LENDING STRATEGY OF COMPETITIVE BANKS
(Everest Bank Limited vs Nabil Bank Limited)

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RECOMMENDATION

This is to certify that the thesis:

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DECLERATION

I hereby declare that the work reported in this thesis entitled **"LENDING STRATEGY OF COMPETITIVE BANKS'' (Everest Bank Limited vs Nabil Bank Limited)** Submitted to office of the Dean, faculty of management; Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements of the Master Degree in Business Studies (M.B.S) under the supervision and guidance of **Prof. Snehalata Kafle** of Shanker Dev Campus, Tribhuvan University.

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ABBREVIATIONS

ATM	:	Automatic Machine Teller
B.S.	:	Bikram Sambat
BOKL	:	Bank of Kathmandu Limited
C.V.	:	Co- Variance
CAR	:	Capital Adequacy Ratio
CD	:	Credit Deposit
CRR	:	Cash Reserve Ratio
DBL	:	Dubai Bank Limited
EBIL	:	Emirates Bank Limited
EBL	:	Everest Bank Limited
FDR	:	Fixed Deposit Receipt
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Limited
HMG	:	His Majesty Government
JVB	:	Joint Venture Bank
KBL	:	Kumari Bank Limited
LLP	:	Loan Loss Provision
Ltd.	:	Limited
NABIL	:	NABIL Bank Limited
NBBL	:	Nepal Bangladesh Bank Limited
NBIL	:	National Bank Limited, Bangladesh
NCCB	:	Nepal Credit Commercial Bank
NGBL	:	Nepal Gridnlays Bank Limited
NIBL	:	Nepal Investment Bank Limited
NIDC	:	Nepal Industrial Development Corporation
NPA	:	Non Performing Assets

NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
P.Er	:	Probable Error
PL	:	Performing Loan
PNB	:	Punjab National Bank
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
S.D.	:	Standard Deviation
SBI	:	Nepal SBI Bank Limited
SCBNL	:	Standard Chartered Bank Nepal Limited
TL	:	Total Loan
WTO	:	World Trade Organization

CHAPTER 1

Introduction

1.1 Meaning and Origin of Bank

Bank can be defined as the financial intermediary between depositors and entrepreneurs. The intermediation takes place when banks accept deposits from general public, private organization, and corporate bodies and displaced that deposit for profitable purposes in the form of loans and advances. In other words banks are among the most important financial institutions in the economy and essential business thousands of local town and cities. Certainly, banks must be identified by their functions, services and roles they performs in the economy.

Concise Oxford Dictionary defines bank as "A bank is an establishment of the custody of money which it page out on customers orders".
Sayors defined the bank as " Ordinary banking business consists of changing cash for deposits and bank deposit for cash, transferring bank deposits from one person or corporation to another, giving bank deposits in exchange of bills of exchange, government bonds, the secured or unsecured promises of business to repay etc."
According to US law, "any institution offering deposits subjects withdrawal on demand and making laws of a commercial or business nature is a bank. So, banks are those institutions that offer the widest range of financial services especially credit, saving and payments services and perform the widest range of financial functions of any business firm in the economy.

The transaction in the financial market heavily depends upon the banking system of the country. Without bank it will be quite impossible for the industrialists to go directly to general public for getting their savings for investment. So, the simplest definition is that bank takes the saving of the public by providing them with certain rate of interest and loans it to needy customers charging them certain rate of interest and earns some profit by doing this intermediation. In spite of deposits and credits, issue of letter of credit, guarantee, issue of money, remitting of money, controlling monetary activities of country etc. are also measure functions of a bank. There are various concepts among the economists about the origin of the word "banking". The

term bank derives from the Latin Bancus, which refers to the bench on which the banker would keep its money and his records. Some persons trace its origin to the French word “Banque” and the Italian word “Banca” which means a bench for keeping, lending and exchanging of money in the market.

There were banking activities in ancient time. Marshall Points out that ancient Groece Temples act as store houses for the precious metals where the banking activities were carried on. The first bank called the “Bank of Venice” was established in Venice, Italy, in year 1157. The Bank of Barcelona and the Bank of Genoa were established in 1401 and 1407 respectively. In England, the banking began with English goldsmith only after 1604. The Bank of Amsterdam was the great bank in 17th century.

1.2 Historical Background

The origin of the word "Bank" is linked to: Latin word "bancus” meaning a bench, Italian word "banca" meaning a bench, French word "banque" meaning a bench Since there is no unanimity, it is difficult to say exactly from which of these words the term "bank" has been derived from. 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 Genoa (1407) were established. The Bank of Hindustan established in 1770 is regarded as the first bank in India. The real growth of banks accelerated only after the introduction of the Banking Act -1833.

In the beginning, commercial bank functions were confined to accepting deposit and giving loans. Their functions have now increased manifold. They offer a wide range of services encompassing the needs of public of different walks of life. The main objective of bank involves collecting amount from the public in the form of savings and providing short-term loan for the development of industry, trade and business. Generally, when we talk of banks, we mean commercial banks. In the context of Nepal, Tejarath Adda established during the tenure of the then Prime Minister Ranodip Singh (B.S. 1933) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but gave loan to employees and public against the bullion.

Banking in the modern sense started with the inception of Nepal Bank Ltd. (NBL) on B.S. 1994-07-30. Nepal Bank Ltd had a massive responsibility of attracting people

towards the banking sector from the net of moneylenders, and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centers. However, Government had the onus of stretching banking services to the nook and corner of the country and also managing financial system in a proper way. The need for a central bank was felt. Thus, Nepal Rastra Bank (NRB) was set up on B.S. 2013.01.14 as a central bank under Nepal Rastra Bank Act 2012 B.S. since then, it has been functioning as the government's bank and has contributed to the growth of financial sector ever since. he major challenge before NRB is to ensure the robust health of financial institutions. Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. With this in mind, government set up Rastriya Banijya Bank (RBB) in B.S. 2022-10-10 as a fully government owned commercial bank.

As an open policy of the government to allow private and foreign investors to invest in banking under the Commercial Bank Act 2031 B.S., many new banks were established, and many more are coming into existence.

1.3 Development of Joint Venture Banks in Nepal

Since 1983, Nepal has opened the door for the establishment of Joint Venture Banks in Nepal in foreign collaboration in private sectors. For the first time in Nepal Nepal Arab Bank (Now Nabil Bank) was established under collaboration under with Dubai Bank Ltd in 1984 and followed by Nepal Indosuez Bank (Now Nepal Investment Bank) and Nepal Grindlays Bank (Now Standard Chattered Bank) established under the collaboration between Nepal and France. As the country followed economic liberalization, there was massive entrance of foreign banks in Nepal. The establishment of Himalayan Bank as a joint venture with Habib Bank Ltd of Pakistan, Nepal SBI Bank as a joint venture bank with the reputed Bank of India. Nepal Bangladesh Bank as a joint venture with the Bangladesh Bank, Bank of Kathmandu as a joint venture bank with Thailand Bank (not now), Everest Bank Ltd as a joint venture with Punjab National Bank, Nepal Srilankan Bank(not now) as a joint venture bank Srilanka Bank are the examples of banking industries of Nepal.

1.4 Introduction of Joint Venture Banks in Nepal

The HMG/N budget for the FY 1984/85 the following justification for allowing the setting up of joint venture banks in the following words: "At present, the financial institutions or the country have neither been effortful to mobilize resources. On the one hand, the major part of their commercial loans is concentrated among the individual where as the small traders and entrepreneurs are facing difficulties to receive loans on other. The only solution to this problem is to encourage competition in the banking sector. Therefore, a policy of allowing new commercial banks under joint venture with foreign collaboration has been adopted. This will promote competition among banks whereby the clients will get improved facility. In addition, the share of these new banks will also be sold to the general public and, in distributing the shares; it will be ensured that the ownership is spread out to the maximum extent possible."

A meaningful step towards financial liberalization was undertaking the FY 1987/88 with the objectives of expending the process of economic development under structural adjustments program and major reforms include deregulation of interest rate, strengthening of banking operation and a shift from direct to indirect monetary control instrument. There has been a continuous increase in both the number and size of joint venture banks in the last few years as a result of liberal policy adopted by the government.

Apart from the establishment of new banks, diversified development of financial institutions is also essential to promote competition. For this purpose, necessary adjustments have been made to grant permission to set up finance companies in the private sector in order to meet the credit needs in those areas where the commercial banks do not ordinarily finance.

To promote people's participation in the financial institutions and also to encourage competition, a simple capital market needs to be developed. In this connection, the establishment of securities exchange centers ltd. In 1976 was a significant development .Before conversation of this center into Nepal stock exchange limited. In 1993, it was only the capital market making for government bonds and other financial

services. At present, Nepal stock exchange act, is imparting free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as broker, markers etc.

The above discussion shows that, as a part of financial liberalization, the introduction of the joint venture banks with foreign collaboration in Nepal is associated with the development of securities exchange of finance companies and the interest rate liberalization. These are indeed significant milestones in the financial development process of the country. With the opening up of new banks, managerial skills, technical know how and foreign capital also come to the creating an atmosphere of healthy competition

Hence, the various roles of the joint venture banks playing in Nepal can be classified into three broad categories.

A) Banking Technique

The joint venture banks in Nepal have largely responsible for the introduction of new banking technique such as computerization, hypothecation, and consortium finance, free-based activities and syndicating under the guidance of Nepal Rastra Bank. Other areas of expertise are forward covered on foreign exchange transactions by importers, merchant banking, and inter-bank market for the money and securities, arranging foreign currency loans, etc. These modern-banking services are being provided to Nepalese financial system through the window of the new joint venture bank.

B) Foreign Investment

When looking at the possibility of investing of Nepal, multi national are unfamiliar with the local rules, regulations and practices. Though there are many publications available for their reference these companies are unaware about how the system actually operates during the implementation period. In this context, the joint venture banks help the multi national companies to build up their confidence for investment by providing necessary information and financial support. This again will be an unquantifiable but definite a tangible benefit to Nepalese economy.

c) Healthy Competition

The introduction of joint venture banks also brings the benefit of healthy competition of which the main beneficiaries are the bank customers and the economy. Customers earn a higher rate of interest on their deposits on one hand and pay a lower interest rate on their loans, on the other, as banks introduce various innovative means of attracting customers. The increase in competition also force the existing banks to improve their qualities of service by simplifying procedures providing trading and motivation to their own staff to respond to the new challenges. A positive by product of the increased competition is that it could also encourage local banks to respond by opening branch abroad.

1.5 Profile of the Concerned Banks

(A) Everest Bank Limited (EBL)

Everest bank limited was registration under the company act and started banking transaction in 16th October 1994. This is the joint venture bank of India and Nepalese promoters. A term of professional deputed by Punjab national bank under a technical services agreement manager it , and managing director is the executive director deputed by PNB under this arrangement including main branch (i.e. head office) in Nepal.

The present configuration consist of 20% Punjab national bank (India), 50% of Nepalese promoters and 30% of general public.

The bank has been conferred with "Bank of the Year 2006, Nepal" by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector.

The following activities and services are provides by EBL's 38 branches are as follows:

- Conventional banking facilities
- Any branch banking
- International trade and bank guarantee
- Remittances

(B) Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursing it's objective, Nabil provides a full range of commercial banking services through its 40 point of representation across the kingdom and over 170 reputed corresponding banks across the global.

The present configuration consists of 50% share capital of National Bank ltd. Bangladesh. 10% of Nepal industrial development corporation (NIDC), 9.66% of Rastriya Bima sansthan, o.34% of Nepal stock exchange and 30% of Nepalese public. Various branches of the bank are operating in different parts of the country.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. The bank has been conferred with "Bank of the Year 2004, Nepal" by the banker, a publication of financial times, London

The following activities and services are provides by Nabil's 40 branches are as follows:

- Tele-Banking
- 24 hours banking
- Credit card facilities
- Letter of credit services
- Foreign currency transaction etc.

1.6 Statement of the Problem

Modern banking system in Nepal was introduced after the establishment of Nepal Bank Limited in 1938 A.D. After its inception, there was a gradual establishment of other banks. Though the number of banks increased in the market, they face and went through a lot of problems.

One of the major problems that banks have is not being able to invest in productive sectors. The main objective of commercial banks is to make profit from the public

deposits and invest them in more fruitful sectors such large industries and organizations. They do not follow the sound investment policy and invest their funds in unproductive sectors. But on the other hand due to insecurity for past few years there were less investment opportunities in contrary to large amount of collection of deposits. For this reason, depositors are discouraged by reducing the interest rate on deposits, whereas increased the minimum shareholder balance.

The irregularity in utilization of deposits and recovery of loan is another problem that banks have in the financial environment. In the course of banking activity, they are able to collect a good deal of deposits but disburse loan haphazardly.

After the bank has provided the loan, regular inspection and monitoring are not carried out. Hence, there are cases where banks are unable to recover the loan due to bankruptcy of the debtor.

Nepalese commercial banks have not formulated their investment policy systematically. They mainly rely upon the directives of the central bank, NRB has maintained only formality over the banks and financial institutions and has not discharged its responsibility to extend that it should have done.

Thus, the present study will make modest attempt to analyze investment policy of Nabil Bank Limited and Everest Bank Limited. In this study, Nabil Bank's investment policy is analyzed in comparison with Everest Bank Limited. This study basically deals with the following issues of sample banks.

- Utilization of available fund: Does the NABIL Bank Limited and Everest Bank Limited properly utilize its available fund?
- State the relationship of investment and loan and advances with total net profits?
- Is fund mobilization and investment policy of NABIL Bank Limited more effective and efficient than Everest Bank?
- What is the proportion of non-performing loan in total lending?
- Whether these commercial banks are able to meet obligations?
- Are they maintaining sufficient liquidity position?

1.7 Objectives of the Study

The main objective of this study is to analyze the investment policy adopted by NABIL Bank and Everest Bank Limited. In comparison with each other, the specific objectives of the study are as follows:

- To evaluate the liquidity management, assets management efficiency,
- Profitability and risk positions.
- To analyze the trends of deposits utilization towards total investment and Loans and advances.
- To discuss fund mobilization and investment policy of Nabil Bank Limited and Everest Bank Limited.

This study will provide a useful feedback for academic institutions, bank employee, trainees, and investors and also for financial person & policy maker .

1.8 Limitation of the Study

This study will be limited by the following factors:

- This study is based on secondary data from the banks' annual reports, publications, websites and journals.
- This whole study is based on the data of five years periods i.e. from 2004/2005 to 2008/2009.
- Data, which are related to fund mobilizations as loan and advance investment government securities and other financial institutions, are considered.
- Only two banks are taken for the study, which are NABIL Bank Limited and Everest Bank Limited.
- The study focuses on investment aspects of banking performance only.

1.9 Organization of the Study

This study is carried out in different stages and produces as it needed as well as study organized in the following chapters in other to make the study easy to understand. This study includes five chapters such as Introduction, Review of Literature, Research methodology, Data Presentation and Analysis and Summary, Conclusion, Suggestions and Recommendation.

First Chapter: Introduction

First chapter deals with the introduction of the study. It includes background, history of the banks, statement of the problem, need of the study, objective of the study, significance of the study, limitation of the study, research methodology and organization of the study.

Second chapter: Review of Literature

This chapter deals with the review of available literature, which includes review of books, review of journals and annual reports published by the banks and other authorities, review or related articles and previous thesis as well as study

Third chapter: Research Methodology

The third chapter is the most important part of the study. It includes the interpretation parts such as research design, sources of data, sampling and population, analysis of data and tools for analysis, which are statistical and financial tools

Forth chapter: Presentation & Data Analysis

This chapter is analysis chapter, which deals with the presentation and analysis of data through a definite course of research methodology. This chapter is to analyze different statistical and financial tools, mainly consists of ratio analysis, which involves liquidity ratio, profitability ratio, growth ratio, assets management ratio and risk ratio. Statistical tools involves test of hypothesis, trend analysis and correlation analysis have been used to present the data and analyze them, which are related to the investment policy and fund mobilization of selected Nabil Bank Limited and Everest Bank Limited. Findings are also included in this chapter.

Fifth chapter: Summery, Conclusion & Recommendation

This chapter is the last chapter of the study, which provides suggestions and recommendation, summary and conclusion for improving the future performance of the sample banks. Finally, an extensive, bibliography and appendices are also presented at the end of the thesis work..

CHAPTER 2

REVIEW OF LITERATURE

This chapter is related to review of literature concern with the study. The chapter has been divided into two main sections. The first section of the chapter implies the conceptual framework of the study and the second section implies the review of previous studies. This chapter helps to take adequate feed back to broaden the information based on study. Therefore this chapter has its own importance in this study.

