CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Banking plays significant role in the economic development of a country. Bank is a resource for the economic development which maintains the self- confidence of various segments of society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing, the objectives of commercial banks is to mobilized idle resources into the most profitable sector after collecting them from scattered sources commercial bank contributes significantly n the formation and mobilization of internal capital and development effort.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping would get back their gold and valuable after paying a small amount as fee for safekeeping and serving.

The role of money in an economy is very important. Proper and well planned management of money directs, determines and enhances the health and productivity of total financial sector and the performance of financial sector affect the growth of economy. Hence, Money is the topic to manage and banks are the manager. The existence of a bank is for the change in every aspect of human being and its presence is for the upliftment of people. Banks are the back bone of the economy.

the history of the development of financial institutions in Nepal is not very long. Nepal bank Ltd. is the first commercial bank of Nepal, which was established in 1994 B.S. in non- government sector. The second commercial bank is Rastrya Banijya Bank Ltd., which was established in 2022 B.S. in 100% government ownership. But after studying to the origin of modern banking, we come to know that "Bank DE

RIALTO" which was established in 1587 A.D. is the first bank of the world in Venice, Italy.

Financial statements of a firm mainly include income statement balance sheet and cash flow statement they are the important sources of financial information regarding the firm's operations and its financial position. To analyze the financial performance strength and weakness and predicting reason of failure of the firm many types of tools and techniques are used.

The Nepalese economy has been passing through very difficult times over the last few years. New industries have not come up. Foreign act which used to take the form of out right grants has mostly turned into loans that that have to be repaid debt repayment is eating up an increasing position of the budget. The tourism sector has suffered serious blows. In such an adverse economic climate the banking sector has generally not only survived but have also been able to make reasonable operating profit.

Bank is a financial institution, which is established for depositing, withdrawing, borrowing and lending money. It is a intermediary accepting deposits and granting loans offers the widest menu of services of any financial institution (Rose, 2002:2).Bank is an Institution which deals with money and credit. It accepts deposit from the public and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Generally a bank accepts deposit from business institutions and individuals, which is mobilized into productive sectors mainly business and consumer lending. Bank is, therefore known as a dealer of money. As present context bank is not only confined to accepting deposits and disbursing loan. In addition to this, a bank may be engaged in different types of functions such as remittance, discounting bills etc. "Indeed, many financial institutions-including security dealers, brokerage firms, mutual funds, and insurance companies are trying to be as similar as possible to banks in the services they offers" (Rose, 2002:2). A modern bank performs such a variety of functions that it is difficult to give a precise and general definition of a bank.

"The banking sector is largely responsible for collecting household saving in terms of

different types of deposit and regulating it in the society by lending in different sectors of economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy" (Sheathe, 1992:32).

In Nepalese financial system, financial institutions are categorized in four classes viz. A, B, C and D according to bank and financial institution act 2063 (BAFIA, 2063). These financial institutions are engaging to collecting deposit and granting loans and advance as well. Lending is a major function of banks. Loan is the sum lent to other for certain time period with the agreement to charge interest on principal. The interest is charged calculating certain percentage on the principal. When money belonging to one is advanced to another to be used for certain time period, it is called loan. The basic objective of loan advancement is to earn interest as the reward for lending the sum for specific period.

Commercial banks are organized institution providing loans for the needed. The loan advancement is the main function of commercial banks. Similarly, interest on loan has become their main source of income. Banks do deposit accepting and lending business. Lending is a risky business. Loans are provided to earn interest. However, sometimes, it may be difficult even for the repayment of principal. In this situation, interest barring becomes fair awaited business to be dealt. To get rid of such situation there should be proper loan management in banks.

In context of Nepal, the history of banking sector has a rather more slow evolution. Even now, the banking system is still an evolutionary phase. Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of the country. It was established in 1937 A.D (30^{th} Kartik, 1994 B.S.). To issue national currencies and promote financial organizations Nepal Rastra Bank was established in 1956 A.D (14^{th} Baishakh, 2013) under NRB Act 1955 as the central bank of Nepal. Similarly, Rastriya Banijya Bank was established in 1965 A.D. as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad positions.

For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, Nepal government encouraged the foreign banks for joint venture in Nepal. As a result, Nepal Arab Bank Ltd. (NABIL) was established in 2041 B.S. This is the first modern bank with latest banking technology. Then a lot of commercial banks have been opened in the country. Now, there are altogether 31 commercial banks are operating in the country.

Overall national development of any country depends upon the economic development of that country and economic development largely depends upon the financial infrastructure of that country. Therefore, the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being one of the least developed countries has been trying to embark upon the path of the economic development by economic growth rate and developing all sectors of economy. Nepal started economic development very late, only from early fifties of the 19th century. The agriculture based economy, vast mountainous landforms, political instabilities, landlocked situation and poor resource mobilization, which have slowed down the pace of development.

Commercial banks are major financial institution, which occupy quite an important place in the framework of every economy. Commercial banks render numerous services to their customer in view of facilitating their economic and social life such as collection deposits from the public, grant loans to those investors who want to invest in the business, industry and other sectors, overdraft, guarantee services, letter of credit, discounting bills, promissory notes, selling of others share to general public, agency function task, limit of storage commodities etc.

1.2 Statement of the Problem

The main objective of any commercial bank is collection of fund and its proper lending in productive areas. Now-a-days, the banking institutions are facing the problems from the external factors, such as political, legal, economical, social, infrastructure, quality of work etc. The unstable politics is the main problem of banking institutions. The other common problems are lack of general awareness in the public mass, lack of proper information about share market, limited user of money and capital market, disqualified management team, low activity of NEPSE, day to day increasing security problem etc. In

this regard three joint venture banks (HBL, EBL and SBI) are able to meet their fund requirement from collection and mobilization view is main research problem of the study.

EBL, SBI and HBL has the policy of expanding its branches in the remote areas of the country to serve the poor people. It has been providing commercial services to the remote sectors. In the light of the very facts, as commercial bank is the backbone of the economy, it is highly useful to make the present study on EBL, SBI and HBL. Moreover, this study is felt needed as to know the pattern to lending status of the bank and other banking services provided to the people. One advantage behind this study also lies in the fact that it helps in bringing into notice the lacks and deficiencies that has to be accomplished by the bank. In addition to these, following are some grossly noted problematic aspects of the study.

- What has been the pattern of Loan Distribution of EBL, SBI and HBL to the priority and the deprived sectors?
- Out of the total deposits what has been the percentage of the loan disbursed?
- Is the lending position sound to reflect a good status of the bank's performance?
- Lending in industrial sector has been risky project. (This is because most of the industries in the country are running in crisis both financially and technically. The share price of those industries in the market is below par. In this scenario, these industries do not hold the required standard of credit rating unless the government guarantees them). In this perspective, how to deploy the fund to ensure intact liquidity and high profitability and low risk?
- Examine the reason for lack of sustainable lending environment.

1.3 Objectives of the Study

The general objective of this study is to analyze and evaluate of the lending practices of Himalayan Bank Ltd., SBI Bank Ltd. and Everest Bank Ltd.

- To measure the lending performances in quality, efficiency and its contribution in profitability.
- To analyze the lending practices of Himalayan Bank Ltd., SBI Bank Ltd. and Everest Bank Ltd.

- To measure the finance companies' lending strength. The lending strength shall be measured in absolute terms also to analyze the volume of contribution made by each commercial bank under study.
- To study the loan and advances, profitability, deposits positions of the joint venture banks
- To suggest and recommend on the basis of major findings.

1.4 Significance of the Study

There are more than 32 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 EBL, HBL and SBI bank limited are significantly similar in many aspects of their volume and quality of operation.

1.5 Limitation of the Study

This study is simply a partial study for the fulfillment of MBS degree, which has to be finished within limited period. Hence, this study is not far from several limitations of its own kind, which weaken the scope of the study to some extent.

Some of such limitations are as follows.

1. The study is mainly based on secondary data collected from different sources.
2. The study period will be covered by only five fiscal year i.e. from 2007/08 to 2010/2011.
3. Out of the numerous affecting factors, this study concentrates only on those factors, which are related with lending practices, and available in the form required for analyzing the different issues.
4. Due to wide range of data deficiencies only simple technique have been used for the analysis of the data.

5. Only there commercial banks have been selected as sample for the study, i.e. EBL, HBL and SBI.
6. This study has been carried out for the partial fulfillment of master's degree, faculty of management of TU. So the time and resource are major limitations of the study.

1.6 Organization of the Study

The study has been organized into five chapters. The title of each of these chapters is as follows:

CHAPTER I Introduction

Introduction chapter comprises background of the study, focus of the study, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

CHAPTER II Review of literature

Review of literature chapter comprises conceptual review of the NPA and review of the past thesis.

CHAPTER III Research methodology

Research methodology deals with the method of investigation and includes research design, nature of the data, data collection procedure and tools used.

CHAPTER IV Presentation and analysis of data and major findings

Data presentation and analysis of data deal with different statistical and the financial tools that used in the analysis of the data.

CHAPTER V Summary, conclusion and recommendations

Last chapter includes the summary, conclusion of the study and recommendation.

CHAPTER - II
REVIEW OF LITERATURE

Literature review is basically a 'stock taking' work of available literature. To make the research more realistic review of literature is required. It provides significant knowledge in the field of research. Thus, the review of various books, research studies and articles have been used to make clear about the concept of fund collection and mobilization.

2.1 Theoretical Framework

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

Origin and Development of Commercial Bank

Bank - one of the most important financial institutions, and **Banking** - an essential industry; has become an integral part of every economy. Banks are the principal sources of credit (lonable funds) for millions individuals and families and for many units of governments (schools, districts, cities, countries etc.). Worldwide, banks grant more installment loans to consumers than any other financial institutions. They are amongst the most important sources of short-term working capital for businesses and have become increasingly active in recent years in making long term business loans for news plant and equipment.

Today banking is an industry in change, rather than being something in particular, it is continually becoming something new offering new services, merging and consolidating into much larger and more complex business, adopting new technologies that change rapidly, and facing a new and changing set of rules to regulate and supervise the banks that serve their citizens. Thus, banking has become one of the most heavily regulated businesses in the world.

When did the first bank appear? *Linguistics* (the science of language) and *etymology* (the study of the origin of words) suggest an interesting story about banking ’s origins. Both the Old French word *banquet* and the Italian word *banca* were used centuries ago to mean a “bench “ or “money changer’s table”. This describes quite well what historians have observe concerning the first bankers, who lived more than 2000 years ago. They

were money changers, situated usually at a table or in a small shop in the commercial district, aiding travelers who came to town by exchanging foreign coins for local money or discounting commercial notes for a fee in order to supply merchants with working capital.

The first bankers probably used their won capital to fund their activities, but it wasn't long before the idea of attracting deposits and securing temporary loans form wealthy customers became an important source of bank funding. Loans were then made to merchants, shippers, and landowners at rates of interest as low as 6 percent per annum to as high as 48 percent a month for the riskiest ventures! Most of the early banks of any size were Greek in origin.

The banking industry gradually spread outward from the classical civilizations of Greece and Rome into northern and western Europe. Banking encountered religious opposition during Middle Ages, primarily because loans made to the poor often carried high interest rates. However, as the Middle Ages drew to a close and the Renaissance began in Europe, the bulk of bank loans and deposits involved relatively wealthy customers, which helped to reduce religious opposition to banking practices.

The development of new overland trade routes and improvements in navigation in the 15^{th}, 16^{th} and 17^{th} centuries gradually shifted the center of the world commerce from the Mediterranean region toward Europe and the British Isles, where banking became a leading industry. During this period, the seeds of the Industrial Revolution were planted, which demanded a well developed financial system. In particular, the adoption of mass production methods required a corresponding expansion in global trade to absorb industrial output, requiring new methods for making payments and credit available. Banks that could deliver on these needs grew rapidly, led by such institutions as the Medici Bank in Italy and the Hochstetler Bank in Germany.

