

LOAN DISBURSEMENT AND COLLECTION PROCEDURE OF COMMERCIAL BANKS IN NEPAL

(With reference to Himalayan Bank, NIC Bank and Kumari Bank Ltd)

A Thesis

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RECOMMENDATION

This is to certify that the thesis:

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(with reference to Himalayan bank, NIC Bank and Kumari Bank Ltd)

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DECLARATION

I hereby declare that the work reported in this thesis entitled “***LOAN DISBURSEMENT AND COLLECTION PROCEDURE OF COMMERCIAL BANKS IN NEPAL***” submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University is my Original work for the partial fulfillment for the requirements of Master degree in Business Studies (MBS) under the supervision of Asst. Professor Ruchila Pandey and lecturer Mr. Ghanendra Fagoo Shanker Dev campus, Kathmandu.

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At last but not least, my paramount dedication is to my family members who have been uninterrupted source of sustain for me while in during the tribulation of this research work. I would like to thank my friend Mr.Ganga Thapa and Mr.Bauda Hang Rai.

I have tried to cover all the possible matters that I felt, important to sum up the *“Loan disbursement and collection procedure of commercial Banks in Nepal ”*. I am hopeful that this task will be helpful to the students of business studies & to those who want to make further researchers under this topic.

Ram Kumar Shrestha
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Bimal Paudel

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I have tried to cover all the possible matters that I felt, important to sum up the *“Comparative Financial Performance Analysis of Nepal Industrial And Commercial Bank and Everest Bank*

Bina Mushyakhov
Kwathandau, Bhaktapur

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CHAPTER – I

INTRODUCTION

1.1 Background of the study

A bank is an institution, which deals with money receiving it on deposit from customer; honoring customer's drawing against such deposits on demand. Collection of cheque for customers and lending or investing surplus deposits, until they are required for payment. Now a day, there are many types of bank. Such as industrial bank, commercial bank, agriculture bank, joint stock bank, co-operative bank and development bank etc. Because of the growth in population, changes occurred in the people's ideology, due to the development on each other and the beginning of the competitive age. The first modern commercial bank was established in England in 1694 A.D. by the name of "The Bank of England".

Bank is one of the most important financial institutions in the economy of the country. Bank is a business establishment that safeguards people's money and uses it to make loans and investments. A bank is an organization concerned with the accumulation of the idle money of the general public for the purpose of advancing to others for expenditure or investment.

Banks are the institutions that provide the funding required starting the business to those with skills and desire to operate the business collecting from those with the money but no skill or time to operate the business. In other words, banks are the institutions offering deposits subject to withdrawal on demand and making loans of a business nature. Banks offer wide range of financial services like credit, savings, payments services etc.

Loan is an arrangement in which a lender gives money or property to a borrower, and the borrower agrees to return the property or repay the money, usually along with interest, at some future point(s) in time. Usually, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan (though modern capital markets have developed many ways of managing this risk). Legally, a loan is a contractual promise of a debtor to repay a sum of money in exchange for the promise of a creditor to give another sum of money.

Banking is considered as the backbone in the development of the national economy. It is a financial institution, which act as a transaction of money by accepting various types of deposits, disbursing loan and rendering other financial services. So, among the various functions to provide loan to the investors is the major function. Through the loan, there will be increase in the environment of the investment and the bank has the major role in creating such an environment.

Loans and advances mean providing of the funds for the investors in the certain sectors taking risk in the hope of better return for the investors. Investments that take place or action done in the present and the result can be obtained in the future. So, the loan and advances are very risky assets because the result or effectiveness of it will be found at the future. Due to this, while providing loan bank should be very careful because performing loan only can move towards the way of success and non-performing loan moves the bank towards the way of failure.

"Loans and advances dominate the asset side of the any bank. Similarly, earning from such loans and advances occupy major space in income statement of the bank. Lending can be said to be the *raison derre* of a bank. However, it is very important to be reminded that most of the bank failures in the world due to shrinkage in the value of the loan and advance. Hence loan is known as risky assets. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society while non performing loan erodes even existing capital." (Dahal and Dahal, 1992/ 2000: 114)

The act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount.

Banks provide the excess amount of funds to fulfill the demand of the investors and better allocation of financial resources and to encourage economic growth in the economy. For this, loan should be efficiently managed and controlled. If loan is not efficiently managed, it can cause inflation or deflation, recession and unemployment in the economy. Misleading of loan management can lead to misallocation of the investable resources and the economic power concentrated on the certain persons and against the social objective. So, the non-performing

loans not only create the problem in the economy of the country but it can move the bank towards the liquidation.

In the context of Nepal, saving habit of the people is very low and collected amount of deposit should be effectively used so that the people can get certain percentage of interest in their deposited amount to uplift their economic condition and the deposited amount can be distributed as the loan and advances to fulfill the demand of the investors and from loans and advances banks get the profit and through the creation of the investment in the country, the economic condition of the country will be strong. While providing loans and advances, the banks should not concentrate only on the profitable sectors but loans should be distributed in the national priority sectors such as agriculture, small scale industries based on the local raw materials and deprived sectors. But, the latest data showed that the banks are unable to meet the requirements of the investment in these sectors as NRB directives. The public banks have high portion of the non-performing loans and the joint venture banks are not following the NRB directives such as loan loss provisions, investments.

Due to loan management is not satisfactory and its being a national issue and to contribute towards the topic through the study among the lot of topics, the loan management topic is selected.

The study on the topic may be best one in the current situation where the loan management is being the main problem facing by the commercial banks and the study on the topic tries to find the grass root problem of the loan management (factors relating to the loan management) and forced the management to use the deposited funds in the welfare of the country and the people and to follow the NRB directives.

Banks are among the most important financial institutions in the economy of the country. Bank is a business establishment that safeguards people's money and uses it to make loans and investments. A bank is an organization concerned with the accumulation of the idle money of the general public for the purpose of advancing to others for expenditure or investment. A bank is the institutions, which accepts deposits from the public and in turn advance loans by creating credit.

Banks are the institutions that provide the funding required starting the business to those with skills and desire to operate the business collecting from those with the money but no skill or time to operate the business. Banks is a resource of mobilizing institution that accepts deposit

from various sources and invests such accumulated resources in the fields of agriculture, commerce, trade and industry.

Evolution of Banking Industry

According to Concise Oxford Dictionary, the term bank has been defined as “A bank is an establishment of the custody of money which it pays out on customers’ order.” In the word of Kent, “A bank is an organization whose principal operations are converted with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.” A banker and a bank is a person or company carrying on the business of receiving moneys, and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the available on their current accounts.

The basis of banking is the expectation that the business will generate money at sometime in the future to repay the amount lent or invested plus a return to the owner of the funds.

Banking is nearly as old as civilization. The ancient Romans developed and advanced banking system to serve their vast trade network which extended throughout Europe, Asia and much of Africa.

According to historical sources, the goldsmiths and moneylenders contributed to a large extent in the growth of banking. In the early age, the goldsmiths used to store peoples gold charging nominal charges and issued receipts to the depositors which were good for repayments. At the time, this was done for security rather than interest. Later they started advancing the money charging interest. The goldsmith-money lender started performing the functions of modern banking i.e accepting deposits and advancing loans.

However, the modern banking originated in Italy in 1157 with the establishment of the first bank – "Bank of Venice" to finance the monarch in the wars. Following it were the establishment of Bank of Barcelona and the Bank of Benoa in 1401 AD and 1407 AD respectively. With large banking firms established in Florence, Rome, Venice, and other Italian cities banking activities spread throughout Europe and slowly spread throughout the world. Since the 1960's banking has become much more international because of the increase in the number of multinational companies and the spread of their operations worldwide.

Development of Banking Industry in Nepal

Nepal is a small landlocked nation hidden in the Himalayan Mountains nestled in between India and China. Both countries have matured economic conditions where as Nepal is one of the under developed county in the world with almost half the population living below the poverty line as it is ranked as one of the world's poorest.

The development of banking is relatively recent in the context of Nepal. As in other countries, goldsmiths and money lenders were the ancient bankers of Nepal. The Nepali banking system is small and fragmented. History of banking in Nepal in the true sense started in the year 1994 B.S with the establishment of Nepal Bank Limited. Nepal Bank Limited, Nepal's first commercial bank as a joint venture between the government and private individuals.

Nepal Rastriya Bank the central bank was wet up on 2013 B.S to make the banking system more systematic and dynamic and to help the government formulate monetary policies and to develop the financial sector. As Nepal adopted planned development program in themed fifties, the nation felt dearth of financial resources. Existing banking with only one commercial bank was not sufficient to meet the growing needs of the country. Therefore the need to establish another commercial bank was felt and Rastriya Banijya Bank was established as a milestone. The progress in the banking system in Nepal was felt after the establishment of the Rastriya Bank a state-owned commercial bank with authorized capital of Rs.10 Million was established in 2022 B.S to play a major role not only in domestic banking services but also in the foreign trade. Agriculture Development Bank was established in 2024 B.S to develop and promote the agriculture sector and support it financially.

In 2041 B.S Nepal's first joint venture bank, Nepal Arab Bank Ltd, (currently Nabil Bank Ltd.) was established which proved to be a milestone in the history of banking. In 2042 B.S, Nepal Indosuez Bank Ltd (currently as Nepal Investment Bank) and in 2043 B.S, Nepal Grindlays Bank Ltd (currently as Standard Chartered Bank Ltd) were established. After restoration of democracy in 2046 B.S, Himalayan Bank Ltd was established. Today, there are more than 21 commercial banks existing in Nepal so far.

1.2 Statement of Problem

This section deals with the areas of the topic that should be studied rather than the problems that are facing by the selected organizations for the research study. Nepal which is trying to overcome from its 10 years internal war period which declined the whole economy of the country, Banking sector is the only one sector which is survived upto now passing through the profit in the days of critical situation of the country also. The topic loan disbursement and collection procedure of commercial banks in Nepal have covered the following issues:

-) Whether total Loan disbursement of the selected banks is satisfactory or not?
-) Whether the techniques used by the banks to collect the loans so disbursed successfully or not.
-) Whether the criteria for the disbursement of loan and its collection is appropriate or not?
-) Whether the trend of collection of secured and unsecured loan satisfactory or not?

1.3 Objectives of the Study

The thesis is the preparation in course of the fulfillment of requirement for the degree of master of business studies as approved by the Tribhuvan University which deals with loan disbursement and collection procedure in commercial banks in Nepal. This thesis will help the researchers in the course of preparation of the research report in the topic "Loan disbursement and collection procedure of commercial banks in Nepal ". The objectives of the thesis can be listed out as follows:

- a) To study the trend of deposit and loan disbursement in Himalayan Bank Limited, Everest Bank Limited and Nepal Investment Bank Limited.
- b) To study the various sectors where loan disbursement are made.
- c) To find out the basis of interest rate determination on different sectors of loan disbursement and its effects on loan disbursement.
- d) To find out the techniques of loan collection procedure and its effectiveness on the loan collection process.
- e) To provide the suggestions and recommendations based on the above study.

1.4 Rationale of the study

Banking and financial institutions are the vital sectors for the economic growth of any country. The banking and financial sectors are the backbone of the economic development of the country as it provides the huge amount of capital for the infrastructure development and overall upliftment of the economic condition of the its citizens. Any study in this sector will helpful for several stakeholders of this sector. Researcher believes that following institution and individual will be benefited from the study covering the topic loan disbursement and collection procedure of commercial banks in Nepal:

-) This study will help the banking institutions to understand their working performance to loan.
-) It will also help the management to formulate a new policy to their banks.
-) Individuals who have keen interest in Nepalese economy and associated with the sample banks selected for the study.

1.5 Limitations of the Study:

Each and every thing in the environment has its own strengths and weakness. None is free from complete his/ her weaknesses. In the same way this thesis has its importance and strengths in one hand which is followed by its weakness or limitations as its shadow. The study and outcome of the study will be an individual effort. As only three sample banks Himalayan Bank Limited, Everest Bank Limited and Investment Bank Limited has been taken as for the study, the research may not be able to give the clear picture of overall the condition of banking sector. The weakness or limitations of the study can be pointed out as follows:

-) The study is basically based on secondary data of past 5 years; therefore, the accuracy of results and conclusions highly depends upon the reliability of these data and the respondents providing primary data.
-) As the title specifies the study covers about loan disbursement and collection subject only others factors beside these will not be studied.

) Resource, time, money constraints and inaccessibility of sufficient information also may limit the conclusion drawn from study.

1.6 Plan of the work

The plan of the work is the initial stage of the research work and research report writing. It gives the way to the successfully completion of the research project. It is the blue print of the research to be done or a small model of the research report that to be prepared on the completion of the research on the selected topic. This thesis is divided into five sections:

Chapter I – This is the introduction section that covers the background of the study, the introduction to sample institutions selected or study, objectives & limitations as well as statement of problem and rationale of the study which gives the importance, area coverage and strengths & weakness of the selected topic.

Chapter II – This section is the literature review, which covers the citation of the previously conducted research work on the same field as well as their findings that will be tested in the course of research.

Chapter III – This section is named as research methodology which gives the brief introduction of the methods that will be adopted for research work in order to get the result of the study.

Chapter – IV: It is the main part of the thesis; it shows the real effort of the researcher. This part includes the data presentation, analysis, and interprets the data related to the topic collected from various sources using the appropriate methods described in chapter 3rd.

Chapter – V: The final section of the thesis is chapter 5th called summary, conclusion and recommendations. This section gives brief summary of the whole thesis. The conclusion of the thesis is mentioned in this part and the recommendation of the study also.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature deals with the past findings related to the topic. Such findings provide the base for the further research or study. Past studies help to provide the necessary data and information's to the researcher within time and effort. In this study, main target is to know actual position of the loan management. Through, the research past findings can be known and what are problems or weakness are identified and from research contribution can be provided to the topic in order to know and solve the problems regarding the loan management of the commercial banks.

Many researchers have conducted their research in the field of commercial banks especially on their financial performance, fund mobilization policy, compliance with NRB directives etc. Besides these, there are some books, articles, dissertations and other relevant study concerned with loan disbursement and collection function of these banks. Some of the relevant studies, their objectives, findings, conclusion and other literature relating to the topic have been reviewed below:

2.1 Conceptual Framework

What is Loan?

A loan is a type of debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount. The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent.

Acting as a provider of loans is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is a typical source of funding.

Types of loans

(a) Secured Loan

A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral for the loan.

A mortgage loan is a very common type of debt instrument, used by many individuals to purchase housing. In this arrangement, the money is used to purchase the property. The financial institution, however, is given security - a lien on the title to the house - until the mortgage is paid off in full. If the borrower defaults on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it.

A stock hedge loan is a special type of securities lending whereby the stock of a borrower is hedged by the lender against loss, using options or other hedging strategies to reduce lender risk.

A pre-settlement loan is a non-recourse debt, this is when a monetary loan is given based on the merit and awardable amount in a lawsuit case. Only certain types of lawsuit cases are eligible for a pre-settlement loan. This is considered a secured non-recourse debt due to the fact that if the case reaches a verdict in favor of the defendant the loan is forgiven.

(b) Unsecured Loan

Unsecured loans are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages:

-) personal loans
-) bank overdrafts
-) credit facilities or lines of credit
-) corporate bonds

The interest rates applicable to these different forms may vary depending on the lender and the borrower. These may or may not be regulated by law. In the United

Kingdom, when applied to individuals, these may come under the Consumer Credit Act 1974

“An arrangement in which a lender gives money or property to a borrower, and the borrower agrees to return the property or repay the money, usually along with interest, at some future point(s) in time. Usually, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan (though modern capital markets have developed many ways of managing this risk).”

- www.investorwords.com

In general, the act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount.

Investopedia explains Loan: The terms of a standardized loan are formally presented (usually in writing) to each party in the transaction before any money or property changes hands. If a lender requires any collateral, this will be stipulated in the loan documents as well. Most loans also have legal stipulations regarding the maximum amount of interest that can be charged, as well as other covenants such as the length of time before repayment is required.

Loans can come from individuals, corporations, financial institutions and governments. They are a way to grow the overall money supply in an economy as well as open up competition, introduce new products and expand business operations. Loans are a primary source of revenue for many financial institutions such as banks, as well as some retailers through the use of credit facilities.

Lending and collection of the loan provided to the customers is one of the most important functions of the commercial bank and the composition of the loans and advances directly affects the performance and profitability of the bank. Loan mobilization and earning through the mobilized is the main income source of the commercial banks. With this banks do not provide loan to anyone who says to pay

high interest instead they study the risk associated with the credit lending too and the chances of being the loan non-performing. That's why banks have to give due care in strong collection of the loan also.

2.2 Review of Books

H.D Crosse has mentioned in his book "Management Policies for Commercial Banks" that lending is the essence of commercial banking, consequently the formulation and implementation of sound lending policies are among the most important 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 formulating a lending policy, many factors have to be taken into consideration because banks are not the real owners of deposits but rather the custodian 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 creditworthiness, assets pledged to secure borrowing, interest rate policy etc. Crosse strictly points out that the lending policy must be well spread. It should be of short-term character, repayable on demand, profitable and it should be with adequate securities. (Crosse, 1963)

Kilsse. S. Eugene gives his view in his book 'Money and Banking' that in an economy that depends more and more on credit, banks find themselves lending for a variety of purposes, sometimes directly, sometimes through other agencies. This wider use of loan is not due merely to a change in attitude of the banks. It reflects also more fundamental changes such as shifts in the public's consumption patterns and in financial investment policies.

He further enlists the four C's of credit as character, capacity, capital and collateral. He suggests that the most obvious thing for the creditor to investigate is the borrower's past attitude towards his obligations. He calls this attribute 'Character'. If the prospective borrower is considered a good risk from the standpoint of character, he still cannot be safely extended credit unless he appears able to make repayment. This clarifies the importance of the borrower's capacity. For larger loans or others extensions of credit, the applicant needs to

show that he already has resources of his own. Sometimes but not always, the debtor fails to live up to his agreement. The creditor sells the collateral and uses the proceeds to cancel the credit. (Klisse, Brighton England)

Reed, Cottro. Gill and Smith in their book entitled 'Commercial Banking' focus on the importance of loan in banking sector. As per their view, loans are the most important asset held by banks and bank lending provides the bulk of bank income. Lending is not only important to the banks only. It is equally important to the community the banks serve. That's why loan policies must be worked out carefully after considering many factors. (Reed. Cottor. Gill and Smith 1980)

Hrishikesh Bhattacharya in his book 'Banking strategy; credit appraisal and lending decisions' has put the recommendation of Tandon Committee from the report submitted by this committee. The committee prepared this report in 1975. However these recommendations still hold a 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 bank to assess the need based credit of the borrower on a rational basis to ensure proper end-use of bank credit by keeping a close watch on the borrower's business, to improve the financial discipline of the borrower and to develop healthy banker-borrower relationship.

The committee examined the existing system of the lending and recommended the credit needs of the borrowers to be assessed on the basis of their business plans. It further recommended that the bank credit should only be supplementary to the borrowers' resources and not in replacement of them without having the bank finance one hundred percent of the borrower's requirements. The borrowers are required to hold inventory and receivables according to the norms prescribed by the central bank from time to time and credits are to be made available in different components only, depending upon the nature of various current assets. (Bhattacharya, 1998. Page 309)

Gitman and Jochnk in their book "Fundamentals of Investing" compare the banks investment with a vehicle. He says that it is such vehicle into which funds can be placed with the expectation that will preserve or increase in a value and generates positive results. A banker

seeks optimum combination of earning, liquidity and safety while formulating investment policy. (Gitman and Jochnk, Page-1)

R.Z Aliber in his book, “The International Money Game” talks about the lending policy. As per his view sound-lending policy is influenced by the factors like safety, liquidity, profitability, security, loan purpose and diversification. (Aliber, 1973. Page-151)

Singh and Singh put forth their view in the book written by them entitled “Financial Analysis for Credit Management in Banks” that the investment (credit) policies of banks are conditioned to great extent by the national policy framework. Every banker has to apply his own judgment for arriving at a credit decision, keeping his banker’s credit policy also in mind. (Singh and Singh.1983)

Theodore N. Beckman in his book ‘Credits and Collections’ writes that the need to borrow is greater today than ever before. Partly because of the dependence of people upon complex money and credit economy that is subject to many uncertainties and partly as a result of desire for a constantly rising standard of living.

