Lending practices of commercial banks in Nepal: A study of Siddhartha bank limited and sunrise bank limited

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Abstract

The main objective of this study is to find out the trend of deposit, loans and advances, borrowings and net profits of SBL and SRBL for last five-year study period, to evaluate the product wise lending practices of SBL and SRBL and to analyze the lending practices of SBL and SRBL as per NRB. The secondary source was used while making the analysis and interview questions were made for the personnel of SBL and SRBL for recording the views of those personnel about the lending practices of their respective banks. In order to analyze the data of deposit, loans and advances, borrowings and investments of SBL and SRBL, SPSS tool was used which generates the various results of regression model for SBL and SRBL.

Keywords: Trend of Deposit, Loans, Advances, Borrowings, Net Profits, SBL, SRBL.

1 INTRODUCTION

Banks and financial institutions play an important role in providing lending to the deprived sectors of the economy. Lending is the term which is used by overall Banking and Financial Institutions (BFIs) in providing the funds to the other commercial banks and financial sectors, to individuals, corporations, business related organizations and often to the government in need. Commercial banks acts as the financial mediator that collects the deposits from the surplus sector and hence, utilize the surplus at the deficit sector by lending with some specific interest rate. As lending is one of the most important function of all commercial banking sectors, study studies the various lending practices of the commercial banks especially: Siddhartha Bank Limited (SBL) and Sunrise Bank Limited (SRBL).

Since, lending and collecting the deposits is the main function of commercial banks, we can say that there exists the revolving relationship between all these activities of the commercial banks. The lending of the commercial banks must be mobilized in order to facilitate the providing lending to the deprived or the deficit sectors of the economy. In case of developing country like Nepal, providing the lending plays an important role. Likewise, the deprived sector can also feel relief if they get the loans as a form of lending.

In terms of Siddhartha Bank Limited, it has various system of lending to the individuals, organizations and other sectors of the economy. Siddhartha Bank has been providing the various product wise loans in the form of term loan, overdraft, trust receipt loan/import loan, demand and other working capital loan, personal residential home loan, real estate loan, margin loan, hire purchase loan, deprived sector lending, bills purchased and others. Likewise, Sunrise Bank Limited is also involved in providing various product wise loans and advances. Various product wise loans have been lent by Sunrise Bank Limited and Siddhartha Bank limited are relatively similar as per the guidance of Nepal Rastra Bank (Central Bank of Nepal). Thus, this study basically focuses on various product wises lending practices of SBL and SRBL.

1.1 Background

Lending is the term in which we give up the resources with the hope of getting the benefits in the near future. But there is no any guarantee of getting benefits in the future. The lending is done for getting more profit in the future than the amount what is lent earlier. Many manufacturing and non-manufacturing companies can use the term lending as the expenses which is for long term in the present with the expectations of getting more return in the near future. These firms aim to maintain the long-term goodwill of their firms. Lending is not free from various risks such as increase or

decrease in the taxes, rate of inflation and many other factors.

Commercial banks are highly contributing to the overall economic development of any country in the sector of financing. They are those organizations that help in the financing the any sectors of the economy. They are significantly contributing in the sector of lending and making lending practices in the country. But while lending commercial banks are not free from the various challenges and while making the lending decisions. In the research of (O.S. Olumuyiwa, 2012), there is balance in the cost of exchange of the funding by making diversification of the risks. Thus, there should be diversification of the resources in order to make lending to the various sectors of the economy. When there is availability of the resources then lending practices can be also smooth. Thus, when lending practice is smooth, credit policy can be also smooth as well as efficient.

When some industry cannot manage their financial conditions, then they need loan to manage their different needs. They can manage the loans from the commercial banks for day to day operations of the business. As various industries are growing day by day the financial needs are also increasing which can be managed by the help of lending practices of commercial banks. Industrial revolution has been increasing the various production activities in the market seeking for large capital funds which can be make available with the help of the commercial and financial sectors funds through the lending practices. These are the sources which make the capital available to the various industries.

In the research of (Acha, 2010) , there are always two groups which is have and have not groups of people. The group having is surplus and have not is deficit. There should always be the balance between the two groups. For this, the surplus group always make available the various lending available to deficit group. Thus, direct financing can be done between the two groups of surplus and deficit groups. The both the parties are linked by the help of lending practices. Commercial banks can be parties having surplus capital which can be provided to deficit group of business. Such type of provisions can be helpful in making the economic cycle moving (Mckinon, 2005). Thus, various provisions for lending of commercial banks can be helpful in lending the different deficit sectors of the economy.

