

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is generally considered to be one of the poorest nations in the world. The majorities of the population live in rural areas and make their income (if any) from working agricultural lands. The country is also landlocked which makes it difficult or expensive to transport goods to other countries. However, importations and exportation is encouraged by the government in order to promote good business and encourage growth which will hopefully result in a higher employment rate, higher salaries and a better standard of living for all in time.

Many people in the country are poor level of education, suffer from poor health and earn very little money. The potential for economical growth in the country is seen as being in agriculture, export-orientated manufacturing, hydropower generation and tourism. Unfortunately it is unlikely that this potential will ever be realized locally due to lack of funding. Major investments by the public and private sectors are needed.

While government has taken many positive steps such as creating policies that free up trade and establishing a convertible currency, the country still remains heavily reliant on agriculture which means that bad weather can result in a bad gross national product. Noting this trend, the government has taken steps towards more sustainable growth by focusing on encouraging other countries and firms to invest in hydropower development and exports. They have developed a well-thought-out program which should, in time, see the economy go from strength to strength. The principle growth sectors are in tourism, transport, telecommunications and hydropower generation.

1.2 Development of Financial Institutes in Nepal

The financial sector covers activities of banks, finance companies, insurance companies and the stock market. In Nepal, for a long time, banks owned and managed by the Government dominated the finance sector. The Nepal Bank Limited, established in 1937 dominated the financial sector of the country for almost 30 years

without any competitors. It was only in 1967 that the second commercial bank, Rastriya Banijya Bank, with total government control was established. These two banks opened numerous branches covering almost all accessible parts of the country. This network of branches greatly helped in mobilizing small savings and movement of capital within the country.

There was a long gap of 17 years before new entrants came into the banking sector. In 1984, the government gave approval for opening the first joint venture bank. The Nepal Arab Bank Limited, thus, opened the door for the joint venture banks in Nepal. In 1985 and 1986, two other joint venture banks, namely Nepal Indosuez bank and Nepal Grindlays Bank started their operations. And in the 1990s, with the liberalization policy adopted by the Government, six other joint stock banks came into being. These developments have changed the structure of the financial services sector dramatically. This sector is now operating in a highly competitive environment.

Another major development in the financial sector in the 1990's has been the opening of finance and insurance. To date, more than 74 Finance companies and insurance companies are operating in the country. The finance companies, which are spread in most part of the country, have helped to mobilize small scale deposits. The insurance companies have covered a wide range of life and general insurance services. This has helped to provide the protection to the business sector from various risks.

With the liberalization policy, new financial tools have also come to the Nepalese market. The opening of merchant bank has added a new dimension. Similarly, the ratification of the lease financing rules by the Government has boosted lease finance activities in the market. Many commercial organizations are now opting for lease finance instead of hire purchase due to the fact that it facilitates, in many ways, tax rebates.

The finance sector, today, employs about 50,000 persons. This employment figure can be considered significant in view of the employment in the manufacturing sector. This sector also has employed in the best professional manpower available in the country. As their competitive environment, the higher level jobs are quite challenging.

1.3 Profile of Selected Bank

Himalayan Bank Ltd.

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

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 (closed due to the regulation made by NRB) besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, HBL stand for the innovations that bring about in this country to help Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under credit standing with foreign correspondent banks, The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All

this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

Himalayan Bank has access to the worldwide correspondent network of Habib Bank for fund transfer, letter of credit or any banking business anywhere in the world. Habib Bank is the largest and oldest bank in Pakistan having over 1700 domestic and 65 overseas branches covering all continents and over 1800 correspondents worldwide. Besides, Himalayan Bank has correspondent arrangement with 178 internationally renowned banks like American Express Bank, Citibank, ABN Amro etc.

Everest Bank Ltd.

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 22 branches.

Punjab National Bank (PNB) is joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India having 112 years of banking history. PNB is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion.

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

Recognizing the value of offerings a complete range of services, EBL have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. The capital adequacy ratio of EBL is 11.38% which is above the requirement of 11% set by the central bank.

EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal.

EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

The bank's performance under all parameters has been outstanding during the fiscal year 2063-64 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 30.06 crore compared to Rs. 23.73 crore last year- an increase of 26.68 %. The bank was able to increase its operating profit by 31.9%, deposit by more than 38% and advances by 39% during the year compared to the corresponding period last year. During the last financial year, the Bank opened three branches namely Balaju in Kathmandu Valley, Nepalgunj and Birtamod. The Bank has further opened a branch at Baglung during the month of Bhadra, 2064.

EBL in association with Smart Choice Technology (SCT) is providing ATM service to its customers through more than 74 ATMs and over 850 Point of Sales across the country. ATM sharing arrangement with Punjab National Bank has facilitated usage of EBL Debit Card at more than 1000 PNB ATM outlets across the India at a nominal rate. Similarly, Indian tourists and businessmen having PNB cards will be able to use EBL ATM, while in Nepal.

EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National Bank and remit their saving economically through banking channel of Nepal. The Bank is also offering Cash Management System through HDFC Bank., India for managing the funds of corporate exporting to India by collecting their fund from about 183 locations in India.

The Bank's own Web based online remittance product "Everest Remit" facilitates remittance from Malaysia, Doha, UK, Baharain, UAE and Qatar to more than 126 payout location in Nepal.

With India Remit, the Bank has same day remittance facility with India with association of PNB's 2200 networked branches at 550 locations, besides draft drawing arrangement with 280 PNB branches across India. All the branches of the bank are connected with Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account.

1.4 Statement of the Problems

Present Banking setup is the result of economic liberalization and globalization. In 1990's the development of banking in both quality and quantity was satisfactory. However the subsequent development of Commercial banks in quality has not been satisfactory. Commercial banks in quality have not been satisfactory. Commercial banks in Nepal have been facing several challenges.

-) The joint venture banks are not interested in granting loan to the primary sector.
-) They have concentrated their operation only in urban areas.
-) Some of them arise due to ambiguous policies and many of them due to default of the borrowers.
-) Lending in industries and productive sector is risky.
-) Banks are investing in housing loan, hire purchase loan for safety purpose.
-) None of commercial banks in long run survives without effective implementation.
-) Liquidity management is becoming one of the crucial issues for the commercial banks that are to be managed for the effective implementation in the lending activities.
-) The competition between the commercial banks has increase as the number of the commercial banks are increasing as the players for the lending and deposits increased but the market is not expand in the same ratio.
-) The determinants of competitiveness today are technology, innovations, and Skills. Banks can sustain their existence and growth through a continuous process of innovation in functions, quality and cost of the products.

1.5 Objectives of the Study

-) To determine the impacts of deposits in liquidity and its effect on lending policy.
-) To analyze the portfolio behavior of lending and measuring the ratio and volume of loan and advances made in different sectors.
-) To examine lending efficiency and its contribution in profit.

1.6 Need and Significance of the Study

There are more than 26 commercial banks functioning in our country at present. It is indisputable that the loan and advances are major chunk (or source) for generating profit in case of financial institutions. Afore said activities stimulate economic momentum within the periphery of the country and ultimately enhance the growth, development and prosperity.

Nepal is one of the poorest countries in the world is in need of additional capital investment to score higher rate of economic growth. Domestic savings and foreign capital (grants and loan) are two principal source of capital available for investment. Domestic savings is the most crucial and viable sources of capital.

Financial institutions also attract those domestic savings under different lucrative deposit schemes from savers and grants loan cum advances to individuals and business sector in long term, min-term and short term loan to accelerate economic activities. One article says that Nepal's Gross Domestic Savings is very low on average it is stood at about 10% of the last decade. Public savings remained either negative or marginally positive throughout the eighties. Despite financial liberalization and tax reforms, the saving performance of the country has remained poor, due to low scale and slow increase in real income. The low level savings both in the private and public sectors has led to an unsustainable dependence on foreign aid, the disbursement of which is further constrained by insufficient investment capability.

Hence, fund collected by financial institutions should be cautiously allocated under loans and advances cum other heads. This undertaken ventured is pivotal factor to know the true affairs and positions of HBL and EBL in regard to the management of

disbursed loans and advances. This will also be a guideline for improving their performance to achieve their objectives. This study also helps to identify the hidden weakness regarding loan management of HBL and EBL .The study of loan management of HBL and EBL will be beneficial to the followings.

) To the Share Holders

Shareholders are true owners of the company. This study will be useful to them for acquiring the answer to the following questions.

- How funds are utilized as loan and advances?
- To what extent they are gaining?
- Is the productivity of their limited resources satisfactory?

) To Management

This study will be helpful to compare and analyze own with others regarding performance viz. successors or failures, effectiveness and so forth.

) To the Outsiders

Customers (depositors and debtors) creditors, investors, financing agencies, stock exchange, and personnel get information about the performance of the HBL and EBL regarding loans and advances with the help of this analysis.

) To the Policy Makers

Officers of government, ministry, central bank, and security exchange and tax office can formulate appropriate policy regarding financial institution with the help of this study.

1.7 Limitations of the Study

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

-) This study covers the period from 2002 to 2007
-) The study is concentrates only on those factors that are related to credit policy. The study is based on primary and secondary data. But most of the data are secondary nature.

-) The study is concentrated with two banks only.
-) Some of the statistical as well as financial tools of comparison and analysis shall be used in this study. Hence, the draw backs and weakness of those tools may adversely affect the outcomes of the study.

1.8 Organization of the Study

This study comprises following five chapters:

Chapter – I: Introduction

Chapter one is focused on general background of banking and the introduction of the selected banks.

Chapter – II: Review of Literature

Second Chapter is focused on Literature Review. The different articles and books are reviewed on the chapter.

Chapter – III: Research Methodology

Third chapter itself is focused on Design of the study, definition of tools, and used methodology.

Chapter – IV: Data Presentation and Analysis

Fourth Chapter will be of Analysis and presentation of data. The analysis and study will be based on historical data.

Chapter – V: Summary, Conclusion and Recommendations

Fifth Chapter will focus on the major findings and conclusion of the analysis.

CHAPTER - II

REVIEW OF LITERATURE

The literature of review in a research study accomplishes several purposes. It shares with the reader the results of other studies that are closely related to the study being reported. It relates a study to the larger ongoing dialogue in the literature about a topic, filling in gaps and extending prior studies (Cooper 1984; Marshall & Rossman 1999). It provides a frame for establishing the importance of a study with other findings. In this chapter, it is discussed on these materials which are related to investment (credit) policy. This unit of study tries to describe about the conceptual frame work given by different authors, books, articles, legal provisions and directives, research paper, annual thesis report.

2.1 Concept and Meaning of Investment

People earn and spend money. Rarely people tend to save current excess. They can do several things with these saving. One possibility is to put the money under mattress or bury it in the ground until that moment when consumption desires exceeds current income. When they retrieve their savings from mattress or ground, they have same amount they have saved because money does not multiply by itself. The buried money even fails to preserve its value against the on going (prevailing) inflation. Therefore the saving can be employed in such a way that its value is preserved and some additional income can be generated at a future date. Thus investment is the current commitment of the savings that compensates for the time involved, the expected rate of inflation and uncertainty involved. In other words, an investment in any vehicle into which funds can be placed with the expectation that they will generate positive return and/or their value will be preserved or increased.

Distinction is often made between investment and savings. Savings is defined as forgone consumption. Investment is restricted to ‘real’ investment of the sort that increases national output in future.

An investment is a commitment of money that is expected to generate additional money. Every investment entails some risk, it requires a present certain sacrifice for future uncertain benefit (Francis, 1991:1950).

Investment policy fixes responsibilities for the investment, disposition of the bank assets in term if allocation funds for investment and loan establishing responsibility for day to day management of those assets (Bexely, 1987:137).

Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain (Sharpe, Alexander & Baily,1990).

An investment is a commitment of funds made in the expectation of some positive rate of return. If investment is properly undertaken, the return will be commensurate with the risk the investors assume (Fischer & Ronald, 1989).

The problem of investors is to select the funds which objectives and degree if risk taking most closely matches on situation the one that will accomplish for him what he would wish to do for himself if he could diversify and manage his own holding (Encyclopedia Britannica, 2003:488).

From above definitions we can conclude that investment has three attributes namely:

- i) Anticipation of return
- ii) Involvement of risk
- iii) Time dimension

Thus, investment is the present commitment of fund in anticipation of generating more funds in future either in financial investment or real investment.

2.2 Conceptual Review

2.2.1 Concept of Bank

Bank is financial institution that accepts deposits and invests in the leading activities. It is a financial intermediary between depositors and entrepreneurs. Bank by accepting

deposits, play a vital role of custodian. Bank plays a great role that it helps investors to invest in different sector by giving loan (Rose, 1997).

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer financial needs and to price that credit reasonably in line with competitively determined interest rates. How well a bank performs its lending function has a great deal to do with economic health of its region because bank loan support the growth of new business and jobs within the banks trade territory and promote economic vitality.

Moreover, bank loan often seem to convey positive information to the market place about a borrower's credit quality, enabling a borrower to obtain more and perhaps somewhat cheaper funds from other sources. Banks make a variety of loans to a wide variety of customer for different purposes-from purchasing automobiles and buying new furniture's, taking dream vacations, or pursuing college education, to construct business and promote business.

2.2.2 Concept of Commercial Bank

Banks undertaking business with the objectives of earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial banks can be various such as Deposit Bank, Industrial Bank, Mixed Bank etc. Commercial Banks render varieties of services. In absence of commercial banks, it would have been impossible to meet the financial needs of the country. Commercial Bank Act 1974 defines commercial bank "A commercial bank means bank which deals in exchanging currency, accepting deposits, providing loan and doing commercial transaction."

The commercial bank has its own role and contribution in the economic development, it maintain economic confluence of various segment and extends credit to people (Ronald, 1999:87).

Principally commercial bank accepts deposits and provides loan, primarily to business firms there by facilitating the transfer of fund in economy (Abrd and Gupta, 1987:115).

Commercial banks act as mediator; accepting deposits and providing credits to needy area. The main source of commercial bank is current deposit, so they give more importance to liquidity of investment and as such they specialize in satisfying the short term credit needs of business other than the long term. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to finance short term needs of trade and industries; such as working capital financing. They can not finance in fixed assets. They grant credits in the form of cash credits and overdraft. Apart from financing, they also render services like collection of bills and cheque, safe keeping valuables, financial advising etc to customers.

2.2.3 Concept of Joint Venture Banks

A joint venture is a partnership in which the domestic firm and the foreign firm negotiate tie-ups involving one or more of the following: equity transfer of technology, investment, production and marketing. In some cases, there are more than two parties involved. In the widest sense, any form of association, which implies collaboration, is a joint venture. The arrangements define responsibilities for performance, accountability and profit sharing. The marketing arrangements can be made either fully or partially. Joint ventures can spread costs, mitigate risks, offer knowledge and details of local market and ease market entry. There are laws regulating joint ventures, which might require specified percentage of equity by the local partner (Pant, 2003:304).

In other words, When two commercial bank from different countries invest together to form an independent enterprise it is said as Joint Venture Commercial Bank. When two or more independent firm mutually decides to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as joint venture.

Joint venture banks are the mode of trading to achieve mutual exchange of goods and services, competitive advantages by performing joint investment schemes between Nepalese investors, financial and non financial institution as well as private investors and their parent banks each supplying certain percent of investment.

2.2.4 Joint Venture Bank in Nepal

The government realizes to impart a vibrant role and change the public sector with greater responsibility in fulfilling national goal and objectives. With this realization, government mushroomed into a number of establishments like agriculture industry, commerce, public works, transport etc. In this context banking was seen as a major industry to uplift the economic condition of public and country as well. Therefore government was forced to adopt a liberal economic policy regarding operations of banks. About the financial liberalization process it was said that “the interest rate deregulation, curtailment, elimination of direct credits, lifting entry and exit barriers for financial intermediaries, restructuring of banking system and institution for regulatory and supervisory mechanism is some of the key components of such liberalization (Shrestha, 2051:27).

In Nepal, Nepal Arab Bank Limited, was the first joint venture bank which was established in 2048 B.S. Its joint venture partner was Emirates Bank International Limited, Derim Dubai. Restoration of democracy and liberal economic policy of the government led the opening of various venture in Nepal. All the Nepalese Joint Venture Bank established and operated under the rules and regulation and guidance of Nepal Rastra Bank.

When government decided to establish banks with joint ventures; two benefits were expected. First that the competition would force domestic banks: NBL and RBB to improve their service and efficiency. Second, the introduction of new banking procedure, methods and technology would occur.

2.2.5 Functions of Commercial Bank

The business of commercial bank is primarily to hold deposits and make credits and investments with the objective of securing profits for its stake holders. Its primary motive is profit, other consideration are secondary. The major functions of commercial banks are as follows:

Accepting deposits, advancing credits, agency services, credit creation, financing of foreign trade, safe keeping of valuables, making venture capital credits, financial

advising and offers security Brokerage Services. Invest in government securities, Act as a trustee when so nominated, supply trade information and statistical data.

(i) Assist in Foreign Trade

The bank assist the traders engaged in foreign trade of the country. It discounts bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in home currency. Similarly, it also accepts the bills drawn by foreign exports.

(ii) Offers Investment Banking and Merchant Banking Service

Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking service to corporations. These services include identifying possible merger targets, dealing in security underwriting, providing strategies, marketing advices and offering hedging services to protect their customers against risk from fluctuating world currency prices and charging interest rate.

2.2.6 Concept of Credit

Credit is the amount of money lent by creditor (bank) to the borrower (customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit. (Oxford Advanced learners Dictionary, 1992) Credit and advances is an important item on the asset side of balance sheet of commercial banks. Bank prepares credit portfolio, otherwise it will not only add debts but also affect profitability adversely (Arshney and Swaroop, 1994:42).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified on demand. Bank generally grants credits of four ways:

- i. Overdraft
- ii. Cash Credit
- iii. Direct Credit
- iv. Discounts of Bills

2.2.6.1 Types of Credit

i. Overdrafts

It denotes the excess amount withdrawn over deposits.

ii. Cash Credit

The credit is not given directly in cash but deposit account is being opened on the name of creditor and the amount credited in account. In this way every credit creates deposits.

iii. Term Credit

It refers to money lent in lump sum to the borrowers. It is principle from of medium term debt financing having maturities of 1 to 8 years.

Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard, 1996:89)

iv. Working Capital Credit

Working capital denotes the difference between current assets and current liabilities. It is granted to the customers to meet their working capital gap for supporting daily expenses and production process. A natural process develops in funds moving through the cycle are generated to repay a working capital credit.

v. Priority or Deprived Sector Credit

Commercial banks are required to extend advances to the priority and deprived sector 12% of the total credit must be toward priority sector including deprived sector. 2.0 Million for agriculture cum service sector and 2.5 Million for single borrowers are limit sanctioned to priority sector. Institutional support to 'Agriculture Development Bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes:

) Advances to poor/downtrodden/weak/ deprived people.

J Credit to NGOs who are permitted to carry out banking transactions for lending up to Rs.30,000

vi. Hire Purchase Financing (Installment Credit)

Hire purchase credits are characterized by periodic repayment of principal and interest over the maturity of credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principal as well as interest with an option to purchase.