He has also expressed his view on loan collection. “The weaker the credit granting function is, the greater the task on the collection ends of business.” writes Beckman. He says that collections arise only because credit has been used. The credit granting and collection functions are not only interdependent but also interwoven. The more lenient the deliberate policy of risk selection, the more formidable is the collection task and the stricter the granting of credit, the less the burden on the collection function. (Beckman, 1962)

Albert Chaplin and George Ehasset describe collection as the final leg of the credit journey. In their “Credit and Collection Principles and Practice” describes that an effective system will embody prompt action and follow up at regular intervals. A good collection will permit the assistants in the collection department to do much of the routine work without consulting the collection manager. System in the collection department will include some methods of following up accounts, sending collection notices and typing letters covering the early stages of collection. Results will thus be obtained more or less automatically, leaving the collection manager free to direct the action to be taken upon more difficult cases. (Chaplin and Ehasset. 1963)

L.C. Mather in his book 'Securities Acceptable to the Lending Banker' describes an ideal advance as one which is granted to a reliable customer for an approved purpose in which the customer has adequate experience, safe in the knowledge that the money will be used to advantage and repayment will be made within a reasonable period from trading receipts or known maturities due on or about given dates. (Mather, 1984)

Sarita Dahal and Bhuvan Dahal, in "A Hand Book to Banking", opine that the factors like statutory directive, deposit mix, competition, and quality of lending officials affect a bank's credit policy. Considering these factors, the credit policy should be carefully established, communicated properly to the lending officers and implemented effectively by the lending officers. A sound credit policy should be based on the objectives like having good assets, contributing to the economic development, giving guidance to the lending officers and establishing a standard for control. The proper implementation of such policy is ensured by periodic follow up. This helps take corrective actions if any drift between actual and standard is seen. The corrective action may vary as per the nature of deviation from proper education to lending officer to amendment of the policy. (Dahal and Dahal, 1999. Page 66-68)

John Bexley points out some of the external factors that are critical to the lending function in his book 'Banking Management'. He writes that the condition of the economy, stability of the trade area is the factors which are beyond the banker's control. But adjustments can be made to meet the challenges posed by these elements to the crucial lending function. (Bexley, 1987)

KC Shekhar and Lekshmy Shekhar write about the problem of non-performing assets in banking sector in their book entitled 'Banking Theory and Practice'. They blame the deterioration in the quality of loan portfolio for the increase in non-performing assets of the banks. So, immediate attention is to be given by the banks in the sector of loan-portfolio. The authors point out the administrative and political interference in credit decision making as a factor contributing in the deterioration of the loan portfolio quality. The authors even express their astonishment to find out that non-performing assets are several fold in more profit attractive lending than in less profit lending. The way to deal with the problem has also been suggested by the authors. They opine that provision should be made by the banks for nonperforming assets out of their profit. (Shekhar and Shekhar 1999. Page 366-367)

In his book 'Banker's Handbook of credit management'. H.V. Srinivasa explains that for a purposeful and objective lending for social and economic causes, the inward eye is necessary.

The modern banker has to give a changing and positive approach towards making advance, instead of being merely security oriented. (Srinivasa, 1986)

Kilborne and Woodworth write in their book ‘Principles of Money and Banking’ that reckless lending endangers the safety of the banks itself. That’s why a bank has to take into account the profitability and liquidity as these govern a bank’s investment, though in practice, it is not easy to reconcile them. The secret of sound banking lies in the maintenance of adequate reserves and making profits at the same time. Hence there has to be a balance in liquidity and profitability. A bank must keep adequate reserve to ensure liquidity for their own safety. The amount of reserve thus maintained is affected by the variability of the customer’s borrowing needs and the day-to-day fluctuation in the amount of bank’s deposits. (Kilborne and Woodworth 1973. Page-291)

Radhaswamy and Vasudevan hold a similar view in their book “A Text Book of Banking” and say that a bank must strike a balance between liquidity, profitability, and safety. The secret of successful banking is to distribute resources between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash on hand which is quickly realizable to meet every claim and at the same time enough income for the bank to pay its way and earn profits for its shareholders. (Radhaswamy and Vasudevan, 1979)

B. Ramchandra Rao in his book “Current Trends in Indian Banking” opines that one of the primary functions of development in banking is deposit mobilization. Without deposits coming as they do from the public and the saver banks will not have the resources to lend. With adequate resources, lending can have a wider coverage to meet the credit needs of all the sectors of the economy. Deposits and credit operation always go together and each is interconnected. Rao emphasizes that unless there are advances, deposits cannot arise. (Rao 1984. Page-4)

Shakespeare Vaidya opines in his book ‘Banking Management’ that how well a bank performs its lending functions has a great deal to do with the economic health of the country because bank loans support the growth of new business and jobs within the bank’s trade territory and promote its economic activity. (Vaidya, 1999)

According to J.H. Clemaen in his book “Bank Lending”, commercial banks should consider the interest of the borrowers and then the interest of the banks but they should always consider the national interest above all. (Clemen, 1963)

2.3 Review of Articles

Among the reviewed articles from various journals pertaining to the study, the major and mostly contributing to the study have been outlined below.

Jhon W. Milligan and Picker in their article “Where Citibank went wrong” published in ‘Institutional Investor’ express their view mentioning that the performance of no such sector is as contingent upon the future performance of other enterprises as is that of the financial sector. This contingency is so high that it has always been difficult to the banking industry to pursue the objective of profit maximization as zealously as another industry could afford to. It is the difference, which explains precisely why lenders cannot simply lend to those who are willing to offer the highest price i.e interest rate. (Milligan and Picker July 1992. Page-198)

Madhav Lal Pradhan in his article “The Importance of Loan Information Center and its Activities” published in NRB annual publication says that the loan information centre 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 procedure, lack of constant inspection of projects. Lack of coordination between bank and finance companies have aided in the increase of non performing loans ultimately affecting the national economy negatively. The author recommends the banks and finance companies to help the loan information centre by following the directives of Nepal Rastra Bank and utilizing the information obtained from the centre so that positive changes can be witnessed. (Pradhan, 2061. Page 190-194)

A.S Bhandari in his article “Etiology and Strategy of Credit Repayment” published in Nepal Rastra Bank annual publication states that the adoption of liberal strategy can be more meaningful in case of ‘unwillful’ and ‘misguided’ defaulters who in fact wish to repay loans but due to certain circumstances they are unable to do so. Liberal strategy includes simplification of lending policies and procedures, frequent and strict supervision, renewal of the terms and conditions of loan, rescheduling of repayment schedules, prolonging due date, refinancing, keeping personal approach etc. This type of organizational strategy for loan

repayment is suggested against sick units default customers with an objective to provide them and ample opportunity of maintaining normal lender-borrower relationship.

In course of the review of the articles published by different organizations, the article by Sunil Chopra on his article “Role of Foreign Banks in Nepal” published in Nepal Rastra Bank Samachar written about the joint venture banks in Nepal. The conclusion of the article was that the existence of the joint venture banks in Nepal seems crucial as they have been playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly go on increasing with time. They have played crucial role in the overall economic development of the country in which time only few government banks are providing their limited service to the public which also very slow and difficult job for the customers. (Chopra 1989 page 1-2)

On the other hand, coercive strategy is suggested to be employed against ‘willful’ defaulters who have the capacity to payback the loans but due to their ‘affiliation to power’, ‘association with unnatural gangs’, ‘ethno-centrism and similar other reasons, they do not repay the loans. Coercive strategy can be adopted by establishing special credit recovery cell following publicity campaign, providing incentives to voluntary agencies, enforcing peer pressure, putting administrative interventions etc. The author suggests that where the liberal measures do not bear fruits, coercive measures must be taken as the last resort of receiving overdue loans. Moreover, the commercial banks must always ground their loan collection and disbursement strategies upon the recommendations’ of professional research reports prepared by internal or external experts. (Dr. Bhandari 1998. Page 87-91)

Shiba Raj Shrestha in his article ‘Modus Operandi of Risk Appraisal in Bank Lending’ published in banking promotion. A journal of banking promotion committee. Nepal Rastra Bank writes that with more deregulation setting in evaluation of risk appraisal is assuming more importance. Absolute quantitative credit deposit ratio has no relevance if the assets are not performing ones. Hence it is felt that appraisal techniques of bank lending in competitive areas have to be more attuned towards risk. Shrestha adds that effective credit risk management allows a bank to reduce risks and potential non performing assets. So the banks must have an explicit credit-risk strategy supported by organizational changes, risk measurement techniques and fresh credit processes and systems. Credit risk management should focus on the areas like credit sanctioning and monitoring process approach to

collateral, credit risks arising form new business opportunities and credit exposures relative to capital or total advances. (Shrestha, Ashadh 2056. Page 55-64)

Yogendra Regmi in his article 'The Negative Impact Borne by the Selling of Collateral for Loan Recover', NRB annual publication states that it is very important for the banks to know the necessity of loan. The loan demander's intentions., capacity of loan utilization, and loan repayment, awareness of interest payment, possession of cash flow statement (for the payment of loan), submission of necessary papers along with loan schedule etc. should be analyzed properly before accepting the loan proposal. Banks decide whether or not to grant loan by analyzing the risk associated with loan. So they believe in 'take risk by choice, not by chance'. Besides, banks seek legal ways if loan cannot be recovered in time. The author mentions that there are several reasons behind the failure in loan recovery. Some of such reasons include the lack of quality investment procedure and standard collateral evaluation system, political pressure in loan disbursement, lack of proper law and the implementation of the existing ones, centralization of loan etc.

He has suggested in his valuable article that right person, firm and project have to be chosen by evaluation the collateral political interference has to be controlled and professionalism should be introduced in lending processes. Inspection should be conducted at least twice a year for the progress of the project and action should be promptly taken as per the report of the inspection. For proper utilization of the collateral, additional help should be taken form the administration and the banks should be active in converting such collateral into cash. (Regmi, 2061. Page 118-123)

Radhakrishna Poudyal in his article 'Facts of Bank-credit in Nepalse Money Market' published in 'Economic Collection', Association of Retired employees of NRB, gives his view about loan management stating that banks need to earn enough revenue to sustain their huge overhead cost. To do so they offer maximum possible facilities to their potential clients. Loan management includes credit policy of the respective financial institution, its loan approval process, documentation, stipulations of the disbursement, procedure of disbursement, project appraisal system, additional collateral, loan monitoring and follow up etc. This process begins after the project is conceptualized and the application lodged. But the loan application may or may not reveal the required information to the bank. So,

technicalities of credit appraisal demands that every aspect of the project is examined, values of the mortgage evaluate.

He further adds that as revealed by the operations of banks, after the approval of the loan, banks strive for the early disbursement because revenue is generated from the very date of disbursement. That's why, earlier the disbursement the better. Similarly, it becomes necessary for the banks to reasonably plan the installments of disbursement.

Kiran Nepal expresses his views in an article "Home Loan-That makes land and building costly" published in 'Himal' fortnightly magazine that due to the unstable economic condition and internal conflicts in the country, the existing areas of investment like industry, trade, tourism, service etc are narrowing down. However, due to 'remittance from foreign countries the banks deposits especially in the joint venture banks have increased. So, these banks have started to explore new areas of investment. One of such areas is construction of houses. Home loan program have become like a boon to the banks these days as there seems to be no default in housing finance. (Nepal 'Himal' fortnightly. 16th – 31st Baishakh, 2061)

Shvan Dev Panta in an interview to Business age opines that the banking sector is quite affected by the national economy which imparts a direct effect on the loan collections and disbursement function of the banks. He says that due to the slowdown in the world economy, deterioration of the law and order situation of a country, many sectors of the economy are sick. When any sector of the economy catches cold, bank starts sneezing. So, for a bank to function smoothly, including the smooth functioning of its lending functions, the economic situation must be robust. (Panta, Business Age – Vol.3 No.9)

Tripathi Upadhyay states in his article "Comments on umbrella ordinance 2004" that the ordinance has specifically provided for the compulsory registration of all charges on assets pledged as collateral but the agency responsible for such registration (other than real estate) is not identified. The authority of financial institution in loan recovery has been extended and it may now reach to other assets of the borrower in case of security for loan falls short or becomes inadequate. The hitherto requirement of disposal of non-banking assets within several years has been done away with. It may result in accumulation of significant unproductive assets in financial institutions balance sheet.

The ordinance is a significant improvement over the existing acts but apprehension is expressed about the discretionary power that the ordinance has vested on Nepal Rastra Bank. (Upadhyay, New Business Age, April 2004 page 16-17)

Basu Dev Adhikari in his article “Some of the characteristic of umbrella ordinance 2004 published in Mirmire writes that the umbrella ordinance has been promulgated with the objective of enhancing the belief of public in overall banking and financial system of the country, preserving the rights of depositors, providing quality and reliable banking service, reducing the risk in banking and financial sector, managing for strong legal provision of establishment, operation and management of bank and financial institution. (Adhikari, Mirmire Baishakh 2061 Page-148)

Sudhir Khatri in his article ‘One umbrella Act’s Pros and Cons’ says that His Majesty’s Government of Nepal has finally promulgated the much awaited ordinance to replace several existing laws related to the banks and financial institutions. One of the provisions of the law states that for recovering its loan, the bank can claim even the personal property of the promoters of the defaulting borrower form contradicting the concept of limited liability.

The ordinance has given the full authority to Nepal Rastra Bank for monitoring, inspection, supervision etc. Nepal Rastra Bank is vested with the power to fix interest rates in lending and deposits and the act also states that Nepal Rastra Banks can also delegate this authority to the individual banks themselves. Such delegated authorities can be taken back. This further makes banking more risky. The ordinance indicates Nepal Rastra Bank’s willingness to have control over fixation of interest rates when required.. (Khatri, New Business Age, April 2004, Page 18-19)

Bharat Thapa writes in his article “umbrella act in banking sector” that the umbrella ordinance has tried to adopt international procedures for the banking processes. It has given the provision of merging of banks. The banks unable to resist competition shall be merged as per the ordinance. Dr. Thapa concludes that it is yet to be seen what strategy the joint venture banks will adopt after the promulgation of the ordinance. (Dr. Thapa, Drishti Weekly, 8th – 14th Baishakh 2061)

Panth writes in his article, “Given sufficient resources and good leadership, non-government banks or organizations appear to be more effective to achieve the desired objectives of

poverty alleviation and the social dynamics should be properly understood to make the program self-sustaining as well as making it more responsive to the actual needs of the poor.”

2.4 Review of Thesis

There are various dissertations about loan collection and disbursement of banks written by various researchers in the past years. Some of the dissertations are about the lending practices of the joint venture banks & commercial banks. However there are several dissertations written in the past which are close to the topic. Some of such dissertations are reviewed here.

Badri Narayan Manandhar in his thesis “Lending Policy of Commercial Banks in Nepal” Concludes that while formulating a lending policy, commercial banks should give attention towards bringing down the margin and interest rates into minimum level for the credits in priority sectors., training the staffs of the banks in home and abroad as well as the present economic position of the country otherwise the bank will not be benefited.

Ramala Bhattarai in her research work “Lending policy of commercial banks in Nepal” explains that the effectiveness of lending policy is conditioned by the development of a modern banking system in the country. For this, the banks has to be able to utilize the idle fund in productive channels. She has concluded that the efficient mobilization of the fund is more important than the collection of the deposit. (Bhattarai, T.U 1978)

Geeta Pradhan in her study “An Analysis of Lending Practices of Nepal Bank Ltd.”, opines that to increase loan and advances, the bank must provide supervised credit because there are so many skilled people who have no article to pledge. So, they are unable to enjoy bank credit. If the bank provides loan under its supervision, on one hand, loans are not misused by the borrowers and on the other hand poor people will be benefited. She suggests that there is positive relationship between deposit and interest rate while the relationship between interest rate and loans and advances is negative. In order to increase the volume of credit, the interest rate structure on loans and advances should be decreased. In the same way, the banks should try to increase the volume of deposit by opening new branches in different parts of the country. (Pradhan, Geeta T.U)

Uday Bahadur Silwal puts forth his view in his dissertation “Lending Policy of Commercial Banks in Nepal” that the banks have invested very low amount in agricultural sector and the loan which are derived from commercial banks cannot be fully utilized. (Silwal, T.U 1980)

A thesis conducted by Ram Prasad Sharma entitled “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 program and to show the repayment position of the sector has 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 provide with adequate training so that they could identify right borrowers., right project and ensure correct project appraisal. Reinvestment is the available source to increase the paying capacity of the borrowers. (Sharma, T.U April 2002)

Upendra Shrestha’s study regarding the investment practices of joint venture banks in Nepal has figured out that the commercial banks are more emphasized to be making loan on short-term basis against movable merchandise. Commercial banks have a lot of deposits but very little investment opportunity. They are even discouraging people by offering very low interest rate and minimum threshold balances. Commercial banks invest their funds in limited areas to achieve higher amount of profit. This is regarded as a very risky 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. (Shrestha, T.U July 2002)

Santosh Pandey, in his thesis on “NRB directives their implementation and impact on the commercial banks” has put some outshining description on the performance of the joint venture commercial banks. He writes that the NRB directives, if not properly addressed have potential to wreck the financial system of the country as they are the only tools of the NRB to supervise and monitor the financial institutions. The directives in themselves are not that important unless properly implemented. The implementation part depends on the commercial banks. So, it is felt that there is a need to find out if the directives are being followed. In case the commercial banks are making such huge profits with full compliance to the directives, then the commercial banks would deserve votes of praise because they would then be instrumental in the economic development of the country. (Pandey, T.U 2002)

Lila Prasad Ojha, in his dissertation about lending practices has written that the commercial banks have to expand their credit in the area of rural economy so as to compromise between the liquidity and credit need of such economy. This helps in minimizing the idle fund in business and at the same time contribute to the national economy. The banks should also increase the volume of credit in the sector of agriculture as the ratio contribution made by the banks in this priority sector is decreasing.

He has found out that following the normal guidance of Nepal Rastra Bank and acting upon this also reduces many of the credit risk arising from borrower's default, lack of proper credit appraisal, default by blacklisted borrowers and professional default. The over confidence in commercial banks regarding credit appraisal efficiency and negligence in taking information from credit information bureau has caused many of the bad debts in these banks. He thinks that these banks have to follow the directives of NRB strictly and more cautious and realistic while granting loans and advances.

Ojha has found out that the high volume of liquidity reveals that a high degree of lending strength has been prevailing in all of the commercial banks. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping these banks less oriented towards the lending functions. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in rural economy. Posing the compulsions by directives does not create long term healthy lending practices unless the commercial banks are not self motivated to flow credit in this sector.

Maha Prasad Pandey in his study about loan disbursement and collection of agriculture development banks says that the banks must take loan outstanding into consideration at the time of targeting loan disbursement and collection. For loan recovery, he has expressed his view that in the case of borrowers who are able but do not repay their due loans, the banks must examine the borrower's past repayment records and corrective action must be taken immediately. In case of borrowers who are unable to repay the loans, repayment schedules must be rearranged after scrutinizing the exact cause of inability.

He suggests the bank that strict supervision must be made for issuing the memorandum letter; supervisor must visit the field whether the borrowers utilize the total loan amount for concerned purpose. Supervisor must motivate the borrower to utilize the full amount in loan purpose.

Since overdue loan supervision is very weak, he has recommended the institution of a special in the bank as well as outside the banks to correctly monitor the progress of post loan supervision to the appropriate authorities and create an atmosphere of strict financial discipline both in borrowers as well as the bank. (Pandey, T.U 2001)

Pravakar Dhungana in his thesis about the investment policy of Nepal Bangladesh Bank Ltd. and other joint venture banks summarizes that the mushrooming of joint venture banks is the present situation of Nepalese financial system. There is a high flow of money in the market but less viable and investable 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 are very few sectors to make a profitable investment and the investors are always reluctant to risk. But lack of sound investment policy is one of 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. (Dhungana, T.U Dec.2002)

Kesab Bhata suggests in his dissertation “A comparative study on lending and investment policy of NBBL and HBL” that the default of loan in commercial banks is the result of various factors acting on it. For example, political and economic situation of the country, lack of necessary skill in appraising project evaluation, lack of entrepreneurship attitude and lack of regular supervision. Commercial banks should take the job of lending in a purely business o manner. The project oriented approach has to be encouraged in lending business of bank in which security is not necessary, risk is high but the project is important from the point of view of national economy. The project should be followed to make them capable to generate their own fund and to repay loan timely. The chance of loan loss in the project-oriented approach can then be minimized.

Finally, he recommends NBBL about the lending policy saying that though the loan and advance total deposit of NBBL is better in comparison to other banks. It seems necessary to make more improvement and sound and liberal lending policy would help in this regard. (Bhatta, T.U 2003)

Shrestha s. recommended in his thesis that the disbursement and collection policy should be simplified so that small farmer members should get credit easily. The unnecessarily steps for the procedure should be avoided which enable the small farmers get the credit within a shorter period and get benefit quickly as possible. The unnecessary paper work and formalities make uneasy feeling to the poor's and other borrowers also. So, if they want to disburse loan amount in specific prescribed field, their points should be considered.

Joshi recommends in his thesis, "There is high demand for loan amount in the rural area however there is not sufficient supply. Therefore, the bank should increase its lending capacity from international economic and financial institutions at very low interest rate. If bank increases its lending capacity and provides loan to more rural poor, more people will be self-employed by starting new business and consequently their poverty will be gradually alleviated and their life standard will be uplifted with their increased income."

Nirajan Prasad Dhungel in his conclusion pointed out "The disbursement policy also required timely modification. There should be healthy balance between the disbursement and realization of the money being lent. There is not generating incentives among the people. The gap between the total available fund and disburses amount will slow the inefficiency of organization."

