CHAPTER- ONE
INTRODUCTION

1.1 Background of the study

Nepal is a small country with unique physical setting surrounded by India in south, east and west and by China in the north. Nepal is characterized by rugged topography, ethic diversity, a predominantly agricultural economy. The country spans 147,181 square kilometers and has three main geographical areas; the high mountains bordering Tibet, the middle hills and the plains (Terai) belt in the south. Over 80% population of Nepal depends on the agricultural sector to earn its livelihood. Approximately 38% of Nepalese live in under poverty. There is no basic infrastructure in rural and semi-urban communities. World development report 2004 shows that, the per capita income is very low as per the international standard. The economic development as the country which is reflected by the annual GDP growth rate is also not very significant.

It is obvious that economic development is impossible without the development of different sector like agriculture, industry, trade etc of the country. So development of these sectors needs a regular supply of financial resources. In developing countries there is always shortage of the capital for the development activities. It is not possible to handle and develop the entire sector by the government alone at a time. Private people also can't undertake large business because per capita income of the people is very low and capital formation is very low. So their saving is not significant for carrying on development works.

"Economic development demands transformation of saving or invisible resources into the actual investment. It is the financial institution that transfer fund from surplus spending units to deficit units" (Nepal Rastra Bank, Forty year of Nepal Rastra Bank 1956-1996:43)

"The importance of the banking as the nerve centre of economic development can be over emphasized and it is said that bank which are the need of and great wealth of country have got to be kept very scared. Just as water of irrigation, good banks are for the country's industry and trade." (Desai, 1967:22)

"Banking industry has acquired a key position in Lending practice for finance and social economic development of a country. No function is more important to the economy and its constituent part than financing. "Bank assists both the flow of foods and service from the products to the consumers and the financial activities of the government". Banking provides the country with monetary system of making payment and is the important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy."(American Institute of Banking, 1972:162)

The development of a country is always measured by its economic development through economic indices. Therefore, every country has given emphasis on upliftment of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economy growth. The mobilization of the domestic resources is the key factor in the economic development of a country. The financial institutions act as intermediaries to transfer the resources from the surplus to the deficits. Commercial banks and other financial intermediaries play an important role for the development of a country. They collect scattered financial resources from the mass and invest them, Commercial and economic activities of a country. These will

provide full to the development practices of a country. The economic activities of a country can hardly be carried forward without the assistance of financial institution. They are the indispensable part of the development process. It is the fact that the unorganized financial system leads the country nowhere. Therefore, central bank plays a major role on keeping the financial system of a country organized by providing those guidelines and directives.

Commercial banks play an important part for economic development of a country as they provide capital to setup industries, trade and where to develop business by investing the saving collected from the public. They render various services to their customer facilitating their economic and social life. Therefore, a competitive and reliable banking system is essential to develop the country.

A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out specific operations. Joint venture banks are the commercial banks formed by joining the two or more enterprises for the purpose of carrying out specific operations such as investment in trade business and industry as well as in the form of negotiation between various group of industries or traders to advice mutual exchange of goods and service. Joint venture banks are made for trading to advice mutual exchange of goods and service for sharing competitive advantage by performing joint investment scheme between Nepalese investors, financial and non-financial institution as well as private investors and their parent banks each supplying 50% of the investment. The parent banks, which have experience in highly merchandised and efficient modern banking services in many parts of the world, have come to Nepal with advance technology, higher management skill. Joint venture banks are established with the joining efforts difference forces having ability to achieve a common goal with the partners involved. They are regarded more efficient and effective monetary institution in modern banking fields as compared to other old bank in Nepalese context. The primary objective of the joint

venture bank is always to earn profit by investing or granting the loan and advances to the people associated with trade, business, industry etc, which means they are required to mobilize their resources properly to acquire profit. How well a bank manages in investment has a great deal to do with the economic health of the country because the bank loans support the growth of economic activities of the country.

Nowadays there is very much competition in banking market with less opportunity to make investment. In this condition, joint venture bank can take initiation in search of new opportunities, so that they can survive themselves in the competitive market and earn profit. But investment is a very risky job. For a purposeful safe profitable investors bank must follows sound investment and fund lending policy.

Joint venture banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. Since, these banks are new, urban based and managed by foreign management they started their operation with automated system which could easily attract the elite group of business community due to their prompt service modern managements. In this way joint venture banks are successful to bring healthy competition among banks, increase in foreign investment promoted and expand export import trade, introduce new techniques and technologies. All these reveals vital role and need of joint venture Nepalese banking sector or financial service industry.

1.2 History of Evolution of Banking

"Banking has come to the present advanced form through various stages. Some sort of banking activities has been carried out since the time immemorial. Traditional forms of banking were traced during the Civilization of Greek, Rome and Mesopotamia.

Despites strange criticism from the church regarding charging high interest, modern banking sowed its seed in the medieval Italy. Bank of Venice, set up in 1157 in Venice, Italy is regarded as the first Modern Bank subsequently. Bank of Barcelona (1401) and Bank of Geneva (1407) were established. The Lombards migrated to England and other parts of Europe from Italy are regarded for the development and expansion of the modern banking.

Bank of Amsterdam set up in 1609 was very popular. The Bank of Hindustan established in 1770 is regarded as the first bank in India.

Though Bank of England was established in 1694, the growth of banks accelerated only after the introduction of Banking Act 1833 in United Kingdom as it allowed opening joint stock company banks.

In Nepal, Tejarath Adda established during the tenure of the Prime Minister Ranoddip Singh was the first step towards the institutional development of banking in Nepal.

Nepal entered in the world of banking with the establishment of Nepal Bank Limited in 30th Kartik 1994 B.S. The authorized capital was contributed by the government 51% and remaining by public 49%.

Having felt the need of development of banking sector and to help the government to formulate monetary policies, Nepal Rastra Bank was established in 2013 B.S. with the objectives of supervising, protecting and directing the function of commercial banks. Just 10 years later in 2023 B.S. another commercial bank fully owned by government named Rastriya Banijya Bank was established under the Banijya Bank Act 2020 B.S.

With the purpose of enhancing agriculture development, "Agriculture Development Bank" (ADB/N) was established under ADB/N Act 2024 B.S. ADB/N provides banking services income area of Nepal as that of other commercial bank. Long after the establishment of above mentioned commercial banks, in 1980s A.D governments of Nepal introduced financial sector reforms, which facilitated the establishment of joint venture banks and pointed a new horizon to the financial sector of Nepal. The number of commercial banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy. At present following Commercial banks opened in out country". (Roshan, 2003)

Table 1
List of Licensed Commercial Banks in Nepal as on Mid-July 2007

S.N	COMMERCIAL BANKS	Operation Date (A.D.)	Head Office	Paid-Up Capital (In Millions)
1.	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2.	Rastriya Baniya Bank	1966/1/23	Kathmandu	1172.30
3.	Agriculture Development Bank Limited	1968/01/02	Kathmandu	10777.50
4.	NABIL Bank Limited	1984/07/16	Kathmandu	965.75
5.	Nepal Investment Bank Limited	1986/02/27	Kathmandu	1606.07
6.	Standard Chartered Bank Nepal Limited	987/1/30	Kathmandu	620.80
7.	Himalayan Bank Limited	1993/01/18	Kathmandu	1013.50
8.	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.50
9.	Nepal Bangladesh Bank Limited	1994/6/5	Kathmandu	744.10
10.	Everest Bank Limited	1994/10/18	Kathmandu	691.40
11.	Bank of Kathmandu Limited	1995/03/12	Kathmandu	603.10
12.	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddarthanagar, Rupendhi	1399.50
13.	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitwan	996.31
14.	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biratnagar, Morang	950.40
15.	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1314.64
16.	Kumari Bank Limited	2001/04/03	Kathmandu	1078.27
17.	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	915.00
78.	Siddartha Bank Limited	2002/12/24		828.00
19.	Global Bank Limited	2007/01/02	Birgunj, Parsa	1000.00
20.	Citizen Bank International Limited	2007/6/21	Kathmandu	700.00
21.	Prime Commercial Bank Limited	2007/09/24	Kathmandu	700.00
22.	Sunrise Bank Limited	2007/10/12	Kathmandu	700.00
23.	Bank of Asia Nepal Limited	2007/10/12	Kathmandu	700.00
24.	Development Credit Bank Limited	2001/01/23	Kathmandu	1107.5
25.	NMB Bank Limited	1996/11/26	Kathmandu	1000.00

Sources: www.Nepalstock.com

1.3 Profile of the Selected Joint-Venture Banks

Economic development of a country largely depends upon the effective mobilization of its internal resources. Joint venture commercial banks are established to provide financial and other service primarily to commercial sector and occasionally to industrial and agriculture sectors. Their main objectives are to collect the idle scattered resources of the economy and to lend them in productive sectors. Commercial banks contribute significantly in the formation and mobilization of internal capital and development efforts. They furnish necessary capita required for trade and commerce in mobilizing the dispersed saving of the individuals and institutions. So the main objective of commercial bank is to mobilize idle resources in particular productive uses after collecting all that scattered sources.

Nepal Arab Bank Limited (NABIL)

NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operation in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 point of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Share Capital and Ownership

Share Structure	NRs
Authorized Capital (50,00,000 shares @100)	50,00,00,000
Issued Capital (49,16,544 shares @100)	49,16,54,400
Paid-Up Capital (49,16,544 shares @100)	49,16,54,400

Share Ownership

Particular	%	Share Capital
Promoter& Other Institutions	**70**	**344,158,100**
Govt. of Nepal	-	-
Foreign Entity	50	245,827,200
A Class Licensed Institutions	-	
Other Licensed Institutions	10.0	49,165,800
Other Entities	10.0	49,165,100
Individual	-	-
Others	-	-
General Public	**30.0**	**147,496,300**
Total	**100.0**	**491,654,400**

Himalayan Bank Limited (HBL)

Himalayan Bank Limited was established in 1992 in partnership with Employers Provident Fund and Habib Bank Limited one of the largest commercial bank in Pakistan. It started its operations from 1993 which is one of the successful joint venture banks of Nepal. HBL very recently introduced several new products and services.

Share Capital and Ownership

Share Structure	NRs
Authorized Capital (10,00,000 shares @ 100)	1,000,000,000
Issued Capital (8,108,100 shares@ 100)	810,810,000
Paid-Up Capital (8,108,100 Shares @100)	810,810,000

Share Ownership

Particular	%	Share Capital
Promoter & Other Institutions	**85**	**689,188,500**
Govt. of Nepal	-	--
Foreign Entity	20	162,162,000
A Class Licensed Institutions	-	--
Other Licensed Institutions	14	113,513,400
Other Entities	51	413,513,100
Others	-	-
General Public	**15**	**121,621,500**
Total	**100.0**	**810,810,000**

Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 27 branches across the nation. Joint Venture Partner Punjab National Bank (PNB).

Share Capital and Shareholding

Share Structure	NRs
Authorized Capital (10,00,000 shares @ 100)	1,000,000,000
Issued Capital (72,98,000 shares @ 100)	729,800,000
Paid-Up Capital (5,18,000 shares @ 100)	518,000,000

Share Ownership

Particular	%	Share Capital
Promoter & Other Institutions	**50**	**190,080,000**
Govt. of Nepal	-	--
Foreign Entity	20	76,032,000
A Class Licensed Institutions	-	--
Other Entities	9.34	35,323,200
Individual	40.66	154,756,800
Others	-	-
General Public	**30**	**111,888,000**
Total	**100.0**	**378,000,000**

1.4 Statement of the problem

Lending practice is the most important factor from the shareholder's and banks management's point of view. The several joint venture banks have been established in our country within a short-period of time, sufficient return have not been earned. A strong, stable and appropriate lending practice has not been followed by the commercial banks. Due to throat cut competition of financial environments banks seem to be ready to grant much more loan, advance and other facilities against their client's insufficient deposits. Unsecured loan and investment may cause the liquidation of those commercial banks. If the funds are wrongly mobilize without thinking of its risk and future facts, the profit can not be achieve as well as it may sometimes lose its principle. Fund lending policy may differ from one joint-venture banks to another. Nepal Rastra Bank has played important role to make commercial bank lend their fund in good sector for this purpose, Nepal Rastra Bank has imposed many rules and regulation. So that commercial banks can have sufficient liquidity and security.

A lending policy is a written document that a bank or financial institution designs to analyze, administer, monitor, recover and handle the lending operations. Though the most of the joint-venture banks have been successful to achieve good profit from lending the deposit received by them but none of them seem to be capable of being able to invest their fund in more profitable sectors. Due to the competition of financial institution, the banks are lending their fund without sufficient documentation. Over liquidity caused by lack of good lending opportunities and risk arises from the mismanagement of lending and investment portfolio. It is found that some of the joint-venture banks have diversified their investment in different fields like carpet, garments distillery, consumer goods, housing loan, hire purchase loan and institutions investment where some of them are not successful to invest their funds in different areas.

In this study lending policy of joint-venture banks is analyzed. Following are the major problems that have been identified for the purpose of this study:-

- What are the different lending services provided by the Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited?
- How is performance of Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited?
- Whether the lending policy adopted by the bank concede with the lending practice and guidelines of Nepal Rastra Bank or not?
- How is the lending strength with respect to the volume of deposits made by each bank in lending?

1.5 Objective of the study

The main objective of the study is to analyze and interpret the different type of lending services provided by the joint-venture banks and also to interpret the lending practice adopted by joint-venture banks in Nepal. Joint-venture banks have adopted its own lending practice to mobilize its fund in different sectors. Presently, the financial institutions are facing a huge tension of over liquidity and this is not a good signal toward the performance of the banks. So the studies aim at the following objectives which are listed below:-

- To analyze the different lending services provided by the Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited.
- To measure the performance of Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited in terms of Lending.

- To analysis the portfolio behavior of Lending and measuring the ratio and volume of Loans and Advances made in private and productive sector.
- To assess the lending policy of the joint-venture banks and its effects on lending practice.
- To analyze the trend of lending of the joint-venture banks.

1.6 Significant of the study

The commercial bank has evolved as the biggest sector in the economy. In the entire sector banks plays the vital role in the overall development of an economy. Lending practice is important to reduce poverty and unemployment and to stimulate growth. Good and better lending service of a bank depicts the sound health of the banks. Successfully formulation of fund lending service and its effective implementation is a most in banking business. Therefore, this study is very essential and helpful to all banking sectors in lending of collected funds from public.

- The study of fund lending services would provide information to the management of the bank to take corrective action in the field of banking activities.

- The study on lending policy will contribute significantly to solve the problem existing in the bank and to formulate the policies and strategies to maintain activities effectively.

- General public can know the funds lending activities of bank with the help of this study.

- The study on fund lending service of a bank will give information to shareholders, banks professionals, researchers, scholars, investors, students as well as to many parties.

- This study would be helpful to those who want to study in further detail and widely in this field.

1.7 Limitation of the study

There are some limitations which weaken the generalization e.g. inadequate coverage of business, time period taken, reliability of statistical tools used and other variation. This study will be limited by the following factors.

- The whole study will be of secondary type. The data published in the annual reports of the respective banks, in various journal, periodicals and report published by the NRB and the articles, books and news published in the respective subject shall be taken into consideration.

- The study concerns only a period of five year from the year ended from 2003 to 2007 A.D. only.

- The study is only confined to lending services of Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited.

- Some of the statistical as well as financial tools of comparison and analysis will be used in the study. Hence, the drawbacks and weakness of those tools may adversely affect the outcomes of the study.

- The study will be conducted among the three major joint venture banks, namely Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited only. Hence, it will not reflect the real status of all the joint venture banks neither it represent the total banking system in the country.

1.8 Organization of the study

The whole study based on secondary data collected from concern bank, NRB, NEPSE and other institution. Here utilizing suitable completes the study analytical by separating following chapter.

Chapter 1: This chapter is introduction chapter, deals with general background profiles of the joint venture banks, statement of problem, objective of study, significance of the study and organization of study.

Chapter 2: This chapter is review of literature; it includes review of relevant study, review of books, and review of previous study, research paper and published articles and unpublished master's thesis of T.U.

Chapter 3: This chapter includes research methodology; it includes research design, sources of data, population and sample, method of analysis, financial analysis and statistical analysis.

Chapter 4: This chapter deals to use data presentation and analysis of data using financial and statistical tool decision.

Chapter 5: This chapter deals with major finding, conclusion and recommendation.

CHAPTER - TWO

REVIEW OF LITERATURE

2.1 REVIEW OF RELEVANT STUDY

Many researchers have conducted their research on the field of Commercial banks especially on their financial performance and lending policy compliance with NRB directive etc. Besides this, there are some books, articles desertions and other relevant study concerned with the lending and investment. Some of the relevant study concerned with the lending and investment. Some of the relevant studies, their objectives, finding and conclusion and other literature relating to the topic have been reviewed below;

2.1.1 Review of Unpublished Dissertations

Mr. Roshan Shahi in his research "Lending Operation and Practice of Joint-Venture Banks in Nepal" (A case study of Nabil, Standard Chartered and Himalayan Bank Limited) states objectives are as follows:

- To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.
- To measures the bank's Lending strength. The Lending strength shall be measured in absolute measures also to analysis the volume of contribution made by each bank in Lending.
- To analysis the portfolio behavior of Lending and measuring the ratio and volume of Loans and Advances made in agriculture, priority and productive sector.

- To measure the Lending performance in quality, efficiency and its contribution in total income.
- To measure the Growth Rate and Propensity of Growth based on trend analysis.

His findings are as follows:

- The measurement of liquidity has revealed that liquid fund to Total deposit ratio of three banks are not widely varied. All the banks are capable of allocated liquid fund in total deposit.
- The measurement of Lending strength in relative term has revealed that the total Asset to Total Liabilities of SCBNL has the highest ratio. However, the performance of other two banks has not deviated far from the mean ratio of SCBNL and the combined Mean.
- The ratio of Loan and advances to total deposit ratio has measured the portion of total deposit that is used to increase the income of banks irrespective of the portfolios of its application. Nabil has deployed the highest portion of its Total deposit in earning activities and this ratio is significantly above the ratio of other two banks.
- The ratio of Loan and Advances to shareholders' equity had gains the significant importance in measuring the capital fund and corresponding contribution in loan and advances. The combined ratio has significantly deviated among the banks. The mean ratio of HBL is highly deviated from the combined mean.
- The portfolio analysis has revealed that the flow of Loans and Advances in private sector is highest but in priority sector is very low. In some cases, it has not fulfilled the requirement made by government.

- The measurement of efficiency in lending has revealed that the loan loss provision to Loan and Advances has high degree of variation among three banks. The mean ratio of Nabil is highest.(Shahi, 2003)

Mr. Shiva Shankar Devkota in his research "Lending Policy of Joint-Venture Banks in Nepal" (A case study of Nabil, SCBNL and HBL) states objectives are as follows:

- To study the lending policy of the Commercial bank and its effect on lending practice.
- To measure the banks' lending strength with respect to the volume of contribution made by each bank in lending.
- To analysis the portfolio behaviour of lending made in private, priority and productive sector.
- To measure the lending performance of the commercial banks.
- To measure the trend of lending of the commercial banks.

His findings are as follows:

- The implementation of lending policy of the banks has mainly effected the political and economic environment of the country. So, the banks have given less priority of industry, hotel and other less security sector.
- NRB has directed the commercial banks to extend a certain percentage (ranging from 7.25 to 10.00 percent) of their total outstanding loan to the priority sector. The commercial banks satisfied the priority sector lending requirement and also deprived sector loan has lending satisfactory.
- The absolute measures of lending strength have revealed that the mean volume of Deposit is highest with highest variation. The volume of HBL has the highest among the banks.

- The portfolios analysis has revealed that the flow of loans and advances in private sector has the lowest priority among these Commercial Banks.
- The measurement of performance of lending has revealed that the loan loss provision to loan and advances has high degree of variation among these three banks. The mean ratio of Nabil has the highest. SCBNL has least and that HBL has moderate.
- The propensity of Growth measured by trend analysis has revealed the HBL, supper performance not only in performance not only in percentage growth but also in volume of growth. (Devkota, 2005)

Mr. Dhan Prasad Gurung in his study "Lending Services Provided By Finance Companies: A Comparative Study of Annapurna Finance Co. Ltd & Pokhara Finance Ltd" states the following objectives:

- To analysis the different types of loan provided to customers by Annapurna Finance Co Ltd. and Pokhara Finance Ltd.
- To analyze he weighted ratio of different types of loan out of total loan/total assets.
- To find out the most demanded loan.
- To analyzed the situation of income from lending services incomes.

His findings are as follows:

- Both the finance companies are providing various types of loan such as hire purchase, housing, term loan and loan against fixed deposit.
- Both Annapurna Finance Co. Ltd and Pokhara Finance Ltd have been granted maximum loan in term loan. But Pokhara Finance term loan lending higher than Annapurna Finance Co. Ltd.