A recent survey of commercial bank indicates banks are planning to offer installment credits on a variable rate basis. This can be secured and unsecured as well as direct and indirect installment credits.

vii. Housing Credit (Real Estate Credit)

Financial institutions also extend credit to their customers for different construction purpose such as: residential building, commercial complex, construction of warehouse etc. This facility is provided to professionals and businessman who have regular income or can earn revenue from newly constructed project.

viii. Project Credit

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short term credits made to developers for the purpose of completing proposed project. Maturity on construction ranges from 12 months to as long as 4 to 5 years, depending on the size of the specific project. The basic principle involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it (Johnson, 1940:83).

ix. Consortium Credit

No single financial institution grant credit to the project due to single borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project of which is baptized as consortium credit. It reduces the risk of project among them.

Financial institution equally (or likely) charge on the project's assets.

x. Credit Cards & Revolving Line of Credit

Banks are increasingly utilizing cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit. Since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administration cost. Continued borrowing arrangement enhances cost advantages.

Once the credit line is established, the customer can borrow and repay according to his/her needs and the bank can provide the fund to the customer at the lower cost.

xi. Off- Balance Sheet Transaction

Bank Guarantee and Letter of Credit refer to off balance sheet transactions of financial institutions. It is also known as contingent liability, which may or may not arise during the happening of certain event. Footnotes are kept as references to them instead of recording in the book of account.

It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken.

xii. Bank Guarantee

It is a guarantee issued by bank representing customer in favor of third party (beneficiary) up to approved limit. Generally, certain percentage of amount is deposited in customer's margin account as margin.

xiii. Letter of Credit (L/C)

It is issued on behalf of customer (buyer/importer) of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letters of credit since the bank of importer do not open separate L/C for the trade of commodities (Jhonson, 1940:85).

2.3 Objective of Sound Credit Policy

The purposes of written credit policy are:

-) To assure compliance by lending personnel with the bank's policies and objective regarding the portfolio of credits.
-) To provide personnel with a framework of standards within which they can operate.

2.4 Lending Criteria

While screening a credit application, 5-c's to be first considered supported by documents.

i. Character

Character is the analysis of the applicant as to his ability to meet the obligations put forth by the lending institution. For this analysis, generally following documents are needed.

-) Memorandum and Article of Association
-) Registration Certificate
-) Tax registration certificate (Renewed)
-) Resolution to borrow
-) Authorization- person authorizing with whom the applicant has dealt in the past of the bank A/C statement of the customer.

ii. Capacity

Capacity is defined as customer's ability to pay. It is measured by applicants past performance records and followed by physical observation. For this, an interview with applicant/s customers/suppliers/ will further clarify the situation. Documents relating to these areas were:

-) Certified balance sheet and profit and loss account of at least 3 years.
-) References or other lenders with whom the applicant has dealt in the past or bank A/C.

iii. Capital

This indicates applicant's capacity to inject his own money. By capacity analysis, it can be concluded that whether borrower is trying to play with lenders' money only or

is also injecting his own fund (equity) to the project. For capital analysis, financial statements, like certified balance sheet, profit and loss a/c is the only tools.

iv. Collateral

Collateral is the security proposed by the borrower. Collateral may be moveable or immovable. Moveable collateral comprises right from stock, inventories, to playing vehicles. In case of immovable, it may be land with or without building or fixture, plant machineries attached to it.

v. Conditions

Once the funding company is satisfied with the character, capacity, capital and collateral then a credit agreement (sanction letter) is issued in favor of the borrower stating terms and conditions of the credit to which borrower's acceptance is accepted.

2.5 Features of Sound Lending & Investment

The income and profit of the bank depends upon its lending procedure, lending policy and investment of its funds in different securities.

i. Safety and Security

The bank should never invest its funds in those securities which are subject to the much depreciation and fluctuations because little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once or who may earn millions in a minute also. The bank should accept that type of securities which are commercial, durable, marketable and high market prices. In the cases "MAST" where

M=Marketability

A=Ascertain ability

S= Stability

T=Transferability

ii. Profitability

A commercial bank can maximize its volume of wealth through maximization of return on their investment and lending. So they have to invest their funds in those sectors from where profit can be maximized. The profit of commercial bank depends

on interest rate, volume of loan, its time period and nature of investment in different securities.

iii. Liquidity

People deposit money at bank in different account with confidence that the bank will repay their money when they need. To maintain such confidence of depositors, the bank must keep this point while investing as excess funds in different securities or at the time of lending. So, that it can meet current or short term obligation when they become due for payment.

iv. Purpose of Loan

Why is a customer in need of loan? This is very important question for any bankers. If borrower misuses the loan granted by the bank, they can never repay and bank will possess heavy bad debts. Detailed information about the scheme of the project or activities would be examined before lending.

v. Diversification

The bank should be careful not to grant loan in a single sector. To minimize risk, bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average because if securities of companies deprived, there may be appreciation in the securities of other companies. In this way, the loss can be managed.

vi. Tangibility

Though it may be considered that tangible property doesn't yield income apart from intangible securities which have lost their value due to price level inflation. A commercial bank should prefer tangible security to intangible one.

vii. Legality

Illegal securities will bring out many problems for the investors. A commercial bank must follow the rules and regulation as well as different directions issued Central Bank i.e. Nepal Rastra Bank, Ministry of Finance and Ministry of law and other while mobilizing funds.

viii. Suitability

Bank should always know that why a customer needs bank loan because if the borrower misuses the loan granted by the bank, he will never be able to repay loan. In order to avoid such circumstances advances should be provided to suitable borrowers and it should demand all essential detailed information about the scheme of the project in which the bank is lending for. Bank must keep in mind the overall development plan of the nation and the credit policy of the concerned authority i.e. Central Bank.

2.6 Review of Legislative Provisions

In this section, the review of legislative framework (environment) under which the commercial banks are operating has been discussed. This legislative environment has significant impact on the commercial banks establishment, their mobilization and utilization of resources. All the commercial banks have no confirmed to the legislative provisions specified in the commercial bank Act 2031 B.S. and the rules and regulation formulated to facilitate the smooth running of commercial banks.

The preamble of Nepal Bank Act (1994) clearly states the need of commercial bank in Nepal. In the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing service to the people and for the betterment of the country, this law is hereby promulgated for the establishment of the bank and its operation.

As mentioned in this act commercial banks will help in banking business by opening its branches in the different part of the country under the direction of NRB. The main function of commercial banks established under this act will be to exchange money, to accept deposits and to give commercial and business activities.

2.7 NRB Rules Regarding Fund Mobilization of Commercial Banks

To mobilize bank's deposit in different sectors, different parts of the nation to prevent them from the financial problems, central bank (NRB) may establish a legal frame work by formulation various rules and regulation (prudential norms). These directives must have direct or indirect impact while making decisions to discuss those rules and

regulation which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit , Cash Reserve Requirement (CRR), Loan Loss Provision (LLP), capital adequacy relation, interest spread, productive sector investment. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counters, how much flexible and helpful the NRB rules are also important. But we will discuss only those which are related to investment function of commercial banks. The main provisions established by NRB in the form of prudential norms in above relevant area are briefly discussed below:

i. Provision for Investment in the Deprived Sector

The provision instructed by government (Ministry of Finance) and NRB. Some rules which are formulated by NRB affect the area of credit and investment extension to the deprived sector by the commercial bank. According to the new provision with effect from 16 July 2001 investment in shares of rural development banks which makes deprived sector lending.

According to new provisions, NBL, RBB, NABIL, NSCBL are required to invest 3%, HBL, NBBk, NSBI, EBL are required to invest 2%. BOK is required to invest 1.75% while new commercial banks are required to invest 0.25% of their total loan and advances to the deprived sector.

ii. Provision for Credit to the Priority Sector

NRB requires commercial banks to extend loan and advances amounting at least 12% of their total outstanding to the priority sector. Commercial banks credit to the deprived sector is also priority sector credit. Credit to agriculture, cottage and small industries, service sectors and to those co-operatives licensed by NRB are priority sector credit.

iii. Provision for Investment in Productive Sector

Nepal being a developing country needs to develop infrastructure and other primary productive sectors like agriculture, industry, hydropower etc. For this NRB has

directed commercial banks to extend at least 40% of their total credit to productive sectors.

iv. Provision for the Single Borrower Credit Limit (Single Obligor Limit)

Single obligor limit refers to the limit of credit facility to a single person, a firm, a company or a group of borrowers. That means, there is certain limit beyond which a bank cannot provide credit facilities to a borrower or the borrowers who comes under the same group. NRB has provisioned single obligor limit while providing credit facilities by the bank. According to unified directive NO.3, the single obligor limit for the funded based loan is 25% of core capital where as for non-funded loan is 50% of core capital.

v. Directives to Raise Capital Funds

The commercial banks are allowed to include paid up capital and reserves for meeting the minimum capital requirement but they have to deduct the net loss from such funds if they are in loss. Similarly, the commercial banks are directed to maintain the minimum capital fund on the basis of their risk.

Where, the total funds includes both primary and supplement capital. It can b stated in equation as below.

$$\text{Capital Fund} = \text{Primary Capital} + \text{Supplementary Capital}$$

Primary Capital

1	Paid up capital
2	Share Premium
3	Non-Redeemable Preference Shares
4	General Reserve Fund
5	Retain Earning
6	Capital Redemption Reserve
7	Net Profit after Provision, Tax & Bonus (Current Year)
8	Capital Adjustment Fund
9	Other Free Reserve
10	General Reserve Fund

Supplementary Capital

1	General Loan Loss Provision (Good Loans)
2	Asset Revaluation Reserve
3	Hybrid Capital Instrument
4	Unsecured Subordinated Term Debt
5	Exchange Equalization Reserve
6	Additional Loan Loss Provision
7	Investment Adjustment Reserve

vi. Cash Reserve Requirement(CRR)

Cash reserve is a nerve centre of the banks which are transaction, speculative and precaution motives operating impact. To ensure adequate liquidity in the commercial banks, to meet the depositors demand for cash at any time and to inject confidence in depositors regarding the safety of their deposits funds, commercial banks are required to have 8% of current and saving and 6% of fixed deposits in NRB as primary cash reserve. The commercial banks are further required to have 3% cash of total deposits in their own bank as secondary reserve.

vii. Loan Classification and Loan Provision

Classification of Loan	Loan Loss Provision
Good (Pass)	1%
Substandard	25%
Doubtful	50%
Bad	100%

a. Pass Loan

Loan and advances whose principal amount payment are not due yet or if the due has not exceeded the due date for the period of 3 months are included under this category. Such loan and advances are defined as performing loan.

b. Substandard Loan

All loans and advances, whose due principal amounts have exceeded the due date for a period of 3 months to 6 months, are included under this category.

c. Doubtful Loan

All the loans and advances, whose principal amounts are due for period of 6 months to 1 year, are included under this category.

d. Bad Loan

All the loan and advances whose principal amount has crossed the due date for a period of more than 1 year as well as the 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.

-) Pass Loan and advances are defined as performing loans.
-) Loans and Advances falling under the category of Sub-standard, Doubtful and Bad Loan are classified and defined as Non-Performing Loan.

Where the banks provide for loan loss provision in excess of the proportion as required under directives of NRB, the whole amount of such additional provisioning may be included in General Loan Loss Provision under the supplementary capital.

- i. Loan Loss Provisioning in respect of reschedule, restructured or swapped loan
 -) For rescheduled/ restructured loan, loan loss provision should be at least 12.5%
 -) In case of rescheduling or restructuring or swapping of insured or guaranteed priority sector credit, the loan loss provisioning shall be provided at one fourth of the percentage mentioned in clause (a)
- ii. Additional Provisioning in the case of Personal Guarantee Loans

Where the loan is extended only against personal guarantee, a statement of assets, equivalent to the personal guarantee amount not claimable by any other shall be obtained. Such loans shall be classified under category of pass, substandard and doubtful in addition to normal loan loss provision applicable for the category, an additional provision by 20 percentage point shall be provided. Classification of such loans and advances shall be prepared separately. Hence the loan loss provision required against the personal guarantee loan will be 21%, 45% and 70% for pass, substandard and doubtful category respectively.

viii. Directives Regarding Interest Rate Spread

The interest rate spread, the difference between interest charged on loan and advances and the interest paid to the depositors, has widened significantly in the aftermath of deregulation in interest rates. This has caused lower financial intermediation. Therefore NRB has required commercial banks to limit interest rate spread with new calculation method of interest rate spread for certain period recently. Like interest on monthly average balance and quarterly payment of interest and so on.

The review of above relevant literature has no doubt enhanced fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive. Based on feedback divided from the literature review of relevant literature, the choice of research methodology and further analysis in my study would be under better track and to the point to suggest further workable suggestions of commercial banks.

2.8 Review of Related Studies

Shrestha (1993) has conducted research on “*Investment Planning of Commercial Bank in Nepal*”. The research findings of the study are summarized as:

-) The general trend of commercial banks assets is growing. Deposits have been a major fund. The excess reserve level of bank allows ideal money and loss of opportunity. Debt equity ratios are high greater than 100%.
-) The return ratios are on the average higher for foreign JVBs that for Nepalese bank but return are on the statistically some risk taking attitude is higher in foreign banks in comparison to the Nepalese Bank.
-) The hypothesis that the commercial banks have non professional style of decision making in investment has been acted. The investment of commercial banks in shares and securities are normal and not found to have strategic decision towards investment in shares and securities. Yield from the securities has been found to be satisfactory.
-) Investment in various economic sectors show industrial and commercial sector taking higher share of loan till 1990.
-) Investment in various sectors has a positive impact on the nation from their respective sector.

) Lending in priority sector showed cottage and small industry sector sharing higher loans.

The major findings of this study are as follows:

All the selected firms have not successfully been mobilizing their deposits but the finance companies have mobilized their deposits in comparison with JVBS.

-) The profitability position of all finance companies was better than of JVBS.
-) The liquidity position of JVBS is comparatively better than that of finance companies.
-) There is significant relationship between deposit and loan & advances of BOKL. Similarly, there is significant relationship between deposit and total investment, total assets and net profit of Kathmandu finance company.
-) The trend value of total deposit, loan and advances, net profit and investment were in increasing trend.
-) The JVBs have less interest risk and capital risk in comparison to finance companies.

Rana (2001) alerts commercial banks of the directives issued by Nepal Rastra Bank on 2002. The article gives bird's eye view of major changes made in the new directive and suggests measures to be taken by commercial bank to comply with the new directives. Rana has highlighted the following points in his article:

-) Capital adequacy ratio for commercial bank prescribed by Nepal Rastra Bank is even higher than the requirement in India.
-) Classification of loans and advances into four category instead of six categories prescribed earlier.
-) The newly prescribed change in income recognition system will require most of the banks either to upgrade or change their banking software.
-) Banks will find it very difficult to maintain records of all persons, who are included in the definition of family/relative.

In order to comply with the new NRB directives, he has suggested following measures:

-) Upgrade/ change the banking software, which facilitates generating numerous reports required by Nepal Rastra Bank.

- J Foresee capital adequacy position for a number of years ahead and initiate measures for increasing the capital if required.
- J Review and revise overall credit policies to address new directives governing loan classification and loan loss provisioning.
- J Strengthen bank's monitoring and follow-up department. Time has come to inculcate financial discipline to the customers. A number of interaction programs should be organized with credit customer so that NRB's new directives could be explained to them.
- J Updated their record with Credit Information Bureau (CIB). Also banks should timely submit required return to CIB for its effective functioning.

2.9 Reviews of Previous Thesis

Khadka (1998) conducted a study on “*A Study on the Investment Policy of NABIL Bank Ltd. In comparison to other Joint Venture Banks of Nepal*”. The research findings of the study are as follows:

- J The liquidity position of NABIL Bank Ltd. Is comparatively worse than that of other JVBs. NABIL Bank has more portions of current assets on loan and advances but less portion as investment on government securities.
- J NABIL Bank Ltd is comparatively less successful in one balance sheet operations as well as off balance sheet operations than of other JVBs.
- J Profitability position of NABIL Bank Ltd. Is comparatively not better than that of other JVBs. The mean ratio on loan and advances of NABIL Bank Ltd. has been found slightly lower than that of other JVBs and the return has been found less homogeneous than that of other JVBs. Similarly the mean ratio of total investment earned to total outside assets of NABIL Bank Ltd. has been found slightly lower than that of other JVBs.
- J Though NABIL Bank Ltd. seems to be more successful to increase its source of funds as well as mobilization of it by increasing loan and advances and total investment. It seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBs (i.e. Nepal Grindlays Bank Ltd and Nepal Indosuez Bank Ltd.)

- J There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between deposit and total investment in case of both NABIL Bank Ltd and other JVBs.

Regmi (2004) conducted a thesis “*A Study on Credit Practices of Joint Venture Commercial Banks with reference to Nepal SBI Bank ltd. and Nepal Bangladesh Bank Ltd.*” The basis objectives of this thesis are:

- J To determine impact of deposit in liquidity and its effect on lending practices.
- J To know the volume of contribution made by both bank in lending.
- J To examine lending efficiency and its contribution in profit.
- J To analyze trend of deposit utilization towards loan and advances and net profit and their projection for next five years.

The major findings of this study are:

- J In term of liquidity ratio, current ratio of NSBL is higher than that of NBBL. The ratio of liquid fund to current liability of NSBL is higher than NBBL. This shows that NBBL has less consistency than NSBL. The ratio of cash and bank balance to deposit of NSBL is higher than that of NBBL. Cash and bank balance to interest sensitive deposit measures the liquidity risk arising from fluctuation of interest rate in the market. The ratio of cash and bank balance to interest sensitive deposit of NSBL is higher than NSBL. NSBL has poor position due to high volume of interest sensitive liability in deposit mix.
- J The ratio of loans and advances to total assets of NBBL is higher than NSBL. Likewise mean ratio of loans and advances to total deposit of NBBL is higher than NSBL. The mean ratio of investment to loan and advances and investment of NSBL is higher than that of NBBL. Likewise the ratio of total investment to total deposit of NSBL is higher than that of NBBL.
- J The ratio of credit to government enterprises to total credit of NBBL is higher than that of NSBL. The mean ratio of credit total bill paid and discount to total credit ratio of NBBL is higher than that of NSBL. NSBL has contributed 95.91% in private sector loan, 2.51% in government sector loan and 1.56% in bills paid and discounts. Likewise NBBL has contributed 90.83% in private sector loan, 4.29% in government sector and 4.84% in bills paid and discounts.

- J Among the various measurement of profitability ratio return on equity (ROE) and earning per shares (EPS) reflects the relative measure of profitability. The performance of NBBL is better than NSBL. Return on equity and earning per shares of NBBL are higher than that of NSBL in all years.
- J Co-efficient of correlation between deposit and loan & advances of both bank have positive value. Also co-efficient of correlation between total income and loan & advances of both bank have positive relation. Co-efficient of correlation between net profit and loan& advances of NSBL is negative as other variables like increase in interest suspense and loan loss provision affects net profit. Coefficient of correlation between net profit and loan & advances of NBBL is positive.
- J Trend analysis of total deposit of NSBL and NBBL are found increasing trend.

The increment ratio on deposit of NSBL is lower in comparison to NBBL.

This study is mainly focused on the lending practices and volume of credit in comparison to the deposits. Therefore, the major gap in this research is study of the risk.