1.2 Problem Statement

This whole study focuses on "**Lending practices of the Commercial banks**" in Nepal over the last five years' time period especially in case of SBL and SRBL. This study deals with the issues ongoing with the lending factors of SBL and SRBL when there is lending practices to different deprived sectors. The lending practices of the commercial sectors are not free from any risks. To make the various resources available is the main difficulties. When the resources are available like capital, then only financing is possible. Likewise, whether the available funds are sufficient or not, whether they are properly utilized or not need to be evaluated while making the funding source available. These are the basic factors that need to be considered by the commercial sectors of the economy.

While lending, interest rates need to be focused and hence, majority of the research work focuses on this. But there may be problem while determining the accuracy of the interest rates in lending procedure. These can be risky to the clients, bank itself and to the whole society. Also, rather than following the traditional approaches, commercial banks need to follow the modern system while fixing the interest rate to maintain monetary standardization with the central bank (ET Spotlight, 2018). Thus, especially decrease in personal loans can be important in economical term as well.

There may be various queries regarding the relationship of the lending practices of commercial banks which is loans and advances with deposits, profits, borrowings and investments. So, there may be various relationship of different dependent and independent various which arises the queries.

Although commercial banking sectors are considered as the most important, various policies in the lending practices have also affect the decisions of lending. Commercial banks are making strict rules and plans while lending to the various deprived sectors and is making various processes making lending lengthy, hence borrowers are worried while taking the loan. Thus, borrowers are having the problems in obtaining the loan easily.

Another challenge while making lending practices by commercial banks is determining the lending rate. The rate at the time of taking the loan might differ in few years which might challenge the

borrowers. The lending rate may differ time to time which may be different from the cost of credit. This might affect the lending practices of the borrowers. Likewise, both the lenders and the borrowers might have the misunderstanding wile calculating the lending rate.

(Pacces, 2011) mention, "there may be danger of interest of creditors while determining the deposit interest rates and supervision is often required for the banking regulations." Such types of provisions may be very dangerous to the creditors and other deposit holders. These may affect the lending practices of the banks.

There may not be any relationship between the interest rate and lending behaviour according to (Khangalah, 2016) due to which the study from such variables may not lead to the significant result in the study. The liquidity position of the banks cannot be determined carefully due to the variance in the study. However, the variables that affect lending significantly need to be studied in a detail way.

The study by (Mercy, 2016) tries to fulfil the gap of relevant estimation on the lending behaviour of commercial banks of Kenya that includes interest rates, liquidity position, cash reserve ratio, portfolio of the banks and so on. Thus, the study has various limitations and should determine the risks while lending by the commercial banks.

Thus, not only the commercial banks of Kenya, but there may be various issues in the commercial banks of Nepal also which should be addressed. The various lending activities must be made easier while lending to the borrowers and make the lending procedure easier so that it would be easier to obtain the loan.

1.3 Objectives

Certain objectives determine the research activities. This research study is dedicated in studying the "Lending strategy followed by the SBL and SRBL" by considering the data of commercial banks of Nepal for last five years. The other specific objectives of this study will be as follows:

- To find out the trend of deposit, loans and advances, borrowings and net profits of SBL and SRBL for last five-year study period.
- To evaluate the product wise lending practices of SBL and SRBL.
- To analyze the lending practices of SBL and SRBL as per NRB.

1.4 Research Questions

The research is always based on what we deal in the whole study. So, there are various questions that arises at the time of research which the researcher needs to answer. The various questions that can be formulated to study the lending practices of SBL and SRBL are as follows:

- What is the trend of deposit, lending and net profit/net income of both SBL and SRBL for five years?
- What is the product wise lending behavior of the SBL and SRBL?
- Is the bank lending the funds as per the central bank's guidance?

1.5 Purpose

The main purpose of this study is to study the product wise lending practice and behaviors of SBL and SRBL from near, about its policies, strategies involved while providing loans and other advances to the individuals, organizations and other institutions.

1.6 Scope & Significance

This study is based on the lending practices (loans and advances) of commercial banks that are SBL and SRBL. We can find very few researches about the lending practices of the banking sectors in comparison to the other. So, this research mainly focuses on the loans and advances of the banking sectors, borrowings issued by those banks, sources of deposits accepted by the banks, net profits of the banks that covers the lending practices of the banks.

Loans and advances are considered as the lifeline of the all banking sectors, proper and appropriate research needs to be done. So, the research activities based on the lending practices of commercial banks are very significant of the study. This study can also help the various credit departments of the banks to take the information that has been done.