The early banks in Europe were places for safekeeping of valuable items (such as gold and silver bullion) as people came to fear loss of their assets due to war, theft, or expropriation by government. Merchant's shipping goods across the sea found it safer to place the gold and silver they were paid at the nearest bank rather than risking its loss to

pirates or to storms at sea. In England during the reign of King Henry VIII and Charles I, government efforts to seize private holdings of gold and silver resulted in people depositing their valuables in goldsmiths' shops, who, in turn, would issue tokens or certificates, indicating that the customer had made a deposit at these businesses. Soon, goldsmith tokens or certificates behind to circulate as money because they were more convenient and less risky to carry around than gold of other valuables. The goldsmiths also offered *certification of value* services -what today we might call property appraisals. Customer would bring in gold, silver, jewels, or other valuables to have an expert certify that these items were, indeed, real and not fakes- a service many banks still provide to their customers.

When colonies were established in North and South America. Old World banking practices were transferred to the New World. At first the colonists dealt primarily with established banks for the countries form which they had come. As the 19th century began, however, state governments in the United States began chartering banking companies, many of these were simply extension of other commercial enterprises in which banking services were largely secondary to merchants' sales, for example, the farm equipment business. The development of large, professionally managed banking firms equipment business. The development of large, professionally managed banking firms was centered in a few leading commercial centers, especially New York. The federal government became a major force in U.S. banking during the Civil War. The Office of the Comptroller of the Currency (OCC) was established in 1864, created by Congress to charter national banks. This dividend bank regulatory system, with both the federal government and the states playing key roles in the control and supervision of banking activity, has persisted in the United States to the present days.

The origin of commercial banking can be traceable in the early times of human history. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out many for public and private purposes on interest was prevalent. In England, banking had its origin with the London Goldsmiths who in the 17th century began to accept deposits from merchants and others for safekeeping of the money and other valuables. As public enterprise, banking made its first appearance in Italy in 1157 A.D when the 'Bank of Venice' was founded.

Crowther observed that the modern banking has two ancestors who are the merchant, the goldsmith and the moneylender. The merchant banker forms the earliest stage in the evolution and modern banking. Merchants in those days required remittances of money form one place to another while trading which is an important function of a bank. This gave rise to the institution of 'Hindi' or the letter of transfer, which these days is done through drafts, cheques, travelers etc to remit money to different places. The goldsmith ancestry of the modern banks is purely and English affair. In England, the goldsmiths were the original representatives of private bank. They charged for safekeeping the money consisting of gold and silver. 'The Bank of England' was established in 1694 A.D. The next stage in the development of banking arises when the goldsmith becomes a moneylender. The goldsmiths realized that a contingency reserve was required for the period when withdrawals exceeded deposits. Thus, goldsmith became a banker; he started performing the two major functions of a bank. Napoleon founded the 'Bank of France' in 1800 A.D.

The 19th century comes with the vast scope of development of commercial banks. It witnessed the phenomenal development of modern problems enabling banks to turn their attention away form old money changing business to many new important jobs that comes in the wake of industrial progress. The 20th century observed the development of various banking institutions highly specialized and sophisticated particularly in advanced countries like USA, UK and others. Today various international organizations like IMF, IBRD, ADB etc have been developed which are influencing the whole business of the modern world.

Commercial banking in India began in 1770 A.D. with the establishment of the first joint stock bank, named the 'Bank of Hindustan' by an English Agency in Calcutta. Lots of developments in the banking sector have occurred after the Independence.

The history of modern banking system is not very old in Nepal. From the very ancient times, limited transactions were used. But the concept of modern banking could be traced out at the time of Malla Regime; King Jayasthiti Malla classified the people of Kantipur in 64 castes on the basis of their occupation. "Tanka Dhari" caste was one among 64

castes that handled International Trade, Business Credit & Family Credit etc. During the period of 1877-1985, Rana Prime Minister Ranoddhip Singh established "Tejarath Adda" in Kathmandu, which was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposit from the public but granted loan to their employees at rate of 5% & general public against the bullion.

Afterwards with feeling of necessity of commercial banks, Nepal Bank Limited, the first commercial bank in Nepal, was established in 1937 A.D. The central bank of Nepal, Nepal Rastra Bank was established on 2013 BS (1955 AD) under Nepal Rastra Bank Act 2012, which has helped to make banking system more systematic and dynamic during that time. As the time passed, a government owned bank, Rastriya Banijya Bank, established in 2022 B.S. in order to play a major role not only in domestic banking but also in the foreign trade. Later on, many private and joint venture banks are established in order to fulfill the requirement of financial transaction. Now, there are 17 commercial banks in Nepal. In addition to this, many other small-scale banks confined to few works of banking system called Development Banks and other financial institutions like finance companies and loan co-operatives have been established.

Commercial Banks – Concept and Definitions

Although bank can be categorized into different types on the basis of its functions, objectives, the word "BANK" is synonymous with the commercial banks. Commercial banks perform functions similar to those of saving institutions and credit unions; that is they accept deposits (Liabilities) and make loan (Assets). However they differ in their composition of assets and liabilities, which are much more varied. Commercial bank's liabilities include several types of non-deposit source of funds, while their loans are broader in range, including consumer, commercial and real estate loans. Commercial banking activity is also regulated separately from the activities of savings institutions and credit unions. Within the banking industry the structure and composition of assets and liabilities also vary significantly across banks of different assets size.

"A Commercial Bank is the bank which exchanges money, accepts deposit, grants loans and performs banking function"

"Principally, Commercial Bank accepts deposits and provide loans, primarily to business firms thereby facilitating the transfer of funds in the economy"

"A bank is a business organization that receives and holds deposits and funds form other, makes loans and extends credits and transfer fund by written order depositors." The basic sources of fund for commercial bank are capital (fund form shareholders), reserve (retained earnings) and various types of deposits. Basic uses of fund are loans, advances and investments.

Joint Venture Banking

A joint venture bank is joining force between two or more enterprises for the purpose of carrying out specific operations like industrial of commerce investment, production or trade. When two commercial banks from different countries joint hands to form independent enterprises, it is said as joint venture commercial bank. The deliberate policy of allowing JVB in Nepal is basically to enhance local commercial bank performance viz. competition, efficiency, modernization and computerization to prompt customer services etc.

Joint venture banks in Nepal are operated under the rules and regulations, supervision, control and directives of Nepal Rastra Bank, the central bank of Nepal. Major functions performed by these banks are the regular banking services for any commercial banks. Along with that is also brings foreign capital, skills, experience and latest technology and technique. It has also introduced the modern management for employee detainment and customer's satisfaction and latest technology such as ATM, Tele-banking, Credit\ Debit cards etc. Due to international name attached to it, commercial banks might be able to raise resources internationally for viable projects due to their creditability. It is also seen that because of J.V.B.'s there has been a healthy and essential competition among the contemporary banks.

A joint venture is a form of two forces between two or more enterprises for the purpose of carrying out of specific operation like industrial or commercial investments,

production trade etc.(D.P. Gupta, Banking System, its role in export development, Delhi, Tata Mc. Grew Hill, 1984, p. 15-25)

Nepalese joint venture banks should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. At the same time, the bank and financial institutions are offering very low deposit interest rate. In this situation Nepalese J.V.B.s are required to explore new opportunities to make investment if they want to survive in the competitive market. Since commercial banks can inspire entrepreneurship, the bank should also consider national interests and government emphasis for the economic growth of the country by the development of industry, trade and business and to fulfill the objective of profit making.

Thus, conclusively, it can be said that J.V.B.s mobilize the passive funds towards trade and commerce, provide economic assistant to enterprises, create saving habits in general public investors in primary sectors etc.

2.1.1 Features of a Sound Lending and Investment Policy

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

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

a) Safety and Security

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

M= Marketability

A= 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) Diversification

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

f) Legality

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

2.1.2 Meaning of Some Banking Terminology

a) Deposits

Commercial banks act 2031 B.S. (1974 A.D.) 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 two 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 B.S. (1947 A.D.), '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. 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.

2.2 Review of Related Studies

2.2.1 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 2066/67 (Ashad 2066), existing all banks require to raise capital fund to RS.1000 million through minimum 10% paid up capital increment each year.

Capital Adequacy Ratio (CAR)

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

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

Core Capital

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

Supplementary Capital

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

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

Cash Reserve Ratio

Commercial banks required maintaining minimum cash reserve as per NRB's regulation 22 July 2002. It requires maintaining the cash at till 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 two 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 two months to six months should be included in this category.

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

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

2.2.2 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.

Shiba Raj Shrestha 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. Sunita Shrestha 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: 190-194).

2.2.3 Review of Research Papers

Pradhan (2005) *"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 up 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.

Shrestha (2055) *"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.

2.2.4 Review of Thesis

Dhungana, (2006) in his study, "Loan Disbursement and Repayment of NIDC", give much more emphasis on the loan repayment situation of NIDC. His main findings and recommendations are:

- ❖ To improve the unfavorable situation of repayment in agro based, hotel and tourism based industries, attempt should be made first in these industries since that are the major problem area of non and delayed repayment.
- ❖ Detail studies have to be made about technical, commercial and economic feasibility of the industry prior to finance.
- ❖ Efforts should be made in minimizing and avoiding the loan sanction and loan disbursement on the political pressure and pressure of some preferred groups so as to ensure the breading of a truly genuine and sound project.
- ❖ Necessary steps should be taken to get the timely financial and accounting records from the clients to satisfy with good financial position of the industry.

- ❖ A proportionate fine to be charged on delayed repayment would initiate clients to repay the loan quickly rather than in the case of fixed rate.
- ❖ The assessment and evaluation of project implementation and follow up division of NIDC also need to be made to activate it in making timely and proper follow up activities.
- ❖ NIDC should act as a true development bank not simply lending institution.

K.C (2007) has conducted a study on "Lending Policy of Commercial Banks in Nepal" having following objectives:

- ➢ To analyze the role of commercial banks in its historical perspective
- ➢ To show the relationship between deposits and loan and advances
- ➢ To identify major weakness of lending policy of the commercial banks

The research was conducted mainly on the basis of secondary data. Findings of this research are summarized below:

- ➢ Effectiveness of lending policy is directly based upon a sound banking system. But due to geographical variation, transportation and other regional disparities, it is very difficult to expand branches in different rural areas. So, it can be said that commercial banks in Nepal are not playing an active role to utilize their sources collected from different sectors.

- ➢ By paying higher interest rate, the banks are increasing deposits, which in turn increase saving habits of the general people. Then the banks will be able to utilize these idle funds in productive channels. This type of business of commercial bank is really a necessary one in an agricultural country like Nepal, where public investment has limited capacity.

Bhattarai (2008) Conducted a study "Lending Practices and Procurers of Nepal Bangladesh Bank Limited" has outlined his major findings as follows.
Not concentrating only in big cities and large groups he has suggested NB Bank to expand branches in rural areas. Banks should invest in productive sector, develop the

concept of micro financing and group financing Make should maintain the balance in its loan portfolio and current requirement of the customers. Banks should give preferences to the short term lending. Banks should provide the consortium loan for those for those projects under government guarantee and security thereby uplifting the economic condition of the country.

Joshi, (2009), entitled with "Lending Practices: A Study on NABIL Bank Ltd., SCBL Nepal Ltd. and Himalayan Bank ltd." with the objectives of:

- To determine the liquidity position, the impact of deposit in liquidity and its effect on; lending practices.
- To measure the bank's lending strength.
- To analyze the portfolio behavior of lending and measuring the ration and volume of loans and advances made in agriculture, priority and productive sector.
- To measure the lending performances in quality, efficiency and its contribution in total income.

The study was conducted on the basis of secondary data.

The findings of the study are:

- The measurement of liquidity has revealed that the mean current ratio of all the two banks is not widely varied. All of them are capable in discharging their current liability by current assets.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting intro low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- The loan advances, and investment to deposit ratio has shown that NABIL Bank Ltd. has developed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
- The lending in commercial purpose is highest in case of NABIL Bank Ltd. and leastin case of SCBNL has highest contribution in service sector lending. It has contributed 25.47% of its total credit in general use and social purpose.

- The ratio of investment to investment and loan and advances has measured the total portion of investment in total of investment and loans and advances. The ratio among the banks does not have deviated significantly.

