LIQUIDITY, PROFITABILITY AND LOAN PORTFOLIO MANAGEMENT OF COMMERCIAL BANKS IN NEPAL

(With Reference to Everest Bank Limited and Himalayan Bank Limited)

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A THESIS

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RECOMMENDATION

This is to certify that the Thesis

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

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as the partial fulfillment of the requirements for

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DECLARATION

I hereby, declare that the work reported in this thesis entitled *"**Liquidity, Profitability And Loan Portfolio Management Of Commercial Banks In Nepal (With Reference to Everest Bank Limited and Himalayan Bank Limited)"*** submitted to the Office of Dean, Faculty of Management, Tribhuvan University, is my original done in partial fulfillment of the requirements for the Degree of Masters of Business Studies (M.B.S), under the supervision of **lecturer Bharat Kumar Pradhan** of People's Campus, Tribhuvan University.

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Suraj Karki

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ABBREVIATIONS

%	: Percentage
ALC	:Asset-Liability Committees
ALM	: Asset Liability Management
ABBS	:Anywhere Branch Banking System
B.S	: Bikram Sambat
C.V.	: Coefficient of Variance
CRR	: Cash Reserve Ratio
EBL	: Everest Bank Limited
HBL	: Himalayan Bank Limited
i.e.	:That is
NABIL	: Nepal Arab Bank Limited
NBL	:Nepal Bank Limited
NRB	: Nepal Rastra Bank
ROA	:Return on Total Asset Ratio
ROE	: Return on Equity

CHAPTER– I
INTRODUCTION

1.1 Introduction

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resources. Development of trade, commerce and industry are the prime requisite for the attainment of the economic political and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions. “There is always lack of finance in underdeveloped economy because natural resources are either underutilized of unutilized in productive sectors or even other purposes i.e. social welfare and so on. Likewise, underdeveloped countries are not deficient in land, water, mineral, forest or power resources, though they may be untapped; constituting only potential resources.” So in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been proper utilized. Hoarding could be one of the reasons for this. So, banks and other financial institutions play a vital role to encourage thrift and discourage hoardings by mobilizing the resources and removing the habit of hoarding. They pursue rapid economic growth, developing the banking habit among the people, collecting the small- scattered resources in one bulk and utilizing them in future productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow funds against future income, which may improve the economic well-being of the borrower. Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern which is mainly confined to finance for the development of the trade, commerce and industry. Trade, commerce and industry are the prime factors of the economic development. Bank is a financial institution, which primarily deals in borrowing and lending. Banking is a vital part of national economy and vehicle for the mobilizations of economy's financial resources and extension of credit to the business and service enterprises.

Commercial banks are the heart of the financial system. They hold the deposits of individuals, government establishment and business units. They make funds available through their lending

and investing activities to borrowers: individuals, business firms and government establishments. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy.

Liquidity refers to how quickly and cheaply an asset can be converted into cash. Money (in the form of cash) is the most liquid asset. Assets that generally can only be sold after a long exhaustive search for a buyer are known as illiquid. "Managing liquidity involves estimating liquidity needs and providing for them in the most cost-effective way possible. Banks can obtain liquidity from both sides of the balance sheet as well as from off-balance-sheet activities. A manager who attempts to control liquidity solely by adjustments on the asset side is sometimes ignoring less costly sources of liquidity. Conversely, focusing solely on the liability side or depending too heavily on purchased wholesale funds can leave the bank vulnerable to market conditions and influences beyond its control. Effective liquidity managers consider the array of available sources when establishing and implementing their liquidity plan." *(Khubchandani; 2002: 61.)*

"Liquidity means a matter of maintaining what the bank has promised to pay the depositors - cash. In order to fulfill the promise, primary reserves are the first drawn on to satisfy depositors. In the banking system primary reserves are known as legal reserve and working reserves. The term is economic rather than accounting concept. Legal reserves are the requirement of monetary authority. Bank management, student of banking studies and monetary authority are referring the other names for primary reserve to designate certain ideas and concept regarding banks' assets. Primary reserves include non-earning assets such as cash in vault, the deposits carried out by banks with correspondent banks and central bank, and cash items. The cash items represent cheques held or in process of collection by the banks. The objective of primary reserves in banking system is maintaining liquidity and solvency"*(Sinkey;1983:135).*

The amount of liquidity that a commercial bank or the commercial banking system should maintain is one of the basic problems of the bank management. If too much liquidity is

maintained, it means that the bank and the banking system are foregoing income. Too, little, however, may be fatal not only to an individual bank but to the commercial banking system as a whole, the financial structure of the country, and the economy of the nation. Too little liquidity and the demands of the depositors in the form of 'runs' on the banks are like oil and water, they do not mix well"(*Reed ;2002:115).*

Nepalese Financial System and Financial Service

Nepal Bank Limited (NBL) established in 1937 was the first commercial bank in Nepal. Following the establishment of Nepal Rastra Bank (NRB), the central bank of the country in1956, was a major step towards the evolution and generalization of Nepalese financial system.

The institutional network and volume of operations of the financial system has been expanded and diversified with a number of commercial banks which were five in 1990 and are 31 at the present. Similarly a number of other financial institutions came into operation rapidly. The banking system comprises one central bank and 31 commercial banks, the non-bank financial institutions comprise development banks, rural development banks, finance companies, financial cooperatives, non-governmental financial organizations, contractual saving institutions like Employees Provident Fund, Citizen Investment Trust and Insurance Companies, Postal saving offices, and Nepal Stock Exchange. In addition, there are other quasi-financial institutions such as the Deposit Insurance and Credit Guarantee Corporation, Rural Housing Finance Company etc.

After the openness and liberalization in the financial system, the establishment of banks and financial institutions tremendously increased. The establishment process, in fact took an aggressive move. This type of development can be observed also in insurance services. The institutional network and volume of operations of insurance companies has expanded and diversified enough with the number of companies going up from four in 1990 to 18 at present. Service sector is a major contributor on Gross Domestic Product (more than 50 percent in and average) and financial service is a major component of this sector. Financial services sector consists basically banking service and insurance service. Such services in Nepal are very

important because they provide many opportunities for efficient allocation of resources, utilization, promotion of economic activities, and fair competition and increase in the foreign direct investment. Liberalization of trade in financial serves has many positive advantages like economic growth, introduction of advanced financial practices and market efficiency *(NepalRastra Bank Samachar; 2066:74).*

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL), was established as a semi-government organization. In Baisakh 14, 2013 B.S., the first central bank named as Nepal Rastra Bank was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by government, named as Rastriya Banijya Bank was established in 2022 B.S. under the Banijya Bank act 2021 B.S. In the fiscal year 2039/40, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. Its objective was to create healthy competitive banking system and to provide cheap banking facilities to the people. The establishment of joint venture banks gave a new horizon to the financial sector of the country. Nepal Arab Bank Limited (NABIL) is the first joint venture commercial bank incorporated in 2041 B.S. In 2043 B.S., the second JVBS Nepal Indosuez Bank Ltd (liquidly called Nepal Investment Bank Limited) in the form of JVBS was also established. But more JVBS came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 B.S. They are Himalayan Bank Ltd. (2049), Nepal SBI Bank Ltd. (2050), Nepal Bangladesh Bank Ltd. (2051), Everest Bank Ltd. (2051) and Bank of Kathmandu (2052) came into existence in chronological order. Under favorable environment, various other banks were established thereafter.

A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a special operation (industrial or commercial investment, production or trade). These JVBs came into existence to accelerate the pace of economic development and financial system of the nation. Proper financial decision making is extremely important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with liquid assets and liquid liabilities. The working capital management of a bank is different from other types of business enterprises. A bank plays a significant role to fulfill the

requirement of working capital of other type of business enterprise. It also needs to efficiently manage its own working capital Investment in working capital of other business enterprises is a part of liquid assets of bank's working capital and we can consider deposits and short term borrowings as a part of liquid liabilities.

1.2 Introduction of Sample Bank

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K. Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Joint Venture Partner Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Recognizing the value of offerings a complete range of services, it have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first bank to

introduce Any Branch Banking System (ABBS) in Nepal EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society.EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

Himalayan Bank Nepal Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank's head office is located at Karmachari Sanchayakosh Building, Tridevi Marg in Thamel, which is the main business tourist area of the Kathmandu Valley. Besides this, the bank has thirty five branches located at Thamel, New Road, Maharajgunj, Bhaktapur, Patan, Teku, Chabahil, Swoyambhu, New baneshwor, Sorahkhutte, Dillibazar, Kalanki, Satdobato inside the valley as well as it hasbranches at Birgunj, Bharatpur, Tandi, Hetauda, Bhairawa, Biratnagar, Banepa, Dharan, Pokhara, Butwal, Nepalgunj, Itahari, Palpa, Dang, Trishuli, Jhapa, Parsa, Baglung, Dhangadhi, Gorkha, Barhabise and Nawalparasi. The Bank will be aggressively opening new branches at different parts of the Nepal to serve its customers better. (www.hbl.com)

Legacy of Himalayan Bank Limited lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. HBL has always been committed to providing a quality service to its valued customers, with a personal touch. All customers are treated with greatest courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients.

Further extend the reliable and efficient services to its valued customers; Himalayan bank has adopted the latest banking technology. This has not only helped the Bank to constantly improve

its service level but has also prepared the Bank for future adaptation to new technology. The Bank already offers unique services such as SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future. All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like Any Branch Banking Facility, Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite Disaster Recovery Management System. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software-Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers needs and wants stand first. HBL has access to the worldwide correspondent network of Habib Bank for fund transfer, letter of credit or any banking business anywhere in the world. Himalayan Bank Limited has just entered into the eighteenth year of successful operation. During these eighteenth years, they have established themselves as one of the top-recognized bank in the country. They have pioneered several products. For starters, they were the first bank to launch card service. Facilities for the convenience of their customers are:

- Tele-banking
- Credit card
- ABBS (Any Branch Banking System)
- ATM (Automated Teller Machine)
- Locker facility
- Himal Remit
- SMS banking
- Auto loan
- Home loan

- Subidha loan
- Overdraft Facility
- Business and Industrial loan
- SME loan facility

1.3 Focus of the Study

Liquidity management refers to as using money to get long-term benefit. Investment in its broad sense means the sacrifice of certain percent value for (possible uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense, of the placing of money in the hands of other for their use, in return for a proper instrument entitling holder's to fixed income payment or the participation in expected profits. The present economic position of Nepal is encouraging the savers to deposit their money in banks rather than investing in stocks, assets and new business etc., which in turn is hampering the bank's portfolio because deposits are higher and limited safe investment areas are decreasing day by day. In spite of low interest rate, the depositors are feeling secured towards commercial banks but the highest surplus deposits are almost idle in the bank due to continuous fall in Nepalese economy because of conflict situation, changed taxation policy, and adversely affected tourism industry and agricultural industry. It revolves round the concept of managing the surplus financial assets in which way, which leads to the wealth maximization and provides a significant future source of income. It focuses on analyzing the causes of investment problems, their management and remedies, and developing the new investment areas and sectors, which can again boost the Nepalese economy.

1.4 Statement of the Problems

Liquidity management on bank is also difficult as that of manufacturing and non-manufacturing business organization. Commercial banks are great monetary institutions which are playing important role to the general welfare of the economy. The responsibilities of commercial banks are more than any other financial institutions. They must be ready to pay on demand a good share of their liabilities without warning or notice. Bank collects funds from different types of deposits for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business

is to borrow public saving and lend to needy people. But commercial banks always face the problem for utilizing more deposits as investment fully and productivity. The gap between collection of deposits and disbursement of loans increase the cash balance on bank which its large amount of liabilities on its depositors demand without notice. But large amount of idle cash balance also decrease profitability of banks.

The need of liquidity management for economic development of a country is no more to question. But we are facing an acute problem of resource mobilization. After merging of NIC Bank and Bank of Asia (NIC ASIA), now we have 31 commercial banks in Nepal, which are very much considered to be vital financial institutions to mobilize domestic resources. They have of course a good performance in the course of mobilizing idle deposits.

The problems associated with commercial banks with regard of liquidity Management and reinvestment aspects are highlighted below:

- What is the deposit position of the sampled banks?
- What is the investment position of the sampled banks?
- What is the relationship between investment, loan and advances and total deposits?
- Are they maintaining sufficient liquidity?
- What is the gap between deposits and investments of the sampled Banks?

1.5 Objective of the Study

The main objective of the study is to examine how Everest Bank Limited and Himalayan Bank Limited manage their liquidity. The specific objectives of this Study are as follows:

- To analyze the liquidity management, deposit and investment position of the banks.
- To assess the profitability position of the selected banks.
- To explore the relationship between Total deposit and loans and advances Provision for loan loss and loans and advances, Investment and loans and advances, Shareholders Equity and loans and advances.
- To examine the trend analysis of deposit, investment, loans and advances and net profit.

1.6 Significance of the Study

Nepalese commercial banks are operating in the competitive environment. In this situation, banks have to adopt suitable strategies for their existence. They should balance and co-ordinate the different functional areas of business concern. The success or failure of any organization depends on its strategy, which is affected by working capital management. Working capital management is the crux of problem to prepare proper strategy on its favor.

The study helps to know how well the banks are utilizing their deposits. It is important to policy makers and academic professionals to formulate policies and plans based on the performance of these banks. The study also guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.

1.7 Limitations of the Study

The study has following Limitations:

- The study is based only on secondary data so it may contain reporting errors.
- There are total, 31 commercial banks in the financial market but this study takes only two from them. The sampled banks are Everest Bank Limited and Himalayan Bank Limited
- The study covers the past and present state of the commercial banks in Nepal and will not make any projection in future.
- The study is made within limited data.
- This study used only the selective tools for analysis and interpretation of data.

1.8 Organization of the Study

The first chapter includes general background of the study, historical perspective of banking industry, overview of sample banks, statements of the problem, objectives of the study, significance of the study and limitation of the study.

The second chapter, Review of Literature contains the review of related books, journals, and past research works.

Similarly the third chapter expresses the way and the technique of the studying applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and methods of analysis.

The fourth chapter is the important chapter in which collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools. Finding is also included in this chapter.

At the beginning part of the study background and introduction of sampled bank, focus of study, objective of study, significance and limitations of study are included and bibliography and appendixes are incorporated at the end.

CHAPTER– II
REVIEW OF LITERATURE

2.1 Conceptual Framework

Liquidity refers to how quickly and cheaply an asset can be converted into cash. Money (in the form of cash) is the most liquid asset. Assets that generally can only be sold after a long exhaustive search for a buyer are known as illiquid.

