CHAPTER I
INTRODUCTION

1.1 Background of the Study

The development of any country depends upon economic development of the country and economic development is supported by financial infrastructure of the country .Banks play vital role in the economic growth of the country. Every well-organized financial institution are including finance companies, commercial banks, join venture banks and other financial institution plays significant role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the economic, commercial and social activities of the country .This provides fuel to development process .Integrated and speedy development of the country is possible only when competitive financial service reaches everywhere in the country can hardly be carried forward without the assistance and support of financial institution.

Banks constitute an important segment of financial infrastructure of any country. Banking when properly organized aids and facilities the growth of trade and industry and enhance national economy. In the modern economy banks are considered as leaders of development. Besides contribution in overall developments of the country, the commercial banks render numerous services to their economic and social life.

Bank grants loan and advances to industries, people and companies that result in the increase in the productivity of nation. For Example:-The loan against to agricultural sector enhances the agricultural product on. The farmers can use the loan amount as per their need to produce their

product that will promote the agriculture product on. Similarly, the loan and advances to different people and corporate bodies help to increase their income and profits. They can use the amount as per their need at right place at the right time. Bank is a business organization where monetary transaction occurs. It creates fund from its clients saving and lends the same to needy person or business companies in term loans, advances and investment. Therefore, proper financial decision-making is more important in banking transactions for its efficiency and profitability. Most of the financial decision-making is loan management. It plays the important role in the business succession.

The study focuses on one of the important functions of disbursement of loan and it's recovery from the borrowers. It analyzes the loan 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. It has been attempted to study the facts related to the ''loan'' be it disbursement or recovery.

1.2 Commercial Banks in Nepal

Banks of Venice, which was established in 1157AD, is regarded as the first commercial bank in the world. In Nepal, Nepal Bank Ltd was established in 1937 AD is the first commercial bank. In order to maintain uniformity of operation of all commercial banks in Nepal, "Commercial Bank Act 2031" was enacted with several legislative additions till now. According to Nepal commercial Act 2031. ***"A commercial bank refers to such bank which deals in exchanging currency, accepting deposits, advancing loan and performing other commercial transaction."***

A commercial bank is a financial institution, which collect saving from general public and institution and provides loan and advance facilities to different industries and commercial business. Commercial bank helps to collect the idle money of general public for providing money to needy people, firms or industries to get productive use. In between these intermediaries depositors and bank gets some earning. The main function of commercial banks are accepting deposits, advancing loan or credit, investing collected funds to the profitable project, performing agents of the customer, funds transfer, foreign exchange transaction and miscellaneous transaction.

Nepal Rastra Bank, the central bank of Nepal was established in 1956 (2014B.S.) under the Nepal Rastra Bank Act 1956 (2013B.S.).It has been functioning as the government's bank and has contributed to growth of financial sector. Central bank is the main apex body of the banking and financial institutions which controls the entire currency and credit of the economy. Nepal Rastra Bank, the central bank of Nepal regulation, inspects, supervise and monitor the whole function of bank and finance companies of Nepal. The second commercial bank, Rastriya Banijya Bank was established in 1965 A.D. The inception of Nepal Arab Bank limited (renamed as Nabil Bank Ltd.) in 1984A.D. is a first joint venture commercial bank proved to be a milestone in the history of commercial banking. Government of Nepal adopted a policy for allowing foreign joint venture commercial banks to operate in Nepal. This policy targeted to encourage the traditionally operated local commercial banks to enhance their capacity building, competitiveness and efficiency and modernize their functions to give prompt customer service. New commercial banks act and liberalization policy of 1980's,there are at present 31 commercial banks operating in Nepal with the objective to encourage efficient

banking services to increase foreign investment in the country and to bring healthy competition in the banking sector

Table no. 1.1

List of Commercial Banks

S.N.	Name	Operation Date	Head Office	Paid up Capital(Rs.in Lakhs)
1	Nepal Bank Ltd.	11/15/1937	Kathmandu	3,804.00
2	Rastriya Banijya Bank	1/23/1966	Kathmandu	11,723.00
3	Agriculture Development Bank Ltd.	1/2/1968	Kathmandu	30,375.00
4	Nabil Bank Ltd.	7/16/1984	Kathmandu	20,297.00
5	Nepal Investment Bank Ltd.	2/27/1986	Kathmandu	24,090.00
6	Standard Chartered Bank Nepal Ltd.	1/30/1987	Kathmandu	16,101.00
7	Himalayan Bank Ltd.	1/18/1993	Kathmandu	16,000.00
8	Nepal SBI Bank Ltd.	7/7/1993	Kathmandu	18,598.00
9	Nepal Bangladesh Bank Ltd.	6/5/1993	Kathmandu	18,603.00
10	Everest Bank Ltd.	10/18/1994	Kathmandu	10,796.00
11	Bank Of	3/12/1995	Kathmandu	13,594.00

	Kathmandu Ltd.			
12	Nepal Credit and Commerce Bank Ltd.	10/14/1996	Siddharthanagar, Rupendehi	13,978.00
13	Lumbini Bank Ltd.	7/17/1998	Narayangarh, Chitwan	13,000.00
14	Nepal Industrial and Commercial Bank Ltd.	7/21/1998	Biratnagar,Morang	13,115.00
15	Machhapuchchhre Bank Ltd.	10/3/2000	Pokhara,Kaski	16,271.00
16	Kumari Bank Ltd.	4/3/2001	Kathmandu	13,063.00
17	Laxmi Bank Ltd.	4/3/2002	Birgunj,Parsa	16,135.00
18	Siddhartha Bank Ltd.	12/24/2002	Kathmandu	16,517.00
19	Global Bank Ltd.	1/2/2007	Kathmandu	14,953.00
20	Citizens Bank International Ltd.	6/21/2007	Kathmandu	18,934.00
21	Prime Commercial Bank Ltd.	9/24/2007	Kathmandu	22,457.00
22	Sunrise Bank Ltd.	10/12/2007	Kathmandu	16,250.00
23	Bank Of Asia Nepal Ltd.	10/12/2007	Kathmandu	15,000.00
24	Development Credit Bank Ltd.	1/23/2001	Kathmandu	19,209.00
25	NMB Bank Ltd.	11/26/1996	Kathmandu	16,516.00
26	KIST bank	5/7/2009	Kathmandu	20,000.00

27	Megha Bank Ltd.	7/23/2010	Kathmandu	16,310.00
28	Janta Bank Ltd.	4/5/2010	Kathmandu	14,000.00
29	Commerz and Trust Bank Nepal Ltd.	9/20/2010	Kathmandu	14,000.00
30	Civil Bank Ltd	1/19/2011	Kathmandu	12,000.00
31	Century Bank Ltd.		Kathmandu	12,000.00

1.3 Profiles of the Selected Banks.

1.3.1 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 Bank 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 are first introduced by HBL. Other financial institutions in the country have been following their lead by introducing similar products and services. 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. The most recent rating

of HBL by Bankers' Almanac has regarded this bank as country's number 1 Bank.

All Branches of HBL are integrated into T24 (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal Remit TM. By deputing their staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

Corporate Vision & Mission

- **Vision:**

Himalayan Bank Limited holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

- **Mission:**

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services; therefore HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus.

Present Capital Structure of Bank

Authorized Capital RS: 3,000,000,000

Issued Capital RS: 1,600,000,000

Paid Up Capital RS: 1,600,000,000

The Bank always strives positioning itself in the hearts and minds of the customers.

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.

1. Corporate Loan
2. Retail/Consumer Loans

1. Corporate Loan

a. Project / Consortium Loan

b. Non Revolving Cash Credit

c. Working Capital Financing

d. Overdraft Facility

e. Demand Loan

f. Trust Receipt Loan

g. Export Credit Facilities

h. Pledge Loan

2. Retail/Consumer Loans

a. Hire Purchase Loan

b. Housing Loan

c. Subidha Loan

d. Credit Card Loan

e. Loan against Fixed Deposit Receipt

f. Loan against Government Bonds & Bonds of Bank

g. Loan against First Class Bank Guarantees

h. Loan against Shares

1.3.2 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.

The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies which offer large business potential. Bank has also set up its representative offices at New Delhi (India) 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 bank 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.

Corporate Vision & Mission

Vision

- To evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.
- To integrate the frontiers of technology & serving the various segments of society.
- To be committed to excellence in corporate values.

Mission

- To provide excellent professional services & improve its position as a leader in the field of financial related services.

- To build & maintain a team of motivated and committed workforce with high work ethos.

To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments.

Present Capital Structure of Bank

Authorized Capital	RS: 1,000,000,000
Issued Capital	RS: 200,000,000
Paid Up Capital	RS: 1,099,600,000

Different Type of loan product provided by EBL

Everest Bank offers a wide range of tailor-made funded and non-funded credit facilities to suit different customer requirement.

1. Corporate Loan
2. Retail Loans

1. Corporate Loan

a. Working capital financing
b. Project financing
c. Trade finance
d. Consortium financing

2. Retail Loans

a. Home Loan
b. Home Equity Loan

c. Vehicle Loan
d. Education Loan
e. Future Lease Rental
f. Loan against mortgage
g. Bike loan
h. Loan against LICP
i. Share loan
j. Tractor and water pump finance

1.4 Statement of the Problem

This study is conducted to obtain overall view of loan management of the selected bank. It is one of the most important and complicated functions performed by the bank. Each bank has loan department to conduct, monitor and supervise loan disbursement and recovery process. so, this process never ends until the bank exists.

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:

- Purpose: For what purpose the loan of EBL and HBL are mobilized? Does there exist a relationship on loan disbursement and recovery of EBL and HBL?
- Sector: In which sector the loan of EBL and HBL are distributed and what loan products are provided by these banks?
- Process: What process is adopted by EBL and HBL for granting loan? Do they both follow same?
- Relationship: Does there exist a relationship between the principle amount collected and recovery on invested loan? Which bank has satisfactory performance?

1.5 Objective of the Study

The main objective of this study is to analyze, examine and interpret the loan disbursement and recovery practices and policies adopted by Everest Bank Limited and Himalayan Bank Limited.

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 analyze the loan loss provisions of EBL and HBL
- To examine the different types of loan disbursed by sample banks
- To suggest and recommend on the basis of major findings

1.6 Limitation 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 are determines the certain limitations for the study:

- The focus is on loan disbursement and recovery pattern of EBL and HBL. Only these aspects are concern by the research. Other functions of the bank have not been covered in this research and the aspects like the profitability of the bank has not been included in the study.
- The study is based on primary as well as secondary data received from the bank. The truth of the research is based upon the data available from the bank.
- The study analyzes the data and information for 5 years. A consolidated trend for 5 years will not be sufficient for the work and projection.
- Not all the data as per the objectives of the study were available from the bank. The study on the condition of different types of recovery has been limited of this.
- Though there are four joint venture commercial banks operating in Nepal, the study considers only two joint venture commercial bank i.e. HBL and EBL.

1.7 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.

There is lots of research work on the other performance of commercial banks but this specific function does not seem given importance before. Therefore this study is an effort to bring the facts related to disbursement and collection of EBL and HBL in the expectation that it will add to the management literature the idea and findings related to the banks is an effort to bring the facts related to disbursement and collection of EBL and HBL in the expectation that it will add to the management literature the idea and findings related to the banks. 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 will help to mobilize the loan into productive area. Hence, it is clear that it has large use. Interested persons, researchers, policy makers, institutions and government agencies may be benefited from such a study.

1.8 Organization of the Study

The study has been organized as follows:

First Chapter: Introduction

Chapter one includes the background of the study, brief profile of Everest Bank Limited and Himalayan Bank Limited, the statement of the problems, objectives of the study, limitations of the study, significance of the study and organization of the study.

Second Chapter: Review of Literature

It has been sub-divided into two heads. These are Conceptual review and review of related thesis. Conceptual review has been concerned with Loan, Loan Disbursement, Loan Recovery, Types of Loan, Interest rate on loan, the management for providing loan, the management for loan recovery, Terms and Condition to disburse loan. It also has been research studied during the period. Review of related thesis has been related to various thesis studies related to the present study.

Third Chapter: Research Methodology

It contains the presentation of how the study is done or the research methodologies. For this purpose, various financial tools and statistical tools are defined. This has been used for the analysis of the presented data.

Fourth Chapter: Data Presentation and Analysis

It is the main part of the study. Presentation and analysis of the relevant data and major findings are included in it according to the study.

Fifth Chapter: Summary, Conclusion and Recommendation

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

CHAPTER II
REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For review study the researcher uses different books, reports, journal and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

2.1 Conceptual Review

2.1.1 Loan

Webster dictionary define loan as: "something lent, espy sum of money lent, often for a specified period and repayable with interest" (Michael, Agnes 2008:821)

Oxford advanced learners dictionary dubbed the term loan as: "A thing that is lent especially a sum of money" (OLD 1997)

Loan is lent for some fixed period and for temporary use. It is not lent for unlimited time period and free of cost. Loan is provided against some fixed monetary charges called "Interest". 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 *i*nstallments, 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 here the focus is on monetary loans, in practice any material object might be lent.

Acting as a provider of loans is one of the principal tasks for banks and financial institutions. A bank loan to a company, with a fixed maturity and often featuring amortization of principal. If this loan is in the form of a line of credit, the funds are drawn down shortly after the agreement is signed. Otherwise, the borrower usually uses the funds from the loan soon after they become available. Bank term loans are very a common kind of Loan disbursement.

2.1.2 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 try 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 , 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 Loan disbursement function is performed by the bank taking into account the factors like safety, liquidity and profitability and striking a balance among these. The Loan disbursement policy of the bank includes groping 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.

2.1.3 Loan Recovery

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 the collection of the principle amount of loan. Every loan taken must be paid back on specific time period. The repayment of 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.

Recovery of the loan as another part of the lending function is much important and much tedious job a bank has to perform. Lending is the most crucial function of bank, precisely the position and status of commercial banks is read via loan and Advances it has mobilized. But a profound thought highlight that only giving out Loans and Advances to the maximum extends is not the only important thing. The more crucial part is the recovery of loans. Success of the commercial banks depends on the success they get in recovery of the loan and advances. The commercial bank should regularly watch the repayment of each and every loan it has mobilized. It should be best tried that none of the borrowers miss their single scheduled repayments. Reminding each borrower prior about the upcoming due date should be made the regular function of the respective departments in the bank. The function continues as sending reminder letter at different time intervals as the requirement, as according to the regulation of the bank. This is very crucial section and thus, it should be well observed and inspected. The bank should try all possible legal techniques to collect the repayments. Even using the possible techniques if bank could not recover the loan, as the ultimate option of recovery bank should liquidate the collateral, which is too much tedious job to perform. So banks should always play safe side while lending a loan. (Paudel, 2010 P.4)

2.1.4 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

Loans granted by bank may be 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 to him /her.

ii. Loan Classification According to Time

It will be wise to classify the loan into short, medium and long term, for loan classification according to time.

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.

b. 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.

c. 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.

iii. Loan Classification According to use

Loan classification according to use further be 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 sued for purchasing raw materials, machines, tools and equipments. 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.

2.1.5 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.

a. cost of fund for loan
b. cost of service for granting loan
c. 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.

2.1.6 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 be 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 also called loan contract. Deed of loan may be called by any name. The bank 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, the name, address and year of loan proponent, the date of deed of loan, etc. Such deed has to be got registered from the related office. But registration is not required for

agriculture, the 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 would provide safely 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 to there 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 init 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.

2.1.7 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 its debtor to use the loan is 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. Thus, the audit is done from time to time by the bank, in addition to other function to find out a picture about loan utilization, is called audit.

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 f 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 date 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, doubtable 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.

2.1.8 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 bakers 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 Higher risk 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 fires 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 posses 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 (Agrawal, 2003, P.124).

- 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 with in a temporary life span.

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 Review of Previous Studies

2.2.1 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 as 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, P. 18).