Shrestha (2010) with the objectives of highlighting the priority sector Investment and repayment position of Commercial Banks in Nepal through intensive banking program and to show the repayment position of the sector has concluded, "All the two commercial bank covered in this study have contributed to the credit to priority sector. But the efforts made by different banks are not in the same proportion. Nabil has contributed highest amount of credit to agriculture and cottage industry .Nepal Bank Limited has contributed highest amount to services sector. So for the loan repayment from priority sector is concerned Nabil has very satisfactory performance whereas NBL has very low performance or loss repayment overdue loan have been observed more in agriculture"

He has further suggested, "Commercial Banks should improve the repayment loan by generating the income of rural farmers. Reinvestment and right utilization of bank loan are the cost of the Commercial Banks. Since there is a need to increase in assets by better arrangement of institution and organization, the manager and loan staff of the branches should be provided with adequate training so that they could identify right borrowers, right project and ensure correct project appraisal. Reinvestment is the available sources to increase in paying capacity of the borrowers."

Pradhan (2011) had made a study on the topic "Investment Analysis of the Finance Companies in Context of Nepal". The major findings of trend analysis of the study are as follows:

1. From the aggregate data it is shown that the investment on government securities was increasing rapidly from the period 1995 to 1998. However, it has decreased in the year 1999 ad it may be because of low return on government securities as of mid October 1999. Out of 40 companies, there are nine finance companies with zero investment on government securities. Out of remaining 31 companies 16 companies have up to 100 lakhs and other 15 companies have more than 100 lakhs invested on the securities. The highest investment is Rs. 3298 lakhs by Nepal Merchant Banking and Financing Limited and lowest is Rs. 6 lakhs of General Finance Company.

2. The capital range of the Finance companies mainly lies in the range of 100-500 lakhs. Out of 40 companies, 9 have less than 100 lakhs of capital. 30 have between 100-500 lakhs and only 1 has more than 500 lakhs. The maximum capital is Rs. 750 lakhs of SIDDH, NCEL, JCFK and CFCL. Out of these 40 companies around 12 companies have floated shares to public.
3. The major source of fund of finance companies is utilized in loan and advances. The maximum, minimum and average percentage of utilization on loan and advances are 53%, 74% and 65.69% respectively.
4. There are 38 companies having investment on hire purchase loan. The study clearly shows the use of funds towards the hire purchase loan is decreasing rapidly. The ratio of the loan and total loan and advances was 62% I 1994 to 1999 respectively. This shows there is gradual increase in this sector.
5. All the companies have investment on housing loan. The use of fund towards housing loan is almost linear except for the year 1994. the ratios of housing and total loan are 14%, 26%, 27% and 28% for the period 1994 to 1999 respectively.
6. Except few companies, all other companies have investment on term loan. The use of funds towards the term loan is gradually increasing the ratios of term to total loan which are 24%. 20%, 39%, 46%, 40% and 43% for the years 1994-1999 respectively.
7. There are only 3 companies having investment on lease loan. The ratios of lease and total loan are 0, 4, 3, 5, 6 and 4 percent for the period 1994 to 1999 respectively.
8. The interest rate structure of loans and advances of almost all of the finance companies are the same. It is varying from 17% to 22% with an average interest rate of around 20%. Recently, the interest rate has been decreased and the current practices of interest rate vary mainly between 18% to 20%.
9. As the direct data of good and bad loan was not available, the loan loss provision is used to analyze the loan quality. The percentage of loan loss provision is 1.07, 1.18, 1.13, 1.45, 2.13 and 2.95 respectively for the period of 1994 to 1999. As the minimum of 1% loan loss provision is mandatory, the percentage of loan loss provision for he period of 1994 to 1999 was satisfactory.
10. The loan loss provision of some companies is more alarming on individual analysis. The maximum loan loss provision is 5.72%, 5.38% and 7.89%

respectively for the year 1997, 1998 and 1999. On the other hand, the average loan loss provision for the same periods are 1.72%, 2.16% ad 2.75% respectively.

11. The ratio of interest earning assets and interest paying liabilities is decreasing gradually from 151% in 1994 to 104.5% in 1999. However, it is very satisfactory as the interest spread rate is 6%, minimum of 30% of interest income will go to gross profit.

2.3 Research Gap

On review of various studies related to lending, investment, fund mobilizing and financial performance of various banks, it has been noticed that studies are focusing on the policies implemented by banks for their financial performance but none of them have given focus to actual position of banks due to their financial position as revealed by the data. This has resulted the lack of criticism to the banks, which helps them to improve their performance by minimizing the areas of weakness because banks do not provide their actual internal policies. Due to this, study will not be complete and helpful to explore the main objective.

So, this study is entirely focused to expose the actual position of EBL, SBI, and HBL in term of its lending. Only analysis of lending has been chosen in order to minutely explore the lending status of the bank as revealed by the actual data of bank and its impact to the profitability and shareholders' investment as well. From this study we can see whether the bank has been properly utilizing the fund collected from public as deposits or not.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the process of arriving to the solution of the problem through planned and systematic dealing with collection, analysis and interpretation of facts and figure. It is a way to systematically solve the research problem. It may be misunderstood as a science of studying how research is done scientifically. In this we study the various steps that are generally adopted by a researcher in studying the research problem along with the logic behind them. It is inquiry into any subject matter, which is an endeavor to discover for find out valuable fact, which would be useful for future application or utilization. (Micheal, 2002). A systematic research study needs to be followed to achieve predetermined objectives.

3.2 Research Design

Research design is the arrangement of the condition for the collections and analysis of data in a manner that aims to combine relevance to the research purpose. It can be defined as the plan, structure and strategy of investigation concerns so as to answer the research questions and to control variants. It is the overall operational pattern of framework of the project that stipulates what information to be collected sources by what procedures. Thus, it is not possible for the researcher to conduct a research work without a research design.

In this study, descriptive as well as analytical research approach is followed to analyze the present structure, constraints and future potentiality of the EBL, HBL and SBI. Besides, the research also includes various financial, statistical and qualitative aspects and theses aspects are described details where it is necessary.

3.3 Nature and Sources of Data

This study is mainly based on secondary data. These data are collected from published sources like, annual reports, balance sheet, prospectus, newspaper, journal, web sites and other sources. Besides this in some case, as per research need. The secondary data published on annual reports of concerning organizations. The secondary data are extracted

from published annual reports of the bank, published articles, journals, reports, previous related studies etc.

3.4 Population and Sample

A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made.(Sharma & Chaudhary,2058:173)

Here only 3 sample commercial banks are taken out of 32 commercial banks. For selecting the samples, non-random sampling method is used here among different methods. The samples are taken only from commercial banks. Organization under study is as follows, whose general introduction and major objectives are presented in chapter one. The sample organizations are as follows:

1. SBI Bank Ltd.
2. Himalayan Bank Ltd.
3. Everest Bank Ltd.

3.5 Data Collection

Even this study is based on secondary data, adequate effort and time is given to get these essential materials, Annual reports of concerned banks, annual report of SEBO are obtained from respective offices. To some extent opinion survey or informal interview and questionnaire are conducted to obtain more information prove the reliability of the different published data. Various published data cannot be used in their original form due to poor data base. Thus for analysis purpose further these data need to be verified and simplified. Available data, information and figures are rechecked and tabulated in the analytical manner with supporting interpretations.

3.6 Data Processing and Presentation

The information and data obtained from the different sources are in row form. From that information, direct presentation is not possible. So it is necessary to process data and converts it into required form. After then only, the data are presented for this study. This

process is called data processing. For the study, only required data are taken form the secondary source and presented likewise, in some case graphical presentation is also made. For presentation, different tables are used. Likewise, in some case graphical presentation is also made. The calculations that are related to this study are done with the help of scientific calculator as well as computer software program.

3.7 Analytical Tools

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

3.7.1 Financial Tools

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

- **Ratio Analysis**

Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with the other. Ratio is a tools of financial management which can be expressed in percentage, fraction or in a stated comparison between numbers. "The technique of ratio analysis is a part of the whole process of analysis of financial statements of any business of industrial concern especially to take output and credit decisions. Through this technique, a comparative study can be made between different statistics concerning varied facts of a business unit. Just as the blood pressure, pulse and temperatures are the measures of health of an individual, so does ratio analysis measure the economic of financial health of a business concern. Thus the technique of ratio analysis is a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concern" (Kothari, 1994: 487).

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

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

- **Asset/Liability Management Ratio**

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

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

- **Activity Ratio**

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

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

3.7.2 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

3.7.3 Statistical Tools

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

i) Standard Deviation

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

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

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

Where

n = No. of observations

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

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

Where,

d = x-a and where a = assumed mean

ii) Co – efficient of Variation

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

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

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

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

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

iii) Correlation Co-efficient

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

Among the various method of studying correlation Karl Pearson's correlation co-efficient is widely used mathematical method in calculating correlation known as Pearson's correlation co-efficient, which is denoted by $\gamma\, x\, y$ 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 is the calculated value of (r) from a sample of (n) pair of observations then P.E. is defined by.

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

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

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

b) If γ >P.E., it is not significant.

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

CHAPTER - IV
PRESENTATION AND ANALYSIS OF DATA

This chapter is the major body of the research work. This chapter presents and analyses the collected data for the achievement of the objective of this study and helps the researcher to reach to the conclusion. This chapter is divided into major two parts. The first is financial analysis and the second is statistical analysis.

4.1 Measuring the Lending Strength

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

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

4.1.1 Measuring the Lending Strength in Relative Term

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

4.1.1.1 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					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Mean**
EBL	1.1067	1.0169	1.0140	1.0127	1.0116	1.0324
SBI	1.0698	1.0502	1.0825	1.0141	1.0104	1.0454
HBL	1.0713	1.0122	1.0099	1.0083	1.0075	1.0219
Combined Mean						**1.0332**

Source: Appendix-I

The table 4.1 shows the ratio of total asset to total liability of three banks and 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 of all the three banks are more or less same i.e. equal to 1. Similarly the ratios of all the three 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					
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.1919	0.1504	0.1454	0.1655	0.1467	0.1591
SBI	0.1015	0.0830	0.0920	0.1039	0.1458	0.1052
HBL	0.2049	0.1280	0.1687	0.1687	0.1025	0.1601
Combined mean						0.1415

Source: Appendix-I

While observing the table 4.2 ratio of all the three banks, the lowest ratio of non-interest bearing deposit to total deposit ratio of SBI bank while this ratio of both EBL and HBL are 0.1591 and 0.1601. All over the ratio of combined mean is 0.1415. Taking the combined mean as standard ratio, the deposit mixture of SBI carries more costly deposits than other two banks. The deposit mixture of SBI carries the highest label of interest bearing deposits in its deposit mixture. This indicates that HBL 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					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Mean**
EBL	0.6160	0.5787	0.5704	0.5753	0.6289	0.5939
SBI	0.6461	0.6144	0.6375	0.6754	0.6469	0.6441
HBL	0.6006	0.5861	0.6807	0.7047	0.4894	0.6123
Combined mean						0.6168

Source: Appendix-I

Table 4.3 explains the loans and advances to total assets ratio. SBI has highest among all the banks. SBI's mean ratio i.e. 0.6441 higher than the combined mean also. It shows that SBI has higher lending performance. The second higher ratio is of HBL is 0.6123, which is lower than the combined mean. EBL has lowest mean ratio of 0.5939 and lower than of combined mean of 0.6168.The lower ratio of HBL and EBL indicate that they have need diverting its lending function for more fee-based activities. All the three 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 bank 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/CD Ratio

Banks	Fiscal year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.7257	0.6679	0.6660	0.6694	0.7387	0.6935
SBI	0.7545	0.7101	0.7513	0.7648	0.7395	0.7395
HBL	0.7180	0.6932	0.8265	0.8832	0.7324	0.7324
Combined mean						0.7218

Sources: Appendix-I

Table 4.4 it shows that SBI has the highest mean ratio 0.7395, EBL has the lowest mean ratio i.e. 0.6935. The combined mean ratio i.e. 0.7218. So EBL has not been able to mobilize the deposit as SBI. However, SBI has best performed in term is mobilizing the total deposits as compared to the rest bank. The ratios of all banks are below one in the total study period, which refers that SINE of the deposit are not ideal and there are not 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					
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	6.3863	6.8986	7.5644	8.7568	8.8179	7.6847
SBI	9.8993	11.9121	12.3478	10.7564	18.6608	12.7153
HBL	9.0186	7.8486	8.2028	8.6266	8.8878	8.5169
Combined mean						9.6390

Sources: Appendix-I

In table 4.5 the ratio of loan and advances to shareholders equity of three banks is not consistency entire period of study. Among three banks, SBI's ratio highest as compared to the rest bank. The performance of EBL is highest in end of the year 2011/12 which is 8.8179. Similarly, performance of SBI is highest in year 2011/12 which is 18.6608 and HBL in year 2007/08 which is 9.0186. EBL has increasing trend in all the year up to 2011/12 which I studied. SBI and HBL have slightly fluctuating in the study period. The combined mean of three banks are 9.6390. The EBL and HBL 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 other two banks.