- Since the function of finance company is leasing and factoring also, but it is known throughout the study that they are not performing such types of activities by Annapurna Finance Co. Ltd and Pokhara Finance Ltd. being insufficient paid up capital i.e. 15 corers. (Gurung, 2005)

A study conducted by Mr. Raja Ram Khadka in his thesis on "A study on the investment policy of Nepal Arab Bank Ltd." in comparisons to other joint venture banks of Nepal has recommended. "The bank must utilize depositors' money as loans and advances to get success in competitive banking environment. The largest item of the bank in the assets side is loans and advances. Negligence in administrating this asset could be the main cause of liquidity crises in the bank and one of the main reasons of a bank failure" (Khadka, 1998).

Uddhab Prasad Sapkota in his thesis "Fund Mobilizing Policy of Standard Chartered Bank Ltd. and Himalayan Bank Ltd" has found, " The mean ratio of loans and advances to total deposit of SCBNL describes that it has not mobilize its collected deposit in loans and advances more than NBBL and HBL. Here, NBBL and HBL are success to profit oriented than SCBNL. Comparatively it can be concluded that SCBNL is weak in mobilizing the collected deposits in loans and advances than NBBL and HBL.

SCBNL has mobilized its collected deposit in investment with better than NBBL and HBL because of the highest mean ratio under five years study period. SCBNL is successful in mobilizing of its collected deposits on investment more than NBBL and HBL

The loans and advances is total marking fund ratio describes the SCBNL position with condition in comparison to NBBL and HBL. On the basis of mean

SCBNL maintain lowest ratio than NBBL position to mobilize its total working fund on loans and advances.

The mean ratio of investment on government securities to total working fund of SCBNL describes its positions better than NBBL and HBL. SCBNL has been more successful to invest its working fund in government securities than NBBL and HBL. So, it can be concluded that SCBNL has invested its fund effectively in productive activities more than NBBL and HBL.

In the mean ratio on investment on share and debentures to total working fund, SCBNL, seems in weak condition than NBBL is in slightly strong position than HBL" (Sapkota, 2001).

Mrs. Ramala Bhattari, in her thesis paper "Lending Practices of Commercial Banks in Nepal" has examined the Lending Practices of the commercial banks. She has concluded that efficient utilization of resource is more important than the collection of the same. Lower investment means lower capital formation that hampers economic development of the people and the country. So the recommended that banks should give emphasis on efficient utilization of resources (Bhattari, 1978)

A study conducted by Mr. Upendra Shrestha regarding the investment practices of joint venture banks in Nepal with special references to Nabil Bank Limited, Standard Chartered Bank Limited Nepal, Nepal SBI Bank Limited has figured out the problem, conclusion and recommendation as follows.

"Commercial Banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial Banks have a lot of deposits but very little investment opportunity. They are even discouraging people by offering very low interest rate and minimum threshold balance. Commercial banks invest their funds in

limited areas to achieve higher amount of profit. This is regarded as a very risky step, which may lead to lose profit as well as principle.

He has concluded that since the liquidity position of Nabil and SCBL have not found satisfactory it is therefore, suggested them to improve cash and bank balance to meet current obligations. SCBL loan and advances to total deposit ratio is lower at all, therefore it is recommended to follow Liberal Lending Policy for enhancement of lend mobilization..... it is recommended to SBI that it has to invest its fund on share and debentures of other companies .....it is suggested to enhance off balance sheet transactions, diversifying their investment, open new branches, play merchant banking role and invest their risky assets and shareholders fund to gain higher profit margin.....Nabil and SCBNL are recommended to increase cash and balances to meet current obligations and loans demand.

The above shows that Mr. Shrestha has concluded some conflicting statements, where are obviously not matching with his statement of problem. This recommendation ignores the industry average and also failed to figure out with is right in the industry like banking among the excess of investment or loans and advances. Again, he thinks Liberal Lending Policies solves the problem to increase the Level of loans and advances. But somewhere in his recommendation, he has warned commercial banks to increase the level of investment in government securities or in other safe instrument just to avoid risk arising from Lending. From this it can be concluded that Mr. Shrestha has made his entire conclusion absolutely and he has not made any relative analysis of the pros and cons of the entire factor affecting the study. (Shrestha, 2002)

Anju Khadka in her research "A Comparative study on Investment Policy of Commercial Banks" has made the following conclusion while comparing the performance of NBL, with Nabil, SCBNL and NIBL.

"There is no much difference between the mean ratio of loans and advances to current assets of BNL and other commercial banks. The mean ratio of NBL is slightly higher than that of other commercial banks. However, NBL's ratios are found to be less uniform in comparison to other commercial banks. She has further concluded, "NBL is comparatively less successful in balance sheet as well as off balance sheet operation than of other commercial banks. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other commercial banks to maximize the return it would lag behind competition market of banking" (Khadka,2002)

2.1.2 Review of Books

"The secret of successful banking is to distribute resources between the various joins of assets in such a way as to get a sound balance between Liquidity and Profitability so that there is cash (on hand quickly) to meet every claim and at the same time enough income for the bank to pay its way and earn profits for its shareholders" (Vasudevan "A Text of Banking" 1979)

A bank is a government regulated, profit making business that operates in competition with other banks and financial institutions to serve the saving and credit needs of its customers. The primary business of bank is accepting deposit and lending money. Banks accept deposits from customers who want the safety and convenience of deposit service and the opportunity to earn interest on their excess funds. Banks put their depositor's funds to other individuals.....to business.....and to federal, state and local government.

Hrishikes Bhattacharya in his book, "Banking strategy, Credit Appraisal and Lending decisions" has put the recommendation of Tandem committee to prepared this report 1975, however, these recommendation stills deserve great significance in

the sector credit appraisal and lending breaking away from the additional methods of credit appraisal, the system proposed by the committee enjoined upon the banker.

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

The committee examined the existing system of lending therefore recommended the following broad changes in the lending system.

- The credit needs of borrowers be assessed on the basis of their business plan.
- Bank credit only be supplementary to the borrower's resources and not in replacement of them; i.e. banks not to finance one hundred percent of borrower's requirement.
- Borrowers are required to hold inventory and receivable according to norms prescribed by the Reserve Bank of India from time to time.
- Credit is made available in different components only, depending upon the nature of holding of various current assets.
- In order to facilitated a close watch on the operation of borrowers they are required to summit, at regular interval, data regarding their business and financial operations, both for the past and future period.

The committee held that at any time a business required to hold the following current assets for operations of the business.

- Raw material including stores and other items uses in manufacturing process;
- Stock in process;

- Finished goods;
- Receivables;
- Spares; (Bhattacharya, 1998:309)

"In India, the definition of the business of banking and a large number of permissible functions for banks given in the banking regulation Act 1948 (BR Act)

1) According to section 5 (c) of the BR Act, a banking company is a company which transacts the business of banking in India;
2) Section 5 (b) of the Act defines banking as , Accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise;
   1. Accepting of Deposit from Public
   2. For the purpose of lending and Investment;
   3. Repayable on demand or otherwise and
   4. Withdrawal cheque, draft, order or otherwise by

Section 7 of the BR Act makes it compulsory for every company carrying on the business of banking in India to use as part of its name at Least, one of the following words - 'bank' 'banking' or 'banking company'. (Khubchandani, 2000:4)

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

Gitman and Jochnk in their book, "Fundamental of Investing", compare the bank investment with a vehicle. He says that it is such vehicle into which funds can be placed with the expectation that will preserve or inverse in a value and generates positive results. A banker seeks optimum combination of earning, liquidity and safety wile formulating investment policy. (Gitman and Jochnk, page-1)

Singh and Singh put forth their view in the book written by them entitled "Financial Analysis for Credit Management in Banks" that the investment (credit) policies of banks are conditioned to great extent by the national policy framework; every banker has to apply his own judgments for arriving at a credit decision, keeping his banker's credit policy also in mind. (Singh and Singh, 1963)

"Banking growth and profitability are the result of carefully forecasting funding needs, competitively attracting funds, efficiently, borrowing funds and effectively investing funds in safe but profitable earning assets. Depending on a banks size and Location and on Local and National economic conditions, a bank may have adequate relatively for funds at high market prices. For an increasing number of banks the second situation is becoming the norms, as more and more banks face increasing pressure to attract adequate funds at reasonable costs". (Halter, 1999)

"The investment (credit) policies of banks are conditioned to great extent, by the national Policy framework; every banker has to apply his own judgment for arriving at a credit decision, keeping of his banker's credit policy also in mind". (Rao, 1984:4)

Lending is the essence of commercial banking, 'consequently the formulation and implementation of sound lending are among the next important responsibilities of bank Directors and Management. Well-conceived Lending Policies and careful Lending practices are essential if a bank is to perform its credit creating function

effectively and minimize the risk inherent in any extension of credit. Before formulating a lending policy, many factors have to be taken into considerations of money. (Crosse, 1963:214)

Of course, one of the primary functions of developments in banking is deposit mobilization. Without deposits coming as they do from the public and saver banks will not have the resources to Lend. With adequate resources, Lending can have a wider average to meet the credit needs of all the sectors of the economy. Deposits and credit operation always to together and each are interconnected. Unless there are advances, deposits cannot rise."

A bank is a financial institution which deals in borrowing and lending, commercial banks are deigned primarily to finance the production distribution and sale of goods that is to lend short term funds as distinguished from the service of lending long term or capital funds. The bulk of deposits of commercial banks consist of demand deposits which are invested in short term loans. However, the modern commercial bank collects deposit in current, saving and fixed deposit from general public and the institution. It provides loan to the individuals and institutions. The modern commercial bank provides loans not only to trade but also to agriculture, industry and services. It provides medium and long term loans to some extent. Commercial bank plays a lending role in the smooth operation of economy.

The term full service banking and been promoted in recent year as a more descriptive term because of the diversification of commercial banks into many operations other than commercial lending, including consumer banking (direct financing of consumers, credit card, personal loans, consumer receivable financing) mortgage banking.

The finance company is defined by the dictionary of modern economics as "A financial intermediary not a bank which may obtain fund from its own capital resources by accepting deposit (usually for fixed periods) or even by borrowing from other institutions which it lends for variety of purpose, especially to finance hire purchase contract and leasing."(Pudel, 2054:118)

2.1.3 Review of Journals

Venkar Svinivassau and Yang H. Kim has explained an expert credit granting system prototype in designing expert financial systems: A Case Study of Corporate Credit Management. Credit granting process in the participating corporation considered of two distinct phases (1) a customer evaluation phase, where the customer's credit worthiness is evaluated based on a variety of criteria; and (2) a credit limit determination phase, where the conclusions of the analysis are transformed into a credit limit or the customer. System design was therefore, split into two phase, (i) development of an appropriate data base and knowledge base to support the customer evaluation process and (ii) development of an appropriate model to support the credit limit determination phase.

This paper has assumed to describe an expert credit granting prototype designed for a fortune 50 corporation. The focus has been on the conceptual process undertaken for designing the prototype. The model base and rules that comprise the prototype are combination of normative prescriptions and managerial preferences presented in a user-friendly environment issues that need conscious recognition in implementing such.

Expert systems in corporate finance were also brought forth. The progress in computer and information technologies has provided financial researcher an opportunity to affect a transfer of the expertise contained in normative model to

practicing managers through the medium of intelligent computer systems. This is a modest attempt to provide a conceptual foundation to this notion and illustrate its feasibility.

Michael J. Shaw and James A. Gentry are show Managing and Recommending Business Loan Evaluation (MARBLE) system. MARBLE is a generalized expert system that minimizes the lending expertise of several banking and finance professionals. The objectives of MARBLE are to help lending officer, credit analysis, and loan review committees to improve the evaluation of loan applicants and to learn how expert system operate. Based on the knowledge base and the information provided on the loan applicant, MARBLE synthesizes the information and estimates the likelihood that the loan will be repaid. Knowing that the conclusion recommended by MARBLE reflects the judgments of lending experts, management can use it to assist in the lending decision. The MARBLE system has the capability of learning from decision examples. Examples were used to show the value of inductive inference in the knowledge acquisition process. This learning capability makes it possible to build an intelligent decision support system. An empirical study shows encouraging result for incorporating inductive learning in MARBLE for loan evaluation.

Peter Duchassi, Hany Shawk, and John P. Seagle have showed Commercial Loan Analysis Support System (CLASS) in their article "A Knowledge-Engineered System for Commercial Loan Decision". This article describe an expert system, commercial loan analysis support system (CLASS) is an expert system designed to evaluate a company's financial posture, recommend commercial loan decision and pertinent components, and document the loan analysis. Like a loan officer, CLASS constituently synthetics a large number of detailed facts into a loan recommendation. CLASS has been designed to seek out any potential weakness in the prospective borrower and conduct an extensive detailed analysis of each weakness. Weaknesses may be over analyzed but none will be overlooked. This approach is consistent with

the general notion in commercial lending that one is primarily concerned with weaknesses instead of strong points which are taken for granted. In addition to the limited validation conducted by the expert a more comprehensive validation can be implemented in two ways. First, the system can be empirically tasted with a large sample of historical loan decisions. Second field tested can be conducted in which loan officer use CLASS while making actual loan decisions. Their judgments can be compared to those of CLASS at each step in the analysis. By building CLASS, it was demonstrated that financial knowledge can be represented and applied to a complex financial problem. It is hoped that the approached described have will page the way for b\building expert systems that address other important financial problems. (Bhattarai, 2007:40-43)

2.2 REVIEW OF RELEVANT NRB DIRECTIVES

NRB is the apex institution in the money and capital market. Being the nation central bank, it directs, supervises and controls the functions of the commercial banks and other financial institutions. NRB has issued various directives in order to develop a healthy competitive and secured banking and economic systems to ensure national development. The following are the some of the relevant directives that the NRB has circulated to the commercial banks.

2.2.1 Directives to Maintain Minimum Paid Up Capital Rs.1 Billion

NRB has directed all the commercial banks established to operate in Kathmandu valley to maintain compulsorily in the minimum capital fund of Rs.1 billion by the end of fiscal year 2003/2004..... The amount under the heading of the paid up capital, general reserve, share premium, non-redeemable preference share and retained earnings would be considered for calculating minimum capital funds. The

commercial banks could not use the retained earning included in the core capital fund to extend of the minimum capital funds of falling short of whose Rs.1 billion. If the commercial banks could not maintain a minimum capital fund of Rs.1 billion till the end of fiscal year ....., they were not allowed to declare and distribute dividend and bonus (Economic Report 2003-04:57).

2.2.2 Regulation Relating to Maintenance of Minimum Capital Fund

a. Provision of Minimum Capital Fund

The total capital fund is the sum of core capital and supplementary capital. On the basis of the risk weighted assets, the bank should maintain the prescribed proportion of minimum capital funds as per the following timetable.

Table 2

Requirement Capital Fund on the Basis of Weighted Risk Assets (%)

	Fiscal Year 2054/60	Fiscal Year 2060/61
Capital Fund (% RWA)	10 %	11 %
Core Capital (%RWA))	45 %	5.5 %

The core capital is comprised of paid up capital, share premium, non-redeemable preference share, general reserve fund and accumulated profit and loss account. However, the amount of goodwill should be deducted for the purpose of calculation to the core capital.

For the purpose of calculation of capital fund the amount under, the following heads, subject up to one hundred percent of the core capital, should be included under the supplementary.

General Loan Loss Provision

Under this head, provision made only against the pass loan should be included. The amount should be limited up to 1.25 percent of the total risk weighted assets. However, loan loss provisioning on sub standard and Doubtful loans should be available for inclusion under the supplementary capital during the period as follows,

Table 3

Exchange Equalization Reserve Assets Revaluation Reserve

Time Period	Loan Loss Provisioning Available for Supplementary Capital
For FY 060/61	Pass, Sub-standard and doubtful
For FY 061/62	Pass and Sub-standard
For FY 062/63	Pass (up to 1.25% of total risk weighted assets.)

The amount of assets revaluation reserve can be included for the purpose of calculating supplementary capital subjected of 2 percent of the total supplementary capital, inclusive of the amount of this reserve.

Hybrid Capital Instruments

The instrument having the feature of both the equity and debt is called hybrid capital instruments. This includes unsecured fully paid up instruments issued by the bank, instruments, which are non-redeemable at the option of the holder except with the approval of NRB, perpetual or long-term preference stock convertible into common stock if the profit and loss account becomes negatives. However, banks and financial institutions can not hold. The Hybrid capital instrument issued by any banks of financial institutions.

Unsecured Subordinated Term Debt

Unsecured and subordinated debt instruments issued by a bank with a minimum maturity term of over five year and limited life redeemable references shares. To reflect the diminishing value of these instruments, a discount factor of 20 percent during the last five year should be applied. The issued of these instruments by bank should not exceed 50 percent of their core capital.

Other free reserves not allocated for a specific purpose

b. Time Periods for Fulfilling the Shortfall in Capital Fund

In the event of non-fulfillment of capital fund ration as mentioned under clause 1 above in any quarter, the short fall amount should be fulfilled within next 6 months. Until the fulfillment of such capital fund, banks should not declare to distribute dividend to its shareholders under section 18 of Commercial Bank Act, 2031. The short fall in the capital fund may be rectified.

a) By issuing new shares.

b) By reallocating assets.

2.2.3 Regulating Relating to Loan Classification and Loan Basis of Aging

1. Classification of Outstanding Loans and Advances on the Basis of Aging

Effective from FY 2058/59 (2001/02), banks should classify outstanding principal amount of loans and advances on the basis of aging, loans and advances should be classified into the following four categories.

Pass

Loans and advances whose principal amount are not past due and past due for a period up to 3 months should be included in this category. These are classified and defined as performing loans.

Sub-Standard

All loans and advances that are past due for a period of 3 months to 6 months should be included in this category.

Doubtful

All loans and advances that are past due for a period of 6 months to 1 year should be included in this category.

Loss

All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future should be included in this category.

Classified loans and advances under the currently existing arrangement are required to be classified as per the following time table in four phases.

Table No.4

Time Table and the Categories to Classify the Loans and Advances

Classification	For FY 060/61	For FY 061/62	For FY 062/63	For FY 063/64
Pass	Loans not past due and past up to 3 months	Loans not past due and past up to 3 months	Loans not past due and past up to 3 months	Loans not past due and past up to 3 months
Sub-standard	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 1 year.	Loans and advances past due over 3 months to 1 year.
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 1 year to 3 years	Loans and advances past due over 1 year to 3 years
Loss	Loans and advances past due over 3 years	Loans and advances past due over 3 years	Loans and advances past due over 3 years	Loans and advances past due over 3 years

Loans and advances falling the category of sub-standard, doubtful and loss are classified and defined as non-performing loan. Loans and Advances fully secured by gold, silver, fixed deposits receipts and NG securities should be included under "Pass" category. However, where collateral of fixed deposit receipt or NG securities or NRB bonds is places as security against loan for other purpose, such loan has to be

classified on the basis of aging. If it is appropriate in the views of the bank management, there is not restriction in classifying the loans and advances from low risk category to high risk category for instance loans falling under sub-standard may be classified into doubtful or loss and loans falling under doubtful may be classified into doubtful or loss, and loans falling under doubtful may be classified into loss category.

Principal and interest on loans and advances should not be recovered by overdrawing the borrower current account or where overdrawing facilities has beeen extended by overdrawing such limit. However, this arrangement should not be constructed as prohibitive for recovering the principal and interest by debiting the customers account where a system in the bank exists as to recovery of principal and interest by debiting the customers account. And recovery is made as such resulting in overdraft, which is not settled within one month such overdrawn principal amount should be liable to be included under the outstanding loan and such loan should be downgraded by one step from its current classification.

2. Loan Loss Provision

The loan loss provisioning, on the basis of the outstanding loans and advances and bill purchases classified as per this directives should be provided as follows;

Table 5

Classification of Loan and Required Provisioning

Classification of Loan	Criteria	Loan Loss Provision
Pass	Due up to 3 months	1.00%
Sub-Standard	Due up to 3-6 months	25.00%
Doubtful	Due up to 6-12 months	50.00%
Loss	Due up to 12 months	100.00%

Loan loss provision set aside for performing loan is defined as "General loan loss provision" and loan loss provision set aside for Non-Performing loan is defined as "Specific loan loss provision". Where the loan is extended only against the personal guarantee, a statement of assets, equivalent to the personal guarantee amount not clamed by any other should be obtained should be classified as per above and where the loan fall under the category of pass, sub-standard and Doubtful, in addition to the normal loans provision applicable for the category, an additional provision by 20% point should also be provided. Classification of such loans and advances should be prepared separately.

2.2.4 Regulation Relating to Limit on Credit Exposure and Facilities to a Single Borrower, Group of Related Borrowers and Single Sector of the Economy

Commercial banks may extend to a single borrower or group of related borrowers the amount of fund based loans and advances up to 25% of the core capital fund and non fund base off balance sheet facilities like letters of credit guarantee, acceptances,. Commitments up to 50% of its core capital fund. The previous exposure balances in fund based and non fund-based loans and advances and facilities provided before the enforcement of current limits specified should be brought within the limit per the time table given below.

