

CHAPTER-I

INTRODUCTION

1.1 General Background

Economic development of a country largely depends on the development of different sectors of the economy like agriculture, industry, trade, tourism, etc., and development of these sectors needs a regular supply of financial resources. In developing countries like Nepal, there is always shortage of the capital for the development activities. It is not possible to handle and develop all the sectors by the government alone at a time. So, contribution from people in the financial sector is a must for economic growth of the country.

Nepalese financial sector is largely dominated by the banking sector. It has been known for long that banking sector is the lifeline of a nation and its people. Banks play an important role in the economic growth of a country. Banking, when properly organized, aids and facilitates the growth of trade and industry. In modern economy, banks are considered not as dealers in money but as the leaders of development. Banks are not just the storehouse of the country's wealth but are the reservoirs of resource necessary for economic development. Banks render valuable services to trade and industry. Banks help in the uniform development of the different regions in the country.

The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development. The improper infrastructure of Nepalese economy, slow paced industrial sector, low rate of employment majority of non-organized financial sector, lack of organized capital market, have always been demanding an efficient, competent and liberalized banking industries. Today banking sector has evolved itself as an integral part of the whole economy.

Banks are among the most important financial institutions in the economy and essential business in thousands of local towns and cities. In this context, there is much confusion about exactly what a bank is, Bank is a financial intermediate which

accepts deposit from the public and in turn advances loans by creating credit. Bank should lend the money for its good health but before lending bank should consider different factors. The function of bank starts from deposits. Bank acts as financial intermediary. The intermediation takes place when banks accepts deposits from general public, corporate bodies and private organization and deploys those deposits for profitable purpose in the form of loans and advances.

Commercial banks are the heart of financial sectors, which occupy important place in the framework of the economy. They hold deposits of people, government and business units. They make funds available through their lending and investing activities to individuals, business and government sector. So, as they provide capital for the development of the industry, trade, business and services, they contribute large portion on the economic growth of the nation. A healthy development of any commercial bank depends upon its investment and lending policy. The sound policies help commercial banks maximize quality and quantity of investment and achieve own objectives of profit maximization and social welfare. Such policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success. Thus, formulation of sound investment policies, efficient lending, co-ordination and planned efforts accelerate the pace of economic growth. (*Crosse, 1963: 123*)

In the present context, the role of money in the economy has become very important. Proper and well-planned management of money-directs, determines and enhances the health and productivity of total financial sector and performance of financial sector affects the growth of the economy. Bank collects, disperses and controls the flow of money. Banks collect the funds from public who has savings and it disperses the fund to the people who are in need of it. This way, whole infrastructure of national development, direction of economy, rate of progress and even the habit of people is being the function of the banking system. Therefore, the existence of bank is for the change in every aspect of human beings and its presence is for the enrichment of the people.

Loan is regarded as the most income generating assets especially in commercial bank. It is regarded as the heart of the commercial banks in the sense that it occupies large volume of transactions, it covers the main part of investment and most of the investment activities based on the loan; it is the main factor for creating profitability. Loan and advances dominate the asset side of the balance sheet of any bank. Similarly, earning from such loans and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the banks in the world failure due to shrinkage in the value of loans and advances. So, loan is regarded as the risky assets. Risk of non-repayment of loan is known as credit risk.

Management is the system, which helps to complete the every job effectively. Loan management is also the system, which helps to manage loan effectively. In other words, loan management refers management of loan exposures arising from loans, corporate bonds and loan derivatives. Loan exposures are the main source of investment on commercial banks and the return from such investment is supposed to be the main source of income.

Loan management is especially focused on the management of loan disbursement and collection of procedures, controlling and monitoring of lending activities. Loan/credit management strongly recommends analyzing and making the credit risks. The goal of loan management is to minimize the bank's risk by maintaining credit risk exposure within acceptable parameters. The performing loans have multiple benefits to society whereas non-performing loan erodes even existing capital. Sound credit policy is required to ensure that loans are given to the productive sector, which contributes to the society in a number of ways. So, the bank has to strongly analyze the proposals before lending loan in order to minimize the credit risk. Whenever a bank offer credit facility to the borrower, it is always subject to the terms and conditions stipulated in the sanction letter. Bank being the creditors tries to insert the stringent conditions while the borrower requests the bank for lenient ones. If the borrower can shop around, he succeeds in getting loan at lenient conditions.

Loan management is not only the most important function of a bank; it also determines the future of banking institutions. The quality of loan of borrower and

quality of securities determines the health of any bank. The efficiency of bank lies in how it multiplies the deposits of depositors. Hence, lending should be accompanied by some basic principles and practices. No banker would willingly give a loan, unless he has sufficient confidence in the borrower that it will not be necessary to seek help of court for recovery. Safety of funds, liquidity of funds, purpose of loan, security for loan, profitability, spread of loan portfolio and compliance with national interests are some of the principal that a banker should follow while granting a loan. Besides these the character of person receiving credit, the capacity of the borrower to utilize the fund, the percentage of borrower stake in the business etc. are the basic element which measures the quality of the borrower and ultimately the quality of the loan.

Loan management is a study in determining the importance of the bank's lending policy towards National Economic Development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regards loan disbursement pattern has been a major catalyst in achieving priority of industries in the context of Nepal's economic development. Since, the prosperous economic condition is represented by the development of industry, trade and business, which are main grounds to the banks to conduct its activities and to fulfill its objective of profit making. The proper loan management policy helps the bank to make profitable investment, which in turn directly helps in development of a country as well as to achieve the goal of profit making. (*Bhandari, 2003: 136*)

"Loan and advances" are the most profitable of all the assets of a bank. Banks universally seek after the asset. These assets constitute primary source of income to banks. Here the banker is brought into direct relation with the public. His capacity and judgment and his usefulness to the community is judged by the way he leads the money left with him by the depositors. As a business institution, a bank aims at making a huge profit. Since loans and advances are more profitable than any other assets, he is willing to lend as much as of his funds as possible. But he has to be careful about the safety of such advances. The banker has to temper liberally with caution. If he is too liberal, he may easily impair his profits by bad debts and if he is too timid, he may fail to obtain in adequate return on the funds, which are confided to

him for use. It is by his capacity in lending that a bank manager is judged". (Swamy, Radha and Vasudevan, 1997:550)

1.2 Introduction of Sample Banks

For the purpose of this study, two commercial banks are taken as a sample banks among other 32 commercial banks, namely Himalayan Bank Ltd.(HBL) and Nepal SBI Bank Ltd. Short glimpses of these two financial institutions are mentioned here.

1.2.1 Himalayan Bank 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, Sorakhutte, Dillibazar, Kalanki, Satdobato inside the valley as well as it has branches 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 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 utmost 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. To 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- HimalRemit 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:

1. Tele-banking
2. Credit card
3. ABBS (Any Branch Banking System)
4. ATM (Automated Teller Machine)

5. Locker facility
6. Himal Remit
7. SMS banking
8. Auto loan
9. Home loan
10. Subidha loan

1.2.2 Nepal SBI Bank Limited:

Nepal SBI Bank Ltd. is the first Indo-Nepal joint venture bank in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank through the memorandum of understanding signed on 17th July 1992, the bank began operation on 8th July 1993 within a period of less than one year. NSBL is a joint venture bank registered on 2050/01/06 by the Department of Industry, HMG/N.

State Bank of India owned 50%, Employee Provident Fund owned 15%, Agricultural Development Bank owned 5% and General Public owned 30% of total share. NSBL is the fifth joint venture bank established in Nepal and until the date of this study Nepal SBI Bank Ltd. has its forty three full-fledged branches, six extension counter. NSBL has corporate office at Hattisar. Inside the valley, the bank branches are located at Durbar Marg, Bhaktapur, Bouddha, Lainchaur, Dally, Gaushala, Gongabu, Gwarko, Kalanki, Kuleshwor, Maharajgunj, New Baneshwor, New Road, Patan and Teku. Besides, outside the valley, the branches are located at Abukhaireni, Baglung, Bhairahawa, Biratnagar, Birgunj, Birtamod, Butwal, Dang, Damak, Damauli, Dhangadhi, Dharan, Gulmi, Hetauda, Itahari, Ilam, Janakpur, Mahendranagar, Narayangarh, Nepalgunj, Pokhara, Palpa, Rampur, Shishuwa, Surkhet and Tikapur .

The bank had set up its corporate and banking office at Durbar Marg with computerized operations. However, the space available at Durbar Marg was not adequate to facilitate its business, later the corporate office was shifted to Kamalpokhari leaving Durbar Marg office as banking office. Now this bank has its corporate office at Hattisar. Various centers were surveyed for its Branch extension and action plan in this regard was finalized to implement it in future. Regarding the

branch expansion since its establishment, most of the border cities of Nepal- India have been favored. In course of Branch Expansion in the border city of Nepal-

India, the first city branch outside Kathmandu was established at Adarsha Nagar, Birgunj on 2052/08/01 (17.11.1995) Nepal SBI Bank Limited is being giving all sorts of commercial banking facilities to its customers. Such as: it accepts deposits from customers and such accumulated deposits are used to lend to the borrowers. Not only it provides the lending and deposits collection facilities, it also facilitates to its customers by the means of Letter of Credits, Guarantees, collection of outward as well as inward bills. Customers are taking facility of local clearing without charge. Nepal SBI Bank Limited has the broad network with all over India as it is the joint venture bank with State Bank of India and the parent bank has about 12 thousand branches in India only. Its network is also linked with rests of the world. In India, the State Bank of India has launched its own credit card (SBI Card).

Issue and payment of Demand Drafts drawn to and from India is its main service. This bank, not only give service of money transfer to and from India by the means of Demand Drafts, it also issue SBI Rupee Traveler's Cheques. SBI Rupee Travelers' Cheque is as good as cash but better to carry with than cash because of big denominated cheques. The facilities of money transfer which is giving by the bank by the means of:

- a) Demand Drafts
- b) Traveler's Cheques
- c) Fax Transfer
- d) Telex Transfer etc.

1.3 Statement of the Problem

The globalization and economic liberation has opened various opportunities in front of the banking business in Nepal. The majority of the commercial banks originated by government are found to be unsatisfactory. The financial loss and marginal responsibilities for their ailing units have to be done by the government. But the private banks are running successfully. The joint venture banks are not interested in granting loan to the primary sectors of the economy. Banking is not being easy

accessibility of public in remote village area. Private Banks has concerned their operation mainly in town and capital of the country. The present study will try to analyze and examine the loan management and investment portfolio of respected banks. Each and every commercial bank should not run successfully without the conceptual framework of lending procedures.

The banking sector had access in major cities and municipalities only. The scene has remained unchanged except there is a dramatic increase only in the number of commercial banks. The present status of commercial banks seems to invest funds in the less risky sectors of the economy, thereby neglecting other sectors of the economy like small business and agriculture. This is mainly due to the lack of sound investment policy of commercial banks and proper loan management. The main problem that lies behind this poor loan management is that the activities of commercial banks are dependent upon the instructions and guidelines of Nepal Rastra Bank. The commercial banks do not have their independent investment policy, which may help enhance the profitability of the bank as well as work in the general interest of the economy of the nation.

In this way commercial banks in Nepal have been facing several challenges, some of them are arising from lack of smooth functioning of economy, some of them are arising due to confused policy and many of them are arising due to default of the borrower. Liberalization in economy has produced some degree of opportunities and more than it had created confusion and uncertainty. The liberation of the financial sector demands a new technology of lending to cope with the risky pressures on the profitability of banks and financial sector institutions.

In this perspective, the following are the grossly noted problem of the study.

- What is the liquidity position of selected banks by comparing Current ratio, Cash ratio, Cash and bank balance to total deposit ratio, Cash and bank balance to current asset ratio and Investment on government securities to current assets ratio?
- What is 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'?

- What is the trend of loan and advances, total deposit, total investment and net profit?
- What is the efficiency of lending and its contribution in total profitability by finding related ratios of two banks?

1.4 Objectives of the Study

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:

1. To evaluate the liquidity position of selected banks.
2. To measure the efficiency of lending and its contribution in total profitability by finding related ratios of two banks.
3. 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’.
4. To explore the trend of loan and advances, total deposit, total investment and net profit.

1.5 Significance of the Study

The study mainly fills a research gap on the study of liquidity and loan management of commercial banks. The study will provide a useful feedback to the policy makers of the bank and becomes a useful reference for other commercial banks of Nepal and central bank for the formulation of appropriate strategies. This study evaluates the loan management of commercial banks and finds loopholes and significantly contributes to make the management sound.

1. This study would provide clear vision how bank is managing its loan disbursement.
2. The analysis would proved a useful feedback for further improve to the policy makers to the bank.
3. This study also becomes a useful reference for the other joint venture banks of Nepal and central bank (NRB) for the formulation of appropriate strategies.
4. All the stakeholders of this bank will be benefited from this research.

1.6 Limitations of the Study:

Each and every study is followed by some limitation. This study too has some limitations which are as follows:

1. The accuracy of this report depends on the reliability of secondary data since secondary data such as Annual reports, text books have been analyzed.
2. The results drawn for this study may not be generalized to other banks as two commercial banks are considered for the study.
3. Study of the banking activities is the vast one. The chief objective of this study is bounded within the investing of that particular bank's resource. All the other functional section has not been considered in detail.

1.7 Organization of the Study:

This study has been organized into five chapters.

Chapter I: Introduction: It deals with introduction, loan management. This includes general background, definition of the bank, statement of the problem, objective, significance and limitations of the study.

Chapter II: Review of Literature: It deals with the review of available literature. It includes conceptual/theoretical review of the related studies books, journals and the published and unpublished research works as well as thesis.

Chapter III: Research Methodology: It explains the research methodology used in the study, which includes research design, population and sample, source of data, data collection techniques and limitations of the methodology.

Chapter IV: Presentation and Analysis of Data: It deals with the presentation and analysis of all the relevant collected data. Similarly, this chapter also includes the major findings of the study and this is the heart of the study.

Chapter V: Summary, Conclusion and Recommendation: This chapter deals the summary of the study, the main findings, conclusion, recommendations and suggestion on the basis of the study.

Bibliography and appendix are included at end.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is the process of locating, obtaining, and reading, evaluating, learning and understanding the concepts of the related topic. After selecting the topic of the research, researcher should study different materials like books, journals, magazines, articles etc. to collect the necessary information about the research topic through the different sources. The purpose of literature review is, thus, to find out what research studies have been conducted in one's chosen field of study, and what remains to be done.

This chapter is divided into two main sections. The first section deals with the conceptual framework and the second section the review of previous studies.

2.1 Conceptual Framework

This sub-chapter presents conceptual aspect of the study, which includes concept of commercial banks, loan definition, types of loan, classification of loan, Process, objectives of loan / credit policy, components of loan policy, principle of good lending, etc

2.1.1 Meaning of Bank

Bank is a financial institution that deals with monetary transactions. The main function of bank is accepting deposits and advancing loan. Bank collects scattered money from public in the form of deposit by providing them certain percent of interest and distributes the accumulated fund to others, who are in need of money by charging certain percent of interest, which is usually higher than the interest that it gives to the depositors. Bank can also be termed as an intermediary, which bridges the gap between the savers of funds and users of funds. Nowadays, bank provides financial as well as non-financial services to its customers. Bank is associated directly and indirectly with all the people in day-to-day transactions, so it is very important to know the precise meaning of Bank.

Banking plays significant role in the economic development of a country. Bank is a resource for the economic development, which maintains the self-confidence of various segments of society and extends credit to the people. So if there is an insufficiency and banking and finance facility, the growth of the economic development becomes slow. The main objectives of commercial banks are to mobilize idle resources in the particular productive uses after collecting them from scattered sources. This very business yields sufficient gross income to bear necessary cost as well as to earn substantial profit.

2.1.2 Commercial bank

The commercial bank is the oldest form of the bank. In general, bank means the commercial bank. The bank, which performs all kinds of banking business and generally finances trades and commerce, is called commercial bank. It occupies quite an important place in the framework of every economy. The commercial banks pool together the scattered savings of community and arrange for their productive use and generate profit. They accept deposits from the public on the condition that they are repayable on demand or on short notice. The main aim of a commercial bank is to earn profit like any other business entity. We can conclude that the commercial bank is merely a business firm engaged in financial intermediation as well as performs additional functions under strict supervision and control of central bank intending to earn profit from each transaction as other business firms.

2.1.3 Loan

A loan is a type of debt. All material can be lent but this article focuses exclusively on monetary loans. Like all debt instruments, a loan entails the redistribution of financial assets over time.

The borrower initially receives an amount of money from the lender, which they pay back, usually but not always in regular installments, to the lender. This service is generally providing a cost, referred to as interest on debt. A borrower may be subject to the certain restrictions known as loan covenants under the terms of the loan. Acting as a provider of loans is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is a typical source of funding. Bank loans and credit are one way to increase the money supply.

Legally, a loan is a contractual promise of a debt to repay a sum of money in exchange for the promise of a creditor to give another sum of money. When a lender gives money or property to a borrower and the borrower agrees to return the property or repay the borrowed money, along with interest, at a predetermined date in future.

2.1.4 Types of loan

1. Secured Loan:

A mortgage loan is a very common type of debt instrument, used by many individuals to purchase housing/Auto. 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. A type of loan especially used in limited partnership agreements is the resource notes.

2. Unsecured Loan:

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

The interest rates applicable to these different forms may vary depending on the lender, the borrower. These may or may not be regulated by law. In the United

Kingdom, when applied to individuals, these may come under the Consumer Credit Act 1974.

3. Performing Loans:

Loans where payments are being made in time, loan covenants are met, the collateral is priced right (at fair market value), such loans are termed as performing loans.

4. Non-Performing Loans:

A non-performing loan is a loan that is in default or close to being default. Many loans become non-performing after being in default for 3 months, but this can depend on the contract terms. "A loan is non-performing when payments of interest and principal are past due by 90 days or more, or at least 90 day of interest payments have been capitalized, refinanced or delayed by agreement, or payment are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full".

2.1.5 Meaning of Investment

Investment is a kind of saving in one form as we invest in shares, bonds and property but these are merely transfer of assets from one person to another. As per some personalities investment is defined as below.

William F. Sharpe and Alexander J. Gorden defines investment as, "Investment, in its broadest sense, means the sacrifice of certain present value (possible uncertain) future value." In the view of Sharpe and Gorden the investment is venture that the return is uncertain. So, they have presented their view in the books that banks should look for the safe and less risky investment. (Sharpe, Alexander and Bailey, 2005:1)

An investment is the current commitment of dollars for a period of time in order to derive future payments that will compensate the investors for (1) the time the funds are committed, (2) the expected rate of inflation, and (3) the uncertainty of the future benefits. (Reilly, F.K., 1994:1)

It is clear that an investment means to trade current fund for some expected future stream of payments or benefits, which will exceed the current outlay by amount of

return or interest that will compensate the investor. The return or interest is expected because of uncertainty involved in expected future cash flows. Bank has to be always careful while investing their funds in various sectors.

2.1.6 Classification of Loans

People need money for different purpose so loan can be classified as in the Table 2.1 according to the purpose of requirement of loan.

