explains the correlation coefficient, probable error and 6*P.E. of the sampled banks. It shows there is high degree of positive correlation between interest suspense and total interest income of both banks. The respective values of correlation coefficient of EBL is 0.9164 which are greater than 6 times the value of

their respective probable error i.e. 0.2901. Hence, it can be interpreted that the correlation between EBL is certain and significant. But as the respective values of correlation coefficient of LBL is 0.5287which is less than 6 times the value of their respective probable error i.e. 1.30386 so it can be interpreted that the correlation between LBL is uncertain and insignificant

4.5.6 Correlation between Loan Loss Provision and Loan and Advances

The correlation between loan loss provision and loan and advances measures the degree of relationship between these two variables. The loan and advances is an impendent variable whereas the loan loss provision is the dependent variable.

Table 2.32
Correlation (r) between Loan Loss Provision and Loan and Advances

Banks	Correlation coefficient
Correlation (EBL)	0.98965
Correlation (LBL)	0.68649
Probable Error (EBL)	0.00621
Probable Error (LBL)	0.15949
6*PE (EBL)	0.03726
6*PE (LBL)	0.95694

Source: from appendix 1 & 2

Table above explains the relationship between loan loss provision and loans and advances of two sampled banks. Both the banks have positive correlation between loan loss provision and loans and advances. Here the correlation coefficient of EBL is 0.98965 and it is greater than six times the value of P.E. Hence, it has positive correlation between loan loss provision and loans and Advances. But the correlation coefficient of LBL is 0.68649 which is less than six times the value of P.E. i.e. 0.95694 which shows that its correlation coefficient is insignificant and unreliable.

4.5.7 Correlation between Interest Income and Net Profit

The interest income contributes the major portion of total volume of commercial banks income. This correlation measures the degree of relationship between Interest

Income and Net Profit. Hence Interest Income is the independent variable whereas net profit is dependent variable.

Table 2.33
Correlation (r) between Interest Income and Net Profit

Banks	Correlation coefficient
Correlation (EBL)	0.99748
Correlation (LBL)	0.78537
Probable Error (EBL)	0.00152
Probable Error (LBL)	0.11559
6*PE (EBL)	0.00912
6*PE (LBL)	0.69354

Source: from appendix 1 & 2

Table above explains the relationship between interest income and net profit of two sampled banks. Both the banks have positive correlation between interest income and net profit. That means increment in interest income leads to increment in net profit. Here the correlation coefficients of EBL & LBL are 0.9975 & 0.7854 and it is greater than six times the value of P.E. Hence there is positive correlation between interest income and net profit of EBL & LBL and its correlation coefficient is significant and reliable.

4.6 Major Finding of the Study

As per the data presentation and analysis the major finding of the study are presented as follows:

1) The measurement of the liquidity has reveled that the liquid fund to total deposit ratio of two banks are widely varied. EBL is able to allocate fund in total deposit. Thought the mean ratio of EBL is more than LBL so the liquidity position of EBL is satisfactory.

2) Cash and bank balance to interest sensitive deposit has measured the liquidity risk arising from fluctuation of interest rate in the market. The mean ratio has ranged from 0.22 to 0.55.

3) The combined mean of LBL is higher among them which show that high volume to interest sensitive liability in deposit mix of EBL. Due to the high deviations of ratios among the banks the combined mean has also deviated far from EBL.

4) The high degree of cash deposit in the comparison of liability of commercial banks requires them to maintain low liquidity ratio as compared to the other industries. The amounts of deposit in the balance sheet to the high extend represents the average deposits maintain by the commercial banks.

5) The measurement of lending strength in relative term has reveled that to total assets to liabilities of EBL has the highest ratio. The performance of EBL has deviated a bit far from the mean ratio of LBL. The high ratio is the result of high volume of shareholders equity in the liability mix.

6) The ratio of non interest bearing deposit to total deposit ratio of LBL has significantly deviated from the combined mean. Therefore high volume of saving and fixed deposit can be concluded. Loan and advances of total deposit ratio of EBL has deviated from the combined mean ratio and the mean ratio of two banks. The mean ratio has ranged from 0.65 to 0.86.