Limit of credit exposure to a single borrower, Group of related borrowers and single sector of the economy.

Time Table	Fund Based Credit Limit	Non Fund Based Facilities Limit
By the end of Ashad 2059	40% of core capital	75% of core capital
By end of Ashad 2064	25% of core capital	50% of core capital

Where a customer has once utilized the off balance sheet facilities and such facilities has turned into fund-based credit, directives relating to fund-based credit limit should be applied for fixation of limit to such customer. In the following cases, the exemption in limit of credit and facilities is not applicable.

1. Credits and facilities extended against fixed deposit receipts, deposits placed with the bank, NG securities, NRB bonds as well as against unconditional guarantees issued by the World Bank, Asian Development Bank and International finance corporation including multilateral institutions and loan advances and facilities extended against unconditional guarantees issued by internationally rated banks having rating of at least A+ by reputed Rating Agency or banks specified as first class banks by NRB from time to time.

2. Advances and facilities to be used for the purpose of importing specified merchandise by the following public corporation:

Name of Corporation	Merchandise
Nepal Oil Corporation	Petrol, Diesel, Kerosene and L.P. Gas
Agriculture Input Corporation	Fertilizer, Seeds
Nepal Food Corporation	Cereal

For the purpose of the above prescribed exposure limits, "group of related borrowers" should be treated as a single group under the following circumstances:

1) Where a company holds 25% or more shares in another company then both of such companies; or

2) Director of a company, shareholders of a private company and husband, wife , son, daughter in low, son in law, daughter, adopted son, adopted daughter,

father, mother, brother's wide, sister of such director or share holder residing jointly in the same house or separately as well as other persons who are supported by such related persons. In addition, another companies in which such persons individually or by their relative as above. Separately or jointly hold 25% or more shares, then such companies, or

3) Firm, company stated to be associated as a group, or members of such group, or

4) Even if the director, shareholder or other relatives as specified in sub-clause (b), holds, jointly or individuals, less than 25% shares of another company , but the management of that other company is controlled by the following ways, than such companies:

- By being chairperson of the board of companies:
- By being the chief executive of the company:
- By appointing more than 25% of the directors:

5) Where one borrowers or company gives a cross guarantee to another borrower or company, than such companies:

6) The bank should prepare the records of the single borrower and related customers on half-yearly basis and submit to NRB. Banking Operation Department and Inspection and Supervision Department.

2.2.5 Regulation Relating to Investment in Share and Securities by Commercial Banks

1) Arrangement as to implementation of investment policy under approval of the board of directors.

Banks should prepare written policy relating to investments in the shares and securities of other organized institutions. Such policies should be implemented only under the approval of the board of directors. There should be no restriction as to investment by the banks in the securities of organized NG and securities issued by NRB.

2) Arrangement relating to investment in share and securities of organized institutions.

   a) Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized institution. Any amount of investment made in excess of this limit for the purpose of calculation of the capital fund should be deducted from the core capital fund.

   b) The amount of investment in shares and securities of any one organized institution in which the banks has financial interest should be limited to 10% of the paid up capital of such company and the cumulative amount of such investment in all the companies in which the banks has financial interest should be limited to 20% of the paid up capital of the bank For the purpose of calculation of capital fund, the amount of such investment in shares and securities should be deducted from the core capital fund.

c) The total amount of investment should be restricted to 30% of the paid up capital of the Bank. Any amount of investment made in excess of 30% of paid up capital of the bank for the purpose of calculation of capital fund, should be deducted from the core capital fund.

d) Banks should invest in the share and securities of organized institutions, which are already listed in the stock exchange or where arrangement exists for listing within one year.

e) Where the share and securities are not listed within the period prescribed, provisioning equivalent to the whole amount of such investment be provided and credited to Investment Adjustment Reserve. The outstanding amount in such reserve should not be utilized for any other purpose till the said share and securities of the organized institution is listed. The outstanding amount in investment adjustment reserve should be included under supplementary capital.

f) Banks should not invest in any shares, securities and hybrid capital instruments issued by any banks and financial institutions licensed by NRB. Where such investment exists prior to issuance of this directives such investment should be brought within the restrictive limitations imposed by this directive within 3 years i.e. by the close of fiscal year **2060/61.**

2.2.6 Directives Relating to Interest Rates

"The following directives relating to interest rates were issued for the commercial banks effective from February 14, 2001;

1) The commercial banks should inform NRB in written form regularly and compulsory, and publish in the news media within every three months and immediately in care change.
2) The commercial banks should offer interest rate more than published interest rates by 50 basis points on the basis of negotiation with the customers for the deposits of two hundreds million and hundred basis points for the deposits more than Rs.2 hundreds million.

3) Over the published lending rates for all types of loan, the bank could make the adjustment up to 50 basis points on the basis of negotiation with the customer.

4) While publishing any deposits rate or any lending rate except the provision made on about (b) and (c), the commercial banks were not allowed to mention the term "Could be determined on the basis of negotiations". It interest rates are determined against this directive, penalty equivalent to an amount arising such increased or lowered rate of interest should be imposed". (Economic Report, 2000-01:23)

5) The difference between the interest provided and interest charged (spared rate) should be more than 5%. This difference is calculated on the basis of the weighted interest provided and the weighted interest charged. (Pandey, 2058:80-90)

2.2.7 Provisioning on Interest Income

The interest accruals on loans and advances in recognized on cash basis and exhibited under this head. The amounts of interest accrued but not received in debited to "Accrued Suspense Account" in the assets side and credited to "Interest Suspense Account" in liability side of the balance sheet. However, if the accrued interest on loan is realized in cash within one month from the date of closure of the fiscal year such amount may be recognized in income of the earlier fiscal year. In this respect the following procedure shall be adhered to:

1) Interest accruals during the related period shall be debited to "Accrued Interest Account" credit to "Interest Suspense Account".

2) The balance in such "Accrued Interest Account" shall be recognized into income only if cash is realized from the customer or by debiting the customer's current account. If the balance is sufficient of falls within the overdraft limit.

3) Only the amount realized by way of cash of debiting the customers current account within one month from the closure of the fiscal year may be recognized into interest income in the earlier fiscal 1 year by debiting "Interest Suspense Account".

4) In respect of interest realization by way of capitalization, the same may be done only for interest covering the period specified as per the Repayment Schedule in the loan agreement. Particulars of Loan on which interest are those realized by way of capitalization shall be submitted to NRB, Inspection and Supervision Department.

In respect of the outstanding loans and advances, till the loans are realized or written off, banks shall continue to account for the interest accruals under "Accrued Interest Account" and "Interest Suspense Account" in the assets side and liabilities side of the balance sheet.

2.2.8 Priority Sector Lending

With the objectives of mitigating the unemployment, poverty, economic inequality etc and thus upgrading the deprived and low income people, the project of national development and priority, micro and small enterprises were declared priority sector and the lending to such sector has been categorized as priority sector loan. (Bando, A Journal of Banking Promotion Committee, NRB, Poush 2058:54-62)

With a view to make bank credit available to small agricultural, industrial and services sector and promote income and employment opportunities, the NRB has directed the commercial banks to extent a certain percentage (ranging 7.25 % to 10%) of their total outstanding loans to the priority sector. (Pandy 2002-03: 80)

2.2.9 Deprived Sector Credit

Required Deprived Sector Credit to Different Commercial Banks.

Table No. 6

Required Deprived Sector Credit to Different Commercial Banks

S.No.	Banks	Deprived Sector Lending (As % of Total Outstanding Loan)
1	NBL	3
2	RBB	3
3	NABIL	3
4	NIBL	3
5	SCBNL	3
6	HBL	3
7	NSBIBL	2.5
8	NBBL	2.5
9	EBL	2.5
10	BOK	2.5
11	NCCBL	1.25
12	NICBL	0.75
13	LBL	0.75
14	New Branches (if any)	0.25

Sources: Economic Report 2001-2002: P23

The loan not exceeding Rs.30000.00 extended to a member of a group or member of a family, investment in shares of shares of Gramin Bikas Bank, Rural Micro Finance Development Center and any other development established with the objectives of extending the loan to deprived sector and lending made, conditioned to flow the loan to the deprived sector only, to the Gramin Bikas Bank, Finance Companies, Co-Operatives Society and any other licensed non government organization and categorized as deprived sector loan.

The NRB has directed the Commercial Banks to extent some portion of their priority sector lending towards the deprived sector. The deprived sector lending

requirement is discriminatory with respect to the aging of commercial banks changing 0.25% to 3.00% of their six months total outstanding loans. The Table has presented the deprived sector loan percentage on their total priority sector lending of the respective banks.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter is concerned with procedures that are adopted in this research work. It includes research design, nature and sources of data, population and sampling, data collection procedures, data analysis tools and limitation of methodology. To accomplish the objective mentioned above in chapter one, the study has adopted the following research procedures.

The topic of the problem has been selected as "Lending policy; A case study on Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited" with a tentative objective of pointing the types of lending services and problem related to it. The survey of literature has been conducted from various library and references and these have been mentioned in chapter two. The problem of the study has been specified in the topic "Statement of Problem in chapter one. The three joint venture banks namely Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited are selected for the study. The data has been collected from various sources and presented in chapter four. The major findings of the analysis have been mentioned in chapter five. The conclusion and recommendations have been put in the same chapter.

3.1 Research Design

The study is designed within the framework of descriptive and analytical research design to achieve the objective of the study. Descriptive research seeks to find out the fact with the help of sufficient data and information. Some financial and

statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate lending services provided by joint-venture banks.

Three joint-venture banks have been chosen for study particularly in their practice of Lending and Investment services. The research has its basic objectives to figure out the problem and provide with some recommendation. The literature has been reviewed specially from the past thesis conducted on the same aspects of the Commercial banks. The data for the research are of secondary type.

3.2 SOURCES OF DATA

The data presented in the study are of secondary type. The annual reports of the concerned banks are the major sources of the data for the study. However, besides the annual reports of the subjected banks the following sources of data shall also be used in the respective corner of the study.

1) NRB Reports;
2) Various publications dealing in the subject matter of the study;
3) Various Articles published in the news papers;
4) Various websites

Besides the above, any kind of other sources, such as assertions, interviews, remarks by he specialist of the subject, those are capable in providing valuable data and conclusion, shall be considered in the study.

3.3 POPULATION AND SAMPLE

The total commercial banks shall constitute the population of the data and the two banks under the study constitute the sample under the study. So, among the various Joint-Venture banks under the banking industry Nepal Arab Bank Limited,

Himalayan Bank Limited and Everest Bank Limited are selected for the study. However, the performance of finance, Co-Operatives, NIDC, Nepal Agriculture Development Bank etc is not considered in the calculation of the population in the study.

3.4 DATA COLLECTING PROCEDURES

The annual report of concern banks has been obtained from field visiting of these banks especially from their corporate office. Annual report of all banks has been collected from its legal department, New Road branch - NRB publications, such as Quarterly Economic Bulletin, banking and Financial statistics, Economic report, Annual Report of NRB etc. has been collected from the personal visit of concerted department of NRB at Rastra Bank Chowk. The data on same aspects of banks have been obtained from the website WWW.nepalstock.com.np of Nepal Stock exchange. The reference of NRB directives has been executed from Nabil House, New Road.

3.5 ANALYSIS OF DATA

The data presented in the study shall be analyzed by the following tools.

3.5.1 Financial Tools

Ratio Analysis

A ratio is simply one number expressed in terms of another and as such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in term of percentage, proportion and as a coefficient. 'Logarithmic Graph' and 'Break Even Chart' are the graphic forms of expressing a ratio. "The technique of ratio analysis is a part of the whole process of any business of analysis of financial statements of any business of industrial concern especially to take output and credit

decisions. Through this technique, a comparative study can be made between different statistics concerning varied facts of a business unit. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic of 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 of the management of the business and industrial concerns (Khotari, 1994:487). This section has been divided into following sub section.

Activity Ratio

Activity ratio measures the performance efficiency of an organization from various angles of its operations. These ratio indicate the efficiency of activity an enterprises to utilize available funds, particularly short-term funds. The following activity ratios measure the performance efficiency of an organization to short-term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability.

- Loans loss provision to total loans and advances ratio;
- Non-performing loans to total loans and advances ratio;
- Interest expenses to total deposit ratio;
- Interest from loans and advances to total loan and advances ratio;

Profitability Ratio

Profit is the different than the revenues and the expenditure over a period. It is the main element that makes an organization to survive in long run.

Earning per share has been used to determine the efficiency of lending its quality and contribution in total profitability.

3.5.2 Measuring the Degree of Dispersion

The relative measures the dispersions are obtained as the ratio of absolute measure of dispersion on suitable average and are thus a pure number independent of units. Hence, two distributions with different units can be compared with the help of relative measures of dispersions.

Standard Deviation

The Standard Deviation measures the absolute dispersion. It is said that higher the value of Standard Deviation the higher the variability and vice-versa. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greed latter (read as sigma)

The formulas to calculate the standard deviation are given below:

$$\pm \text{X}\sqrt{\frac{x^2}{N}}$$

Where,

X X(X Z$\bar{X}$)

± X Standard Deviation

N= Total Frequency

$$\pm X\sqrt{\frac{fx^2}{N}}$$

Where,

X X(X Z$\bar{X}$)

f = Frequency

$$\pm X\sqrt{\frac{fd^2}{N}} Z \left(\frac{d}{N}\right)^2$$

Where,

d=(x-A) and A is an assumed mean.

Coefficient of Variation

The Standard Deviation in the above formulas gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on Standard Deviation only. The coefficient of variation measures the relative measure of dispersion, hence capable to compare two variables independently in terms of their variability.

The coefficient of variation (C.V.) is given by the following and this gives the percentage.

Coefficient of Variation (C.V.) = $\frac{\pm}{x} x100$

Coefficient of Correlation (r)

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation may be

- Simple or partial or multiple correlations.
- Positive or negative or zero correlation
- Linear or non linear correlation
- Perfect or non perfect or zero correlation

In the words of L.H.C. Tippet, "The effect of correlation is to reduce the range of uncertainty of our prediction" (Tippet, Ibid; 416). It is calculated as:

$$r_{xy} = \sqrt{xy} \frac{N \quad xy - x. \quad y}{\sqrt{N \quad x^2 - (x)^2} \sqrt{N \quad y^2 - (y)^2}}$$

Where,

$\sqrt{xy}$ = Correlation between x and y

$n \quad xy$ = Product no. of observations and sum of product of x and y

$x \quad y$ = Product of sum x and y

Coefficient of Determination (r^2)

It explains the variation derived in depended variable due to the any one specific 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.

Probable Error

Probable error of the correlation denoted by P.E. is the measure of testing the reliability of the calculated value of r. If r be the calculated value r from a sample of N pair of observations, then P.E. is denoted by.

P.E = 0.6745

The Karl Pearson Coefficient of Correlation (r) always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and plus signifies the positives correlation. As the value of coefficient reaches near to the value of zero. It is said that there is no significant relationship between the variables. The coefficient of correlation shall be interpreted based on probable error (P.E). If the value of correlation coefficient is greater than 6 times the value of P.E., the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

3.5.3 Time Series

When a series of data pertaining to a series of continuing periods should be studies it characteristics and its future direction is best estimated by the time series. Time series analyses a series of data keeping in mind the various short term and long term fluctuations.

The least squares method to trend analysis has been adapted to measures the trend behaviors of these banks. The method is widely used in practices. The straight line trend of a series of date is represented by the following formula.

$$Y= a + bx$$

Here, Y is used to designate the trend values to distinguish them from the actual Y values, a is the Y intercept or the computed trend figure of the Y variable when x = 0, 'b' represents the slope of the trend line of the amount of change in Y variable. The x variable in time series analysis represents times.

While analyzing the time series, the propensity of growth and growth rate have been examined based on the value of trend value of least square method.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

In this chapter, the data collected from various sources have been presented and analyzed to measures the various dimensions of the problems of the study.

4.1 LENDING POLICY OF JOINT-VENTURE COMMERCIAL BANKS

Commercial banks have own lending policy. Their lending policy cannot be segregated from the overall monitory policy. Since monitory policy is formulate by Nepal Rastra Bank, it is evident that the lending policy of commercial banks is not out of control of Nepal Rastra Bank.

The Nepal Rastra Bank the Central Bank of the country was established in 1956 A.D. primary (a) to regulated domestic money supply, (b) to act as banker's bank (c) to manage country's foreign exchange reserve. But in recent year, Nepal Rastra Bank has used policy instrument (a) Reserve requirement (b) interest rate (c) margin requirement plus a selective and discretionary control measures to regulate money supply and to channels the commercial banks resources in various sector.

Thus, these policy instruments show that the lending policy of commercial banks is governed by the Nepal Rastra Bank. NRB has directed commercial bank to lend priority and deprived sector for the development.

Lending of commercial banks is function of large number of factor. More prominent factors which effect the lending are interest rate, discount rate, reserve

requirement, deposits, margin of requirement, nature of securities etc. Thus, since any change in these variables influence the volume of lending.

Now, commercial Banks have lunched Consumer Loan (i.e. Auto Loan, Home loan and margin loan), industry, trading and other activities loan.

4.1.1 Consumer Lending of Commercial Banks

Commercial banks are providing consumer lending of their client, made available to some selective and confidential customers only. The banks have provided consumers' loan to those people who deposit adequate security with them. The consumer loans are basically three types of loan i.e. Auto loan, Home/Land loan and Marginal lending. The implementation is provided the consumer loan of the banks is mainly dependant upon the political and economic environment of the country.

a. Auto Loan Lending Policy of Commercial Banks

In the present market scenario the demand for consumer loan especially in the automobile from banks have boost up the demand for automobiles from middle class families. All commercial banks have been entered into this segment profitability focusing their market in major cities. This loan is purely asset based lending and the loans are secured against registration of vehicle in banks name. The banks have provided this type of loan for the i) Purchase of new vehicles ii) Purchase of old vehicles iii) Financed vehicles by other institutions (Swapping). The loan is provided in the banks for both private and commercial purpose.

The commercial banks and finance companies are offering auto loan finance scheme. Due to this, the auto loan market is highly competitive on the basis of interest rate, tenure and services such as financing old vehicles and loan portion.

Table 7

Structure of Auto Loan of Commercial Banks (Rs. in million)

Banks	Interest Rate		Tenure (Year)	Loan Portion (%)	Old Vehicles financing facility
	Private	Commercial			
Nabil	8	9.5	7 Years	90	-
HBL	9	9.5	5 Years	80	-
EBL	9	-	5 Years	75	-

Source: Annual Reports

b. Home Loan Lending

The construction of houses in the urban areas is increasing every year. In present situation, more than 4500 houses were built in fiscal year 2063/063 in Pokhara Valley only, and also demand for already built house is increasing. Likewise, the demand for land in urban areas is also increasing due to the unfavorable security situation in the rural areas. The financial fund (loan) from banks has facilitated many people to afford home even though they do not have adequate funds.

This loan is purely asset based lending and the loan are secured against mortgage of land and or house in banks name. The loan is provided for financing to:

- Purchase a plot of land
- Purchase a plot of land and construct a building on it.
- Purchase of already built house.
- Renovation, modification, extension of existing building.
- Swapping home loan from another bank or financial institution.

The home/ land for private purpose are the target of this loan. Loans are provided to anyone having sufficient income source to repay the loan. The loans are repaid in equally monthly an installment, which is fixed by Banks according to the loan period and loan amount.

All the commercial banks and financial companies are offering home loan financing scheme. Due to this, the home loan market is highly competitive on the basis of interest rate, tenure and services such as loan amount.

Table 8

Structure of Home/Land Loan Lending

Banks	Interest	Tenure (Yr)	Loan Portion (%)	Land Purchase Facility
Nabil	8.5-10	20	70	Yes
HBL	8.5-9.5	15	70	No
EBL	8-9.5	10	75	No

The interest rate of all the three banks above depict that the interest rate ranges from 8% to 10%. The Nabil bank has charge the high interest rate as compare to other two banks. HBL has the moderate and the EBL the least interest rate. All the banks disburse the loan from 70 to 75 percent of its total loan portion.

Table 9

Interest Rate Structure of Home/Land Loan

Tenure Years	Nabil Rates	HBL Rates	EBL Rates
Up to 5 Years	8.0	8.5	9.5
Up to 10 Years	8.5	9.0	10.5

Up to 15 Years	9.0	9.5	-
Up to 20 Years	10.0	-	-

The interest rates has fixed by the negotiation between the client and the banks while swapping loan from other financial institution but in no case the interest rate is between at the minimum rate decided by the banks from time to time.