Joshi (2005) has conducted thesis on “*An Investment Policy of Commercial Banks in Nepal*”. The major findings were as follows:

- J It shows that the liquidity position of EBL is comparatively better than NABIL and BOK. It has the highest cash and bank balance to total deposit, cash and bank balance to current asset ratio.
- J EBL is comparatively average successful in it's on balance sheet operation in comparison to NABIL and BOK.
- J EBL is average profitable in comparison to other compared banks that is NABIL and BOK the bank maintains its high profit margin for well being in future.
- J EBL has moderate risk in between NABIL and Bok regarding various aspects of banking function.
- J EBL has maintained high growth ratio on the total deposits loan and advances and net profit but it has positions in investment. It shows that the bank is successful in increasing its source of funds and mobilization.

- J There is significant relationship between deposits and loan and advances: deposit and total investment and outside assets and profit of EBL.
- J The trend analysis of deposit, loan and advances, total investment and net profit of JVBs is in increasing trend.

Tamang (2006) conducted a thesis “*Investment Policy of Standard Chartered Bank Ltd*” of Nepal has concluded as follows:

- J The SCBNL has satisfactory liquidity position but not best liquidity position. However the overall ratio shows the bank is able to meet its short term obligations.
- J The activity ratios show that the portion of investment of its fund made by SCBNL in risky assets. The bank is trying to avoid the unnecessary risk associated with loan and advances and shares and debentures of others companies and wants to follow secured investment policy by investing more in government securities.
- J The profit earned by the SCBNL is not satisfactory whereas the bank is maximizing its fund on loan and advances and its share holder’s wealth, it can be concluded that the increment in the amount of loan and advances as well as shareholder’s wealth is not sufficient as per increment in Net profit.
- J From the analysis of growth ratios, it can be concluded that SCBNL has maintained the moderate level growth ratio in all ratios. SCBNL has not successfully collected from customer due to see growth rate of total deposit, loan and advances, total investment and net profit.
- J The trend value of total deposit, net profit and advances, total investment and net profit are in increasing trend of the bank. It means, if other things remain same, the SCBNL will increase its deposits, investment, loan and advances and net profit in future.

Rajbanshi (2008) conducted a thesis “*Credit Management of Commercial Banks*” has concluded as follows on the basis of liquidity analysis of three sampled commercial banks:

- J The liquidity positions of all the banks were strong and enough to meet their immediate needs of cash and short term obligations. RBB, NIBL and HBL had been found to hold short liquidity than other banks in the whole industry.

However, RBB held excess amount of liquidity in assets than other similar banks in the commercial banking industry.

- J) Despite of having the highest deposit mobilization ratios, the quality of the credit of RBB comprised of a heavy portion of ban and non-performing credit. That meant the quality of the credit extended by RBB was bad among the three sampled banks. However, the deposit and assets of RBB were found slightly under utilized. The deposit mobilization of SCBNL was too low than the amount of deposit collection. Out of the total funds obtained from deposit collection and its mobilization in credit extension to the parties, the quality of the loan extended by NIBL and HBL was found the best among all sampled bank.
- J) The profitability indicators of RBB were the least of all and were lower. The profitability position of NIBL and HBL were strong. However, NIBL has the highest profitability ratios. It can be regarded that the deposits and assets of NIBL were utilized effectively in lucrative sectors with the lower amount of non-performing credit. The overall profitability of HBL and RBB were also positive but quite lower.

2.10 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers who have conducted research on lending practice, financial performance and credit management of commercial banks. However, an attempt to make a study on “credit (lending) policies of Joint Venture Bank of Nepal with reference to HBL and EBL” is not done till date.

The study is based on 5 years latest published data to identify the present lending policy of subject bank (i.e. HBL and EBL). Hence, this study will fulfill the prevailing research gap which is the major concern of public, policy makers, share holders and other stake holders.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding solution to the problem. Thus the entire process by which we attempt to solve problems or search the answers to the question is called research.

Research Methodology is a systematic way to solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem along with the logic behind them (Kothari, 1990:13).

The research for going the knowledge about method of goal achievement which is desired is known as research methodology (Joshi, 2001:12).

Research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of the study, the applied methodology will be applied. The research methodology adopted in this chapter follows some limitations but crucial steps aimed to achieve the objectives of research.

3.2 Research Design

The study is carried out by collecting information regarding borrowers, and the policies of the banks through personal interviews and written sources as well.

Moreover, the study is conducted in the light of central bank's rules and regulation that abide the commercial banks.

The research design of this thesis is descriptive and exploratory in nature. The methods used include qualitative analysis which includes thesis analysis, case study analysis.

Secondary and primary data have been used in order to find out present condition of the proposed institutions.

3.3 Source of Data

There are two sources of data (i) Primary Data & (ii) Secondary.

However, this study is based on secondary data. The data required data are obtained from annual reports of HBL and EBL, from various institutions and regulatory bodies like NRB, Security Board of Nepal (SEBON), Nepal Security Board of Nepal (NEPSE), SDC Library, Central Library (TU), Economic Survey, Nation Planning Commission etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Likewise, various data and information are collected from the economic journals, periodical bulletins, unpublished reports and thesis etc.

3.4 Population and Sample

The population refers to the industries of the same nature and its services and products in general. Thus, total commercial bank constitutes the population of the data and the bank under study constitutes the sample for the study.

The limitation of the time and unavailability of the relevant data has compelled me to make research on the few commercial banks. In this study, HBL credit policies have been compared with EBL which are selected as sample. The population is presented in the below table.

Listed Commercial Banks in Nepal

S.N.	Name of Banks
1	Nepal Bank Limited
2	Rastriya Banijya Bank
3	Agriculture Development Bank
4	Nabil Bank Limited
5	Standard Chartered Bank Nepal Limited
6	Himalayan Bank Limited
7	Nepal Investment Bank Limited
8	Nepal Bangladesh Bank Limited
9	Nepal SBI Bank Limited
10	Everest Bank Limited
11	Lumbini Bank Limited
12	Nepal Industrial and Commercial Bank Limited
13	Bank of Kathmandu Limited
14	Laxmi Bank Limited
15	Macchapuchhre Bank Limited
16	Kumari Bank Limited
17	Nepal Credit and Commercial Bank Limited
18	Siddhartha Bank Limited
19	Global Bank Limited
20	Citizens Bank International Limited
21	Prime Commercial Bank Limited
22	Bank of Asia Nepal Limited
23	Sunrise Bank Limited
24	Development Credit Bank Limited
25	NMB Bank Limited
26	Kist Merchant Bank and Finance Limited

Source: www.nrb.org.np

3.5 Methods of Data Analysis

To achieve the objective of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data is done according to pattern of data available and various statistical and accounting tools are being used for analysis. The various calculated results obtained from financial, accounting and statistical tools are presented under different headings. After which, comparative analysis will be done to interpret the results.

To make the study more specific and reliable, the two types of tools are used for analysis.

- a. Financial Tools
- b. Statistical Tools

3.5.1 Financial Tools

Financial tools are used to analyze the success, failure and progress of bank. In this study financial tools like ratio analysis and financial statement analysis have been used.

3.5.1.1 Ratio Analysis

Ratio analysis is designed to reveal the relative strengths and weaknesses of a company as compared with other companies in the same industry, and to show whether its financial position has been improving or deteriorating over time (Brigham, Gapenski and Ehrhardt, 1999).

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974).

Thus qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis. Though, various ratios can be calculated. Only related ratios are taken into consideration for the study, which contains following ratios:

A. Liquidity Ratio

This ratio indicates the ease of turning assets into cash i.e. bank's ability to meet short term obligation.

(I) Current Ratio

It shows the relationship between current assets and current liabilities. Current assets normally includes cash and bank balance, money at call or short notice, current maturities of long term debt, investment on government securities, and other interest receivables, bills purchased and discount and miscellaneous current assets. Similarly

current liabilities include deposit and other short term loan, bills payable, tax provision, staff bonus, dividend and miscellaneous current liabilities.

Current ratio is calculated as:

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Generally acceptable current ratio is 2:1 but whether or not a specific ratio is satisfactory depends upon the nature of the business and the characteristics of its current assets and liabilities. The minimum acceptable ratio is obviously 1:1 but that relationship is usually paying it too close for comfort.

(II) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance is the most liquid current assets. The ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. The ratio is computed by dividing cash and bank balance by total deposit. This can be presented as:

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Here, cash and bank balance includes cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, savings, fixed deposits, money at call and short notice and other deposits.

(III) Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of the bank. Higher the ratios, the bank ability to meet its demand for cash is comfortable. This can be stated as

$$= \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

(IV) Investment on Government Securities to Current Assets Ratio

This ratio is calculated to find out the percentage of current assets invested in government securities i.e. Treasury bill, development bonds etc. This ratio is computed by dividing investment on government securities by current assets. We can state it as,

$$\frac{\text{Investment on Government Securities}}{\text{Total Current Assets}}$$

(V) Loan and Advances to Current Assets Ratio

Loan and advances to current assets, which generate income for the bank. Loan and advances to current assets ratio shows the percentage of loan and advances by current assets. This can be stated as

$$\frac{\text{Loan and Advances}}{\text{Current Assets}}$$

B. Assets Management Ratio (Activity Ratio)

Assets management ratio measures how efficiently the bank manages the assets and has command. It is also called turnover ratio because they indicates the speed with which assets are being converted or turnover. The following ratios are used under this assets management ratio:

(I) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out, how successfully the bank is utilizing their total deposits on loan and advances for profit generation purpose. Greater ratios imply the better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposits, which can be stated as:

$$\frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

(II) Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on investment in government securities, share and debenture of other companies and bank. The ratio can be mentioned as:

$$\frac{\text{Total Investment}}{\text{Total Deposits}}$$

The numerator consists of investment on government securities, investment on debentures and bonds, shares in subsidiary companies, shares in other companies and other investment.

(III) Loan and Advances to Total Working Fund Ratio

Loan and advances is the major component in the total working funds (total assets), which indicates the ability of the bank to channelize its deposits in the form of loan and advances to earn high return. This is computed by dividing loan and advances by total working fund. This is stated as,

$$\frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

Hence, the denominator includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loan for development banks and other miscellaneous assets but exclude off balance sheet items like letter of credit, letter of guarantee etc

(IV) Investment on Shares and Debentures to Total Working Fund Ratio

This ratio shows that the bank investment on government securities in comparison to the total working fund. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as:

$$\frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

C. Profitability Ratio

Profitability ratio is calculated to measure the efficiency of operation of a firm in term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability position can be evaluated through following different way.

(i) Return on Working Fund Ratio (ROA)

This ratio measures the overall profitability of all working funds i.e. total assets. It is also known as return on assets (ROA). A firm has to earn satisfactory return on assets

or working fund for its survival. This ratio is calculated by dividing net profit (Loss) by total working fund. This can be mentioned as,

$$\frac{\text{Net Profit (Loss)}}{\text{Total Working Fund}}$$

The numerator indicates the portion of income left to internal equities after deduction of all costs, charges.

(ii) Return on Loan and Advances Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. This ratio is computed by dividing net profit (loss) by loan and advances. This can be present as,

$$\frac{\text{Net Profit}}{\text{Loan and Advances}}$$

(iii) Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working fund. This ratio is calculated by dividing total interest earned by total working fund. This is stated as,

$$\frac{\text{Total Interest Earned}}{\text{Total Working Fund Ratio}}$$

Here, the numerator consists of total interest earned, expenses on deposits, loan and advances, borrowing and other deposits.

(iv) Net Profit to Gross Income Ratio

This ratio measures profitability position of the company to total income and depicts the soundness or weakness in terms of utilizing its resources. Higher ratio indicated the efficient management and lower vice a versa. The calculation can be done by:

$$\frac{\text{Net Profit}}{\text{Gross Income}}$$

(v) Operating Profit to Loan and Advances Ratio

Operating profit to Loan and advances ratio measures the earning capacity of bank and is calculated by the presented formulae.

$$\frac{\text{Operating Profit}}{\text{Loan and Advances}}$$

(vi) Earnings Per Share (EPS)

EPS is one of the mostly widely quoted statistics when there is discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders earned for every share held. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically affect the earning per share. The profits available to the ordinary shareholders are presented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below:

$$\frac{\text{Profit after Tax}}{\text{Total No. of Equity Shares}}$$

D. Risk Ratios

Risk taking is the prime business of bank's investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with various operations, which ultimately influences the banks investment policy. The following ratios are evaluated under the topic.

(I) Credit Risk Ratio

Credit risk measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk is expressed as the percentage of non-performing loan to total and advances. Here, this ratio is derived by dividing total loan and advances by total assets. This can be stated as:

$$\frac{\text{Total Loan and Advances}}{\text{Total Assets}}$$

(II) Liquidity Risk Ratio

The liquidity risk ratio is the level of risk associated with liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the depositor's demand for cash. Higher the ratio, lower is the risk. This ratio is calculated by dividing cash and bank balance by total deposits. This is mentioned as

$$\frac{\text{Total Cash and Bank Balance}}{\text{Total Deposits}}$$

E. Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of the bank. This ratio also shows the utility of available fund. Various types of lending efficiency ratio are mentioned below:

(i) Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to loan and advances describes the quality assets that a bank holds. The provision for loan loss reflects the increasing profitability of non-performing loan. The provision of loan means the net profit will come down by same ratio. Increase in loan loss provision decreases in profit result to decrease in dividend but its positive impact is that it strengthens financial conditions of the bank by controlling the credit risk and reduced the risk relate to deposits. So, it can be concluded that provisions of loan reduce the instant benefits for short run but will make sound position in long run.

The low ratio indicated the good quality of assets in total volume of loan and advances. High ratio indicated more risky assets in total volume of loan and advances.

$$\frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}}$$

(ii) Nonperforming Loan to Total Loan and Advances

This ratio shows the relationship of non-performing loan and total loan and advances and is to determine how efficiently the loan and advances have been used by management. Higher ratio shows the low operating efficiency of management and lower ratio shows the more efficient operating of credit management.

$$\frac{\text{Non Performing Loan}}{\text{Total Loan and Advances}}$$

(iii) Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposits. A high ratio indicates higher interest expenses on total deposits. Commercial Banks are dependent upon its ability to generate cheaper fund. The cheaper fund has high probability of generating loans, advances and vice versa.

$$\frac{\text{Interest Expenses}}{\text{Total Deposits Ratio}}$$

3.5.2 Statistical Analysis

Some important statistical tools are used to achieve the objective of the study. In this study, statistical tools such as arithmetic mean, trend analysis, standard deviation probable error, coefficient of correlation, analysis, trend/regression analysis.

3.5.2.1 Arithmetic Mean

Most of the time when we refer to the “average” of something, we are talking about its arithmetic mean and used to measure central tendency. Arithmetic mean represents the entire data by single value. It is calculated as:

$$\bar{X} = \frac{1}{n} \sum_{i=1}^n X_i$$

Where,

$$\bar{X} = \text{mean value or arithmetic mean}$$

$$\sum_{i=1}^n X_i = \text{Sum of the observation}$$

$$N = \text{number of observation}$$

3.5.2.2 Standard Deviation

The absolute dispersion is measured by standard deviation. The higher standard deviation results higher variability and lower defines lower variability. The concept of standard deviation was introduced by Karl Pearson in 1823. It is denoted by small Greek letter σ (read as sigma). Standard deviation is calculated as:

$$s = \frac{\sqrt{\sum X^2}}{N - 1}$$

Where, $X = (X - \bar{X})$

s = Standard Deviation

X = Value of each of the n observation

$N-1$ = number of observation in the sample minus-1

3.5.2.3 Coefficient of Correlation Analysis

Correlation analysis enables us to determine the direction and relationship between two variables. It does not tell anything about cause and effect relationship. Like, if there is high degree of correlation between two variables, we cannot say which the cause is and which the effect is. “Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of advertisement are associated with the change in the sales. Similarly, changes in price are accompanied by changes in quantity demanded” (Sthapit & et.al: 2003:362). In the research, Karl Pearson coefficient is used which can be denoted by “ r ”. The value of correlation coefficient always lies between ± 1 . If the value of r is $+1$; it says that there is perfect positive correlation between two variables. But if the value of ‘ r ’ is -1 , it says that there is perfect negative correlation between two variables. But if the value of ‘ r ’ is ‘ 0 ’, there is no relationship between the two variables. Nearer the value of r to $+1$, closer will be the relationship between two variables and nearer the value of r to 0 , lesser will be the relationship.

The value of r can be derived with the help of the following formula.

$$r = \frac{N\sum XY - (\sum X) \times (\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

r = The coefficient of correlation

$\sum XY$ = Total population of items in two series

$(\sum X)$ = Total of X series

(ΣY) = Total of Y series

ΣX^2 = Total of the square of item in X series

ΣY^2 = Total of the square of item in Y series

Under this topic, Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables.

Correlation coefficient between total deposits and net profit

- a) Correlation coefficient between total deposits and total investment
- b) Correlation coefficient between total deposits and total loan and advances
- c) Correlation coefficient between current assets and current liabilities

3.5.2.4 Probable Error (PE)

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Here,

R = Correlation coefficient

N = Number of pairs of observation

This is used to test whether the correlation is significant or not in the following ways:

If $r < PE$, it is insignificant, no evidence of correlation

If $r > PE$, it is significant

In other than these cases nothing can be concluded

3.5.2.5 Trend / Regression Analysis

The most popular and mathematical method of determining trend of time series is the least square method. Here, using this method, it has been estimated future trend values of different variables. For the estimation of linear trend following equation is used.

$$Y = a + bX$$

Where,

Y= estimated value of the dependent variables

X= independent variable (time in trend analysis)

a= y-intercept (the value of y when X=0)

b=slope of the trend line

By using this method, trend of following variables is conducted.

- a) Trend analysis of Total Deposits
- b) Trend analysis of loan and advances
- c) Trend analysis of investment
- d) Trend analysis of total net profit

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

The purpose of this chapter is to identify proximity towards the objectives of this study. The results can be obtained from the presentation, analysis and interpretation of relevant primary and secondary data's of HBL and EBL by using statistical and financial tools.

4.1 Financial Statement Analysis

Financial analysis is done by applying various financial tools in order to diagnose strengths and weakness of proposed bank's performance. The analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of banks. For this chapter we study and analyze data by using accounting tools.

4.1.1 Ratio Analysis

Ratio analysis is a main tool of financial analysis. Financial ratios are the mathematical relationship between two accounting figures. It is used to evaluate a firm's financial performances and status of other firms. The quantitative judgments have gone down regarding financial performances of the firm with the help of ratio analysis. In this study all types of ratios are not considered only those ratios that are important from the point of view of the fund mobilization and investments are calculated. These are follows.

4.1.1.1 Liquidity Ratio

The following ratios are evaluated and interpreted under liquidity ratios.

