"LENDING STRENGTH OF HIMALAYAN BANK LIMITED"

An Analysis

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RECOMMENDATION

This is to certify that the thesis

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Banking has become a basic need for people. Nowadays no business transaction is possible without a bank. Even an individual also need a bank for his own financial transactions. Modern banks have made everyone's life easier by providing various services out of their circle. In the context of Nepal, we can feel that banks are trying to modernize their performance learning from international banks. Consequent to the entry of Nepal to WTO, banks also are preparing themselves to compete with large and international banks which may establish their business in the country in near future.

Being on the banking profession, I get attracted to conduct a study on the related sector. This thesis is a result of that. Now, it is the time to acknowledge my deep indebtedness to the host of friends, family members and different individuals with whom I have had privilege of interacting over many years, a period drawing which I learnt many things about reality of life and my profession. Interdependence is certainly more valuable than independence. I learnt to work with support of various people. It is a pleasant aspect that I have now the opportunity to express my gratitude for all of them.

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February 2009

DECLARATION

I hereby declare that the work reported in this thesis entitled "AN ANALYSIS ON LENDING STRENGTHS OF HIMALAYAN BANK LIMITED" submitted to the office of the dean, central department of management is my original work done in the form of partial fulfillment of the requirement of master's degree in business studies under the supervision of lecturer Mr. Sanjay Shreshtha of Thakur Ram Multiple Campus, Birgunj, Parsa

February 2009

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TABLE OF CONTENTS

RECOMMENDATION ……………………..……………………………I

VIVA-VOCE SHEET………………………....…………………...…II

ACKNOWLEDGEMENT……………………..…………………..III

DECLARATION…………………………………..……………...V

TABLE OF CONTENTS……………………….……………………VI

LIST OF TABLES…………………………………..…………….VII

LIST OF FIGURES………………………………...……………VIII

ACRONYMS AND ABBREVIATIONS………………………..…X

CHAPTER I: INTRODUCTION……………………………….1

1.1. General Background...1

1.2 An Introduction of Himalayan Bank Limited…………………..……5

1.2.1 Share Capital of Himalayan Bank Limited ………………….6

1.2.2 Services Offers by Himalayan Bank Limited …….………….7

1.2.3 Branch Network …………………………………….……….. 7

1.2.4 Management of the Bank ……………………….…………8

1.3. Statement of the Problem 9

1.4. Objective of the Study 12

1.5. Scope of the Study 12

1.6. Limitations of the Study 13

1.7. Organization of the Study...14

CHAPTER II: REVIEW OF LITERATURE………………...16

2.1 Origin and Development of Commercial Bank 16

2.1.1 Commercial Banks – Concept and Definitions 18

2.1.2 Role of Commercial Bank in Economic Development 19

2.2 Review of Relevant Study 20

2.2.1 Review of Books 20

2.2.2 Review of Journals 23

2.2.3 Review of Relevant NRB directives 26

2.2.3.1 Directives to maintain minimum paid up capital of Rs. 2 billion (NRB Licensing Policy, 2006) 27

2.2.3.2 Classification of Outstanding Loans and Advance on the basis of Aging (NRB Unified Directives, 2062) 28

2.2.4 Review of Dissertations.. 30

2.3 Research Gap 32

CHAPTER III: RESEARCH METHODOLOGY……………33

3.1 Research Design.. 33

3.1.1 Sources of Data 33

3.1.2 Population and Sample 34

3.1.3 Data Collecting Procedures 35

3.2 Analysis of Data..35

3.2.1 Financial Tools.. 35

3.2.1.1 Ratio Analysis 35

3.2.1.2 Asset/Liability Management Ratio 36
3.2.1.3 Activity Ratio 36
3.2.1.4 Profitability Ratio 37
3.2.2 Statistical Tools 37
3.2.2.1 Standard Deviation 37
3.2.2.2 Coefficient of Variation..38
3.2.2.3 Correlation 38
3.2.2.4 Time Series 39

CHAPTER IV: PRESENTATION & ANALYSIS…………...41

4.1 Measuring the Lending Portfolio 41
4.1.1 Measuring the Lending Portfolio in Relative Term.........................41
4.1.1.1 Total Assets to Total Liabilities Ratio 41
4.1.1.2 Loans and Advances to Total Assets Ratio 42
4.1.1.3 Loans and Advances to Shareholders' Equity Ratio 43
4.1.1.4 Priority Sector Loans to Total Loans and Advances Ratio....43
4.1.2 Measuring the Lending Portfolio in Absolute Term........................44
4.1.2.1 Net Assets 45
4.1.2.2 Loans and Advances..47
4.1.2.3 Interest Income..48
4.1.2.4 Net Interest Income 50
4.1.2.5 Net Profit..57

4.2 Analyzing the Lending Efficiency and its Contribution in Total Profitability (Activity Ratio) 52
4.2.1 Provision for Loan Loss to Loans & Advances Ratio 53
4.2.2 Non-performing Loans (NPL) to Total Loans and Advances Ratio 54
4.2.3 Interest Income to Total Income Ratio..54
4.2.4 Interest Income to Interest Expense Ratio......................................55
4.3 Measurement of Profitability Ratios 56
4.3.1 Total Income to Total Assets Ratio 56
4.3.2 Net Profit to Shareholders' Equity Ratio 56
4.3.3 Earning Per Share 57
4.4 Measuring Correlation between different Variables 58
4.4.1 Correlation between Deposits and Loans & Advances 59
4.4.2 Correlation between Shareholders’ Equity and Loans and Advances 59
4.4.3 Correlation between Total Income and Loans & Advances 60
4.4.4 Correlation between Provision for Loan Loss and Loans and Advances..60
4.4.5 Correlation between Interest Income and Net Profit 61
4.5 Measuring the Growth Rate, Propensity of Growth based on Trend Value...62
4.5.1 Trend Analysis, Growth Rate and Propensity of Growth of Loans and Advances. 62

4.5.2 Trend Analysis, Growth Rate and Propensity of Growth of Earning per Share (EPS) 64

4.6 Major Findings of the Study 66

4.6.1 Findings from measurement of Lending Strengths 68

4.6.2 Findings from analysis of Portfolio behaviour of Loans and Advances..68

4.6.3 Findings from Lending Efficiency and its Contribution in Total Profitability 69

4.6.4 Findings From measurement of Profitability Ratios 70

4.6.5 Findings from measurement of correlation between different variables 70

4.6.6 Findings from Trend Analysis 71

CHAPTER V: SUMMARY AND CONCLUSION………….. 72

5.1 Summary and Conclusions 72

5.2 Recommendations 73

Appendix ....

LIST OF TABLES

Table 1.1: Share Holding Pattern of HBL.

Table 2.1: Capital Requirements to establish a Financial Institution.

Table 2.2: Required Capital Fund on Risk-weighted Assets

Table 2.3: Categories classifying the Loans and Advances

Table 2.4: Classification of Loan and required provisioning

Table 3.1: The Sampling Population (Commercial Banks in Nepal)

Table 4.1: Total Assets to Total Liabilities Ratio

Table 4.2: Loans and Advances to Total Assets Ratio

Table 4.3: Loans Advances to Shareholders' Equity Ratio

Table 4.4: Priority Sector Loans to Total Loans and Advances Ratio

Table 4.5: Net Assets and Percentage Changes

Table 4.6: Mean, SD and CV of Net Assets for five years

Table 4.7: Total Loans and Advances and percentage changes

Table 4.8: Mean, SD and CV of Loans and Advances for five years

Table 4.9: Interest Income and Changes for Respective Years

Table 4.10: Net Interest Income and Changes for Respective Years

Table 4.11: Net Profit and Changes for Respective Years

Table 4.12: Provision for Loan Loss to Loan & Advances Ratio

Table 4.13: Non-Performing Loans to Total Loans & Advances Ratio

Table 4.14: Interest Income to Total Income Ratio

Table 4.15: Interest Income to Interest Expense Ratio

Table 4.16: Total Income to Total Assets Ratio

Table 4.17: Net Profit to Shareholders' Equity Ratio

Table 4.18: Earning per Share (EPS)
Table 4.19: Correlation, Coefficient of Determination and Probable Error between Total Deposit and Total Loans & Advances
Table 4.20: Correlation, Coefficient of Determination and Probable Error between Shareholders' Equity and Total Loans & Advances
Table 4.21: Correlation, Coefficient of Determination and Probable Error between Total Income and Loans & Advances
Table 4.22: Correlation, Coefficient of Determination and Probable Error between Provision for Loan Loss and Loans & Advances
Table 4.23: Correlation, Coefficient of Determination and Probable Error between Interest Income and Net Profit
Table 4.24: Trend Equation, Growth Rate and Propensity of Growth of Loans & Advances
Table 4.25: Trend Equation, Growth Rate and Propensity of Growth of EPS

LIST OF FIGURES

Figure 1.1: Branch Network

Figure 4.1: Net Assets & Relative Changes

Figure 4.2: Loans and Advances and Relative Changes

Figure 4.3: Interest Income and Relative Changes

Figure 4.4: Net Interest Income (NII) and Relative Changes

Figure 4.7: Provision for Loans & Advances and Relative Changes

Figure 4.5: Net Profit and Relative Changes

Figure 4.6: EPS and Relative Changes

Figure 4.7: Trend Value and Propensity of Growth of Loans and Advances

Figure 4.8: Trend Value and Propensity of Growth of EPS

ACRONYMS AND ABBREVIATIONS

$	: Dollar
σ	: Standard Deviation
r	: Karl Pearson's Correlation Coefficient
r2	: Coefficient of Determination
ADB	: Asian Development Bank
ADB/N	: Agricultural Development Bank of Nepal
ATM	: Automated Teller Machine
BOK	: Bank of Kathmandu
BR Act	: Banking Regulations Act
B.S.	: Bikram Sambat (Nepalese Calander)
CIB	: Credit Information Bureau
CV	: Coefficient of Variation
EBL	: Everest Bank Limited
EPS	: Earning Per Share
F/Y	: Fiscal Year
GDP	: Gross Domestic Product
GNP	: Gross National Product
GNI	: Gross National Income
GON	: Government of Nepal
HBL	: Himalayan Bank Limited
I.M.F	: International Monetary Fund
LLP	: Loan Loss Provision
M	: Million
NABIL	: Nabil Bank Limited
NBL	: Nepal Bank Limited

NBBL	: Nepal Bangladesh Bank Limited
NGO	: Non governmental Organization
NIBL	: Nepal Investment Bank
NIDC	: Nepal Industrial Development Corporation
NPA	: Non Performing Assets
NPL	: Non Performing Loan
NRB	: Nepal Rastra Bank
P.Er.	: Probability of Error
Rs.	: Rupees (Nepalese Monetary Unit)
RBB	: Rastriya Banijya Bank
RDB	: Rural Development Bank
SCBNL	: Standard Chartered Bank (Nepal) Limited
TU	: Tribhuvan University
USA	: United States Of America
USD	: United State Dollar
UK	: United Kingdom

CHAPTER 1

Introduction

1.1. General Background

Nepal is a small nation situated in between two large countries India and China. Almost half Nepalese population of 25.8 million live below the poverty line as it is ranked as one of the world's poorest. But Nepal is online developing country in the world and slowly has also increasing the trend of the economic condition. The developing of a country is always measured by its economic indices. Therefore every country has given emphasis on uplift of its economy. Now days the financial institution are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. Every well-organized financial institution including financial intermediaries play pivotal role in the development and advancement of the financial sectors of the country. They collect scattered financial resources from the mass and invest them among those who are social activities of the country. This will provide fuel to the development process. The economic activities of the country assistance of the financial institution. They are actually indispensable part of the development process. It is the fact that the unorganized financial system leads the country nowhere. Therefore the central bank (Nepal Rastra Bank) Continuous to play major role in development and advancement of the financial sectors of the country.

Bank is the most important financial institution, which is engaged in monetary transactions. It is an institution, which deals with money by accepting various types of deposit from the depositors under various deposit schemes there by allowing interest on them & also rendering loans on mortgage to deficit unit for productive use by charging interest. Bank accepts various kinds of deposit from the public, which are repayable on demand or on the short notice. Thus, it helps in mobilization of cash from saver groups to user groups.

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. Indeed making loans is the principal economic function of banks to fund consumption and investment spending by businesses, individual, and units of government. How well a bank performs its lending function has a great deal to do with economic health of its region, because bank loans support the growth of new business and jobs within the bank's trade territory and promote economic vitality. Moreover, bank loans 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 form other sources.