There is an enormous scope of the banking sectors of the Nepal as there is extreme increase in the

banking sectors. So, the bankers can have the high scope due to this study. So, various strategies need to be developed for loans and advances of the banks and financial sectors. Growth in the commercial banking sectors can be very important and hence, loans and advances practices need to be considered. The various significance of the study are as follows:

- Bankers can be benefitted through the data of various banks under study with which they can be up to date with the information.
- Banking executives and credit managers can also get the information so that they can get information on how to manage the credit of the organization and can find the factors that affect the credit of the organization.
- The recommendations of the study can be helpful for the policy and strategy makers to make the credit strategy and policy.

2 LITERATURE REVIEW

The credit activities are the important factors that contributes towards sound economic growth and financial strength of the commercial banks which will help in investing in the productive sectors. Various financial institutions are the source of lending to the different sectors which represents as the major assets of the banks and financial institutions. The main source of lending is through the interest collected by the banks and financial institutions (Timsina, 2014). So, the credit lending procedure is governed by the availability of the funds in the banks and financial institutions which are determined by the interest collected by the banks.

In the context of business and finance, lending includes various types of commercial loans and advances which are essential in determining the lending behavior of the banks and financial institutions (John, 2014).

There are some of the developed countries which has more debt of long-term nature of about more than 70% especially in the country like Japan (Ngomsi, 2012). For such countries, studying the lending practices of the commercial banks are very essential. But in case of developing countries, the weight of debt is very low while lending the long-term loans. So, there are biases in the data of various developed and developing countries.

(Benjamin M Tabak, 2009) in his paper mentioned that banks need to manage their credit by diversifying the credit. For this, banks need to maintain the credit portfolio and evaluate their performance and risk of diversification. However, many banks also prefer to lend in those sectors in which they earn more credit advantages.

Lending actually is dependent upon various factors such as whether there are availability of funds or not, what is the cost of fund, whether there is capacity of borrowers to repay the credit that they have borrowed and so on (Gautam, 2009). If these factors are properly analyzed then it helps to know mobilization of resources and availability of the funds of the banks and financial institutions.

If the available funds are not properly utilized, then there occurs lending risk which can be also termed as credit risk and it needs to be managed properly. Lending is the main assets of the BFIs and if the lending portfolio is properly managed, then it acts as the source of revenue (Malla, 2017). The study of Malla also analyzed different types of loans such as security wise, product wise and sector wise loan that are concentrated by the banks and as well as the risk factors associated with the credit portfolio.

BFIs also lend to the small and medium enterprises (SMEs). The lending in such sector is very vital for the economic as well as social development of the nation. The lending in such sector is not only decided by the borrowing demand as per the need of SMEs but also affected by the credit behavior which need to be investigated and hence known whether the particular sector is the potential borrower or not (Vidya, 2017).

As per the research of (Ivaskeviciute, 2008), there is lending risk while lending to the various parties. Similarly, as there are various kind of credit provided by the banks, analysis of the loan needs to be done. The research has focused on the evaluation model which need to be evaluated while using the lending portfolio. The lending portfolio is a must while lending at different sectors. So, the lending risk evaluation model helps in determining the lending as per the banks' requirements and on that basis the individual loan can be performed and the portfolio can be evaluated.

(Penas, 2014) agrees that collateral that are kept personally leads to longer maturities than the collateral that are kept in terms of business. Personal collateral generally are kept in the personal terms providing the incremental assets. This help the creditors who like secure loans for claiming instead of keeping the various collateral in business terms. Thus, BFIs are likely to give loan to the personal firms rather than the business firms.

BFIs are continuously providing loans to SMEs. But the decisions may affect the provisions of loans to such enterprises. Banks have to take the risk while lending to SMEs. It is because such may have insufficient collateral which may have possibilities of high risks of losses and the banks cannot expect returns from such enterprises to repay the loan. Also, there is no reliable information regarding the income, returns, risks and so on due to which it creates difficulty for the banks in lending (Kravchenko, 2011).

In the words of (Afroz, 2013), the lending needs to be diversified and the question of how and where to diversify must be known. For this, the credit portfolio management is a must to be done. This involves both assets and liabilities management. The lending practices become more effective when there is portfolio in the lending where the BFIs can determine how to lend and where to lend. For the effective survival of the BFIs, the potential diversifying of the credit area need to be identified and hence, appropriate mechanism can be also determined for the effective lending practices.