(I) Current Ratio

Current assets are those assets which can be converted into cash within one accounting period and current liabilities are those which should be paid within the one accounting period. Current ratio indicates the ability of the bank to meets its current obligation. This is the broad measures of liquidity position of the financial

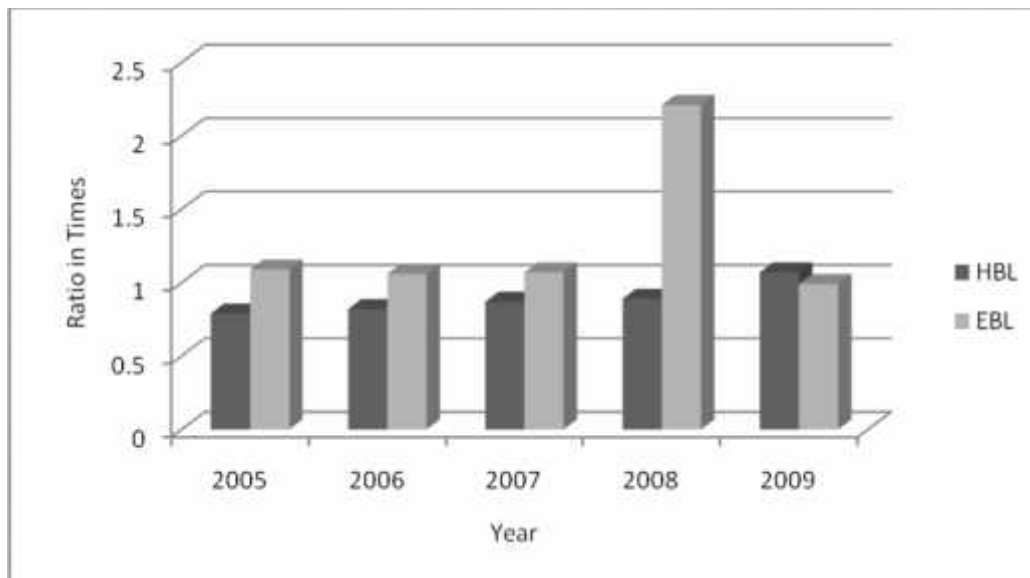
institutions. Current ratio occurs by dividing current assets to current liabilities that indicates the ability of a bank to meet its current obligation.

Table 4.1
Current Ratio (Times)

Fiscal Year	HBL	EBL
2005	0.79	1.09
2006	0.82	1.06
2007	0.87	1.07
2008	0.89	2.21
2009	1.07	0.99
Mean	0.88	1.28
S.D	0.11	0.52
C.V (%)	12.23	40.54

Source: Appendix - 1

Figure 4.1
Current Ratio



From above table 4.1, it depicts that current ratio of HBL is in increasing trend with the ratio of 0.79 in 2005 and 1.07 in 2009. At the same time the ratios of EBL is in fluctuating trend with highest ratio of 2.21 in 2008 and lowest in 0.99.

The average of ratio is also low of HBL than EBL i.e. $0.88 < 1.28$, this proves that liquidity position of EBL is sound than of HBL. Likewise, the coefficient of variance (C.V) of HBL is lower than of EBL i.e. $12.23 < 40.54$ which shows that EBL has more absolute variance in current ratio than HBL.

(II) Cash and Bank Balance to Total Deposit Ratio

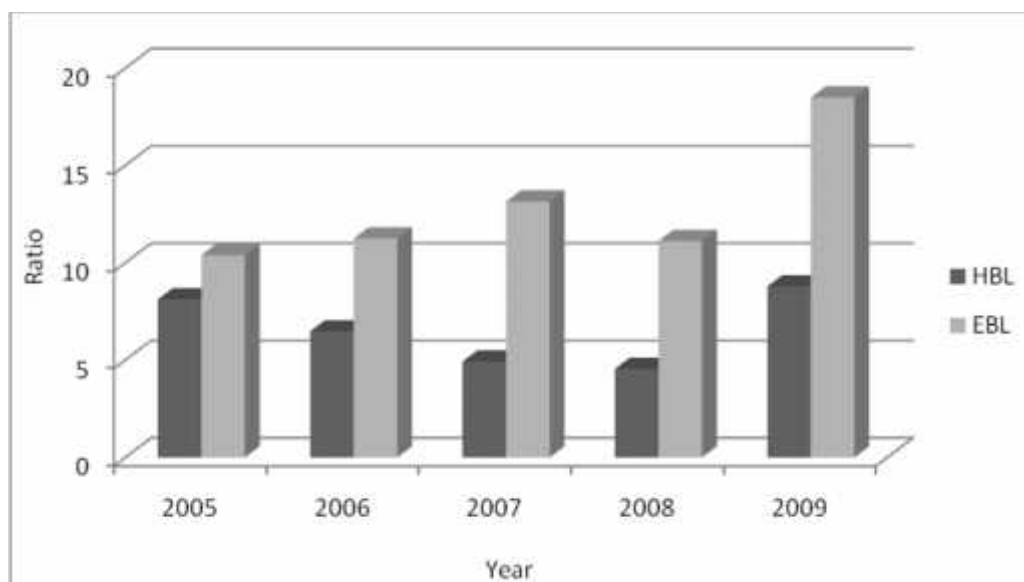
This cash and bank balance ratio shows banks liquidity position to make the regular payments to depositors. Higher the ratio the bank will be in comfortable position but very high ratio is not desirable because bank has to pay interest on deposits.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	HBL	EBL
2005	8.12	10.40
2006	6.48	11.25
2007	4.93	13.15
2008	4.55	11.13
2009	8.79	18.50
Mean	6.57	12.89
S.D	1.88	3.30
C.V (%)	28.58	25.60

Source: Appendix - 2

Figure 4.2
Cash and Bank Balance to total Deposit Ratio



The table 4.2 shows that cash and bank balance to total deposit ratio of HBL is in decreasing trend from 2005 to 2008 with ratios of 8.12%, 6.48%, 4.93%, 4.55% and increased in 2009 with the ratio of 8.79%. of The ratios of EBL increased 2005 from

2007 with the ratio of 10.40%, 11.25% and 13.15% respectively and decreased in 2008 with the ratio of 11.13% and again increased in 2009.

The calculated mean of the ratios shows that EBL is in the higher side than of HBL i.e. $12.89 > 6.57$, which shows that liquidity position to make the regular payment of depositors is much easier to EBL in comparison to HBL. Along with it, this ratio also shows that the efficiency in liquidity management is high of EBL.

The standard deviation and coefficient of variance of EBL is higher than of HBL i.e. $1.88\% < 3.30\%$ and $0.44\% < 0.96\%$ respectively. This shows that HBL is able to manage the liquidity for the payment of depositors consistently than of EBL.

(III) Cash and Bank to Current Assets Ratio

This ratio measures the proportion most liquid assets i.e. cash and balance among the total current assets of the bank. Higher the ratios, the bank ability to meet its demand for cash is comfortable. The above mentioned ratio just shows the relationship between liability specifically to the deposits only and this ratio talks about the current assets of the bank. This can be stated as:

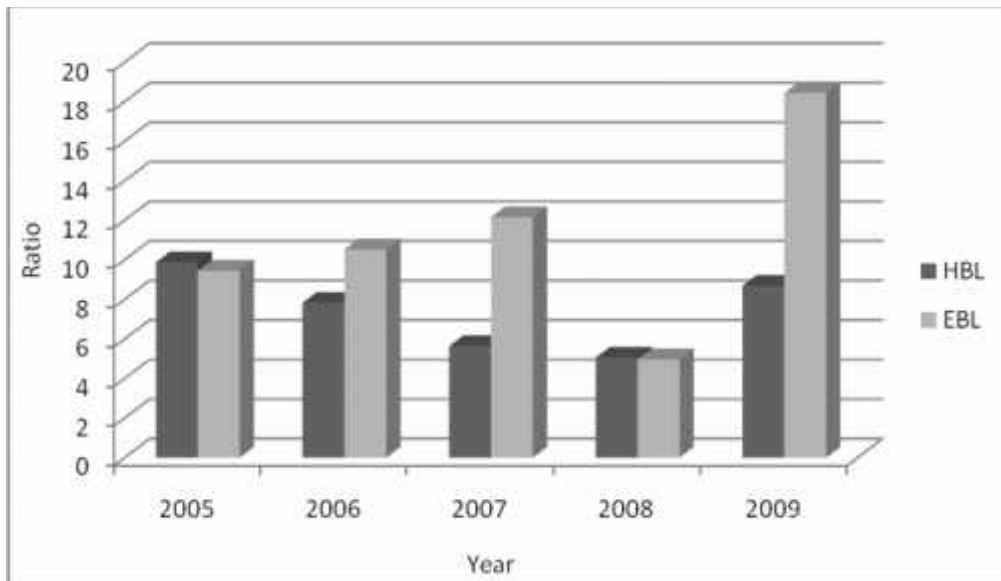
$$\frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

Table 4.3
Cash and Bank to Current Assets Ratio

Fiscal Year	HBL	EBL
2005	9.88	9.45
2006	7.83	10.53
2007	5.64	12.16
2008	5.06	4.97
2009	8.69	18.44
Mean	7.42	11.11
S.D	2.04	4.89
C.V (%)	27.46	44.04

Source: Appendix - 3

Figure 4.3
Cash and Bank Balance to Current Ratio



The above table 4.3 confirms that liquidity positions of both the banks are not steady in terms of trend because both the computed ratios are in fluctuating. However calculated mean of ratio shows that the liquidity position of EBL is higher than of HBL i.e. 7.42% < 11.11 which means that liquidity management of EBL is sound than of HBL. The Standard deviation and coefficient of variances also supports that EBL is less deviated than of HBL i.e. c.v. of EBL is less than HBL (0.49 < 0.59).

(IV) Investment on Government Securities to Current Assets Ratio

This ratio is calculated to confirm that what percentage of current assets is invested secured sector for the liquidity management of the bank.

We can state it as,

$$\frac{\text{Investment on Government Securities}}{\text{Total Current Assets}}$$

Table 4.4

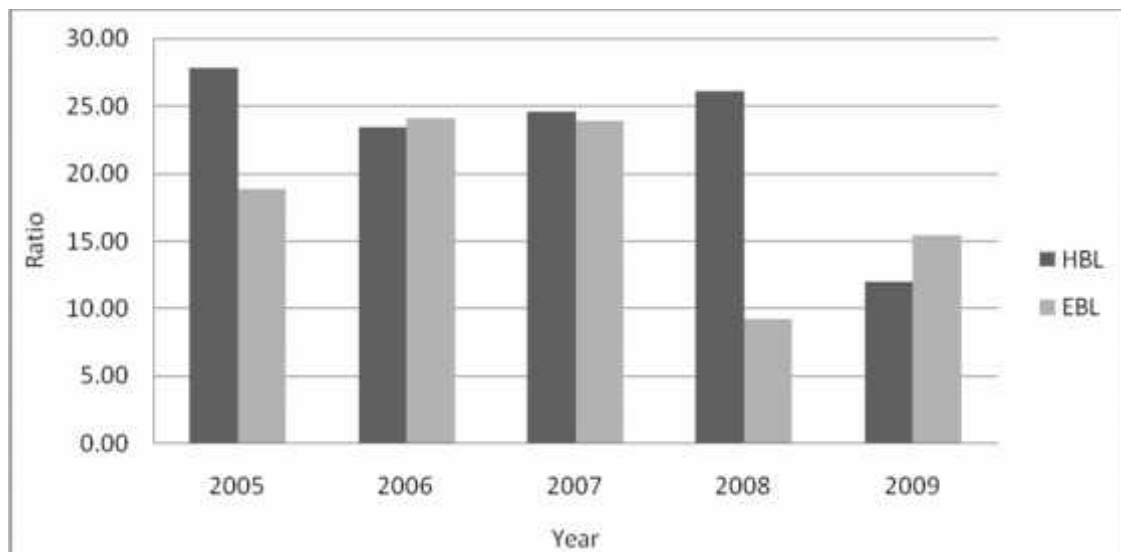
Investment on Government Securities to Current Assets Ratio (%)

Fiscal Year	HBL	EBL
2005	27.77	18.90
2006	23.46	24.07
2007	24.57	23.92
2008	26.10	9.24
2009	12.01	15.40
Mean	22.78	18.30
S.D	6.24	6.24
C.V (%)	27.37	34.09

Source: Appendix - 4

Figure 4.4

Investment on Government Securities to Current Assets Ratio



The calculation of ratio mentioned in the table 4.4 shows that investment in government securities is higher of HBL than EBL but in decreasing trend. The dispersion from the mean is also low of HBL than EBL i.e. mean of HBL is greater than EBL ($22.78 > 18.30$) c.v. of HBL is less than EBL ($27.37 < 34.09$), which proves that HBL is consistently focused in the investment of government securities than of EBL. Therefore secured investment is made by HBL and has minimized the risk of

default but may have reduced the level of profit because higher profit can be generated if invested in other sector other than government securities. Along with it this shows that HBL has strong short term liquidity position.

(V) Loan and Advances to Current Assets Ratio

This ratio depicts the picture that what percentage of current assets is being using by the bank for loan and advances. Higher utility of current assets will support in higher profit generation but will put the bank in difficult situation at the time of liquidity management since the loan and advances will be collected at the time of maturity only. So the banks have to maintain the appropriate level so that liquidity problem may not arise.

This can be stated as:

$$\frac{\text{Loan and Advances}}{\text{Current Assets}}$$

Table 4.5

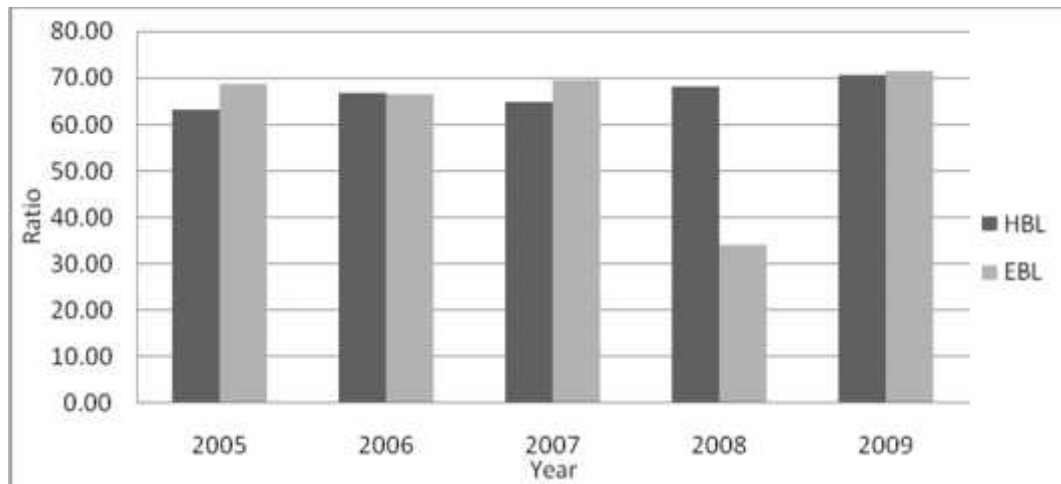
Loan and Advances to Current Assets Ratio (%)

Fiscal Year	HBL	EBL
2005	63.07	68.56
2006	66.77	66.48
2007	64.71	69.47
2008	68.10	34.13
2009	70.69	71.47
Mean	66.67	62.02
S.D	2.96	15.69
C.V (%)	4.44	25.30

Source: Appendix - 5

Figure 4.5

Loan and Advances to Current Assets Ratio



The above table shows that the ratios are in fluctuating trend of both banks. HBL has highest ratio of 70.69% in 2009 and lowest of 63.07 in 2005. EBL has highest ratio of 71.47% in 2009 and lowest ratio of 34.13% in 2008.

The mean calculation of above mentioned ratio shows that HBL has high proportion of loan and advances with respect to current assets than of EBL i.e. $66.67 > 62.02$ and the deviation of the ratio is very low of HBL i.e. standard deviation and coefficient of variance is lower of HBL than EBL ($2.96\% < 15.69\%$, $4.44\% < 25.30$ respectively). This shows that HBL is handling its loan and advances more efficiently than of EBL. This is the positive aspects of the bank because loan and advances are the major sources for the increment in the profit of bank.

4.1.1.2 Assets Management Ratio (Activity Ratio)

Assets management ratio measures how efficiently the bank manages the assets at as command. It is also called turnover ratio because they indicates the speed with which assets are being converted or turnover. The following ratios are used under this assets management ratio:

(I) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out, how successfully the bank is utilizing their total deposits on loan and advances for profit generation purpose. Greater ratios imply the better utilization of total deposits but higher than optimum level which put the banks in the liquidity crisis and will be the main cause to drawn the performance of the

bank. That is why NRB has specified the CD ratio so that no bank will exceeds the ratio.

This ratio can be obtained by dividing loan and advances by total deposits, which can be stated as:

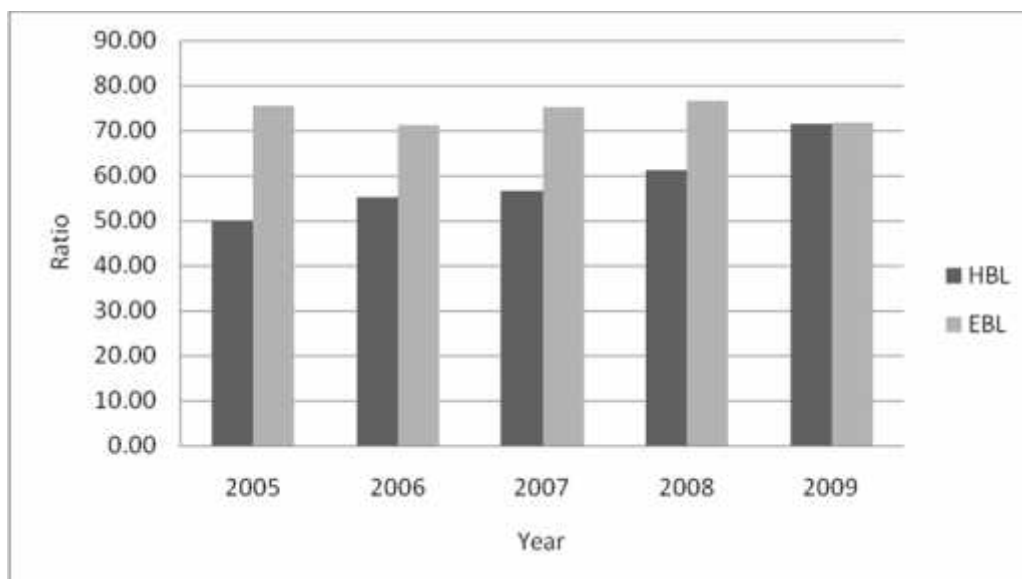
$$\frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

Table 4.6
Loan and Advances to Total Deposit Ratio (%)

Fiscal Year	HBL	EBL
2005	50.07	75.45
2006	55.27	71.01
2007	56.57	75.13
2008	61.23	76.49
2009	71.49	71.68
Mean	58.93	73.95
S.D	8.07	2.44
C.V (%)	13.69	3.31

Source: Appendix - 6

Figure 4.6
Loan and Advances to Total Deposit Ratio



The ratio mentioned in table 4.6 shows that HBL's utilization of deposits in loan and advances is in increasing trend i.e. in 2005 the ratio is 50.07% and reached to 71.49% in 2009 but EBL's ratio is fluctuating in 2005 and 2007 ratios were 75.45% and 75.13%, 71.01% and 71.68% in 2006 and 2009 and 76.49% in 2008. The mean ratio of HBL is lower than of EBL i.e. 58.93% < 73.95% and coefficient of variance of HBL is higher than of EBL i.e. 13.69% > 3.31%, which helps to conclude that EBL has made good mobilization of deposits in loan and advances consistently than of HBL.

(II) Total Investment to Total Deposit Ratio

This ratio defines the proportion of deposits banks have used in the investment in government securities for short term liquidity management. The higher ratio shows that the bank is in strong position for the short term liquidity management.

