

CHAPTER I

INTRODUCTION

1.1 Background of study:

This chapter shows the history of banking, concept of loan, profile of sample banks, statement of problem, objectives of study, research methodology etc. The initiation of formal banking system in Nepal commenced with the establishment in 1937 of Nepal Bank Limited (NBL), the first Nepalese commercial bank. The country's central bank, Nepal Rastra Bank (NRB) was established in 1956 by Act of 1955, after nearly two decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB), a commercial bank under the ownership of His Majesty's Government of Nepal (HMG/N) was established. Thereafter, HMG/N adopted open and liberalized policies in the mid-1980s reflected by the structural adjustment process, which included privatization, tariff adjustments, liberalization of industrial licensing, easing of terms of foreign investment and more liberal trade and foreign exchange regime was initiated. With the adoption of liberalization policy, there has been rapid development of the domestic financial system both in terms of number of financial institutions and as ratio of financial assets to the GDP. As of October 2010, the number of commercial banks has reached 31. A total of 79 finance companies, other development bank and numerous credit cooperatives have also been established. (www.nrb.org.np).

In the context of banking development, 1980s saw a major structural change in financial sector policies, regulations and institutional developments. HMG/N emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management (Acharya et al, 2003). These policies opened the doors for

foreigners to enter into banking sector under joint venture. Consequently, the third commercial bank in Nepal, or the first foreign joint venture bank, was set up as Nepal Arab Bank Ltd (now called as NABIL Bank Ltd) in 1984.

Then after, two foreign joint venture banks, Nepal Indosuez Bank Ltd. (now called as Nepal Investment Bank) and Nepal Greendlays Bank Ltd (now called as Standard Chartered Bank Nepal Ltd.) was established in 1986 and 1987 respectively. Thereafter, another 12 commercial banks have been established within the period of 12 years. Nepalese banking system has now a wide geographic reach and institutional diversification. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business till this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost – perhaps being at two or three time of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities.(Bhandari, 2003).

1.2 Concept of 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. (<http://en.wikipedia.org/wiki/Loan>).

A bank loan is a monetary loan received from a commercial lender. The loan may have a specific purpose, such as a car loan or a home loan. It has a predetermined duration, and the loan has an interest rate that is either fixed or adjustable. Generating loans and charging interest on those loans is the very purpose of a modern bank. Banks even loan money to one another occasionally through a facility known as the Fed funds rate. (www.ehow.com).

Loan disbursement

Loan disbursement means the amount of the credit or loan outflow by a bank or any other financial intermediary in a certain timeline. One of the major sources of income of any financial institution is the amount of interest earned through their disbursed loan. Hence all financial institution tries to disburse their loan in a secure sector as much as they can.

All banks and financial institution provides loan for different purpose and different time period. The distribution of loan amount under different heading and sector is known as loan disbursement. Various types of loan are made available by all banks and financial institution. These include term loan, working capital (overdraft / short term loan) ,trust receipt / importers' loan ,packing credit / exporters' loan , priority sector / deprived sector loan ,home loan ,hire purchase loan ,education loan , foreign employment loan ,loan against :1st class bank guarantee, other bank guarantee, other financial guarantee ,our fixed deposit, other's fixed deposit ,government bonds ,foreign currency deposits ,marketable securities ,loan against marketable securities ,consortium / syndicate loan and other loans.

These loans are disbursed against various types of securities. Before granting loan, all four C's of credit are investigated by the bank. The character, capacity, collateral, and capital of the borer are examined and then only the decision to grant loan is taken. The lending function is performed by the bank taking into account the factors like safety, liquidity and profitability and striking a balance

among these. The lending policy of the bank includes grouping of the borrower. Most of the steps taken for loan disbursement are general and similar to those adopted by most of the commercial banks in Nepal.(Banstola, 2003).

Loan recovery/collection

Loan realization is the amount of money or credit or loan recovered out of the disbursed loan during a certain period of time. If the loan realization process is not running smoothly as planned during the time of Loan disbursement the loan it will hamper all the Loan disbursement process of the bank. Non-realization of loan is one of the main causes which deteriorate the financial strength of any financial institution. Loan recovery means to collection of the principle amount of loan. Every loan taken must be paid back on specific time period. The repayment the loan is according to the terms and condition in the contract. The loan recovery is one of the important functions of the banks. The success of the banks does not depend only on the extension of more amount of credit .The recovery of extent is equally important. In fact, the timely recovery is crucial thing of the Loan disbursement activities of the banks.

1.3 Profile of Himalayan Bank Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL.

Therefore, they stand for the innovations that they bring about in this country to help Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks. (www.himalayanbank.com).

1.4 Profile of Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994, a joint venture with Punjab National Bank, India with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network and over 250 correspondent banks across the globe. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account. Bank has also set up its representative offices at New Delhi to support Nepalese citizen remitting money and advising banking related services. Recognizing the value of offerings a complete range of services, they have pioneered in extending various customer friendly products such as home loan, education loan, Flexi Loan, Property Plus (Future Lease Rental), home equity loan, vehicle loan, loan against share, loan against life insurance policy and loan for professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. EBL has 26 branch office spread all over Nepal to provide banking facilities. (www.everestbankltd.com).

1.5 Statement of the problem

Commercial banks are in growth stage and expanding their operation but commercial banks of Nepal do not have successful results and operations. Due to tough and unhealthy competition and lack of peace and political instability, these banks are facing problem on loan disbursement and recovery patterns due to lack of supervision. The loan granted by these banks for one purpose is used for another. Similarly, the Loan disbursement procedures are cumbersome and lengthy. The terms, conditions and languages are unfamiliar to the general people.

The problem of the study is directed to find the solution of following questions:

- What are the purposes of loan mobilization of EBL and HBL? Does there any relationship on loan disbursement and recovery of EBL and HBL?

- Which sector the loan of EBL and HBL are distributed and what loan products are provided by these banks?
- What process is adopted by EBL and HBL for granting loan? Do they both follow same?
- What is the relation between the principle amount collected and recovery on invested loan of EBL and HBL?
- What is the comparative status of selected sample banks?

1.6 Objectives of the study

The general objective of this research is to analyze, examine and interpret the loan disbursement and recovery practices and policies adopted by Everest Bank Ltd and Himalayan Bank Ltd.

The major objectives of the study are:

- To evaluate and analyze the process of the total loan investment , recovery and outstanding of EBL and HBL under NRB directives
- To find out the different types of loan offered by each sample bank and their investment pattern.
- To analyze the loan process & loss provisions of EBL and HBL.
- To analyze the ratio of fund mobilization of EBL and HBL
- To compare the finding of EBL & HBL

1.7 Limitations of the study

Every research has to be conducted within certain period. This study is related with financing of EBL and HBL with reference to loan disbursement and recovery pattern. The following points determined the certain limitations for the study.

- The focus is on loan disbursement and recovery pattern of EBL and HBL. Only these aspects are touched by research. Other functions of the banks are not covered in this research and the aspects like the profitability of the bank was not included in the study.
- The study is based on primary as well as secondary data. The truth of the researcher is based upon the data available from the bank.

- The study analyzed the data and information for 5 years. A consolidated trend for 5 years is not sufficient for the work and projection.
- Not all the data as per the objectives of the study is available from the bank. The study on the condition of different types of recovery is limited.
- Though there are 31 commercial banks operating in Nepal, the study considers only two joint venture commercial bank for the study.

1.8 Significance of the study

Loan disbursement to different sectors is important for the economic development in general and reduction of poverty and unemployment in particular. Due to this need, there are many commercial and joint venture banks to cater to the needs of the people. So, Loan disbursement to people and enterprises is very crucial to the country. Disbursement and collection of the loan, if done properly and rationally can help to reduce unemployment and poverty of Nepal. Lots of research works on the other performance of commercial banks has been found but this specific function does not seem to be given importance before. It is an attempt to help the bank to improve its performance and able to face competition.

In the present context, the study has large use. It can be advisable for the related financial institution in defining the appropriate rate of interest. This study may be useful to maximize the utilization of loan taken for specific purpose. Similarly, it may help the bank to mobilize the loan into productive area. Interested persons, researchers, policy makers, institutions and government agencies may be benefited from such a study.

1.9 Focus of the study

The study becomes very vague if their whole matters are analyzed. So the focus was on loan disbursement and recovery. Each and every topic was fully tried to compare. But due to the nature of data and lack of updated and necessary one, they was presented differently. Loan disbursement refers supporting different projects with financial need. It is very essential for development of any sector. Recovery is essential as disbursement for granting additional loan and for smooth running of business and nation. This study mainly focuses on one of the important functions of loan disbursement and its recovery from the borrowers. It analyzes

the disbursement criteria and procedure of EBL and HBL, the position of the bank with respect to the efficiency in providing loan, the recovery procedure and the problems of the loan recovery faced by the bank. The study attempts to know about the facts related to the “loan” be it disbursement or collection.

1.10 Organization of the study

This study is divided in 5 chapters. Prior to the body of the thesis several pages of preliminary materials such as title page, approval sheet, viva sheet, acknowledgments, table of contents, list of figure, list of table, abbreviation used etc. are presented.

The study is organized as follows:

Chapter one includes the introduction & background of the study. It contains the general introduction of loans, loan disbursement, loan recovery, loan outstanding of commercial banks in Nepal, a brief profile of Everest Bank Limited and Himalayan Bank Limited.

Chapter two was sub-divided into two heads. These are theoretical review and review of related thesis. Theoretical review concerns with types of loan, Loan disbursement areas, interest rate, loan disbursement procedure, recovery procedure, security and margin requirements and terms and conditions to disburse loan. Review of related thesis relates to various studies done which were related to researchers study.

Chapter three contains the presentation of how the study was done or the research methodologies. Various financial tools and statistical tools were defined for this purpose.

Chapter four is the main part of the study. Presentation and analysis of the relevant data and major findings was included in it according to the study.

It contains the summary, conclusion and recommendation. Recommendation was given on the basis of the data analysis and findings drawn from the analysis.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual /Theoretical review

This chapter reviews existing literature and researches related to the present study for the purpose of findings out what had already been explained and how the present research adds to this dimension. It is divided into two sub-sections. The first section presents the Theoretical Review and another section presents Empirical Review of related studies which includes the review of journals, master's dissertations etc. The theoretical framework covers the concepts of basic terms used in the study and the review of related studies is study carried out in related area.

- **. Types of loan**

Classification of loan is not an easy task. It can be many depending upon volume and nature if transaction of institution. Here, we deal with loans mainly used by HBL and EBL. Classification of loan can be presented on the basis of security, time and use.

- i) **Loans classification according to security**

Loan can be categorized into secured and unsecured. Secured loans represent that which has marketable assets as collateral. It may include stocks, bonds, private property of person, negotiable bills and trust receipts. Unsecured loan means that which do not have sufficient collateral pledged for granting loan. But bank do not disburse loan without studying financial performance of person. If a person have good financial image, strong willingness to pay back loan and is believed by bank, loan may granted.

- ii) **Loan classification according to time**

According to time the loan cab is classified into short, medium and long term.

a) Short term loan

It includes the loan for the period not exceeding 24 months. HBL and EBL grant loan that have maturity period of 24 months. Speculative businessman seeks this type of loan to take quick advantages.

a) Medium term loan

Medium term loan period may be extended to five years from years from two years. Businessman usually takes this type of loan for business promotion, trade expansion and meeting short period capital need. Middle-class businessman takes this type of loan.

b) Long term loan

Bank provides long term loan for the period exceeding 5 years to 20 years. This type of loan is very necessary for the smooth operation of business. For installation of plant, construction of building this type of loan is necessitates. Companies and other national and multinational institutions generally use this type of loan. (Annual report: EBL & HBL)

iii) Loan classification according to use

It is classified into commercial loan, capital loan and consumption loan.

a) Commercial loan

This type of loan is given to the business to make their productive use. Loan granted may be used for purchasing raw materials, machines, tools and equipment. Risk level is low in such type of loan.

b) Capital loan

Capital loan means the investment for term assets that have long period use. It may include machinery, land, building, vehicles etc.

c) Consumption loan

This type of loan does not help to prosper business. It is for individual use. Daily consumable product comes under it.

- **Different type of loan product provided by HBL**

Himalayan Bank offers a wide range of tailor-made funded and non-funded credit facilities to suit different customer requirement. They are corporate loan, retail / consumer loan, small & medium enterprises loan.

1. **Corporate loan**

- a) **Project / Consortium loan:**

Bank extends both Fixed Term Loan and Working Capital Loan. Loans are provided for the establishment, capacity addition, up-gradation of existing facilities as well as acquisition of existing facilities. The loan is extended to manufacturing as well as service sector and if the project is big, Himalayan Bank helps financing needs of the project through consortium lending as the lead Bank and/or Co-lead Bank.

- b) **Non revolving cash credit:**

Bank extends Non Revolving Cash Credit to finance import of capital items being imported as supplementary equipment of the existing plant and machinery.

- c) **Working capital financing:**

The bank extends Working Capital Loans under various headings to finance the working capital requirements.

- d) **Overdraft facility:**

Overdraft

Facility, a recurring (revolving) credit facility, is offered to customers for meeting fluctuating working capital needs for funding current assets, overheads and administrative expenses.

- e) **Demand loan**

- **Revolving demand loan (RDL):**

This form of recurring working capital loan is extended to finance continuous working capital requirement of companies.

- **Short term demand loan (STD L):**

This is another form of working capital loan extended to finance seasonal and occasional working capital requirement of companies.

- f) **Revolving cash credit**
 Revolving Cash Credit is extended to finance working capital requirements particularly to finance import of raw materials (including custom duties) from India. Similarly the Bank extends Revolving Cash Credit to finance purchase of agriculture produce from local market as well as India.
- g) **Import credit for telex transfer and demand draft payment**
 Bank extends Import Credit to finance import of goods from third countries other than India where payment is made through Telex Transfer or Demand Draft.
- h) **Trust receipt loan**
 The Bank extends Trust Receipt Loans for financing raw materials and trading merchandise while retiring documents of the Import Letters of Credit.
- i) **Export credit facilities:**
 The Bank extends Export Credit Facilities against export letters of Credit. Pre Export Loan, Post Shipment Loan and Back to Back L/C are some of the facilities that can be extended.
- j) **Pledge loan:**
 Against security of movable non-perishable stock merchandise, the bank grants Demand Loan / Cash Credit.
- k) **Clean bills purchased and discounted:**
 The Bank extends these facilities against the Bills/Drafts/Cheque (Negotiable Instruments). The Bank purchases cheque issued by individuals, financial institutions and credits the customer's account immediately.
- l) **Documentary bills purchased and discounted:**
 The bank extends loan facilities against the Documentary Bills on recourse basis.(Annual report: EBL & HBL)
- 2. Retail/Consumer loans**
- a) **Hire purchase loan**
 The Bank extends Hire Purchase Loan for purchase of new vehicles, (including body making in case of commercial vehicles) to individuals as well as companies. The bank also finances equipment such as medical equipment, construction equipment, manufacturing machinery equipment under Hire Purchase Financing.

b) **Housing loan**

Housing Loan is available to purchase readymade / under construction building (including land cost); construct a building on an already owned land, for purchase of adjacent land or extension of existing building.

c) **Subidha loan**

This is a customized loan facility offered to Customers to meet various social needs such as ceremonial expenses, education expenses, minor business dealings, home furnishing, etc.

d) **Credit card loan**

The bank extends credit to individuals through credit cards that could be payable on monthly installment basis (credit card), fixed tenure basis (capital asset financing) etc.

e) **Loan against fixed deposit receipt**

The Bank extends Loan against the Fixed Deposit Receipt issued by the Bank itself or by other Banks (in Nepal). Generally upto 90% of the FDR value can be disbursed as Loan.

f) **Loan against government bonds & bonds of bank**

The Bank extends loans against various Bonds / Stocks/ Promissory notes issued by the Government/ Nepal Rastra Bank. Under this, upto 90% of the value of such Bonds can be disbursed as Loan. Similarly, the bank can extend loans against bonds issued by commercial banks.

g) **Loan against first class bank guarantees**

The Bank extends various credit facilities, funded as well as non-funded, against unconditional guarantees issued by First Class International Banks.

h) **Loan against shares**

The Bank also advances loan against listed shares of Public Ltd. Companies. (Annual report: EBL & HBL)

3. Small & Medium enterprises loan

As a step further to help establishment, growth and expansion of small and medium sized enterprises, Himalayan Bank has developed a special loan package meant just to suit small and medium sized enterprises. Business houses coming

from industrial, trading and service sector can avail of this facility to meet their short-term and long-term financing needs. This could come in any form- funded or non-funded, depending on specific needs of the business enterprise:

- a) Funded/Non-Funded Facility in range of Rs. 0.5 million to Rs. 40.0 million. The interest rates applicable on small and medium sized enterprise loan package range between 10% and 12.50% per annum and this depends upon the type of facility. (www.himalayanbank.com)

❖ **Interest rate on loan**

Both HBL and EBL are not authorized for fixing rate of interest. But rate of interest on overdue loan can be fixed by respective banks. While interest is charged, following three factors are taken into consideration.

1. Cost of fund for loan
2. Cost of service for granting loan
3. Reasonable margin on loan

Banks are always in mood of charging low rate of interest to its customers. There is an inverse relationship between interest rate and amount of loans and loans and advances and vice-versa.

❖ **Principles of credit policy**

Credit is always a matter of judgment, based on one's own experience and conviction. There cannot be 100 percent correct approach or solution. Ultimate result is the indicator of good or bad of loan approval, and from such experience that one has to arrive at a proper credit policy. General principles of sound credit policy involve among other things to extend a most courteous and sympathetic services to all eligible and deserving borrowers, as a duty cast on the banker. Encouraging maximum number of loans of small amount ensure liquidity and with less incidence of bad debts. Concentration in particular type of loans has to be avoided. Preference may be given for self-liquidation type of loans. Any decline in sales, production and cash generation should prompt the banker to review and the need to proportionately reduce the working limits.

Necessary conditions have to be in corporation in the sanction letter of loan for safety and liquidity of loans.

Pre-sanction of the loan is concerned with the measurement of the riskiness of a loan proposal. The credit policy varies according to the risk involved in the project. There are some parameters under which a bank can develop some policy on regards to the credit. Broadly, some of the principles that are included in the credit policy by a bank can be summarized as follows:

i) Acceptable borrower

The banker must have confidence in the customer's ability to run the banker must assess his performance on the basis of his business activities whether the borrowing is trying to get loans for speculative activities.

ii) Acceptable business

The borrower business must be within the framework of the government i.e. NepalRastra Bank and the Bank's own policy.

iii) Acceptable purpose

Based on the bank's resources, the length of the loan must be acceptable to the bank. A bank cannot advance loan for long period although the project is viable and profitable, hence must match to both parties.

iv) Acceptable repayment program

A bank normally extends credit for short period. Hence, the bank principle of bank is safe return of credit in time. The bank may decline to extend credit from where hassles are likely to overcome in future.

v) Acceptable security

The banker may also assess the borrower on the basis of security offered by him. A genuine borrowing always feels comfortable to give any type of security or as demanded by the bank since he is sure that his simply for the time period or until repayment is made.

Therefore, successful lending depends upon careful selection of the customer, proper appraisal of his credit needs and adequate control that he

is complying with the terms and condition on which credit has been sanctioned to him. (Vaidya, 2000)

❖ **Criteria for providing loan**

A bank has to set some criteria for providing loan. Persons who come to a bank for the demanding loan, the bank should not provide loan of random choices, not by examining (observing) and investigation. If a loan is provided without proper investigation it will lose the principle and interest. Therefore the bank always has to follow some criteria for providing loan.

These are as follows:

a) Personal character

Before providing loan, a bank should make an inquiry and examination of a person who comes to the bank with proposal of loan. Though it is very difficult to find out true character of a person, it must be checking out. The bank should study whether the person has good character with intention to pay the loan or not, whether he is person of criminal nature or not, whether a creditor has filed a petition against him in the court for recovery or not. If the person of doubtful in nature, character and the bank has uneasiness to trust him, if so, it should not be accepted the proposal of loan. If he posse's good character and other criteria are satisfactory to the bank, it should accept the proposal.

b) Capacity or competency

First of all, it should be checked out whether the person (proponent) is a person capable under law to make a contract with bank or not, i.e. according to the contract Act 2056. (1999). If he is a competent person (capable),there after the bank should know what kind of qualification the proposal make does have and in which is related subject or business he is related with, whether he has competency or in that business or not. Under this heading the bank should carefully examine all things, which are relating to capacity of borrowing.

c) **Capital**

If any person or business comes to make a proposal for a loan in a bank, economic condition should be examined. His demand for money should be matched with the status of his household condition, how much the sum of money he wants to invest in the business. If the economic condition of the proponent is poor or less, or inferior to the amount for loan, the bank should reject his proposal. In brief, the quantity of amount of proponent financial condition or capital should be strong than the quality of amount demanded.

d) **Security**

Security is considered the most important thing of the criteria while providing the loan by the bank. It should not provide loan without security. The securities too are of many kinds. Preference should be given to the security, which can be sold immediately in the market. It should flow loan, only after considering what sort of business of the proponent and what type of his property of security that is proposed etc. If the person is not capable to give security of if the loan proponent proposes low quality of security and it can't be satisfactory to the bank. It should not accept the proposal of loan from the proponent. There must be good security.

e) **Credit information**

The bank should find out the credit information of the person or businessman who comes to request for a loan. Credit information such as: the loan proponent's character, the security given to the bank, the detail of the property and their reality. A bank can get all information about loan proponent and the businessman. It can be great help to the bank. It is difficult for a bank to find out the real condition of the loan proponent. Hence it is easy to know the condition of loan proponent from the persons or businessmen working together in the related sector whether the loan proponent is black listed for not paying the debt (loan) or not, how much trustworthy these concerns. It can be understood enough the medium of information. There is no problem in providing the loan, if the information received is satisfactory. If the information received is not positive the bank should reject such reject such proposal. Therefore the bank should make a decision on

whether to provide the loan or not only after analyzing the documents that the proponent submits to the bank. Credit information is one of the criteria of providing loan to a borrower.

f) External environment

Before providing loan, a bank always should evaluate the external condition or environment of the industry, business shown by the proponent is saleable or useable in the market or not, the proposal of loan proponent should not be approved, through the mentioned five grounds are received satisfactory by the bank. Because a businessman can't gain profit from the financial position whose may deteriorate. Therefore while providing loan, it should study the external environment too. In the business communities, an external environment can be taken as an essential factor(Bhandari, 2003).