7) Tendency of LBL to invest in government securities has resulted with the lowest ratio of loan and advances throughout the year have reveled EBL as highest.

8) The ratio of investment to loan and advances has measured the total portion of investment in loan and advances. The ratio of EBL is highest among the two banks. The amount of money at call has occupied a big volume in the assets mix of EBL. The ratio of LBL has indicated the low level of depending as investment activities.

9) The ratio of loan and advances to total deposit ratio has measure the portion of total deposit that is used to increase the income of banks irrespective of the portfolio of its application. LBL has deployed a highest portion of its total deposit in its earning activities and this ratio is significantly above than the ratio of EBL. The combined ratio is not deviated far from the mean ratio of these banks. This is the indication that the fund mobilization activities of LBL is significantly better than EBL Performance in loan and advances has not increase proportionately as compared to the deposit increments and it has further failed to utilize the excess fund in investing activities rather it has kept the high volume of fund at money at call and short notice. Resulting this bank to be the poorest in the ratio of loan and advances and investment to total deposit ratio.

10) The ratio of loan and advances to shareholders equity has gained the significant importance in measuring the capital fund and corresponding contribution in loan and advances. The combined ratio has significantly deviated from the mean ratio of EBL and LBL 11.92, which is highly deviated from the combined mean. The LBL has the mean of 8.88. As compared to EBL, LBL has low number of equity shares, retained earnings and reserve. At the same time, contributing a high volume of loan and advances a resulted the ratio of EBL so high as compared to LBL. LBL has generated the low volume of loan and advances as compared to its volume of shareholders equity. This ratio concludes that LBL has not been succeeding to advances high volume of credit as much as their capital funds grants to them.

11) Similarly the absolute measures of lending strength have reveled that the mean volume of net assets is highest in EBL rather than LBL. The volume contributed by LBL increase of loan and advances is highly approachable as compared to its net assets. Again the mean volume of total deposit of EBL is

also highest. The volume of loan and advances contributed by EBL is highest in every year.

12) The high volume of total expenses has allocated the highest income of LBL at the same time the loan loss provision of LBL is also in every five years. Whereas EBL has the highest provision for loan loss. The volume of net profit of EBL is highest.

13) The C.V. of EBL is the highest in almost all of the cases and this has significantly differed from the C.V. of LBL. This indicates that there is high degree of variation in the performance of EBL. Since this variation has caused due to the increasing trend of every component of performance of EBL is rapidly developing in most of the cases.

14) The measurement in efficiency in loaning has reveled that the loan loss provision to loan and advances has high degree of variation among two banks. The mean ratio of LBL is highest according to NRB directive the loan loss provision indicates the provision made against the performing loan (pass loan and sub standard loan) only. Hence, this ratio indicates that the volume as sub standard loan in the Loan Mix of LBL is higher than EBL as there is some level of provision requires in case of pass loan. This indicates the volume of non performing loan in the mix of LBL is likely to increase in coming future.

15) The mean ratio of interest income to total income ratio has concluded that the contribution of interest income in total income mix of EBL is highest. The performance of LBL is moderate and comes in second place. Since there is high degree of deviation between contributions to interest income to total income ratio, is resulted by high ratio of loan and advances to total assets. The interest expenses to total deposit ratio indicates the cost of fund in EBL

is highest than LBL. EBL, being super power in technology and modern banking has succeeded in collecting the fund in cheapest possible price.

16) Like interest income to total income ratio, the interest income to interest expenses is also highest in EBL. This indicates that EBL is in better position than of LBL.

17) The ratio of interest suspense to interest from loan and advances among these banks is of varying in nature. Since the high ratio is always unfavorable, the ratio of EBL can be concluded as the best among these two banks. Since the NRB has restricted the commercial banks to collect the earned interest by overdrawing the borrower's account or by exceeding the limits of borrowers, the commercial banks have started to book such uncollected interest in suspense account. This represents the borrower's default in paying the interest or lack of strict and effective device of interest income measures the dependency in investing activities. The ratio of investment to total investment and loan and advances has direct impact on this ratio and this has resulted the EBL's ratio to be the highest among two banks.