4.1.2 Measuring the Lending 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.

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	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	10586.17	12922.54	15545.77	21365.05	27589.93	17601.89
SBI	7618.67	9801.30	13664.08	18339.08	23884.76	14661.56
HBL	6213.88	7626.73	9460.45	12113.69	15131.75	10109.30

Sources: Appendix-I

The table 4.6 shows that the loans and advances of EBL are highest of all the three banks. Loans and advances have been increasing trend over the study period. The highest ratio of EBL i.e. 17601.89 and HBL has the lowest ratio i.e. 10109.30.

4.1.2.2 Interest Income from Loan and Advances

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

Table 4.7

Interest Income from Loan and Advances

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	1068.75	1309.99	1587.75	1978.69	2798.49	1748.73
SBI	719.30	903.41	1144.40	1548.65	2186.81	1300.51
HBL	578.37	708.71	831.11	970.51	1460.45	909.83

Source: Appendix-I

Table 4.7 shows that the highest interest income from loan and advances was earned by EBL in year 2011/12 i.e. 2798.49 and lowest interest income from loan and advances was 2007/08 i.e. 1068.75. SBI and HBL have been increasing over the study period. EBL is the highest performance in interest income as it has highest mean ratio among the three banks.

4.1.2.3 Provision for Doubtful Debts

Provision for Doubtful Debts show the figure that is summation of provision made against pass and substandard doubtful & loss loan in the balance sheet as per NRB Directives. The NRB directive directs to make provisioning of 1%, 25%, 50% 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 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	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	358.66	360.56	356.23	357.24	394.41	365.42
SBI	211.72	281.4 1	334.94	418.60	497.35	348.80
HBL	388.17	525.46	614.72	604.60	632.52	553.09

Source: Appendix-I

Table 4.8 shows the provision for doubtful debt of the three banks. The above table shows that HBL has highest provision of the study period whereas SBI has the lowest for the study period. HBL has highest provision of 632.52 in the end of the study period. The HBL has highest mean ratio of 553.09, which represents that it has allocated highest amount in provision for loan loss. Similarly, SBI has the lowest mean ratio of 348.80.

4.1.2.4 Net Profit

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

Table 4.9

Net Profit

(Rs. in millions)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	518.63	635.26	673.95	746.46	1031.05	721.07
SBI	170.81	237.29	296.40	451.20	638.73	358.89
HBL	57.39	117.00	254.90	247.77	316.37	198.69

Sources Appendix-I

The table 4.9 shows that the net profits of EBL and SBI have been increasing over the study period and HBL has been fluctuating in the study period. EBL has net profit of Rs. 518.63 million in year 2007/08 and Rs. 1031.05 million in end of the year. SBI has net profit of Rs. 170.81 million in year 2007/08 and 638.73 million in end of the year. Similarly, HBL has net profit of Rs 57.39 million in 2007/08 and Rs 316.37 in end of the year.

EBL has recorded the highest mean ratio i.e. 721.07 whereas HBL has recorded the lowest mean ratio i.e. 198.69.

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 1, 25, 50 and 100 percent respectively. NRB has classified the pass loan as performing loan and substandard, 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	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.0341	0.0275	0.0229	0.0184	0.0148	0.235
SBI	0.0369	0.0341	0.0306	0.0271	0.0245	0.0306
HBL	0.0846	0.0806	0.0639	0.0522	0.0317	0.0626
Combined mean						0.0389

Sources: Appendix-I

In above table, the ratio of EBL, SBI and HBL have decreasing trend in all the years. 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 EBL, SBI and HBL has been following the directives and has provided the provisioning as follows:

Performing Loan

Loans and advances, which principle amounts are not past due and past interest due for period up to three months should be included in this category.

Non-performing Loan

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

Table 4.11

Loan Classification and Provisioning in EBL

	2009/10				2010/11				2011/12			
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	21398.37	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**
Substandrd	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	45.79	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 EBL (Various years)

Table 4.11 shows that EBL has classified its loan and advances and loan provision on the year 2009/10, 2010/11 and 2011/12. The loans are categorized under different categories as per NRB directives requirement. In 2009/10, total loans of EBL's Rs. 15903 million and out of total loan and advances. Pass loan, substandard, doubtful, and loss loans consist of 98.88%, 0.75%, 0.09% and 0.28%.

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

Similarly, in the year 2010/11 total loan and advances is 21759.44 out of the total loans there is 99.25% pass loan i.e. performing loan. The non-performing loan is 1.18%, which consists of 0.75% substandard loan, 0.19% of doubtful loans and 0.24% of loan loss. The loan loss provision for performing loan is 71.47% and for non performing loss is 28.52%. The loan loss provision for non-performing loan consists of 15.85% of substandard loan, 1.99% of doubtful loans and 0.10% of the loan loss provision. The general loan loss provision is 71.47% out of the total provision. Similarly, the proportion of doubtful loan has increased in 2010/11 than the previous year. The doubtful loan in 2009/10 was 0.09% and on 2010/11 is 0.19%. The high increase of doubtful loans indicates the deteriorating quality of assets of EBL. However there has been increase in the performing loan and non performing loan than previous year.

Similarly, in the year 2011/12 total loan and advances is 27999.01 out of total loans there is 99.19% pass loan i.e. performing loan. The non-performing loan is 0.80%, which consists of 0.40% substandard loan, 0.16% doubtful loan and 0.23% of loan loss. The loan loss provision for performing loan is 74.73% and for non-performing loan is 25.27%. The loan loss provision for non-performing loan consists of 8.19% of substandard loan5.39% of doubtful loan and 11.69% loan loss provision.

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

Figure 4.1

Loan Classification of EBL 2009/10

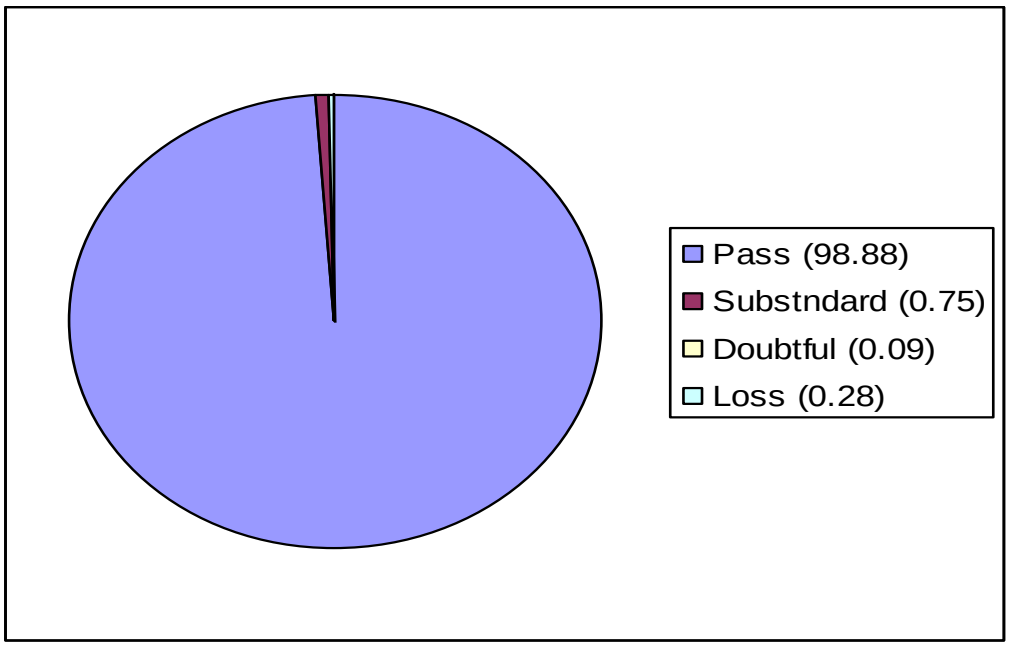

Figure 4.2

Loan Classification of EBL 2010/11

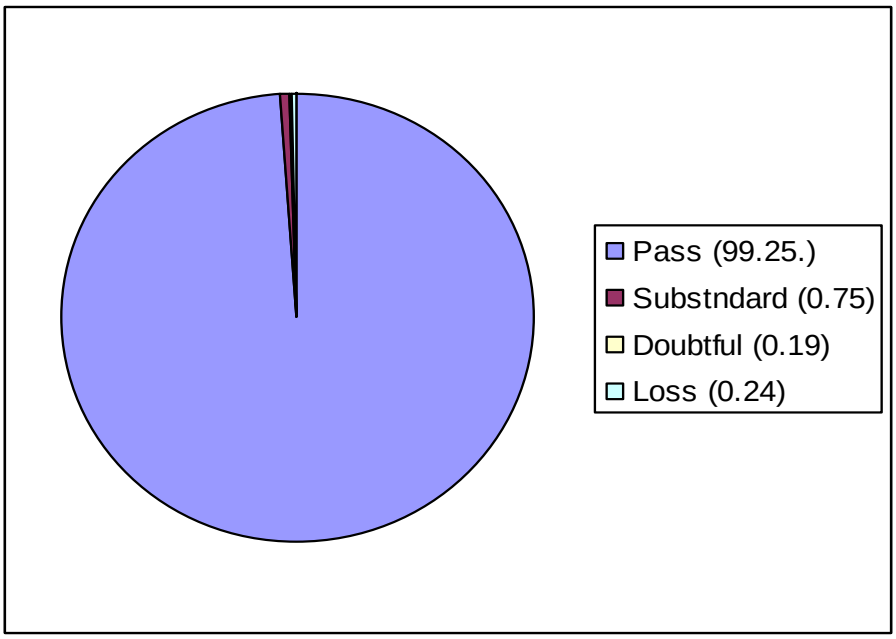

Figure 4.3

Loan Classification of EBL 2011/12

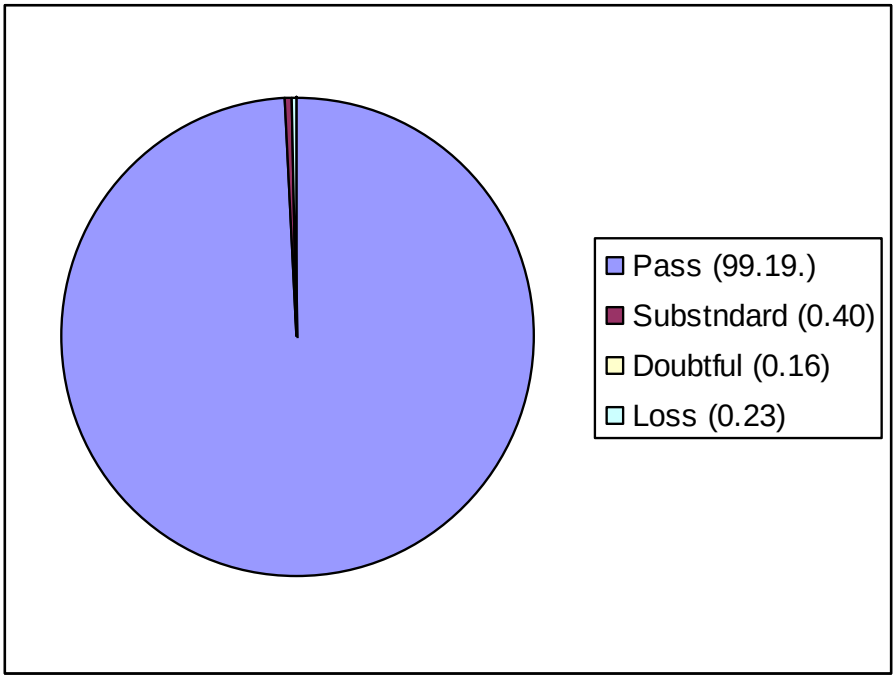

Table 4.12

Loan Classification and Provisioning in SBI

	2009/10				2010/11				2011/12			
Particular	**TL**	**% of TL**	**Total LLP**	**% of Total LLP**	**TL**	**% of TL**	**Total LLP**	**% of TLLP**	**TL**	**% of TL**	**Total LLP**	**% of TLLPO**
PL (1)	**13969.5**	**99.19**	**128.80**	**51.58**	**2011/123.78**	**99.37**	**164.86**	**60.23**	**24351.57**	**99.52**	**204.78**	**62.63**
Pass	13969.5	99.19	128.80	51.58	2011/123.78	99.37	164.86	60.23	24351.57	99.52	204.78	62.63
NPL(2)	**113.16**	**0.80**	**120.89**	**48.42**	**127.29**	**0.62**	**108.82**	**39.76**	**117.99**	**0.48**	**112.21**	**37.37**
Substandard	4.21	0.029	2.67	1.06	6.30	0.03	1.05	0.38	1.36	0.0056	1.58	0.4832
Doubtful	2.35	0.017	0.34	0.13	0.74	0.003	1.17	0.42	28.51	0.1165	0.37	0.1132
Loss	106.60	0.78	117.88	0.13	120.25	0.59	106.60	38.95	88.11	0.36	120.26	36.78
Total	**14082.66**	**100**	**249.69**	**100**	**20221.07**	**100**	**273.68**	**100**	**24469.56**	**100**	**326.99**	**100**

