A STUDY ON INVESTMENT POLICY OF JOINT VENTURE BANKS (REF. NABIL BANK LTD AND NEPAL SBI BANK LTD.)

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RECOMMENDATION

This is to certify that the thesis:

Submitted by

BANDANA SHRESTHA

Entitled

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has been prepared and approved by this Department in the prescribed format of, Faculty of Management, This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the thesis presented by

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"A STUDY ON INVESTMENT POLICY OF JOINT VETURE BANKS (REF. NABIL BANK LTD.AND NEPAL SBI BANK LTD.)"

And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies (MBS)

<u>Viva Voice Committee</u>

Head of Research Department ……………………….

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DECLERATION

I hereby declare that the work reported in this thesis entitled **"A STUDY ON INVESTMENT POLICY OF JOINT VENTURE BANKS" (Reference NABIL Bank Ltd. And SBI Bank Ltd.)** Submitted to Shanker Dev Campus, 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 **Mr. Kishor Maharjan Lecturer** 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 I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing country. Development and expansion of financial Institutions are essential for the economic growth of the country. The pace of development of depends on any country in this modern era largely the level of financial development. Financial Institutions provide capital to develop trade, industry and business. Banks Finance companies, co-operative societies, Insurance companies, stock exchange help in the economic development of the country.

As a financial institution, the commercial banks are one of the major media in the framework of every economic because they collect scattered saving and provide loans to the various sectors according to the need of the clients. When banks provide loans new businesses and industries are established which helps in the development of the country. In this way the whole infrastructure of national development, direction of economy at the rate of progress are strengthen by the banking system. The primary issue of development is to increase the investment in productive sector of the economy such as industrial and commercial production trade and commerce, international business, generation of individual income and expenditure government revenue etc.

Generally the word bank refers to a commercial bank. Therefore, the activities of a commercial bank are synonymous to banking. **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 pace of time has changed the portfolio of banking business from its primary function to other functions such as merchant banking, credit card, business documentary, credit traveler cheques, business home banking etc.

Lending is one of the most important functions of commercial bank. Credit is finance is the term used to denote transaction involving the transfer of money of other property on promise of repayment, usually at a fixed future date .The person who deposit money in the bank he becomes creditor and the person who borrows money from the bank he become debtor of the bank. The principal function of credit is, first to transfer property in the bank, which want to take loan. The transfer is temporary made for a loan price and interest. In present context, lending money becomes one of the main sources of revenue to the bank. It plays an intermediary in channeling

Funds from lenders savers to borrower’s spenders. The quality of loan, quality of borrower and quality of securities determine the heath of any banker. At the time providing loan, bank should follow some principles and policies. No banker should give loan, unless, he has sufficient in the borrower that will not be necessary to seek the help of court for recover. Safety of funds purpose of loan security for loan profitability spread of loan portfolio and compliance with national interest are some of the principles that banker should follow while granting loan. Besides that, the character of person receiving credit, the capacity of borrower to utilize the fund, the percentage of borrower stake in his business are the basic elements which measures the quality of borrower and ultimately the quality of loan. “The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times .What have been changed are the institutional structure, the instruments and the techniques used in performing these functions”(Bhattacharya ,1998:15)

This way bank plays important part in the development of trade, commerce and industries. Today no banker can survive for long run without proper standing of economy and no economy can pace ahead without proper banking system built.” moreover, the ability of banks to gather and analyze financial information has given rise to another view of why banks exist in modern society. Most borrowers and depositors prefer to keep their financial records confidential, shielded especially from competitors. Banks are able to fulfill this need by offering high liquidity in the deposits they sell. More people believe that banks play only a narrow role in the country –taking deposits and making loans –the modern bank has had to adopt new roles in order to remain competitive and responsive to public needs. Hence apart from the above roles" (Vaidya, 2001; 31)

Commercial banks are established on the basics of the commercial bank act. At present there are commercial banks which are running in competitive environments. The established commercial banks were not only providing poor service and facilities to their customers but also lack of proper investment policies in different sectors and unnecessary rules and regulation harassed the customer. As a result in fiscal year 2039/40 new banking polices was introduced for the establishment of new banks by the joint investments of foreign nations which gave a new horizon to the Nepalese banking sectors. Result of which, several joint venture banks evolved in the last decade. These joint venture banks were established to invite foreign investment and modern technology to provide financial services to the target market.

Commercial banks are established on the basis of commercial banks which are running in competitive environment. Nepal Arab Bank (NABIL) was the first joint venture bank established in 1984 AD. These banks are such types of bank which accept and re-lend these deposit to the people for short-term in this study two commercial banks are considering namely. NABIL Bank limited, Nepal SBI Bank limited was established as a joint venture banks in 1984 AD and 1993 AD respectively.

1.2Profile of the Concerned Banks

A) Nabil Bank Limited

"NABIL Bank Limited" the first commercial bank was incorporated in 1984. Dubai bank ltd was the initial joint venture partners with 80% equity investments. The share owned by Dubai bank limited (DBL) where transferred to Emirates Bank international limited. (EBIL) Dubai. Later on EBIL sold its entire stock to national bank limited, Bangladesh (NBLB). National Bank ltd. Bangladesh is managing the bank in accordance with the technical services agreement sign between it (NABIL) and the bank on June 1995. It has introduced an Automatic Teller Machine (ATM) first time in Nepal in its three valley branches namely, Kathmandu valley namely in Kantipath ,New road, Lalitpur and a rural area branch in Jorpati and the corporate office in

Kamaladi. It has a credit card counter in Thamel also. Besides, the bank has branches in Biratnagar, Itahari, Birjunj, Alau, Pokhara, Lakeside, Butwal, Bhairahawa and International Airport. Now, this counter is restricted in departure lounge and domestic terminal only.

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. AT present 40 branches of the bank are operating in different parts of the country. Authority capital and paid up capital of NABIL Bank Limited are Rs.500 million and Rs. 491.6544 million.

The following activities and services are provides by NABIL including normal functions:

- Tele banking
- Credit and facilities
- Deposit locker
- Western union money transfer
- ATM
- International trade and bank guarantee

B) Nepal SBI Bank Limited

Nepal SBI Bank limited was registers under the company act 1964 in 1993.

This is the joint venture of state bank of India and Nepali promoters. State bank of India manages the bank under the joint ventures and technical services agreement signed between it and Nepali promoters. The state bank of India is holding its 50% equity share. This bank provides loan to agricultural, commerce and industrial sectors. The bank started its banking operation on 18th July 1993.

The present configuration consist of 50% of state bank of India , 30% of Nepalese public , 15%of employee provident fund and 5% agricultural development fund.

The following activities and services are provides by SBI are as follows:

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

1.3 Statement of the Problem

The present situation of Nepal is economically unstable. There is no peace and security in the country so the investors are discouraged to invest. Banking industries are facing the problem from the component of external environment such as political, legal, economics and social. The unstable politics is the main cause .which is hampering for the growth of banking sectors. The other common problems both joint venture banks and state owned commercial banks and state owned commercial banks is the cut through completion. Most people of Nepal are illiterate and people are unaware about the banking system. Due to the lack of effective human resources and trained manpower, growing banks is the serious problem for the existing healthy competition.

The joint venture banks are not interested in granting loan to primary and deprived sector of the economy. Banks are active only in urban sector because they see great opportunities for the minimization of profit. Rural areas are being neglected. There are only few rural development banks active in Nepal while Nepal is full of rural areas.

However, subsequent development of commercial banks in quality has not been satisfying commercial banks in Nepal has been facing several problems.

- The joint venture banks are not interested in granting loan to the primary sector.
- Joint venture banks have concerned their operation only in urban areas.
- Lack of good lending opportunities banks are facing problem of over liquidity etc.

The research work intends to explore the following questions.

- What is the relationship of loan and advances, investment to total deposit and with loan loss provisioning?
- Does commercial bank follow Nepal Rastra Bank (NRB) direction in terms of lending?
- What is the proportion of non-performing loan in total lending?

1.4 Objectives of the Study

All the study has some objectives and the study without any objectives cannot be imagined. In our concern of the study, to find out the negative factors related towards the loan management and to provide the suggestion to replace the negative factors with the positive factors and to make the loan management effective and efficient and the study mainly focused on the following points. The specific objectives of this study are:

- To measure the lending strength and lending efficiency of the banks
- To analyze the lending contribution in total profitability
- To study the loan and advances, profitability, deposits positions of the joint venture under study.

1.5 Scope of the Study

There are 28 Commercial banks functioning in our country at present. But there are only few researches in lending policy of joint venture commercial bank. Lending is one of the main functions of commercial bank where the whole banking business is rested upon. thus the study two joint venture commercial bank and especially in their lending policies carry a great significance to the banking professional , to the share holder of the banks and to the student who wants to know about lending policy of commercial bank. The proposed bank namely NABIL bank limited and Nepal SBI bank limited are significantly similar in many aspects of their volume and quality of operation.

1.6 Limitation of the Study

This study is done for the partial fulfillment for MBS degree in management. So this study has certain limitation and constraints are as follows.

- The study is concentrated only on those factors that are related with credit policy.
- The study is based on primary and secondary data.
- The study has taken only concerned bank, NABIL Bank ltd. and Nepal SBI Bank ltd.
- The study result cannot be generalized for the further study in this areas
- It is only for the academic purpose only.

1.7 Organization of the Study

This study has been divided into five chapters and is organized as follows.

Chapter 1: Introduction

The first chapter is the introduction chapter, which consists of background of the study, statement of problem, objectives of the study, importance of study, limitation of the study and organization of the study.

Chapter 2: Review of Literature

The second chapter deals with the review of literature with concept of some terminologies of the lending. The second part of these chapters consists of review of books, journals, previous study, research paper and review of unpublished of various research students.

Chapter 3: Research Methodology

The third chapter deals with the research methodology used in this study. If consists of introduction, research design, sources of data, population and sample, data gathering procedure and analysis of data.

Chapter 4: Presentation and Analysis of Data

Fourth chapter is the analytical presentation of the study. This chapter consists of analysis, interpretation and major findings of the study. This is a most important part of the study.

Chapter 5: Summary, Conclusion and Recommendations

Fifth chapter deals with the summary, conclusion and recommendation of the study.

The bibliography and appendices is also included in the chapter.

CHAPTER II

REVIEW OF LITERATURE

Several research works have been done in various aspects of commercial banks especially financial performance, investment policy, resource mobilization, lending policy, compliance of NRB directive by banks etc. There are some books, journals, articles other studies done related with lending and investment aspect of banks. Some of the relevant studies, literatures on lending and investment have been reviewed below. This chapter is categorized into two different headings:

2.1 Theoretical Framework

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

2.1.1 Joint Venture Bank

Banks are an essential part of the business activity that is established to safeguard people's money thereby using the money in making loans and investment. There are several commercial banks operating inside and outside the valley. Every bank invests lots of money in some profitable business. An investment is the commitment of money that is expected to generate additional money.