"Managing liquidity involves estimating liquidity needs and providing for them in the most cost-effective way possible. Banks can obtain liquidity from both sides of the balance sheet as well as from off-balance-sheet activities. A manager who attempts to control liquidity solely by adjustments on the asset side is sometimes ignoring less costly sources of liquidity. Conversely, focusing solely on the liability side or depending too heavily on purchased wholesale funds can leave the bank vulnerable to market conditions and influences beyond its control. Effective liquidity managers consider the array of available sources when establishing and implementing their liquidity plan." *(Khubchandani; 2002: 61.*

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The amount of liquidity that a commercial bank or the commercial banking system should maintain is one of the basic problems of the bank management. If too much liquidity is

maintained, it means that the bank and the banking system are foregoing income. Too, little, however, may be fatal not only to an individual bank but to the commercial banking system as a whole, the financial structure of the country, and the economy of the nation. Too little liquidity and the demands of the depositors in the form of 'runs' on the banks are like oil and water, they do not mix well"(*Reed ;2002:115).*

2.2 Importance of Liquidity Management

The important of liquidity management are as follows :

- To Fulfill the Demand of the Debtor
- To Provide Security to the Banks
- To Meet the Expenses for the Bank's Daily Administrative Work
- To Pay all Sorts of Deposit

2.3 Practice of Liquidity Management in Nepalese Commercial Banks

Nepal Rastra Bank (NRB) is the regulatory body of the banking industry. NRB issues the rules and regulations to facilitate the banking operation in Nepal like other regulations. There is a regulation for maintaining liquidity by commercial banks. Revision in monetary policy and operational procedure is continuation from time to time. The regulation is called Cash Reserve Ratio (CRR). It is directly related to the liquid assets of commercial banks. The regulation specifies the cash reserve ratio of commercial to central bank and its own vault to operate day to-day operation (transaction). It is a policy instrument of central bank for money supply. Money supply is a variable of monetary policy through which the bank plans to maintain adequate liquidity in the economy. It changes as per the requirement of the economy. According to the central bank's regulation, commercial banks need to consider the following rule to calculate CRR

Total deposit means liquid, saving and fixed deposit account as well as call money deposit and certificate of deposit (CD). For this purposes, deposits held in convertible foreign currency, Employee guarantee amount and Margin account would not be included.

a) Fixed deposit means a deposit in local currency accepted with a condition to repay on Completion of stipulated time period.

b) Liquid and saving deposit means all deposit accounts other than fixed deposit.

c) Cash in vault shall include only the local liquid and foreign currency (except clearing cheque)

A complete procedure for compliance lest is in place. Failure in any respect under the regulations liable to pay penalty at a very high rate of interest. Procedures for compliance test are as follows:

a) The cash reserve requirement shall be examined on a weekly basis.
b) The cash reserve requirement shall be examined against the average weekly balance of deposit liabilities of immediately preceding 4th week. In case of full holiday in the preceding 4th week, the average deposit of immediately preceding 5th week shall be considered.
c) Only the balance held in ordinary account with NRB shall be eligible for inclusion in cash Reserve. Balance held with NRB in special accounts opened for specific purpose and Foreign currency accounts shall not be included for this purpose.
d) For the purpose, all branches offices of the bank shall constitute as one unit.
e) The central bank monitors that the regulation is followed or not.

2.4 Liquidity Monitoring Framework Of Nepal Rastra Bank

1) Ratio Approach: Liquid Assets to Short Term Liabilities

$$\text{Liquid Assets to Short term Liabilities} = \frac{\text{Unencumbered Liquid Assets}}{\text{Short term Liabilities coming due in 30 days}} * 100$$

For the liquidity monitoring purpose, Liquid assets are defined as;

Liquid Assets is the sum of;

- Cash
- Bank Balance
- Money at calls at short notice
- Investment in Government Securities and Reverse Repo
- Placement up to 30 days

Liquid assets should include unencumbered liquid assets only. Unencumbered assets are those assets which are free from any debt obligation and can be easily sold or mortgaged.

Short term liabilities/Cash outflows

Similarly short-term liabilities are the immediate obligations of the banks. Banks and financial institutions should have sufficient liquid assets to meet expected outflows over the next 30 days.

Total short term liabilities (cash outflows) are total expected outflows over the next 30-dayperiod. Each item will have an assumed 30-days outflow based on the defined contractual obligation. Short term liabilities in the above ratio include;

On balance sheet item: An asset or debt that appears on a company's balance sheet. Items that are considered on balance sheet are generally ones in which the company have legal claim or responsibility for.

- 20% of Current Deposit
- 15% of Saving Deposit
- 50% of Call Deposit
- 100 % of Margin Deposits to be paid within next 30 days
- 100% of Fixed Deposit maturing in next 30 days
- 100 % of borrowing from the NRB which should be paid in next 30 days
- 100% of borrowings from other Banks and financial Institutions maturing in next 30 days
- All other contractual obligations coming due within 30 days

Off balance sheet items: An asset or debt that does not appear on a company's balance sheet. Items that are considered off balance sheet are generally ones in which the company does not have legal claim or responsibility for.

- 100% of LC amount to be settled within next 30 days.
- 100% of Irrevocable loan commitments
- 100% of Acceptance liabilities maturing within next 30 days.

A bank having sufficient pool of liquid assets to cover its liability shall be considered a bank having satisfactory liquidity position. Quantifying same principle, when liquid assets to short

term liabilities is more than 100%, the bank has sufficient liquid assets to meet its obligation reflecting a comfortable scenario in terms of liquidity. The ratio shall be monitored on a weekly basis. Other Liquid assets and liabilities, which are not defined, should be included on the remaining term to maturity.

Reporting Requirement: The report should cover the assets and liability portion as stated: Above from Sunday to Friday of every week.

- Interval: weekly (as on Friday of every week).
- Submission: Every Tuesday for immediate Past week.

2. Deposit and Credit Concentration

Total Deposit (Rs. in Lacs) =…….

A. Top 10 Depositors: Corporate
B. Top 10 Depositors: Individual
C. Top 10 Borrowers: Funded Only

Reporting Requirement:

- Interval: Monthly (as on month end data).
- Submission: Every month; within 7th of following month of Nepali Calendar

3. Inter-bank Transaction

- Number of times the bank borrowed during the period (one week):
- Number of rollover of the borrowing from same institution(Regardless of partial payments):
- Outstanding borrowing at the end of the reporting period:
- Maximum amount of borrowing in one Transaction: (Rs in lacs)
- Average borrowing Per Transaction: (Rs in lacs)

(Sum of all the borrowing during the period divided by number of transactions)

Reporting Requirement:

- Interval: weekly (as on Friday of every week).
- Submission: Every Tuesday for immediate Past week.

4. Borrowing from NRB

New reporting formats are developed for the banks and financial institutions. They are as follows:

A. Repo Monitoring

- Number of times the bank used Repo facilities during the last month:
- Outstanding repo at the end of the period:
- Maximum amount Per Transaction: (Rs in Lac)
- Average Amount Per Transaction: (Rs in Lac)
  (Sum of all the Repo transaction during the period divided by number of transaction)

Reporting Requirement:

- Interval: weekly (as on Friday of every week).
- Submission: Every Tuesday for immediate Past/Previous week.

B. SLF Monitoring

- Number of times the bank used SLF facilities during the week:
- Outstanding SLF at the end of the period:
- Maximum Amount Per Transaction: (Rs in Lacs)
- Average Amount Per Transaction: (Rs in Lacs)

(Sum of SLF amount during the period divided by number of transaction)

Reporting Requirement:

- Interval: weekly (as on Friday of every week).
- Submission: Every Tuesday for immediate Past week.

C. Refinance from NRB

Outstanding amount of Refinance facilities from NRB:

Number of times the bank utilized the facility during the last one month period:

Reporting Requirement:

- Interval: Monthly.
- Submission: Every month; within 15th of following month of Nepali Calendar.

D. Outright Sales

Reporting Requirement:

- Interval: Monthly.
- Submission: Every month; within 15th of following month of Nepali Calendar.

5. Matching Assets and Liabilities: Liquidity Profile/ Structural Liquidity Table

In addition to above information, banks are required to submit the assumption made for categorization of the assets and liabilities (which has no fixed maturity) under different time buckets. For example;

Assumptions on:

1. Categorization of Current Deposit
2. Categorization of Saving Deposit
3. Assets and liability categorization which have no fixed maturity

Negative net assets during the one week, one month, 31-90 days and 91-180 days buckets exceed the limit of 5 %, 10%, 15 % and 20% of the total liabilities in the respective time buckets, the bank need to show by way of a foot note as to how does it propose to finance the gap to bring the mismatch within the prescribed limits.

Reporting Requirement:

- Interval: Monthly (as on month end data).
- Submission: Every month; within 7th of following month of Nepali Calendar

Note: Bank refers to A, B and C class institutions licensed by Nepal Rastra Bank.

2.5 Loan

The act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount. It is a debt evidenced by a note which specifies that, among other things, the principal amount, interest rate, and date of repayment. A loan entails the reallocation of the subject asset for a period of time, between the lender and the borrower.

In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount.

The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan.

2.6 Types of Loan

2.6.1 Secured Loan

A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral.

A mortgage loan is a very common type of debt instrument, used by many individuals to purchase housing. In this arrangement, the money is used to purchase the property. The financial institution, however, is given security a lien on the title to the house until the mortgage is paid off in full. If the borrower defaults on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it.

In some instances, a loan taken out to purchase a new or used car may be secured by the car in much the same way as a mortgage is secured by housing. The duration of the loan period is considerably shorter often corresponding to the useful life of the car. There are two types of auto loans, direct and indirect. A direct auto loan is where a bank gives the loan directly to a

consumer. An indirect auto loan is where a car dealership acts as an intermediary between the bank or financial institution and the consumer.

2.6.2 Unsecured Loan

Unsecured loans are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages:

- credit card debt
- personal loans
- bank overdrafts
- credit facilities or lines of credit
- corporate bonds (may be secured or unsecured)

The interest rates applicable to these different forms may vary depending on the lender and the borrower. These may or may not be regulated by law. Interest rates on unsecured loans are nearly always higher than for secured loans, because an unsecured lender's options for recourse against the borrower in the event of default are severely limited. An unsecured lender must sue the borrower, obtain a money judgment for breach of contract, and then pursue execution of the judgment against the borrower's unencumbered assets (that is, the ones not already pledged to secured lenders). In insolvency proceedings, secured lenders traditionally have priority over unsecured lenders when a court divides up the borrower's assets. Thus, a higher interest rate reflects the additional risk that in the event of insolvency, the debt may be uncollectible.

2.7 Nepal Rastra Bank Directives

Provisions Relating to Compulsory Reserve/Statutory Liquidity

The following Directives have been issued with regard to compulsory reserve and liquid assets to be maintained by a licensed institution based on its deposit and borrowing liabilities having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

(A) Provisions relating to Compulsory Reserve:

1. For "A", "B", "C" And "D" Classes Micro-Banking Institutions Collecting Deposits of General Public

1. It shall be mandatory for class "A" institutions licensed by this bank and for "B" and "C" classes institutions licensed by this Bank and accepting the current/calls accounts to maintain a deposit of 5.5 percent of the total deposit liabilities at this Bank. Provided that, "B" and "C" class licensed institutions accepting deposits other than the "Current Deposit and "D" class micro-banking institutions collecting deposits of general public shall have to maintain mandatory balance at 2 percent of their total deposit liabilities.
2. The "B" and "C" class licensed institution and class "D" micro-banking institutions accepting deposits from general public situated in the location where there is no office of this Bank may maintain a separate current account for this purpose with the nearby "A" class institution. However, the amount deposited in a class "A" licensed institution with the condition of earning interest shall not be counted as compulsory reserve. The information of such account shall be given to this Bank's Bank and Financial Institution's Regulation Department and concerned Supervision Department.
3. In case the balance to be maintained as above Sub-Clause (1) falls short, the following fine shall be imposed:-
   (a) For the first time of shortfall in maintaining the compulsory reserve, at the rate of the percentage of the existing bank rate on such shortfall amount;
   (b) For the second time of shortfall in maintaining the compulsory reserve, at the rate of double of the percentage of the existing bank rate on such shortfall amount;
   (c) For the third time and successive times of shortfalls thereafter in maintaining the compulsory reserve, at the rate of triple of the percentage of the existing bank rate on such shortfall amount.
4 For the purpose of calculation of "times" under sub-clauses (a), (b), and (c) above separate times shall be calculated on every fiscal year basis. Moreover, in case any licensed institution fails to maintain compulsory reserve for a consecutive period of three weeks, it shall be fined at the rate of first time for the first week, of the second time for the second week and of the third time for the third week.

5 The fine at the existing bank rate on shortfall amount shall be on weekly basis. Such shortfall amount shall be multiplied by the percentage of bank rate and be divided by 52.

6 For the purpose of calculation of compulsory reserve to be maintained, the following procedures shall be followed: -

a) The compulsory reserve shall be examined on weekly basis (from every Sunday to Saturday).

b) The compulsory reserve shall be examined against the average weekly balance of deposit liabilities of immediately preceding two weeks. In the case of full holidays in any week, the average deposit of immediately preceding week shall be considered.

c) For the purpose of calculation compulsory reserve, the weekly average of total deposit liabilities and balance held with this Bank shall be determined by aggregating the total amount of daily balances from Sunday to Saturday and dividing the same by the figure seven. In doing so, if any holiday falls in the week, the balance of the preceding day shall be considered as the balance for the day.

d) For this purpose, the particulars relating to each Sunday to Saturday (in the case of holiday, the previous day's balance has to be mentioned) shall be compulsorily submitted to the concerned Supervision Department of this Bank in the prescribed format referred to in Directives Form No. 13.1 within seven days from the date of the end of the week.

7 For this purpose, all offices of a licensed institution shall be constituted as one unit.

8 Any amount of local currency lying in transit for fund transfer and meant to be credited in the account with this Bank shall be included in the balance held with this Bank. Explanation:

a. For the purpose of this Section, "total deposit" means the amount of current, savings, and fixed deposit including the money collected by the licensed institutions through various financial instruments as prescribed by this Bank.

b. Only the balance held in ordinary account of this Bank shall be considered for compulsory reserve. For the purpose, balances held in special accounts and foreign currency accounts shall not be included.

c. For the purpose of calculating compulsory reserve, balance of foreign currency accounts and staff guarantee account and margin account shall not be included for this purpose.

d. "Current Account" means the deposit accounts maintained with the bank and financial institutions having the facility for withdrawal on demand.

e. "Savings Deposit" means the deposit accounts maintained with the bank and financial institutions with an objective of saving.

f. "Fixed Deposit" means the deposit accounts maintained with the bank and financial institutions for a stipulated time period.

g. For the purpose of calculating compulsory reserve, the cash in transit to be balanced at the note fund of Rastriya Banijya Bank and Nepal Bank Limited in the places where there is no office of this Bank may also be included. If amount is balanced at or withdrawn from the note fund, the concerned bank shall have to send details thereof to the Currency Management Department and the concerned supervision department.

2. For "D" Class Licensed Institutions

a. The "D" class licensed institutions shall maintain compulsory reserve equivalent to a minimum of zero point five percent of the amount collected from individual group members, group wise, special savings and borrowed fund with this Bank or in a special current account with "A" class licensed institution in places where there is no branch office of this Bank. The information of such account shall be given to the Bank and Financial Institutions Regulation Department and concerned Supervision Department of this Bank. For the purpose of this sub-clause, "borrowed fund" means, the amount borrowed by the licensed institution from other licensed institution, individual, firm, corporate bodies (domestic and foreign) and company.

b. "D" class licensed institutions shall have to maintain a minimum of two point five percent of its total deposit liability in the form of liquid asset. The 'liquid assets' comprises the following:-

i. Cash in one's own vault

ii. Investment in Government Securities

iii. Investment in Nepal Rastra Bank bonds, or

iv. Deposit maintained with "A" Class licensed institution.

c. Any excess amount placed in the deposit pursuant to sub-clause (1) above shall be available for calculation under the requirement of sub-clause (2).

d. The calculation of compulsory reserve and liquid assets shall be as follows: -

i. The compulsory reserve and liquid assets shall be calculated monthly on the basis of daily average balances.

ii. A maximum proportion at 90 percent shall be considered as liquid assets in respect of the amount placed in the fixed deposit with "A" class licensed institution.

iii. For the purpose of calculation of liquid assets under sub-clause (2), the amounts borrowed against the fixed deposit receipt or government securities and Nepal Rastra Bank bonds, up to the amount of borrowing, shall be deducted.

iv. The "D" class licensed institutions shall submit returns as to the compulsory reserve and liquid assets as provided in the Directives Form No. 13.2 on a monthly basis within 15 days of the close of the month to the concerned Supervision Department of this Bank.

e. In case of non-maintenance of compulsory reserve and liquid assets or the "D" class licensed institutions failing to maintain deposit with this Bank according to sub-clause (1) above or in case such deposits fall short, fines pursuant to Point No. 1(3) shall be imposed for the default period.

f. Notwithstanding anything contained in the foregoing, exemption may be given with regard to the provisions of compulsory reserve in the amount of loan and advance transferred to micro finance development bank of class 'D' carrying out the transaction of bulk loan with the condition of recovering such loans from other banks and financial institutions.

g. Other provisions relating to compulsory reserve to be maintained by class 'D' licensed institution carrying out transaction of retail micro banking including collecting deposits from general public and the returns to be furnished to this Bank shall be as referred to in Point No. 1 of these Directives. Moreover, in the case of such micro

finance development banks, provision of Point No. 2 of these Directives shall not apply.