2.1 Theoretical Framework

The chapter focuses to discuss briefly about the theoretical concept of the loans of the loans and advance and its relation with other subject.

2.1.1 Commercial Bank

"Commercial Bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services".(American Institute of Banking; 1972:325)

Commercial Bank Act 1975 AD (2031 BS) defines, "A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose". (Commercial Bank Act 2031)

The Commercial bank has its own role and contributions in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people. (Grywinshki, 1991:87)

Commercial bank deals with others money. They have to find ways of keeping their asset liquid so that they could meet the demand of their customers. Liquidity is the lifeline of bank. Any bank perceived to be illiquid cannot attract deposit from the public. Inadequate liquidity does damage credit standing of those organizations, but if banks fail to repay the deposits on demand, the bank loses the trust of the public. This

leads to "runs" is the bank and probably bankruptcy thereof. Trade off between liquidity and profitability is thus a crucial task for any bank. Satisfactory trade off is possible through correct prediction of liquidity needs and judicious distribution of resources in various forms of liquid and high earning assets.

The main function of commercial bank is concerned with the accumulation of the temporarily idle money of the general public to advance it to deficit sections i.e. trade and commerce for expenditure. Its main functions are:

- Accepting various types of deposits;
- Lending money in various productive sectors;
- . Letter of credit (LC)
- Guarantee
- Remittance
- . Bills
- . Others

Hence, a commercial bank can be defined as a "Financial department store", which renders a host of financial services besides taking deposits and giving loans.

2.1.2 Meaning of Some Banking Terminology

a) Deposits:

Commercial banks act 2031(1974) defines “deposit as the amounts deposited in a current, saving of fixed accounts of a bank or financial institution.” A bank takes various types of deposits from individual, business organization, general people and other different type of institutions. These deposits are the main source of capital for the commercial banks. Banks flow such amount as loan and invests in different sectors to earn profit. In Nepal, banks grant permission to their customers to open three types of accounts under various terms and condition, which are as follows:

- **Current Deposit / Demand Deposit:**

The deposit in which an amount is immediately paid at the time of any account holder's demand is called demand deposit or current deposit. The bank does not provide interest in this deposit.

- **Saving Deposit**

The bank can collect through the saving deposit. Accounting to commercial bank Act 2031 (1974), saving account means "an account of amount deposited in a bank for saving purposes." Generally in saving accounts there are certain restrictions like maximum amount that can be deposited and on withdrawal of the account also. In this type of deposit, customers get some interest on the deposit.

- **Fixed Deposit:**

According to the commercial bank act 2031(1947), 'Fixed Account' means an account of amounts deposited in a bank for certain period of time. The customers opening account deposit their money in this account, for a fixed period. It is also called time deposit because this amount is deposited for a certain period of time. The rate of interest is higher than the saving or current account as the banks use this amount for making investments and granting loan and advances.

b) Loan and Advances:

Earning from loans and advance are the major of income for bank. Bank managers the found by granting loans out the deposit and loans. The commercial banks are interest rate that exact between deposits and improve its banking foundation. They must pay more attention to the flow of loan. Most of the bank failures in the world due to the shrinkage in the value of loans and advance. Loan is a risky of non-repayment of loan is known as credit risk or default risk. A proper loan management is necessary to gain profit. Various factors like policy of loan flow, loan administration, audit of loan, renewal of loan, the conditions of loan flow, documents of the loan flow, provision of the security, provision of the payment of the capital, its interest etc should be properly managed.

c) Investment on Government Securities, Shares and Debentures:

A commercial bank invests on government securities, shares and debentures as they can earn interest and dividend from these types of investments. A good investment portfolio is maintained in terms of liquidity these investments as these securities are highly marketable and in term of investing the excess funds out of funding in the loans and advances. Banks can also ensure the inflow of cash to meet the large loan demands and withdraws of its customers.

d) Bank invests on other company's shares and debentures:

To invest its excess funds also to meet the requirement of NRB directives of investment. The bank invests in development banks, NIDC's regional development banks as share capital.

e) Off Balance Sheet Activities:

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some examples of these items are letter of credit, letter of guarantee, bills of collection etc. These activities are very important, as they are the good source of profit to bank though they have risk. Some economists and finance experts say that the bank highlights such activities to expand the modern transactions of a bank.

2.1.3 Features of a Sound Lending and Investment Policy:

The income and profit of a financial institution depends upon to its lending procedure, lending policy and investment of its fund in different securities. A sound lending and investment policy is not only pre-requisite for bank's profitability but also of almost significance for the promotion of commercial savings of an under developed and back ward country like Nepal.

The factor that banks must consider for sound and lending and investment policies are explained as under.

a) Safety and Security

The banks never invest its fund in those securities, which have too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest funds into speculative to businessman who may be bankrupt at once and who may earn millions in a minute also. The bank should accept that types of securities, marketable and high market prices. In this case, "MAST" should be applied for the investment whereas:

M= Marketability

A= Ascertainability

S= Stability

T= Transferability

b) Liquidity

People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind investing its excess fund in different securities or at the time of lending so that it can meet current or short-term obligations when they become due for payment.

C) Profitability

A commercial bank can maximized its volume of wealth through maximization of return on their investments and lending. So they must invest their fund where they gain maximum profit. The profit of commercial bank depends upon the interest rate, volume of loan, time period of loan and nature of investment on different securities.

d) Suitability

A banker should always know that why a customer is in need of loans. If a borrower misuse the loan granted by the bank, he will never be able to repay the loan and bank will posses heavy bad debts. Therefore in order to avoid such circumstances advances should be allowed to select and suitable borrowers and it should demand all the

essential detailed information about the scheme of the project. Bank must keep in mind the overall development plans of the nation and the credit policy of the central bank.

e) Diversification

Investment and credit concentrated on same geographical region, same sector of business and few customers increase the risk. Hence, the policy should fix a cap on all these aspect. As the saving goes "A bank should not put all its eggs in the same basket." Therefore, in order to minimize the risk, a bank should diversify its investment in different securities. This diversification or portfolio investment helps to earn good return and at the same time minimize the risk and uncertainty.

f) Legality

A commercial bank must follow the rules and regulations and statutory directives issued by Nepal Rastra bank, ministry of finance and others while issuing securities and mobilizing their funds. In Nepal, NRB restricts financial institution licensed by it to invest in securities of each other.

2.2 Review of Related Studies

2.2.1 Review of Books:

(Baidya, 1997:44) has given his view on sound investment policy. He has said that, "A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and bank on the other hand, Moreover risk in banking sectors trends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn. So the bank investment policy must be such that it is sound & prudent in order to protect public funds."

(L.V. Chandler, 1973:46) says in this regard, "A banker seeks optimum combination of earning liquidity and safety, while formulating investment policy." Emphasizing

the importance of investment policy puts the importance of investment policy in this way, "Lending is essence of commercial banking, and consequently the formulation and the implementation of sound policies are among the most important responsibilities of bank director's and management. Well conceives lending function effectively and minimize the risk inherent in any extension of credit". He further adds, the formulation of sound lending policies for all bank should have adequate and careful consideration over community needs, ize of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate.

(Cheney and Mosses, 1995:13) are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write, "The investment objective is to increase systematically the individual wealth, defined as assets minus liabilities. The higher level of desired wealth, the higher must be received. An investor seeking higher return must be willing to face higher level of risk"

(Radhaswami, 1979:24) says that a bank must strike a balance sheet between liquidity, profitability and safety. "The secret of successful bank is to distribute resource between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its shareholders".

From the above definitions and views of various authors it is clear that an investment means to trade, a known rupee amount today for some expected future stream of payments or benefits. That will exceed the current outlay by an amount that will compensate the investor for the time the fund are committed for the expected change in prices during the period of uncertainty involve in expected future cash flows. Thus, investment is the most important function of commercial banks. Therefore, a bank has to be very cautious while investing funds in various sectors. The success of a bank heavily depends upon the proper management of its invest able funds.

Investment management of bank is guided by the investment policy adopted by the bank. Investment policies can be varied from bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The

investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk. Therefore, that an investment word is attached to economics risk and return theory of future result **(Frank Reily, 1986:92).**

According to **(Jones, 1991:92**) "Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with managing an investor's wealth, which is the sum of current income and present value of all future incomes".

In the words of **(Valla and Tutesa, 1983:2)** "There are basically three concepts of investment.

• Economic investment that is an economist's definition of investment,

• Investment in a more general or extended sense, which is used by 'the man on the street', and

• The sense in which we are going to be very much interested namely financial investment".

They further maintain, "Banks are those institutions which accepts deposit from the public and in turn provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect fund and collect as a good investment is very risky job. Ad hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence, sound investment policy is another secret of a successful bank"

In view of **(Chone, 1997:1)** "Investment has many factors. It may involve putting money into bond treasury bills, or notes or common stocks, or paintings of real estate, or mortgage or oil ventures, or cattle or the theater. It may involve specially in bull markets or selling short in bear markets. It may involve options, straddles, rights, warrants, convertibles, margin, gold, silver, mutual funds, money market funds, index funds and result in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or lucky, the rewards may be substantial. For the uniformed results can be disastrous".

(Sharpe and Gorden, 1999:5) define investment in this way: "Investment in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value". In the view of Sharpe and Gorden, the investment is the venture that the return is uncertain. Therefore, they have presented their view in the books that bank should look for the safe and less risky investment.

(Pandey, 1999:407) defines in this way, "In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flows are more important than accounting profit. It may also be pointed out that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder's fund maximization. Investments will add to the shareholder's wealth if it yields benefit in excess on the minimum benefit as per the opportunity cost of capital".

In the words of **(S.P. Singh and S. Singh, 1983:5**) "The investment (credit) policies of bank 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 course his banker's credit policy also in mind". As per the above definition, government and central bank have to make a sound policy about the investment policies of commercial banks. They further state, "The field of investment is more challenging as it offers relatively greater scope to bank or for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly, during recent years, the credit function has become more complex".

2.2.2 NRB Directives Review

The central bank (NRB) has established legal framework by formulating various rules and regulations (prudential norms) to mobilize the funds in terms of investment, lending etc to different parts of the nation. While making strategic plan in terms of investment and lending decisions these directives should be considered as they have, direct impact with the banks. NRB has issued these directives in order to maintain healthy competition between these banks and for the development of the nation in the financial sector. NRB has formulated various rules and regulations related to the

banking. Some of them are regarding investment , credit limit , priority and deprived sector loan , single borrower limit , cash reserve ratio (CRR) loan loss provision , capital adequacy ratio ,interest spread , productive sector fund , paid up capital etc. Commercial bank act 2031 and Nepal Rastra foreign exchange regulation act 2019, along with the prevailing Nepalese law guides the activities of these banks.

Capital Fund

The paid up capital for establishing a national level new commercial bank shall be RS. 2 billion. By mid July 2009 (Ashad 2066), existing all banks require to raise capital fund to RS.1000 million through minimum 10% paid up capital increment each year.

Capital Adequacy Ratio (CAR)

The capital adequacy ratio is the relationship between shareholder's funds (capital fund) to the total risk weighted assets of the bank. Capital adequacy ratio is calculated on a quarterly basis. The shortfall should be covered within next 6 months when there minimum core capital is not met. The higher the CAR the less levered the bank and safer from depositors point of view. Distribution of dividend, expansions of branches, distribution of loans, available of refinance from NRB etc. are not allowed until the fulfillment of shortfall of CAR.

On the basis of the risk-weighted assets, the banks shall maintain the prescribed proportion of minimum capital fund as per the following timetable.

Core Capital

The total capital fund is the sum of core capital and supplementary capital. The core capital comprises of paid up capital, share premium, non-redeemable shares, and general reserve fund and Accumulated profit and loss account. However, the amount of goodwill should be deducted while calculating the core capital.

Supplementary Capital

Supplementary capital comprises of general loan loss provision, redeemable preference share capital, asset revaluation fund, exchange fund and any other unspecified reserves.

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

Cash Reserve Ratio

Commercial banks required maintaining minimum cash reserve as per NRB's regulation 22 July 2002. It requires maintaining the cash at till 5.5% of total deposits, balance at NRB .Cash reserve is not mandatory for foreign currency deposit and for margin deposits.

General Loan Loss Provision:

Under this head, provision made against the pass loan should only be included. The amount should not exceed 1.25% of the total risk weighted assets. However, loan loss provisioning on sub standard and doubtful loans should be available to be included under the supplementary capital during the following time period.

Loan classification and loan loss provisioning:

CB's are required to classify their loan on the basis of overdue ageing schedule and provide on a quarterly basis as follows:

Classification of loan	**loan loss provision**
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

Pass loans are also defined as performing loans. Loans and advances falling in the category of substandard, doubtful and loss are classified and define as non-performing loan.

Loans should be classified into four categories.

Pass: Loans and advances, whose principle amounts are past due and past due for period up to three months should be included in this category. These are classified as performing loans.

Sub-standard: All loans and advances that are past due for a period of three months to six months should be included in this category.

Doubtful: All loans and advances that are due for a period of six month to one year should be included in this category.

Loss: Loan and advances, which are due for a period of more than one year as well as advance & which have least possibility of even partial recovery in future should be included in this category.

2.2.4 Review of Journals/ Articles/ Research Papers:

Dr. Shrestha in her article **"Lending operation of commercial banks of Nepal and its impact on G.D.P." (Shrestha; 1997:23)** has presented an objective to make an analysis of contribution of commercial banks lending to the G.D.P. of Nepal. She has set hypothesis that here has been positive impact of commercial bank lending to the G.D.P. in research methodology she has considered G.D.P as the dependent variable and various sectors of lending viz. Agriculture, Industrial, Commercial service, general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple analyses have shown that all the variables except service sector lending have positive impact on G.D.P. While concluding, she has accepted the hypothesis i.e., there has been positive impact by the lending of commercial banks in various sectors of economy except service sector economy.

Bajracharya in his article "**Monetary Policy and Deposit Mobilization in Nepal"(Bajracharya;1991:93)** writes "Mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal and for this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different aspects of the economy.

Shrestha R.L. in his article **"A study on deposits and credits of commercial bank in Nepal"(Ramesh Lal Shrestha)** concluded that the credit deposit ratio would be 51.30% other things remaining the same in Nepal, which was the lowest under the period of review. He strongly recommended that the commercial banks should try to give more emphasis on entering new field as far as possible, otherwise they might not be able to absorb even the total expense.

Sharma in his article **"Banking the future on competition'' (Sharma;2000:13)** has highlighted that majority of commercial banks are being established and have operation in urban areas only. They have shown no interest to open branches in rural areas. The branches f NBL and RBB are only running in those sectors. The commercial banks are charging higher interest rate on lending, they are offered maximum tax concession, they do not property analyze the credit system.

According to him "Due to lack of investment avenues, banks are tempted to invest without proper credit approval and on personal guarantee, whose negative side effects would show true colors only after four or five years" He has further added that private banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Bista in his research paper **"Nepalma Adhunik Banking Byabastha" (Bista; 2048)** has made an attempt to highlight some of the important indicators, which have contributed to he efficiency and performance of joint venture banks. He writes that the establishment of JVB's a decade ago marks the beginning of modern banking era in Nepal. The JVB's have brought in many new banking techniques such as computerized hypothecation, consortium finance and modern fee based activities into the economy. This is indeed a significant milestone in the financial development process of the economy.

Dr. Pradhan on his research **"Financial management and practices in Nepal"(1993)** conducted a survey, which deals with financial functions source and type of financing, financing decisions involving debt, effect of changes in taxes on capital structure, financial distress, dealing with banks and dividend policy.

The major findings of the study are:

a) The enterprises have a definite performance for bank loans at a lower level of debt.
b) Majorities of respondents are unable to predict when interest rate will low or go upn and unable to predict when the stock will go down or up.
c) Most enterprises do not borrow from one bank only and they do switch between banks which ever offer best interest rates.
d) Most enterprise found that banks are flexible in interest rates and convenience.

Dr. Shrestha expressed her view on research **"Investment planning of commercial banks in Nepal"(2004)** has made remarkable efforts to examine the investment planning of commercial banks in Nepal on the basis of the study, she concludes that the bank portfolio (loan and investment) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy to government and heavy regulatory, procedure of the central bank. Therefore the investments are not made in professional manners. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability. To overcome this problem, she has suggested, "commercial banks should take their investment function with proper business attitude and should perform lending investment operation efficiency with the proper analysis of the projects.