The term 'bank' particularly denotes commercial bank. In short, the organization, which deals with money and credit, is known as bank. Before 1936, in Nepal there were no banks at all. All the money transactions were carried out by a few moneylenders, truly speaking for the first time Goldsmiths were doing the banking activities, which received deposits and lend money to their clients. The primitive people were anxious for keeping their valuable ornaments and money in their houses. They kept these goldsmiths because of safety motive. Thus, for the first time, people began to keep their valuable things in the hands of goldsmiths because they had safety vaults. At the preliminary stage of development of banking system, there were Tankadharies, meaning money dealers, were the owners of the money transactions. Later on, during the period of Prime Minister Ranodeep Singh Tejarath Adda was establish in Nepal by granting loan to civil servant. Tejarath Adda was governed financial institutions. Thus Tejarath was replaced by a commercial bank known as the Nepal Bank Ltd, during the period of Juddha Shamsher.

In developing country like Nepal, the needs of the masses could not be fulfilled only by such institution. In the history of Nepal, to solve this problem, for the first time in 1994 B.S. Nepal Bank limited was established as one of the helping tools to overcome those obstacles as one semi government organization. It has done pioneering function in spreading the banking habit among the people but we were in need of a central bank, which came into existence in 2013 B.S. named Nepal Rastra bank. It fulfill the growing credit requirement in 2022 B.S. Rastriya Banijya Bank is another commercial bank was set up. The purpose of this bank is also to provide facilities for the economic welfare of the general public. The establishments of modern commercial bank (joint venture bank) in 2041 B.S. have been passed.

"A joint venture is the joining of forces two or more enterprises for the purpose of carrying out a specific operation investment, production or trade" (Grupt; 1984:15)

In order to operate business organization under joint venture basis, there should at least be two partners from two different countries. Joint venture banks are the commercial banks, formed by, joining two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation, between various groups of industries or traders to achieve mutual exchange of good and services for sharing competitive advantage by performing joint investment scheme between Nepalese investors and their parent banks each supplying 50% of total investment. The parent banks, which have experience in highly merchandised and efficient modern banking services in many part of the world, have come to Nepal with latest technology and advanced management skills. Joint venture banks are established by jointing forces and with ability to achieve a common goal with each of the partners. They are more efficient and efficient monetary institution in banks in Nepalese context.

The primary objectives of these joint venture banks are always to earn profit by investing or granting associated with trade, business, industry etc.

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.

2.1.3Features 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= Asscertainability
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) 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.

f) 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.

2.1 Review of Related Studies

2.2.1 Review of Books

H.D Crosse has mentioned in his book,” management for commercial banks”, that lending is the essence of commercial banking, consequently the formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit before formulating a lending policy. Many factors have to be taken into consideration because banks are not the real owners of the deposits but rather the custodian of money.

Crosse- has further pointed out the various factors to be considered before planning for sound lending policy and the size of the loan portfolio and the character of loan payment, purpose and protection. Other factors for consideration for sound lending policy include credit worth ness, assets pledged to secure borrowing, interest rate policy etc. Crosse strictly points out that the lending policy must be well spread, it should be of short-term character repayable on demand, profitable and it should be with adequate securities (Crosse, 1963).

Read, Cottor, Gill and Smith in their book entitled ‘commercial banking’ focus on the importance of loan in banking sector. As per their view, loans are the most important asset held by bank and bank lending provides the bank of bank income lending is not only important to the banks only, it is equality important to the community where the banks serve. That’s why loan polices must be worked out carefully after considering many factors (Reed, Cottor, Gill and Smith: 1980).

According to J.H. Clemen in his book “Banking lending”, commercial banks should consider the interest of the banks but they should always consider the national interest above all (Clemen, 1963)

Shakespeare Vaidya opines in his book “Banking management” that how well a bank performs its lending functions has a great deal to do with the economic health of the country because bank loans support the growth of new business and jobs within the bank’s trade territory and prone its economic activity (Vaidya, 1999).

Radheswamy and Vasudevan hold a similar view in their book “A text book of banking” and say that a bank must strike a balance between liquidity, profitability and safety. The secret of successful banking is to distribute resources between the various forms of assets in such way as to get a sound balance between liquidity and profitability so that there is cash on hand which is quickly realizable to meet every claim and at the same time enough income for the bank to pay its way and earn profit for its shareholder’s (Radheswamy and Vasudevan, 1979)

K.C.Shekhar and Leksmy Shekhar write about the problem of non-performing assets in banking sector in their book entitled “Banking Theory and Practice”. They blame the deterioration in the quality of loan portfolio for the increment in non- performing assets of the banks .So, immediate attention is to be given by the banks in the sector of loan portfolio. The authors point out the administrative and political interference in credit decision making as a factor contributing in the deterioration of the loan portfolio quality. The author’s even non-performing assets are several folds in more profit attractive lending than in less profit lending. The way to deal with the problem has also been suggested by the author. They opine that, it should be made by the bank for non-performing provision assets out of their profit (Shekhar and Shekhar, 1999 page.366-367).

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

For a new commercial bank minimum paid up capital is RS. 250 million to operate all over Nepal except Kathmandu valley. The paid up capital for establishing a national level new commercial bank shall be RS. 1 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 to maintain minimum cash reserve as per NRB's regulation 22 July 2002. It requires to maintain the cash at till 2% of total deposits, balance at NRB 7% of current and saving deposits and 4.5% of fixed deposit. 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.

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

For FY 2059/060

Pass: Loans not past due and past due up three months.

Sub-standard: Loans and advances past due over three months to one year.

Doubtful: Loans and advances past due for a period over one year to three years.

Loss: Loans and advances past due for a period over three years.

For FY 2060/061

Pass: Loans not past due and past due up to three months.

Sub-standard: Loans and advances past due for a period of over three months to nine months.

Doubtful: Loans and advances past due for a period over nine months to two years.

Loss: Loans and advances past due for a period over two years.

For FY 2061/062

Pass: Loans not pass due and past due up to three months.

Sub-standard: Loans and advances past due for a period of over three months to six months.

Doubtful: Loans and advances past due for a period over six months to one year.

Loss: Loans and advances past due for a period over one year.

The respective overdue periods of pass, sub-standard and doubtful loans shall be considered from the next day of the date of expiry of the overdue period provided for each class.

2.2.3 Review of Thesis

On the sector some of the related theses have been reviewed.

1. Rabindra joshi (2003) in this thesis entitled **"A comparative study of Investment policy of SCBNL & EBL"**has made on endeavor to examine and interpret the investment policy adopted SCBNL in comparison to EBL.

The objectives of the research were:- Compare the investment policy of concerned banks and discusses the fund mobilization of the sample banks, find out the empirical relationship between total investment, deposits and loan & advances and net profit and outside assets and compare them, analyze the deposit utilization & projection for next five years of SCBNL and EBL, evaluate comparatively the profitability & risk position liquidity asset management efficiency of SCBNL & EBL, And Provide a package of possible guidelines to improve investment policy, its problems and to solve some problems and provide suggestions and recommendation on the basis of the study.

The main findings of the study were: - Both the banks have good deposit collection EBL has higher but fluctuating liquidity position. It is in a good position to meet daily cash requirement and current obligation, SCBNL has successfully maintained and managed its assets towards different income generating activities SCBNL has invested high portion of total working fund in government securities and share and debentures of other companies, the profitability position of SCBNL is comparatively better than EBL, the liquidity risk ratio, credit risk ratio of SCBNL is lower than that of EBL, SCBNL has not been successful to increase its sources of funds and its mobilization i.e., loans and advances and total investment.

2. Deepak Pandit (2004) has conducted a research entitled "**Investment policy analysis of joint venture bank (with special reference to NSBIL and EBL)**"

The objectives of the study were:- evaluate the liquidity management, assets management efficiency, profitability position, risk portion and investment practices of NSBIL, BOKL & EBL, find out the relationship between deposit and investment, deposit and loan and advance, net profit and outside asset.

Major findings were: NSBIL has better liquidity position. It is in a good position to meets its daily cash requirement and current obligation. Liquidity obligation of EBL & BOKL has not been satisfactory; NSBIL's loan and advances total deposit ratio is lower than EBL & BOKL. It doesn't seem to follow any definite policy regarding the management of its assets; the profitability position of all the banks is not satisfactory. The banks have not adopted sound investment policy in utilizing their surplus funds, BOKL & EBL are exposed to high credit risk and capital risk, and NABIL & BOKL have not been successful to increase their sources of funds. EBL has been successful in maintaining its higher growth rate of total deposit and there is significant relationship between deposits and total investment of BOKL & EBL but the same is not significant in case of NSBL.

3. Lalima 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.

4. Ritcha 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.

5. Geeta Regmi (2006) conducted "**A Comparative Study on Investment Policy of**

Everest Bank and Himalayan Bank Limited"
The main objectives were: Find out the relationship between total investments, deposits, loans and advances, net profit and assets and compare them, evaluate the liquidity, asset management, efficiency, profitability and risk portion of EBL and HBL, analyze the deposit utilization trend and its projection for five years of HBLand EBL, to provide package of a workable suggestions and possible guidelines to improve investment policies.

The research findings of the study were: The liquidity position of EBL was comparatively better than HBL. EBL had the highest cash and bank balance to total deposit ratio, cash and bank balance to current assets ratio than that of HBL. Both EBL and HBL had almost same pattern of investment on government securities, but fluctuating ratios showed the unstable policy of investment. EBL has higher loan and advances to current assets ratio and successful in deposit collection as well. The assets management ratios of both banks are satisfactory. Both bank EBL and HBL had provided its most portion of deposit as loan and advances. Moreover, EBL had invested its more portions as loan and advances, in case of investment in other sectors, HBL had adopted diversified investment policy. EBL invest its working fund in government securities and other companies share and debentures than that of HBL, So HBL is less effective in comparison to EBL. In profitability analysis, HBL had maintained high profit margin regarding profitability position. HBL was more successful to generate income through loan and advances and operating income and it has earned more from total outside assets and total working fund. From the study, it was concluded that profitability of HBL was better than that of EBL. From the risk point of view, HBL had borne lower liquidity risk and credit risk in comparison to EBL regarding various aspects of banking activities. It could be said that HBL had followed a stable liquidity policy justified by lower coefficient of variation.
6. Pudasaini, Gangaram (2007) has conducted a research entitled **"An Investment Analysis of RBB in comparison with NBL".**

The main objectives were: Evaluate liquidity, activity and profitability ratios of RBB in comparison with NBL and industry average, analyze relationship of loan and advance and total investments with total deposit and net profit of RBB and to compare it with that of NBL and industry average, to use trend analysis to compare loan and advance, total investment, total deposit and net profit of RBB and compare the same with other two, examine the loan loss provision of RBB and NBL, provide suggestion and recommendation on the basis of findings.

The major findings of the study were: RBB has good deposit collection, enough loan and advance and investment in government securities. It has comparatively better liquidity position than NBl, RBB is in comparatively better position regarding issue of loan and advance but it does not have good position regarding investment in shares and debentures of other companies, off balance sheet operation. Loan Loss ratio shows low quality of loan and advance, the profitability position of RBB is worse. RBB needs to take immediate steps to increase its profitability and there is significant relationship between deposit and loan and advance. There is insignificant relationship between deposit and investment, and outside assets and net profit.