Maharjan B. on his thesis entitled loan management of Nepalese commercial banks with selective joint venture banks study stated that loan and advances are the profitable assets for the banks and also it is very risky too. If the loans are not effectively managed and controlled increased in the non-performing loans creates the heavy losses to the bank. Due to ineffective management, the banks not only loses the profit but also provide the negative messages towards the public which ultimately effects in the collection of the deposits and the image of the banks. So, the prober management of the loans not only will cause profit to the banks but also important for the economic development of the country like in Nepal.

The Maharjan's study tried to explore on loan management of commercial banks in Nepal with limited tools statistical tools like trend, correlation and regression only. It may support the result more it he has applied some more tools than statistical tools.

2.5 Review of legislative provision

NRB Act 2013 and the commercial bank act 2031 are reviewed in this segment. Recently an ordinance relating to bank and financial institutions has been promulgated. It has come into force effective from February 4, 2004. The ordinance is popularly called an umbrella act as it repeals and replaces all existing acts relating to commercial banks, NIDC, other development banks and finance companies and brings all such institutions under the purview of a single act. The ordinance is divided into 12 chapters and contains altogether 93 sections. Loan disbursement and its recovery procedures are covered under chapter 8 that re-establishes the NRB's authority to regulate lending and minimize the chances of loan going to an unscrupulous borrower or diversion of the funds.

CHAPTER – III

RESEARCH METHODOLOGY

A systematic methodology is required to pick out an actual result for any special study so research so research methodology refers to various sequential steps to be adopted by a researcher in studying a problem with a certain objective in view.

Research methodology is the research method used to test the hypothesis. It includes some elements that can be found in almost all types of research and on almost all fields, which are use research methods for investigation. (Wolf and Pant, 1999:63)

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. The plan is the overall scheme or program of the research". (Kerlinger, 1986:275).

This chapter highlights the methodology adopted in the process of present study. It also focuses amount, sources and limitation of the date which are used in the present study. So, it is a way of presenting the collected data with meaningful analysis.

3.1 Research Design

Research design is a conceptual structure within which a research is conducted. In simple language, planning for research design. It is purposeful scheme of action proposed to be carried out in a sequence during the process of research. Research design helps researcher to enable him/ her to keep track of action and to know whether he was moving in the right direction to achieve his/ her goal.

Since the study is undertaken to examine and evaluate the loan disbursement and collection policy of the three listed banks in Nepal, namely Nepal Investment Bank, Himalayan Bank Limited and Everest Bank Limited.

The study is based on descriptive and analytical study in order to achieve the objective of the study. Descriptive method is used to analyze collected primary data and information. Besides,

for the analytical purpose the annual reports, past performance, records and relevant materials are considered.

3.2 Sample Selection

In Nepal, Banks are listed in Nepal Stock Exchange Limited and from where data on market price of common stock are available. Out of 26 commercial banks, the three commercial banks listed on NEPSE are taken as the sample unit to collect information and analysis namely Nepal Investment Bank Limited, Himalayan Bank Limited and Everest Bank Limited. The reasons behind selecting these three banks for the study are due to their popularity in financial market, availability of data & information, competitive banks on Nepalese financial market, and profit making commercial banks since a long time.

Table - 1

Sample Selection of Commercial Banks of Nepal

Sector	No. of listed Banks	Sample selection	Percentage of total population
Commercial Banks	31	3	10.33 %

Considering the study period of 2003 to 2007, useful data were obtained for banking sector as indicated below in table - 2.

Table - 2

Sample Banks and Data period

S.N	Banks' name	Years	Observation Period
01.	Kumari Bank Ltd.	2005 to 2009	5 years
02.	Himalayan Bank Limited	2005 to 2009	5 years
03.	NIC Bank Limited	2005 to 2009	5 years

3.3 Nature and sources of data

The nature of data used in this study will be primary data collected by researcher through different respondents from various sectors and secondary data collected through three sample Commercial Banks. Similarly, supplementary data & information available from magazines, news, bulletin and website also are used. Such as:

- Annual reports published by banks
- NEPSE and SEBON

- News paper and magazines

- Different websites

3.4 Data Analysis Tools and Techniques

The analysis of data has been some according to the pattern of data available. Wide varieties of methodology have been applied according to the reliability and consistency of data. Before using the analytical tools to compare the result, the data containing in the financial statements have been grouped and rearranged so as to make comparison easy. Then only various appropriate statistical tools such as percentage and regression analysis have been applied to interpret the result and draw up the sound conclusion. The result will be presented using various charts and diagrams wherever possible.

Once the data are arranged sequentially, different statistical tools, financial tools and percentile of the collected data will be used for analysis purpose. And the quantitative data collected through 3 sample commercial banks for five years will be analyzed using regression analysis and trend analysis as well.

3.4.1 Financial Tools for Analysis

To evaluate the performance of any organization financial tools are very useful to determine the strengths and weakness of a firm as well as its historical performance and current financial condition. Ratio is an important analytical tool to summarize the large quantities of data and to make quantitative judgments about organization. The financial tools employed in this study basically represent ratio analysis.

Non –Performing Loan Ratio

A non-performing loan is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 3 months, but this can depend on the contract terms. So, the increase in Non-Performing Loan is not good for financial institutions. It can be calculated using following formula:

$$\text{Non-Performing Loan ratio} = \frac{\text{Total Non Performing Loan}}{\text{Total Loans \& Advances}}$$

The financial institutions always try to reduce non-performing loan ratio because the increase in the non-performing loan mean the interest income is not earning by the loan which is the main source of income for every bank and the deposit collected through the customers that

provided as loan also not sure to return and incase of non repayment of principle it may cause to bankruptcy of the firm. Lower the ratio of non-performing loan is preferred and shows the well mobilization of loan.

Loan Loss Coverage Ratio

The increase in non-performing loan is the increased risk of default loan. Generally there is greater chance of loan loss that are categorized as non-performing loan because these are the loan which due date is occurred but interest and principal payment is delayed. So to cover such loan loss it created loan loss provision. The loan loss coverage ratio can be calculated as below:

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Non - Performing Loan}}$$

The greater the loan loss coverage ratio, the greater the possibility of maintain firm's stable financial position and good image. So, higher the loan loss coverage ratio is preferred.

Loan Loss Provision Ratio

As the non-performing loan increases, the firm's income causes to decline whereas it affects worst in the operation of the firm. Due to increased non-performing loan, the profit decreases in some extent whereas more is it may cause to unable to refund the deposit of the public which impacts negatively so generally firm's create loan loss provision for covering such loan loss and maintain good image of the firm. The loan loss Provision ratio can be calculated as follows:

$$\text{Loan Loss Provision Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan \& Advances}}$$

Loan Loss provision is created to cover the loss occurred from the non-performing loan and have a stable financial position. So, the higher the loan loss provision helps to cover the large portion of loss occurred due to increase in non-performing loan.

Total Credit to Deposit Ratio

Total credit to total deposit ratio shows the credit granting by the banks from the deposit it has collected. It gives upto how much of the deposit collected are mobilized as the loan and advances.

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

The total credit to deposit ratio neither should be high nor should be low. Higher ratio means liquidity crisis whereas low ratio indicates inability to mobilize credit.

3.4.2 Statistical Tools for Analysis

In course of data study and analysis related to the study different statistical tools are often employed as well as interpretation of data taking consideration to the objectives of the study. Following statistical tools are used during the data presentation and analysis section of the thesis.

-) Trend Analysis
-) Coefficient of correlation

Trend Analysis:

Today, trend analysis often refers to the science of studying changes in social patterns, including fashion, technology and the consumer behavior. The term "trend analysis" refers to the concept of collecting information and attempting to spot a pattern, or trend, in the information. Trend analysis is a mathematical technique that uses historical results to predict future outcome. In another words, an aspect of technical analysis that tries to predict the future movement of a stock based on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future.

Ratio analysis is not able to show the fluctuation of the financial position of the companies with time. The financial position is improving or deteriorating over the years show by the use of trend analysis. The significance of a trend analysis or ratios lies in the fact that the analysis can know the direction of movement, i.e. whether the movement is favorable or unfavorable. For example, the ratio may be low as compared to the norms and standard but the trend may be upward. On the other hand, though the present level may be satisfactory, the trend may be a declining one. Thus, trend analysis is of great significance to the study.

Trend analysis tries to predict a trend like a bull market run and ride that trend until data suggests a trend reversal (e.g. bull to bear market). Trend analysis is helpful because moving with trends, and not against them, will lead to profit for an investor. In this study it will go for trend of Deposit collection and Loans and Advances mobilized by the sample banks with the help of past five years records from F.Y 2003 to 2007.

Coefficient of correlation

The correlation is one of the most common and most useful statistics. A correlation is a single number that describes the degree of relationship between two variables. Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. For example, height and weight are related; taller people tend to be heavier than shorter people. The main result of a correlation is called the correlation coefficient (or "r"). It ranges from -1.0 to +1.0. The closer r is to +1 or -1, the more closely the two variables are related. If r is close to 0, it means there is no relationship between the variables. If r is positive, it means that as one variable gets larger the other gets larger. If r is negative it means that as one gets larger, the other gets smaller (often called an "inverse" correlation).

In case of simple correlation, study the degree of relationship between two variables: independent and dependent variables. But in real life so many independent variables do affect the dependent variable and the study on degree of relationship between a single dependent variable and a number of independent variables in combination is called multiple correlation analysis which is denoted by $R_{1.23}$ where the subscript left to the dot is the dependent variable and to right is the independent variables. Let us consider three variables for thesis that X_1 , X_2 and X_3 then

$R_{1.23}$ = Correlation coefficient between dependent variable X_1 and joint effect of the independent variables X_2 and X_3 on X_1 .

The formula for the calculation of multiple correlation coefficients can be expressed in terms of r_{12} , r_{23} and r_{13} as follows:

$$R_{1.23} = \sqrt{\frac{r_{12}^2 + r_{13}^2 - 2r_{12}r_{23}r_{13}}{1 - r_{23}^2}}$$

The square of multiple correlation coefficients is known as the coefficient of multiple determinations and is used to interpret the value of multiple correlation coefficients. It is the fraction that represents the proportion of total variation of dependent variable that is explained by regression plan. Coefficient of multiple determination measures how well the multiple regression plan fits the data. For e.g: If $R_{1.23} = 0.9$ then coefficient of multiple determination $R_{1.23}^2 = 0.81$. This tells us that 80% of the total variation in X_1 is due to the variables X_2 and X_3 and remaining is due to the other factors.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation of the related data out of collected data from various source with the help of graphs, charts and tables as well as analysis of them using different statistical and financial tools and others. All the collected data for research work may not be related with research whereas some may not be useful too. So, the researcher has made her best effort to present the related data only clearly as far as possible and meaningfully which give other researchers or related persons go through this research may get the quick and easy view of the research work.

4.1 Investment Structure in Priority and Deprived Sector

Priority lending refers to the lending of credit of the commercial banks to the sectors that are prioritized by NRB with the objectives of mitigating the unemployment, poverty, economic inequality and upgrade the deprived and low income people. NRB has a rule for banks of Nepal to lend its portion of credit to priority sectors such as project of national development, small entrepreneurs, agricultural sector etc.

NRB has directed to all commercial banks lend at least 12 % of their total lending to priority sectors as recognized by NRB like industrial and service sector run by deprived section, small scale entrepreneurs, agricultural sectors etc so as to uplift the living standard of lower income level people and generate the employment opportunities.

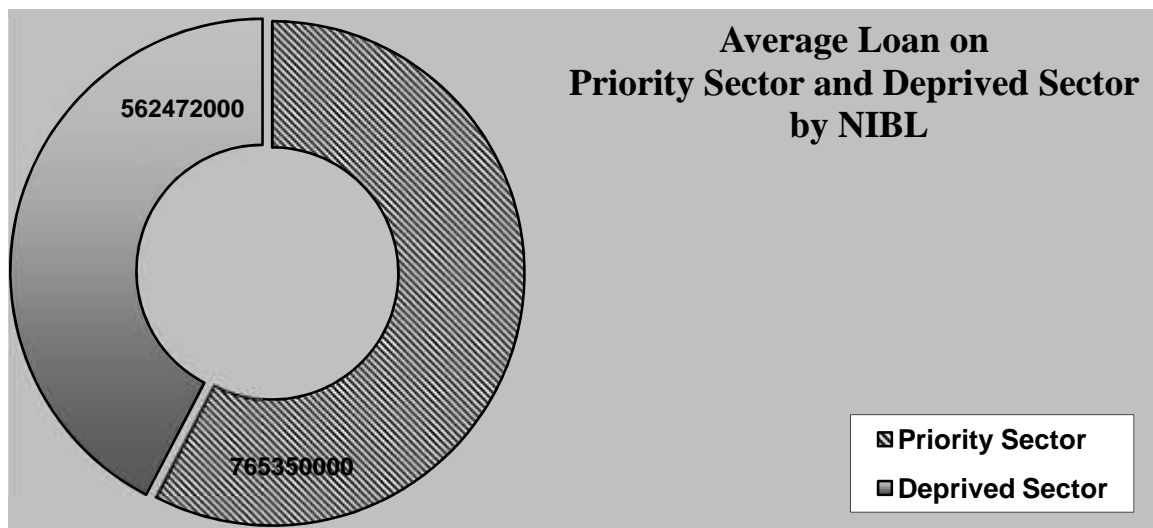
Although the NRB has mentioned that the banks have to invest at least 12 % of their total credit lending to priority sectors, NRB has set up the limits of credit to be granted to the different priority sectors in order to smooth regulation of commercial banks activities and achieve their goals too. The credit limits are:

- Z Loan upto Rs. 2 Million to agriculture, service and domestic industry.
- Z upto Rs. 5 Million to import machinery & raw materials by export oriented industry.
- Z Loan upto Rs. 100 Million to establish power generating project of national priority.
- Z Loan upto Rs. 20 Million for tea plantation, packaging, cold storage and technical educational institutions.

Z Loan upto Rs. 10 Million to produce computer hardware or software, electric or solar vehicle.

4.1.1 Priority and Deprived Sector Lending by NIBL

Figure - 1



[Source: Annex 1]

As per NRB directives it is compulsory to all the commercial banks to provide it loan to priority sector and deprived sector. The above figure shows the average lending in priority sector and deprived sector by NIBL during the study period for F.Y 2003 to 2007. It shows that on an average of Rs.765,350,000 is granting loan in priority sector whereas Rs.562,472,000 per year average lending to uplift deprived sector.

Table - 3

Percentage lending in priority and deprived sector by NIBL

Year	Priority Sector Lending	Deprived Sector Lending
2003	11.87%	5.06%
2004	8.88%	5.00%
2005	8.05%	5.09%
2006	1.66%	4.68%
2007	N/A	1.80%
Average	6.09%	4.33%

[Source: Annex 1]

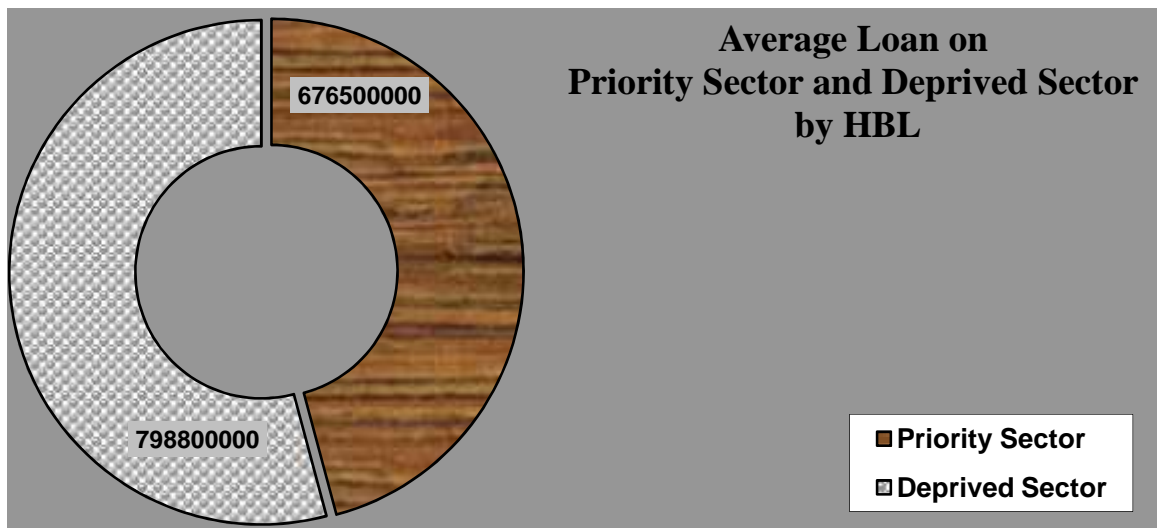
The above table gives the percentage lending of total lending by NIBL in the F.Y 2003 to 2007. It shows that the priority sector lending of NIBL has gradually been decreasing. The average percentage investment in priority sector is only 6.09%, similarly the lending in

deprived sector is 4.33% making a total of 10.42%, which is below the set standard of 12%. Recently NRB has amended the policy and has omitted the requirement of invest in priority sector. Required investment in deprived sector is 1.5% of total lending. It was meeting by NIBL investing 1.80% lending in deprived sector.

4.1.2 Priority and Deprived Sector Lending by HBL

Deprived sector lending is the credit facility extended to the deprived sector of the society considering the economic condition of marginalized group, undeveloped region of the country as well as socially and economically back warded tribe, caste and territory. According to NRB directives, the banks have to invest one point five percentage of their lending to the deprived sectors.

Figure - 2



[Source: Annex 2]

The figure shows the average loan mobilized by HBL from the F.Y 2003 to 2007. The average amount of loan extended by HBL on priority sector and deprived sector are Rs.676,500,000 and Rs.798,800,000 per year respectively.

Table - 4

Percentage lending in priority and deprived sector by HBL

Year	Priority Sector Lending	Deprived Sector Lending
2003	14.16%	9.09%
2004	10.47%	7.97%
2005	2.45%	7.34%
2006	1.87%	6.03%
2007	N/A	2.07%
Average	5.79%	6.50%

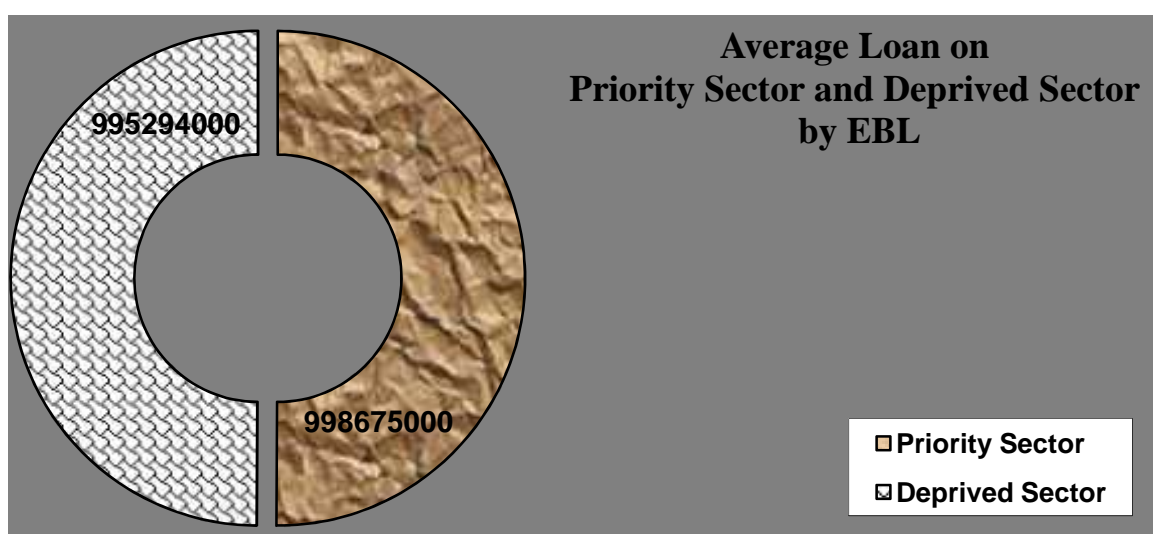
[Source: Annex 2]

Previous policy of 12% of total lending by commercial banks to be mobilized in priority sector plus deprived sector is revised and since F.Y 2007 the requirement of lending in priority sector is abolished. And lending to deprived sector requirement is reduced and advised to maintain at 1.5% level which is met by HBL. Its investment is 2.07% in F.Y 2007. The average lending of HBL on deprived sector is 6.50% over the study period.

4.1.3 Priority and Deprived Sector Lending by EBL

It is true that all the commercial banks are established and operating with the objective of earning profit. With this view all the commercial banks have concentrated their activities focused only on urban areas with high class citizens. This activity has the unequal distribution of wealth among the citizens. The remote and suburbanized area is ignored and left one step back in the development work as well as on other facilities extended by the government. In order to wipe up such unfair practices among different locations and different level of people of the country, the central bank of Nepal, NRB has made provision and directions to all commercial banks and other financial institutions to increase their investment and lending in the rural areas, and specially advised them to focus its activities toward the deprived sector. It helps in overall development of nation.

Figure - 3



[Source: Annex 3]

On an average, EBL has invested worth Rs.995,294,000 in priority sector over 5 years period from 2003 to 2007 which comes to 6.93% per year of total lending. On the other hand, they have invested of Rs.998,675,000 over the F.Y 2003 to 2007, which comes to 3.49% per year of total lending in deprived sector.