For most banks, loans account half or more of their total assets and about half to two thirds of their revenues. Moreover, risk in banking tends to be concentrated in the loan portfolio. When a bank gets into serious trouble, its problems usually springs from loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policies, or an unexpected economic downturn. A detailed analysis of the documentation and collateral for the largest loan, a review of a sample of small loans and an evaluation of the bank's loan policy should be properly monitored to ensure that it is sound and prudent in order to protect the public’s funds. Thus it becomes necessary that the funds of the bank, which has been granted as loans, into various sectors be thoroughly inspected to guarantee the protection of the bank against unforeseen risks.

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

The issue of development always rests upon the mobilization of resources. Bank’s function of lending ensures required volume of capital to resources mobilization. Thus, the foundation of resources mobilization is pillared on the bank’s function of lending. The primary issue of economic development is to increase the investment in productive sector. The increase in investment affects positively in every sector of economy such as employment, production, income, government revenue, international trade etc. What roles can a bank play to assist the economic development is the main issue that the banking sector in Nepal and sectors around the world is facing today. The liberalization of economy has posed more responsibility and challenges to commercial banks. This has created new areas of probabilities and posed high degree of competition risks. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development .The liberalization of financial sector in Nepal has opened a new horizon of expectancy in banking industry.

Nepal is one of the least developed countries in the world. More that 90 percent of the total population is still in the rural areas and most of them are still deprived of the physical facilities that are necessary for any human being. However, Nepalese economy is predominantly agriculture, i.e agriculture is backbone of Nepalese economy. More than 90% of the population still directly or indirectly depends upon it for their livelihood. It provides employment to over 80% of the labour force and contributes a major portion to the Total Gross Domestic Product (GDP) and also is a major supply of raw materials to the industries (www.worldbank.org). The poor structure of Nepalese economy, slow paced industrial sector, low rate of employment, majority of non organized financial sectors, lack of organized capital market etc. have always been demanding an efficient, competent, and liberalized banking industries. The existence of an ideal commercial banking system regularizes the scattered fund from public. Lending it to productive sector reduces the idle saving of the country. Commercial banks, if successful in increasing the banking habit of people, would have great power in multiplying the deposited by way of credit creation and this would multiply the investment more than the limit granted by the national savings. The role of commercial banks in the economy like Nepal can be judged form its contribution to a farmer to purchase a buffalo, to a big industry to establish its industrial foundations, to an exporter to produce goods to be exported and to provide a link to the economy, provide conducive trade and commerce opportunities opened up by globalization etc. In addition, the very essence of people's hope towards the banking system is dependent on its efficiency to implement its lending and investment activities. “The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then they provide the collected fund to those who are in need of it by granting overdrafts to fixed loan or by discounting bills of exchange or promissory notes. The primary function of a commercial bank is that of a broker and a dealer in money. By discharging this function efficiently, a commercial banker renders a valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development” (Shekhar & Shekhar, 2000: 4).

The Banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions, such as merchant banking, credit card business, documentary credit, traveler check business etc. Nevertheless, the importance of lending in banking business is undoubtedly unchanged and remained vital as it was in early day of this business. The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been changed are the institutional structure, the instruments, and the techniques used in performing these functions.

Lending is not only the most important function of a bank; it also determines the future of banking institutions. The quality of loan, quality of borrower and quality of securities determines the health of any bank. The efficiency of bank lies in how it multiplies the deposits of depositors. Hence, lending should be accompanied by some basic principals and practices. Hence, lending should be accompanies by some basic principle and practices. Lending policy is a study in determining the importance of the bank's lending policy towards National economic development because it ensure efficient allocation of funds to achieve the material and economic well being of the society as a whole.

Lending policy is a study in determining the importance of the bank’s lending policy towards National Economic Development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regards loan disbursement pattern has been a major catalyst in achieving priority of industries in the context of Nepal’s economic development.

All eighteen Commercial Banks in Nepal have their own lending policy apart from government policy and Central Bank's rules. Timely evaluation and reform of lending policy is utmost important for strengthening the position of banks.

This study is mainly focused to explore the lending strengths of Himalayan Bank Limited.

1.2 An Introduction of Himalayan Bank Limited

Himalayan Bank Limited is joint venture bank with Habib Bank of Pakistan, was established in 1992 A.D., under the company act 1964. This is the frist joint venture bank managed by Nepalese chief executive. The operation of the bank has started from February 1993.

Himalayan Bank Limited has always been committed to providing quality services to its valued customers are treated with utmost courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients, based on the unique need and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The Bank already offers unique services such as SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future.

Table 1.1: Share Holding Pattern of HBL

PARTICULARS	PERCENTAGE
1. Domestic Ownership	***80%***
1.1 Government of Nepal	
1.2 Employees Provident Fund	14%
1.4 Nepalese Business Groups	51%
1.5 General Public	15%
1.6 Others	
2.Habib Bank Limited (Pakistan)	***20%***
Total	**100%**

Source: HBL

Himalayan Bank Limited has seven board members. They operate daily financial activities.

1.1.1 Share capital of Himalayan Bank Limited (2062/2063 B.S)

1. Authorized capital

10,000,000 ordinary shares @ Rs.100 each	1,000,000,000
2. Issued capital	
7,722,000 ordinary shares @ Rs.100 each	772,200,000
3. Paid up capital	
7,722,000 ordinary shares @ Rs.100 each	772,200,000

1.1.2 Services Offers by Himalayan Bank Limited

Himalayan Bank Limited offers various types services to its valuable customers, which promotes bank competitiveness, credit worthiness and attraction.

Some services and technologies, which provide by Himalayan Bank Limited, are as follows:-

1) Accepting deposits
    - Current deposits
    - Fixed deposits
    - Saving deposits
2) Granting loan
    - Overdraft
    - Demand loan
    - Time loan
    - Term loan
3) Transferring the funds
4) Premium saving accounting
5) Bills discount
6) Bank guarantee
7) Issued of honors of travelers cheques

8) Inward and outward remittance

9) Issuance of bank draft and bankers cheques

10) ATM, Debit Card, Credit Card facilities

11) Internet banking services.

1.1.3 Branch Network

This bank is the first joint venture bank managed by Nepalese chief executive. Its head office is based in the capital city of the country, Kathmandu in ‘Karmachari Sanchaya Kosh Building” Thamel, Ktm. It has 15 branches out of which five are based in alone Kathmandu valley at following location:- Thamel, New Road, Maharjgunj, Pulchowk (Patan) and Suryavinayak and rest of the branches are out side the valet spread in the main cities of the country i.e. Birgunj, Narayanghat, Tadi, Bharatpur, Hetauda, Siddharthanagar, Biratnagar, Dharan, Pokhara, Butwal and Banepa. The Bank will be aggressively opening new branches at different parts of the kingdom to serve its customers better.

1.1.4 Management of the Bank

Management of the bank is entrusted to Habib Bank Ltd., the joint venture partner, under the technical and management agreement. The HBL Management team has efficiently managed the bank's investment, assets, profits, management and available technologies. In a business organization changes in structure and management is essential and need as well. HBL has also been involved for such changes as per its need. Time to time update of the organizational structure of the bank has helped to maintain its management strengths and good service delivery. HBL’s major policy is to open and maintain accounts and transact with individuals and organizations of good reputation that engage in business transactions of integrity. We believe that every financial institution should be aware of the possibility that their institution may be misused. For this each organization should have an excellent management team and working staff. Banks are the service industries and human resource is the backbone of service industries.

Thus HBL has also understood this theory and has given considerable focus to update and develop its organizational structure. HBL maintains a strict adherence to all NRB banking regulations as they apply to its activities throughout the Kingdom of Nepal. All officers including at the branch level are responsible for assuring that the receptive area under their supervision adheres to all regulatory guidelines. HBL is responsible for ensuring that all units and branches adhere to federal regulations, and all regulatory requirements are disseminated throughout the bank in a timely manner.

1.3 Statement of the Problem

A sound banking system with wide spread branches throughout the country, availing varieties of banking services to fulfill commerce, trade industry and agriculture need of the country, is of crucial importance for Nepal.

Following the amendment of the Commercial Bank Act 1974, the banking sector saw mushrooming of banks especially in the urban areas. Lately, people have been receiving banking service form quite a number of banks. The establishment of the Himalayan Bank Limited has given an impetus to the development of the financial sector through the expansion of the country's banking and financial sectors. In addition, various finance companies, co-operatives, non-governmental organizations (NGO's) and development banks like Nepal Industrial Development Corporation (NIDC), Agriculture Development Bank (ADB/N) and Rural Development Bank (RDB) are also in existence. Despite this banking expansion, the rural sector is still deprived of banking service.

Present Nepalese banking setup is the result of liberalization of economy, economic requirement, and globalization. In 1990s, the development of banking in both quality and quantity was satisfactory. However, subsequent development of commercial banks in quality has not been satisfactory. The central bank, once, had withdrawn permission to register the new bank due to unsatisfactory increment in credit of productive and employment generating sector. The joint venture banks are not interested in granting loans to the priority and deprived sector of the economy. Banking is not being the easy accessibility of the public in remote and village area. Joint venture banks have concentrated their operation mainly in towns and capital of the country.

The main reasons behind the private banks are not interested to establish their branch in remote area is due to lack of confidence of security level. In fact, government is responsible to maintain peace and propriety in the country, but unfortunately the government is not able to perform its job. So, blaming only to the banks for not feeling their responsibility for the remote area will not be the fair judgment. Moreover, establishment of branches in the remote area even after taking risk do not generate profit to the banks because government also has not given emphasis to the remote area for its economic development.

There were few commercial banks ten years ago and the majority of economy was dominant by unorganized financial sector. The banking sector had access in major cities and municipalities only. The scene has remained unchanged except there is a dramatic increase in number of commercial banks only. Moreover, if we add inflation rate and the devaluation of Nepalese rupee with US dollar, it would reflect poorer performance of the commercial banks in both deposits and loans and advances. Leading contribution made by Nepal Bank Limited and Rastriya Banijya Bank in the above increment and judging the performance of other commercial banks only, gives another aspects of failure of private sector banks in fund mobilization. The allegation does not point towards these private banks only but to the other factors of economy such as instable political situation, immature economy, invasion of foreign products, lack of sound lending policy and uncertainty in economic performances of industries due to uncertain Indian product invasion. This way, commercial banks in Nepal has been facing several challenges, some of them arising from lack of smooth functioning of economy, some of them arising due to confused policies and many of them arising due to default of the borrows. Liberalization in the economy has produced some degree of opportunities and more than that it has created chaos and uncertainty.

HBL has the policy of expanding its branches in the remote areas of the country to serve the poor people. It has been providing commercial services to the remote sectors. In the light of the very facts, as commercial bank is the backbone of the economy, it is highly useful to make the present study on

Himalayan Bank Limited. Moreover, this study is felt needed as to know the pattern to lending status of the bank and other banking services provided to the people. One advantage behind this study also lies in the fact that it helps in bringing into notice the lacks and deficiencies that has to be accomplished by the bank. In addition to these, following are some grossly noted problematic aspects of the study.

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

It has been apparent that there is a difficulty for long term and medium term loan as the procedure to provide such facilities to the customers is very lengthy. On the other hand, due to the lack of deposit habit of the Nepalese people, a low rate of deposit formation has been observed, which ultimately has been affecting the lending procedure of the bank. Moreover the absence of strong protection by law of recovery of lending or investment has made if difficult for the banks to indulge in lending activities. Banks have to hugely depend on mortgage of properties, however, incase of default the bank is incapable to get back its funds promptly and effectively due to the lack of proper legal procedures.

1.4 Objective of the Study

The main target of this study is to observe the loan disbursement of Himalayan Bank Limited. The general objective of this dissertation includes visualization of the actual lending position, its strengths and its weaknesses. The specific purposes of the study are:

1. To conduct a study about the loan and advance provided to the customers by the bank.
2. To determine the amount of loan invested in industrial areas.
3. To examine the trend of providing loans: determine the growth rate annually and hence forecast likely disbursements of loan.
4. To observe whether the loans disbursement pattern is in compliance with the NRB regulations.
5. To assess the impact of lending position of the bank on its profitability.
6. To provide recommendations for initiating correct measures to improve the lending status of HBL.

1.5 Scope of the Study

Without any argument it can be accepted that a bank's performance hugely depends on the amount and the types of loan it provides. Rather it is believed that the sound health of the bank relies on the optimum lending position of the bank, which mean; better the lending position of bank, higher will be the return to the stakeholder of the bank.