7. Shrestha, Biswo Nath (2008) has conducted a thesis research entitled **"Investment Portfolio Analysis of JVB's".**

The objectives of the study were: Analyze the risk and return ratios of commercial banks, evaluate the financial performance of JVB's, provide suggestion package based on the analysis of data, to study existing investment policies taken by NIBL in various sectors, to study portfolio structure of NIBL in investment as compared to other JVB's and Preference given by NIBL for investment between Loan Investment, Investment in real fixed assets, Investment in financial assets.

The main findings of the study were: BOKL has the highest return on shareholders fund and total assets. It has also been successful in mobilizing its deposits as investments. NIBL and EBL have invested high amounts of deposits as loan and advances in comparison to BOKL, NIBL and HBL , Among the JVB's, looking at the investment portfolio, EBL has investment highest amount of funds in government securities, NBB has invested highest amount of funds on shares and debentures and NIBL has invested highest amount of funds in NRB bonds in comparison to other JVB's and BOKL has the highest EPS and EBL the lowest EPS among the JVB's Commercial banks have huge deposit collection. These deposits need to be properly utilized. Effective utilization of collected fund is possible only through implementation of sound investment policy. NIBL and BOKL are the best examples of JVB's in Nepal that have been able to mobilize the funds in an effective manner and achieved phenomenal growth and profit year after year by formulating and implementing sound investment policy. Most research studies conducted prior to this study involving comparative analysis comprised of a successful bank and an emerging bank as samples. It was obvious that the successful bank with sound financial health would excel in various aspects of banking. The possibility of the samples showing different result during data analysis was high. The financial and empirical analysis to data revealed higher degree of consistency in case of successful bank and less uniformity in case of emerging bank. This study comprises of two of the most successful JVB's as sample viz NIBL and BOKL. This study is also different from previous studies in view of the time period its covers. During this period the country has witnessed political uncertainty, deteriorating security situation that have rendered the economy further sluggish. There has been a restructuring in the banking business. This study gives a new dimension to the research topic in the sense that it has adhered to most of the fresh guidelines and directives issued by NRB to commercial banks, which previous studies lack. This study aims at providing a more realistic picture to various financial aspects of the sample banks. In line with fresh guidelines and NRB directives and practices adopted by banks, some items of the balance sheet that were previously booked under one heading have now been accounted under a different heading. For instance, leasehold improvements or deferred expenditure that were previously a part of current assets have been accounted for under fixed assets as they are amortized over the period of lease. Similarly, staff loan and advances previously part of Loan Advances and Bills purchase have been booked under other assets, checks presented for clearing have been booked under other assets. Gratuity is expensed of on accrual basis and is now a part of personnel expense. Previously, it was the practice of banks to include it under current liabilities and appropriate it from profit and loss Account. This study will reveal the strength and weaknesses of the sample bank and serve as a valuable input in decision-making process of the concerned banks and other emerging banks in formulating appropriate investment policy.

2.2.4 Review of Articles:

Under this lending, efforts have been made to examine and review some of the related articles published in different economic journals, bulletin of world bank, dissertation papers, magazines, newspapers and other related books.

Mr.Shiba Raj Shrestha(2055 B.S) has presented a short scenario of investment management from his article **“Portfolio management in commercial bank, theory and practice”** has stressed in case of investors having lower income, portfolio management may be limited to a small saving incomes but on the other income but on the other hand portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management become very important both for the individual as well as institutional investors.

Dr.Sunity Shrestha(1997:23) in her article “Lending Operation of Commercial Banks of Nepal and its impact on GDP”has presented with the objectives to make an analysis of contribution of commercial banks lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial service and general multiple regression technique has been applied to analyze the contribution.

Madhav Lal Pradhan in his article, “The importance of loan information center and its activities” published in NRB annual publication says that the loan information center was established to fulfill the necessity of a company working in relation to information related to loan. He further adds that the negative, trends like delaying the payment of principal and interest, deficient loan approval procedures, lack of constant inspection of project, lack of co-ordination between bank and finance companies have aided in the increase of non-performing loans ultimately affecting the national economy negatively. The author recommends the banks and finance companies to help the loan information center by following the information obtain from the center so that positive changes can be witnessed (Pradhan, 2061,p.190-194).

2.2.5 Review of Research Papers

Dr.Radhe Shyam Pradhan on his research(1992) **“Financial management and practices in Nepal”** 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.Sunity Shrestha(1993) expressed her view on research **“Investment planning of commercial banks in Nepal”** 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.

2.2.6 Review of Journals:

In an article published in New Business Age Mr. Kamal Subedi(2004) 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 NPA is 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”, is 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.

In an article published in New Business Age written by Sudhir khatri, has analyzed the ordinance pros and cons, in general speaking termed as Umbrella act. He has expressed his disagreement in the ordinance regarding the qualification of the Board of director’s composition. The qualification set is out of the total number of directors; two third have to be graduates in specified disciplines-management, commerce, economic, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background as the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) were engineers. He further writes that activities like projects financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specified fields only CEO of the “Ka” category qualification required is Masters Degree in the chosen few subject and the term would be four year. The act however does not mention the renewal of the CEO’s term. The board or AGM of the institution should be decided the CEO’s tenure. Similarly, he points out argument in the requirement of five years work experience. The performing of the public limited companies is so poor that the efficiency of the staff is questionable. In such situation how can one hire some one with the experience in public limited companies? As per the act, it is mandatory to appoint a professional director in the Board chosen from the list of professional experts enlisted by NRB. Such director will not have voting right, it is questionable that can be contribute significantly towards the development of a bank or financial institution without the voting right?

For the existing banks and other financial institutions two year period has been granted to apply for the license. Entirely new memorandums of association and articles of association have to be prepared and a special general meeting of shareholder has to be called. If any institution fails to obtain the license on the said period their license will be seized. However, there is no clear information on whether the prescribed format available or will be made available by the central bank- Nepal Rastra Bank for this purpose.

This ordinance has given the full authority to NRB for monitoring, inspection, supervision etc. NRB is vested with the power to fix interest rates in lending and deposits and the act also states that NRB can also delegate this authority can be taken bank. This makes banking more risky, it indicates that NRB is interest to take control on fixation of interest rates as when required.

In an article published written by Mr. Atma Shrestha(2003) in Business Age entitled **“Entrepreneur-Friendly Credit policy”** has received the present credit with main focus of the credit decision being based on the collateral. He argues that only collateral should not be considered as the basis of the credit decision.

Access to finance is vital element for entrepreneurship development in the country without it one cannot think of starting business of any sort. It’s mainly due to this reason, most of the students after completing their single-mindedly look for employment opportunity. No other options, no matter how lucrative and attractive it would be enter into their mind. It has created huge pressure in the labor market. In the absence of entrepreneurial activities in the country, employment opportunity will be very limited and even qualified and competent people do not get job. The established notion of the Nepalese bankers that money lent to the wealthy people based on collateral is safe. But is not actually a safe assumption in the face of greater difficulty in loan recovery from these people. Also, this particular segment of market is already over-banked. With the worsening business performance of the Nepalese corporate sector mostly due to the poor management compounded by other factors like sluggish economic conditions and political instability, banks must now explore newer market segment for their sustained growth and success. Under this backdrop, Nepalese commercial banks must change their policy and must understand that event the people living in the low and middle level of economic pyramid can potentially be lucrative competition in the market consisting of people at upper level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid is very intense and has already saturated. In this context, potential entrepreneurs armed with skills, knowledge and readiness to take plunge in the business world can form a formidable market opportunity for the Nepalese banking industry – only if it can come out of the cocoon of traditional collateral-driven lending approach.

At the time when Nepalese banking industry is confronting with the increasing NPA, it might seem unwise and untimely to suggest that commercial banks extend loan to the potential entrepreneurs without collateral. It is not that they must ignore the collateral altogether while making credit decisions. But this should not be a pre-condition for any credit decision. Lesson should be learned from the past experience of this credit policy that collateral alone does not ensure quality of credit decision. The fluctuation and stagnancy in the real state business has further reinforces this view. More important, Nepalese bankers must themselves have to entrepreneurship spirit which means, they should not hesitate to take educated risk by giving more weight to the entrepreneurship dimension of the credit proposals while making credit decision. The ability of lending officers are identifying and investing a distinct competitive advantage in the crowded market. However it's essential that any government rules and regulations that inhibit the promotion of entrepreneurship in the country must be abolished.

Entrepreneurship development is one of the important conditions for the economic growth of a country. There must be the sprout of entrepreneurship activities in the country for rapid economic growth and progress. However it does not happen automatically. We must create necessary conditions and environment where people with skills, knowledge and hunger to make money by starting their own business can get easy access to capital.

The ordinance relating to banks and financial institutions has been promulgated that has been bought into existence effective February 4, the banks and financial institutions ordinance, 2004 has replaced the existing agricultural bank act, 2024, commercial act and finance companies acts and Nepal Industrial Development Corporation act and finance companies acts and has bought all such institutions under the preview of a single act. Though this ordinance came as an achievement in the financial sector reform program, it's being a matter of debate among the various finance experts that the ordinance having six months existence time should be enacted. At this time since there is no parliament in the country and the parliament is authorized to enact permanent law. It is obvious that the financial sector must go through uncertainty in the future. The ordinance, popularly called as Umbrella act.

In an article **"comments on Umbrella Ordinance 2004"** Mr.Tirth Upadhyaya president of ICAN has expressed clearly described the ordinance along with his views? The ordinance is comprehensive and prescribes in detail the provisions for licensing, incorporation, governance and merger and dissolution procedures for banks and financial institutions (FIs). This is a significant improvement over the existing acts but apprehension is expressed about the discretionary power that the ordinance has vested on Nepal Rastra Bank (NRB).

The ordinance is divided into 12 chapters and contains altogether 93 sections. The first chapter defines the various terms used in the ordinance but has conspicuously omitted to define “security” and “collateral” among some importance terms. These words have been frequently used in relation to lending activity but in the absence of universally acceptable definition the ongoing anomalies owing to the ambiguity are expected to continue though it has been clarified that the financial institutions henceforth can lend against personal or corporate guarantees.

Second chapter specifies the procedures for establishing a bank or financial institution and has brought transparency in licensing procedure. The authority has to either issue the license within.

Days of application or notify the reason of refusal within the said period. Further, a foreign bank’s presence in Nepal either though a joint venture or branch banking is legally mandated. This provision will probably meet the long outstanding demand of the donors and conforms to Nepal’s entry to WTO. Buying back of its own share by a financial institution, a unique provision is legal stated by this ordinance, and that could be considered progressive. But it has failed to explain the objectives of such provision and at the same time appears to be too restrictive to implement. The ordinance has failed to prescribe conditions for enhancing the stake of joint venture partner, fresh issue of shares to strategic partner, issue under employee’s stock option plan and preferential issue that is vital from the investor’s perspective.