Table - 5

Percentage lending in priority and deprived sector by EBL

Year	Priority Sector Lending	Deprived Sector Lending
2003	10.14%	4.16%
2004	7.95%	3.44%
2005	8.74%	4.43%
2006	7.81%	3.82%
2007	N/A	1.61%
Average	6.93%	3.49%

[Source: Annex 3]

The above table shows the percentage of lending in priority sector and deprived sector by EBL for a period of F.Y 2003 to 2007. On an average the banks have invested 6.93% on

priority sector. This policy is lifted since F.Y 2007. This has given option to commercial banks whether to invest in this sector or not. However another policy, lending on deprived sector at 1.5% level is still in work and it is compulsory. The average lending on deprived sector by EBL is 3.49% per year. It means the bank has given continuity by lending on the deprived sector.

Thus it could be concluded that the commercial banks have followed the NRB directives and were quite successful to provide priority sector loan as per the NRB requirements. On the other hand NRB directives state that 1.5% of total lending should be in deprived sector which is meeting by all the samples banks taken for study. Average investment in deprived sector is 4.33% by NIBL, 6.50% by HBL and 3.49% by EBL. It is because of past provision of NRB requirement of higher percentage lending in deprived sector. But, if the lending is compared with the amended lending facility in 2007; it is 1.80% by NIBL, 2.07% by HBL and 1.61% by EBL which shows that commercial banks are quite successful to lending in deprived sector. These banks are lending this due to compulsory provision of NRB. They are granting loan on deprived sector just to meet NRB directives. The interest income from this sort of lending is very low in comparison to other lending's. Therefore, in the absence of such provision, investment by commercial banks in such sectors was very much doubtful.

4.2 Trends of Deposits and Credits of Commercial Banks of Nepal

Trend analysis is one of the most popular techniques used in statistics to measure in which direction the given variable is moving along with the prediction of the future movement. It is find out using the past historical data. Here attempt has made the trend of deposit and credit made by commercial banks of Nepal with the help of trend line.

4.2.1 Trend of Deposits and Loans of NIBL

The NIBL's past five years deposit and loan are presented in the table - 6 with the calculated growth of deposit and loan based on previous year.

Table - 6
Deposits and Loans of NIBL

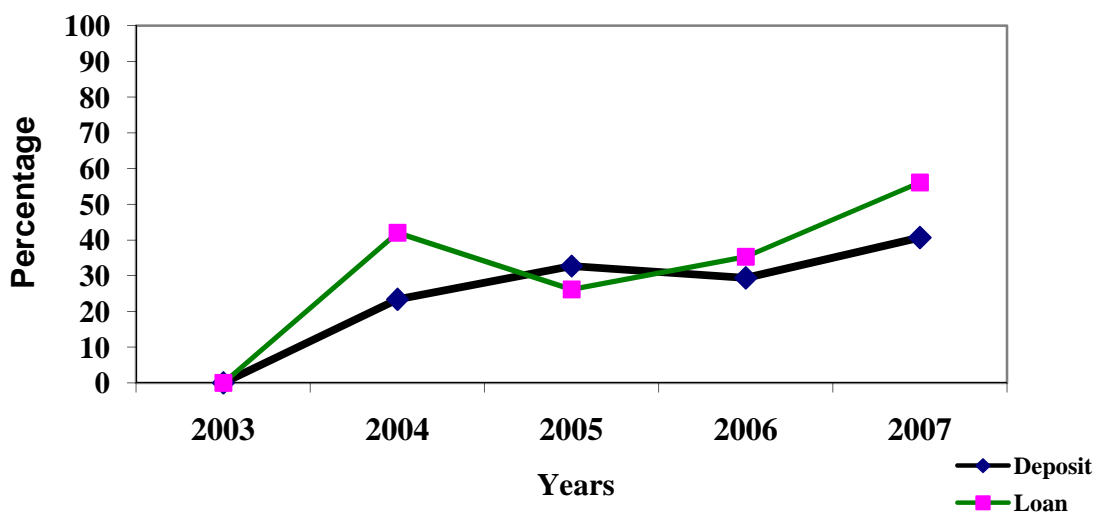
Year	Deposit	Deposit Growth	Loan	Loan Growth
2003	11,524,679,645		7,130,125,502	
2004	14,254,573,663	23.69%	10,126,055,623	42.02%
2005	18,927,305,974	32.78%	12,776,208,031	26.17%
2006	24,488,855,696	29.38%	17,286,427,389	35.30%
2007	34,451,726,191	40.68%	26,996,652,258	56.17%
Average	20,729,428,234		14,863,093,761	

The above table has presented the deposit and mobilization of loan over F.Y 2003 to 2007 by NIBL. Deposit collected showed an increasing trend. It is increased by 23.69% in F.Y 2004, 32.78% in F.Y 2005, 29.38% in F.Y 2006 and 40.68% in F.Y 2007. The Average deposit collected during the study period is Rs.20,729,428,234 per year. The growth showed a positive trend, which is the indication of satisfactory growth.

On the same way while analyzing the loan of NIBL, the average loan disbursement during study period was Rs.14,863,093,761 per year. The loan disbursement also showed an increasing trend each year which indicates a positive signal. It is satisfactory from the point of view of financial management.

The trend of the deposit collection and loan mobilization calculated above in the table can be plotted in graph and get actual trend line which shows the increasing trend in a single glimpse.

Figure - 4
Trend Line of Deposit and Loan of NIBL



The above graph shows the trend of deposit and loan of NIBL based on the data of F.Y 2003 to 2007. The black thick line represents deposit trend 2003 to 2007 and next line to loan. In F.Y 2004 increase in loan percentage is greater than increased percentage in deposit that why line loan is above the deposit line. The trend shows the fluctuating trend on both deposit and loan mobilization.

4.2.2 Trend Analysis of Deposits and Loans of HBL

The deposit and loan for the F.Y 2003 to 2007 of HBL is presented in table below with the percentage growth for the given period:

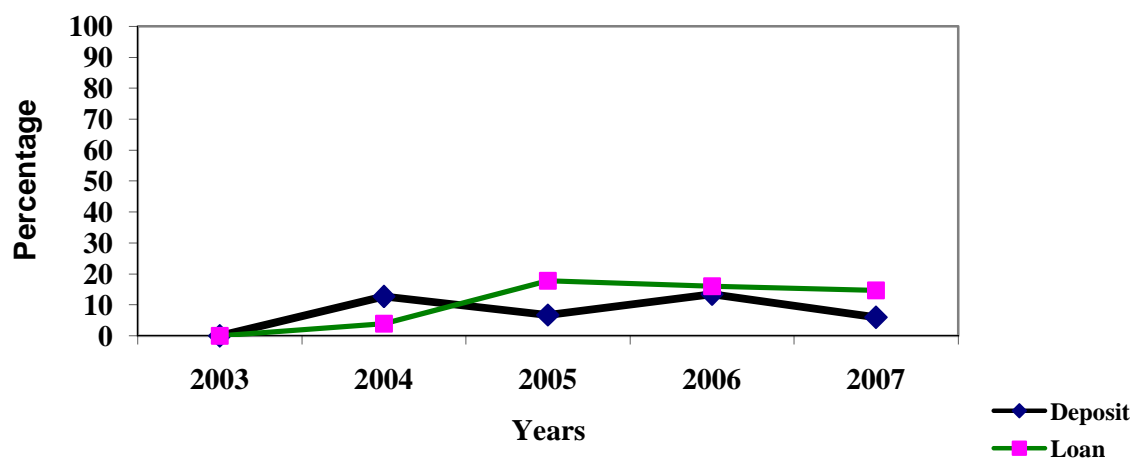
Table - 7
Deposits and Loans of HBL

Year	Deposit	Deposit Growth	Loan	Loan Growth
2003	22,010,332,984		11,951,869,350	
2004	24,814,011,984	12.74%	12,424,520,646	3.95%
2005	26,490,851,640	6.76%	14,642,559,555	17.85%
2006	30,048,417,756	13.43%	16,997,997,046	16.09%
2007	31,842,789,356	5.97%	19,497,520,482	14.70%
Average	27,041,280,744		15,102,893,416	

Even though the volume of deposit collection is increased every year, the percentage increment is inconsistent. It is fluctuating. Similar condition appears on the loan mobilization also. It can be presented in more clear way with the help of trend line drawn based on deposit growth percentage as below:

Figure - 5

Trend Line of Deposit and Loan of HBL



The figure shows the deposit is increased more but growth in loan mobilization is not satisfactory in F.Y 2004. On the next years loan is mobilized more but deposit increment is not found as the loan mobilization increment so that the loan trend line is above the deposit trend line.

4.2.3 Trend of Deposits and Loans of EBL

Finally for the trend analysis it presents here for the next sample bank EBL whose deposit and loan for the study period is present in table below with changes in its.

Table - 8

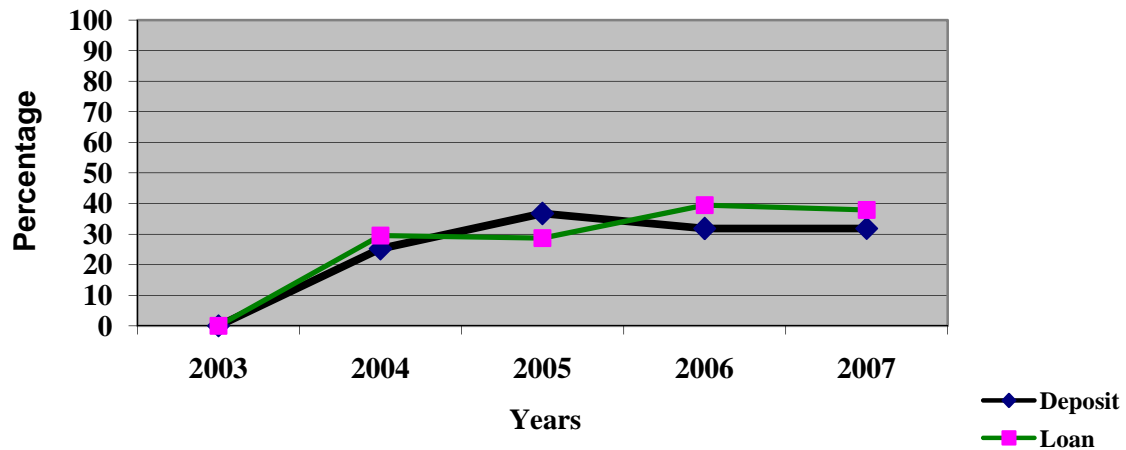
Deposits and Loans of EBL

Year	Deposit	Deposit Growth	Loan	Loan Growth
2003	8,063,902,086		5,884,122,609	
2004	10,097,690,989	25.22%	7,618,671,476	29.48%
2005	13,802,444,988	36.69%	9,801,307,676	28.65%
2006	18,186,253,541	31.76%	13,664,081,664	39.41%
2007	23,976,298,535	31.84%	18,836,431,762	37.85%
Average	14,825,318,028		11,160,923,037	

The deposit collection of EBL for study period increased from Rs.8,063,902,086 to Rs.23,976,298,535 in total. Within this 5 years period the deposit of EBL increased by 197.33%. Average collection is of Rs.14,825,318,028 per year. On the other hand the loan mobilization of EBL also found increased every year. Its loan mobilization increased from

worth Rs.5,884,122,609 for F.Y 2003 to amounting Rs.18,364,431,762 in F.Y 2007. It is the 220.12% increment.

Figure - 6
Trend Line of Deposit and Loan of EBL



The x-axis represents the study period or F.Y and the y-axis percentage increase of deposit collection and loan mobilized. The graph is drawn on the basis of the deposit growth and loan growth of table 8. The deposit collection trend line of EBL is found in increasing trend till F.Y 2005 then started decline. But it found the loan trend is fluctuating with up and down slopes. Loan increased in 2004, then decreased in 2005 and again increased to 2006 which sloped down again in F.Y 2007.

While summarizing the deposit and loan trend form the sample study, it could be concluded that the commercial banks deposit collection and loan mobilization showed an increasing trend. They are able to collect more and more deposit every year and are also able for the loan mobilization. The loan mobilization also has been increased every year. The trend line of loan mobilization of commercial banks of Nepal in aggregate is upward sloping which is the positive signal for the commercial banks.

The banks have to maintain the current position in the upcoming days also to have a good public image. It should make effort to expand its banking service not only in the urban area but also in remote area and collect more deposit. And while disbursement of the loan the bank are required to analyze the customer’s character, capability to repay the loan and collateral, their intention before granting loan. Otherwise granting the loan without proper

analyze of the customer may cause the loan to the default and interest and principle may not be paid back by the customers which ultimately decreases the profit of the banks.

4.3 Financial Analysis

Financial ratio analysis is designed to determine the relative strengths and weakness of business operations. It also provides a framework for financial planning and control. Financial managers need the information provided by analysis both to evaluate the firm's past performance and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firm's operation. Here attempt has made to calculate some ratios related to loan that help to identify the strength and capability of the banks to handle the loan and its productivity.

4.3.1 Total C/D Ratio

Credit Deposit Ratio (C/D Ratio) is the ratio that shows the credit percentage that banks are providing out of its total deposit collection. Banks do not release 100% of their deposit collection as loan as they have to maintain some cash balance for smooth operation of daily activities. The NRB directives state that the commercial banks could provide maximum of 75% of their deposit collection in different kinds of loan. The following table shows the C/D ratio of commercial banks.

Table - 9

Calculation of Total Credit to Total Deposit Ratio of NIBL

Year	Total Credit	Total Deposit	C/D Ratio = $\frac{\text{Total Credit}}{\text{Total Deposit}}$
2003	7,130,125,502	11,524,679,645	61.87%
2004	10,126,055,623	14,254,573,663	71.04%
2005	12,776,208,031	18,927,305,974	67.50%
2006	17,286,427,389	24,488,855,696	70.59%
2007	26,996,652,258	34,451,726,191	78.36%
Average C/D Ratio of NIBL			69.87%

In the table it is observed that the C/D ratio is fluctuating over the study period from F.Y 2003 to 2007. The C/D ratio is highest in year 2007 and minimum of 61.87% in the year 2003. On an average 69.87% of total deposit collected by NIBL is mobilized as loan in different sectors. A comparison with average C/D ratio NIBL has met the standards in recent

year and has maintained good liquidity position. The NRB standard of C/D ratio for the commercial banks is 75%.

Table - 10

Calculation of Total Credit to Total Deposit Ratio of HBL

Year	Total Credit	Total Deposit	C/D Ratio = $\frac{\text{Total Credit}}{\text{Total Deposit}}$
2003	11,951,869,350	22,010,332,984	54.30%
2004	12,424,520,646	24,814,011,984	50.07%
2005	14,642,559,555	26,490,851,640	55.27%
2006	16,997,997,046	30,048,417,756	56.57%
2007	19,497,520,482	31,842,789,356	61.23%
Average C/D Ratio of HBL			55.49%

The average C/D ratio of HBL is 55.49%. The C/D ratio is 54.30% in F.Y 2003 and 61.23% in F.Y 2007. Except in last two years C/D ratio of HBL is below the average as well as the standard set by NRB directive. However, it has met the NRB directive. The lower the level of C/D ratio indicates the inability of the bank to mobilize the fund and a huge amount of deposit is remained idle in bank as unproductive. Idle fund forces the bank to bear more cost. The HBL should increase its C/D ratio.

Table - 11

Calculation of Total Credit to Total Deposit Ratio of EBL

Year	Total Credit	Total Deposit	C/D Ratio = $\frac{\text{Total Credit}}{\text{Total Deposit}}$
2003	5,884,122,609	8,063,902,086	72.97%
2004	7,618,671,476	10,097,690,989	75.45%
2005	9,801,307,676	13,802,444,988	71.01%
2006	13,664,081,664	18,186,253,541	75.13%
2007	18,836,431,762	23,976,298,535	78.56%
Average C/D Ratio of EBL			74.63%

The average C/D ratio of EBL during the study period is 74.63% which is near to the maximum limit as fixed by NRB directive. It shows the good mobilization of the loan by

EBL. It has maintained good liquidity also and credit mobilization. The minimum level of C/D ratio of the EBL is 71.01%. Among the three selected banks for the study, the EBL has got the excellent C/D ratio.

From the above analysis it could be concluded that the study of C/D ratio of the selected banks state that the banks are providing credit limit under the directive issued by NRB and is able to maintain liquidity in bank as well as loan mobilization also satisfactory even some banks are mobilizing around 50 percent of its total deposit collection only. The overall industry Credit mobilization can be concluded as satisfactory.

4.3.2 Non Performing Loan Ratio

A non-performing loan is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 3 months, but this can depend on the contract terms.

“A loan is nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full”

- *International Monetary Fund*

The sum of substandard percent, doubtful percent and bad loan percent is the total NPL ratio. The non-performing loan is not good for banks. It is the credit granted by bank whose repayment date is over due and borrower has not paid the interest and principle to the bank. So there is doubt that this sort of loan may not be paid. So each banks effort should be made to reduce the level of non-performing loan and increase the performing loan. In this section effort has been made to calculate the percentage of non-performing loan and evaluate whether they are above NRB standard or not.

Table – 12

Non-Performing Loan Ratio of NIBL

Year	Substandard Percent	Doubtful Percent	Bad Loan Percent	Total	International Standard	Remark
2003	0.15%	0.90%	1.50%	2.54%		Good
2004	0.01%	0.74%	2.03%	2.77%		Good
2005	0.35%	0.00%	1.78%	2.13%		Good

2006	0.56%	0.50%	1.38%	2.44%	Up to 5%	Good
2007	0.23%	0.08%	0.84%	1.15%		Good
Average Non Performing Loan of NIBL				2.21%		

[Source: Annex 4]

The above table summarizes the non-performing loan ratio calculated in the annex part for non-performing loan ratio of NIBL. The NPL ratio is 2.54% in F.Y 2003, 2.77% in F.Y 2004, 2.13% in F.Y 2005, 2.44% in 2006 and 1.15% in 2007. It shows that the bank has made good effort in reducing the NPL ratio. The average ratio of NPL for the study period is 2.21% whereas internationally acceptable NPL ratio is upto 5%. As the NPL ratio of NIBL is below the internationally acceptable level the loan mobilization and collection of NIBL is effective.

“Non-performing loan -- a loan that is not earning income and: (1) full payment of principal and interest is no longer anticipated, (2) principal or interest is 90 days or more delinquent, or (3) the maturity date has passed and payment in full has not been made.”

- www.teachmefinance.com

The non-performing loan of HBL has been presented in table - 13 below:

Table - 13
Non-Performing Loan Ratio of HBL

Year	Substandard Percent	Doubtful Percent	Bad Loan Percent	Total	International Standard	Remark
2003	3.54%	0.46%	5.59%	9.58%	Up to 5%	Bad
2004	0.56%	1.95%	5.50%	8.01%		Bad
2005	0.73%	1.56%	4.79%	7.08%		Bad
2006	0.42%	1.15%	2.19%	3.76%		Good
2007	0.28%	1.10%	1.04%	2.41%		Good
Average Non Performing Loan of HBL				6.17%		

[Source: Annex 5]

The above table presents the NPL of HBL; the maximum of 9.58% of NPL ratio is in F.Y 2003 which is 4.58% more than internationally acceptable level of NPL ratio. In F.Y 2004 also it has exceeded by 3.01% and in F.Y 2005 by 2.08% over to the internationally acceptable level. The NPL ratio is reduced to the 3.76% in F.Y 2006, 2.41% in F.Y 2007 that comes below the international standard. It shows that in the recent years the HBL has

improved its efforts on the loan collection and mobilization towards the productive sector which reduced their NPL ratio from 9.58% in F.Y 2003 to 2.41% in F.Y 2007. Still the average NPL ratio of HBL stands on 6.17% which is above the internationally acceptable level of 5%.

The loan on which interest and principle amount is due 3 months and more is regarded as non-performing loan. The NPL could be categorized into three levels:

- a) Substandard Loan: The interest and principle due from 3 months to 6 months.
- b) Doubtful Loan: The interest and principle due from 6 months to 12 months.
- c) Bad Loan: The interest and principle due for more than 12 months.

Table - 14

Non-Performing Loan Ratio of EBL

Year	Substandard Percent	Doubtful Percent	Bad Loan Percent	Total	International Standard	Remark
2003	0.19%	0.69%	0.90%	1.78%	Up to 5%	Good
2004	0.06%	0.03%	1.61%	1.69%		Good
2005	0.11%	0.01%	1.20%	1.32%		Good
2006	0.03%	0.02%	0.78%	0.83%		Good
2007	0.03%	0.01%	0.64%	0.68%		Good
Average Non Performing Loan of EBL				1.26%		

[Source: Annex 6]

The Average of 1.26% of NPL ratio is found for the EBL which is far below the internationally acceptable level. It states that the EBL has adopted very good loan collection procedure and effective loan collection technique. The maximum of 1.78% NPL ratio is found in F.Y 2003. Similarly the lowest NPL ratio of EBL is 0.68% in F.Y 2007. One of the reasons for increasing profit of the EBL each year may be the reduction in NPL ratio. So the NPL ratio of EBL is excellent among three sample banks taken for the study. The EBL is the best among the three selected sample banks in case of study of NPL ratio as its NPL ratio is the lowest among the three in average 1.26% which was 2.21% for the NIBL and 6.17% for the HBL. The HBL has got the highest NPL ratio among the sample banks selected for the study.