This study reveals the role of HBL in the industrial development as well as identifies the contribution of the bank to the economic development of the country. However, there has been little research done on commercial baking and especially on the loan disbursements of the banks. Since most of the population of our country depends on agriculture, it has become essential that these studies are conducted, in order to provide insights to the people as to what measures are being taken by the banks to facilitate people to carry out expensive ventures and at the same time provide the citizens with economic support. Moreover, the loan disbursement outline of HBL will be in accordance to people's economic enlistment along with identification of the weaknesses of the loan disbursed in various sectors of the country. The study is conducted with a purpose of determining the trend of the pattern of loan distributed since the past five years, while trying to create a vision of what the trend of loan disbursement would be in the near future.

1.6 Limitations of the Study

This study has been conducted appropriately however there were several complications; which arose indigenously. As this research tries to justify the events in accordance with the well known or already established tools and techniques, emphasis is not given to fundamental and decision oriented study.

There are certain drawbacks on the present study of loan disbursement of

HBL, which emerged as limitations of the study. Following limitations were observed during the course of study:

1. The entire study is based on secondary data, which has already been collected and processed by the bank employees. So its reliability is questionable.
2. Due to the confidential nature of the banking sector, bankers do not give correct or relevant information on some topics in order to maintain the privacy of the bank. The report is mainly based in the financial statement published by the bank.
3. The data only focuses on the time period of the last 5 years. Time constraint or limited time has had an impact on shaping up the study conducted.
4. The analysis in this study has been conducted on the data available as of end of the fiscal year i.e. mid July of respective years. A change in this date may affect the conclusion of the study.

The above listed points have in some way or other affected the proper conduct of study. The impact of these may be positive or negative based on their nature. However, effort has been put to minimize the error that may have emerged due to these limitations and discrepancies have been reduced to the minimum.

1.7 Organization of the Study

The overall study conducted has been organized into five different chapters for an easy presentation of the data collection. The sequential chapter plan has been briefly mentioned below:

Chapter 1: Introduction

This chapter presents the light overview of origin of Bank, Banking system in Nepal and introduction of Himalayan Bank Limited, objective, important and limitation of the study in general.

Chapter 2: Review of Literature

This chapter devoted for the brief review of literature, report and journal available with the support of accepted theories and practices. Conceptual framework about lending position of the subject bank is briefly reviewed. Review from books, journals (articles), thesis etc are included in this chapter.

Chapter 3: Research Methodology

This unit presents the sample taken out from population and methodology used to present and analyze the collected data relevant for the study.

Chapter 4: Data Presentation and Analysis

In this Chapter, data collected from various relevant sources is presented and analyzed using various statistical and non-statistical methods. The annual reports of HBL are the major sources of the data of the study. Tables, Bar Graph, Pie Chart, and Line Graph etc are used for presentation of data. Various financial tools like Ratio Analysis, Assets/Liability Management Ratio, Activity Ratio, Profitability Ratio and statistical tools like Standard

Deviation, Coefficient of Variation, Correlation Coefficient, Time Series etc has been used for analysis of data.

Chapter 5: Summary, Conclusion and Recommendation

This chapter is for summary, conclusions of the study and to express recommendations to improve any time of lacking, if found in the subject during the study.

Finally, Bibliography of books, all published and unpublished reports, journals and literatures along with Appendixes containing elaborated for of calculation and presentation of detail of data will be jotted down at the end of the report.

CHAPTER 2

Review of Literature

Review of literature means reviewing research studies or other relevant preposition in related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be conducted.

This chapter basically is dividend into two sections. The first section is conceptual review, which covers the topics such as concept of financial performances, meaning, objectives, and limitations of financial analysis. Along with this meaning, history, and functions of commercial banks, evolutions of joint venture banks and their functions are also presented. The second section is related about the books articles and the pre done thesis related to the subject matter. This chapter highlights upon the literature that have been already conducted by some thesis researchers in this particular topic of joint venture bank. Some of them, as are supposed to be relevant for this research purpose. The review of literature is arranged in the following order.

2.1 Origin and Development of Commercial Bank

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

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

When did the first bank appear? *Linguistics* (the science of language) and *etymology* (the study of the origin of words) suggest an interesting story about origin of bank. Both the Old French word *banquet* and the Italian word *banca* were used centuries ago to mean a "bench" or "money changer's table". This describes quite well what historians have observed concerning the first bankers, who lived more than 2000 years ago. They were moneychangers, situated usually at a table or in a small shop in the commercial district, aiding travelers who came to the town by exchanging foreign coins into local money or discounting commercial notes against some fees in order to supply merchants with working capital (Rose, 1989: 17).

The origin of commercial banking can be traceable from the early times of human history. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out many for public and private purposes on interest was prevalent. In England, banking had its origin with the London Goldsmiths who in the 17th century began to accept deposits from merchants and others for safekeeping of the money and other valuables. As public enterprise, banking made its first appearance in Italy in 1157 A.D when the 'Bank of Venice' was founded (Shekhar & Shekhar, 2000: 7).

The modern banking has three ancestors who are the merchant, the goldsmith and the moneylender. The merchant banker forms the earliest stage in the evolution and modern banking. Merchants, in those days, required remittances of money from one place to another while trading which is an important function of a bank.

The history of modern banking system is not very old in Nepal. From the very ancient times, limited transactions were used. But the concept of modern banking could be traced out at the time of Malla Regime; King Jayasthiti Malla classified the people of Kantipur in 64 castes on the basis of their occupation. "Tanka Dhari" caste was one among 64 castes that handled International Trade, Business Credit & Family Credit etc. During the period of 1877-1885 B.S., Rana Prime Minister Ranoddhip Singh established "Tejarath Adda" in Kathmandu, which was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposit from the public but granted loan to their employees at rate of 5% & general public against the bullion (Timilsina, 2053: 11).

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

2.1.1 Commercial Banks – Concept and Definitions

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

A Commercial Bank is the bank, which exchanges money, accepts deposit, grants loans and performs banking function (Commercial Banking Act 2031 B.S).

Principally, Commercial Bank accepts deposits and provides loans, primarily to business firms thereby facilitating the transfer of funds in the economy (Rose, 1989: 9).

A bank is a business organization that receives and holds deposits and funds from others, makes loans and extends credits and transfers fund by written order of depositors (Grolier Incorporated, 1984: Vol 3). The primary sources of fund for commercial bank are capital (fund form shareholders), reserve (retained earnings) and various types of deposits. Basic uses of fund are loans, advances and investments.

2.1.2 Role of Commercial Bank in Economic Development

A well-developed banking system is a necessary re-condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In a modern economy, banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the storehouses of the country's wealth but also utilize resources necessary for economic development. It is the due to the growth of commercial banking in 18th and 19th centuries that facilitated the occurrence of industrial revolution.

The main objective of commercial banks is to mobilize idle resources for productive use after collecting them form different places. It brings about greater mobility of resources to meet the emerging necessity of the economy. There are various roles played by a commercial bank for the development of an economy, which are capital formation, encouragement to entrepreneurial innovations, influencing economic activity, promotion of trade and industry, development of agriculture and other neglected sectors.

The major problem in almost all underdeveloped countries like Nepal is lack of capital formation and their proper mobilization. In such countries, commercial banks should act as a development bank. Nepal is a small and poor country but it has sufficient natural resources. To utilize those resources, capital is required. Commercial banks gather monetary resources form different areas in the form of deposits and provide loan to investing areas like industry, agriculture etc. Therefore, the fate of the country is greatly determined by the active role of commercial banks. Banks provides facilities to their customers by providing loans, remitting funds, purchase and sale of bills and other market information. These services help to run the business and other economic activities rapidly as well as smoothly which ultimately helps in economic development.

2.2 Review of Relevant Study

Many researchers have conducted their research on the field of 'Commercial Banks', especially on their financial performance, and fund mobilization policy, compliance with NRB directives etc . Besides these, there are several books, articles, dissertations and other relevant study concerned with the Lending and Investments. Some of the relevant studies, their objectives, findings and conclusions and other literature regarding the topic have been reviewed below.

2.2.1 Review of Books

A bank is a government regulated, profit making business that operates in competition with other banks and financial institutions to serve the savings and credit needs of its customers. The primary business of banks is accepting deposits and lending money. Banks accepts deposits from customers who want the safety and convenience of deposits service and the opportunity to earn interest on their excess funds. Banks put their depositors' funds to other individuals to businesses and to federal, state and local governments (Halter, 1992: 2).

Banks lend out money to the needy customers as forms of loans and advances with proper evaluation of customers' business status. This evaluation is called credit appraisal. So, credit appraisal plays vital role in order to maintain the bank's strengths on lending.

Hrishikes Bhattacharya in his book 'Banking Strategy, Credit Appraisal and Lending Decisions' have put the recommendation of Tandon Committee from the report submitted to this committee. The committee has prepared this report in 1975, however these recommendation still deserve great significance in the sector of credit appraisal and lending.

Breaking away from the traditional methods of credit appraisal, the system proposed by the committee enjoined upon the banker:

1. To assess the need based credit of the borrower on a rational basis.
2. To ensure proper end use of bank credit by keeping a closer watch on the borrower's business and thus to ensure safety of the bank's funds.
3. To improve the financial discipline of the borrower.
4. To develop healthy banker-borrower relationship.

The Committee examined the existing system of lending and recommended the following broad changes in the lending system;

1 The credit needs of borrowers are assessed on the basis of their business plans.

2 Bank credit only is supplementary to the borrowers' resources and not on the replacement of them, i.e. banks do not be finance one percent of borrowers' requirements.

3 Borrowers are required to hold inventory and receivables according to norms prescribed by the Reserve Bank of India from time to time.

4 Credit to be make available in different components only, depending upon the nature of holding of various current assets.

5 In order to facilitate a close watch on the operations of borrowers, they are required to submit, at regular intervals, data regarding their business and financial operations, both for the past and future periods.

The committee said that at any time a business is required to hold the following current assets for operations of the business;

- Raw Material including stores and other items uses in the manufacturing process.
- Stocks-in process.
- Finished Goods.
- Receivables.
- Spares.

(Bhattacharya, 1998: 309)

In India, the definition of the business of banking and the large number of permissible functions for banks are given in the banking regulation Act 1948 (BR Act).

1. According to Section 5(c) of the BR Act, 'a banking company is a company which transacts the business is banking in India'.
2. Section 5(b) of the Act defines banking as, 'accepting, for the purpose

of Lending of Investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawals, by checks, drafts, orders or otherwise.'

As per this definition, banking in India signifies:

1. Accepting of deposits form public,
2. For the purpose of Lending and Investment.
3. Repayable on demand or otherwise, and
4. Withdrawal by checks, drafts, orders or otherwise.

Section 7 of the BR Act makes it compulsory for every company carrying on the business of banking in India to use as part of its name, at least, one of the following words –'bank', 'banking' or 'banking company' (Singh & Singh, 1983).

Bank growth and profitability are the result of carefully forecasting funding needs, competitively attracting funds, efficiently borrowing funds, and effectively investing funds in safe but profitable earning assets. Depending in a bank's size and location and on local and national economic conditions, a bank may have adequate, relatively stable sources of low cost funds, or it may have to compete regularly and aggressively for funds at high market prices. For an increasing number of banks, the second situation is becoming the norm, as more and more banks face increasing pressures to attract adequate funds at reasonable costs (Halter, 1999: 76).

The investment (credit) policies of banks are conditioned to great extent, by the national policy framework; every banker has to apply his own judgment for arriving at a credit decision, keeping of his banker's credit policy also in mind. (Singh & Singh, 1983: 67)

The traditional ‘bread and butter’ market is no longer in a position to sustain the banking structure in an era of deregulation and globalization. The dismantling of cartels for interest rate determination or withdrawal of the administered rate regime, which provided an umbrella to the banks for long, is no longer in existence. Interest rate risk has emerged as one of the dominant risk elements with such a force that a number of well-known international banks suffered heavily due to mismanagement of this risk. Due to all these, commercial banking (lending and retail and retail deposit taking), is now moving down to the third position with investment banking and asset management moving up, respectively to number one and number tow activities of the banks. The accent is now on off balance sheet business or 'sweeteners' as is the current terminology in the banking market. The irony of this decade was that competition coexisted with control. In order to withstand competition in the face of control, attempts were made to circumvent it by cartelization and subsidiarizing on one hand, and dilution of credit standards on the other hand. The latter was possible because in most of the banks, whether they were global giants or country banks, a well-documented loan policy did not exist. The next decade of banking beginning in 1970 had to suffer form the follies of the past (Bhattacharya, 1998: 6).