• **Loan approval process**

The loan approval process and working method of a bank are really important. The persons or the business organization come to borrow loan so, a bank should know the process and working method about it. A bank provides loan to its customers. It has much type of customers. There may not be the same process/ method for all kinds of loans. The process to accept for the common people and the process to approve the loan to the industry, businessmen, or merchants are different. The process of the bank may be different in approving the loan for primary sector and for bigger projects.

The bank makes special types of study research and analysis before providing loan. It makes supervision and inspection in such project even after providing the loan. Behind it, there are two fundamental reasons: first the bank wants to be more secure to its investment and second it grows the quantity of loan. From the viewpoint of both principle and practices, the loan approval processes of bank are as follows:

i) Evaluation of loan proposal

After a proposal is submitted by a person, and institution, project, bank makes a deep study and analyze from different angles on the proposal. Before approving the loan proposal the bank evaluation all necessary documents for providing loan. In the case of person or businessmen the study of such documents are different. It will be accepted or rejected depending on the will of the bank. If the bank feels the loan proposal satisfactory, it can approve the loan accordingly.

ii) The type of loan

After accepting the proposal of borrower, the bank discusses on these subjects. What type of loan the projector or the person wants. Surely, the nature of the loan differentiates from loan proposal of the proponents. In this way, it becomes the division of the loan. Generally there are many types of loan like-social loan, business loan, primary sector loan, industrial loan, hire purchase, and the employee loans etc.

The bank wants to keep its loan safe. So, the banks can classify loan in this way. Yet, it does not classify loan in unnatural way. The loan can be classified in the process of approving the loan.

iii) Determination of loan amount

After classifying the loan category, a bank determines the limitation of a loan. In fact the proponent writes in his proposal, what amount of loan the customer is needed. The bank many pr many nit the amount, which proponent he has demanded. It is the matter depended on the will of the bank. Yet, in determination of loan quantity is made by paying attention to the customer, evaluation of the securities and the state and position of the business.

iv) Preparation of necessary documents

The bank should prepare some documents while providing loan to the loan proponent. Only after preparing the legal documents, an evidence of borrowing loan is given to the creditor. It becomes the evidence if the loan taken by borrower. The loan bond and the documents related to security are of such documents.

v) **Loan acceptance charge**

After completing all processes, the bank decides to provide to loan proponent. According to this decision, the bank opens an account in the name of the borrower, deposits the proposed loan in it. According to the provision of the loan document, borrower can withdraw the money the money from the bank. But sometimes, such a situation may be created that the borrower doesn't take the loan after the loan is accepted by the bank. In such condition, the bank can recover the charge from the proponent if he does not take the loan. Because, the bank can't withdraw that until the period is not ended. The cash remains in unproductive form in the bank. Therefore the bank takes that charge for accepting that loan. (Lbid)

Loan administration

As Nepal Government has many ministries, department offices and institution, the bank too has its administrative departments. Under the administration department, generally, there are loan departments, loan administration section. They try to operate all the functions and transactions related to loan. From primary stage of providing loan to the loan recovery stages, all acts or transaction that are carried out by this department. This department does not work alone. It discharges the work of its sector with the help of the persons related to different sectors. It has to get the help of the legal department or section. This department performs the two tasks of providing loan and recovering the loan. A bank should not keep the cash inactive. After keeping necessary cash stock in hand, it should follow the policy to flow rest of the amount to the productive and profitable sectors. While doing so, it should be very careful and sensitive. Therefore this department is establishing separately. Success and failure of a bank depends on the role of this department.

1. **The management for providing loan**

The following functions fall under the management for providing loan.

i) Proposal for loan

The bank should pay special attention to the methods application to provide loans. The department should keep the printed loan proposal document ready for its customers. Necessary things are described in it. The bank should keep such forms in numerous numbers. If any new or old customer comes to the bank with loan proposal, the bank should read carefully, if he doesn't understand, he should ask the related bank officials.

It should clearly state necessary things for example the name of the proponent, his occupation, address, kind of loan he has demanded quality of amount and statement of securities etc. After filling up all these things, it should be given (submitted) to the official of the loan administration department who examine these documents. The employee who checks that form should examine it carefully to see whether it is filled by the loan proponent properly or not.

ii) Deed of loan

The loan administration department prepares the deed of loan to provide the loan. Similarly it prepares other necessary documents also. These deeds of loan area is called loan contract. Deed of loan may be called by any name. The bank cannot flow any loan without deed of loan. Many things are written in the deed of loan. It contains things like the quantity of loan, interest rate, the date of loan recovery, name, address and year of loan proponent, the date of deed of loan, etc. Such deed has to be registered from the related office.

But registration is not required for some sectors like agriculture, rural and cottage industries, irrigation, electricity, production and other any business. For which government has prescribed the maximum amount up to one million which is provided to Nepalese citizen and the institution established with the existing Nepalese law.

iii) Securities

A bank loan should accept such securities, which provides safety to its loan. It should not provide loan without taking any reliable securities such as: movable and immovable security. Also, it should examine the kind and nature of the security. Security means an assets or document relating thereto or any other

security acceptable to the bank which can be pledged collaterally under prevailing Nepalese law while obtaining or providing loans. The bank can provide loan through securities in the assets both the movable and immovable property. It should give loan against securities, which are acceptable to the bank

iv) **Granting loan on the basis of guarantee**

While giving a loan, a bank can give loan by taking acceptable securities from the movable and immovable assets of the third person or on basis of a contract concluded between the surety and the bank. Such deed can be made in the condition, if the securities shown by debtor are not acceptable for the bank or it is less or there is no movable property and assets as securities. The bank can provide loan, taking securities of a third person's property. But all legal process related to it, should be fulfilled.

v) **Commitment deed**

A bank, after discussed, studying and appraising the loan proposal of proponent, accepts the proposal then in addition to other deeds, the loan administration department prepares separately commitment deed to be signed by the debtor. It sets loan conditions and rules of banks to be followed by the borrower.

vi) **Contract of indemnity**

In the process of providing loan, the loan administration department prepares the contract deed of indemnity too. The loan proponent should sign in it and thumbs over it. Such deed or contract gives mental pressure to the debtor to pay the debt. If the debtor breaks the condition, he should pay the damages for it to the bank. From this contract, it forces the debtors to follow the term and condition legally.

vii) **Invoice**

The loan proponent should submit all bills related to business industry, voucher letters, catalogue, and other such types of documents in the time to the bank's demand. This is the liability of the debtor. The loan administration department performs the above mentioned function of providing loan. The process and methods, to be followed while providing loan, should be followed according to the law in a proper manner.

2. The management for loan recovery

After loan is provided, there is a mechanism to recover interest and the principle. It is very necessary to know all functions wise methods, which are to be followed after the grant of loan. It is really important subject matter. The bank wishes that all the debtors could utilize the loan in proper places. It is beneficial to both the banks and the debtors. The following processes are continued until its interest and the principle is recovered:

i) Audit of credit

A bank wants his debtor to use the loan in proper places, after it provides loan, as far as possible. With the intention of this objectives, the bank perform audit of the loan. A bank studies all these things, whether the bank loan is properly utilized or not, what is the state the financial condition. The objective of such audit is to be in direct connection with the debtor, the proper use of the loan and the statement of the loss and gain can be known.

ii) Recovery of interest on loan

After the loan is provided, the borrower should pay his interest in the time written in the deed of loan. It is the liability of borrower. The date of the recovery of the interest and principle of loan is fixed according to the time given by the bank, if he does not pay the interest and loan within the date specified in the deed, the bank goes on adding interest according to bank's rule. It begins to take the interest of interest if the borrower doesn't pay the interest and loan in the fixed time.

iii) Loan recovery process

The bank recovers the loan provided by it on the basis of terms and condition fixed in the deed of loan. If it is the loan deed to recover loan on installment Basis or on fixed lumps sum basis, it should be paid accordingly. It recovers the loan accordingly, if the situation goes beyond the control of the borrower. The date of loan recovery can be extended, if he makes another agreement with the bank. To do so there is another process. But such thing depends on the banks self-consideration. The loan administration department keeps the right to recover the loan according to the loan recovery process written in the deed.

iv) Hand over of securities

If the borrower pays the interest and principle in the time fixed in the loan deed or the time fixed or accepted by the bank, the bank must return the movable and immovable assets taken by it as securities from borrower, or the property of the third person taken as securities in the form of guarantee. The bank should hand over all securities as under its holding to the debtor or the surely after the loan is recovered.

v) Process of recovering the expired loan

If a borrower breaches the terms and condition of the loan deed by not paying the interest and principle, the bank starts the legal process under the law. There are many examples and cases in which the borrower has not paid his loan to the bank. The date expired loan too is classified as good, acceptable, low quality, doubtful and bad debtors by the NRB.

vi) Maintenance of data

The loan administration department should prepare a report by keeping data to show the picture of the act and activities from the day of flowing loan until the day of recovery of the loans. From it, the real progressive statement of the loan investment can be known. It can be a guideline for the bank and new management can get the help in future.

• Renewal of loan

It is discretionary right of a bank whether to renew a loan or not. But once a loan is provided to the debtor by the bank, the relation between the bank and the debtor is established. From such relation, both sides can take the benefit. They get the opportunity to know one another. By taking a loan from the bank, the borrower can get a lot of income by investing it in his industry trade and business. The banks can earn income by taking the interest from the debtor. The terms and conditions of the deed of loan are determined by deed of loan concluded between bank and debtor. The debtor does not breach the terms and condition mentioned in the deed, if he pays satisfactorily the interest and the principle. The bank doesn't find any difficulties in renewing the loan. But if the debtor has breached the contract of loan in such condition the bank may not renew loan contract. The bank

doesn't believe the debtor. Until the bank believes the debtor, the bank will not renew the loan. The creation of terms and condition for renewal of the loan or not depends on the activities of the debtor.

For the renewal of the loan, at first, the debtor should give an application for the renewal to the bank. There may or may not be printed form for the renewal of the loan in the bank. If there is prepared form, the form should be filled properly. If there is e debtor for the no readymade form, the debtor should write the application in a plain paperand present to the bank. After presenting the application for renewal, the bank moves the process a head. The bank studies the doctor's file that is in the bank. In addition to it, the bank can make field visit to if the bank feels necessary and if there is no difficult situation the bank starts the process. Before giving the final decision of renewal of the loan, it should pay attention to the following internal and legal matters:

- i. Whether the application of the debtor for the renewal of the loan is as per law or not.
- ii. Whether it is against the policy and instruction given by the central bank.
- iii. Whether the bank's own regulations, memorandum, article of association and policy permit to renew the loan for the debtor's industry, business or not.
- iv. Whether there is liquidity in the bank to renew the loan of the debtor or not.
- v. Whether any difficult situation has risen to the bank to renew the loan or not.
- vi. Whether there exists any problem to renew the loan or not.

In this way, after studying and analyzing above mentioned matters, a bank should deeply ahead. It should give a final decision to the process of the renewal of the loan. The bank should come to a conclusion by making a reasonable examination on the basis of evaluating the following matters:

The bank should see every activities of the debtor.

- i. Whether there are reasonable cause and grounds to renew the loan or not.
- ii. Whether the financial record of debtor's company and business is related with the company act and other concerned regulations and legislative and based in the principle of account or not.

- iii. Whether the loan was properly used or utilized in the purpose for which debtor has taken loan or not.
- iv. Whether the debtor had paid the installment of the interest and principle from time to time to the bank or not.
- v. Whether the debtor has got benefit from the loan that he took from the bank or not.
- vi. Whether there will be a great loss to the bank from the renewal of the loan or not.
- vii. Whether there will be some difficult to recover the loan with interest after the renewal of the loan or not.
- viii. Whether the policy and direction given by the bank from time to time from the side of the debtor or not.
- ix. Whether the debtor has submitted the statement showing the real picture of his transaction or not.
- x. Whether there is condition which warrants extra security to renew the loan of the debtor or not.

Security and Margin requirement

Security is a most important basis for granting loan. Security is known as collateral. The following three factors must be considered while accepting security as collateral.

i. Safety and security

ii. Liquidity

iii. Profitability

Before ranting loan the market price of security should be calculated. The amount of loan must not exceed the market price of security. Liquidity is another important factor for bankers. Liquidity generally means capacity to produce cash on demand (Sayers, 1958).

Profitability is the main source of commercial bank's earning. The spread or mark up between the interest rates they earn on their assets cover their cost and is source of their profits (Albert, 1973).

Banks want their loan and advances to be properly secured. Furthermore, a reasonable margin on loan is also taken into consideration. Both HBL and EBL's margin requirement and security evaluation process are different. The volume of security is determined by bank according to prevailing market price. Generally during the time of study, it is found that 30% is the minimum margin required on medium and long term loan. Similarly 40% is the minimum margin required on short term loan. This policy seems advantageous for wealthy businessman and corporations. Marginal business holders may not be benefited from current margin on short term loan.

- **Terms and condition to disburse loan**

As mentioned earlier that loan is not simply granted upon a personnel or organizational request. Certain rules and regulation must be followed while granting loan. For making loan administration effective, terms and condition are present between bankers and loan taker. HBL and EBL have both different terms and condition that suit their own situation, organization and customers. However safety, liquidity and profitability are prime consideration for bankers to formulate advance policy. Taking this fact on consideration the terms and condition adopted by both banks can be categorized as:

- i) **Period of loan amortization**

Every loan has to be repaid within stipulated time. The duration of loan repaid is fixed upon mutual agreement between bank and loan taker. Fixation of amortization period is very difficult. If any mistake occurs in this stage the whole loan recovery may become doubtful. Generally banks offer the due period for loan. Higher the amortization period higher will the interest and vice versa. Risk Management Division of HBL and EBL fix such period.

- ii) **Interest rate on loan**

Rate of interest is also fixed before granting loan. Higher interest rate is charged for the project of short duration while lower interest rate comparative to project of shorter duration is charged on long projects. Higher the interest rate means higherrisk in payment. So, it is also an important factor of loan administration. Generally NRB fixes the rate of interest ranging from higher to lower for the

commercial banks. HBL and EBL both cannot fix the rate of interest on loan. However rate of interest on overdue loan can be fixed by both.

iii) **Payment of installments**

Both HBL and EBL facilitate to make the repayment in several installment dues. Such installment gaps generally ranges from 6 months to 1 year or more. Installment amount is fixed on fire hand on an equal basis. The larger the amount of loan the greater will be the installment figures and vice versa. In case of interest it can be paid on some way.

iv) **Security take as collateral**

Although security is not an important matter for person who utilizes the loan for right purpose and work according to plan. But bank does not grant loan without security. The security takes as collateral is evaluation and priced with growth rate for the period. If a person or an organization failed to pay the loan within time, collateral is either self-assumed by bank or sold to third party.

v) **Legally to borrow loan**

To get loan from HBL and EBL, the applicant should possess the following qualification

- a) Must be a Nepali citizen. In case of corporate body, it must be registered in the related government department.
- b) Applicant or his representative must have required knowledge, experience and skill to operate enterprise.
- c) The applicant must not be in arrears in repayment of principle or interest or any existing loan expect for reasons behind their reasonable reasons.
- d) The applicant must be willing to meet the equity contribution for the project as required by HBL and EBL rules and regulation.

vi) **Soundness of the project**

A project is a set of one time only activities designed to attain,

- Specific objective within the constraints of time, cost and quality performance in a dynamic environment.
- Through the planning, use and control of variety of resources.

- To create a unique product or service within a temporary life span. (Agrawal,2003).

For the project to be accepted it should technically, managerially and economically sound. Banks do not invest without studying t/he performance potentially of the project. Risk Management Division is established in both HBL and EBL for studying soundness of the project.

- vii) **Repayment capacity of borrower**Repayment capacity of borrower means his/her willingness to pay back the loan with in specific period. Repayment capacity of borrower is essential for extending loan. If a bank thinks that the borrowing is not economically confidential, loan may not be sanctioned to him/her.Hence HBL and EBL both impose differed terms and conditions to make their loan administration efficient and effective.

2.2 Empirical review

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. It will relevant to disclose here that so far no one has made study on analytical way regarding the loan disbursement and loan recovery pattern & comparison study of the Everest Bank Limited and Himalayan Bank Limited . There is some relevant thesis study concerned with the 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

- **Review of legislative provision**

NRB Act 2013 and Commercial Bank Act 2031 are reviewed in this segment. Recently as ordinance relating to bank and financial institution has been promulgated. It has come into force effective from February 4, 2004. The ordinance is popularly called an umbrella act as of repeals and replaces all existing Acts relating to commercial banks. NIDC, other Development banks and finance companies and brings all such institutions under the preview of a single act.

The ordinance is divided into 12 chapters and contains altogether 93 sections. Loan disbursement and recovery procedures are covered under chapter 8 that reestablishes the NRB's authority to regulate lending and minimize the chances of loan going to an unscrupulous borrower or diversion of the funds. With this ordinance the banking system in Nepal will switch over to universal banking from the existing specialized banking. (Khatri, 2004).

As our study covers up to year 2010, the existing acts are more relevant than this umbrella ordinance. As mentioned in the Commercial Bank Act 2031, commercial banks will help in banking business by opening their branches in different parts of the country under the directives of NRB.

The main function of commercial banks established under this act will be to exchange money, to accept deposits and provide loans to commercial and business activities, to mobilize banks deposits in different sectors of different parts of the nation to prevent them from the financial problem. The central bank (NRB) has established a legal framework by formulation of various rules and regulation (prudential norms). These directives must have direct or indirect impact while making decision. Here, effort has been made to discuss those rules and regulation which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower line, CRR, loss loan provision, capital adequacy relation, interest spread and the productive sector investment.

A commercial bank is directly related to the fact like how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counter, how much flexible and helpful the NRB rules are etc. But here we discuss only those which are related to the loan collection and disbursement function of commercial banks. The main provisions established by NRB in the form of prudential norms in above relevant area are briefly discussed here under:

1. Provision for investment in the deprived sector

According to the new provision, with effect from 16 July 2001, investment in shares of rural development banks by commercial banks, which used to be counted for priority sector lending, only is new to be included under the deprived sector lending. According to the provision, following banks are required to extend credit to the deprived sector as stipulated percentage mentioned below:

Table 2.1 Deprived sectors, lending rate of commercial bank

Name of the bank	Min% total outstanding credit to be extended for deprived sector
Nepal Bank Ltd	3
RastriyaBaniya Bank	3
Nabil Bank Ltd	3
Nepal Investment Bank Ltd	3
Standard Chartered bank Ltd	3
Himalayan Bank Ltd	3
Nepal SBI Bank Ltd	2.5
Everest Bank Ltd	2.5
Nepal Bangladesh Bank Ltd	2.5
Bank of Kathmandu	2.5
Nepal Bank of Ceylon Ltd	1.25
Nepal Industrial and commercial Bank Ltd	0.25
Lumbini Bank Ltd	0.25
Machhapuchre Bank Ltd	0.25
Kumari Bank ltd	0.25

Source: NRB annual report, www.nrb.org.np

2. Provision of credit to the priority sector

NRB require commercial banks to external loan and advantages, amounting at least 12% of their total outstanding credit to the priority sector. Commercial banks credit to the priority sector. Commercial banks credit to the deprived sector is also a part of priority sector credit.

Under priority sector credit to agriculture, credit to the cottage and small industries and credit to service are counted. Commercial bank's loan to the co-operatives licensed by the NRB is also to be computed as the priority sector credit from the fiscal year 1995/96 onwards. (www.nrb.org.np)

3. Provision for the investment in productive sector

Nepal, being a development country needs to develop infrastructure and other primary productive sectors like agriculture, industry, etc. For this, NRB has directive commercial banks to extend at least 40% of their total credit to the productive sectors. Loans to the priority sector, agriculture sector and industrial sector have to be included in productive sector investment. (www.nrb.org.np)

4. Provision for the single borrower credit limit

With the objectives of lowering the risk of over concentration of bank loans to a few big borrowing and to set an upper limit on the amount of loan financial to an individual firms, company or a group of companies disturbing loan and advances to borrowers exposes banks to mainly three kinds of risks.

As first one is to diversify the investment as much as one can so that the failure of one sector may not hamper the banks and the second one is to limit the maximum amount of loan that can be provide to one borrower or a group of related borrowers so that bankruptcy of one group does not affect much to the performance or survival of the bank.

Table 2.2 Provision for the single borrower credit limit

Clause No	Old Provision	New Provision
6 (a)	Limit of single obligator limit Fund based: 35% of total capital Non fund based: 50% of total capital	Fund based: 25% of core capital Non fund based: 50% of core capital
6 (b)	For the purpose of definition of the group 50% of total capital	The criteria of 50% holding has been reduced to 25%
6 (f)	No provision of preparing single obligator records	Banks shall prepare the records of single borrower and

		related customer on half – yearly basis
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(Source: www.nrb.org.np)

Likewise, in the case of consortium financing, commercial banks are permitted to extend an addition 25% credit above the limit fixed by the NRB as before.

5. Cash reserve requirement

Bank cash reserve requirement are the percentage of types of deposit to be maintained in vault and NRB set forth in regulation of NRB. CRR is required to maintain minimum liquidity needs of a bank that consists of possible withdrawals or advance demand and to avoid unexpected requirement of customers.

Commercial banks are required to keep adequate liquidity to meet the depositors demand for cash at any time and to inject the confidence depositors’ thoughts regarding the safety of the deposited fund. To serve for the public welfare NRB has directed commercial banks to maintain minimum cash reserve to 5% of total deposit (NRB, Monetary Policy FY 10/11)

6. Loan classification and loan loss provision

With a view to improve the quality of assets of commercial banks, NRB has directed the commercial banks to classify their outstanding loan and advances, investment and other assets into four activities on the basis of the effective from fiscal year 2058/59 (2001/02). They are, a) Pass b) Substandard c) Doubtful d) Bad loan. Loans and advances falling in the category of substandard, doubtful and loss are classified as non-performing loan.

The loan loss provision on the basis of the outstanding loans and advances and bills purchase classified as per this directive should be as follows:

Table No.2.3 Classification of loan and required provision

Classification of loan	Loan loss Provision
Pass	1.00%
Substandard	25.00%

Doubtful	50.00%
Bad loan	100.00%

(www.nrb.org.np)

- **Review of related thesis**

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. There is some relevant thesis study concerned with the 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:

- ❖ **Uday Bahadur Silwal(1980)** puts forth his view in his dissertation “Lending policy of commercial Bank 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.
- ❖ **Ram Prasad Sharma (2002)** entitled “Priority Sector Investment of commercial Bank in Nepal”, with the objective of highlighting the policy sector investment and repayment state of commercial bank in Nepal through intensive banking programmer and to show the repayment position of the sector has suggested that farmer. Reinvestment and right utilization of bank loan are the cost of the commercial bank since there is a need to increase assets by better arrangement of institution and organization, the manager and loan staff of the branch should be provided 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 borrower.
- ❖ **SantoshPandey (2002)**, 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 bank. He writes that the NRB directives, if not properly addressed, have potential to week the financial system of the country, as they are the only fools of NRB to supervise and monitor the financial institutions. 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 bank 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.