In an article published in **New Business Age, Mr. Kamal Subedi** titled growth in major commercial banks has compared between the first six months of the fiscal year 2002-03&2003-04 which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd & Rastriya Banijya Bank (the government owned banks) there has been increase in credit-deposit (CD) ratio of all commercial banks except of NBL & RBB in which case it has gone down by 14.41% & 5.99% respectively. It may be because then concentration was only one

recovery of the huge non-performing assets (NPA). However, Mr.Subedi pointed out that no matter what the size of NPAis and the circumstances are each bank has to collect the deposit in order to create a landing and to invest in the new ventures. Except RBB all banks has increment in deposit collection.

A decrease in CD ratio (the % of the deposit mobilization over the credit) identifies the presence of high liquidity and comparatively lower fund mobilization and vise versa. High liquidity and idle funds will result in lower profits. HBL has the highest growth of 18.47% in CD ratio over the last year. Similarly, NABIL, Everest Bank Ltd (EBL) and Nepal SBI Ltd (SBI) have recorded growth rates of 6.28%, 11.83% and 7.45% respectively in their CD ratio. However, this ratio of other commercial banks has declined, largely due to factors external to the banks.

As per the NRB directives, all commercial banks have to maintain loan loss provision according to the size of overdue loans. Nepal Credit and Commerce Bank (NCCB) were able to decrease its loan loss provision by 27.63% as compared to the previous year indicating a good recovery of interest as well as principle. In case of Nepal Investment Bank (SBI), growth in loss provision (which in fact decreased by 6.73%) was much less than the growth of the total credit (which increased by 53%). Similarly, NBL and HBL were able to maintain a healthy competition of loan provision (decreased by 9.49% & 0%) and credit (increased by 3.70% & 26.78%), again signifying good results from their loan recovery efforts.

In case of remaining banks, the situation is not satisfactory as the growth loan loss provision is higher than the growth of credit.

A bank's stability depends on the reserve it maintains. NABIL's reserve growth is very good i.e, 14% on retained earning and 67.86% on other reserves. Similarly, all other banks have except NCCB and KBL made noticeable increment in it. The major yardstick to measure the status of the bank (which is the prime concern of shareholders) is the profitability of the banks –the spread between what the banks has earned and expensed. In this regard, KBL has made the significant growth of 181.25% if profit as compared to the previous year. Similarly Standard Chartered Bank (SCBNL), NABIL, HBL, BOK, EBL, NIB, NSBI, NICB and NCCB have the growth

% of 7.72%, 6.33%, 43.73%, 29.83%, 61.8%, 62.76%, 29.76%, 37.895% and 4.03% respectively.

Nepal government has promulgated ordinance to replace several exiting laws related to the banks and financial institutions like commercial bank act 2031, Finance act etc related to financial institutions. The major highlights of the ordinance are universal banking that makes all the banks and financial institutions governed by a single act making the legal process much efficient and with less confusion and it have protected the rights and welfare of the depositors and investors. However this ordinance has lots of unclear issues, which has created confusion to the existing banks and financial institutions. The ordinance has classified the financial institutions into categories replacing the present terms as commercial, development or finance companies. The act has classified the category as "ka" category can mention itself as a bank; the rest of the category should name itself only as a financial institution. The ordinance has created confusion to the existing development banks and finance companies as what category they belongs to? The positive aspect of this ordinance is that the financial institutions which fall under the "kha" category will also be allowed to carry out several financial activities that were previously allowed to only commercial banks, such as opening current accounts, issuing drafts and traveler's cheques, dealing in foreign exchange and issuing Letter of Credits. Even the financial institution, which falls under the category "Ga", are permitted to handle current account, saving account and to some extend, foreign currency transactions. Due to these changes, the consumer will benefit due to the competition among these banks and financial institutions.

2.2.3 Review of Thesis

1. **Panta (2009)** has conducted a thesis research entitled "**A STUDY OF INVESTMENT POLICY OF JOINT VENTURE COMMERCIAL BANKS** (with reference to Nabil Bank Limited and Standard Chartered Bank Nepal Limited)" with the following objectives:

i) To evaluate the liquidity, asset management, profitability, risk position and growth ratios of the banks under study.

ii) To find out relationship between total deposits and investment, loans & advances, interest earned, and net profit, net profit to outsides assets and total working fund, loan and advances to interest paid & compare them.

iv) To analyze the trend of deposits, investment, net profit and loan and advances, for next five years of BOKL and NIBL.

The study was conducted based on the primary and secondary data. **The research findings of the study were the following:**

- Liquidity position of BOKL is comparatively better than NIBL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets. BOKL is in a better position to meet its daily cash requirement. NIBL has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. BOKL's mean investment in Government securities is better than NIBL. The higher degree of variability in Investment in Government securities of BOKL during the study period shows lack of concrete policy of the bank in this regard.
- NIBL has been more successful in mobilization of its total deposits and working fund as loan and advances. On the other hand, BOKL appears to be stronger in mobilization of total deposits and working fund as investment in risk free government securities. NIBL has fared better in purchasing shares and debentures of other companies, but both have invested marginal amount under this heading. Both the banks have successfully managed their assets towards different income generation activities.
- BOKL has been more successful in maintaining its higher return on loan and advances and total working fund. On the other hand, NIBL has been more successful in term of earning power w.r.t. total working fund and outside assets. NIBL has been more successful in mobilization of its funds in interest bearing assets to earn higher interest income than BOKL. BOKL is in a better position than NIBL from interest payment point of view. NIBL has paid higher interest than BOKL, whereas the latter seems to have collected its funds from cheaper sources than NIBL.

- BOKL has lower liquidity risk and credit risk than NIBL. NIBL has greater exposure to risk in its financial operations than BOKL.

2. **Dhakal (2008**) conducted a study on **"Investment Policy of Commercial Banks in Nepal"** with th**e objectives that follow:**

• To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets

• To identify the investment priority sectors of sampled commercial banks

• To assess the impact of investment on profitability

• To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks

The research findings of the study were the following:

The liquidity position of Everest Bank Ltd. (EBL) was comparatively better than that of Nabil Bank Ltd. (NABIL) and Bank of Kathmandu Ltd. (BOK). All the three banks had met the normal standard current asset ratio to meet the short-term obligations of their customers. EBL had invested the most in Government Securities, followed by BOK and NABIL. BOK had mobilized a huge sum its funds to earn the profit. From the analysis of assets management ratio, EBL was in better position than NABIL and BOK. The loans and advances to total deposit ratio, loan and advances to total working fund ratio of EBL lied in between those of NABIL and BOK. EBL had invested the highest portion of its total working fund on government securities as compared to NABIL and BOK. Investment on shares and debentures to total working fund ratio was higher in BOK. Overall analysis of profitability ratios showed that EBL was on an average profitable in comparison to other bank i.e. NABIL and BOK. The return on loan and advances ratio and return on assets of EBL was lowest of all. The degree of risk was average on EBL. EBL had shown its good performance by increasing earnings by providing loan to clients. The trend of the total investment, total deposit, loan and advances and ne profit of EBL showed better position than that of NABIL and BOK.

3. Shrestha, (2007) conducted a study on **"A Comparative Analysis on investment performance of commercial banks in Nepal"** with the **following objectives:**

• To analyze the investment activities and fund mobilization with respect to fund based on-balance sheet transactions and fee based off-balance sheet transactions

• To study the asset utilization system, profitability and risk position of commercial banks under study

• To assess the deposit utilization trends and its projection for the future

• To evaluate the growth ratios of loan and advance and total investment and respective growth rate of total deposit and net profit

The research findings of the study were as follows:

The liquidity position of NIBL was stronger than NABIL and HBL. At the same time, liquidity position of NIBL was highly fluctuating, which showed that NIBL bore higher risk than other two banks. NIBL had the least investment in Government Securities, which considered the least risky asset. From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization. NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor. In the profitability analysis, none of the three banks' profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position. From the risk point of view, NABIL and NIBL were facing higher risk than HBL, but the risk level of all three banks seemed almost the same. From the analysis of growth ratios, NIBL's collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better. The coefficient of correlation analysis between different variables of NABIL, NIBL and HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets. From the trend analysis study, it was found that all banks were mobilizing their total deposits into loans and advances in increasing trend, which was the indication of efficient mobilization.

4. Maskey (2004) has conducted a thesis research entitled **"A Comparative Study of Lending Performance of Nepal Arab Bank Limited and Nepal Investment Bank Limited".**

The main objectives were :- Measure the banks lending strength and lending efficiency, analyze the lending contribution of total profitability, study the loan and advances, profitability, deposits position of the commercial banks under study, study the relationship among different financial indicators relating to loan and advance, total investment, profitability, deposit and non-performing loan in commercial banks under the study, and recommend some measures on the basics of findings of the study to the concerned bank to improve on lending performance.

Major findings of the study were: - The total asset to total liability of NIBL has the highest ratio. The mean ratio is not highly deviated in comparison between the banks. NABIL has the least ratio however it is closer to the combined mean ratio of the banks. The high ratio is due to high volume of shareholders equity in the liability mix. The increasing ratio of loan and advances of NIBL has resulted in highest mean ratio of loan and advances to total assets ratio. The NABIL follows steadier ratio and has resulted its ratio to reach more than the combined mean ratio. The ratio of loan and advances to shareholders equity has gained the significant importance in measuring the capital fund and contribution in loan and advances. The combined mean is highly deviated from the mean ratio of the banks, which indicates that there is significant difference in the performance of the banks. The ratio of interest income from loan and advances to total income shows that there is a large contribution of interest income in the total income. NIBL has highest mean ratio and SCBNL has the lowest, NBIL's mean ratio is higher than the combined mean. The low cost of deposit as shown by interest expense to total deposit ratio has resulted this ratio of SCBNL to be the lowest.The growth ratio of total deposit and loan & advances by analysis of five years of study period found out that NIBL has highest growth ratio and it has improved exceptionally well in collecting deposits and extending loan and advances. The growth ratio of investment of NIBL is exceptionally well. It has remarkably increased its investment and hence the growth rate is 101.86% .In case of NABIL and SCBNL it has moderate growth in comparison with NIBL. The growth ratio of net profit is highest and that of SCBNL is lowest. It indicates that the performance of NIBL is

good with respect to increase in profit. Correlation coefficient between total deposit and loan & advance of all the banks shows relationship between these two variables.

5. **Sharma (2005)** has conducted a thesis research entitled **"Loan Disbursement and collection of Nepal Bangladesh Bank Limited"**

The main objectives were: - Analyze the trend of every year's deposit collection, measure total amount of loan disbursed out of total deposit., analyze the different types of loan disbursed. and measure the status of loan recovery out of total loan disbursed.

The major findings of the study were: - Deposit collected by the bank during six years period is in increasing trend but the percentage increase in deposit collected is fluctuating. The loan disbursed by NBBL is also affected by factors other than the amount of deposit collected like the poor economic state of the country with loss investment opportunities and the Nepal government regulation or the increment of loan loss provision. NBBL has followed NRB directives and lend almost 12% each year in priority and deprived sector, loan loss provisions, single borrower credit limit and interest spread of the bank is as per NRB regulations. The average interest spread during the six years period of study is 4.71%. The loans, which are easier to recover, include specific loans like hire purchase, housing, education loan etc. because of the selected group of customers. According to the credit department of NBBL, defaulters are more in case of overdraft loans as all types of people are the borrowers of this loan and personal defaults are more that the business firms in age of overdraft loan.

6. **BASNET (2008)** has conducted a thesis research entitled **INVESTMENT POLICY OF COMMERCIAL BANK (A COMPARATIVE STUDY OF NABIL BANK LTD & HIMALAYAN BANK LTD.)**

The main objectives were:

- To examine the fund mobilization fund and investment policy of HBL and NABIL selected for the study.
- To assess the liquidity, profitability, risk positions in asset management of these commercial Banks.

- To evaluate the growth ratios of loan and advances, total investment with respect to growth rates of total deposits and net profit of these banks.
- To find out the relationship between the banks' total deposits and loans and advances, total deposit and total investment and total outside assets and net profit.
- To examine, interpret and forecast the trend of their deposits and loan and advances, investment and net profit.

The major findings of the study were:

- NABIL is in fluctuating trend while HBL is in decreasing trend. The mean ratio of HBL is higher than NABIL but there is more variation in ratios of HBL in comparison to NABIL.
- HBL has the highest mean ratio and lowest C.V. ratio, than NABIL. So, it shows that HBL is more stable and consistent and able to meet the daily cash requirement of their customers.
- HBL has the higher mean as well as lower C.V ratio. It shows that the liquidity position of HBL is better than NABIL. Similarly, the ratios of HBL is consistent over the study period than NABIL.
- NABIL has the lower mean ratio than that of HBL. It shows that NABIL has maintained variability of ratio, which is lower than that of HBL. It indicates that the liquidity position of NABIL is more consistent.
- HBL has slightly higher mean ratio in comparison to NABIL and its C.V. is also lesser than that of NABIL. It shows that the ratios of HBL are more consistent and NABIL has made lesser investment in government securities as it has injected more funds on other productive sectors.
- NABIL has maintained higher position in loan & advances to total deposits ratio then HBL. It means NABIL is strong in terms of mobilization of its total deposit as loan & advances when compared to HBL.
- The mean of capital risk ratio of NABIL is higher than that of HBL. It indicates that NABIL is successful to attract the deposit and inter bank funds, which help to increase the volume of profit. The ratio of NABIL is less consistent.

- The growth ratio of NABIL's loan and advances is higher than HBL. It can be said that the performance of NABIL to grant loan and advances is better in compared to HBL.
- HBL is better than the NABIL. If other things remain constant, it will be increasing positively for the next five years period.

2.3 Research Gap

All the research studies mentioned herein are concerned with the study of lending strength and contribution. Most of them have indicated the lending contribution.
In this research some statistical and financial tools are used for calculation of lending policy of joint venture banks. Besides it, below mentioned factors have been studied analytically and intensively by this research.

- Measuring the lending strength and efficiency,
- Analyzing the lending contribution in total profitability and study of the loan and advances, profitability,
- Deposits position of the joint venture banks,
- Trend analysis of loan and advances to total deposit ratio,
- Trend analysis of investment to total deposit ratio.

CHAPTER 3

RESEARCH METHODOLOGY

Research design is an essential part for each research work. It is plan structure and strategy investigations conceived to obtain answer to reach questions and to control variances. It is the systematic and objective process of collecting, verifying and evaluating evidence to reach conclusion. It is overall operational pattern of framework of the study that stipulates what information is to be collected from which source by what procedure. Therefore, descriptive design of research is used in this study.

3.1 Research Design

In order to achieve thesis research objectives appropriate research design has been selected. The keeping in mind the nature of the research analytical & descriptive research design has been selected.

"Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (C.R.kothari, 1990). It is a framework or plan for a study that guides the collection and analysis of the data.

For this study analytical and descriptive research design has been followed.

This study is based on the secondary data. The secondary data includes annual reports, quarterly bulletins, economic reports, various article and publication dealing in the subject matter of the study, websites etc.

Annual reports are the main sources of the data for this study. However in some areas annual reports, bulletins and publications from NRB are used for the analysis.

3.1.1 Population and sample

All the commercial banks in Nepal are the population of the study from the population two banks i.e.NABIL Bank Limited and Everest Bank Limited have been selected as sample of the present study. The selection of sample is based on judgment. In other

words, they have been selected on the base of equality is then performance and prestige. The population refers to the industries of same nature, services and product in general. So among the various commercial banks under the banking industry NABIL Bank Limited and Everest Bank Limited are selected for the study.

3.2 Analytical Tools

Various financial tools are used to analyze the data presented in the study which are as follows:

3.2.1 Financial Tools

The financial tools are used to find the financial strength and weakness of a firm. In this study following financial tools are calculated.

- **Ratio Analysis**

Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with the other. Ratio is a tools of financial management which can be expressed in percentage, fraction or in a stated comparison between numbers. "The technique of ratio analysis is a part of the whole process 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 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 a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concern" (Kothari, 1994; 487)

The relationship between two accounting figures, expressed mathematically, is known as financial ratio. In financial analysis, a ratio is used an index for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of firm. An accounting figure conveys meaning when it is related to make qualitative judgment about the firm's financial performance (I.M.Pandey, 1993; p-98).

There are various ratios in this study only the ratios relevant to the study are calculated and analyzed.

- **Asset/Liability Management Ratio**

Assets management ratio measure the proportion of various assets and liabilities in balance sheet. Commercial bank should manage its assets and liabilities properly to earn profit. Assets management ratio measures its efficiency in multiplying various liabilities in performing assets. Following are the various assets management ratio which measure the lending strength and effective use of assets.