(Nepal Rastra Bank, 2007) published a report entitled with "Money and Banking". This report shows the status of deposit and loan of commercial banks, loan purchase and repurchase, deposit mobilization. NRB claims that deposit collection is the major source of lending and hence resources can be mobilized when there is sufficient deposit collection.

BFIs can lend at high rates by decreasing the rate of deposits so that they can increase their profit margin and when there are various increase in the profit, then they can help in loans and advances or lending practices of the commercial banks (Bhattarai, 2015). The difference between the higher lending rate and lower deposit rates are termed as spread rate and hence, BFIs can earn profit. Banks do not charge lower in the lending rates as they might not be sufficient in covering deposits costs, and other expenses such as general expenses or revenue losses. Thus, lending rates are the most important in determining the lending practices of BFIs. This is the major concerns for the policy makers, the whole banking industry as well as public.

(Cihak, 2004) in his study has mentioned that there are various determinants in lending rates and interest rates especially in case of Croatia. According to him, there is negative relation between lending rates and interest rates spread. Likewise, if there is high capital adequacy, then it affects the lending rates in negative way.

There have been various challenges that have been created by the global financial crisis which affect the deposit mobilization in the commercial banks of the world. For the alternative, commercial banks created various outlets which make easy for investment for the investors (Obamuyi, 2013). Thus, banks deposits and lending activities have been seriously affected by such activities and such change.

In the research of (Vazquez, 2001), shows that the cost of lending affects cost of bankruptcy by increasing the costs and the cost decreases with the bank size. While lending, if there is bankruptcy then the costs of lending increases as the costs cannot be overcome if the borrowers are in losses. Likewise, when there is large bank size, the costs decrease and vice versa.

According to the study of (Zehnder, 2006), the repayment behavior of the borrowers depends upon the number of credit transactions. The behavior of borrowers is positive when there is high number of credits in the banks. Higher number of credits leads to high deposits which ultimately leads to more liquidity that results to lower interest rate of the deposit and loans.

Banks charge higher interest rates to the larger firms in comparison to the small firms based on the repaying capacity and provides non-performing loans to such larger firms (Thorsten Beck, 2008). The large firms are project based, have long term investment and hence have high capacity of paying interest.

One of the study done at India by (R. Edward Vettivel, 2019) have shown that Reserve Bank of India has been engaged in providing customer service in an improved manner, managing credit and

encouraging other banks to provide quality banking services to all related customers.

(Olokoyo, 2011) claimed that various variables taken under study can be the determinants of the lending behavior of commercial banks which may have the functional relationship with each other. There is significant relationship found from the regression analysis where the lending behavior have affected the commercial banks. The same study also suggested that the deposits of the commercial banks must be fully utilized for enhancing the lending performance which can be done through formulation of time bound strategies and financial plans.

3 RESEARCH DESIGN AND METHODOLOGY

Research methodology can be defined as a way to systematically solve the research problem (Kothari, 2009). So, in this research methodology, we can apply the methods as well as we can analyze why and what methods to be used in research study. This research method helps in finding the issues as well as find the remedies. Researcher should have high knowledge in determining where and how the research methodologies to be applied and for this we also have to know the context of our research study. Research methodology is mostly concerned on reliability and validity issues for which we need to

test the reliability and validity of the data for accurate measurement of data (Babbie, 2000).

3.1 Research Philosophy

The term research philosophy refers to a system of beliefs and assumptions about the development of knowledge (Saunders, 2009). While doing research, there is also the development of some kind of knowledge which can be used in the other field of study. If we make our study primary based, then questionnaire can be the most effective methods as this help in reducing the personal bias of researcher. Likewise, for secondary based data we need to decide, why we have chosen must be find out.

If we can properly make the research philosophies, then it helps in the development of the theories that we can apply in our research-based work. Hence, for this study, secondary data has been used by undergoing through the annual reports of SBL and SRBL. This helps in finding out what are the major sources of lending and how the funds are collected for the lending purposes.

3.2 Research Approach

There are various kinds of approaches that can be done while doing research. Particularly in research methodology, there are three approaches (Bell, 2015).

Deduction

This approach provides the relevance in the hypothesis of the study and tests the validity of the assumptions which are the hypotheses or theories. This approach is used to determine theory falsification or verification.

Induction

This approach is usually accepted while we need to develop a separate theory or generalization. In other words, this approach is for theory generation and building.