Source: Annual Report of SBI (Various Years)

Table 4.12 exhibits classification of loans and advances and loan loss provision of SBI for the year 2009/10, 2010/11 and 2011/12. The total loan amount is 14082.66 million in the year 2009/10 out of which 99.19% consists of performing loan and 0.80% is non-performing loan. The non-performing loan consists of substandard 0.029%, doubtful 0.017% and loss loan 0.78%. The total loan loss provision amount is 249.69 million in the year 2009/10. The performing loan amount is 51.58% and non-performing loan is 48.42%. The loan loss provision for non-performing loan consists of 1.06% of substandard loan, 0.13% of doubtful loan and 0.13% of loan loss provision. The general loan loss provision is 51.58% out of the total provision. The specific loan loss provisions consist of substandard, doubtful a loan loss provision comparing 1.06%, 0.13%, 0.13%respectively.

In the year 2010/11, the total loan amount is Rs 20221.07 million out of which 99.37% is performing loan and 0.62% is non-performing loan. The non performing loan consists 0.03% substandard, 0.003% doubtful and 0.59% loss loan. The loan loss provision has been maintained for the categorized loans out of total loan loss provision 60.23% was made for performing loans, 39.76% was made for non-performing loans which consists of 0.38% substandard, 0.42% doubtful and 38.59% loss loan. Similarly, the proportion of doubtful loan has increased in 2010/11 than the previous year. The doubtful loan in 2009/10 was 2.35 and on 2010/11 is 0.74.

Similarly, in year 2011/12 the total loan amount is Rs. 24469.56 million out of which 99.52% performing loan and 0.48% is non-performing loan. The non-performing loan consists of 0.0056% substandard 0.1165% doubtful and 0.36% loss loan. The loan loss provision has been maintained for the categorized loans out of total loan loss provision 62.63% was made for performing loan, 37.37% was made for non-performing loan which consists of 0.4832% substandard, 0.1132% doubtful and 62.63% loss loans.
Similarly, the proportion of doubtful loan has increased in 2011/12 than the previous year. The doubtful loan in 2010/11 was 0.74 and on 2011/12 is 1.36.

Figure 4.4

Loan Classification of SBI 2009/10

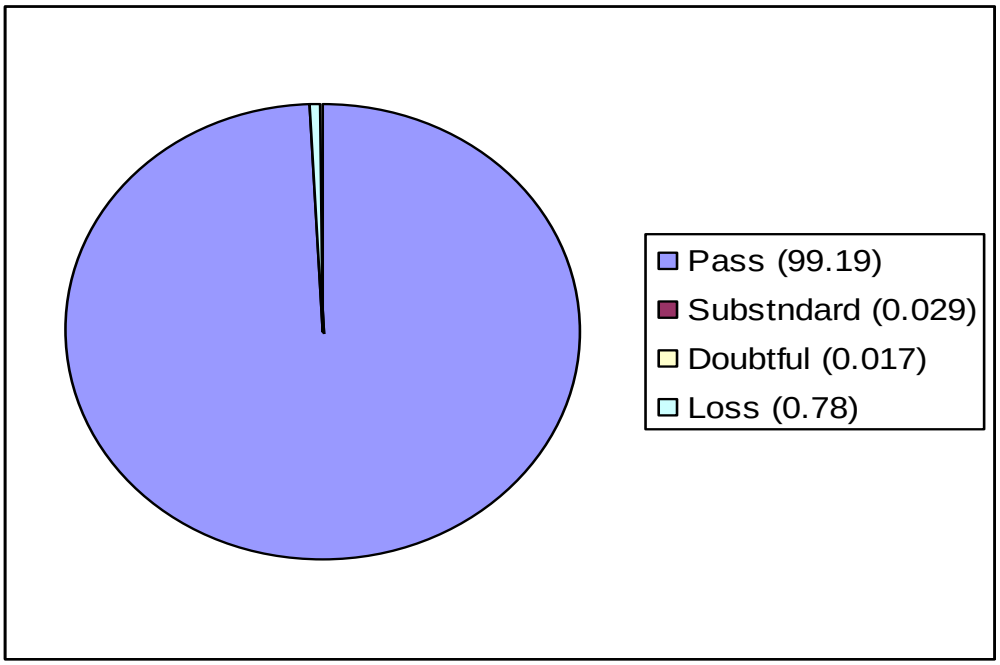

Figure 4.5

Loan Classification of SBI 2010/11

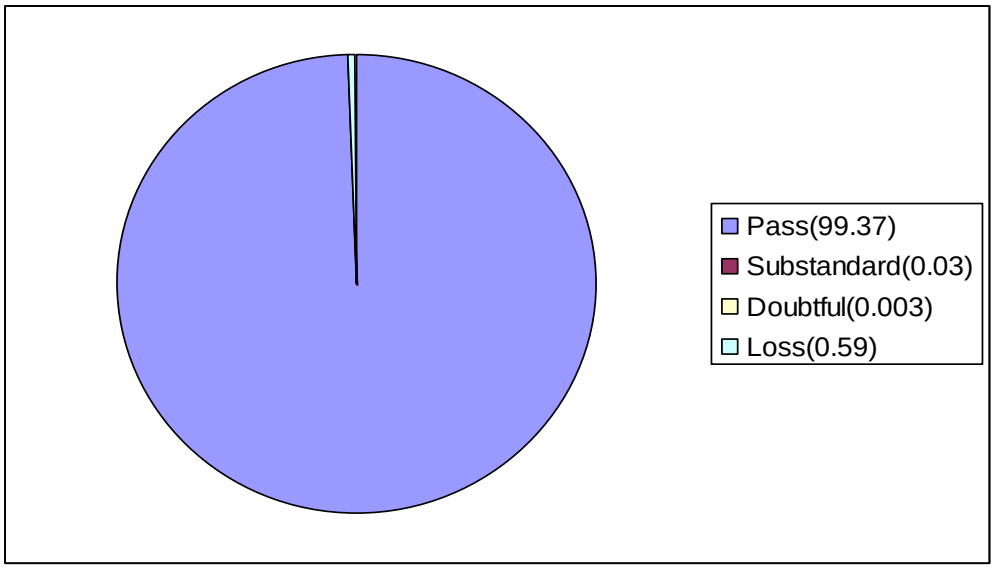

Figure 4.6

Loan Classification of SBI 2011/12

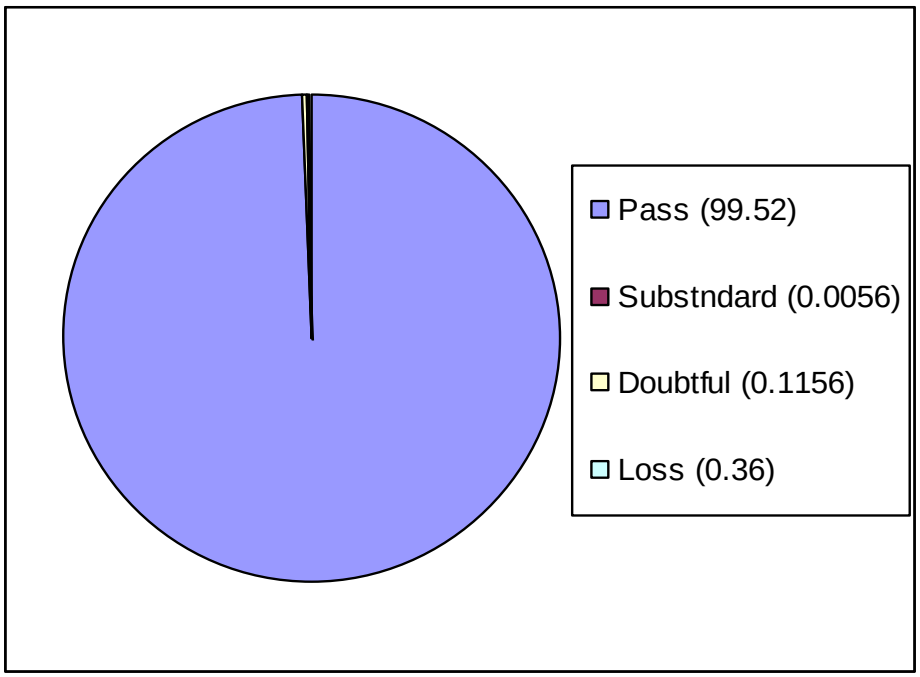

Table 4.13

Loan Classification and Provisioning in HBL Bank

	2009/10				2010/11				2011/12			
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	26.20
Pass	9606.29	95.44	1171.19	69.46	12257.80	96.16	157.94	26.12	15296.09	97.98	165.69	26.20
NPL(2)	458.75	4.56	514.88	30.53	488.41	3.83	446.64	73.87	315.95	2.02	466.83	7.80
Substandard	3.28	0.032	0.31	0.018	3.87	0.03	0.54	0.08	1.24	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 HBL (Various Years)