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 frame work 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:

i. 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 sector, Lending rate of Commercial Banks

Name of the bank	Minimum % total outstanding credit to be extended for deprived sector
Nepal Bank Ltd	3.15
Rastriya Banijya Bank	3.05
Nabil Bank Ltd	3.00
Nepal Investment Bank Ltd	3.25
Standard Chartered bank Ltd	3.01
Himalayan Bank Ltd	3.12
Nepal SBI Bank Ltd	3.06
Everest Bank Ltd	3.12
Nepal Bangladesh Bank Ltd	3.01
Bank of Kathmandu	3.10
NCC Bank Ltd	3.00
Nepal Industrial and commercial Bank Ltd	3.00
Lumbini Bank Ltd	3.05
Machhapuchre Bank Ltd	3.00
Kumari Bank ltd	2.92

Source: NRB annual report

ii. 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

iii. 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 20% 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.

iv. 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
	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(a) (b)	For the purpose of definition of the group50% 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

Single Borrower limit Provision

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.

v. 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 of deposited fund. To serve for the public welfare NRB has directed commercial banks to maintain minimum cash reserve as under:

Commercial Banks are to maintain CRR as follows:

Table2.3 Limit to be maintained by Commercial Banks

a) Balance to be maintained with NRB	5.5% of past two week's average deposit
b) SLR (Statutory Liquidity Ratio)	11% of Last month's end total deposit

vi. 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 2060/62 (2003/04). They are:

a) Pass b) Substandard c) Doubtful d) Loss

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.2.4 Classification of loan and required provision

Classification of loan	Loan loss Provision
Pass	1.00%
Substandard	25.00%
Doubtful	50.00%
Loss	100.00%

Table No.2.5 Timetable and the categories to classify the Loans and Advances

Classification	F/Y2060/61	F/Y2061/62	F/Y2062/63	F/Y2063/64 to till date
Pass	Loan not past due and past due up to 3 months	Loan not past due and past due up to 3 months	Loan not past due and past due up to 3 months	Loan not past due and past due up to 3 months
Substandard	Loans and advances past due over 3 months to 1 year	Loans and advances past due over 3 months to 1 year	Loans and advances past due over 3 months to 9 months	Loans and advances past due over 3 months to 6months
Doubtful	Loans and advances past due over 1 year to 3 years	Loans and advances past due over 1 year to 3 years	Loans and advances past due over 9 months to 2 years	Loans and advances past due over 6 months to 1 years
Loss	Loans and advances past due over 3 years	Loans and advances past due over 3 years	Loans and advances past due over 2 years	Loans and advances past due over 1 years

2.2.2 Review of Theses

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:

Rose (2002) has written on his book, "*Commercial Bank Management*" that banks are among the most important financial institutions in the economy. They are the principal sources of credit (loan able fund) for millions of individual and families and for many units of government. The product offered by modern bank are deposits, safe keeping valuables, discounting commercial note, making business loan, currency exchange etc.

Historically, most banks did not pursue loan accounts from individuals and families believing that the relatively small size of most consumer loans and their relatively high default rate would make such lending unprofitable. The level and intensity of competition in the financial services field have grown as bank and their competitors have expanded their services offering many households would be hesitant to deposit their funds with a bank if they did not feel there was a good prospect of being able to borrow from the same bank when they need a loan. Recent research suggests that consumer credit is often among the most profitable loans a bank can make. However banking product directed at consumers can also be among the most costly and risky product that bank sells because the financial situations of individuals and families can change quickly due to illness or loss of employment. Therefore, consumer loans must be managed with care and with sensitivity to the special problems the present

Encyclopedia Britannica (Vol.3) has defined that two factors contribute to the raise of consumer/detail loan in bank portfolios. One is the use of government guarantees and other is supports design to encourage the flow of credit into housing for veterans. The banks gradually have turned to leading for consumption purpose.

Rana (2004), published an article *RBB Reducing Losses* where he focuses that RBB recovered 2300 million as principal and interest from the loans that were classified as NPA during nine months. RBB executives said that money was not being recovered in the past just because there was no follow up made on the loan to realized it. The culture seemed to be that of lend and forget. The NPA size has gone up from Rs14889 million as of mid July 2002 to Rs 15531 million as of mid October 2003. But RBB executives told that it was due to more stringent requirements introduced recently under the prudential directive of NRB. Nepal (2009), published an article *"Home Loan Making Real Estate Business Attractive"* where he explained about the housing loan, which is gaining popularity nowadays. Commercial banks provide various kinds of loans among which housing loan is one of them. The writer states that real-estate business is nowadays increasing rapidly in Kathmandu. The main reason of this is not due to prosperous economy of Nepal, but due to several reasons such as security, remittance from abroad, housing loan at cheap rate with easy repayment schedule etc. The history of housing loan in Nepal is very short. Within a span of three years period, many banks are introducing attractive scheme of financing for housing in Kathmandu. By understanding this general notion of the people, banks are financing for housing so that people can purchase building in the early days. While extending this type of loan, banks will simply see the income of the customers. It takes hardly ten to twelve days for loan processing. He

further writes that from the angle of banks also, this scheme is becoming more profitable and at the same time less risky. The default of non-repayment is very less.

- Silwal, Uday Bahadur 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 form commercial banks, cannot be fully utilized. (Silwal. TU 1980.)
- Pandey, Santosh, (2002 T.U.) 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 T.U.), 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 form 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.

- Kesab Bhatta,(2003 T.U.) suggests I his dissertation ***A comparative study on lending and investment policy on NBBL and HBL,*** That default of loan in commercial bank is the result of various factor acing 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 he 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.

- Bajracharya (2004), has made a study on topic ***A Study on the Deposits and Loans and Advances of NBL during the year 1973-1978***. The main

objectives of the study are to describe and analyze the deposits and loans and advances of Nepal Bank Limited. His other specific objectives were

a. To show the change in deposits and according to change in the rate of interest.
b. To examine the relationship between deposits and loans and advances of the bank.
c. To show the resources (deposit) mobilization of the bank.

During the course of analyzing the problem, he found that there is the increasing trend in deposits but there is up and down position in case of loans and advances. The deposits increased in increasing trend up to 1973 and after that it is increasing in the 1974, but decreased in 1975 and 1976 and again increased in 1977 and 1978. But it is due to the cause of changes in rate interest . His finding shows that the interest rate structure affects both deposit s and loans and advances. If there is a provision of suitable interest rate, then the bank can enjoy maximum profit. Hence, according to his research the bank should decrease the rate of interest. He also found the situation of inequality in branch expansion process. He comments on centralization of loan granting procedure. He found that most of the powers are concentrated on board of directors and head office. To invest a small amount of loan, it requires the approval of head office. He heavily criticizes the system.(Nani Ratna Bajracharya, Central Departmant of Economics, T.U.)

❖ Banstala, has made of study on ***Loan disbursement and repayment pattern of agriculture Development Bank*** *of Nepal*. He studies whether there is a significant relationship between loan disbursement and

repayment. His second research question is whether there is a significant relationship between loan disbursement and outstanding loan. His first question is solved through the test of Karl Pearson's coefficient of correlation and regression analysis. Repayment loan of Bank seems to be directly proportional to the loan disbursement because both have shown movement in same direction i.e. there was increasing order. His second question is solved through same analysis. Outstanding loan of the banks seems to be directly proportional to the loan disbursement. Because both have shown movement in same direction i.e. there was increasing order. Based on the conclusion of the study and analysis of findings, his five most important recommendations are,

a. The amount of bank's loan disbursement is largely dependent upon the amount of loan repayment in each year. So, the bank should encourage to farmers by various policy such as subsidy on loan, interest etc. for the repayment of loans.
b. The bank should provide the facilities of supervision for the effective utilization of its loans.
c. The decision making power should be given to managers of branch and sub-branch officers to disburse large amount of loan to farmers.
d. The bank should case to collection long term loan.

- Pyakurel, 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 what ever 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,Deepak man(2006, T.U. Library), 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, over valuation 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 bank.

- Ramala Bhattarai in her research work ***lending Policy of Commercial Banks in Nepal,*** explains that the effectiveness of lending policy is conditioned by the development of a modern banking system in the country. For this, the banks has to be able to utilize the idle fund in productive channels. She has conducted that the efficient mobilization of the fund more important than the collection of the deposits. (Bhattarai, T.U.,2008)

2.3 Research Gap

Loan disbursement and recovery is the increasing challenge faced by commercial banks. So, it is the one of the important means of fund utilization in commercial banks. For Nepal, it is extremely new and emerging concept. In the last few years some Nepalese banks are adopting the retail- banking concept to grab the high and middle level consumer of urban areas and sustain the bank's profitability. Retail

banking is the new topic for the Nepalese researchers. Very few researches have been conducted under this topic. The research has been carried on Indian context but in Nepalese context, only very few researches related to loan have been done. So, this research has focused on the retail loan disbursement and recovery and the position of it in Nepalese context.

Here some of the researchers have compared the financial performance between two or three different commercial bank. In order to perform those analysis researchers have used ratio analysis but in this study researcher used correlation coefficient between different variables.

Thesis done by shrestha on credit management of commercial bank with special refers to Nepal SBI Bank Ltd on 2004 and Shrestha, deepak man analyze the purpose wise and term wise loan disbursement of Agriculture Development Bank, on 2006.However no one has done study on loan disbursement and recovery management with special refers to join venture banks i.e. Himalayan Bank Ltd and Everest Bank Ltd. Therefore the researcher attempts to study in this area. Since the researcher have used data only five fiscal year. In this study the researcher also used the different statistical tools like correlation coefficient, probable error (P.E) of correlation coefficient, coefficient of variance and coefficient of determination to analyze the data.

CHAPTER III
RESEARCH METHODOLOGY

In this chapter the research methodology that has been used for achieving the predetermined objectives which have been already stated. Various statistical and financial instruments have been used for the achieving this purpose. It counts on the resources and techniques available and to the extent of their reliability and validity in this chapter. This research methodology has primarily sought the evaluation of the Loan Disbursement and Recovery management of the selected joint venture banks i.e. Everest Bank Ltd and Himalayan Bank Limited. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research.

3.1 Research design

The main objective of this research study is to examine and evaluate the financial performance of the concerned banks (EBL and HBL). 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 an empirical research opinions from the various officers have been conducted. For this study analytical and descriptive research design has been followed.

3.2 Population and Sample

There are all together 31 commercial banks functioning in our country at present. For the study only two joint venture banks have been selected as a sample on the basis of convenience sampling i.e. HBL and EBL. This

study is based on five year's financial data and starting from 2005/06 to 2009/10 A.D.

1. Everest Bank Limited(EBL)
2. Himalayan Bank Limited(HBL)

3.3 Source of Data

In this research study, the data are mostly collected from secondary sources and some are from primary sources.

The major sources of data are as follows:

1. Academic books
2. NRB directives
3. NRB reports
4. Annual reports of concern banks
5. World Wide Web; the internet.

3.4 Data Collection Techniques

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

3.5.1 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, dept 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."

A. 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,P.759).

"A ratio is simply one number 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,P.97).

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.

a. 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

b. 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

c. 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]

3.5.2 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:

i. Correlation 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 phenomenons. The correlation coefficient between two variables describes the degree of relationship between those two variables. It measures the increase of decrease in one variable due to increase of decrease in other variables. Simply stated, correlation is a statistical tool with the help of which we can determine whether of 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 Pearson Ian coefficient of correlation is most widely used in practice. The Pearson Ian coefficient of correlation is denoted by the symbol of 'r' and is calculated as follows:

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

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 position 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.

ii. ***Probable Error (P. E) of Correlation Coefficient***

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 is 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.

iii. ***Coefficient of Determination (r2)***

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.

iv. Coefficient of Variance (C.V.)

Standard deviation is only an absolute measure of dispersion, depending upon the units of measurement. The relative measure of dispersion based on standard deviation is called the coefficient of variance and is given by:

$$\text{C. V.} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100\%$$

According to Professor Karl Pearson who suggested this measure "coefficient of variance is the percentage variation in mean standard deviation being considered as the total variation in the mean." (S.C. Gupta, 1990)

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 evaluates 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

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 and advances etc.

It is calculated by dividing loan and advances by total assets.

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

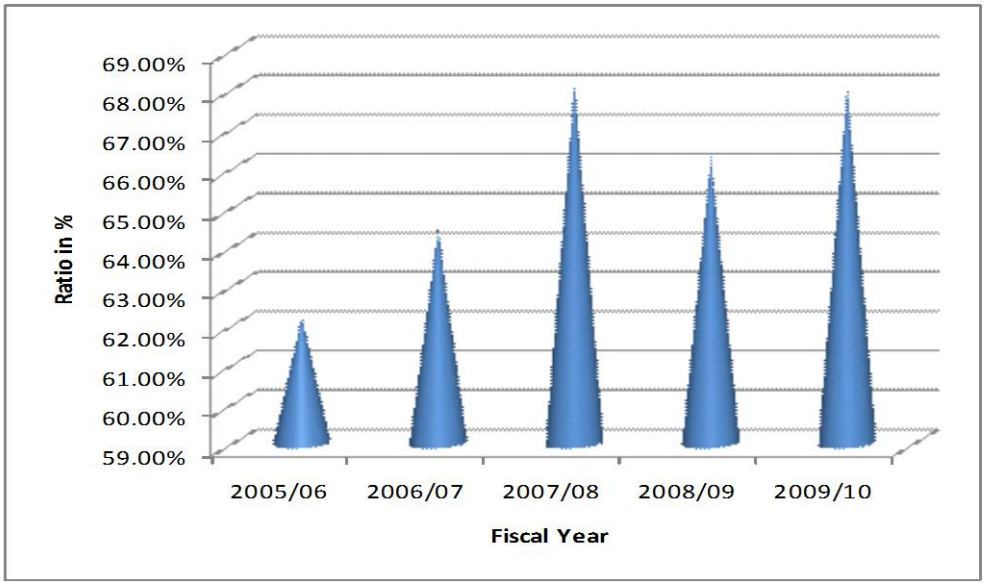
Table 4.1

Loan and Advances to Total Assets Ratio of EBL (in millions)

Fiscal year	Loan and Advance	Total Assets	Ratio in %
2005/06	10,136.20	16,294.00	62.21%
2006/07	14,082.70	21,851.10	64.45%
2007/08	18,836.40	27,646.50	68.13%
2008/09	24,469.60	36,916.80	66.28%
2009/10	28,156.40	41,382.70	68.04%
Average			65.82%
Coefficent of Variance (C.V.)			3.83%

Source: Annual Report of EBL

Figure 4.1
Loan and Advance to Total Assets Ratio of EBL



In EBL, the Loan and Advance has been increasing over the study period. A total asset has also been increase over the study period. Similarly, the ratio has also been increase except in year 2008/09. The ratio has ranged between 62.21%and 68.13%. In an average the ratio is about 66%. The low C.V. (i.e. 3.83%) indicates that the ratio has deviated less from the mean.