- Total assets to total liability ratio.
- Loans and advances to total asset ratio.
- Loans and advances and investment to total deposit ratio.
- Loans and advances to shareholders equity ratio.
- Total investment to total deposit ratio.

- **Activity Ratio**

This ratio measures have efficiently the bank has been able to manage its resources particularly in terms of short-term funds. This ratio determines how the loans and advances contribute in terms of efficiency, quality and contribution to total profitability. The following ratios are calculated under activity ratio.

- Loans loss provision to total loans and advances ratio.
- Non-performing loans to total loans and advances ratio.
- Interest income to total income ratio.
- Interest expenses to total deposits ratio.
- Interest suspense to total interest from loans and advances ratio.
- Interest income to interest expenses ratio.

3.2.2 Analysis of Growth Ratio

Growth ratios are directly related to fund mobilization, investment and loan and advances management of commercial banks. It represents how well the bank is maintaining its economic position.

To examine and analyze following growth ratios are calculated under this study.

- Growth ratio of total deposits.
- Growth ratio of total investment.
- Growth ratio of loan and advances.
- Growth ratio of net profit.

To evaluate the growth ratio of total deposit as well as total credit growth ratio is examined. For this calculation, following formula is used.

$D_n=d_o\ (1+g)^{n-1}$

Where, D_n= Total amount in nth year

d_o = Total amount in initial year

g = growth rate

3.2.3 Statistical Tools

Some important statistical tools like standard deviation, correlation co-efficient analysis, co-efficient of variance, time series have been used in this study.

i) Standard Deviation

It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. It is denoted by σ.

If ($\overline{X}$) be the values and $\overline{X}$, their arithmetic mean, then the said (σ) is given by

$$\sigma = \sqrt{\frac{\sum (x-\bar{x})^2}{n}} = \sqrt{\frac{\sum x^2}{2} - \left(\frac{\sum x}{n}\right)^2}$$

Where

n = No. of observations

In short cut method, S.D. is computed by the formula

$$\sigma = \sqrt{\frac{\sum xd^2}{n} - \left(\frac{\sum xd}{n}\right)}$$

Where, d = x-a and where a = assumed mean

ii) Co – efficient of variation

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on standard deviation is known as the co-efficient standard deviation.

$$\text{Co –efficient of S.D.} = \frac{\sigma}{\bar{x}} 100$$

The co-efficient of standard deviation multiplied by 100 is knows as the co-efficient of variation (C.V). Where x be the arithmetic mean and σ be the standard deviation of the distribution, then the C.V is defined by.

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

It is independent of unit, so two distributing can be compared with help of C.V. For their variability, less the C.V. More will be the uniformly consistency and more the C.V. loss will be the uniformly, consistency etc.

iii) Correlation Co-efficient

Correlation is an analysis of the covariance between two or more variables and it deals to determine the degree of relationship between the variables. Correlation just says the degree of relationship between two or more variables. If between two variable increase or decrease in one cause increase or decrease in another then such variables are correlated variables. Thus, it measures the mathematical relationship between two variables.

Among the various method of studying correlation Karl Pearson's correlation co-efficient is widely used mathematical method in calculating correlation known as Pearson's correlation co-efficient, which is denoted by γxy or simply (γ) and defined by.

$$\gamma = \frac{\text{cov}\ (x, y)}{\sqrt{\text{var}\,(x)}\sqrt{\text{var}\,(y)}}$$

Where, COV (x,y) = $\frac{1}{h}\sum (x - \bar{x})(y - \bar{y})$

x, y being the arithmetic averages of x series and y series respectively. Average formula (i) can be put in the following firms.

$$\gamma = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}}$$

Where, x = x- $\bar{x}$ and y = y - $\bar{y}$

$$\gamma = \frac{\sum xy}{\delta x \, x \, \delta y}$$

Sx and Sy are S.D. of x and y series respectively, the value of (r) lies between (-1) to (+1), where γ = 1 there is perfectly positive correlation and where γ=-1, there is perfectly negative correlation. This kind of correlation is some what impossible to find.

For our convenience, we can say be nearer the value of r to =1, closer will be the relationship between the two variables and nearer the value of γ to -1, lesser will be the relationship.

The following co-efficient of correlation is calculated of following variables:

i. Co-efficient of correlation between deposit and loan and advance
ii. Co-efficient of correlation between investment and loan and advances.
iii. Co-efficient of correlation between shareholders equity and loan and advances.
iv. Co-efficient of correlation between total income and loan and advances.
v. Co-efficient of correlation between interest suspense and total income.
vi. Co-efficient of correlation between provision for loan loss and loan and advances.
vii. Co-efficient of correlation between interest income and net profit.

iv) Probable Error

Probable error of the correlation co-efficient developed by P.E. is the measure of testing of reliability of the calculated value of r. If ® be the calculated value of (r) from a sample of (n) pair of observations then P.E. is defined by.

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

It is used in interpretation whether calculated value of (r) is significant or not.

a) If γ <P.E., it is significant. So perhaps there is no evidence of correlation.

b) If γ >P.E., it is not significant.

In other causes, nothing can be concluded. The probable error of correlation co-efficient may be used to determine the limits which the population correlation co-efficient lies limit for population correlation coefficient are $r \pm$ P.E.

v) Trend Analysis

One of the most important tasks before the economists and businessmen is to estimate future. Growth rate analysis was carried out to ascertain growth rate of the past. Trend analysis was adopted to ascertain future factor. It predicted the future behaviors of data and helped to find out the future growth factor. Hence, trend analysis is taken as a tool to evaluate the future financial position of the banks. Out of various methods, least square method of trend analysis is used.

Under this topic, following subtopics has been presented.

i. Trend analysis of loan and advances and total deposit ratio.
ii. Trend analysis of investment and total deposit ratio.

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation of the data collected and analysis by using various statistical tools so as to summarize them and obtain results thereof. The statistical results are then interpreted to find their meaning and implications.

4.1 Measuring the Lending Strength

Lending is one of the important functions of a commercial bank. Lending position of the bank should be continuously monitored to avoid any critical situation. Whether the bank is lending in accordance with the deposits collected and investments made by the shareholders should be analyzed periodically. An idle deposit is loss to the company so proper utilization of the funds in investment and lending aspects are extremely necessary for a bank to survive and grow.

The bank never invests its funds in those securities, which too much depreciated and fluctuated because a little difference may cause a great loss. It must not invest funds into speculative business that may be result in bankruptcy at once or may earn millions in a minute also. The bank should accept that type of securities, which are marketable and with high market price. Under this topic, an attempt has been made to analyze the lending strength of commercial bank under study in relative terms as well as absolute terms.

4.1.1 Measuring the Lending Strength in Relative Term

The lending strength of commercial banks under the study is measured and analyzed. In relative term, the relationship between various assets and liabilities of the balance sheet has been established to measure the lending strength in relative term.

4.1.1.1 Current Ratio

It is the relationship of current assets and current liabilities. Current assets can be converted in to cash with in short period of time normally not exceeding one year. Current liabilities are those obligation which are payable within short period. Current

assets consist of cash and bank balance, money at call or short terms notice, loan & advances, investment in government securities and other interest receivable and other miscellaneous current assets. Current liabilities consist of deposits, loan and advances, bills payable. Tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1: Total Assets to Total Liabilities Ratio

Banks	**Fiscal year**					
	2005	**2006**	**2007**	**2008**	**2009**	**Mean**
NABIL	1.1067	1.0169	1.0140	1.0127	1.0116	1.0324
Everest	1.0698	1.0502	1.0825	1.0141	1.0104	1.0454
Combined mean						**1.0389**

Source: Appendix-I

In the table 4.1 current ratio of commercial banks are analyzed. The table reflects that the current assets of all commercial banks have exceeded the current liabilities during the five years period. In general it can be said that all the banks have sound ability to meet their short term obligations in other words bank is capable of discharging the current obligations. the ratios of the two banks have remained almost constant in study period. In all the banks, total assets have always been higher that this total liability over the study period. This is a good performance but the ratio being almost equal to 1 indicates the inability of the funds to utilize its available liabilities to generate more assets.

4.1.1.2 Non Interest Bearing Deposits to Total Deposits Ratio

This ratio measures the volume of non-interest bearing deposits to total deposits. The volume of interest expenses in total expenses represents a large portion of the total expenses. However, efficiently the deposits are managed affects the total volume of expenses.

The cost of deposits is the major expenses of the bank and it has to costly deposit costs. The banks need to manage the portfolio of the deposits i.e. it has to maintain certain proportion between interest bearing deposits and non-interest bearing deposits by administrating the interest rate structure. The higher ratio is favorable but in

practices interest-bearing deposits always plays a significant role in the mix of deposit liability.

Table 4.2: Non Interest Bearing Deposit to Total Deposit Ratio

Banks	**Fiscal year**					
	2005	**2006**	**2007**	**2008**	**2009**	**Mean**
NABIL	0.1919	0.1504	0.1454	0.1655	0.1467	0.1591
Everest	0.1015	0.0830	0.0920	0.1039	0.1458	0.1052
Combined mean						**0.1322**

Source: Appendix-I

While observing the table 4.2 ratio of all the two banks the lowest ratio of non-interest bearing deposit to total deposit ratio of Everest bank while this ratio of NABIL i.e. *0.1591*. All over the ratio of combined mean i.e. *0.1322*. Taking the combined mean as standard ratio, the deposit mixture of NABIL carries more costly deposits than the EBL bank. The deposit mixture of Everest carries the lowest label of interest bearing deposits in its deposit mixture. This indicates that Everest is most successful in collecting cheapest fund. The major portion of non-interest bearing deposit consists of current deposit and this deposit is particularly maintained by business enterprises.

4.1.1.3 Loans and Advances to Total Assets Ratio

Loans and advances consists a major part of total assets of a bank. This indicates the volume of loans and advances out of the total assets. A high degree of the ratio indicates that the bank has been able mobilize its funds through lending functions. However lending always carries a certain risk of default therefore a high ratio is represents low liquidity also a low ratio represents low productivity with high degree for safety in terms of liquidity.

Table 4.3: Loans and Advances to Total Assets Ratio

Banks	Fiscal year					
	2005	**2006**	**2007**	**2008**	**2009**	**Mean**
NABIL	0.6160	0.5787	0.5704	0.5753	0.6289	0.5939
Everest	0.6461	0.6144	0.6375	0.6754	0.6469	0.6441
Combined mean						**0.619**

Table 4.3 explains the loans and advances to total assets ratio of EBL is higher than the NABIL bank. EBL mean ratio i.e.0.6441 higher than the combined mean also. It shows that EBL has higher lending performance and it has also mobilizing its assets properly in loan and advance. However NABIL has lower mean ratio of 0.5939 and lower than of combined mean of 0.619.The lower ratio of NABIL indicates that it has need diverting its lending function for more fee-based activities. All the two banks have maintained only satisfactory level of ratio.

4.1.1.4 Loans & Advances and Investment to Total Deposits Ratio

The main sources of banks lending and investment is the deposits. The collected funds are mobilized in the form of loans and advances and investment. Loans and advances have more risk and higher return whereas investment has low risk as well as lower return. Loans and advances and investments measure the firm's gross fund mobilizing capacity. This ratio measures how well the deposits are being mobilized and a banks ability to generate income from banks deposits liability. As an idle deposit means loss to the bank the higher ratio indicated that what portion of deposit are mobilized to generate income for the band to pay interest to the deposits and also to gain profit from it.

Table 4.4: Loans and Advances and Investment to Total Deposit Ratio

Banks	Fiscal year					
	2005	**2006**	**2007**	**2008**	**2009**	**Mean**
NABIL	0.7257	0.6679	0.6660	0.6694	0.7387	0.6935
Everest	0.7545	0.7101	0.7513	0.7648	0.7395	0.7395
Combined mean						**0.7165**

Sources: Appendix

Table 4.4 it shows that EBL has the higher ratio than the NABIL .i.e. 0.7395 And 0.6935. The combined mean ratio i.e.0.7165. So NABIL has not been able to mobilize the deposit as EBL. However, EBL has best performed in term is mobilizing the total deposits. Its ratio is above one in the past year 2005, which refers that none of the deposit is ideal and there is maximum utilization of the funds.

4.1.1.5 Loans and Advances to Shareholders Equity Ratio

Shareholders equity consists of share capital, share premium, reserves and retained earnings. It is the investment made by shareholders in the company and loans and advances means mobilization of investment funds in profit earning sector. This ratio shows how well the investment made by the investors (shareholders) is generating assets to multiply its wealth. It also measures the success of converting liability into assets and measures size of the business.

Table 4.5: Loan and Advances to Shareholders Equity Ratio

Banks	**Fiscal year**					
	2005	**2006**	**2007**	**2008**	**2009**	**Mean**
NABIL	6.3863	6.8986	7.5644	8.7568	8.8174	7.6847
Everest	9.8993	11.9121	12.3478	10.7564	18.6608	12.7153
Combined mean						**10.2**

Sources: Appendix-I

In table 4.5 the ratio of loan and advances to shareholders equity of two banks is not consistency entire period of study. Between two banks, EBL's ratio is high as compared to the NABIL. The performance of NABIL is highest in end of the year 2009 which is 8.8174. Similarly, performance of EBL is highest in year 2009. NABIL has increasing trend in all the year except in year 2009.EBL has slightly fluctuating in the study period. The combined mean of two banks are 10.2. The NABIL bank has lower ratio than the combined mean and EBL has highest ratio than the combined mean and it has been successful in generating high volume of loan and advances than NABIL bank.

4.1.2 Measuring the Investment Strength in Absolute Term

In this section, the various variables are measured in absolute terms. Absolute term means the different variables that are measured individually which enables to show the gross contribution of the variables with the respective banks in those aspect. Some of the important variables of lending are measured in absolute terms of mean, standard deviation and coefficient of variation.

4.1.2.1 Loans and Advances

The main function of a commercial bank is to create credit from its collected funds. The high volume of loan and advances indicates good performance of lending for a bank. The survival of bank depends upon its credit and the percentage of good performing loans measures the banks profitability and survival.

Table 4.6: Loans and Advances (Rs. in million)

Banks	2005	2006	2007	2008	2009	Mean	S.D	C.V
NABIL	10586017	12922.54	15545.77	21365.05	27589.93	17601.89	6152.51	34.95
Everest	7618.67	9801.30	13664.08	18339.08	23884.76	14661.56	5878.93	40.09

Sources: Appendix-I

The table 4.6 shows that the loans and advances of NABIL is higher than EBL bank. Loans and advances have been increasing trend over the study period. However the highest ratio of NABIL i.e. 17601.89 and EBL has the lowest mean ratio i.e. 14661.56. CV has lowest of NABIL i.e. 34.95. Therefore, the performance of NABIL is more consistent and EBL is least consistent.

4.1.2.2 Interest Income from Loan and Advances

Interest income from loan and advances is one of the major sources of income for a commercial bank. The high volume of interest income is indicator of good performance of lending activities.

Table 4.7 Interest income from loan and advance

Banks	2005	2006	2007	2008	2009	Mean	S.D	C.V
NABIL	1068.75	1309.99	1587.75	1978.69	2798.49	1748.73	605.91	34.65
Everest	719.30	903.41	1144.40	1548.65	2186.81	1300.51	522.87	40.20

Source: Appendix-I

Table 4.7 shows that the higher interest income from loan and advances was earned by NABIL in year 2009 i.e. 2798.49 and lower interest income from loan and advances was 2005i.e. 1068.75. The NABIL and EBL have been increasing over the study period. NABIL is the higher performance in interest income as it has higher mean ratio than the EBL bank.

4.1.2.3Provision for Debts Doubtful

Provision for Doubtful Debts show the figure that is summation of provision made against pass and substandard loan in the balance sheet as per NRB Directives. The NRB directive directs to make provisioning of 1%, 25%, and 100% for pass, substandard, doubtful and loss loans classification respectively. The loan loss provision occupies a larger share in total provision presented at profit and loss account. The higher provision is indicates more the total loan and bad loans too. According to NRB, 1% provision has to be made for pass loans (loans not past due and past due up to 3 months) so it acquires a larger portion of the total loan loss provision. Therefore detail of the loan loss provision should be studied to find out about the exact amount of performing and non-performing loans.