18) The difference between EBL and LBL in respect of interest income to interest expenses is highly deviated. The low cost of deposit as indicated by interest expenses to total deposit ratio has resulted EBL is to be the highest and LBL to be the lowest.

19) Under total income to total expenses ratio, the high ratio indicates higher productivity of expenses. Here the ratio of EBL is greater than LBL. Hence, EBL shows higher productivity of expenses.

20) The total income to total assets measures the earning power of each rupee employed by an organization irrespective of volume expenditure incurred. Here the ratio of total income to total assets of LBL is the highest. The

exclusion of high volume of expenditure in generating high volume of profit has caused this ratio to give the difference in result as measured by other profitability ratio.

21) The ratio of total income to total expenses reflects the earning capacity of rupees of expenses. The ratio indicates that a rupee of expenses would result in value of ratio minus one in net profit. Thus, higher the ratio betters the productivity of expenses is able to contribute 1.74 in net profit. As the ratio of LBL is least, the bank should reduce its expenditure for generating profit, otherwise the performance of this bank would adversely affect.

22) The correlation coefficient between different variables generally shows significant correlation between the entire variable measured. The highest correlation of EBL in respects of total deposit and loan and advances, highest the correlation of EBL in respect of shareholders equity and loan and advances were found.

23) Total income and loan and advances are the indicative of good performance of EBL in generating loan and advances. This also concludes that the unit of increment in deposit is the most likely in EBL to increase the volume of loan and advances. As far the lending function and its correlation with other variables are concerned, the correlation of EBL is likely to give the best contribution towards the national economy.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Commercial banks are major financial institutions, which occupy quite an important place in the frame work of every economy because they provide capital for the development of industry trade and business and other resources deflect sectors lending the saving collected as deposit bank, by playing active role have changed the economy structure of the world. Bank has own role and contribution in the economic development; it maintains economic confidence of various segments and extends credit to people.

The income and profit of the EBL and LBL depends upon its lending procedure, lending policy and investment policy of its utilize fund. EBL and LBL aren't able to utilize its deposits properly i.e. providing loan and advances for a profitable project, the reason behind it is lack of sound lending policy. The main objective of study is evaluating lending policy adopted by commercial bank of Nepal.

The study, which researcher have chosen "Loaning policy of commercial bank in Nepal", Researcher think that most of the research regarding the banking policy is founding normally moving around the principle aspect again and again rather then filtering the actual situation. Normally, this studies focus on the loaning policy of commercial banks. Researcher had consulted many books, articles, booklets and searching related thing in the internet. During the period, researcher summarized whole task in three chapters including this chapter.

First chapter of the study dealt about basic assumption of the study. Basically it highlighted the concept and importance of the study. It also presented research problem, objective of the study, limitation of the study, methodology used for the study and review of previous related studies. Second chapter of the study deals about presentation and analysis of data. It presented the generated data in tabular

and graphic form and analyzed it in systematically as per the objectives mentioned above. The last chapter of this study is summary, conclusion and recommendation of the research study.

Various norms and regulation and directives as issued by NRB are presented so for these are treated as guidance and for comparing the performance as under which commercial banks has been running or not. Researcher used different graphs and other statistical tools to make the study more compatible. These financial and statistical tools helped to measure the performance of the bank in comparative manner.

5.2 Conclusion

The present study successfully explored the result to meet the stated objectives of the study and found meaningful. The result showed that a lending policy or credit practice of EBL was found relatively better in comparison to LBL because the most of the ratio of credit practices scored the better position in EBL rather than LBL. Whereas credit efficiency management provides controversial result towards the EBL and LBL, however it was found better in EBL because most of the ratio designed for the study supported the EBL. The correlation between loan and advances to total income was found in moderate level in LBL i.e. 0.88632 and high degree in EBL i.e. 0.99583. Likewise in relationship between provisions for loan loss and loan and advances of EBL and LBL, coefficient of correlation (r) of EBL is higher than six times the value of P.E. Hence, it has positive correlation between loan loss provision and loans and Advances. But the correlation coefficient of LBL is 0.68649 which is less than six times the value of P.E. i.e. 0.95694 which shows that its correlation coefficient is insignificant and unreliable.