Table: 2.1
Classification of Loans

No.	Particulars
1	Social Loan
2	Commercial Loan
3	Hire Purchase
4	Industrial Loan
5	Land and Building
6	Staff Loan
7	Overdraft
8	Bill Purchase

Bank provide loan for different purpose as well as different sectors. Bank collects as deposit from its customers and distribution in different sectors. The table 2.2 shows the priority sector loan as given below.

Table: 2.2
Priority Sector Loan

No.	Particulars
1	Agriculture
2	Cottage Industry
3	Service
4	Hire Purchase
5	Deprived

2.1.7 Objectives of Loan / Credit Policy

Credit is always a matter of judgment, based on one's own experience and convictions. There cannot be 100% correct approach. The ultimate result may be either good or bad of loan approval and from such experience one has to arrive at a proper credit policy. Encouraging maximum number of loan of small amounts ensures liquidity and with less incidence of bad loan. Concentration in particular type of loan should be avoided. Necessary conditions have to be incorporated in the sanction letter of loan for safety and liquidity of loans, performing loans have multiple benefits to the society where as non performing loans erodes even existing scare loan. The objectives of a written loan policy are to assure compliance by lending personnel with the bank's policies and objectives regarding the portfolio of loans, to provide personnel with a framework of standard with which they can operate. (Dahal, B and S., 2002:115)

The objectives of sound credit policy are as follows:

a) To Have Performing Assets

Performing assets are those loans that repay principal and interest to the bank from the generated cash flow. The basic objectives of sound loan policy is to maintain the financial health of the bank which results in the safety of depositor's money and increase in the returns to the shareholders.

b) To Contribute to Economic Development

Sound loan policy says that loans are given to the productive sector which multiple benefit to the society as direct and indirect employment generations, capital creation tax to the government, uplift the living standard of the people and many more.

c) To Give Guidance to Lending Officials

There should not be any discrimination whether he deals with one officer or another and one branch or another. There should be a uniform standard procedure throughout the organization, which helps, in consistent judgment by the individual loan officers.

d) To Establish a Standard for Control

Periodic follow up is essential for proper implementation of any loan policy. A sound loan policy helps in identifying the deviation between actual and standard performance along with corrective actions to be taken.

2.1.8 Components of Loan Policy:

Normally the established loan policy consists following components (Dahal, B and S., 2002:116)

i. Loan Volume

The policy should contain the credit deposit ratio of the bank has to maintain. Credit deposit ratio is much influenced by the behavior of the bank's liabilities. High volatility of deposit and borrowing will result low loan volume and vice versa. Bank should fix the limit of loan amount granted to single borrower as per the regulatory authorities.

ii. Loan Mix

Banks should grant loans to various sectors for its long term survival. It should not put all its fund in one sector even though the sector is doing well. Investment in only one sector may cause bankruptcy of the bank. Even if two individual borrowers of two sectors have same level of risk, the portfolio risk is minimized due to diversification. Similarly, there must be clear cut specification regarding the short term and long term loan mix which is very much affected by deposit mix and interest rate movement.

iii. Pricing

Being the custodian of public money, the banks should not take the risk beyond certain level irrespective of how high the lending rate. There is practice in fixing prime lending rate. Based on the risk, certain percentage is added in the prime lending rate. The rate follows higher the risk, higher will be rate and vice versa. The policy should specify whether the bank adopts fixed or floating or mixed type of interest in its loan portfolio.

In essence, pricing should be fixed in a manner of profit. Profitability in loan is calculated as follows.

P=I-O-C-D

Where:

P=Profitability

I=Interest inclusive of other charges, if any

O=Operating expense

C=Cost of fund

D=Expected default loss.

iv. Lending Authority

It is one of the most critical aspects of loan management. The lending authority of bank adopts both centralized and decentralized approach. A certain limit is given to the branch office staffs and beyond the branch limit the proposal should be submitted to head office. The last lending authority of bank is the board of directors having cap like single borrower limit prescribed by NRB. Nowadays some banks tied up this lending authority on the basis of the knowledge and experience of lending staffs not on the basis of level of the staffs.

v. Securities

The loan policy should prescribe the acceptable and non acceptable securities of the bank. Some banks accept bullions and personal guarantees as securities whereas other go more than that and demand collateral like land, building, etc. Likewise, the policy should cover the selection of valuers. The factors like marketability, convenience and transferability should be considered while selecting the securities.

vi. Risk Analysis

The policy should states the acceptable criteria of the borrower for granting loan. The policy should specify the acceptable liquidity, leverage, coverage, efficiency and profitability ratios so that there can be consistency in the risks perceived by all lending officials.

vii. Loan administration and control mechanism

Structure of loan administration plays important role in the loan management. As loan is the risk assets, there should be proper control in every step of loan management. The banks having separate department for credit appraisal, documentation,

disbursement, relationship maintenance and inspection can find the mistakes of one department by others which helps in maintaining the non performing assets at low level.

viii. Loan classification

At the time of disbursement every loan seems to be good but as the time passes the good loan many turn into bad loan. Based on the health of loan they should be classified and provided accordingly. Net loan should be shown instead of gross loan in the financial statement. The bank should comply with statutory regulation relating to loan classification and provisioning.

2.1.9 Steps in Lending process:

The Approving Authority approves loan only after being convinced that the loan will be repaid together with interest.

There are many processes involved to improve the loan which has been explained below.

1. Application:

A borrower is normally required to submit an application to the bank as a request for the loan along with project proposal, historical financial statements and documents pertaining to company's legal existence.

2. Conducting the interview:

Though the documents submitted gives various information's about the borrower, collecting details by interviewing the borrower is of great importance. Normally, such an interview takes place at the bank premise. The interviewer normally a loan officer should attempt to gain as much information as possible during the initial interview. Interviewer inquires about the topics mentioned below:

- Loan purpose: The objectives of taking loan should be very precise and should not conflict with commercial loan policy of the concerned bank.

- Loan amount: The amount of loan is stated when the purpose is given. The bank should also try to assess loan amount to be granted.
- Repayment source: Every business loan should have a backup repayment source to clear the loan amount when the time arrives, which may be sale of inventory, sale of assets, increase in other debts etc.
- Repayment schedule: The applicant and the bank should set forth the timing for repayment of the payment pattern of interest and principal amount.
- History of the prospective customer: Customer can be an individual or a firm or a corporate body. The interviewer should try to gather the biographical information such as background and experience of principals, its duration of operation, services rendered etc.
- Banking relationship: The interviewer should find out whether the applicant has accounts and loans if any in other financial institutions or banks. They should be aware of such relationship with others and applicants must disclose required facts as well.

3. Credit analysis:

The following steps are taken to analyze loan application:

- Historical Analysis: It refers to analysis of past financial statements and business risk. The former is quantitative while the latter is qualitative.
- Analyzing 7C's of the credit:

4C's

Character-honesty

Capacity-ability to employ fund

Capital-borrower's equity

5C's

Collateral-marketability, price stability

Condition

7C's

Cash flow- to ascertain repayment

Credit information

4. Field / site visit:

Authorized staff from credit department of the bank will visit business set up. Site visit is bank's another attempt to comprehend the prospective customer and his business. It concentrates on attaining information such as production and cost related data, applicants reputation, character, financial condition, location of business can be assessed.

5. Forecast and risk rating system:

Based on the findings of historical analysis, and in the light of present and foreseeable future environment, the analyst should highlight to what extent inherent risks will be mitigated and how unmitigated risk can be covered.

6. Return:

The analysis should be made to calculate total return as interest, fee and commission and compare whether it meets bank's standard.

7. Liquidation:

The analyst should ascertain bank's ability to recover loan in case of liquidation of the borrower.

8. Creditworthiness and debt structure:

The creditworthiness and honesty of the applicant enables the bank to extend the loan facility. The analyst should structure the debt facility to be extended.

- **Preparing the credit report:**

The credit report should be prepared in a structured format including all the details of customer, sources, consequences of financial statements etc. After the completion of credit appraisal and preparation of the report, it is forwarded to the management for approval.

9. Implementation of credit facility:

After being satisfied with loan appraisal and required security documentation mentioned in the offer letter, bank will then open overdraft or loan account in favor of the client.

2.1.10 Principle of good lending

A banker has to follow a cautious policy and conduct the business of lending on the basis of certain sound principle. Credit and investment should be secured and generate good income. Therefore, it is important that bank extends credit facilities based under certain principles, which are as follows: (Bhandari, D.R., 2003; 172)

1. Principle of safety and security

The bank should invest its fund in those securities, which are subject to much volatile and floatable since a small change causes a great loss. Similarly, speculative businessmen who is bankrupt at once or earns millions in a minute should not be finalized at all. The bank should accept that type of securities, which are commercial, durable, marketable and high market prices. In this case 'MAST' should be followed for the investment.

M= Marketability

A= Ascertainability

S= Stability

T= Transferability

2. Principle of liquidity

People deposit money at the bank in different account with their confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities or at the time of lending, so that it can meet current or short-term obligations when they become due for payment. Once the confidence is lost in depositor's eye they may withdraw all their deposits within a short period without giving any chance to the bank to manage. Even the best bank can hardly survive in such situation. Hence, the liquidity position of the bank is such an important factor.

3. Principle of Profitability

Commercial bank invests on those sectors that derive the maximum income. A commercial bank wants to maximize the volume of wealth through maximization of return on their investment and lending. So, they must invest their fund where they gain maximum profit. The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities.

4. Principle of Diversification

The bank should not concentrate on only one sector while extending loan but should try to diversify its investment. It should mobilize its resources on various collateral, various places, different business, different individuals and different organization so that the bank does not suffer loss if any one sector fails to repay loan. This will help to reduce bank's risk in greater extent.

5. Principle of National Interest

In addition to its own business profitability, the bank should also consider the national interest. Even though the bank cannot get maximum returns from such investment, it should carry out its obligations towards the society and the country. The bank is required to invest on such sectors as per the government and Nepal Rastra Bank's instruction. Government bonds, priority sector and deprived sector lending are the examples of such interest.

2.2 Review of NRB Directives

Nepal Rastra Bank (NRB) is an apex institution in money and capital markets in Nepal. It works as a central bank of Nepal. Being the nation's central bank, it directs, supervises and controls the functions of commercial banks and other financial institutions. NRB has issued various directives in order to develop a healthy, competitive and secured economic systems to ensure overall national development. A unified directives was issued to all commercial banks and financial institutions licensed by NRB on 16th July 2005 in place of different directives issued earlier. The relevant things have been highlighted here.

NRB in the directives has directed all the national level commercial banks operating at present must increase their paid up capital to Rs. Two billion proportionately by Ashad end 2070 B.S. For this, the base year is fixed as at Ashad end 2064 B.S. and these commercial banks are required to increase the paid up capital proportionately from FY 2064/65 B.S. Currently operating commercial banks can increase the minimum capital funds by at least 80 percent paid capital and rest 20 percent can be adjusted by the source that can be counted in the core capital like general reserve, share premium, non-redeemable preference share and retained earnings. If the commercial banks could not maintain a minimum capital fund of Rs. Two Billion, NRB will take following actions:

- By the end of the fiscal year 2064/65, they were not allowed to declare and distribute dividend.
- By the end of the fiscal year 2065/66, they were not allowed to accept deposit.
- By the end of the fiscal year 2066/67, they were not allowed to flow loans and advances.
- By the end of the fiscal year 2067/68, they were not allowed to all the transactions except recovery of loan and payment of deposit. After this time frame, the process of cancellation of license will be initiated.

Directive relating to loan classification and provisioning

With an object to minimize the possible risk associated with credits extended in the form of loans and advances, the directives relating to loan classification and provisioning has issued in exercise of authority under section 79 of NRB Act, 2058

Pass

Loan and Advances whose principal amount are not past due and past due for a period up to three months shall be included in this category. There are classified and defined as performing loans.

Sub-Standard

All loans and advances that are past due for a period of three months to six months shall be included in this category.

Doubtful

All loans and advances that are past due for a period of six months to one year shall be included in this category.

Loss / Bad

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

Loan and Advances falling in the category of sub-standard, doubtful and loss are classified and defined as non-performing loan. Here, if it is appropriate in the views of the bank management, there is no restriction in classifying the loan and advances from low risk category to high risk category. For instance, loan falling under sub-standard may be classified into doubtful or loss and loans falling under doubtful may be classified into loss category and the term loan and advances also include bill purchased and discounted.

Loan loss provisioning

The loan loss provisioning on the basis of the outstanding loan and advances and bills purchased classified as above should be provided as follows:

Classification of loan	Loan Loss Provision
Pass	1%
Sub-Standard	25%
Doubtful	50%
Loss	100%

Loan Loss Provision set aside for performing loan is defined as general loan loss provision and loan loss provision set aside for non-performing loan is defined as specific loan loss provision. (NRB directive no.8)

Directive relating to Limit on Credit Exposure and Facilities to a Single Borrower, Group of Related Borrowers and Single Sector of the Economy

According to the directive, commercial banks may extend credit to single borrower or group of related borrower in such a way that the amount of fund based loans and advances is up to 25% of the core capital and non-fund based off-balance sheet facilities like letters of credit, guarantees, acceptances, commitments is up to 50% of its core capital fund (NRB, Directive No.7). The banks are required to adjust as per new regulations in a phase wise manner as follows;

Time Table	Fund based credit limit	Non fund based facilities limit
By the end of Ashad 2067	50% of core capital	50% of core capital

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

Credits and facilities, extended against fixed deposit receipts, deposits placed with the bank. Government securities, NRB bonds as well as against unconditional guarantees, issued by the world bank, Asian development bank and international finance corporation including multilateral institutions and loan and advances and facilities extended against unconditional guarantees issued by internationally rated agency or banks specified as first class banks by NRB from time to time.

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

Name of the Corporation	Merchandise
Nepal oil corporation	Petrol diesel, kerosene and LP Gas
Nepal food corporation	Cereals

For the purpose of the above prescribed exposure limits, group of related borrower should be treated as a single group the following circumstances.

1. Where a company holds 25% or more shares in another company than both of such companies.

2. Director of a company, shareholders of a private company and husband, wife, son. Daughter in law, brother's wife sisters of such director or shareholder residing jointly in the same house or separately as well as all other persons who are supported by such related persons. In the addition, another company in which such persons individually or by their relatives as above. Separately or jointly hold 25% shares, then such companies, or
3. Firm, company stated to be associated as a group, or members of such group or
4. Even if the director, shareholder or other relatives as specified in sub-clause (b) holds jointly or individually, less than 25% shares of another company is controlled by the following ways than such companies:
 - By being chair person of the board of directors
 - By being the chief executive of the company
 - By appointing more than 25% of the directors
5. Where one borrower of company gives a cross guarantee to another borrower or company, than such companies
6. The bank should prepare the record of the single borrower and related customers on half-yearly basis and submit to NRB, banking operation department and inspection and supervision department.

Directive relating to investment in shares and securities by commercial banks.

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

Arrangement relating to investment in shares and debenture of organized institutions. Banks must invest in shares and debentures of any on organized institutions no exceeding 10% of the paid-up-capital of such organized institution, the cumulative amount of such investment in all the companies in which the banks has financial interest shall be limited to 20% of the paid-up-capital of the bank and the total amount of investment should be restricted to 30% of the paid up capital of the bank. Any amount of investment made is excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the core capital fund. For the purpose of calculation of capital fund, the amount of such investment in shares and securities shall be deducted from the core capital fund. Bank should invest in the shares and debentures of organized institutions, which are already listed in the stock exchange or where arrangement exists for listing within one year.

Where, the shares and debentures are not listed within the period prescribed, provisioning equivalent to the whole amount of such investment be provided and credit to investment adjustment reserve. The outstanding amount in such reserve should not be utilized for any other purpose till the paid shares and debentures of the organized institution are listed. The outstanding amount of investment adjustment reserve should be included under supplementary capital.

Directives relating to cash reserve ratio requirements

To ensure adequate liquidity in the commercial bank, to meet the depositor's demand for cash at any time to inject the confidence in depositor's regarding the safety of their deposited funds, commercial banks are required to have maximum CRR. In this regard, NRB has directed commercial banks to deposit 5% of total deposit in the NRB.

Directives relating to capital adequacy norms for commercial banks.

Maintenance of the minimum capital fund.

The total capital fund is the sum of core capital and supplementary capital. On the basis of the risk-weighted assets, the banks should maintain the described proportion of minimum capital funds as per the following:

The capital adequacy ratio to be maintained by a licensed institution has been issued having exercised the powers conferred by NRB directive of 2067.

1. The capital adequacy to be maintained

Based on its risk-weight assets, a licensed institution shall have to maintain the following capital adequacy ratio: -

Minimum capital fund to be maintained based on the risk-weight assets (percent)

Institution	Core capital	Capital fund
"A" Class	6.0	10.0
"B" and "C" Class	5.5	11.0
"D" class	4.0	8.0

For the purpose of calculation of the capital fund, the capital of the bank is divided into the following two components:

1. Core capital:

The amounts under the following heads shall be included in the core capital:

- a) Paid up capital
- b) Share premium
- c) Non-Redeemable preferences shares
- d) Accumulated profit and loss account

However, where the amount of goodwill exists, the same shall be deducted for the purpose of calculation of the core capital

2. Supplementary capital

For a purpose of calculation of capital funds, the amount under the following heads, subset up to one hundred percent of the core capital, shall be included under the supplementary capital:

- a) General loan loss provision
- b) Exchange equalization reserve
- c) Assets revaluation reserve
- d) Hybrid capital instruments
- e) Unsecured subordinated debt
- f) Other free reserve not allocated for a specific purpose

(Source: NRB Directive no.1)

2.3 Review of Related Studies

2.3.1 Review of Books

"A bank is an institution which deals with money and credit." Generally, the word bank is understood as the place where we can keep our extra money for safety and its proper investment and also the place where we can go for the financial help. Some of the definitions of the banks are given by different personalities are as follows:

As per Hart H.L. -"A bank is one who, in the ordinary course of this business, receives money which he pays by honoring cheque of persons from whom or whose accounts receives." (Khadka, Sergunj and Singh, Hridaybir, 2057:4)

As per Kent-"A bank is an organization whose principal operations are concerned with accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure."

As per Crowther C.R. -"A bank collects money from those who have it to spare or who are saving it out of their incomes, and it lends this money to those who require it." (Singh, Hridaybir, 2007:5)

Crosse, H.D. states, "Lending is the essence of commercial banking, and consequently, the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practice are essential in a bank to perform its credit creating function effectively and minimize the risk inherent in any extension of credit.

Crosse further states, "The field of investment is more challenging as it offers relatively greater scope to banker for judgement and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by the greater risk." (Crosse, H.D., 1963)

Bexely J, expresses the view as, "Investment policy fixes responsibilities for the investment disposition of the bank's assets in terms of allocating funds for investment

and loan, and establishing responsibility for day to management of those assets.” It is assumed the management should be responsible for the investment decision of banks. (Belxely, James, 1987)

2.3.2 Review of Articles / Journals

The effort has been made in this present section to examine and review some related articles published in different economic journals, world encyclopedia, bulletins, magazines and newspapers.