The banks have not provided loan for any purpose for tenure of less than 2 years. The tenure ranges from 10 to 20 years at maximum. In case of swapping home loan, the tenure has not exceeded 17 years for all banks.

- The loan disbursement is made by banks as under
- For purchase of house/land: One time disbursement
- For construction/renovation/extension: Disbursement in installment (maximum of time) in proportion to the progress of the construction/Renovation as verified by valuation.

c. Margin Lending

Commercial banks started providing loans for financing the acquisition of shares of various businesses. Many commercial banks and finance companies have been providing loan as margin lending. Though any factual information about interest rate could not be obtained, as per the existing clients of margin lending it is found that the interest rates are negotiable on case to case basis. Commercial banks have aggressively marketed this loan yet, there is huge potential to utilize large amount of funds generation high return.

These Banks Provided the Margin Lending to following sectors/ organizations.

Nabil	HBL	EBL
Nepal Awas Bikas Bitta Company Limited	Himalayan Distrilary Limited	Rural Micro Finance Company Limited
Rural Microfinance Development Centre Limited	Rural Microfinance Development Limited	Nirdhan Uttam Bank Limited
Nirdhan Uttam Bank Limited	Western Rural Development Bank	Himalayan Distillery Limited
Chhimek Bikash Bank Limited	Nirdhan Uttam Bank Limited	Credit Information Center Limited
Deprose Development Bank Limited	Chhimek Bikas Bank Limited	
Sudur Paschimanchal Grameen Bikash Bank Limited	Centre For Self Help Development	
Purbanchal Grameen Bikash Bank Limited	Swift SC	
Sanakisan Bikash Bank Limited	Credit Information Center Limited	
Swabalambhu Bikash Bank Limited		
Karja Suchana Kendra Limited		

"Besides these companies stated above, loan is also proposed to be disbursed against the shares of other companies which fall under the criterion set b the banks after taking the approval of credit committee.

For this lending margin, an interest rate of 6.5 percent has proposed by Nabil, HBL and EBL under this loan. These are also proposed to finance against those shares that the already financed by other financial institution (SWAP). For swapping margin lending the proposed interest rate is also the normal rate of 6.5 percent p.a. The banks will have the right to changes the interest.

The loan is revolving in nature until terminated. This facility can be terminated either by the borrower on its own free will or by the banks. The banks had reserved all rights to cancel/ terminate any facility offered to any borrower at any time with or without providing any reasons whatsoever. The loan is repayable on demand by the banks in writing. The banks gave the borrower a notice of up to is days or any other period for repayment of the loan. The borrower does not have to repay any principal amount until the facility is terminated.

The security for the loan is pledge over the acceptable shares submitted by the borrower. The security also includes line over cash dividend, banks shares and right shares. The above has been appropriately documented in loan deed in addition to obtaining standard documents signed by the borrower.

Every legal document related to this loan is being certified and approved by the legal department of the bank.

Disbursement is made only when the application submitted by the borrower is approved by the banks and completion of required documentation including pledge over the listed shares acceptable to the banks.

Table 10

Structure of Margin Lending

Banks	No. of Shares	Cost Price	Market Value
Nabil Bank			
Nepal Awas Bikas Bitta Company Limited	30,0000	57,853,000	14,352,000
Rural Microfinance Development Centre Limited	74,850	37,500,000	N/L
Nirdhan Uttam Bank Limited	33,000	3,000,000	3,3000,000
Chhimek Bikash Bank Limited	36,000	3,600,000	8,712,000
Deprose Development Bank Limited	15,000	1,500,000	2,340,000
Sudur Paschimanchal Grameen Bikash Bank Limited	15,000	1,500,000	N/L
Purbanchal Grameen	30,000	3,000,000	N/L

Bikash Bank Limited			
Sanakisan Bikash Bank Limited	20,000	2,000,000	
Swabalambhu Bikash Bank Limited	24,000	2,400,000	N/L
Karja Suchana Kendra Limited	3,530	353,000	N/L
HBL Bank			
Himalayan Distrilary Limited	223,560	22,356,000	23,473,800
Rural Microfinance Development Limited	3,75,000	37,500,000	N/L
Western Rural Development Bank	30,000	3,000,000	3,960,000
Nirdhan Uttam Bank Limited	30,000	3,000,000	3,300,000
Chhimek Bikas Bank Limited	36,000	3,600,000	8,712,000
Centre For Self Help Development	24,000	2,400,000	N/L
Swift SC		1,214,859	N/L
Credit Information Center Limited		353,000	N/L
EBL Bank			
Rural Micro Finance Company Limited	31,200	3,120,000	N/L
Nirdhan Uttam Bank Limited	33,000	3,000,000	N/L

Himalayan Distillery Limited	1,34,140	13,414,000	14,084,700
Credit Information Center Limited	3,530	353,000	N/L

d. Priority Sector Lending of Commercial Banks

With a view to make bank credit available to small agriculture, industrial and services sector and create income and employment opportunities, the NRB has directed the Commercial banks to extend at least 12 percent of their total outstanding loans to the priority sector in 2000/01 but since, NRB had directed the commercial bank to extend ranging from 7.25 percent to 10.00 percent of their total outstanding loans to the priority sector.

e. Deprived Sector Lending of Commercial Banks

The NRB has also directed the commercial banks to provide some part of commercial banks, the deprived sector loan to the deprived sector. As per the aging of commercial banks the deprived sector lending requirement is discriminatory ranging from 0.25 percent to 3.00 percent. Under the directive of NRB, penalty will be waived for up to 25 percent shortfall in the mandatory lending to the priority and deprived sector by commercial banks.

4.2 Measuring the Lending Strength in Absolute Term

In this section various variable are used to measure the absolute value. The value of individual variable enables to measure gross contribution of respective banks in those aspects. Therefore, some of the important individual variables in their

absolute term of mean and standard deviation is examined. At the same time, to measure the relative measure of variability of data, the co-efficient of variation is also measured.

4.2.1 Deposits

Banks collects the scattered fund from the public in the form of deposits and mobilization. The volume of credit extension depends upon the deposits base of a bank besides other factors. Deposits are the most sensitive liability of the commercial banks. Deposits consist of current, fixed, saving, call deposits, margin deposit etc.

Table 11

Deposit Structure of Commercial Banks (Rs. in million)

Banks	Fiscal Year Mid-July					Mean	S.D	C.V
	2003	2004	2005	2006	2007			
Deposits of Nabil	**13437.7**	**14098.0**	**14586.8**	**19348.4**	**23342.4**	16962.66	3812.33	22.47 %
Current	3025.0	2687.0	2843.5	2953.3	3446.1			
Saving	5237.4	5994.1	7026.4	8770.8	10187.4			
Fixed	2252.6	2310.6	2078.6	3450.2	5435.2			
Call Deposits	2540.7	2801.6	2341.3	3851.2	3961.6			
Others	382.0	304.7	297.0	322.9	312.1			
Deposits of HBL	**2002.8**	**22760.9**	**24831.1**	**26456.2**	**29905.8**	24991.36	3072.68	12.29 %
Current	3702.2	4353.1	5013.0	4993.6	5447.1			
Saving	10840.8	11719.7	12852.4	14582.8	15784.7			
Fixed	5880.7	6043.7	6364.3	6350.2	8201.1			
Call Deposits	201.3	219.6	15.4	41.6	97.9			

Others	377.8	424.8	586.0	488.0	375.0			
Deposits of EBL	**6694.9**	**8064.0**	**10097.8**	**13802.5**	**19097.7**	11551.38	4469.39	38.69 %
Current	562.4	719.8	1025.2	1155.2	2620.0			
Saving	2758.0	3730.7	4806.9	6929.2	9018.0			
Fixed	2803.4	2914.1	3444.5	4298.2	5658.7			
Call Deposits	428.0	565.6	704.4	1293.3	1578.9			
Others	143.1	133.8	116.8	126.6	222.1			

Sources: Banks and Financial Statistic Regulation Department NRB 2007/08

The above table no. 11 shows the deposit collected by the Nabil Bank Limited, Himalayan Bank Limited and Everest Bank Limited for the fiscal year 2003-2007. There is increasing trend in deposit collections of each bank. The Nabil Bank limited has increase trend for 2003-2007 simultaneously. In the year 2003, the deposit collected amount is Rs.13437.7 million. Similarly, in the year 2004 deposit collected amount is Rs.14098.0, which is Rs.660.30 million greater than previous year and in percent it is increased by 4.91%. Likewise, total deposit collected in 2005 is Rs14586.8 million, which is 3.47% greater in comparison to 2004. The deposit collected has increased by 32.64%in 2006 and 20.64% in 2007 respectively.

Similarly, HBL deposit collection amount is in increasing trend. It has increased by 7.72% in 2004, 8.34% in 2005, 6.14%in 2006 and 11.53% in 2007 respectively, which shows fluctuated trends. Likewise, there is also increasing trend in deposit collection of EBL by 16.98% in 2004, 20.14% in 2005, 26.84% in 2006 and 27.73% in 2007 respectively. In comparison to other two banks the EBL trend of increasing in its deposits collection amount is higher.

The reasons behind increase and decrease in deposit collection amount in commercial banks are due to the fluctuation rate of deposit collected in saving, current, fixed and call deposits. The increasing trend of deposit has attributed mainly

due to the increasing money income in the people's hand and their increasing saving habit. On the other hand, the slow down in securities market as well as the lack of alternative investment opportunities were responsible for the argumentation in deposits. A large portion of the deposits being of a stable and fixed nature, it's seem capable of lending money for various sector.

The mean total deposit of HBL is the highest variation. High degree of variation of the bank is caused by the increasing trend of deposit. Nabil has the moderate mean and moderate variation but it has the increasing trend of deposit during the period. EBL has the least mean and lowest variation but it has the better increasing trend of deposit as compared to other banks.

4.2.2 Loans and Advances

Banks take deposit and lend loan and advances. Loan and advances is a major chunk of asset side. The high volume of loans and advances is indicative of good performance in credit sector. Since the survival of banking business is dependent on good performance of its lending functions. The high volume of well performing loans and advances in economy is a symbol of healthy banking business. Because of cut throat competition in banking sector and limited area of investment giving loans and advances is difficult and critical job

Table 12

Structure of Loans and Advances (Rs. in million)

Banks	Fiscal Year Mid-July					Mean	S.D.	C.V
	2003	2004	2005	2006	2007			
Loans and Advances of Nabil	**8010.9**	**8652.2**	**11360.3**	**13278.5**	**15505.9**	11361.56	2807.77	24.71%
Govt. Entp.	20.8	20.3	60	360	60			
Pvt.Sector	7719.2	8497.3	11018.0	12661.0	15200			

For.BillPandD	256.9	117.5	144.7	218.1	221.2			
Foreign A.B.C	14.0	17.1	137.6	39.4	24.7			
Loans and Advances of HBL	**11074.2**	**13081.7**	**13590.9**	**15768.6**	**17841.5**			
Govt. Entp.	742.7	766.2	745.0	605.0	702			
Pvt.Sector	10151.5	12315.5	12500	14911.0	16970			
For.BillPandD	180.0	0.0	345.9	252.6	169.5			
Foreign A.B.C	0.0	0.0	0.0	0.0	0.0	14271.38	2327.56	16.31%
Loans and Advances of EBL	**5030.9**	**6116.6**	**7944.1**	**10155.7**	**13710.8**			
Govt. Entp.	60	69.2	0.0	494	643			
Pvt.Sector	4970.9	6047.4	7914.4	9631	13027			
For.BillPandD	0.0	0.0	29.7	30.7	40.8	8591.62	3094.38	36.02%
Foreign A.B.C	0.0	0.0	0.0	0.0	0.0			

Sources: Banks and Financial Statistic Regulation Department NRB 2007/08

Above table no.12 shows the volume of loans and advances lended by the three banks. The loans and advances by the each bank are in increasing trend. There is increasing trend of Nabil from 2003-2007 in loans and advances around Rs.1000 to 1500 million in each year. But it has decline its loans and advances to government enterprises in 2007, where as it has increased its loans and advances to foreign A.B.C.

Similarly, HBL trend of loans and advances has increase in each year by around Rs.1000 to 2000 million. The HBL has fluctuated trend in Government enterprises loans and advances. It has increased its loan and advances in other sector.

Likewise, EBL trend of loan and advances has increase in each year by around Rs.1000 to 2000 million as well. It has fluctuated trend in all the sectors but increase its loan and advances for he foreign bill purchase from the year 2005 onwards. All the banks are lending higher contribution for the private sector business.

However, EBL has lower mean of loans and advances, also Nabil has least degree of variation than HBL but its degree of variation of loan and advances has high. HBL has highest mean of loan and advances and moderate degree of variation of volume.

4.2.3 Loans and Advances to Total Deposit Ratio

Loans and advances and Investment are the major area of fund mobilization of commercial banks. Commercial banks collect the deposit and mobilized it to generate the return from it. The banks lend loan and advances to various sectors and invest the deposit. Deposits are the sensitive liability to the banks. This ratio indicates the firm's fund mobilization power in gross. The main sources of bank's lending and investment is its deposits. Thus, this ratio measures how well the bank has managed its deposits and the ability of a bank in generating income from bank deposit liability.

Table 13

Structure of Loans and Advances to Deposit Ratio

Banks	**Fiscal Year Mid-July**					**Mean**
	2003	**2004**	**2005**	**2006**	**2007**	
Nabil	0.5962	0.6137	0.7788	0.6863	0.6643	0.6679
HBL	0.5273	0.5747	0.5473	0.5960	0.5966	0.5684
EBL	0.7515	0.7585	0.7867	0.7358	0.7179	0.7501
Combined Mean						**0.66**

The above table 13 depicts the ratio of loans and advances to total deposit of three banks. The loans and advances of Nabil and HBL are in increasing trend which shows that there is some place to invest for business purpose. The EBL has decreasing trend. The Nabil bank has increased its ratio from .5962 in 2003 to 0.6643 to 2007. Similarly, the HBL has increased its ratio of loans and advances to deposit from 0.5747 in 2003 to 0.5966 in the year 2007. But there is decreasing trend in EBL i the ear 2003 its ratio is 0.7515 which has gone down to 0.7179 in the year 2007. But the EBL has the highest mean as compared to other two banks, which is good sign. The HBL has the least mean, which is 0.5684.

The increasing trend of loans and advances is good sign where as decreasing trend is not good sign for economy. The overall combined mean of there banks is 0.66.

4.2.3 Investment

A commercial bank is an institution that operates for profit. Like other industrial or commercial enterprise a bank too, seek to earn maximum income through the suitable employment of its resources. It accepts deposits for the purpose of lending or investment and thereby hopes to make a profit-profit which are adequate enough to enable the bank to pay interest at the prescribes rates to its deposits, meet establishment expenses, build reserve, pay dividend to the shareholders etc.

Table 14

Investment structure of Commercial Bank (in millions)

Banks	Fiscal Year Mid-July					Mean	S.D	C.V
	2003	2004	2005	2006	2007			
Investment of	3687.8	3697.1	3940.4	6100.4	8398.8	5 1	1 9	3 5

Nabil								
Govt. Securities	3663.5	3672.6	2413.9	2297.7	4805.7			
Share and Deb.	24.3	24.5	1526.5	3802.5	3593.1			
NRB	0.0	0.0	0.0	0.0	0.0			
Investment of HBL	**4014.3**	**2878.3**	**5509.6**	**10323.8**	**11821.6**	6909.52	3532.10	51.12%
Govt. Securities	3980	2781.7	5469.7	4577.7	6454.8			
Share and Deb.	34.3	96.6	39.9	5746.1	5366.8			
NRB	0.0	0.0	0.0	0.0	0.0			
Investment of EBL	**1616.5**	**2483.5**	**2119.7**	**4201.3**	**4985.1**	3081.22	1288.92	41.83%
Govt. Securities	1599.4	2466.4	2100.3	3548.6	4704.6			
Share and Deb.	17.1	17.1	19.4	652.7	280.5			
NRB	0.0	0.0	0.0	0.0	0.0			

Sources: Banks and Financial Statistic Regulation Department NRB 2007/08

Table 14 shows that the volume of investment has fluctuation trend of the Nabil in Government securities but it has increased its investment in share and debentures. But HBL has decrease volume of investment in 2004 and 2006. The HBL has also increased its investment in share and debentures. Overall the entire three banks has fluctuation trend of investment. Where as EBL has the increasing volume of investment during the period. HBL has raised investment higher in share and debenture. So, it has best performance of investment and also made more liquidity.

The mean value of HBL is highest among three banks and S.D. also higher but variation of least position. EBL has the least mean value.

4.2.4 Investment to Loan and Advances Ratio

This ratio measure the contribution made by investment in total amount of loans and advances and investment. The proportion between investment and loan and advances measure the management attribute toward risky asset and safety asset.

Here, the total mobilization fund i.e. investment and loans and advances in whole does not provide the quality of asset that a bank has created. Thus, this measures the risk of banking business too. The high ratio indicates the mobilization of funds in safe area and vice-versa. However, safety does not provide with satisfactory return. So, a compromising ratio between risks as profit should be maintained.

Table 15

Investment to Loan and Advances Ratio

Banks	**Fiscal Year Mid-July**					**Mean**
	2003	**2004**	**2005**	**2006**	**2007**	
Nabil	0.4603	0.4273	0.3469	0.4594	0.5417	0.4471
HBL	0.3625	0.2200	0.4054	0.6547	0.6626	0.4610
EBL	0.3213	0.4060	0.2668	0.4137	0.3636	0.3543
Combined Mean						**0.4208**

The above table depicts the ratio of investment to loan and advances. Since, this ratio measures the contribution made by investment, the ratio of HBL is higher among three banks. The ratio of HBL is in increasing trend except the year 2004. In case of Nabil, the ratio has gone down in the year 2004 and 2005, where as there id increasing trend in other period. The EBL has fluctuation trend and it have least ratio among the three banks, which shows less contribution made by investment.

The overall trend of this ratio is moderate, which sound better for banking business. The combined mean of the ratio is 0.4208.

4.2.5 Interest Income

Banks lend money to various sectors in order to earn interest, which is return for the commercial banks. Mostly the commercial banks earn from lending the money to the public or the institutions. The volume of interest income measures the bank's ability to generate income from lending and investing activities. The high volume is indicative of favorable contribution of lending and investing activities in income generation. The high volume of lending and investing gives high generation of income for the bank's and vice-versa.

Table 16

Interest Income structure of Commercial Banks (Rs. in million)

Banks	2003	2004	2005	2006	2007
Nabil	1017.87	1001.62	1068.75	1310.00	1587.76
HBL	1201.23	1245.89	1446.47	1626.47	1775.58
EBL	520.17	657.25	719.28	903.41	1144.4

Chart No. 1

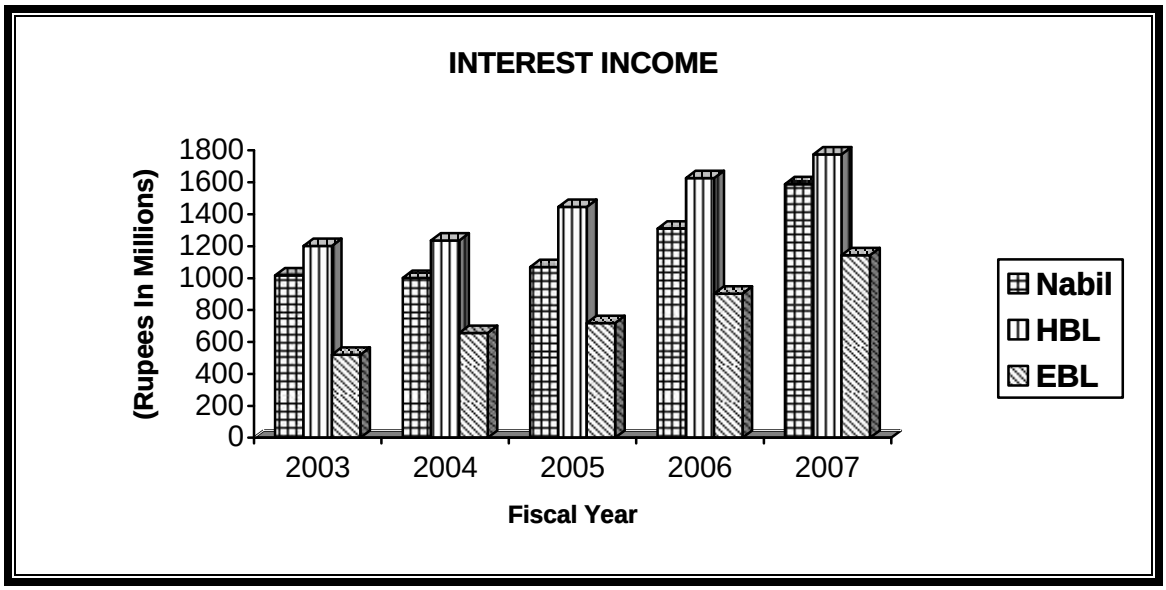


Chart No. 1 shows that the interest income of Nabil is in increasing trend. It has increased its income in the year 2007 than all other years. Overall income of all the three banks has increased its income and it is good sign for the banks. This shows good performance of the banks in the term of interest income. HBL has highest interest income as compare to other two banks. But other banks are also increasing its income in every year.