5.3 Recommendation

The present study can be valuable piece of research work in loan management topic. It explored the existing situation and identified the various components for future improvement in loan management. Secondary source of information are used for achieving the objectives. It may be useful for academicians, parishioners, especially to bank management and any others who are directly or indirectly involved in banking activities. Based on the findings of the study, following are some of the recommendations which will help for further improvement of Nepalese Commercial Banks:

1) The credit practice of EBL is found comparatively better than LBL during the study period. It is suggested to LBL procedure for better improvement. Similarly interest from loan and advances was found greater in EBL. The main source of income is based on loan and advances. Thus, proper level of portfolio should be maintained so that profitability position will be maximized.

2) In relationship between provision for interest income and net profit of EBL and LBL, the value is least in LBL. EBL has high degree of relationship. That's why we can conclude that the increase in the volume of interest income in EBL and LBL is more likely to increase the same percentage of net profit in these two banks. The value of correlation of EBL is 0.99748 and LBL is 0.78537 which is greater than absolute value of 6 times of P.E. i.e. 0.00912 and 0.00912 respectively. Hence there is positive correlation between interest income and net profit of EBL & LBL and its correlation coefficient is significant and reliable.

3) Average profit of these banks is not satisfactory. If resources held idle, bank have to beard more cost and result would be lower profit margin. So portfolio condition of bank should be regularly revised from time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank.

These banks should use its funds in more portfolio sectors. It should utilize its risky assets and other funds and it should its express should try to collect cheaper fund.

4) LBL lending was found poor then EBL. So that LBL has to utilize its deposit in the form of lending.

5) EBL and LBL both the banks are recommended that before providing the loan make sure that your clients is in good character and able to pay its loan or may take the collateral which is nearly two times more than that of your guaranteed.

6) In case of LBL net assets goes on negative or very poor and its performance is not as good as EBL. So that it is recommended that LBL have to reduce their operation cost of loan and advance and increase their profit.

7) An interest expense of deposit of these banks was found high. So that EBL and LBL banks have to collect more non interest bearing deposit to decrease their interest expenses.

8) Investment of EBL seems good but the investment performance of LBL is not so satisfactory. So for upliftment of LBL it should give full concentration in higher investment.

9) The volume of net profit measures the success of a firm in every aspect of its operation and strategy. The net profit of LBL is negative so it should increase its volume of net profit.

5.4 Future Avenues

There are several future avenues for the future research in the area of credit management of commercial banks in the Nepalese context. There are some possible areas for the study of credit management, which seems to be studied in future to focus into non financial performance indicators such as: (1) Job Satisfaction, (2) Service Quality Performance, (3) Supervisor's Teamwork, (4) Stakeholder's Support, (5) Government Rating, (6) Human Resource Development, (7) Job Designation, (8) Customer's Satisfaction.

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APPENDIX

Appendix – 1

Figures used in the study

Everest bank Ltd					**Rs. in million**
FY	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Total Deposit	8,063.90	10,097.70	13,802.40	18,186.25	23,976.30
Liquid Fund	3,354.90	3,748.92	5,820.44	7,375.73	8,073.52
Cash and Bank Balance	631.80	1,050.00	1,552.90	2,391.30	2,667.90
Saving Deposit	3,730.61	4,806.83	6,929.21	9,029.25	1,183.85
Total Asstes	9,608.57	11,732.51	15,959.28	21,432.57	27,149.34
Total Liabilities	8,928.25	10,899.89	14,996.47	20,231.05	25,228.10
Gross Loans	6,095.80	7,900.00	10,136.20	14,082.70	18,836.40
Investment	2,535.70	2,128.90	4,200.50	4,984.30	5,059.60
Net Worth	540.30	692.60	822.80	1,106.60	1,581.20
Total Interest Income	657.24	719.29	903.41	1,144.40	1,548.65
Total Expenses	468.70	483.80	613.40	772.80	1,024.30
Loan Loss Provision	211.71	281.41	334.94	418.60	497.34
Net Profit	143.60	170.80	237.20	296.40	451.20
Non-Performing Loan	104.75	128.80	129.23	113.17	127.31
Total Income	785.10	858.90	1,066.50	1,370.70	1,848.20
Interest Expenses	316.40	299.60	401.40	517.20	632.60
Interest Suspense	54.26	59.60	79.92	83.37	92.21
Interest from Investment	92.50	77.99	97.27	134.25	193.22