From the study of the NPL ratio of the selected sample banks it could be concluded that even in the past some years the NPL ratio of the commercial banks are higher than the internationally acceptable level of 5%, their efforts on collection made possible to reduce NPL loan as well as NPL ratio less than 5%. In the recent years the commercial banks are able to reduce their NPL ratio and they need little more effort to reduce into zero level. It will increase profit which ultimately increases the value of the firm.

4.3.3 Loan Loss Coverage Ratio

An increase in NPL ratio tends to increase the loss in business. The managers' effort would always be focused on reduction of NPL ratio. Among three categorized NPL ratio the substandard NPL ratio is still have probability to recover whereas the doubtful have more chance to turn into the bad loan. The bad loan is that part of NPL that the management of the bank expects that the loan will not cover anymore.

Banks and financial institutions normally consider 5Cs of the borrower: Character, Collateral, Capacity, Capital, Credit Standard and Condition. If they found that the borrower pays the interest and principle periodically or as per the agreement, loans are accepted or granted. However no one can predict 100% human character and intension. The credit granted anticipating the borrower is good and will repay in time, may not pay in time which is categorized as doubtful. As discussed earlier increase in NPL ratio is not the good indication of sound financial management as it reduces the profit of the banks. Therefore the banks try to cover such loss from NPL making a certain provision. Here attempt has made to highlight about such provision made for coverage of loan loss through loan loss coverage ratio.

Table - 15
Calculation of Loan Loss Coverage Ratio of NIBL

Year	Total Loan Loss Provision	Total Non-Performing Loan	LLC Ratio = $\frac{\text{Total LLP}}{\text{Total NPL}}$
2003	206,296,249	181,435,009	113.70%
2004	325,159,170	280,874,131	115.77%
2005	363,919,391	272,493,041	133.55%
2006	466,885,450	421,971,549	110.64%
2007	521,375,121	309,470,983	168.47%
Average LLC Ratio of NIBL			128.43%

Above table shows the loan loss coverage ratio of NIBL in the F.Y 2003 to 2007. The LLC ratio of NIBL in F.Y 2003 is 113.70%, increased to 115.77% as NPL is increased. It was 133.55% in F.Y 2005 and 110.64% in F.Y 2006. Finally in the F.Y 2007 was 168.47%. The average LLC ratio of NIBL is 128.43%. The LLC ratio of the NIBL is more than 100% of NPL, so in case of non repayment of NPL also it has strategy to defend the image of the bank in public with the very good loan loss coverage ratio.

Table - 16

Calculation of Loan Loss Coverage Ratio of HBL

Year	Total Loan Loss Provision	Total Non-Performing Loan	LLC Ratio = $\frac{\text{Total LLP}}{\text{Total NPL}}$
2003	900,432,714	1,145,353,319	78.62%
2004	950,993,518	995,361,659	95.54%
2005	1,060,060,832	1,041,350,753	101.80%
2006	652,203,146	639,833,986	101.93%
2007	517,034,072	470,730,728	109.84%
Average LLC Ratio of HBL			97.55%

In case of no provision for the coverage of loan loss from NPL, the profit of the bank fluctuates frequently with the increase in NPL. So the banks make provision to cover such loss and maintain profit stability and protects image of the bank in the market. The table represents the LLC ratio of the HBL. The LLC ratio is maximum of 109.84% in F.Y 2007 whereas it is of 78.62% the lowest one because of provision for the coverage of loss from NPL. The aggregate LLC maintained by HBL is 97.55%. Higher LLC ratio is preferred because it causes the loss. In the latter part of the study period it is more than 100% of NPL. So the LLC ratio of HBL is in satisfactory level.

Table - 17

Calculation of Loan Loss Coverage Ratio of EBL

Year	Total Loan Loss Provision	Total Non-Performing Loan	LLC Ratio = $\frac{\text{Total LLP}}{\text{Total NPL}}$
2003	211,480,286	104,755,369	201.88%
2004	199,044,515	128,807,745	154.53%
2005	218,156,905	129,235,790	168.81%
2006	245,936,658	113,178,936	217.30%
2007	307,345,238	127,310,368	241.41%
Average LLC Ratio of EBL			196.79%

From the previous financial ratios calculated for the sample banks it is clear that EBL is the best bank among the selected samples as its ratios have met the NRB requirements in excellent way. It is also proved from the LLC ratio. The average of 196.79% of LLC ratio shows that EBL has give due care on NPL and focused on stable earning of the bank. In the F.Y 2007, LLC is 241.41% the maximum, and it is 154.53% minimum. So, it can be said that overall position of LLC ratio of EBL is satisfactory.

While analyzing the loan loss coverage of the NIBL, HBL and EBL in overall it found satisfactory. Among the three sample banks the LLC ratio is highest of EBL and lowest is of HBL. So, the EBL has greater flexibility to cover the loan loss which is very good position from the investors point of view as well as managerial point of view. The EBL's LLC ratio for the study period was 196.79% average, NIBL is 128.43% and HBL is 97.55%. From the above study of LLC ratio for the NIBL, HBL and EBL is satisfactory because they have higher capacity to cover the loss from the non-payment of loan amount. So, it can be concluded that the commercial banks of Nepal have satisfactory level of loan loss coverage ratio.

4.3.4 Loan Loss Provision Ratio

Banks are the trust trading companies where trust are bought and sold. They buy the trust of the depositors promising to pay their money with interest whereas it sells the trust to the borrower assuming he/ she will repay the interest on loan and principle amount within the stipulated time. Deposit collected by banks are the liabilities which they have to pay on demand and the loans and advances are taken as the risk assets on which they foresee the risk of the loss of the interest and loan amount. The NRB has mentioned in its directive to maintain certain percent of the loan as provision assuming that some loan may not be repaid by the borrowers. Total loan loss provision and loan and advances made by the commercial banks during the F.Y 2003 to 2007 have been presented in the table form given below for the NIBL, HBL and EBL.

Table - 18**Calculation of Loan Loss Provision Ratio of NIBL**

Year	Total Loan Loss Provision	Total Loans & Advances	LLP Ratio = $\frac{\text{Total LLP}}{\text{Total Loan}}$
2003	206,296,249	7,130,125,502	2.89%
2004	325,159,170	10,126,055,623	3.21%
2005	363,919,391	12,776,208,031	2.85%
2006	466,885,450	17,286,427,389	2.70%
2007	521,375,121	26,996,652,258	1.93%
Average LLP Ratio of NIBL			2.72%

The loan loss provision ratio is calculated based on the total loan & advances. The above table presents the LLP ratio of NIBL. The LLP ratio of NIBL is 3.21%, the maximum in F.Y 2004 and 1.93% the lowest in F.Y 2007. The average LLP ratio of NIBL is 2.72% which is maintained every year in F.Y 2003, 2004 and 2005. But it was not able to maintain after that. The LLP ratio in F.Y 2006 was below its average LLP ratio by 0.02% and in F.Y 2007 by 0.99%. The higher LLP ratio reduces the risk of the company, but low LLP ratio increases risk. So, the NIBL should try to increase its LLP ratio and make the company strong to face the loss of the loan

Table - 19**Calculation of Loan Loss Provision Ratio of HBL**

Year	Total Loan Loss Provision	Total Loans & Advances	LLP Ratio = $\frac{\text{Total LLP}}{\text{Total Loan}}$
2003	900,432,714	11,951,869,350	7.53%
2004	950,993,518	12,424,520,646	7.65%
2005	1,060,060,832	14,642,559,555	7.24%
2006	652,203,146	16,997,997,046	3.84%
2007	517,034,072	19,497,520,482	2.65%
Average LLP Ratio of HBL			5.78%

The table presents the LLP ratio for past five years from F.Y 2003 to 2007 of HBL. Initially the HBL has very good LLP ratio and above the average LLP ratio but in the recent two years

F.Y 2006 and 2007 the LLP ratio decreased. The average LLP ratio calculated for the HBL is 5.78%. The ratio for previous three years 2003 to 2005 are above the average whereas the recent two years 2006 and 2007 LLP ratio is below the average level.

In the recent years the LLP ratio of the HBL is not satisfactory as it is below the average LLP. The bank should increase the ratio of LLP that helps the bank to cover the loss from the loan more and reduce risk associate with non repayment of the interest and principle amount by borrowers. The increased provision gives better security for the investors and organization to defend its image in market and maintain stable position among its customers. The loan loss provision can be increased with the increased profit.

Table - 20
Calculation of Loan Loss Provision Ratio of EBL

Year	Total Loan Loss Provision	Total Loans & Advances	LLP Ratio = $\frac{\text{Total LLP}}{\text{Total Loan}}$
2003	211,480,286	5,884,122,609	3.59%
2004	199,044,515	7,618,671,476	2.61%
2005	218,156,905	9,801,307,676	2.23%
2006	245,936,658	13,664,081,664	1.80%
2007	307,345,238	18,836,431,762	1.63%
Average LLP Ratio of EBL			2.37%

It is observed that the LLP ratio is 3.59, the highest and 1.63, the lowest. The average is 2.37%. Higher the ratio, better the position. In the recent three years LLP ratio below the average. Thus the company position is not satisfactory from the point of view of loan loss provision ratio (LLPR). The banks need to increase level of LLP ratio. The bank should provide more provision in this regard. The LLP ratio of the bank is decreased from 3.59% in F.Y 2003 to 1.63% in F.Y 2007 by 1.97% (3.59% - 1.63%). It may be because it's NPL is not so high and LLC coverage ratio is more. But the bank should not forget that every year economic activities remain not same and none can predict the nature of borrowers. So, it will be good to make some higher level of LLP ratio by EBL.

From the study of LLP ratio it can be concluded that LLP ratio of commercial banks of Nepal are decreasing. They are having around 2 to 3 percent of total loans & advances only provision.

4.4. Loan Loss Provision made by commercial banks of Nepal

Generally loan is classified into two: Non-Performing Loan and Performing Loan. The NPL is the loan on which the interest and principle payment is due but not paid. It is sub-divided into four categories which are mentioned in above part of the study too. In this section attempt has been made to discuss them in detail. Next, the performing loan is also called as the pass loan on which normally, the interest and principle payment is not due.

Pass: Loans for which the borrowers do commitment for the full repayment of interest and principal is not in doubt. The risk in pass loan will be very much low. In this regard NRB directive has provisioned to have only 1% of pass loan as the provision for loan loss which should be meeting by all the banks.

4.4.1 Loan Loss Provision in NIBL

A classification for a loan that is expected to result in a loss of interest for the lender, because the borrower is unlikely to be able to completely pay back the loan for some reason. A lender will occasionally agree to provide a substandard loan even though it loose some revenue interest however it would not loose principal. The given table presents the provisions made by NIBL in different categories of loan classified with NRB Standard for the provision.

Table - 21
Loan Loss Provision of NIBL

Types of Loan	Fiscal Years					NRB Standard
	2003	2004	2005	2006	2007	
Pass Loan	0.99%	0.99%	1.00%	1.00%	1.01%	1.00%
Substandard	25.16%	25.80%	25.00%	16.53%	21.49%	25.00%
Doubtful	46.80%	50.12%	50.00%	50.07%	50.19%	50.00%
Bad	98.38%	91.79%	99.01%	99.08%	100.00%	100.00%

[Source: Annex 7 & 8]

As shown in the table the NRB standard of provision of pass loan is 1% of total pass loan to be maintained by the banks of Nepal. The NIBL has not able to maintain the NRB standard in the F.Y 2003 and 2004 but it is has maintained it to 1% level from F.Y 2005 to the FY 2007.

On contrary to the provision for the pass loan maintained by the NIBL, the bank also has made provision for the substandard loan by over the study period in F.Y 2003 to 2005. It was 25.16% in F.Y 2003, 25.80% in F.Y 2004 and 25.00% in F.Y 2005 but in the recent two

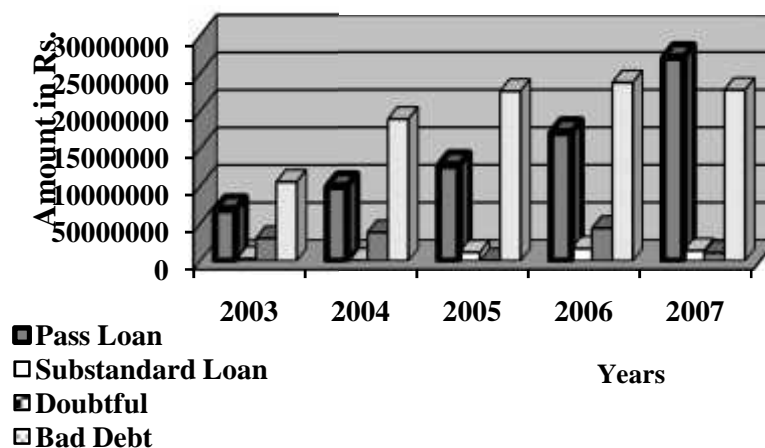
years of the study the provision made for substandard loan by NIBL is below the NRB standard of 25% and it was 16.53% in F.Y 2006 and 21.49% in F.Y 2007. Such less provision invites restriction on loan recovery. So the NIBL should made effort to make the provision at a minimum level as required by NRB directive.

The provision made for the doubtful loan by NIBL follows the trend of provision made for pass loan. It means NIBL is not able to meet NRB requirement of 50% of doubtful loan in F.Y 2003. However, it has duly met this standard in the latter years. The highest provision made by NIBL for doubtful loan is 50.19% in the F.Y 2007.

Regarding Bad loan, that is the loan that is no more expected to recover and NRB has directed to make a 100% provision for bad loan. NIBL has met the standard only in F.Y 2007. In other years NIBL has maintained a less amount for bad debts. And one thing all the commercial banks of Nepal should maintain the NRB Standard which is the main controlling body of financial activities of all the banks and financial institutions operating in Nepal, else it will take action against such banks and financial institutions.

Substandard Loans in which borrowers are displaying a definable weakness that is likely to jeopardize repayment. The following bar diagram present about the total provision made by NIBL in pass loan, substandard loan, doubtful loan and bad loan.

Figure – 7
Loan Loss of NIBL in 2003 to 2007



[Source: Annex 7 & 8]

In the above diagram the X-axis represent the fiscal years and Y-axis the amount of provision made for different kinds of loan by NIBL. If one go for the pas loan which is indicated by

black coloured bar in the diagram. The provision for the pass loan is increased every year it is because every year loan mobilization of the bank is increased and as per NRB directive 1% of total pass loan should be made provision for loss of loan.

The white coloured bar that seems slidely only in the above figure represent the provision made for the substandard loan. The provision for substandard loan is increased some years whereas decreased some years. It shows that in some years the borrowers have not paid the loan in due time. In the year when the provision for the substandard loan is decreased it may be due to timely payment of interest and principle amount by the borrowers.

On the other hand, the bar with chessboard pattern shows the provision made for doubtful loan. It increased from F.Y 2003 to 2004 but decreased in 2005 then again increased in 2006 then finally decreased in 2007. The increase in provision of doubtful loan may be due to turning the substandard loan into doubtful whereas decrease may be due to recovery of the doubtful loan.

Finally, let's have a glance on the white but dotted bar which is becoming taller every year. The bar represents the doubtful provision made by NIBL. It states that the Bad loan is increased so provision also increased. It may be due to turn the doubtful loan into bad loan.

4.4.2 Loan Loss Provision in HBL

Loan, in which full repayment is considered uncertain. Some losses are expected. A loan classified as doubtful has all the characteristics of a substandard loan with the added characteristic that credit weaknesses make full collection or liquidation in full highly questionable and improbable. Fifty percent of loans classified as doubtful are deducted from adjusted bank capital in computing regulatory Capital Adequacy.

Table - 22

Loan Loss Provision of HBL

Types of Loan	Fiscal Years					NRB Standard
	2003	2004	2005	2006	2007	
Pass Loan	1.00%	1.00%	1.01%	1.00%	1.02%	1.00%
Substandard	25.07%	60.20%	57.78%	25.46%	25.00%	25.00%
Doubtful	50.71%	47.23%	50.00%	68.16%	50.00%	50.00%
Bad	97.78%	99.53%	99.70%	99.47%	99.96%	100.00%

The above table 3rd row shows the loan loss provision made by HBL for the pass loan. HBL has maintained the NRB standard of 1% provision of total pass loan throughout the study period.

The 4th row of the table has shown the provision made for substandard by HBL where the NRB standard is 25%. The bank has maintained it. During the F.Y 2004 it is highest percentage of 60.20%. It may be because the bank might anticipated the higher amount of loan could be uncollected for that year.

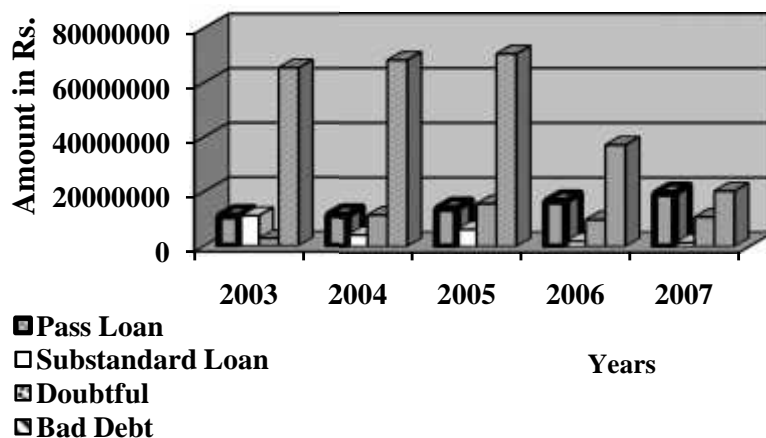
The doubtful loan loss provision required by NRB directive is 50% of doubtful loan. Except in the year 2004 the bank is able to meet the standard. It has only 47.23% of loan loss provision for doubtful.

Bad loan represents the irrecoverable amount expected by the banks. In this regard the banks should make 100% provision for such bad loan. From this point of view, the banks have not met the standard directive by HBL.

Doubtful: Loans for which collection in full is improbable and the authorized institution expects to sustain a loss of principal and/or interest, taking into account the net realizable value of collateral.

The various types of loan provision have been presented in the diagram as follow:

Figure – 8
Loan Loss Provision of HBL in 2003 to 2007



The bar to the left side of the four bars in each F.Y is the provision made for pass loan. The pass loan provision bar is becoming taller as the time passes. The increase in pass loan provision each year is due to NRB requirement of 1% of total pass loan as loan loss provision and the increasing trend of loan and advances of the HBL.

The white bar after bar of pass loan is the bar that represents the loan loss provision made for the substandard loan. It can be observed that the provision for the substandard loan is in decreasing trend. After F.Y 2005 it is decreasing and the bar becoming shorter and shorter. As the substandard loan increases the loan loss provision for the substandard also increases; it shows that the substandard loan of the banks is decreased in this latest F.Y.

The provision for the doubtful loan is increasing as it can be observed in the figure above represented by the bar with zigzag line in the bar among white and diagonal lined bar. It may be due to the not recovery of the substandard loan and turned to the doubtful loan as the substandard is not collected within 3 months that will turn into doubtful loan.

The diagonal lined bar at the last of the four bars in the fiscal year represent the provision made for the bad loan. It increased from Rs.652,885,216 in F.Y 2003 to Rs. 680,512,843 in F.Y 2004 then to Rs. 703,489,323 in 2005. After F.Y 2005 it started decline and in F.Y 2006 it came down to Rs.370,817,708 and Rs. 202,248,099 in the F.Y 2007. It may be due to written off of the bad loan.

4.4.3 Loan Loss Provision in EBL

Accounts receivable is the amount remains uncollectable and will be written off at the end of fiscal year. Bad debts appear as an expense on the company's income statement, thus reducing net income. In general, companies make an estimate of bad debt expenses that might be incurred in the current time period based on past records as part of the process of estimating earnings. Most companies make a provision of bad debt since it is likely uncollectable amount in future.