Table 17

Mean, S.D, and C.V. of Interest Income

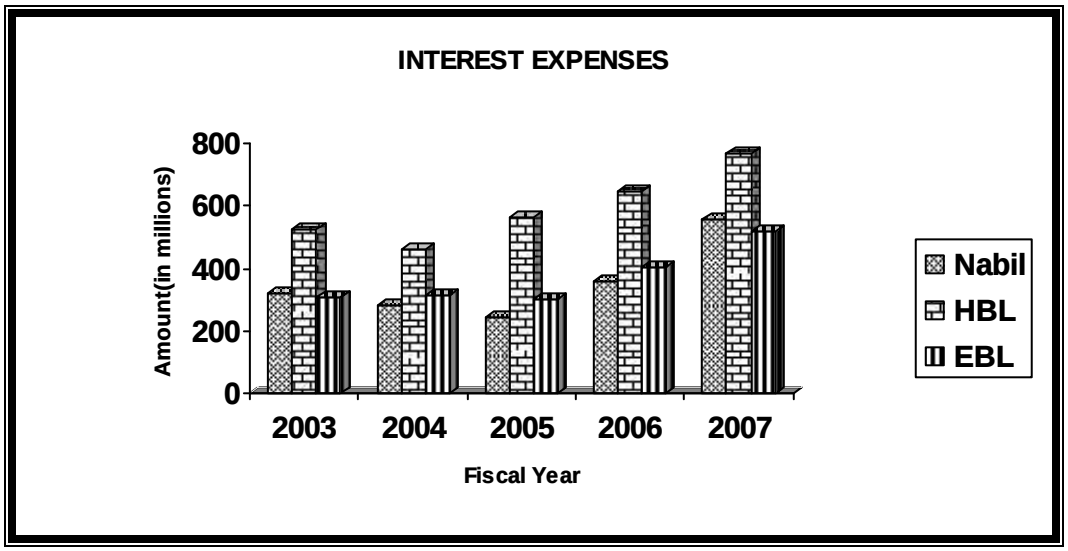
Banks	Mean	S.D.	C.V.
Nabil	1197.20	224.58	18.76%
HBL	1459.12	219.27	15.03%
EBL	788.90	216.29	27.42%

Above table no.17 reveals that the mean interest of HBL is the highest of all three banks. EBL has the lowest mean with high rate of variation whereas Nabil has he moderate mean ad moderate rate of variation of others banks.

4.2.6 Interest Expenses

Interest expenses only include the interest amount for the deposit and loan and advances borrowing. Total expenses include all type of expenses those are changed against the profit and loss account.

Chart No. 2



The chart No. 2 above shows that interest expenses of HBL is the highest among the three banks. Nabil interest expenses have decrease for first three years. HBL has the highest increment in interest expenses as compare to other two banks. The main reason for increase in interest expenses is due to high rate of interest on deposit. Nabil has the lowest interest expenses which seem cause of low interest rate. Nabil is successful in running the business in low costs. EBL has moderate interest expenses and the HBL has the moderate interest expenses.

Table 18

Mean, S.D and C.V. of Interest Expenses

Banks	Mean	S.D.	C.V.

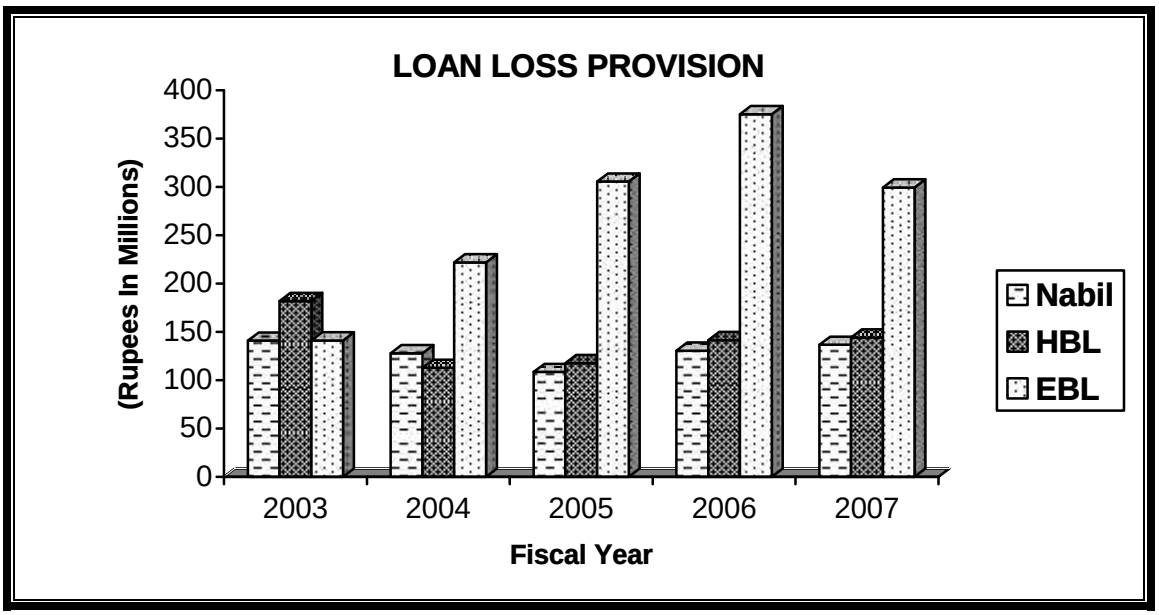
Nabil	351.34	108.87	30.99%
HBL	592.32	106.73	18.02%
EBL	367.79	83.33	22.66%

Table No. 18, shows that the mean interest expenses of HBL is the highest with low degree of variation. EBL is in the second position and Nabil is the most efficient in managing the cost factors of the business, since it has lowest volume of expenses with moderate degree of variation. Nabil has moderate expenses with high degree of variation

4.2.7 Loan Loss Provision

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

Chart No. 3



The above chart No. 3 shows, that EBL Loan Loss Provision is increasing during the entire period of study except in year 2003. HBL has the fluctuating character. In 2003 HBL has highest loan loss provision but it maintained in the

following year. The Nabil has maintained least loan provision as compare to other two banks. The EBL has increasing trend of Loan Loss Provision which is not good sign for better future of the bank.

Table 19

Mean, S.D and C.V. of Loan Loss Provision

Banks	Mean	S.D.	C.V.
Nabil	136.58	22.10	16.18%
HBL	144.16	26.99	18.73%
EBL	299.35	109.8	36.74%

The above table No. 19 shows that the mean loan loss provision of EBL is the highest among the three banks. The EBL has the highest degree of variation with 36.74%. The HBL is at the second position with 18.73% variation and the Nabil has maintained least loan loss provision as compare to other two banks. From the above table we can conclude that the Nabil has best performance in maintaining the loan loss provision with least degree of variation i.e. 16.18%.

4.2.8 Net Profit

Net profit after all types of deduction such as bonus to employees, taxes and provisions have been used in this analysis. The volume of Net profit measures the success of a firm in every aspect of its operation and strategy.

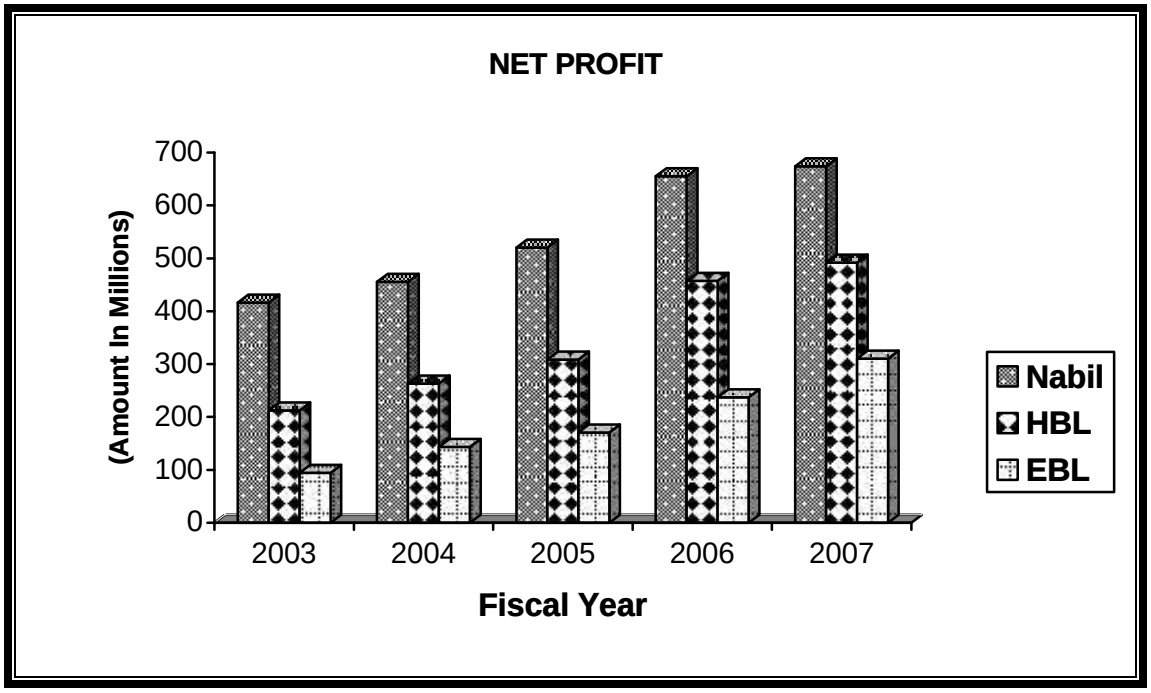
Table 20

Structure of Net Profit

Banks	Fiscal Year Mid-July				
	2003	**2004**	**2005**	**2006**	**2007**
Nabil	416.24	455.32	520.10	635.3	674.0
HBL	212.13	263.05	308.27	457.45	491.82
EBL	94.2	143.5	170.8	237.2	296.4

The table No. 20 shows the net profit of three banks in the fiscal year 2003 to 2007. The net profit of the Nabil is highest among the three banks. The HBL has the moderate whereas the EBL has the least. But the trend for profit is in increasing.

Chart No. 4



Above chart 4 shows that the Net Profit of Nabil is always higher than other bank through out the periods of study. EBL has the least Net profit and the HBL has

the moderate. The trend is increasing for all the banks in case of net profit. All the banks have increased their net profit drastically in the year 2007.

Table 21

Mean, S.D and C.V. of Net Profit

Banks	Mean	S.D.	C.V.
Nabil	544.19	103.98	19.11%
HBL	346.54	109.47	31.59%
EBL	191.2	75.37	39.42%

Table No. 21 presented above depicts that the mean Net Profit of Nabil is the highest and HBL is in the second position where as EBL has the least Net Profit. The variation of EBL is the highest and that of Nabil is lowest least degree of variation i.e. 19.11%.

4.3 ANALYZING THE PORTFOLIO BEHAVIOUF OF LOANS AND ADVANCES

In previous sections, we have analyzed the relationship between loans and advances with various assets and liabilities of respective banks. In this section, we examine the portfolio management of loans and advances. Bank advances loan to various sector of economy and to various types of borrowers. Likewise, it invests loans in various types of securities and shares. In this section, the ratio of loans and advances granted to various sector of economy and for various purpose to total volume of loans and advances is measured.

4.3.1 Private Sector Loans to Total Loans and Advances Ratio

Competition, liberal policy of government, worldwide trend, globalization and other factors acts like catalyst in private sector loan.

This ratio measures the contribution of banks lending in private sector. The ratio of private sector loans to total loans and advances measure the volume of private sector activity in total economy with compare to government sector activity

. This does not mean that total government activity is measure by this ratio but this solely measure the loans and advances received by the government from commercial banks with loans and advances received by private sector, while calculating this ratio from both private sector loan and total loans and advances excludes the amount of bill purchased and discounted.

Table 22

Private Sector Loans to Total Loans and Advances Ratio

Banks	**Fiscal Year Mid-July**					
	2003	**2004**	**2005**	**2006**	**2007**	**Mean**
Nabil	0.9636	.09821	0.9699	0.9535	0.9803	0.9699
HBL	0.9167	0.9414	0.9197	0.9456	0.9512	0.9349
EBL	0.9881	0.9887	0.9963	0.9483	0.9501	0.9743
Combined Mean						**0.9597**

Table No.22 above explains that the proportion of loans and advances granted to private sector is significant in case of all three banks. The ratio is ranging from 0.9349 to 0.9743. The ratio explains the fluctuating trend for all three banks. The ratio has ranged from 0.9821 in 2004 to 0.9535 in 2006 of Nabil Bank, 0.9512 in 2007 to 0.9414 in 2004 of HBL and 0.9963 in 2005 to 0.9483 in 2006 of EBL. The ratio explains the fluctuation trend of lending to private sector from all three banks. The measure dependency of lending in government is decreasing in the commercial banks. This may have caused due to lending and investing opportunity in private sector.

Lending in private sector is safer to the commercial banks. The return from government sector is less than that of private sector. The ratio is aggregate explain the private sector important in banking industry in all the banks. So, all three banks lending activities are highly dependent upon private economy and its development. In the case of privatization, this ratio is good in the case of all the three banks but this should increase in the coming future.

The mean ratios are 0.9699, 0.9349 and 0.9743 of Nabil, HBL and EBL respectively. The mean ratio of EBL is the greatest among three banks. The performance on this ratio of all three banks is good. The continue effect to increase the private sector participant in development activity and the trend toward the globalization of economy may cause this ratio to increase in the future.

4.3.2 Productive Sector Loans to Total Loans and Advances Ratio

NRB has directed all the commercial banks to advances 40% of their total credit to productive sector. The loan provide to priority sector, industrial sector and loan granted to other productive sector is categorized as productive sector loans, the percentage stipulated by the directive is not an optimum ratio but this is only compulsion to the commercial banks to set a minimum level of their credit. The high ratio indicates the high volume of credit for production sector. The flow of credit in productive sector always brings favorable impact on total economy. The higher the ratio of productive sector loans to total loans and advances, better the national development and better the banks performance.

Table 23

Productive Sector Loans to Total Loans and Advances Ratio

Banks	Fiscal Year Mid-July					
	2003	**2004**	**2005**	**2006**	**2007**	**Mean**
Nabil	0.7209	0.7090	0.5786	0.5280	0.6810	0.6435
HBL	0.5883	0.6588	0.5944	0.6011	0.8390	0.6563
EBL	0.5024	0.5631	0.6011	0.5990	0.6001	0.5731
Combined Mean						**0.6243**

Table no.23 explains a fluctuating trend of ratio of all three banks. However, the ratio of Nabil and HBL is raising trend. EBL has he lowest ratio in all the years. The overall ratio has been ranged from 0.5024 of EBL in 2003 to 0.8390 of HBL in 2007 is highest. All the banks have granted more than 40% of their total loans and advances to productive sector. Hence, they are successful in complying the directives of NRB to direct the credit in productive sector.

The combined mean ratio of all the banks is 0.6243. The ratio of HBL is highest then Nabil and EBL. The performance of HBL is best and that of EBL is the worst. Nabil has moderate performance.

4.4 Analyzing the Lending Performance of Commercial Banks

In this section, the lending performance in terms of it quality and turnover is measured. For this purpose the relationship of different variable of balance sheet and principal indicator is established.

4.4.1 Loans Loss Provision to Total Loans and Advances

The ratio of loans loss provision to total loans and advances describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loans and advances into the category of pass, substandard, doubtful and loss and to make the provision 1, 25, 50 and 100 percent respectively. NRB has

classified the pass and substandard loan as performing loans and the other two types of loans as Non-performing loans. The provision created against the pass and substandard loan is called the general loan loss provision. The provision against the doubtful and loss loan is called the specific loan loss provision. The amount of loan loss provision in balance sheet refers to the general loan loss provision. Hence, the provision for loan loss reflects the increasing probability of Non-performing loans in the volume of total loans and advances, loan loss provision, on the other hand, signifies the cushion against future contingency created by the default of the borrowers. The low ratio signifies the good quality of assets in the total volume of loans and advances. The high ratio signifies the relatively more risky assets in the volume of loans and advances.

Table no. 24 below explains that the HBL has the least ratio of loan loss provision to total loans and advances in among three banks, Nabil ratio is moderate and EBL has the highest among three banks.

Table 24

Loan Loss Provision to Total Loans and Advances Ratio

Banks	**Fiscal Year Mid-July**					**Mean**
	2003	**2004**	**2005**	**2006**	**2007**	
Nabil	0.0176	0.0148	0.0095	0.0098	0.0113	0.0126
HBL	0.0164	0.0086	0.0087	0.0090	0.0081	0.0102
EBL	0.0281	0.0363	0.0384	0.0369	0.0331	0.0346
Combined Mean						**0.01913**

The overall trend of ratio of two banks has decreasing but EBL has increasing trend of Loan Loss Provision up to year 2005 but after that it has somehow maintain its Loan Loss Provision. The Nabil and HBL have decreasing trend as compared to

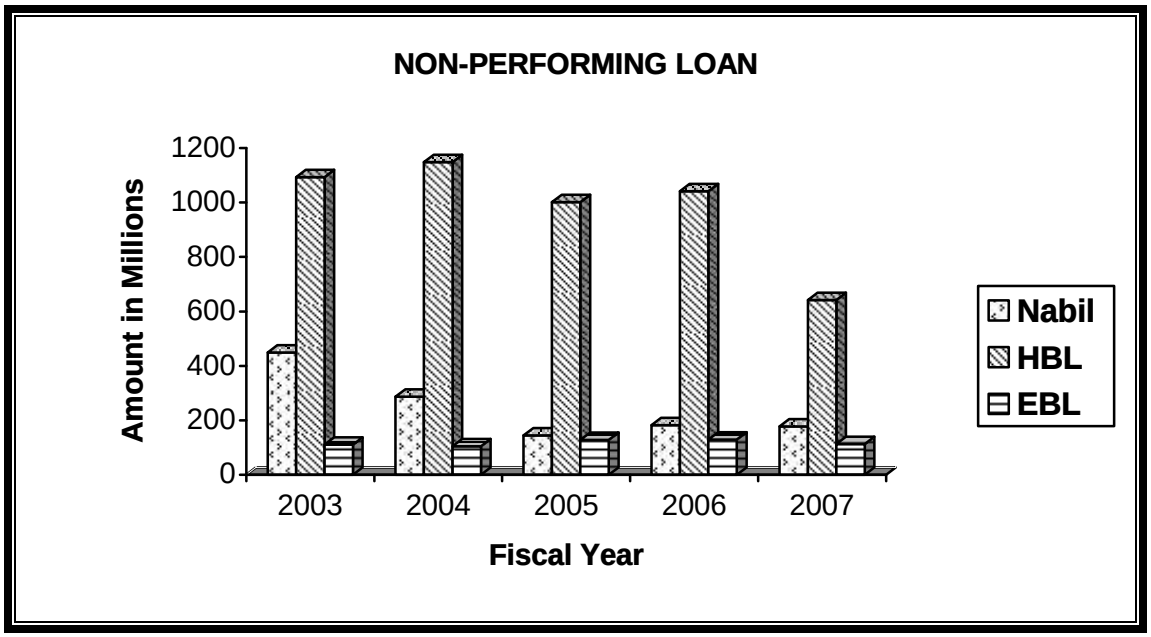
EBL. The increasing ratio indicates the increased volume of non-performing loans in Total assets has been increasing and this may cause a great failure in future performance of these banks. Since, the loans and advances occupy the significant portion in the volume of total assets; the increasing loan loss provision ratio indicates the poor and ineffective credit policy and poor proportion of sub standard loan in volume of its risk assets. EBL suggest that the proportion of sub standard loan in volume of its risk assets is higher than other two banks.

The combined mean ratio of these banks is 0.01913 in which the EBL has the highest mean ratio to total loans and advances i.e. 0.0346

4.4.2 Non-Performing Loans to Total Loans and Advances Ratio

As the NRB directive given to the commercial banks, substandard, doubtful and bad loans are categorized under Non-performing loans. Increase in Non-performing loans increases loans loss provision and interest suspense too, which ultimately results in profit deduction, "The banking sector is severely affected by the NPL (Non-performing Loan) problem. It is estimated that the NPL of the Nepalese banking system is around 16 percent. Therefore, there is no doubt that it has a serious implication on economic performance of the country" (Dhungana , 2058; 121-127)

Chart No. 5



The above chart 5 shows fluctuating trend for HBL and EBL but Nabil has decreasing trend except in the year 2006 where little bit increment is there, which is good sign for the bank. Overall the bank has decreasing trend in 2007. Increasing in non-performing loans increased loans loss provision and interest suspense too which is not good sign for the future of banks. The HBL has highest mean as compare to other two banks and combined mean of these banks is 450.19.