As per world encyclopedia on the subject loans basically is “Banks and thrifts made three types of loans: commercial and industrial loans, consumer loans, and mortgage loans. Commercial and industrial loans are loans to businesses or industrial firms. These are primarily short-term working capital loans (loans to finance the purchase of material or labor) or transaction or longer-term loans (loans to purchase machines and equipment). Most commercial banks offer a variable rate on these loans, which means that the interest rate can change over the course of the loan.

Whether a bank will make a loan or not depends on the credit and loan history of the borrower, the borrower’s ability to make scheduled loan payments, the amount of capital the borrower has invested in the business, the condition of the economy, and the value of the collateral the borrower pledges to give the bank if the loan payments are not made. Consumer loans are loans for consumers to purchase goods or services. There are two types of consumer loans: closed-end credit and open-end credit.

Closed-end credit loans are loans for a fixed amount of money, for a fixed period of time (usually not more than five years), and for a fixed purpose (for example, to buy a car). Most closed-end loans are called installment loans because they must be repaid in equal monthly installments. The item purchased by the consumer serves as collateral for the loan. For example, if the consumer fails to make payments on an automobile, the bank can recoup the cost of its loan by taking ownership of the car.

Open-end credit loans are loans for variable amounts of money up to as set limit. Unlike closed-end loans, open-end credit does not require a borrower to specify the purpose of the loan and the lender cannot foreclose on the loan. Credit cards are an

example of open-end credit. Most open-end loans carry fixed interest rates-that is, the rate does not vary over the term of the loan. Open-end loans require no collateral, but interest rates or other penalties or fees may be charged – for example, if credit card charges are not paid in full, interest is charged, or if payment is late, a fee is charged to the borrower. Open-end credit interest rates usually exceed closed-end rates because open-end loans are not backed by collateral.

Mortgage loans or real estate loans are loans used to purchase land or buildings such as houses or factories. These are typically long-term loans and the interest rate charged can be either a variable or a fixed rate for the term of the loan, which often ranges from 15 to 30 years. The land and buildings purchased serve as the collateral for the loan. (www.encyclopedia.com/loan)

Karki, Uma (2059) in the article, *“Challenges of a non performing loan management in Nepal”* Uma Karki has mentioned the course of increasing trend of non-performing loan. She identifies the major courses such as poor loan analysis guarantee oriented loan system, desire platoon of valued assets, misuse of loan, lack of regular supervision of loan. (Uma Karki, 2059, NRB Samachar Patra vol.47:87)

Subedi, Kamal (2002) in the article *“Growth in Major Commercial Banks”* has compared between the first six month of the fiscal year 2002-03 and 2003-04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd. (NBL) and Rastriya Banijya Bank (RBB). There has been increase in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only on recovery of the huge Non Performing Assets. However, Mr. Subedi pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new venture. Except RBB all banks have increment in deposit collection. A decrease in CD ratio (the percentage of the deposit mobilization over the credit) signifies the presence of high liquidity and comparatively lower fund mobilization and vice versa. High liquidity and idle funds will result in lower profits. HBL has the highest growth of 18.47% in CD ratio over the last year. Similarly, NABIL, Everest Bank Ltd. (EBL) and Nepal SBI Bank Ltd. (SBI) have recorded

growth rates of 6.28%, 11.83% and 7.45% respectively in their CD ratio. However, this ratio of other commercial banks had declined, largely due to factors external to the banks. As per the NRB directives, all commercial banks have to maintain loan loss provision according to the size of overdue loans. Nepal Credit and Commerce Bank (NCCB) were able to decrease to its loan provision by 22.63% as compared to the previous year indicating a good recovery of interest as well as principal.

In case of Nepal Investment Bank (NIBL), growth in loan loss provision (which in face decreased by 6.7%) was much less than the growth of the total credit (which is increased by 53%). Similarly, NBL and HBL were able to maintain a healthy composition of loan loss provision (decreased by 9.49% and 0%) and credit (increased by 3.07% and 26.78%), again signifying good results from their loan recovery efforts. In case of remaining banks, the situation is not satisfactory as the growth of loan loss provision is higher than the growth of credit.

Sharma, Bhaskar (2000) in his article *“Banking the future on competition.”* Due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effects would show colors only after four or five years. Again he said, private commercial banks have mushroomed only in the urban areas where banking transaction in large volumes is possible. The rural and sub – urban areas mostly remain unattended to. This is likely to prevail till competition takes its full rein in the areas.”

Shrestha, Sagar (1993), in his study, *“Investment planning of Commercial Banks in Nepal”*, she has made a remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of her study, she has concluded that the bank portfolio (loans and investment) of commercial banks have been influenced by variable security rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of central bank (NRB). So, the investments are not made in professional manners. Investment planning and operation of commercial banks in Nepal has not been satisfactory in terms of profitability. To overcome this problem she has suggested, “commercial banks should take their investment functions with proper business attitude and should

perform lending and investment operation efficiently with the proper analyze of the project.”

2.3.3 Review of related studies

During research for this study, various dissertations and thesis submitted by various students have been consulted and been thoroughly analyzed.

Poudel (2006), in the thesis “*A study on Lending Practices of Joint Venture Commercial Bank with Reference to Nepal Bangladesh Bank Ltd. (NBBL) and Himalayan Bank Ltd. (HBL)*” has made comparative study of thesis two banks in different lending aspect. The basic objectives of the research was: to determine the impact of deposit collection and its effect on lending practices, to know the volume of contribution made by both banks in lending, to analyze loan disbursement and its recovery and to analyze the performance of credit and its contribution in total profitability.

According to the findings the liquidity position of NBBL is comparative better than HBL because the mean current ratio of NBBL is higher than of HBL. The mean ratio of loan and advances to total assets of NBBL is higher than HBL. But the mean ratio of investment to total loan and advances of HBL is higher than of NBBL. He has concluded that NBBL is able to manage its assets to compete in this competitive banking business than HBL. The recommendation for the both banks is to strictly follow the NRB directives which will help them to reduce credit risk arising from borrower’s defaulter, lack of proper credit appraisal, defaulter by black listed borrowers and professional defaulter, Loan loss provision of both banks is in fluctuating trend. So both banks are suggested to adopt sound credit collection policy, which will, helps to decrease loan loss provision.

Shrestha (2007), in the thesis “*Investment practices of joint venture banks in Nepal with special reference to Nabil Bank Ltd. and SCBNL and Nepal SBI Bank Ltd.*” has figured out the following problems, conclusion and recommendations: "Commercial banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial banks have a lot of deposits but very little investment

opportunities. They are even discouraging people by offering very low interest rate and minimum threshold balances.

Commercial banks invest their funds in limited areas to achieve higher amount of profit. This is regarded as a very risky step, which may lead to lose in profit as well as principle. The credit extended by commercial banks to agriculture and industrial sector is not satisfactory to meet the growing need of the present day.

It was concluded that the liquidity position of Nabil and SCBNL have not been found satisfactory, it, is therefore, suggested to them to improve cash and bank balance to meet current obligations. Loans and advances to total deposits ratio of SCBNL is low, and it is recommended to follow liberal lending policy for enhancement of fund mobilization. It is recommended to NSBIBL that it have to invest its fund on shares and debentures of other companies. It is suggested to enhance off balance sheet transactions, diversifying their investments, open new branches, pay merchant banking role and invest their risky assets and shareholder's fund to gain higher profit margin.

Nabil and SCBNL are recommended to increase their cash and bank balance to meet current obligations and loan demand.

Sharma (2008), in the thesis entitled "*Investment Policy and Repayment of Loan Investment of Joint Venture Banks in Nepal*" has found that current ratio of NIBL is fluctuating and have very poorest ratio at the F/Y 01/02. SCBL has also fluctuating current ratio and it has poorest ratio at the F/Y 00/01. On government securities, SCBL has higher and NBBL has lower ratio of investment to current assets ratio than the other banks. From the analysis we can say that SCBL has invested huge amount of its current assets in government securities. As a result shows that all the bank has maintain satisfactory liquidity positions, but NBBL has maintain sound liquidity positions than other banks and SCBL has huge proportion of govt. securities in current assets. As all the four banks (NSBL, NBBL, SCBL and HBL) are successful to mobilize its deposit on loan and advance and among all banks NBBL has quite successful to maintain high ratio of loan and advance to total deposit ratio and SCBL has mobilize least amount of its deposit to loan and advance. From the analysis of

credit risk ratio NBBL has a high credit risk ratio and also NBBL has highest growth ratio of total deposit and NIBL has least growth ratio. SCBL and HBL have satisfactory growth ratios. NIBL has fluctuating trend of total deposit but its growth ratio on net profit is strong as HBL and SCBL seems good on net profit.

Maharjan (2009), in the study of thesis “*A Study on Loan Management of Nepal Bank Ltd.*” as his objectives is to find out effect of new credit policy on loans and advances of NBL and to analyze the trend of loan disbursement, loan recovery as well as to find out the strength and weakness in loan disbursement. Study concludes that “Loan Management of Nepal Bank Ltd.”, concerned with the management of loan disbursement and loan recovery of the concerned institution is been analyzed herein. Efficient and effective flow of loan and advances generate income to banks very appropriately and this finally helps for both long run survival and profiteer. Management of loan disbursement includes lending management and impact study of lending practices. Similarly lending management encompasses trend analysis of loan disbursement, sector wise loan disbursement with statistical tools of correlation analysis. Lending practices and procedures of NBL includes activities of which is guided by its own loan policy.

Joshi (2010), has prepared a thesis on “*A study on Credit Management Practices and Analysis of Lumbini Bank Ltd.*” which objectives is to examine and study the lending efficiency or inefficiency of selected commercial bank and also to analyze the relationship of deposits, loans and advances and net profit of the banks. She has concluded that LBL has maintained its vault to deposit ratio in satisfactory level, therefore, the liquidity position in terms of Vault to total deposit ratio is good as during study period the liquid funds to total deposit ratio has been always above industrial average. This implies the liquidity position of LBL is up to industrial average. Although the liquidity position of LBL is good in terms of Cash in vault, however the status is not satisfactory as the Liquid funds to Total deposit and NRB balance to total deposit curves are below the industrial average in most of the cases. LBL is seen poor in maintaining its balance with NRB. Therefore, it can be concluded that LBL has not maintained adequate liquidity.

They are recommended to maintain required liquidity position as per the directives of NRB. Further, it is also recommended to look for portfolio and non-risky area to invest which will help to increase profit of the Bank. If the bank follows strictly the NRB directives it will help to reduce credit risk arising from defaulters. Bank's deposit are fine to meet loan and advances, however proper monitoring of loan and advances should be done to decrease non-performing assets. Bank's provision for loan loss is increasing drastically which affects overall banking performance. So it is recommended to adopt sound lending policy, which will help to decrease loan loss provision and non-performing loan. It is rightly said that "Prevention is better than Cure."

Maharjan (2011) has prepared a thesis of "*A Study on the lending policy and strength of Nepal Investment Bank Ltd.*" which objectives is to observe the loan disbursement of NIBL and to analysis the amount of loan invested in industrial areas. Study concludes that the lending strengths of NIBL in term of exposure of loans and advances is good i.e. ratio of loans and advances to total assets, loan and advances to shareholder's equity which indicate a good performance of NIBL in its lending activities. Viewing the productivity of loans and advances and its contribution in the national economy, the performance of NIBL has been satisfactory. The contribution made by this bank in agricultural purpose, however, is lower; it has increased contribution to the manufacturing sector continuously. A considerable percentage of NIBL's credit has been granted to unproductive sector of general use and social purpose; however such loans are also required in order to improve individual's social status and fulfillment of basic needs. Since, this bank has better activity ratio, it has been a major contribution in managing the lending activity of NIBL which put this bank in the top position in absolute term.

2.6 Research Gap

As going through all the articles, publication and unpublished research works regarding 'loan management' in this field, t has found that previous research is done in one particular banks like loan management in Agriculture Development Bank, Nepal Bank Limited, Lumbini Bank Limited, etc. So, in this research work it has been studied on commercial banks with especial reference to Himalayan Bank and Nepal

SBI Bank for comparing the management of loan system in more broad way. All the above-mentioned researchers did not present the required and precise financial tools that are most relevant and banks frequently use to assess the feasibility of project/businesses. Here, in this study transparency on lending is measured and analyzed by using various statistical tools, methodology and trend analysis is used in terms of lending may be the stronger factor for commercial banks in Nepalese market. Present study tries to define lending policy by applying those various facts and this can be useful in this area.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology can be defined as “the process of arriving at a solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. Research is a systematic method of finding the right solution for the problem whereas research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view.” It describes the method and process applied in the entire subject of the study. It is a systematic way to define the research problem. (Kothari C.R., 1984)

Research methodology depends on the various aspects of the research projects. The size of the project, the objective of the project, importance of the project, time frame of the project, impact of the project in the various aspects of the human life etc. are the variables that determine the research methodology of that particular project.

3.2 Research Design

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” (Kothari, 1990)

Research Design is a plan, structure and strategy of the investigation conceived so as to obtain answers to research questions and to control variances. It is the arrangement of conditions for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design and survey research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate the loan management of commercial banks in Nepal, with especial reference to the HBL and NSBL.

Research design is the definite procedure and techniques, which guides the study and the ways to do the study. This in fact the specific presentation of the various steps in research process. These steps include the selection of a research problem, presentation of the problem, methodology, survey of literature, data collection, interpretation and presentation, report writing and bibliography. This study follows descriptive research design to fulfill its objectives.

3.2.1 Source of Data

This study is conducted on the basis of secondary data. The data required for the analysis are mainly obtained from the accounting and financial statements like balance sheet of the subjected banks. These include annual reports for the last five years and report of each year. All the data are compiled, processed and tabulated in the time as per need and objectives. Supplementary data and information are collected from economic journals, periodicals, bulletins, magazines, college library, websites and other published and unpublished reports and documents from various sources. Besides these NRB reports, various publications and various articles published in the newspapers are also considered as sources of data.

3.2.2 Population and Sample

Population refers to the industries of the same nature and its services and product in general. Thus, this research work is designed with loan management of commercial banks in Nepal. The total number of 32 commercial banks in Nepal is the population of the study. Among the population the two banks names Himalayan Bank Limited and Nepal SBI Bank Limited constitute the sample of the study. Beacuse these both banks are joint venture banks

3.3 Analysis of Data

In this study, various financial, accounting and statistical tools have been used to achieve the objectives of study. The analysis of data is done according to the pattern of available and because of limited time and resources simple analytical tools such and percentage, mean, standard deviation, coefficient of variation etc. are used for financial analysis.

3.3.1 Financial Tools

Different types of financial tools such as liquidity ratio, asset / liability management ratio, and profitability ratio are used whenever necessary in this study. Ratio analysis is a financial tool that is used to measure the financial position of a firm. Some of these financial tools are as follows.

3.3.1.1 Liquidity Ratio

Liquidity ratios measure the firm's ability to meet the current obligations. In other words, they relate to the availability of cash and other assets to cover accounts payable, short-term debt and other liabilities. Banking industry has its survival in its ability to create credit and its creation ability depends upon its liquidity ratio. The conventional measure of liquidity ratio in Nepalese banking industry doesn't have significant relevancy. Lack of investment opportunity and excess liquidity in economy has been demanding low liquidity position in our commercial banks. Since, the private commercial banks have been concentrating on major liquid population. The present scenario of banking demands the low rate of liquidity. Some of the best-known measures of a company's liquidity as follow.

a. Current ratio

Current Assets / Current Liabilities: Measures the ability of an entity to pay its near term obligations. 'Current' usually defined as within one year. Though the ideal current ratio depends to some extent on the type of business, a general rule of thumb is that it should be at least 2:1. A lower current ratio means that the company may not be able to pay its bills on time while a higher ratio means that the company has no money in cash or safe investments that could be put to better use in the business.

The ratio is calculated by dividing current assets by current liabilities.

$$\text{Current} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

b. Cash ratio

Cash / Total Assets: measures the portion of a company's assets held in cash or marketable securities. Higher the ratio is better is the cash position of a firm. Absolute cash ratio indicates the position of the ready cash for meeting the current liabilities.

Cash and marketable securities constitute the most important reservoir, which a firm needs for meeting its daily operating expenses and other cash obligations.

It can be stated as,

$$\text{Cash ratio} = \frac{\text{Cash+Marketable Securities}}{\text{Current liabilities}}$$

c. Cash and bank balance to total deposit ratio

It is ability of bank to meet their daily requirements. Hence, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash balance held in foreign banks. The deposit represents current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits. Dividing cash and bank balance calculated the ratio by total deposits.

It can be stated as,

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

e. Cash and bank balance to current asset ratio

Cash and bank balance is composed of total reserve and funds. Current assets consist of cash and bank balance, money at call or short-term notice, loan and advances, investment in government securities, other interest receivable and other miscellaneous current asset.

It is stated as

$$\text{Cash and bank balance to current asset ratio} = \frac{\text{Cash and bank balance}}{\text{Current asset}}$$

f. Investment on government securities to current assets

Investment on government securities includes treasury bills and development bonds etc. This ratio can be computed by dividing investment on government securities by current assets.

It can be stated as,

$$\text{Investment on govt.securities to current asset ratio} = \frac{\text{Investment on govt.securitiесе}}{\text{Current asset}}$$

3.3.1.2 Profitability Ratio

Any organization should earn profit to survive and grow over a long period of time. Profit is the ultimate output of any organization and it will have no future if it fails to make sufficient profits. Thus, the financial manager should continuously evaluate the efficiency of its organization in terms of profit. Profitability ratios are the best indicator to measure overall efficiency of operation any organization but only profit earning is not the ultimate aim of the organization and it should never earned at the cost of employees, customers and society.

However profitability is the measure of efficiency and the search for it provides an incentive to achieve efficiency. The profitability ratios are these ratios which indicate the degree of success in achieving desired profit levels.

These ratios have also been used to determine the efficiency of the lending, its quality and contribution in total profitability. The following ratios are taken into under the following headings.

a. Earning per share

The income of per common share is known as earning per share. The amount of EPS measures the efficiency of a firm in relative terms. An organization is able to use its resource to generate profit is due to EPS determines that market of a share.

It is stated as,

$$\text{Earning Per Share} = \frac{\text{Net Profit}}{\text{No. of share outstanding}}$$

b. Net profit to shareholders equity

The ratio between net profits after tax to sales is known as net profit ratio. This ratio measures the amount of profit that a rupee of shareholder's fund has received. A higher ratio is the sign of efficient management.

It is stated as,

$$\text{Net Profit to Shareholder's Equity Ratio} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}}$$

c. Total profit to total asset ratio

Profit is the difference between revenue and expenses over a period of time. A company should earn profit to service and grow over a long period of time. This ratio can be computed by dividing total profit to total asset.

It is calculated as,

$$\text{Total profit to total asset ratio} = \frac{\text{Total Profit}}{\text{Total asset}}$$

3.3.1.3 Activity Ratio

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

a. Interest income to total income ratio

This ratio measures the volume of interest income in total income. This ratio also helps to measure the bank performance on other fee-based activities.

It is stated as,

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

c. Interest expenses to total deposit ratio

This ratio measures the cost of total deposits in a relative term. The performance of a commercial bank is dependent upon its ability to generate cheaper fund. Cheaper the fund, more the probability of generating loans and advances and vice versa.