The ratio can be mentioned as:

$$\frac{\text{Total Investment}}{\text{Total Deposits}}$$

Table 4.7

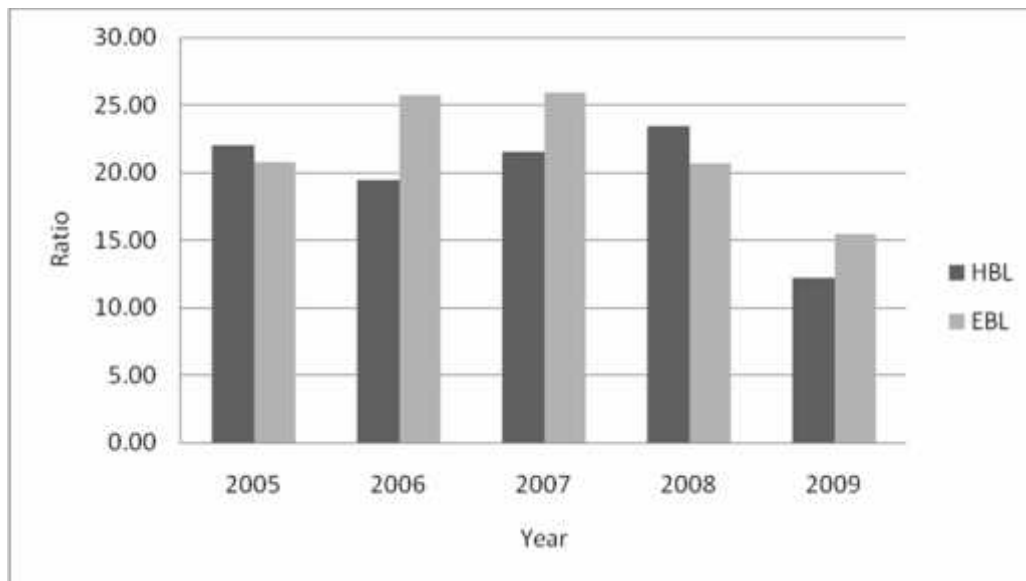
Total Investment to Total Deposit Ratio

Year	HBL	EBL
2005	72.11	150.90
2006	74.69	142.02
2007	78.05	150.27
2008	84.69	152.98
2009	83.63	143.35
Mean	78.64	147.90
S.D	5.480	4.889
C.V (%)	0.07	0.03

Source: Appendix - 7

Figure 4.7

Total Investment to Total Deposit Ratio



The above table 4.7 shows that HBL has increasing trend in the ratio till 2008 from 2005 and decreased in 2009 with the ratio of 83.63%. But EBL has fluctuating trend in the ratio and has ratio of 150.90%, 142.02%, 150.27%, 152.98% and 143.35% respectively from 2005 to 2009.

Mean of ratio shows that HBL has lower utilization of deposits in investment than of EBL i.e. 78.64% <147.90%. The dispersion of HBL is greater than of EBL i.e. standard deviation 5.480>4.889 and coefficient of variance 0.07>0.03, which conveys that EBL is consistently able to mobilize deposits in investment and is able to manage strong short term obligation of liquidity comparatively than of HBL.

(III) Loan and Advances to Total Working Fund Ratio

Loan and advances is one of the major component in total working funds (total assets), which indicates the ability of the bank to mobilize its deposits in the form of loan and advances to make higher return. This is computed by dividing loan and advances by total working fund. This is stated as,

$$\frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

Table 4.8

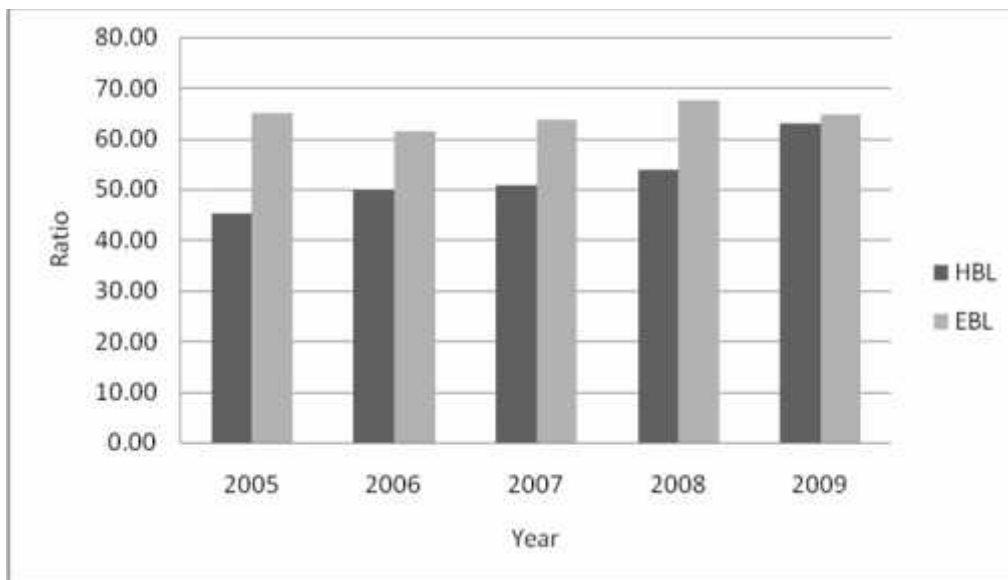
Loan and Advances to Total Working Fund Ratio (%)

Fiscal Year	HBL	EBL
2005	45.31	65.07
2006	49.70	61.44
2007	50.71	63.75
2008	53.90	67.55
2009	63.05	64.70
Mean	52.54	64.50
S.D	6.63	2.21
C.V (%)	12.63	3.43

Source: Appendix - 8

Figure 4.8

Loan and advances to Total Working Fund Ratio



The above table 4.8 shows, the ratio of HBL is in increasing trend in 2005 the ratio was 45.31% ends with 63.05% in 2009 but the compared bank has fluctuating trend in the ratio highest in 2008 with 67.55% and lowest in 2005 with the ratio of 65.07. The mean of the ratio's of EBL is greater than HBL i.e. $64.50 > 52.54$ this show that EBL has been strong condition in mobilizing its working fund in loan and advances than HBL with consistency. The table shows that standard deviation and coefficient of variance of EBL is comparatively less than HBL i.e. $2.21 < 6.63$, $3.43 < 12.63$ respectively.

(IV) Investment on Shares and Debentures to Total Working Fund Ratio

This ratio shows that the bank investment on government securities in comparison to the total working fund i.e. the portion of working fund in secured sector with high level of liquidity . This ratio is calculated by dividing investment on government securities by total working fund. This is presented as

$$\frac{\text{Investment on government Securities}}{\text{Total Working Fund}}$$

Table 4.9

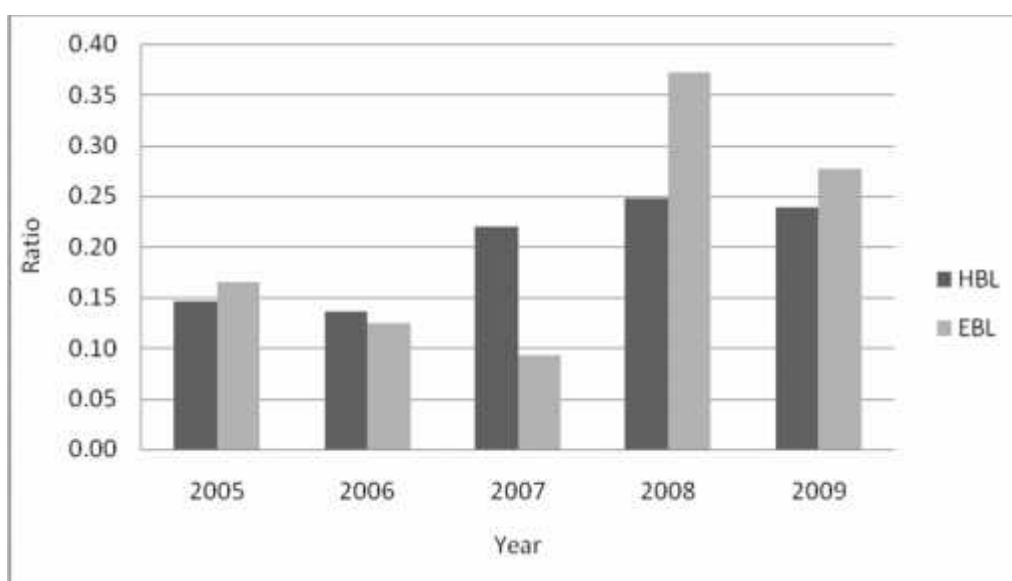
Investment on Shares and Debentures to Total Working Fund (%)

Fiscal Year	HBL	EBL
2005	0.15	0.17
2006	0.14	0.12
2007	0.22	0.09
2008	0.25	0.37
2009	0.24	0.28
Mean	0.20	0.21
S.D	0.05	0.12
C.V (%)	26.85	56.17

Source: Appendix - 9

Figure 4.9

Investment on Shares and Debentures to Total Working Fund



The table 4.9 shows that the ratio of both the sampled bank has fluctuating trend. HBL has highest ratio of 0.25% in 2008 and lowest of 0.14% in 2006. EBL has highest ratio of 0.37% in 2008 and lowest of 0.09% in 2007. The mean calculation of the ratio's shows that EBL has higher investment than of HBL i.e. 0.21%>0.20%, But the consistency level of investment in government securities is comparatively low of EBL than of HBL i.e. standard deviation and coefficient of variance is low of HBL than EBL, (0.05%<0.12%, 26.85%<56.17% respectively)

4.1.1.3 Profitability Ratio

Profitability ratio is calculated to measure the efficiency of operation of a firm in term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability position can be evaluated through following different way.

(i) Return on Working Fund Ratio (ROA)

Return is the result of investment and every bank makes the investment for better return for survival and for the growth. This ratio measures the overall profitability of all working funds i.e. total assets. This ratio is calculated by dividing net profit (Loss) by total working fund. This can be mentioned as,

$$\frac{\text{Net Profit (Loss)}}{\text{Total Working Fund}}$$

The numerator indicates the portion of income left to internal equities after deduction of all costs, charges.

Table 4.10
Return on Working Fund Ratio (%)

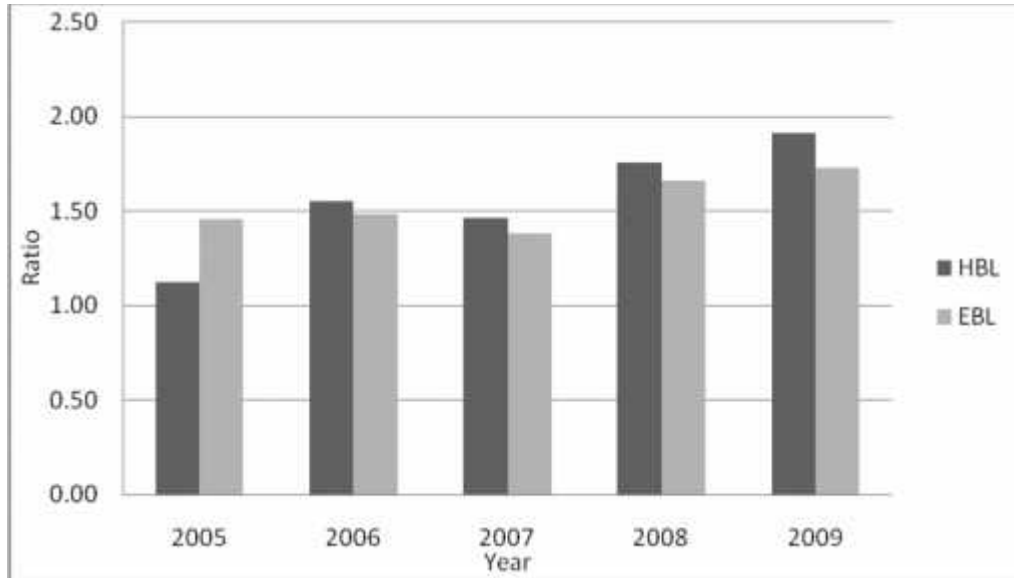
Fiscal Year	HBL	EBL
2005	1.12	1.46
2006	1.55	1.49
2007	1.47	1.38
2008	1.76	1.66
2009	1.91	1.73
Mean	1.56	1.54
S.D	0.27	0.15

C.V (%)	17.24	9.44
----------------	-------	------

Source: Appendix -10

Figure 4.10

Return on Working Fund Ratio



The table 4.10 shows that the profit generation of both the bank is in fluctuating trend. HBL has highest ratio of 1.96% in 2009 and lowest of 1.12% in 2005, EBL has highest ratio of 1.73% in 2009 and lowest in 2007 with the ratio of 1.38%. The calculated mean of the ratios show that HBL is able to make higher profit in comparison with EBL i.e. mean of HBL (1.56) is greater than EBL (1.54).

The level of consistency in generating profit from the mobilization of the working fund is high of EBL with respect to HBL i.e. standard deviation and coefficient of variance of HBL is higher than EBL (0.27%>0.15,17.24%>9.44% respectively)

(ii) Return on Loan and Advances Ratio

This ratio indicates how efficiently the bank has mobilized its deposits in loan and advances to maximize the profit of the bank. The good nature of the loan will increase the profit otherwise will reduce the profit. Higher ratio indicates that the bank has mostly good loans. This can be present as,

$$\frac{\text{Net Profit}}{\text{Loan and Advances}}$$

Table 4.11

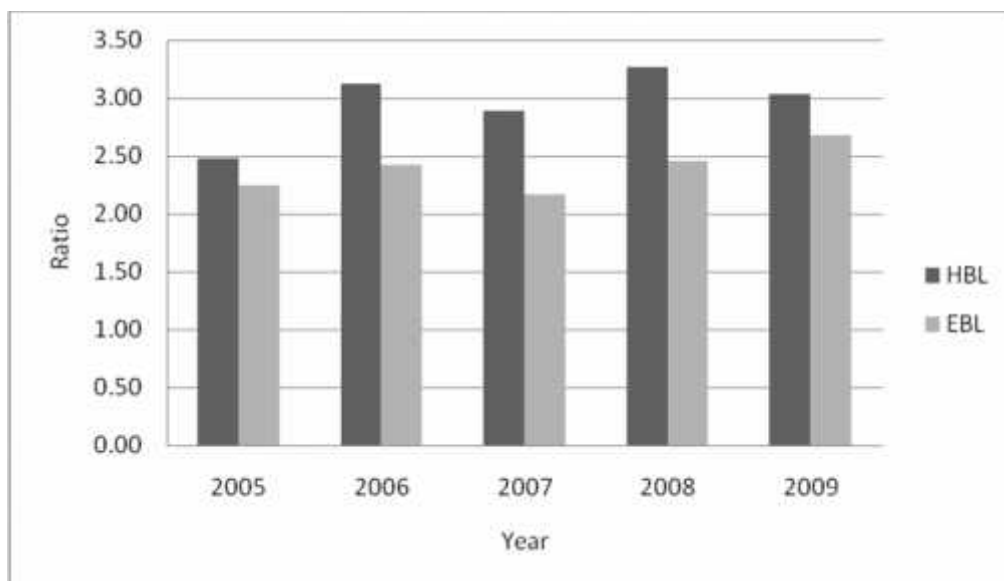
Return on Loan and Advances Ratio (%)

Fiscal Year	HBL	EBL
2005	2.48	2.24
2006	3.12	2.42
2007	2.89	2.17
2008	3.26	2.46
2009	3.04	2.67
Mean	2.96	2.39
S.D	0.30	0.20
C.V (%)	10.10	8.29

Source: Appendix - 11

Figure 4.11

Return on Loan and Advances Ratio



The above table 4.11 shows the ratios are in fluctuating trend that profit generation from the utilization of bank resource specifically in loan and advances is high of HBL in comparison to EBL, which can be concluded by the calculated date of mean i.e. $2.96 > 2.39$ but the consistency level of HBL is very low as the C.V. is higher than of EBL i.e. $10.10 > 8.29$.

(iii) Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working fund. This ratio is calculated by dividing total interest earned by total working fund. This is stated as,

$$\frac{\text{Total Interest Earned}}{\text{Total Working Fund Ratio}}$$

Here, the numerator consists of total interest earned, expenses on deposits, loan and advances, borrowing and other deposits.

Table 4.12

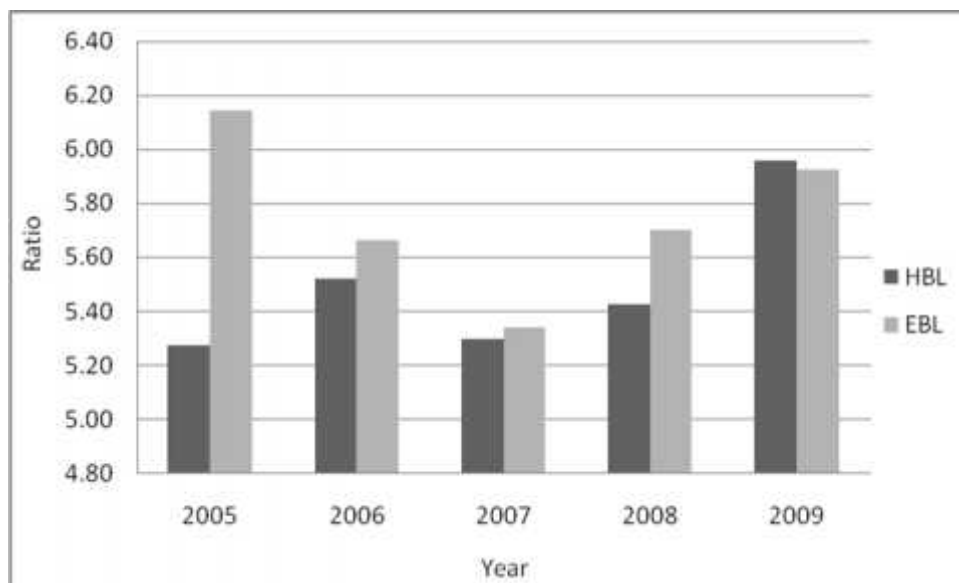
Total Interest Earned to Total Working Fund Ratio (%)

Fiscal Year	HBL	EBL
2005	5.28	6.14
2006	5.52	5.66
2007	5.30	5.34
2008	5.43	5.70
2009	5.96	5.92
Mean	5.50	5.75
S.D	0.28	0.30
C.V (%)	5.03	5.24

Source: Appendix - 12

Figure 4.12

Total Interest Earned to Total Working Fund Ratio



The above ratio mentioned in the table 4.12 shows that both the banks have fluctuating trend. In the HBL side the ratios are 5.28%, 5.52%, 5.30%, 5.43% and 5.96% respectively from 2005 to 2009. In the same manner in the EBL side the ratios are 6.14%, 5.66%, 5.34%, 5.70% and 5.92% respectively from 2005 to 2009. The calculated mean of the above ratio's of HBL and EBL shows that EBL is earning more than HBL i.e.5.75% >5.50%.

The level of consistency is high in the HBL side in comparison to EBL i.e. standard deviation and coefficient of variance is 0.28 % < 0.30% and 5.03% < 5.24% respectively.