2.2.2 Review of Journals

Among the various reviews of various journals pertaining to the study, the major and most contributing to the study has been outlined below.

The banking sector is severely affected by the NPL (non-performing loans) problem. The two major commercial banks in the country have highest ratio of NPL. Therefore, there is no doubt that it has a serious impact on economic performance of the country. As per NRB directives all commercial banks are required to 'black list' their customers if they do not pay loan principal and interest even after one year of due date and loan amount outstanding in the account of such customers is considered as NPL. With marginal improvement, the level of non-performing loans and advances still stood at a significantly high level. The aggregate non-performing loan to total loan ratio was 29.3 percent in mid-July 2001 and it reduced to 18.85 (Rs. 28103.7 million) in mid-July 2005 (NRB, 2006: Publication No. 45).

Due to slow down in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, banks starts sneezing. From this perspective, the banking industry as a whole is not robust. However, banks like NABIL having strong risk management system, sound capital, adequate provision, quality staff and large clientele base can withstand any contingencies (Business Age Vol 3 No 9, 2001).

With upper management, pushing for higher profits the credit committee rarely asked hard questions increasingly, procedures were treated superfluous. Many managers believed they needed simply to check of enough to items on a ‘risk, assets acceptance criteria’ checklist to make a loan look good. Risk asset review teams gave you [advance] notice, so people often wrote up memos [justifying loans] for deal after they were done- says one banker. More and more junior bankers were assigned to perform due diligence. Of course changing the credit policy mechanism when the bank is not making any loans is not the hardest thing in the word to do. What will happen when the environment improves and the loan demand picks up again (Milligan, 1992: 198)?

With more deregulations setting in, evaluation of risk appraisal is assuming more importance. Absolute quantitative credit deposit ratio has no relevance if the assets are not performing ones .it is felt that appraisal techniques of bank lending in competitive areas have to be more attuned towards risk evaluations. A major aspect of this work has been the development of more advanced methods for the quantities measurement of market risk; extensive trading in financial instruments provides a good supply of price static and this is a considerable help when it comes to estimate market risks. Much work is now being done in many places to construct models for a better management of credit risks, which are still the largest risk category for banks. The difficulties here, however, are for greater than in the case of market risks. The estimation of key parameters for models is obstructed by a lack of statistics. Moreover, some advances have been made in the estimation of operational risks, i.e., the risk of losses arising from technical problems or inadequate internal controls. Previously, operational risks had attracted less attention than credit and market risks. It changes in the nature of banking operations that have brought them more to the forthcoming problem, which compelled banks to give emphasis for mitigation of operation risk also.

Financial legislation and regulation need to be sufficiently flexible to accommodate the rapid pace of developments in the financial sector. It tends to take considerably longer to amend rule than it vows to create new financial products. But there has to be a foundation of minimum requirements for risk management. In addition, the authorities must be increasingly involved in ensuring that institutions themselves possess a basic competence in and understanding of the risks that have to be managed, as well as adequate systems for their management, rather than issuing details risk management instructions. In other words, it has become more important to inspect system, defining in a wide sense, then to scrutinize particular commitment or market risk. Some supervision can be carried out with the market assistance. The authorities prescribe as well as encourage a more open presentation of the institutions risked and profitability in different operation such a transparency emphasize the banks demand on each other as well as what costumers requires from their banks.

Effective credit risk management allows a bank to reduce risks and potential NPA. It also offers other benefits. Once bank understand their risks and their costs, they will be able to determine their most profitable business and thus, price products according to risks. Therefore, the bank must have an explicit credit-risk strategy supported by organizational changes, risk measurement technique and fresh credit processes and systems.

There are five crucial areas that credit risk management should focus on:

i) Credit sanctioning and monitoring process.

ii) Approach to collateral.

iii) Credit risks arise from new business opportunities.

iv) Credit exposures relative to capital or total advances.

v) Concentration on correlated risk factors.

Apart from these, the bank management should regularly review all asset quality issues including portfolio composition, big borrower exposures and development in credit management policy and process. Improving risk management will not be easy and quick. However, Nepalese bankers have little choice. Hopefully, the banks adopt good risk management practices and will be able to reap both strategic and operational benefits.

The financial crisis that have swept across the economy of east Asia, Russia, and Brazil in the last few years have brought the fragility of banking and finance into unprecedented forms. Preceded, as they were, by a wave of financial liberalization and a surge of capital inflow into these and other emerging economics, it can hardly be said that the crisis were widely foreseen. What went wrong? After all, it is well established that financial liberalization and financial depending are key prerequisites for economic development. But in many countries, the rules governing financial markets were dismantled faster than the needed prudential regulatory infrastructure for financial intermediaries was put in place (Caprio, 1999: 43-44).

2.2.3 Review of Relevant NRB directives

NRB is the apex institution in the money and capital market of Nepal. Being the nation's central bank, it directs, supervises and controls the functions of the commercial banks and other financial institutions. NRB has issued various directives and circulars in orders to develop a healthy, competitive, and secured banking and economic system to ensure national development. The following are some of the relevant directives that the NRB has circulated to the commercial bank.

2.2.3.1 Directives to maintain minimum paid up capital of Rs. 2 billion (NRB Licensing Policy, 2006)

NRB had directed all the commercial banks established to operate in Katmandu valley to maintain compulsorily the minimum capital fund of Rupees 2 billion by the end of the fiscal year 2069/70. The amount under the headings of the paid-up capital, general reserve, share premium non-redeemable preference share and retained earnings would be considered for calculating minimum capital fund. The commercial bank could not use the retained earnings to include in the core capital fund to the extent of the minimum capital funds to make it Rupees 2 billion. However, if already established commercial banks could not increase their paid-up capitals up to the ceiling, fund reserved under capital adjustment fund can be considered, but paid-up capital should be at least Rs. 500 million. If the commercial banks could not maintain a minimum capital of Rupees five hundred million till the end of fiscal year 2065/66, then there are some provisions made by NRB in terms of punishment. Such as banks would not be allowed to declare and distribute dividend and bonus; cannot open new branched; cannot collect further deposits etc. However, in case of new commercial bank to be established following minimum criteria should be completed. There is different rule for establishment of bank in Kathmandu valley and outside.

Table 2.1: Capital Requirements to establish a Financial Institution.

Grade / Operation level	Minimum Paid-up capital required				
	National Level	Regional Level	4-10 districts	1-3 districts	1 districts
‘Ka’ Grade	2000 million				
‘Kha’ Grade	640 million		200 million	100 million	
‘Ga’ Grade	200 million				
‘Gha’ Grade	100 million	60 million	20 million	10 million	

‘Gha’ Grade is for co-operatives and/or micro-finance companies only.

Source: NRB Licensing Policy

2.2.3.2 Maintenance of Capital Funds (NRB Unified Directives, 2062)

The total capital fund is the sum of core capital and supplementary capital. On the basis of the risk-weighted assets, the financial institutions should maintain the prescribed proportion of minimum capital funds as per the following timetable.

Table 2.2: Required Capital Fund on Risk-weighted Assets

Type of Institution	Core Capital	Capital Funds
‘Ka’ to ‘Ga’ Grade	6%	12%
‘Gha’ Grade	4%	8%

Source: NRB Unified Directives, 2062

The core capital is comprising of paid up capital, Share premium, non-redeemable preference shares, general reserve fund and accumulated profit and loss account. However, the amount of goodwill should be deducted for the propose of calculation of the core capital.

2.2.3.3 Classification of Outstanding Loans and Advance on the basis of Aging (NRB Unified Directives, 2062)

Banks should classify outstanding principal amounts of loans and advances on the basis of aging. Loans and advances should be classified into the following four categories:

Pass

Loans and advances whose principal amount are not due or are past due for a period up to 3 months should be included in this category. Loans under this classification are known as performing loans.

Sub standard

All loans and advances that are past due for a period from 3 months to 6 months are included in this category.

Doubtful

All loans and advances that are past due for a period of 6 months to 1 year are included in this category.

Loss

All loans and advances that are past due for a period of more than 1 year as well as loans and advances which have least possibility to recovery of considered unrecoverable and those having thin possibility of even partial recovery in future are be included in this category.

Loans under Sub-standard, Doubtful and Loss category are known as Non-performing loans.

Classification loans and advances under the currently exiting arrangement are required to be classified as per the following timetable in four phases

Table 2.3: Categories classifying the Loans and Advances

Category	Type of Loans
Pass	Loans and Advances not past due and past due up to 3 months
Sub standard	Loans and Advances due over 3 months and less than 6 months

Doubtful	Loans and Advances past due over 6 months and less than 1 year
Loss	Loans and Advances past due over 1 year

Source: NRB Unified Directives

Loans and advances falling in the category of sub-standard, doubtful and loss are classified and defined as Non-performing loans. Loans and advances fully secured by gold, silver, fixed deposits receipts and GON securities should be included in the “pass” category. However, where collateral of fixed deposit receipt or GON securities to NRB bonds in placed as security against loan for other propose, such loan has to be classified on the basis of aging. If it is appropriate in views of the bank management, there is no restriction in classifying the loans and advances from low risk category to high risk category. For instance loans falling under sub-standard may be classified into doubtful may be classified into loss category.

Principal and interest on loans and advances should not be recovered by overdrawing the borrowers current account or where overdrawing facilities has been extend by over drawing such limit. However, this arrangement should not be construed as prohibitive for recovering the principal and interest by debiting the costumer’s account upto the limit granted by banks as overdraft. Where a system in the bank exits as to recovery of such principal and interest by debiting the costumer’s account and recovery is made as such resulting in overdraft. Those, which are not settled within 1 month of such overdrawn, the overdrawn principal amount, should also be liable to be included under the outstanding loan and such loan should be down graded by one step from It’s current classification.

The loan loss provisioning should be allocated as per the given percentage on the basis of the outstanding loans and advances and bills purchase.

Table2.4: Classification of Loan and required provisioning

CLASSIFICATION OF LOANS	LOAN LOSS PROVISION
Pass	1%
Sub-standard	25%
Doubtful	50%
Loss	100%

Source: NRB Unified Directives, 2062

Loan loss provision set aside for performing loans is defined as "General Loan Loss Provision" and loan loss provision set aside for non-performing loan is defined as "Special Loan Loss Provision", where the loan is extended only against personal guarantee, a statement of the assets, equivalent to the personal guarantee amount not claimed by any other should be obtained and this should be classified as per above and where the loan fall under the category of pass, Sub-standard and doubtful, in addition to the normal loans provision applicable for the category, an additional provision by 20% should also be provided. Classification of such loans and advances should be prepared separately.

2.2.4 Review of Dissertations

A study conducted by Mr. Upendra Shrestha (2002) regarding the Investment practices of various joint venture banks in Nepal has mentioned "Commercial Banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial Banks gave a lot of deposits but very little investment opportunities. They are even discouraging people by offering very low interest rates and minimum threshold balance. Commercial Banks invest their funds in limited areas to achieve higher amount of profits. This is regarded as a very risky step, which may lead to loss in profit as well as principal. The credit extended by commercial banks to agriculture and industrial sectors is not satisfactory to meet the growing need of the present stage.

However, it can be observe that Mr. Shrestha has concluded some conflicting statements, which do not match his statement of problems. His recommendation ignores the industry average and also fails to figure out what is right in the industry like banking among the excess of Investments and Loans and Advances. He thinks liberal lending policies solve the problem to increase the level of Loans and Advances. However, it lacks an in depth analysis of the pros and cons of the factor affecting the study.

A thesis conducted by Mr. Ram Prasad Sharma (2002) with the objectives of highlighting the priority sector investment and repayment state of Commercial Banks in Nepal through intensive banking program and to show the repayment position of the sector has concluded that commercial Banks should improve the repayment trend of loan by generating the income of rural farmers. Reinvestments and right utilizations of bank loan are the assets of the commercial banks. Since there is a need to increase in assets, by better arrangement of institutions and organization, the manager and loan staff of the branches should be provided with adequate training so that they could identify right borrowers, right projects and ensure correct project appraisals. Reinvestment is the available sources to increase in paying capacity of the borrowers.

The directives, if not properly addressed, have potential to wreck the financial system of the country as they are the only tool of the NRB to supervise and monitor the financial institution. The directives in themselves are not that important unless properly implemented. The implementation part depends in the commercial banks. So it is felt that there is a need to find out if the directions are being followed. In case the commercial banks are making such huge profits with full compliance of the directives, then the commercial banks would deserve votes of praise because they would then be instrumental in the economic development of the country.