Figure 4.7

Loan Classification of HBL –2009/10

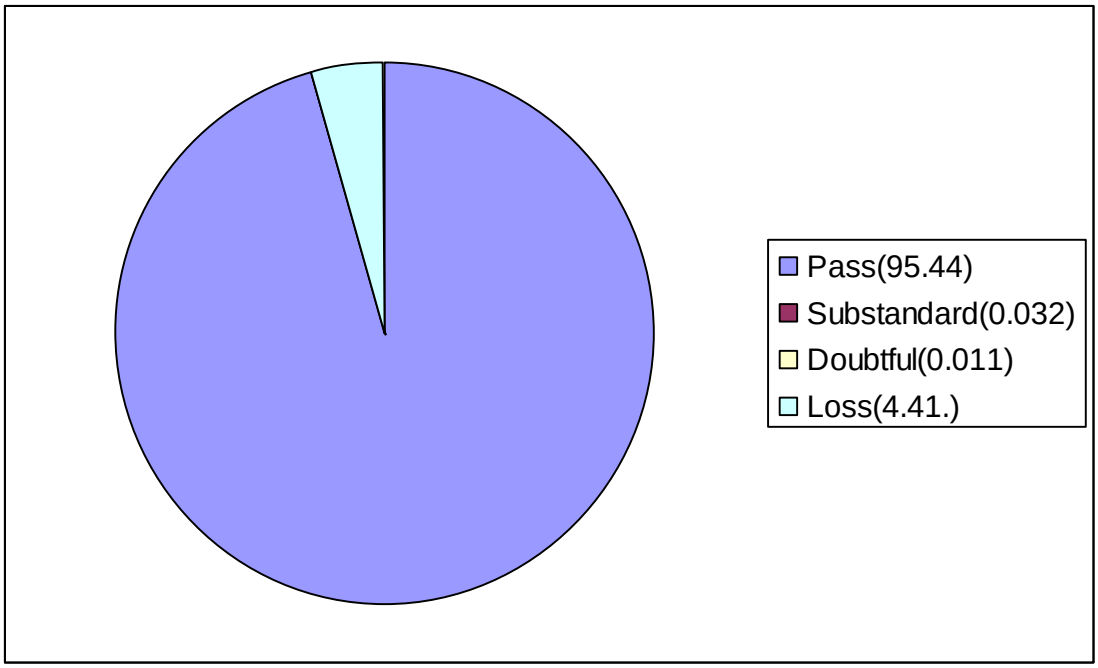

Figure 4.8

Loan Classification of HBL – 2010/11

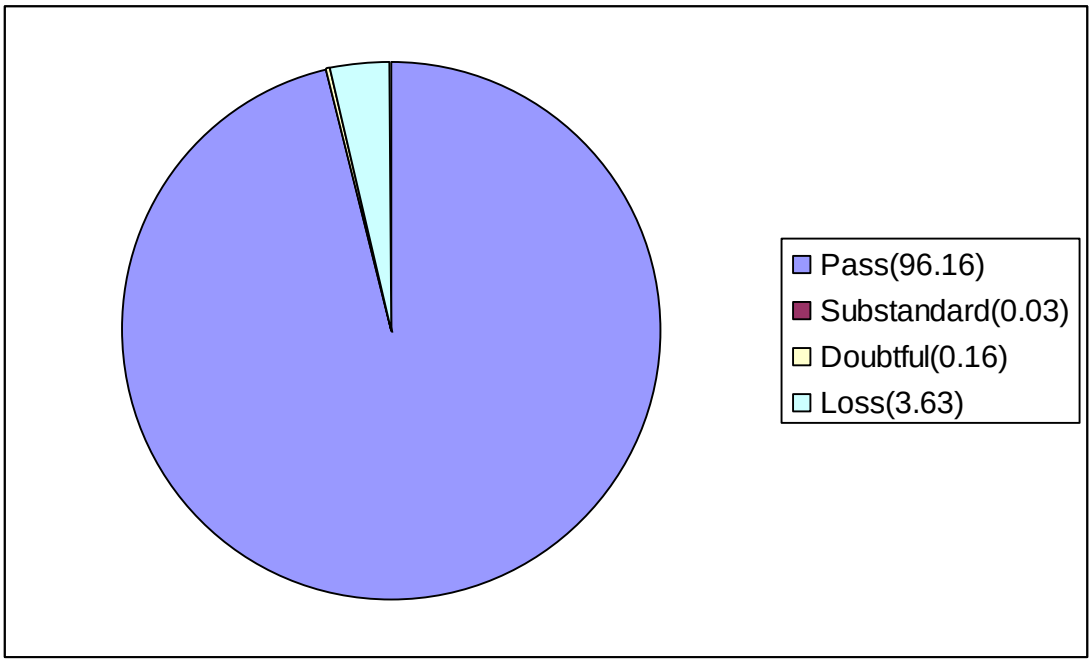

Figure 4.9

Loan Classification of HBL – 2011/12

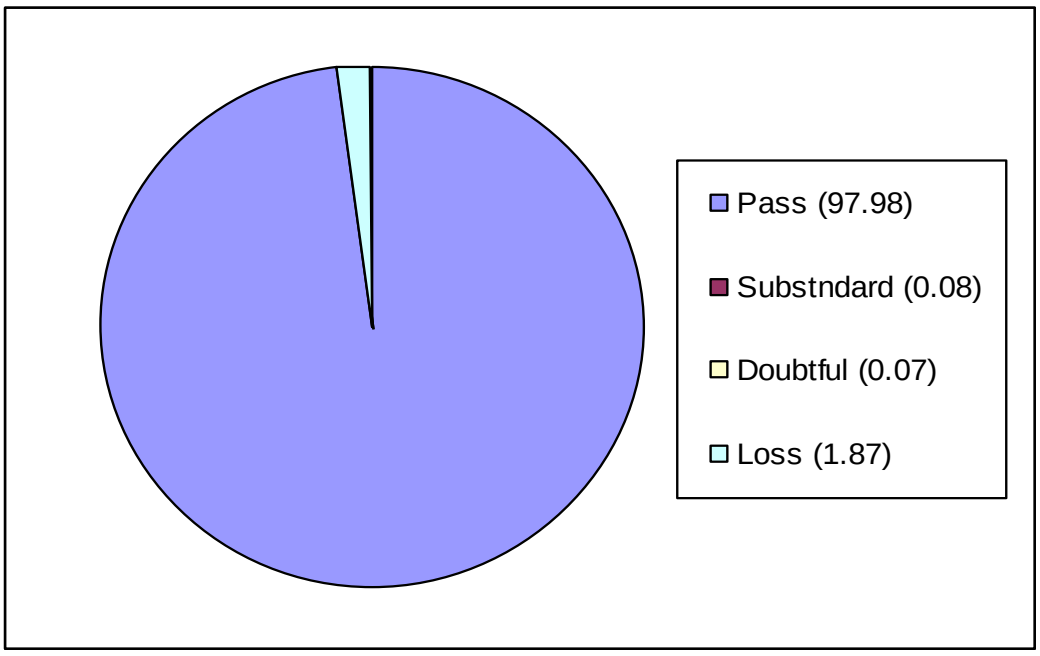

Table 4.13 shows that there has been classification of loan and advances made and provision has been provided on each category of the loan. In year 2009/10, the total loan is 10065.04 million out of which 95.44% is performing loan and 4.56% is non-performing loan. The non-performing loan consists of substandard 0.032%, doubtful 0.011% and loss loan 4.41%. There is loan loss provision of 612.47 million and out of which 19.12% is performing loan and 84.06 is non-performing loan. The non-performing loan loss provision consists of substandard 0.05%, doubtful 3.13% and loss loan 80.87%.

In year 2010/11 total loan is 12746.21 million 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 out of which 26.12% general loan loss provision and 73.87% is specific loan loss provision which consists of substandard 0.08%, doubtful 0.64% and loss loan 73.14%.
In 2011/12 total loan is 15612.04 million and out of which 97.98% performing loans and 2.02% non-performing loans. The non-performing loans consist of substandard 0.08% substandard 0.07% doubtful and 1.87% loss loan. There is loan loss provision of 632.52 million, out of which 26.20% is performing loan and 73.80% 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 0.09%, doubtful 1.56% and loss loan 0.07%.

This analysis shows that EBL, SBI and HBL 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.

Table 4.14

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

Banks	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Mean**
EBL	4.19	1.41	1.14	0.75	0.81	1.66
SBI	2.59	1.32	0.83	0.694	0.49	1.18
HBL	7.35	6.62	4.85	4.03	2.09	4.99
Combined mean						2.61

Source: Annual Report of EBL, HBL and SBI (Various years)

Table 4.14 shows, that the non-performing loans to total loans and advances ratio of the three banks are decreasing trend in all the years except in year 2011/12 of EBL. HBL has recorded the highest mean of all i.e. 4.99 and SBI bank has recorded lowest mean ratio i.e. 1.18. SBI bank has highest performance than other two banks.

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 SBI has the small percentage of non-performing loans, HBL ratios are lower 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 4.15

Interest Income to Total Income Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.7407	0.7593	0.7737	0.8030	0.8262	0.7806
SBI	0.8374	0.8470	0.8344	0.8293	0.8506	0.8397
HBL	0.8044	0.8328	0.8116	0.8646	0.7875	0.8202
Combined mean						0.8135

Literally, the ratios of all the banks have remained almost constant. Comparatively, the EBL bank which has recorded the lowest mean ratio i.e. 0.7806. More specifically, SBI bank has the highest mean ratio i.e. 0.8397. The combined mean ratio is 0.8135.

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 4.16

Interest Expenses to Total Deposit Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.0167	0.0184	0.0238	0.0237	0.0309	0.0227
SBI	0.0297	0.0290	0.0284	0.237	0.0304	0.0288
HBL	0.2986	0.0304	0.0360	0.0331	0.0295	0.0855
Combined mean						0.0457

Sources: Appendix I

Table 4.16 shows that the costs of deposit of EBL and HBL have been slightly fluctuating in the study period. And SBI has been decreasing trend in all the study period. The highest mean ratio of HBL i.e. 0.0855 and lowest mean ratio of EBL i.e. 0.0227. EBL 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 4.17

Interest Suspense to Income from Loans and Advances Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.0159	0.0145	0.0072	0.0059	0.0055	0.0098
SBI	0.0210	0.0112	0.0061	0.0045	0.0035	0.0093
HBL	0.0765	0.0610	0.0491	0.0420	0.0197	0.0497
Combined mean						0.0229

Sources: Appendix I

The table 4.17 shows that the ratio of interest suspense to income from loans and advances. In all the banks have been slightly decreasing trend in all the study period .The highest mean ratio of HBL i.e. 0.0497 and lowest mean ratio of SBI i.e. 0.0093. The combined mean ratio has 0.0229. The highest performance of SBI and EBL than HBL 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 4.18

Interest Income to Interest Expenses Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	4.3884	3.6678	2.8572	2.6089	2.4265	3.1898
SBI	2.4012	3.7094	3.2041	2.4480	2.1591	2.7844
HBL	2.2380	2.1170	2.0159	2.1334	1.7709	2.0550
Combined mean						2.6764

Sources: Appendix I

Table 4.18 shows that EBL has recorded slightly decreasing in the study period. SBI and HBL have been slightly decreasing trend in the study period except in year 2010/11. The mean ratio of EBL is highest i.e. 3.1898 and lowest mean ratio is HBL i.e. 2.0550. SBI and HBL are 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 HBL 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 4.19

Growth Ratio of Deposit

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Growth Ratio (%)
EBL	14586.61	19347.40	23342.28	31915.04	37348.26	60.94
SBI	10097.69	13802.44	18186.25	23976.29	33322.95	69.69
HBL	8654.77	11002.04	11445.28	13715.39	27957.22	69.04

Sources: Appendix I

The table 4.19 shows that all the banks have been increasing trend in all the year. The highest growth ratio of SBI i.e. 69.69% and lowest growth ratio of EBL 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 EBL has lowest growth ratio than other two, it has less improved their collection and should lunch various deposit scheme to increase its deposit ratio. HBL has slightly lower ratio than SBI, so it has been able to collect deposits higher degree than EBL but slightly lower than HBL.

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 4.20

Growth Ratio of Loan and Advances

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Growth Ratio (%)
EBL	10586.17	12922.54	15545.77	21365.05	27589.93	61.63
SBI	7618.67	9801.30	13664.08	18339.08	23884.67	68.10
HBL	6213.88	7626.73	9460.45	12113.69	15131.75	58.93

Source: Appendix I

The table 4.20 shows the growth ratio of loan and advances in all the banks have been increasing in all the years. SBI bank has highest growth ratio i.e. 68.10% and lowest growth ratio of HBL bank i.e. 58.93%. SBI has adopted aggressive policy while increasing loan and advances. During the study period it has a significant growth and explains it aggressive as compare to other two banks. HBL seems too weak in growth of loan and advances.

4.3.3 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 4.21

Growth Ratio of Total Investment

(Rs. in million)

Banks	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Growth ratio%**
EBL	2418.42	2301.45	4808.34	4646.87	3706.10	52.14
SBI	2100.29	3548.61	4704.63	4821.59	5146.05	59.19
HBL	2588.14	3591.76	2345.57	3035.54	3306.57	34.69

Sources: Appendix I

The table 4.21 shows that EBL and HBL have been fluctuating in all the study period and SBI has been increasing growth over the study period. The highest growth ratio of SBI bank i.e. 59.19% and lowest growth ratio of HBL bank i.e. 34.69%. SBI has more significant than other two banks.