Chapter 3 deals with the constitution and Board of Directors and appointment of CEO. Hence, in addition to directors appointed by the shareholders meeting the FIs must have one independent director in its Board appointed from among the names in a roster maintained by NRB. Also, the academic qualification of remaining directors has been prescribed that requires, that 2/3rd of all directors must possess required academic qualification and experience but it has failed to ensure that people of requisite for a position of CEO is also prescribed and his/her tenure is limited to unexplained. It might prevent young and dynamic person from taking this leadership position. Further, the authority and responsibility specified are not commensurate to the position of a CEO. As the law does not guarantee vesting of executive authority on CEO, it may be played down at the hands of unscrupulous directors and might be inconsistent with the principle of divesting management from investor to professional managers.

Chapter 4 places restriction on using bank or FIs name or carrying out financial transaction by institution other than those licensed by NRB as per the ordinance.

Chapter 5 deals with capital adequacy, reserve and provisioning for NPA's. But the more it has tried to be transparent, the more it has vested discretionary powers with NRB. To protect the insert of depositors, the prime concern of legislature in drafting the law should be continued maintenance of adequate capital and such an important matter should not left to the discretion of NRB. The lesson should be learnt from the past experiences where NRB's leniency sent two largest banks technically bankrupt. In this regard, it may be pertinent to remind why the Basal committee recommendation on capital adequacy (that is universally accepted) is not being gap within specified time. Such an obligation is vital for protecting the depositor's interest. As has been the case with the two largest banks (i.e. Nepal Bank Ltd. and Rastriya Banijya Bank) and a few others private sector banks in Nepal, continued flouting with NPA's has eaten away not only their equity but the depositor's money as well.

Chapter 6 prescribes the financial transaction that banks and FIs are empowered to undertake. It has attempted to include all types of traditional financial transactions hitherto undertaken by bank or FI but has failed to visualize the requirement and dealing in other financial derivatives. The finance company will be benefited with this ordinance as they are now authorized to accept interest free deposit.

Regulatory, inspection and supervision responsibility with regard to FIs continue to remain with NRB. The new provision has enlarged the scope of NRB's regulatory role. Banks set up with foreign shareholding will now be required to submit to NRB the inspection reports prepared by their headquarters. Saver penalty including suspension of Board or taking over the management of FIs has been prescribed if the result of NRB inspection indicates non-compliance with its directives or if the FIs are found to be guilty of engaging in activities that are detrimental to the interest of the shareholders or the depositors.

The deregulated interest rate regime appears to be drifting away as the ordinance has empowered NRB to intervene in rate fixation but it does not specify the conditions that would oblige NRB to do so. Looking at the current rate, NRB intervention could bring relief to thousand of small depositors especially old, disabled and pensioners whose lifetime saving is at stake.

Load disbursement and its recovery procedures are covered under chapter 8 that reestablishes the NRB's authority to regulate lending and minimize the chances of loan going an unscrupulous borrower or diversion of the funds. The ordinance has specifically provided for the compulsory for such registration (other than real estate) is not identified. The authority of FIs in loan recovery has been extended and it may now reach to other assets of the borrower in case the security for loan falls short or becomes inadequate. The hitherto requirement of disposal of non-banking assets within seven years has been done away with. It may result in accumulation of significant has been undermined and no and role is envisaged for asset management company that is in the offing.

The role of the auditor of FIs has been extended and it goes beyond the scope of expertise of accounting profession. Authors shall require among others, to certify whether FIs have acted (or failed to act) to protect the interest of depositors or investors and whether the business of FIs has been conducted satisfactory. Basis of such opinion is not outlined and according it will serve no purpose other than becoming a ritual.

Chapter 10 deals with merger that permits FIs to merge with other FIs only. This is a new provision but does not prescribe the circumstances when such merger will be permitted. The missing part on merger is the safeguard of interest of minority shareholders. It does not entitle shareholders opposed to the merger to ask for compulsory acquisition that is vital for promoting foreign investment.

Chapter 11 prescribes penalty for various offences that could be both civil and criminal. Chapter 12 has laid down procedures for voluntary winding up of FIs, arbitration miscellaneous administrative and operational procedures. The client confidentiality is guaranteed but with so many restrictors' sub clauses it is doubtful if the objective would ever be met. Similarly depositor’s right is clearly protected by reiterating that there would be no his nominee but with such right. The state may interfere in one or other pretext defeating the intension of low and lessening the confidence in banking system.

For the first time, the low has taken cognizance of international terrorism and NRB is empowered to suspend operation of account related to organization or individual associated with such activity. But it has omitted any anti-money laundering provision. Probably, a separate act is envisaged to deal with such transaction.

In conclusion, it could be said that the ordinance is comprehensive and deals with significant aspect of operation of FIs. However, attempts should be made to limit NRB’s discretionary power by farming transparent, prudent and unambiguous polices and regulations. Further work would be necessary to integrate the country’s financial sector with international financial sector with international financial market and effort should be director to encourage adoption of international best practices like International Financial Reporting Standards (IFRS), International Standard on Auditing (ISA), Basel committee Recommendation etc.

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposive. There has been lots of article published related to investment policy, loan and advances of commercial banks. There are various researches conducted on investment analysis and policy of commercial banks, impact and implementation of NRB guidelines in commercial banks but there are a few research conducted on lending aspect of commercial banks. There was a thesis done by Lila Prasad Ojha on “Lending practices: A study on NABIL Bank Limited, Standard Chartered Bank Limited and Himalayan Bank Limited” on year 2002. However, no one has done a study on “A comparative study on lending performances of NABIL and SBI”. Therefore the researcher attempts to study in this area with a comparative study of lending performances of these banks will probably be the first study between the banks in the subject matter.

2. 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.

CHAPTER III

RESEARCH METHODOLOGY

In this chapter, an attach has been made to describe the methods and process applied in the entire subject of the related study.

More specifically, this chapter discuss the process of systematic and in depth study or the selected topic backed by the collection, compilation, presentation and interpretation of relevant matter, which is an endeavor to discover or find out valuable facts, which will be useful for further application or utilization (Pushpa Raj Joshi, 2001).

The topic of the problem has selected as "**A study on investment policy of joint venture banks". A comparative study of NABIL Bank Ltd. and SBI Bank Ltd**.

The survey of literature has been conducted from various library and references and these have been maintained in chapter three. The problem of the study has been specified in the topic "Statement of the problem" in chapter one. The two joint venture banks had been chosen for study. The review of literature has been specified in the chapter two. The data has been collected from various sources as been processed and presented in chapter four. The major findings of the analysis have been mentioned in chapter five. The conclusions and recommendations have been put in the same chapter.

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

3.2 Sources of Data

3.2.1 Sources of secondary data

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.

3.2.2 Population and sample

All the joint venture banks in Nepal are the population of the study from the population two banks i.e.NABIL Bank Limited and SBI 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 joint venture banks under the banking industry NABIL Bank Limited and SBI Bank Limited are selected for the study.

3.3 Analytical Tools

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

3 3.1Financial 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.

a. Loans loss provision to total loans and advances ratio.
b. Non-performing loans to total loans and advances ratio.
c. Interest income to total income ratio.
d. Interest expenses to total deposits ratio.
e. Interest suspense to total interest from loans and advances ratio.
f. Interest income to interest expenses ratio.

3.3.2 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

3.3.3 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.

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.

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 $\gamma\, x\, y$ 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 limits 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 total deposit.
ii. Trend analysis of loan and advance
iii. Trend analysis of investment.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation and analysis of the data collected from various sources. The main objective of this chapter is to evaluate and analyze the main financial performance, which are mainly related to lending performance of the bank.

4.1 Measuring the investment/ Lending Strength

Investment is one of the important functions of a commercial bank. Investment 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 investment/ Lending Strength in Relative Term

The investment 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 Total Assets to Total Liabilities Ratio

Banks creates credit through loans and advances and multiples their assets much more times than their liability permits. This ratio measures the ability of a bank to multiply its liability into assets. The higher ratio of total assets to total liability ratio is favorable as it increases overall credit capacity of the organization.

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
SBI	1.0713	1.0122	1.0099	1.0084	1.0075	1.0219
Combined mean						**1.03**

Source: Appendix-I

The table 4.1 shows the ratio of total asset to total liability of two banks also explains how properly and efficiently the bank has been able to utilize its fund to the extent as much its liability permits it to. Surprisingly the total assets and liability ratio two banks are more or less same i.e. equal to 1. Similarly the ratios of 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
SBI	0.2324	0.1280	0.1687	0.1687	0.1025	0.1601
Combined mean						**0.1596**

Source: Appendix-I

While observing the table 4.2 ratio of two banks the lowest ratio of non-interest bearing deposit to total deposit ratio of NABIL. Both NABILand SBI are i.e.0.1591and SBI has 0.1601 the all over the ratio of combined mean i.e. 0.1596. Taking the combined mean as standard ratio, the deposit mixture of SBI carries more costly deposits than NABIL bank. The deposit mixture of NABIL carries the lower label of interest bearing deposit in its deposit mixture. This indicates that NABIL 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
SBI	0.6006	0.5861	0.6807	0.7047	0.4894	0.6123
Combined mean						0.6031

Table 4.3 explains the loans and advances to total assets ratio of SBI is higher than the NABIL bank. SBI mean ratio i.e.0.6123 higher than the combined mean also. It shows that SBI 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 0.6131.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
SBI	0.7180	0.6932	0.8265	0.8832	0.5412	0.7324
Combined mean						**0.7129**

Sources: Appendix-I

Table 4.4 it shows that SBI has the higher ratio than the NABIL .i.e. 0.7324 And 0.6935. The combined mean ratio i.e.0.7129. So NABIL has not been able to mobilize the deposit as SBI. However, SBI 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
SBI	9.0186	7.8486	8.2028	8.6266	8.8878	8.5169
Combined mean						**8.1008**

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, SBI'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 SBI is highest in year 2005. NABIL has increasing trend in all the year except in year 2009.SBI has slightly fluctuating in the study period. The combined mean of two banks are 8.1008. The NABIL bank has lower ratio than the combined mean and SBI 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
SBI	6213.88	7626.73	9460.45	12113.69	15131.75	10109.3	3193.78	31.59

Sources: Appendix-I

The table 4.6 shows that the loans and advances of NABIL is higher than SBI bank. Loans and advances have been increasing trend over the study period. However the highest ratio of NABIL i.e. 17601.89 and SBI has the lowest ratio i.e. 10109.3. CV has lowest of SBI i.e. 31.59. Therefore, the performance of SBI is more consistent and NABIL 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 Intrest 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
SBI	578.37	708.71	831.11	970.51	1460.45	909.83	304.43	33.46

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 SBI have been increasing over the study period. NABIL is the higher performance in interest income as it has higher mean ratio than the SBI 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
SBI	388.17	525.46	614.72	604.60	632.52	553.09	90.25	16.32

Source: Appendix-I

Table 4.8 shows the provision for doubtful debt of the two banks. The above table shows that SBI has higher provision of the study period where as NABIL has the lower for the study period. SBI has highest provision of 632.52 in the end of the study period. The SBI has high mean ratio of 553.09, which represents that it has allocated highest amount in provision for loan loss. Similarly, NABIL has the lower mean ratio of 365.42.