- ❖ **Lila Prasad Ojha (2002)**, 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 contributes to the national economy. The banks should also increase the volume of credit on the sector or 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 Rasta Bank and acting upon this also reduces many of the credit risk arising from borrower's defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers, and professional defaulter. The over confidence in commercial banks regarding credit appraisal efficiency and negligence 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 be more cautious and realistic while granting loans and advances.
- ❖ **PravakerDhungana (2002)**the investment policy of Nepal Bangladesh Bank Ltd and other joint venture banks summarized that the mushrooming of joint venture banks in the present situation of Nepalese financial system. There is a high flow of money in the market but less viable and invest able project. Few commercial banks are continuously making profit and satisfying their shareholders and returning then 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 in 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.

- ❖ **KesabBhatta (2004)** suggests in his dissertation “A comparative study on lending and investment policy on NBBL and HBL,” That defaults of loan in commercial bank is the result of various factor 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 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 of loan loss in the project-oriented approach can then be minimized.
- ❖ **Pathak (2004)** has made a study on “Loan Investment and Collection Analysis of Development Banking of Agriculture Development Nepal.”. The main objective of study is to examine the achievement of purpose wise, term wise and development region wise loan investment, collection and outstanding from 1998/99 to 2000/03. He also study the impact of last ten years’ political insurgency and instability to farmer and ADBL with special reference to loan investment and collection is in an increasing ratio and weighed growth rate is in a fluctuating trend. He suggested that agriculture sector requires more investment, similarly ADBL has to invest continue in current profitable purpose, revise unprofitable purpose, have to identify other possible line of agricultural opportunities as well as should create portfolios on different purpose to be operationally and economically viable.
- ❖ **Pyakurel (2006)**, has made a study on “Loan Disbursement and Recovery of Nepal Bank Limited” with the objective to see loan disbursement process, to analyze the condition of loan recovery and to see the efficiency of new management on recovery of loan. For this trend analysis, ratio analysis and correlation and regression analysis have been used. Trend for five years is studied and interpreted Loan Disbursement trend shows that it is decreasing every year. He says that whatever the disbursement process is, profit is not decreasing. Similarly, he analyzes the priority sector loan into agriculture sector, cottage industry, service sector, hire purchase and deprived sector loan. Although he

presents the data of disbursement, collection and outstanding figures are excluded. He found the present disbursement and recovery of NBL is normal. It is able to recover due loan unexpected. By the conflict bank reduces many branches and it cannot disburse additional loan in priority sector. His opinion is that the new management of NBL is not only effective for collecting overdue loan; it is effective in managing every essential factors of bank. He concludes that bank face a lot of fraud by bad employee in case of loan disbursement, recovery and expenses. His recommendation is related with supervision and inspection. His view is that the same system must be strict, effective and efficient. Loan should be provided with technical facility. Policy should be formulated taking into consideration of geographical features and infrastructure development of the country.

- ❖ **Shrestha (2006)**, has made a study on “Role of Agricultural Development Bank of Nepal”. The main objective of the study were to analyze the loan disbursement of purpose wise and term wise by Agriculture Development Bank, to analyze the loan recovery and to find the loan outstanding. For this he studied the related topic for 7 years commencing from F/Y 1996/97 to 2002/03. His study revealed that bank liberal policy helps to covers all type of customers. All of them are unbiased while granting loan. Banks activity increases which shows increasing and for agricultural credit. He comments that the actual performance of the bank is not satisfactory because it is not able to provide loan especially in rural sector where bank financing is almost necessary. The reason for slow collection may be attributed to liberal policy, weak supervision and controlling system negligence towards collection procedure, poor economic condition of the people, overvaluation of security on loan sanctioning period and difficult geographic activities and bank has experienced five general managers for a period of last ten years. Bank has provided discount on interest, extended the repayment period of focused priority to make farmers more laborious, take refundable capability maintain financial discipline and restructure past due loans. Besides, this it organize training programs to staff as well as farmers, which may bring changes in performance of banks.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

“Research Methodology is the way to solve systematically about the research problem”(Kothari, 1994). It helps to analyze, examine and interpret various aspects of research work. Research methodology is the process of arriving at the solution of the problem through planned and systematic dealing with collection, analysis and interpretation of facts and figures. Research methodology describes the methods and process applied in the entire aspect of the study. It refers to the various sequential steps to be adopted by researcher in studying the problem with certain objects in view.

Research Methodology depends on the various aspects of the research project. The size of the project, the objective of the project, importance of the project, time frame of the project, impact of the project in various aspects of the human life etc. are the variables that determine the Research Methodology of the particular project. In order to accomplish the targeted objective of the study, a definite course of Research Methodology has been followed. A systematic methodology is considered as inevitable for true, better, fair and superior consequences. In fact, research is a scientific study about certain phenomenon or object.

“Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with a certain objectives in view. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It includes the various steps that are generally adopted by a researcher in studying his/her research problem along with logic behind them” (Kothari, 2009)

However, the following steps provide a useful procedural guidance so far as research methodology is concerned.

- Tentative selection of the problem [i.e. topic of research]
- Initial survey of literature

- Defining or selecting the research problem
- Extensive literature survey
- Design of the research project
- Sample design
- Collection of data/ construction of questionnaire
- Analysis of data
- Arriving at generalization and
- Preparation of report [i.e. starting or writing down the result] (Kothari,2001)

The topic of project has been selected as Lending procedures of HBL and EBL with a tentative objective of highlighting and analyzing the lending procedures of HBL and EBL. The survey of literature has been conducted from various library and reference and these have been maintained in Chapter-2. The problem of the study has been specified in the topic “Statement of the Problem” in Chapter-1. The data has been collected in source of data. The data have been maintained in Chapter 3. The measure findings of the analysis have been maintained in Chapter-4. The summary, conclusion and Recommendations have been kept in Chapter-5. Research methodology describes the methods and process applied in the entire studies. A research study can produce the fruitful results if an appropriate methodology is taken under consideration to highlight and evaluate the different aspect of the study. To achieve the purpose of the research, the following methodologies have been adopted.

3.2 Research design

The main objective of this research study is to examine and evaluate the financial performance of the concerned banks (EBL and HBL). It is a framework or plan for study that guides the collection and analysis of data. It is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

Research design means the definite procedure and techniques, which guides the study and the ways to do the study. In fact, it is the specific presentation of the various steps in research process. These steps include the selection of a research

problem, presentation of the problem, formulation of hypothesis, interpretation, presentation, report writing and bibliography.

To achieve the stated objective of the study, the study of books, booklets, financial act and other related acts, rules, directives, regulations have been carried out. For this study analytical and descriptive research design has been followed.

3.3 Population and sample

The population refers to the organization of the same nature on its services and product on general. There are all together 31 commercial banks functioning in our country at present. For the study only two banks were taken as judgmental sample on the basis of good financial performance from joint venture bank (EBL) and Nepalese promoters bank (HBL). This study is based on five years financial data of EBL and starting from 2005/06 to 2009/10 A.D.

3.4 Source of data & data collection procedure

For the purpose of the study, mostly secondary data are taken from books, journals, newspapers, published reports, various articles and publications dealing in the subject method of the study.

The major sources of data are as follows:

- Academic books
- NRB directives
- NRB reports
- Previous related studies
- World Wide Web; the internet.

The annual reports of the respective banks were collected from their respective officers. NRB were collected from Research Department of NRB. The numerical data collected from different sources. Data also collected from interview method.

Like the same the internet also proved to be very good source of data. The sites used are listed in the bibliography.

3.5 Data analysis tools

The data presented in the study are analyzed by the following tools.

❖ Financial tools

“Financial analysis is the starting point for making plans before using any sophisticated and budgeting procedures” (Pandey, 1999, P.108). Analysis and interpretation of financial statements is an attempt to determine the financial performance of any organization so that a forecast may be made of the prospects for future earnings, ability to pay interest, debt maturity and probability of a sound dividend policy. “Financial statement analysis is largely a study of relationship between among the various financial factors in a business as disclosed by a single set of statement and study of trends of these factors as shown in series as shown in series of statement”. “Though the application of analytical tools, profitability and financial health of a concern is evaluated in a proper, legal and scientific manner.”

❖ Ratio analysis

“A ratio is a quotient of two mathematical expressions. Establishment of quantitative relation of data furnished by the financial statement is called ratio analysis. In other words, a financial ratio is the mathematical expression of relationship of two accounting figures. It helps in taking decision since it helps establish relationship among various ratios and interpretation thereon. Analysis and interpretation of various ratios should give experienced, skilled analysis better understanding of financial condition and performance of the firm than they would obtain from analysis of the financial data alone”(Van Horne, 1997).

“A ratio is simply one number expressed in terms of another and as such it expressed the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as a coefficient .In other words, a financial ratio is the mathematically expression of relationship of two accounting figure.”

A single ratio in itself does not indicate favorable or unfavorable conditions. It should be compared with some standard” in other words, a financial ratio is the mathematical expression of relationship of two accounting figures. It helps in

taking decision since it helps to establish relationship among various ratios and interpretation thereon.” The technique or ratio analysis is a part of whole process or analysis of financial statements of any industrial concern specially to take varied facts of a business unit. Just as the blood pressure, pulse and temperature are the measures of health of an individual, so that ratio analysis measures the economic or financial health of a business concern. Thus the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality and the quality of the management of the business and industrial concerns”(Roy, 1979).

As for we are concerned about the financial ratio, a ratio between two relevant figures which provide a certain relation, and have negative or positive correlation between them will only be studied. This section has been divided into the following sub-sections.

❖ **Assets\Liability management ratio**

Assets\liability management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensure ots effective utilization. The banking business converts the liability into assets by the way of lending and investment function. Assets and liability management ratio measures its efficiency in multiplying various ratios relating to assets liability management used to determine the lending policy of the subjected joint venture banks.

- Loans and advances and investment to Total Deposit Ratio
- Loans and advances to Total Assets ratio
- Investment to loans and investment ratio
- Loans and advances to shareholders equity ratio

❖ **Activity ratio**

Activity ratio measures the performance efficiency of an organization from various angles of its operation. Activity ratio indicates the efficiency of activity of an enterprise to utilize available funds, particularly short- term funds. The following ratios are used in this study to determine the efficiency, quality and contribution of loans and advances in the total profitability

- Loan loss provision to total loan and advances ratio
- Non-performing loans to total loans and advances ratio
- Interest income from loans and advances to total income ratio
- Interest suspense to total interest income from loans and advances ratio
- Loans and advances to total deposit ratio
- Interest income expenses ratio

❖ **Profitability ratio**

Profit is the difference between the revenues and the expenditures over a period. Profit is the main element that makes an organization to survive. Without profit, a firm could not attract outside capital. Profitability includes the present and future earnings capacity. In other hand, the profit measures the management ability regarding how well they have utilized their funds to generate surplus. The given ratios are used to determine the efficiency of the lending its quality and contribution on total profitability.

- Net profit to Shareholders Equity Ratio
- Equity Per Share [EPS]

❖ **Statistical tools**

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured form groups of individual or group of observation from a single individual. The figure provides detailed description and tabulate as well as analyze data without subjectivity, but only objectivity. The result can be presented in brief and precise languages and complex and complicated problems can be studies in a very simple way. It becomes possible to convert abstract problem into figures and complex data on the form of tables.

The various statistical tools used in this study to analyze the collected data are as follows:

1. Correction analysis

Correlation is the measure of relationship between two or more characteristics of a population or a sample. It simply measures the change between the phenomena. The correlation coefficient between two variables describes the degree of relationship between those two variables. It measures the increase or decrease in one variable due to increase or decrease in other variables. Simply stated, correlation is a statistical tool with the help of which we can determine whether or not two or more variables are correlated and if they are correlated, that is the degree and direction of correlation. Correlation analysis describes the relationship between variables i.e., positive and negative. It helps to determine the following:

- A positive or negative relationship exists
- The relationship is significant or insignificant
- Establish cause and effect relation if any

Karl Pearson's method, popularly known as Pearsonian coefficient of correlation is most widely used in practice. The Pearsonian coefficient of correlation is denoted by the symbol of 'r' and is calculated as follows:

$$r_{xy} = \frac{\sum XY - \frac{\sum x \cdot \sum Y}{N}}{\sqrt{\sum X^2 - \frac{(\sum X)^2}{N}} \sqrt{\sum Y^2 - \frac{(\sum Y)^2}{N}}}$$

Where,

N= No. of observation of X and Y

$\sum X$ = Sum of the observations in series X

$\sum Y$ = Sum of the observations in series Y

$\sum X^2$ = Sum of the observations in series X

$\sum Y^2$ = Sum of the observations in series Y

$\sum X Y$ = Sum of the product of the observations in series X and Y

The Karl Pearson coefficient of correlation 'r' always falls between -1 to +1. The value of correlation in minus denotes the negative correlation and in plus denotes the positive correlation. As the value of correlation coefficient reaches near to the

value of zero, it is said that there is no significant relationship between the variables.

2. Probable error

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error it is possible to determine the reliability of the value of coefficient in so far it depends on the conditions of random sampling.

The probable error of the coefficient of correlation is obtained as follows:

$$\text{P.E } r = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

Where 'r' is the coefficient of correlation and N the number of pairs of observation.

If the value of r is more than six times the probable error the coefficient of correlation is practically certain, i.e. the value of r is not at all significant.

If the value of r is more than six times the Probable error the coefficient of correlation is practically certain, i.e. the value of r is significant.

If the value of correlated coefficient is greater than 6 times the value of Probable Error, the correlation of coefficient is as significant and reliable.

If the value of correlation coefficient is less than the Probable Error, the correlation coefficient is said to be insignificant and there is evidence of correlation.

The statistical tool correlation analysis is used in the study to measure the relationship between variables in determining whether the relationship is significant or not.

For the purpose of decision making interpretation are based on the following terms:

When, $r=1$, there is perfect positive correlation.

When, $r=-1$, there is perfect negative correlation.

When, $r=0$, there is no correlation.

When, 'r' lies between 0.7 to 0.999 (-0.7 to -0.999), there is high degree of positive (or negative) correlation.

When, 'r' lies between 0.5 to 0.6999 there is moderate degree of correlation.

When, 'r' is less than 0.5 there is low degree of correlation.

3. Coefficient of determination (r^2)

It explains the variation percent derived in dependent variable due to the any one specified variable. It denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data collected from various sources. The main objective of this chapter is to evaluate and analyze the main financial performance, which are mainly related to lending performance of the related banks. To obtain best result, the data have been analyzed according to the research methodology as mentioned in the third chapter.

4.1 Ratio analysis

Under this various types of ratio are calculated which are as follows,

4.1.1 Assets/ Liability management ratio

It measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensure its effective utilization. The banking business converts the liability into assets by way of is lending and investment function. Assets and liability management ratio measures its efficiency in multiplying various liabilities in performing assets. The following are the various ratios relating to assets liability management used to determine the lending policy of the commercial banks.

i. Loans and advance to total assets ratio

Loan and advance to total assets ratio reflects the extent to the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. Loan and advance includes total loan and advance and total assets includes current assets and fixed assets, investment on shares, miscellaneous assets, loan & advances etc. It is calculated by dividing loan & advances by total assets.

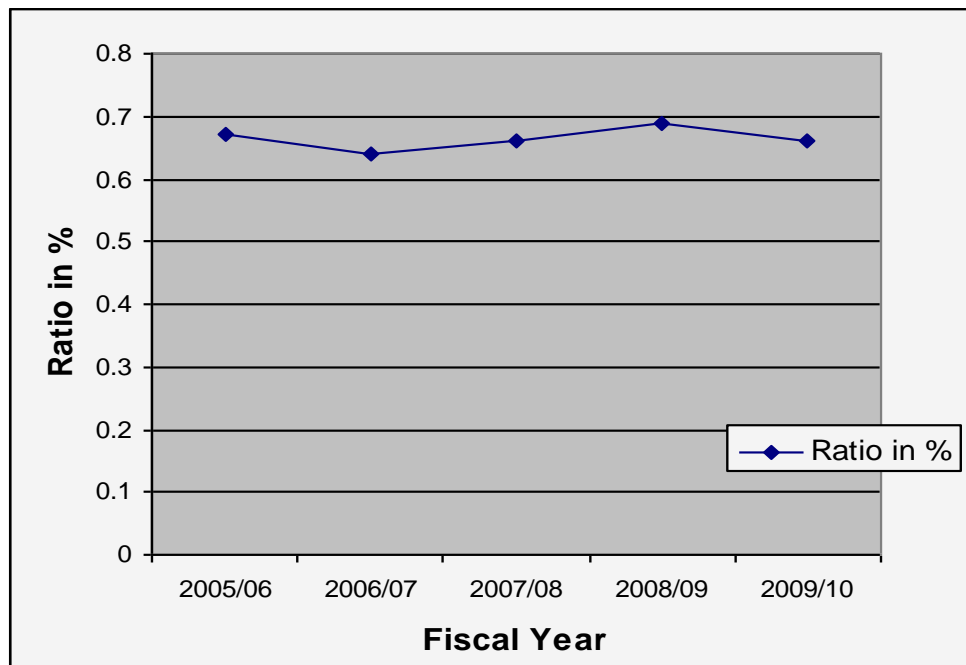
$$\text{Loan and Advance to Total Assets Ratio} = \frac{\text{Loan and Advance}}{\text{Total Assets}} \times 100$$

Table 4.1 Loan & Advances to Total Assets Ratio of EBL(in million)

Fiscal year	Loan and Advance	Total Assets	Ratio in %
2005/06	7900	11733	0.67
2006/07	10136	15959	0.64
2007/08	14083	21433	0.66
2008/09	18836	27149	0.69
2009/10	24470	36917	0.66
Average			0.66

Source: Annual Report of EBL

Figure 4.1 Loans & Advance to Total Assets Ratio of EBL



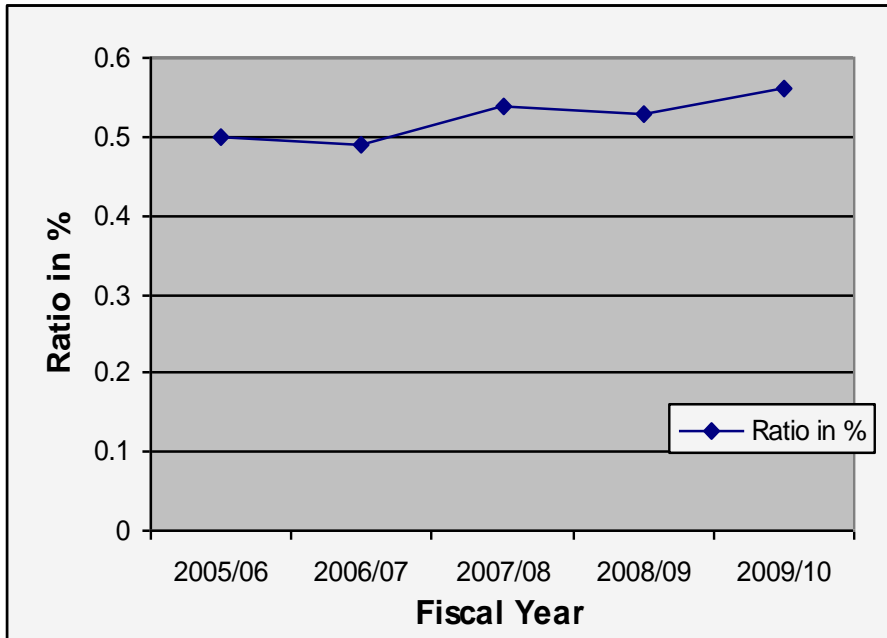
From the table 4.1, it is clear that F/Y2008/09 has the highest contribution to loan & advances in total assets with (0.69). The lowest is in F/Y2006/07 with the ratio of (0.64). Average ratio is 0.66 when compared its average ratio. The ratio is below average for the year 2006/07 and above average for the year 2005/06, 2007/08, 2008/09 and 2009/10.

Table 4.2 Loan & Advances to Total Assets Ratio of HBL(in million)

Fiscal year	Loan and Advance	Total Assets	Ratio in %
2005/06	12920	25730	0.50
2006/07	13451	27418	0.49
2007/08	15762	29460	0.54
2008/09	17794	33519	0.53
2009/10	20180	36176	0.56
Average			0.52

Source: Annual Report of HBL

Figure 4.2 Loans & Advance to Total Assets Ratio of HBL



From the table 4.2, it is clear that F/Y2007/08 has the highest contribution to loan & advances in total assets with (0.54) The lowest is in F/Y 2006/07 with the ration of (0.49).Average ratio is 0.52 when compared its average ratio the ration is below averagefor the year 2005/06 and 2006/07 and above average for the year2007/08, 2008/09 and 2009/10.By comparing the above two table it shows the loans and advance to total assets of EBL is higher than HBL. That means EBL

has good lending performance. Similarly, the ratio of HBL is maximum i.e.0.69 in the year 2008/09 and the ratio of EBL is maximum i.e.0.54 in the year 07/08.

ii. Loan & Advances and investment to total deposit ratio

Loan & Advances and investments are the major area of fund mobilization. This is the major area where the funds collected as deposits are collected. The first part Loan & advances is more crucial and also bears more risk than investments but also gives the higher return whereas the second half investment has lesser risk and gives the lower return in compared to loans and advances. Loan & advances and investments to total deposits ratio indicates the firm’s funds mobilizing power in gross. Any idle deposit means loss to the company. Thus, this ratio measures how well the deposits have been mobilized. Here, we can say that this ratio measures what part of deposits are generating income for the company to give out interest to the deposits and also make profit.