Table 4.8: Provision for Doubtful Debts

(Rs. in millions)

Banks	2005	2006	2007	2008	2009	Mean	S.D	C.V
NABIL	358.66	360.56	356.23	357.24	394.41	365.42	14.57	3.99
Everest	211.72	281.4 1	334.94	418.60	497.35	348.80	100.46	28.80

Source: Appendix-I

Table 4.8 shows the provision for doubtful debt of the two banks. The above table shows that EBL has highest provision of the study period whereas NABIL has the lowest for the study period. EBL has highest provision of 497.35 in the end of the study period. The NABIL has highest mean ratio of 365.42, which represents that it has allocated highest amount in provision for loan loss. Similarly, EBL has the lowest mean ratio of 348.80.

4.1.2.4 Net Profit

Net profit, the net earning of the firm after all deductions like taxes, bonuses and provisions are used in this analysis. The volume of net profit measures the firm's success and is the most important aspects.

Table 4.9: Net Profit (Rs.in millions)

Banks	2005	2006	2007	2008	2009	Mean	S.D	C.V
NABIL	518.63	635.26	673.95	746.46	1031.05	721.07	171.62	23.80
Everest	170.81	237.29	296.40	451.20	638.73	358.89	167.87	46.77

Source: Appendix-I

The table 4.9 shows that the net profit of NABIL and EBL have been increasing trend over the study period. NABIL has net profit of Rs. 518.63 million in year 2005 and Rs. 1031.05 million in end of the year.EBL has net profit of Rs. 170.81 million in year 2005 and 638.73 million in end of the year NABIL has recorded the high mean ratio i.e. 721.07 whereas EBL has recorded the low mean ratio i.e. 358.89. NABIL has the low C.V. indicates that the ratio has varied minimum. Similarly EBL's C.V. ratio in the highest than indicate highest variability.

4.2 Analyzing the Lending Efficiency and Its Contribution in Total Profitability

In this section lending efficiency is measured in terms of quality and its turnover. A relationship between different variables related to lending efficiency is taken from balance sheet and profit and loss account.

4.2.1 Loan Loss Provision to Total Loans and Advances Ratio

The ratio of loan loss provision to total loans and advances describes the quality of asset in form of loan is bank holding. NRB has directed all the commercial banks to classify its loans and advances into category and make provision according to these loans classified. The loans are classified as pass, substandard, doubtful and loss and provision are to be made on 12550 and 100 percent respectively. NRB has classified the pass and substandard loan as performing loan and doubtful and loss as non-performing loan is called specific loan loss provision. The amount of loan loss provision in balance sheet refers to the general loan loss provision. The provision for loan loss reflects the increasing possibility of non-performing loans in the total volume of loans and advances. The provision also provides as a cushion against future contingency made by default of the borrowers. The low ratio indicates the good quality of assets (loans) in the total volume of loans and advances whereas high ratio indicates more risky assets (loans having chance of default) in the loans and advances.

Table 4.10: Loan Loss Provision to Total Loans and Advances Ratio

Banks	**2005**	**2006**	**2007**	**2008**	**2009**	**Mean**
NABIL	0.0341	0.0275	0.0229	0.0184	0.0148	0.0235
Everest	0.0369	0.0341	0.0306	0.0271	0.0245	0.0306
Combined mean						**0.0271**

Sources: Appendix-I

In above table, the ratio of NABIL has decreasing trend in all the years and EBL has less decreased in the study period. Their non-performing loan has increased in the total assets which is quite risky as it might cause a great failure in future performance of the banks as the loans and advances are crucial part of earning income for a bank and it also occupied part a large portion in the volume of total assets.

Loan Classification and Provisioning

The assets side of the balance sheet is dominated by loans and advances. The profit of the banks depends on the interest earned from the loan borrowers and paid to the

depositors. Banks may not be able to pay its depositors if the banks fail to collect the loan amount.

The new directive regarding loan classification and provisioning was issued on 2003, was effective from the fiscal year 2003/04. I am taking three years data as per the new directives. Loan classification and provisioning of the three banks are analyzed and presented as per the new NRB directives. The NRB directives have classified the loan and advances as pass, substandard, doubtful and loss and provision should be made 1%, 25%, 50% and 100% respectively. The loan under the category of pass loan is called as performing loan and the substandard, doubtful and loss loans are called non-performing loan. The loan loss provision for performing loan is defined as general loan loss provision and loan loss provision for non-performing loan is defined as specific loan loss provision. General loan loss provision may include any other provision provide by bank in excess of the proportion as required by the NRB directive. One of the main purposes of NRB directives related to loan classification and provisioning is protect the deposits of public.

On the basis of the NRB directives NABIL and Everest has been following the directives and has provided the provisioning as follows:

Performing loan: Loans and advances, which principle amounts are past due and past due for period up to three months should be included in this category.

Non-performing loan: All loan and advances that are past due for a period of more than one year as well as advances which have least possibility to recovery in future should be included in this category.

Table 4.11: Loan Classification and Provisioning in NABIL

2007					2008				2009			
Particular	**TL**	**% of TL**	**Total LLP**	**% of Total LLP**	**TL**	**% of TL**	**Total LLP**	**% of TLLP**	**TL**	**% of TL**	**Total LLP**	**% of TLLPO**
PL (1)	**15724.72**	**98.88**	**214.30**	**60.15**	**21598.37**	**99.25**	**255.34**	**71.47**	**27774.19**	**99.19**	**294.74**	**74.73**
Pass	**15724.72**	**98.88**	**214.30**	**60.15**	**21598.37**	**99.25**	**255.34**	**71.47**	**27774.19**	**99.19**	**294.74**	**74.73**
NPL(2)	**178.28**	**1.12**	**141.92**	**39.85**	**161.07**	**1.18**	**101.88**	**28.52**	**224.82**	**0.80**	**99.67**	**25.27**
Substandard	119.70	0.75	42.57	11.95	66.22	0.75	56.63	15.85	113.31	0.40	32.31	8.19
Doubtful	14.47	0.09	13.89	3.90	42.57	0.19	7.11	1.99	45.76	0.16	21.27	5.39
Loss	44.11	0.28	85.46	23.99	52.28	0.24	38.14	0.10	65.76	0.23	46.09	11.69
Total	**15903**	**100**	**356.22**	**100**	**21759.44**	**100**	**357.22**	**100**	**27999.01**	**100**	**394.41**	**100**

Source: Annual Report of Nabil (Various years)

Table 4.11 shows that NABIL has classified its loan and advances and loan provision on the year 2007, 2008 and 2009. The loans are categorized under different categories as per NRB directives requirement. In 2007, total loans of NABIL's Rs. 15903 million and out of total loan and advances. Pass loan, substandard, doubtful, and loss loans consist of 98.88%, 0.75%, 0.09% and 0.28%.

The performing loan consists of 98.88%, and non-performing loan consists of 1.12%. The loan loss provision has been maintained for the categorized loans out of total loan loss provision 60.15% was made for performing loans. 11.95% for substandard loan, 3.90% for doubtful loan loss provision is 39.85%. NABIL's total loan less provision consists 60.15% of general loan loss provision and 39.85% of specific loan loss provision.

Similarly, in the year 2008 total loan and advances is 21759.44 out of the total loans there is 99.25% pass loan i.e. performing loan. The non-performing loan is 1.18%, which consists of 0.75% substandard loan, 0.19% of doubtful loans and 0.24% of loan loss. The loan loss provision for performing loan is 71.47% and for non performing loss is 28.52%. The loan loss provision for non-performing loan consists of 15.85% of substandard loan, 1.99% of doubtful loans and 0.10% of the loan loss provision. The general loan loss provision is 71.47% out of the total provision. Similarly, the

proportion of doubtful loan has increased in 2008 than the previous year. The doubtful loan in 2007 was 0.09% and on 2008 is 0.19%. The high increase of doubtful loans indicates the deteriorating quality of assets of NABIL. However there has been increase in the performing loan and non performing loan than previous year.

Similarly, in the year 2009 total loan and advances is 27999.01 out of total loans there is 99.19% pass loan i.e. performing loan. The non-performing loan is 0.80%, which consists of 0.40% substandard loan, 0.16% doubtful loan and 0.23% of loan loss. The loan loss provision for performing loan is 74.73% and for non-performing loan is 25.27%. The loan loss provision for non-performing loan consists of 8.19% of substandard loan5.39% of doubtful loan and 11.69% loan loss provision.

However there has been increase and decrease in the non-performing loan than previous year, which indicates that the current loans and good loans and default cases are lowered.

Figure 4.1: Loan Classification of NABIL 2007 August

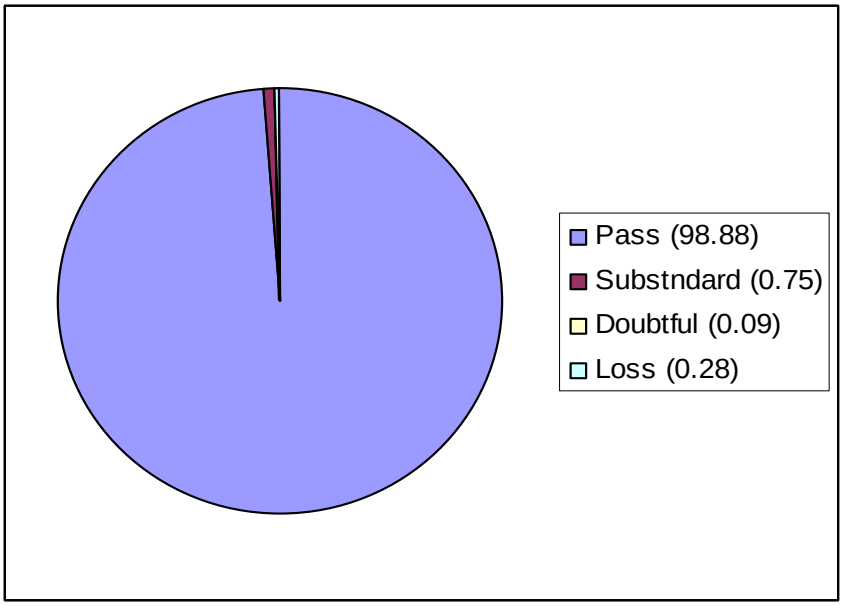


Figure 4.2: Loan Classification of NABIL August 2008

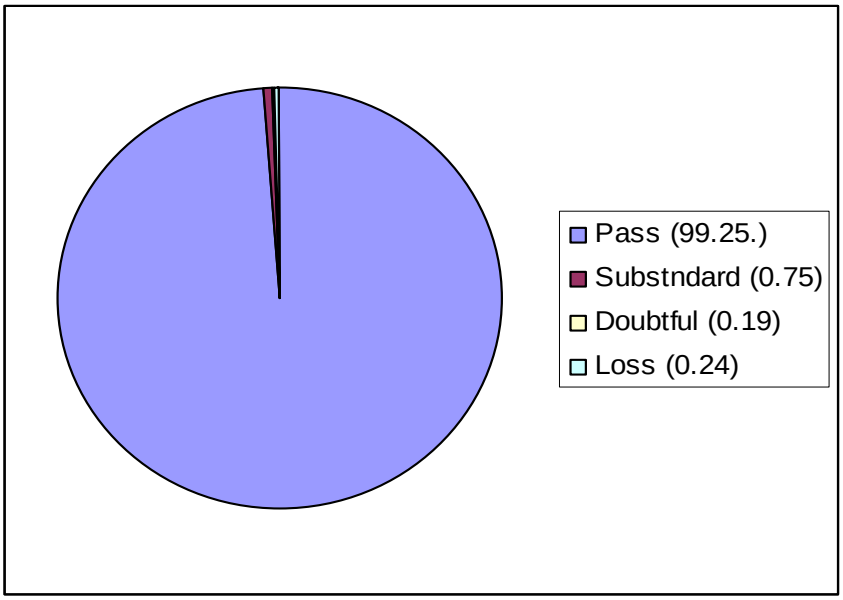


Figure 4.3: Loan Classification of NABIL August 2009

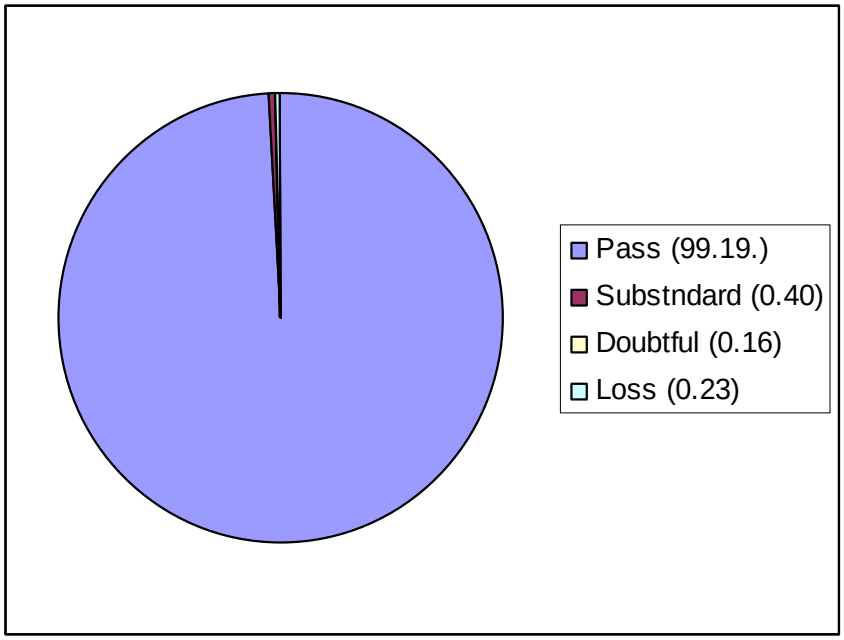


Table 4.12: Loan Classification and Provisioning in Everest

2007					2008				2009			
Particular	**TL**	**% of TL**	**Total LLP**	**% of Total LLP**	**TL**	**% of TL**	**Total LLP**	**% of TLLP**	**TL**	**% of TL**	**Total LLP**	**% of TLLPO**
PL (1)	**13969.5**	**99.19**	**128.80**	**51.58**	**20093.78**	**99.37**	**164.86**	**60.23**	**24351.57**	**99.52**	**204.78**	**62.63**
Pass	13969.5	99.19	128.80	51.58	20093.78	99.37	164.86	60.23	24351.57	99.52	204.78	62.63
NPL(2)	**113.16**	**0.80**	**120.89**	**48.42**	**127.29**	**0.62**	**108.82**	**39.76**	**117.99**	**0.48**	**112.21**	**37.37**
Substandard	4.21	0.029	2.67	1.06	6.30	0.03	1.05	0.38	1.36	0.0056	1.58	0.4832
Doubtful	2.35	0.017	0.34	0.13	0.74	0.003	1.17	0.42	28.51	0.1165	0.37	0.1132
Loss	106.60	0.78	117.88	0.13	120.25	0.59	106.60	38.95	88.11	0.36	120.26	36.78
Total	**14082.66**	**100**	**249.69**	**100**	**20221.07**	**100**	**273.68**	**100**	**24469.56**	**100**	**326.99**	**100**

Source: Annual Report of Everest (Various Years)

Table 4.12 exhibits classification of loans and advances and loan loss provision of Everest for the year 2007, 2008 and 2009. The total loan amount is **14082.66** million in the year 2007 out of which 99.19% consists of performing loan and 0.80% is non-performing loan. The non-performing loan consists of substandard 0.029%, doubtful 0.017% and loss loan 0.78%. The total loan loss provision amount is **249.69** million in the year 2007. The performing loan amount is 51.58% and non-performing loan is 48.42%. The loan loss provision for non-performing loan consists of 1.06% of substandard loan, 0.13% of doubtful loan and 0.13% of loan loss provision. The general loan loss provision is 51.58% out of the total provision. The specific loan loss provisions consist of substandard, doubtful a loan loss provision comparing 1.06%, 0.13%, 0.13%respectively.

In the year 2008, the total loan amount is Rs 20221.07 million out of which 99.37% is performing loan and 0.62% is non-performing loan. The non performing loan consists 0.03% substandard, 0.003% doubtful and 0.59% loss loan. The loan loss provision has been maintained for the categorized loans out of total loan loss provision 60.23% was

made for performing loans, 39.76% was made for non-performing loans which consists of 0.38% substandard, 0.42% doubtful and 38.59% loss loan. Similarly, the proportion of doubtful loan has increased in 2008 than the previous year. The doubtful loan in 2007 was 2.35 and on 2008 is 0.74.

Similarly, in year 2009 the total loan amount is Rs. **24469.56** million out of which 99.52% performing loan and 0.48% is non-performing loan. The non-performing loan consists of 0.0056% substandard 0.1165% doubtful and 0.36% loss loan. The loan loss provision has been maintained for the categorized loans out of total loan loss provision 62.63% was made for performing loan, 37.37% was made for non-performing loan which consists of 0.4832% substandard, 0.1132% doubtful and 62.63% loss loans.