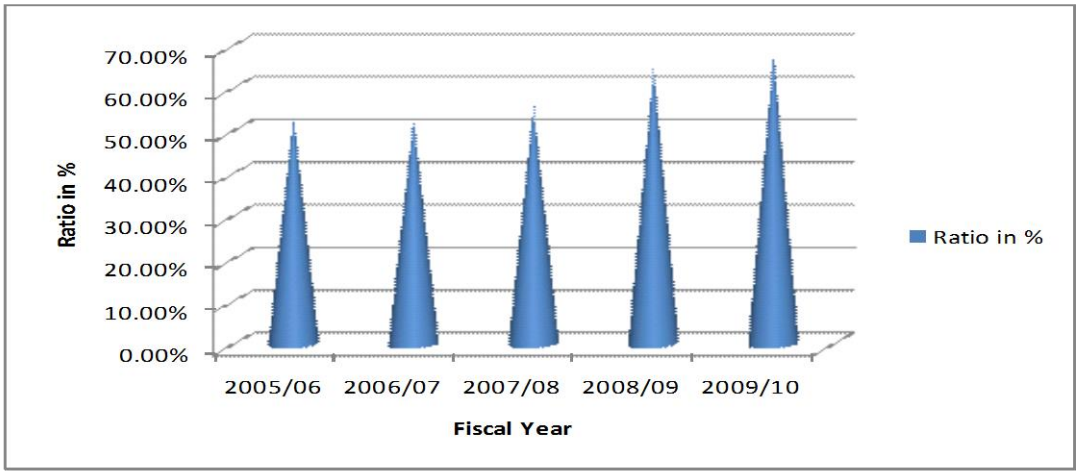
Table 4.2

Loan and Advances to Total Assets Ratio of HBL (in million)`

Fiscal year	Loan and Advance	Total Assets	Ratio in %
2005/06	15,761.98	29,460.00	53.50%
2006/07	17,793.72	33,519.14	53.09%
2007/08	20,179.61	36,175.53	55.78%
2008/09	25,519.52	39,330.13	64.89%
2009/10	29,123.75	42,717.12	68.18%
Average			59.09%
Coefficent of Variance (C.V.)			11.80%

Source: Annual Report of HBL

Figure 4.2
Loan and Advance to Total Assets Ratio of HBL



In HBL, the Loan and Advance has been increasing over the study period. Total Assets has also been increase over the study period. Similarly, the ratio has been also increase. The ratio has ranged between 53.50% and 68.18%. In an average the ratio is about 59%. The low C.V. (i.e.11.80%) clearly indicates that the ratio is more consistent with the mean.

ii. Loans and advances and investment to Total Deposit Ratio

Loans and 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 loans and advances is more crucial and also bears more risk than investments but also gives the higher return where as the second half investment has lesser risk and gives the lower return in compared to loans and advances. Loans and 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. In other words, 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.

It is calculated by dividing the sum of loan and advance and Investment by total Deposit

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

Table 4.3

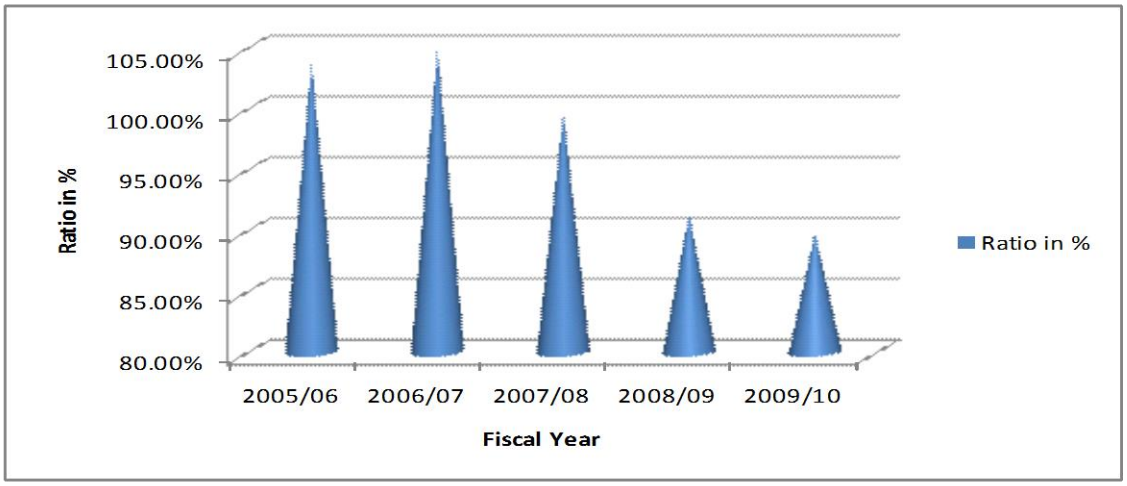
Loan and Advance and Investment to total Deposit Ratio of EBL

(In million)

Fiscal year	Loan and Advance and Investment	Total Deposit	Ratio in %
2005/06	14,336.70	13,802.40	103.87%
2006/07	19,067.00	18,186.20	104.84%
2007/08	23,896.00	23,976.30	99.67%
2008/09	30,418.10	33,322.90	91.28%
2009/10	33,164.70	36,932.30	89.80%
Average			**97.89%**
Coefficent of Variance (C.V.)			7.16%

Source: Annual Report of EBL

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



In EBL, the Loan and Advance and Investment has been increasing trend over the study period. Similarly, total deposit of EBL has also been increase but the ratio has been decreasing over the study period, because the increasing rate of Loan and Advance and Investment is lower than the increasing rate of Total Deposit. The ratio has ranged between 103.87%

and 89.80%. In an average the ratio is 98%. The low C.V. (i.e. 7.16%) indicates that the ratio has deviated less from the mean.

Table 4.4

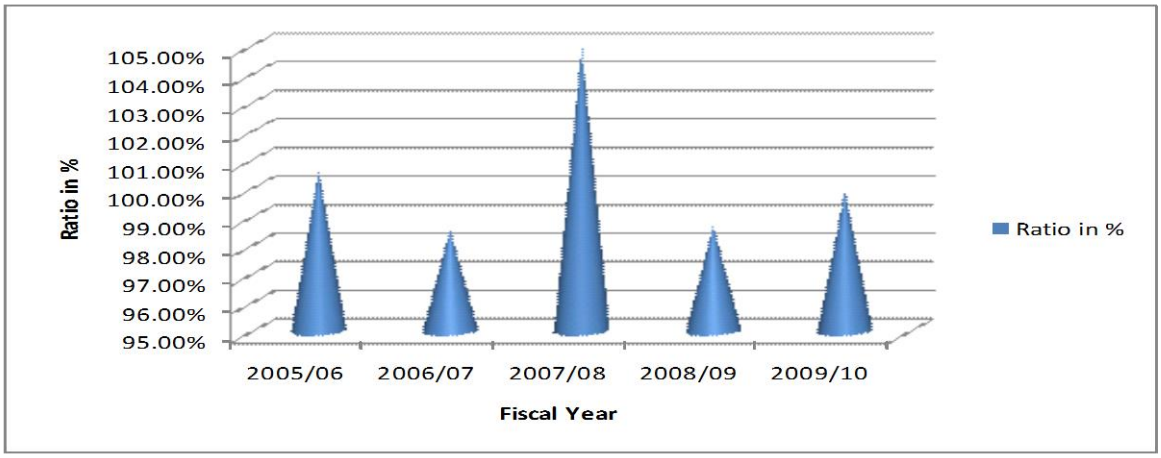
Loan and Advance and Investment to total Deposit Ratio of HBL

(In millions)

Fiscal year	Loan and Advance and Investment	Total Deposit	Ratio in %
2005/06	26,650.98	26,491.00	100.60%
2006/07	29,617.70	30,048.42	98.57%
2007/08	33,519.78	31,942.79	104.94%
2008/09	34,230.21	34,682.31	98.70%
2009/10	37,568.66	37,611.20	99.89%
Average			**100.54%**
Coefficent of Variance (C.V.)			2.59%

Source: Annual Report of HBL

Figure 4.4
Loan and Advance and Investment to total Deposit Ratio of HBL



In HBL, Loan and Advance and Investment has been increase over the study period. Similarly, Total Deposit has also been increase over the study period. But the increasing rate of both variables is fluctuated, so the ratio also has been fluctuated over the study period. The ratio has ranged between 104.94% and 98.57%. In an average the ratio is about 101%. The C.V. of the ratio is very low i.e. 2.59%, which indicates that the ratio has deviated less from the mean.

iii. Investment to Loan, Advances and Investment Ratio

This ratio measure the contribution made by investment in total amount of loans, advances and investments. The proportion between investment and loans and 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.

It is calculated by dividing the Investment by the sum of Loan Advance and Investment.

$$\text{Investment to Loan Advances and Investment Ratio} = \frac{\text{Investment}}{\text{Loan and Advance + Investment}} \times 100$$

Table4.5

Investment to Loan, Advances and Investment Ratio of EBL

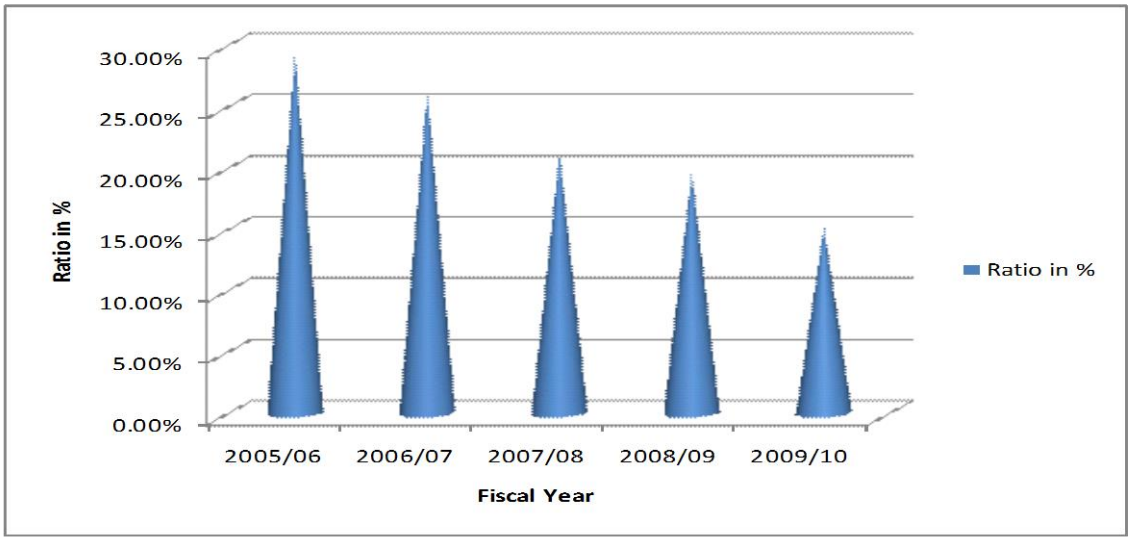
(in million)

Fiscal year	Investment	Loan and Advance and Investment	Ratio in %
2005/06	4,200.50	14,336.70	29.30%
2006/07	4,984.30	19,067.00	26.14%
2007/08	5,059.60	23,896.00	21.17%
2008/09	5,948.50	30,418.10	19.56%
2009/10	5,008.30	33,164.70	15.10%
Average			**22.25%**
Coefficent of Variance (C.V.)			25.05%

Source: Annual Report of EBL

Figure 4.5

Investment to Loan, Advances and Investment Ratio of EBL



In EBL, an Investment has been increasing over the study period except in year 2009/10. Loan, Advance and Investment also have been increasing over the study period. But the ratio has decreasing trend. The ratio has ranged between 29.30% and 15.10%. In an average the ratio is about 22%. The low C.V. (i.e.25.05%) clearly indicates that the ratio is consistent with the mean.

Table4.6

Investment to Loan, Advances and Investment Ratio of HBL

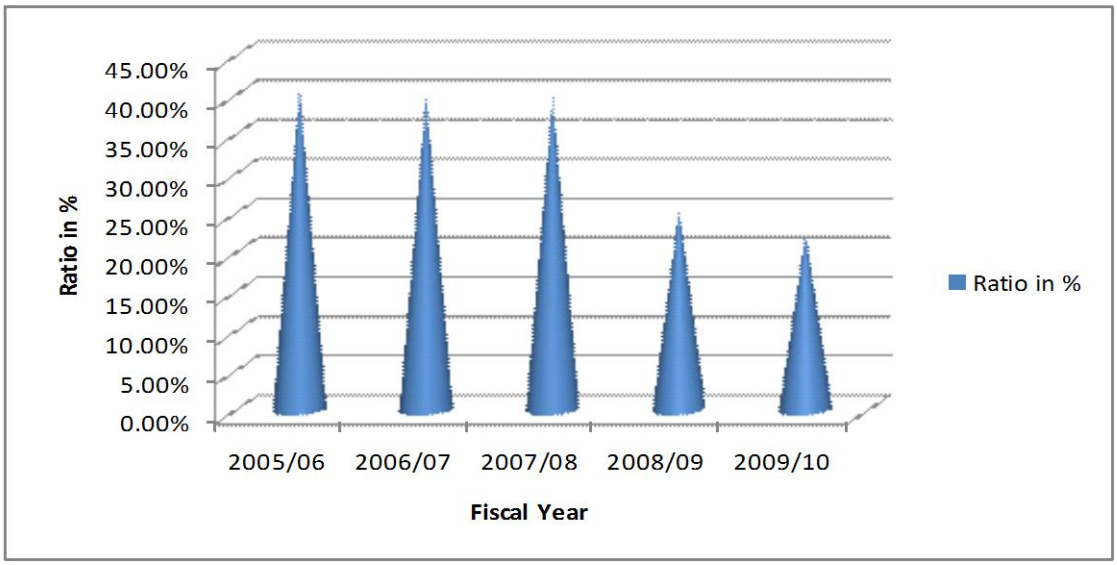
(In million)

Fiscal year	Investment	Loan and Advance and Investment	Ratio in %
2005/06	10,889.00	26,650.98	40.86%
2006/07	11,823.98	29,617.70	39.92%
2007/08	13,340.17	33,519.78	39.80%
2008/09	8,710.69	34,230.21	25.45%
2009/10	8,444.91	37,568.66	22.48%
Average			**33.70%**
Coefficent of Variance (C.V.)			26.59%

Source: Annual Report of HBL

Figure 4.6

Investment to Loan, Advances and Investment Ratio of HBL



In HBL, an Investment has been increasing trend in the first half of the study period and decreasing trend in the second half of the study period. Loan, Advance and Investment have been increasing trend over the study

period. The ratio has been decreasing trend over the study period and it has ranged between 40.86% and 22.48%. In an average the ratio is about 34%. The low C.V. (i.e. 26.59%) indicates that the ratio has not more deviated from the mean.

iv. Loans and Advances to Shareholder's Equity Ratio

Shareholder's equity consists of paid up capital, undistributed profits, reserves and retained earnings. The ratio between loans and 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.