Table 4.3 Loan & Advance and Investment to total Deposit Ratio of EBL(in million)

Fiscal year	Loan, Advance & Investment	Total deposit	Ratio in %
2005/06	10029	10098	0.99
2006/07	14337	13802	1.04
2007/08	19067	18186	1.05
2008/09	23896	23976	1.00
2009/10	30418	33323	0.91
Average			1.00

Source: Annual Report of EBL

Figure 4.3 Loan & Advance and Investment to total Deposit Ratio of EBL

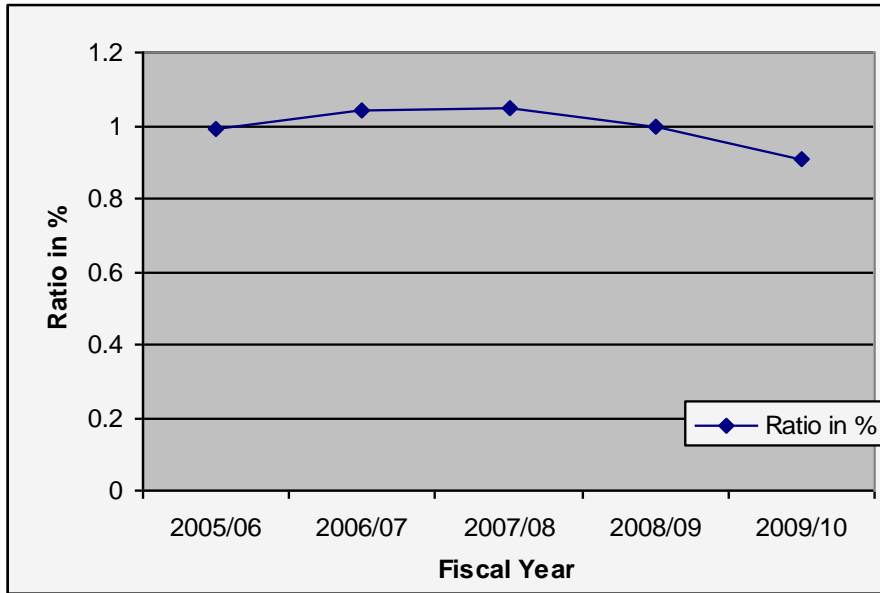
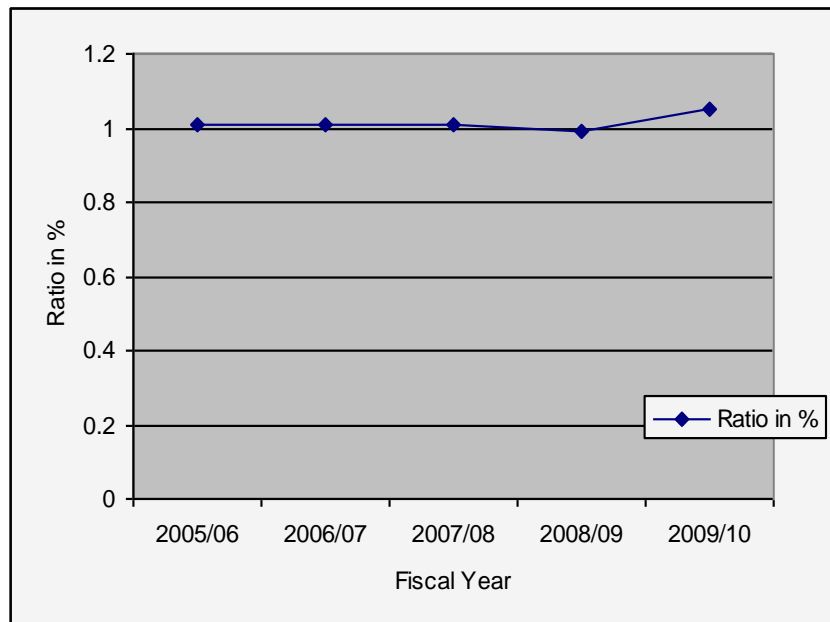


Table 4.4 Loan & Advance and Investment to total Deposit Ratio of HBL (in million)

Fiscal year	Loan and Advance and Investment	Total deposit	Ratio in %
2005/06	22212	22010	1.01
2006/07	25144	24814	1.01
2007/08	26651	26491	1.01
2008/09	29617	30048	0.99
2009/10	33520	31843	1.05
Average			1.01

Source: Annual Report of HBL

Figure4.4 Loan & Advance and Investment to total Deposit Ratio of HBL



The above table shows the ratio of Loan & advances and investments to total deposits. This means the portion of deposit being mobilized to generate income. The above table shows the loans and advance and investment to total deposits of HBL is higher than EBL. That means HBL has good lending performance. Similarly, the ratio of HBL is maximum i.e.1.05 in the year 2009/10 and the ratio of EBL is maximum i.e.1.05 in the year 2007/08. And since the ratio is above 1, it refers that none of the deposit is idle. There is maximum utilization of the collected funds.

iii. Investment to Loan & Advances and investment ratio

This ratio measure the contribution made by investment in total amount of Loan & advances and investments. The proportion between investment and Loan & advances depicts the management attitude towards risk assets and safety assets. This also measures the risk to the certain banks. The high ratio indicates the mobilization of funds in safe area and vice versa. However, safety does not

provide with satisfactory return, or we can say that “no risk no gain”. Thus, a compromising ratio between risk and profit should be maintained.

Table 4.5 Investment to Loan & Advances and Investment Ratio of EBL (in million)

Fiscal year	Investment	Loan, advance & Investment	Ratio in %
2005/06	2129	10029	0.21
2006/07	4201	14337	0.29
2007/08	4984	19067	0.26
2008/09	5060	23896	0.21
2009/10	5949	30418	0.20
Average			0.23

Source: Annual Report of EBL

Figure 4.5 Investment to Loan & Advances and Investment Ratio of EBL

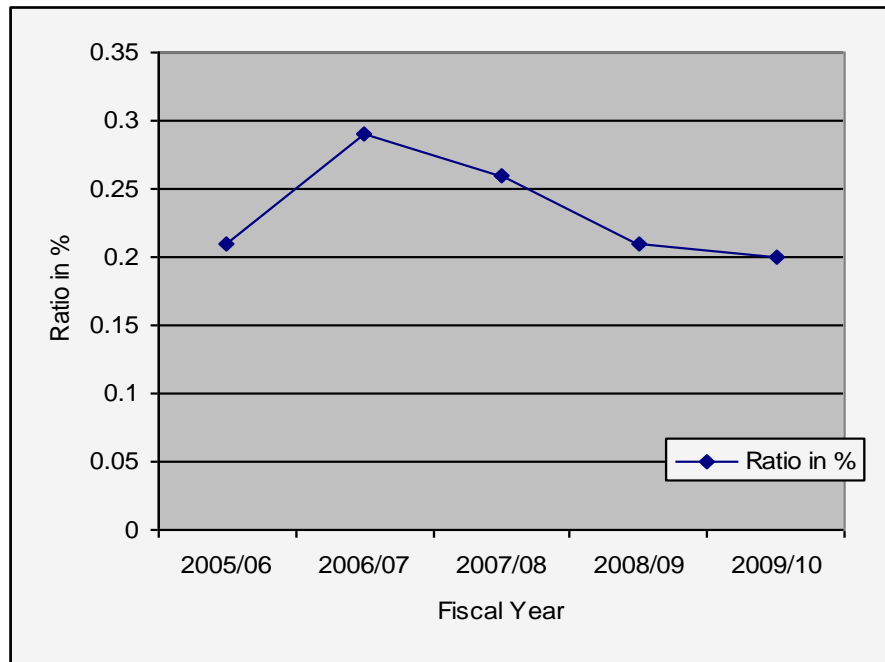
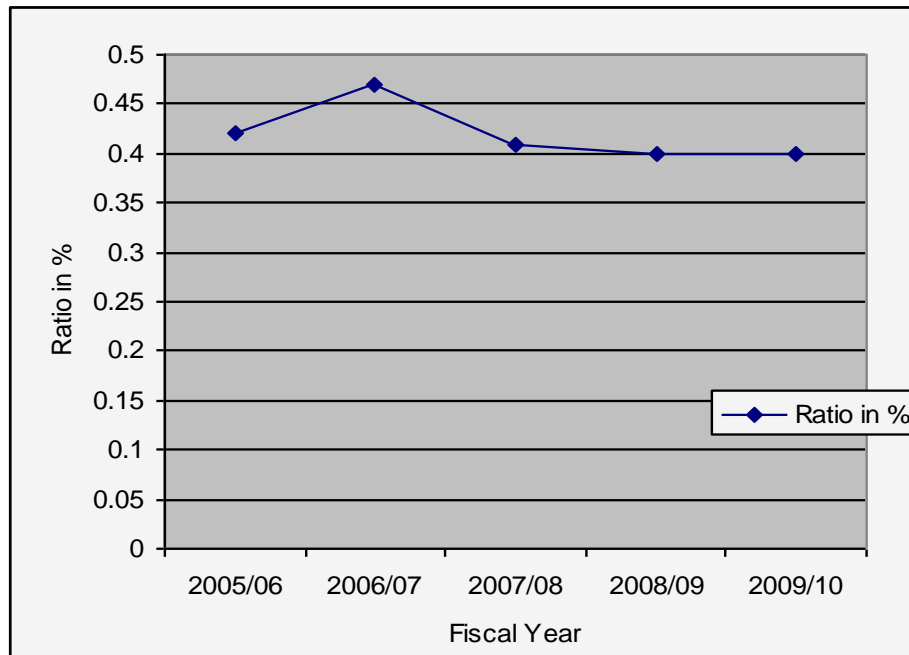


Table4.6 Investment to Loan & Advances and Investment Ratio of HBL(in million)

Fiscal Year	Investment	Loan, advance & investment	Ratio in %
2005/06	9292	22212	0.42
2006/07	11692	25144	0.47
2007/08	10889	26651	0.41
2008/09	11823	29617	0.40
2009/10	13340	33520	0.40
Average			0.42

Source: Annual Report of HBL

Figure 4.6 Investment to Loan & Advances and Investment Ratio of HBL



The above table shows the ratios of investment to loan & advances and investments. The ratios of HBL are the highest throughout the study period. The average mean ratio of HBL is 0.42 and EBL is 0.23 HBL has registered the higher ratio in F/Y2006/07 i.e. 0.47 and EBL has registered the higher ratio in the F/Y2006/07 i.e.0.29. This indicates it has lowest degree of investment in risk assets.

iv. Loan & Advances to shareholder's equity ratio

Shareholder's equity consists of paid up capital, undistributed profits, reserves and retained earnings. The ratio between Loan & advances to shareholders equity shows how far the shareholder's equity has been able to generate assets to multiple its wealth. This also measures the success of converting liability into assets and measures size of the business.

Table 4.7 Loan & Advances to Shareholder's Equity Ratio of EBL(in million)

Fiscal year	Loan and Advance	Shareholder's equity	Ratio in %
2005/06	7900	998	7.92
2006/07	10136	1198	8.46
2007/08	14083	1515	9.30
2008/09	18836	2113	8.92
2009/10	24470	2620	9.34
Average			8.79

Source: Annual Report of EBL

Figure 4.7 Loan & Advances to Shareholder's Equity Ratio of EBL

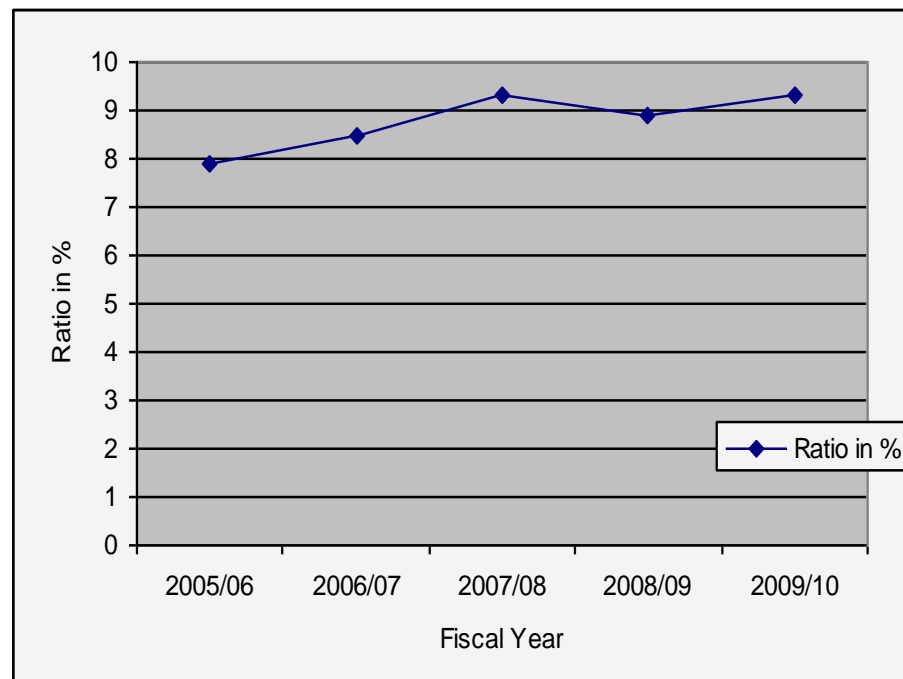


Table 4.8 Loan & Advances to Shareholder’s Equity Ratio of HBL(in million)

Fiscal year	Loan and Advance	Shareholder's equity	Ratio in %
2005/06	12920	2292	5.64
2006/07	13451	2568	5.24
2007/08	15762	2886	5.46
2008/09	17794	2942	6.05
2009/10	20180	3198	6.31
Average			5.74

Source: Annual Report of HBL

Figure 4.8 Loan & Advances to Shareholder’s Equity Ratio of HBL

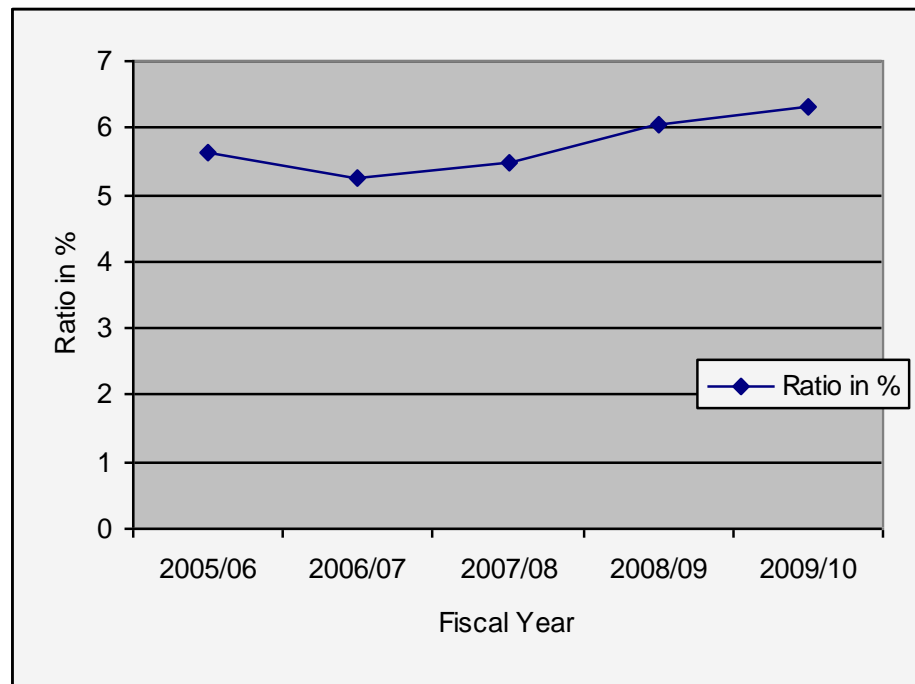


Table 4.7 and 4.8 shows the ratios of Loan & advances to shareholder’s equity of HBL and EBL. The ratios are increasing trend in EBL. EBL has higher average mean than HBL ($8.79 > 5.74$). EBL has been able to generate high volume of loan & advances than HBL. If the ratios are below the combined mean. It can be concluded that they have not succeeded in increasing Loan & advances in proportion to the size of their capita.

4.1.2 Activity ratio

Activity ratio measures the performance efficiency of an organization from various angles of its operation. Activity ratio indicates the efficiency of activity of an enterprise to utilize available funds, particularly short-term funds. The following ratios are used in this study to determine the efficiency, quality and contribution of Loan & advances in the total profitability.

i. **Loan loss provision to total loans and advance**

The ratio of loan loss provision to total Loan & advances describes the quality of asset in form of loan is bank holding. Loan loss provision, in fact is the cushion against future contingency created by the default of the borrowers. Loan loss provision indicates the figure that is the summation of provision made against all types of loans as per the NRB directives.

According to the NRB directives, it directs to make the provision of 1%, 25%, 50% and 100% for good loans, sub-loans, doubtful loans and bad loans respectively. Loan loss provision occupies the large share in the total provision. Presented in the profit and loss account and definitely decrease the profit of the company. According to NRB directives 1% provision to be provided for all good loans. It gets a large portion of the total loan loss provision.

Table 4.9 Loan Loss Provision to Total loans and advance of EBL(in million)

Fiscal Year	Loan loss Provision	Loan and Advance	Ratio in %
2005/06	281	7900	0.04
2006/07	335	10136	0.03
2007/08	419	14083	0.03
2008/09	585	18836	0.03
2009/10	497	24470	0.02
Average			0.03

Source: Annual Report of EBL

Figure 4.9 Loan Loss Provision to Total loans and advance of EBL

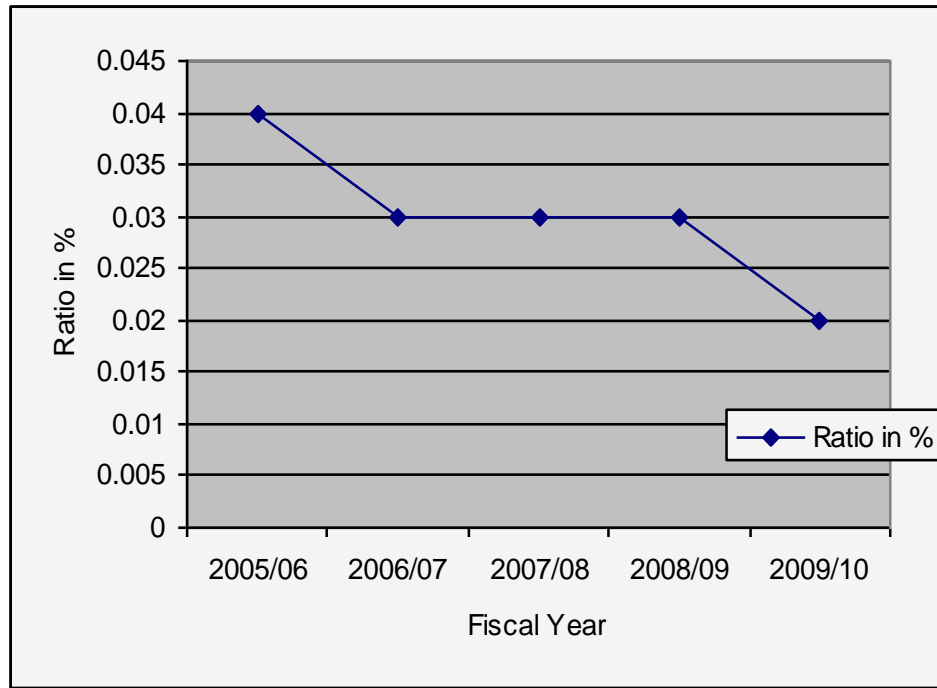


Table 4.10 Loan Loss Provision to Total loans and advance of HBL(in million)

Fiscal Year	Loan loss Provision	Loan andAdv	Ratio in %
2005/06	968	12920	0.07
2006/07	1005	13451	0.07
2007/08	1119	15762	0.07
2008/09	796	17794	0.04
2009/10	673	20180	0.03
Average			0.06

Source: Annual Report of HBL

Figure 4.10 Loan Loss Provision to Total loans and advance of HBL

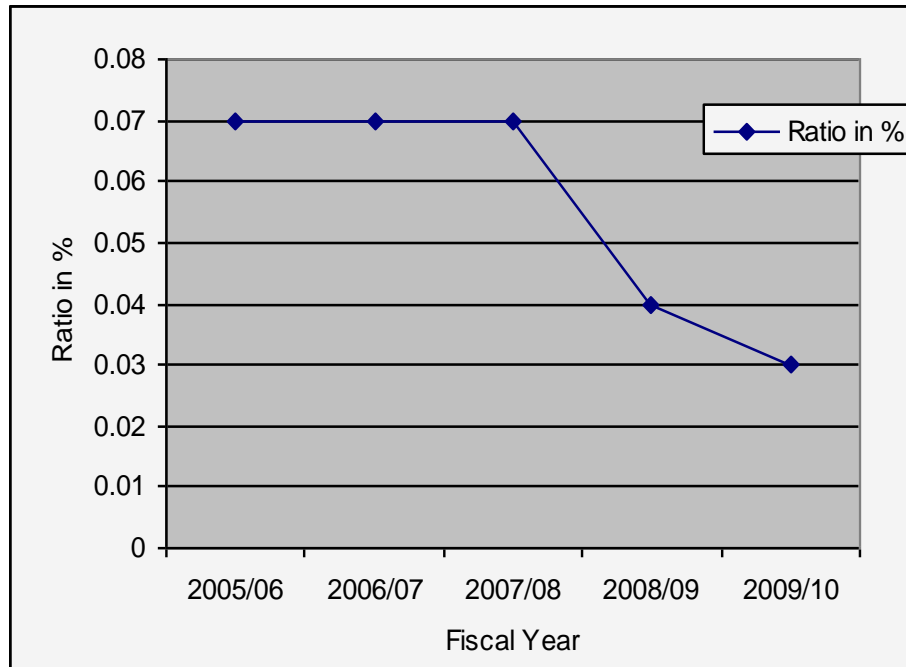


Table 4. 9 and 4.10 shows that EBL has the lowest average mean ratio of loan loss provision to HBL. EBL has the lowest mean ratio of loan loss provision to total loan i.e. 0.02. All the commercial banks have not consistency in their mean ratio in different years. The ratio of HBL is in rapid decreasing trend but the ratio of EBL, is in decreasing trend. The low ratio indicates the good quality of assets (loans) in the total volume of Loan & advances whereas high ratio indicates more risky assets (Loan having chances of default) in the total volume of loans and advances.

ii. Non –performing loans to total Loan & Advances ratio

As the NRB directives given to the joint venture banks, sub-standard, doubtful and bad loans are categorized under non-performing loans. Increase in non-performing loans increase loan loss provision and interest suspense too, which ultimately results in profit deduction. “ The banking sector is severely affected by the non-performing loans problems. It is estimated that the non-performing loans of the Nepalese banking system is around 16 %, Therefore, there is no doubt that

it has a serious implication on economic performance of the country “ (Dhungana,2058).