Similarly, the proportion of doubtful loan has increased in 2009 than the previous year. The doubtful loan in 2008 was 0.74 and on 2009 is 1.36.

Figure 4.4: Loan Classification of Everest 2007

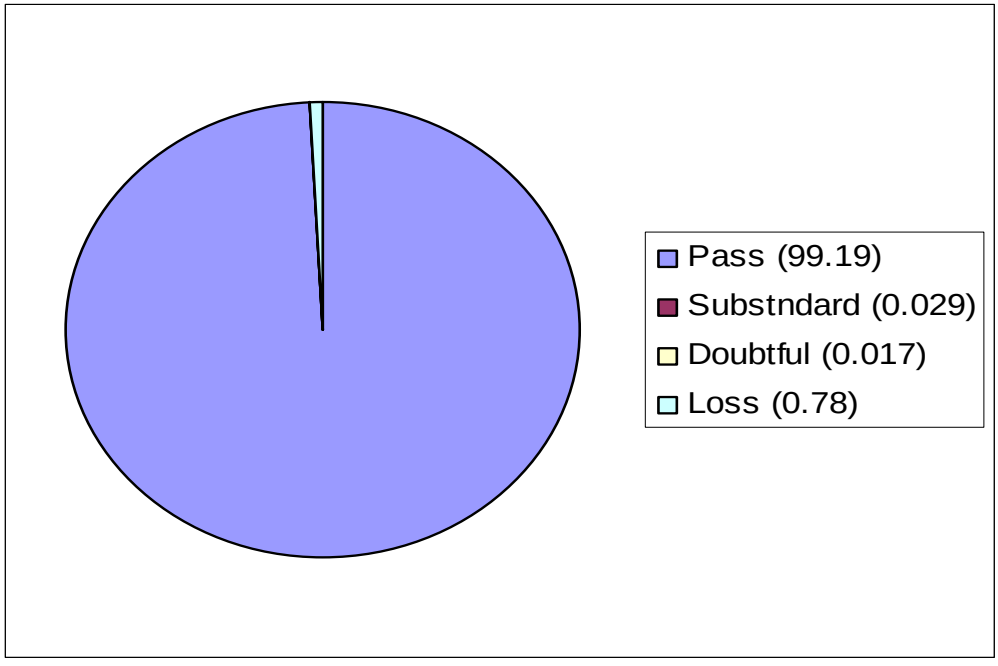


Figure 4.5: Loan Classification of Everest 2008

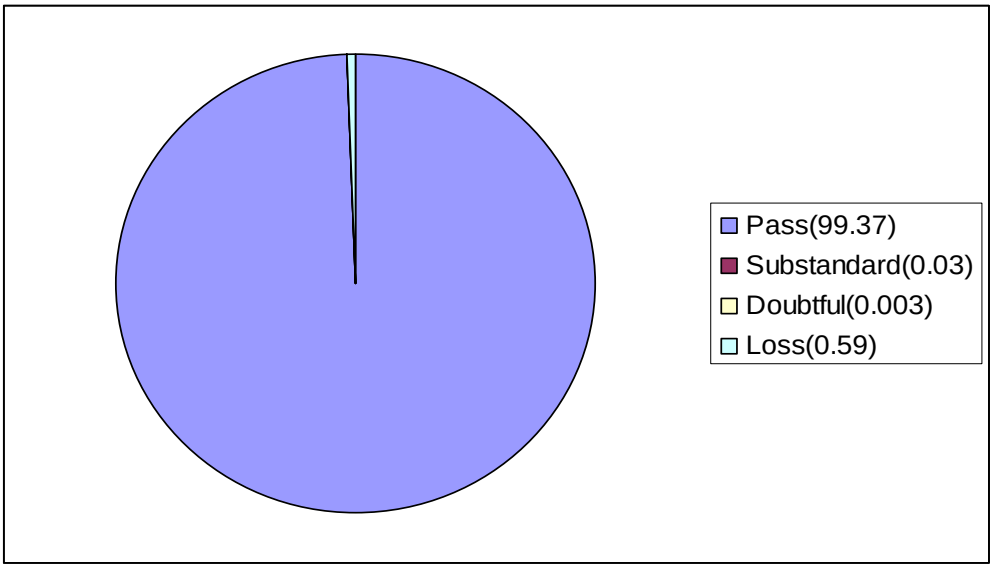


Figure 4.6: Loan Classification of Everest 2009

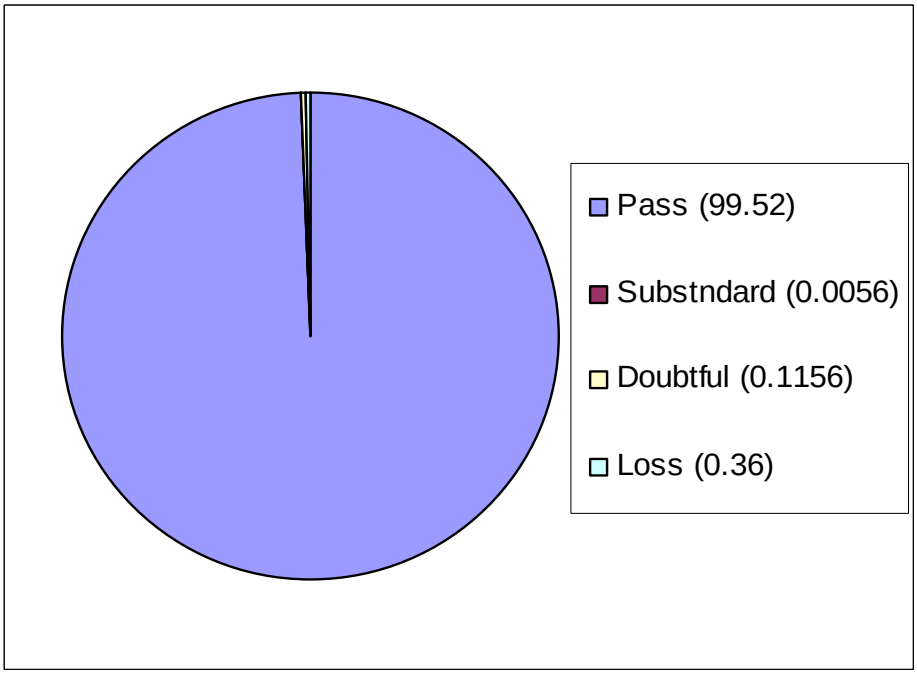


Table 4.13: Non-Performing loans to Total Loans and Advances Ratio (%)

Banks	**2005**	**2006**	**2007**	**2008**	**2009**	**mean**
NABIL	4.19	1.41	1.14	0.75	0.81	1.66
Everest	2.59	1.32	0.83	0.694	0.49	1.18
Combined mean						**1.42**

Source: Annual Report of NABIL and EBL (Various years)

Table 4.13 shows, that the non-performing loans to total loans and advances ratio of the two banks are decreasing trend in all the years except in year 2009 of NABIL Bank. NABIL has recorded the high mean of all i.e.1.66 and EBL Bank has recorded low mean ratio i.e1.18. EBL Bank has higher performance than NABIL Bank..

Non-Performing Assets (NPAs) of this sector is hovering around 8 percent which is slightly higher than the internationally acceptable level of 5 percent. However, as this sector has also built up loan loss provision to the extent of nearly 6 percent this will definitely cushion any disaster emanating from the level of NPAs. NPAs does occur in the process of capital formation in any economy and it would be wise controlling NPAs rather than restrict capital formation. Besides, it is a fact that any developing economy does, built up NPAs of the initial stages of development, which gets diluted and is brought down as development picks up. Appropriate tax policies also help in improving the balance sheet of bank with respect to NPAs. .

If the banking industry average for non-performing asset is 8% then we can conclude that NABIL has the small percentage of non-performing loan and SBI ratios are bit low than of industry average and greater than combined mean. So they should also take major steps in recovering non-performing loans and review its current policy.

4.2.2 Interest Income to Total Income Ratio

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

Table 4.14: Interest Income to Total Income Ratio

Banks	**2005**	**2006**	**2007**	**2008**	**2009**	**mean**
NABIL	0.7407	0.7593	0.7737	0.8030	0.8262	0.7806
Everest	0.8374	0.8470	0.8344	0.8293	0.8506	0.8397
Combined mean						**0.8102**

Sources: Appendix I

Literally, the ratios of all the banks have remained almost constant. Comparatively, the NABIL bank which has recorded the low mean ratio i.e. 0.7806. More specifically, EBL Bank has the high mean ratio i.e. 0.8397. The combined mean ratio is 0.8102.

4.2.3 Interest Expenses to Total Deposit Ratio

This ratio measures the cost of total deposits in relative term. The joint venture banks performance depends upon its ability to generate cheaper funds. Cheaper fund more will be the profitability in generating loan advances and vice versa. The high ratio indicates of costly fund this aversely affects its lending performance.

Table 4.15: Interest Expenses to Total Deposit Ratio

Banks	**2005**	**2006**	**2007**	**2008**	**2009**	**mean**
NABIL	0.0167	0.0184	0.0238	0.0237	0.0309	0.0227
Everest	0.0297	0.0290	0.0284	0.237	0.0304	0.0288
Combined mean						**0.0258**

Sources: Appendix I

Table 4.15 shows that the costs of deposit of NABIL and EBL have been slightly fluctuating in the study period. The high mean ratio of EBL i.e. 0.0288 and low mean ratio of NABIL i.e. 0.0227. NABIL is successful collecting cheaper fund by its modern and personalized services to the customer.

4.2.4 Interest Suspense to Interest Income from Loans and Advances Ratio

Interest suspense means the interest due but not collected. NRB directive do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in assets side of balance sheet under the heading "other assets". This ratio of interest suspense to total interest income from loans and advances measures the composition of due but uncollected interest in the total interest income from loans and advances. The high degree of this ratio indicates to low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loans and advanced.

Table 4.16 Interest Suspense to Income from Loans and Advances Ratio

Banks	**2005**	**2006**	**2007**	**2008**	**2009**	**mean**
NABIL	0.0159	0.0145	0.0072	0.0059	0.0055	0.0098
Everest	0.0210	0.0112	0.0061	0.0045	0.0035	0.0093
Combined mean						**0.0096**

Sources: Appendix I

The table 4.16 shows that the ratio of interest suspense to income from loans and advances. In all the two banks have been slightly decreasing trend in all the study period .The high mean ratio of NABIL i.e. 0.0098 and low mean ratio of EBL i.e. 0.0093. The combined mean ratio has 0.0096. The highest performance of NABIL and EBL bank's has to improve its interest turnover to decrease the ratio suspense account. These banks have to concentrate on recovery of

the loans and advances, plan and act according for the proper collection of repayments schedules.

4.2.5 Interest Income to Interest Expenses Ratio

The ratio of interest income to interest expenses ratio measures the difference between interest rates offered and interest rate charged. The spread between the interest income and interest expenses if the main foundation for the profit of the bank. NRB had restrictions on the interest rate spread of the commercial banks. The interest offered and the interest charged should not be more than 5 percent. The commercial banks are free to fix interest rate on deposits and loans. Interest rates on all types of deposits and loans should be published in the local newspapers and communicated to Nepal Rastra Bank on quarterly basis and immediately when revised. Deviation of 0.50 percent from the published rate is allowed on all types of loans and deposit. However in rate fixation but it does not specify the conditions that would oblige NRB to do so.

Table 4.17: Interest Income to Interest Expenses Ratio

Banks	**2005**	**2006**	**2007**	**2008**	**2009**	**mean**
NABIL	4.3884	3.6678	2.8572	2.6089	2.4265	3.1898
Everest	2.4012	3.7094	3.2041	2.4480	2.1591	2.7844
Combined mean						**2.9871**

Sources: Appendix I

Tables 4.17 show that NABIL has recorded slightly decreasing in the study period EBL has been fluctuating trend in the study period. The mean ratio of NABIL is high i.e. 3.1898 and low mean ratio is EBL i.e. 2.7844. EBL is charging high rate of interest on loans and advances and providing low interest rate on its deposited. The highest cost of deposits and low volume of non-interest bearing deposit in the deposit mix of EBL has resulted on the least ratio in the interest income to interest expenses ratio.

4.2 Analysis of Growth Rate

Growth analysis of the banks involves analysis of growth in deposits, loans, investment and net profit. Growth analysis ascertains how much growth in deposit liability is supported by growth in assets. The analysis also concerns which asset portfolio has significant increment corresponding to the increment deposit liability.

4.3.1 Growth Ratio of Total Deposit

Deposits are the main source of capital for the joint venture banks. Bank utilizes these funds in loan and advances and as investments.

Table 4.18: Growth Ratio of Deposit (Rs. in million)

Banks	**2005**	**2006**	**2007**	**2008**	**2009**	**Growth ratio (%)**
NABIL	14586.61	19347.40	23342.28	31915.04	37348.26	60.94
Everest	10097.69	13802.44	18186.25	23976.29	33322.95	69.69

The table 4.18 shows that all the banks have been increasing trend in all the year. The high growth ratio of EBL i.e. 69.69% and low growth ratio of NABIL.i.e. 60.94%. EBL has been able to collect deposits higher degree. It has different kind of deposit schemes, which must have been effected on deposit ratio. Being NABIL lower growth ratio has less improved their collection and should lunch various deposit schemes to increase its deposit ratio.

4.3.1 Growth Ratio of Loan and Advances

Loan and Advances is the major function of the joint venture banks the growth of these loans and advances determine the banking performance.

Table 4.19: Growth Ratio of Loan and Advances (Rs. in million)

Banks	2005	2006	2007	2008	2009	Growth ratio (%)
NABIL	10586.17	12922.54	15545.72	21365.05	27589.93	61.63
Everest	7618.67	9801.30	13664.08	18339.08	23884.67	68.10

Source: Appendix I

The table 4.19 shows the growth ratio of loan and advances in all the two banks have been increasing in all the years. EBL bank has high growth ratio i.e. 68.10% and low growth ratio of NABIL bank i.e. 61.63 %. EBL has adopted aggressive policy while increasing loan and advances. During the study period it has a significant growth and explains it aggressive as compare than the NABIL bank and EBL seems too weak in growth of loan and advances.

4.3.2 Growth Ratio of Total Investment

Investment is another important function of banking besides loan and advances investment determines the utilization and utilization of funds.

Table 4.20: Growth Ratio of Total Investment (Rs. in million)

Banks	2005	2006	2007	2008	2009	Growth ratio (%)
NABIL	2418.42	2301.45	4808.34	4646.87	3706.10	52.14
Everest	2100.29	3548.61	4704.63	4821.59	5146.05	59.19

Sources: Appendix I

The table 4.20 shows that NABIL and EBL have been fluctuating in all the study period and. The high growth ratio of EBL i.e.59.19% and low growth ratio of NABIL bank i.e. 52.14%. EBL has more significant than the NABIL Bank.

4.3.3 Growth Ratio of Net Profit

A joint venture banks performance measuring criteria is its net profit. The growth of net profit reveals the overall performance of the banks.

Table 4.21: Growth Ratio of Net Profit (Rs. in million)

Banks	2005	2006	2007	2008	2009	Growth ratio (%)
NABIL	518.63	635.26	673.95	746.46	1031.05	49.69
Everest	170.81	237.29	296.40	83.74	82.44	72.19

Sources: Appendix I

The table 4.21 shows that the growth ratio of net profit of NABIL has been increasing trend in all the year. EBL has fluctuating growth ratio in the study period. EBL has high growth ratio i.e. 72.19 and NABIL has the low growth ratio i.e. 49.69. EBL has a significance growth ratio than NABIL bank.

4.4 Correlation Coefficient Analysis

Correlation coefficient is the measure of correlation between two variables that summarizes correlation in one figure. If the change in the value of one variable is accompanied by the change in the value of the other, the variables are said to be correlated. Analysis of correlation coefficient explains to what extent two variables are correlated. In this analysis Karl Pearson's coefficient of has been used to find out the relationship between variables i.e. positive or negative. It helps to determine the following.

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

The statistical tool correlation analysis is used in the study to measure the relationship between variables in determining whether the relationship is significant or not. For the purpose of decision making interpretation are based on the following terms.