(iv) Net Profit to Gross Income Ratio

Net profit is the final product after the deduction of all expenses incurred and tax from gross income. So higher ratio show the efficiency of bank in utilization of resources in total so that cost is reduced and net profit is increased.

The calculation can be done by:

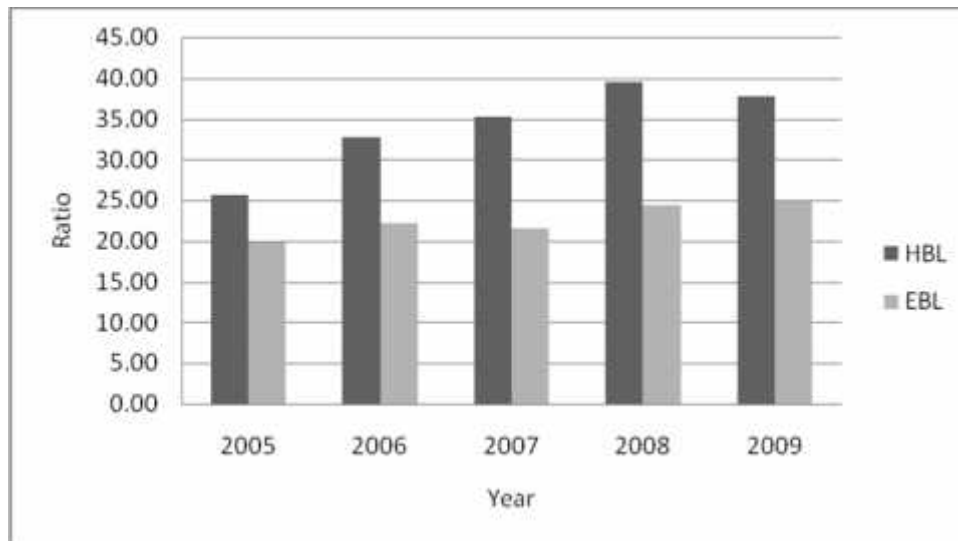
$$\frac{\text{Net Profit}}{\text{Gross Income}}$$

Table 4.13
Net Profit to Gross Income Ratio (%)

Fiscal Year	HBL	EBL
2005	25.72	19.89
2006	32.79	22.25
2007	35.21	21.50
2008	39.56	24.42
2009	37.80	24.90
Mean	34.21	22.59
S.D	5.40	2.08
C.V (%)	15.79	9.20

Source: Appendix - 13

Figure 4.13
Net Profit to Gross Income Ratio



The above table 4.13 shows that the ratios of HBL are in increasing trend from 2005 to 2008 and decreased in 2009, the ratios are respectively 25.72%, 32.79%, 35.21%, 39.56%, 37.80% respectively. In the side of EBL, the ratios are in increasing trend from 19.89% to 24.90% from year 2005 to 2009. The mean gives the conclusion that the profit generation ability of HBL is high than of EBL i.e. 34.21% > 22.59%. This depicts that efficiency in the management of resources is good than of EBL but the consistency level is low of HBL with respect to EBL. This is proved by standard deviation and Coefficient of variance is high of HBL than of EBL i.e. 5.40% > 2.08% and 15.79% > 9.20% respectively.

(v) Operating Profit to Loan and Advances Ratio

Operating profit to Loan and advances ratio measures the earning capacity of bank and is calculated by the presented formulae.

$$\frac{\text{Operating Profit}}{\text{Loan and Advances}}$$

Table 4.14

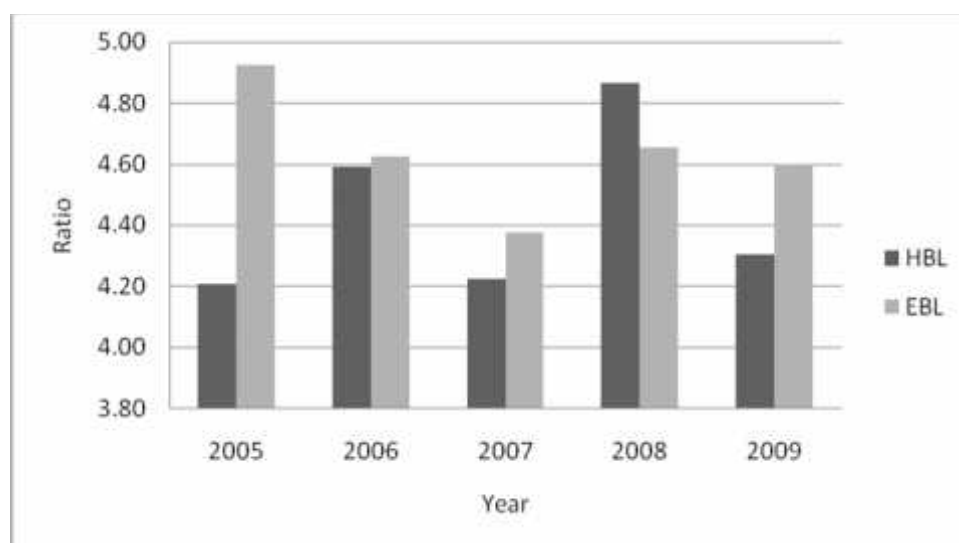
Operating Profit to Loan and Advances Ratio (%)

Fiscal Year	HBL	EBL
2005	4.21	4.92
2006	4.59	4.62
2007	4.22	4.38
2008	4.87	4.66
2009	4.30	4.60
Mean	4.44	4.64
S.D	0.29	0.20
C.V (%)	6.44	4.22

Source: Appendix - 14

Figure no. 14

Operating Profit to Loan and Advances ratio



The above table 4.14 depicts that trend of earning of HBL is in fluctuating decreasing as the ratios of 2005 is 4.21%, 2006 is 4.59%, 2007 is 4.22%, 2008 is 4.87% and 2009 is 4.30%. In the side of EBL, the ratios are 4.92%, 4.62%, 4.38%, 4.66%, 4.60% respectively from 2005 to 2009. The calculated mean of the ratios defines that the earning capacity of HBL is lower than of EBL says the mean of Operating Profit/ Loan and Advances ratio i.e. 4.44% < 4.64%. EBL seems to be stronger in earning as its consistency level is also high than of HBL i.e. standard deviation and coefficient of

variance of HBL is $0.29\% > 0.20\%$ and $6.44\% > 4.22\%$. Therefore credit management of EBL is better than of HBL.

(vi) Earnings per share (EPS)

Earnings per share are the availability of profit to per unit of equity share. This ratio shows that return from the share each they held. The objective of computing this ratio is to measure profitability of the firm on the basis of each unit of equity shares. On the basis of this ratio bank can decide whether to increase or decrease the number of share on issue.

The profits available to the ordinary shareholders are presented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below:

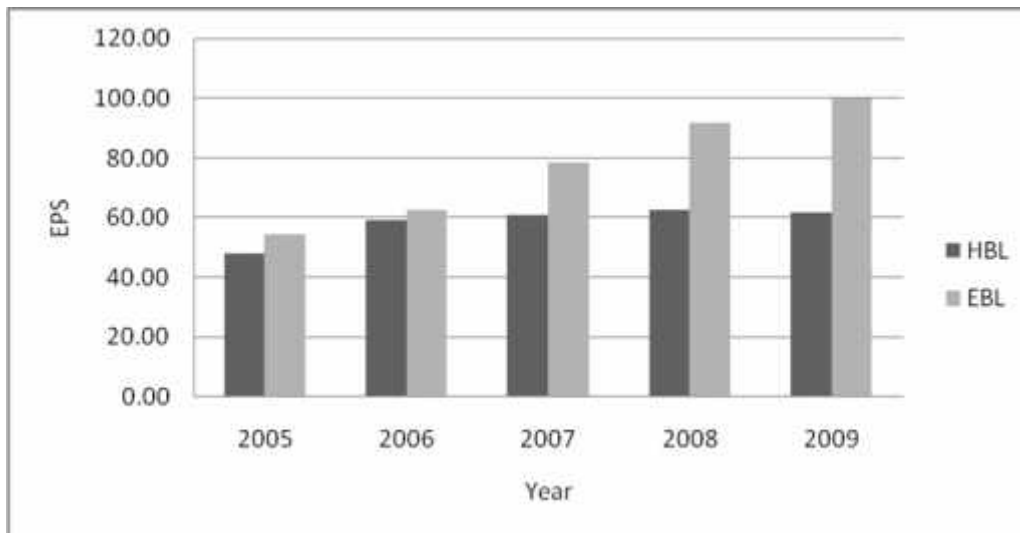
$$\frac{\text{Profit after tax}}{\text{Total no. of Equity Shares}}$$

Table 4.15
Earning Per Share

Fiscal Year	HBL	EBL
2005	47.91	54.23
2006	59.25	62.78
2007	60.66	78.42
2008	62.74	91.82
2009	61.90	99.99
Mean	58.49	77.44
S.D	6.06	19.17
C.V (%)	10.36	24.75

Source: Appendix - 15

Figure 4.15
Earning per Share (EPS)



The above table 4.15 shows that ratios of HBL has fluctuating trend towards the increment but EBL has in increasing trend. The ratios of HBL are 47.91%, 59.25%, 60.66%, 62.74%, and 61.90% respectively from 2005 to 2009. The ratios of EBL starts form 54.23% in 2005 and ends with 99.99% in 2009. The mean of the ratio shows that the earning per share i.e. portion of profit given to the share holders is high of EBL than HBL ($77.44 > 58.49$). The standard deviation and coefficient of variance of EBL is high than of HBL, this shows that the volatility is high in the shares of EBL than of HBL, so risk takers will prefers the EBL's shares and risk averter prefer HBL's share. (Std. Dev and Coefficient Of variance of EBL and HBL are $19.17 > 6.06$ and $24.75 > 10.36$ respectively).

4.1.1.4 Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of the bank. This ratio also shows the utility of available fund. Various types of lending efficiency ratio are mentioned below:

(i) Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances ratio describes what portion of loan has been classified. The higher the ratio degree of bad loans are high and lower ratio defines the degree of good loans are high.

$$\frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}}$$

Table 4.16

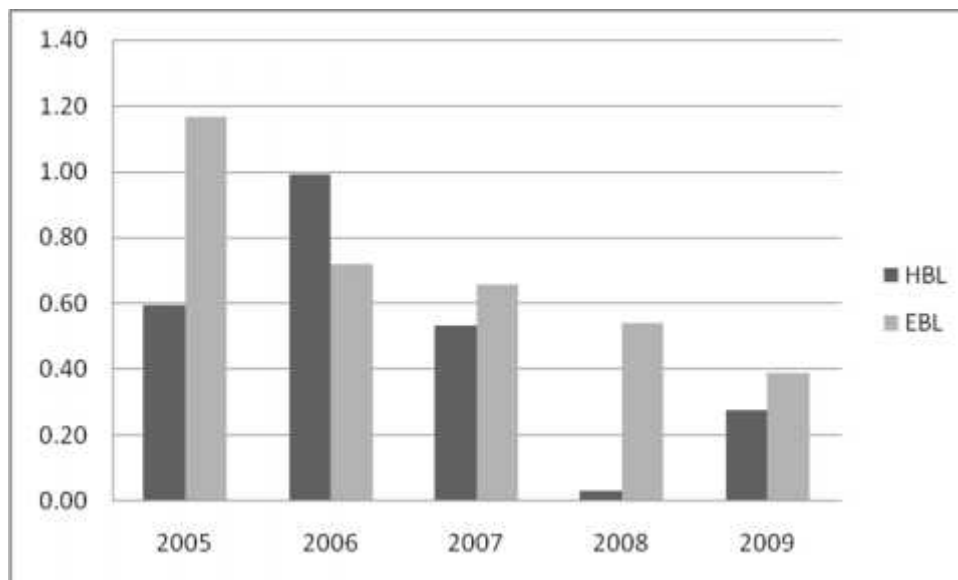
Loan Loss Provision to Total Loan and Advances Ratio (%)

Fiscal Year	HBL	EBL
2005	0.59	1.17
2006	0.99	0.72
2007	0.53	0.66
2008	0.03	0.54
2009	0.28	0.39
Mean	0.49	0.69
S.D	0.36	0.29
C.V (%)	74.26	42.07

Source: Appendix - 16

Figure 4.16

Loan Loss Provision to Total Loan and Advances ratio



The above table 4.16 shows that the ratios are relatively low of HBL in comparison to EBL i.e. the mean of the ratio of HBL is lower than of EBL (0.49% < 0.69%). The data shows that HBL was efficient to manage its loan in 2008 with the ratio of 0.03% and EBL in 2009 with the ratio 0.36%. The trend in the ratio shows that HBL has fluctuating data with decreasing trend and EBL has decreasing trend. The efficiency in managing the loan and advances of HBL is better than of EBL but the deviation and coefficient of variance is high, so the consistency level in the management of it is good in EBL than of HBL (standard deviation and coefficient of variance of HBL is greater than of EBL 0.36% > 0.29%, 74.26% > 41.07% respectively)

(ii) Nonperforming Loan to Total Loan and Advances

This ratio shows what portion of loan and advances is classified as nonperforming loan or the good loans are converting into bad loans i.e. the efficiency in the management of loan and proactive measurement in the recovery of the loan. Higher ratio shows the low operating efficiency of management and lower ratio shows the more efficient operating of credit management.

$$\frac{\text{Non Performing Loan}}{\text{Total Loan and Advances}}$$

Table 4.17

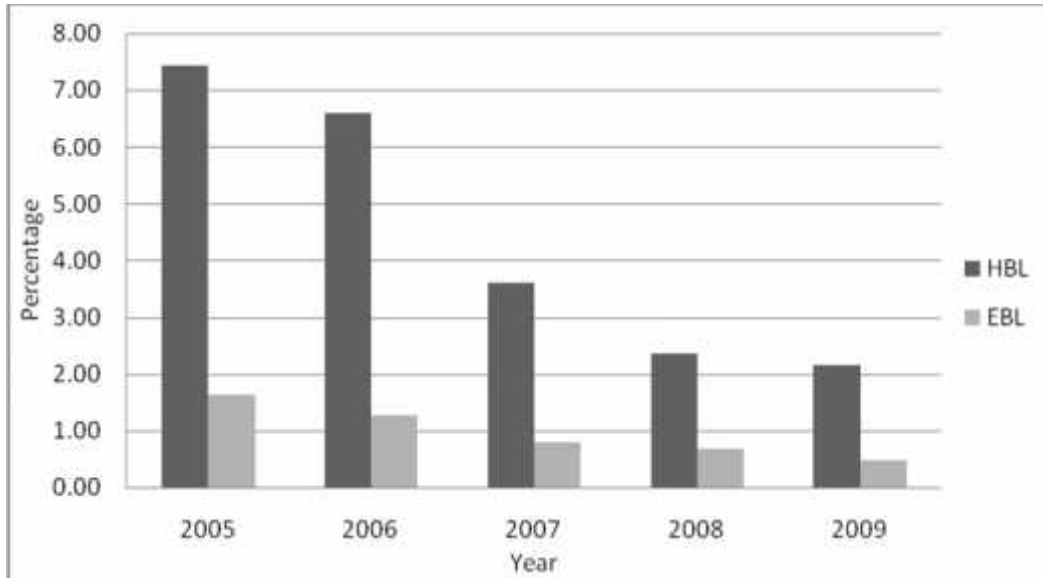
Nonperforming Loan to Total Loan and Advances (%)

Fiscal Year	HBL	EBL
2005	7.44	1.63
2006	6.60	1.27
2007	3.61	0.8
2008	2.36	0.68
2009	2.16	0.48
Mean	4.43	0.97
S.D	2.44	0.47
C.V (%)	55.10	48.22

Source: Appendix - 17

Figure 4.17

Nonperforming Loan to Loan and Advances



The above table 4.17 depicts that both the banks has decreasing trend of ratio from 7.44% to 2.16% of HBL, in the side of EBL the ratio has decreased from 1.63% to 0.48% from 2005 to 2009. This defines that efficiency level is increasing but the mean of ratio of HBL is comparatively very high with EBL i.e. $4.43 > 0.97$, along with high standard deviation and coefficient of variance too ($2.44 > 0.47$ and $55.10 > 48.22$ respectively). This shows that management of loan and advances is put into high consideration by EBL in comparison to HBL.

The higher these ratios will make the negative impact in the profit of the bank. So, if the bank is able to reduce the loan loss provision level to 1% or nearer to it then the profit level of the banks will increase in the same ratio in which the provision has been deducted.

(iii) Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposits. A high ratio indicates higher interest expenses on total deposits. Commercial Banks are dependent upon its ability to generate cheaper fund. The cheaper fund has high probability of generating loans, advances and vice versa.

$$\frac{\text{Interest Expenses}}{\text{Total Deposits Ratio}}$$

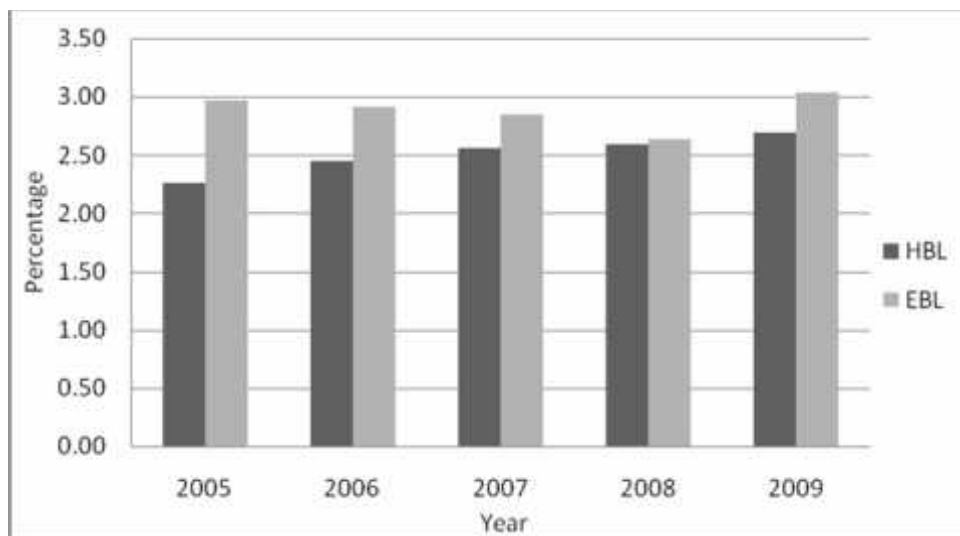
Table 4.18
Interest Expenses to Total Deposit Ratio (%)

Fiscal Year	HBL	EBL
2005	2.26	2.97
2006	2.45	2.91
2007	2.55	2.84
2008	2.59	2.64
2009	2.70	3.04
Mean	2.51	2.88
S.D	0.16	0.15
C.V (%)	6.49	5.31

Source: Appendix - 18

Figure 4.18

Interest Expenses to Total Deposit Ratio



The above table 4.18 shows that the costs of fund of HBL is in increasing trend and has increased from 2.26% to 2.70%. In the side of EBL the ratio is decreased from 2005 to 2008 with the ratios of 2.97%, 2.91%,2.84%,2.64% respectively and increased in 2009 and reached to 3.04%. The calculated mean of ratio of HBL shows that the cost of fund of this bank is comparatively low than of EBL i.e.2.51<2.88. The consistency level to generate the low cost fund is low of HBL in respect to EBL, as the standard deviation and coefficient of variance is higher of HBL i.e. 0.16>0.15 and 6.49>5.31 respectively.