In order to render the functioning of the licensed institution well-managed, easy and convenient, the institutions of class 'A', 'B' and 'C' licensed from this Bank, other than the market-makers, may also make payment of the principal and interest of government bond and make a claim to this Bank for reimbursement thereof. For the period of non-receipt of reimbursement of the amount of payment of principal of Government of Nepal securities from this Bank to the licensed institution, the said amount shall also be calculated in the ratio of compulsory reserve. Moreover, in the event where the principal amount could not be paid to the concerned banks and financial institution for the reason of falling a public holiday, the said principal amount shall, for the duration of the said holiday, be calculated in the compulsory reserve ratio to be maintained at this Bank.

(B) Provisions Relating to Statutory Liquidity Ratio:

The licensed banks and financial institution of classes 'A', 'B' and 'C' shall have to maintain the statutory liquidity ratio at the rate prescribed from time to time. While maintaining the statutory liquidity ratio according to this provision, the government securities, the amount in the call deposit in the class "A" commercial bank for the same purpose and the remaining amount in excess of the amount required for the compulsory reserve ration may also be calculated as the eligible instruments. The following provisions have been made with regard to calculation of the statutory.

Liquidity ratio:

a. The domestic deposit liability maintained at the end of the just preceding month shall be taken as the basis for calculating the statutory liquidity ratio.
b. Such ratio shall be calculated and the statement the statutory liquidity ratio amount of each whole month shall be submitted as stated in Directive Form No.
c. In case the said deposit falls short, fine shall be imposed as follows subject to the provision made in sub-Section (1) of Section 99 of the Nepal Rastra Bank Act, 2002:
    i. In cases where the statutory liquidity ratio falls short for the first time, at the percentage of prevailing bank rate for the amount fallen short;

ii. In cases where the statutory liquidity ratio falls short for the second time, at double of the percentage of prevailing bank rate for the amount fallen short;

iii. In cases where the statutory liquidity ratio falls short for the third time and whatsoever time thereafter, at triple of the percentage of prevailing bank rate for the amount fallen short.

d. While determining the time for clauses (a), (b) and (c), separate time shall be determined for each of the fiscal year.

e. In the amount falling short of the statutory liquidity ratio, fine shall be imposed fallen short shall be multiplied with the percentage of the bank rate and divided by twelve.

f. For the purpose of fine in the event of falling short of the statutory liquidity ratio, the bank rate published as prescribed by this Bank shall be taken as the base.

Provisions Relating to Classification of Loans/advances and Loan Losses

Having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002, the following Directives have been issued with regard to classification of credit/advanced provisions to be made for its possible loss by the institutions obtaining licenses from this bank to carry out financial transactions.

1. Classification of loans/advances:

Entire loans and advances extended by a licensed institution have to be classified as follows based on expiry of the deadline of repayment of the principal and interest of such loans/advances:-

(a) Pass: Loans/advances which have not overdue and which are overdue by a period up to three months.

(b) Sub-standard: Loans/advances which are overdue by a period from three months to a maximum period of six months.

(c) Doubtful: Loans/advances which are overdue by a period from six-months to a maximum period of one year.

(d) Bad Debts: Loans/advances which are overdue by a period of more than one year.

The loans which are in pass class and which have been rescheduled/restructured are called as "the performing loan, and the sub-standard, doubtful and loss categories are called non-performing loans.

Note: Loans/advances also include bills purchased and discounted.

2. Additional provisions relating to pass loans:

(1) The following loans may be included in the pass loan:-

(a) Loans/advances extended against the collateral of gold and silver;

(b) Loans/advances of fixed receipts

(c) Loans/advances of Government of Nepal securities and loans/advances made\against the collateral of Nepal Rastra Bank bonds; Provided that the cases of the loans/advances against the fixed receipts or Government of Nepal securities or Nepal Rastra Bank bond as the additional collateral, such loans and advances shall also have to be classified in accordance with the directive referred to into Point No. 1 above.

(2) The working capital loan having the deadline of up to one year for repayment may be included in the pass loan class. In case the interest to be received from the loans of working capital nature is not regular, such loans have to be classified on the basis of the duration of interest to be due.

3. **Additional Provisions Relating to Loss Loans**

In case there seems any of the following discrepancies in any of the following loans, whether or not the deadline for repayment of which is expired, such loans and advances has to be categorized as the loss loan:

(a) The market price of the collateral cannot secure the loans;

(b) The debtor is bankrupt or has been declared to be bankrupt;

(c) The debtor disappears or is not identified;

(d) In case non-fund based facilities such as purchased or discounted bills and L/C and guarantee which have been converted into fund-based loan, are not recovered within ninety days from the date of their conversion into loan;

(e) Loan is misused;

(f) Expiry of six months of the date of auction process after the loan could not be recovered or a case is pending at a count under the recovery process;

(g) Providing loan to a debtor who has been enlisted in the black-list of Credit Information Bureau Ltd;

(h) The Project/business is not in a condition to be operated or project or business is not in operation

(i) The credit card loan is not written off within 90 days from the date of expiry of the deadline;

(j) While converting the L/C, guarantee and other possible liabilities into a fund based loan under the regular process, if the said loan is not recovered within 90 days; and

(k) In case of expiry of the deadline of a trust-receipt loan.

Note: For the purpose of clause No. 3(e) of these Directives, "misuse" means non-use of the amount of the loan for the purpose for which it has is taken; the project is not in operation; the amount accrued from the concerned project or business is not used in repayment of the loan but in other activities; and the word also includes the loan which is proved to have been misused by a supervisor in the course of inspection or supervision or by an auditor in the course of auditing.

4. Additional Provisions Relating to Term-Loan

In cases of the term loans extended in installments, if the deadline of installment of the principal amount expires, remaining entire loan amount has to be classified based on expiry of the deadline of the installment amount.

Provided that in cases of the installment of the term loan given by licensed institution not having the facility of engaging in overdraft transaction, entire loan amount has to be categorized as loss loan only if the installment amount has crossed the deadline by a period of more than one year. In case the installment amount has crossed the deadline by a period of less than one year, only such installment amount has to be classified in the loss loan with a provision of loan loss. However, this clause shall not be deemed to have hindered if the licensed institution wants to classify the entire loan amount as the loss loan.

Note: For the purpose of this clause "term loan" means a credit/advances made available having fixed the repayment period of more than one year.

5. Additional Provisions Relating to Gold/Silver Loan

The licensed Banks and financial institution of classes "A", "B" and "C" may provide loan having mortgages gold/silver subject to the following conditions:-

(a) The provisions of providing loan by mortgaging gold and silver has to be stated in the credit policy/byelaws of the institution;

(b) Prior to carry out transaction of gold/silver loan, provisions relating to necessary security, evaluation of the collateral, vault insurance and checkers have to be made;

(c) Annual studies have to be conducted whether or not the gold/silver loan is useful and profitable to the financial institution and annual monitoring has to be conducted from the Board of Directors.

6. Principal and Interest not allowed to be recovered crossing the overdraft limit:

Principal and interests of a loan shall not be allowed to be recovered having overdrawn the current account of a customer so that the overdraft limit is crossed. Provided that this provision shall not be deemed to prohibit recovering the principal and interesting having debited the balance in an account of the customer. In case the account is not settled by a period of one month after overdrawn of the account while recovering principal and interest by debiting the account of the customer, the amount overdrawn shall also be included in the loans not recovered and such loans have to be classified in one class lower than the class to which such loans belongs. While debiting the account, overdraft shall not be allowed by crossing the limit provided to the customer.

7. Provisions Relating to Grace Period

Licensed institution shall not normally be allowed to make available term loans with grace period of more than one year. In case longer grace period has to be provided, the reasons for and bases on which such longer period has to be granted, such details shall have to be disclosed and it shall have to be approved by the Board of Directors at the time of approval of the loan.

8. Provisions Relating to Rescheduling and Restructuring of Loans

(1) In case a licensed institution is convinced on the following bases stated in the written action plan submitted by the debtor, it may reschedule or retract the loan:-

(a) Evidence showing that documents relating to loans and security are adequate;

(b) Bases on which the licensed institution is convinced of the possibility that the rescheduled or restructured loans would be recovered;

(c) In addition to submission of written plan of actions for rescheduling and restructuring loans at least 25 percent of the interest due to be paid until the date of rescheduling or restructuring of such a loan has been paid;

(2) While rescheduling or restructuring the loans to the industries which have been recommended by the Sick Industries Preliminary Inquiry and Recommendation Committee formed under Government of Nepal, a minimum of 12 percent of interest has to be paid, other procedures need to be fulfilled and rescheduling and restructuring shall have to be carried out making a provision for twenty-five percent loan loss. Provided that in the event where the loan has been rescheduled and restructured based on payment of less than 12 percent of interests, provision for loan loss has to be made based on the duration upon expiry of the deadline according to the prevailing provisions.

(3) Description of the loans classified pursuant to classes (1) and (2) has to be separately prepared.

Note: For this purpose, "Rescheduling" means the process of extending the timelimit of repayment of the loan availed by the customer. "Restructuring" means the process of changing the nature or terms and conditionsof altering the restrictions on or changing the time limit of the credit facilities.

9. Provision to be maintained for loan loss

(1) For the loans and bills purchase classified according to these Directives, the following loan loss provision shall be maintained based on the remaining amount of principal:

Loan classification	Minimum Provision for loan loss
(a) Pass	1 percent
(b) Sub-standard	25 percent
(c) Doubtful	50 percent
(d) Loss loan/the loan extended to blacklisted persons, firms, company or corporate body	100 percent

Provided that in case of the insured loans, it would be required to make provision of only 25 percent of the provision referred to in sub-clause (1)

(2) In cases of the loans rescheduled and restructured, the following loan loss provision shall be made:-

(a) The loans classified in the pass class at the time of rescheduling and restructuring shall, while rescheduling and restructuring, provision of at least 12.5 percent has to be made as loan loss, while rescheduling and restructuring the loans classified as substandard, doubtful and loss, no adjustment shall be allowed in the then loan loss provision except in the cases referred to in clause 10(c).

In cases of the loans made available on an equal monthly installment, no loan loss provision shall have to be made in case of rescheduling and restructuring of the following of such loans if the principal and interest is regular:

(i) In case amount of installment and number of installment is decreased because of prepayment of installment.

(ii) Due to change in the rate of interest having regard to the market situation, the duration of the loan and installment amount has been changed. In this context, if the rate of interest is increased and thereby by the duration and installment amount is increased, the installment amount determined at the time of sanctioning the loan is not allowed to be decreased. Similarly, if the rate of interest is decreased and thereby the duration and number of installment are decreased, the installment amount determined at the time of sanctioning the loan is not allowed to be decreased.

(b) In case the installment of principal of the rescheduled and restructured loan and interest of two years, such loans may be converted into pass loans.

(c) No loans extended having pledged shares shall be rescheduled and restructured.

(3) In the event of deprive sector lending made by licensed institution Bank and financial institution to deprived communities according to Directives of this Bank; if such loans have been secured through Deposit Insurance and Credit Guarantee Corporation or if other loans have also been insured an exemption of 75 percent has been made and provision for remaining 25 percent shall be required.

(4) Banks and financial institution shall not provide any type of loan on the security of the memo (*adhakatti*) of an application to be submitted for share purchase at the time of initial public

offering. In case of providing loan in such a way, the concerned bank or financial institution shall have to make cent percent loan loss provision.

(5) While providing loan on personal/institutional guarantee, description of property equal in value to the amount of the personal guarantee and in sole ownership of the debtor and free of any claim of anyone else shall compulsorily be obtained. Even the loans given only on the basis of personal/institutional guarantee shall also be classified as stated above in pass, substandard and doubtful as may be required and loan loss provision shall be made 20 percent more in addition to the percentage prescribed for that class. Even in the cases where personal guarantee has been taken for the collateral of physical property alone could not secure the loan, the provision for additional loan and stated above has to be made. Classifications of such loan have to be made separately. Provided that in cases of loans and advances made to the institutions referred to in sub-clause (b) of clause 4 of the Directives No. 3, Nepal Oil Limited and Nepal Food Corporation, no additional loan loss provision of 20 percent shall be required to be made.

(6) No additional loan loss provision of 20 percent shall be required to be made in the loan loss provision referred to in sub-clause (3) above in cases of education loan and loans extended to micro-credit financial institutions and cooperative financial institution under the deprived sector lending by banks and financial institution on personal guarantee.

(7) There is no restriction to classify loans and advances of higher class to lower class in case licensed institution so wishes. For an example, substandard loan may be classified as doubtful or loss loan and doubtful loan may be classified as loss loan.

(8) Loans/advances also include bills purchase and discounts.

Note: Loan loss provision made for performing loan shall be treated as general loan loss provision and that for non-performing loans shall be treated as specific loan loss provision.

10. Conditions for Adjustment in loan loss provision

No loan loss provision shall be allowed for adjustment except in the following conditions:-

(a) In case the loan is written off;

(b) In the event where repayment of loan is in installment or in partial basis, the loan loss provision made to the extent of the loan so repaid may be written back and adjusted while maintaining loan loss provision according to loan classification; and

(c) In the event of the loan is reclassified after loan rescheduling and restructuring, if the repayment of the principal and interest of the loan so rescheduled and restructured is regular for a consecutive period of two years. Details of such loans shall be separately prepared.

11. Loss Provisions and Auction of Non-banking assets

(1) In case of the non-banking assets accepted by the licensed institution, cent percent loss provisions shall be made from the date of the acceptance.

(2) In case of sale of the non-banking assets, necessary adjustment in the accounts of loss provision maintained for such property shall immediately be made.

(3) While accepting collateral security as non-banking assets by licensed institution, the following provisions shall be applicable while selling the non-banking assets so accepted:

(a) While accepting the collateral property of a customer as non-banking assets whose outstanding loan amount is more than 2.5 million, the concerned party shall compulsorily be black-listed.

(b) Prior to auctioning the non-banking assets in the name of the institution, it shall have to be evaluated by an independent evaluator. No excessive/less evaluation shall be allowed.

(c) Transparent and clear provisions shall be made with regard to auction sale of collateral security/non-banking assets in Financial Administration Byelaws and sales shall have to be carried out in such a manner to serve interest of the bank or financial institution.

(d) While accepting the non-banking assets in such a manner, entire property mortgaged as collateral that could not be sold by auction shall have to be accepted and it may not be accepted in part.

(e) The property so accepted shall have to be sold at the earliest to the extent possible. In case it is necessary for own purpose of the licensed institution, the same shall have to be approved by the Board of Directors and information thereof shall be made available to this Bank as well.