- When, r =1, there is perfect positive correlation
- When, r =-1, there is perfect negative correlation.
- When, r= 0, there is no correlation.
- When, 'r' lies between 0.7 to 0.999 (0.7 to -0.99) there is high degree of positive (or negative) correlation.
- When, 'r' lies between 0.5 to 0.6999 there is moderate degree of correlation.
- When, 'r' is less than 0.5, there is low degree of correlation.

4.4.1 Co-efficient of Correlation between Deposits and Loan and Advances

The coefficient of correlation between deposit and loan and advances is to measure the degree of relationship between these two variables. Deposit is independent variable and loan and advances is dependent variable. The main objectives of computing between two variables are to find out whether deposits are significantly used as loan and advances of NABIL and Everest for the study period.

Table 4.22: Correlation between Deposit and Loan and Advances

Banks	**Evaluation criterion**			
	r	**R2**	**P.Ers**	**6*P.Er**
NABIL	0.9900	0.9801	0.0060	0.0360
Everest	0.9970	0.9940	0.0018	0.0108

Sources: Appendix I

The table 4.22 shows the co-efficient of correlation between deposits and loan and advances of NABIL is 0.9900. We consider the value of the co-efficient of determination 'r2' is 0.9801 which 98.01% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (deposit). Further, value of P.Er is 0.0060 and 6*P.Er is 0.0360. The value of co-efficient of correlation 'r' is greater than the value of 6*P.Er, which shows that the value of 'r' is significant. It has any rigid policy to maintain these fixed consistence ratio between these assets and the volume of these assets in NABIL and it is highly of seasonal character.

In case of Everest also the co-efficient of correlation between deposit and loan and advances is 0.9970, which indicates positive correlation between these two variables. Similarly, the value of co-efficient of determination r2 is 0.9940, which means that 99.4% in the dependent variable (loan and advances) has been explained by the independent variable (deposit). Further, value of P.Er is 0.0018 and 6*P.Er is 0.0108. It shows that the value of co-efficient of correlation is greater than 6 times probable error. Therefore, value of 'r' is significant. There is significant relationship between deposit and loan and advances and the bank is mobilizing its deposit as loan and advances successfully.

From the above analysis, we can be concluding that the two banks are successful in mobilizing their deposit as loan and advances. Value of 'r' and 'r2'of the two banks are positive and two banks have greater than the value of 6 times of there probable error. Everest has the highest value of 'r' which indicates that it is in better position on mobilizing deposits as loan and advances in comparison to NABIL is also satisfactory position.

4.4.2 Co-efficient of Correlation between Investment and Loan and Advances

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

Table 4.23: Correlation between Investment and Loan and Advances

Banks	**Evaluation criterion**			
	r	**R2**	**P.Ers**	**6*P.Er**
NABIL	0.6408	0.4106	0.1778	1.0668
Everest	0.8642	0.7486	0.0764	0.5483

Sources: Appendix I

The table 4.23 shows the co-efficient of correlation between investment and loan and advances of NABIL is 0.6408. We consider the value of the co-efficient of determination (r2) is 0.4106, which mean 41.06% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (investment). The value of P.Er is 0.1778 and 6*P.Er is 1.0668. The value of co-efficient of correlation 'r' is less than the value of 6*P.Er, which shows that the value of 'r' is insignificant.

In case of Everest, the co-efficient of correlation between investment and loan and advances is 0.8642. The value of coefficient of determination r2 is 0.7486, which mean that 74.86% in the dependent variable (loan and advances) has been explained by the independent variable (investment). Further, value of P.Er is 0.0764 and 6*P.Er is 0.4583. It shows that the value of co-efficient of correlation is greater than probable error. Therefore, value of 'r' is significant. There is significant relationship between investment and loan and advances.

4.4.3 Co-efficient of Correlation between Shareholders Equity and Loans and Advances

Co-efficient of correlation between shareholders equity and loan and advances measures the degree of relationship between these two variables. Here loan and advances are the independent variable and shareholders equity is dependent variable.

Table 4.24: Correlation between Shareholders Equity and Loans and Advances

Banks	**Evaluation criterion**			
	r	**R2**	**P.Ers**	**6*P.Er**
NABIL	0.9938	0.9876	0.0037	0.0222
Everest	0.9514	0.9052	0.0286	0.1716

Sources: Appendix I

Table 4.24 shows that there is high degree of positive correlation between shareholders equity and loan and advances in NABIL and Everest banks. It shows good fund mobilization.

The value of 'r' in all the banks which we considered are significant due to the value of 'r' in the banks is higher than 6 times of P.Er. It is likely to conclude that the volume of shareholders equity is accidental and there is no relationship between these two variables.

4.4.4 Co-efficient of Correlation between Total Income and Loan and Advances

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

Table 4.25: Correlation between Total Income and Loan and Advances

Banks	**Evaluation criterion**			
	r	**R2**	**P.Ers**	**6*P.Er**
NABIL	0.9911	0.9823	0.0079	0.0475
Everest	0.9958	.9916	0.0025	0.015

Sources: Appendix I

The table 4.25 shows that the coefficient of correlation between total income and loan and advances of NABIL and Everest are 0.9911 and 0.9958 respectively. The value **6*P.Er** of NABIL and Everest are 0.0475 and 0.015 respectively. In all the banks coefficient of correlation 'r' is higher than the value of **6*P.Er** .So values of coefficient of correlation 'r' are significant in all the banks. Hence, there are relationship between total income and loan and advances in all two banks.

4.4.5 Co-efficient of Correlation between Interest suspense and Interest Incom

This correlation measures the relationship between interest suspense and interest income. Interest suspense is earned but uncollected interest is the outcome of the interest income in this

analysis interest suspense is the dependent variable and interest income is the independent variable, interest income which is due and uncollected for three months are transferred to interest suspense and thus interest income is reduced.

Table 4.26: Correlation between Interest Suspense and Interest Income

Banks	**Evaluation criterion**			
	r	**R2**	**P.Ers**	**6*P.Er**
NABIL	0.3259	0.1062	0.2664	1.5984
Everest	0.7035	0.4949	0.1524	0.9144

Sources: Appendix I

The table 4.26 shows that NABIL and Everest have insignificant value of 'r' since value of 'r' is less than **6*P.Er.** The values of coefficient of correlation 'r' of NABIL and Everest are 0.3259 and 0.7035 and values of **6*P.Er** of NABIL and Everest are1.5984, and 0.9944 respectively. Hence, there are no relationships between interest suspense and interest income in all the two banks.

4.4.6 Co-efficient of Correlation between Provision for Loan Loss and Advances

The correlation between provision for loan loss and loan and advances measures the degree of relationship between two variables. Provision for loan loss is dependent variable and loan and advances is independent variable. Loan loss provision is the product of loan and advances and these two variables are correlated. The main objective of computing 'r' between these two variables is to justify whether loan loss provision increase in the same proportion of increase in loan and advances.

Table 4.27: Correlation between Provision for Loan Loss and Loan and Advances

Banks	**Evaluation criterion**			
	r	**R2**	**P.Ers**	**6*P.Er**
NABIL	0.9456	0.8942	0.0316	0.1914

Everest	0.9963	0.9926	0.0022	0.0132

Sources: Appendix I

The table 4.27 explains that NABIL and Everest have significant value of 'r' since its value is greater than the value of **6*P.Er.** Hence, there is positive relationship between provision for loan loss and loan and advances.

4.4.7 Co-efficient of Correlation between Interest Income and Net Profit

The correlation between interest income and net profit measures the degree of relationship between these two variables. The interest income contributions a major portion of total volume of joint venture banks income. In this analysis, interest income is independent variables and net profit is dependent variable.

Table 4.28: Correlation between Interest Income and Net Profit

Banks	**Evaluation criterion**			
	r	**R2**	**P.Ers**	**6*P.Er**
NABIL	0.9887	0.9775	0.0068	0.0408
Everest	0.6626	0.4390	0.1692	1.0152

Sources: Appendix I

The table 4.28 explained that the value of 'r' in NABIL is significant and relationships between these two variables are certain, as the value of 'r' is more than 6 times of P.Er. The value of 'r' in Everest is not certain and significant. It shows negative relationship between these two variables in case of Everest.

4.5 Trend Analysis of Deposit Utilization and Its Projection for next Five Years

The main objectives of this analysis is to analyze the trend of deposit utilization in terms of loans and advances and investment of NABIL and Everest under five years of study period and to project the next five years trend comparatively. A commercial bank may grant loan and

advances and invest some of the funds in government securities and share and debenture of other companies to utilize its deposit. The projection is based on the following assumptions.

- Other things remain unchanged
- The projection will be limitation of least square method.
- The bank will run in present position.
- Nepal Rastra Bank will not change its guidelines to the commercial banks regarding deposit, loan and advances and investment.

4.5.3 Trend Analysis of Loan and Advances Total Deposit Ratio

The trend analysis of loan and advances to total deposit ratio of NABIL and Everest are done with comparatively under six years of study period from data taken and projection of trend for next three years is calculated with the help of past data.

The following table describes the trend values of loan and advances to total deposit of the banks for 9 years

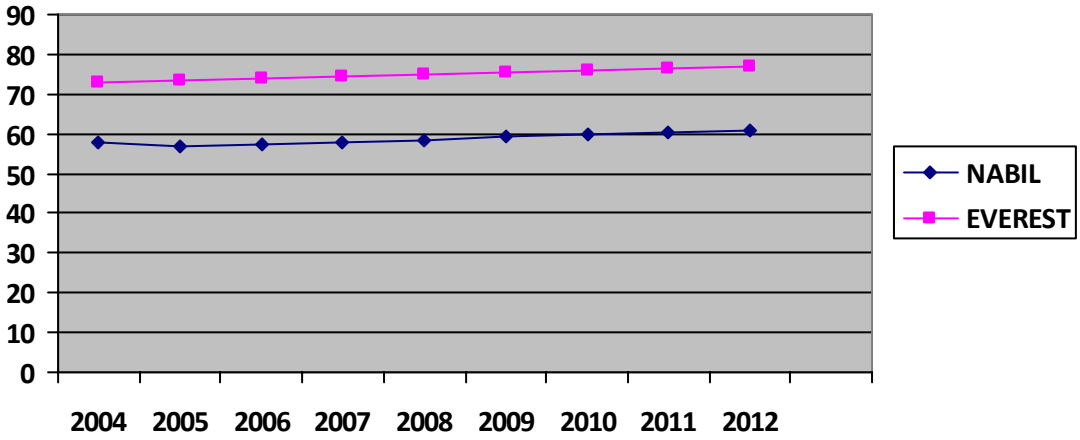
Table 4.29: Trend Analysis of Loan and Advances and Total deposit Ratio

(Rs. in million)

Years	Trend values of NABIL	Trend values of EBL
2004	58.00675	72.96866
2005	56.62274	73.2075
2006	57.257	73.71189
2007	57.89127	74.21629
2008	58.52554	74.72069
2009	59.15981	75.22509

2010	59.79408	75.72949
2011	60.43	76.2334
2012	61.070	76.7378

Figure 4.7: Trend Analysis of Loan and Advances and Total Deposit Ratio



The above mentioned trend values have been fitted in the trend lines to show a graph presentation.

The table 4.31 shows that the trend value of loan and advances to total deposit ratio of NABIL and Everest from year 2004 to 2012. The trend analyses of NABIL and Everest have been slightly increasing (except in 2005 of NABIL) The highest trend ratio of Everest in year 2012 i.e. 76.7378 and lowest ratio of NABIL in year 2005 i.e. 56.622.

4.5.2 Trend Analysis of Investment and Total Deposit Ratio

The trend analysis of investment and total deposit ratio of NABIL and Everest show the trend value of six years study period and makes project for the next three years. The following table describes the trend values of total investment to total deposit ratio of three joint venture banks.

Table 4.30: Trend Analysis of Investment and Total Deposit Ratio

Year	Trend values of NABIL	Trend values of EBL
2004	26.1191	30.58607
2005	33.87751	36.8741

2006	38.09	41.89597
2007	42.30248	46.91783
2008	46.51497	51.93969
2009	50.72746	56.96156
2010	54.93995	61.98343
2011	59.1475	67.04
2012	63.36	72.06

Figure No. 4.8: Trend Analysis of Investment and Total Deposit Ratio

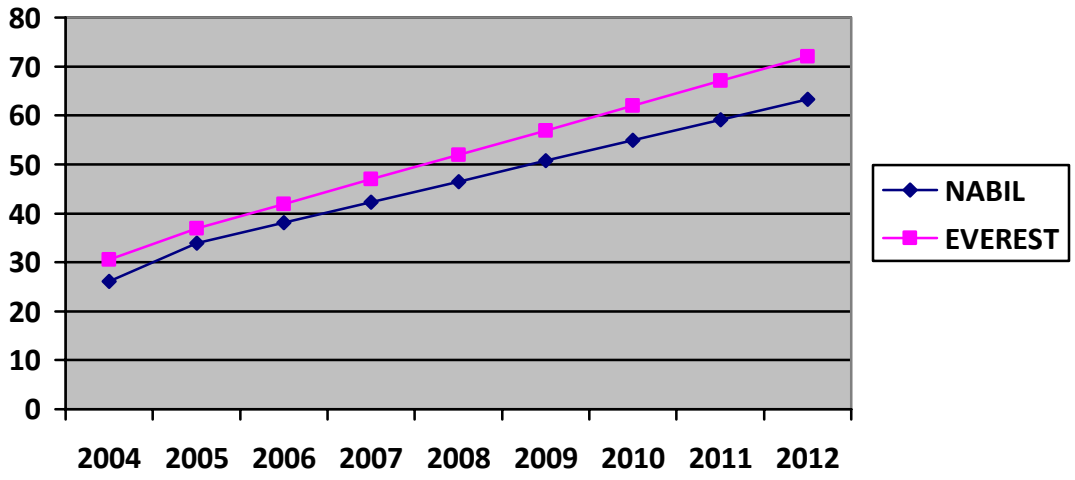


Table 4.32 shows that the total investment to total deposit of NABIL and Everest have recorded increasing trend in the study period. Everest will have the highest ratio i.e. 72.06 in year 2012 and NABIL has the lowest ratio is 26.1191 in year 2004. In all the banks seems increasing trend up to the study period. Everest seems move successful than NABIL to utilize its deposit in investment.

4.6 Major Finding of the Study

In this research mainly secondary data are used in the analysis of computed with the help of different financial and statistical tools. In financial tools ratio analysis have been used and on statistical tools standard deviation, co-efficient of variation (C.V.), correlation co-efficient and

trend analysis has been used. A primary data analysis is done from the information collected from structured interview with the concerned banks officials. This chapter focuses on the major findings from the year 2005 to 2009.

The major findings of the financial and statistical analysis are presented here.

Lending Strength in Relative Term

The total asset to total liability ratio remained almost constant in the study period of all the two banks. NABIL has slightly less than Everest bank.

Loan and advances to total assets ratio has been fluctuating in the study period of NABIL and Everest banks. NABIL has tendency to invest in government securities has resulted in lowest mean ratio of loan and advances to total assets ratio. The increasing ratio of loan and advances of Everest except in years 2006 and 2009 has resulted in highest mean ratio of loan and advances to total assets ratio.

Everest has the highest loan and advances and investment to total deposit ratio which refers that it has maximum mobilization of deposits than NABIL bank. The ratio of loan and advances and investment to deposit ratio measures the portion of total deposit that is used to increase the income of the banks irrespective of the portfolio of its application. The mean ratio of NABIL has lower than combined mean ratio. NABIL has not been able to mobilize the deposit.

The ratio of loan and advances to shareholders equity has gained the significant importance in measuring the capital fund and contribution in loan and advances. The combined mean is slightly deviated from the mean ratio of the bank, which indicates that there is significant difference in the performance of the banks. Everest has the high mean ratio i.e. 12.7153, which is slightly deviated from the combined mean of the banks. The ratio of NABIL is lowest and it is lower than the combined mean and slightly deviated from combined mean.

The ratios conclude that Everest has successful to advance high volume of credit as much as the capital fund allows it than NABIL.

Lending Strength in Absolute Terms

The loans and advances of NABIL is higher than the EBL bank. Loans and advances have been increasing trend over the study period. The highest ratio of NABIL i.e. 17601.89 and EBL has the lowest ratio i.e. 14661.56. But CV has lowest of NABIL i.e. 34.95. Therefore, the performance of NABIL is more consistent and Everest is least consistent.

Lending Efficiency and Its Contribution in Total Profitability

EBL has the highest loan loss provision and NABIL has lowest loan loss provision. NABIL has been decreasing trend in all the study period. Everest has been decreasing order in the study period except in year 2005. NABIL has lowest mean ratio and it indicates that the banks are working towards reducing the non-performing loans and following good lending policy for the new loans.