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
SBI	57.39	117.00	254.90	247.77	316.37	198.69	95.97	48.30

Source: Appendix-I

The table 4.9 shows that the net profit of NABIL has been increasing over the study period and SBI has been fluctuating in 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. SBI has net profit of Rs. 57.39

million in year 2005 and 316.37 million in end of the year NABIL has recorded the high mean ratio i.e. 721.07 whereas SBI has recorded the low mean ratio i.e. 198.69. NABIL has the low C.V. indicates that the ratio has varied minimum. Similarly SBI'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
SBI	0.0846	0.0806	0.0639	0.0522	0.0317	0.0626
Combined mean						**0.0431**

Sources: Appendix-I

In above table, the ratio of NABIL has decreasing trend in all the years and SBI 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 SBI 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 23.99%. NABIL total loan less provision consists 60.15% of general loan loss provision and 23.99% of specific loan loss provision.

Similarly, in the year 2008 total loan and advances is 21759.44 million, 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 10.67% 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 27774.19 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 loan, 5.39% 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 August 2007

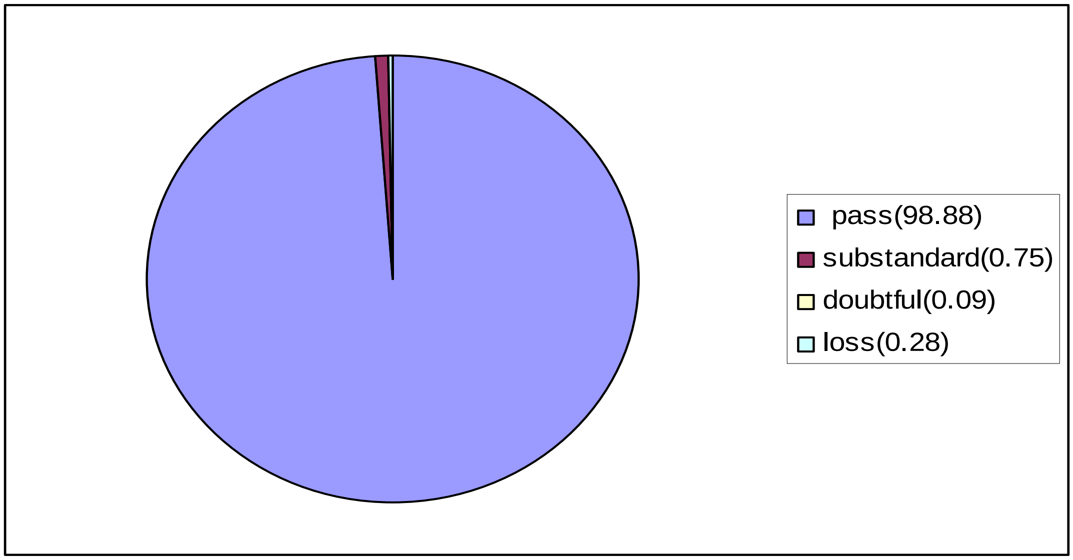


Figure4.2:LoanClassificationof NABIL August 2008

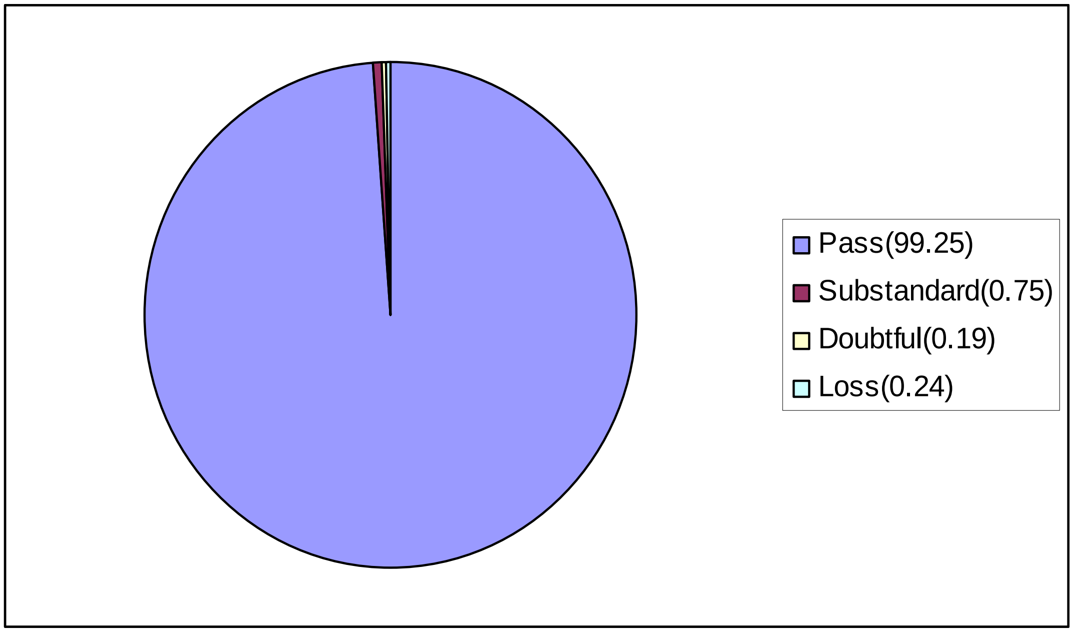


Figure 4.3: Loan Classification of NABIL August 2009

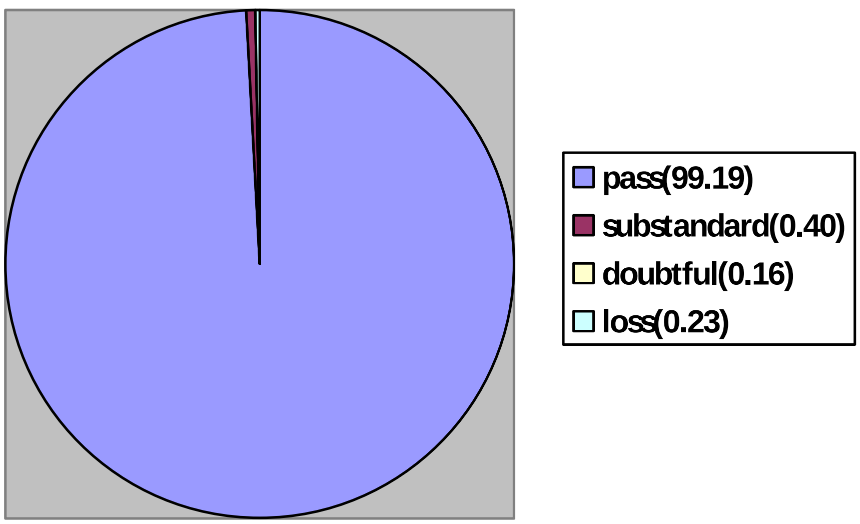


Table 4.12: Loan Classification and Provisioning in SBI Bank

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)	9606.29	95.44	1171.19	69.46	12257.80	96.16	157.94	26.12	15296.09	97.98	165.69	26.29
Pass	9606.29	95.44	1171.19	69.46	12257.80	96.16	157.94	26.12	15296.09	97.98	165.69	26.29
NPL (2)	458.75	4.56	514.88	30.53	488.41	3.83	446.64	73.87	315.95	2.02	466.83	73.80
Substandard	3.28	0.032	0.31	0.018	3.87	0.03	0.54	0.08	13.24	0.08	0.57	0.09
Doubtful	1.16	0.011	19.21	1.14	21.62	0.16	3.89	0.64	11.34	0.07	9.87	1.56
Loss	444.30	4.41	495.36	29.37	462.90	3.63	442.21	73.14	291.38	1.87	456.39	72.15
Total	10065.04	100	1686.07	100	12746.21	100	604.58	100	15612.04	100	632.52	100

Source: Annual Report of SBI (Various Years)

Table 4.12 shows that there has been classification of loan and advances made and provision has been provided on each category of the loan. In 2007 total loan is 10065.04 million and out of which 95.44% performing loans and 4.56% non-performing loans. The non-performing loans consist of substandard 0.032%, 0.011% doubtful and 4.41% loss loan. There is loan loss provision of 612.47 million, out of which 19.12% is performing loan and 84.06% is non-performing loan. The performing loan is defined as general loan loss provision and non-performing loan is defined as specific loan loss provision. The specific loan loss provision consists of substandard 0.05%, doubtful 3.13% and loss loan 80.87%.

In year 2008, the total loan is 12746.21million out of which 96.16% is performing loan and 3.83% is non-performing loan. The non-performing loan consists of substandard 0.03%, doubtful 0.16% and loss loan 3.63%. There is loan loss provision of 604.58 million and out of which 26.12% is performing loan and73.87%is non-performing loan. The non-performing loan loss provision consists of substandard 0.08%, doubtful 0.64% and loss loan 73.14%.

In year 2009 total loan is 15612.04 million out of which 97.98% is performing loan and 2.02% is non-performing loan. The non-performing loan consists of substandard 0.08% doubtful 0.07% and loss loan 1.87%. There is loan loss provision of 632.52 million out of which 26.20%

general loan loss provision and 73.80% is specific loan loss provision which consists of substandard 0.09%, doubtful 1.56% and loss loan 72.15%.

This analysis shows that NABIL and SBI have been classifying loans according to the NRB guidelines. Increase in provision for loan loss means less profit and when there is less profit then the dividend will be paid in lower rate or there might be no dividend. A decrease in dividend might sometimes disseminate the wrong information and it will negatively impact the company. In the past major portion of profit were distributed as dividends and little portion were booked as capital. The most profitable amongst all parties were the shareholders. The new directives secured the depositors fund and helped to strengthen the financial health of the banks. The impact of the directives on the profitability of bank is short term, after the banks have enough provisions for loan loss and sufficient capital to support the risks, the performance for the banks will again pick up. The bank will have better strength with adequate provisioning.

As per the NRB directives given to the finance companies commercial banks has to formula a specific loan loss provision against doubtful and bad debts. The substandard, doubtful and bad loans are categorized under non-performing loans. An increase in non-performing loans increases loan loss provision and interest suspense account which leads to profit deduction.