He has concluded that all the changes in NRB directives made impacts on the bank and the results are the following:

1. Increase in operational procedures of the banks, which increase the operational costs of the banks.
2. A short term decrease in profitability, which results to lesser dividends to shareholders and lesser bonus to the employee reduction in the loan exposure of the bank, which decreases the interest income but increases the protection to the depositors' money.
3. Increased protection to the money of the depositors through increased

capital adequacy ratio more stringent loan related directives.

4. Increased demand for shareholders' contributions on the banks by forgoing dividends for loan loss provisions and various other resources to increase their core capital.

Ms Anju Khadka (2002) in her thesis regarding 'Investment policy of commercial banks' has highlighted that banks are not emphasizing for investment even if there are opportunities in the market. Banks are mainly focusing for the lending, which means banks are giving priority for the lending. It has been observed that due to this vision of the banks, they are loosing secured and more profitable business. All banks under study shows high ratio between Loans and Investment. Banks should also focus for investment of available fund if it gives comfortable or equal return as of loans.

Though, Ms Khadka emphasized her view towards investment rather lending, we must say banks by their nature are the institution which provide loan to the general public and organized institutions for the economic upliftment. So, banks should focus on lending rather than the investment. So far the return generated by investment and loan is concerned; banks should give priority to lending after analyzing its risk factor and putting themselves to the safe side.

2.3 Research Gap

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

So, this study is entirely focused to expose the actual position of HBL in term of its lending. Only analysis of lending has been chosen in order to minutely explore the lending status of the bank as revealed by the actual data of bank and its impact to the profitability and shareholders' investment as well. From this study we can see whether the bank has been properly utilizing the fund collected from public as deposits or not. This thesis will cover the gap between earlier studies or researches to some extent and will be fruitful for the students, professionals and businessmen and others to extract the actual position of HBL.

CHAPTER 3

Research Methodology

The research Methodology is systematic way of solving research problem. Research Methodology refers to the overall research process, which a researcher conducts during their study. Research can be conducted on the basis of primary and secondary data. Here in the study all the data and observed data are analyzed with using appropriate financial and statistical tools.

In this research, the research design, source of data collection, population and sample and method of data analysis are serially described.

3.1 Research Design

Research design is a planned structure and strategy of investigation conceived to obtain answers to research objective through analysis of data. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedures and techniques, which guide the study and propounds ways of doing research. In this way, a descriptive and analytical survey will be done. The justification of the choice of these methods is preferred because it includes reliable data and information covering long time and avoids numerous complex variables.

The research covers one of the major commercial bank in Nepal, particularly in its practice of lending. The research has its basic objective to figure out problem therein and provide them with some recommendation. The literature has been reviewed especially from the past thesis conducted on same aspects of commercial banks. The data for the research are of secondary type.

3.1.1 Sources of Data

The study is mainly focused in analytical part. The main objective of the study is to find the lending strengths of NIBL on the basis of past and present performance of the bank. So, the data presented in this study are from secondary sources. The annual reports of the bank are the major sources of the data for the study. However, besides the annual reports of the subjected bank the following sources of data shall also be used in the respective corner of the study;

1. NRB Reports
2. Various publications dealing with the subject matter of the study
3. Various articles published in magazines
4. Websites of different institutions

Besides the above, any kind of other sources, such as assertions, interviews, remarks by the specialist of the subject, those are capable in providing valuable data and conclusion, shall be considered in the study.

3.1.2 Population and Sample

The population refers to the entire field and industries of the same nature, which represent and have the similar type of services and products in general. A sudden mushrooming of commercial banks has seen a total of twenty five commercial banks in the country. Thus, the total commercial banks, which are operating in the country, shall constitute the population of the data and the bank under study constitutes the sample of the study. The bank for the purpose of the study is selected from a sample population of:

Table 3.1: The Sampling Population (Commercial Banks in Nepal)

1. Nepal Bank Ltd.	2. Rastriya Banijya Bank
3. Himalayan Bank Ltd.	4. Standard Chartered Bank Nepal Ltd
5. Nabil Bank Ltd.	6. Nepal Investment Bank Ltd
7. Nepal SBI Bank Ltd.	8. Nepal Bangladesh Bank Ltd.
9. Bank of Katmandu Ltd.	10. Nepal Credit and Commerce Bank
11. NIC Bank Ltd.	12. Lumbini Bank Ltd.
13. Kumari Bank Ltd.	14. Machhapuchchhre Bank Ltd.
15. Laxmi Bank Ltd.	16. Everest Bank Ltd.
17. Siddhartha Bank Ltd.	18. Global Bank Limited
19. Citizen Bank International Ltd.	20. Prime Commercial Bank Ltd.
21. Bank of Asia Nepal Ltd.	22. Sunrise Bank Ltd.
23. Development Credit Bank Limited	24. NMB Bank Ltd.
25. Agriculture Development Bank Ltd.	

Source: NRB Publication

So, among the twenty-five commercial banks in operating under the banking industry, Himalayan Bank Limited only has been taken as sample for the study in order to focus the study to the large extent. Only one bank has been taken as a sample for the study because banks are the organization with vast exposure and turn over and taking many banks as sample for the study will not truly generate a fair result and conclusion due to various reasons like time limit for the study, level of the study, size and portfolio of the banks etc.

3.1.3 Data Collecting Procedures

The annual reports of HBL were obtained from Birgunj Branch of the bank, and the bank's website www.himalayanbank.com especially for the purpose of the study. NRB publications, such as quarterly economic bulletin, banking and financial statistics, economic report, annual reports of NRB etc. has been collected from the website of NRB www.nrb.gov.np The data on some of the aspects of the bank was obtained from the website www.nepalstock.com.np of Nepal Stock Exchange.

3.2 Analysis of Data

For the purpose for the study of the data that has been collected, various financial, accounting and statistical tools have been used to achieve the objective of the study. The following tools shall analyze the presented data.

3.2.1 Financial Tools

3.2.2.1 Ratio Analysis

A ratio is simply one number expressed in terms of another and as such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportions and as a coefficient. 'Logarithmetic Graph', and 'break even chart' are the graphic forms of expressing a ratio. The technique of ratio analysis is a part of the whole process of analysis of financial statement of any business of industrial concern especially to take output and credit decisions. Through this technique comparative study can be made between different statistics concerning varied facets of a business unit. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measures the economic and financial health of a business concern. Thus, the technique of ratio analysis is a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns (Kothari, 1994).

"The relationship between two accounting figures, expressed mathematically, is known as financial ratio." As far as we are concerned about the financial ratio, a ratio between two relevant figures that provide a certain relation, and have negative or positive correlation between them only will be studied. Since comparing two in comparable figures and their ratio gives no idea and judgment on analysis and it remains as an absurd figure. Thus, ratio analysis is useful only as aids to judgment but as mechanical substitutes for thinking and judgment, it is worse than useless.

Asset/Liability Management Ratio

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

Total Assets to Total Liabilities Ratio
Loans and Advances to Total Assets Ratio
Loans and Advances to Shareholders' Equity Ratio
Portfolio Ratio of Loans Advances

Activity Ratio

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

Loan Loss Provision to Total Loans and Advances Ratio
Non-performing Loans to Total Loans and Advances Ratio
Interest Income to Total Income Ratio
Interest Income to Interest Expense Ratio

Profitability Ratio

Profit is the difference between the revenues and the expenditure over a period. Profit is the main elements that make an organization to survive in long run. The profit, on the other hand, measures the management ability regarding how well they have utilized their funds to generate surplus. Thus, measuring the profitability ratio also is significant in this study and shall reflect the various aspect of the problem of the study.

These ratios have been used to determine the efficiency of the lending and its quality and contribution in total profitability.

Total Income to Total Assets Ratio

Net Profit to Shareholders' Equity

Earning per Share

Statistical Tools

Standard Deviation

The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation, the higher the variability and vice versa. Karl Pearson's introduced the concept of standard deviation in 1823 and is denoted by the Greek letter σ (read as sigma).

The formulas to calculate the Standard Deviation are given below:

$$\sigma = \sqrt{\frac{\sum x2}{N}}$$

Where, $x = (\overline{X} - X)$

$$\sigma = \sqrt{\frac{\sum fx2}{N}}$$

Where, $x = (\overline{X} - X)$ and 'f' denotes frequency

$$\sigma = \sqrt{\frac{\sum fd^2}{N} - \left(\frac{\sum d}{N}\right)^2}$$

3.2.1.1 Coefficient of Variation

The standard deviation calculated in the above formulas give the absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability.

The coefficient of variation (C.V.) is given by the following formula and is expressed in terms of percentage.

$$C.V. = \frac{\sigma}{X} \times 100$$

3.2.1.2 Correlation

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measures the performance of the bank. The correlation coefficient between the two variables describes the degree of relationship between those two variables. The reliability of the value of coefficient of correlation is measured by probable error (P.Er).

Correlation refers to the degree of relationship between two variables. If increase or decrease in one variable impacts the increase or decrease in another, then such variables are correlated variables. This, measures of correlation, calculates the mathematical relationship between two variables. "The measures of correlation called the correlation coefficient or correlation index summarizes in one figure the directions and degree of correlation (Gupta, 1989).

The Karl Pearson's Coefficient of Correlation is given by the following formula

$$\text{Coefficient of correlation (r)} = \frac{\sum XY}{N\,\sigma_x\,\sigma_y}$$

Where,

X	= (x – Mean x); Y = (y – Mean y)
σx	= Standard Deviation of Series x
σy	= Standard Deviation of Series y
N	= Number of Observations

And,

$$\text{Probable Error of r (P.Er)} = 0.6745\frac{1 - r^2}{\sqrt{N}}$$

The Karl Pearson's Coefficient of Correlation (r) always falls between –1 to +1. The value of correlation in minus signifies the negative correlation and the + value signifies the positives correlation. As the value of correlation coefficient reaches near to the value of zero, it is said that there is no significant relationship between the variables.

The coefficient of correlation shall be interpreted based on probable error (P.Er). If the value of correlation coefficient is greater than 6 times the value of P.Er, the coefficient correlation is deemed as significant and reliable. If the value of correlation coefficient is less than probable error, the coefficient correlation is said to be insignificant and there is no evidence to predict the correlation between the variables. Karl Pearson's Coefficient of Correlation has been used to determine the relationship between the different variables related to lending of HBL

3.2.1.3 Time Series

When a series of data pertaining to a series of continuing periods should be studied, its characteristics and its future direction is based estimated by the time series. Time series analyses a series of data keeping in mind the various short-team and log-term fluctuations.

The data of the last five years has been used in measuring the trend analysis. The Least Squares method to trend analysis has been adapted to measure the trend behaviors of this bank. The method is widely used in practices. The straight –line trend of a series of data is represented by the following formula:

$$Ya = a + bX$$

Here, Y is used to designate the trend values to distinguish them from the actual Y values, a is the Y intercept or the computed trend figure of the Y variable when X = 0, b represents the slope of the trend line of the amount of change in Y variable that is associated with a change of one unit in X variable. The X variable in time series analysis represents time. While analyzing the Time Series, the Propensity of Growth and Growth Rate have been examined based on the value of trend value of Least Square Method. The Growth Rate has been measured from fiscal year 2001/02 to 2005/06 (five years) to reveal the real status of the study period. However, under the calculation of trend analysis, a forecast of the next five years shall be made i.e., till 2010/11 so as to determine the trends that the bank is likely to face in the pattern of total deposits, total loan, total investment, loan disbursement to priority sector, loan disbursement to industrial sector and loan disbursement to various development regions.

CHAPTER 4

Presentation and Analysis of Data

This chapter represents the data collected from various sources and also presents and analyzes them to measure the various dimensions of the problems of the study.

4.1 Measuring the Lending Portfolio (Assets/Liability Management Ratio)

The lending portfolio of a bank are measured in relative measures on this section. The relationship between various assets and liabilities of the balance sheet has been established to show the relative strengths of lending of the bank comparatively. An attempt is made to determine the strength of lending portfolio in absolute figure of the bank, regarding to the volume of deposit, loans and advances and other variable.

4.1.1 Measuring the Lending Portfolio in Relative Term

4.1.1.1 Total Assets to Total Liabilities Ratio

The ratio of total asset to total liabilities measures the volume of total liability in total asset of the firm. The banking organization creates credit by way of lending activity and multiplies their assets many times, than their liability permits.