Non-performing loans out of the total loan and advances is highest in case of NABIL. EBL has lowest non-performing loan than NABIL.

In year 2007, 2008 and 2009 Everest has highest percentage of performing loan than NABIL bank. In year 2007 Everest and NABIL have 99.19 and 98.88 percentage of performing loan respectively. In year 2008 Everest and NABIL have 99.37and 99.25 percentage of performing loan respectively. In year 2009 Everest and NABIL have 99.52, and 99.19percentage of performing loan respectively. Everest's quality of loan is better than NABIL bank.

The ratio of interest income from loan and advances to total income shows that there is a large contribution of interest income in the total income. EBL has higher mean ratio than NABIL bank. NABIL has lower mean ratio than the combined mean ratio.

The ratio of interest expenses to total deposit shows that, the mean ratio of EBL is higher than NABIL bank. NABIL and Everest mean ratio is lower than combined mean ratio.

NABIL has the highest ratio of interest suspense to interest from loan and advances. It's ratio also higher than combined mean. Everest has low mean ratio and better than NABIL bank. Since, high ratio is unfavorable. It indicates that the borrower's default in paying the interest or either it could be lack of strict measures to collect the interest in the bank.

The interest income to interest expenses ratio of the banks are not widely deviated. The high mean ratio of NABIL, with one rupee of interest expenses it has been able to earn Rs.3.18 higher than the EBL bank.

Growth Ratio

The growth ratio of total deposit and loan and advances by analysis of five years of study period found out that Everest has highest growth ratio and it has improved exceptionally well in collecting deposits and extending loan and advances where as NABIL has more steady growth ratios and has not been able to increase substantial amount of deposits and loan and advances yearly.

The growth ratio of investment of Everest is higher than the NABIL bank. So NABIL has decreased its investment.

The growth ratio of net profit of EBL is higher than the NABIL. It indicates that the performance of EBL is good with respect to increase in profit.

Co-efficient of Correlation and Regression Analysis

Correlation co-efficient between total deposit and loan and advances of NABIL bank and EBL bank shows positive relationship between these two variables. EBL has the highest correlation in total deposit to loan and advances. It indicates that EBL has good performance in generating loan and advances from the deposits.

Generally, correlation of investment and loan and advances of Everest bank shows positive relationship. Everest has highest correlation in investments loans and advances and NABIL has negative relationship between investment and loan and advances.

Correlation co-efficient of shareholder's equity and loan and advances shows that there is higher degree of correlation of NABIL bank and EBL bank has lower degree of correlation.

Correlation co-efficient of total income and loan and advances of NABIL and EBL bank shows that the value of significant because the value of 'r' is greater than value of 6*P.Esr. Hence, positive relationship between total income and loan and advances in these banks.

Correlation co-efficient of all the interest suspense and interest income of NABIL has insignificant value of 'r' and it shows negative relation between interest suspense and interest income. Everest shows positive correlation and has positive relationship between interest suspense and interest income. Everest has high degree of correlation. NABIL has low degree of correlation.

Correlation co-efficient of provision for loan loss and loan advances shows that there is high degree of correlation in EBL and low degree of correlation in NABIL.

Correlation co-efficient of invest income and profit shows that there is no relationship in case of Everest and positive relation between invest income and profit in case of NABIL.

Trend Analysis

The trend analyses of the loan and advances to total deposit ratio of NABIL and Everest have been slightly increasing (except in 2005 of NABIL) all the study period. The higher trend ratio of Everest will be in year 2012 i.e. 76.7378 and lower ratio of NABIL in year 2005 i.e. 56.622.

The trend analyses of the total investment to total deposit of NABIL and Everest have recorded increasing trend in the study period. Everest will have the higher ratio i.e. 72.06 in year 2012 and NABIL has the lower ratio is 26.1191 in year 2004. In all the banks seems increasing trend up to the study period. Everest seems more successful than NABIL bank to utilize its deposit in investment

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of the study, conclusions derived from the analysis of data and their interpretation and recommendations offered for the improvement of the investment policies of the banks under study. Thus, the chapter is divided into three sections. The first section of this chapter focuses on summarizing the whole study; the second section draws conclusions from the analysis of data and interpretation of the results thereof; and the third section offers recommendations for improvement of the investment policy of the concerned bank.

5.1 Summary

Commercial banks play an important role for the economic development of the country as they provide finance for the development of industry, trade and business by investing the saving collected as deposits from public. They render their various services to the customers facilitating their economic and their social life. They are the most important ingredients for integrated and speedy development of a country. So, nowadays-financial institutions are viewed as catalyst in the process of the economic growth and effective mobilization of domestic resources.

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

In this study, "the financial tools – ratio analysis via asset management ratios and profitability ratios are calculated to find out the lending strength of the commercial banks. Also growth ratios, statistical tools like mean, standard deviation, C.V., coefficient of correlation and trend analysis. The data used in this research is secondary nature and extracted from the annual reports of the concerned banks and website of Nepal stock exchange. The financial statements of five years 2005 to 2009 were selected for the study purpose.

The analysis of lending strength in relative terms the ratio remained almost constant in the study period of all the two banks. NABIL has slightly less than Everest. Similarly Everest is most successful in collecting cheaper funds and its major portion of deposits consists of non interest bearing deposits. The cost of deposits is the major expense of a bank. Everest is properly utilizing the collected deposits (funds) in terms of loan and advances and investments. There are no idle deposits and hence maximum utilization of funds in loan and advances and investments.

The analysis of lending strength in absolute terms, NABIL has advances large volume of loan and the interest income from loan and advances is higher than the Everest bank. Due to high volume of loans and advances the provision for doubtful debts is also the highest which indicates its superior performance than Everest bank. However NABIL has the higher net profit than the Everest.

The activity ratio shows that NABIL has better performance than EBL. The lowest loan loss provision ratio is the indicative of better performance of NABIL than the EBL in judging the borrower needs and quality of the borrower NABIL performed better than Everest because its interest suspense to interest income is the lowest. It indicates that the borrower's default in paying the interest or either it could be lack of strict measure to collect the interest in the bank. Everest's high loan loss provision reflects the increasing possibility of non performing loan out of total loan and advances. However, it has been found that the ratio of loan loss provision to total loan and advances is non increasing trend.

Everest bank has the higher mean ratio of interest income from loan and advances which shows a large contribution of interest income to the total income and NABIL has the lower. EBL's mean ratio is higher than the combined mean. NABIL is successful in collecting low cost of

deposits by its modern and personalized customer services. The low cost of deposit as shown by interest expenses to total deposit ratio has resulted this ratio of NABIL to be the lower. EBL has lower interest suspense out of total income from loan and advances. NABIL has the higher ratio of interest suspense.

Everest has maintained highest ratio of growth in total deposit, loan and advances, investment and net profit. However, the growth of Everest is limited to growth ratio only and does not maintain the highest growth in volumes. The liquidity position of these two banks is likely to increase in the near future.

All the three banks are fluctuating in loan and advances and total deposit ratio 0.1 and increasing trend in total investment and to total deposit. The commercial bank has been following NRB directives in terms of loan loss provision and loan classification as the figures are revealed in the appropriate heading in their annual reports.

5.2 Conclusions

Investment is the major essence of every commercial bank. The formulation and implementation of sound investment policies are among the most important responsibilities of the bank management. Therefore, the main objectives of the study are to assess and evaluate the investment policy and strategy adopted by the concerned banks. From the above analysis, we found out the major stamina of investment policy adopted by concerned bank, and concluding results are as follows:

Due to high volume of loan and advances NABIL has provision for doubtful debts also. However, NABIL has the higher profit than the EBL bank as a result of low cost of deposits, consists good quality of assets in total volume of loan and advances as shown by the result of loan loss provision to total loan and advances ratio and a lower interest suspense account. The interest suspense proportion of NABIL is the higher than the EBL bank.

Everest has performed exceptionally well in increasing the growth ratio of deposit, loan and advances and net profit however its performing loans portion is higher than the NABIL bank.

All the banks have good lending procedures, preliminary screening is done of all the loan application, credit appraisal and financial position of the business and cash flows of the proposal is given high importance which is essential criteria for loan approval. There is proper control mechanism like delegation of authority, follow up visits and books of accounts inspection of the client which result in good performance of the banks. The banks are following NRB guidelines of loan classification and provisioning which makes the banks financial position strong instead of holding high volume of non- performing assets in addition to all the guidelines followed of NRB and the banks internal policy.

5.3 Recommendations

After going over the above summary and conclusion of the study, following recommendations and suggestion can be made to overcome the weakness, inefficiencies and to make better policies regarding fund utilization and investment of concern banks i.e. EBL and NABIL. The ratio of non- interest bearing deposit to total deposit of Everest is the lower and as a result of this it has higher ratio in interest expense to total deposits. There is high propensity to grow in loan and advances. Therefore, this bank is suggested to reduce the interest rate. Consequently the volume of interest bearing deposit in its deposit mix will reduce and as a result the gap between interest income and interest expenses will increase which will provide new lending opportunities. Then it will offset the liquidity arising from high propensity of deposits. The bank is further suggested to launch new schemes for low interest bearing deposits as a result of which the consumer's focuses on the facilities rather than the interest provided on deposits.

The interest suspense to interest income from loan and advances is high in case of NABIL. The increase in interest suspense account will increase risk and the profitability of the bank will decrease. Therefore, these banks have to improve its interest turnover rate to decrease the ratio of interest suspense to interest income from loan and advances. This bank has to concentrate on recovery of interest and loans advances, plan and act accordingly for proper collection of interest repayment schedules.

Everest contribution in loan and advances is the lowest and this has high degree of variation as compare to NABIL. Lending is most important function of commercial bank. The low tendency towards lending affects the performance of the banks in long term. Low level of lending and investment activities will affect the economy of a country by low level of productivity and employment opportunities. This economic slackness will eventually affect the banking business also. Therefore, Everest bank is recommended to at least this growth of loan in the coming year also.

The high amount of provision on loan loss and high volume of non-performing loans of NABIL is certainly not sign of efficient credit management. NABIL bank is recommended to revise its current policy and improve its credit management techniques and take major steps in recovering of the non-performing loans. However, there has been an improvement in the non-performing loans in reducing its portion during the 2005.

The low percentage of non-performing loan and low provision of loan loss of Everest is not entirely due to proper lending and investment policy of the bank. The portfolio of the bank has low deposit cost, increased foreign currency deposits and high portion of fee based income and exchange earning due to fluctuation is the main source of its income and has contributed comparatively less in the core function of the bank. Since the bank is less oriented in the lending activities it has low ratio of provisioning and low percentage of bad debts. The portfolio of loans seems, due to the compulsion of NRB directives and guidelines. However, Everest bank should realize that if the exchange income is reduced due to strength of Nepalese currency in future and the fee based activities decline due to the economic slackness the existence of the bank may be questioned in future. Therefore, this bank is highly recommended to focus on lending activities. Everest's should increase the sustainable banking practices and emphasize more on lending functions besides its fee-based activities.

The low ratio of loan and advances and investment to total deposit indicates that NABIL has not been properly mobilizing its fund. The lending functions have not been fully utilized. Therefore, it is suggested to invest the funds as an idle deposit is a cost to the bank. The bank

with the marketing efforts should increase its facilities on credit. As a result of increasing in lending activities, its profitability will further increase.

Banks does not provide loan without collateral. It is recommended that proper assessment and viability of the project should also be considered apart from the traditional concept of collateral based lending. If there is good proposal and all other factors of credit analysis are fulfilled then collateral should not be the only deciding factors for advancing the loans besides following the proper guidelines and policy of credit appraisal.

There has been communication gap between the banks is lacking even through they are on the same business. Banks need to develop a mechanism for inter bank transparence, a committee which will help the better understanding of the various types of risk, disseminate information regarding bad debts and fraud cases, minimize customer misleads and practices fair competition.

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APPENDIX-I

Total Assets

Banks	**2005**	**2006**	**2007**	**2008**	**2009**
NABIL	17186.33	22329.97	27253.39	37132.76	43867.39
EBL	11792.13	15959.28	21432.57	271490.34	36916.85

Total Liabilities

Banks	2005	2006	2007	2008	2009
NABIL	15528.69	21957.83	26874.84	37132.75	43364.49
EBL	11022.51	15195.73	19797.97	27149.34	36538.27

Non- Interest Bearing Deposits

Banks	2005	2006	2007	2008	2009
NABIL	2792.18	2910.56	3395.23	5284.34	5480.53
EBL	1025.02	1145.79	1673.98	24992.34	4859.95

Total Deposits

Banks	2005	2006	2007	2008	2009
NABIL	14586.61	19347.40	23342.28	31915.04	37348.26
EBL	10097.69	13802.44	18186.25	23976.29	33322.95

Loan and Advances

Banks	2005	2006	2007	2008	2009
NABIL	10586.17	12922.54	15545.77	21365.05	27589.93
EBL	7618.67	9801.30	13664.08	18339.08	23884.67

Total Investment

Banks	2005	2006	2007	2008	2009
NABIL	2413.94	2301.45	4808.34	4646.87	3706.10
EBL	2100.29	3548.61	4704.63	4821.59	5146.05

Shareholders Equity

Banks	2005	2006	2007	2008	2009

NABIL	1657.64	1873.20	2055.11	2439.82	3129.02
EBL	769.62	822.8	1106.6	7770.01	1279.94

Interest Income

Banks	**2005**	**2006**	**2007**	**2008**	**2009**
NABIL	1068.75	1309.99	1587.75	1978.69	2798.49
EBL	719.30	903.41	1144.40	1548.65	2186.81

Interest Expenses

Banks	**2005**	**2006**	**2007**	**2008**	**2009**
NABIL	243.54	357.16	555.71	758.44	1153.28
EBL	299.56	401.39	517.16	632.60	1012.87

Total Income

Banks	**2005**	**2006**	**2007**	**2008**	**2009**
NABIL	1510.68	1725.13	2052.07	2464.02	3387.07
EBL	858.96	1066.51	1371.50	1548.65	2570.89

Interest Suspense

Banks	**2005**	**2006**	**2007**	**2008**	**2009**
NABIL	168.86	188.63	112.18	128.04	151.57
EBL	159.79	110.01	83.37	83.37	83.34

Provision for Doubtful Debts

Banks	2005	2006	2007	2008	2009
NABIL	358.66	360.56	356.23	357.24	394.41
EBL	211.72	281.41	334.94	418.60	497.35

Loan Loss Provision

Banks	2005	2006	2007	2008	2009
NABIL	360.57	356.23	357.24	394.40	409.08
EBL	281.42	334.94	418.60	497.34	584.88

Net Profit

Banks	2005	2006	2007	2008	2009
NABIL	518.63	635.26	673.95	746.46	1031.05
EBL	170.81	237.29	296.40	451.20	638.73

APPENDIX-II

Coefficient of Correlation between Deposit and Loan and Advances of NABIL

Year	Deposit(x)	X2	L&A(y)	Y2	XY
2005	14586.61	212769191.3	10586.17	112066995.3	154416333.2
2006	19347.40	374321886.8	12922.54	166992040.1	250017550.4
2007	23342.28	544862035.6	15545.77	241670964.9	362873716.2
2008	31915.04	1018569778.0	21365.05	456465361.5	681866425.4
2009	37348.26	1394892525	27589.93	761204237.4	1030435879
Total	126539.59	3545415417	88009.46	1738398599	2479609904

Now, we have

Here No. of variables = n

N = 5, $\sum x = 126539.59$, $\sum y = 88009.46$, $\sum xy = 2479609904$, $\sum x^2 = 3545415417$,

$\sum y^2 = 1738398599$

Coefficient of correlation can be calculated by using following formula

$$\text{Rxy (r)} = \frac{n \times \sum xy - \sum x \times \sum y}{\sqrt{n \times \sum x^2 - \left(\sum x\right)^2} \times \sqrt{n \times \sum y^2 - \left(\sum y\right)^2}}$$

$$= \frac{5 \times 2479609904 - 126539.59 \times 88009.46}{\sqrt{5 \times 3545415417 - (126539.59)^2} \times \sqrt{5 \times 1738398599 - (88009.46)^2}}$$

r = 0.99

r^2 = 0.9801

Calculation of Probable Error

P.E. of coefficient of correlation can be calculated by following formula

P.E (r) = $0.6745 \times 1\text{-}r^2/\sqrt{n}$

= $0.6745 \times 1\text{-}0.9801/\sqrt{5}$

= 0.2809

Now, 6 P.Er = 6×0.0060 = 0.0360