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 4.22

Growth Ratio of Net Profit

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Growth ratio%
EBL	518.63	635.26	673.95	746.46	1031.05	49.69
SBI	170.81	237.29	296.40	83.74	82.44	72.19
HBL	57.39	117.00	254.90	247.77	316.37	81.86

Sources: Appendix I

The table 4.22 shows that the growth ratios of net profit of EBL have been increasing trend in all the years. HBL has increasing trend except in 2010/11. SBI has fluctuating growth ratio in the study period. HBL has highest growth ratio. 81.86**%** and EBL has the lowest growth ratio i.e. 49.69%. HBL has a significance growth ratio than other two banks.

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 and 0.999 (0.7 to -0.99) there is high degree of positive (or negative) correlation.
- When, 'r' lies between 0.5 and 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 EBL, SBI and HBL for the study period.

Table 4.23

Correlation between Deposit and Loan and Advances

Banks	**Evaluation Criterion**			
	r	**R2**	**P.Ers**	**6*P.Er**
EBL	0.9900	0.9801	0.0060	0.0360
SBI	0.9970	0.9940	0.0018	0.0108
HBL	0.9038	0.8169	0.0552	0.3312

Sources: Appendix I

The table 4.23 shows the co-efficient of correlation between deposits and loan and advances of EBL is 0.9900. We consider the value of the co-efficient of determination 'r2' is 0.9801 which 98.01% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (deposit). Further, value of P.Er is 0.0060 and 6*P.Er is 0.0360. The value of co-efficient of correlation 'r' is greater than the value of 6*P.Er, which shows that the value of 'r' is significant. It has any rigid

policy to maintain these fixed consistence ratio between these assets and the volume of these assets in EBL and it is highly of seasonal character.

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

Likewise, when we observe the correlation between deposits and loan and advances of HBL 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 HBL is significant.

From the above analysis, we can be concluding that the three banks are successful in mobilizing their deposit as loan and advances. Value of 'r' and 'r2'of the three banks are positive and three banks have greater than the value of 6 times of there probable error. SBI has the highest value of 'r' which indicates that it is in better position on mobilizing deposits as loan and advances in comparison to EBL and HBL 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 critically, 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 4.24

Correlation between Investment and Loan and Advances

Banks	**Evaluation Criterion**			
	r	**R2**	**P.Er**	**6*P.Er**
EBL	0.6408	0.4106	0.1778	1.0668
SBI	0.8642	0.7486	0.0764	0.5483
HBL	0.2981	0.0888	0.2748	1.6490

Sources: Appendix I

The table 4.24 shows the co-efficient of correlation between investment and loan and advances of EBL is 0.6408. We consider the value of the co-efficient of determination (r2) is 0.4106, which mean 41.06% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (investment). The value of P.Er is 0.1778 and 6*P.Er is 1.0668. The value of co-efficient of correlation 'r' is less than the value of 6*P.Er, which shows that the value of 'r' is insignificant.

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

Likewise, when we observe the correlation between investment and loan and advances of HBL bank it is also positive. The value of 'r' is 0.2981and r2 is 0.0888. 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 HBL 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 4.25

Correlation between Shareholders Equity and Loans and Advances

Banks	Evaluation Criterions			
	r	R2	P.Er	6*P.Er
EBL	0.9938	0.9876	0.0037	0.0222
SBI	0.9514	0.9052	0.0286	0.1716
HBL	0.9912	0.9825	0.0053	0.0318

Sources: Appendix I

Table 4.25 shows that there is high degree of positive correlation between shareholders equity and loan and advances in EBL, SBI and HBL banks. It shows good fund mobilization..

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

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

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

Table 4.26

Correlation between Total Income and Loan and Advances

Banks	Evaluation Criterions			
	r	R2	P.Er	6*P.Er
EBL	0.9911	0.9823	0.0079	0.0475
SBI	0.9958	.9916	0.0025	0.015
HBL	0.9481	0.8989	0.0305	0.183

Sources: Appendix I

The table 4.26 shows that the coefficient of correlation between total income and loan and advances of EBL, SBI and HBL are 0.9911, 0.9958 and 0.9481 respectively. The value 6*P.Er of EBL, SBI and HBL are 0.0475, 0.015 and 0.183 respectively. In all the banks coefficient of correlation 'r' is higher than the value of 6*P.Er .So values of coefficient of correlation 'r' are significant in all the banks. Hence, there are relationship between total income and loan and advances in all three banks.

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 4.27

Correlation between Interest Suspense and Interest Income

Banks	**Evaluation Criterion**			
	R	**R2**	**P.Er**	**6*P.Er**
EBL	0.3259	0.1062	0.2664	1.5984
SBI	0.7035	0.4949	0.1524	0.9144
HBL	0.2167	0.0469	0.2841	1.7045

Sources: Appendix I

The table 4.27 shows that EBL, SBI and HBL have insignificant value of 'r' since value of 'r' is less than **6*P.Er.** The values of coefficient of correlation 'r' of EBL, SBI and HBL are 0.3259, 0.7035 and 0.2167 and values of **6*P.Er** of EBL, SBI and HBL are1.5984, 0.9944 and 1.7045 respectively. Hence, there are no relationships between interest suspense and interest income in all the three banks.

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

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

Table 4.28

Correlation between Provision for Loan Loss and Loan and Advances

Banks	Evaluation Criterion			
	R	R2	P.Er	6*P.Er
EBL	0.9456	0.8942	0.0319	0.1914
SBI	0.9963	0.9926	0.0022	0.0132
HBL	0.3050	0.0930	0.2740	1.644

Sources: Appendix I

The table 4.28 explains that EBL and SBI have significant value of 'r' since its value is greater than the value of 6*P.Er. Hence, there is positive relationship between provision for loan loss and loan and advances. In HBL, 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 4.29

Correlation between Interest Income and Net Profit

Banks	Evaluation Criterion			
	r	R2	P.Er	6*P.Er
EBL	0.9887	0.9775	0.0068	0.0408
SBI	0.6626	0.4390	0.1692	1.0152
HBL	0.8669	0.7515	0.0749	0.4494

Sources: Appendix I

The table 4.29 explained that the value of 'r' in EBL and HBL are significant and relationships between these two variables are certain, as the value of 'r' is more than 6 times of P.Er. The value of 'r' in SBI is not certain and significant. It shows negative relationship between these two variables in case of SBI.

4.5 Major Finding of the Study

- The total asset to total liability ratio remained almost constant in the study period of all the three banks. HBL has slightly less than EBL and SBI bank.
- Loan and advances to total assets ratio has been fluctuating in the study period of EBL, SBI and HBL banks. EBL 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 except in years 2008/09 and 2011/12 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 other banks. 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 EBL has lower than combined mean ratio. EBL 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. 12.7153, which is slightly deviated from the combined mean of the banks. The ratio of EBL is lowest and it is lower than the combined mean and slightly deviated from combined mean.
- HBL has the highest loan loss provision and EBL has lowest loan loss provision. EBL has been decreasing trend in all the study period. SBI and HBL have been decreasing order in the study period except in year 2007/08. EBL 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 HBL. EBL and SBI have lower non-performing loan than HBL.
- In year 2009/10, 2010/11 and 2011/12 SBI has highest percentage of performing loan than EBL and HBL banks. In year 2009/10 SBI, EBL and HBL have 99.19, 98.88, and 95.44 percentage of performing loan respectively. In year 2010/11 SBI, EBL and HBL have 99.37, 99.25, and 96.16 percentage of performing loan respectively. In year 2011/12 SBI, EBL and HBL have 99.52, 99.19, and 97.98

percentage of performing loan respectively. SBI's quality of loan is better than two 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. HBL has highest mean ratio and SBI has the lowest mean ratio. EBL has lower mean ratio than the combined mean ratio.
- The ratio of interest expenses to total deposit shows that, the mean ratio of HBL has highest than other two banks. EBL and SBI mean ratio is lower than combined mean ratio.
- HBL has the highest ratio of interest suspense to interest from loan and advances. It's ratio also higher than combined mean. SBI has lowest mean ratio and best among the banks. 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 EBL, with one rupee of interest expenses it has been able to earn Rs.3.18 highest among the banks.
- The ratios conclude that SBI and HBL have successful to advance high volume of credit as much as the capital fund allows it than EBL.
- The loans and advances of EBL are highest of all the three banks. Loans and advances have been increasing trend over the study period. The highest ratio of EBL i.e. 17601.89 and HBL has the lowest ratio i.e. 10109.30. CV has also lowest of HBL i.e. 31.59. Therefore, the performance of HBL is more consistent and SBI is least consistent.
- The growth ratio of total deposit and loan and advances by analysis of five years of study period found out that SBI has highest growth ratio and it has improved exceptionally well in collecting deposits and extending loan and advances where as EBL and HBL 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 SBI is highest. HBL has lowest growth ratio in comparison with SBI and EBL. So HBL has decreased its investment.
- The growth ratio of net profit of HBL is highest and that of EBL is lowest. It indicates that the performance of HBL is good with respect to increase in profit.

- Correlation co-efficient between total deposit and loan and advances of all the banks show positive relationship between these two variables. This shows value of 'r' is significant. There are significant relationship between deposit and loan and advances and the banks are mobilizing their deposits as loan and advances successfully.
- Generally, correlation of investment and loan and advances of SBI bank shows positive relationship. SBI has highest correlation in investments loans and advances and EBL and HBL have negative relationship between investment and loan and advances.
- Correlation co-efficient of provision for loan loss and loan advances shows that EBL and SBI have positive correlation between provision for loan loss and loan advances and HBL has negative correlation between provision for loan loss and loan advances.
- Correlation co-efficient of invest income and profit shows that there is no relationship in case of SBI and positive relation between invest income and profit in case of EBL and HBL.
- Correlation co-efficient of shareholder's equity and loan and advances shows that all the banks have significant value of 'r'. This shows high degree of positive correlation between shareholders equity and loan and advances.

- Correlation co-efficient of total income and loan and advances of all three banks have significant value of 'r' i.e. positive relation between total income and loan and advances since value of 6*P.Er is lesser than value of 'r'.
- Correlation co-efficient of the interest suspense and interest income of EBL and HBL have insignificant value of 'r' and it shows negative relation between interest suspense and interest income. SBI shows positive correlation and has positive relationship between interest suspense and interest income. SBI has high degree of correlation. HBL has low degree of correlation.

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 KBL and NBBL 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

Banks are the backbone of the country's economic development. They are providing a foundation to develop country through economic ways. Now days there are thirty one commercial banks are operation in all over the country. The data, which were used in this dissertation, are secondary nature. They were obtained from concerned banks annual report, literature, publication, balance sheet, profit and loss account, previous thesis report, different web site, related books and booklets, journal and articles and NEPSE. For the analysis and interpretation of data, various related financial and statistical tools, which are used in this study are liquidity ratio, assets management ratio, profitability ratio, growth ratio, risk ratio, sources and uses of funds and cash flow analysis. Similarly, statistical tools, which are used in this study are, mean, standard deviation, coefficient of variation, coefficient of correlation.

To fulfill the objective of the study all secondary data are compiled, processed and tabulated in the second last chapter. To make the analysis easier and understandable line chart are also used. This study also bounded by many limitations, such as secondary data, unreliability of time and resources are the constraints of the study. In this study the focus is given to the quantities. Qualitative factors are not studies. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the concerned organization.

This study "A Study on lending practices of Commercial Banks" is primarily prepared for the partial fulfillment of the requirement of the master of business studies (MBS). This study is mainly based on secondary data provided by concern companies and security board of Nepal (SEBON). Among the listed companies Himalayan Bank, Nepal

Investment Bank and Everest Bank have selected as a sample of study. The main objective of the study is to assets the lending practices. However due to the time and resource constraints all types of analysis are not conducted and information are gathered from the period of 2007/08 to 2011/12.

The collected information is presented analyzed and conclusion is drawn from the study.
Chapter One is concerned with the introduction of the whole study. It explained about the concentration of the study objectives and organization of the study which provides guideline for entire study.
Chapter Two is for the review as well as the review of related previous studies is conducted.
Chapter Three specifies the guidelines, tools and research design to achieve the objectives of the study.
In Chapter Four, the analysis of data, some statistical and financial tools are used. This chapter contains analysis and evaluation of data. The relevant finding drawn on the basis of analysis and interpretation of provided data.
In chapter Five, main findings are concluded as the conclusion of the study. Based on the analysis and conclusion of the study some recommendations are made in this chapter.