It is stated as,

$$\text{Interest expenses to total deposit ratio} = \frac{\text{Interest expenses}}{\text{Total deposite}}$$

d. Interest from investment to total interest income ratio

This ratio measures the contribution made by interest investment in total interest income. The major portion of interest income is generated by the lending function and investment regarded as the cushion against liquidity risk.

It is stated as,

$$\text{Interest from investment to total interest income ratio} = \frac{\text{Interest from investment}}{\text{Total interest income}}$$

e. Interest income to total interest expenses ratio

The ratio of income to interest expenses ratio measures the gap between interest rates offered and interest rates charged. Since NRB has restricted the gap between the interest rate offered and interest charged, in average, should not be more than 5%.

It is stated as,

$$\text{Interest income to total expenses ratio} = \frac{\text{Interest income}}{\text{Total interest expenses}}$$

3.3.1.4 Asset / Liability Management Ratio

Asset / Liability Management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liabilities ensure its effective utilization. The banking business converts the liability into assets by the way of its lending and investing functions. Assets and liability management ratio measures its efficiency in multiplying various liabilities in performing assets. The following ratios relating to asset liability management are used to determine the lending strength of subjected banks.

a. Total assets to total liability ratio

The ratio of total asset to total liabilities measures the volume of total liability in total assets of the firm. The banks create credit by the way of lending activities and multiply their assets many times than their liability permits so this ratio measures the bank's ability to multiply its liability into assets.

It can be stated as,

$$\text{Total Asset to Total Liabilities} = \frac{\text{Total Assets}}{\text{Total Liabilities}}$$

b. Loans and advances to total deposit ratio

Loans and advances of any commercial bank represent the major portion in the volume of total assets as it also included in the current assets of commercial banks because generally it provides short term loan, advances, overdraft, cash credit, local and foreign bill purchased and discounted.

It is stated as,

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

c. Investment to loans and advances ratio

This ratio measure the contribution made by investment in total amount of loans and advances. An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit.

It is stated as,

$$\text{Investment to Loans and Advances Ratio} = \frac{\text{Investment}}{\text{Loan and Advance}}$$

d. Loans and advances to total deposit ratio

This ratio measures the extent to which the bank is successful to mobilize their total deposit on loans and advances. This ratio indicates the firm's fund mobilization power in gross.

It is stated as,

$$\text{Loans and Advances to Total Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Total Deposit}}$$

e. 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,

$$\text{Loans and Advances to Shareholders Equity Ratio} = \frac{\text{Loans and Advances}}{\text{Shareholders Eruity}}$$

3.3.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as mean, standard deviation (S.D.), coefficient of variation (C.V.), correlation coefficient (r) and linear trend have been used.

3.3.2.1 Standard Deviation (S.D.)

It is a statistical measure of the variability of a distribution of return around its mean. It is the square root of the variance and measures the unsystematic risk in investment. It is denoted by σ .

Symbolically,

$$\sigma = \sqrt{\frac{\sum(X-\bar{X})^2}{N}}$$

Where,

σ = Standard Deviation

X = Values

\bar{X} = Arithmetic Mean Return

N = Time period (No. of Observation)

3.3.2.2 Coefficient of Variation (C.V.)

The coefficient of dispersion based on standard deviation multiplied by 100 is known as the coefficient of variation.

Symbolically,

$$\text{C.V.} = \frac{\sigma}{\bar{X}}$$

Where,

σ = Standard Deviation

\bar{X} = Arithmetic Mean Return

C.V. = Coefficient of Variation

It is independent of unit. So, two distributions can be compared with the help of C.V. It is the measure of relative risk. The higher the coefficient of variation the higher the relative risk of investment.

3.3.2.3 Correlation Coefficient (r)

Another statistical tool, correlation can be used to analyze the relation between two variables. Two variables are said to have correlation when they are so related that the change in the value of one variable is accompanied by the change in the value of other measure of correlation is called correlation coefficient summarizes in one figure, the degree and direction of movement.

Symbolically,

$$\text{Correlation of coefficient (r)} = \frac{n \sum XY - (\sum X) (\sum Y)}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

3.3.2.4 Trend Analysis

This topic analyzes the trend of deposits; loan and advances, investment and net profit of all the concerned banks and forecast for next 5 years till 2014/2015 are made. Under this topic following sub topics have been presented.

Trend analysis is a statistical tool which helps to estimate or predict the one variable when the value of other variable is known. The unknown variable which we have to predict is called dependent variable and the variable whose value is known is called independent variable. The analysis used to describe the average relationship between two variables is known as simple linear regression analysis.

Regression equation of y on x:

$$y = a + bx$$

The following trend is calculated in this study,

- Trend analysis of total deposit
- Trend analysis of loan and advances
- Trend analysis of total investment
- Trend analysis of net profit

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals on the presentation, interpretation and analysis of the study through definite course of research methodology. Various techniques and methods are used for the analysis of loan management of commercial banks of HBL and NSBL in order to fulfill the objectives of the study.

Data presentation is the organization and classification of the data of loan investment and collection for analysis. The main purpose of analyzing the data of loan investment and collection is to change from an unprocessed to an understandable presentation. The analysis of data consist of organizing, presenting in a tabular form for easy reference to the data and also statistical analysis and drawing inferences is used.

Data is analyzed by using proper statistical tools and financial tools such as correlation coefficient, trend analysis and liquidity measurement to find an answer of research question or fulfill the objective of research.

4.1 Analysis of Data

In this section the relevant ratios are calculated and appropriate interpretations are done.

4.1.1 Analysis of Financial Ratio

In this chapter, the evaluation and analysis of the performance of HBL in comparison to Nepal SBI Bank are done. The ratios which are relevant and useful in study are calculated and presented. The significant ratios that are studied are given below.

4.1.1.1 Liquidity Ratio

Liquidity ratio measures the firm's ability to meet current obligations. It reflects the short-term financial strength of the business. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. There is following ratios under liquidity ratio, which are as follows.

I. Current ratio

A ratio between current assets and current liabilities is known as current ratio. Current assets are those, which can be converted into cash within short period of time, normally not exceeding one year. (e.g. Cash in hand, cash at bank, B/R–bills receivable, inventory, debtors, loan and advances, investment etc.) Current liabilities are those obligation which are payable within short period normally not exceeding one year. (e.g. Creditors, bank overdraft, B/P-bills payable, provision for tax, deposits etc.)

We have,

$$\text{Current} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

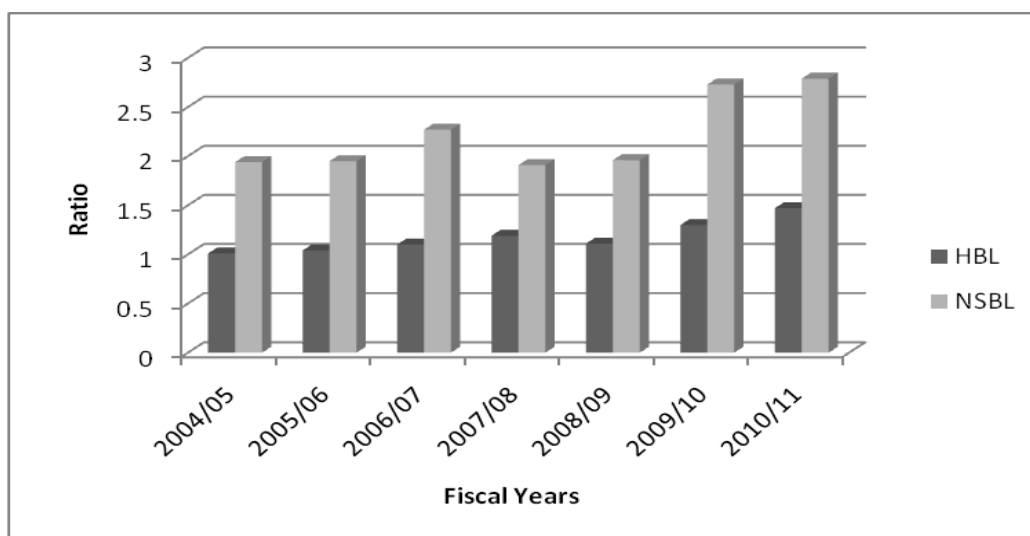
Current ratios of HBL and NSBL from fiscal years 2004/2005 to 2010/2011 are given below in table no.4.1

Table: 4.1
Current Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	1.01	1.04	1.10	1.19	1.11	1.30	1.47	1.18	0.15	0.13
NSBL	1.94	1.95	2.27	1.91	1.96	2.73	2.79	2.22	0.36	0.16
Combined Mean								1.70		

Source: Appendix 1

Figure: 4.1
Current Ratio of HBL and NSBL



The table 4.1 and figure 4.1 show that the total current assets and current liabilities of two banks, which are more than 1. This indicates all two banks are capable of discharging their current obligation. The mean ratios of HBL and NSBL are 1.18 and 2.22 respectively. The ratios of HBL are lesser than its mean ratio in the year 2004/2005, 2005/2006, 2006/2007 & 2008/2009 and higher in the year 2007/2008 2009/2010 & 2010/2011. The ratios of NSBL are lesser than its mean ratio in the year 2004/2005, 2005/2006, 2007/2008 & 2008/2009 and higher in the year 2006/2007, 2009/20010 and 2010/2011.

The combined mean is 1.70. The current ratio of NSBL is higher than the combined mean. The ratio of HBL is lesser than the combined mean.

II. Cash ratio

Cash / Total Assets: measures the portion of a company's assets held in cash or marketable securities. Higher the ratio is better is the cash portion of a firm. Absolute cash ratio indicates the position of the ready cash for meeting the current liabilities. Cash and marketable securities constitute the most important reservoir, which a firm needs for meeting its daily operating expenses and other cash obligations.

We have,

$$\text{Cash ratio} = \frac{\text{Cash+Marketable Securities}}{\text{Current laibilities}}$$

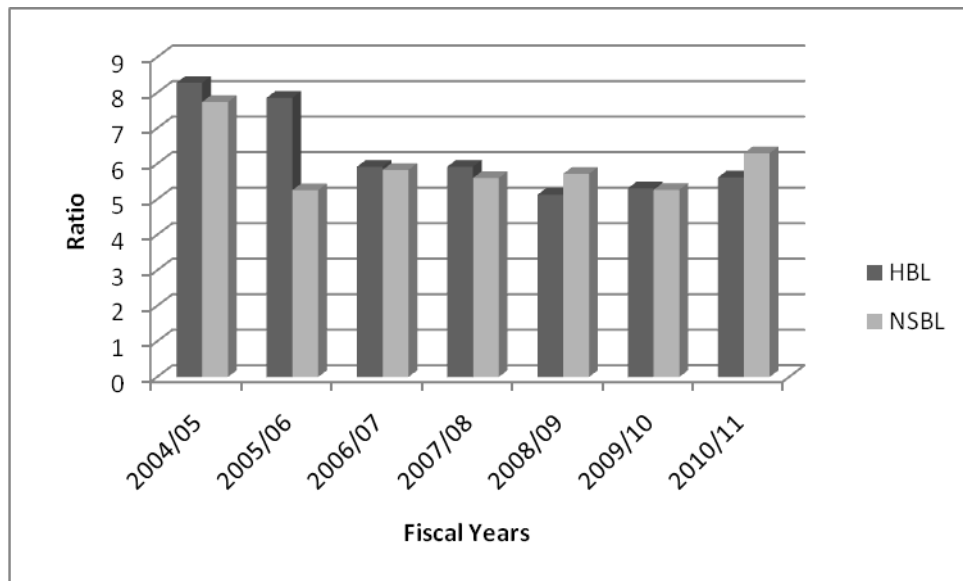
Cash ratios of HBL and NSBL from the fiscal years 2004/2005 to 2010/2011 are given below in table no. 4.2.

Table: 4.2
Cash Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	8.28	7.86	5.92	5.92	5.13	5.31	5.62	6.62	1.26	0.19
NSBL	7.74	5.26	5.83	5.60	5.72	5.27	6.30	6.03	0.86	0.14
Combined Mean								6.33		

Source: Appendix 1

Figure: 4.2
Cash Ratio of HBL and NSBL



The table 4.2 and figure 4.2 show that the cash ratio of HBL and NSBL. The mean ratios of HBL and NSBL are 6.62 and 6.03 respectively. The ratios of HBL is lesser than its mean ratio in the year 2006/2007, 2007/2008 & 2008/2009 and higher in the year 2004/2005 and 2005/2006. The ratios of NSBL is lesser than its mean ratio in the year 2005/2006 to 2006/2007 and higher in the year 2004/2005.

The combined mean is 6.33. The mean ratio of HBL is higher than the combined mean and the mean ratio of NSBL is lesser. This shows that HBL has consistent ratios and NSBL has the least consistent ratios.

III. Cash and Bank Balance to Total Deposit ratio

Cash and Bank Balance is said to be the first defense of the every cash transaction. Now a day, cash position is being judged separately to highlight this crucial business aspect. The ratio between the cash and bank balance and total deposit measures the ability of the bank to meet the unanticipated cash and all types of deposits. Higher the ratio is better to meet the ability of sudden demand of deposit but high ratio is not desirable since bank has to pay the interest on deposits. This will also maximize the cost of fund to the bank.

We have,

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

Cash and bank balance to total deposit of HBL and NSBL from the fiscal years 2003/2004 to 2007/2008 are given below in table no. 4.3

Table: 4.3

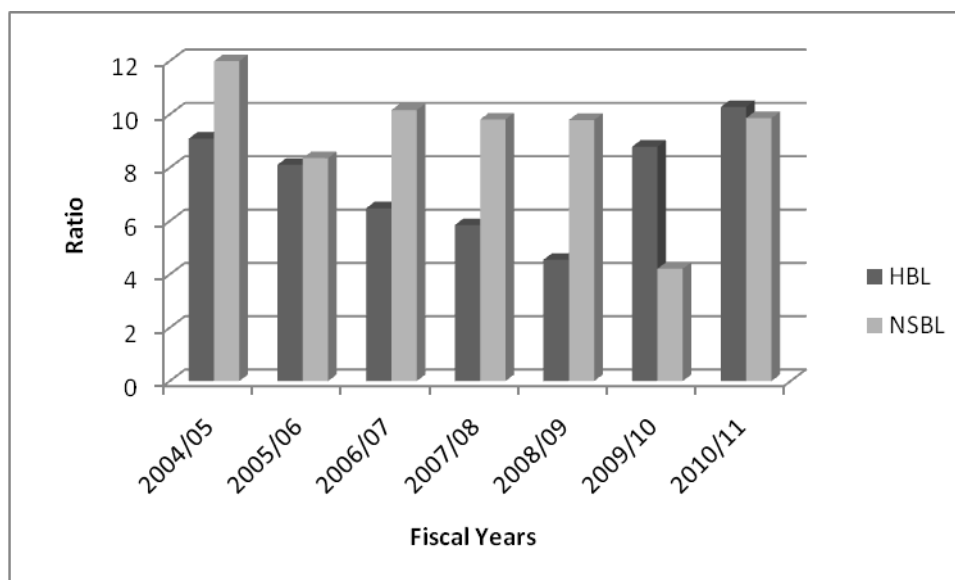
Cash and Bank Balance to Total Deposit Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	9.09	8.11	6.48	5.85	4.55	8.79	10.28	7.59	2.03	0.27
NSBL	12	8.36	10.16	9.81	9.79	4.21	9.86	9.17	2.43	0.27
Combined Mean								8.38		

Source: Appendix 1

Figure: 4.3

Cash and Bank Balance to Total Deposit Ratio of HBL and NSBL



The table 4.3 and figure 4.3 show that the cash and bank balance to total deposit ratio of HBL and NSBL. The mean ratios of HBL and NSBL are 7.59 and 9.17 respectively. The ratios of HBL is lesser than its mean ratio in the year 2005/2007, 2007/2008 and 2008/2009 and higher in the year 2004/2005, 2005/2006, 2009/20010

and 2010/2011. The ratios of NSBL are lesser than its mean ratio in the year 2005/2006, and, 2009/2010 and higher in the year 2004/2005, 2006/2007, 2007/2008, 2008/2009 and 2010/2011. The mean ratios of HBL are lower than the mean ratios of NSBL which shows that the ratios of NSBL are the most consistent and HBL has the least consistent ratios.

IV. Cash and Bank Balance to Current Asset Ratio

This ratio shows the bank liquidity capacity on the basis of cash and bank balance i.e. the most liquid asset. Higher ratio indicates the bank ability to meet the daily cash requirement of their customer deposit but the higher ratio is not preferred as the bank has to pay more interest on deposit and will increase cost of fund. Lower ratio is also not preferred as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance the cash and bank balance to current asset ratio in such a manner that it should have the adequate cash for the customers demand against deposit when required and less interest is required to be paid against deposit when required and less interest is required to be paid against the cash deposit. Cash and bank balance is composed to total reserve and funds. Current assets consist of cash and bank balance, money at call or short-term notice, loan and advances, investment in government securities, other interest receivables and other miscellaneous current asset.

We have,

$$\text{Cash and bank balance to current asset ratio} = \frac{\text{Cash and bank balance}}{\text{Current asset}}$$

Cash and bank balance to current asset ratio of HBL and NSBL from the fiscal years 2003/2004 to 2009/2010 are given below in table no. 4.4

Table: 4.4

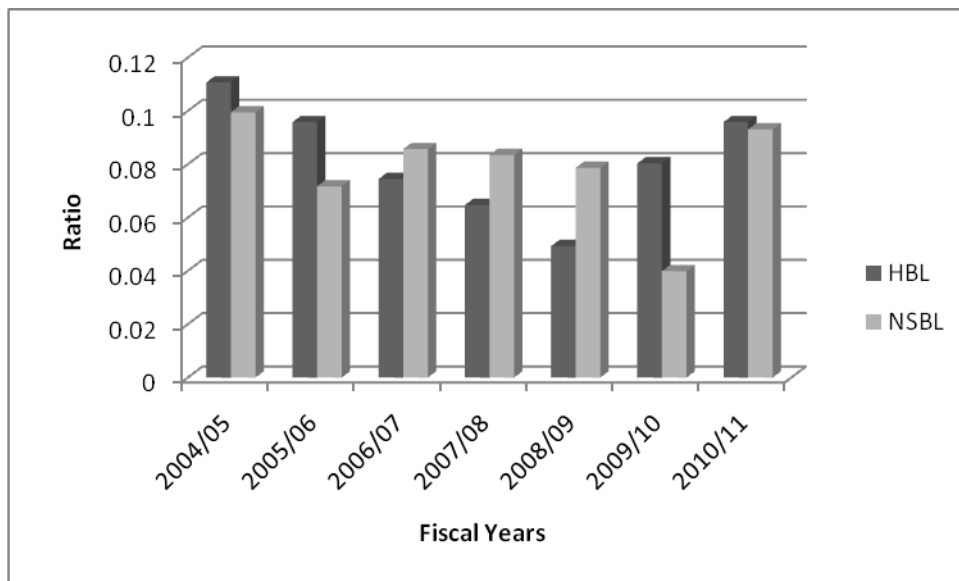
Cash and Bank Balance to Current Asset Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	0.1107	0.0958	0.0745	0.0647	0.0493	0.0803	0.0958	0.0816	0.02	0.26
NSBL	0.0995	0.0717	0.0857	0.0835	0.0787	0.0399	0.0931	0.0789	0.02	0.25
Combined Mean								0.08025		

Source: Appendix 1

Figure: 4.4

Cash and Bank Balance to Current Asset Ratio of HBL and NSBL



The table 4.4 and figure 4.4 show the cash and bank balance to current asset ratio of two banks are better as they show the ability to manage the deposit withdrawal from the customers. The mean ratio of HBL and NSBL is 0.0816 and 0.0789 respectively. HBL shows the higher average ratio of 0.0816 which indicates that liquidity position of HBL is better in this regard. The combined mean is 0.08025. Comparatively, HBL seems to have better position maintaining the cash and bank balance to current ratio. It indicates HBL's capacity of making quick payment of its deposit. The better position of the bank does not mean that the bank has mobilized its fund in the profitable sector. NSBL may have mobilized their more funds in productive sectors.