It is calculated by dividing Loan and Advance by Shareholder's Equity.

$$\text{Loans and Advances to Shareholder's Equity Ratio} = \frac{\text{Loan and Advance}}{\text{Shareholder's Equity}} \text{X } 100$$

Table 4.7

Loans and Advances to Shareholder's Equity Ratio of EBL

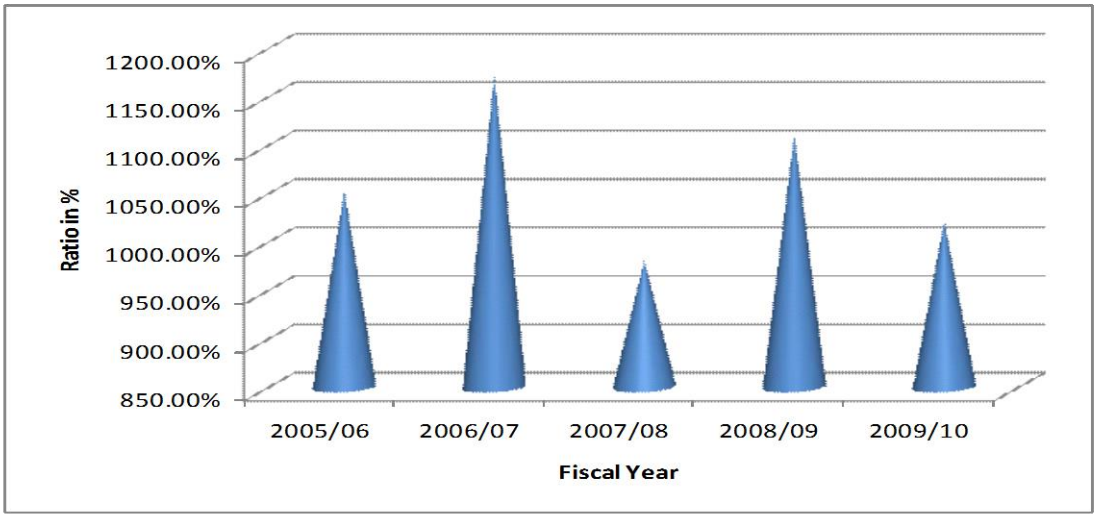
(in million)

Fiscal year	Loan and Advance	Shareholder's Equity Ratio	Ratio in %
2005/06	10,136.20	962.80	1052.78%
2006/07	14,082.70	1,201.50	1172.09%
2007/08	18,836.40	1,921.20	980.45%
2008/09	24,469.60	2,203.60	1110.44%
2009/10	28,156.40	2,759.14	1020.48%
Average			1067.25%
Coefficent of Variance (C.V.)			7.07%

Source: Annual Report of EBL

Figure 4.7

Loans and Advances to Shareholder's Equity Ratio of EBL



In EBL, Loan and Advance and shareholder's Equity both are in increasing trend over the study period. But the ratios between two variables are in fluctuating trend over the study period. The ratio has ranged between

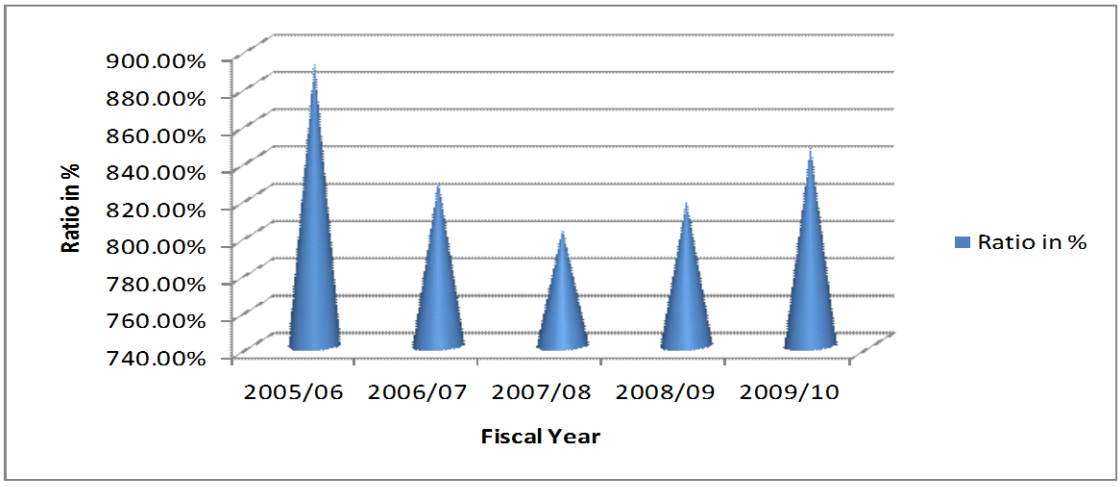
1172.09% and 980.45%. In an average the ratio is about 1067%. The low C.V. (i.e. 7.07%) indicates that the ratio has deviated less from the mean.

Table 4.8

Loans and Advances to Shareholder's Equity Ratio of HBL (in million)

Fiscal year	Loan and Advance	Shareholder's Equity	Ratio in %
2005/06	15,761.98	1,766.18	892.44%
2006/07	17,793.72	2,146.50	828.96%
2007/08	20,179.61	2,512.99	803.01%
2008/09	25,519.52	3,119.88	817.96%
2009/10	29,123.75	3,439.21	846.82%
Average			837.84%
Coefficent of Variance (C.V.)			4.11%

Figure 4.8
Loans and Advances to Shareholder's Equity Ratio of HBL



In HBL, Loan and Advance and Shareholder's Equity both are in

increasing trend over the study period .But the ratio has been fluctuating trend .It has decreasing trend in the first half of the study period and then increasing trend in the second half of the study period .The ratio has ranged between 892.44% and 803.01% .In an average the ratio is about 838%. The low C.V. (i.e. 4.11%) indicates that the ratio has deviated less from the mean.

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 loans and advances in the total profitability.

i. Loan Loss Provision to Total loans and advance,

The ratio of loan loss provision to total loans and 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 the NRB directives, 1%

provision to be provided for all good loans. It gets a large portion of the total loan loss provision.

It is calculated by dividing Loan Loss Provision by Total Loans and Advance.

$$\text{Loan Loss Provision to Total Loans and Advance Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Loans and Advance}} X\ 100$$

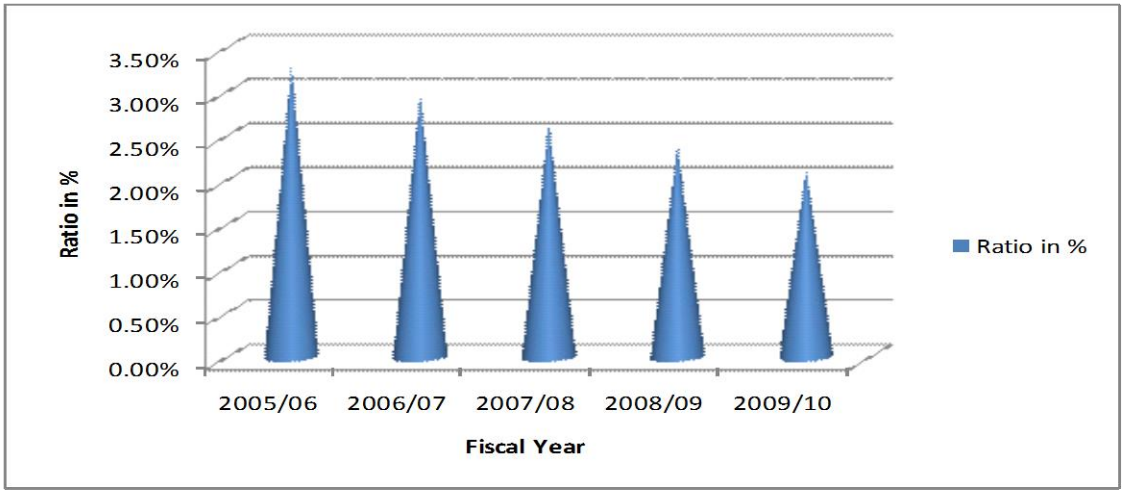
Table 4.9

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

Fiscal year	Loan loss Provision	Loan and Advance	Ratio in %
2005/06	334.95	10136.2	3.30%
2006/07	418.6	14082.7	2.97%
2007/08	497.35	18836.4	2.64%
2008/09	584.88	24469.6	2.39%
2009/10	600.04	28156.4	2.13%
Average			2.69%
Coefficent of Variance (C.V.)			17.27%

Source: Annual Report of EBL

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



In EBL, the Loan Loss Provision and Loan and Advance both are in increasing trend over the study period .But the ratio has been decreasing trend over the study period .The ratio has ranged between 3.30% and 2.13% .In an average the ratio is about 3% . The low C.V. (i.e.17.27%) clearly indicates that the ratio is consistent with the mean.

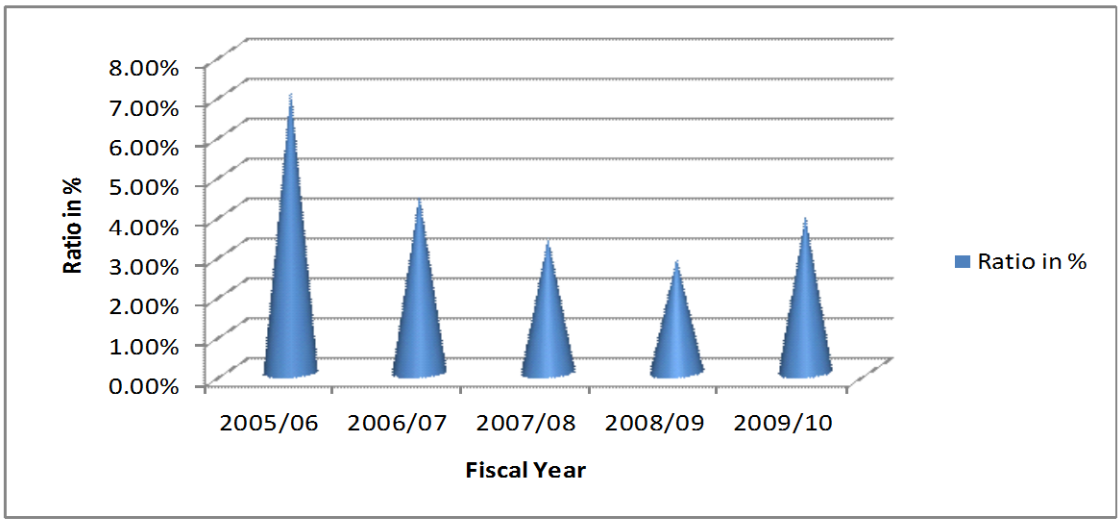
Table 4.10

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

Fiscal year	Loan loss Provision	Loan and Advance	Ratio in %
2005/06	1119.42	15761.98	7.10%
2006/07	795.73	17793.72	4.47%
2007/08	682.09	20179.61	3.38%
2008/09	726.36	25519.52	2.85%
2009/10	1143.13	29123.75	3.93%
Average			4.35%
Coefficent of Variance (C.V.)			38.11%

Source: Annual Report of HBL

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



In HBL, the Loan Loss Provision has been decreasing trend in the first half of the study period, and it has increase in second half of the study period .The Loan and Advance has been increasing trend over the study period .The ratio has been decreasing trend except in year 2009/10 .The ratio has ranged between 7.10%and 2.85% .In an average the ratio is about 4%. The low C.V. (i.e.38.11%) clearly indicates that the ratio is consistent with the mean.

ii. Non –performing Loans to Total Loans and 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,P13).

It is calculated by dividing Non –performing Loan by Total Loans and Advance.

$$\text{Non –performing Loan to Total Loans and Advance Ratio} = \frac{\text{Non –performing Loan}}{\text{Total Loans and Advance}} X\ 100$$

Table 4.11

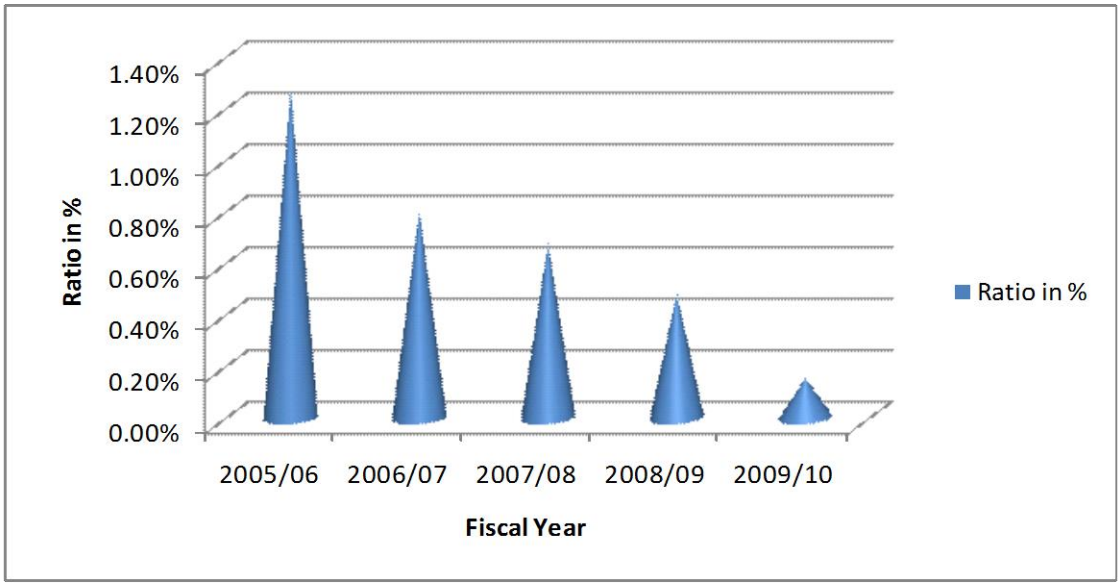
Non –performing Loan to Total Loans and Advances Ratio of EBL

(In million)

Fiscal year	Non –performing Loan	Loan and Advance	Ratio in %
2005/06	129.23	10136.2	1.27%
2006/07	113.18	14082.7	0.80%
2007/08	127.31	18836.4	0.68%
2008/09	117.99	24469.6	0.48%
2009/10	43.71	28156.4	0.16%
Average			**0.68%**
Coefficent of Variance (C.V.)			60.95%

Source: Annual Report of EBL

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



In EBL, the Non-performing Loan adopted a decreasing trend except in the year 2007/08. The Loan and advance has followed an increasing trend over the study period .The ratio has adopted a decreasing trend over the study period .The ratio has ranged between 1.27% and 0.16% .In an average, the ratio is 0.68%. The high C.V. (i.e.60.95%) indicates that the ratio has deviated more from the mean.

Table 4.12

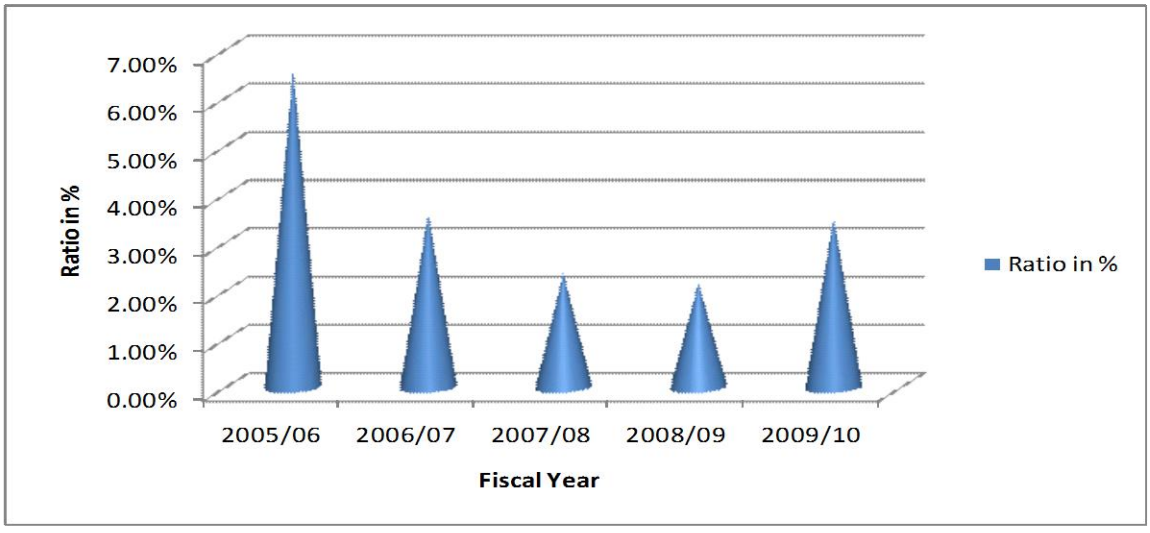
Non –performing Loans to Total Loans and Advances Ratio of HBL

(In million)

Fiscal year	Non –performing Loan	Loan and Advance	Ratio in %
2005/06	1040.76	15761.98	6.60%
2006/07	641.62	17793.72	3.61%
2007/08	477.23	20179.61	2.36%
2008/09	551.31	25519.52	2.16%
2009/10	1024.83	29123.75	3.52%
Average			3.65%
Coefficent of Variance (C.V.)			48.64%

Source: Annual Report of HBL

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



In HBL, the Non-performing Loan has been decreasing trend in the first half of the study period and then increasing trend in the last two years

.The Loan and Advance has also been increasing trend over the study period. The ratio has been decreasing trend over the study period except in year 2009/10.The ratio has ranged between 6.60% and 2.16%. In an average the ratio is about 4%. The moderate C.V. (i.e.48.64%) indicates that the ratio has deviated from the mean.

iii. Interest Income from Loans and 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.