Table 4.11 Non performing Loan to Total Loan & Advances Ratio of EBL(in million)

Fiscal year	Non-Performing Loan	Loan and advances	Ratio in %
2005/06	129	7900	0.016
2006/07	129	10136	0.013
2007/08	113	14083	0.008
2008/09	127	18836	0.007
2009/10	118	24470	0.005
Average			0.010

Source: Annual Report of EBL

Figure 4.11 Non –performing Loans to Total Loan & Advances Ratio of EBL

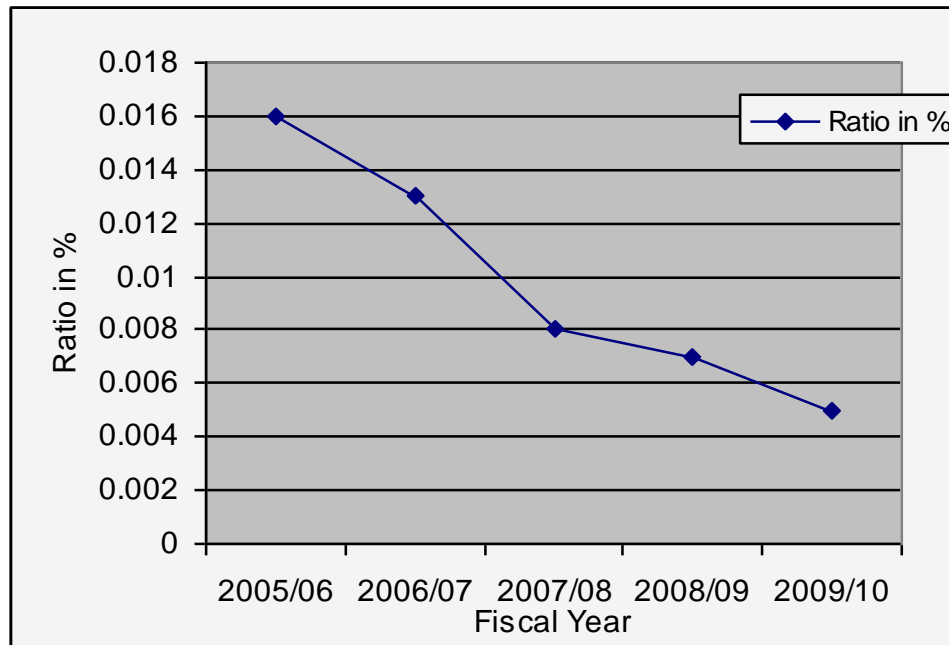


Table 4.12 Non performing Loan to Total Loan & Advances Ratio of HBL(in million)

Fiscal year	Non-Performing Loan	Loan and	Ratio in %
2005/06	1147	12920	0.089
2006/07	1001	13451	0.074
2007/08	1041	15762	0.066
2008/09	642	17794	0.036
2009/10	471	20180	0.023
Average			0.058

Source: Annual Report of HBL

Figure 4.12 Non –performing Loans to Total Loan & Advances Ratio of HBL

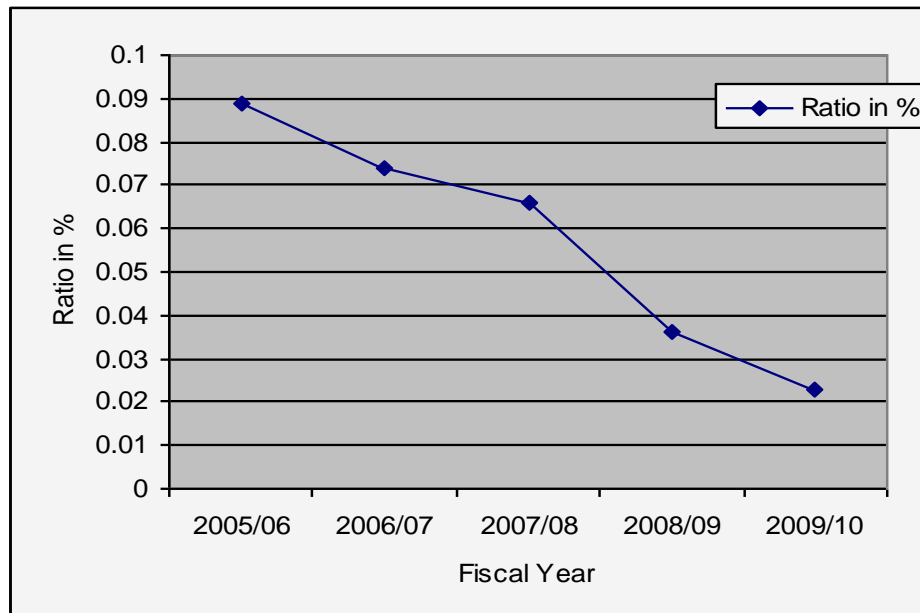


Table 4.11 & 4.12 exhibits that the non-performing loan to total Loan & advances ratio of the concerned banks. The average mean ratio of HBL is high i.e. 0.058. Than EBL i.e. 0.10. HBL has maintained a low ratio of 0.005 F/Y 2009/10, than EBL i.e. 0.023 in the fiscal year 2009/10 .HBL has reduces its non-performing loans by large percentages during the five year of period from 0.089 to 0.028.

iii. Interest income from Loan & Advances to total income ratio

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

Table 4.13 Interest Income to Total Income Ratio of EBL(in million)

Fiscal year	Interest	Total Income	Ratio in %
2005/06	719	556	1.29
2006/07	903	662	1.36
2007/08	1144	841	1.36
2008/09	1549	1210	1.28
2009/10	2187	1545	1.42
Average			1.34

Source: Annual Report of EBL

Figure 4.13 Interest Incomes to Total Income Ratio of EBL

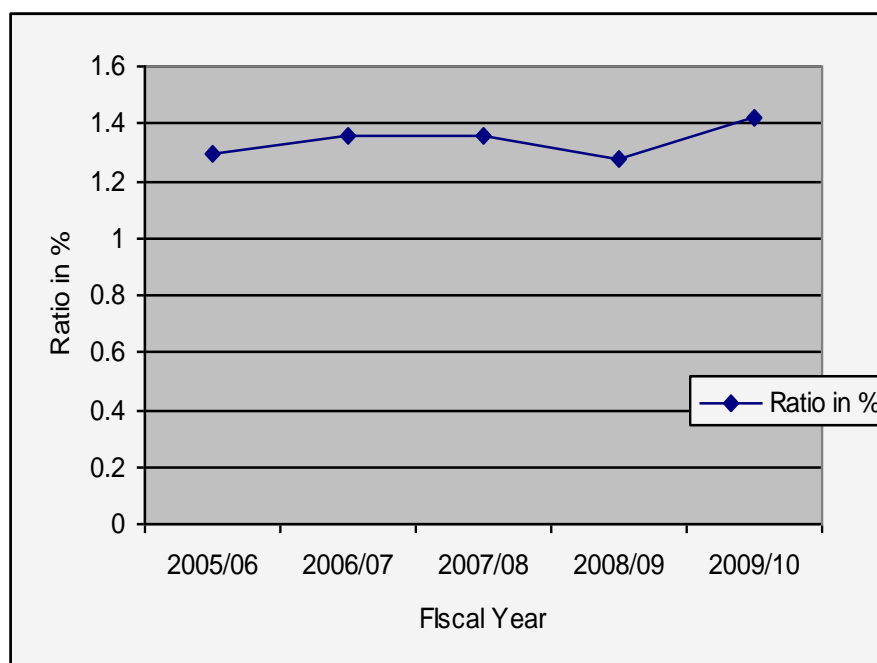
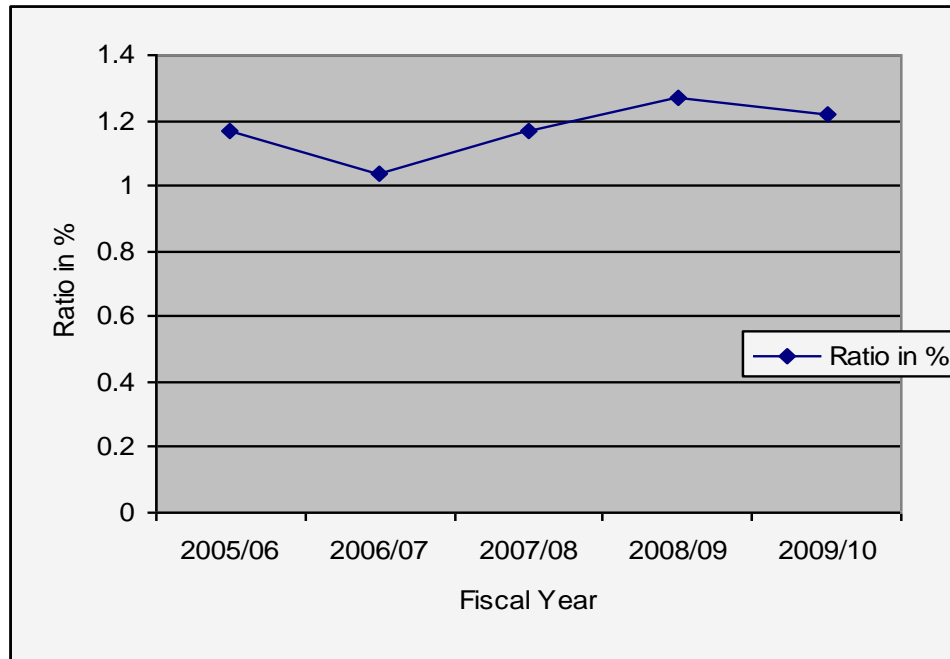


Table 4.14 Interest Income to Total Income Ratio of HBL(in million)

Fiscal	Interest Income	Total Income	Ratio in %
2005/06	1201	1028	1.17
2006/07	1246	1199	1.04
2007/08	1626	1395	1.17
2008/09	1776	1397	1.27
2009/10	1964	1607	1.22
Average			1.17

Source: Annual Report of HBL

Figure 4.14 Interest Incomes to Total Income Ratio of HBL



The above table shows that EBL has highest average mean ratio in interest income to total income ratio and HBL has the lowest mean ratio. The overall trend of the ratio is fluctuating. The highest ratio recorded is 1.42 in the F/Y2009/10 by HBL and the highest ratio recorded is 1.27 in F/Y2008/09 by

EBL. The high ratio indicates that it is largely depended on lending activities and low ratio indicates that it has low dependency on lending activities and high dependency on other fee based activities

iv. Loan and advance to total deposit ratio

This ratio measures the banks’ ability to mobilize the depositor’s fund to earn profit by providing loan and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the purpose of profit generating. Loan & advances refer to total sum of loan, advances, credit, overdraft local and foreign bills purchased and discounted. Total deposit includes total outsiders’ fund or all kind of deposits. A high ratio indicates higher efficiency to utilize depositors fund and low ratio indicates bank’s liability to efficiency to utilize the depositor’s fund.

The ratio is calculated by dividing loan and advance by total deposits. It is calculated as:-

Loan and advance to Total deposit Ratio

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}} \times 100$$

Table 4.15 Loan and Advance to Total Deposit Ratio of EBL(in million)

Fiscal year	Loan and Advance	Total Deposit	Ratio in %
2005/06	7900	10098	0.78
2006/07	10136	13802	0.73
2007/08	14083	18186	0.77
2008/09	18836	23976	0.79
2009/10	24470	33323	0.73
Average			0.76

Source: Annual Report of EBL

Figure 4.15 Loans and Advance to Total Deposit Ratio of EBL

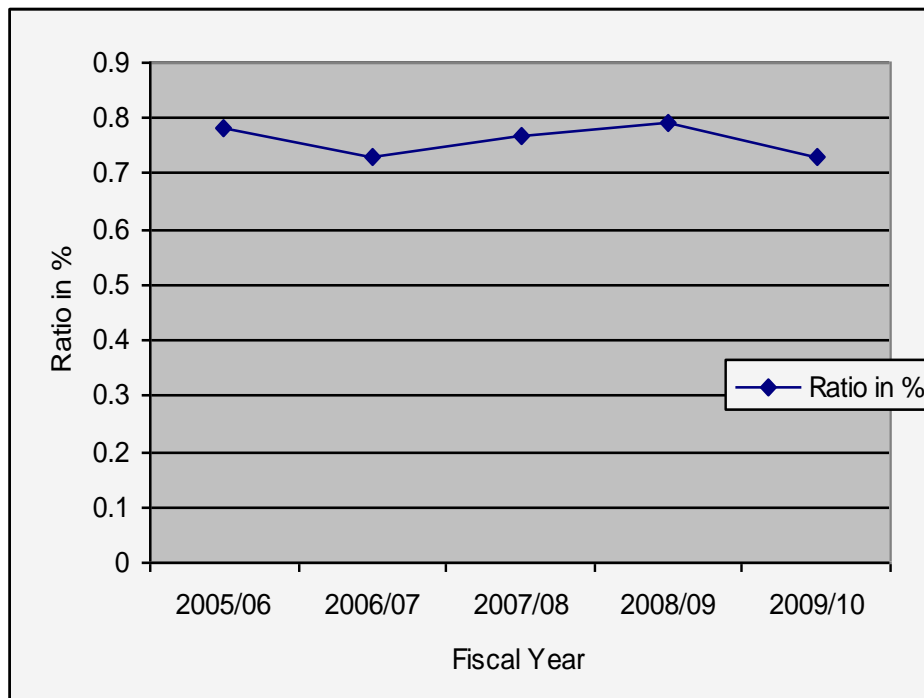
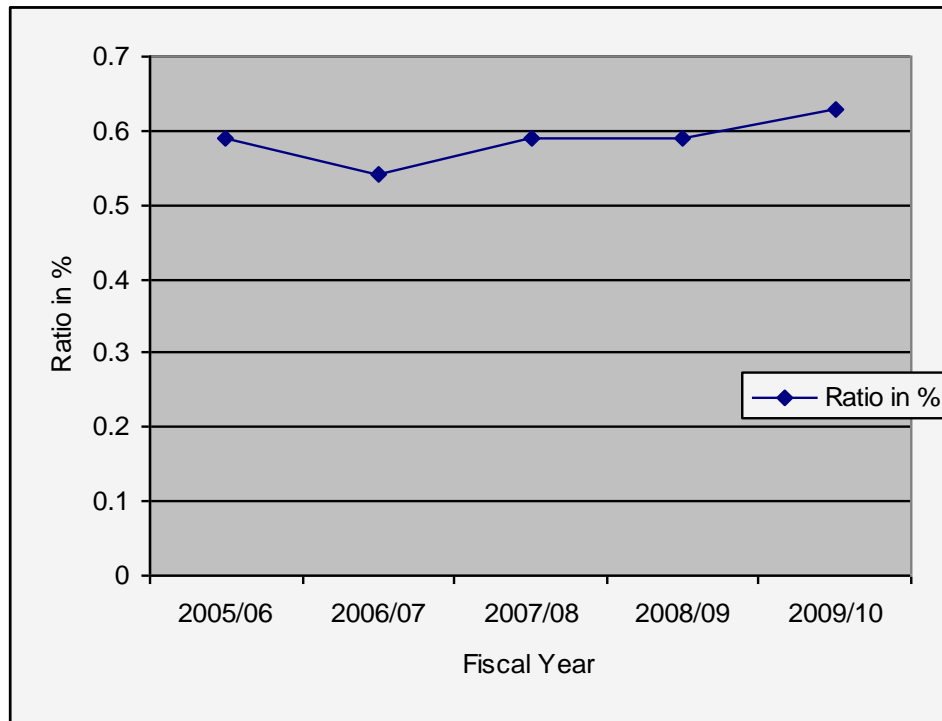


Table 4.16 Loan and Advance to Total Deposit Ratio of HBL(in million)

Fiscal year	Loan and Advance	Total Deposit	Ratio in %
2005/06	12920	22010	0.59
2006/07	13451	24814	0.54
2007/08	15762	26491	0.59
2008/09	17794	30048	0.59
2009/10	20180	31843	0.63
Average			0.59

Source: Annual Report of HBL

Figure 4.16 Loans and Advance to Total Deposit Ratio of HBL



From the above table, it is seen that HBL has highest in F/Y 2009/10 i.e.0.63 and lowest in F/Y 2006/07 i.e. 0.54 with an average ratio of 0.59. Similarly, it is seen that EBL has highest in F/Y 2008/09 i.e. 0.79 and lowest in F/Y 2006/07 and 2009/10 i.e.0.73 with an average ratio of 0.76. It can also be seen that the total deposit and Loan & advances has been increasing in higher rate. This indicates that the bank has been able to utilize its fund in a proper way in the recent five years than the past years.

v. Interest income to interest expenses ratio

The ratio of interest income to interest expenses ratio measures the difference between interest rates offered and interest rate charged. The spread between the interest income and interest expenses is the main foundation for the profit of the bank. NRB had restrictions on the interest rate spread of the joint venture banks. The interest offered and the interest charged should not be more than 5 percent.

The joint venture banks are free to fix interest rate on deposits and loans. Interest rates on all types of deposit and loans should be published in the local newspapers and communicated to Nepal Rastra Bank on quarterly basis and immediately when revised. Deviation of 0.5 percent from the published rate is allowed on all types of loans and deposit. However in rate fixation but it does not specify the conditions that would oblige NRB to do so.

Table 4.17 Interest income to Interest Expenses Ratio of EBL(in million)

Fiscal	Interest	Interest	Ratio in %
2005/06	719	300	2.40
2006/07	903	401	2.25
2007/08	1144	517	2.21
2008/09	1549	633	2.45
2009/10	2187	1013	2.16
Average			2.29

Source: Annual Report of EBL

Figure 4.17 Interest Incomes to Interest Expenses Ratio of EBL

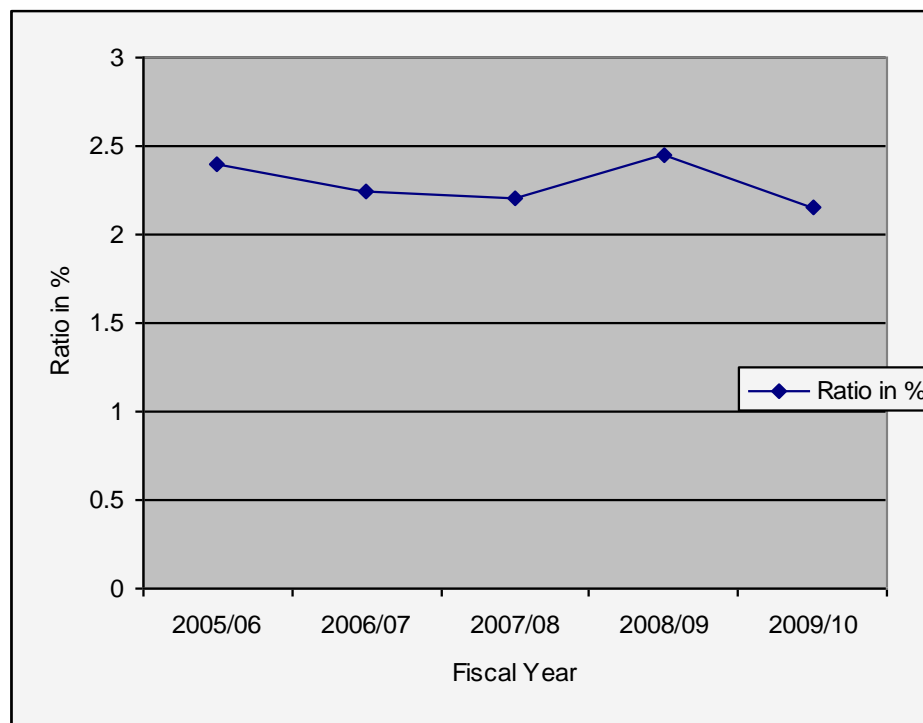


Table 4.18 Interest Income to Interest Expenses Ratio of HBL(in million)

Fiscal	Interest Income	Interest	Ratio in %
2005/06	1201	492	2.44
2006/07	1246	562	2.22
2007/08	1626	649	2.51
2008/09	1776	767	2.31
2009/10	1964	824	2.38
Average			2.37

Source: Annual Report of HBL

Figure 4.18 Interest Incomes to Interest Expenses Ratio of HBL

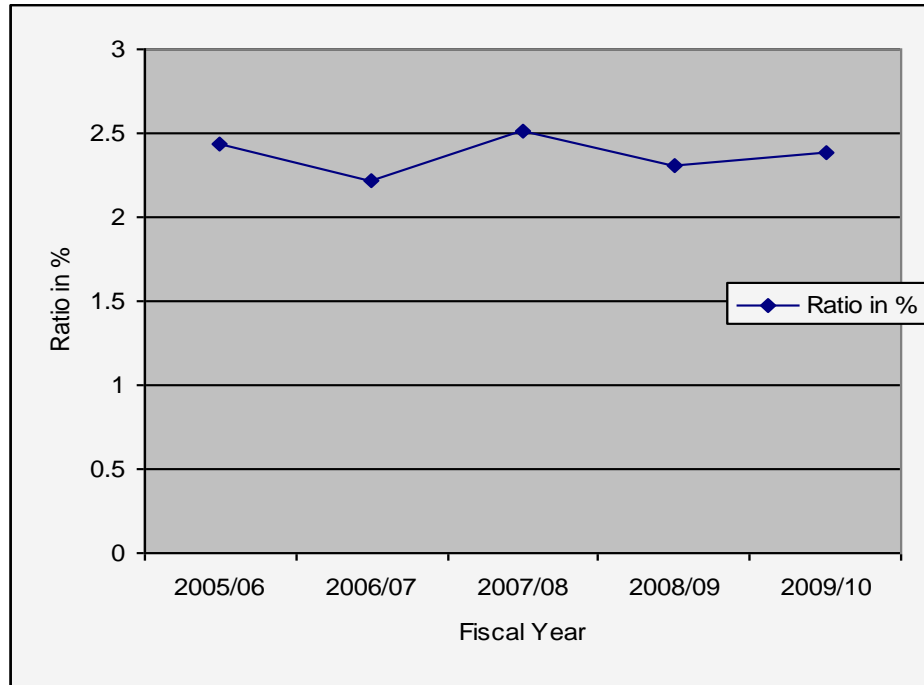


Table 4.17& 4.18 shows that the ratio of interest income to interest expenses ratio. The average ratio of HBL is 2037, which mean that a rupee of expenses in deposits generates 2.37 of interest income in an average. HBL has the highest mean ratio i.e. 2.38 in the F/Y 2009/10, which mean that one rupee of interest

expenses has been able to earn 2.38. EBL has the high degree that is 2.45 in the F/Y 2008/09. HBL is charging high interest rate in average than EBL i.e. 2.37>2.29.