Table - 23
Loan Loss Provision of EBL

Types of Loan	Fiscal Years					NRB Standard
	2003	2004	2005	2006	2007	
Pass Loan	2.27%	1.00%	1.00%	1.00%	1.00%	1.00%

Substandard	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
Doubtful	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Bad	100.00%	100.00%	100.00%	100.00%	99.84%	100.00%

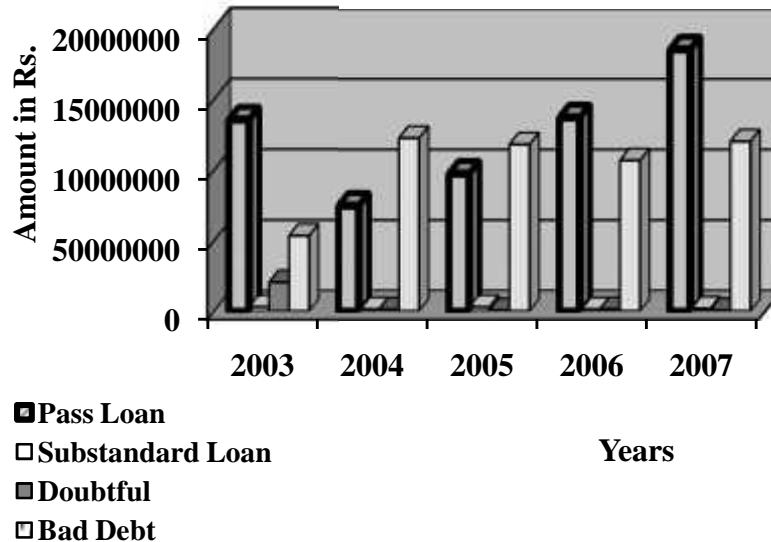
[Source: Annex 11 & 12]

The pass loan in EBL has maintained the NRB standard in all the year as it is above 1% in F.Y 2003 and 1% every year thereafter. It shows that the bank doesn't want to have more provision and just to satisfy NRB directive. The management has higher level of confidence on the credit granted to its customers and expected to recover in time. It shows the efficiency of the management that they have granted loan in productive sector and belief their borrowers used the fund in productive way.

The substandard loan loss provision made by EBL has met the NRB directive 25% at a level of substandard loan. In the same way the provision made by EBL for the doubtful also has met the NRB standard 50%. It maintained 100% provision for bad loan every year except in the F.Y 2007 in which only 99.84% provision is made for the bad loan.

A debt that is not collectible and therefore worthless to the creditor. This occurs after all attempts are made to collect on the debt. Bad debt is usually a product of the debtor going into bankruptcy or where the additional cost of pursuing the debt is more than the amount the creditor could collect. This debt, once considered to be bad, will be written off by the company as an expense.

Figure - 9
Loan Loss Provision of EBL in 2003 to 2007



[Source: Annex 11 & 12]

The pass loan provision by EBL is Rs. 135,284,213. From the F.Y 2005 it is increasing every year in comparison to the former F.Y. In an average of 1.25% of the provision is made for the pass loan by EBL during the study period. So even pass loan provision is increasing the average percentage is near by the NRB provision.

The white bar seen in negligible part only in the above figure is the loan loss provision for the substandard loan. It shows the EBL has low level of NPL substandard loan. In an average of 25% substandard loan loss provision is made by EBL during the study period.

The 3rd bar is the loan loss provision made for the doubtful loan. It seems to be decreased every year. It was Rs. 20,247,366 in F.Y 2003 then decreased till F.Y 2007 it came to Rs.372,963. It has average of 50% loan loss provision made for the doubtful loan. The decrease in doubtful loan loss provision may be due to strong collection policy of the substandard loan or turning the doubtful loan into the bad loan.

Loss Loans that are considered uncollectable after all collection options (such as the realization of collateral or the institution of legal proceedings) have been exhausted. The provision for such loan should be made 100% as per NRB directive which is in an average of 99.97% for the EBL. The bad loan loss provision is seems in increasing trend even though it

fluctuate in some years. The increase in bad loan caused the increase in loan loss provision for the bad loan loss also.

Finally, from the study of the loan loss provision made for pass loan, substandard loan, doubtful loan and bad loan by the three selected sample banks the conclusion can be drawn that the commercial banks of Nepal has tried to maintain the loan loss provision as per NRB directive and it is almost all maintained besides some of the years. The loan loss provision of the selected sample banks NIBL, HBL and EBL's is found satisfactory as they satisfied NRB requirement of loan loss provision.

On the other hand, the ability to maintain the required loan loss provision indicates the efficiency of the bank to coverage of loan loss also which ultimately gives positive information to the public. Similarly the decreasing provisions and just meeting NRB standard shows the efficiency of the banks on the collection of the loan and interest amount due from the borrowers.

So, the commercial banks of Nepal have well managed the loans and advances they have granted in different sectors and giving the best return to the commercial banks of Nepal. They do not need to have more provisions for loan loss as they are able to collect the loan amount and interest due in time. The commercial banks of Nepal are dully fulfilled and satisfied the direction and directives made for the commercial banks to maintain the economic stability in the country and balance in economic development in all the sectors and territories of Nepal.

4.5 Statistical Analysis

Statistical method of analysis is one of the most popular methods on data analysis special don thesis writing and research. There are different statistical tools simplex to complex for data analysis, here is used simple statistical tools such as correlation analysis taking consideration to time bound to complete the thesis and data availability. Here goes the use of statistical tools for data analysis:

4.5.1 Multiple Correlation Analysis of NIBL

The multiple correlations show the relationship of a dependent variable with multiple independent variables that affects the dependent one. In this study related to loan the Net Operating Income (EBIT) is taken as depended variable whereas the two variables Loan and Interest Income from loan & advances taken as independent variable. It tries to determine the relationship of EBIT, Loan and Interest Income. It shows how close relationship they have with each others and change in EBIT with changes in Loan and Interest Income of the firm.

Table - 24

NIBL's Multiple Correlation of EBIT on Loan and Interest Income

Year	EBIT (X ₁)	Loan (X ₂)	Interest Income (X ₃)	Correlation (r)
2003	152,670,976	7,130,125,502	663,016,258	r₁₂ = 0.9909 r₁₃ = 0.9856 r₂₃ = 0.9976 r_{1,23} = 0.9837
2004	333,566,256	10,126,055,623	769,195,061	
2005	544,310,564	12,776,208,037	964,689,365	
2006	727,510,111	17,286,427,389	1,302,121,998	
2007	1,121,956,413	26,996,652,258	1,907,261,454	
Total	2,880,014,320	74,315,468,809	5,606,284,136	

[Source: Annex 13]

The multiple correlation coefficients for net operating income with reference to loan and interest income ($r_{1,23}$) is 0.9837 calculated in annex. It gives the positive relationship between EBIT and loan, interest income. The increment in loan and interest income by the bank made a positive change in net operating income of NIBL. To get clear information about the relationship of loan and interest income with net operating income a coefficient of multiple determinations has been calculated which the square of correlation denoted by $R_{1,23}$ is.

The coefficient of multiple determination of NIBL is $R_{1,23} = (0.9837)^2$ i.e 0.9677. It states that the variation on net operating income of NIBL by 96.77% has been influenced by loan and

interest income; only 3.23% variation is caused by other factors. The significant of multiple correlations can be calculated by using probable error as follows:

$$\begin{aligned} \text{Probable Error (PE)} &= 0.6745 \frac{1 Z r^2}{\sqrt{n}} \\ &= 0.6745 \mid \frac{1 Z(0.9837)^2}{\sqrt{5}} \\ &= 0.0145 \end{aligned}$$

Then,

PE	6 PE	r	Result
0.0145	0.0668	0.9837	
r > 6 PE			Significant

If,

$r < PE$ = correlation insignificant

$r > 6 PE$ = correlation significant

$PE < r < 6 PE$ = nothing can be calculated.

The calculated multiple correlations are greater than six times of Probable Error which indicates that the calculated multiple correlations for NIBL are significant.

4.5.2 Multiple Correlation Analysis of HBL

Table - 25

HBL's Multiple Correlation of EBIT on Loan and Interest Income

Year	EBIT (X ₁)	Loan (X ₂)	Interest Income (X ₃)	Correlation (r)
2003	263,053,495	11,951,869,350	767,037,447	r₁₂ = 0.7953 r₁₃ = 0.8985 r₂₃ = 0.9431 r_{1,23} = 0.8318
2004	666,059,177	12,424,520,646	865,765,627	
2005	684,092,180	14,642,559,555	896,816,745	
2006	688,886,636	16,997,997,046	938,608,270	
2007	902,529,625	19,497,520,482	1,126,110,457	
Total	3,204,621,113	75,514,467,079	4,594,338,546	

[Source: Annex 14]

The correlation coefficient of Net Operating Income and Loan (r_{12}) is 0.7953, Net Operating Income and Interest Income (r_{13}) is 0.8985 and Loan and Interest Income (r_{23}) is 0.9431 (Annex 14).

With the help of r_{12} , r_{13} and r_{23} got the multiple correlations ($r_{1.23}$) of 0.8318 for the HBL has been determined, which show the positive relationship of loan and interest income with EBIT. For convenience interpretation calculation of multiple coefficient of determinant has been calculated (square of $r_{1.23}$) is $(0.8318)^2$ i.e 0.6919. It means out of the overall variation in EBIT of HBL 69.19% is due to the loan disbursement and interest. Remaining 30.81%, by other factors. The significant of multiple correlation has been calculated by using probable error:

$$\begin{aligned} \text{Probable Error (PE)} &= 0.6745 \frac{1 Z r^2}{\sqrt{n}} \\ &= 0.6745 \mid \frac{1 Z (0.8318)^2}{\sqrt{5}} \\ &= 0.1378 \end{aligned}$$

Then,

PE	6 PE	r	Result
0.1378	0.8267	0.8318	
r > 6 PE			Significant

If,

$r < PE$ the correlation is insignificant

$r > 6 PE$ only then the calculated correlation will be significant.

$PE < r < 6 PE$ nothing can be calculated.

So, the calculated correlation coefficient is significant as it calculated.

4.5.3 Multiple Correlation Analysis of EBL

Table - 26

EBL's Multiple Correlation of EBIT on Loan and Interest Income

Year	EBIT (X ₁)	Loan (X ₂)	Interest Income (X ₃)	Correlation (r)
2003	143,566,683	5,884,122,609	563,137,120	r₁₂ = 0.9911 r₁₃ = 0.7382 r₂₃ = 0.8015 r_{1.23} = 0.9764
2004	277,828,439	7,618,671,476	388,739,064	
2005	377,200,894	9,801,307,676	459,167,548	
2006	487,972,659	13,664,081,664	584,479,080	
2007	718,833,853	18,339,085,562	794,889,029	
Total	2,005,402,528	55,307,268,987	2,790,411,841	

[Source: Annex 15]

The above table presents the data for the past five years EBIT, Loan, Interest Income of EBL and calculated correlation of EBIT with Loan and Interest Income. The multiple correlation of Net Operating Income with loan and interest income also finally calculated with help of simple correlations which is given in annex part of the thesis.

The Net Operating Income is noted as X₁, loan as X₂ and interest income as X₃ for making calculation work easier and convenience. The calculated correlation between Net Operating Income and Loan (r₁₂) is 0.9911, Net Operating Income and Interest Income (r₁₃) is 0.7382 and Loan and Interest Income (r₂₃) is 0.8015. It shows that EBIT and Loan has higher degree of positive relationship than EBIT and Interest Income. Similarly relationship between Loan and Interest Income is also positive and high.

The multiple correlations (r_{1.23}) of 0.9764 show the positive relationship of loan and interest income with EBIT. It means the change in loan or interest income changes the net operating income of the EBL. The calculation of multiple coefficient of determinant (square of r_{1.23}) that makes work easier for interpretation of the data and findings is, (0.9764)² i.e 0.9498. So, the 94.98% of total variation in EBIT of EBL is caused by the variables loan and interest income rest by other factors. The significant of multiple correlations can be calculated by using probable error:

$$\text{Probable Error (PE)} = 0.6745 \frac{1 Z r^2}{\sqrt{n}}$$

$$= 0.6745 \mid \frac{1 Z (0.9764)^2}{\sqrt{5}}$$

$$= 0.0209$$

Then,

PE	6 PE	r	Result
0.0209	0.1252	0.9764	
r > 6 PE			Significant

If the $r < PE$ the correlation is insignificant if $r > 6 PE$ only then the calculated correlation will be significant. And if $PE < r < 6 PE$ nothing can be calculated. So, the calculated correlation coefficient is significant in this study.

4.6 Primary Data Analysis

Primary data is the 1st hand data that is collected for the 1st time and in closed form. It is unpublished and gathered through the special effort of the researcher. The researcher has also made some effort to collect data related to study besides secondary data based on the financial reports published by the banks in order to achieve consistency between primary and secondary data as well as to achieve practical knowledge of the data collection. Several commercial banks are visited for data collection with the objective of primary data collection required for the study during which several situations are faced. In some banks managers provided the information whereas in some credit officers filled up the questionnaire. Some banks staffs returned questionnaire saying they are not authorized to give any information regarding the bank whereas after convincing them that the data collection is for MBS thesis they are agreed to fill up the questionnaire.

The questionnaire is prepared with altogether 13 questions related the loan collection and disbursement procedure of the banks which is given in the annex part of this thesis too. The analysis of the collected data goes as follows:

The first and foremost question was **Is the bank granting loan or not?** because due to liquidity crisis in the market, there was rumor of not distributing loan by the banks and financial institutions. The respondent's responses on this question can be presented with help of table below:

Table - 27
Percentage of Banks granting Loan

Alternatives	Total Responses	Percentage
Yes	14	93.33%
No	1	6.67%
Total	15	100.00%

From the table it is observed that 93.33% banks are providing loan because their main income source is the interest from the loan. If they don't provide loan they would be unable to provide return on the deposit collected. However, 6.67% banks refer that they are not providing loan due to liquidity crisis in the bank and especially at the end of fiscal years. It is because there is of chance of increase in non performing loan.

Table - 28
Sector wise loan percentage of commercial banks of Nepal

Alternatives	Total Responses	Percentage
Education Sector	5	33.33%
Agriculture Sector	2	13.33%
Housing Sector	8	53.33%
Industrial Sector	5	33.33%
Vehicle Sector	5	33.33%
Business Sector	4	26.67%
All of above	4	26.67%

In a question in which sector they grant loan, it is observed that 53.33% banks are investing in housing sector as it is the most profitable sector of investment in these days. Nowadays housing sector is also trading is as commodity whereas it is productive sector so NRB has directed banks to limit their loan in housing sector to 25% only by F.Y 2012. Education sector, Industrial sector and Vehicle loan is granting by 33.33% banks. In Business sector 26.67 percent banks are providing loan. Even though the Nepal is an agricultural country whose economy is agriculture based banks are not interested to grant loan in this sector. It is observed in the table that the lowest percentage of loan is granted in agriculture sector which is only 13.33%. It may be due to low return from agriculture sector. Banks have a negative concept towards agriculture sector because recovery of agricultural loan is difficult and there is less chance of recovery.

To know the basis before sanction the loan, a question was asked, **what should be the main ground to provide the loan by the bank?** The responses provided by the respondents are as follows:

Table - 29
Main factor monitored by banks to provide loan

Alternatives	Total Responses	Percentage
Character	6	40.00%
Collateral	8	53.33%
Capacity	8	53.33%
All	5	33.33%

It is observed that 53.33% banks' prefer collateral and capacity of debtors to repay back loan in time. Similarly 40% banks consider personal character of the client also. However 33.33% banks consider all characters, collateral and capacity before granting loan to customers. So it

could be concluded that collateral and capacity to repay back the loan are the main factors that considered by the banks before accepting loan to customers.

The rate of interest is the most influencing factor in deposit collection and loan disbursement. Generally the depositors seek higher percentage of interest on their deposit and debtors looks for lower interest rate on loan.

To know the answer that is responsible to determine interest rate a question was asked **Who do you think the interest rate for different sectors loan is determined?** The answers from the respondents is given in table below:

**Table – 30
Interest Rate Determination**

Alternatives	Total Responses	Percentage
Managers	0	0.00%
Management Committee	11	73.33%
Board of Directors	4	26.67%
Special Committee	1	6.67%

It is true that the main source of income of the commercial banks is the interest received from the debtors. Bank never higher in deposit than the loan provided. Most of the commercial banks interest rate is determined by management committee which is agreed with 73.33% in this study. On the other hand 26.67% respondents answered interest rate is determined by Board of directors and 6.67% replied as by special committee. However none replied that managers determine the interest rate of the bank.

In know the factors that affect the interest rate another question asked, result is given below:

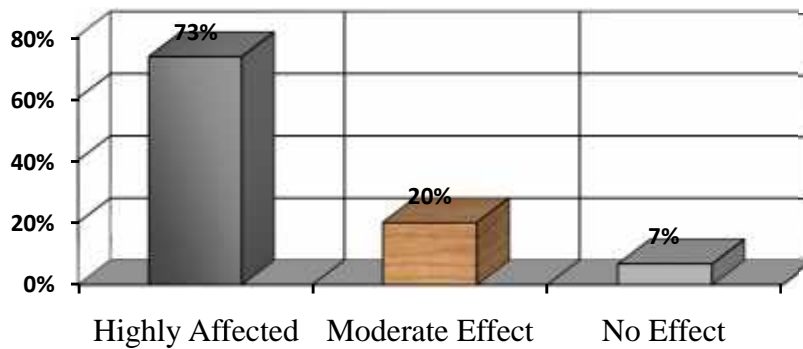
Table - 31

Alternatives	Factors affecting interest rate determination	Total Responses	Percentage
Risk		0	0.00%
On going market rate		5	33.33%
Productivity of loan		0	0.00%
Interest rate on deposit		3	20.00%
Above all		8	53.33%

It is observed that 33.33% respondents replied that the interest rate is determined by market rate whereas 20% replied that it is determined by interest on deposit rate. But 53.33% replied that all factors are responsible to determine the interest rate.

Researcher has got the response on effect of interest on deposit collection and loan mobilization of the question asked “How much the interest rate affect the deposit collection and loan mobilization?” as shown in chart.

Figure -10
Effect of Interest on Deposit and Loan



The response for the question related to loan collection, **Is the entire loan mobilized are collected in due time?** or not and supporting question **what percentage of borrowers pays loan and interest in time?** presented below in table.

Research shown that out of 15 respondents 73.33% banks are able to collect loan amount whereas the 26.64% respondents answered that they have not collected the entire loan in due time. The collection of disbursed loan in stipulated time period is the must else they may turn into NPL and provisions for which to be made. So banks effort will be collect the entire loan in time frame. Further more to this subject researcher asked of percentage of non-repayment of loan, the result is as follows:

Table - 32
Percentage of borrowers paying loan in time

Alternatives	Total Responses	Percentage
10% - 25%	0	0.00%
25% - 50%	0	0.00%
5% - 70%	0	0.00%
70% - 100%	14	93.33%

The result shown that 93.33% banks have 70% to 100% loan collected in time. Only few banks are not able to collect the loan amount within loan tenure. It may be due to the wrong attitude of non-repayment of loan by the debtors. Sometimes the loan taken for the business if suffered from the loss also the debtors may not be able to repay the loan.

Each and everyone may be eager to know that what the bank initiates if the debtors fails to repay the loan. Will the bank be idle by doing nothing against the debtor? Or the bank will go for legal treatment for the recovery of the loan amount? Same question has been put forward through the questionnaire for different concerned people with financial sector. In this research question the universal steps on loan recovery is not found. Mostly banks follow the same steps but difference is that some banks take the same action at the beginning whereas some banks implement the same action at the middle stage or at the end stage. But their all efforts are concentrated on the recovery of the loan whether the steps are taken at early stage or at the end.

The mostly banks followed step of loan recovery process is as given below:

Steps	Details	Aggregate Percentage
1st	Make a call to debtor	100%
2nd	Send a formal letter for repayment	100%
3rd	Forfeiture the collateral	90%
4th	Call for repayment through newspaper	60%
5th	Extend the credit period	20%
6th	Turn into bad debt	100%

There is uniformity among banks the initially make a call to debtor to inform the expiration of the loan tenure and remind for the repayment of the loan. If not, the next step is sending a formal letter for the repayment from the bank. After this bank have variety on steps, some go for forfeiture of collateral while some for turn into bad debt and some for call for repayment through newspaper that depends on banks' policy.

The issue arising in the nation regarding the existing banks and financial institutions is that the banks and financial institutions are highly profit oriented. They are even though binded by NRB directives for economic development of the country, they are ready to pay fine but not showing keen interest in public welfare through equal regional development and uplifting

marginalize group. In this context some supporting questions regarding the present interest structure and loan mobilization to the respondents are asked. The responses on these can be summarized as below with help of figure and brief analysis:

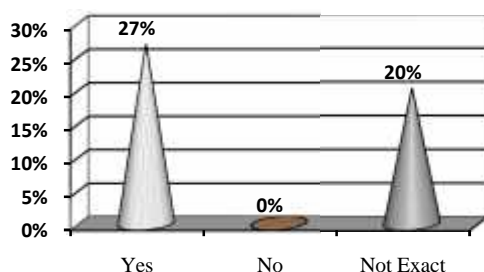
The question is **currently mobilized loan of commercial banks of Nepal are productive?**
The response on this question is listed out in figure-11.

Commercial banks of Nepal are highly mobilizing loan and earning a good income from the disbursed loan also but the question raised is that is the loan provided by banks are productive? Are they really increased productivity and uplifting living standard of people? Is the mobilized loan added a pale on the economic development of the country?

When researcher put forward the same question to the persons related to financial sectors their response to the question is presented in the graph alongside. 46.66% bankers agreed the productivity of loan. On the next 33.33% bankers are not satisfied with their loan mobilization and replied the banks loan are not used in productive sector. 20.01%

bankers neither ready to say the loan is productive, nor unproductive nor responded as they have no idea on the mobilized loan's productivity. So in an overall, the banks are even not highly satisfied with their loan mobilization they believe that the loan mobilization is made in productive sector.