Figure 4.4: Loan Classification of SBI –2007

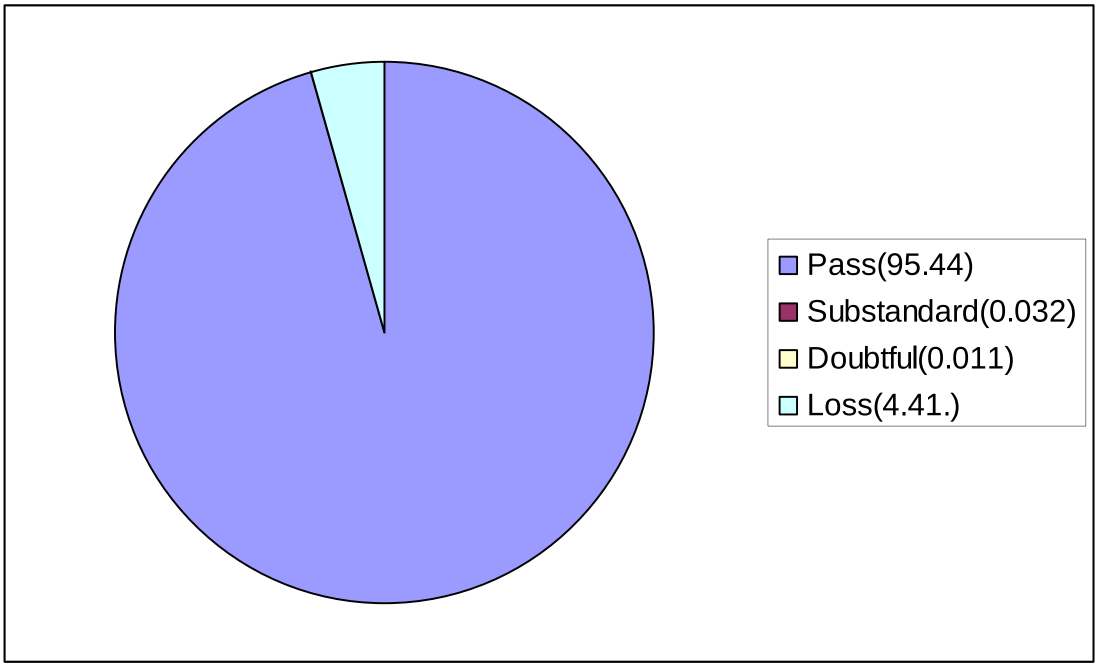


Figure 4.5: Loan Classification of SBI – 2008

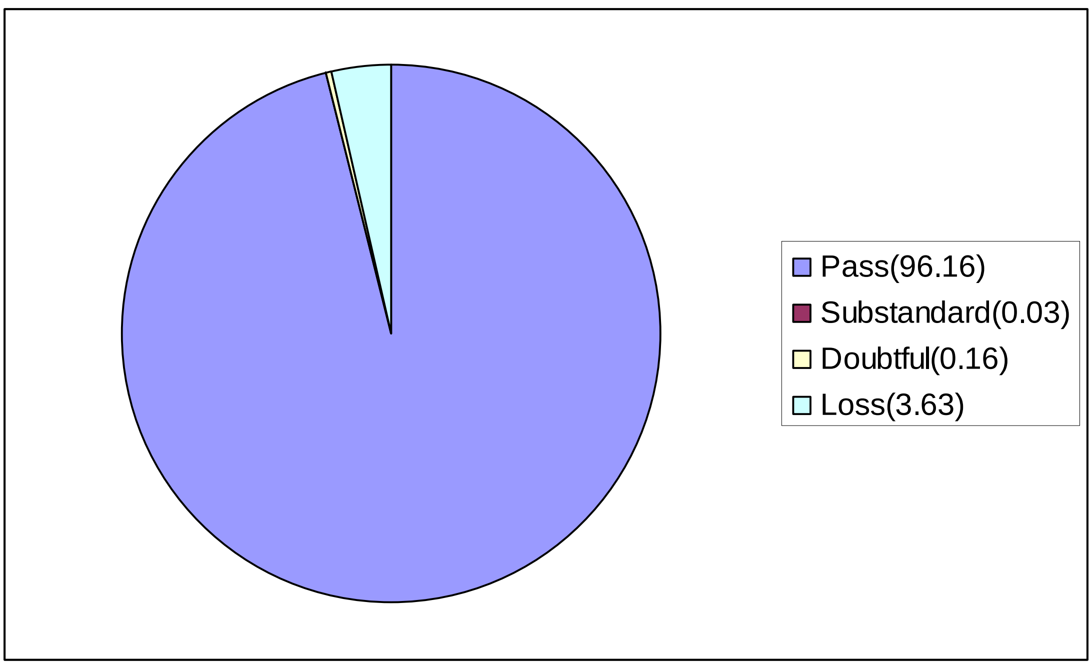


Figure 4.6: Loan Classification of SBI – 2009

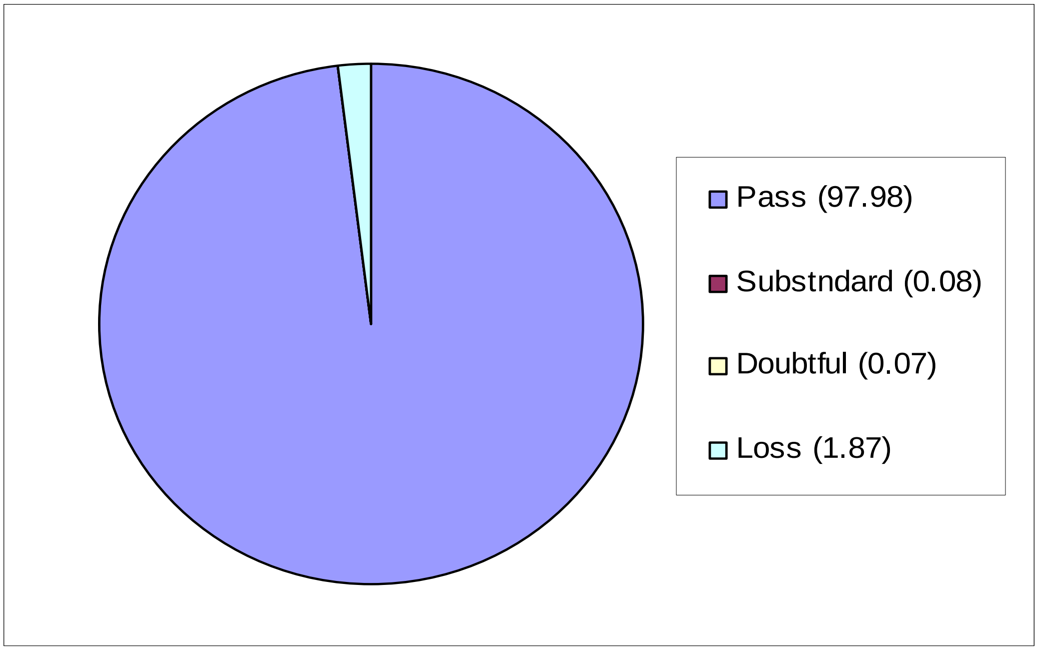


Table 4.13: Non-Performing loans to Total Loans and Advances Ratio (%)

Banks	**2005**	**2006**	**2007**	**2008**	**2009**	**mean**
NABIL	4.19	1.41	1.14	0.75	0.81	1.66
SBI	7.35	6.62	4.85	4.03	2.09	4.99
Combined mean						**3.33**

Source: Annual Report of NABIL and SBI (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. SBI has recorded the high mean of all i.e.4.99 and NABIL Bank has recorded low mean ratio i.e1.66. NABIL Bank has higher performance than SBI 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
SBI	0.8044	0.8116	0.8116	0.8646	0.7875	0.8202
Combined mean						**0.8004**

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, SBI Bank has the high mean ratio i.e. 0.8202. The combined mean ratio is 0.8004.

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
SBI	0.2986	0.0304	0.0360	0.0331	0.0295	0.0855
Combined mean						**0.0541**

Sources: Appendix I

Table 4.15 shows that the costs of deposit of NABIL and SBI have been slightly fluctuating in the study period. The high mean ratio of SBI i.e. 0.0855 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
SBI	0.0765	0.0610	0.0491	0.0420	0.0197	0.0497
Combined mean						**0.0298**

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 SBI i.e. 0.0497 and low mean ratio of NABIL i.e. 0.0098. The combined mean ratio has 0.0298. The highest performance of NABIL and SBI 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
SBI	2.2380	2.1170	2.0159	2.1334	1.7709	2.0550
Combined mean						**2.6224**

Sources: Appendix I

Tables 4.17 show that NABIL has recorded slightly decreasing in the study period SBI has been fluctuating trend in the study period. The mean ratio of NABIL is high i.e. 3.1898 and low mean ratio is SBI i.e. 2.0550. SBI 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 SBI has resulted on the least ratio in the interest income to interest expenses ratio.

4.3 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
SBI	8654.77	11002.04	11445.28	13715.39	27957.22	69.04

The table 4.18 shows that all the banks have been increasing trend in all the year. The high growth ratio of SBI i.e. 69.04% and low growth ratio of NABIL.i.e. 60.94%. SBI 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.

4.3.2 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

SBI	6213.88	7626.73	9460.45	12113.69	15131.75	58.93

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. NABIL bank has high growth ratio i.e. 61.63% and low growth ratio of SBI bank i.e. 58.93%. NABIL 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 SBI bank and SBI 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
SBI	2588.14	3591.76	2345.57	3035.55	3306.57	34.69

Sources: Appendix I

The table 4.20 shows that NABIL and SBI have been fluctuating in all the study period and. The high growth ratio of NABIL i.e.52.14% and low growth ratio of SBI bank i.e. 34.69%. NABIL has more significant than the SBI Bank.

4.3.4 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
SBI	57.39	117.00	254.90	247.77	316.37	81.86

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. SBI has fluctuating growth ratio in the study period. SBI has high growth ratio i.e. 81.86 and NABIL has the low growth ratio i.e. 49.69. SBI 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 SBI 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
SBI	0.9038	0.8169	0.0552	0.3312

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 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 is highly of seasonal character.

Likewise, when we observe the correlation between deposits and loan and advances of SBI bank, it is also positive. The value of ‘r’ is 0.9038 and ‘r2’ is 0.8169. It has P.Er is 0.0552 and 6*P.Er is 0.3312. There will be the variation of 33.12% in the loan and advances. The value of ‘r’ is greater than value of 6*P.Er. The relationship between the deposit and loan and advances of SBI is significant.

From the above analysis, we can be conclude that the two banks are successful in mobilizing there 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. NABIL has the highest value of ‘r’ which indicates that it is in better position on mobilizing deposits as loan and advances in comparison to SBI are 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
SBI	0.2981	0.0889	0.2748	1.6490

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.

Likewise, when we observe the correlation between investment and loan and advances of SBI bank it is also positive. The value of ‘r’ is 0.2981and ‘r2’ is 0.0889. It has P.Er is 0.2748 and 6*P.Er is 1.6490. The value of ‘r’ is less than value of 6*P.Er. Therefore, value of ‘r’ is insignificant. So the relationship between investment and loan and advances of SBI is insignificant.

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
SBI	0.9912	0.9825	0.0053	0.0318

Sources: Appendix I

Table 4.24 shows that there is high degree of positive correlation between shareholders equity and loan and advances in NABILBank. It shows good fund mobilization. The value of ‘r’ is significant.