2.8 Review of Journal and Articles

Kodakkal, S. P. (2010) Measuring and managing the liquidity needs are vital for effective operation of commercial banks. By assuring a bank's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. Bank managements should measure, not only the liquidity positions of banks on an ongoing basis, but also examine how liquidity requirements are likely to evolve under different conditions.

Krit, C. (2011*)*. There are various aspects of Liquidity, but to confine the definition in related context, longer term liquidity management will be in focus. As it became evident in the crisis, illiquidity rather than insolvency caused banks' failure. In this regards, Liquidity has divided good banks from ailing ones. Sound but poor liquidity banks may not be able to withstand bankruptcy risk. Thus, it is not exaggerate to say "Liquidity is REAL king", especially, when market is squeezed or under crisis.

From liquidity management's perspective, with notice, banks have been encouraged to extend or lengthen sources of funding. Non-technically speaking, primary purpose is to narrowing the gap between funding and lending. The greater the gap is, the more risky the bank is exposed to. As a result, term funding including interbank borrowing rather than overnight or call can be considered as a more secure funding source, in a sense that it creates certainty of due maturities in orderly manner. In retail market, banks started offering long-dated financial products ie., B/E and ultra-long fixed deposits as they learn to be less reliable on short-term funding to mitigate the gapping.

Kashyap *(2012)* Lending is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to a bank’s safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, loan portfolio problems have historically been the major cause of bank losses and failures. Effective management of the loan

portfolio and the credit function is fundamental to a bank's safety and soundness. Loan portfolio management (LPM) is the process by which risks that are inherent in the credit process are managed and controlled. Because review of the LPM process is so important, it is a primary supervisory activity. Assessing LPM involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment focuses on what management does to identify issues before they become problems. This booklet, written for the benefit of both examiners and bankers, discusses the elements of an effective LPM process. It emphasizes that the identification and management of risk among groups of loans may be at least as important as the risk inherent in individual loans.

For decades, good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. Although these activities continue to be mainstays of loan portfolio management, analysis of past credit problems, such as those associated with oil and gas lending, agricultural lending, and commercial real estate lending in the 1980s, has made it clear that portfolio managers should do more. Traditional practices rely too much on trailing indicators of credit quality such as delinquency, nonaccrual, and risk rating trends. Banks have found that these indicators do not provide sufficient lead time for corrective action when there is a systemic increase in risk.

Banks are in the business of maturity transformation. They lend for longer time periods, as borrowers normally prefer a longer time frame. But their liabilities are typically short term in nature, as lenders normally prefer a shorter time frame (liquidity preference). This results in long-term interest rates typically exceeding short-term rates. Hence, the incentive for banks for performing the function of financial intermediation is the difference between interest receipt and interest cost which is called the interest spread. It is implicit, therefore, that banks will have a mismatched balance sheet, with liabilities greater than assets in short term, and with assets greater than liabilities in the medium and long term. These mismatches, which represent liquidity risk, are with respect to various time horizons. Hence, the overwhelming concern of a bank is to maintain adequate liquidity.

Liquidity has been defined as the ability of an institution to replace liability run off and fund asset growth promptly and at a reasonable price. Maintenance of superfluous liquidity will, however, impact profitability adversely. It can also be defined as the comprehensive ability of a bank to meet liabilities exactly when they fall due or when depositors want their money back. This is a heart of the banking operations and distinguishes a bank from other entities.

Objectives and Methodology of the Study:

Though Basel Capital Accord and subsequent RBI guidelines have given a structure for Liquidity Management and Asset Liability Management (ALM) in banks, the Indian banking system has not enforced the guidelines in total. The banks have formed Asset-Liability Committees (ALCO) as per the guidelines; but these committees rarely meet to take decisions.

Taking this as a base, this research article attempts to find out the status of Liquidity Management in State Bank of India with the help of "Cash Flow Approach" methodology for controlling liquidity risk. To achieve the main purpose, the following objectives are set forth:

- To identify the liquidity risks faced by the banks.
- Classification of assets and liabilities into different time buckets as per RBI guidelines issued for liquidity management in banks.
- Analysis of liquidity risk through Cash Flow Approach Method.

Walt (2008), in his article, "*Sound practices for Managing Liquidity in Banking Organizations"* attributed Liquidity, or the ability to fund increases in assets and meet obligations as they come due, is crucial to the ongoing viability of any banking organization. Sound liquidity management can reduce the probability of serious problems. Indeed, the importance of liquidity transcends the individual bank, since a liquidity shortfall at a single institution can have system – wide repercussions. For this reason, the analysis of liquidity requires bank management not only to measure the liquidity position of the bank on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

Shrestha (2007) in his article "*The Efficiency of Liquidity Monitoring and Forecasting Framework the Nepal Rastra Bank in the Context of Liquidity Management in the Nepalese*

Banking and Financial System" has stated liquidity management as the part of risk management framework of financial services industry. He found taking high liquidity risk as well as high credit risk are two main factors that cause banks to fail. Although high liquidity risk alone is not likely to cause banks failures, a liquidity crisis usually signals a need for change. He concluded proper liquidity management ensures that banks and financial institutions' financial commitments and obligations are met. Maintaining adequate liquidity also helps in avoiding forced sale of assets. The need for bank liquidity stems from seasonal, cyclical trend and short-term irregular movements in deposits and loans. The different sources available to meet these liquidity needs were identified and grouped into asset and liability liquidity sources. The treasury manager must consider the purpose of the liquidity need, the length of time for which funds are needed, the access to liability markets, the cost and the characteristics of various liquidity sources and interest rate forecasts.

2.8.1 Review of Previous Theses

Karki (2012) has conducted thesis entitled." A Study On Liquidity And Loan Portfolio Management of Himalayan Bank Limited And Nepal SBI Bank limited". The main objectives of the present study are to evaluate the trend of disbursing loan to the public and institutions by the bank and its purposes beyond that and how efficiently bank is capable in handling all these jobs. The specific objectives of the study are:

- To evaluate the liquidity position of selected banks.
- To measure the efficiency of lending and its contribution in total profitability by finding related ratios of two banks.
- To examine the relationship between Total deposit and loans and advances Provision for loan loss and loans and advances Investment and loans and advances Shareholders Equity and loans and advances.
- To explore the trend of loan and advances, total deposit, total investment and net profit.

The major findings from the study were among the 31 commercial banks only two banks are taken HBL and NSBL as an sample for the study from the above studies it has shown that both of them have current ratio more than 1 which indicated that these two banks are capable of discharging their current obligation but in comparison to ratio the current ratio of NSBI is higher

than HBL. Coming to cash ratio HBL has consistent ratios and NSBI has the least consistent ratios but in the cash and bank balance to total deposited ratio the consistency ids just opposite NSBI are more consistent where as HBL has least consistent ratios. In terms of investment in government securities NSBI has invested more percentage of its current assets at government securities than HBL which can say that NSBI liquidation position is good and NSBI takes investment policy less risky than HBL. The growth rate of net profit per year of HBL is 64.46 million per year. Similarly, the growth rate of net profit per year of NSBI is 58.62 million per year. From the analysis, it is found that the net profit of HBL is better in compare to NSBI.

Pokhrel (2011) has conducted thesis entitled," Management of Deposit and Liquidity and Its Impact on Profitability of Joint Venture Banks" i.e. Nabil Bank Limited and Himalaya Bank Limited. The specific objectives of this study are to assist the liabilities and assets structure of Joint venture banks. Following subsidiary objectives have been framed to assist the basic objective.

- To analyze the composition of assets and liabilities of joint venture banks in Nepal
- To examine the utilization of assets
- To evaluate the trend of deposits and loans of joint venture banks in Nepal.
- To evaluate liquidity, profitability, capital structure activity and capital adequacy position of joint venture banks in Nepal.
- To provide suggestions and recommendation on the basis of findings and analyses to improve the commercial banks.

The major findings from the study were from the deposit analysis it may be concluded that both the NABIL and HBL perform best in collecting the total deposits thus they could get profit by mobilizing their deposits in productive sector. It may be concluded from analysis that the cash and bank balance position with respect to total deposit has better performance in the case of HBL, NABIL and EBL due to readiness to serve its consumer deposit than SBI bank. In contrast, a high ratio of cash and bank balance may be inappropriate which may indicate that the bank has burden more idle money. Thus in case of HBL, NABIL and EBL, they could invest their more

idle cash balance to more productive sector i.e. in marketable securities, treasury bills etc. for improving their profitability position.

Poudel (2010) has conducted thesis entitled," Liquidity and Profitability Position of commercial Banks of Nepal". The main objective of the study is to examine the liquidity and profitability position of the commercial banks of Nepal. The other specific objectives of the study are;

- To analyze the trend of liquid assets maintained by the bank and the trend of net profit achieved.
- To evaluate the cash reserve ratio maintained by the selected banks.
- To analyze the profitability ratios, including return on shareholder's equity, total assets and deposit, of the selected banks.
- To examine the relationship between net profit and cash and bank balance, and between net profit and total liquid assets.

The major findings from the study were HBL was more efficient to optimally mobilize the loan and advances, since the interest income on loan and advances was highest in HBL. The mobilization of shareholders" equity by SCBNL was most effective than that of others NABIL was most successful to optimally mobilize the total assets, since the average ROA of NABIL was highest. The representation of cash and bank balance in total deposit was highest in EBL and lowest in NABIL.

Limbu (2008) In his dissertation, "Credit Management of NABIL Bank Limited" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition. The main objectives of the research study are as follow.

- To evaluate various financial ration of the Nabil Bank.
- To analyze the portfolio of lending of selected sector of banks
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

2.9 Research Gap

There are various researchers conduct on lending practice, credit policy, financial performance, credit management and liquidity mobilization of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. In the past research topic on liquidity mobilization the researcher has focused on the limit ratios which are incapable of solving the problems. Actually liquidity mobilization is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about investment aspect' mobilization of fund and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a collective term for the structured process of conducting research. There are many different methodologies used in various types of research and the term is usually considered to include research design, data gathering and data analysis. Research methodologies can be quantitative (for example, measuring the number of times someone does something under certain conditions) or qualitative (for example, asking people how they feel about a certain situation). Ideally, comprehensive research should try to incorporate both qualitative and quantitative methodologies but this is not always possible, usually due to time and financial constraints. Research methodologies are generally used in academic research to test hypotheses or theories. A good design should ensure the research is valid, i.e. It clearly tests the hypothesis and not extraneous variables, and that the research is reliable, i.e. It yields consistent results every time.

Part of the research methodology is concerned with the how the research is conducted. This is called the study design and typically involves research conducted using questionnaires, interviews, observation and/or experiments. The term research methodology, also referred to as research methods, usually encompasses the procedures followed to analyze and interpret the data gathered. These often use a range of sophisticated statistical analyses of the data to identify correlations or statistical significance in the results. Objective, representative research can be difficult to conduct because tests can normally only be conducted on a small sample (e.g. You cannot test a drug on every person in the world so a sample needs to be used in research). This means that researchers need to have a very detailed understanding of the types and limitations of research methodologies which they are using.

3.2 Research Design

Research designs are concerned with turning the research question into a testing project. The best design depends on research questions. Every design has its positive and negative sides. The research design has been considered as a "blueprint" for research, dealing with problems: what questions to study, what data are relevant, what data to collect, and how to analyze the results. To achieve the objective of this study, analytical and descriptive research designs have been used.

3.3 Population and Sample

In the present context, there are 31 commercial banks operating in Nepal. The study of all these banks within this research was almost impossible. Hence, considering this number of banks as total population. Due to limited time and resource information among 31 commercial banks the study has been confined to only two commercial banks, namely Himalayan Bank Limited (HBL) and Everest Bank Limited (EBL) via simple random sampling method which tried to achieve the objectives set out by analyzing the data.

3.4 Nature and Sources of Data

The data used in this study are secondary in nature. Published annual reports of the concerned banks are taken as basic source of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazine, journals, articles, reports, bulletins, data from Nepal Stock Exchange and Nepal Rastra Bank, Central Bureau of statistics, related website from internal sources etc. as well as other supplementary data and various economic surveys are also used. Previous related studies to the subject are also counted as source of information.

Since the data have been obtained from secondary sources, after collection of financial statement, master sheet of financial data have been extracted and tabulated as per the need of this study. In order to process the data, financial statement and other available information were reviewed. These data were grouped in different tables and charts according to their nature. Most of the data have been compiled in one form and processed and interpreted as required.

3.5 Method of Data Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statements are tabulated. Their ratios, percentages, mean, standard deviations, and coefficients of variations are then calculated and presented in the tables. Likewise, trend analysis is also used to know the trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

3.5.1 Financial Tools

i) Liquidity Ratios: This ratio measures the liquidity position of a firm. It measures the firm ability to meet its short-term obligations. As a Financial Analytical tools, following liquidity ratios will be used.

a.) Liquid Ratio

This ratio indicates the liquid short term solvency position of bank. Higher liquid ratio indicates better liquidity position. In other words, liquid ratio represents a margin of safety, i.e. a cushion of protection for creditors and the highest the liquid ratio, greater the margin of safety, large the amount of liquid assets in relation to liquid liabilities, more the bank's ability to meet its liquid obligations.

$$\text{Liquid Ratio} = \frac{Liquid\ Assets}{Liquid\ Liability}$$

b.) Cash and Bank Balance to Total Deposit Ratio: Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash and Bank Balances}}{\text{Total Deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers though different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

c.) Quick Ratio

Quick ratio establishes a relationship between quick assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most quick asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. For Quick Ratio, Cash and bank balance and government securities are included in quick assets. This ratio can be found out by dividing the total of quick assets by total liquid liabilities.

$$\text{Quick Ratio} = \frac{Liquid\ Assets}{Current\ Liabilities}$$

ii) Assets/Liability Management Ratios:

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

a.) Loan and Advances to Total Deposit Ratio: This ratio is also called credit- deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under;

$$\text{Loan and Advances to total deposit ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

b.) Total Investment to Total Deposit Ratio: Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on

government securities, shares and debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposits}}$$

c.) Loan and Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa.

$$\text{Loan and Advances to Total Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Total Assets}}$$

d) **Loans and advances to shareholders equity ratio**

Shareholders equity consists of share capital, share premium, reserve fund and retained earnings. The ratio between loan and advances to shareholders equity provides the measures regarding how far shareholders equity has been able to generate assets to multiply its wealth. It is stated as,

$$\text{Loans and advances to shareholders equity ratio} = \frac{\text{Loans and advances}}{\text{shareholders equity}}$$

iii) Profitability Ratios:

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed.

a.) Return on Total Asset Ratio (ROA)

This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

$$\text{Return on Total Asset Ratio}=\frac{\text{Net profit After Tax}}{\text{Total Assets}}$$

b.) Return on Equity (ROE)

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as;

$$\text{Return on Equity (ROE)} =\frac{\text{Net profit}}{\text{Total equity capital}}$$

3.5 .2 Statistical Tools

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

i) Mean:

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

$$\text{Mean } (\bar{X})=\frac{\Sigma X}{N}$$

Where

$\bar{X}$= Mean of the values

ΣX= Summation of the values

N = No. of Observations

ii) Coefficient of variation:

The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

Coefficient of variation (C.V.) = $\frac{\sigma}{\bar{X}}$* 100

iii) Measures of Correlation:

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively or negatively. This tool analyses the relationship between those variables by which it is helpful to make appropriate investment policy for profit minimization. The Karl Pearson coefficient of correlation (r) is given by following formula:

Coefficient of Correlation (r) = $\frac{\Sigma xy}{N\sigma 1\sigma 2}$

Where, x = X -$\bar{X}$

y = Y-$\bar{y}$

σ1= Standard series of X

σ2= Standard series of Y

N = Number of pairs of Observations

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of zero, it is said that there is no significant relationship between the variables.

iv) Trend Analysis:

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends line following formula can be used:

$y = a + bx$

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

In the process of fulfilling objectives of this research, data revealed are tabulated and presented followed by analysis and interpretation in this chapter. Furthermore, the findings of this research are also presented at this chapter.