Table 4.1: Total Assets to Total Liabilities Ratio

Rs. in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Assets	24,198.00	25,730.00	28,871.00	30,580.00	34,315.00
Total Liabilities	22,292.00	23,438.00	26,303.00	27,694.00	31,373.00
Ratio	1.09	1.10	1.10	1.10	1.09

Source: www.himalayanbank.com

Table 4.1 explains that one unit of liability in the concerned year has tabulated value of assets. The bank has however had the ratio in the similar range for the five years' period of time. The Total Assets to Total Liabilities Ratio has observed a fluctuating trend for the different fiscal years. The ratio ranges from 1.09, the lowest in the year 2001/02 and 2006/07 to 1.10, the constant ration in the year 2003/04 to 2005/06 indicating an absolute variation –0.01. The ratio of the bank indicates a poor performance; the ratio should not be below 2 times in a developing country like Nepal. This represent that the bank has not been able to successfully convert its liability into asset. Looking at the facts and figures the performance in the year 2004/05 and 2005/06 can be regarded as the best, but during the year 2002/2003 and 2004/2005, the ratio depicts that the banks liability was not effectively used as compared to the year 2006/2007.

4.1.1.2 Loans and Advances to Total Assets Ratio

Loans and advances of any commercial bank represent the major portion in the volume of total assets. The ratio of loans and advances to total assets measures the volume of loans and advances in the structure of total assets. The high degree of this ratio indicates the good performance of the banks in mobilizing in the funds by way of lending function. However, in its reserve side, the high degree of this ratio is representative of low liquidity. Granting the loan and advances always carries the certain amount of risk. Thus, these assets of banking business are regarded as risk assets. This ratio measures the management attitudes toward risk assets. The low ratio is indicative of low productively and high degree of safety in liquidity and vise versa. The interaction between risk and return determines this ratio.

Table 4.2: Loans and Advances to Total Assets Ratio

Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	10,844.60	12,919.63	13,451.17	15,762.00	17,794.00
Total Assets	24,198.00	25,730.00	28,871.00	30,580.00	34,315.00
Ratio	0.45	0.50	0.47	0.52	0.52

Source: www.himalayanbank.com

Table 4.2 represents the five years trend of loans and advances to total assets ratio. The ratio has observed an increasing trend except for the year 2005/2006. The absolute indicators of the ratio range from 0.45, the lowest, in the year 2002/03 to 0.52, the highest, in the year 2005/2006 and 2006/207 the best performance of the bank according to its ratio was in the year 2005/06 and 2006/07.

The bank has increased its loans and advances on an average basis since the past 5 years. This indicates that the bank has been following average lending policy. At the same time the assets of the bank has also increased in almost same level in the five years time period. Hence there is no significant different in the ratio during last five years period.

4.1.1.3 Loans and Advances to Shareholders' Equity Ratio

Shareholders' equity consists of share capital, share premium, reserves and retained earnings. The ratio between loans and advances to shareholders' equity provides the measures regarding how far the shareholders' equity has been able to generate assets to multiply its wealth. The shareholders' equity refers to the net shareholders' intake in the business. Thus, this ratio measures the size of the business and its success in converting liabilities into assets.

Table 4.3: Loans Advances to Shareholders' Equity Ratio

Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	10,844.60	12,919.63	13,451.17	15,762.00	17,794.00
Shareholder's Equity	1,905.90	2,291.90	2,568.39	2,885.59	2,942.23
Ratio	5.69	5.64	5.24	5.46	6.05

Source: www.himalayanbank.com

Table 4.3 explains that the overall ratio of the bank ranges from 5.24, the lowest, in the year 2004/2005 to 6.05, the highest in the year 2006/2007. The decreasing trend reveals that the bank is unable to meet the increasing trend of equity by increasing its lending portfolio. This may be because the banks are compelled to increase their capital every year as per central bank’s rule.

4.1.1.4 Priority Sector Loans to Total Loans and Advances Ratio

Earlier, NRB had directed all the commercial banks to flow 12.5% of their total outstanding credit to priority sector loans. The loan provided to agriculture cottage industries, deprived sector, other sector of national priority, hydroelectricity and minimum power sector is deemed as the priority sector loans. The ratio of priority sector to total loans and advances refers to the portion of the total outstanding loans and advances that is out flowed in the priority sector. Now, NRB, through its monetary policy for fiscal year 2062/63, has relieved banks from its earlier compulsion to provide loan to priority sector loan.

Table 4.4: Priority Sector Loans to Total Loans and Advances Ratio

Rs. In million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Priority Sector Loans	1375.00	873.00	769.00	693.00	702.00
Loan and Advances	10844.60	12919.63	13451.17	15762.00	17794.00
Ratio	0.13	0.07	0.06	0.04	0.04

Source: www.himalayanbank.com.np

According to the above table, the average amount lent to the priority sector over the past five years is 0.096 times of the total loan. The table represents that the bank has been able to maintain the NRB directives of lending out at least 12% of its total lending to the priority sector. The tabulated value shows that the bank has increased its lending tin the priority sector from 2002/2003 to 2003/2004. It can be seen that during 2003/2004 alone, there was a decrease in the ratio by 0.04 times. This represents that the bank has not only focused on the industrial sector alone, rather, it has been giving equal importance to the priority sector as well. There has also been an increase in the total amount lent out to the priority sector. However, there is decrease in terms of ratio to total loans and advances. Earlier, banks were required to lend at least 12.5% to Priority Sector, so on that basis, HBL had also tried to maintain its required level. It has met the requirement in 2002/03, however the ratio has been gradually decreased. There may be many factors due to which HBL has been reluctant to lend towards priority sector. Most of the industries, which are not been able to perform well and are given a chance to re-establish and also categorized to this sector and lending to such units are quite risky. So, banks cannot go easily to provide loan to priority sector.

4.1.2 Measuring the Lending Portfolio in Absolute Term

Under this topic, the various variables in their absolute value are measured. Unlike ratio analysis, different variables are measured individually. The volume of variable and its variability are measured. The value of individual variables enables to measure the gross contribution of the bank in the respective years. Though the ratio analysis solely describes the ratio between the two variables, it does not tell about the absolute value of those variables. Therefore, in this chapter, some of the important individual variables in their absolute value of mean and standard deviation are examined. At the same time, to measure the relative measure of variability of data; the coefficient of variation is also measured. The absolute value of bank for different years is compared to judge its contribution and its practices.

4.1.2.1 Net Assets

Net assets of a firm refer to total assets minus outsider's liability. This figure measures shareholders' wealth in a firm. Higher the amount, higher will be the volume of business and vice versa.

Table 4.5: Net Assets and Percentage Changes

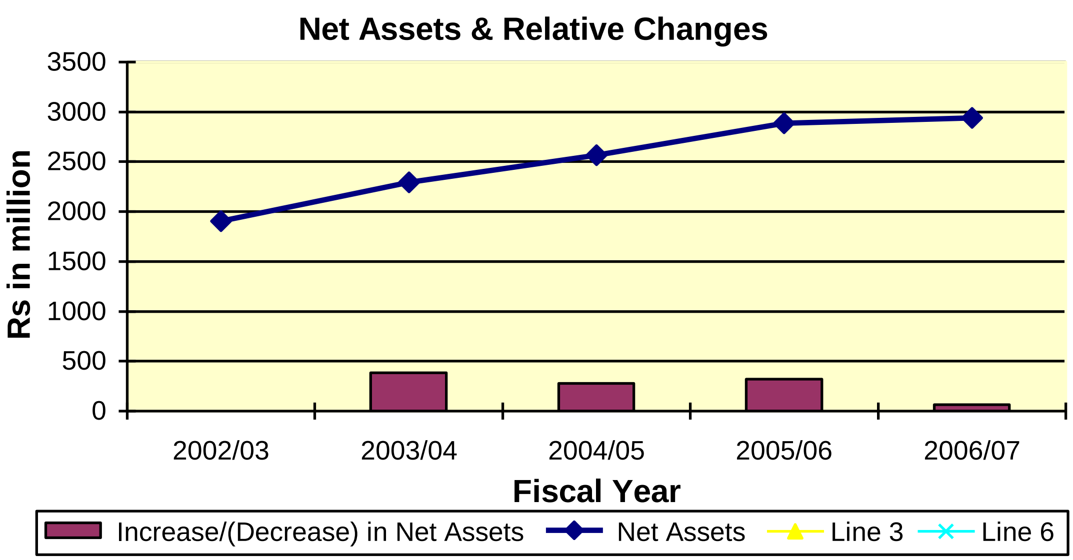
Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Assets	**1,905.90**	**2,291.90**	**2,568.39**	**2,885.59**	**2,942.23**
Increase/(Decrease) in Net Assets	**-**	**386.00**	**276.49**	**317.20**	**56.64**
Percentage Change	**-**	**20.25**	**12.06**	**12.35**	**1.96**
Average Growth Per Annum in percentage:			**9.33**		

Source: **www.himalayanbank.com**

Table 4.5 reflects the net assets of HBL in the past five years. The net assets of the bank have increased drastically from Rs. 1905.90m to Rs. 2942.23m indicating a total increase of Rs. 1384.09m, and overall growth of 93.18%. This indicates that the bank has been effectively initiating the shareholders' wealth to mobilize loans and clearing its liabilities, a small percentage decreases in the year 2006/07 can be depicted where the percentage change in the net assets of the bank falls to 1.96% from 12.35%, that of the previous year. But even with the fall in the percentage of this particular year, the average growth of the net assets throughout five years is measured at 14.32% indicating the bank has had substantial success in maintaining the satisfaction to its shareholders and also has been able to increase the volume of its business.

Figure 4.1



The graphic indicates the net assets of the bank. By the graphic it can be seen that the net assets has increased since the five years but the bank saw a rapid increase in the year 2005/06, where, the line indicating the net assets has become steeper. During this period alone, bank saw an increase by Rs. 2518.80 million in its net assets. However, the graph represent that the lowest increase in the net assets was during the year 2006/2007, this was resulted due to the burden of outsider's liability that is the bank has owed a relatively larger amount to the outsiders in proportion to other years. A conclusion can be derived from herein that the banks capability to meet the shareholders' demands in the near feature would be satisfactory, i.e. the bank will be able to meet the stakeholders' expectation in the time to the come.

Mean, Standard Deviation (SD) and Coefficient of Variation (CV) of Net Assets

The mean, standards deviation and the coefficient and the variation of net assets have been calculated to evaluate the dispersion of the net assets for the given years.

Table 4.6: Mean, SD and CV of Net Assets for five years

Rs in million

Mean	Standard Deviation	Coefficient of Variation
2,518.80	385.59	15.31%

Source: Appendix 2

The mean measured for net assets of the bank hold at Rs. 2,518.80 million, which shows that at an average the bank must have net assets wroth Rs. 2,518.80 million every year, with the increasing trend of the net asset the standard deviation for the bank is Rs. 385.59 million, it means that the banks manages to keep its net wroth intact with a dispersion of Rs. 385.59 million. The flexibility of deficit or surplus is limited by the aforementioned amount. Another important measure of depression, the coefficient of variation, measured at 15.31 %, indicates that the bank has some extent of variability in its net assets with the moderate value. The overall trend of net assets is increasing. Thus, the volume of net assets of HBL permits it to expand its business in higher degree.

4.1.2.2 Loans and Advances

Commercial bank's main function is to create credit from its borrowed fund. The bank doing so converts its liability into assets, loans and advances are the assets coming from such activities. The high volume of loans and advances is indicative of good performance in credit sector. Since the survival of banking business is depended on good performance of its lending function. The high volume of well performing loans and advances in economy is a symbol of healthily banking business.