The next one question was: **The banks of Nepal are more profit oriented than economic development.**



With response to above question 27% banks agreed they are profit oriented than

Figure - 12
Profit Orientation of Banks

economic development and 20% responded not exactly profit oriented but also towards economic development. But none respondents responded as they are for economic development. So, the commercial banks are highly profit oriented. Their each and every activity is profit oriented rather than economic development of the country.

4.7 Findings of the Study

From the above data presentation and analysis regarding the loan collection and disbursement procedure of commercial banks the findings could be listed out as follows:

-) The average priority sector lending of NIBL is 6.09% of total lending and in deprived sector is 4.33%. The HBL's priority sector lending is 5.79% and deprived sector lending is 6.50% during the study period F.Y 2003 to 2007 in an average. The EBL's priority sector lending is 6.93% and deprived sector is 3.49%.
-) The deposit collection and loan disbursement trend of NIBL is in increasing trend with average of Rs. 20,729,428,234 deposit collection and Rs.14,863,093,761 average loan mobilization. HBL's average deposit and loan is Rs. 27,041,280,744 and Rs. 15,102,893,416 respectively which are found increasing every year. Finally of the EBL also found increasing trend on deposit and loan with an average of Rs. 14,825,318,028 deposit and Rs. 11,160,923,037 loan.
-) The credit to deposit ratio calculated for NIBL found with 69.87% average C/D ratio for the study period which is 55.49% for the HBL and 74.63% of EBL. It shows that EBL has higher loan mobilization whereas the HBL has least mobilization of loan among the three sample banks.
-) NPL loan is the non-performing asset of the bank which they tend to be reduced and internationally accepted standard of NPL for the banks is 5% of total loan. In this study found that the NIBL has only 2.21% of average NPL during the F.Y 2003 to 2007 which is lower than internationally accepted standard. It is 6.17% for the HBL and 1.26% for EBL. The lowest NPL is of EBL whereas HBL has crossed the international standard of NPL.
-) The loan loss coverage ratio calculated for the three sample banks are: 128.43% for NIBL, 97.55% for HBL and 196.79% for EBL in an average. It shows the EBL has greater coverage of loan loss and will be able to maintain its position in the market and among shareholders. The HBL has the least loan loss coverage ratio among the sample banks.

-) The total loan loss provision for the NIBL calculated on the basis of its total loans & advances and its total loan loss provision is 2.72% in an average. It is 5.78% for the HBL and 2.37% for the EBL. As the lower the loan loss provision is good for the banks the HBL is comparatively not in satisfactory position in terms of loan loss provision. The EBL has the least loan loss provision it means it has the non-performing loan also very low which is good for the bank.
-) As per the directives of NRB the loan loss provision to be made for the pass loan, substandard loan, doubtful loan and bad loan. The NRB says for the 1% provision for pass loan, 25% provision of substandard loan, 50% of doubtful loan and 100% provision for the bad loan. When it studied for it and calculated for the three selected sample banks found that NIBL has not exactly meet this NRB requirement in most of the F.Y during the study period. It was around to meet only and some years only it was met. The HBL has met the provision for pass loan, substandard loan and doubtful loan but was not able to meet 100% provision for the bad loan. Finally the EBL has exactly met the NRB standard requirements for the provision on all types of loan.
-) The multiple correlation coefficient of EBIT with the loan and interest amount calculated for the NIBL, HBL and EBL goes as 0.9837 for NIBL, 0.8318 for HBL and 0.9764 for the EBL. It shows the positive relationship of the EBIT with the loan amount and interest amount received form loan mobilized. The correlation calculated is found significant.
-) On the primary data collection regarding the topic it found that 93.33% banks are providing loan whereas 6.67% banks are not providing loan due to liquidity crunch in the banks.
-) The analysis shown that mostly banks are hesitated to invest in agriculture sector. Only 13.33% banks are providing loan in agriculture sector whereas 33.33% are providing in education, industry and vehicle loan. 26.67% banks are providing loan in business and mostly banks are providing loan in housing where 53.33% banks have granted loan which is NRB directed to reduce by banks. It found that 26.67% are granting loan in all of the sectors discussed above.
-) The main background the commercial banks look for granting loan to general public is found collateral and capacity. 53.33% banks look for collateral for the loan and repayment capacity of the bank loan. 40.00% banks look for the character of the

person also whereas 33.33% goes for collateral, character and capacity for granting the loan.

-) The interest rate for the loan and deposit is determined by? In none bank the managers decides the interest rate for the loan and deposit it got from the primary data collected. 6.67% banks interest rate determined by special committee. 26.67% said by board of directors. But mostly, 73.33% responded that the interest rate is determined by management committee.
-) So, what is the basis for the interest rate determination? The responses for the question shown 20.00% banks for interest rate on deposit. 33.33% reacts with on going market interest rate. 53.33% banks responded that they look for risk associated with loan, productivity of loan, interest rate they are providing on deposit and the on going market interest rate.
-) How much the interest rate affects the deposit collection and loan mobilization? 73% responded highly affect the interest rate on deposit and loan, 20% said moderate effect and only 7% answered no effect of interest rate on deposit and loan. So, interest rate has highly effect on loan disbursement and deposit collection of the commercial banks of Nepal.
-) Mostly banks loan are collected in due time. 73.33% banks are able to collect the loan amount in due time only few banks are not able to collect the loan amount in the stipulated time frame. 93.33% banks have collected 75% to 100% loan amount in time frame. So, the loan collection procedure of the banks is effective.
-) If one talk about the loan collection procedure of the commercial banks of Nepal, there is no uniformity in the steps or actions taken by all the banks for the collection of the loan amount. But it found all the banks 1stly make a call to the debtor reminding the expiry of the tenure of loan and amount to be paid. 2nd step they go for is sending a formal letter for the repayment of the loan amount taken by the client. After these two steps taken there is no uniform step. Some goes for call through newspaper print, some for forfeiture of the collateral; some turns the loan amount as bad debt. So, there is no uniform procedure of loan collection.
-) The issue raised nowadays is the fruitfulness or productivity of the loan. 46.66% banks said that the loan they are providing is used in productive way and found the loan is mobilized in productive sector. 33.33% are not satisfactory with the present

loan mobilization and responded the loan is not mobilized in productive sector by the commercial banks of Nepal.

) Last but not the least, commercial banks of Nepal is profit oriented than economic development of Nepal. It is supported by 27% bankers of Nepal whereas none responded as not for profit but for economic development of the country. 20% argued that not exactly profit but in some extent they goes for profit and economic development of the country too.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the study

In general, the act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. Loans can come from individuals, corporations, financial institutions and governments. Loans are a primary source of revenue for many financial institutions such as banks, as well as some retailers through the use of credit facilities.

A loan is a type of debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time.

Lending and collection of the loan provided to the customers is one of the most important functions of the commercial bank and the composition of the loans and advances directly affects the performance and profitability of the bank. Loan mobilization and earning through the mobilized is the main income source of the commercial banks. With this banks do not provide loan to anyone who says to pay high interest instead they study the risk associated with the credit lending too and the chances of being the loan non-performing. That's why banks have to give due care in strong collection of the loan also.

The topic loan disbursement and collection procedure of commercial banks in Nepal will be covering the following areas:

-) Total Loan disbursement of Himalayan Bank Limited, Everest Bank Limited and Investment Bank Limited in the past 5 years.
-) Criteria for the loan disbursement to its debtors and collection of loan procedures and difficulties on loan collection procedure.
-) The Non-performing loan and provision made by the commercial banks of Nepal

The objectives of the thesis can be listed out as follows:

- a) Trend analysis of loan disbursement in Himalayan Bank Limited, Everest Bank Limited and Investment Bank Limited.
- b) Analysis of different sectors of loan disbursement and priority sectors.
- c) Analysis of basis of interest rate determination on different sectors of loan disbursement and its effects on loan disbursement.
- d) To find out the techniques of loan collection procedure and its effectiveness on the loan collection process.

Finally after completion of the research work, thesis has been prepared divided into five chapters: Introduction, Literature Review, Research Design, Data Presentation & Analysis and Summary, Conclusion and Recommendation.

Many researchers have conducted their research in the field of commercial banks especially on their financial performance, fund mobilization policy, compliance with NRB directives etc. Besides these, there are some books, articles, dissertations and other relevant study concerned with loan disbursement and collection function of these banks. Some of the relevant studies, their objectives, findings, conclusion and other literature relating to the topic have been reviewed in the literature review section.

The study is based on descriptive and analytical study in order to achieve the objective of the study. Descriptive method is used to analyze collected primary data and information. Besides, for the analytical purpose the annual reports, past performance, records and relevant materials are considered. Out of 26 commercial banks 3 are selected as sample covering study period of 2003 to 2007. The study is basically based on secondary data but little efforts have been forwarded to collect primary data and analysis of it to check the consistency of the secondary data. The required data are collected form NEPSE, annual reports, websites and journals published by commercial banks of Nepal. The financial and statistical techniques are used for data analysis and presentation.

The data presentation and analysis part is the most significant part of the study where the collected data are systematically arranged and presented which are related to the study and

analyzed using financial and statistical tools to draw the conclusion related to the objectives of the study.

The data presentation and analysis part tried to show the followings related to the loan disbursement and collection:

- Investment in priority and deprived sector by the commercial banks of Nepal.
- Trend of deposit collection and loan disbursement of the commercial banks of Nepal based on the data of 2003 to 2007 of sample selected banks.
- Total credit lending to total deposit ratio.
- Non-performing loan ratio of the commercial banks of Nepal.
- Loan loss coverage maintained by the commercial banks of Nepal.
- The total loan loss provision made by banks to its total loans & advances.
- Loan loss provision made by commercial banks of Nepal in terms of pass loan, substandard loan, doubtful loan and bad loan and comparison to NRB standard.
- Multiple Correlation Analysis of EBIT on Loan and Interest Amount for the selected three sample banks.
- Analysis of the loan providing of the banks and the sector the banks have highly mobilized loan through primary data collection.
- The main ground commercial looks for the granting loan to general public.
- To acquire the knowledge on parties involved on interest rate determination and the basis of the interest rate determination.
- Loan collection procedure of commercial banks of Nepal etc.

Finally the findings of the data presentation and analysis are listed out point wise. Out of which the major findings are:

-) The deposit collection and loan mobilization trend of commercial banks are found in increasing trend.
-) The commercial banks have very low Non-performing loan. They are found to be less than internationally accepted standard of 5%.
-) Commercial banks of Nepal have maintained good loan loss coverage ratio around 100% and loan loss provision also met the NRB Standard by mostly banks.
-) There is no uniform loan collection procedure in commercial banks of Nepal. They differ according to bank's policy.

Last but not the least, the summary, conclusion and recommendation chapter of the study included the overall summary of the thesis, the conclusion drawn from the study and some useful recommendations based on the study for the effective loan disbursement and collection of the commercial banks of Nepal.

5.2 Conclusion of the study

From the overall study regarding the loan disbursement and collection procedure of the different commercial banks of Nepal based on primary data as well as secondary data, the researcher comes to conclude with some conclusions of the study as described follows:

- (a) Commercial banks collect the small savings of the customers through various saving accounts and techniques as the deposit and the gathered deposit is given against customers as a loan for some specific purpose. The deposit collection of commercial banks of Nepal increased day to day and every year. The loan disbursement trend of commercial banks of Nepal also increased with the increment in deposit collection. So, the loan disbursement trend is increasing.
- (b) None banks provide their loan all in single sector because in case of crisis on single sector the banks also may go for bankruptcy. So they provide loan in various sectors having a portfolio so that in case of crisis in any sector other sectors may fulfill that loss. Commercial banks of Nepal are disbursement loan in Housing, Vehicle, Business, and Education etc. These are the commercial sectors and NRB has directed banks for certain portion of loan to provide in deprived sector and priority for the equal development of all sectors of Nepal. NRB recently removed the provision for the requirement of loan in priority sectors but still in deprived sector and is 1.5% of total lending of the bank. The Nepalese banks are granting more than 1.5% of total lending in deprived sector. So, conclusion can be drawn that commercial banks of Nepal are following NRB directives and not only in profit making but also focusing their activities in equal development in all sectors of Nepal.
- (c) The next conclusion is regarding the interest rate determination on the deposit and loan by the commercial banks of Nepal. For this the primary data collection and analysis gives the conclusion that in most of the commercial banks in Nepal interest rate is determined by the management committee and in some banks it is determined by special committee but none commercial banks interest rate is determined by the managers of the banks.

- (d) The final conclusion of the study is no uniformity in the loan collection procedure of the commercial banks of Nepal. Most of the banks have same steps but the steps forwarded are not one after another. It differs according to bank policy.

5.3 Recommendations of the study

At the end of the thesis before wrapping, researcher comes with some of the recommendations based on the findings and analysis on loan disbursement and collection for the commercial banks of Nepal which the researcher assumes to be useful for the effectiveness of the loan disbursement and collection by the commercial banks of Nepal.

- (a) The deposit collection and loan disbursement is as found increasing every year and the blame on commercial banks of Nepal are that they are profit oriented rather than economic development of Nepal. The banks shouldn't highly focus on profit only, General public have expected its service in every sector of country and their investment in all sectors for overall development of the country. The banks should not hesitate in lower return sector but also should focus to uplift the deprived sector and economically back warded, minority group also.
- (b) While determining the interest rate by the banks they should not focus on the high income group determining higher rate of interest for huge amount but should bring the offer of high interest for small savings also then only lower income group also can be attracted to banking field and increase among them saving habit. Similarly when granting loan the interest rate should be very low for minority group, deprived sector and marginal group and little bit higher interest should be charged on commercial purpose loans.
- (c) The banks if have a uniform collection procedure, the customers wrong attitude of non-repayment of loan can be minimized. Now there is no uniform loan collection procedure among banks. Some turns into bad debt if not collected form telephone inquiry and formal call on expiration of loan tenure, so that public has concept banks have provision for loan loss if not paid also so why should they pay, especially in government commercial banks. On the other, private commercial banks have strong collection procedure so they have very low NPL because of regular follow up of the debtors and higher value collateral for loan. So, to decrease the NPL of the government commercial banks they should also have strong loan collection mechanism and provide quality service to the general public.

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Research Questionnaire

Researcher: Ram Kumar Shrestha.

[This research questionnaire is prepared to study the loan collection and disbursement procedure of commercial banks of Nepal for a fulfillment of partial requirement of MBS thesis writing. I expect for your sincere co-operation on completion of research work.]

Name of Bank: _____

Bank Stamp:

Respondent (optional): _____

Designation:

[Please give check mark (✓) on the option you think the best.]

Q.No.1: Is the bank is providing loan?

(a) Yes

(b) No

(A) If Yes, in which sectors it is granting loan to general people?

(a) Education

(c) Housing

(e) Vehicle

(d)

Business

(b) Agriculture

(d) Business

(f) _____

(f) Above

all

Q.No.2: What should be the main ground to provide the loan by the bank?

(a) Character

(b) Collateral

(c) Capacity

(d) _____

Q.No.3: Which sector has got the highest interest rate? Please mention the interest rate.

(a) Education

(c) Housing

(e) Vehicle

(b) Agriculture

(d) Business

(f) _____ % p.a

(A) The cause for charging the highest interest rate of that particular sector?

(a) High Risk

(b) No need collateral

(c) Due to NRB

Directives

Q.No.4: Who do you think the interest rate for different sectors loan is determined?

- (a) Managers (c) Management Committee (e) Board of Directors
 (d) Special Committee (e) Others (if any)

(A) In which basis they determine the interest rate on loan?

- (a) Risk (c) Productivity of loan (e) Above all
 (b) On going market rate (d) Interest rate on deposit

Q.No.5: Do you think the interest rate has effect on deposit collection and loan mobilization?

- (a) Highly affect (b) Moderate affect (c) No effect

Q.No.6: Is the entire loan mobilized are collected in due time?

- (a) Yes (b) No

(A) What percentage of borrowers pay loan and interest in time?

- (a) 10 % - 25% (c) 50% - 70%
 (b) 25% - 50% (d) 70% - 100%

(B)What may the cause of the non-repayment of loan and interest in time?

- (a) High interest rate (c) Low quality collateral
 (b) Bearing loss in business (d) Wrong attitude of non-repayment

Q.No.7: The steps the banks initiate in case of non-repayment of principal and interest is: Please rank giving number.

Steps	Details	Rank
01.	Make a call to debtor	
02.	Send a formal letter for repayment	
03.	Call for repayment through newspaper	
04.	Extend the credit period	
05.	Forfeiture the collateral	
06.	Turn into bad debt	

Q.No.8: In your view, the present interest rate on loan of commercial banks of Nepal is:

- (a) Low (b) Normal (c) High (d) Very High

Q.No.9: Is the on going interest rate given by commercial banks of Nepal on public deposit is:

- (a) Very Low (b) Low (c) Normal (d) High

Q.No.10: What do you think the main requirement commercial banks of Nepal look for granting loan to public?

- (a) Property collateral (d) Personal relation with top level
(b) Political power (e) Personal Character
(c) Past financial transactions with bank

Q.No.11: In which sector commercial banks should loan mobilized in present context?

- (a) Hydropower (b) Industry (c) Tourism (d)

Agriculture

Q.No.12: Is the currently mobilized loan of commercial banks of Nepal are productive?

- (a) Yes (b) No (c) No idea

Q.No.13: The banks of Nepal are more profit oriented than economic development.

- (a) Strongly disagree (b) Disagree (c) Agree (d)

Strongly agree

Thanks You!

Annex 1: Calculation of Priority and Deprive Sector Lending of Nepal Kumari Bank Limited

Year	Priority Sector	Deprived Sector	Total Loan	Priority Sector Lending	Deprived Sector Lending
2006	846,500,000	360,900,000	7,130,125,502	11.87%	5.06%
2007	899,300,000	506,360,000	10,126,055,623	8.88%	5.00%
2008	1,028,200,000	650,000,000	12,776,208,031	8.05%	5.09%
2009	287,400,000	809,400,000	17,286,427,389	1.66%	4.68%
2010		485,700,000	26,996,652,258	0.00%	1.80%
Average	765, 350, 000	562, 472, 000		6.09%	4.33%

Annex 2: Calculation of Priority and Deprived Sector Lending of Himalayan Bank Limited

Year	Priority Sector	Deprived Sector	Total Loan	Priority Sector Lending	Deprived Sector Lending
2006	1,009,500,000	648,400,000	7,130,125,502	14.16%	9.09%
2007	1,059,900,000	807,000,000	10,126,055,623	10.47%	7.97%
2008	313,500,000	937,600,000	12,776,208,031	2.45%	7.34%
2009	323,100,000	1,042,600,000	17,286,427,389	1.87%	6.03%
2010		558,400,000	26,996,652,258	0.00%	2.07%

Average	676,500,000	798,800,000		5.79%	6.50%

Annex 3: Calculation of Priority and Deprived Sector Lending of Everest Bank Limited

Year	Priority Sector	Deprived Sector	Total Loan	Priority Sector Lending	Deprived Sector Lending
2006	722,730,000	296,780,000	7,130,125,502	10.14%	4.16%
2007	805,370,000	348,370,000	10,126,055,623	7.95%	3.44%
2008	1,116,200,000	565,900,000	12,776,208,031	8.74%	4.43%
2009	1,350,400,000	660,300,000	17,286,427,389	7.81%	3.82%
2010		434,100,000	26,996,652,258	0.00%	1.61%
Average	998,675,000	461,090,000		6.93%	3.49%

Annex 4: Calculation of Percentage of Non-Performing Loan for NIBL

Non Performing Loan of NIBL							
Year	Total Loan	Substandard Loan	Substandard Percent	Doubtful	Doubtful Percent	Bad Loan	Bad Loan Percent
2006	7,130,125,502	10,839,263	0.15%	63,878,948	0.90%	106,716,798	1.50%

2007	10,126,055,623	821,624	0.01%	74,941,884	0.74%	205,110,623	2.03%
2008	12,776,208,031	44,238,859	0.35%	497,100	0.00%	227,757,082	1.78%
2009	17,286,427,389	96,893,690	0.56%	86,049,276	0.50%	239,028,583	1.38%
2010	26,996,652,258	61,737,243	0.23%	20,724,497	0.08%	227,009,243	0.84%
Average		42,906,136		49,218,341		201,124,466	

Annex 5: Calculation of Percentage of Non-Performing Loan for HBL

Non Performing Loan of HBL							
Year	Total Loan	Substandard Loan	Substandard Percent	Doubtful	Doubtful Percent	Bad Loan	Bad Loan Percent
2006	11,951,869,350	423,163,354	3.54%	54,474,884	0.46%	667,715,081	5.59%
2007	12,424,520,646	69,549,651	0.56%	242,116,379	1.95%	683,695,629	5.50%
2008	14,642,559,555	107,227,888	0.73%	228,498,188	1.56%	701,624,677	4.79%
2009	16,997,997,046	72,076,059	0.42%	194,976,256	1.15%	372,781,671	2.19%
2010	19,497,520,482	53,919,981	0.28%	214,476,314	1.10%	202,334,433	1.04%
Average		145,187,387		186,908,404		525,630,298	