5.2 Conclusion

- The activity ratio shows that SBI has better performance than EBL and HBL. The lowest loan loss provision ratio is the indicative of better performance of SBI than the other two banks in judging the borrower needs and quality of the borrower EBL performed better than SBI and HBL 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. HBL'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.

- EBL has the highest mean ratio of interest income from loan and advances which shows a large contribution of interest income to the total income and HBL has the

lowest. EBL's mean ratio is higher than the combined mean. HBL 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 HBL to be the lowest. EBL has lower interest suspense out of total income from loan and advances. HBL has the highest ratio of interest suspense.

- The analysis of lending strength in absolute terms, EBL has advances large volume of loan and the interest income from loan and advances is highest among the banks. Due to high volume of loans and advances the provision for doubtful debts is also the highest which indicates its superior performance than other two banks. However EBL has the highest net profit followed by SBI and HBL.

- The analysis of lending strength in relative terms the ratio remained almost constant in the study period of all the three banks. SBI has slightly less than EBL and HBL. Similarly HBL 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. SBI 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 HBL 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.

- SBI has maintained highest ratio of growth in total deposit, loan and advances and net profit but in growth ratio of investment lower than HBL. 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 three banks is likely to increase in the near future.

- The overall performance of all the JV's banks is satisfactory. Due to high volume of loan and advances EBL has provision for doubtful debts also. However, EBL has the highest profit among the banks 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 HBL is the highest among the banks.

- ❖ SBI has performed exceptionally well in increasing the growth ratio of deposit, loan and advances and net profit however its performing loans portion is highest among the three banks.

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

- ❖ 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

- ❖ SBI contribution in loan and advances is the lowest and this has high degree of variation as compare to EBL and HBL. 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, SBI bank is recommended to at least this growth of loan in the coming year also.

- The low ratio of loan and advances and investment to total deposit indicates that EBL has not been properly mobilizing its fund. The lending functions have not been fully utilized. Therefore, it is suggested to invest the funds as an idle deposit is a cost to the bank. The bank with the marketing efforts should increase its facilities on credit. As a result of increasing in lending activities, its profitability will further increase.
- 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.
- 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.
- The high amount of provision on loan loss and high volume of non-performing loans of HBL is certainly not sign of efficient credit management. HBL 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 2007/08.
- The low percentage of non-performing loan and low provision of loan loss of SBI 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, SBI

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. SBI's should increase the sustainable banking practices and emphasize more on lending functions besides its fee-based activities.

- The ratio of non- interest bearing deposit to total deposit of SBI is the lowest and as a result of this it has highest ratio in interest expense to total deposits. There is high propensity to grow in loan and advances. Therefore, this bank is suggested to reduce the interest rate. Consequently the volume of interest bearing deposit in its deposit mix will reduce and as a result the gap between interest income and interest expenses will increase which will provide new lending opportunities. Then it will offset the liquidity arising from high propensity of deposits. The bank is further suggested to launch new schemes for low interest bearing deposits as a result of which the consumer's focuses on the facilities rather than the interest provided on deposits.
- The interest suspense to interest income from loan and advances is high in case of HBL. 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.

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APPENDIX-I

Total Assets to Total Liabilities Ratio

Banks	**Fiscal year**					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Mean**
EBL	1.1067	1.0169	1.0140	1.0127	1.0116	1.0324
SBI	1.0698	1.0502	1.0825	1.0141	1.0104	1.0454
HBL	1.0713	1.0122	1.0099	1.0083	1.0075	1.0219
Combined Mean						**1.0332**

Non Interest Bearing Deposit to Total Deposit Ratio

Banks	**Fiscal year**					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Mean**
EBL	0.1919	0.1504	0.1454	0.1655	0.1467	0.1591
SBI	0.1015	0.0830	0.0920	0.1039	0.1458	0.1052
HBL	0.2049	0.1280	0.1687	0.1687	0.1025	0.1601

Loans and Advances to Total Assets Ratio

Banks	**Fiscal year**					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Mean**
EBL	0.6160	0.5787	0.5704	0.5753	0.6289	0.5939
SBI	0.6461	0.6144	0.6375	0.6754	0.6469	0.6441
HBL	0.6006	0.5861	0.6807	0.7047	0.4894	0.6123
Combined mean						0.6168

Loans and Advances and Investment to Total Deposit Ratio/CD Ratio

Banks	Fiscal year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.7257	0.6679	0.6660	0.6694	0.7387	0.6935
SBI	0.7545	0.7101	0.7513	0.7648	0.7395	0.7395
HBL	0.7180	0.6932	0.8265	0.8832	0.7324	0.7324
Combined mean						0.7218

Loan and Advances to Shareholders Equity Ratio

Banks	Fiscal year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	6.3863	6.8986	7.5644	8.7568	8.8179	7.6847
SBI	9.8993	11.9121	12.3478	10.7564	18.6608	12.7153
HBL	9.0186	7.8486	8.2028	8.6266	8.8878	8.5169
Combined mean						9.6390

Loans and Advances

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	10586.17	12922.54	15545.77	21365.05	27589.93	17601.89
SBI	7618.67	9801.30	13664.08	18339.08	23884.76	14661.56
HBL	6213.88	7626.73	9460.45	12113.69	15131.75	10109.30

Interest Income from Loan and Advances

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	1068.75	1309.99	1587.75	1978.69	2798.49	1748.73
SBI	719.30	903.41	1144.40	1548.65	2186.81	1300.51
HBL	578.37	708.71	831.11	970.51	1460.45	909.83

Provision for Doubtful Debts

(Rs. in millions)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	358.66	360.56	356.23	357.24	394.41	365.42
SBI	211.72	281.4 1	334.94	418.60	497.35	348.80
HBL	388.17	525.46	614.72	604.60	632.52	553.09

Net Profit

(Rs. in millions)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	518.63	635.26	673.95	746.46	1031.05	721.07
SBI	170.81	237.29	296.40	451.20	638.73	358.89
HBL	57.39	117.00	254.90	247.77	316.37	198.69

Loan Loss Provision to Total Loans and Advances Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.0341	0.0275	0.0229	0.0184	0.0148	0.235
SBI	0.0369	0.0341	0.0306	0.0271	0.0245	0.0306
HBL	0.0846	0.0806	0.0639	0.0522	0.0317	0.0626
Combined mean						0.0389

2009/10					2010/11				2011/12			
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	21398.37	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**
Substandrd	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	45.79	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**

Loan Classification and Provisioning in SBI

2009/10					2010/11				2011/12			
Particular	**TL**	**% of TL**	**Total LLP**	**% of Total LLP**	**TL**	**% of TL**	**Total LLP**	**% of TLLP**	**TL**	**% of TL**	**Total LLP**	**% of TLLPO**
PL (1)	**13969.5**	**99.19**	**128.80**	**51.58**	**2011/123.78**	**99.37**	**164.86**	**60.23**	**24351.57**	**99.52**	**204.78**	**62.63**
Pass	13969.5	99.19	128.80	51.58	2011/123.78	99.37	164.86	60.23	24351.57	99.52	204.78	62.63
NPL(2)	**113.16**	**0.80**	**120.89**	**48.42**	**127.29**	**0.62**	**108.82**	**39.76**	**117.99**	**0.48**	**112.21**	**37.37**
Substandard	4.21	0.029	2.67	1.06	6.30	0.03	1.05	0.38	1.36	0.0056	1.58	0.4832
Doubtful	2.35	0.017	0.34	0.13	0.74	0.003	1.17	0.42	28.51	0.1165	0.37	0.1132
Loss	106.60	0.78	117.88	0.13	120.25	0.59	106.60	38.95	88.11	0.36	120.26	36.78
Total	**14082.66**	**100**	**249.69**	**100**	**20221.07**	**100**	**273.68**	**100**	**24469.56**	**100**	**326.99**	**100**

Loan Classification and Provisioning in HBL Bank

	2009/10				2010/11				2011/12			
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	26.20
Pass	9606.29	95.44	1171.19	69.46	12257.80	96.16	157.94	26.12	15296.09	97.98	165.69	26.20
NPL(2)	458.75	4.56	514.88	30.53	488.41	3.83	446.64	73.87	315.95	2.02	466.83	7.80
Substandard	3.28	0.032	0.31	0.018	3.87	0.03	0.54	0.08	1.24	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 HBL (Various Years)

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

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	4.19	1.41	1.14	0.75	0.81	1.66
SBI	2.59	1.32	0.83	0.694	0.49	1.18
HBL	7.35	6.62	4.85	4.03	2.09	4.99
Combined mean						2.61

Interest Income to Total Income Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.7407	0.7593	0.7737	0.8030	0.8262	0.7806
SBI	0.8374	0.8470	0.8344	0.8293	0.8506	0.8397
HBL	0.8044	0.8328	0.8116	0.8646	0.7875	0.8202
Combined mean						0.8135

Interest Expenses to Total Deposit Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.0167	0.0184	0.0238	0.0237	0.0309	0.0227
SBI	0.0297	0.0290	0.0284	0.237	0.0304	0.0288
HBL	0.2986	0.0304	0.0360	0.0331	0.0295	0.0855
Combined mean						0.0457

Interest Suspense to Income from Loans and Advances Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	0.0159	0.0145	0.0072	0.0059	0.0055	0.0098
SBI	0.0210	0.0112	0.0061	0.0045	0.0035	0.0093
HBL	0.0765	0.0610	0.0491	0.0420	0.0197	0.0497
Combined mean						0.0229

Interest Income to Interest Expenses Ratio

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
EBL	4.3884	3.6678	2.8572	2.6089	2.4265	3.1898
SBI	2.4012	3.7094	3.2041	2.4480	2.1591	2.7844
HBL	2.2380	2.1170	2.0159	2.1334	1.7709	2.0550
Combined mean						2.6764

Growth Ratio of Deposit

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Growth Ratio (%)
EBL	14586.61	19347.40	23342.28	31915.04	37348.26	60.94
SBI	10097.69	13802.44	18186.25	23976.29	33322.95	69.69
HBL	8654.77	11002.04	11445.28	13715.39	27957.22	69.04

Growth Ratio of Loan and Advances

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Growth Ratio (%)
EBL	10586.17	12922.54	15545.77	21365.05	27589.93	61.63
SBI	7618.67	9801.30	13664.08	18339.08	23884.67	68.10
HBL	6213.88	7626.73	9460.45	12113.69	15131.75	58.93

Growth Ratio of Total Investment

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Growth ratio%
EBL	2418.42	2301.45	4808.34	4646.87	3706.10	52.14
SBI	2100.29	3548.61	4704.63	4821.59	5146.05	59.19
HBL	2588.14	3591.76	2345.57	3035.54	3306.57	34.69

Sources: Appendix I

Growth Ratio of Net Profit

(Rs. in million)

Banks	2007/08	2008/09	2009/10	2010/11	2011/12	Growth ratio%
EBL	518.63	635.26	673.95	746.46	1031.05	49.69
SBI	170.81	237.29	296.40	83.74	82.44	72.19
HBL	57.39	117.00	254.90	247.77	316.37	81.86

APPENDIX-II

Coefficient of Correlation between Deposit and Loan and Advances of KBL

Year	Deposit(x)	X2	L&A(y)	Y2	XY
2005/06	14586.61	212769191.3	10586.17	112066995.3	154416333.2
2006/07	19347.40	374321886.8	12922.54	166991040.1	250017550.4
2007/08	23342.28	544862035.6	15545.77	241670964.9	362873716.2
2008/09	31915.04	1018569778.0	21365.05	456465361.5	681866425.4
2009/10	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, $\sum x = 126539.59$, $\sum y = 88009.46$, $\sum xy = 2479609904$,

$\sum x^2 = 3545415417$, $\sum y^2 = 1738398590$

Coefficient of correlation can be calculated by using following formula

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

$$= \frac{5 \times 2479609904 - 126539.59 \times 88009.46}{\sqrt{5 \times 3545415417 - (126539.59)^2} \times \sqrt{5 \times 1738398590 - (88009.46)^2}}$$

r = 0.99

r^2 = 0.9801

Calculation of Probable Error

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

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

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

= 0.0060

Now, 6 *P.Er = 6×0.0060 = 0.0360