Hence, to measure the volume of Non-performing loans in total loans and advances, the figure published in Annual Report in mid-July 2007 has been compared to the amount of loans and advances of 2007 of each bank.

Table 25

Non-Performing Loans to Total Loans and Advances Ratio

Banks	Non-Performing Loans	Total Loans and Advances	Ratio (%)

Nabil	178.3	15505.9	1.15
HBL	641.6	17841.5	3.59
EBL	113.17	13710.8	0.82

Table no. 25 above explains that in the volume of loans and advances the non-performing assets represents 3.59 percent of HBL, 1.15 percent of non-performing assets in Nabil and that of EBL is 0.82 percent respectively. The high ratio of non-performing loan to total loans and advances shows the bad performance of bank. Above three banks HBL has the highest non-performing loan to total loan and advances ratio.

4.4.3 Earning Per Share

EPS refers to Net Profit divided by total number of shares outstanding. The amount pf EPS measures the efficiency of a firm in relative terms. This figure is the indicative of the overall good or bad performance of an organization. How far an organization is able to use its resource to generate profit is determined by the profit it has earned. Thus, the EPS determined by the profit it has earned. Thus, the EPS determines the market value of a share; determine the attitude of outsiders and high amount of EPS increase the competition in the market by the entry of new organization.

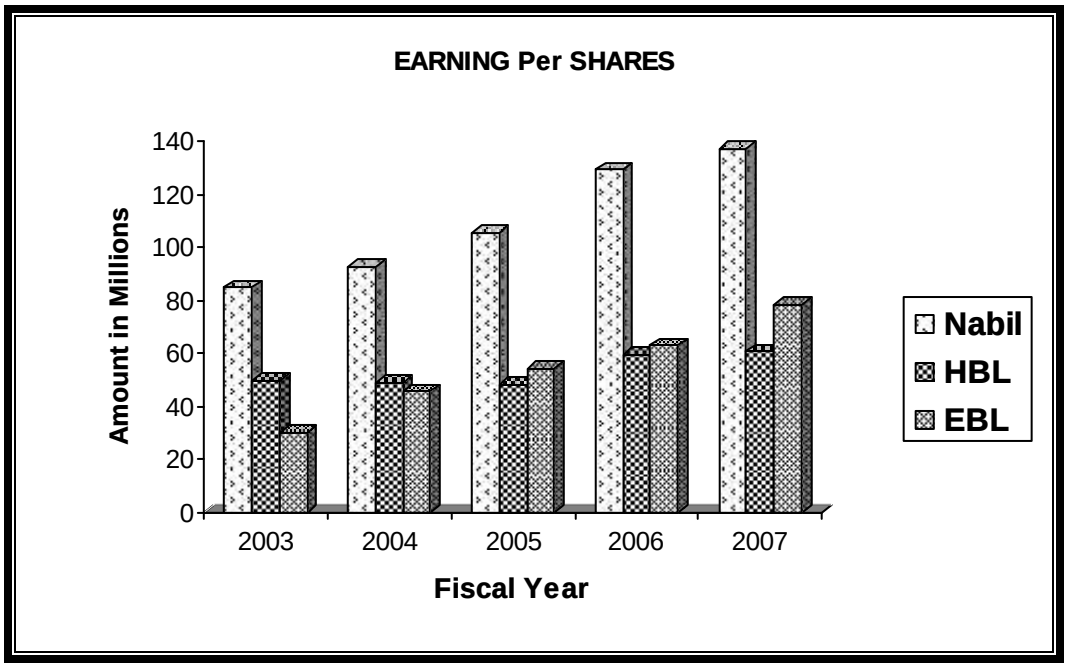
Table 26

Earning Per Shares

Banks	**Fiscal Year Mid-July**					**Mean**
	2003	**2004**	**2005**	**2006**	**2007**	
Nabil	84.66	92.61	105.49	129.21	137.08	109.81
HBL	49.45	49.05	47.91	59.24	60.66	53.26
EBL	29.9	45.6	054.2	62.8	78.4	54.18
Combined Mean						**72.42**

Table 26 shows that the EPS of Nabil is the highest in all year and that of EBL have acquired second position except in 2003 and 2004.

Chart No. 6



The EPS trend of Nabil and EBL is increasing, while the HBL has fluctuating trend. Higher the EPS good sign for the banking industry. Nabil has the highest mean i.e. 109.81 and the combined mean of all these three banks is 72.42. Nabil has highest performance while other two have least.

4.4.5 Interest Income of Loans and Advances to Total Loans and Advances Ratio

This ratio measures the contribution made by interest from loans and advances in total loans and advances. The major portion of the interest income is generated by the lending function and the investment is regarded as a cushion against liquidity risk. This ratio measures how efficiently the banks have employed their fund in lending.

Table 27

Interest Income of Loans and Advances to Total Loans and Advances Ratio

Banks	Fiscal Year Mid-July					Mean
	2003	2004	2005	2006	2007	
Nabil	0.09691	0.08803	0.07322	0.07444	0.07528	0.081
HBL	0.08161	0.07416	0.08258	0.07234	0.06966	0.076
EBL	0.28563	0.10356	0.07590	0.07054	0.07054	0.123
Combined Mean						**0.0933**

The table 27 depict that the interest income of loans and advances to total loan and advances ratio is decreasing trend. The ratio has been ranging from 0.06966 of HBL in 2007 to 0.28563 of EBL in 2003. The mean ratio of Nabil is 0.081; HBL is 0.076 and 0.123 of EBL respectively. The EBL has the highest mean as compare to other two banks. The highest mean of EBL has caused by its high lending activities.

The combined mean of these three banks is 0.0933. There is decreasing trend for all the banks in terms of interest income to loans and advances. The ratio in aggregate measures the dependency on investing activities of respective banks. The increase in lending increases in the ratio of interest from loans and advances to loans.

4.5 Analyzing the Correlation of Deposits with other variables

The study has analyzed the correlation of deposits with loan and advances and investment in addition loan and advances with investment has also analyzed.

4.5.1 Correlation between Deposits and Loan and Advances

The correlation between deposits and loan & advances measures the degree of relationship between these two. In commercial banks, deposits are the main source of

fund for lending. Similarly, loan and advances are very important for mobilization of collected deposits. So how increase in deposits of bank impact in the volume of loans and advances is measured by correlation. Here, deposit is considered as independent variable and loans and advances as dependent variable.

Table 28

Correlation between Deposits and Loans and Advances

Banks	Correlation Coefficient (r)	P.E.	6* P.E.r	Remarks
NABIL	0.945	0.015	0.090	r>6* P.E.r
HBL	0.986	0.003	0.018	r>6* P.E.r
EBL	0.998	0.001	0.004	r>6* P.E.r

As shown in table no. 28 the correlation coefficient (r) between deposits and loans and advances of Nabil is 0.945 and Probable Error times 6 is found 0.090, HBL correlation coefficient (r) is 0.986 and Probable Error times 6 is found 0.018 and 0.998 and 0.004 of EBL respectively. All the three banks has r> 6P.E.r. and r is positive and near to 1, it clarifies that there is positive relation between the deposits and loan and advances during the study period of five years.

4.5.2 Correlation between Deposits and Investment

The correlation between deposits and investments measures the degree of relationship between deposits and investments made by the bank. How the increases in deposits impact the investments is measured by correlation coefficient. Here also a deposit is taken as independent variable and investment as dependent variables.

Table 29

Correlation between Deposits and Investments

Banks	Correlation Coefficient (r)	P.E.	6* P.E.r	Remarks
NABIL	0.22	0.235	1.410	r<6* P.E.r

HBL	0.92	0.024	0.144	r>6* P.E.r
EBL	0.95	0.015	0.090	r>6* P.E.r

As shown in table 29, the correlation coefficient (r) between deposits and investment of Nabil Bank Limited is 0.22 and Probable Error times 6 is found 1.410. As r<6P.E.r. correlation coefficient between deposits and investment is not significant. However, as r is positive it clarifies that there is positive correlation between deposits and investment during the study period however relationship is quite nominal.

Similarly, correlation coefficient (r) between deposits and investment of HBL is 0.92 and Probable Error 6 times found 0.144. Likewise, EBL correlation coefficient (r) is 0.95 and Probable Error 6 times found 0.090. As both the banks has r>6P.E.r. and r is positive and near to 1, it clarifies that there is positive relationship between the deposits and loan and advances during the study period of five years.

4.5.3 Correlation between Loan and Advances and Investments

The correlation between loan and advances and Investments measures the degree of relationship between loan and advances and investment made by the bank. This correlation measures whether the bank has a rigid policy to maintain a consistent relationship between these two assets or other factors like seasonal opportunity, economic demand, NRB directives etc have impact on volume of both loan and advances than to investments so volume of investments does not impact on loans. However, either increase or decrease in volume of laons and advances directly decrease or increase the investment.

Table 30

Correlation between Loan and Advances and Investments

Banks	Correlation Coefficient (r)	P.E.	6* P.E.r	Remarks

NABIL	0.205	0.240	1.440	r<6* P.E.r
HBL	0.92	0.024	0.144	r>6* P.E.r
EBL	0.94	0.018	0.108	r>6* P.E.r

As shown in table 30, the correlation coefficient (r) between deposits and investment of Nabil Bank Limited is 0.205 and Probable Error times 6 is found 1.440. As r<6P.E.r. correlation coefficient between Loan and Advances and Investments is not significant. However, as r is positive it clarifies that there is positive correlation between Loan and Advances and Investments during the study period however relationship is quite nominal.

Similarly, correlation coefficient (r) between Loan and Advances and Investment of HBL is 0.92 and Probable Error 6 times found 0.144. Likewise, EBL correlation coefficient (r) is 0.94 and Probable Error 6 times found 0.090. As both the banks has r>6P.E.r. and r is positive and near to 1, it clarifies that there is positive relationship between the deposits and loan and advances during the study period of five years.

4.5 Analyzing the Trend of the Selected Joint-Venture Banks

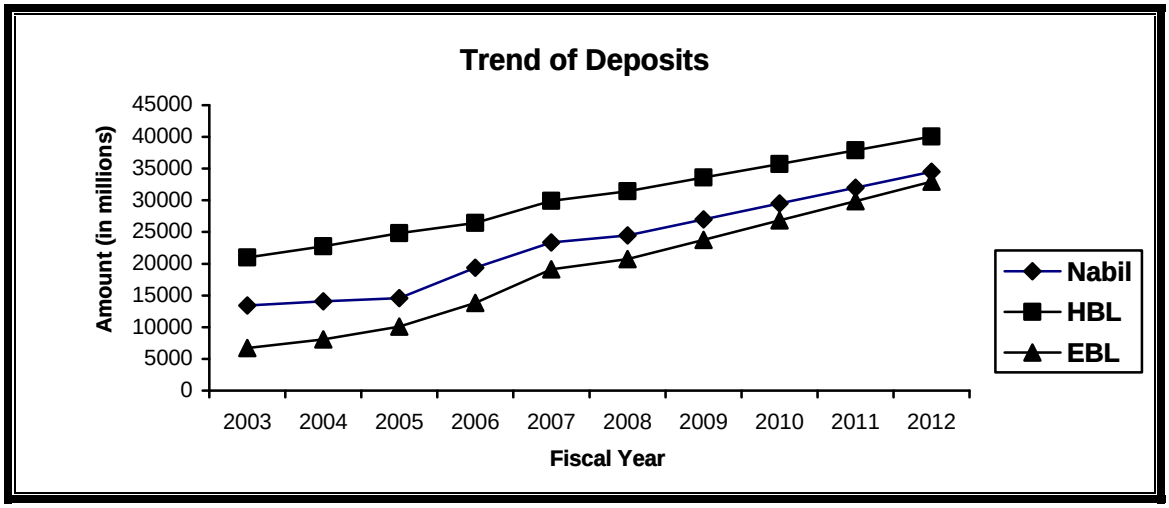
In previous study, we have calculated various measures of relative's financial tools and absolute measures of statistical tool. In this section we shall examines the trend analysis of deposits, loans and advances, Investment, Net Profit and EPS. The measures of trend analysis exhibit the behavior of given variables in series of time. The performance of any commercial banks does not carry consistency over all the period and several factors cause the increase or decrease in the volume of various items of banks operation. The trend of any variable and the slope of trend line relating with the compound interest discount factor measures the Growth Rate of that

variables. Thus, along with the analysis of trend line the Growth Rate has also been measured in this section.

4.5.1 Trend Analysis, Growth Rate and Propensity of Growth of Deposit

The trend of deposit in the coming year is analyzed using the trend analysis. The following trend line shows the projection of total deposit of Nabil, HBL and EBL up to 2012. Since deposit is one of the very sensitive liabilities of commercial banks. Its trend and behaviour are determined by various seasonal and cyclical factors. The trend line is obtained from the five year data of these three banks based on least square method of time series.

Chart No. 7



The chart no.7 above shows that trend behavior of total deposits in Nabil, HBL and EBL. The slope of HBL represents a high degree of increase than that of other two banks. The reason of increase of deposit has rise in remittance, the slowdown in securities market as well as the lack of alternative investment opportunities were responsible for the augmentation in deposit. Because of strikes the industrial sector are not showing interest on it. The trend of HBL has posses the highest area. But other two banks trend is also in increasing order.

Table 31

Growth Rate and Propensity of Growth of Deposits

Banks	Linear Equation	2003	2007	Expected future value(2012)	Propensity of Growth
Nabil	16962.66+2505.98X	16962.66	24480.60	34504.52	2505.98
HBL	24991.26+2150.03X	24991.26	31441.35	40041.47	2150.03
EBL	11551.38+3054.41X	11551.38	20714.61	32932.25	3054.41
Average	17835.10+2570.14X	17835.10	25545.52	35826.08	2570.14

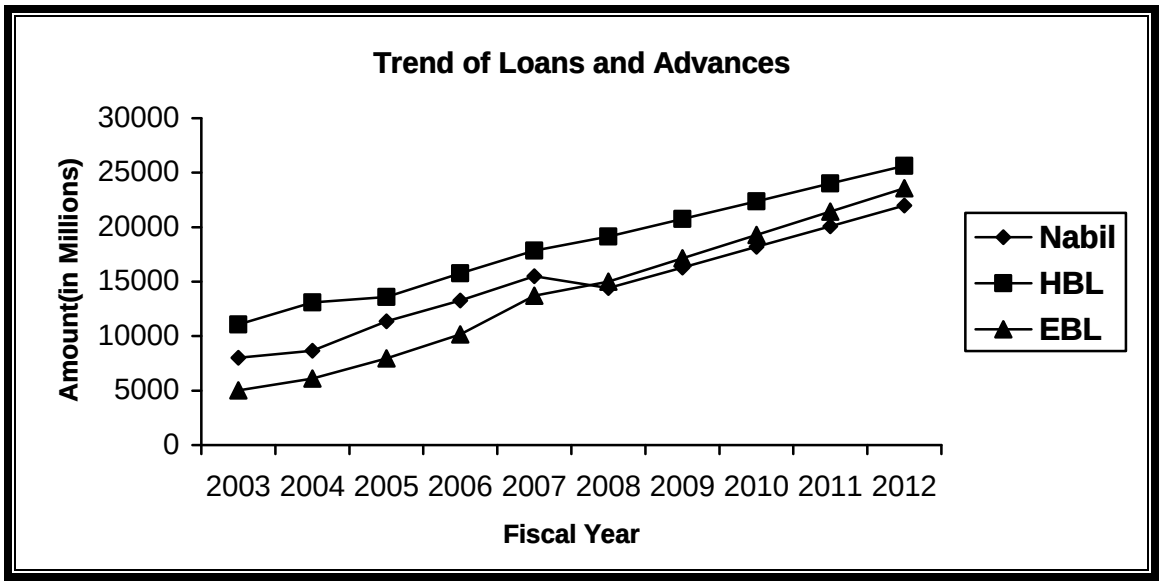
Y= a+ bx, the value of b represent the propensity of Growth of each bank. The trend value of 2003 to 2007 has been presented to examine the Growth Rate in deposit of respective banks and also forecasted the value of 2012 in the study period. The propensity of growth represents and absolutes value of growth that a bank is likely to increase in its volume of deposits in one year.

Major reasons for increase in deposit are increase in fixed deposit and saving deposit. Deposit have expected to reach in 2012 will have Rs.34504.52, Rs.40041.47 and Rs.32932.25 of Nabil, HBL and EBL. The propensity of growth of EBL has the highest. Like the propensity of growth in Nabil and HBL have less than average.

4.5.2 Trend of Loans and Advances

The trend of loans and advances exhibits the trend line in the coming year in lending activities of three banks. The following trend line shows the projection of total loan and advances of Nabil, HBL and EBL up to 2012. The trend line is obtained from the five year data of these three banks based on least square method of time series**.**

Chart No. 8



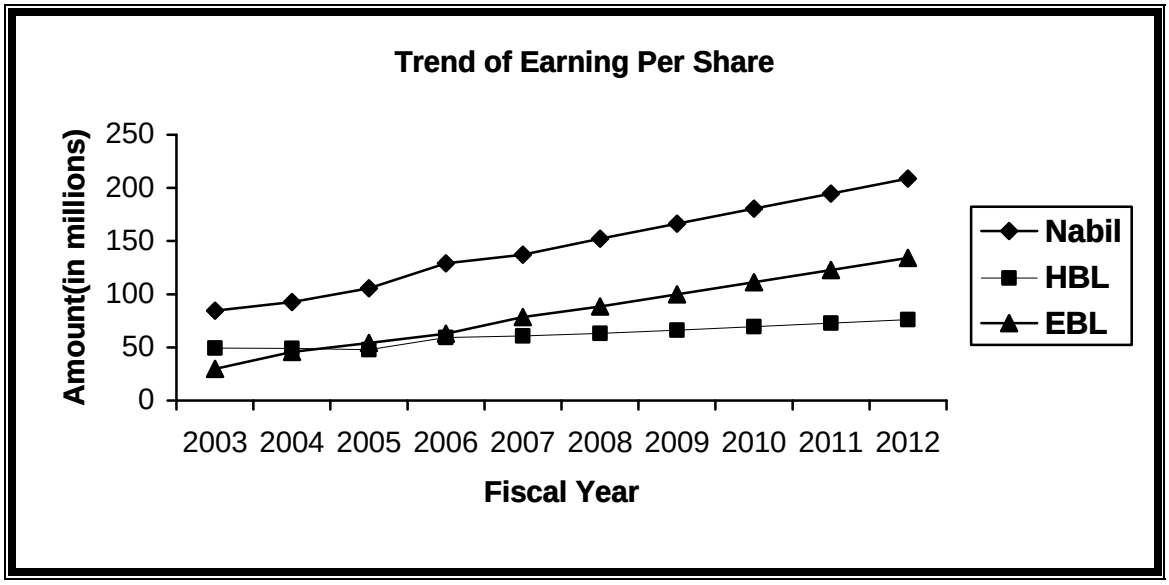
The above figure chart no. 8 shows that the loan and advances by three banks are in increasing trend of other things remain constant. According to trend forecast the total loan and advances in the 2008 will be Rs.14398.4 million; in 2009 it will be Rs.16295.40 million and in 2010, 2011 and 2012 Rs.18193.40, Rs20090.9 and Rs.21988.4 million respectively for the Nabil. Similarly, the total loan and advances of HBL in the year 2008 will be Rs.19137.83 million and Rs.20759.98, Rs.22382.13, Rs.24004.28 and Rs.25626.43 for the year 2009, 2010, 2011 and 2012. At the same time the total loan and advances of EBL in the year 2008 will be Rs.15011.29 million and Rs.17151.18, Rs.19291.07, Rs.21430.96 and Rs.23570.85 for the year 2009, 2010, 2011, 2012 million respectively.

The trend line of Nabil would slowdown in the year 2008 but after that it would maintain its loan and advances in growing stages. The trend of HBL has the highest growth as compare to Nabil and EBL for the next five year. From this analysis, HBL can be concluded as the best performer in loans and advances among these three banks as this bank has highest growth rate. The performance of the Nabil is moderate where as the EBL has the least performance among the three banks.

4.5.3 Trend analysis of Earning per Share (EPS)

Earning per share and its trend reflect the overall efficiency of a commercial bank. This measures the efficiency of overall banks performance and check the financial health of an organization.

Chart No. 9



The chart above no.9 exhibits the increasing trend for the all three banks after the year 2007 as the HBL and EBL had fluctuating trend before. After the year 2007 all the banks has increasing trend. Among all, the Nabil has the highest EPS than other two banks, which is good for its future. The EBL has the moderate while HBL has the least EPS than other two banks. The EPS of Nabil will reach up to Rs.208.82

million in the year 2012, Rs.76.09 million and Rs.134.12 million of HBL and EBL respectively.