Table 4.7: Total Loans and Advances and percentage changes

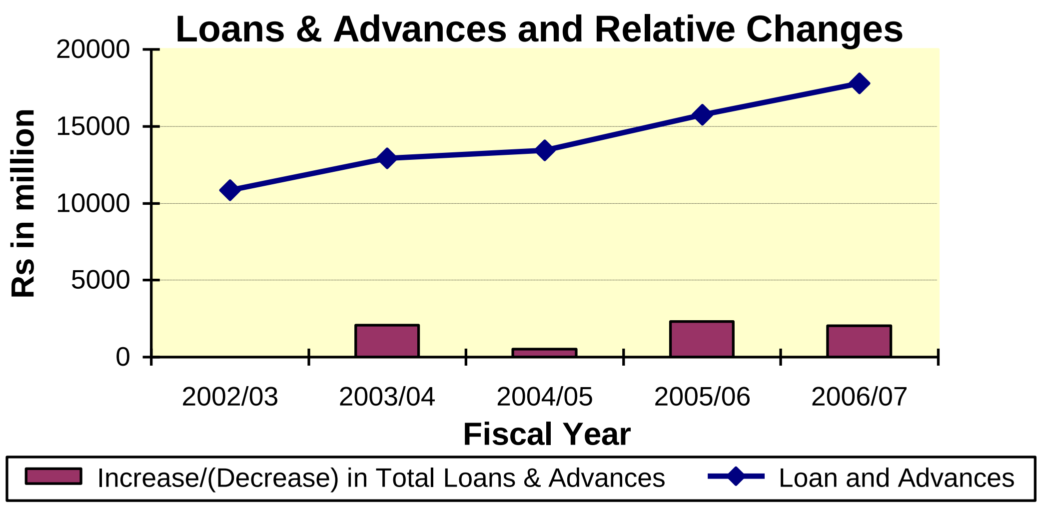
Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	10844.60	12919.63	13451.17	15762.00	17794.00
Increase/(Decrease) in Total Loans & Advances		2075.03	531.54	2310.83	2032.00
Percentage Change	-	19.13	4.11	17.18	12.89
Average Growth Per Annum in percentage:		10.66			

Source: www.himalayanbank.com

Table 4.7 shows the total loans and advances made during the five years. It has been observed that the bank has been able to increase its lending activity by 4 times since 2002/03. It is evident that as a commercial bank, HBL has been performing its lending activity, by increasing the loans and advances since the last five years. A major increase in the amount of the loan was during the years 2003/04, where the percentage increase in the total loans and advances increased by 19.13%, from Rs. 10844.60m in the year 2002/03 to Rs. 17794m in the year 2006/07. Loans and advances made during the year 2005/06 was very lesser in comparison to other years. The hindering part for the bank during that period was that even though the loans and advances for the past years were increasing, the bank could not continue and steady growth of loans and advances. However, there is average growth of 10.66 percent over past five years.

Figure 4.2



The graphical representation of the loans and advances show that there has been smooth increase in the loans and advances of the bank. The bank has on overall growth of 53.31% from the year 2002/03 from Rs. 10844.60m, to Rs. 17794m in the year 2006/07. The graph shows that bank has smooth and steady growth over loan flow. Though growth in the year 2004/05 has decreased, it is considered that bank is following the growth stage.

4.1.2.3 Interest Income

Volume of interest income measures the bank's ability to generate income form lending and investment activities. The high volume is indicative of favorable contribution of lending and investment activities. Interest income for a bank is one of the major sources of income. Interest income relates to those interests that are charged by the bank on the loan it provides.

Table 4.9: Interest Income and Changes for Respective Years

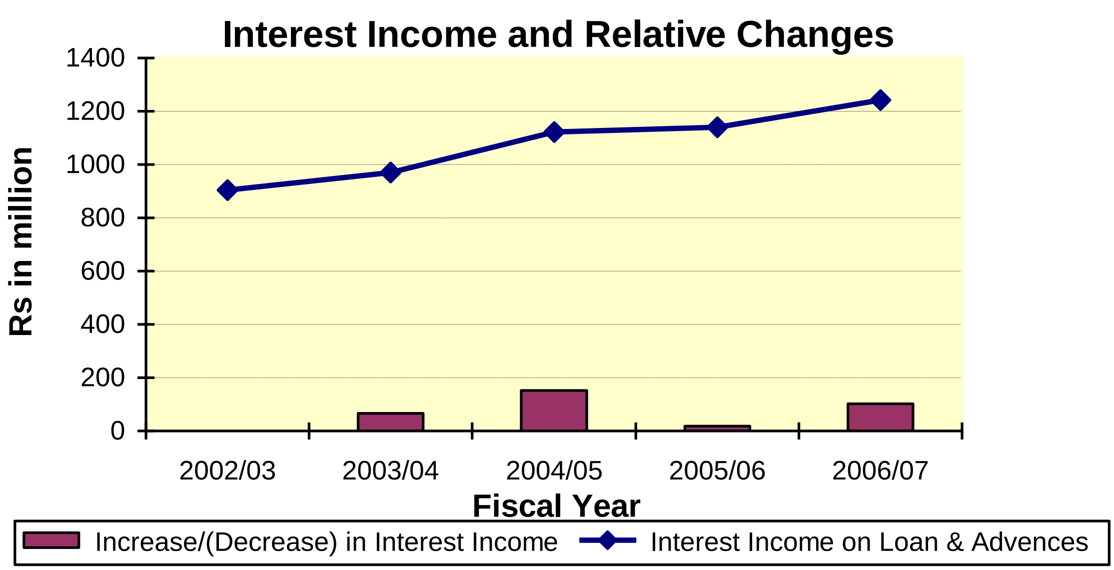
Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Interest Income on Loan & Advences	904.00	970.00	1,122.00	1,141.00	1,243.00
Increase/(Decrease) in Interest Income	-	66.00	152.00	19.00	102.00
Percentage Change	-	7.30	15.67	1.69	8.94
Average Growth Per Annum in percentage:			6.72		

Source: www.himalayan bank. com.np

The above table represents the interest that have been earned form loans and advances given out as well at the interests form the investments made by the bank. The interest earned was on increased in upto 2004/2005, but in 2005/06 it has been decreased its income of interest earning. During this year, there was no significant growth in lending and investment of the bank and market was on the track of reducing effective interest rates. This has caused downward impact in the income of HBL. However, HBL has shown very good growths, which are 7.30%, 15.67% and 8.94% respectively. This growth is also due to increased loans.

Figure 4.3



The figure explains the interest income from loans and investments over five years and level of its increment/decrement. However, trend line and bars shows increase in income for a year, there is steady growth on the succeeding years. According to the figure, the bank had earned a maximum interest during the fiscal year 2004/2005, where as the highest level of increment is during the year 2004/2005. The reason for the overall increase in the interest income lies in the fact that the lower interest earned through investment has been offset by the higher interest earned through loans and advances and vice versa. But the graph indicates that the increase in the interest income is not radical. One other major factor contributing to the fluctuating rate of collection of interest could be because of the uncollected interest during yearly closing, which is counted towards expenses or receivables. Bank suffers through a high credit risk, which could have hampered the collection of the interest from the clients. However, an average growth of 6.72% looks satisfactory in term of earning.

4.1.2.4 Net Interest Income

Net interest income is the overall interest income of bank after deduction of all interest expenses on deposits. Following table shows the exposure of HBL in term of Net Interest Income.

Table 4.10: Net Interest Income and Changes for Respective Years

Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Interest Income (NII) of HBL	647.00	754.00	885.00	978.00	1,008.17
Increase/(Decrease) in NII	-	107.00	131.00	93.00	30.17
Percentage Change	-	16.54	17.37	10.51	3.08
Average Growth Per Annum in percentage:			9.50		

Source: Appendix 2

Table 4.14 figures the net interest income of HBL during last five years period. Although there was decrease in gross interest income of HBL in 2005/2006, from table 4.14 we can see that there was increase in net interest income. Even though it is minimum among other year's data, it should be taken positively because the bank has been able to maintain income-expense ratio of interest to the positive side. Steady growth of 16.54%, 17.37%, 10.51 and 3.08% seen in every year from 2003/2004 to 2006/2007.

Figure 4.4

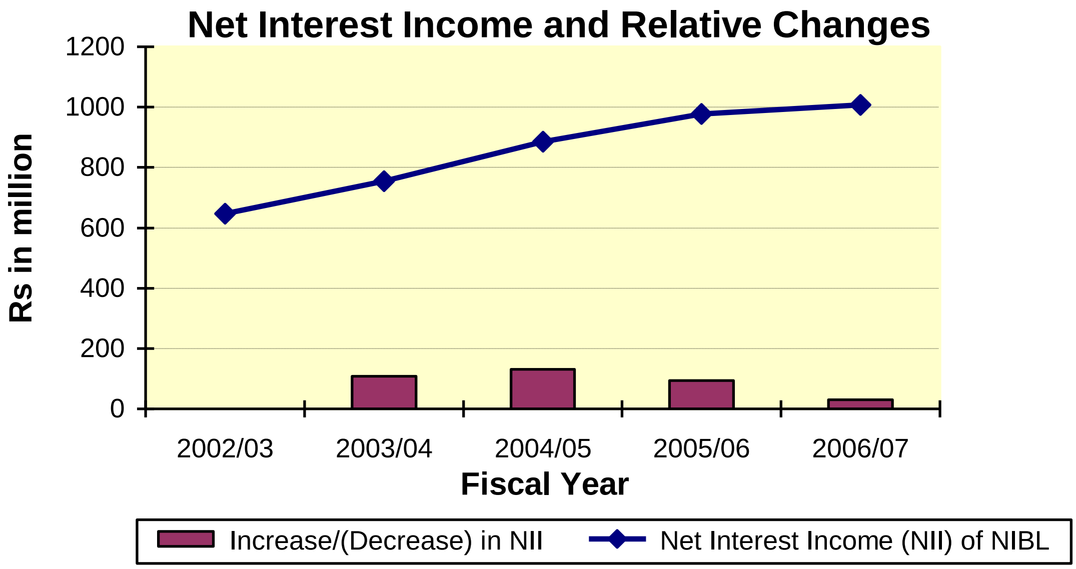


Figure shows NII and its respective growth over last five years. The highest growth rate is reported in 2004/05 and lowest is in 2006/07. The bank has an average growth in NII by 9.50% per annum.

4.1.2.5 Net Profit

Net profit after all types of deductions such as bonus to employees, taxes and provisions has been used in this analysis. The volume of net profit measures the success of a firm in every aspect of its operation and strategy.

Table 4.11: Net Profit and Changes for Respective Years

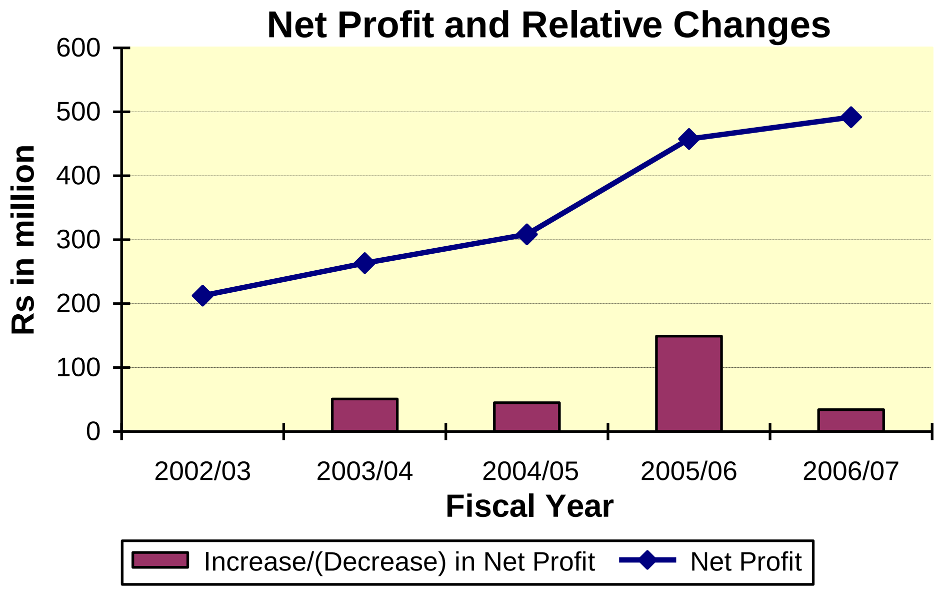
Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	212.13	263.05	308.28	457.46	491.82
Increase/(Decrease) in Net Profit	-	50.92	45.23	149.18	34.36
Percentage Change	-	24.00	17.19	48.39	7.51
Average Growth Per Annum in percentage:			19.42		

Source: www.himalayanbank .com.np

The pattern of net profit of the bank has increased all over the years. During 2003/2004 there was increased by 24.00% in the net profit. The lowest growth was in 2006/07, that was likely to be nil for the period. However, growth of HBL can be termed as excellent, if we consider other factors constant and observe in term of net profit only. There is a regular increment over all the years.

Figure 4.5



The graph represents the net profit of HBL. It reveals the highest net profit in the year 2005/2006 and the lowest in the year 2006/2007. As represented by the graph, the net profit increased in tremendously in 2005/2006. The bank has been able to take up its net profit level from Rs 212.13m in 2002/03 to Rs. 491.82m in 2006/2007 reporting growth of almost 149.18% over past five years of study. The bank, the increment in the total deposits with lesser cost and increment in fees and commissions because of the increment in the loan and advances made the reason there was an increase in the net profit of the bank. The data shows that the bank has achieved annual average growth of 19.42% in net profit.