V. Investment of government securities to current asset ratio

The commercial banks are interested to invest funds collected in various government securities issued by government. The government securities are the safest place to make investment. But the government securities are not so much liquid as cash and bank balance. They can be easily sold in the market or they can be converted into cash in other ways. The main purpose of this ratio is to examine that portion of commercial banks current assets that is invested on different government securities.

We have,

$$\text{Investment on govt. securities to current asset ratio} = \frac{\text{Investment on govt. securities}}{\text{Current asset}}$$

Investment on government securities to current asset ratio of HBL and NSBL from the fiscal years 2003/2004 to 2009/2010 are given below in table no. 4.5

Table: 4.5

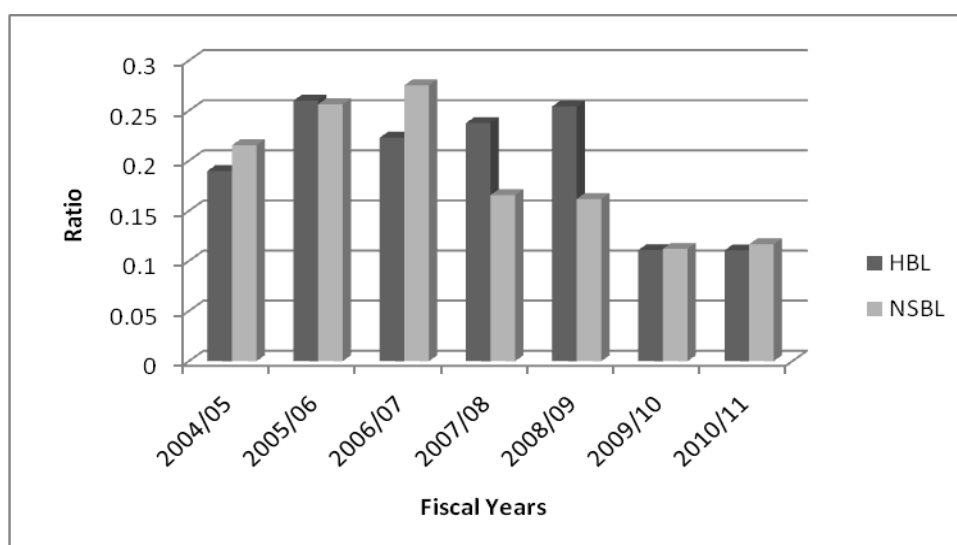
Investment on govt. securities to current asset ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	0.1898	0.2601	0.2231	0.2377	0.2542	0.1109	0.1106	0.198	0.06	0.32
NSBL	0.2155	0.2564	0.2754	0.1657	0.1619	0.1121	0.1167	0.186	0.06	0.35
Combined Mean								0.192		

Source: Appendix 1

Figure: 4.5

Investment on govt. securities to current asset ratio of HBL and NSBL



The table 4.5 and figure 4.5 show that the investment on government securities to current assets ratio of HBL and NSBL. The mean ratios of HBL and NSBL are 0.1980 and 0.1862 respectively. The ratios of HBL are lesser than its mean ratio in the year 2004/2005, 2009/2010 & 2010/2011 and higher in the year 2006/2006, 2006/2007, 2007/2008 and 2008/2009. The ratios of NSBL is lesser than its mean ratio in the year 2007/2008, 2008/2009, 2009/2010 & 2010/2011 and higher in the year 2003/2004, 2004/2005 and 2005/2006.

The combined mean is 0.1921. The mean ratio of NSBL is lesser than the combined mean and the mean ratio of HBL is higher than the combined mean.

In conclusion we can say that NSBL has invested more percent of its current assets on government securities than HBL. So, we can say that NSBL liquidity position is good and NSBL takes investment policy less risky than HBL.

4.1.2 Analyzing Lending efficiency and its Contribution towards Profitability

4.1.2.1 Total Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income. This ratio also helps to measure the bank performance on other fee-based activities. The high ratio indicates the high contribution made by lending and investing activities.

We have,

$$\text{Total Interest Income to Total Income Ratio} = \frac{\text{Total Interest Income}}{\text{Total Income}}$$

Table: 4.6

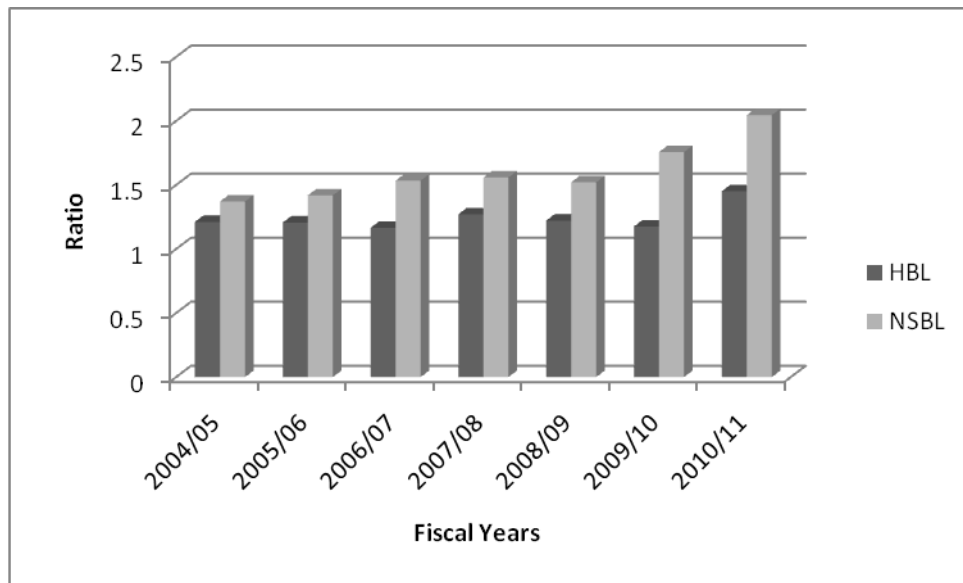
Total Interest Income to Total Income Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	1.2119	1.2067	1.1656	1.2711	1.2218	1.1759	1.4507	1.2434	0.10	0.08
NSBL	1.3715	1.4190	1.5341	1.5586	1.5217	1.7571	2.0459	1.6011	0.23	0.14
Combined Mean								1.4223		

Source: Appendix 2

Figure: 4.6

Total Interest Income to Total Income Ratio of HBL and NSBL



The table 4.6 and figure 4.6 show that the total interest income to total income ratio of NSBL is higher than HBL in all seven years. The overall mean ratio of these banks is 1.4223. Anyhow NSBL has maintained its interest income position as HBL ratio has is in up and down trend. The highest ratio of NSBL indicates its greater degree of dependency on fund basis activities. However, HBL also have greater degree of dependency on fund basis activities.

4.1.2.2 Interest Expenses to Total Deposit Ratio

This ratio measures the cost of total deposits in a relative term. The performance of a commercial bank is dependent upon its ability to generate cheaper fund. Cheaper the fund, more the probability of generating loans and advances and vice versa. The high ratio is indication of costly fund and this adversely affects the lending activities of a bank.

We have,

$$\text{Interest expenses to total deposit ratio} = \frac{\text{Interest expenses}}{\text{Total deposite}}$$

Table: 4.7

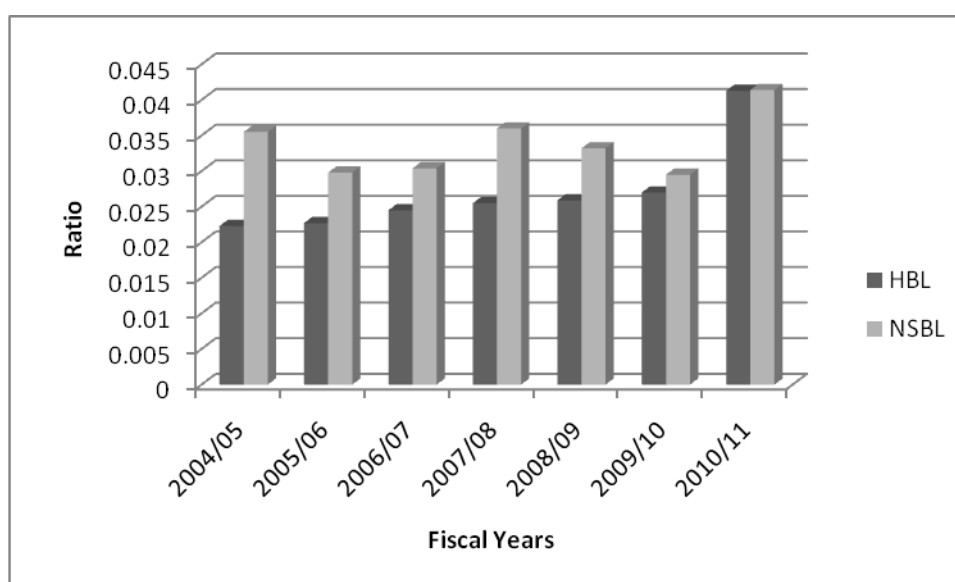
Interest Expenses to Total Deposit Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	0.0223	0.0227	0.0245	0.0255	0.0259	0.0270	0.0413	0.0270	0.01	0.24
NSBL	0.0355	0.0298	0.0304	0.0360	0.0332	0.0295	0.0414	0.0337	0.00	0.13
Combined Mean								0.0304		

Source: Appendix 2

Figure: 4.7

Interest Expenses to Total Deposit Ratio of HBL and NSBL



The table 4.7 and figure 4.7 show that HBL is successful in collecting cheaper fund by its modern and personalized services to the customer. The ratio of NSBL is highest in all five years. The ratios of HBL as well as NSBL are in decreasing and increasing trend. The combined mean ratio of interest expenses to total deposit ratio is 0.0304.

4.1.2.3 Interest from Investment to Total Interest Ratio

This ratio measure the contribution made by interest investment in total interest income. The major portion of interest income is generated by the lending function and investment regarded as the cushion against liquidity risk. Hence, this ratio measures how efficiently the banks have employed their trend in investment.

We have,

$$\text{Interest from Investment to Total Interest Ratio} = \frac{\text{Interest from Investment}}{\text{Total Interest Income}}$$

Where,

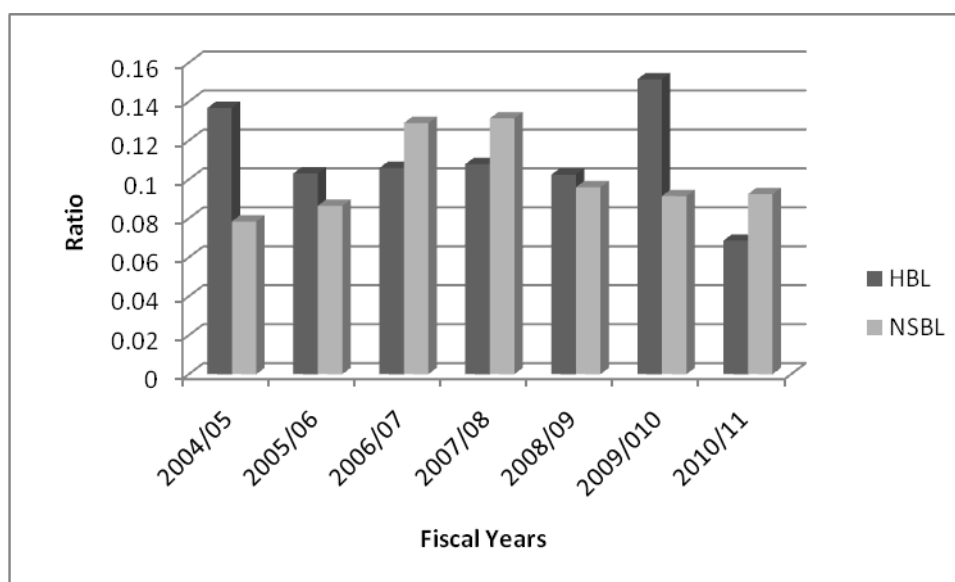
Interest from Investment is the difference between total interest income and interest from loan and advances.

Table: 4.8
Interest from Investment to Total Interest Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/010	2010/11	Mean	S.D	CV
HBL	0.1367	0.1031	0.1059	0.1079	0.1025	0.1515	0.0686	0.1109	0.03	0.24
NSBL	0.0784	0.0865	0.1290	0.1314	0.0960	0.0915	0.0925	0.1008	0.02	0.21
Combined Mean								0.1058		

Source: Appendix 2

Figure: 4.8
Interest from Investment to Total Interest Ratio of HBL and NSBL



The table 4.8 and figure 4.8 show that the interest from investment to total interest ratio of HBL and NSBL. The mean ratio of HBL and NSBL are 0.1109 and 0.1008 respectively. The mean ratio of HBL is higher than NSBL. The ratio of HBL is lesser

than mean ratio in all year except 2004/2005 and 2009/2010. The ratios of NSBL are higher than mean ratio only in the year 2006/2007 and 2007/2008. The combined mean of these two banks is 0.1058.

4.1.2.4 Total Interest Income to Interest Expenses Ratio

The ratio of income to interest expenses ratio measures the gap between interest rates offered and interest rates charged, in average, should not be more than 5%. The difference in this ratio is mainly caused by the ratio of fund mobilized and fund collected. The credit creation power of commercial banks has highly impact on this ratio.

We have,

$$\text{Total Interest Income to Interest Expenses Ratio} = \frac{\text{Total Interest Income}}{\text{Interest Expense}}$$

Table: 4.9

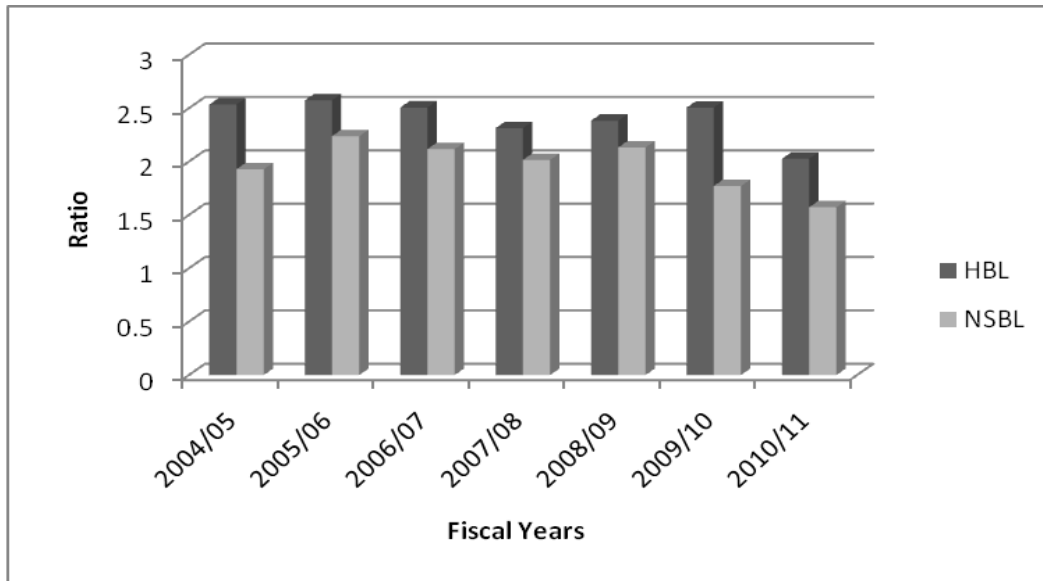
Total Interest Income to Interest Expenses Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	2.5347	2.5740	2.5067	2.3137	2.3838	2.5056	2.0267	2.4065	0.19	0.08
NSBL	1.9287	2.2380	2.1170	2.0160	2.1333	1.7709	1.5722	1.9680	0.23	0.12
Combined Mean								2.1872		

Source: Appendix 2

Figure: 4.9

Total Interest Income to Interest Expenses Ratio of HBL and NSBL



The table 4.9 and figure 4.9 show that the total interest income to interest expenses ratio HBL and NSBL. The mean ratio of HBL and NSBL are 2.4065 and 1.9680 respectively. The ratios of HBL are lesser than its mean ratio in the year 2007/2008, 2008/2009 and 2010/2011. The ratios of NSBL are lesser than its mean ratio in the year 2004/2005, 2009/20010 and 2010/2011. The combined mean ratio of these two banks is 2.1872. This shows that HBL has most consistent ratio than NSBL.

4.1.2.5 Total Income to Total Expenses Ratio

The assessment between the total income and total expenses measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is indication of higher productivity of expenses.

We have,

$$\text{Total Income to Total Expenses Ratio} = \frac{\text{Total Income}}{\text{Total Expenses}}$$

Table: 4.10

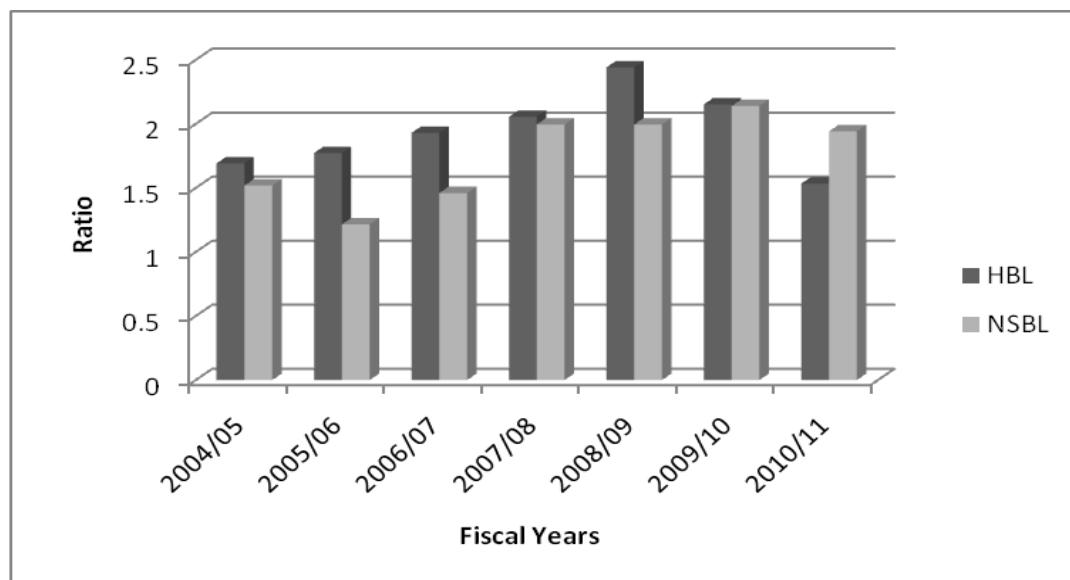
Total Income to Total Expenses Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	1.6923	1.7728	1.9299	2.0558	2.4412	2.1528	1.5342	1.9399	0.31	0.16
NSBL	1.5186	1.2154	1.4601	1.9958	1.9959	2.1413	1.9428	1.7529	0.35	0.20
Combined Mean								1.8464		

Source: Appendix 2

Figure: 4.10

Total Income to Total Expenses Ratio of HBL and NSBL



The table 4.10 and figure 4.10 show that the total income to total expenses ratio of HBL and NSBL. The mean ratio of HBL and NSBL are 1.9399 and 1.7529 respectively. The ratios of HBL is lesser than its mean ratio in the year 2004/2005, 2005/2006, 2006/2007 and 2010/2011 and higher in the year 2007/2008, 2008/2009 and 2009/2010. The ratio of NSBL is lesser than its mean ratio in the year 2004/2005, 2005/2006 and 2006/2007. The combined mean of these two banks is 1.8464. The ratio of HBL is most consistent till 2009/2010. However, it has declined in 2010/2011 whereas NSBL has least consistent ratio. However, the performance of these two banks can be considerable.