4.1.3 Profitability ratio

Profitability is the net result of a number of policies and decisions. It is another tool to measure the financial position of the bank. Profitability ratio measures how effectively the bank has managed their funds to earn profit. Profit is the difference between total revenue and total expenses over a period of time. Profit is the ultimate output of commercial banks and it will have no future if it fails to make sufficient amount of profit. Profitability ratios show the combined efficiency of the firm in terms of profit and financial performance of any institution. Higher degree of profitability ratio shows better financial position and performance of the firm.

i. Return on equity

Net worth or shareholder's equity refers to owners claim on the assets of the bank. The ROE measures how profitability the owner's funds have been utilized by the banks. The earning of satisfactory return is the most desirable objective of business as common of ordinary shareholders is entitled to the residual profits. If the rate of dividend is not fixed the earning may be distributed to the shareholders or retained in the business. Nevertheless, the net profit after tax represents the return. Higher ratio indicates sound management and efficiency for earning a satisfactory return to its equity shareholders. The ratio can be calculated as:

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Shareholders' Equity}} \times 100$$

Table 4.19 Return on Equity of EBL(in million)

Fiscal year	Net Profit	Shareholder's Equity	Ratio in %
-------------	------------	----------------------	------------

2005/06	171	998	17.11
2006/07	237	1198	19.80
2007/08	296	1515	19.57
2008/09	451	2113	21.36
2009/10	639	2620	24.38
Average			20.44

Source: Annual Report of EBL

Figure 4.19 Returns on Equity of EBL

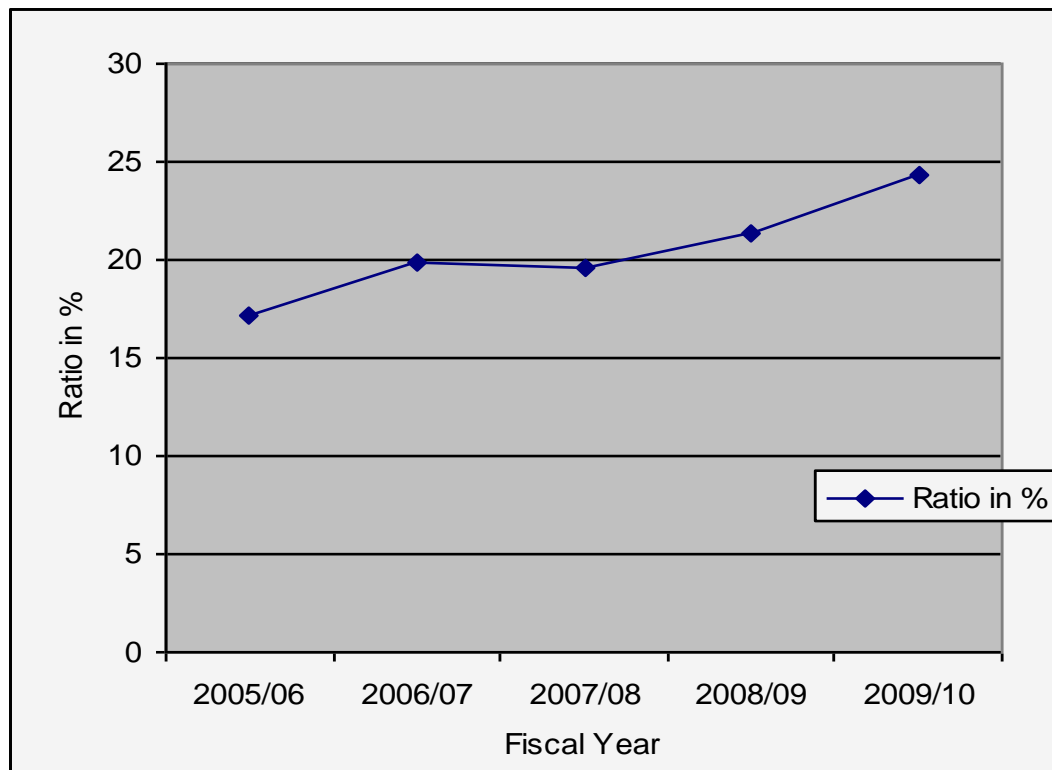


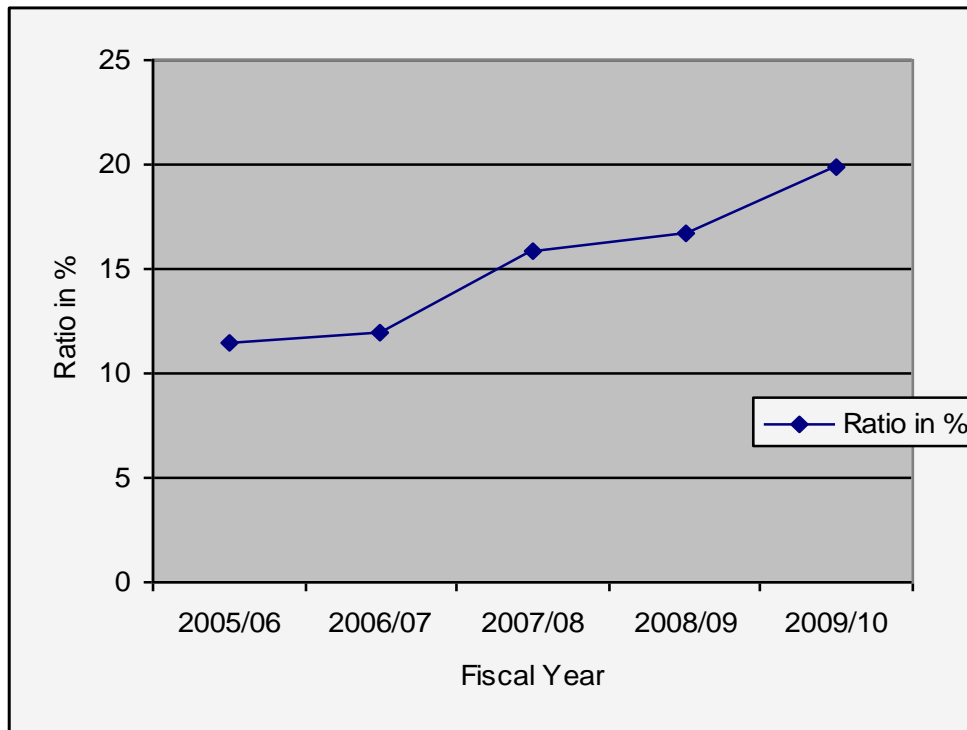
Table 4.20 Return on Equity of HBL(in million)

Fiscal	Net Profit	Shareholder's	Ratio in %
--------	------------	---------------	------------

2005/06	263	2292	11.477
2006/07	308	2568	12.003
2007/08	457	2886	15.853
2008/09	492	2942	16.716
2009/10	636	3198	19.880
Average			15.186

Source: Annual Report of HBL

Figure 4.20 Returns on Equity of HBL



The above table shows that the ratios are in increasing trend. The highest ratio of HBL is 19.88, in the F/Y 2008/09 and highest ratio of EBL is 24.38 in the F/Y 2008/09. The average mean ratio of EBL is higher than HBL i.e. $20.44 > 15.186$. Net profit and shareholder's equity of both banks are in increasing trend.

ii. **Earnings per share (EPS)**

Earnings per share measures profitability of the common shareholders' investment. The firms' EPS is generally the interest of present and prospective stockholders and management. EPS represents the amount earned on the behalf of each outstanding share of common stock. They are generally the interest of investing public and are considered as important indicator of the firm's success.

EPS refers to net profit divided by the total number of shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This figure is the indicative of the overall good or bad performance of an organization. How far an organization is able to use its resources to generate profit is determined by the profit it has earned. Thus, EPS determines the market value of a share, determines the attitude of outsiders. EPS can be calculated as:

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{No of shares outstanding}} \times 100$$

Table 4.21 Earning per Share (EPS) of EBL(in million)

Fiscal year	Net Profit	Total no. of Share	Ratio in %
2005/06	171	3.15	54.22
2006/07	237	3.78	62.75
2007/08	296	3.78	78.41
2008/09	451	4.91	91.82
2009/10	639	6.39	99.98
Average			77.44

Source: Annual Report of EBL

Figure 4.21 Earning Per Share (EPS) of EBL

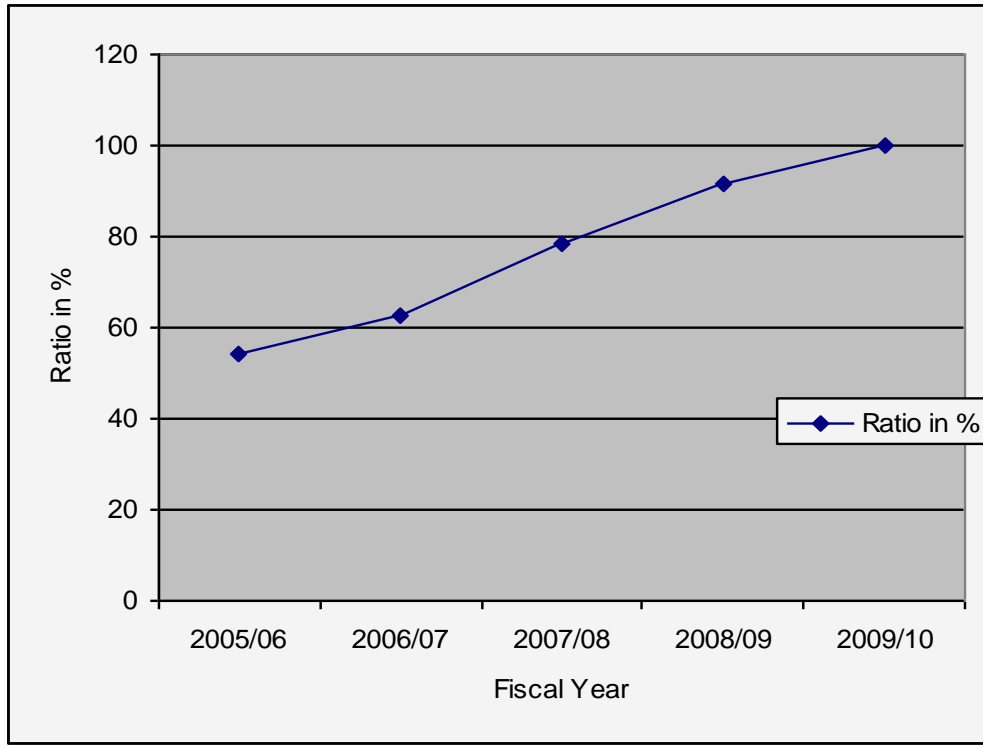
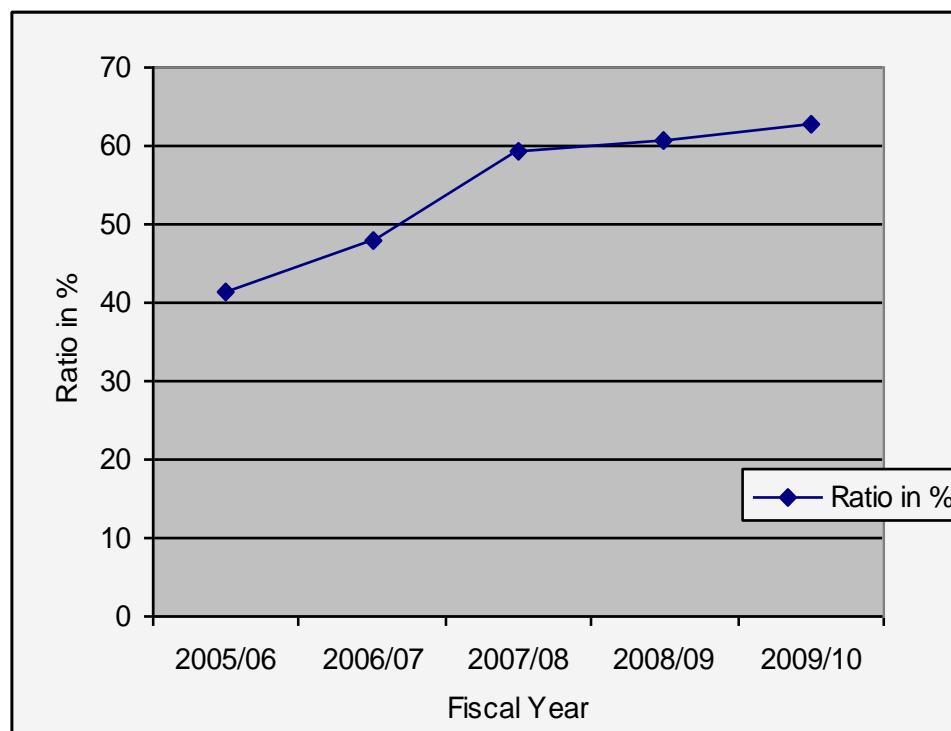


Table 4.22 Earning per Share (EPS) of HBL(in million)

Fiscal year	Net Profit	Total no. of Share	Ratio in %
2005/06	263	6.38	41.22
2006/07	308	6.44	47.91
2007/08	457	7.72	59.24
2008/09	492	8.11	60.66
2009/10	636	10.14	62.74
Average			54.35

Source: Annual Report of HBL

Figure 4.22 Earning Per Share (EPS) of HBL



The above table shows that EPS of EBL varies from maximum of Rs.62.74 to minimum of Rs.54.22. Similarly, EPS of HBL varies from maximum of Rs.62.74 to minimum of Rs.41.22. The regular increase of EPS is because of the tremendous increase in the net profit in the past years. Net Profit of both banks is in increasing trend. The average mean of HBL is Rs.77.44 and the average mean of EBL is Rs.54.35. Net profit and total numbers of shares of both banks i.e. HBL and EBL are in increasing trend.

4.2 Recovery of loan

The success of a bank does not depend only on the extension of more amount of credit. The recovery of extended credit is equally important. In fact, timely recovery of loan is the crucial thing of the lending function of a bank. So the amount of recovery of HBL and EBL has been situated as

Table 4.23 Amount of Loan Recovered By EBL(in million)

Year	Loan and Advances	Recovered Amount	Ratio in %
2005/06	7900	7442	0.942
2006/07	10136	9769	0.9638
2007/08	14083	13624	0.9674
2008/09	18836	18241	0.9684
2009/10	24470	23760	0.971
Average			0.96252

Source: Annual Report of EBL

Figure 4.23 Amount of Loan Recovered By EBL

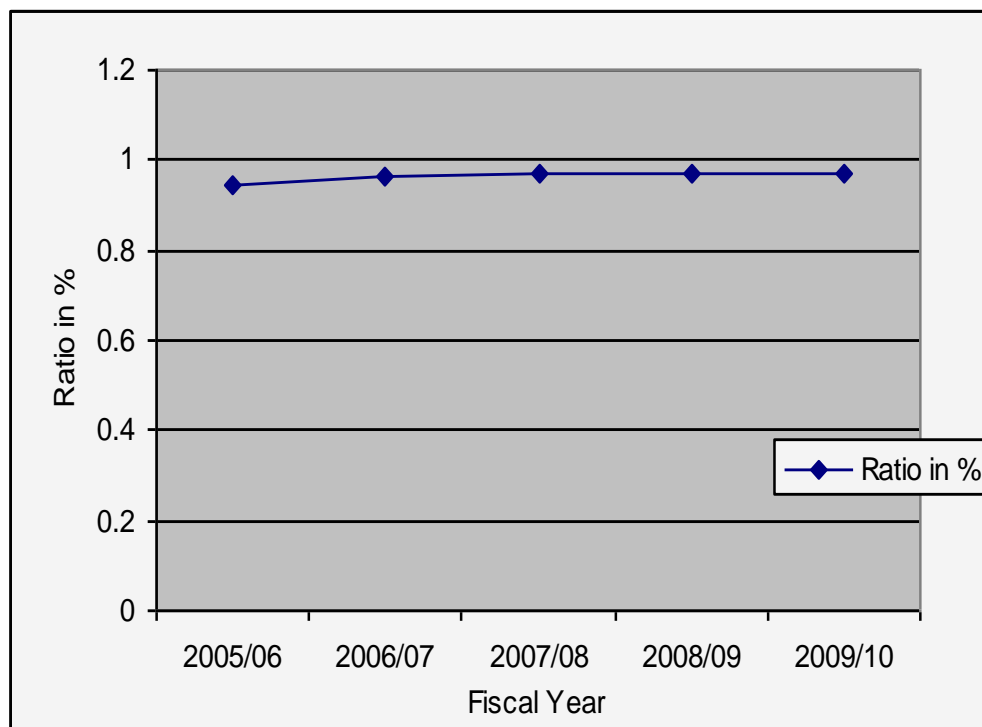
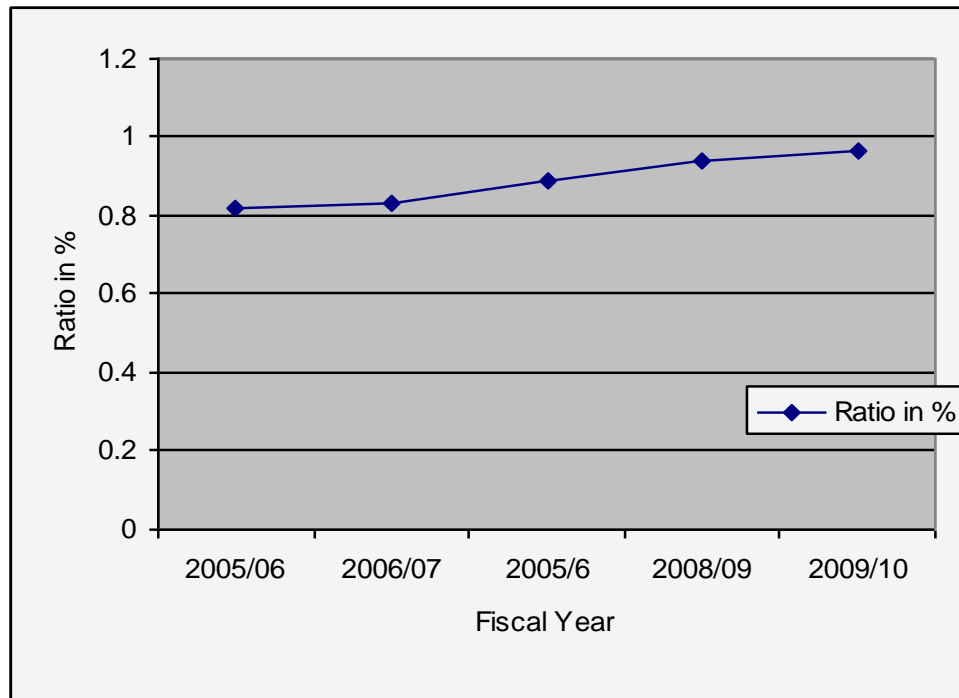


Table4.24 Amount of Loan Recovered By HBL(in million)

Year	Loan and Advances	Recovered Amount	Ratio in %
2005/06	12920	10574	0.8184
2006/07	13451	11175	0.8308
2005/6	15762	14001	0.8883
2008/09	17794	16744	0.941
2009/10	20180	19445	0.9636
Average			0.88842

Source: Annual Report of HBL

Figure 4.24 Amount of Loan Recovered by HBL



The loan given and collected can be compared from the above table. Here we can see the amount recovered every year from F/Y 2006/07 to F/Y 2008/09. The

above table shows that the loan collected by the bank is in increasing trend and as well as recovery of loan is also in increasing trend. The amount of loan disbursed has increased from Rs.7900 million to Rs.24470 million F/Y 2006/07-2008/09 of EBL and similarly Rs.12920 million to Rs.20180 million of HBL.

The amount of recovery has increased from Rs.7442 million to Rs.23760 million F/Y 2006/07-2008/09 of EBL and similarly Rs.10574million to Rs.194450 million of HBL. It has been revealed that the loan in each year from 2006/07-2008/09 has recovered highly as per the loan disbursed by EBL than HBL. EBL has high n consistent recovery ratio i.e. from 0.9420 to 0.9710 from F/Y 2006/07-2008/09 respectively but the recovery ratio of HBL has highly increased i.e. 0.8184 to 0.9636 2006/07-2008/09 respectively.

Here, the effort has been made to analyze the loan disbursed and collection of EBL and HBL for the stated period. Similarly, despite continues effort data wise loan disbursement and type wise loan recovery amount was not made available by the banks. So, primary source of data was relied upon. On asking the loan officials and the staffs of the credit department, it was extracted that among different types of loan that are easy to recover are specialized loans. In their opinion, it is so because the loan type has been planned to be given away for a particular group of people and as per the scheme , the participating in the borrowing under such schemes are automatically selected by the criteria for providing loan for such particular purposes.

So, these people are aware of the consequences of default in repayment and deliberate defaulters are almost negligent in number. On the other hand, the different type of loan to be recovered is overdraft loan and in overdraft loan also, Person are found to be defaulting more in comparison to companies and business firms, There is are default in this loan because it is a loan wide coverage and it is not meant for a particular purpose only.

This includes a wide range of borrowers of varying needs, Backgrounds and attitudes. Because of this diversify in the purpose and attitude of borrowers, there is a high chance of default but HBL has disbursed overdraft loan in higher

percentage than other type of loans in spite of the fact that high default is observed in this type of loan as compared to other loans.

4.3 Measuring correlation coefficient between different variables

Correlation is a statistical tool that can be used to describe the degree of linear relationship of one variable to other variables. Correlation analysis is another important tool of statistic. It describes the relationship between variables and shows the degree of dependency of one variable with another variable. Two variables are said to be correlated when the change in one variable result in change in other variables. Different model for correlation analysis has been formulated and we have to use Karl Pearson coefficient of correlation to determine the relationship between variables studied.

Karl Person's method, popularly known as Pearsonian coefficient of correlation is most widely used in practice. The Pearsonian coefficient of correlation is denoted by the symbol of 'r' and is calculated as follows;

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{nx \sum X^2 - (\sum X)^2} \sqrt{nx \sum Y^2 - (\sum Y)^2}}$$

Where,

n = No of observation of X and Y

$\sum X$ = Sum of the observation in series X

$\sum Y$ = Sum of the observation in series Y

$\sum X^2$ = Sum of the observation in series X

$\sum Y^2$ = Sum of the observation in series Y

$\sum XY$ = Sum of the product of the observation in series X and Y

The Karl Person coefficient of correlation 'r' always falls between -1 to +1. The value of correlation in minus denotes the negative correlation and in plus denotes the positive correlation. As the value of correlation coefficient reaches near to the value of zero, it is said that there is no significant relationship between the variables.

4.3.1 Correlation between Loan & Advances and Deposits

The coefficient of correlation between loan & advances and deposit is to measure the degree of relationship between these two variables. Accepting deposit and granting loan are the main function of commercial banks. The main objectives of computing between two variables are to find out whether deposits are significantly used as loan & advances in a proper manner or not. The relationship of deposit and loan & advances should always be perfect positive.