It is calculated by dividing Interest Income from Loans by Total Income.

$$\text{Interest income from loan to Total Income} = \frac{\text{Interest income from loan}}{\text{Total Income}} \times 100$$

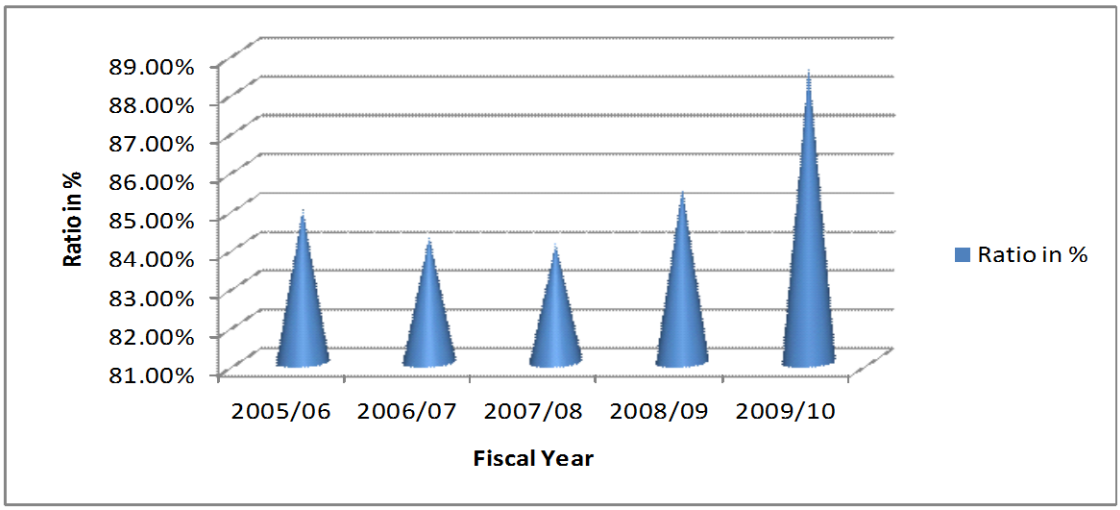
Table 4.13

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

Fiscal year	Interest Income	Total Income	Ratio in %
2005/06	903.41	1063.54	84.94%
2006/07	1144.41	1358.5	84.24%
2007/08	1548.66	1842.51	84.05%
2008/09	2186.81	2557.84	85.49%
2009/10	3102.45	3500.76	88.62%
Average			85.47%
Coefficent of Variance (C.V.)			2.17%

Source: Annual Report of EBL

Figure 4.13
Interest Income to Total Income Ratio of EBL



In EBL, the interest income from Loans and Advance and Total Income both are in increasing trend over the study period. The ratio has been slightly decreasing trend in the first half of the study period and then increase over the next two years of the study period. The ratio has ranged between 88.62% and 84.05% .In an average the ratio is about 85%. The

low C.V. (i.e.2.17%) clearly indicates that the ratio is more consistent with the mean.

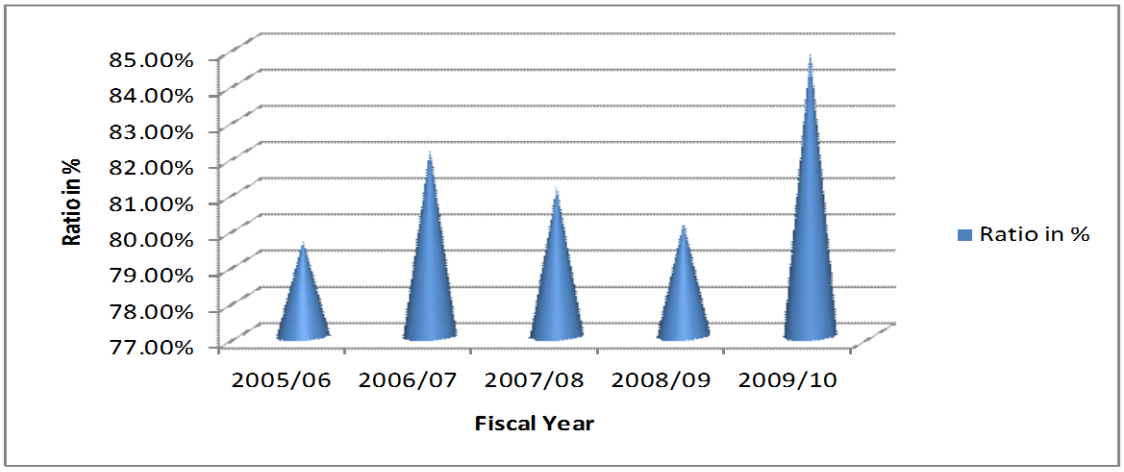
Table 4.14

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

Fiscal year	Interest Income	Total Income	Ratio in %
2005/06	1626.47	2042.37	79.64%
2006/07	1775.58	2160.77	82.17%
2007/08	1963.65	2421.24	81.10%
2008/09	2342.2	2922.82	80.13%
2009/10	3148.61	3711.49	84.83%
Average			81.58%
Coefficent of Variance (C.V.)			2.53%

Source: Annual Report of HBL

Figure 4.14
Interest Income to Total Income Ratio of HBL



In HBL, Interest Income from Loan and Advance and Total Income both are in increasing trend over the study period .The ratio is fluctuated over the study period .It has ranged between 84.83% and 79.64% .In an

average the ratio is about 82% . The low C.V. (i.e.2.53%) clearly indicates that the ratio is more consistent with the mean.

iv. Loan and Advance to Total Deposit Ratio

This ratio measures the bank's 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 and advances refer to total sum of loan, advances, credit, overdraft local and foreign bills purchased and discounted. Total deposit includes total outsides' 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:-

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

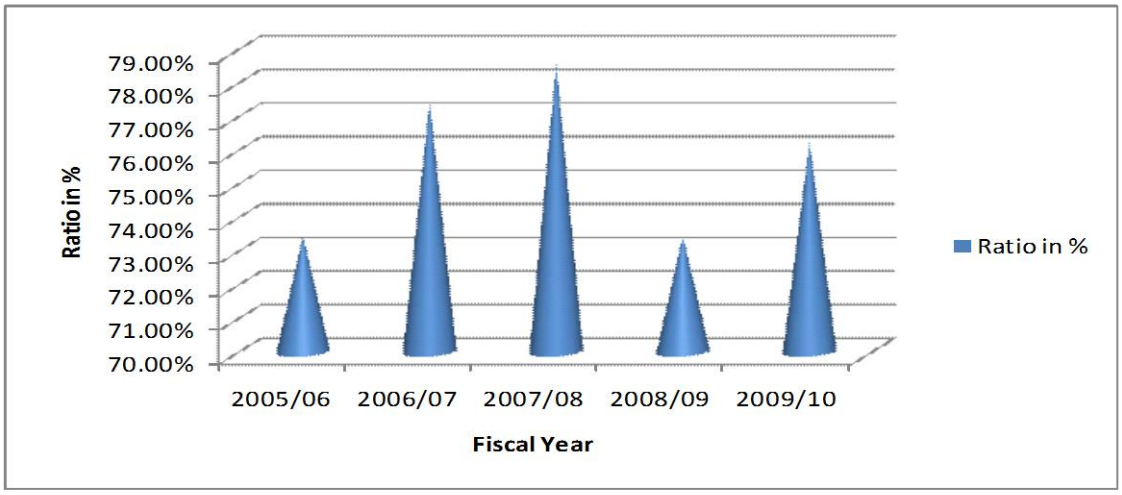
Table 4.15

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

Fiscal year	Loan and Advance	Total Deposit	Ratio in %
2005/06	10136.2	13802.4	73.44%
2006/07	14082.7	18186.2	77.44%
2007/08	18836.4	23976.3	78.56%
2008/09	24469.6	33322.9	73.43%
2009/10	28156.4	36932.3	76.24%
Average			75.82%
Coefficent of Variance (C.V.)			3.07%

Source: Annual Report of EBL

Figure 4.15
Loan and Advance to Total Deposit Ratio of EBL



In EBL, the Loan and Advance and Total Deposit both are in increasing trend over the study period .The ratio have been increasing trend over the study period except in the year 2008/09. It has ranged between 78.56% and 73.43% .In an average the ratio is about 76%. The low C.V.

(i.e.3.07%) clearly indicates that the ratio is more consistent with the mean.

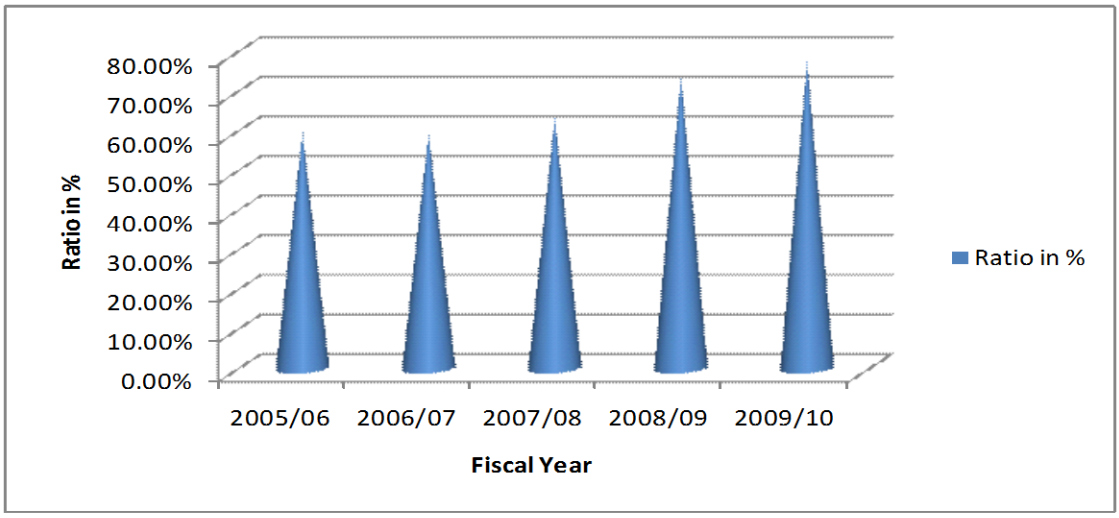
Table 4.16

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

Fiscal year	Loan and Advance	Total Deposit	Ratio in %
2005/06	15761.98	26490.85	59.50%
2006/07	17793.72	30048.42	59.22%
2007/08	20179.61	31942.79	63.17%
2008/09	25519.52	34682.31	73.58%
2009/10	29123.75	37611.2	77.43%
Average			66.58%
Coefficent of Variance (C.V.)			12.63%

Source: Annual Report of HBL

Figure 4.16
Loan and Advance to Total Deposit Ratio of HBL



In HBL, the Loan and Advance and Total Deposit both are in increasing trend over the study period .The ratio has been slightly decrease in F/Y2006/07 and then increasing trend over the F/Y2009/10.The ratio has ranged between 77.43% and 59.22% .In an average the ratio is about 67%. The low C.V. (i.e.12.63%) indicates that the ratio has deviated less from the mean.

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 changed. 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 type s 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

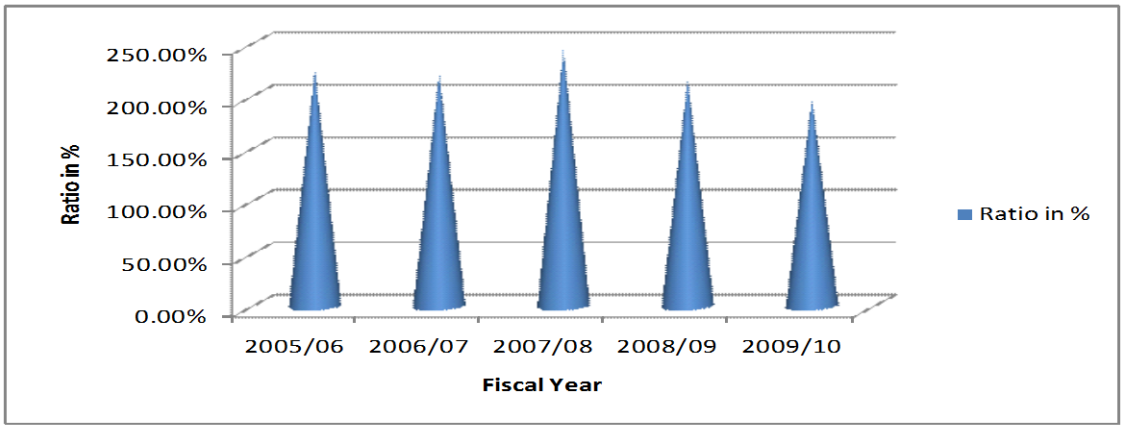
Interest income to Interest Expenses Ratio of EBL

(In million)

Fiscal year	Interest Income	Interest Expenses	Ratio in %
2005/06	903.41	401.4	225.06%
2006/07	1144.41	517.17	221.28%
2007/08	1548.66	632.61	244.80%
2008/09	2186.81	1012.87	215.90%
2009/10	3102.45	1572.79	197.26%
Average			220.86%
Coefficent of Variance (C.V.)			7.75%

Source: Annual Report of EBL

Figure 4.17
Interest Income to Interest Expenses Ratio of EBL



In EBL, the Interest Income and Interest Expenses both are in increasing trend over the study period .The ratio has been decreasing trend except in year 2007/08 .The ratio has ranged between 244.80% and 197.26% .In an average the ratio is about221% . The low C.V. (i.e.7.75%) indicates that the ratio has deviated less from the mean.

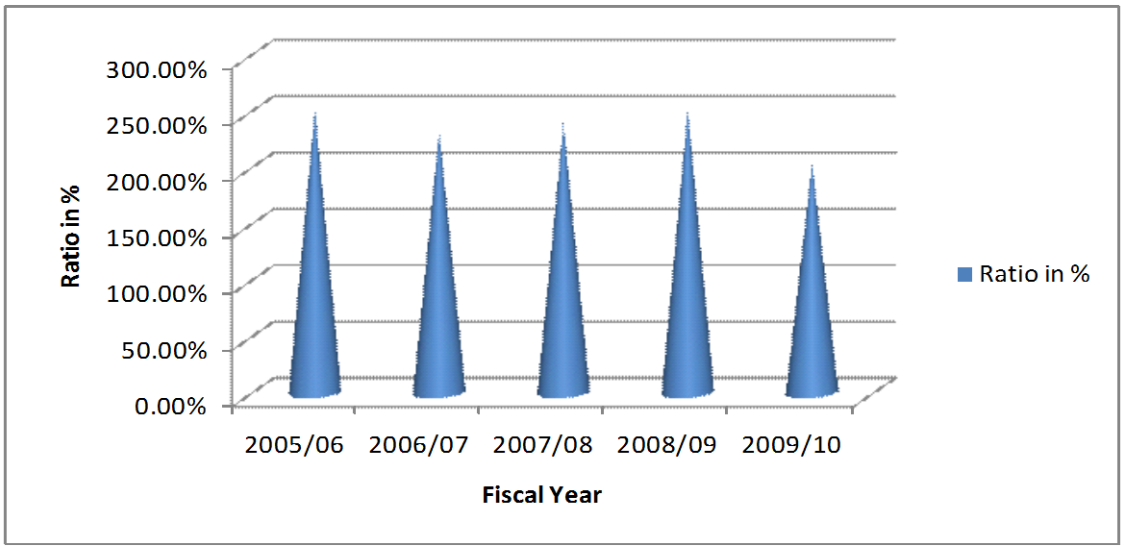
Figure 4.18

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

Fiscal year	Interest Income	Interest Expenses	Ratio in %
2005/06	1,626.47	648.84	250.67%
2006/07	1,775.58	767.41	231.37%
2007/08	1,963.65	823.74	238.38%
2008/09	2,342.20	934.78	250.56%
2009/10	3,148.61	1,553.53	202.67%
Average			234.73%
Coefficent of Variance (C.V.)			8.41%

Source: Annual Report of HBL

Figure 4.18
Interest Income to Interest Expenses Ratio of EBL



In HBL, the Interest Income and Interest Expenses both are in increasing trend over the study period .The ratio of Interest Income and Interest Expenses has been fluctuated over the study period .The ratio has ranged between 250.67% and 202.67% .In an average the ratio is about 235% . The low C.V. (i.e.8.41%) indicates that the ratio has deviated less from the mean.