The value of ‘r’ in SBI bank is significant and as 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
SBI	0.9481	0.8989	0.0305	0.183

The table 4.25 shows that the coefficient of correlation between total income and loan and advances of NABIL and SBI are 0.9911 and 0.9481 respectively. It shows negative relationship between these two variables. Moreover, when we consider the value of co-efficient of determination ‘r2’ is 0.9823 for NABIL. Further value of P.Er is 0.0079and 6*P.Er is 0.0475, which shows that the 6*P.Er is highly lesser than the value of ‘r’. Likewise, SBI the value of coefficient of correlation is 0.9481, co-efficient of determination ‘r2’ is 0.8989, P.Er is 0.0305 and 6*P.Er is 0.183, which shows that the coefficient of correlation ‘r’ is highly greater than the value of 6*P.Er and there value of ‘r’ is significant.

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

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
SBI	0.2167	0.0469	0.2841	1.7045

Sources: Appendix I

The table 4.26 shows that NABIL has negative correlation. This indicates a negative relationship between these two variables and sbi has positive correlation which indicates that positive relationship between these two variables. Both bank have insignificant value of ‘r’since value of ‘r’ is less than **6*P.Er**.

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
SBI	0.305	0.093	0.274	1.644

Sources: Appendix I

The table 4.27 explains that NABIL has 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. In SBI, there is small value of ‘r’ than **6*P.Er**, so value of ‘r’ is insignificant in this case and has the negative 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
SBI	0.8669	0.7515	0.0749	0.4494

Sources: Appendix I

The table 4.28 explained that the value of ‘r’ in NABIL and SBI are significant and relationship between these two variables is certain, as the value of ‘r’ is grater than 6 times of P.Er. It shows positive relationship between these two variables.

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 SBI under five years of study period and to project the next five years trend comparatively. A joint venture 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.

4.5.1 Trend Analysis of Total Deposit.

The trend analysis of total deposit ratio of NABIL and SBI with comparatively under five years of study period and projection of trend for next five years is calculated.

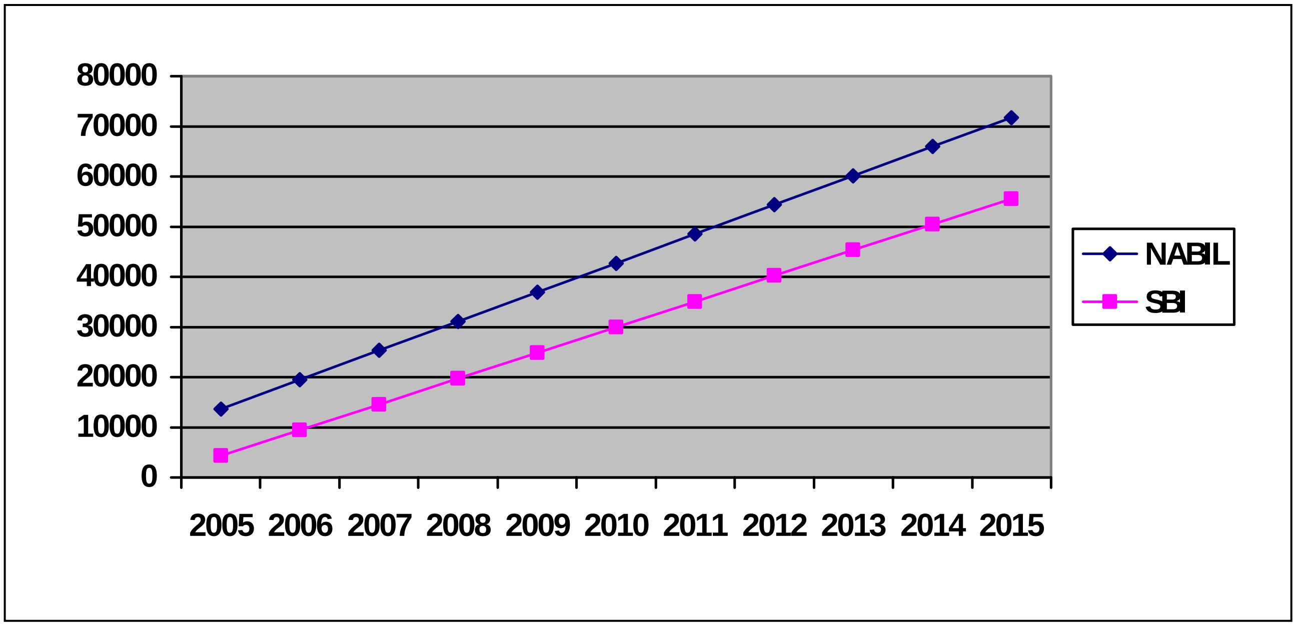
The following table describes the trend values of total deposit of the banks for 11 years.

Table 4.29: Trend values of Total deposits of NABIL and SBI. (Rs. in million)

Years	Trend values of NABIL	Trend values of SBI
2005	13689.74	4291.41
2006	19498.83	9423.23
2007	25307.92	14555.06
2008	31117.01	19686.89
2009	36926.1	24818.71
2010	42735.19	29950.54
2011	48544.28	35082.36

2012	54354.37	40214.19
2013	60162.46	45346.01
2014	65971.55	50477.84
2015	71780.64	55600.66

Figure 4.7: Trend analysis of total deposits



when the analyzing the table 4.29, it is clear that the total deposits of NABIL and SBI are increasing trend. In other things remain constant the total deposits in FY2015 will be Rs.71780.64 and Rs.55600.66 of NABIL and SBI respectively. From the above trend analysis, it is found that the deposit collection of NABIL is better than SBI.

4.5.2 Trend Analysis of total loan and advance

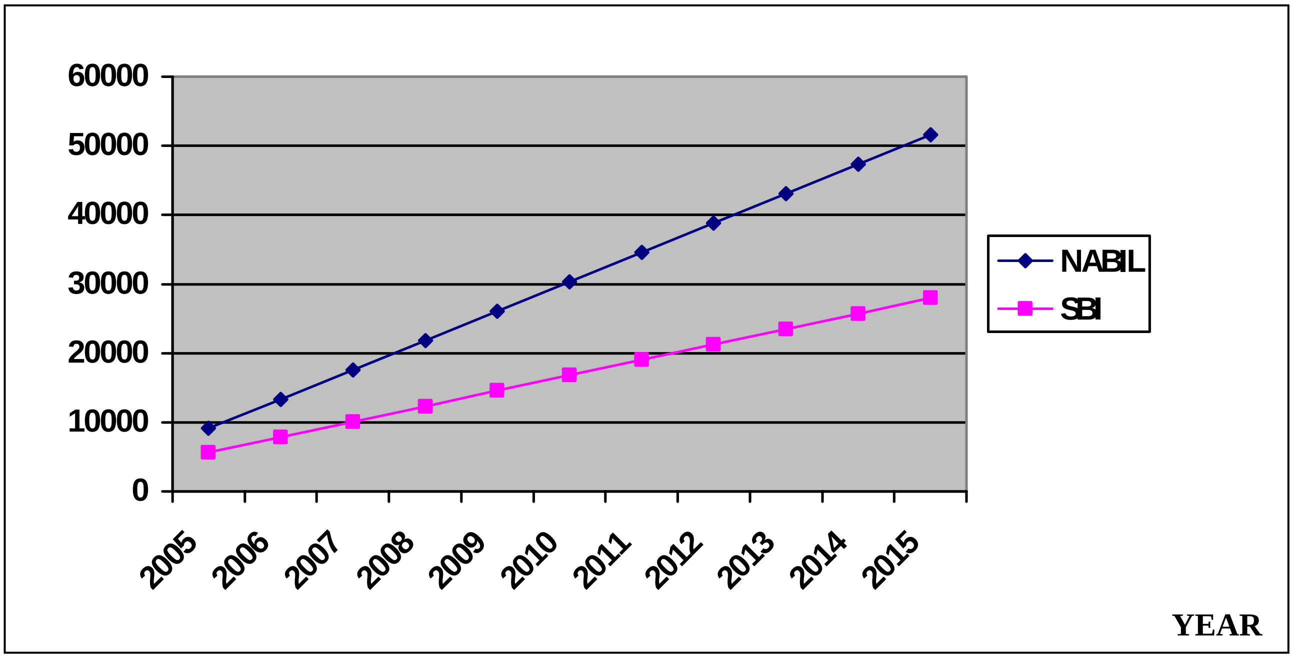
The trend analysis of loan and advance of NABIL and SBI show the trend value of five years study period and makes project for the next five years. The following table describes the trend values of loan and advance ratio of two joint venture banks.

Table 4.30: Trend Analysis of Total loan and advance of NABIL and SBI.

Year	Trend values of NABIL	Trend values of SBI
2005	9111.87	5644.76
2006	13356.88	7877.03
2007	17601.88	10109.3
2008	21846.88	12341.57
2009	26091.89	14573.84
2010	30336.89	16806.11
2011	34581.89	19038.38
2012	38826.89	21270.65
2013	43071.89	23502.92
2014	47316.90	25735.19
2015	51561.90	27967.46

Sources: Appendix I

Figure 4.8: Trend analysis of total loan and advance



When analyzing table 4.30, it is clear that the total loan and advances of NABIL and SBI are increasing trend. if other things remain constant , the total loan and advances in fiscal year 2015 reaches Rs. 51561.90,Rs.27967.46of NABIL and SBI respectively. According to the trend value NABIL had best performance on loan and advances mobilization in comparison to SBI.

4.5.3 Trend Analysis of total investment of NABIL and SBI.

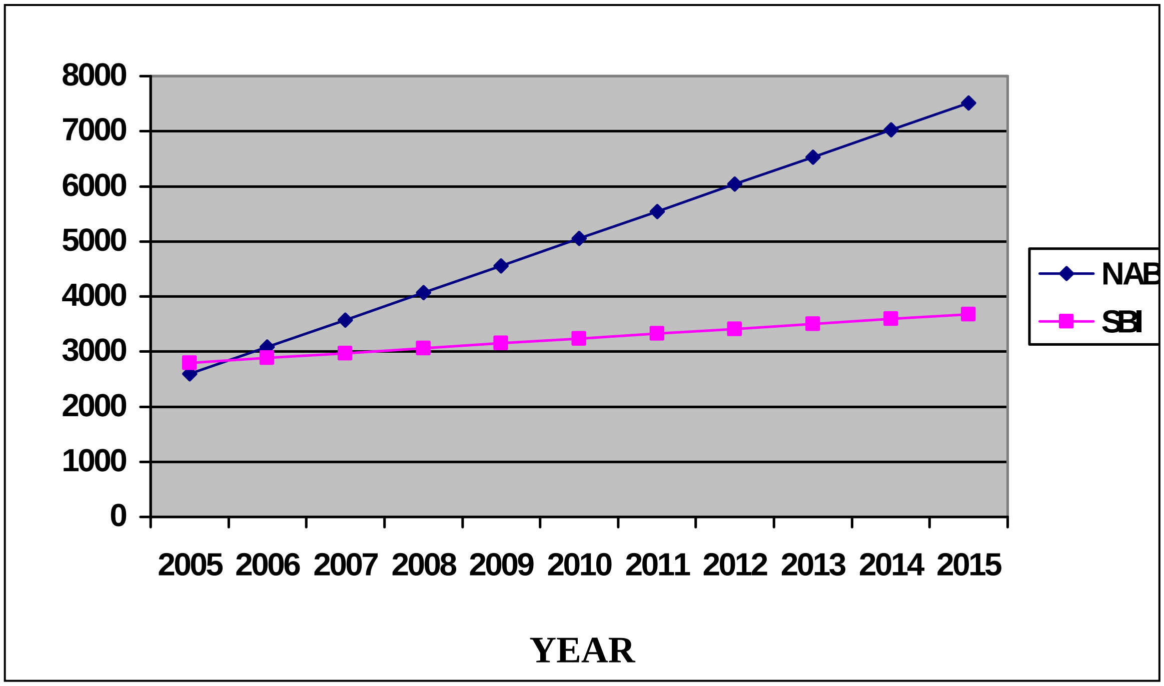
The trend analysis of total investment of NABIL and SBI show the trend value of five years study period and makes project for the next five years. The following table describes the trend values of loan and advance ratio of two joint venture banks.