Table 4.25 Correlation between Loan & Advances and Deposits

Banks	R	r^2	P.E.	6P.E.
HBL	0.97	0.9409	0.0178	0.0106
EBL	0.9969	0.9938	0.00187	0.0112

Source: Appendix I& II

The above table shows the co-efficient of correlation between loan & advances and deposit of HBL and EBL. In case of HBL, the co-efficient of correlation between loan & advances and deposit is 0.97 which indicates positive correlation between these two variables. Similarly, the value of co-efficient of determination r^2 is 0.9409 which means 94.09%. EBL has high degree of positive correlation than HBL i.e.0.996 which indicates that deposit follows the pattern of loan & advances which means if deposit increase loan & advances also increase in the same ratio and vice-versa. Likewise value of P.E. is 0.0178 of HBL and 0.00187 of EBL. The value of 'r' is higher than the six time of its P.E. which shows the value of co-efficient of correlation is significant. There is significant relationship between deposit and loan & advances and the bank is mobilizing its deposited as loan & advances successfully.

4.3.2 Correlation between Loan loss provision and Loan and Advances

The relationship shows the likely pattern of loan loss provision if loan changes. In other words, correlation of loan loss provision and loan & advances indicates the degree of liner relationship between these two variables which helps to take decision regarding loan and advances.

Table 4.26 Correlation between Loan Loss Provision and Loan and Advances

Banks	R	r ²	P.E.	6P.E.
HBL	-0.78	0.6084	0.1184	0.7104
EBL	0.85	0.7225	0.00839	0.0503

Source: Appendix III & IV

The above table shows the co-efficient of correlation between loan loss provision and loan & advances of HBL and EBL. It shows that the value of 'r' is not significant. HBL has negative relation with -0.78 as the value of 'r', the value of P.E. is 0.1184 and 6P.E. is 0.7104. The value of r is less than the value of 6P.E, which shows that the value of 'r' is insignificant. EBL has positive correlation between loan loss provision and loan and advances. The value of 'r' is 0.85 for EBL and the coefficient of determinant 'r²' is 0.7225. The value of 'r' is more than the value of 6P.E. i.e. $0.845 > 0.4725$ which shows that the value of 'r' is significant for EBL.

4.3.3 Correlation between Investment and Loan and Advances

This coefficient of correlation between investment and loan & advances measures the degree of relationship between these two variables. This measure of correlation explains whether the banks have a rigid policy to maintain a consistent relationship between two assets or other factor such as seasonal opportunity, economic demand, NRB directives etc. has impact on Loan & advances as every bank has first priority on loan & advances to investment. Theoretically, increase or decrease in the volume of loan & advances directly reduces or increase the level of idle fund and this idleness of fund increases the investments.

Table 4.27 Correlation between Investment and Loan and Advances

Banks	R	r ²	P.E.	6P.E.
HBL	0.82	0.6756	0.098	0.588
EBL	0.87	0.7569	0.0735	0.4415

Source: Appendix V & VI

The above table shows the co-efficient of correlation between investment and loan & advances of HBL and EBL. In case of HBL, the co-efficient of correlation between investment and advances is 0.82 which indicates positive correlation between these two variables. Similarly, the value of co-efficient of determination r^2 is 0.6756 which means 67.56%. EBL has high degree of positive correlation than HBL i.e. 0.87. Likewise value of P.E. is 0.098 of HBL and 0.0735 of EBL. In case of both, the banks are mobilizing their investment and loan and advances.

4.3.4 Correlation between Total Income and loan and Advances

The correlation between total income and loan & advances measures the degree of relationship between these two variables. The value of 'r' explains whether a percentage changes in loan & advances contribution to increase the same percentage of income or not. Loan & advances is dependent variable and total income is independent variable.

Table 4.28 Correlation between Total Income and Loan and Advances

Banks	R	r^2	P.E.	6P.E.
HBL	0.94	0.8836	0.032	0.0192
EBL	0.9962	0.9924	0.0022	0.0132

Source: Appendix VII & VIII

The above table shows that the coefficient and correlation between total income and loan & advances of HBL and EBL. It shows positive relationship between these two variables of HBL and EBL. In case of HBL, the coefficient of correlation between total income and advances is 0.94 which indicates positive correlation between these two variables. Similarly, the value of co-efficient of determination r^2 is 0.8836 which means 88.38 %. Further the value of P.E is 0.032 and 6.P.E. is 0.0192, which shows that the co-efficient of correlation 'r' is greater than the value of 6P.E. i.e. (0.94>0.0192). Therefore, the value of 'r' is significant. Similarly in case of EBL, the co-efficient between total income and loan & advances is 0.9962 which indicates positive correlation between these two variables. Similarly, the value of co-efficient of determinant r^2 is 0.9924 which means 99.24%. Further the value of P.E. is 0.0022 and 6P.E. is 0.0132, which

shows that the co-efficient of correlation 'r' is greater than the value of 6P.E. i.e. (0.9962>0.0132). Therefore, the value of 'r' is significant.

4.3.6 Correlation between Shareholder's equity and Loan and Advances

The correlation between shareholder's equity and loan & advances shows the degree of impact of increase in Loan & advances by change in shareholder's equity. Coefficient of correlation between shareholders equity and loan & advances measures the degree of relationship between these two variables. Here loan & advances are the independent variable and shareholders' equity is dependent variable.

Table 4.29 Correlation between Shareholder's Equity and Loan and Advances

Banks	R	r ²	P.E.	6P.E.
HBL	0.95	0.9025	0.029	0.174
EBL	0.998	0.9980	0.1179	0.7074

Source: Appendix XI & X

The above table shows that there is high degree of positive correlation between shareholders equity and loan & advances in HBL and EBL banks. It shows good fund mobilization. The value of 'r' is significant for both HBL and EBL. In case of HBL, the co-efficient of correlation between shareholder's equity and loan & advances is 0.95 that indicates positive correlation between these two variables. Similarly, the value of co-efficient of determination r² is 0.9025 that means 90.25%. Further the value of P.E. is 0.029 and 6P.Er is 0.174, which shows that the co-efficient if correlation 'r' is higher than the value of 6P.E. i.e. (0.95>0.174). Therefore, the value of 'r' is significant. In case of EBL, the co-efficient of correlation between shareholder's equity and loan & advances is 0.998 that indicates positive correlation between these two variables. Similarly the value of co-efficient of determination r² is 0.9980 that means 99.80. Further the value of P.E. is 0.1179 and 6P.E. is 0.7074, which shows that the co-efficient of correlation 'r' is higher than the value of 6P.E i.e. (0.998>0.7074). Therefore, the value of 'r' is significant.

4.3.7 Correlation between Loan disbursement and recovery

In order to find out whether loan disbursement has been significantly recovered or not this method of analysis is adopted. The relationship between the variables loan disbursement and recovery is found out by calculating the coefficient of correlation between these two variables. In this calculation, loan disbursement is the independent variable (X) and Loan recovery is the dependent variable (Y). The table below shows the relation between X and Y variables.

Table 4.30 Correlation between Loan disbursement and recovery

Banks	R	r^2	P.E.	6P.E.
HBL	0.9996	0.9992	0.0002	0.0014
EBL	0.9999	0.9998	0.0001	0.0003

Source: Appendix XI & XII

Table 4.27 shows that the coefficient of correlation between loans disbursed and loan recovered of two banks i.e. 0.9996 of HBL and 0.9999 of EBL which show a positive relationship between these two variables. It also shows that there is optimum collection of loan disbursed by these banks since the coefficient of determination (r^2) are 0.9992 of HBL and 0.9998 of EBL which depicts that 99% and above the loan disbursement is dependent on loan recovered. During the period from 2005/06 to 2009/10, a higher coefficient between loan disbursed and collected is a good sign. HBL and EBL, both banks are successful in collecting the loan disbursed.

Probability Error (P.E.) is calculated to be 0.0002 of HBL and 0.0001 of EBL. The value of 'r' is more than 6 P.E. This rivals that there is a significant relationship between total loan disbursed and recovered.

4.4.1 Types of Loan Disbursed by EBL and HBL

Types of Loan Disbursed by HBL

Himalayan Bank Ltd. provides different types of loan in different field for different purpose. The major types of loan as follow;

- **Priority sector loan and deprived sector loan**

These types of loan are provided by the bank to the sector which is declared by the government as the priority sector. This types of loan in provided as per the interest government and under the police and direction on Nepal Rasta Bank. Priority sector loan is provided not for the profit earning motive but for the helps to the government for the nations over all economics development.

- **Working capital loan**

These types of loan are provided by the bank for trading house and industry of fulfill their working capital need. The bank first collects detail information about borrower's working capital and position of a company. Then, the bank provides loan on to borrower against fixed assets of a company. Bank will provide such loan on borrowed after keeping some percentage of loans as margin. Himalayan Bank charge rate on such loan according to their relation with clients.

- **Term loan**

It is a loan provided by the bank for a big industry or highly traded business clients. The payback period of such loan is more than two years. The borrower should keep fixed assets as collateral to get loan from bank. Bank evaluated such properties and the valuation amount must be 50% above the loan amount, then the bank provides loan after keeping 30 to 40% as a margin interest rate on such loan depends on bank's rate.

- **Hire purchases loan**

In these types of loan, the assets bought after obtaining the loan will continue to be. Owned by the bank until the loan is cleared. However, the asset remains in possessions of borrower and the borrower is allowed to use the assets. The borrower is allowed to repay his loans through installment basis to the bank. These loans usually provided to buy assets as bus, trucks and any other vehicles.

The bank may ask for company where borrower works for guarantee on the side of borrower.

- **Loan against fixed deposit**

A person having fixed deposit account in the bank or any other bank can keep the fixed deposit as collateral in case of loan required as he can not withdraw the amount kept in fixed deposit for certain tenure of time. It is an easy process of obtaining loans in common with the public. The bank keeps 10% as margin and provides 90% of loan to the borrower as there is very less risk because fixed deposit account with the amount remains with bank.

- **Overdraft**

It is a type of loan where the borrower can withdraw more money than he actually has in his own account. The bank provides this overdraft can also be obtained by keeping fixed assets as pledge in the bank as the bank requires proper knowledge about such assets. It is compulsory that qualified person on this job value the assets. The bank will provide loan after keeping some % of loan as margin as per bank convenience.

- **Loan against government board**

Treasury bills, prize bond, promissory notes are government bonds, which is issued by NRB. Issuing such securities, government collects fund in these securities, price rate are fixed by government. It is risk free and safe. Mostly, business people invest their money in these securities because it is tax free in their income. The bank takes these securities as collateral to provided loan. So it is highly liquidity

Table 4.31 Segregation of loan under different Loan Overhead by HBL

Particular/ Fiscal Year	2005/06		2006/07		2007/08		2008/09		2009/10	
	Bills purchase & Discounted	4.03	521	2.74	369	1.59	251	1.23	219	0.95
Consumer Loan	10.15	1311	10.75	1446	9.01	1420	9.58	1705	9.59	1935

FDR Loan	2.59	335	3	404	2.11	333	1.15	205	2.06	416
Employee Loans	0.27	35	0.19	26	0.66	104	0.81	144	0.92	186
Priority & Deprived Sector	2.66	344	2.16	291	3.67	578	2.78	495	2.72	549
Import/ Export Loan	24.71	3192	25.77	3466	29.99	4727	20.8	3701	31.19	6294
Term Loan	28.26	3651	24.25	3262	15.79	2489	20.5	3653	19.37	3909
Overdraft & Working Capital	27.33	3531	31.14	4189	37.18	5860	43.1	7673	33.2	6700
Total	100	12920	100	13451	100	15762	100	17794	100	20180

Source: Annual Report of HBL

The table above shows the types and amount of loan disbursed every year from F/Y 2005/06 to 2009/10. The total amount of annual loan has been divided into several categories. The specialized loans are in other loans category. Such types of loans are being introduced to attract customers of different occupations are interest.

Among these different types of loan, the highest amount disbursed every year is overdraft and working capital loan. As per loan officials this is so because loan available for all purpose and needs. Other loans except term loans are specific. So, term loan is also disbursed in a considerable amount because of its non-specific nature. The loans such as housing loan, hire purchase loan, and education loan are disbursed in low amount because they are meant for specific purposes and cannot cover the borrowers of all types. The table above shows that these are a remarkable difference in the amount of loan given as overdraft and the other type. Overdraft covers around 15% of the total loan given out every year.

Table 4.32 Segregation of loan under different Loan Overhead by EBL

Particular	2005/06		2006/07		2007/08		2008/09		2009/10	
	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount

Agriculture and Mining	0.5	40	1.5	152	0.5	70	0.8	1.51	0.9	220
Construction Production	56.9	4495	40.2	4075	39.4	5549	32.6	6141	30.7	7512
Business	22.2	1754	27.2	2757	30.3	4267	33.4	6291	28.8	7047
Service Sector	11.4	901	16.4	1662	10.3	1451	13.2	2486	15	3670
Other	9	711	14.7	1490	19.5	2746	20	3767	24.6	6020
Total	100	7900	100	10136	100	14083	100	18836	100	24470

Source: Annual Report of EBL

The table above shows the different sectors and amount of loan disbursed every year from F/Y 2005/06 to 2009/10. The total amount of annual loan has been divided into several categories. The specialized loans are in other loans category. Such types of loans are being introduced to attract customers of different occupations are interest.

Among these different types of loan, the highest amount disbursed every year is Construction and Production loan. As per loan officials, this is so because loan demand in this sector is highest. Construction and Production loan is one of the very important loan sectors to invest large amount since it has direct positive relation in national income. This sector helps to develop the infrastructure and production capability and as well as increase living standard of people. . The table above shows that there is a remarkable difference in the amount of loan given as Construction and Production loan and other sector, but it is in decreasing trend. The loans such as housing loan, hire purchase loan, and education loan were disbursed in low amount because they are meant for specific purposes and cannot cover the borrowers of all types in previous years. EBL has rapidly increased its loan on other sector i.e. 9% to 24.6% from F/Y 2004/04 to 2009/10. It can be easily evaluated that EBL are now being special customer oriented and creating different special purpose loans.

4.5 Major findings of the study

The major findings of the study are summarized below:-

The Loan & advances to total assets ratio of EBL is higher than HBL i.e. (66%>52%). It means EBL has good loan disbursement performance. The lower ratio of HBL, needs diverting its lending function for more fee- based activities. HBL has highest Loan & advances and investment to total Deposit referring that it has the maximum mobilization of deposits than EBL. It seems that HBL is making investments high extend than EBL. This ratio also tells about the success of commercial banks to convert their liabilities into assets.

Loan & advances to shareholder's Equity ratio have gained the significant importance in measuring the capital fund. The highest Loan & advances to shareholders equity ratio is 8.79% for EBL and 5.74% for HBL. EBL has been able to generate high volume of loan & advances from capital fund than HBL.

The measurement of efficiency on lending has revealed that Loan Loss Provision to Total Loan & advances ratio is pretty satisfactory since according to NRB Directives. Loan Loss Provision indicates provision against both Performing and Non-performing Loans. Thus, even the increase in Loan increases the Loan Loss Provision. But, generally, increase in this ratio suggests the increase in the Non-Performing Loans.

The Loan & advances to Total Deposit Ratio of EBL is higher than HBL i.e. (76%>59%). Loan & advances and total deposit of both banks are in increasing trend.

The concerned banks are able to reduce its non-performing ratio. HBL has reduced its NPL by large percentage during the last five years. Non-performing Loan of HBL is in fluctuating trend but Non-performing Loan of EBL is in decreasing gradually.

Interest income and Total income of concerned banks are in increasing trend but the ratio of both bank are in fluctuating trend.

EPS, that checks the financial position of an organization shows that HBL has an EPS of Rs.54.35 and EBL has an EPS of Rs.77.44. Net profit of both banks has increasing trend.

EBL has high consistent recovery ratio i.e. from 0.9420 to 0.9710 from F/Y 2005/06-2009/10 respectively but the recovery ratio of HBL has highly increased i.e. 0.8184 to 0.9636 2005/06-2009/10 respectively

The correlation analysis has shown high degree of correlation between Deposits and Loan & advances of HBL and EBL. There is significant relationship between deposit and loan & advances and the bank is mobilizing of Loan & advances is in high degree in respect to the deposits collected. This is indicative of availability of goods loan disbursement opportunities.

The co-efficient of correlation shows the correlation between loan loss provision and Loan & advances of HBL and EBL. EBL has high degree of positive correlation, which indicates good performance. HBL have negative correlation because of unavailability of good loan disbursement opportunities.

There is significant relationship between investment and loan & advances and the bank is mobilizing its investment as loan & advances successfully in the case of both banks.

There is significant relationship between total income and loan & advances of HBL and EBL. It shows positive relationship between two variables of HBL and EBL.

There is high degree of positive correlation between shareholder's equity and loan & advances in HBL and EBL. It shows good fund mobilization for both banks.

The value of 'r' is significant for both banks i.e. HBL and EBL.

The coefficient of correlation between loan disbursed and loan recovered of two banks i.e.0.9996 of HBL and 0.9999 of EBL which show positive relationship between these two variables. It also shows that there is optimum collection of loan disbursed by these banks. HBL and EBL, both banks are successful in collecting the loan disbursed. The value of 'r' is more than 6 P.Er. This rivals that there is significant relationship between total loan disbursed and recovered.

Among these different types of loan, the highest amount disbursed every year HBL is overdraft and working capital loan. Overdraft covers around 15% of the total loan given out every year. Among these different types of loan, the highest amount disbursed every year EBL is Construction and Production loan. EBL has rapidly increased its loan on other sector i.e. 9% to 24.6% from F/Y 2004/04 to 2009/10.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter highlights the results of the study derived from the analysis of concerned banks. The analysis of the data is carried out with the help of various financial and statistical tools. It is divided into summary, conclusion and recommendations.

5.1 Summary

Loan is the core area of the commercial .It plays the significant impact on the commercial bank's liquidity and profitability .But the most worry factors in banking industry is the total management of loan. Due to the excessive amount of non-performing assets in commercial banks, there is the wide sprees suspicion on the performance on the commercial banks.

Lending is one of the most important functions of commercial bank and the composition of loan and advances directly affect the performance and profitability of the bank. There is more competition in banking business with limited market and less investment opportunities available. Every bank is facing the problem of default loan and there is always possibility of a certain portion of the loan and advances turning in non-performing loan. A study of loan and advances, profitability, deposits position of the commercial banks are analyzed and the bank's lending strength, lending efficiency and its contribution in total profitability has been measured.

Commercial banks collect scattered saving from the peoples and provide resources as loan and advances to the people who need them. This activity build industrial environment in the country, create employment and investment opportunity for the people and consequently economy of the country secures people growth. Banking institutions are inevitable for the resources mobilization and the all-round development of the county .They have resources for economic development and they maintain economic confidence of various and extend credit to people.

In this study, the financial tools, ratio analysis and profitability ratios are calculated to find out the lending strength of the commercial banks. Also statistical tools like, co-efficient of correlation, and regression analysis is calculated. The data used in this research is primary as well as secondary nature and extracted from the annual reports of the concerned banks and website of Nepal Stock Exchange. The financial statements of five years (2005-2009) were selected for the study purpose.

5.2 Conclusion

After analyzing the loan disbursement and recovery of Himalayan Bank Ltd and Everest Bank Ltd. of Nepal from both financial and statistical aspects, based on the main finding, following conclusion have been drawn:

The ratio of Loans and Advances to Total Assets i.e. (66 % >52%) of EBL is higher than HBL. That means EBL has good lending performance. The lower ratio of HBL needs diverting its lending function for more fee-based activities. There is maximum utilization of the collected funds. The measurement of lending strength in relative terms has revealed that HBL has the highest investment to Loans and Advance and Investment ratio. This ratio gives the portion of risk free Investment out of total Loans and Advances and Investment. The average mean ratio of HBL is 0.42 and the average mean of EBL is 0.23. The Loans and Advances to Shareholder's Equity Ratio of EBL is higher than HBL i.e. (8.79>5.74). That means EBL has been able to generate high volume of loan and advances than HBL. In case of Non-performing Loan the average mean of HBL is higher than EBL i.e. (5.8 % >1.00%). HBL has the highest Loan Loss Provision of 7.00% from F/Y2005/06 to 2007/08; it means it had collected the highest amount in Provision for Loan Loss in comparison to EBL. EBL has highest average mean ratio in Interest Income to total income ratio and HBL has the lowest average mean ratio. The overall trend of the ratio is fluctuating. The high degree of this ratio indicates to low interest turnover and low degree of this ratio indicates high interest turnover. The Loans and Advances to Total Deposit Ratio of EBL is higher than HBL i.e. (76%>59%). That means EBL has good lending performance. This indicates that the bank has been able to utilize its fund in a

proper way. In the context of ROE, it is found that net profit and shareholder's equity of both concerned bank i.e. HBL and EBL are in increasing trend. The average mean ratio of EBL is higher than HBL i.e. (20.44% > 15.18 %). In case of EPS, the average mean ratio of EBL is higher than HBL i.e. (Rs77.44 > Rs54.35). Higher Percentage of EPS is preferable.

The loan given and collected can be compared from F/Y 2005/06 to F/Y 2009/10 is in increasing trend. It has been revealed that the loan in each year from 2005/06-2009/10 has recovered highly as per the loan disbursed by EBL than HBL. EBL has high consistent recovery ratio i.e. from 0.9420 to 0.9710 from F/Y 2005/06-2009/10 respectively but the recovery ratio of HBL has highly increased i.e. 0.8184 to 0.9636 2005/06-2009/10 respectively.

In case of HBL, the co-efficient of correlation between loan and advances and deposit is 0.975, which indicates positive correlation between these two variables. EBL has high degree of positive correlation of 0.997 than HBL i.e. 0.975, which indicates that deposit follows the pattern of loan and advances which means if deposit increase loan and advances also increase in the same ratio and vice versa. There is significant relationship between deposit and loan and advances and the bank is mobilizing its deposited as loan and advances successfully. This is indicative of good lending opportunities.

In the context of HBL, it is found that the value of 'r' is not significant for HBL. HBL has negative relation with -0.776 as the value of 'r'. The value of P.E. is 0.0263 and 6P.E. is 0.1579. The value of r is greater than the value of 6P.E, which shows that the value of 'r' is significant. EBL has positive correlation between loan loss provision and loan and advances. The value of 'r' is significant for EBL. The co-efficient of correlation between investment and loan and advances of HBL and EBL shows the positive correlation between these two variables. HBL has high degree of positive correlation than EBL i.e. (0.845 > 0.823) which shows the value of co-efficient of correlation is significant. In case of EBL, the value of 'r' is higher than the six time of its P.E. which shows the value of co-efficient of correlation, is significant. In case of HBL, the co-efficient of correlation between

total income and loan advances is 0.872 that indicates positive correlation between these two variables.