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:

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

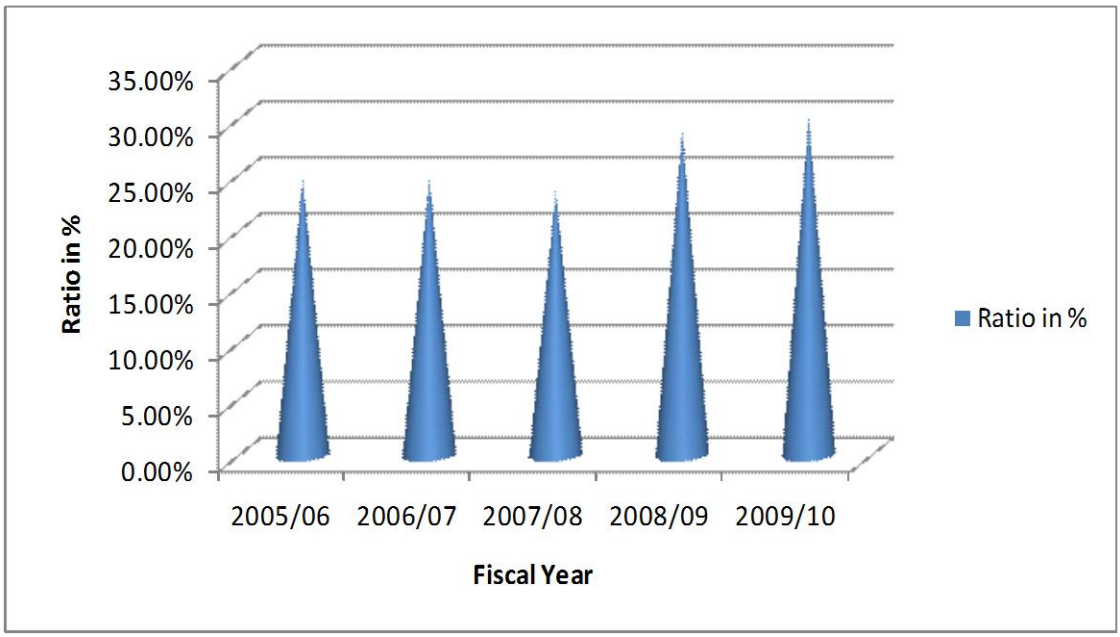
Table 4.19

Return on Equity of EBL (in million)

Fiscal year	Net Profit	Shareholder's Equity	Ratio in %
2005/06	237.29	962.8	24.65%
2006/07	296.41	1201.5	24.67%
2007/08	451.218	1921.2	23.49%
2008/09	638.73	2203.6	28.99%
2009/10	831.765	2759.137	30.15%
Average			26.39%
Coefficent of Variance (C.V.)			11.25%

Source: Annual Report of EBL

Figure 4.19
Return on Equity of EBL



23. In EBL, the Net Profit and Shareholder's Equity both are in increasing trend over the study period .The ratio has also been increasing trend except in F/Y 2007/08 .The ratio has ranged between 30.15% and 49% .In an average the ratio is about 26% . The low C.V. (i.e.11.25%) indicates that the ratio has deviated less from the mean.

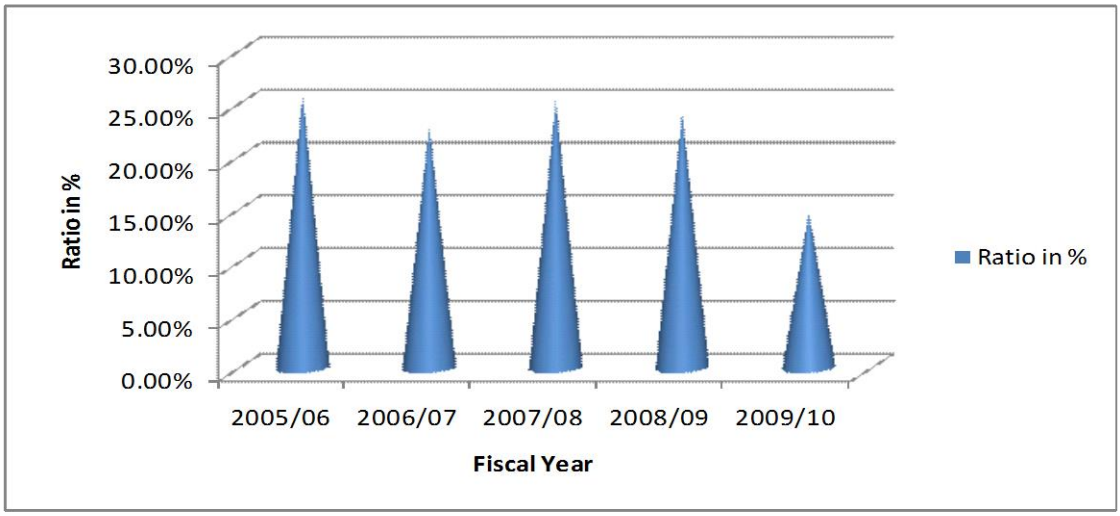
Table 4.20

Return on Equity of HBL (in million)

Fiscal year	Net Profit	Shareholder's Equity	Ratio in %
2005/06	457.46	1,766.18	25.90%
2006/07	491.82	2,146.50	22.91%
2007/08	635.89	2,512.99	25.30%
2008/09	752.83	3,119.88	24.13%
2009/10	508.80	3,439.21	14.79%
Average			22.61%
Coefficent of Variance (C.V.)			19.98%

Source: Annual Report of HBL

Figure 4.20
Return on Equity of HBL



In HBL, the Net Profit has been increasing trend over the study period except in year 2009/10 .The Shareholder's Equity has also been increasing trend over the study period .The ratio has been decreasing trend except in year 2007/08. The ratio has ranged between 25.90% and

14.79%. In an average the ratio is about 23%. The low C.V. (i.e.19.98%) indicates that the ratio has deviated less from the mean.

ii. Earnings Per Share (EPS)

Earnings per share measures profitability of the common shareholder's 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 if 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:

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

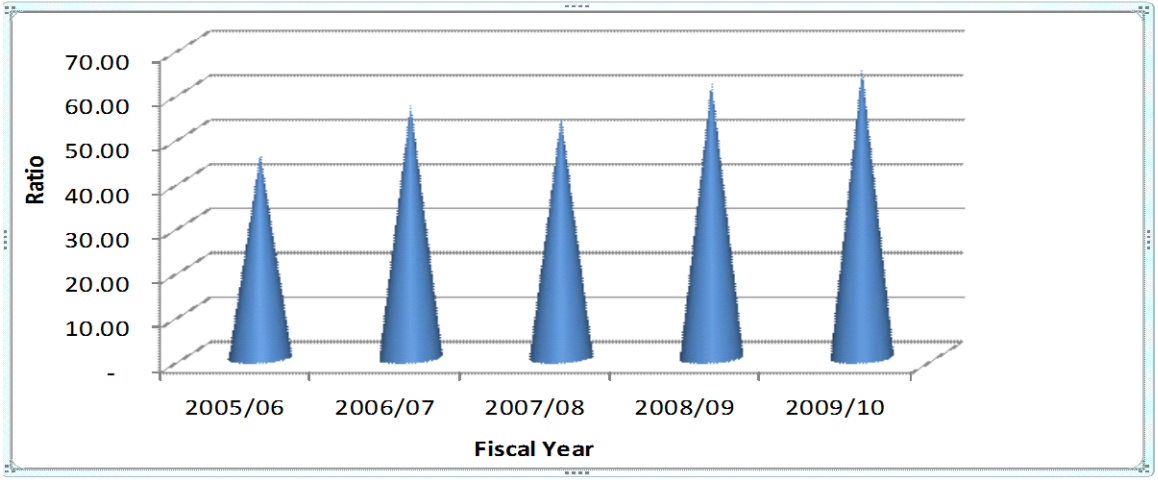
Table 4.21

Earnings Per Share (EPS) of EBL (in millions)

Fiscal year	Net Profit	Total no. of Share	Ratio
2005/06	237.29	5.18	45.81
2006/07	296.41	5.18	57.22
2007/08	451.218	8.31	54.30
2008/09	638.73	10.3	62.01
2009/10	831.765	12.8	64.98
Average			56.86
Coefficent of Variance (C.V.)			13.08%

Source: Annual Report of EBL

Figure 4.21
Earning Per Share (EPS) of EBL



In EBL, the Net Profit and Total No. of Share Outstanding both are in increasing trend over the study period. The EPS has also been increasing trend except in year 2007/08 .The EPS has ranged between Rs.64.98 and

Rs.45.81 .In an average the EPS is about Rs.57. The low C.V. (i.e.13.08%) indicates that the ratio has deviated less from the mean.

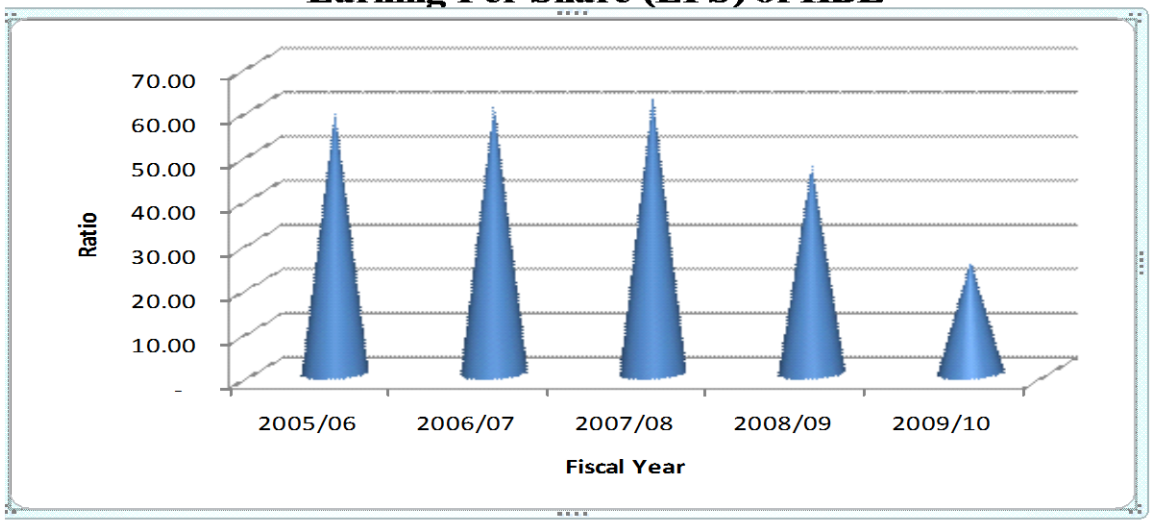
Table 4.22

Earning Per Share (EPS) of HBL (in million)

Fiscal year	Net Profit	Total no. of Share	Ratio
2005/06	457.46	7.72	59.26
2006/07	491.82	8.11	60.64
2007/08	635.89	10.14	62.71
2008/09	752.83	16.00	47.05
2009/10	508.80	20.00	25.44
Average			51.02
Coefficent of Variance (C.V.)			30.48%

Source: Annual Report of HBL

Figure 4.22
Earning Per Share (EPS) of HBL



In HBL, the Net Profit has been increasing trend over the study period except in year 2009/10. The Total No. of Share outstanding also has been

increasing trend over the study period. The EPS has increasing trend in the first half of the study period and then decreasing trend in the second half of the study period. The ratio has ranged between Rs.62.71 and Rs.25.44. In an average the ratio is about Rs.51. The low C.V. (i.e.30.48) clearly indicates that the ratio is more consistent with the mean.

4.1.4 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 following:

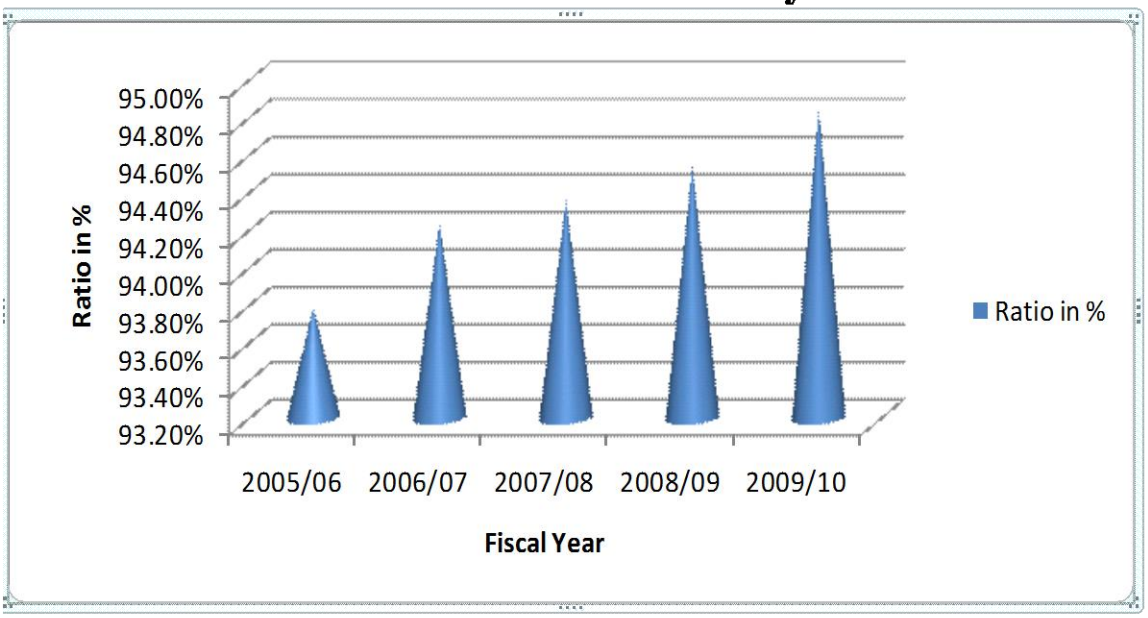
Table 4.23

Amount of Loan Recovered By EBL

Fiscal year	Recovered Amount	Loan and Advance	Ratio in %
2005/06	9,506.62	10136.2	93.79%
2006/07	13,271.05	14082.7	94.24%
2007/08	17,773.64	18836.4	94.36%
2008/09	23,134.03	24469.6	94.54%
2009/10	26,707.05	28156.4	94.85%
Average			94.36%
Coefficent of Variance (C.V.)			0.42%

Source: Annual Report of EBL

Figure 4.23
Amount of Loan Recovered By EBL



In EBL, the Loan and Advance and Recovered amount both are increasing trend over the study period. The ratio has slightly increased over the study period. The ratio has ranged between 94.85%and 93.79%. In an average the ratio is about 94%. The very low C.V. (i.e.0.42%) indicates that the ratio is more consistent with the mean.

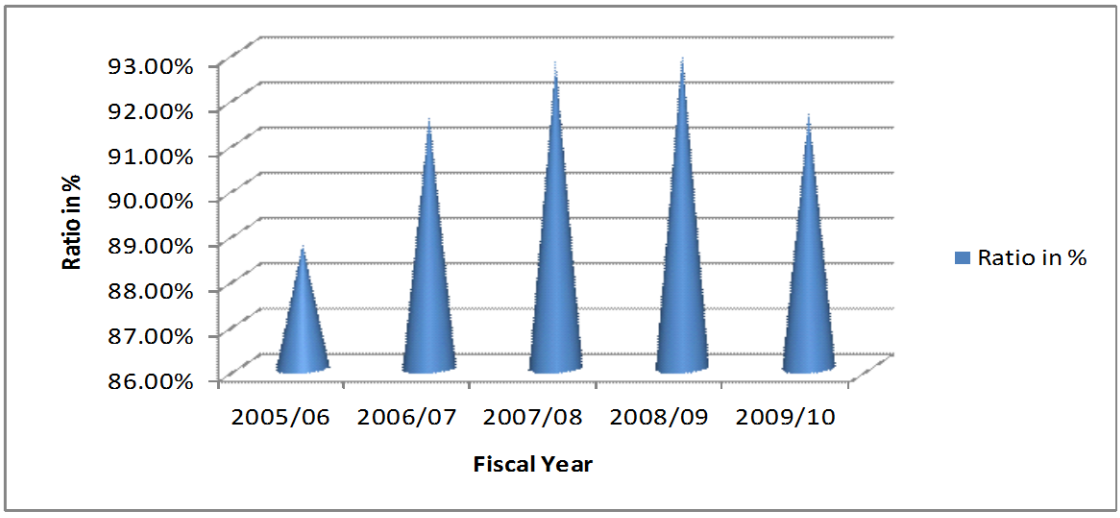
Table4.24

Amount of Loan Recovered By HBL

Fiscal year	Recovered Amount	Loan and Advance	Ratio in %
2005/06	13,985.16	15761.98	88.73%
2006/07	16,294.50	17793.72	91.57%
2007/08	18,717.26	20179.61	92.75%
2008/09	23,719.80	25519.52	92.95%
2009/10	26,693.98	29123.75	91.66%
Average			91.53%
Coefficent of Variance (C.V.)			1.84%

Source: Annual Report of HBL

Figure 4.24
Amount of Loan Recovered By HBL



In HBL, the Loan and Advance and the Recovered Amount both are in increasing trend over the study period. The ratio has also been increasing trend over the study period except in a year 2009/10. The ratio has ranged between 92.95% and 88.73%. In an average the ratio is about 92%. The very low C.V. (i.e.1.84%) indicates that the ratio is more consistent with the mean.