This shows that HBL is paying less interest to its depositors than EBL.

4.2 Statistical Analysis

Under this analysis, various types of statistical tools are used to analyze financial performance. Specially, coefficient of correlation and trend analysis of important variables have been conducted.

4.2.1 Coefficient of Correlation

This analysis interprets and identifies the degree to which one variable is linearly related to another. In the case of highly correlated, the effects on none variable may have effect on other correlated variables. Under this topic, this study tries to find out relationship between following variables.

-) Correlation between total deposit and net profit.
-) Correlation between total deposit and investment.
-) Correlation between deposit and loan and advances.
-) Correlation between current assets and current liabilities.

The above mentioned analysis will show the relationship between the variables and helps the bank to make sound policies regarding deposit collection, fund utilization (investment, loan and advances) profit maximization.

Table 4.19

Correlation between Total Deposit and Net Profit of HBL

Year	Deposit	Net Profit
2005	24,814.01	308.28
2006	26,490.85	457.49
2007	30,048.42	491.82
2008	31,842.79	635.87
2009	34,681.35	752.84
Correlation r	0.97	
P.E	0.02	

Significance of Relationship (6 Times P.E) i.e. 0.12

The above table 4.19 depicts the correlation coefficient and probable error of deposit and net profits of HBL. Correlation coefficient is 0.97 and 6 times of probable error is 0.02 i.e. $r > 6 \times P.E$ and 'r' is positive. This shows that deposit and net profit of HBL is highly positive and significant correlation during study period.

Table 4.20

Correlation between Total Deposit and Net Profit of EBL

Year	Deposit	Net Profit
2005	10,097.69	170.81
2006	13,802.44	237.29
2007	18,186.25	296.41
2008	23,976.30	451.22
2009	33,322.95	638.73
Correlation r	1.00	
P.E	0.01	

Significance of Relationship (6 Times P.E) i.e. 0.06

The table 4.20 shows correlation coefficient and probable error of Deposit and Net profit of EBL. Correlation of coefficient and probable error of EBL are 1.00 and 0.01 respectively. Here, $r > 6 \times P.E$ (0.06) and r is positive. Therefore deposit and net profit of EBL is highly positive and significant correlated during the study period.

Table 4.21

Correlation between Total Deposit and Investment of HBL

Year	Deposit	Investment
2005	24,814.01	5,469.73
2006	26,490.85	5,144.31
2007	30,048.42	6,454.87
2008	31,842.79	7,471.67
2009	34,681.35	4,212.30
Correlation r	-0.02	
P.E	0.30	

Significance of Relationship (6 Times P.E) i.e. 1.80

The above table 4.21 shows the correlation and probable error of deposit and investment of HBL. Coefficient of correlation and probable error is -0.02 and 0.30 respectively. Here $r < 6 * P.E$ (1.80) and r is negative. This indicates that deposit and investment is negative and insignificant or no evidence of correlation during the study period.

Table 4.22

Correlation between Total Deposit and Investment of EBL

Year	Deposit	Investment
2005	10,097.69	2,100.29
2006	13,802.44	3,548.62
2007	18,186.25	4,704.63
2008	23,976.30	4,963.40
2009	33,322.95	5,146.05
Correlation r	0.85	
P.E	0.08	

Significance of Relationship (6 Times P.E) i.e. 0.48

The table 4.22 shows the correlation and probable error of deposit and investment of EBL. Correlation coefficient and probable error are 0.85 and 0.08 respectively. Here $r > 6 * P.E$ (0.48) and r is positive. This defines that deposit and investment of EBL is highly positive and significant correlation during the study period.

Table 4.22

Correlation between Total Deposit and Loan and Advances of HBL

Year	Deposit	Loan and Advances
2005	24,814.01	12,424.52
2006	26,490.85	14,642.56
2007	30,048.42	16,997.98
2008	31,842.79	19,497.52
2009	34,681.35	24,793.16
Correlation r	0.98	
P.E	0.01	

Significance of Relationship (6 Times P.E) i.e. 0.06

The above table 4.22 shows the correlation and probable error of deposit and loan and advances of HBL. Correlation coefficient and probable error are 0.98 and 0.01 respectively. Here, $0.98 > 6 \text{ times P.E (0.06)}$ and r is positive. This confines that deposit and loan and advances are highly positive and significantly correlated during the study period of HBL.

Table 4.23

Correlation between Total Deposit and Loan and Advances of EBL

Year	Deposit	Loan and Advances
2005	10,097.69	7,618.67
2006	13,802.44	9,801.31
2007	18,186.25	13,664.08
2008	23,976.30	18,339.09
2009	33,322.95	23,884.67
Correlation r	1.00	
P.E	0.002	

Significance of Relationship (6 Times P.E) i.e. 0.012

The above table 4.23 shows correlation and probable error of deposit and loan and advances of EBL. Correlation coefficient and probable error are 1.00 and 0.002 respectively. Here, $r > 6 \text{ times P.E. (0.012)}$ and r is positive. This shows that deposit and loan and advances of EBL are highly positive and significantly correlated during the study period.

Table 4.24

Correlation between Current Assets and Current Liabilities of HBL

Year	Current Assets	Current Liabilities
2005	19,699.77	24,949.33
2006	21,930.51	26,870.08
2007	26,267.92	30,354.31
2008	28,630.73	32,322.55
2009	35,073.77	32,919.82
Correlation r	0.94	
P.E	0.04	

Significance of Relationship (6 Times P.E) i.e.0.24

Above table 4.24 shows the correlation and probable error of current assets and current liabilities of HBL. Correlation coefficient and probable error are 0.94 and 0.04 respectively. Here, $r > 6$ times P.E.(0.24) and r is positive. Therefore current assets and current liabilities are highly positive and significantly correlated during the study period of HBL.

Table 4.25

Correlation between Current Assets and Current Liabilities of HBL

Year	Current Assets	Current Liabilities
2005	11,112.37	10,167.08
2006	14,743.68	13,967.48
2007	19,670.04	18,341.93
2008	53,732.84	24,273.53
2009	33,420.48	33,811.78
Correlation r	0.69	
P.E	0.16	

Significance of Relationship (6 Times P.E) i.e. 0.96

The above table 4.25 shows correlation and probable error of current assets and current liabilities of EBL. The correlation and probable error are 0.69 and 0.16 respectively. Here, $r < 6$ times P.E. (0.96) and r is positive. This proves that current assets and current liabilities are highly positive and insignificantly correlated.

4.2.2 Trend Analysis and Projection for Next Five Years

Under this heading, trend analysis of deposit collection, its utilization and net profit of HBL and EBL are studied. To utilize deposits commercial banks may grant loan and advances or make investment in government securities, share and debenture of other companies. The objective of this topic is to make trend analysis of deposit, loan and advances, total investment and net profit and to forecast for the next five year in the basis of following assumption.

-) The forecast will be done with the limitation of least square method.
-) All other influences will remain constant.
-) The bank will run in present position.
-) NRB will not change the present guidelines to commercial banks.

4.2.2.1 Trend Analysis of Total Deposit

The table presented below will show the trend values of deposit of HBL and EBL for five year from 2005 to 2009 and forecasted trend value from 2010 to 2014

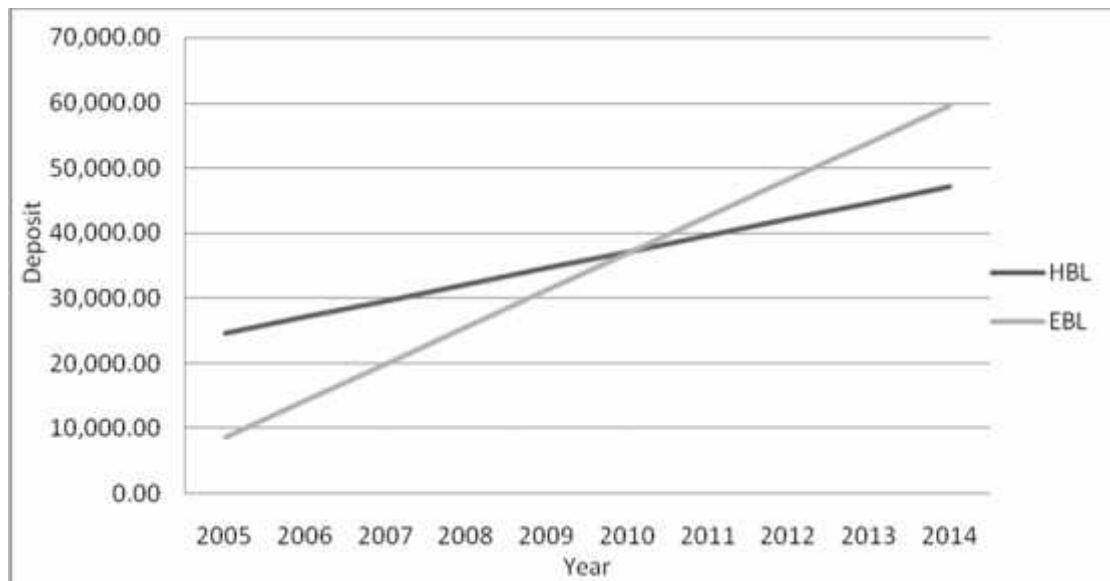
Table 4.26

Trend and Forecasting Table of Deposit of HBL and EBL

Year	HBL	EBL
2005	24,558.16	8,552.25
2006	27,066.82	14,214.69
2007	29,575.48	19,877.13
2008	32,084.14	25,539.56
2009	34,592.80	31,202.00
2010	37,101.46	36,864.44
2011	39,610.12	42,526.87
2012	42,118.79	48,189.31
2013	44,627.45	53,851.75
2014	47,136.11	59,514.18

Source: Appendix – 19 & 20

Figure 4.19
Trend and Forecasting of Deposit



The above table 4.26 shows that both banks HBL and EBL have the deposit in the increasing trend. In the side of HBL, deposit is Rs.24,558.16 million in 2005 and reaches to 47.136.11 million in 2014. In the EBL side deposit is Rs. 8,552.25 million in 2005 and reaches to 59,514.18 million in 2014. This shows that in the first six years HBL has got higher deposit than EBL but in the long run if the same all the things remained same EBL will be able to generate higher deposit than HBL i.e. in 2014 deposit of EBL is greater than HBL (59,514.18>47,136.11).

4.2.2.2 Trend analysis of loan and advances

The table presented below will show the trend values of Loan and Advances of HBL and EBL for five year from 2005 to 2009 and forecasted trend value from 2010 to 2014.

Table 4.27

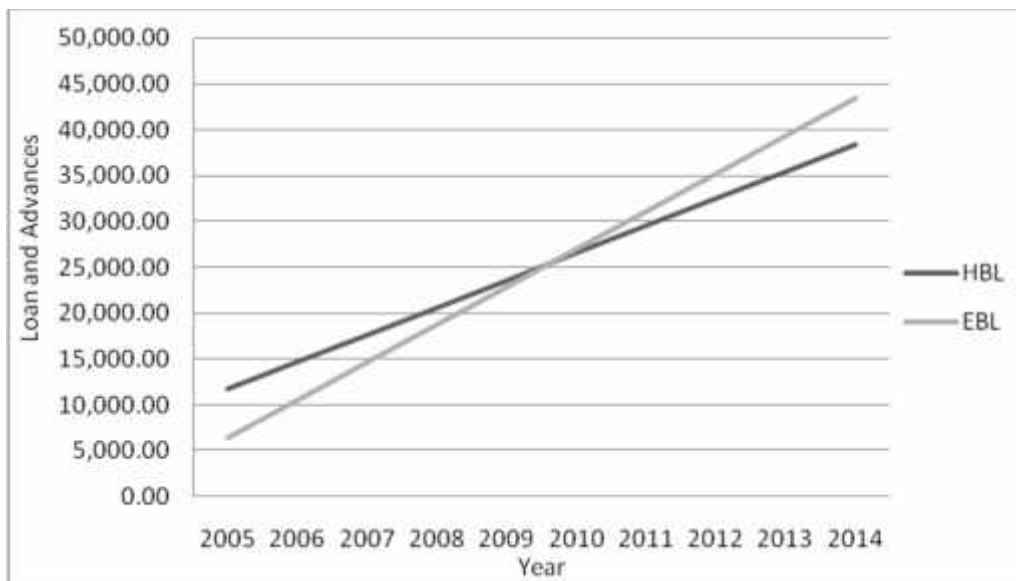
Trend and forecasting table of Loan and Advances of HBL and EBL

Year	HBL	EBL
2005	11,752.70	6,447.61
2006	14,711.92	10,554.59
2007	17,671.15	14,661.56
2008	20,630.37	18,768.54
2009	23,589.59	22,875.52
2010	26,548.82	26,982.50
2011	29,508.04	31,089.48
2012	32,467.26	35,196.46
2013	35,426.48	39,303.43
2014	38,385.71	43,410.41

Source: Appendix – 21 & 22

Figure 4.20

Trend and Forecasting of Loan and Advances



The above table 4.27 shows the trend of loan and advances of HBL and EBL. In the side of HBL, the trend is increasing with an average of 3,000.00 million. In the same manner EBL has also the trend of increasing but with an average of 4,000.00. In the side of HBL in the first year of the study i.e. 2005 loan and advances was 11,752.70 million and will reach to 38,385.71 million in 2014. In the side of EBL, loan and advances in 2005 is 6,447.64 million and will reach to 43,410.41 million in 2014.

This trend analysis of loan and advances shows that in long run EBL will have large amount of loan and advances than HBL .i.e. $43,410.41 > 38,385.71$.

4.2.2.3 Trend Analysis of Investment

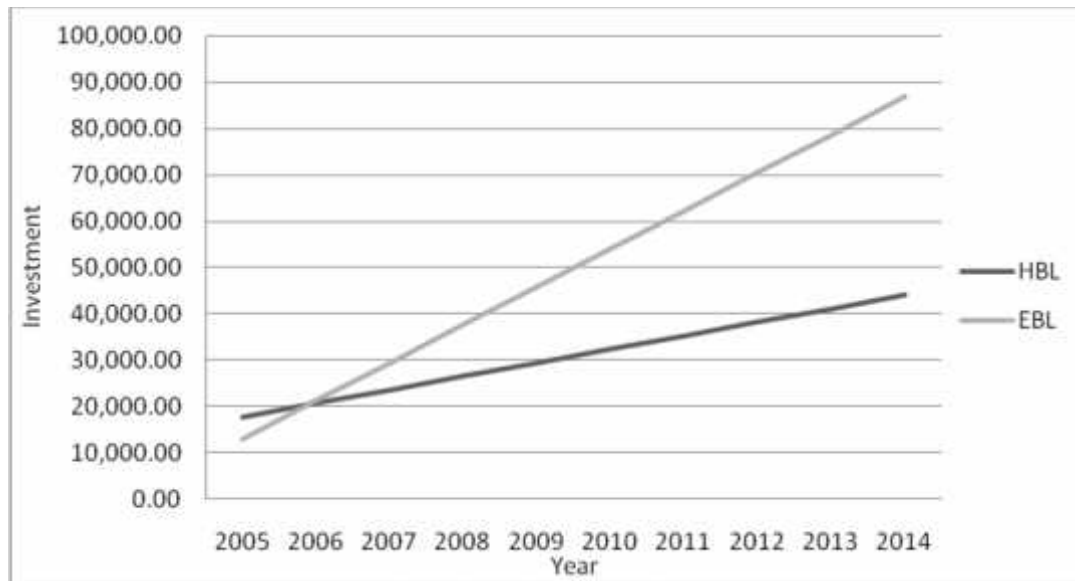
The table presented below will show the trend values of Investment of HBL and EBL for five year from 2005 to 2009 and forecasted trend value from 2010 to 2014.

Table 4.28
Trend and Forecasting Table of Investment of HBL and EBL

Year	HBL	EBL
2005	17,540.778	12,895.215
2006	20,481.251	21,109.172
2007	23,421.723	29,323.128
2008	26,362.196	37,537.084
2009	29,302.669	45,751.041
2010	32,243.142	53,964.997
2011	35,183.615	62,178.954
2012	38,124.087	70,392.91
2013	41,064.560	78,606.867
2014	44,005.033	86,820.823

Source: Appendix – 23 & 24

Figure 4.21
Trend and Forecasting of Investment



The above table 4.28 shows investment trend of HBL and EBL. Both the banks have increasing trend in investment but the growth rate of EBL is high but HBL has very slow growth rate. The table shows that investment is in higher side of HBL than EBL in first year and after second year EBL has higher investment rate than HBL with high growth rate.(in first year 17,540.778>12,898.215). In the long run EBL will achieve almost double investment in 2014 than HBL i.e.86,820.823 >44,005.033 if every assumption mention above remains same.

4.2.2.4Trend Analysis of Net Profit

The table presented below will show the trend values of Net Profit of HBL and EBL for five year from 2005 to 2009 and forecasted trend value from 2010 to 2014.

Table 4.29

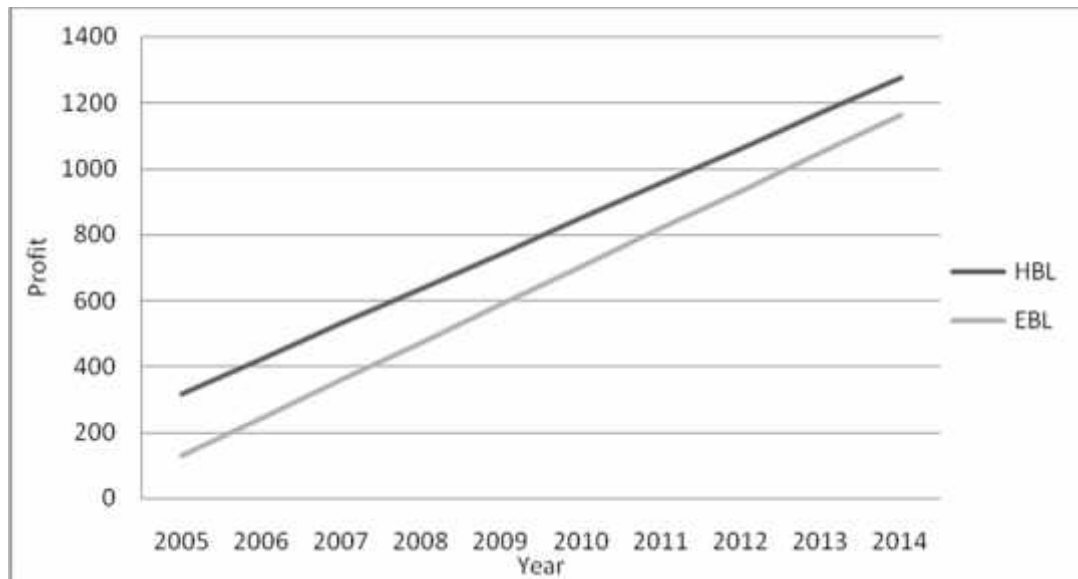
Trend and forecasting Table of Net Profit of HBL and EBL

Year	HBL	EBL
2005	315.76	128.94
2006	422.51	243.92
2007	529.26	358.89
2008	636.01	473.87
2009	742.76	588.85
2010	849.51	703.82
2011	956.26	818.80
2012	1,063.01	933.78
2013	1,169.76	1,048.75
2014	1,276.51	1,163.73

Source: Appendix – 25 & 26

Figure 4.22

Trend and Forecasting of Profit



The above table 4.29 shows the trend and forecasted value of net profit of HBL and EBL. Both the banks have the increasing trend of profit. In the side of HBL the profit in 2005 is 315.76 and with continuous increment, profit will reach to 1,276.51 in 2014. In the other side of EBL, the profit is 128.94 in 2005 with continuous increment profit will reach to 1,163.73 in 2014, on the assumption that everything will remain unchanged.