Abduction

In such approach, there are various facts, puzzles which are used in surprising forms and hence research process is used for their explanations. This method is either used for building new theory or modifying existing theory.

Thus, in our study, we have used all the above approaches and hence, the research approach used in our research is mixed approach as there is combination of hypothesis generation and testing, theory generation as well as modifying the theory.

3.3 Research Strategy

The research is an applied research as this is based on already done research about the lending practices of SBL and SRBL. So, the strategy of the research can be applied research. There are various earlier studies made on the same topic which is Lending Practices of SBL and SRBL. Earlier research is not only done for the only two banks of Nepal but for other banking sectors as well. Thus, this research can be viewed as completely new research which is based on earlier research topics.

3.4 Research Framework

Various theories have been considered while formulating different variables under the study. Those study have driven various variables such as deposits, investment, borrowings and net profit/net income as the independent variables which affects the lending behavior loans and advances as the independent variables. These variables may or may not have significant effect on other variables. Also, they may or may not influence the lending behavior of the commercial banks in the context of Nepal. Those dependent variables i.e. lending behavior (loans and advances) and independent variables (deposits, investment, borrowings and net profits) and their relationship are shown in the following research framework:
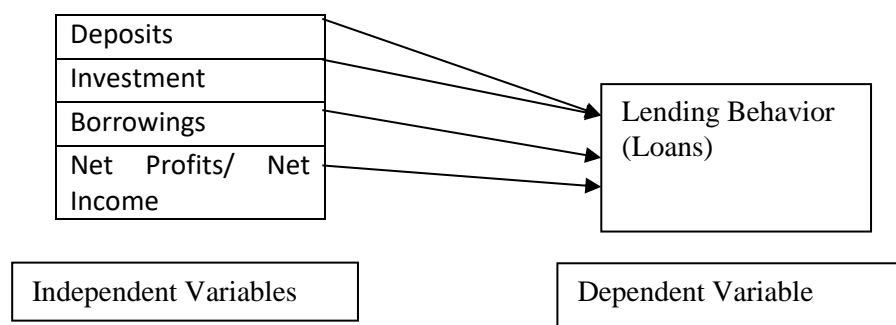

Fig 1.14: Research Framework of Dependent and Independent Variables

The Dependent Variable: Total Loans (Lending Behavior of Commercial Banks)

Loans and advances have been taken as the dependent variables in this study. The loans have been considered both loans and advances that are lent by the commercial banks to both private and public sectors. The loans can be obtained from the assets side of balance sheet of all commercial banks. Thus, the trends of loans from FY; 2014/15 has been studied till FY 2018/19 i.e. up to five years.

The Independent Variables: The determinants for lending behavior of commercial banks of Nepal

The independent variables that affect the lending behavior of commercial banks taken into study are deposits, borrowings, investments and net profits which have been already defined in 1.13.

3.5 Research Choices

This research is a quantitative research and the main reason for making the choice is that we have collected the data in a quantifiable way. The qualitative data is based on the non-numerical data which is not used in this study. This research will be undergoing statistical, mathematical and computation of the collected data. From the mathematical operations a separate theory will be formulated which can be the best way of doing research. This will contribute to new knowledge and understanding to the researcher.

3.6 Time Horizon

According to (Saunders, 2009), time horizons are the most used term in research design for the research methodology. Specially, in research methodology, the time horizons are basically of two types: longitudinal and cross-sectional. In longitudinal study, researcher can determine how people change over time. For this, the researcher repeatedly tests the same group of individuals from time to time.

Likewise, in cross-sectional study, this is conducted only for the limited time period. In this research, researcher conduct test for the multiple groups of people from the population in the same period of time. This research is also limited to specific time period; thus, this research is cross-sectional study.

3.7 Data Analysis

Data analysis is an important step in research methodology. We can collect the data in order to make business decision making. So, useful information must be taken out from data and make decision analysis from the data analysis. There can be numerous way of data analysis, among them descriptive analysis can be the one of the method.

Descriptive analysis helps in analyzing complete set of data that we have collected or from the sample

of numerical data in a summarized way from different annual reports from last five years. This can be done from regression analysis in order to see the relationship between various dependent and independent variables in a whole.

3.8 Sources of Data Collection

This study is based on the analysis of primary and secondary data. The primary source is by survey among the personnel of SBL and SRBL banks. The secondary sources of data have been employed to understand the lending practices of Siddhartha Bank Limited and Sunrise Bank limited.