4.1.2.6 Total Income to Total Assets Ratio

This ratio measures how efficiently the asset of business is utilized to generate income. It also measures the quality of assets in income generation.

We have,

$$\text{Total Income to Total Assets Ratio} = \frac{\text{Total Income}}{\text{Total Assets}}$$

Table: 4.11

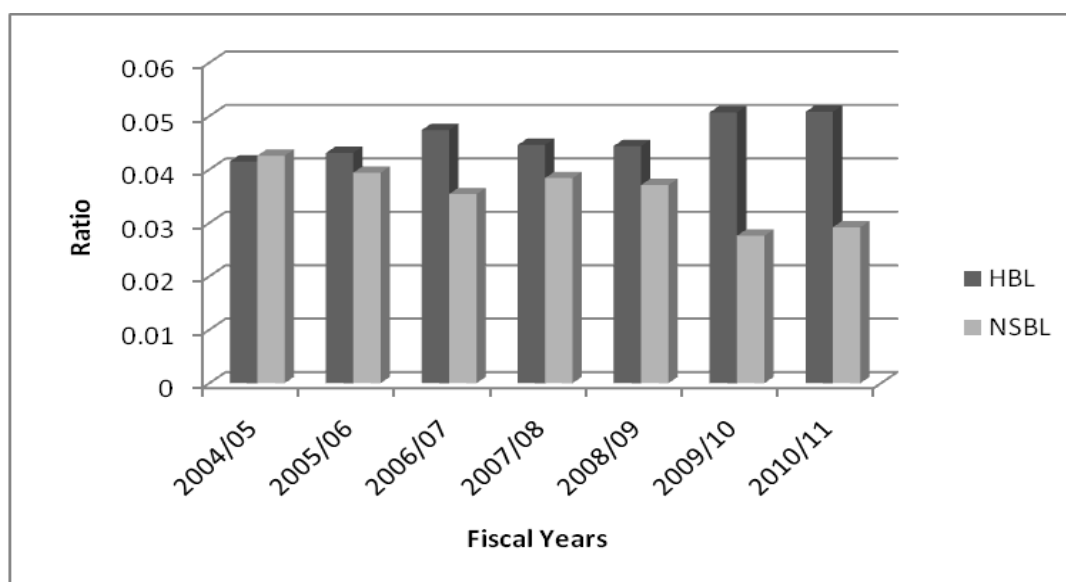
Total Income to Total Assets Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	0.0415	0.0431	0.0474	0.0446	0.0444	0.0507	0.0508	0.0456	0.00	0.08
NSBL	0.0426	0.0394	0.0354	0.0384	0.0371	0.0276	0.0292	0.0357	0.01	0.15
Combined Mean								0.0407		

Source: Appendix 2

Figure: 4.11

Total Income to Total Assets Ratio of HBL and NSBL



The table 4.11 and figure 4.11 show that the total income to total assets ratio of HBL and NSBL. The mean ratio of HBL and NSBL are 0.0456 and 0.0357 respectively.

The ratio of HBL is lesser than its mean ratio in the year 2004/2005, 2005/2006, 2007/2008 and 2008/2009 and higher in the year 2006/2007, 2009/2010 and 2010/2011. The ratio of NSBL is lesser than its mean ratio in the year 2006/2007, 2009/2010 and 2010/2011 and higher in the year 2004/2005, 2005/2006, 2007/2008 and 2008/2009. The combined mean ratio of these two banks is 0.0407. The ratio of HBL is more consistent than compare to NSBL.

4.1.2.7 Net Profit to Shareholder's Equity Ratio

The ratio between net profits after tax to sales is known as net profit ratio. This ratio measures the amount of profit that a rupee of shareholder's fund has received. A higher ratio is the sign of efficient management. Hence, higher percentage is preferable of the company and vice versa.

We have,

$$\text{Net Profit to Shareholder's Equity Ratio} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}}$$

Where,

Shareholder's Equity = Share capital & share premium + Retained Earning + Reserves

Table: 4.12

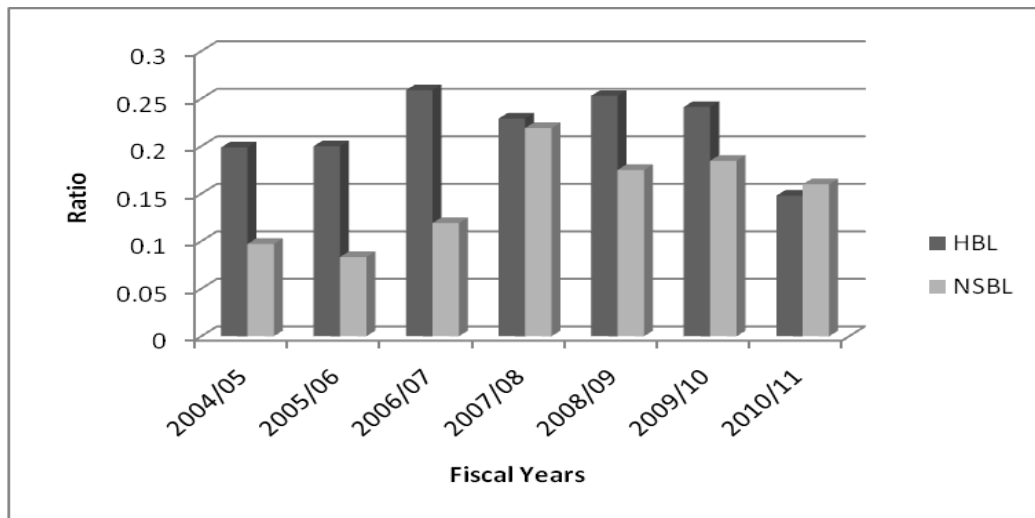
Net Profit to Shareholder's Equity Ratio of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	0.1987	0.2000	0.2590	0.2291	0.2530	0.2413	0.1479	0.2184	0.04	0.18
NSBL	0.0971	0.0833	0.1191	0.2191	0.1751	0.1847	0.1599	0.1483	0.05	0.34
Combined Mean								0.1834		

Source: Appendix 2

Figure: 4.12

Net Profit to Shareholder's Equity Ratio of HBL and NSBL



The table 4.12 and figure 4.12 show that the net profit to shareholders equity ratio of HBL and NSBL. The mean ratio of HBL and NSBL are 0.2184 and 0.1483 respectively. The ratio of HBL is lesser than its mean ratio in the year 2004/2005, 2005/2006 & 2010/2011 and higher in the year 2006/2007, 2007/2008, 2008/2009 & 2009/2010. The ratio of NSBL is lesser than its mean ratio in the year 2004/2005, 2005/2006, 2006/2007 and higher in the year 2007/2008, 2008/2009, 2009/2010 & 2010/2011. The combined mean of these two banks is 0.1834. The mean ratio of HBL is higher than that of NSBL.

4.1.2.8 Earning per share (EPS)

The income of per common share is known as earning per share. The amount of EPS measures the efficiency of a firm in relative terms. An organization is able to use its resource to generate profit is due to EPS determines that market of a share. However, higher earnings per share are preferable and vice versa.

We have,

$$\text{Earnings per Share} = \frac{\text{Net Profit}}{\text{No. of share outstanding}}$$

Table: 4.13

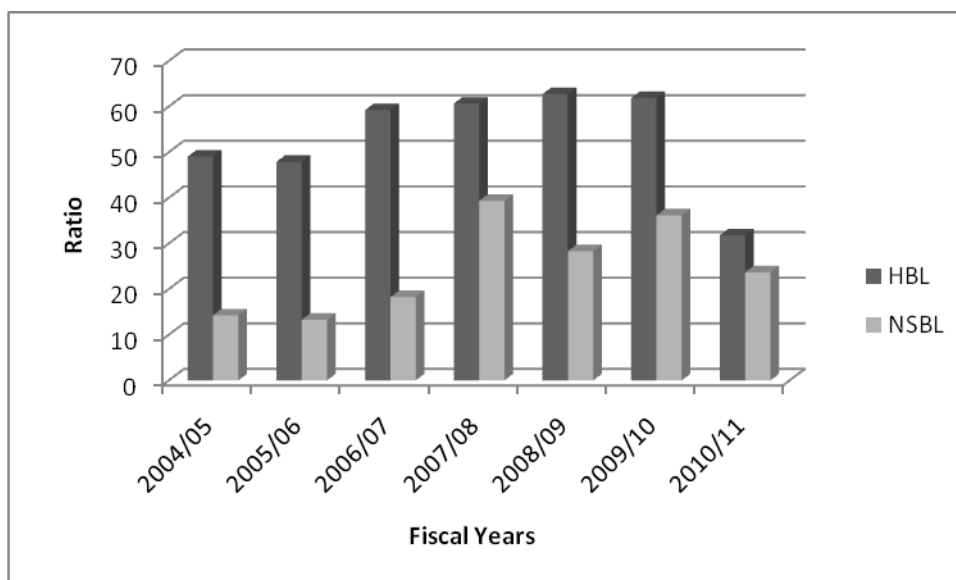
Earnings per Share (EPS) of HBL and NSBL

Banks	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Mean	S.D	CV
HBL	49.05	47.91	59.24	60.66	62.74	61.90	31.80	53.33	11.27	0.21
NSBL	14.26	13.29	18.27	39.35	28.33	36.18	23.69	24.77	10.34	0.42
Combined Mean										39.05

Source: Appendix 2

Figure: 4.13

Earnings per Share (EPS) of HBL and NSBL



The table 4.13 and figure 4.13 show that the earning per share of HBL and NSBL are 53.33 and 24.77 respectively. The ratio of HBL is lesser than its mean ratio in the year 2004/2005, 2005/2006 & 2010/2011 and higher in the year 2006/2007, 2007/2008, 2008/2009 & 2009/2010. The ratio of NSBL is lesser than its mean ratio in the year 2004/2005, 2005/2006, 2006/2007 & 2010/2011 and higher in the year 2007/2008, 2008/2009 & 2010/2011. The combined mean ratio of these banks is 39.05. The mean ratio of HBL is higher than NSBL.

4.2 Analyzing Correlation between Different Variable

4.2.1 Correlation between Total Deposit and Loans and Advances

The correlation between total deposits and loans and advances describes the degree of relationship between two variables. How a unit increases in deposit impact the volume of loans and advances is measured by the correlation coefficient. Hence the deposit is the independent variables and loans and advances is the dependent variables.

Table: 4.14

Correlation Coefficient (r), between Total Deposit and Loans and Advances

Banks	Correlation (r)
HBL	0.97
NSBL	0.94

Source: Above Calculations is calculated by SPSS Data Editors and Microsoft Excel

The above table describes the relationship between total deposit and loans and advances of two banks. There is a high degree of positive correlation between total deposit and loans and advances in NSBL and HBL with correlation of 0.97 and 0.94 respectively which indicates that both banks are successful to mobilize their deposits in proper way as loans and advances.

4.2.2 Correlation between Loans and Advances and Shareholder's Equity

Correlation between loans and advances and shareholders equity describes the degree of impact of the increase in loan and advances to shareholders equity. The loans and advances are the independent variable and the shareholders equity is dependent variables.

Table: 4.15

Correlation Coefficient (r), between Loans and Advances and Shareholder's Equity

Banks	Correlation (r)
HBL	0.99
NSBL	0.98

Source: Above Calculations is calculated by SPSS Data Editors and Microsoft Excel

The above table explains that there is very high degree of positive correlation between shareholders equity and loans and advances in two banks. There is a high degree of positive correlation in HBL as the degree of relationship in NSBL is lower than HBL.

4.2.3 Correlation between Investment and Loans and Advances

This correlation measures the degree of relationship between investment and loans & advances. This measure of correlation explains whether the banks have a rigid policy to maintain a consistent relationship between assets and factors such as seasonal opportunity, economic demand, NRB directives etc. has impact volume of these variables. Theoretically, increase or decrease in the volume of loans and advances directly reduces or increase the level of idle fund and this idleness of fund increase the investment.

Table: 4.16

Correlation Coefficient (r), between Investment and Loans and Advances

Banks	Correlation (r)
HBL	0.47
NSBL	0.88

Source: Above Calculations is calculated by SPSS Data Editors and Microsoft Excel

The above table explains that there is a positive correlation between investment and loans and advances in both banks. There is a high degree of positive correlation between investment and loans and advances of NSBL but there is a low degree of relationship between investment and loans and advances in HBL. Though there is positive relationship between investment and loans and advances, this is not only a fact that increases in loans and advances in these banks necessarily increase the volume of investments.

4.2.4 Correlation between Provision for Loan Loss and Loans and Advances

This correlation between provision for loans and advances measures the degree of relationship between these two variables. Loans and advances is an independent variable and provision for loan loss is a dependent variable.

Table: 4.17

Correlation Coefficient (r), between Provision for Loan Loss and Loans and Advances

Banks	Correlation (r)
HBL	-0.10
NSBL	0.05

Source: Above Calculations is calculated by SPSS Data Editors and Microsoft Excel

The above table explains that there is low degree of negative correlation between Loan Loss Provision and Loans & Advances of HBL and low degree of positive correlation between provision for loan loss provision and loans & advances in NSBL.

4.3 Statistical Analysis on basis of Trend

Trend analysis and projection of next 5 years.

Under this topic, analysis of deposit, loans and advances, investment and net profit of HBL and NSBL is made. The forecast is made for next 5 years.

The forecast is based on the following assumptions.

1. The main assumption is that other things will remain unchanged.
2. The forecast will be true only when the limitation of least square method is carried out.
3. The bank will run in present position.
4. The economy will remain in the present stage.
5. Nepal Rastra Bank will not change its guidelines to commercial banks.

4.3.1 Trend Analysis of Total Deposit

Under this topic, the trend values of total deposit for seven years from the fiscal year 2004/2005 to 2010/2011 have been calculated and forecast for next 5 years from 2011/2012 to 2015/2016 is done.

The following table shows the trend values of total deposit for 12 years from 2004/2005 to 2015/2016 of HBL and NSBL.

Table: 4.18

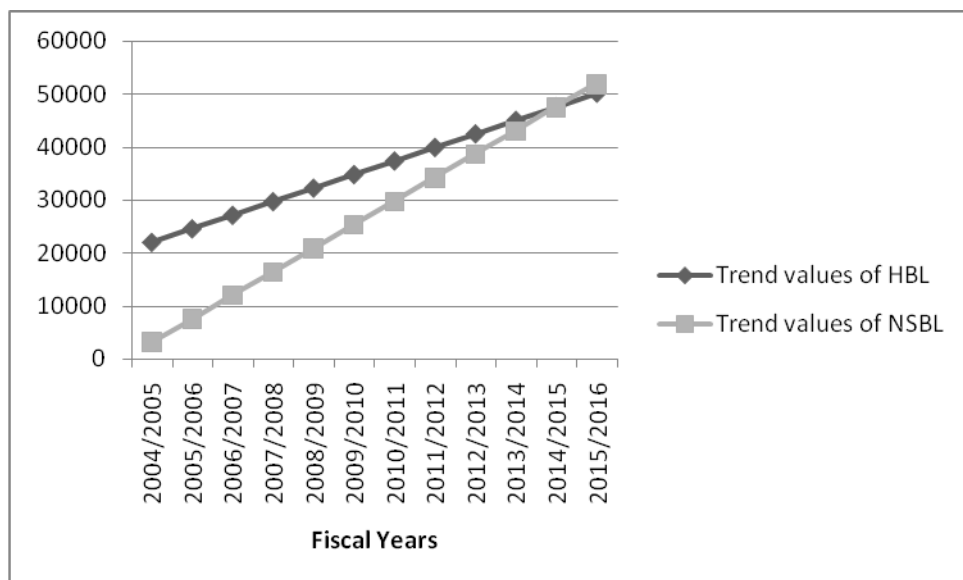
Trend values of total deposits of HBL and NSBL

Year	Trend values of HBL	Trend values of NSBL
2004/2005	21940.50	3080.10
2005/2006	24508.00	7523.40
2006/2007	27075.50	11966.70
2007/2008	29643.00	16410.00
2008/2009	32210.50	20853.30
2009/2010	34778.00	25296.60
2010/2011	37345.50	29739.90
2011/2012	39913.00	34183.20
2012/2013	42480.50	38626.50
2013/2014	45048.00	43069.80
2014/2015	47615.50	47513.10
2015/2016	50183.00	51956.40

Source: Appendix 3

Figure: 4.14

Trend values of total deposits of HBL and NSBL



The table 4.18 and figure 4.14 show that the deposits of HBL and NSBL of two banks have the increasing trend. There is no any decreasing trend in these deposits. The

growth rate of total deposit of HBL is 2567.50 million per year. Similarly, the growth rate per year of total deposit of NSBL is 4443.30 million per year. From the above trend analysis, it is found that the deposit collection position of NSBL is the better in compare to HBL.

4.3.2 Trend value of total loans and advances of HBL and NSBL

Under this topic, the trend values of total loans and advances for seven years from the fiscal year 2004/2005 to 2010/2011 have been calculated and forecast for next 5 years from 2011/2012 to 2015/2016 is done.