4.1 Financial Analysis

In this part various financial ratios related are presented to evaluate and analyze the performance of commercial Banks i.e. EBL and HBL. Some important financial ratios are only calculated in the point of view of fund mobilization. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Liquidity Ratios

Liquidity of any business organization is directly related with the working capital or liquid assets and liquid liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Bank is different organization which is engaged in mobilization of funds. Therefore, without sound liquidity position, bank is not able to operate its function. To measure the bank's solvency position or ability to meet its short-term obligation, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major liquidity ratios have been calculated.

4.1.2 Liquid Ratio

This ratio indicates the liquid short term solvency position of bank. Higher liquid ratio indicates better liquidity position. In other words, liquid ratio represents a margin of safety, i.e. a cushion of protection for creditors and the highest the liquid ratio, greater the margin of safety, large the amount of liquid assets in relation to liquid liabilities, more the bank's ability to meet its liquid obligations.

Table 4.1

Calculation of Liquidity Ratio

(Rs. in Millions)

Fiscal Year	HBL			EBL		
	Liquid Assets	Liquid Liabilities	Ratio	Liquid Assets	Liquid Liabilities	Ratio
2007-2008	22897.90	21487.25	1.07	19223.47	17628.85	1.09
2008-2009	22103.29	20985.87	1.05	21117.03	18459.45	1.14
2009-2010	23259.98	22478.35	1.03	23262.26	21364.57	1.09
2010-2011	29473.42	25542.16	1.15	26630.51	24183.53	1.10
2011-2012	32202.04	26593.82	1.21	33292.55	24856.88	1.34
Mean	1.10			1.15		
S.D	0.066			0.095		
C.V	0.06			0.08		

(Source Annex I)

Figure 4.1

Liquid Assets and Liabilities of HBL

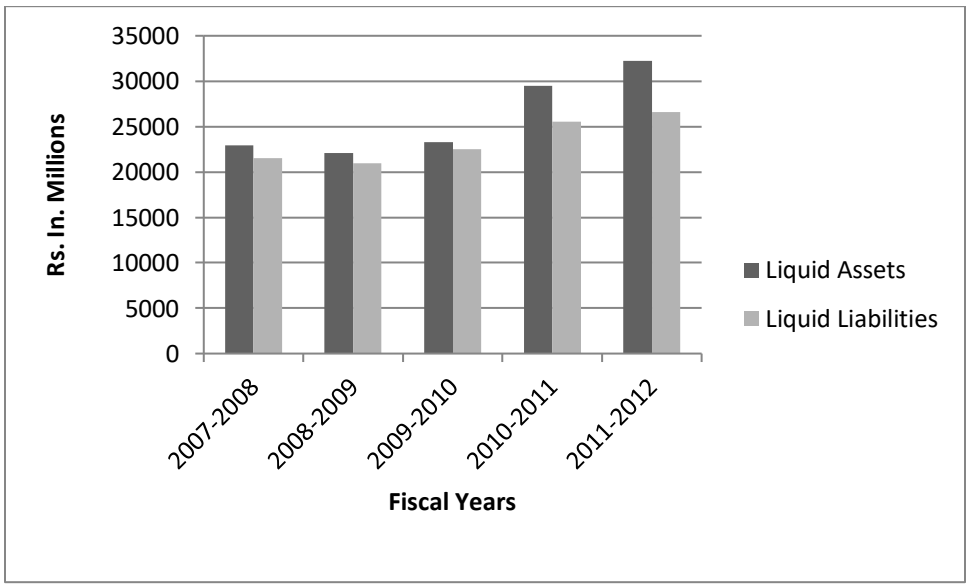


Figure 4.2

Liquid Assets and Liabilities of EBL

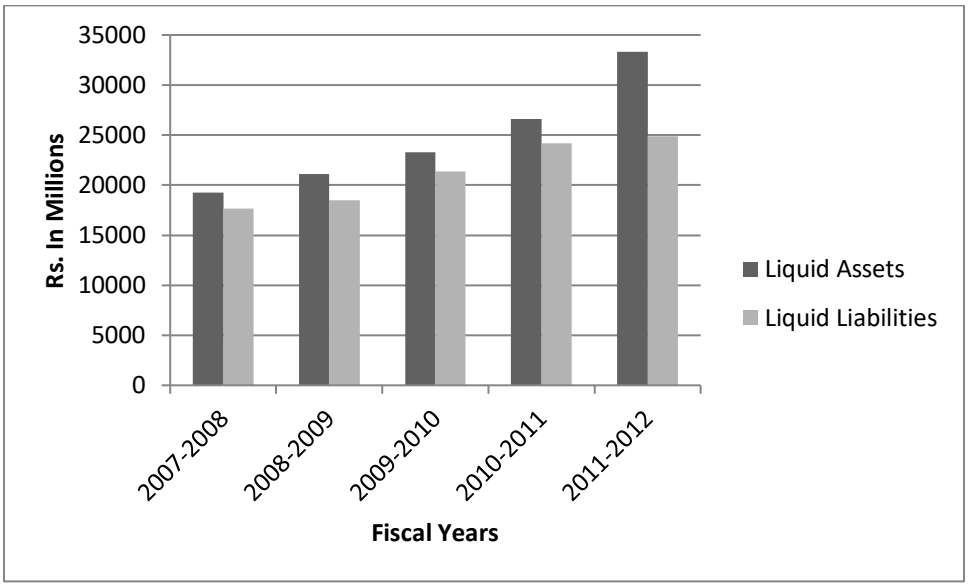


Table 4.1 depicts that the liquid assets and current liabilities of HBL are in fluctuating trend. In the year 2007-2008 it has liquid assets and liabilities of Rs 22897.90 and RS 21487.25. In the year 2008-2009 its liquid assets and liabilities decreased to Rs 22103.29 and Rs 20985.87.From the year 2009-2010 to 2011-2012 its liquid assets and liability are increased. Similarly the liquid assets and current liabilities of EBL are in increasing trend from year 2007-2008 to 2011-2012. The standard deviation is 0.066 in HBL whereas it is 0.095 in EBL. Similarly, coefficients of variation are 0.06 in HBL and 0.08 in EBL. Hence, it shows there is more variation in liquid ratio maintained by EBL compared to HBL.

4.1.3 Quick Ratio

Quick ratio establishes a relationship between quick assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most quick asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. For Quick Ratio, Cash and bank balance and government securities are included in quick assets. This ratio can be found out by dividing the total of quick assets by total liquid liabilities.

Table 4.2

Calculation of Quick Ratio

(Rs. in Millions)

Fiscal Year	HBL			EBL		
	Quick Assets	Current Liabilities	Ratio	Quick Assets	Current Liabilities	Ratio
2007-2008	12713.15	21487.25	0.60	5259.58	17628.85	0.30
2008-2009	13154.27	20985.87	0.61	4842.83	18459.45	0.26
2009-2010	13935.4	22478.35	0.60	4857.98	21364.57	0.23
2010-2011	11405.5	25542.16	0.45	6267.83	24183.53	0.26
2011-2012	14180.7	26593.82	0.53	6951.86	24856.88	0.28
Mean	0.55			0.26		
S.D	0.059			0.024		
C.V	0.105			0.092		

(Source Annex I)

Figure 4.3

Quick Assets and Current Liabilities of HBL

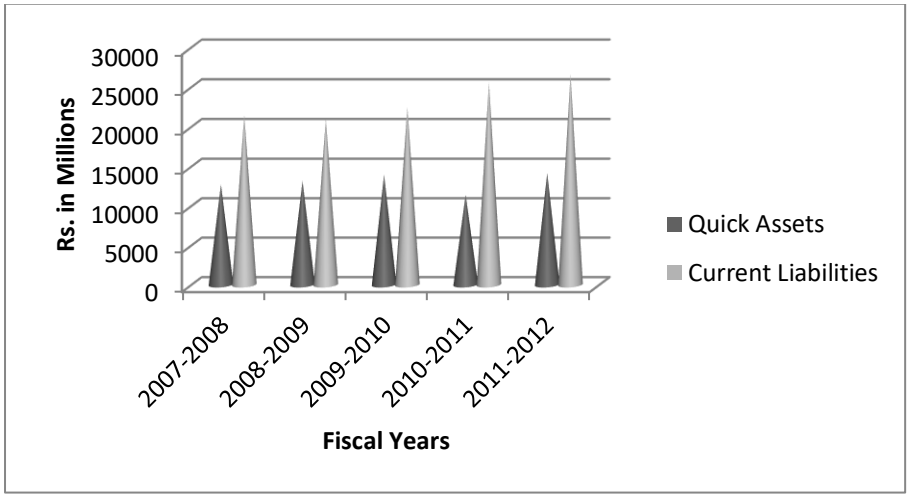


Figure 4.4

Quick Assets and Current Liabilities of EBL

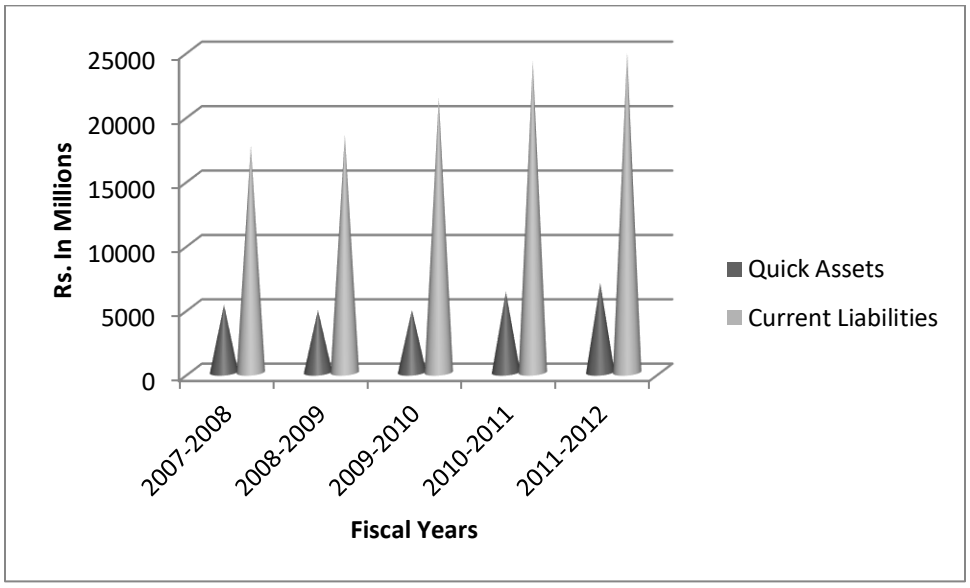


Table 4.2 shows that the quick ratios of HBL are in increasing trend except in the final years of the study period. The ratio is highest (0.61) in the year 2008-2009 and lowest (0.45) in the year 2010-2011. The average quick ratio of HBL is 0.55. The yearly quick ratios are lower than the average in the year 2010-2011 and 2011-2012 only. However the ratio is higher in the first and second year of the study period. The quick ratios of EBL are fluctuating over the study period. It is highest (0.30) in the year 2007-2008 and lowest (0.23) in the year 2009-2010. The average quick ratio of EBL is 0.26. In the first years of the study period, the yearly quick ratios are higher than the average ratio. The average quick ratio of HBL is higher than that of EBL.

The above analysis helps to conclude that the quick ratios of HBL are always better than EBL. It shows the better liquidity position of HBL in comparison to EBL.

4.1.4 Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit.

Table 4.3

Calculation of cash and Bank balance to Total Deposit Ratio

(Rs. in Millions)

Fiscal Year	HBL			Fiscal Year	EBL		
	Cash & Bank Balance	Total Deposit	Ratio		Cash & Bank Balance	Total Deposit	Ratio
2007-2008	1448.1	31842.7	0.05	2007-2008	2667.9	23976.3	0.11
2008-2009	3048.4	34682.3	0.09	2008-2009	6164.4	33322.9	0.18
2009-2010	3866.3	37611.2	0.10	2009-2010	7818.8	36932.3	0.21
2010-2011	2964.5	40920.6	0.07	2010-2011	6122.8	41127.9	0.15
2011-2012	5361.8	47730.9	0.11	2011-2012	10300.3	50006.1	0.21
Mean	**0.8**			**0.17**			
S.D.	**0.71**			**0.03**			
C.V.	**0.89**			**0.22**			

Figure 4.5

Cash and Bank balance to Total Deposit of HBL

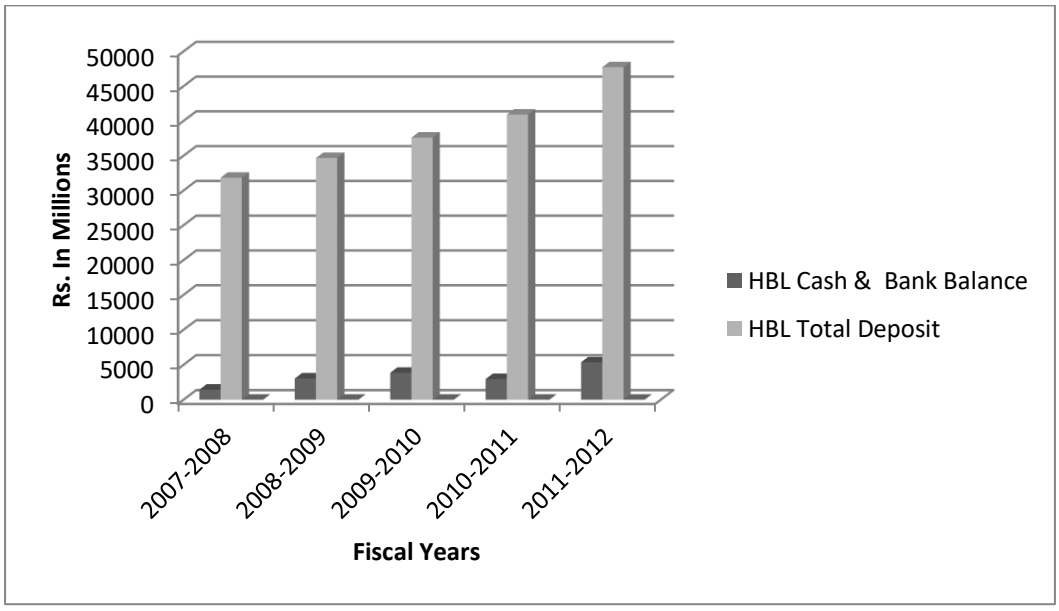
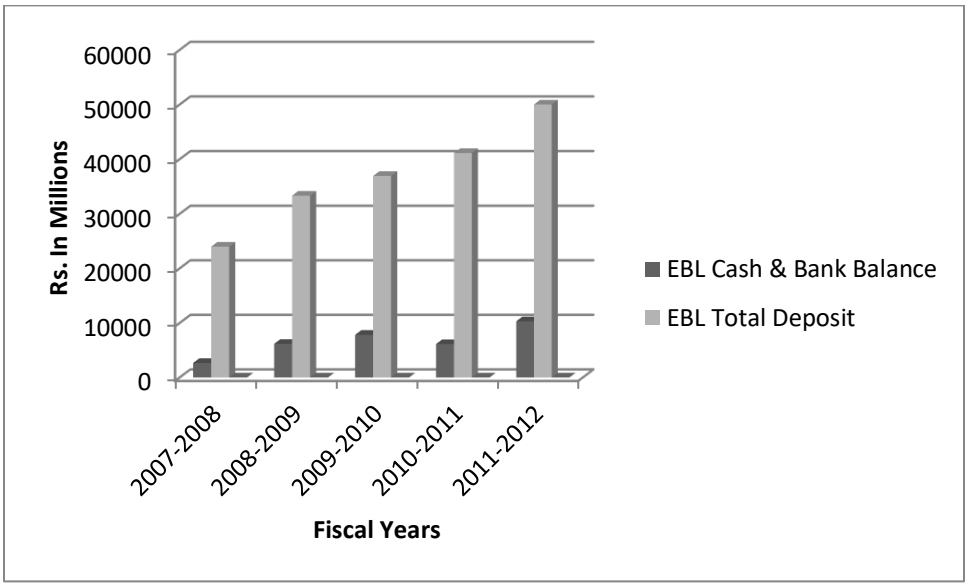


Figure 4.6

Cash and Bank balance to Total Deposit of EBL



The above data shows that the Cash and Bank Balances to Total Deposits ratio of both the bank are fluctuating. HBL has its highest ratio 0.11 in the year 2011-2012 Likewise EBL has its highest ratio 0.21 in the year 2009-2010 and 2011-2012.