Similarly in case of EBL, the co-efficient of correlation between total income and loan and advances is 0.872, which indicates positive correlation between these two variables. Further the value r is more than 6P.E, which shows that the co-efficient of correlation ' r ' is higher than the value of 6P.E. Therefore, the value of ' r ' is significant. Both banks have positive relationship and the value of P.E. is more than 6P.E, which shows the co-efficient of correlation ' r ' higher than the value of 6P.E. Therefore, the value of ' r ' is significant. There is high degree of positive correlation between Shareholder's Equity and Loans and Advances in HBL and EBL.

It shows good fund mobilization. The value of ' r ' is significant for both HBL and EBL. The coefficient of correlation between loan disbursed and loan recovered of two banks i.e. 0.9996 of HBL and 0.9999 of EBL which show positive relationship between these two variables and 99% and above the loan disbursement is dependent on loan recovered. A higher coefficient between loan disbursed and collected is a good sign. HBL and EBL, both banks are successful in collecting the loan disbursed. The value of ' r ' is more than 6 P. Er. Which rivals that there is significant relationship between total loan disbursed and recovered?

Among these different types of loan, the highest amount disbursed every year HBL is overdraft and working capital loan. As per loan officials this is so because loan available for all purpose and needs. The table above shows that these are a remarkable difference in the amount of loan given as overdraft and the other type. Overdraft covers around 15% of the total loan given out every year. Among these different types of loan, the highest amount disbursed every year EBL is Construction and Production loan. EBL has rapidly increased its loan on other sector i.e. 9% to 24.6% from F/Y 2005/06 to 2009/10. It can be easily evaluated that EBL are now being special customer oriented and creating different special purpose loans.

5.3 Recommendations

The following recommendation and suggestion have been made to improve the related commercial banks on the basis of present situation.

- **Need to diversify its loan**

Banks should take the steps to diversify its loan so that risk can be minimized and small borrowers are promoted. Also bank should develop the concept of micro financing. In addition bank is recommended to the group financing thereby diversifying its lending by identifying new avenues rather than focusing nearly in one sector.

- **Need to expand branches**

Sample banks are concentrated their services in the urban area. They are concentrating only in big cities and large groups. Banks should expand new branches in rural areas so that people of all sectors and area could be benefited with banking services and for the development of all country and fulfill the government's objectives of people in the economic development. Local resources based enterprises should be emphasized to enhance the local economy and the operating cost also will be less in rural area.

- **Proper guidelines to loan officers**

In interaction with top management, Credit Quality Control (CQC) department should design a work guideline for the loan officers. These guidelines would contain tips on how to perform their duties with utmost efficiency and credibility.

For example, a guideline could be prepared mentioned tips, tips on how to tactfully handle problematic situations etc. These guidelines should be provided to the loan officers, right from their entry in the organization and also whenever required. These guidelines should be timely reviewed and modified as per situation.

- **Arrange weekly corporate meeting**

Weekly corporate meeting should be conducted among the corporate officers and top management whereby proposals could be discussed and approvals could be done faster. This would add to the efficiency of the lending process.

- **Prepare a watch list for clients under examination**

Before granting a loan to a new client, the bank should first place him/her in probation. During this period, the client should be strictly and closely examined.

- **Need to reduce the interest rate on loan**

The interest rate can be minimized with appropriate management of the operating expenses and thereby spread rate (i.e. difference between rate of deposit and lending). It does mean that the bank should make the interest rate by bearing loss. The rate should be minimized with the scientific management of the fund and operating expenses.

- **Need to invest the small entrepreneur development program**

Loan should provide to those who are economically backward and uplifting the needy people so bank should come to forward to increase the number of clients, develop entrepreneurs, diversify its business with large number of small investors according with investing to small entrepreneur development programmed.

- **Need to invest to productive area that utilize the natural resources**

Nepal is full of natural resources but these are not used properly due to lack of financial support as well as technical assistant. So, bank should grant the loan to this area for fruitful development of the country. Mainly, Nepalese Economy bases on agriculture and major proportion of population dependents upon this sector. Bank should invest in productive sector which directly contributes on production & employment. Therefore, bank should promote these areas focusing its lending.

- **Need to adopt the conserving lending policies**

Banks should adopt the conservation lending policies to minimize the risk hereby ensuring its term suitability. On the other hand, bank should modernize itself by providing the quality of service and satisfying the consumers. So, the bank should maintain the balance in its loan.

- **Preference to the short term lending**

It is justified that the risk can be minimized through short term lending than long term. Therefore, preference should be given for short term trade financing and discouraging long-term also suggested.

- **Pricing of loan**

It should be based on risk based pricing where the rate should be compensating the risk of the loan. It means loan pricing should be prime rate convention in which borrowers are priced on a prime rate or minus basis. However, it should be bear in mind that high pricing not always compensates the risk associated with it.

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Appendix I

Correlation Between Loans and Advances and Deposits of EBL

Where,

- X= Total deposit collected in a year
- Y= Total loan and Advance disbursed in a year
- N = Number of years
- P.E= Probability error

Fiscal Year	Loans and Advances	Deposit(Y)	X ²	XY	Y ²
2005/06	7900.00	10097.70	62410000.00	79771830.00	101963545.29
2006/07	10136.20	13802.40	102742550.44	139903886.88	190506245.76
2007/08	14082.70	18186.20	198322439.29	256110798.74	330737870.44
2008/09	18836.40	23976.30	354809964.96	451627177.32	574862961.69
2009/10	24469.60	33322.90	598761324.16	815398033.84	1110415664.41
Total	75424.90	99385.50	1317046278.85	1742811726.78	2308486287.59

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 1742811726.78 - (75424.90) \times (99385.50)}{\sqrt{5 \times 1317046278.85 - (75424.90)^2} \sqrt{5 \times 2308486287.59 - (99385.50)^2}}$$

$$r = \frac{1217917234.95}{29939.53 \times 40803.85}$$

$$r = \frac{1217917234.95}{1221648141.99}$$

$$r = 0.9969$$

The correlation coefficient of total deposit and total loan disbursed(r) =0.9969

r>0 i.e. 0.98>0 the relationship between two variables total deposited and loan disbursed are positively correlated,

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9938}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.0062}{2.23}$$

$$= 0.00187$$

Now 6.P.Er.

= 6*P.Er

=0.0112

Appendix II

Correlation Between Loans and Advances and Deposits of HBL

Where,

- X= Total deposit collected in a year
- Y= Total loan and Advance disbursed in a year
- N = Number of years
- P.E= Probability error

Fiscal Year	Loan and Advance(X)	Deposit(Y)	X ²	XY	Y ²
2005/06	12919.63	22010.33	166916839.34	284365319.78	484454626.71
2006/07	13451.17	24814.01	180933974.37	333777466.89	615735092.28
2007/08	15761.78	26490.85	248433708.77	417542949.71	701765133.72
2008/09	17793.72	30048.42	316616471.44	534673171.92	902907544.50
2009/10	20180.01	31842.79	407232803.60	642587820.63	1013963274.98
Total	80106.31	135206.40	1320133797.51	2212946728.93	3718825672.19

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 2212946728.93 - (80106.31) \times (135206.40)}{\sqrt{5 \times 1320133797.51 - (80106.31)^2} \sqrt{5 \times 3718825672.19 - (135206.40)^2}}$$

$$r = \frac{1233847852.28}{239890709.32}$$

$$r = 0.97$$

The correlation coefficient of total deposit and total loan disbursed(r) =0.97

r>0 i.e. 0.97>0 the relationship between two variables total deposited and loan disbursed are positively correlated.

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9409}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.0591}{2.23}$$

$$= 0.00178$$

Now 6.P.Er.
= 6*0.00178
=0.0106

Appendix III

Correlation between Loan Loss Provision and Loan and Advances of EBL

Where,

- X= Loan Loss Provision
- Y= Total loan disbursed in a year
- N = Number of years
- P.E= Probability error

Fiscal Year	Loan Loss Provision(X)	Loan and Advances(Y)	X ²	XY	Y ²
2005/06	281.42	7900.00	79197.22	2223218.00	62410000.00
2006/07	334.95	10136.20	112191.50	3395120.19	102742550.44
2007/08	418.61	14082.70	175234.33	5895159.05	198322439.29
2008/09	584.88	18836.40	342084.61	11017033.63	354809964.96
2009/10	497.34	24469.60	247347.08	12169710.86	598761324.16
Total	2117.20	75424.90	956054.74	34700241.73	1317046278.85

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 34700241.73 - (2117.20) \times (75424.90)}{\sqrt{5 \times 956054.74 - (2117.20)^2} \sqrt{5 \times 1317046278.85 - (75424.90)^2}}$$

$$r = \frac{13811610.39}{545.65 \times 29939.53}$$

$$r = \frac{13811610.39}{16336614.73}$$

$$r = 0.85$$

The correlation coefficient of Loan Loss Provision and total loan and advance disbursed(r) =0.85

r>0 i.e. 0.85>0 the relationship between two variables Loan Loss Provision and loan disbursed are positively correlated

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.7225}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.0062}{2.23}$$

$$= 0.00839$$

Now 6.P.Er.
= 6*0.00839
=0.0503

Appendix IV

Correlation between Loan Loss Provision and Loan and Advances of HBL

Where,

- X= Loan Loss Provision
- Y= Total loan disbursed in a year
- N = Number of years
- P.E= Probability error

Fiscal Year	Loan Loss Provision(X)	Loan and Advances(Y)	X ²	XY	Y ²
2005/06	967.76	12919.63	936559.42	12503101.13	166916839.34
2006/07	1005.39	13451.17	1010809.05	13523671.81	180933974.37
2007/08	1119.42	15761.78	1253101.14	17644051.77	248433708.77
2008/09	795.73	17793.72	633186.23	14158996.82	316616471.44
2009/10	673.17	20180.01	453157.85	13584577.33	407232803.60
Total	4561.47	80106.31	4286813.69	71414398.85	1320133797.51

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{nx \sum X^2 - (\sum X)^2} \sqrt{ny \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 71414398.85 - (4561.47) \times (80106.31)}{\sqrt{5 \times 4286813.69 - (4561.47)^2} \sqrt{5 \times 1320133797.51 - ((80106.31))^2}}$$

$$r = \frac{8330535.63}{791.87 \times 13551.68}$$

$$r = \frac{8330535.63}{10731185.33}$$

$$r = 0.78$$

The correlation coefficient of Loan Loss Provision and total loan and advance disbursed (r) =-0.78
 r>0 i.e.- 0.78>0 the relationship between two variables Loan Loss Provision and loan disbursed are negatively correlated.

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.6084}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.3916}{2.23}$$

$$= 0.1184$$

Now 6.P.Er.
 = 6*0.1184
 =0.7104

Appendix V

Correlation between Investment and Loan and Advances of EBL

Where,

X=Investment
 Y= Total loan disbursed in a year
 N = Number of years
 P.E= Probability error

Fiscal Year	Investment (X)	Loan and Advances(Y)	X ²	XY	Y ²
2005/06	2128.90	7900.00	4532215.21	16818310.00	62410000.00
2006/07	4200.50	10136.20	17644200.25	42577108.10	102742550.44
2007/08	4984.30	14082.70	24843246.49	70192401.61	198322439.29
2008/09	5059.60	18836.40	25599552.16	95304649.44	354809964.96
2009/10	5948.50	24469.60	35384652.25	145557415.60	598761324.16
Total	22321.80	75424.90	108003866.36	370449884.75	1317046278.85

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{nx \sum X^2 - (\sum X)^2} \sqrt{nx \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 370449884.75 - (22321.80) \times (75424.90)}{\sqrt{5 \times 108003866.36 - (22321.80)^2} \sqrt{5 \times 1317046278.85 - (75424.90)^2}}$$

$$r = \frac{168629890.93}{6461.93 \times 29939.53}$$

$$r = \frac{168629890.93}{193467259.36}$$

$$r = 0.87$$

The correlation coefficient of total Investment and total loan disbursed(r) =0.87
 r>0 i.e. 0.87>0 the relationship between two variables total investment and loan disbursed are positively correlated

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.7569}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.2431}{2.23}$$

$$= 0.07359$$

Now 6.P.Er.
 = 6*0.0735
 =0.4415

Appendix IV

Correlation between Investment and Loan and Advances of HBL

Where,

- X=Investment
- Y= Total loan disbursed in a year
- N = Number of years
- P.E= Probability error

Fiscal Year	Investment(X)	Loan and Advances(Y)	X ²	XY	Y ²
2005/06	9292.10	12919.63	86343122.41	120050493.92	166916839.34
2006/07	11692.34	13451.17	136710814.68	157275653.04	180933974.37
2007/08	10889.03	15761.78	118570974.34	171630495.27	248433708.77
2008/09	11822.84	17793.72	139779545.67	210372304.56	316616471.44
2009/10	13340.18	20180.01	177960402.43	269204965.80	407232803.60
Total	57036.49	80106.31	659364859.52	928533912.60	1320133797.51

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{nx \sum X^2 - (\sum X)^2} \sqrt{ny \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 928533912.60 - (57036.49) \times (80106.31)}{\sqrt{5 \times 659364859.52 - (57036.49)^2} \sqrt{5 \times 1320133797.51 - (80106.31)^2}}$$

$$r = \frac{73686813.75}{6607.81 \times 13551.68}$$

$$r = \frac{73686813.75}{89546885.63}$$

$$r = 0.82$$

The correlation coefficient of total Investment and total loan disbursed(r) =0.82
 $r > 0$ i.e. $0.82 > 0$ the relationship between two variables total investment and loan disbursed are positively correlated

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.6756}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.3244}{2.23}$$

$$= 0.098$$

Now 6.P.Er.
 $= 6 \times 0.00178$
 $= 0.588$

Appendix VII

Correlation between Total Income and Loan and Advances of EBL

Where,

X=Total Income

Y= Total loan disbursed in a year

N = Number of years

P.E= Probability error

Fiscal Year	Total Income(X)	Loan and Advances(Y)	X ²	XY	Y ²
2005/06	556.42	7900.00	309603.22	4395718.00	62410000.00
2006/07	662.15	10136.20	438442.62	6711684.83	102742550.44
2007/08	841.33	14082.70	707836.17	11848197.99	198322439.29
2008/09	1209.89	18836.40	1463833.81	22789972.00	354809964.96
2009/10	1544.97	24469.60	2386932.30	37804797.91	598761324.16
Total	4814.76	75424.90	5306648.12	83550370.73	1317046278.85

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{nx \sum X^2 - (\sum X)^2} \sqrt{ny \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 1742811726.78 - (75424.90) \times (99385.50)}{\sqrt{5 \times 15306648.12 - (4814.76)^2} \sqrt{5 \times 1317046278.85 - (75424.90)^2}}$$

$$r = \frac{54599062.12}{1830.66 \times 1830.66}$$

$$r = \frac{54599062.12}{54809108.04}$$

$$r = 0.9962$$

The correlation coefficient of total income and total loan disbursed(r) =0.9962

r>0 i.e. 0.9962>0 the relationship between two variables total income and loan disbursed are positively correlated

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9924}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.0075}{2.23}$$

$$= 0.00229$$

Now 6.P.Er.

= 6*0.00229

=0.0132

Appendix VIII

Correlation between Total Income and Loan and Advances of HBL

Where,

- X=Total Income
- Y= Total loan disbursed in a year
- N = Number of years
- P.E= Probability error

Fiscal Year	Total Income(X)	Loan and Advances(Y)	X ²	XY	Y ²
2005/06	1028	12920	1056948	13282413	166916839
2006/07	1199	13451	1436930	16124187	180933974
2007/08	1395	15762	1947197	21994303	248433709
2008/09	1397	17794	1951218	24855336	316616471
2009/10	1607	20180	2583124	32433514	407232804
Total	6626	80106	8975417	108689752	1320133798

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 108689752 - (6626) \times (80106)}{\sqrt{5 \times 8975417 - (6626)^2} \sqrt{5 \times 1320133798 - (80106)^2}}$$

$$r = \frac{12641120.87}{984.5636 \times 13551.682}$$

$$r = \frac{12641120.87}{13342492.82}$$

$$r = 0.94$$

The correlation coefficient of total income and total loan disbursed(r) =0.94

r>0 i.e. 0.94>0 the relationship between two variables total income and loan disbursed are positively correlated

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.8836}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.1164}{2.23}$$

$$= 0.032$$

Now 6.P.Er.

$$= 6 \times 0.032$$

$$= 0.0192$$

Appendix IX

Correlation between Shareholder's Equity and Loan and Advances of EBL

Where,

X= Shareholder's Equity
 Y= Total loan disbursed in a year
 N = Number of years
 P.E= Probability error

Fiscal Year	Shareholder's Equity(X)	Loan and Advances(Y)	X ²	XY	Y ²
2005/06	998.00	7900.00	996004.00	7884200.00	62410000.00
2006/07	1198.00	10136.20	1435204.00	12143167.60	102742550.44
2007/08	1514.60	14082.70	2294013.16	21329657.42	198322439.29
2008/09	2112.60	18836.40	4463078.76	39793778.64	354809964.96
2009/10	2620.00	24469.60	6864400.00	64110352.00	598761324.16
Total	8443.20	75424.90	16052699.92	145261155.66	1317046278.85

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{nx \sum X^2 - (\sum X)^2} \sqrt{ny \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 145261155.66 - (8443.20) \times (75424.90)}{\sqrt{5 \times 16052699.92 - (8443.20)^2} \sqrt{5 \times 1317046278.85 - (75424.90)^2}}$$

$$r = \frac{89478262.62}{\frac{2995.98 * 29939.53}{89478262.62}}$$

$$r = \frac{89478262.62}{89698132.50}$$

$$r = 0.998$$

The correlation coefficient of shareholder's equity and total loan disbursed(r) =0.998
 r>0 i.e. 0.998>0 the relationship between two variables shareholder's equity and loan disbursed are positively correlated.

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.998^2}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.0039}{2.23}$$

$$= 0.1179$$

Now 6.P.Er.
 = 6*0.1179
 =0.7074

Appendix X

Correlation between Shareholder's Equity and Loan and Advances of HBL

Where,

- X= Shareholder's Equity
- Y= Total loan disbursed in a year
- N = Number of years
- P.E= Probability error

Fiscal Year	Shareholder's Equity(X)	Loan and Advances(Y)	X ²	XY	Y ²
2005/06	2292	12920	5252897	29610758	166916839
2006/07	2568	13451	6596627	34547851	180933974
2007/08	2886	15762	8326630	45482035	248433709
2008/09	2942	17794	8656659	52353039	316616471
2009/10	3198	20180	10230185	64545076	407232804
Total	13887	80106	39062997	226538758	1320133798

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{nx \sum X^2 - (\sum X)^2} \sqrt{ny \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 226538758 - (13887) \times (80106)}{\sqrt{5 \times 39062997 - (13887)^2} \sqrt{5 \times 1320133798 - (80106)^2}}$$

$$r = \frac{20290628.94}{12641120.87}$$

$$r = \frac{1574.0763 \times 13551.682}{21331381.46}$$

$$r = 0.95$$

The correlation coefficient of shareholder's equity and total loan disbursed(r) =0.95
 r>0 i.e. 0.95>0 the relationship between two variables shareholder's equity and loan disbursed are positively correlated.

Calculation of Probability Error

$$P. Er = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.9025}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.0975}{2.23}$$

$$= 0.029$$

Now 6.P.Er.
 = 6*0.029
 =0.174

Appendix XI

Correlation between Loan Disbursed and Recovery of EBL

Where,

X= Loan and Advance

Y= Deposit

N = Number of years

P.E= Probability error

Fiscal Year	Loan and Advance(X)	Deposit(Y)	X ²	XY	Y ²
2005/06	7900	7442	62410000	58791800	55383364
2006/07	10136	9769	102738496	99018584	95433361
2007/08	14083	13624	198330889	191866792	185613376
2008/09	18836	18241	354794896	343587476	332734081
2009/10	24470	23760	598780900	581407200	564537600
Total	75425	72836	1317055181	1274671852	1233701782

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{nx \sum X^2 - (\sum X)^2} \sqrt{ny \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 1274671852 - 75425 \times 72836}{\sqrt{5 \times 1317055181 - (75425)^2} \times \sqrt{5 \times 1233701782 - (72836)^2}}$$

$$r = \frac{879703960}{29939.02 \times 29384.11}$$

$$r = \frac{879703960}{879731457}$$

$$r = 0.9999$$

The correlation coefficient of loan and advance and deposit (r) =0.9999
 $r > 0$ i.e. $0.9999 > 0$ the relationship between two variables loan and advance and deposit are positively correlated.

Calculation of Probability Error

$$\text{P.Er} = 0.6745 \times \frac{1 - r^2}{\sqrt{4}}$$

$$= 0.6745 \times \frac{1 - 0.9998}{\sqrt{5}}$$

$$= 0.06745 \times \frac{0.0002}{2.23}$$

$$= 0.0001$$

Now, 6 P.Er

$$= 6 \times 0.0001$$

$$= 0.0003$$

Appendix XII

Correlation between Loan Disbursed and Recovery of HBL

Where,

X= Loan and Advance

Y= Deposit

N = Number of years

P.E= Probability error

Fiscal Year	Loan and Advance(X)	Deposit(Y)	X ²	XY	Y ²
2005/06	12920	10574	166926400	136616080	111809476
2006/07	13451	11175	180929401	150314925	124880625
2007/08	15762	14001	248440644	220683762	196028001
2008/09	17794	16744	316626436	297942736	280361536
2009/10	20180	19445	407232400	392400100	378108025
Total	80107	71939	1320155281	1197957603	1091187663

We know,

Coefficient of correlation(r)

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 1197957603 - 80107 \times 71939}{\sqrt{5 \times 1320155281 - (80107)^2} \times \sqrt{5 \times 1091187663 - (71939)^2}}$$

$$r = \frac{226970542}{13551.68 \times 16754.65}$$

$$r = \frac{226970542}{227053655.3}$$

$$r = 0.99963$$

The correlation coefficient of loan and advance and deposit (r) =0.9996
 $r > 0$ i.e. $0.9996 > 0$ the relationship between two variables loan and advance and deposit are positively correlated.

Calculation of Probability Error bvnmmmm

$$\text{P.Er} = 0.6745 \times \frac{1 - r^2}{\sqrt{4}}$$

$$= 0.6745 \times \frac{1 - 0.9992}{\sqrt{5}}$$

$$= 0.06745 \times \frac{0.0008}{2.23}$$

$$= 0.0002$$

Now, 6 P.Er

$$= 6 \times 0.0002$$

$$= 0.0014$$