The following table shows the trend values of total loans and advances for 12 years from 2004/2005 to 2015/2016 of HBL and NSBL

Table: 4.19

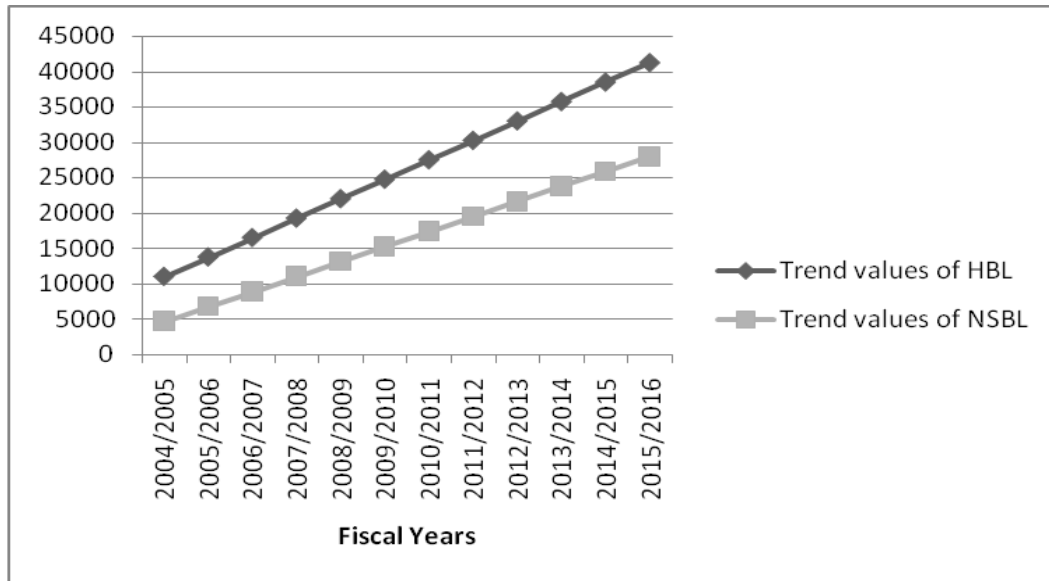
Trend values of total loans and advances of HBL and NSBL

Year	Trend values of HBL	Trend values of NSBL
2004/2005	10982.00	4606.20
2005/2006	13738.00	6732.80
2006/2007	16494.00	8859.40
2007/2008	19250.00	10986.00
2008/2009	22006.00	13112.60
2009/2010	24762.00	15239.20
2010/2011	27518.00	17365.80
2011/2012	30274.00	19492.40
2012/2013	33030.00	21619.00
2013/2014	35786.00	23745.60
2014/2015	38542.00	25872.20
2015/2016	41298.00	27998.80

Source: Appendix 3

Figure: 4.15

Trend values of total loans and advances of HBL and NSBL



The table 4.19 and figure 4.15 show that the total loans and advances of HBL and NSBL have the increasing trend. There is no any decreasing trend in these total loans and advances. The growth rate of total loans and advances of HBL is 2756.00 million per year. Similarly, the growth rate per year of loans and advances of NSBL is 2126.60 million per year. From the above trend analysis, it is found that the lending position of HBL is better in compare to NSBL.

4.3.3 Trend value of total investment of HBL and NSBL.

Under this topic, the trend values of total investment for seven years from the fiscal year 2004/2005 to 2010/2011 have been calculated and forecast for next 5 years from 2010/2011 to 2015/2016 is done.

The following table shows the trend values of total investment for 12 years from 2004/2005 to 2015/2016 of HBL and NSBL.

Table: 4.20

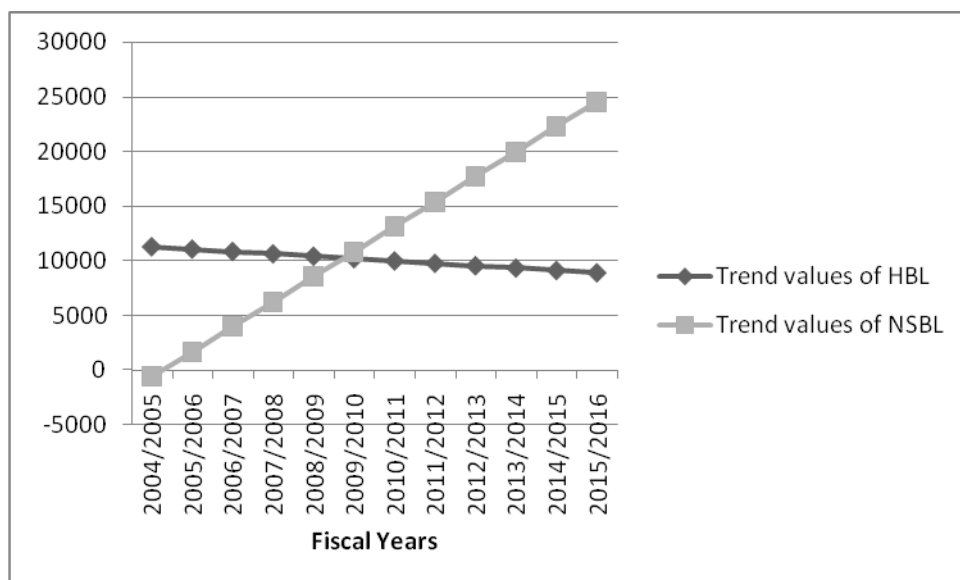
Trend values of total investment of HBL and NSBL

Year	Trend values of HBL	Trend values of NSBL
2004/2005	11247.60	-613.90
2005/2006	11031.40	1667.60
2006/2007	10815.20	3949.10
2007/2008	10599.00	6230.60
2008/2009	10382.80	8512.10
2009/2010	10166.60	10793.60
2010/2011	9950.40	13075.10
2011/2012	9734.20	15356.60
2012/2013	9518.00	17638.10
2013/2014	9301.80	19919.60
2014/2015	9085.60	22201.10
2015/2016	8869.40	24482.60

Source: Appendix 3

Figure: 4.16

Trend values of total investment of HBL and NSBL



The table 4.20 and figure 4.16 show that the total investments of HBL and NSBL of these two banks have the increasing trend. There is decreasing trend in the total

investments of HBL. The negative growth rate of investment of HBL is 216.20 million per year. Whereas, the total investment of NSBL is increasing trend with 2281.50 million growth rate per year.

4.3.4 Trend value of net profit of HBL and NSBL.

Under this topic, the trend values of net profit for seven years from the fiscal year 2004/2005 to 2010/2011 have been calculated and forecast for next 5 years from 2011/2012 to 2015/2016 is done.

The following table shows the trend values of total net profit for 12 years from 2003/2004 to 2014/2015 of HBL and NSBL.

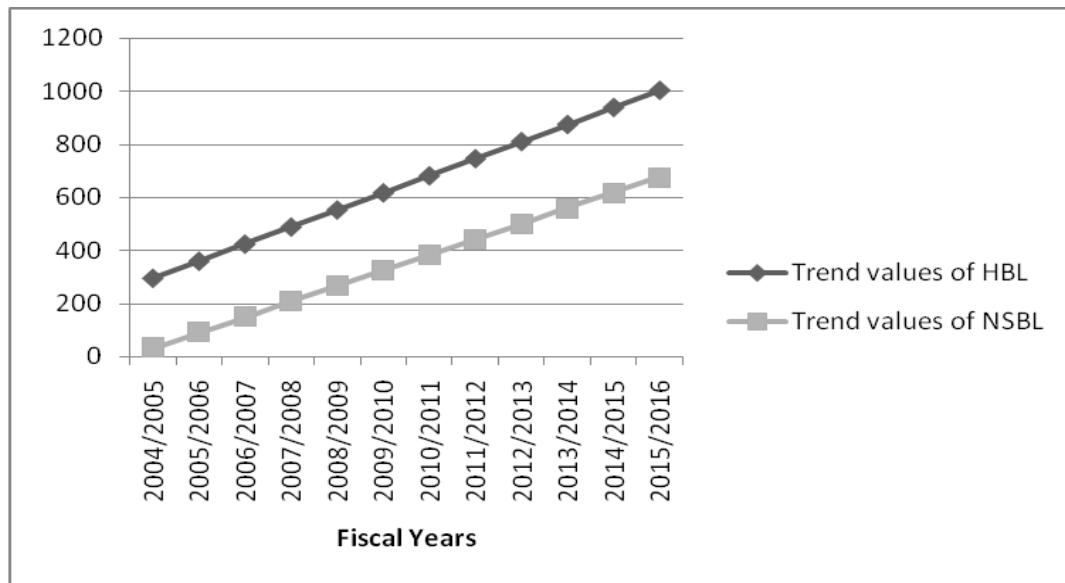
Table: 4.21
Trend values of net profit of HBL and NSBL

Year	Trend values of HBL	Trend values of NSBL
2004/2005	294.93	30.72
2005/2006	359.39	89.34
2006/2007	423.84	147.96
2007/2008	488.30	206.58
2008/2009	552.76	265.20
2009/2010	617.21	323.82
2010/2011	681.67	382.44
2011/2012	746.12	441.06
2012/2013	810.58	499.69
2013/2014	875.04	558.31
2014/2015	939.49	616.93
2015/2016	1003.95	675.55

Source: Appendix 3

Figure: 4.17

Trend values of net profit of HBL and NSBL



The table 4.21 and figure 4.17 show that the net profits of HBL and NSBL all two banks has the increasing trend. There is no any decreasing trend in these net profits. 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 NSBL is 58.62 million per year. From the above analysis, it is found that the net profit of HBL is better in compare to NSBL.

4.4 Major Findings

Among the 32 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 NSBL is higher than HBL. Coming to cash ratio HBL has consistent ratios and NSBL has the least consistent ratios but in the cash and bank balance to total deposited ratio the consistency ids just opposite NSBL are more consistent where as HBL has least consistent ratios. In terms of investment in government securities NSBL has invested more percentage of its current assets at government securities than HBL which can say that NSBL liquidation position is good and NSBL takes investment policy less risky than HBL.

The EPS of HBL and NSBL are 53.33 and 24.77 respectively which shows that HBL has highest EPS than NSBL. The relationship between total deposit and loans and advances of two banks HBL and NSBL. There is a high degree of positive correlation between total deposit and loans and advances in NSBL and HBL with correlation of 0.97 and 0.94 respectively which indicates that both banks are successful to mobilize their deposits in proper way as loans and advances. Similarly from the trend value of total deposit, both of the banks have increasing trend but the growth rate of total deposit of HBL is 2567.50 million per year where as the growth rate per year of total deposit of NSBL is 4443.30 million per year. Trend value of total investment is in decreasing trend in HBL but there is increasing trend in NSBL with 2281.50 million growth rate per year. Trend value of net profit of both banks has increasing trend. There is no any decreasing trend in net profit of both banks .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 NSBL is 58.62 million per year. From the analysis, it is found that the net profit of HBL is better in compare to NSBL.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Banks play a significant role in the economic development of a country. The primary objective of a commercial bank is to mobilize idle scattered resources in productive sectors. More specifically, they collect required capital through the issue of different types of securities, shares and debentures. They also provide capital for the development of industry, trade and business by investing the savings collected as deposits from the public. In return, they render various services to customers, facilitating their economic and social life. The performance of a bank depends on the management of funds by investing in the most productive sectors with a minimum loss of loan as far as possible.

To accelerate the Nepalese public enterprises' financial facilities need, commercial banks play a vital role to develop the industry in the country. The study has been undertaken to analyze as well as to compare the loan management and portfolio behavior of two commercial banks, i.e. HBL and NSBL, in terms of their liquidity position, lending strength, portfolio behavior and other various indicative ratios along with their mean, standard deviation and coefficient of variation.

The basic objective of this study is to analyze the critical status of loan management of the banks and to give some remedial measures thereto.

The financial statements of the last five years, i.e. from 2004/2005 to 2010/2011, have been examined for the analysis of the subject loan management of the banks. Financial statements are sorted, tabulated and interpreted by using appropriate ratios. To achieve the objective of this study, descriptive and analytical research design and survey research design have been used.

The study has been organized into five chapters consisting of Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendation.

The measurement of the liquidity has revealed that the liquidity position of the banks are in satisfactory level, as current ratio of NSBL is higher and HBL is lower than the combined mean which shows that NSBL has least consistent ratio. Cash ratio of HBL is higher and NSBL is lower and higher cash ratio is better for the cash position of a bank. The mean ratio of cash and bank balance to total deposit ratio of HBL is nearly equal to combined mean while the ratio of NSBL is higher so HBL is best in this regard.

The mean ratio of investment on government securities to current asset ratio of HBL is higher and NSBL is lower than industrial average. NSBL can invest more on government securities that should be up to the industry average. HBL has to invest its excess fund into other sectors, which generates more profit than the risk free securities.

The measurement of lending strength in relative term has revealed that the total asset to liabilities of NSBL has the highest ratio as it is always recommended to have higher ratio of total liabilities ratio since it signifies overall increase of credit and overall development of banks performance. It is concluded that performance NSBL is best in this regard. Loan and advances to total asset ratio of NSBL has higher ratio. The ratio of investment to loan and advances had measured the total portion of investment in loan and advances. HBL is higher among two banks. The ratio of loan and advances to total deposit ratio has measured the portion of total deposit that is used to increase the income of banks irrespective of the portfolio of its application. NSBL has deployed the highest portion its total deposits in its earning activities and ratio is significantly above than the ratio of other bank. This is the indication that the fund mobilizing activities of NSBL significantly better than HBL. Performance in loan and advances has not increase proportionately as compare to the deposit increment and it has further failed to utilize the excess fund in investing activities rather it has kept the high volume of fund at money at call and short notice.

5.2 Conclusions

The ratio of loan and advances to shareholders equity had gains the significant importance in measuring the capital fund, which has significantly deviated from HBL

and NSBL. The mean volume of total deposit of HBL is higher. The high volume of total expenses has allotted the highest income of HBL. The C.V. of NSBL is the highest in almost all of the cases and this has significantly differed from the C.V. of other bank i.e. HBL. The mean volume of loan and advances of HBL is higher as high volume of well performing loan and advances in economy is symbol of healthy business. The mean volume of net profit of HBL is highest. It is concluded that HBL has the superior performance in its lending activities compare to NSBL. If HBL succeeded in collecting the less cheap sources of fund in future the lending strength of HBL would be better in coming future. The measurement of efficiency in lending has revealed that the mean ratio of interest income to total income ratio has concluded that the contribution of interest income in total income mix of NSBL is the greatest. The ratio of interest income and interest expenses of HBL is higher than NSBL. Among the various measures of profitability ratios, the EPS reflects the relative measures of profitability, performance of HBL are significantly better than NSBL. The total income to total asset ratio measures the earning power of each rupee employed of total income to total asset of HBL is higher. From the study, it is found out that HBL is able to borrow loan with lower interest rate and invest in high earning sector with the highest earned ratio.

There is higher degree of positive correlation between total deposit and loan and advances, loan and advances and shareholder's equity, investment and loan & advances, provision for loan loss and loan & advances. There is good performance of NSBL in generating loan and advance. This also concludes that a unit of increment in deposit is more likely in NSBL to increase the volume of loan and advance but in case of HBL, it has low degree of positive correlation in total deposit and loan & advances. There is positive correlation in investment and loan & advances of HBL and in provision for loan loss and loan & advances, there is negative correlation on this ratio.

5.3 Recommendations

On the basis of the study following suggestions can be made:

To maintain the sound liquidity position

The sound liquid position is a must for any financial institute for prevention of going through financial distress. The higher liquidity is not preferable as there would be

more idle money so it is recommended to look upon new area of lending and investment. The rural area of our country is still underdeveloped because of lack of proper investment in different sectors. To compromise between the liquidity and credit need of rural economy, these banks are highly recommended to expand their credit in this area. This helps to minimize idle fund. HBL bank is recommended to improve its cash and bank balance to deposit ratio to combined mean to meet current obligations and loan demand. The investment in government securities is considered being risk free and liquid. NSBL should increase its investment in government securities up to the combined mean to improve its liquidity. Though, the government securities are considered to be risk free, the return from it is also nominal. So, the larger investment in it is not profitable. HBL has investment larger than the combined mean so it is recommended to reduce the investment to the average and invest fund in other profitable sectors.

To give extra priority on productivity and priority sector loan

NSBL's contribution in loan and advances is the lowest and this has low growth rate compare to HBL. Since the entire economy is largely dependent on the proper execution of lending functions by commercial banks. The low tendency toward lending affects the performance of all the banks in long run due to its paradox. Low level of lending constitutes the low level of investment resulting in low level of productive and employment generation and this cause slack of economy. This slackness in economy adversely effects the funding as well as non-funding activities of banking business. Thus NSBL is recommended to give extra priority on productivity and priority sector loan.

To improve their operational efficiency and increase the productivity of expenses

The ratio of Total Income to total expenses of HBL is higher than NSBL. This ratio tends to be unfavorable due to the comparative higher operating cost of these banks. The productivity of the expenses in HBL is significantly higher than NSBL, thus these banks are highly recommended to improve their operational efficiency and increase the productivity of expenses made. Introducing sophisticated banking system, developing high motivational strength in management, increasing interest turnover are some technique that improve the productivity of expenses and increased the gap of income and expenses.

To follow the directives of NRB

Following the normal guidance of NRB and acting upon this also reduce many of credit risk arising from borrower's defaulter, lack of proper credit, appraisal, defaulter by blacklisted borrowers and professional defaulter. The over confidence in commercial banks regarding credit information bureau has caused negligence in taking information from credit information bureau has caused many of bad debts in these banks. Hence, these banks are recommended to follow the directive of NRB strictly and be more cautions and realistic while granting loans and advances. The major solution of reducing the risk is to avoid lending in more risky area until banks does not fully satisfy itself regarding the failure viability of the project. The establishment of Asset Management Company (AMC), which helps, the commercial banks in collecting their debts and improving their credit rating efficiency, should be initiated.

To reduce the amount of non-performing loan and loan loss provision

The loan loss provision suggests that the banks have been maintaining a large amount as loan loss provisions. Such huge amount of loan loss provision is a burden for the bank, which increases the liability and reduces the operating profit of the banks. Thus, the bank should prioritize to reduce its non-performing loans into performing loans thereby reducing the amount of loan loss provision. HBL has highest loan loss provision comparing to NSBL so it is recommended that HBL have to improve the category of its loan and try to minimize the bad debts, which fall under non-performing loan.

To invest funds in more profitable sector:

Loan and advances are the primary sources of income and cover larger part of revenue. This is the most profitable activity of a bank apart from public services. NSBL has invested lesser ratio of loan and advances while investment is also lesser. As loan and advances is the primary source of income, the bank should grant more amounts of loan and advances and improved wisely in investment sector of banking. The success of the bank depends on how well they manage the interest spread. The bank should get loan and borrowings with lower interest and grant loan in the profitable sector.

Thus, it is concluded that NSBL should focus more on reducing the amount of non-performing loans and loan loss provision so that depositors and other stakeholders of the bank are safeguarded. Similarly, the bank must invest its fund in more profitable sectors but its investment and investment in government securities is higher comparing to HBL so the bank must live up to its liquidity and invest its funds in more profitable sectors.

To fulfill national and social objectives

The high volume of liquidity shows that the high degree of lending strength has been prevailing in all of these banks. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping these banks to less orient towards the lending function. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in this sector. But in view of risk element in lending the bankers still prefer to give a negative outlook in handling lending proposals. This attitude requires to be changed among the bankers and any proposal coming to them should be processed to banking norms to that it can be sanctioned for a ailment for production or approved social objectives.

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Appendix 1

Liquidity Ratio of HBL and NSBL

Current Ratio

HIMALAYAN BANK LTD.