From the above analysis, it can be concluded that from the average ratios shows that liquidity position of HBL is better than EBL because it has higher average ratio than that of EBL. According to C.V. the cash and bank balance position with respect to total deposit, is better in the case of HBL than EBL.

4.2 Assets Management Ratios:

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

4.2.1 Loan and Advances to Total Deposit Ratio:

This ratio is also called credit- deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits.

Table 4.4

Calculation of Loan and Advances to Total Deposit Ratio

(Rs. in Millions)

Fiscal Year	HBL			Fiscal Year	EBL		
	Loan & Advances	Total Deposits	Ratio		Loan & Advances	Total Deposits	Ratio
2007-2008	19497.5	31842.7	0.61	2007-2008	18836.4	23976.3	0.79
2008-2009	24793.1	34682.3	0.71	2008-2009	24469.6	33322.9	0.73
2009-2010	27980.6	37611.2	0.74	2009-2010	28156.4	36932.3	0.76
2010-2011	31566.9	40920.6	0.77	2010-2011	31661.8	41127.9	0.77
2011-2012	34965.4	47730.9	0.73	2011-2012	36616.8	50006.1	0.73
Mean	**0.72**			**0.75**			
S.D.	**0.05**			**0.02**			
C.V.	**0.07**			**0.03**			

Figure 4.7

Loan and Advances to Total Deposit of HBL

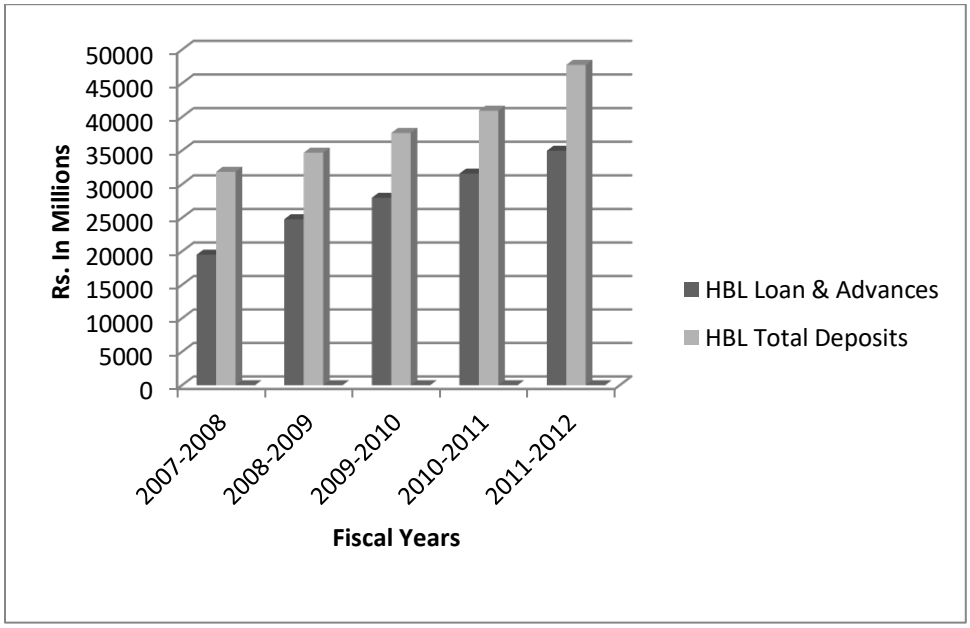
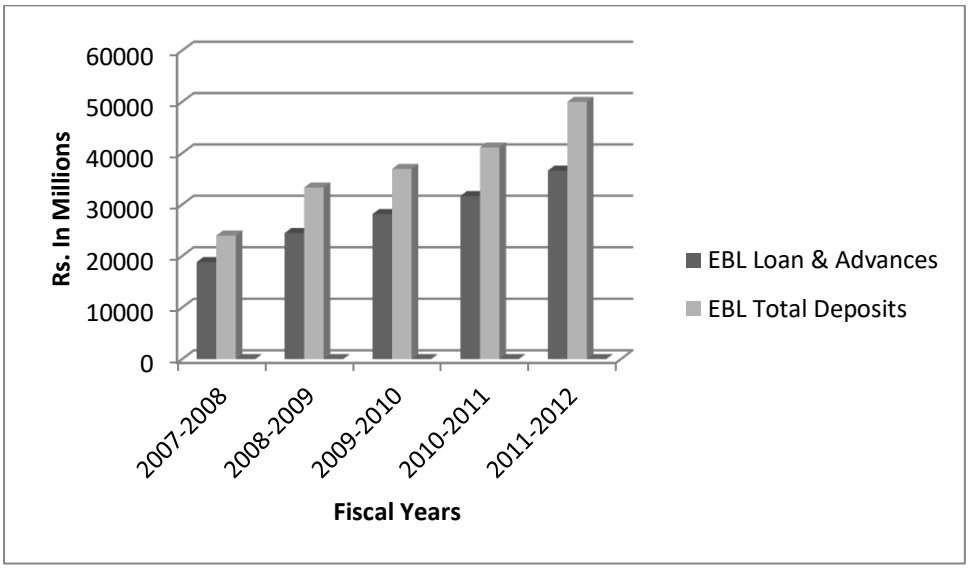


Figure 4.8

Loan and Advances to Total Deposit of EBL



The above table shows that the loan and advances to total deposits of both the bank are changing over study period. The loan and advances of HBL was highest of Rs 34965.4 on year 2011-2012. Likewise the loan and advances of the EBL was highest of Rs 36616.8 on year 2011-2012. Similarly the total deposits of both the bank are in increasing trends. HBL has its highest deposits of Rs 47730.9 on year 2011-2012 and likewise EBL has its highest deposits of Rs 50006. On year 2011-2012.

The standard deviation of HBL is 0.05 whereas it is 0.02 in EBL. The coefficient of variation of HBL is 0.07 and it is 0.03 in EBL. Thus C.V. of EBL is lower than HBL. This shows that there is less variation in loan and advance to total deposit ratio maintained by EBL compared to HBL. In other words, EBL has low risk. The above analysis helps to conclude that loan and advances to total deposit ratio or total deposit turnover ratio of HBL is better than EBL. It is the indication of better performance of HBL. Thus HBL is utilizing the funds more efficiently for the profit generating purpose on loan and advances than EBL. However, higher C.V. in HBL compared to EBL shows high risk in loan and advances to total deposit ratio of HBL.

4.2.2 Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of EBL and HBL are calculated and presentation below.

Table 4.5

Calculation of Total Investment to Total Deposit Ratio

(Rs. in Millions)

Fiscal Year	HBL			Fiscal Year	EBL		
	Total Investment	Total Deposits	Ratio		Total Investment	Total Deposits	Ratio
2007-2008	13340.1	31842.7	0.42	2007-2008	5059.6	23976.3	0.21
2008-2009	8710.6	34682.3	0.25	2008-2009	5948.5	33322.9	0.18
2009-2010	8444.9	37611.2	0.22	2009-2010	5008.3	36932.3	0.14
2010-2011	8769.9	40920.6	0.21	2010-2011	7743.9	41127.9	0.19
2011-2012	10031.5	47730.9	0.21	2011-2012	7863.6	50006.1	0.16
Mean	**0.26**			**0.17**			
S.D.	**0.47**			**0.03**			
C.V.	**1.82**			**0.16**			

Figure 4.9

Total Investments to Total Deposit of HBL

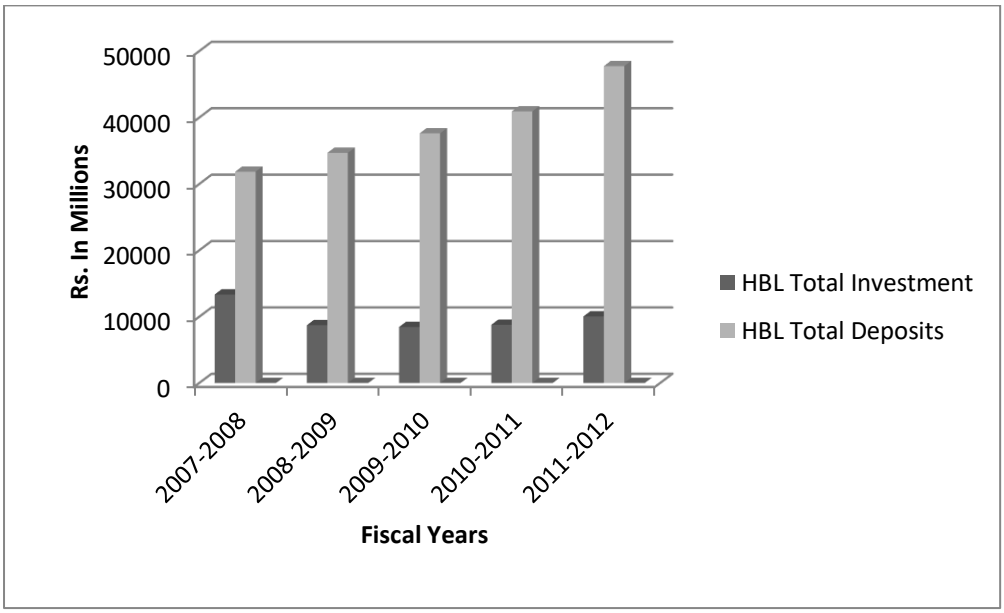


Figure 4.10

Total Investments to Total Deposit of EBL

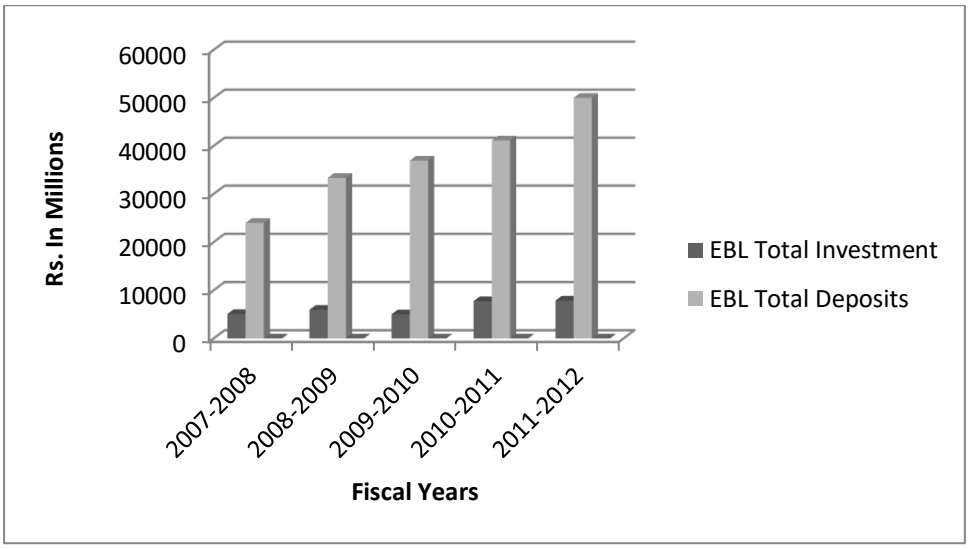
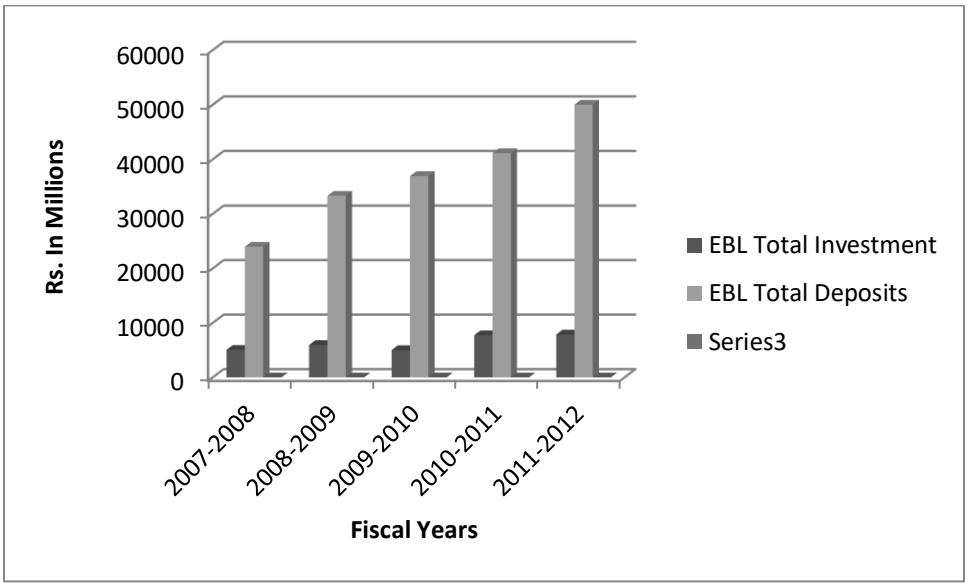


Figure 4.11

Total Investments of Both Banks



The above table demonstrates that the total investment to total deposits of both the bank is changing over the study period. HBL has highest total investment of Rs 13340.1 on year 2007-2008. Likewise EBL has highest total investment of Rs 7863.6on year 2011-2012. The total average investment of HBL for the five year was 0.26 as compared to the total average investment of EBL 0.17. The C.V. of EBL is lower than the CV of HBL i.e 1.82>0.16 so it seems that EBL is more inconsistency than HBL. It signifies HBL has successfully allocated its depositing investment portfolio.