4.3 Major Findings

The major findings of the study are derived on the basis of financial and statistical analysis of HBL and EBL. They are mentioned below:

4.3.1 Liquidity Ratio

-) The liquidity ratio and mean of the ratio shows that the liquidity position of EBL is sound than of HBL. The lower level of standard deviation and coefficient of variance shows that HBL is better consistency level than of EBL.
-) The cash and bank balance to deposit ratio of EBL is in higher side in each year with the higher mean ratio than of HBL. Along with it, the consistency level is also high of EBL than of HBL.
-) The cash and bank balance to current assets ratio of HBL is high in the first year and lower than EBL from second year. The calculated mean of the ratio is high of EBL but the standard deviation and coefficient of variances shows that the level of consistency is high of HBL in comparison to EBL

- J Investment of government securities to current assets ratios of both the banks are fluctuating. The mean of the ratio shows the higher mean ratio of HBL in respect to EBL. The consistency level of HBL is also high than of EBL.
- J The mean ratio of loan and advances to current assets of HBL is higher than of EBL. The standard deviation and coefficient of variance shows that the level of consistency is also high of HBL in comparison to EBL.

4.3.2 Assets Management Ratio (Activity Ratio)

- J The mean ratio of loan and advances to total deposit ratio shows the higher mean of EBL with respect to HBL. The lower standard deviation and coefficient of variance shows the consistency level is also high of EBL in comparison to HBL.
- J The ratios of both the bank is in fluctuating trend but the mean ratio of total investment to total deposit ratio of EBL is higher than HBL. The lower standard deviation and coefficient of variance depicts the high level of consistency of EBL than HBL.
- J The mean ratio of loan and investment to total working fund is high of EBL than HBL. The consistency level is better of EBL than HBL.
- J Investment on shares and debentures to total working fund ratio of both the bank is in fluctuating trend but the mean ratio of HBL is higher than of EBL. The standard deviation and coefficient of variance is low of HBL, this shows the level of consistency is high of HBL in comparison to EBL.

4.3.3 Profitability Ratio

- J The return on working fund ratio shows that the mean ratio of HBL is in higher side than of EBL. In the other hand the consistency level of HBL is lower than of EBL.
- J The mean ratio of return on loan and advances is high of HBL in comparison to EBL. The higher standard deviation and coefficient of variance of HBL with respect to EBL shows the lower consistency of HBL than EBL.
- J The mean ratio of total interest earned to total working fund ratio is high of EBL than of HBL. The consistency level is lower of EBL in comparison to HBL.

-) The net profit to gross income ratios are in fluctuating trends of both sampled bank. The mean ratio is high of HBL but the consistency level is high of EBL with respect to each other.
-) The mean ratio of operating profit to loan and advances is high of EBL with good consistency level in comparison to HBL.
-) The mean ratio of earning per shares is high of EBL in comparison with HBL. But the consistency level is low of EBL.

4.3.4 Lending Efficiency Ratio

-) The loan loss provision to total loan and advances ratio of both the bank are in fluctuating trend but the mean ratio is high of EBL with respect to HBL. The consistency level is high of HBL than EBL.
-) The mean ratio of nonperforming loan to total loan and advances ratio is high and the consistency is low of HBL with compared bank (EBL).
-) The interest expenses to total deposit ratio of both the banks are in fluctuating trend but the mean ratio of EBL is higher than HBL with the better consistency of EBL.

4.3.5 Coefficient of Correlation

-) The correlation coefficient (r) between total deposit and net profit of HBL is 0.97 with probable error of 0.02 and $r > 6*P.E.$ r is positive. This proves that highly positive and significantly correlative between two variables. Similarly correlation of deposit and net profit of EBL is 1.00 with probable error of 0.01 and $r > 6*P.E.$ r is positive. This defines highly positive and significantly correlative between two variables during the study period.
-) The correlation coefficient (r) between total deposit and total investment of HBL is -0.02 with probable error of 0.30 and $r < 6*P.E.$ r is negative. This shows that two variables are highly negative and insignificantly correlative between two variables during the study period. In the same way, correlation of total deposit and total investment of EBL is 0.85 and probable error of 0.08 and $r > 6*P.E.$ r is positive. This defines highly positive and significantly correlative between two variables during study period.
-) The correlation coefficient (r) between total deposit and loan and advances of HBL is 0.98 with probable error of 0.01 and $r > 6*P.E.$ r is positive. This indicates that the two variables are highly positive and significantly correlated. Similarly correlation of total deposit and loan and advances of EBL is 1.00 and probable error of 0.002 and $r > 6*P.E.$ r is positive. This shows that two variables are highly positive and significantly correlated during the study period from 2005 to 2009.

) The correlation coefficient (r) between current assets and current liabilities of HBL is 0.94 with probable error of 0.04 and $r > 6 * P.E.$ r is positive. This defines that two variables are highly positive and significantly correlated during the study period of 2005 to 2009. The correlation coefficient (r) between current assets and current liabilities of EBL is 0.69 with probable error of 0.16 and $r < 6 * P.E.$ r is positive. This shows that two variables are highly positive and insignificantly correlated during the study period of 2005 to 2009.

4.3.6 Trend Analysis

-) The trend analysis of total of both the sampled banks showed the increasing trend and forecasted the deposit of Rs. 47,136.11 million and Rs.59,514.18 million of HBL and EBL respectively in 2014.
-) The trend analysis of loan and advances of HBL and EBL has the increasing trend and will make the loan and advances portfolio of Rs. 38,385.71 million and Rs.43,410.41 million by 2014 by HBL and EBL respectively.
-) The trend analysis of investment of HBL and EBL has the increasing trend but the growth rate of EBL is higher than HBL. Such that the investment digits is almost double of EBL in comparison to HBL in the year 2014 i.e. 86,820.82 million > 44,005.03 million.
-) The trend analysis of net profit of both the sampled bank i.e. HBL and EBL has increasing trend. The HBL will be able to make the profit of Rs.1,276.51 million in 2014. EBL will be able to make the profit of Rs 1,163.73 million in 2014.
-) If the assumption remained the same for the whole trend analysis within the projected time frames.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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 the society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing the objectives of commercial banks is to mobilize idle resources into the most profitable sector after collecting them from scattered sources. Commercial bank contributes significantly in the formation and mobilization of internal capital and development effort.

The main objective of this study is to evaluate the credit policies of selected commercial bank. Besides, there may be other objectives as well.

-) To examine the impact of deposit in liquidity of selected banks.
-) To examine and evaluate the various stages occurred in loan management procedure.
-) To compare lending efficiency of the selected banks.
-) To examine the assets management efficiency and portfolio ratios.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuables after paying a small amount as fee for safekeeping and serving. Under the analysis two types of tools are used for analysis.

- a) Financial Tools
- b) Statistical Tools

Calculation of various ratios including liquidity, assets management, profitability and lending efficiency ratios have been calculated and interpreted. While analyzing the most of the ratios obtained from the data during the study period from 2005 to 2009, the average ratios obtained for the individual banks were compared with the average ratio of commercial banking industry for the same period.

Under liquidity ratio, current ratio, cash and bank balance to total deposit, cash and bank balance to current assets, investment on government securities to current assets and loan and advances to current assets ratios are analyzed. The average of current ratio i.e. current assets to current liabilities of HBL remained at 0.88 times period and 1.28 times of EBL over the study.

The cash and bank balance to total deposit ratio of HBL and EBL over the study period of five years remained at 6.57% and 12.89% respectively. The cash and bank balance to current assets ratio of HBL and EBL remained at 7.42% and 11.11% respectively over the study period of five years. Similarly other two ratios investment of government securities to current assets and loan and advances to current assets ratio of HBL and EBL over the study time frame found to be 22.78% and 18.30% and 66.67% and 62.02% respectively.

This shows that EBL has better liquidity management and has higher liquid assets than of HBL to meet the current obligation. The utilities of current assets of HBL are higher than of EBL. The obligation of bank to maintain CRR ratio of 10% of the total deposit as per the regulation of NRB is not maintained by HBL. However, it is being well maintained by EBL.

Under the study of assets management ratio, loan and advances to total deposit, total investment to total deposit, loan and advances to total working fund and investment on shares and debenture to total working fund ratios are analyzed.

The average total deposit turnover ratio (loan and advances to total deposit ratio) of HBL and EBL are 58.93% and 73.95% respectively within the study time period. It

indicates that EBL has higher mobilization of deposit. HBL has just crossed the average level in the mobilization of deposit.

The average of total investment to total deposit ratios of HBL and EBL are 19.71% and 21.70% respectively over the study period. This states that the total investment of EBL is higher than of HBL which shows that the return generation will be high of EBL in long run and has utilized the deposits to maintain good level of secured portfolio in the total investment.

The average of loan and advances to total working fund ratios of HBL and EBL are 52.54% and 64.50% respectively in the study time frame of five years. This shows that HBL has been comparatively utilizing in lower rate of total fund available for loan and advances. It proves that the profit generating ability of EBL will be high if the same pace of utilization or mobilization of funds is maintained.

The average of investment on shares and debenture to total working fund ratio of HBL and EBL are 0.20% and 0.21% respectively in the study time period of five years. This ratios show that very low portion of total fund available is being invested in share and debentures of other companies. However the mean ratio shows that EBL has higher investment in comparison to HBL.

Under the study of profitability ratio, return of working fund, return on loan and advances, total interest earned to total fund, net profit to gross income, operating profit to total loan and advances ratio and earnings per share are analyzed.

The average ratio of return on working fund ratio over the study time frame of five years is 1.56% and 1.54% of HBL and EBL respectively. This ratio shows that HBL has been generating high profit by mobilizing its total assets in comparison to EBL. But the difference level in the ratio is just of 0.02% which is very low and not considered as inefficiency of EBL about the mobilization of funds to generate the main objective of the bank.

The average ratio of return on loan and advances ratio over the study time frame of five year is 2.96% and 2.39% of HBL and EBL respectively. This ratio shows that

HBL has got better efficiency in utilization of banks assets as loan and advances to generate higher level of profit or to maximize the profit comparatively than of EBL.

The average ratio of total interest earned to total working fund ratio over the study time frame of five year is 5.50% and 5.75% of HBL and EBL respectively. This shows that interest earning capacity of EBL by mobilizing assets is relatively high than of HBL which directly affects in the profit generating capacity of the bank because higher portion of the profit consists of interest income.

The average ratio of net profit to gross income ratio of sampled bank within the study period of time is 34.21% and 22.59% respectively. This ratio shows that HBL has been able to mark higher level of profit from its gross income generated than of EBL. The average ratio of operating profit to loan and advances ratio within the study period of time is 4.44% and 4.64% respectively.

The average earning per share within the time frame of five years of sampled bank is Rs. 58.49 and Rs. 77.44 of HBL and EBL respectively.

Under the study of lending efficiency ratio, loan loss provision to total loan and advances, nonperforming loan to total loan and advances, interest expenses to total deposit ratios are analyzed.

The average ratio of loan loss provision to total loan and advances ratio over the study period of five years of HBL and EBL are 0.49% and 0.69% respectively. This shows that provision made for loan and advances is comparatively low of HBL than of EBL and has reduced the provision level with respect to the first year.

The average ratio of nonperforming loan to total loan and advances ratio over the study period of five years of HBL and EBL are 4.93% and 0.93% respectively. This shows that HBL has large number of nonperforming loan with respect to EBL.

The average ratio of interest expenses to total deposit ratios of HBL and EBL within the study period of five years showed 2.51% and 2.58% respectively.

Correlation of coefficient of various variables deposits and net profit, deposit and investment, deposit and loan and advances, current assets and current liabilities are calculated and interpreted. Similarly trend and regression analysis of deposit, loan and advances, investment and net profit are calculated and interpreted from the data obtained from 2005 to 2009 of the respective banks.

The correlation of coefficient deposits and net profits, deposit and investment, deposit and loan and advances, current assets and current liabilities of HBL are 0.97,-0.02, 0.98 and 0.94 respectively and EBL has 1, 0.85, 1 and 0.69 respectively within the study period of five years.

5.2 Conclusion

- J Based on liquidity analysis of two sampled commercial banks within the study period of five years both banks were strong enough to meet their immediate needs of cash and short term obligation. However, EBL held good liquidity position in comparison with HBL. The investment level in the liquidity sector is sound of HBL with respect to EBL.
- J The assets management ratios of HBL and EBL show that both the banks have tried to make the optimum utilization of its deposits and working fund towards loan and advances, investment in securities. The ratios calculated defines that EBL has made higher utilization in comparison to HBL. So it can be concluded that performance of overall asset management of EBL is good than HBL.
- J The profitability ratios of HBL and EBL shows that both the banks are making full effort to generate higher profit by making optimum utilization of its available resources. The ratios calculated shows that the profit generating capacity is comparatively high of HBL with respect to EBL. However earning per share is high of EBL such that share investors will be highly attracted in the investment towards the share of EBL than to HBL (only in terms of earning per share if other aspects of bank are not taken into consideration).
- J The risk ratio of both the banks show that the provisioning level of HBL is lower with respect to EBL but the non performing loan is respectively high of HBL. This concludes that the management in loan and advances EBL seems to be better with respect to HBL. The cost of fund of HBL is lower than EBL

which will have direct impact in the rate maintenance of investment. So the depositors will be attracted towards EBL and borrowers will be concentrated with HBL.

-) The correlation of mentioned variables of both the banks shows that positive relation which declares that if change in one variable will have positive change in another variable but in case of HBL, it has negative correlation between investment and deposit. This shows that increment in deposit of HBL, HBL will reduce in the investment level.
-) The trend analysis of the both banks show the regular growth trend but HBL has low growth rate than of EBL. This helps to conclude that HBL will not able to make the optimum utilization of its resources or EBL will capture the large area of market than HBL.

5.3 Recommendations

Based on above analysis and major findings deduced from the study of various financial and statistical tools of two sampled banks, the following suggestion can be made to the banks:

-) The standard liquidity ratio is considered as 2:1 and both the banks are unable to maintain it. However, 1:1 or above is considered as acceptable. Here EBL is found to be maintaining at least considerable ratio but HBL has ratio below than 1:1, so HBL has to place its more effort to maintain liquidity ratio.
-) Cash and bank balance to total deposit ratio of EBL is found to be not maintain in few instances but HBL has not maintained the ratio of standard norms made by RBB of 12%. So, HBL is suggested to concentrate to maintain the level and EBL is suggested to maintain stability for the maintenance of the ratio.
-) Investment on government securities are safest investment which can be made by banks or individual but the yield made on these investment is lower than in other investment and HBL has got higher investment in this sector. So HBL is recommended to divert the investment to higher yielding sector.
-) Loan and advances of both the banks are increasing and has made optimum utilization of deposits to make high interest income. Return on loan and advances of HBL are relatively high with respect to EBL. But the level of nonperforming loan is comparatively very high of HBL with respect to EBL. So

HBL is suggested to reduce the level of nonperforming loan which has direct impact in the performance of the bank. In the same manner EBL is suggest to maintain or reduce the level of nonperforming loan and try for the higher return on loan and advances, as it is a major source of generating income of bank.

- J Total interest earned to total working fund and net profit to gross income ratios show that interest earning capacity is high of EBL and diverting the income into the section of net profit is high of HBL. So EBL is suggest to reduce the expenses so that the generate interest will be turned into net income. Similarly HBL is suggested to focus on interest earning so that much more profit can be achieve. As the main objective of commercial banks is to generate profit.
- J The earnings per share of HBL are lower than EBL so HBL has to take this matter into serious consideration.
- J The cost of fund or interest expenses to total deposit ratio of HBL is lower than EBL, so HBL has got competitive advantage for investment. Because of it, EBL has to focus to generate the deposit of lower cost.
- J The trend analysis of various variables like deposit, loan and advances, net profit showed that both banks will have increasing trend in long run but the rate of increment is high of EBL. So HBL has to focus on the market to show its efficiency to cater the large segment of market, such that the degree of growth will be somehow to the level of EBL. By which the standard of HBL will remain as of present. In the same manner EBL is suggest to focus on the market such that the rate of increment will be maintained.
- J With respect to present market scenario of Nepal many new banks are entering in to cater the same market so it is becoming challenges for both the banks to retain present customer, explore new clients and investment sector to diversify the portfolio. So both banks are suggested not to have attitude that they are well established in Nepal.
- J On the basis of globalization and Nepal being member of WTO, multinational banks may make the investment in Nepal. So, both the banks are suggested to make themselves strong enough to compete with them and explore for new products to attract the customers.

BIBLIOGRAPHY

- Brigham, E.F., Louis, C.G. & Michael, C.E. (2001). *Financial Management Theory and Practice*. New Delhi: Replika Press Pvt. Ltd.
- Everest Bank Limited (2005-2009). *Annual Report*. Kathmandu.
- Himalayan Bank Limited (2005-2009). *Annual Report*. Kathmandu.
- Horngren, C.T., Garly, L.S., William, O.S. (2002). *Introduction to Management Accounting*. New Delhi: Prentice Hall of India Pvt. Ltd.
- Joshi, J. (2005). *An Investment Policy of Commercial Bank of Nepal*. Kathmandu: An Unpublished Master Degree of Thesis Submitted to Faculty of Management, T.U..
- Katuwal, D.K. (2007). *A Credit (Investment) Policy Analysis of Commercial Bank with respect to Kumari Bank Ltd and Himalayan Bank Ltd*. Kathmandu: An Unpublished Master Degree of Thesis Submitted to Faculty of Management, T.U.
- Nepal Rastra Bank (2062). *NRB Directives*. Kathmandu: Nepal Rastra Bank.
- Pant, P.R. (2003). *Business Environment in Nepal*. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.
- Richard, A.B (1996). *Principles of Corporate Finance*. New Delhi: Tata McGraw Hill Publishing Co. Pvt. Ltd.
- Shrestha, K.N. & Manandhar, K.D (2005). *Statistics and Quantitative Techniques for Management*. Kathmandu: Valley Publishers
- Singh, M.L. (2007). *Understanding Research Methodology*. Kathmandu: National Book Centre.
- Tamang, M.K. (2006). *Investment Policy of Standard Chartered Bank Ltd*. Kathmandu: An Unpublished Master Degree of Thesis Submitted to Faculty of Management, T.U..
- Thapa, K. & Basnet, D. (2005). *Practice Book of Investments*. Kathmandu: Asmita Books Publishers and Distributors
- Van Horne, J.C. (1999). *Financial Management and Policy*. New Delhi: Prentice Hall of India Pvt. Ltd

Weston, J.F & Copeland, T.E. (1992). *Management Finance*. Chicago: A Harcourt
Brace Javanorish College Publisher

Wolf, H.K & Pant, P.R (2002). *Social Science Research and Thesis Writing*.
Katmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.