Fiscal Year	Current Assets(Rs.)	Current Liabilities (Rs.)	Current Ratio
2004/2005	18083.78	17812.92	1.02
2005/2006	21029.03	20195.48	1.04
2006/2007	23061.83	20983.99	1.10
2007/2008	27159.02	22811.47	1.19
2008/2009	29392.73	26378.65	1.11
2009/2010	37979.09	29276.57	1.30
2010/2011	40368.72	27449.28	1.47
Mean			1.18

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Current Assets(RS)	Current Liabilities (RS)	Current Ratio
2004/2005	8684.63	4461.44	1.95
2005/2006	10094.57	5187.64	1.95
2006/2007	13043.84	5737.28	2.27
2007/2008	13441.08	7020.42	1.91
2008/2009	17064.29	8717.91	1.96
2009/2010	29507.19	10815.43	2.73
2010/2011	36949.19	13248.18	2.79
Mean			2.22

Combined Mean:1.70

Source: Annual Report of NSBL

Cash and Bank Balance to Total Deposit Ratio

HIMALAYAN BANK LTD.

Fiscal Year	Cash & Bank Bal.(RS)	Total Deposit (RS)	Ratios
2004/2005	2001.18	22010.33	0.0909
2005/2006	2014.47	24814.01	0.0812
2006/2007	1717.35	26490.85	0.0648
2007/2008	1757.34	30048.42	0.0585
2008/2009	1448.14	31842.79	0.0455
2009/2010	3048.53	34682.31	0.0879
2010/2011	3866.49	37611.2	0.1028
		Mean	0.0759

Source: Annual Report of HBL

NEPAL SBI BANK LTD

Fiscal Year	Cash & Bank Bal.(RS)	Total Deposit (RS)	Ratios
2004/2005	864.42	7198.32	0.1201
2005/2006	723.74	8654.77	0.0836
2006/2007	1118.14	11002.04	0.1016
2007/2008	1122.69	11445.28	0.0981
2008/2009	1342.96	13715.4	0.0979
2009/2010	1176.44	27957.22	0.0421
2010/2011	3441.26	34896.42	0.0986
		Mean	0.0917

Source: Annual Report of NSBL

Cash and Bank Balance to Current Asset Ratio

HIMALAYAN BANK LTD.

Fiscal Year	Cash & Bank Bal.(Rs)	Current Asset (Rs)	Ratios
2004/2005	2001.18	18083.78	0.1107
2005/2006	2014.47	21029.03	0.0958
2006/2007	1717.35	23061.83	0.0745
2007/2008	1757.34	27159.02	0.0647
2008/2009	1448.14	29392.73	0.0493
2009/2010	3048.53	37979.09	0.0803
2010/2011	3866.49	40368.72	0.0958
		Mean	0.0816

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Cash & Bank Bal.(RS)	Current Asset (RS)	Ratios
2004/2005	864.42	8684.63	0.0995
2005/2006	723.74	10094.57	0.0717
2006/2007	1118.14	13043.84	0.0857
2007/2008	1122.69	13441.08	0.0835
2008/2009	1342.96	17064.29	0.0787
2009/2010	1176.44	29507.19	0.0399
2010/2011	3441.26	36949.19	0.0931
Mean			0.0789

Combined Mean:0.08025

Source: Annual Report of NSBL

Investment On Govt. Securities to Current Assets Ratio

HIMALAYAN BANK LTD.

Fiscal Year	Invest. On Govt. sec.(Rs.)	Current Asset (Rs.)	Ratios
2004/2005	3431.73	18083.78	0.1898
2005/2006	5469.73	21029.03	0.2601
2006/2007	5144.31	23061.83	0.2231
2007/2008	6454.87	27159.02	0.2377
2008/2009	7471.67	29392.73	0.2542
2009/2010	4212.3	37979.09	0.1109
2010/2011	4465.37	40368.72	0.1106
Mean			0.198

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Invest. On Govt. sec.(RS)	Current Asset (RS)	Ratios
2004/2005	1871.46	8684.63	0.2155
2005/2006	2588.14	10094.57	0.2564
2006/2007	3591.77	13043.84	0.2754
2007/2008	2227.4	13441.08	0.1657
2008/2009	2762.83	17064.29	0.1619
2009/2010	3306.57	29507.19	0.1121
2010/2011	4313.32	36949.19	0.1167
Mean			0.1862

Combined Mean:0.1921

Source: Annual Report of NSBL

Note: The mean is calculation by using the excel formula.

Appendix 2

Activity Ratio and Profitability Ratio of HBL and NSBL

Total Interest Income to Total Income Ratio

HIMALAYAN BANK LTD.

Fiscal Year	Total Int. Income(Rs.)	Total Income(Rs.)	Ratios
2004/2005	1245.9	1028.075	1.2119
2005/2006	1446.47	1198.717	1.2067
2006/2007	1626.47	1395.422	1.1656
2007/2008	1775.58	1396.855	1.2711
2008/2009	1963.65	1607.196	1.2218
2009/2010	2342.2	1991.858	1.1759
2010/2011	3148.61	2170.341	1.4507
Mean			1.2434

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Total Int. Income(Rs.)	Total Income(Rs.)	Ratios
2004/2005	493.6	359.89	1.3715
2005/2006	578.37	407.58	1.419
2006/2007	708.72	461.97	1.5341
2007/2008	831.12	533.255	1.5586
2008/2009	970.51	637.789	1.5217
2009/2010	1460.45	831.183	1.7571
2010/2011	2269.7	1109.38	2.0459
Mean			1.6011

Combined Mean : 1.4223

Source: Annual Report of NSBL

Interest Expenses to Total Deposit Ratio

HIMALAYAN BANK LTD.

Fiscal Year	Interest Expenses(Rs.)	Total Deposit(Rs.)	Ratios
2004/2005	491.54	22010.33	0.0223
2005/2006	561.96	24814.01	0.0227
2006/2007	648.84	26490.85	0.0245
2007/2008	767.41	30048.42	0.0255
2008/2009	823.74	31842.79	0.0259
2009/2010	934.78	34682.31	0.027
2010/2011	1553.53	37611.2	0.0413
Mean			0.02702

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Interest Expenses(Rs.)	Total Deposit(Rs.)	Ratios
2004/2005	255.92	7198.33	0.0355
2005/2006	258.43	8654.77	0.0298
2006/2007	334.77	11002.04	0.0304
2007/2008	412.26	11445.29	0.036
2008/2009	454.92	13715.39	0.0332
2009/2010	824.7	27957.22	0.0295
2010/2011	1443.69	34896.42	0.0414
Mean			0.0337

Combined Mean : 0.03036

Source: Annual Report of NSBL

Interest from Investment to Total Interest Income Ratio

HIMALAYAN BANK LTD.

Fiscal Year	Int. from Investment(Rs.)	Total Int. Income(Rs.)	Ratios
2004/2005	170.33	1245.9	0.1367
2005/2006	149.13	1446.47	0.1031
2006/2007	172.24	1626.47	0.1059
2007/2008	191.56	1775.58	0.1079
2008/2009	201.31	1963.65	0.1025
2009/2010	354.95	2342.2	0.1515
2010/2011	216.04	3148.61	0.0686
Mean			0.1109

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Int. from Investment(Rs.)	Total Int. Income(Rs.)	Ratios
2004/2005	38.7	493.6	0.0784
2005/2006	50.03	578.37	0.0865
2006/2007	91.41	708.72	0.129
2007/2008	109.46	831.12	0.1314
2008/2009	93.2	970.51	0.096
2009/2010	133.63	1460.45	0.0915
2010/2011	209.92	2269.7	0.0925
Mean			0.1008

Combined Mean : 0.1058

Source: Annual Report of NSBL

HIMALAYAN BANK LTD.

Fiscal Year	Total Int. Income(Rs.)	Interest Expenses(Rs.)	Ratios
2004/2005	1245.9	491.54	2.5347
2005/2006	1446.47	561.96	2.574
2006/2007	1626.47	648.84	2.5067
2007/2008	1775.58	767.41	2.3137
2008/2009	1963.65	823.74	2.3838
2009/2010	2342.2	934.78	2.5056
2010/2011	3148.61	1553.53	2.0267
Mean			2.4065

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Total Int. Income(Rs.)	Interest Expenses(Rs.)	Ratios
2004/2005	493.6	255.92	1.9287
2005/2006	578.37	258.43	2.238
2006/2007	708.72	334.77	2.117
2007/2008	831.12	412.26	2.016
2008/2009	970.51	454.92	2.1333
2009/2010	1460.45	824.7	1.7709
2010/2011	2269.7	1443.69	1.5722
Mean			1.968

Combined Mean : 2.18725

Source: Annual Report of NSBL

Total Income to Total Expenses Ratio**HIMALAYAN BANK LTD.**

Fiscal Year	Total Income(Rs.)	Total Expenses(Rs.)	Ratios
2004/2005	1028.075	607.501	1.6923
2005/2006	1198.717	676.175	1.7728
2006/2007	1395.422	723.023	1.9299
2007/2008	1396.855	679.452	2.0558
2008/2009	1607.196	658.357	2.4412
2009/2010	1991.858	925.26	2.1528
2010/2011	2170.341	1414.61	1.5342
Mean			1.9399

Source: Annual Report of HBL

NEPAL SBI BANK LTD

Fiscal Year	Total Income(Rs.)	Total Expenses(Rs.)	Ratios
2004/2005	359.89	236.99	1.5186
2005/2006	407.58	335.36	1.2154
2006/2007	461.97	316.39	1.4601
2007/2008	533.255	267.182	1.9958
2008/2009	637.789	319.543	1.9959
2009/2010	831.183	388.16	2.1413
2010/2011	1109.38	571.02	1.9428
Mean			1.7529

Combined Mean : 1.8464

Source: Annual Report of NSBL

Total Income to Total Assets Ratio**HIMALAYAN BANK LTD.**

Fiscal Year	Total Income(Rs.)	Total Assets(Rs.)	Ratios
2004/2005	1028.075	24762.02	0.0415
2005/2006	1198.717	27844.69	0.0431
2006/2007	1395.422	29460.39	0.0474
2007/2008	1396.855	33519.14	0.0417
2008/2009	1607.196	36175.53	0.0444
2009/2010	1991.858	39320.32	0.0507
2010/2011	2170.341	42717.12	0.0508
Mean			0.0456

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Total Income(Rs.)	Total Assets(Rs.)	Ratios
2004/2005	359.89	8440.4	0.0426
2005/2006	407.58	10345.37	0.0394
2006/2007	461.97	13035.84	0.0354
2007/2008	533.255	13901.2	0.0384
2008/2009	637.789	17187.44	0.0371
2009/2010	831.183	30166.44	0.0276
2010/2011	1109.38	38047.68	0.0292
Mean			0.0357

Combined Mean : 0.0407

Source: Annual Report of NSBL

HIMALAYAN BANK LTD.

Fiscal Year	Net Profit(Rs.)	Shareholders Equity(Rs.)	Ratios
2004/2005	263.05	1324.17	0.1986
2005/2006	308.28	1541.75	0.1999
2006/2007	457.46	1766.18	0.239
2007/2008	491.82	2146.5	0.2291
2008/2009	635.87	2512.99	0.253
2009/2010	752.83	3119.89	0.2143
2010/2011	508.8	3439.21	0.1479
Mean			0.2184

Source: Annual Report of HBL

NEPAL SBI BANK LTD.

Fiscal Year	Net Profit(Rs.)	Shareholders Equity(Rs.)	Ratios
2004/2005	60.85	626.64	0.0971
2005/2006	57.39	689.02	0.0833
2006/2007	117	982.38	0.191
2007/2008	254.91	1163.3	0.2191
2008/2009	247.77	1414.65	0.1751
2009/2010	316.37	1712.61	0.1847
2010/2011	391.74	2450.55	0.1599
Mean			0.1483

Combined Mean : 0.1834

Source: Annual Report of NSBL

Earning Per Share (EPS)

HIMALAYAN BANK LTD.

Fiscal Year	Net Profit(Rs.)	No. of share outstanding	Ratios
2004/2005	263.05	5.3629	49.05
2005/2006	308.28	6.4345	47.91
2006/2007	457.46	7.7221	59.24
2007/2008	491.82	8.1078	60.66
2008/2009	635.87	10.135	62.74
2009/2010	752.83	12.1622	61.9
2010/2011	508.8	16	31.8
Mean			53.33

Source: Annual Report of HBL

Fiscal Year	Net Profit(Rs.)	No. of share outstanding	Ratios
2004/2005	60.85	4.2671	14.26
2005/2006	57.39	4.3182	13.29
2006/2007	117	6.4039	18.27
2007/2008	254.91	6.478	39.35
2008/2009	247.77	8.7458	28.33
2009/2010	316.37	8.7453	36.18
2010/2011	391.74	16.5362	23.69
Mean			24.77

Combined Mean : 39.05

Source: Annual Report of NSBL

Note: The mean is calculation by using the excel formula.

APPENDIX 3

Time series Analysis (Trend Analysis) of HBL and NSBL

TOTAL DEPOSIT

Let the trend be $Y = a + bx$

where, $x = X - \text{middle year}$

Supposing the F/Y 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 & 2010/11 be 1,2,3,4, 5, 6 and 7 respectively

Calculation of trend line and trend values

F/Y	X	x = X - Mid year	y	xy	x ²
2004/2005	1	-3	22010.33	-66030.99	9
2005/2006	2	-2	24814.01	-49628.02	4
2006/2007	3	-1	26490.85	-26490.85	1
2007/2008	4	0	30048.42	0	0
2008/2009	5	1	31842.79	31842.79	1
2009/2010	6	2	34682.31	69364.62	4
2010/2011	7	3	37611.2	112833.6	9
	28	0	207499.91	71891.15	28
	$\Sigma X =$	$\Sigma x = 0$	$\Sigma y =$	$\Sigma xy =$	$\Sigma x^2 =$

since, $\Sigma x = 0$

Here, $X = 28 / 7 = 4$

Now, $a = \Sigma y / n$

$a = 29643$

$b = \Sigma xy / \Sigma x^2$

2567.541

$b = 071$

Hence the equation of the straight line trend is $y = 29643 + 2567.5 x$

F/Y	X	Y
2004/2005	-3	21940.5
2005/2006	-2	24508
2006/2007	-1	27075.5
2007/2008	0	29643
2008/2009	1	32210.5
2009/2010	2	34778
2010/2011	3	37345.5

For estimated future trend

Year	X	Y
2011/12	4	39913
2012/13	5	42480.5
2012/14	6	45048
2014/15	7	47615.5
2015/16	8	50183

LOANS & ADVANCES

Let the trend be $Y = a + bx$
 where, $x = X - \text{middle year}$

Supposing the F/Y 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 & 2010/11 be 1,2,3,4, 5, 6 and 7 respectively

Calculation of trend line and trend values

F/Y	X	x = X - Mid yr	y	xy	x ²
2004/2005	1	-3	12919.63	-38758.89	9
2005/2006	2	-2	13451.17	-26902.34	4
2006/2007	3	-1	15761.98	-15761.98	1
2007/2008	4	0	17793.72	0	0
2008/2009	5	1	20179.61	20179.61	1
2009/2010	6	2	25519.52	51039.04	4
2010/2011	7	3	29123.75	87371.25	9
	28	0	134749.38	77166.69	28
	$\Sigma X =$	$\Sigma x = 0$	$\Sigma y =$	$\Sigma xy =$	$\Sigma x^2 =$

since, $\Sigma x = 0$

Here, $X = 28 / 7 = 4$

Now, $a = \Sigma y / n$

19250

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{2755.953}{214}$$

Hence the equation of the straight line trend is $y = 19250 + 2756 x$

F/Y	X	Y
2004/2005	-3	10982
2005/2006	-2	13738
2006/2007	-1	16494
2007/2008	0	19250
2008/2009	1	22006
2009/2010	2	24762
2010/2011	3	27518

For estimated future trend

Year	X	Y
2011/12	4	30274
2012/13	5	33030
2012/14	6	35786
2014/15	7	38542
2015/16	8	41298

INVESTMENT

Let the trend be $Y = a + bx$
 where, $x = X - \text{middle year}$

Supposing the F/Y 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 & 2010/11 be 1, 2, 3, 4, 5, 6 and 7 respectively

Calculation of trend line and trend values

F/Y	X	$x = X - \text{Mid yr}$	y	xy	x^2
2004/2005	1	-3	9292.1	-27876.3	9
2005/2006	2	-2	11692.34	-23384.68	4
2006/2007	3	-1	10889.03	-10889.03	1
2007/2008	4	0	11822.99	0	0
2008/2009	5	1	13340.18	13340.18	1
2009/2010	6	2	8710.69	17421.38	4
2010/2011	7	3	8444.91	25334.73	9
	28	0	74192.24	-6053.72	28
	$\Sigma X =$	$\Sigma x = 0$	$\Sigma y =$	$\Sigma xy =$	$\Sigma x^2 =$

since, $\Sigma x = 0$

Here, $X = 28 / 7 = 4$

Now, $a = \Sigma y / n$

$a = 10599$

$b = \Sigma xy / \Sigma x^2$

$b = 857$

Hence the equation of the straight line trend is $y = 10599 - 216.2x$

F/Y	X	Y
2004/2005	-3	11247.6
2005/2006	-2	11031.4
2006/2007	-1	10815.2
2007/2008	0	10599
2008/2009	1	10382.8
2009/2010	2	10166.6
2010/2011	3	9950.4

For estimated future trend

Year	X	Y
2011/12	4	9734.2
2012/13	5	9518
2012/14	6	9301.8
2014/15	7	9085.6
2015/16	8	8869.4

NET PROFIT

Let the trend be $Y = a + bx$
 where, $x = X - \text{middle year}$

Supposing the F/Y 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 & 2010/11 be 1,2,3,4, 5, 6 and 7 respectively

Calculation of trend line and trend values

F/Y	X	$x = X - \text{Mid yr}$	y	xy	x^2
2004/2005	1	-3	263.05	-789.15	9
2005/2006	2	-2	308.28	-616.56	4
2006/2007	3	-1	457.46	-457.46	1
2007/2008	4	0	491.82	0	0
2008/2009	5	1	635.87	635.87	1
2009/2010	6	2	752.83	1505.66	4
2010/2011	7	3	508.8	1526.4	9
	28	0	3418.1	1804.76	28
	$\Sigma X =$	$\Sigma x = 0$	$\Sigma y =$	$\Sigma xy =$	$\Sigma x^2 =$

since, $\Sigma x = 0$

Here, $X = 28 / 7 = 4$

Now, $a = \Sigma y / n$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{1804.76}{28} = 64.45571$$

a= 488.

b= 429

Hence the equation of the straight line trend is $y = 488.3 + 64.456 x$

F/Y	X	Y
2004/2005	-3	294.932
2005/2006	-2	359.388
2006/2007	-1	423.844
2007/2008	0	488.3
2008/2009	1	552.756
2009/2010	2	617.212
2010/2011	3	681.668

For estimated future trend

Year	X	Y
2011/12	4	746.124
2012/13	5	810.58
2012/14	6	875.036
2014/15	7	939.492
2015/16	8	1003.948