The necessary data required for this study was collected from annual reports of concerned banks. The study analyzed the financing constraints position of firms classified on various bases as described earlier for the period between 2014 to 2019. Likewise, various publications of news, brochures, website have been also reviewed for reference about what are the lending sources of those banks.

Besides these, interview questionnaire was prepared to know the views of the staffs employed at SBL and SRBL and were specially focused on the credit department.

3.9 Sampling

In sample, researcher selects particular units from the total population under study so that the study becomes easier. If we conduct our study in the whole total population, then it may occur various difficulties like inaccessible population, no coverage of whole population and so on. So, for avoiding the errors and bringing accuracy in the result, samples must be selected. But drawing samples haphazardly may result in the inaccurate conclusions. In this research, we have collected the annual reports of SBL and SRBL for the secondary data and for primary data personnel of SBL and SRBL especially working in credit department have been taken as the sampling.

3.10   Data Collecting Procedures

The necessary data required for this research was collected from annual reports of concerned banks i.e. SBL and SRBL. The study analyzed the financing constraints position of firms classified on various bases as described earlier for the period between 2014 to 2019. Likewise, questionnaire was prepared for collecting the views of respondents about the effect of deposits, borrowings, investments and net profits in loans and advances to determine the lending behavior of SBL and SRBL.

Ethical Considerations

Every study is not free from ethical issues. So, while conducting the research, certain ethical values must be considered. We have taken the annual reports of SBL and SRBL which is published to the public and anyone can use this report as a reference. We have used the reports in the reference sections. As this study is based on secondary data, this study has been mainly based on the published data (company balance sheet and P&L account) of Siddhartha Bank and Sunrise Bank Limited covering the period of 2014 to 2019. Therefore, from the empirical and theoretical perspective, this study has been limited to the available observations and literatures. The study is based on only 5 years observation of two financial firms. For a better analysis, it would be better if the period of the study extends over longer period of time with large number of firms. Therefore, the relevance of the study is affected by the reliability of secondary data collected, and correctness of analysis entirely depends on the truthfulness of such data.

4 DATA ANALYSIS AND FINDINGS OF RESEARCH

4.1 Descriptive Analysis

This section deals with the descriptive analysis of the data collected through the secondary data focusing on the annual financial reports of Siddhartha bank and Sunrise bank. The sources of funds and the lending loans and advances of two banks are taken under study. The various variables that affect the lending procedure of banks are studied which helps the researcher to find the various relationship between dependent variables and independent variables.

Likewise, the trend of deposit, lending of SBL and SRBL can be seen using the graph and from the data that are collected through the annual reports of both SBL and SRBL.

4.1.1 Trend of Loans of SBL

In case of observing the trend of loan, we have collected the data from F/Y 2014/15 to 2018/19 from annual reports of SBL. It has been seen that the loans and advances are the services that SBL has been providing to its customers. The loans and advances has been providing in various different categories and they are:

- Term loan
- Overdraft
- Trust receipt loan/import loan
- Demand and other working capital loan
- Personal residential home loan
- Real estate loan
- Margin loan
- Hire Purchase loan
- Deprived sector lending
- Bills purchased
- Others

Under these different loans and advances categories, SBL has been providing the loans to its valuable and dedicated staffs from internal and external sources. The details of the loans and advances of SBL and the trends can be identified from the table below:

Particulars	2014/15	2015/16	2016/17	2017/18	2018/19
Loans and advances					
Term loan	7554.27	11349.04	13039.02	18381.20	25807
Overdraft	17316.2	23981.52	27983.51	21431.44	22833.3
Trust receipt loan/import loan	0	0	0	3769.394	4627.37
Demand and other working capital loan	0	0	0	12466.40	20326.0
Personal residential home loan	2441.667	3568.909	3816.395	4358.121	4997.985
Real estate loan	3419.347	5525.613	6867.515	7762.639	7223.357
Margin loan	464.032	1511.102	1414.587	2037.673	2781.234
Hire purchase loan	0	0	0	9083.82	9760.2
Deprived sector lending	0	0	0	1820.865	3392.35
Bills purchased	0	0	0	45.115	66.498
Others	5908.53	9414.697	12865.337	3171.861	4305.922
Total	**37104.08**	**55350.891**	**65986.367**	**84328.536**	**106121.3**
Mean	**69778.24**				
S.D	**26564.35**				

Table: 4.1 1: Trends of loans and advances of SBL for five years

The above table shows the trends of various categories of loans and advances. The term loan and overdraft can be seen increasing in each year from fiscal year 2014/15 to 2018/19. Likewise, it is seen that SBL has not given trust receipt loan and demand and other working capital loan from F/Y 2014/15 till 2016/17 and it has increased last two years. The personal residential home loan also has increasing trend in last five years. In case of real estate loan there is also increasing trend whereas margin loan there is fluctuation in the F/Y 2015/16 and 2016/17 but increasing in last two years. SBL hasn't issued any hire purchase loan, deprived sector lending and bills purchased in first three years upto 2016/17 but they are in increasing trends in last two years. Thus, the terms of loans and advances have been in increasing trend.