4.2.3 Loan and Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa.

Table 4.6

Calculation of Loan and Advances to Total Assets Ratio

(Rs in million)

Fiscal Year	HBL			Fiscal Year	EBL		
	Loan & Advances	Total Assets	Ratio		Loan & Advances	Total Assets	Ratio
2007-2008	19497.5	36175.5	0.54	2007-2008	18836.4	27646.5	0.68
2008-2009	24793.1	39330.1	0.63	2008-2009	24469.6	37501.7	0.65
2009-2010	27980.6	42717.1	0.66	2009-2010	28156.4	41982.8	0.67
2010-2011	31566.9	46736.2	0.68	2010-2011	31661.8	46840.3	0.68
2011-2012	34965.4	54364.4	0.64	2011-2012	36616.8	55813.8	0.66
Mean	**0.63**			**0.66**			
S.D.	**0.04**			**0.03**			
C.V.	**0.06**			**0.04**			

Figure 4.12

Loan and Advances to Total Assets of HBL

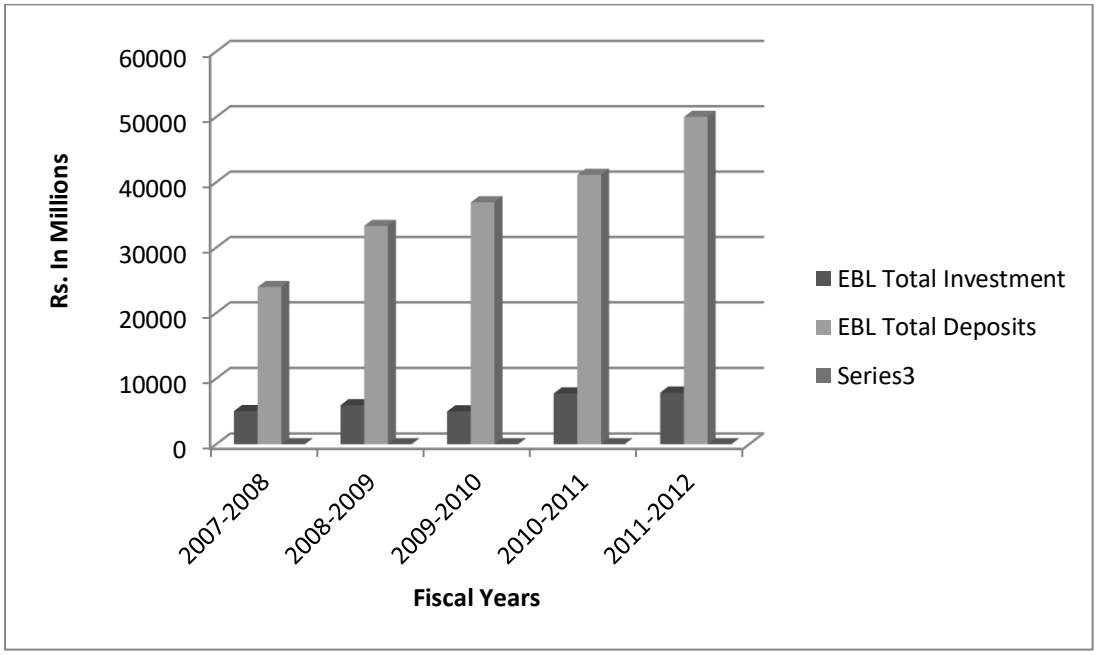
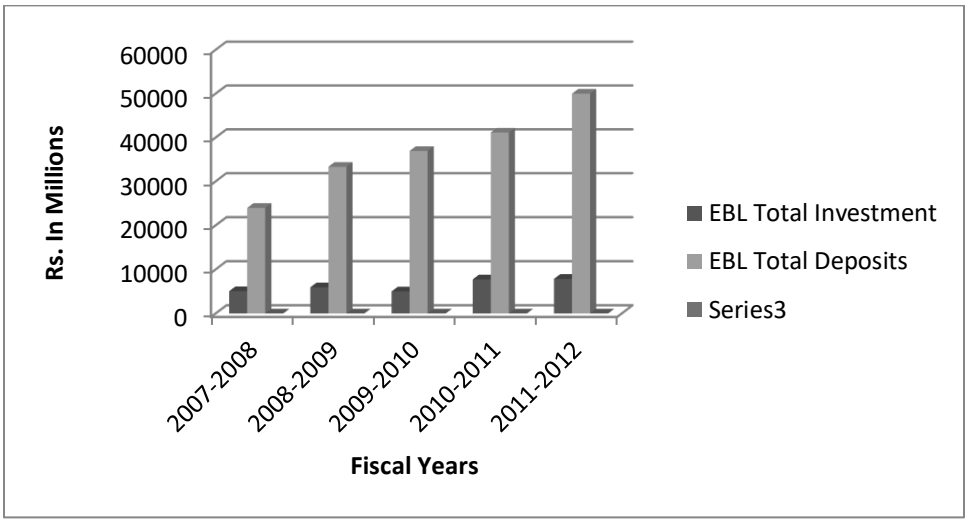


Figure 4.13

Loan and Advances to Total Assets of EBL



The above table shows that the loan and advances of HBL and EBL is in increasing trend over study period. In the year 2007-2008 HBL has RS 19497.5 loan and advances which increases to Rs 27980.6 in the year 2009-2010 and again it started to increased and reach to Rs 34965.4 in year 2011-2012. Likewise EBL loan and advances was increasing every year. It has Rs 18836.4 in year 2007-2008 and reached to Rs 36616.8 in 2011-2012.

The mean of EBL is greater than HBL. It reveals that in total assets, EBL has high proportion of loan and advances. EBL has utilized its total assets more efficiently in the form of loan and advances. The higher C.V. of HBL states that it has less uniformity in these ratios throughout the study period than that of EBL. S.D. and C.V. of HBL has high than the EBL.

4.3 Profitability Ratios:

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed.

4.4 Return on Total Asset Ratio (ROA)

This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds.

Table 4.7

Calculation of Return on Total Asset Ratio

(Rs. in Millions)

Fiscal Year	HBL			EBL		
	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
2007-2008	635.8	36175.5	0.025	451.2	27646.5	0.005
2008-2009	752.8	39330.1	0.026	638.7	37501.7	0.006
2009-2010	508.7	42717.1	0.024	831.8	41982.8	0.007
2010-2011	893.1	46736.20	0.025	931.3	46840.3	0.008
2011-2012	958.6	54364.40	0.025	1090.6	55813.8	0.011
Mean	**0.085**			**0.093**		
S.D	**0.173**			**0.181**		
C.V	**2.035**			**1.946**		

Figure 4.14

Net profits to Total Assets of HBL

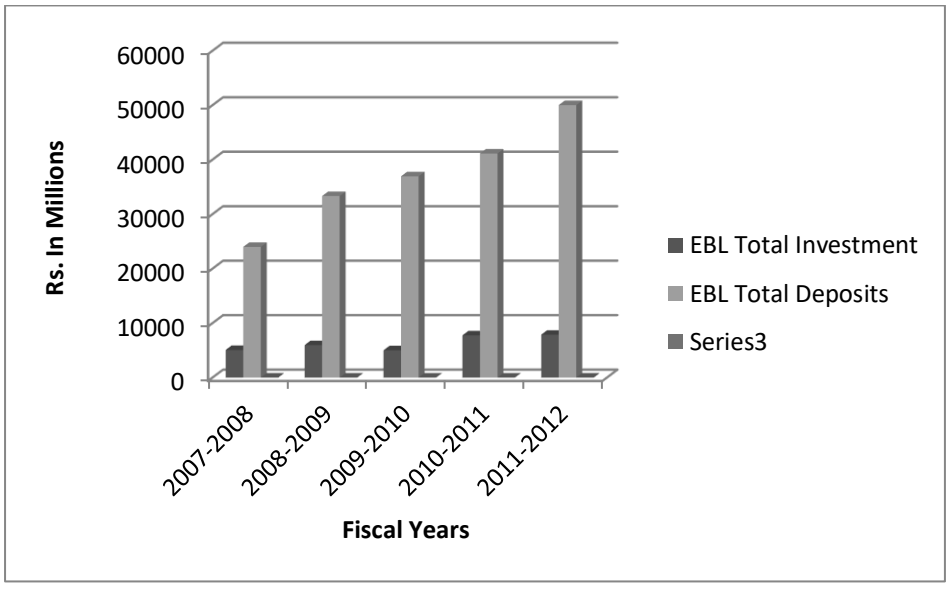
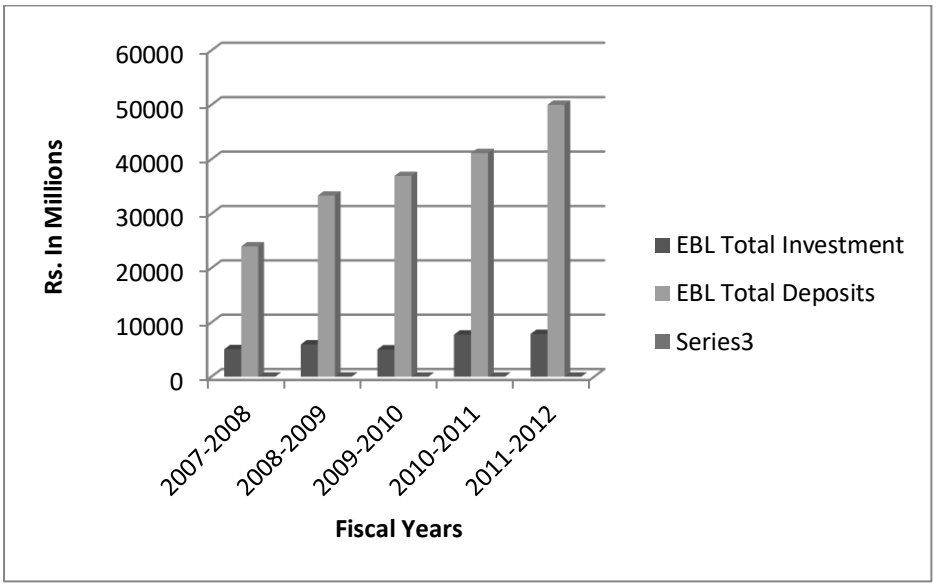


Figure 4.15

Net profits to Total Assets of EBL



The above table shows that the both the banks have their net profit on increasing trends. HBL has its highest profit of Rs 958.6 in the year 2011-2012. Likewise EBL has its highest profit of Rs 1090.6 in the year 2011-2012. The analysis above helps to conclude that the overall profitability of EBL has been better than HBL. EBL is efficiently using its working fund of assets to earn higher rate of profit.

4.4.1 Return on Equity (ROE):

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth).

Table 4.8

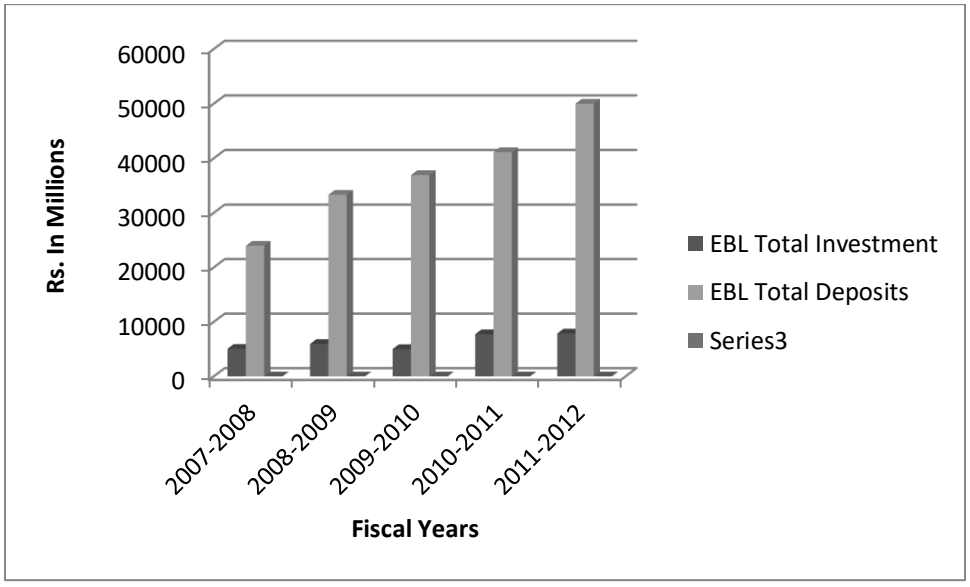
Return on Equity Ratio

Fiscal Year	HBL	EBL
2007-2008	35.96	21.10
2008-2009	33.89	20.20
2009-2010	37.55	24.65
2010-2011	32.68	24.67
2011-2012	32.85	23.49
Mean	34.59	22.82
S.D	1.88	0.044
C.V	0.054	0.0019

(Source Annex I)

Figure 4.16

Returns on Equity Ratio



The above table indicated the efficiency of the banks in generating profit through mobilizing the shareholders property. The table showed that the return on Shareholders equity of HBL was highest, 37.55%, in the fiscal year 2008-2009 and lowest, 32.68%, in the fiscal year 2009-2010.

In average, the ROE in HBL was 34.59%, which indicated that HBL was able to generate Rs. 34.59 as net income from the mobilization of Rs. 100 of shareholders equity. Also, the coefficient of variation, 0.054 indicates consistency in the ratio. Likewise the ROE of EBL was highest 24.67 in the year 2010-2011 and has lowest ROE 20.20% in the year 2008/2009.

Comparing the banks, it can be concluded that HBL was most effective in optimally mobilizing the shareholders equity, since ROE of HBL (34.59%) was highest in comparison with that of EBL (22.82%).

4.5 Statistical Analysis

4.5.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan and advances and net profit EBL and HBL using Karl Persons coefficient of correlation, value of coefficient of determination (R^2) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

A) Correlation Coefficient between Deposit and Loan and Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan and advances are dependent variable (Y). The main objectives of computing r between these two variables is to justify whether deposit are significantly used as loan and advances in proper way or not.

Table 4.9

Correlation between Deposit and Loan and Advances

Banks	r	R^2	P.Er.	6 P.Er.	Remarks
HBL	0.91	0.82	0.08	0.48	significant
EBL	0.86	0.73	0.12	0.72	significant

(Source Annex II)

From the above table, it is found that coefficient of correlation between deposits and loan and advances of HBL and EBL is 0.91 and 0.86. It is shows that both have the positive relationship between these two variables. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. in other words, there is significant relationship between deposits and loan and advances.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

Table 4.10

Coefficient of Correlation between Total Deposits and Total Investment

Banks	r	R^2	P.Er.	6 P.Er.	Remarks
HBL	0.84	0.70	0.13	0.80	significant
EBL	0.80	0.64	0.16	0.96	significant

(Source Annex II)

From the above Table, we found that the coefficient of correlation between total deposit and total investment of HBL is 0.84. It shows the high degree positive correlation. In addition, coefficient

of determination of EBL is 0.80. It means only 80 percent of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is higher than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of EBL. Similarly, there is high degree correlation positive coefficient between total deposit and total investment of HBL, which is indicator by correlation coefficient of 0.84. The value of coefficient of determination is found 0.70 this refers that 70 percent of the variation in total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of HBL From the above analysis, the conclusion can be drawn in the case of EBL and HBL that both banks have high degree positive correlation.

c) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2007-2008 to 2011-2012.

Table 4.11

Coefficient of Correlation between Total Investment and Net Profit

Banks	r	R^2	P.Er.	6 P.Er.	Remarks
HBL	0.92	0.84	0.068	0.41	significant
EBL	0.87	0.75	0.11	0.67	significant

(Source Annex II)

Above Table shows, correlation coefficient between total investment and net profit of EBL is 0.87 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of EBL is 0.75. It means only 75 percent is contribute by total investment. Obviously, this correlation is significant at all due to coefficient of determination is higher than P. Error. On the other hand HBL has high positive correlation

between total investment and net profit i.e. 0.92. The coefficient of determination of HBL is 0.84 It means 84 percent of Profit is contribute by total investment but this relationship is significant as its correlation coefficient is higher than 6 P.Er. i.e 0.92. EBL has more significant relationship between total investment and net profit than that of HBL Thus it can be concluded that the degree of relationship between total investment and net profit of EBL is little high than the HBL. This little correlation coefficient indicates that the bank has poor performed in order to generate net profit.

4.6 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of EBL and HBL for further Five year.