4.2 Measuring Correlation Coefficient between Different Variables

Correlation is a statistical too that can be used to describe the degree of liner 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;

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

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.

Correlation coefficient of determination is the square of correlation coefficient. It is denoted by r^2. The coefficient of determination is measure the actual variation between two variables. For example, if the value of r=0.8, we cannot conclude that 80%of the variation in the dependent variable is due to the variation in the independent variable. But the coefficient of determination in this case is r^2=0.64, which implies that only 64% of the variation in the dependent variable has been explained by the independent variable and the remaining 36% of the variation is due to other factor.(S.C. Gupta,1990)

After computing the value of the correlation coefficient and coefficient of determination the next step is to find the extent to which it is dependable

probable error of correlation coefficient, usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. (S.C. Gupta, 1990)

P.E. (r) may be used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. The following guidelines may be used:

i. If r<6 P.E(r) i.e. if the observed value of r is less than six times of its P.E. then correlation is not at all significant..
ii. If r>6 P.E(r) i.e. if the observed value of r is greater than six times of its P.E. then correlation is definitely significant. .(S.C. Gupta,1990)

4.2.1 Correlation between Loans and Advances and Deposits

The coefficient of correlation between loan and 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 and advances in a proper manner or not. The relationship of deposit and loan and advances should always be perfect positive.

Table 4.25

Correlation between Loans and Advances and Deposits

Banks	r	r^2	P.E.	6P.E.	
HBL	0.9783	0.9571	0.01297	0.07783	
EBL	0.9971	0.9942	0.00174	0.01043	

(Sources: Banking & Financial Statistics and Appendix: I &II)

The table shows the co-efficient of correlation between loan and advances and deposit of HBL and EBL. In case of HBL, the co-efficient of correlation between loan and advances and deposit is 0.9783 which indicates highly positive correlation between these two variables. Similarly, the value of co-efficient of determination r^2 is 0.9571 which means 95.71% variation in the loan and advance has been explained by the Deposit. EBL has slightly high degree of positive correlation than HBL i.e.0.9971 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. Likewise value of P.E. is 0.01297 of HBL and 0.00174 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 and advances and the both banks are mobilizing their deposited as loan and advances successfully.

4.2.2 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 and 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	0.1178	0.0139	0.29746	1.78476	
EBL	0.9862	0.9726	0.00829	0.04973	

(Sources: Banking & Financial Statistics and Appendix: III & IV)

The table shows the co-efficient of correlation between loan loss provision and loan and advances of HBL and EBL. HBL has positive correlation with 0.1178 as the value of 'r', the value of P.E. is 0.29746 and 6P.E. is 1.78476. The value of r is less than the value of 6P.E. which shows that the value of 'r' is not significant. EBL has highly positive correlation between loan loss provision and loan and advances. The value of 'r' is 0.9862 for EBL and the coefficient of determinant 'r^2' is 0.9726 which means 97.26% variation in the loan loss provision has been explained by the loan and advance .The value of 'r' is more than the value of 6P.E. i.e.0.9862>0.04973 which shows that the value of 'r' is significant for EBL.

4.2.3 Correlation between Total Income and loan and Advances

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

Table 4.27

Correlation between Total Income and Loan and Advances

Banks	r	r^2	P.E.	6P.E.	
HBL	0.9791	0.9586	0.01246	0.07479	
EBL	0.9772	0.9549	0.01361	0.08166	

(Sources: Banking & Financial Statistics and Appendix: V &VI)

The table shows that the correlation coefficient between total income and loan and advances of HBL and EBL. It shows highly positive correlation between these two variables of HBL and EBL. In case of HBL, the coefficient of correlation between total income and advances is 0.9791, which indicates highly positive correlation between these two variables. Similarly, the value of co-efficient of determination r^2 is 0.9586, which means 95.86 % variation in the total income has been explained by the loan and advance. Further the value of P.E is 0.01246 and 6.P.E. is 0.07479, which shows that the co-efficient of correlation 'r' is greater than the value of 6P.E. i.e. (0.9791>0.07479). Therefore, the value of 'r' is significant. Similarly in case of EBL, the co-efficient of correlation between total income and loan and advances is 0.9772 which indicates highly positive correlation between these two variables. Similarly, the

value of co-efficient of determinant r^2 is 0.9549 which means 95.49% variation in the total income has been explained by the loan and advance. Further the value of P.E. is 0.01361 and 6P.E. is 0.08166, which shows that the co-efficient of correlation 'r' is greater than the value of 6P.E. i.e. (0.9772>0.08166). Therefore, the value of 'r' is significant.

4.2.4 Correlation between Shareholder's equity and Loan and Advances

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

Table 4.28

Correlation between Shareholder's Equity and Loan and Advances

Banks	r	r^2	P.E.	6P.E.
HBL	0.9922	0.9845	0.00471	0.02826
EBL	0.9872	0.9746	0.00764	0.04587

(Sources: Banking & Financial Statistics and Appendix: VII &VIII)

The table shows that there is high degree of positive correlation between shareholders equity and loan and 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 and advances is 0.9922 that indicates highly positive correlation between these two variables. Similarly, the value of co-efficient of determination r^2 is 0.9845 that means 98.45% variation in the shareholder's equity has been explained by the loan and advance. Further the value of P.E. is 0.00471 and 6P.Er is 0.02826, which shows that the co-efficient of correlation 'r' is higher than the value of 6P.E. i.e. (0.9922>0.02826). Therefore, the value of 'r' is significant. In case of EBL, the co-efficient of correlation between shareholder's equity and loan and advances is 0.9872 that indicates highly positive correlation between these two variables. Similarly the value of co-efficient of determination r^2 is 0.9746 that means 97.46% variation in the shareholder's equity has been explained by the loan and advance.Further the value of P.E. is 0.00764 and 6P.E. is 0.04587, which shows that the co-efficient of correlation 'r' is higher than the value of 6P.E i.e. (0.9872>0.04587). Therefore, the value of 'r' is significant.

4.2.5 Correlation between Loan disbursement and recovery

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

Table 4.29

Correlation between Loan disbursement and recovery

Banks	r	r^2	P.E.	6P.E.	
HBL	0.9988	0.9976	0.00070	0.00422	
EBL	0.9999	0.9998	0.000003	0.00002	

(Sources: Banking & Financial Statistics and Appendix: IX &X)

Table 4.29 shows that the coefficient of correlation between loans disbursed and loan recovered of two banks i.e.0.9988 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 bank since the coefficient of determination (r^2) are 0.9976 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 0.00070 of HBL and 0.000003 of EBL. The value of 'r' is more than 6 P.E(r). This rivals that there is significant relationship between total loan disbursed and recovered.

4.3 Major Findings of the Study

The major findings of the study are summarized below:-

The loans and Advances to Total Assets Ratio of EBL is higher than HBL i.e. (66%>59%).It means EBL has good loan disbursement performance.

The lower ratio of HBL, needs diverting its lending function for more fee-based activities. Similarly, the C.V. of this ratio of HBL is higher than EBL so, the Loan and Advance to Total Assets Ratio of HBL has more heterogeneous than EBL.

HBL has highest loans and 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. Here, the C.V. of this ratio of EBL is higher than HBL so, the Loan and Advance and Investment to Total Deposit Ratio of EBL have more heterogeneous than HBL.

HBL has highest Investment to Total Loan and Advance and Investment ratio than EBL i.e. (34%>22%).It means HBL has the mobilization of funds in safe area. Here, the C.V. of this ratio of EBL is less than HBL so, the Investment to Loan and Advance and Investment Ratio of EBL appears to be more consistent than HBL.

Loans and Advances to shareholder's Equity ratio have gained the significant importance in measuring the capital fund. The highest loans and advances to shareholders equity ratio is 1067%for EBL and 838% for HBL. EBL has been able to generate high volume of loan and advances from capital fund and success to converting liability into assets than HBL. Here, the C.V. of this ratio of HBL is less than EBL so, the Loan and Advance to Shareholders Equity Ratio of HBL appears to be more consistent than EBL.

The measurement of efficiency on lending has revealed that Loan Loss Provision to Total Loans and Advances ratio is pretty satisfactory since

according to NRB Directives. Loan Loss Provision indicates provision against both Performing and Non-performing Loans. The ratio of Loan Loss Provision to Total Loans and Advances of EBL is lower than HBL i.e. (2.69 %< 4.35%).It means, the EBL has good quality of loans in the total volume of Loan and Advances. In other words, loan of EBL has not chances of default with compare to HBL. Here, the C.V. of this ratio of HBL is higher than EBL so, the Loan Loss Provision to Total Loan and Advance Ratio of HBL has more heterogeneous than EBL.

The Non-performing Loans to Total Loans and Advances Ratio of HBL is higher than EBL i.e. (3.65% > 0.68%).It seems that the EBL has good position in Loan Recovered because it has very lower ratio than HBL. Increase in non-performing loans increase loan loss provision and interest suspense too, which ultimately results in profit deduction. Here, the C.V. of this ratio of HBL is less than EBL so, the Non-performing Loan to Total Loan and Advance Ratio of HBL has more homogeneous than EBL.

Interest income from Loans and Advance and Total income ratio of EBL is higher than HBL i.e. (85.47 %>81.58 %). It means, EBL has largely dependent on lending activities and few dependency on other fee based activities but the HBL has low dependency on lending activities and high dependency on other fee based activities. Interest income to total income ratio of EBL is higher which is good from view point of bank in short run but in long run it is not good. Bank should generate its income from extra sources (like exchange gain, commission and discount, remittance service) other than interest for the survival in long run. Here, the C.V. of this ratio of HBL is slightly higher than EBL so, the Interest Income from

Loan and Advances to Total Income Ratio of HBL has little heterogeneous than EBL.

The Loans and Advances to Total Deposit Ratio of EBL is higher then HBL i.e. (75.82%>66.58%). It means, in comparison between these two banks, the EBL has able to mobilize the depositor's fund to earn profit by providing loan and advances than HBL. It also success to mobilizing deposit for purpose of profit generating than HBL. Here, the C.V. of this ratio of EBL is less than HBL so, the Loan and Advance to Total Deposit Ratio of EBL has more homogeneous than HBL.

Interest Income to Interest Expenses Ratio of EBL is about 221%, which mean that one rupee of interest expenses has been able to earn 2.21 rupees. Similarly, the ratio of HBL has about 235%, which mean that one rupee of interest expenses has been able to earn 2.35 rupees. So, the HBL has charging high interest rate in an average than EBL. Here, the C.V. of this ratio of HBL is slightly higher than EBL so, the Interest Income to Interest Expenses Ratio of HBL has little heterogeneous than EBL.

ROE of EBL is about 26% and HBL is about 23%. By comparing between these two banks the EBL has more efficiency for earning a satisfactory return to its shareholder's equity than HBL. Here, the C.V. of ROE of HBL is higher than EBL so, the Return on Equity of HBL has more heterogeneous than EBL.

EPS, that checks the financial position of an organization shows that HBL has an EPS of Rs51.02. and EBL has an EPS of Rs.56.86 Net profit of both banks has increasing trend but the EBL has more efficiency in relative

terms than HBL. Here, the C.V. of EPS of HBL is higher than EBL so, the EPS of HBL has more heterogeneous than EBL.

In an average, there is few differences between two banks to recovered their loan and advances in right time. The EBL has success to recovered 94.36% of total loan and advance and the HBL has success to recovered 91.53% of total loan and advance. In the comparison, the EBL has good performance to loan disbursements and recovery management pattern. Here the C.V. of Recovery of Loan of both Banks are low but in comparison between two Banks the C.V. of EBL has less than HBL so, the EBL has more homogeneous or less variable than HBL.

The correlation analysis has shown high degree of correlation between Deposits and Loans and Advances of HBL and EBL. There is significant relationship between deposit and loan and advances and the bank is mobilizing of Loans and 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 Loans and Advances of HBL and EBL. EBL has high degree of positive correlation, which indicates good performance and there is significant relationship between Loan Loss Provision and Loan and Advance. HBL have low degree of positive correlation which indicates the low performance. There is no significant relationship between Loan Loss Provision and Loan and Advance in case of HBL.

There is significant relationship between total income and loan and advances of HBL and EBL. It shows highly positive correlation between

two variables of HBL and EBL. Financial performances of both banks are very good.

There is high degree of positive correlation between shareholder's equity and loan and advances in HBL and EBL. The coefficient of determination of EBL is slightly lower than HBL. But this is not mention to compare their financial performance and 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.0.9988 of HBL and 0.9999 of EBL which show highly positive correlation 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.E(r). 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. Comparatively, the EBL has a good financial performance in loan and advance, total deposit, loan loss provision, non-performing loan e.t.c.

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 three parts that is 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.

The objectives of this study is evaluate and analyze the process of the total loan investment, recovery and outstanding of EBL and HBL under NRB directives, analyze the loan loss provisions and different types of loan disbursed by sample banks. This study is mainly focused in Loan Disbursement and Recovery Management. Only these aspects are concern by the research. Other functions of the bank have not been covered in this research and the aspects like the profitability of the bank has not been included in the study. The study is based on primary as well as secondary data received from the bank. The truth of the research is based upon the data available from the bank. The study analyzes the data and information for 5 years. A consolidated trend for 5 years will not be sufficient for the work and projection.

In this study the researcher has reviewed the related previous theses which are submitted by master level students. In this study, approve research methodology is presented for achieving the predetermined objective which is already stated. One various statically and financial instrument will be used for the required purpose. It counts on the resources and techniques available and to the extent of their reliability and validity in this study. 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 an empirical research

opinions from the various officers have been conducted. For this study analytical and descriptive research design has been followed.

For the study, only two joint venture banks have been selected as a sample on the basis of convenience sampling i.e. HBL and EBL. This study is based on five year's financial data and starting from 2005/06 to 2009/10 A.D.

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 variance, co-efficient of correlation, determination of correlation and probable error 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 (2005/06-2009/10) 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 of EBL is higher than HBL i.e. (66 % > 59%). 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 33.70% and the average mean of EBL is 22.25%. The Loans and Advances to Shareholder's Equity Ratio of EBL is higher than HBL i.e. (1067.25%>837.84%). 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. (3.65 % > 0.68%). HBL has the highest Loan Loss Provision than EBL 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 loans and advances whereas high ratio indicates more risky assets (Loan having chances of default) in the total volume of loans and advances.EBL has highest average mean ratio in Interest Income from Loan and Advance 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. (75.82%>66.58%). That means EBL has good lending performance. This indicates that the bank has been able to utilize its fund in a proper way. The Interest Income to Interest Expenses Ratio of both banks are fluctuated over the five years period so it is conclude that they have maintain their interest expenses from the interest income. In the context of ROE, it is found that net profit and shareholder's equity of both concerned bank i.e. HBL is EBL are in increasing trend. The average mean ratio of EBL is higher than HBL i.e. (26.39% > 22.61 %). In case of EPS, the average mean ratio of EBL is higher than HBL i.e. (Rs56.86 > Rs51.02). 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 93.79% to 94.85% from F/Y 2005/06-2009/10 respectively but the recovery ratio of HBL has highly increased i.e. 88.73% to 91.66% from F/Y 2005/06-2009/10 respectively.