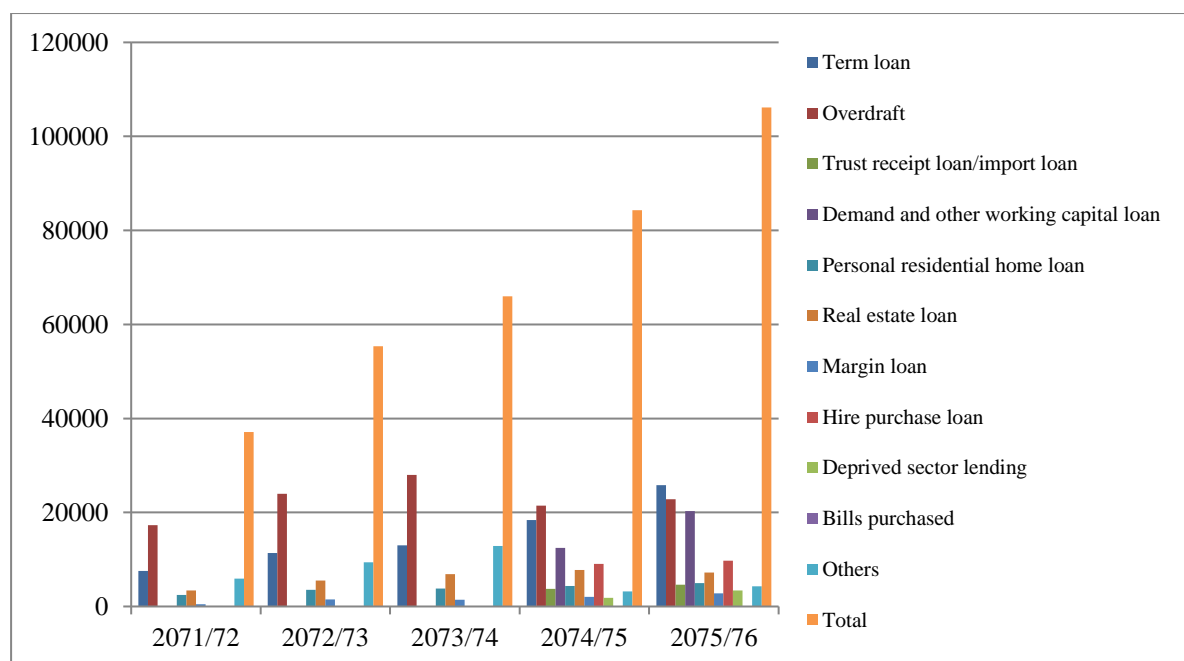The above table can be explained with the help of graphs given below:

Fig 4.1.1: Graph representing the trends of loans and advances of SBL

The above graph represents the trends of loans and advances from F/Y 2071/72 to F/Y 2075/76. The total loans and advances is in increasing trend in each year. Likewise mean of the total loans and advances is 69778.24 and the S.D is 26564.35 which seem to be good for SBL.

5 Discussion and Conclusion

5.1 Discussions

Lending is the major activities of various banks and financial institutions. Banking activities help in the upliftment of the national economy. For this, lending and deposits collecting activities plays an important role. Since, the banks are going through merger and acquisition, commercial banks are taking over the banking system whereas there is chance of extinction of development and other finance companies. Among the 27 commercial banks of Nepal, SBL and SRBL have been taken under study to study the lending practice of those banks.

But the lending function of banks is not as easy as the borrowers think it is. There are various lending challenges. The major challenges are monetary policy. There is unstable political environment in the country due to which monetary policy is also changing. The monetary policy if are not in favor of the commercial banks, then lending practices might be very difficult. Banks have to face the challenges if they are not able to attract the investors.

The objectives of this research are to find out the trend of deposit, loans and advances, borrowings and net profits of SBL and SRBL for last five-year study period, to evaluate the product wise lending practices of SBL and SRBL and to analyze the lending practices of SBL and SRBL as per NRB.