Annex 6: Calculation of Percentage of Non-Performing Loan for EBL

Non Performing Loan of EBL							

Year	Total Loan	Substandard Loan	Substandard Percent	Doubtful	Doubtful Percent	Bad Loan	Bad Loan Percent
2006	5,884,122,609	11,082,572	0.19%	40,494,733	0.69%	53,178,064	0.90%
2007	7,618,671,476	4,408,738	0.06%	1,977,471	0.03%	122,421,536	1.61%
2008	9,801,307,676	10,669,326	0.11%	683,784	0.01%	117,882,680	1.20%
2009	13,664,081,664	4,218,482	0.03%	2,353,289	0.02%	106,607,165	0.78%
2010	18,836,431,762	6,306,745	0.03%	745,926	0.00%	120,257,697	0.64%
Average		7,337,173		9,251,041		104,069,428	

Annex 7: NIBL's Provision of Loan Loss for Pass Loan and Substandard Loan

Year	Pass Loan	Pass Loan Loss Provision	Percentage of Pass Loan Loss Provision	Substandard Loan	Substandard Loan Loss Provision	Percentage of Substandard Loan Loss Provision
2006	6,942,657,856	68,685,896	0.99%	10,839,263	2,727,587	25.16%
2007	9,977,369,462	99,110,445	0.99%	821,624	211,972	25.80%
2008	12,704,987,444	127,117,043	1.00%	44,238,859	11,059,715	25.00%
2009	17,056,693,538	170,967,269	1.00%	96,893,690	16,015,629	16.53%
2010	26,801,846,466	270,698,160	1.01%	61,737,243	13,265,781	21.49%
<i>Average Provision for Pass Loan</i>			<i>1.00%</i>	<i>Average Provision for Substandard Loan</i>		<i>22.80%</i>

Annex 8: NIBL’s Provision of Loan Loss for Doubtful Loan and Bad Loan

Year	Doubtful Loan	Doubtful Loan Loss Provision	Percentage of Doubtful Loan Loss Provision	Bad Loan	Bad Loan Loss Provision	Percentage of Bad Loan Loss Provision
2006	63,878,948	29,896,016	46.80%	106,716,798	104,986,750	98.38%
2007	74,941,884	37,557,734	50.12%	205,110,623	188,279,019	91.79%
2008	497,100	248,550	50.00%	227,757,082	225,494,083	99.01%
2009	86,049,276	43,084,601	50.07%	239,028,583	236,817,951	99.08%
2010	20,724,497	10,401,937	50.19%	227,009,243	227,009,243	100.00%
<i>Average Provision for Doubtful Loan</i>			49.44%	<i>Average Provision for Bad Loan</i>		97.65%

Annex 9: HBL’s Provision of Loan Loss for Pass Loan and Substandard Loan

Year	Pass Loan	Pass Loan Loss Provision	Percentage of Pass Loan Loss Provision	Substandard Loan	Substandard Loan Loss Provision	Percentage of Substandard Loan Loss Provision
2006	10,956,233,407	109,584,914	1.00%	423,163,354	110,338,076	26.07%
2007	11,482,490,413	114,256,367	1.00%	69,549,651	41,866,119	60.20%
2008	3,805,897,540	138,862,490	1.01%	107,227,888	61,953,985	57.78%
2009	16,529,928,189	165,547,462	1.00%	72,076,059	18,349,848	25.46%
2010	19,115,374,855	194,067,821	1.02%	53,919,981	13,479,995	25.00%

	<i>Average Provision for Pass Loan</i>	<i>1.00%</i>		<i>Average Provision for Substandard Loan</i>	<i>39.90%</i>

Annex 10: HBL's Provision of Loan Loss for Doubtful Loan and Bad Loan

Year	Doubtful Loan	Doubtful Loan Loss Provision	Percentage of Doubtful Loan Loss Provision	Bad Loan	Bad Loan Loss Provision	Percentage of Bad Loan Loss Provision
2006	54,474,884	27,624,508	50.71%	667,715,081	652,885,216	97.78%
2007	242,116,379	114,358,189	47.23%	683,695,629	680,512,843	99.53%
2008	228,498,188	155,755,034	68.16%	705,624,677	703,489,323	99.70%
2009	194,976,256	97,488,128	50.00%	372,781,671	370,817,708	99.47%
2010	214,476,314	107,238,157	50.00%	202,334,433	202,248,099	99.96%
	<i>Average Provision for Doubtful Loan</i>		<i>53.22%</i>	<i>Average Provision for Bad Loan</i>		<i>99.29%</i>

Annex 11: EBL's Provision of Loan Loss for Pass Loan and Substandard Loan

Year	Pass Loan	Pass Loan Loss Provision	Percentage of Pass Loan Loss Provision	Substandard Loan	Substandard Loan Loss Provision	Percentage of Substandard Loan Loss Provision
2006	5,967,266,535	135,284,213	2.27%	11,082,572	2,770,643	25.00%
2007	7,453,205,999	74,532,060	1.00%	4,408,738	1,102,184	25.00%

2008	9,726,500,244	97,265,002	1.00%	10,669,326	2,667,331	25.00%
2009	13,709,822,673	137,098,227	1.00%	4,218,482	1,054,621	25.00%
2010	18,533,129,654	185,331,297	1.00%	6,306,745	1,576,686	25.00%
<i>Average Provision for Pass Loan</i>			<i>1.25%</i>	<i>Average Provision for Substandard Loan</i>		<i>25.00%</i>

Annex 12: EBL's Provision of Loan Loss for Doubtful Loan and Bad Loan

Year	Doubtful Loan	Doubtful Loan Loss Provision	Percentage of Doubtful Loan Loss Provision	Bad Loan	Bad Loan Loss Provision	Percentage of Bad Loan Loss Provision
2006	40,494,733	20,247,366	50.00%	53,178,064	53,178,064	100.00%
2007	1,977,471	988,735	50.00%	122,421,536	122,421,536	100.00%
2008	683,784	341,892	50.00%	117,882,680	117,882,680	100.00%
2009	2,353,289	1,176,645	50.00%	106,607,165	106,607,165	100.00%
2010	745,926	372,963	50.00%	120,257,697	120,064,292	99.84%
<i>Average Provision for Doubtful Loan</i>			<i>50.00%</i>	<i>Average Provision for Bad Loan</i>		<i>99.97%</i>

Annex 13: Calculation of Multiple Correlation coefficients between EBIT (X_1), Loan (X_2) and Interest Income (X_3) of NIBL

Calculation of Correlation coefficient between EBIT (X_1) and Loan (X_2) of NIBL					
Year	EBIT (X_1)	Loan (X_2)	X_1X_2	X_1^2	X_2^2

2006	152,670,976	7,130,125,502	1,088,563,219,392,830,000	23,308,426,912,792,600	50,838,689,674,270,800,000
2007	333,566,256	10,126,055,623	3,377,710,462,211,860,000	111,266,447,141,858,000	102,537,002,480,090,000,000
2008	544,310,564	12,776,208,037	6,954,225,002,400,800,000	296,273,990,081,998,000	163,231,491,804,703,000,000
2009	727,510,111	17,286,427,389	12,576,050,708,564,800,000	529,270,961,607,232,000	298,820,571,875,169,000,000
2010	1,121,956,413	26,996,652,258	30,289,067,130,394,000,000	1,258,786,192,671,830,000	728,819,233,139,377,000,000
Total	2,880,014,320	74,315,468,809	54,285,616,522,964,400,000	2,218,906,018,415,710,000	1,344,246,988,973,610,000,000

Calculation of Correlation coefficient between EBIT (X₁) and Interest Income (X₂) of NIBL

Year	EBIT (X₁)	Interest Income (X₂)	X₁X₂	X₁²	X₂²
2006	152,670,976	663,016,258	101,223,339,212,728,000	23,308,426,912,792,600	439,590,558,372,323,000
2007	333,566,256	769,195,061	256,577,516,631,462,000	111,266,447,141,858,000	591,661,041,866,794,000
2008	544,310,564	964,689,365	525,090,612,347,952,000	296,273,990,081,998,000	930,625,570,944,103,000
2009	727,510,111	1,302,121,998	947,306,919,300,522,000	529,270,961,607,232,000	1,695,521,697,675,510,000
2010	1,121,956,413	1,907,261,454	2,139,864,219,583,000,000	1,258,786,192,671,830,000	3,637,646,253,914,190,000
Total	2,880,014,320	5,606,284,136	3,970,062,607,075,670,000	2,218,906,018,415,710,000	7,295,045,122,772,930,000

Calculation of Correlation coefficient between Loan (X₁) and Interest Income (X₂) of NIBL

Year	Loan (X₁)	Interest Income (X₂)	X₁X₂	X₁²	X₂²
2006	7,130,125,502	663,016,258	4,727,389,129,406,410,000	50,838,689,674,270,800,000	439,590,558,372,323,000
2007	10,126,055,623	769,195,061	7,788,911,972,622,880,000	102,537,002,480,090,000,000	591,661,041,866,794,000
2008	12,776,208,037	964,689,365	12,325,072,018,321,400,000	163,231,491,804,703,000,000	930,625,570,944,103,000
2009	17,286,427,389	1,302,121,998	22,509,037,370,046,600,000	298,820,571,875,169,000,000	1,695,521,697,675,510,000
2010	26,996,652,258	1,907,261,454	51,489,674,238,725,500,000	728,819,233,139,377,000,000	3,637,646,253,914,190,000
Total	74,315,468,809	5,606,284,136	98,840,084,729,122,800,000	1,344,246,988,973,610,000,000	7,295,045,122,772,930,000

We have:

$$n = 5$$

$$X_1 = 2,880,014,320$$

$$X_3 = 5,606,284,136$$

$$X_1 X_3 = 3,970,062,607,075,670,000$$

$$X_1^2 = 2,218,906,018,415,710,000$$

$$X_3^2 = 7,295,045,122,772,930,000$$

NIBL Correlation (r)		
EBIT and Loan	r ₁₂	0.9909
EBIT and Interest Income	r ₁₃	0.9856
Loan and Interest Income	r ₂₃	0.9976

Now,

$$r_{13} = \frac{n \sum X_1 X_3 - \sum X_1 \sum X_3}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_3^2 - (\sum X_3)^2}}$$

$$= \frac{5 | 3,970,062,607,075,670,000 - 2,880,014,320 | 5,606,284,136}{\sqrt{5 | 2,218,906,018,415,710,000 - (2,880,014,320)^2} \sqrt{5 | 7,295,045,122,772,930,000 - (5,606,284,136)^2}}$$

$$= 0.9856 \text{ and so on for } r_{12} \text{ and } r_{23}.$$

Then,

$$R_{1,23} = \sqrt{\frac{r_{12}^2 + r_{13}^2 + r_{23}^2 - 2r_{12}r_{13}r_{23}}{1 - 2r_{12}r_{13}r_{23}}} = \sqrt{\frac{(0.9909)^2 + (0.9856)^2 + (0.9976)^2 - 2(0.9909)(0.9856)(0.9976)}{1 - 2(0.9909)(0.9856)(0.9976)}} = \sqrt{\frac{0.0047}{0.0048}} \text{ i.e } 0.9837$$

Finally,

$$\text{Coefficient of Determination } (R_{1,23})^2 = (0.9837)^2$$

$$= 0.9676$$

Annex 14: Calculation of Multiple Correlation coefficients between EBIT (X₁), Loan (X₂) and Interest Income (X₃) of HBL

Calculation of Correlation coefficient between EBIT (X₁) and Loan (X₂) of HBL					
Year	EBIT (X₁)	Loan (X₂)	X₁X₂	X₁²	X₂²
2006	263,053,495	11,951,869,350	3,143,981,004,300,880,000	69,197,141,231,715,000	142,847,180,959,469,000,000
2007	666,059,177	12,424,520,646	8,275,465,996,094,270,000	443,634,827,265,917,000	154,368,713,282,880,000,000
2008	684,092,180	14,642,559,555	10,016,860,486,759,800,000	467,982,110,737,152,000	214,404,550,321,722,000,000
2009	688,886,636	16,997,997,046	11,709,693,003,756,900,000	474,564,797,259,396,000	288,931,903,575,825,000,000
2010	902,529,625	19,497,520,482	17,597,089,849,049,300,000	814,559,724,002,641,000	380,153,304,946,010,000,000
Total	3,204,621,113	75,514,467,079	50,743,090,339,961,100,000	2,269,938,600,496,820,000	1,180,705,653,085,910,000,000

Calculation of Correlation coefficient between EBIT (X₁) and Interest Income (X₃) of HBL					
Year	EBIT (X₁)	Interest Income (X₃)	X₁X₃	X₁²	X₃²
2006	263,053,495	767,037,447	201,771,881,229,227,000	69,197,141,231,715,000	588,346,445,100,278,000
2007	666,059,177	865,765,627	576,651,140,994,509,000	443,634,827,265,917,000	749,550,120,894,703,000
2008	684,092,180	896,816,745	613,505,322,147,554,000	467,982,110,737,152,000	804,280,274,112,395,000
2009	688,886,636	938,608,270	646,594,693,642,080,000	474,564,797,259,396,000	880,985,484,512,393,000
2010	902,529,625	1,126,110,457	1,016,348,048,464,790,000	814,559,724,002,641,000	1,268,124,761,364,750,000
Total	3,204,621,113	4,594,338,546	3,054,871,086,478,160,000	2,269,938,600,496,820,000	4,291,287,085,984,520,000

Calculation of Correlation coefficient between Loan (X₂) and Interest Income (X₃) of HBL					

Year	Loan (X ₂)	Interest Income (X ₃)	X ₂ X ₃	X ₂ ²	X ₃ ²
2006	11,951,869,350	767,037,447	9,167,531,353,101,550,000	142,847,180,959,469,000,000	588,346,445,100,278,000
2007	12,424,520,646	865,765,627	10,756,722,907,258,600,000	154,368,713,282,880,000,000	749,550,120,894,703,000
2008	14,642,559,555	896,816,745	13,131,692,598,583,700,000	214,404,550,321,722,000,000	804,280,274,112,395,000
2009	16,997,997,046	938,608,270	15,954,460,600,811,200,000	288,931,903,575,825,000,000	880,985,484,512,393,000
2010	19,497,520,482	1,126,110,457	21,956,361,700,351,900,000	380,153,304,946,010,000,000	1,268,124,761,364,750,000
Total	75,514,467,079	4,594,338,546	70,966,769,160,107,000,000	1,180,705,653,085,910,000,000	4,291,287,085,984,520,000

We have:

$$n = 5$$

$$X_1 = 3,204,621,113$$

$$X_3 = 4,594,338,546$$

$$X_1 X_3 = 3,054,871,086,478,160,000$$

$$X_1^2 = 2,269,938,600,496,820,000$$

$$X_3^2 = 4,291,287,085,984,520,000$$

HBL Correlation (r)		
EBIT and Loan	r ₁₂	0.7953
EBIT and Interest Income	r ₁₃	0.8985
Loan and Interest Income	r ₂₃	0.9431

Now,

$$r_{13} = \frac{n \sum X_1 X_3 - \sum X_1 \sum X_3}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_3^2 - (\sum X_3)^2}}$$

$$= \frac{5 | 3,054,871,086,478,160,000 - 3,204,621,113 | 4,594,338,546}{\sqrt{5 | 2,269,938,600,496,820,000 - \beta 3,204.621,113\text{Å} \sqrt{5 | 4,291,287,085,984,520,000 - \beta 4,594,338,546\text{Å}}}}$$

= 0.8985 and so on for r₁₂ and r₂₃.

Then,

$$R_{1.23} = \sqrt{\frac{r_{12}^2 \Gamma r_{13}^2 Z2 | r_{12} | r_{23} | r_{13}}{1 Z r_{23}^2}} = \sqrt{\frac{(0.7953)^2 \Gamma (0.8985)^2 Z2 | 0.7953 | 0.9431 | 0.8985}{1 Z (0.9431)^2}} = \sqrt{\frac{0.0520}{0.1140}} \text{ i.e } 0.8318$$

Finally,

$$\text{Coefficient of Determination } (R_{1.23})^2 = (0.8318)^2 \\ = 0.6519$$

Annex 15: Calculation of Multiple Correlation coefficients between EBIT (X₁), Loan (X₂) and Interest Income (X₃) of EBL

Calculation of Correlation coefficient between EBIT (X ₁) and Loan (X ₂) of EBL					
Year	EBIT (X ₁)	Loan (X ₂)	X ₁ X ₂	X ₁ ²	X ₂ ²
2006	143,566,683	5,884,122,609	3,313,567,859,759,150,000	317,123,415,921,894,000	34,622,898,877,745,000,000
2007	277,828,439	7,618,671,476	2,961,675,218,503,740,000	151,118,059,879,596,000	58,044,155,059,216,000,000
2008	377,200,894	9,801,307,676	4,500,442,412,782,500,000	210,834,837,136,332,000	96,065,632,159,616,500,000
2009	487,972,659	13,664,081,664	7,986,369,880,019,590,000	341,615,794,957,646,000	186,707,127,720,461,000,000
2010	718,833,853	18,339,085,562	14,577,537,915,126,100,000	631,848,568,424,563,000	336,322,059,250,357,000,000
Total	2,005,402,528	55,307,268,987	33,339,593,286,191,100,000	1,652,540,676,320,030,000	711,761,873,067,395,000,000

Calculation of Correlation coefficient between EBIT (X ₁) and Interest Income (X ₃) of EBL					
Year	EBIT (X ₁)	Interest Income (X ₃)	X ₁ X ₃	X ₁ ²	X ₃ ²
2006	143,566,683	563,137,120	80,847,728,392,573,000	20,611,392,467,622,500	317,123,415,921,894,000

2007	277,828,439	388,739,064	108,002,767,329,441,000	77,188,641,517,176,700	151,118,059,879,596,000
2008	377,200,894	459,167,548	173,198,409,601,388,000	142,280,514,434,399,000	210,834,837,136,332,000
2009	487,972,659	584,479,080	285,209,810,797,474,000	238,117,315,931,530,000	341,615,794,957,646,000
2010	718,833,853	794,889,029	571,393,143,423,499,000	516,722,108,218,826,000	631,848,568,424,563,000
Total	2,005,402,528	2,790,411,841	1,218,651,859,544,370,000	994,919,972,569,554,000	1,652,540,676,320,030,000

Calculation of Correlation coefficient between Loan (X₂) and Interest Income (X₃) of EBL

Year	Loan (X₂)	Interest Income (X₃)	X₂X₃	X₂²	X₃²
2006	5,884,122,609	563,137,120	3,313,567,859,759,150,000	34,622,898,877,745,000,000	317,123,415,921,894,000
2007	7,618,671,476	388,739,064	2,961,675,218,503,740,000	58,044,155,059,216,000,000	151,118,059,879,596,000
2008	9,801,307,676	459,167,548	4,500,442,412,782,500,000	96,065,632,159,616,500,000	210,834,837,136,332,000
2009	13,664,081,664	584,479,080	7,986,369,880,019,590,000	186,707,127,720,461,000,000	341,615,794,957,646,000
2010	18,339,085,562	794,889,029	14,577,537,915,126,100,000	336,322,059,250,357,000,000	631,848,568,424,563,000
Total	55,307,268,987	2,790,411,841	33,339,593,286,191,100,000	711,761,873,067,395,000,000	1,652,540,676,320,030,000

We have:

$$n = 5$$

$$X_1 = 2,005,402,528$$

$$X_3 = 2,790,411,841$$

$$X_1 X_3 = 1,218,651,859,544,370,000$$

$$X_1^2 = 994,919,972,569,554,000$$

$$X_3^2 = 1,652,540,676,320,030,000$$

EBL Correlation (r)		
EBIT and Loan	r₁₂	0.9911
EBIT and Interest Income	r₁₃	0.7382
Loan and Interest Income	r₂₃	0.8015

Now,

$$r_{13} = \frac{n \sum X_1 X_3 - \sum X_1 \sum X_3}{\sqrt{n \sum X_1^2 - (\sum X_1)^2} \sqrt{n \sum X_3^2 - (\sum X_3)^2}}$$

$$= \frac{5 | 1,218,651,859,544,370,000 - 2,005,402,528 | 2,790,411,841}{\sqrt{5 | 994,919,972,569,554,000 - 2,005,402,528^2} \sqrt{5 | 1,652,540,676,320,030,000 - 2,790,411,841^2}}$$

= 0.7382 and so on for r_{12} and r_{23} .

Then,

$$R_{1.23} = \sqrt{\frac{r_{12}^2 \Gamma r_{13}^2 Z_2 | r_{12} | r_{23} | r_{13}}{1 Z r_{23}^2}} = \sqrt{\frac{(0.9911)^2 \Gamma (0.7382)^2 Z_2 | 0.9911 | 0.8015 | 0.7382}{1 Z (0.8015)^2}} = \sqrt{\frac{0.3544}{0.3576}} \text{ i.e } \mathbf{0.9764}$$

Finally,

$$\text{Coefficient of Determination } (R_{1.23})^2 = (0.9764)^2$$

$$= 0.9533$$