FY	2003/04	2004/05	2005/06	2006/07	2007/08
Lumbini Bank Ltd					**Rs. in million**
Total Deposit	3,777.61	4,031.22	4,786.44	6,024.59	5,703.73
Liquid Fund	1,119.32	954.19	1,125.75	1,660.74	1,527.78
Cash and Bank Balance	531.13	419.01	402.13	500.80	642.60
Saving Deposit	833.25	1,002.82	1,768.93	2,703.57	3,404.40
Total Asstes	4,364.20	4,494.90	4,259.34	5,705.02	6,151.47
Total Liabilities	4,067.71	4,249.89	4,981.41	6,134.69	5,857.78
Gross Loans	3,222.75	3,685.13	4,321.58	4,944.50	5,367.30
Investment	558.19	535.18	673.71	864.33	817.47
Net Worth	296.49	245.50	(722.00)	(429.66)	293.69
Total Interest Income	361.23	384.59	343.82	458.64	535.80
Total Expenses	382.54	621.94	1,191.18	502.63	392.11
Loan Loss Provision	242.35	517.41	1,337.69	1,103.81	877.81
Net Profit	18.64	(196.77)	(806.03)	192.40	327.65
Non-Performing Loan	237.30	561.13	1,339.24	1,007.04	800.66
Total Income	401.18	425.18	395.85	743.99	812.14
Interest Expenses	197.32	193.47	215.55	264.76	260.39
Interest Suspense	73.91	111.95	238.91	260.93	241.29
Interest from Investment	15.62	12.12	23.58	23.78	30.08

Note:
- The entire figures presented above are rounded up to the nearest Million Rupees.
- The data presented here in are based on the amount mentioned in the annual reports of respective years in case of EBL and LBL

Appendix – 2

Coefficient of Correlation between Total Deposit and Loan and Advances of EBL

Rs. In million

Years	Deposit (x)	Loan & Advances (y)	$X = x - \bar{x}$	X^2	$Y = y - \bar{y}$	Y^2	XY
2003/04	8,063.90	6,095.80	-6761.41	45716665.19	-5314.42	28243059.93	35932972.53
2004/05	10,097.70	7,900.00	-4727.61	22350296.31	-3510.22	12321644.45	16594951.17
2005/06	13,802.40	10,136.20	-1022.91	1046344.87	-1274.02	1623126.96	1303207.798
2006/07	18,186.25	14,082.70	3360.94	11295917.68	2672.48	7142149.35	8982044.931
2007/08	23,976.30	18,836.40	9150.99	83740617.98	7426.18	55148149.39	67956898.92
Total	74,126.55	57,051.10	0	164149842	0	104478130.1	130770075.4
Mean	14825.31	11410.22					

Calculation of mean of total deposit ($\bar{x}$) and Loan and advances ($\bar{y}$)

$$\bar{x} = \frac{\sum x}{n} = \frac{74126.55}{5} = 14825.31 \qquad\qquad \bar{y} = \frac{\sum y}{n} = \frac{57051.10}{5} = 11410.22$$

Coefficient of Correlation (r):

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}} = \frac{(5 \times 13077007535) - (74126.55 \times 57051.10)}{\sqrt{(5 \times 16414984203) - (74126.55)^2}\sqrt{(5 \times 10447813008) - (57051.10)^2}} = 0.99856$$

Coefficient of Determination (r2) = 0.99856 × 0.99856 = 0.997

$$Probable (P.Er) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - 0.99856}{\sqrt{5}} = 0.00087$$

6 (P.Er) = 0.00522