As a whole, the C.V. of EBL is less than HBL so, it is clearly define that the EBL has more homogeneous or uniform or less variable than the HBL. Similarly, the HBL has more variability in his financial performance than EBL.

In case of HBL, the co-efficient of correlation between loan and advances and deposit is 0.9783, which indicates highly positive correlation between these two variables. EBL has also high degree of positive correlation of 0.9971, 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, the co-efficient of correlation between loan loss provision and loan and advance is not significant for HBL. HBL has positive relation with 0.1178 as the value of 'r'. The value of P.E. is 0.29746 and 6P.E. is 1.78476. The value of r is less than the value of 6P.E, which shows that the value of 'r' is not significant. EBL has also positive correlation between loan loss provision and loan and advances. The value of 'r' is significant for EBL. In case of HBL, the co-efficient of correlation between total income and loan and advances is 0.9791 that indicates highly positive correlation between these two variables. Similarly in case of EBL, the co-efficient of correlation

between total income and loan and advances is 0.9772, which also indicates high positive correlation between these two variables. Both banks have positive relationship and the co-efficient of correlation 'r' higher than the value of 6P.E. Therefore, the value of 'r' is significant for both banks. 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.0.9988 of HBL and 0.9999 of EBL which show highly positive relationship between these two variables. A higher coefficient between loan disbursed and recovered 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. E(r). This rivals that there is significant relationship between total loan disbursed and recovered.

5.3 Recommendations

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

i. 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 it's lending by identifying new avenues rather than focusing nearly in one sector.

ii. Need to Expand Branches in rural area

All the banks are concentrated in the urban area. Not 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 in the economic development of the country

iii. 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 high efficiency and credibility. For example, a guideline could be prepared mentioned tips, tips on how to sensitively 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.

iv. 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.

v. 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.

vi. 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.

vii. Need to Invest the Small Entrepreneur Development Program

Loan should provide to those who are economically backward and uplifting the condition of those 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.

viii. 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. Therefore, bank should promoter these areas focusing its lending.

ix. 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.

x. Preference to the Short 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 discoursing long-term and also focusing multiple returnable loan.

xi. 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	Loan and Advance	Deposit (Y)	X^2	XY	Y^2
2005/06	10,136	13,802	102,742,550	139,903,887	190,506,246
2006/07	14,083	18,186	198,322,439	256,110,799	330,737,870
2007/08	18,836	23,976	354,809,965	451,627,177	574,862,962
2008/09	24,470	33,323	598,761,324	815,398,034	1,110,415,664
2009/10	28,156	36,932	792,782,805	1,039,880,575	1,363,994,783
Total	**95,681**	**126,220**	**2,047,419,083**	**2,702,920,472**	**3,570,517,526**

Source: Annual Report of EBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 2{,}702{,}920{,}472 - (95{,}681) \times (126{,}220)}{\sqrt{5 \times 2{,}047{,}419{,}083 - (95{,}681)^2}\ \sqrt{5 \times 2{,}702{,}920{,}472 - (126{,}220)^2}}$$

$$r = \frac{1{,}437{,}699{,}230.93}{1{,}441{,}858{,}651.84}$$

$$r = 0.9971$$

The correlation coefficient of total deposit and total loan disbursed(r) =0.9971

r>0 i.e. 0.9971>0 the relationship between two variables total deposited and loan disbursed are positively correlated,

Calculation of Probability Error

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

$$= \mathbf{0.6745} \times \frac{\mathbf{1}-(\mathbf{0.9971})^2}{\sqrt{5}}$$

$$P.Er = 0.00174$$

Now 6.P.Er.

= 6*P.Er

=0.01043

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	Deposit (Y)	X^2	XY	Y^2
2005/06	15,762	26,491	248,439,887	417,548,142	701,765,134
2006/07	17,794	30,048	316,616,578	534,673,262	902,907,544
2007/08	20,180	31,943	407,216,781	644,593,140	1,020,341,833
2008/09	25,520	34,682	651,245,850	885,075,869	1,202,862,627
2009/10	29,124	37,611	848,193,047	1,095,379,336	1,414,602,365
Total	**108,379**	**160,776**	**2,471,712,143**	**3,577,269,750**	**5,242,479,504**

Source: Annual Report of HBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 3{,}577{,}269{,}750 - (108{,}379) \times (160{,}776)}{\sqrt{5 \times 2{,}471{,}712{,}143 - (108{,}379)^2}\ \sqrt{5 \times 5{,}242{,}479{,}504 - (160{,}776)^2}}$$

$$r = \frac{461{,}719{,}969.74}{471{,}980{,}236.38}$$

$$r = 0.9783$$

The correlation coefficient of total deposit and total loan disbursed(r) =0.9783
r>0 i.e. 0.9783>0 the relationship between two variables total deposited and loan disbursed are positively correlated.

Calculation of Probability Error

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

$$= \mathbf{0.6745} \times \frac{\mathbf{1}-(\mathbf{0.9783})^{\mathbf{2}}}{\sqrt{\mathbf{5}}}$$

$$P.Er = 0.01297$$

Now 6.P.Er.

= 6*P.Er

=0.07783

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	335	10,136	112,189	3,395,080	102,742,550
2006/07	419	14,083	175,229	5,895,075	198,322,439
2007/08	497	18,836	247,353	9,368,208	354,809,965
2008/09	585	24,470	342,085	14,311,780	598,761,324
2009/10	600	28,156	360,048	16,894,966	792,782,805
Total	**2,436**	**95,681**	**1,236,904**	**49,865,108**	**2,047,419,083**

Source: Annual Report of EBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 49{,}865{,}108 - 2{,}436 \times 95{,}681}{\sqrt{5 \times 1{,}236{,}904 - (2{,}436)^2}\ \sqrt{5 \times 2{,}047{,}419{,}083 - (95{,}681)^2}}$$

$$r = \frac{16{,}263{,}499.47}{16{,}491{,}631.60}$$

$$r = 0.9862$$

The correlation coefficient of Loan Loss Provision and total loan and advance disbursed(r) =0.9862

r>0 i.e. 0.9862>0 the relationship between two variables Loan Loss Provision and loan disbursed are positively correlated.

Calculation of Probability Error

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

$$= \mathbf{0.6745} \times \frac{\mathbf{1}-(\mathbf{0.9862})^2}{\sqrt{\mathbf{5}}}$$

$$P.Er = 0.00829$$

Now 6.P.Er.

= 6*P.Er

=0.04973

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	1,119	15,762	1,253,093	17,644,216	248,439,887
2006/07	796	17,794	633,180	14,158,928	316,616,578
2007/08	682	20,180	465,249	13,764,353	407,216,781
2008/09	726	25,520	527,603	18,536,434	651,245,850
2009/10	1,143	29,124	1,306,737	33,292,120	848,193,047
Total	**4,467**	**108,379**	**4,185,863**	**97,396,052**	**2,471,712,143**

Source: Annual Report of HBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 97{,}396{,}052 - 4{,}467 \times 108{,}379}{\sqrt{5 \times 4{,}185{,}863 - (4{,}467)^2}\ \sqrt{5 \times 2{,}471{,}712{,}143 - (108{,}379)^2}}$$

$$r = \frac{2{,}883{,}083.78}{24{,}474{,}038.31}$$

$$r = 0.1178$$

The correlation coefficient of Loan Loss Provision and total loan and advance disbursed (r) =0.1178
r>0 i.e. 0.1178>0 the relationship between two variables Loan Loss Provision and loan disbursed are negatively correlated.

Calculation of Probability Error

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

$$= \mathbf{0.6745} \times \frac{\mathbf{1}-(\mathbf{0.1178})^{\mathbf{2}}}{\sqrt{\mathbf{5}}}$$

$P.Er = 0.29746$

Now 6.P.Er.

= 6*P.Er

=1.78476

Appendix V

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	1,064	10,136	1,131,126	10,780,295	102,742,550
2006/07	1,358	14,083	1,845,517	19,131,320	198,322,439
2007/08	1,843	18,836	3,394,828	34,706,180	354,809,965
2008/09	2,558	24,470	6,542,530	62,589,248	598,761,324
2009/10	3,501	28,156	12,255,349	98,568,908	792,782,805
Total	**10,323**	**95,681**	**25,169,350**	**225,775,951**	**2,047,419,083**

Source: Annual Report of EBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 225{,}775{,}951 - 10{,}323 \times 95{,}681}{\sqrt{5 \times 25{,}169{,}350 - (10{,}323)^2}\ \sqrt{5 \times 2{,}047{,}419{,}083 - (95{,}681)^2}}$$

$$r = \frac{141{,}147{,}447.61}{144{,}443{,}086.83}$$

$$r = 0.9772$$

The correlation coefficient of total income and total loan disbursed(r) =0.9772
r>0 i.e. 0.9772>0 the relationship between two variables total income and loan disbursed are positively correlated

Calculation of Probability Error

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

=$0.6745 \times \frac{1-(0.9772)^2}{\sqrt{5}}$

$P.Er = 0.01361$

Now 6.P.Er.

= 6*P.Er

=0.08165

Appendix VI

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	2,042	15,762	4,171,292	32,191,850	248,439,887
2006/07	2,161	17,794	4,668,931	38,448,161	316,616,578
2007/08	2,421	20,180	5,862,393	48,859,646	407,216,781
2008/09	2,923	25,520	8,542,900	74,589,063	651,245,850
2009/10	3,711	29,124	13,775,173	108,092,580	848,193,047
Total	**13,259**	**108,379**	**37,020,689**	**302,181,299**	**2,471,712,143**

Source: Annual Report of HBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 302{,}181{,}299 - 13{,}259 \times 108{,}379}{\sqrt{5 \times 37{,}020{,}689 - (13{,}259)^2}\ \sqrt{5 \times 2{,}471{,}712{,}143 - (108{,}379)^2}}$$

$$r = \frac{73{,}947{,}458.51}{75{,}524{,}297.27}$$

$$r = 0.9791$$

The correlation coefficient of total income and total loan disbursed(r) =0.9791
r>0 i.e. 0.9791>0 the relationship between two variables total income and loan disbursed are positively correlated

Calculation of Probability Error

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

$$= \mathbf{0.6745} \times \frac{\mathbf{1}-(\mathbf{0.9791})^2}{\sqrt{\mathbf{5}}}$$

$$P.Er = 0.01246$$

Now 6.P.Er.

= 6*P.Er

=0.07479

Appendix VII

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	963	10,136	926,984	9,759,133	102,742,550
2006/07	1,202	14,083	1,443,602	16,920,364	198,322,439
2007/08	1,921	18,836	3,691,009	36,188,492	354,809,965
2008/09	2,204	24,470	4,855,853	53,921,211	598,761,324
2009/10	2,759	28,156	7,612,837	77,687,362	792,782,805
Total	**9,048**	**95,681**	**18,530,285**	**194,476,562**	**2,047,419,083**

Source: Annual Report of EBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 194{,}476{,}562 - 9{,}048 \times 95{,}681}{\sqrt{5 \times 18{,}530{,}285 - (9{,}048)^2}\ \sqrt{5 \times 2{,}047{,}419{,}083 - (95{,}681)^2}}$$

$$r = \frac{106{,}635{,}739.77}{108{,}013{,}200.16}$$

$$r = 0.9872$$

The correlation coefficient of shareholder's equity and total loan disbursed(r) =0.9872 r>0 i.e. 0.9872>0 the relationship between two variables shareholder's equity and loan disbursed are positively correlated.

Calculation of Probability Error

P.Er =0. 6745 $\times \frac{\mathbf{1-r^2}}{\sqrt{\boldsymbol{n}}}$

=0. 6745 $\times \frac{\mathbf{1-(0.9872)^2}}{\sqrt{\mathbf{5}}}$

$P.Er = 0.00764$

Now 6.P.Er.

= 6*P.Er

=0.04587

Appendix VIII

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	1,766	15,762	3,119,374	27,838,408	248,439,887
2006/07	2,146	17,794	4,607,461	38,194,220	316,616,578
2007/08	2,513	20,180	6,315,124	50,711,186	407,216,781
2008/09	3,120	25,520	9,733,651	79,617,837	651,245,850
2009/10	3,439	29,124	11,828,131	100,162,560	848,193,047
Total	**12,985**	**108,379**	**35,603,741**	**296,524,211**	**2,471,712,143**

Source: Annual Report of HBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 296{,}524{,}211 - 12{,}985 \times 108{,}379}{\sqrt{5 \times 35{,}603{,}741 - (12{,}985)^2}\ \sqrt{5 \times 2{,}471{,}712{,}143 - (108{,}379)^2}}$$

$$r = \frac{75{,}352{,}154.57}{75{,}947{,}393.46}$$

$$r = 0.9922$$

The correlation coefficient of shareholder's equity and total loan disbursed(r) =0.9922 r>0 i.e. 0.9922>0 the relationship between two variables shareholder's equity and loan disbursed are positively correlated.

Calculation of Probability Error

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

$$= \mathbf{0.6745} \times \frac{\mathbf{1}-(\mathbf{0.9922})^2}{\sqrt{\mathbf{5}}}$$

$$P.Er = 0.00471$$

Now 6.P.Er.

= 6*P.Er

=0.02826

Appendix IX

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	Recovered Amount (X)	Loan and Advances (Y)	X^2	XY	Y^2
2005/06	9,507	10,136	90,375,780	96,360,978	102,742,550
2006/07	13,271	14,083	176,120,659	186,892,158	198,322,439
2007/08	17,774	18,836	315,902,119	334,791,308	354,809,965
2008/09	23,134	24,470	535,183,541	566,080,564	598,761,324
2009/10	26,707	28,156	713,266,763	751,974,484	792,782,805
Total	**90,392**	**95,681**	**1,830,848,862**	**1,936,099,493**	**2,047,419,083**

Source: Annual Report of EBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 1{,}936{,}099{,}493 - 90{,}392 \times 95{,}681}{\sqrt{5 \times 1{,}830{,}848{,}862 - (90{,}392)^2}\ \sqrt{5 \times 2{,}047{,}419{,}083 - (95{,}681)^2}}$$

$$r = \frac{1{,}031{,}636{,}369.35}{1{,}031{,}642{,}219.59}$$

$$r = 0.9999943$$

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

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

=0.6745 $\times \frac{1-(0.9999999)^2}{\sqrt{5}}$

$P.Er = 0.000003$

Now 6.P.Er.

= 6*P.Er

=0.00002

Appendix X

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	Recovered Amount (X)	Loan and Advances (Y)	X^2	XY	Y^2
2005/06	13,985.16	15,762	195,584,646	220,433,726	248,439,887
2006/07	16,294.50	17,794	265,510,815	289,939,866	316,616,578
2007/08	18,717.26	20,180	350,336,002	377,707,160	407,216,781
2008/09	23,719.80	25,520	562,628,843	605,317,850	651,245,850
2009/10	26,693.98	29,124	712,568,451	777,428,843	848,193,047
Total	**99,411**	**108,379**	**2,086,628,756**	**2,270,827,444**	**2,471,712,143**

Source: Annual Report of HBL

We know,

Coefficient of correlation(r)

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

$$r = \frac{5 \times 2{,}270{,}827{,}444 - 99{,}411 \times 108{,}379}{\sqrt{5 \times 32{,}086{,}628{,}756 - (99{,}411)^2}\ \sqrt{5 \times 2{,}471{,}712{,}143 - (108{,}379)^2}}$$

$$r = \frac{580{,}146{,}024.12}{580{,}823{,}253.82}$$

$$r = 0.9988$$

The correlation coefficient of loan and advance and deposit (r) =0.9988
r>0 i.e. 0.9988>0 the relationship between two variables loan and advance and deposit are positively correlated.

Calculation of Probability Error

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

=0.6745 $\times \frac{1-(0.9988)^2}{\sqrt{5}}$

$P.Er = 0.00070$

Now 6.P.Er.

= 6*P.Er

=0.00422