Table 4.12

Trend Analysis of Total Deposit of HBL and EBL

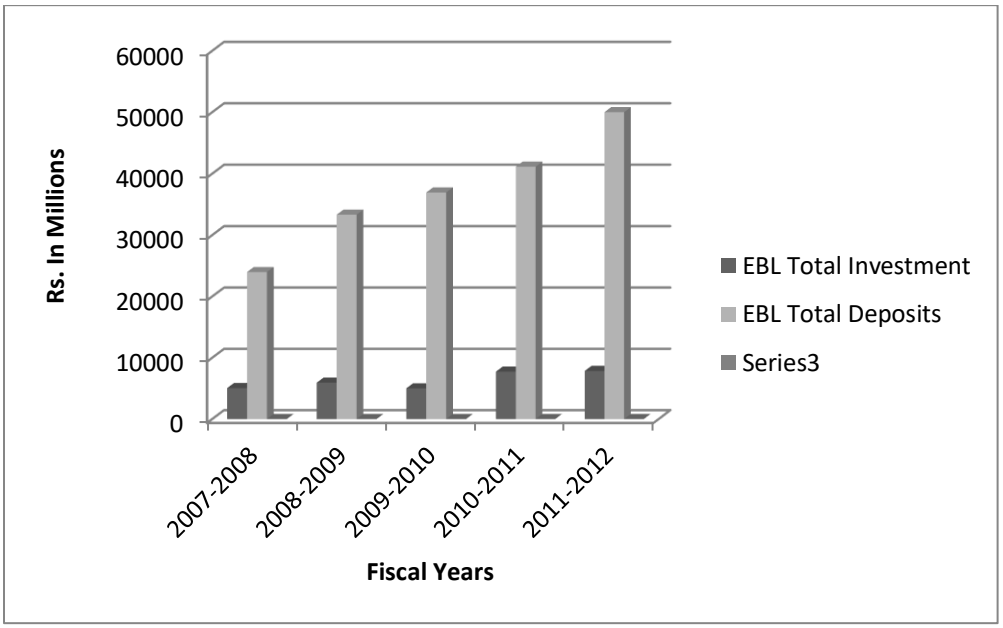
(Rs. in Millions)

Year	HBL	EBL
2007-2008	31842.7	23976.3
2008-2009	34682.3	33322.9
2009-2010	37611.2	36932.3
2010-2011	40920.6	41127.9
2011-2012	47730.9	50006.1
2012-2013	50830.9	49101.46
2013-2014	52789.4	50610.12
2014-2015	67654.4	64118.78
2015-2016	69234.9	68627.44

(Source Annex II)

Figure 4.17

Trend Analysis of Total Deposit of HBL and EBL



The above table shows that the total deposits of both the banks have increasing trend. It seems that the incensement of total deposits of HBL is higher than that of EBL. From the above trend analysis it is clear that HBL has higher position in collecting deposit than EBL.

B) Trend Analysis of Loan and advances

Here, the trend values of loan and advances Between HBL and EBL have been calculated for further five year. The following Table shows the actual and trend values of HBL and EBL.

Table 4.13

Trend Analysis of Loan and advances of HBL and EBL

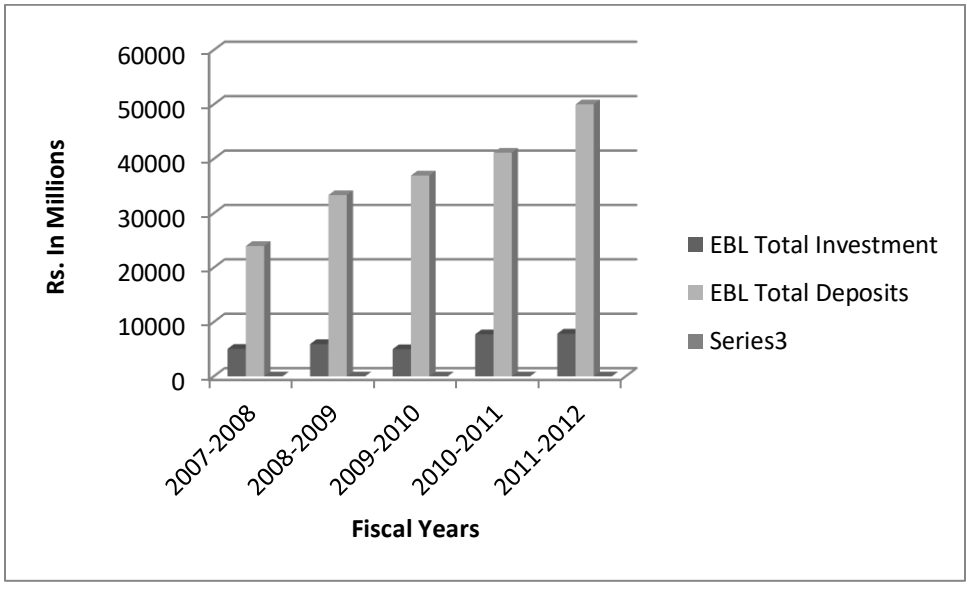
(Rs. in Millions)

Year	HBL	EBL
2007-2008	19497.5	18836.4
2008-2009	24793.1	24469.6
2009-2010	27980.6	28156.4
2010-2011	31566.9	31661.8
2011-2012	34965.4	36616.8
2012-2013	36789.3	40830.9
2013-2014	39678.3	42789.4
2014-2015	44987.4	47654.4
2015-2016	48967.3	52234.9

(Source Annex II)

Figure 4.18

Trend Analysis of Loan and advances of HBL and EBL



The above table shows that the total deposits of both the banks have increasing trend. The increasing trend of EBL is higher and aggressive than HBL. From the above analysis, it is clear that both HBL and EBL is mobilizing its collected deposits and other funds in the form of loan and advances.

C) Trend Analysis of Total Investment

Here, the trend values of total investment Between HBL and EBL have been calculated for further five year. The following Table shows the actual and trend values of HBL and EBL.

Table 4.14

Trend Analysis of Total Investment of HBL and EBL

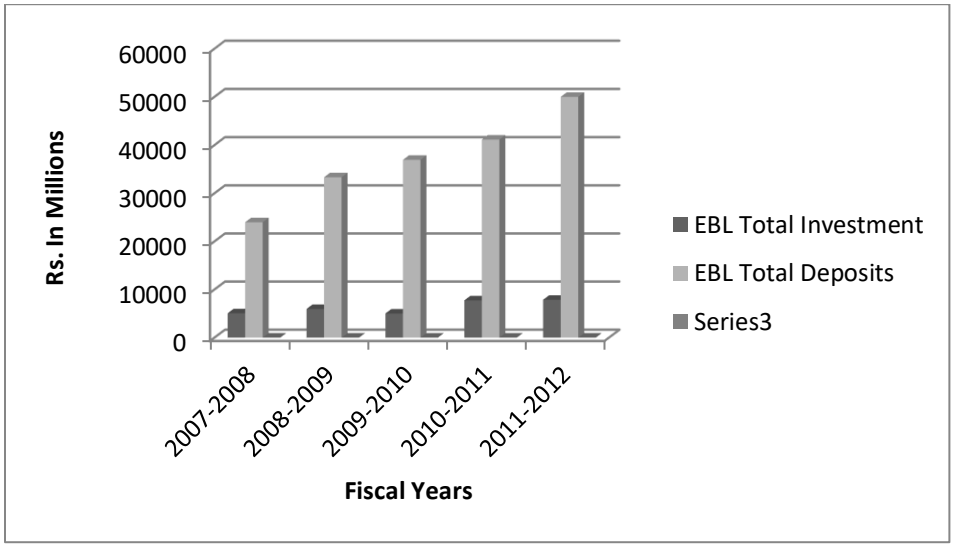
(Rs. in Millions)

Year	HBL	EBL
2007-2008	13340.1	5059.6
2008-2009	8710.6	5948.5
2009-2010	8444.9	5008.3
2010-2011	8769.9	7743.9
2011-2012	10031.5	7863.6
2012-2013	13875.59	8230.9
2013-2014	14698.32	8789.4
2014-2015	15521.05	9154.4
2015-2016	16343.78	9334.9

(Source Annex II)

Figure 4.19

Trend Analysis of Total Investment of HBL and EBL



The above table shows that the total investment of both the banks has increasing trend. The increasing trend of HBL is higher and aggressive than EBL. The forecasted trend projected that the HBL has greater increment rate in total investment than the increment rate of EBL. The figure indicates HBL has highly mobilized the total investment.

C) Trend Analysis of Net Profit

Here, the trend values of net profit Between HBL and EBL have been calculated for further five year. The following Table shows the actual and trend values of HBL and EBL.

Table 4.15

Trend Analysis of Net Profit of HBL and EBL

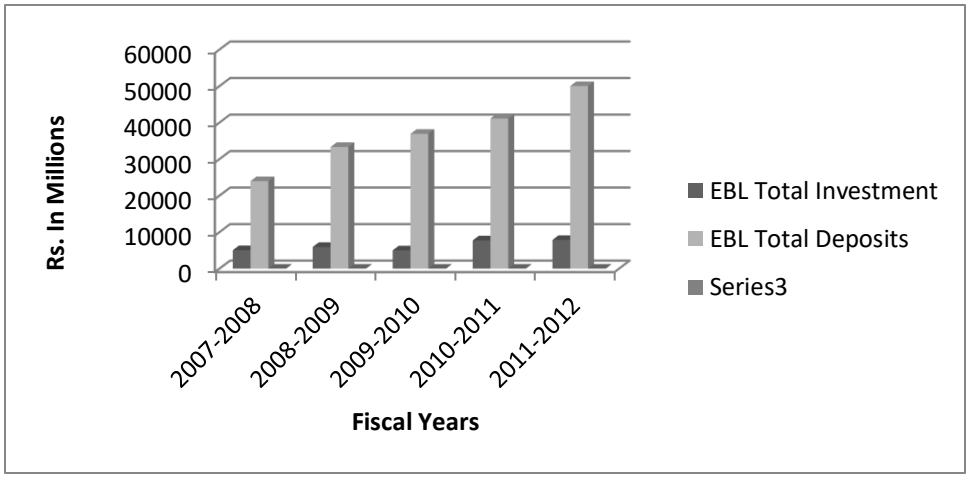
(Rs. in Millions)

Year	HBL	EBL
2007-2008	536.24	451.2
2008-2009	658.76	638.7
2009-2010	691.69	831.8
2010-2011	818.92	931.3
2011-2012	1025.11	1090.6
2012-2013	1134.5	1297.3
2013-2014	1245.5	1445.4
2014-2015	1456.8	1666.7
2015-2016	1678.8	2023.8

(Source Annex II)

Figure 4.20

Trend Analysis of Net Profit of HBL and EBL



The above table shows that the total investment of both the banks has increasing trend. The increasing trend of HBL is lower than EBL. Above statistics, shows that both the banks have consistent net profit throughout the study period. In conclusion, EBL is doing better in order to

generate net profit during the projected study period, though both EBL and HBL have increasing trend.

4.7 Major Findings of the Study

- There is more variation in liquid ratio maintained by EBL compared to HBL.
- The quick ratios of HBL are always better than EBL. It shows the better liquidity position of HBL in comparison to EBL.
- The cash and bank balance position with respect to total deposit, is better in the case of HBL than EBL.
- Loan and advances to total deposit ratio or total deposit turnover ratio of HBL is better than EBL. It is the indication of better performance of HBL. Thus HBL is utilizing the funds more efficiently for the profit generating purpose on loan and advances than EBL.
- In case of total investment to total deposits it seems that EBL is more inconsistency than HBL. It signifies HBL has successfully allocated its depositing investment portfolio.
- EBL has utilized its total assets more efficiently in the form of loan and advances. The higher C.V. of HBL states that it has less uniformity in these ratios throughout the study period than that of EBL. S.D. and C.V. of HBL have high than the EBL.
- The analysis above helps to conclude that the overall profitability of EBL has been better than HBL. EBL is efficiently using its working fund of assets to earn higher rate of profit.
- Comparing the banks, it can be concluded that HBL was most effective in optimally mobilizing the shareholders equity
- There is significant relationship between deposits and loan and advances of both the banks.

- There is significant relationship between total deposit and total investment of HBL and EBL.
- It can be concluded that the degree of relationship between total investment and net profit of EBL is little high than the HBL. This little correlation coefficient indicates that the bank has poor performed in order to generate net profit.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Establishment of commercials banks, especially joint venture banks, has continued in response to the economic liberalization policies of the government. As a result, in Nepal there are seventeen commercial banks at present competing with each other in their business. These joint venture banks have concentrated themselves on financing foreign trade, commerce and industry. As mentioned earlier, this study concentrates on the comparative analysis of working capital position of aforementioned banks HBL and EBL. From the perspective of the researcher, these two banks are chosen for study mainly because of accessibility and availability of financial data for latest five year period. To fulfill the objective, an appropriate research methodology has been developed, which includes ratio analysis as financial tool and trend analysis, correlation coefficient. The major ratio analysis consists of the composition of working capital, liquidity position, turnover position, capital structure position and profitability position. Under these, main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital, Karl Pearson's Correlation Coefficient r is calculated and analyzed.

The correlation coefficient of the variables selected for the statistical analysis shows that HBL has significant relationship with cash and bank balance and liquid liabilities and government securities and total deposits but insignificant relationship with loan and advances and net profit and loan and advances and total deposit. Similarly, EBL has insignificantly relationship with cash and bank balance and liquid liabilities and government securities and total deposits except loan and advances and total deposits and loan and advances and net profit. Therefore, from above all, it can be concluded that both the banks are not of much difference. Comparatively, HBL is financially steady and better than EBL. But it does not mean that EBL is not performing well. Both banks are striving for better performance by adopting various new strategic and providing additional services. Some null hypothesis formulated in chapter three, are tested in appendices and results are analyzed in chapter four.

5.2 Conclusion

In conclusion, it can be said that working capital management is one of the most important parts of every financial institutions. Working capital is a crucial capital, which is often compared to lifeblood of the human being. After analyzing the two samples banks HBL and EBL comparatively using various financial and statistical tools, various important conclusions have been derived from the study. The average cash and bank balance and government securities percentage is higher in HBL than in EBL. The net working capitals of only HBL are positive in the first year of the study period. Comparatively, HBL has higher net working capital that EBL. Both the banks are able to maintain adequate liquidity position to meet the short term or even instant obligations in that period. The liquid ratio of both HBL and EBL are below the normal standard ratio of 2:1. However, the liquidity position of HBL is slightly better than that of EBL. Although higher liquidity means lower risk as well as lower profit, but in commercial bank, higher liquidity is not always the cause of lower profitability. In case of profitability position, profitability in terms of interest earned to total assets ratio of EBL is slightly higher than that of HBL. Therefore, EBL is more efficiently using its total assets (funds) to earn interest income. The net profit to total assets and the net profit to deposit ratios are also higher in HBL than in EBL. Thus, it is concluded that the average profitability ratio of HBL is higher than that of EBL. Both the banks have constant level of growth in profitability during the study period. To acquire higher profits they should take strong steps for the better management, strong marketing and strategic development.

5.3 Recommendations

On the basis of the major findings drawn on the previous chapter and the conclusion made in this chapter, the following recommendations have been given for the enhancement of the liquidity and profitability position of the sampled banks;

- There is more variation in liquid ratio maintained by EBL compared to HBL. Thus it is recommended that HBL should also provide variation in Liquid ratio.
- It would be better if all the banks focus on collecting the deposit through fixed deposit, which requires less liquidity in the bank and the bank can invest such money in productive sector.

- The net profit earned and the net profit margin of HBL was lowest. It would be better if HBL reengineers the portfolio of its investment to achieve higher profit.
- Although EBL earned highest profit within these five years period, the interest income to loan and advances of HBL was lowest. Thus, HBL should seek the high interest earning grant.
- For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.
- Further studies can be conducted by increasing sample size, by using other statistical and financial tools, by using other variables.

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