From this analysis, Nabil can be concluded as the best performer in the case of EPS among the three banks as it has highest EPS. The EPS is the indicative of the overall good or bad performance of an organization.

CHAPTER FIVE

FINDING, CONLUSION AND RECOMMENDATION

5.1 FINDINGS

Lending is one of the most important functions in any financial institution. Without effective and efficient lending policy no financial bank can achieve its goal. Success of any banks depends basically on the effective and systematic lending policy.

NRB has directed the commercial banks to extend a certain percentage of their total outstanding loan to the priority sector. The commercial banks satisfied the priority sector lending requirement and also lending to deprived sector loan has satisfactory.

Measurement of lending strength in absolute term has revealed that the total deposit of HBL has the highest ratio. However, the performance of Nabil bank has not deviate far from the mean ratio of HBL but EBL has least ratio. The EBL has the highest degree of variation with 38.69%.

The loan and advances by the each bank are in increasing trend. HBL has the highest mean ratio with least degree of variation. Nabil has moderate and EBL has the least mean with high degree of variation with 36.02% in all the years of study.

The ratio of loan and advances to total deposits ratio has measured the portion of total loan and advances that is used to increase the income to banks irrespective of

the portfolios of its application. EBL has deployed the highest portion of its total deposits in earning activities and the ratio is significantly above the ratio of other two banks. The combined ratio is not much deviate from all the three banks. The fund mobilizing activities of EBL is highest but the ratio of Nabil and HBL is not far from the ratio of EBL.

The volume of investment of HBL is the highest among three banks along with high degree of variation. The mean value of HBL is 6909.52; Nabil is 5164.9 and EBL is 3081.22 respectively. The HBL has the best performance among the three banks.

Investment to loan and advances ratio measure the contribution made by investment in total amount of loans and advances. The HBL has the highest ratio i.e. 0.4610, Nabil has moderate while the EBL has the least ratio.

The highest income of HBL has been disturbed by the high volume of total expenses at the same time. The Nabil is in the second position and EBL the least in income earning. The Nabil has success in managing the cost factor of the business since it has lowest mean value with moderate degree of variation. The provision of loan loss of EBL is the highest.

The net profit of Nabil is always higher than other banks through out the study period. EBL has the least and HBL has the moderate.

The portfolio analysis revealed the flow of loans and advances in private sector has the lowest priority among these commercial banks. In some cases it has not fulfill the requirement made by government. The combined mean of 0.9597 indicated very low contribution in this sector. The high operating cost, high degree of risk, small scale loan has made commercial bank to flow low percentage of their credit in this

sector. If the combine mean is taken as the standard percentage among these banks, the performance of EBL in productive sector deserve the high degree of appreciations as compare to the other two banks. In the case of productive sector loan, HBL has highest contribution than other two banks. EBL has the least contribution in these sectors.

Analyzing the lending performance of commercial banks revealed that the loan loss provision to loan and advances has high degree of variation among these three banks. The mean ratio of EBL has the highest. HBL has the least and Nabil has moderate. According to NRB directives, the loan loss provision indicates the provision made against the performing loans (pass loan and sub standard loan) only. Hence, this ratio indicates that the volume of sub-standard loan in the loan mix of EBL has higher than other two banks as there is some level of provision requires on the case of pass loan. This indicates that the volume of non-performing loan in the mix of EBL has likely to increase in coming future.

Analyzing the non-performing loans to total loans and advances, HBL has the highest ratio; non-performance loan has increased day by day for HBL. But EBL has least non-performing loans and that Nabil has moderate. The high ratio indicates, these banks have not good performance of loan and advances.

Among the various measures of profitability ratios, EPS reflects the relative measures of profitability. The performance of Nabil is significantly better than other two banks. The interest income to total loan and advances ratio measures the earning power of each rupee employed by an organization. The EBL has the best. The HBL has the least and Nabil has moderate ratio.

Trend analysis revealed the outstanding performance of HBL in all the cases experimented except in EPS. The slope of the trend line is the highest of HBL in all

variable measured. Especially in recent year, the HBL increase efficiency in deposits collection and loans and advances has placed this bank in the super position. The growth measure, depending on the trend values of 2003 and 2007, has added the superiority of HBL performance over the performance of remaining banks. The deposits growth rate in HBL seems outstanding better than that of two other banks. This adds the vital power of lending in HBL. The high degree of growth in loans and advances has put HBL in the best position in the lending functions of commercial banks. The lowest growth rate of EBL in deposit collection, lending and even in investment may pull this bank down from its present dominant position in future.

5.2 CONCLUSION

The lending function is necessary for the better performance of the organization. This study is just a small part to fulfill the partial requirement of MBS. Therefore, it helps to improve and require attention to bring some improvement in lending policy of commercial banks.

The deposit collection of HBL is the highest among three banks. The Nabil and EBL have the satisfactory collection. The lending strength of HBL in loans and advance is the best. The loans and advances is the superior of HBL in its lending activities as compare to other two banks. The investment of HBL is also the best. The Nabil has satisfactory investment while EBL has least investment. If the HBL succeeded in collecting the less cheap sources of fund in future, the lending strength of HBL would push the performance of Nabil and EBL far behind coming future.

The trend in deposit collection is higher than loans and advance and the opportunity in investing activities is limited, the liquidity position of these three bank likely to increase in the coming future. This certainly, increase the capability of these banks in increasing their credit but if the economy did not take the upwards trend and

existing violence in the country continues, the liquidity caused by flow of new deposit would caused the great damage in profitability. The EPS of all the banks will increase in future year. The lowest loan loss provision of HBL is the indicative of better performance than other two banks in judging the borrower needs and quality. However, it's over dependent on investing and placing activities.

5.3 RECCOMMENDATION

Based on above finding and conclusion the following recommendations have forwarded.

1) According to above study the market for the consumer loan is highly competitive. All commercial banks have entered in the business situation and they are offering attractive schemes. In this context, Banks must offer more attractive packages so that customers' value is entranced.

2) To grab the market, it is proposed that banks will finance both for commercial (selectively) and private purpose. The bank should try to lower its interest rate, which would be the additional offer to the customer and market.

3) EBLs' collection in deposits is the lowest and this has high degree of variation and low growth rate as compare to Nabil and HBL. Since the banks are depending on the deposit it collects, the EBL must offer some attractive packages to customer for collecting more funds from them. So, EBL is recommended to offer extra package and give priority on deposit collections.

4) EBLs' contribution in loans and advances is the lowest and this has high degree of variation and low growth rate as compare to Nabil and HBL. Since the entire economy is largely dependent on the proper execution of lending

functions by Commercial Banks. The low tendency toward lending affects the performance of all the banks in long run due to its paradox, Low level of lending constitutes the low level of investment, resulting in low level of productive and employment generation and this cause slack in economy. This slackness in economy adversely effects the funding as well as non-funding activities of banking business. Thus, especially EBL is recommended to give extra attention on productive and priority sector loan.

5) The ratio of interest income of HBL is highest and Nabil is moderate. The EBL has the lowest ratio. The EBL has to increase its income by granting more loan and advances from their deposits.

6) As examine interest income and interest expenses, the interest gap in HBL and EBL is highly unfavorable for the national development. Since this gap is not existed due to the credit creation power of these banks. Thus, banks are recommended to lower interest gap especially by charging low interest in lending. Lowering this gap result in high volume of loans and advances and helps in increasing the sustainable lending practices.

7) Banks have highly recommended to improved their operational efficiency and increase the productivity of expenses made. Introducing sophisticated banking system, developing high motivational strength in management, increasing the interest turnover etc. are the some techniques that improve the productivity of expenses and increase the gap between income and expenses.

8) The net profit of EBL and other two banks have high gap. It is recommended to EBL to bring scheme which could increase their profit earning capacity like investing in productive sector, lending loans and advances at low rate etc.

9) Excess concentration of loan lending on some certain area depicts the fact that people lack in identifying new innovation. Most of the people do similar types of business thinking to have more return. This germinates excess competition for the business and risk for bankers. Hence, all the banks are recommended to prospects for identifying new opportunities and to capitalize those opportunities.

10) The bank should bear some profit in social activities. It affects the public positive attitude towards the bank.

11) Loan should flow on profitable and viable sectors. This will result increase in interest income of loan and advances of which will uplift profit of the organization.

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APPENDIX- 1
CALCULATION OF COEFFICIENT CORRELATION BETWEEN DEPOSITS AND LOAN & ADVANCES OF Nabil

Fiscal Year	Deposits(X)	Loan & Advances(y)	x^2	y^2	xy
2003	13437.7	8010.9	180571781.3	64174517.81	107648070.9
2004	14098.0	8652.20	198753604.0	74860564.84	121978715.6
2005	14586.8	11360.3	212774734.2	129056416.10	165710424.0
2006	19348.4	13278.5	374360582.6	176318562.30	256917729.4
2007	23342.4	15505.9	544867637.8	240432934.80	361944920.2
Sum	**84813.3**	**56507.8**	**1511328340**	**684842996.9**	**1014199860.0**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 1014199860 - 84813.3 \times 56507.8}{\sqrt{5 \times 1511328340 - (84813.3)^2}\sqrt{5 \times 684842996.9 - (56807.8)^2}}$$

$$= \frac{252942316}{19061.63 \times 14038.83}$$

r =0.945

Where,

x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.945

r > 0 i.e. 0.945> 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.945}{\sqrt{5}}$$

$$= 0.015$$

APPENDIX -2

CALCULATION OF COEFFICIENT CORRELATION BETWEEN DEPOSITS AND LOAN & ADVANACES OF HBL

Fiscal Year	Deposits(x)	Loan & Advances(y)	x^2	y^2	xy
2003	21002.8	11074.2	441117607.8	122637905.6	232589207.8
2004	22760.9	13081.7	518058568.8	171130874.9	297751265.5
2005	24831.1	13590.9	616583527.2	184712562.8	337476997.0
2006	26456.2	15768.6	699930518.4	248648746.0	417177235.3
2007	29905.8	17841.5	894356873.6	318319122.3	533564330.7
Sum	**124956.8**	**71356.90**	**3170047096**	**1045449212**	**1818559036**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 1818559036 - 124956.8 \times 71356.9}{\sqrt{5 \times 3170047096 - (124956.8)^2} \sqrt{5 \times 1045449212 - (71356.9)^2}}$$

$$= \frac{176265298.1}{15363.39 \times 11637.82}$$

r =0.99

Where,

x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.99

r > 0 i.e. 0.99> 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.99}{\sqrt{5}}$$

$$= 0.0030$$

APPENDIX -3
CALCULATION OF COEFFICIENT CORRELATION BETWEEN DEPOSITS AND LOAN & ADVANCES OF EBL

Fiscal Year	Deposits(x)	Loan & Advances(y)	x^2	y^2	xy
2003	6694.9	5030.9	44821686.0	25309954.8	33681372.4
2004	8064.0	6116.6	65028096.0	37412795.6	49324262.4
2005	10097.8	7944.1	101965564.8	63108724.81	80217933.0
2006	13802.5	10155.7	190509006.3	103138242.8	140174049.3
2007	19097.7	13710.8	364722145.3	187986036.6	261844745.2
Sum	**57765.9**	**42958.1**	**767046498.4**	**416955754.7**	**565242362.3**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 565242362.3 - 57765.9 \times 42958.1}{\sqrt{5 \times 767046498.4 - (57765.9)^2}\sqrt{5 \times 416955754.7 - (42958.1)^2}}$$

$$= \frac{344698502.7}{22323.38 \times 15471.93}$$

r =0.998

Where,

x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.998

r > 0 i.e. 0.998> 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of Probable Error

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

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

$$= 0.001$$

APPENDIX-4
CALCULATION OF COEFFICIENT CORRELATION BETWEEN INVESTMENTS AND LOANS & ADVANCES OF Nabil

Fiscal Year	Investments (x)	Loan & Advances(y)	x^2	y^2	xy
2003	3687.8	8010.9	13599868.84	64174517.81	29542597.02
2004	3697.1	8652.20	13668548.41	74860564.84	3198848.62
2005	3940.4	11360.3	15526752.16	129056416.10	44764126.12
2006	6100.4	13278.5	37214880.16	176318562.30	81004161.40
2007	8398.8	15505.9	70539841.44	240432934.80	130230952.9
Sum	**25824.5**	**56507.8**	**485449891.0**	**684842996.9**	**317529886.1**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 317529886.1 - 25824.5 \times 56507.8}{\sqrt{5 \times 485449891.0 - (25824.5)^2}\sqrt{5 \times 684842996.9 - (56807.8)^2}}$$

$$= \frac{120616399.4}{41956.46 \times 14038.83}$$

r =0.205

Where,
x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.205
r > 0 i.e. 0.205> 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.205}{\sqrt{5}}$$

$$= 0.240$$

APPENDIX -5
CALCULATION OF COEFFICIENT CORRELATION INVESTMENTS AND LOANS & ADVANCES OF HBL

Fiscal Year	Investments(x)	Loan & Advances(y)	x^2	y^2	xy
2003	4014.3	11074.2	16114604.49	122637905.6	44455161.06
2004	2878.3	13081.7	8284610.89	171130874.9	37653057.11
2005	5509.6	13590.9	30355692.16	184712562.8	74880422.64
2006	10323.8	15768.6	106580846.4	248648746.0	162791872.64
2007	11821.6	17841.5	139750226.6	318319122.3	210915076.4
Sum	**34547.6**	**71356.90**	**301085980.5**	**1045449212**	**530695589.9**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 530695589.9 - 34547.6 \times 71356.9}{\sqrt{5 \times 301085980.5 - (34547.6)^2}\sqrt{5 \times 1045449212 - (71356.9)^2}}$$

$$= \frac{188268311.1}{17660.50 \times 11637.82}$$

r =0.92

Where,

x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.92

r > 0 i.e. 0.92> 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.92}{\sqrt{5}}$$

$$= 0.024$$

APPENDIX -6
CALCULATION OF COEFFICIENT CORRELATION BETWEEN INVESTMENTS AND LOAN & ADVANCES OF EBL

Fiscal Year	Investment(x)	Loan & Advances (y)	x^2	y^2	xy
2003	1616.5	5030.9	2613072.25	25309954.8	8132449.85
2004	2483.5	6116.6	6167772.25	37412795.6	15190576.1
2005	2119.7	7944.1	4493128.09	63108724.81	16839108.77
2006	4201.3	10155.7	17650921.69	103138242.8	42667142.41
2007	4985.1	13710.8	24851222.01	187986036.6	68349709.08
Sum	**15406.1**	**42958.1**	**55776116.29**	**416955754.7**	**151178986.2**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 151178986.2 - 15406.1 \times 42958.1}{\sqrt{5 \times 55776116.29 - (15406.1)^2}\sqrt{5 \times 416955754.7 - (42958.1)^2}}$$

$$= \frac{94078146.59}{6444.58 \times 15471.93}$$

r =0.94

Where,

x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.94

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

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.94}{\sqrt{5}}$$

$$= 0.018$$

APPENDIX- 7
CALCULATION OF COEFFICIENT CORRELATION BETWEEN DEPOSITS AND INVESTMENTS OF Nabil

Fiscal Year	Deposits (x)	Investments (y)	x^2	y^2	xy
2003	13437.7	3687.8	180571781.3	13599868.84	49555550.1
2004	14098.0	3697.1	198753604.0	13668548.41	52121715.8
2005	14586.8	3940.4	212774734.2	15526752.16	57477826.7
2006	19348.4	6100.4	374360582.6	37214880.16	118032979.4
2007	23342.4	8398.8	544867637.8	70539841.44	196048149.1
Sum	**84813.3**	**25824.5**	**1511328340**	**485449891.0**	**473236221.1**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 473236221.1 - 84813.3 \times 56507.8}{\sqrt{5 \times 1511328340 - (84813.3)^2}\sqrt{5 \times 684842996.9 - (56807.8)^2}}$$

$$= \frac{175920039.7}{19061.63 \times 14038.83}$$

r =0.22

Where,

x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.22

r > 0 i.e. 0.22> 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.22}{\sqrt{5}}$$

$$= 0.235$$

APPENDIX -8
CALCULATION OF COEFFICIENT CORRELATION BETWEEN DEPOSITS AND INVESTMENT OF HBL

Fiscal Year	Deposits(x)	Investments(y)	x^2	y^2	xy
2003	21002.8	4014.3	441117607.8	16114604.49	84311540.0
2004	22760.9	2878.3	518058568.8	8284610.89	65512698.5
2005	24831.1	5509.6	616583527.2	30355692.16	136809428.6
2006	26456.2	10323.8	699930518.4	106580846.4	273128517.6
2007	29905.8	11821.6	894356873.6	139750226.6	3532534405.3
Sum	**124956.8**	**345547.6**	**3170047096**	**301085980.5**	**913296590.0**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 913296590 - 124956.8 \times 71356.9}{\sqrt{5 \times 3170047096 - (124956.8)^2}\sqrt{5 \times 1045449212 - (71356.9)^2}}$$

$$= \frac{249525406.3}{15363.39 \times 11637.82}$$

r =0.92

Where,

x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.92

r > 0 i.e. 0.92> 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.92}{\sqrt{5}}$$

$$= 0.024$$

APPENDIX -9
CALCULATION OF COEFFICIENT CORRELATION BETWEEN DEPOSITS AND INVESTMENTS OF EBL

Fiscal Year	Deposits(x)	Investment(y)	x^2	y^2	xy
2003	6694.9	1616.5	44821686.0	2613072.25	10822305.8
2004	8064.0	2483.5	65028096.0	6167772.25	20026944.0
2005	10097.8	2119.7	101965564.8	4493128.09	21404306.6
2006	13802.5	4201.3	190509006.3	17650921.69	57988443.2
2007	19097.7	4985.1	364722145.3	24851222.01	95203944.37
Sum	**57765.9**	**15406.1**	**767046498.4**	**55776116.29**	**205445943.9**

We Know,
Coefficient of Correlation (r)

$$r_{xy} = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 205445943.9 - 57765.9 \times 42958.1}{\sqrt{5 \times 767046498.4 - (57765.9)^2}\sqrt{5 \times 416955754.7 - (42958.1)^2}}$$

$$= \frac{137282487.5}{22323.38 \times 15471.93}$$

r =0.95

Where,

x= total deposit collection of the year
y= total loan disbursement of the year
n= number of year
P.E. = Probability of error

The correlation coefficient of total deposit and total loan disburse (r) = 0.95

r > 0 i.e. 0.95> 0 the relationship between two variables and total deposits and loan disbursed are positively correlation.