Table 4.31: Trend Analysis of Total investment of NABIL and SBI.

Year	Trend values of NABIL	Trend values of SBI
2005	2592.08	2797.38
2006	3084.16	2885.45
2007	3576.24	2973.52
2008	4068.32	3061.59
2009	4560.4	3149.66
2010	5052.48	3237.73
2011	5544.56	3325.8
2012	6036.64	3413.87
2013	6528.72	3501.94
2014	7020.8	3590.01
2015	7512.88	3678.08

Sources: Appendix I

Figure 4.9: Trend analysis of total investment



When analyzing table 4.31, it is obvious that the total investment of NABIL and SBI were in increasing trend. If other things remain constant, the total investment in FY2015 reaches Rs.7512.88and Rs.3678.08 of NABIL and SBI respectively. According to the analysis, it was seen that total investment position of NABIL was better than that of SBI.

4.6 Major Finding of the Study

In this research data 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 below.

Investment Strength in Relative Term

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

Loan and advances to total assets has increasing in the first half year and decreasing trend in the second half year of NABIL bank. SBI has been fluctuating of all the study period. 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 SBI has resulted in highest mean ratio of loan and advances to total assets ratio.

SBI has the highest loan and advances and investment to total deposit ratio which refers that it has maximum mobilization of deposits than the 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 low 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. SBI has the highest mean ratio i.e. 8.5169, which is slightly deviated from the combined mean of the banks. The ratio of NABIL is lowest it is lower than the combined mean and slightly deviated from combined mean.

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

Investment/Lending Strength in Absolute Terms

The loans and advances of NABIL are higher than SBI bank. Loans and advances have been increasing trend over the study period. The highest ratio of NABIL i.e. 17601.89 and SBI has the lowest ratio i.e. 10109.30. CV has also low of SBI i.e. 31.59. Therefore, the performance of SBI is more consistent and NABIL is least consistent.

Investment Efficiency and Its Contribution in Total Profitability

SBI has the highest loan loss provision and NABIL has lowest loan loss provision. NABIL has been decreasing trend in all the study period. SBI have 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 SBI. NABIL has lowest non-performing loan than SBI.

In year 2007, 2008 and 2009 NABIL has highest percentage of performing loan than SBI. NABIL has 98.88% performing loan out of total loan in 2007 and SBI has 95.44% performing loan in 2007. In 2008 NABIL has 99.25% performing loan and SBI has 96.16% performing loan. Similarly, in 2009 NABIL has 99.19% performing loan and SBI has 97.98% performing loan. NABIL's quality of loan is better than SBI 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. SBI has high mean ratio and NABIL has the low. SBI mean ratio is slightly higher than the combined mean.

The ratio of interest expenses to total deposit shows that, the mean ratio of SBI has highest than NABIL bank. NABIL mean ratio is lower than combined mean.

SBI has the higher ratio of interest suspense to interest from loan and advances. It's ratio also higher than combined mean. NABIL has lower mean ratio and better than the SBI 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 highest mean ratio of NABIL, with one rupee of interest expenses it has been able to earn Rs.3.18 highest than SBI bank.

Growth Ratio

The growth ratio of total deposit by analysis of five years of study period found out that SBI has high growth ratio and it has improved exceptionally well in collecting deposits and NABIL has low growth ratio . Extending loan and advances where as NABIL and SBI 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 NABIL is well. It has remarkably increased its investment. SBI has lower growth ratio in comparison with NABIL, and it has decreased its investment.

The growth ratio of net profit of SBI is higher than NABIL . It indicates that the performance of SBI 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 SBI bank shows positive relationship between these two variables. NABIL has the highest correlation in total deposit to loan and advances. It indicates that NABIL has good performance in generating loan and advances from the deposits.

Generally, correlation of investment and loan and advances of NABIL bank shows positive relationship.NABIL has highest correlation in investments loans and advances and SBI has lowest correlation of investment

Correlation co-efficient of shareholder's equity and loan and advances shows that there is highest degree of correlation of NABIL and SBI bank lowest degree of correlation.

Correlation co-efficient of total income and loan and advances of NABIL and SBI 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 shows that there is NABIL has negative correlation and SBI has positive correlation. NABIL has high degree of correlation. SBI 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 NABIL and low degree of correlation in SBI.

Correlation co-efficient of invest income and profit shows that there is positive relationship in case of NABIL and SBI. It has high correlation and it indicates positive correlation.

Trend Analysis

From the analysis it is found that the total deposit collection of NABIL is better than the SBI.if other things remain constant it will be increasing positively for the next five years period.

Total loan and advances of NABIL and SBI are increasing trend. If other things remain constant, it will definitely increasing positively for the next five years period. According to trend analysis. NABIL had best performance on loan and advances mobilization in comparison to SBI.

Total investments of both banks are in increasing trend. If other things remain same, the total investment will be increasing positively for the next five years period. The analysis revels that total investment position NABIL is better than that of SBI.

CHAPTER-V

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

This chapter highlights some selected actionable conclusions and recommendations on the basis of the major findings of the study derive from the analysis of NABIL and SBI bank. In order to carry out this study mainly secondary data are used. The analysis of the data is carried out with the help of varies financial and statistical tools.

5.1 Summary

Investment is one of the most important functions of a commercial bank and JV's 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 investment strength, investment efficiency and its contribution in total profitability has been measured.

In this study, “the financial tools – ratio analysis viz 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 (2004/05 to 2008/09) were selected for the study purpose.

The analysis of investment strength in relative terms the ratio remained almost constant in the study period of all the two banks. SBI has slightly less than NABIL. Similarly NABIL 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. NABIL 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. Similarly SBI is also successful in converting liability into assets, in terms of investment made, from shareholders equity; it has successfully generated proportionately higher volume of loans and advances.

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 SBI bank. Due to high volume of loans and advances the provision for doubtful debts is also the highest which indicates its superior performance than SBI ank. However NABIL has the higher net profit than the SBI.

The activity ratio shows that NABIL has better performance than SBI. The lowest loan loss provision ratio is the indicative of better performance of NABIL than the SBI bank in judging the borrower needs and quality of the borrower NABIL performed better than SBI 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. SBI’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.

NABIL has the high mean ratio of interest income from loan and advances which shows a large contribution of interest income to the total income than SBI. SBI'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 low. NABIL has lower interest suspense out of total income from loan and advances. SBI has the higher ratio of interest suspense.

SBI has maintained higher growth ratio of total deposit and net profit than NABIL but in growth ratio of investment and loan and advance lower than NABIL. However, the growth of SBI 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 two 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

The overall performance of all the JV's banks is satisfactory. Due to high volume of loan and advances NABIL has provision for doubtful debts also. However, NABIL has the higher profit than the SBI 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 SBI is the higher than the SBI bank.

SBI has performed exceptionally well in increasing the growth ratio of deposit and net profit however NABIL performing loans portion is higher than the SBI 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

On the basis of analysis and findings of the study, following recommendations have been forwarded.

The ratio of non- interest bearing deposit to total deposit of NABIL is the lower than the SBI bank. SBI has higher ratio in interest expenses to total deposit ratio. 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 SBI. 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.

NABIL contribution in loan and advances is the lowest and this has high degree of variation as compare to SBI. 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, NABIL 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 SBI is certainly not sign of efficient credit management. SBI 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 NABIL 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, NABIL 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. NABIL’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 investment 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
SBI	10345.37	13035.83	13901.20	17187.45	30916.68

Total Liabilities

Banks	2005	2006	2007	2008	2009
NABIL	15528.69	21957.83	26874.84	37132.75	43364.49
SBI	9656.36	12878.55	13763.83	17187.44	30685.15

Non- Interest Bearing Deposits

Banks	2005	2006	2007	2008	2009
NABIL	2792.18	2910.56	3395.23	5284.34	5480.53
SBI	1773.54	1408.29	1930.43	1738.10	2864.73

Total Deposits

Banks	2005	2006	2007	2008	2009
NABIL	14586.61	19347.40	23342.28	31915.04	37348.26
SBI	8654.32	11002.04	11445.28	13715.39	27957.22

Loan and Advances

Banks	2005	2006	2007	2008	2009
NABIL	10586.17	12922.54	15545.77	21365.05	27589.93
SBI	6213.88	7626.73	9460.45	12113.69	15131.75

Total Investment

Banks	2005	2006	2007	2008	2009
NABIL	2413.94	2301.45	4808.34	4646.87	3706.10
SBI	2588.14	3591.76	2345.57	3035.55	3306.57

Shareholders Equity

Banks	2005	2006	2007	2008	2009
NABIL	1657.64	1873.20	2055.11	2439.82	3129.02
SBI	689.01	971.72	1153.31	1404.22	1402.53

Interest Income

Banks	2005	2006	2007	2008	2009
NABIL	1068.75	1309.99	1587.75	1978.69	2798.49
SBI	578.37	708.71	831.11	970.51	1460.45

Interest Expenses

Banks	2005	2006	2007	2008	2009
NABIL	243.54	357.16	555.71	758.44	1153.28
SBI	258.43	334.77	412.26	454.92	824.70

Total Income

Banks	2005	2006	2007	2008	2009
NABIL	1510.68	1725.13	2052.07	2464.02	3387.07
SBI	718.99	850.92	1024.03	1122.46	1854.56

Interest Suspense

Banks	2005	2006	2007	2008	2009
NABIL	168.86	188.63	112.18	128.04	151.57
SBI	475.45	465.92	465.56	509.49	297.89

Provision for Doubtful Debts

Banks	2005	2006	2007	2008	2009
NABIL	358.66	360.56	356.23	357.24	394.41
SBI	388.17	525.46	614.72	604.60	632.52

Loan Loss Provision

Banks	2005	2006	2007	2008	2009
NABIL	360.57	356.23	357.24	394.40	409.08
SBI	525.47	614.72	604.60	632.51	480.30

Net Profit

Banks	2005	2006	2007	2008	2009
NABIL	518.63	635.26	673.95	746.46	1031.05
SBI	57.39	117.00	254.90	247.77	316.37

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) = $0.6745 \times 1 - r^2 / \sqrt{n}$

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

= 0.2809

Now, 6 P.Er = 6×0.0060 = 0.0360