The study is based on only two commercial banks which are SBL and SRBL out of the 27 commercial banks. The study has been based on the data of five fiscal years which are F/Y 2014/15 to F/Y 2018/19 by considering the secondary data of SRBL and SBL as well as survey to the personnel of SBL and SRBL. Since, the annual reports have been considered, regression analysis is the basic tool used for the study of different independent variables which is loans and advances and dependent variables which is borrowings, deposits, investments and net profits. Likewise, trend analysis has been also used to see the trends of dependent variables' of SBL and SRBL for the purpose of getting information relating to the lending practices of SBL and SRBL.

5.2 Conclusion

Since, the study is based on the lending practices, it is believed that the facilities of lending is the important function of all the banks and financial institutions. In this research, the study is based on

the research about the lending practices that SBL and SRBL have undergone in order to get to the conclusion. The most important function of the banks is to collect the deposits upon which lending activities rely on. So, for banks and financial institutions, it is very necessary to focus on the lending part and must be the major priorities.

Also, from the survey that have been done with the various personnel of SBL and SRBL, we can come into conclusion that banks have been lending as per the directives of the NRB. Likewise, since, all the respondents were agreed upon the fact that deposits affect the lending practices, deposits can be considered as the main source for lending to the various individuals and business units.

The various determinants that affect the lending practices of SBL and SRBL as per our research are deposits, borrowings, investments and net profits. The data have been taken for the period of five years F/Y 2014/15 to 2018/19 from various annual reports especially financial statement of SBL and SRBL.

In case of SBL by using the regression analysis we can come to conclusion that deposits and borrowings have the positive effect on the loans and advances whereas net profit/income has been affecting negatively on loans and advances. From the regression analysis, we can be clear that when there are more deposits and borrowings, then there will be more loans and advances and vice-versa.

In case of SRBL, as per the regression analysis, there is positive effect of deposits, borrowings and investments on loans and advances and negative effect of net profit/income on loans and advances. If there is increase in the volume of deposits, borrowings and investments then SRBL can issue more loans and advances to the individual units and business units and vice-versa.

From the trend analysis, loans and advances of both SRBL and SBL is increasing from last five fiscal years, deposits are also increasing, borrowings of SBL is fluctuating in nature whereas SRBL has no any borrowing in last fiscal year except in the last fiscal year. The investments of SBL is also in fluctuating trend, whereas of SRBL is increasing and hence we can say that SRBL has a very good investment in different sectors. Likewise, the net profit of SBL is increasing in last three fiscal year but decreased in huge amount in F/Y 2017/18 and again increased in last F/Y. In case of net profit of SRBL, there is increase in the net profit in all fiscal years.

5.3 Limitation of the Study

This study has been done by taking the various sources from secondary data and just considering the interviews taken from the SBL and SRBL staffs. Although different steps have been taken while making the research, the study has some limitations too.

- The result may not be accurate as the data of SBL and SRBL is only considered by using various published data.
- The study only prioritizes the commercial banking loans and advances and ignores other development and financing sectors loans.
- This tool used in the research analysis may lead to the wrong result which is based just as assumptions.
- The various assumptions undertaken in the study might not be true.
- The study is only focused on SBL and SRBL which may be limited.

5.4 Recommendation

The recommendations for the SBL and SRBL relating to their lending practices can be given based on the above discussions and conclusions drawn which are as follows:

- While making the trend analysis, volume of loans and advances of both the banks SBL and SRBL is in increasing trend which can help the bank earn more interest on the loans and advances. This study ignores the tracking of the loans which need to be done by the banks in order to ensure that the lending is done in proper way.

- The lending must be done by evaluating the mortgage or collateral of the borrowers which is not studied by this research. However, both SBL and SRBL are recommended to make the proper evaluation of the collateral before making lending decisions and after that proper follow up of the issued loan need to be done as well.
- Besides the loan and advances factors, there are different risks which are associated with the lending practices such as internal and external environmental risks which need to be evaluated by both of the banks to ensure that the lending has been done in better way.
- Since, the borrowing and investment factors of SBL are in fluctuating situation, SBL has to find the way of secured investments in various sectors.
- SRBL has only focused upon borrowing in last F/Y 2018/19 which needs to be focused more and volume of borrowings should be increased by SRBL to make proper lending decisions.
- All the banks and financial institutions must follow the NRB directives while making lending decisions as NRB plays an important role in every banking sector. Thus, efficient rules and policies of NRB must be strictly followed by every bank to increase the productivity, performance and profitability of the banks.

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