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.95}{\sqrt{5}}$$

$$= 0.015$$

APPENDIX - 10
SOURCES AND USES OF FUND OF NABIL BANK LTD. (Rs in Millions)

	Mid-July				
	2003	**2004**	**2005**	**2006**	**2007**
1. CAPITAL FUND	**1146.4**	**1804.2**	**1482.4**	**1657.7**	**1874.8**
i. Paid-up Capital	491.7	491.7	491.7	491.7	491.7
ii. General Reserve	568.8	652.0	743.2	847	975
iii. Share Premium			0.7	0.1	0.1
iv. Retained Earning	2.1	26.1	29.8	30.0	33.4
v. Others Resereves	83.8	634.4	183.1	251.1	330.4
vi. Exchange Fluctuation Fund			33.9	37.8	44.2
2. BORROWINGS	**961.5**	**229.7**	**17.1**	**173.2**	**882.6**
i. NRB	611.5	0.0	0.0	0.0	600
ii. "A" Class Lincensed Ins.	350.0	229.7	17.1	173.2	282.6
iii. Foreign Bank and Fin.Ins	0.0	0.0	0.0	0	0
iv. Others Financial Ins.	0.0	0.0	0.0	0	0
v. Bond and Securities				0	0
3. DEPOSITS	**13437.7**	**14098.0**	**14586.8**	**19348.4**	**23342.4**
i. Current	3025	2687.0	2843.5	2953.3	3446.1
Domestic			2046.1	2326.5	2603.3
Foreign			797.4	626.8	842.8
ii. Savings	5237.4	5994.1	7026.4	8770.8	10187.4
Domestic			6114.6	7757	9103.6
Foreign			911.8	1013.8	1083.8
iii. Fixed	2252.6	2310.6	2078.6	3450.2	5435.2
Domestic			1012.9	1105.1	2892.4
Foreing			1065.7	2345.1	2542.8
iv. Call Deposits	2540.7	2801.6	2341..3	3851.2	3961.6
v. Others	382.0	304.7	297	322.9	312.1
4. BILLS PAYABLES			71.3	113.8	94.2
5. OTHERS LIABILITIES	**2730.3**	**2102.4**	**1639.4**	**1862.4**	**2780.8**
i. Sundry Creditors			176.9	216.9	478
ii. Loan Loss Provision			392	352.9	356.3
iii. Interest Suspense a/c			166.6	145	112.2
iv. Others	2730.3	2102.4	903.9	1147.6	1834.3
6. RECONCILIATION A/C			0.0	0	0
7. PROFIT & LOSS A/C			817.9	979.1	685.6
SOURCES OF FUNDS	**18275.9**	**18234.3**	**18614.9**	**24134.6**	**29660.4**
1. LIQUID FUNDS	**4162.1**	**3916.9**	**1345.2**	**2365.2**	**1963.1**
I. Cash Balance	190.6	286.9	146.3	237.8	270.4
Nepalese Notes &Coins	157.6	263.2	132.4	220.1	243.1
Foreign Currency	33.0	23.7	13.9	17.7	27.3
II. Bank Balance	957.1	682.5	413.2	392.5	1129.2
a. In NRB	892.8	606.4	107.3	318.4	1113.2
Domestic Currency			85.7	299.1	1100.8
Foreign Currency			21.6	19.3	12.4
b. "A" Class Licensed Ins.	16.2	37.8	26.2	26.9	31.5
Domestic Currency			26.2	26.9	31.5
Foreign Currency			0.0	0	
c. Others Financial Ins.			0.0	0	
d. In Foreign Banks	48.1	38.3	279.7	47.2	-15.5
III. Money at Call	3014.4	2947.5	785.7	1734.9	563.5
Domestic Currency			102.5	670	100
Foreign Currency			683.2	1064.9	463.5
2. **INVESTMENTS**	**3663.5**	**3672.6**	**2826.8**	**2372.3**	**5359.2**
a. Govt. Securities	3663.5	3672.6	2413.9	2297.9	4805.7
b. NRB Bond			0.0	0	0
c. Govt. Non-Fins Ins.			0.0	0	0
d. Others Non-Fins Ins.			0.0	0	0
e. Non Residents			412.9	74.4	553.5
3. SHARES & OTHERS INVESTMENT	**24.3**	24.5	**1526.5**	**3802.5**	**3593.1**
1. Non Residents			1497.9	3711.2	3521.5
2. Others			28.6	91.3	71.6

4 LOANS AND ADVANCES	**7996.9**	**8635.1**	**11078.0**	**13021.3**	**15657.1**
a. Govt. Entp.	20.8	20.3	60	360	60
b. Pvt. Sector	7719.2	8497.3	11018	12661	15200
c. Financial Institution					398
5**. BILL PURCHASED**	256.9	117.5	144.7	218.1	221.2
a. Domestic Bills Purchased			77.2	66.7	63
b. Foreign Bills Purchased	256.9	117.5	68	151	158
c. Import Bill & Import			0.0	0.0	0.0
6. **LOANS AGAINST COLLECTED**	14.0	17.1	137.6	39.4	24.7
BILLS	14.0	17.1	20.4	21.0	0.0
a. Against Domestic Purchased	2158.2	1850.6	117.2	18.4	24.7
b. Against Foreign Bills	241.2	212.7	361.2	319.1	289.0
7. FIXED ASSETS	3.6	0.0	1194.9	1996.7	2553.0
8. OTHERS ASSETS	237.6	212.7	185.0	288.1	220.0
a. Accrued Interest			0.0	0.6	
Govt. Entp.			185.0	287.5	220.0
Private Sector				286.7	335.2
b. Staff loans/Adv.	1917.0	1637.9	126.6	148.7	374.6
c. Sundry Debtors			0.0	0.0	
d. Cash in Transit.			883.3	1237.2	1623.2
e. Others					
9. EXPENSES not Written off					
10 Non Banking Assets					
11 Reconciliation Account					
12. Profit & Loss a/c					
USES OF FUNDS	**18275.9**	**18234.3**	**18614.9**	**24134.6**	**29660.4**

APPENDIX -11
SOURCES AND USES OF FUND OF HIMALYAN BANK LTD. (Rs in Millions)

	Mid-July				
	2003	2004	2005	2006	2007
1. CAPITAL FUND	**740.6**	**1435.9**	**1328.2**	**1541.7**	**1766.1**
i. Paid-up Capital	429.0	538.3	643.5	772.2	810.8
ii. General Reserve	288.8	329.2	381.8	443.4	534.9
iii. Share Premium			0	0	0
iv. Retained Earning		68.9	173.9	158.2	156.6
v. Others Reserves	22.8	501.5	102.9	154.3	244.3
vi. Exchange Fluctuation Fund			26.1	13.6	19.5
2. BORROWINGS	**538.8**	**66.4**	**485**	**383**	**360**
i. NRB	403.7	66.4	25	23	
ii. "A" Class Licensed Ins.	135.1	0.0	100	0	
iii. Foreign Bank and Fin.Ins.	0.0	0.0	0	0	
iv. Others Financial Ins.	0.0	0.0	360	0	
v. Bond and Securities				360	360
3. DEPOSITS	**21002.8**	**22760.9**	**24831.1**	**26456.2**	**29905.8**
i. Current	3702.2	4353.1	5013	4993.6	5447.1
Domestic			3446.9	3647.4	4370.2
Foreign			1568.1	1346.2	1076.9
ii. Savings	10840.8	11719.7	12852.4	14582.8	15784.7
Domestic			11925.3	13287.7	14573
Foreign			927.1	1295.1	1211.7
iii. Fixed	5880.7	6043.7	6364.3	6350.2	8201.1
Domestic			2540	2353.3	4076.4
Foreing			3824.3	3996.9	4124.7
iv. Call Deposits	201.3	219.6	15.4	41.6	97.9
v. Others	377.8	424.8	586	488	375
4. BILLS PAYABLES				101.3	94.9
5. OTHERS LIABILITIES	**2439.0**	**2488.0**	**1705.9**	**2067.2**	**1557.4**
i. Sundry Creditors			17.2	83.6	24
ii. Loan Loss Provision			937.1	1029	760.1
iii. Interest Suspense a/c			518.2	558.2	343.1
iv. Others	2439.0	2488.0	233.4	396.4	430.2
6. RECONCILIATION A/C			0	1.7	132.8
7. PROFIT & LOSS A/C			752.4	513.8	828.5
SOURCES OF FUNDS	**24721.2**	**26751.2**	**29102.6**	**31064.9**	**34645.5**
1. LIQUID FUNDS	**8281.7**	**8613.5**	**8173.2**	2677.6	**3259.6**
I. Cash Balance	382.7	274.2	287.2	305.4	177.2
Nepalese Notes &Coins	350.0	274.2	287.2	263.3	154.6
Foreign Currency	32.7	0	0	42.1	22.6
II. Bank Balance	1770.0	1494.5	1262.2	1366.9	1372.4
a. In NRB	1130.0	1623.9	1412	1093	1269.5
Domestic Currency			1373.2	1109.6	1255
Foreign Currency			38.8	-16.6	14.5
b. "A" Class Licensed Ins.	40.0	33.0	25	78.6	40.8
Domestic Currency			25	78.6	38.8
Foreign Currency			0	0	2
c. Others Financial Ins.					
d. In Foreign Banks	600.0	-162.4	-152.3	195.3	621
III. Money at Call	6129.0	6844.8	6623.8	1005.3	1710
Domestic Currency			200	0	130
Foreign Currency			6423.8	1005.3	1580
2. INVESTMENTS	**3980.0**	**2781.7**	**5469.7**	**5144.4**	**6454.8**
a. Govt. Securities	3980.0	2781.7	5469.7	4577.7	6454.8
b. NRB Bond				566.7	
c. Govt. Non-Fins Ins.					
d. Others Non-Fins Ins.					
e. Non Residents					
3. SHARES & OTHERS INVESTMENT	**34.3**	**96.6**	**39.9**	**5746.1**	**5366.8**
1. Non Residents			0	0	5294.7
2. Others			39.9	5746.1	72.1

4 LOANS AND ADVANCES	**10894.2**	**13081.7**	**13245.0**	**15515.7**	**17672.0**
a. Govt. Entp.	742.7	766.2	745	605	702
b. Pvt. Sector	10151.5	12315.5	125..	14911	16970
c. Financial Institution					
5. BILL PURCHASED	180.0	0.0	345.9	252.6	169.5
a. Domestic Bills Purchased			345.9	252.6	30.3
b. Foreign Bills Purchased	180.0	0.0			139.2
c. Import Bill & Import					
6. LOANS AGAINST COLLECTED BILLS					
a. Against Domestic Purchased					
b. Against Foreign Bills			481.0	540.8	575.0
7. FIXED ASSETS	**1351.0**	**2177.7**	**1038.8**	**1050.0**	**1009.9**
8. OTHERS ASSETS	**313.0**	**661.9**	**701.4**	**688.2**	**415.3**
a. Accrued Interest	0.9	2.2		0	0
Govt. Entp.	312.6	659.7	701.4	688.2	415.3
Private Sector				109.4	151.7
b. Staff loans/Adv.			58.8	27.1	33.2
c. Sundry Debtors			0	0	
d. Cash in Transit.	1037.5	1515.8	275.6	225.3	409.7
e. Others				121.5	118.3
9. EXPENSES not Written off			57.9	16.2	19.6
10 Non Banking Assets			254.2	0	
11 Reconciliation Account			0	0	
12. Profit & Loss a/c					
USES OF FUND	**24721.2**	**26751.2**	**29102.6**	**31064.9**	**34645.5**

APPENDIX -12
SOURCES AND USES OF FUND OF EVEREST BANK LTD. (Rs in Millions)

	Mid-July				
	2003	2004	2005	2006	2007
1. CAPITAL FUND	**587.1**	**665.8**	**980.3**	**832.5**	**963.6**
i. Paid-up Capital	455.0	455.0	755.0	518.0	518.0
ii. General Reserve	44.9	64.5	93.2	127.3	180.8
iii. Share Premium			6.4	6.4	6.4
iv. Retained Earning	72.9	62.5	46.9	70.5	108.6
v. Others Reserves	14.3	83.8	63	94.5	133.1
vi. Exchange Fluctuation			15.8	15.8	16.7
Fund	**83.2**	**433.3**	0	**300**	**300**
2. BORROWINGS	0.0	0.0	0	0	0
i. NRB	0.0	0.0	0	0	0
ii. "A" Class Licensed Ins.	83.2	433.3	0	0	0
iii. Foreign Bank and Fin.Ins	0.0	0.0	0	300	300
iv. Others Financial Ins.					
v. Bond and Securities	**669.9**	**8064.0**	**10097.8**	**13802.5**	**19097.7**
3. DEPOSITS	562.4	719.8	1025.2	115.2	2620
i. Current			997.8	1128.5	2585.2
Domestic			27.4	26.7	34.8
Foreign	2758.0	3730.7	4806.9	6929.2	9018
ii. Savings			4767.5	6815	8887.7
Domestic			39.4	114.2	130.3
Foreign	2803.4	2914.1	3444.5	4298.2	5658.7
iii. Fixed			3418	3758.1	5368.4
Domestic			26.5	540.1	290.3
Foreign	428.0	565.6	704.4	1293.3	1578.9
iv. Call Deposits	143.1	133.8	116.8	126.6	222.1
v. Others			17.6	11.1	26.8
4. BILLS PAYABLES	**895.0**	**804.1**	**782.1**	**1176.5**	**1398.8**
5. OTHERS LIABILITIES			231.9	29.4	44.5
i. Sundry Creditors			317.7	356.1	418.6
ii. Loan Loss Provision			57.8	61.6	83.1
iii. Interest Suspense a/c	895.0	804.1	174.7	729.4	852.6
iv. Others			2915.4	211.4	1247.8
6. RECONCILIATION A/C			275.8	380.5	300.6
7. PROFIT & LOSS A/C					
SOURCES OF FUNDS	**8260.2**	**9967.2**	**15069.3**	**16714.5**	**23335.3**
1. LIQUID FUNDS	**1156.2**	**869.7**	**1624.1**	**1619.6**	**3329.7**
I. Cash Balance	136.8	128.7	192.6	259.4	535
Nepalese Notes &Coins	109.8	117.8	180.6	246.1	512.3
Foreign Currency	26.8	10.9	12.0	13.3	22.7
II. Bank Balance	982.0	508.9	861.6	1360.2	2794.7
a. In NRB	724.8	441.9	774.5	1139.5	1846.8
Domestic Currency			757.1	1136.5	1841.7
Foreign Currency			17.4	3	5.1
b. "A" Class Licensed Ins.	5.9	4.2	13.4	6.1	36.3
Domestic Currency			12.5	6.1	32.6
Foreign Currency			0.9	0	3.7
c. Others Financial Ins.			0	0	0
d. In Foreign Banks	251.3	62.8	73.7	214.6	911.6
III. Money at Call	37.5	232.1	570	0	0
Domestic Currency			570	0	
Foreign Currency			0	0	
2. INVESTMENTS	**1599.4**	**2466.4**	**2100.3**	**3548.6**	**4704.6**
a. Govt. Securities	1599.4	2466.4	2100.3	3548.6	4704.6
b. NRB Bond					
c. Govt. Non-Fins Ins.					
d. Others Non-Fins Ins.					
e. Non Residents					
3. SHARES & OTHERS	17.1	17.1	19.4	652.7	280.5
INVESTMENT					274
1. Non Residents				646.2	6.5
2. Others			19.4	6.5	

4 LOANS AND ADVANCES	**5030.9**	**6116.6**	**7914.4**	**10124.2**	**14059.2**
a. Govt. Entp.	60.0	69.2	0	494	643
b. Pvt. Sector	4970.9	6047.4	7914	9631	13027
c. Financial Institution					388.9
5. BILL PURCHASED			29.7	30.7	40.8
a. Domestic Bills Purchased			16.4	21.7	28.8
b. Foreign Bills Purchased			13.3	9	12
c. Import Bill & Import			0.0	0	0
6. LOANS AGAINST COLLECTED BILLS			0.0	0	0
a. Against Domestic Purchased					
b. Against Foreign Bills					
7. FIXED ASSETS			133.7	152.0	170.3
8. OTHERS ASSETS	**438.0**	**482.9**	**449.9**	**576.9**	**750.2**
a. Accrued Interest	147.6	176.6	180.6	110.2	72.2
Govt. Entp.	0.9	0.2		0	0.5
Private Sector	146.7	176.4	180.6	110.2	71
b. Staff loans/Adv.				72.8	7
c. Sundry Debtors			20.9	9.7	102.6
d. Cash in Transit.			3.3	0	56.9
e. Others	290.4	306.3	245.1	384.2	0
9. EXPENSES not Written off			0	0	518.5
10 Non Banking Assets			48.7	9.9	0
11 Reconciliation Account			2748.7	0	0
12. Profit & Loss a/c			0	0	0
USES OF FUNDS	**8260.2**	**9967.2**	**15069.0**	**16714.6**	**23335.3**

APPENDIX-13
MAIN INDICATORS OF EVEREST BANK LTD.

Particulars	Indicator	2003/04	2004/05	2005/06	2006/07	2007/08
1. Net Profit/Total Income	%	18.3	19.9	22.2	21.6	24.2
2. Per Share Earning (after tax Income)	Rs.	45.58	54.22	62.78	78.42	91.82
3.Market Price per share	Rs.	680	870	1379	2430	3132
4. Price/Earning Ratio		14.93	16.04	21.97	30.99	34.11
5.Dividend on share Bonus share	%		20		30	30
6. Cash Dividend	%	20		25	10	20
7.Interest Income/Loans and Advances	%	9.2	8.0	7.6	6.9	7.1
8. Employee exp./Total Operating expenses	%	10.3	12.4	11.5	11.0	15.4
9. Interest exp/Total deposits and borrowing	%	3.9	2.9	2.8	2.7	2.6
10. Exchange income/total income	%	3.5	3.2	2.2	2.1	3.5
11. Staff bonus/total employee expenses	%	48.2	46.3	48.7	52.8	41.7
12. Net Profit/Loan &Advances	%	2.4	2.2	2.3	2.1	2.4
13. Net Profit/total assets	%	1.5	1.4	1.5	1.4	1.7
14. Total loans and advances/total deposits	%	75.6	78.5	73.4	77.4	78.6
15. Total operating expenses/total assets	%	6	4.1	3.9	3.6	3.7
16. Capital Adequacy Ratio						
a. Core Capital	%	9.58	8.88	8.21	7.82	9.04
b. Supplementary Capital	%	1.49	4.69	4.11	3.38	2.4
c. Total Capital Funds	%	11.07	13.57	12.32	11.20	11.4
17. Cash Reserve Ratio (CRR)	%	1.6	1.9	1.9	2.9	3.4
18. NPAs/total Loans & Advances	%	1.7	1.63	1.27	.80	.68
19. Weighted Average Interest Rate Spread	%	3.98	4.06	3.99	3.91	4.34
20. Book Networth (Amount in Lacs)	Rs.	5403	6926	8228	11065	15812
21. Total Shares	Number	3150000	3150000	3780000	3780000	4914000
22. Total Employee	Number	250	257	306	393	449
23. Others						
-Per Employee Business (Rs. in Lacs)	Rs.	566.6	700.3	782.3	821.1	954
-Employee expenses/total Income	%	6.2	7.1	6.7	6.3	8.5

APPENDIX-14
MAIN INDICATORS HIMALAYAN BANK LTD.

Particulars	Indicator	2002/03	2003/04	2004/05	2005/06	2006/07
1. Net Profit/Total Income	%	27.51	30.75	32.98	35.16	34.9
2. Per Share Earning (after tax Income)	Rs.	49.45	49.05	47.91	59.24	60.66
3.Market Price per share	Rs.	836	840	920	1100	1740
4. Price/Earning Ratio		16.91	17.12	19.20	18.57	28.56
5.Dividend on share Bonus share	%	25	20	31.58	35	40.0
6. Cash Dividend	%	1.32	0.0	11.58	30	15.0
7.Interest Income/Loans and Advances	%	11.08	9.64	10.75	10.32	9.98
8. Employee exp./Total Operating expenses	%	39.0	40.0	41.95	41.57	44.35
9. Interest exp/Total deposits and borrowing	%	2.64	2.23	2.26	2.45	2.55
10. Exchange income/total income	%	7.54	7.4	7.80	9.42	6.71
11. Staff bonus/total employee expenses	%	24.98	23.45	24.53	22.28	20.86
12. Net Profit/Loan &Advances	%	2.12	220	2.48	3.12	2.89
13. Net Profit/total assets	%	.91	1.06	1.1	1.55	1.47
14. Total loans and advances/total deposits	%	47.61	54.30	50.07	55.27	56.57
15. Total operating expenses/total assets	%	23.19	27.0	29.19	30.02	30.32
16. Capital Adequacy Ratio						
a. Core Capital	%	7.07	7.69	8.33	8.65	9.61
b. Supplementary Capital	%	3.85	2.96	2.68	2.62	2.50
c. Total Capital Funds	%	10.93	10.65	11.01	11.26	12.11
17. Cash Reserve Ratio (CRR)	%	8.30	8.28	7.86	5.92	5.92
18. NPAs/total Loans & Advances	%	10.08	8.88	7.44	6.6	3.61
19. Weighted Average Interest Rate Spread	%	3.33	3.25	3.19	3.80	3.57
20. Book Networth (Amount in Lacs)	Rs.	247.81	246.93	23959	22872	264.74
21. Total Shares	Number	4290000	5362500	6435000	7722000	8108100
22. Total Employee	Number	358	455	501	561	584

APPENDIX- 15

CAPITAL FUND TO RISK WEIGHTED ASSETS OF COMMERCIAL BANKS

Banks	2003	2004	2005	2006	2007
	Capital Fund to Risk Weighted Assets (in %)	Capital Fund to Risk Weighted Assets (in %)	Capital Fund to Risk Weighted Assets (in %)	Capital Fund to Risk Weighted Assets (in %)	Capital Fund to Risk Weighted Assets (in %)
Nabil	13.05	13.56	12.44	15.08	12.61
HBL	11.03	10.62	11.10	13.10	12.81
EBL	12.33	11.07	13.57	12.86	11.31

NON-PERFORMING LOAN STATUS OF COMMERCIAL BANKS

Banks	2003			2004			2005			2006			2007		
	Total Gross Loan	NPL	NPL to Total Gross Loan (in%)	Total Gross Loan	NPL	NPL to Total Gross Loan (in%)	Total Gross Loan	NPL	NPL to Total Gross Loan (in%)	Total Gross Loan	NPL	NPL to Total Gross Loan (in%)	Total Gross Loan	NPL	NPL to Total Gross Loan (in%)
Nabil	8113.68	449.63	5.54	8548.66	286.68	3.35	10946.74	144.51	1.32	13278.78	182.60	1.38	15903.	178.30	1.12
HBL	10844.60	1092.84	10.08	12919.63	1147.46	8.88	13451.17	1001.35	7.44	15761.97	1040.75	6.60	17793.7	641.60	3.61
EBL	5094.58	111.19	2.20	6095.84	104.76	1.72	7900.09	128.81	1.63	10136.25	129.2	1.27	.14082.6	113.7	.80