4.2 Analyzing the Lending Efficiency and its Contribution in Total Profitability (Activity Ratio)

In this section the lending efficiency in term of quality and turn over is measured. For this purpose, the relationship of different variables of balance sheet and profit and loss account is established.

4.2.1 Provision for Loan Loss to Loans & Advances Ratio

This ratio of provision for loan loss to loans and advances describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loans and advances into the category of pass, substandard, doubtful and loss and to make the provision of 1% for pass category, 25% for substandard category, 50% for doubtful category and 100% for loss category. NRB has classified the pass loan as performing loans and all the other types of loans as non-performing loans. The provision created against the pass loan is called general loan loss provision and the provision against all other category is called the special loan loss provision. Provision for loan loss in the balance sheet represents the profitability from total loan of banks. Provision for loan loss, on the other hand, signifies the cushion against future contingencies created by default of borrowers. The low rate signifies the good quality of assets in the total volume of loans and advances. The high ratio signifies the relatively more risky assets in the volume of loans and advances.

Table 4.12: Provison for Loans and Advances to Loan & Advances Ratio

Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Provision for Loan & Advances	643.41	842.75	967.76	1,026.65	795.00
Loan and Advances	10,844.59	12,919.60	13,451.17	15,761.98	17,793.72
Ratio	0.06	0.07	0.07	0.07	0.04

Source: www.himalayanbank.com.np

Above table explains the provision for loan loss of HBL over past five years. As per NRB directives, provisions against all type of loans should be done and booked under separate accounts. This type of regulations has been imposed by NRB in order to minimize the risk of loan and advances flowed by the banks. In case of HBL, we can see that some loans have been crossed the rating of good loan. Good loans are those loans, which do not default for repayment and account conduct is found satisfactory. Thus, from the table we can say that HBL has provisioned more than 2% for some of its loans, which shows that defaulters are present in HBL. Thus, HBL has to improve the category of its loan and try to minimize the bad loans, which fall under Non-performing Loan.

4.2.2 Non-performing Loans (NPL) to Total Loans and Advances Ratio

NRB has directed all commercial banks to formulate a special loan loss provision against the substandard, doubtful and bad loans. But most of the commercial banks do not willingly provide data on non-performing loans. Few of the banks do not even show the figure of specific reserve made on doubtful and bad debts in their profit and loss account. All banks show the total provision amount in the balance sheet. As per NRB's prescribed format of report, banks publish category wise loans and advances.

Table 4.13: Non-Performing Loans to Total Loans & Advances Ratio

Rs in million

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Non performing Loans	1,093.00	1,147.00	1,001.00	1,040.00	642.35
Loan and Advances	10,844.60	12,919.63	13,451.17	15,762.00	17,793.72
Ratio	0.10	0.09	0.07	0.07	0.04

Source: www.himalayanbank.com.np

Table 4.19 exhibits that in total volume of loans and advances, the non-performing loans and advances represent 5%. There has been a substantial decrease in the percentage of the non-performing assets of the bank. However, increase in the non-performing loans decreases the profit of the bank. The bank has been able to decrease its total ratio from 0.10 in 2002/03 to 0.04 in 2006/07, which indicates the improving performance of the bank.

4.2.3 Interest Income to Total Income Ratio

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

Table 4.14: Interest Income to Total Income Ratio

Rs. in million

Fiscal Years	2002/03	2003/04	2004/05	2005/06	2006/07
Interest Income	1,201.23	1,246.00	1,447.00	1,627.00	1,775.58
Total Income	1,334.00	1,404.00	1,621.00	1,844.00	2,010.00
Ratio	0.90	0.89	0.89	0.88	0.88

Source: www.himalayanbank.com.np

The ratio for the interest income to total ratio has somewhat been stable for HBL as indicated in Table 4.20. The highest ratio was in the year 2001/02 & 2002/03, and the lowest was in the year 2005/2006. The average ratio calculated is hovers around 0.80, which is close by to the year's entire ratio. The average ratio indicates that the ratios of the five years do not have a high degree of deviation form the mean of the bank. We can see that the overall trend of the ratio of the bank is not fixed. The lowest ratio in 2005/2006 suggests its low dependency on fund-based activity. The contrary, highest ratio indicates its greater degree of dependency on fund-based activities. The overall trend of this ratio suggests shaken economy activity and stability bf bank in fund based even due to its increasing risk elements.

4.2.4 Interest Income to Interest Expense Ratio

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

Table 4.15: Interest Income to Interest Expense Ratio

Rs. in million

Fiscal Years	2002/03	2003/04	2004/05	2005/06	2006/07
Interest Income	1149.00	1201.23	1246.00	1447.00	1627.00
Interest Expense	554.13	491.54	561.96	548.84	648.84
Ratio	2.07	2.44	2.22	2.64	2.51

Source: www.himalayanbank.com.np

The ratio indicates that there is a high degree of gap between the interest offered and the interest charged. The increased ratio as compared to the trend of loans and advances and deposits to total deposits, implies that HBL is charging high interests to the borrowers and offering low interest rate to the depositors. The low cost of deposit and a moderate volume non interest bearing deposits in the deposits mix of HBL has caused the gap between interest income and interest expense toe higher. The average ratio of the bank is 2.37 which indicates that a rupee of expense in deposits has generated 2.37 rupees of interest income for the bank.

4.3 Measurement of Profitability Ratios

4.3.1 Total Income to Total Assets Ratio

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

Table 4.16: Total Income to Total Assets Ratio

Rs in million

Fiscal Years	2002/03	2003/04	2004/05	2005/06	2006/07
Total Income	1,334.00	1,404.00	1,621.00	1,844.00	2,010.00
Total Assets	24,198.00	25,729.79	28,871.00	30,579.81	34,315.00
Ratio	0.06	0.05	0.06	0.06	0.06

Source: www.hbl.com.np

Above table explains that HBL's highest ratio was observed during 2005/2006. The ratio has followed a stable from year2001/2002 to 2004/2005 which is 0.04 but is in increasing pattern in the year 2005/2006. The overall change in the ratio was recorded at 0.06 times. Since the ratio is decreasing, it implies that the efficiency of assets has been decreasing year by year. If the bank were to look for a boost in the performance through this ratio, the bank would not be in a good position to do so. But the high volume of total income has offered this high ratio resulting in low EPS and net profit to shareholder's equity. However, this ratio measures the earning power of assets irrespective of the expenditure involved in this.

4.3.2 Net Profit to Shareholders' Equity Ratio

This ratio measures the amount of profit that a rupee of shareholders' fund has received .The high ratio is indicative of high return to shareholder and vice versa.

Table 4.17: Net Profit to Shareholders' Equity Ratio

Rs in million

Fiscal Years	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	212.00	263.00	308.00	457.00	491.82
Shareholder's Equity	429.00	536.00	644.00	772.00	811.00
Ratio	0.49	0.49	0.48	0.59	0.61

Source: www.himalayanbank.com.np

Above table exhibits that the ratio of net profit to shareholder's equity is the highest in the year 2006/2007, where the ratio was 0.61 times. But once again this ratio for the bank has not been stable through out the period of five years. Even though there have been fluctuation from the high of 0.61 to the low of 0.48, the overall change from 2002/2003 till 2006/2007 was just 0.16 times. With an average ratio of 0.53 times, it relates that the shareholder's for every single rupee of equity shall receive 0.53 profits for that single rupee. Even through throughout the years net profit has been increasing, increase in the shareholder's equity during the year 2002/2003 and 2006/2007 were greater in proportion to the net profit made by the bank.

4.3.3 Earning Per Share

EPS refers to the net profit divided by the total number of shares outstanding. The amount of EPS measures the efficiency of a firm in relative terms. This figure is the indicative of the overall good or bad performance of the organization. How far an organization is able to use its resources to generate profit is determined by the profit it has earned. Thus the EPS determines the market value of a share, determines the attitude of outsiders and high amount of EPS increases the competition in the market by the entry of new organizations.

Table 4.18: Earning per Share (EPS)

In Rupees

Fiscal Years	2002/03	2003/04	2004/05	2005/06	2006/07
Earning per Share (EPS)	49.45	49.05	47.91	59.24	60.66
Increase/ Decrease in EPS		(0.40)	(1.14)	11.33	1.42
Mean EPS	53.26				

Source: www.himalayanbank.com.np

Above table shows that the EPS of HBL was highest during 2005/2006. During the years 2006/2007 the bank EPS is 60.66 but in the year 2002/03, 2003/04 and 2004/05 EPS was deceased. During year 2002/2003 and 2003/2004, the EPS of the bank is constant i.e. 49.5 but in 2004/05 fell to Rs. 47.91 i.e. Rs. 1.59. The major reason behind this drop in the EPS was due to the increase in the number of shares outstanding. As EPS is calculated by dividing net profit by the number of shares outstanding. Hence increase in the denominator, which would always reduce the value obtained from there in.

Figure 4.6

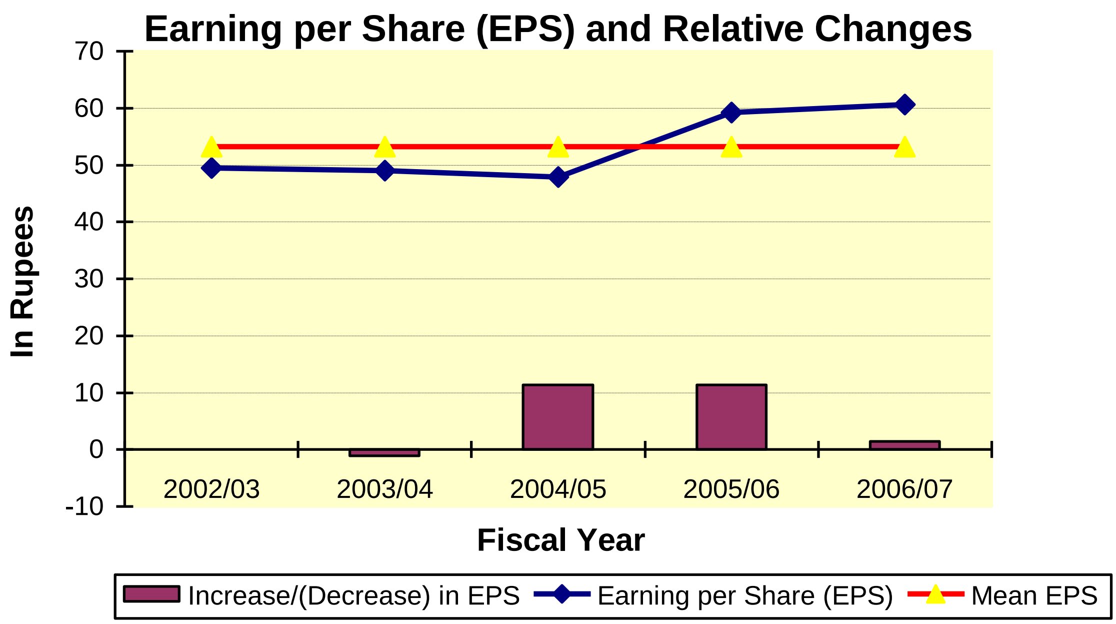


Figure 4.10 reflects the EPS of HBL and at the same time represents the mean EPS and also shows the change in the EPS during the period of five years. By the figure it is easily portrayed that the EPS of the bank had initially decreased and then went up drastically during last year of the study. On the other hand, the mean EPS denotes that apart from 2002/03, the EPS for the different years haven't deviated from the bank's average EPS. Though the deviation during 2005/2006 was positive and proved the increased efficiency of the bank, however, decrease in the EPS a year later, plummeted the change to a decreasing status. However, the performance of the bank on the part of the EPS is deemed as satisfactory as the mean EPS of HBL hovers around Rs. 53.26 and during 2006/2007, the EPS of the bank was just above the mean, which was Rs. 60.66. Further, it can be noted that

EPS of HBL has not gone down than the mean EPS over five years, and it is almost equal to the mean amount.

4.5 Measuring Correlation between different Variables

4.5.1 Correlation between Deposits and Loans & Advances

The correlation between deposits and total loans & advances describes the degree of relationship between these two items. How a unit increase in deposits impact the volume of the loans and advances is measured by correlation. Here, deposit is the independent variable and the loan and advance is the dependent variable.

Table 4.19: Correlation, Coefficient of Determination and Probable Error between Total Deposit and Total Loans & Advances

Evaluation Criterions			
r	r^2	P.Er.	6*P.Er.
0.9718	0.9444	0.0168	0.1007

Source: Appendix 2

Table describes the relationship between total deposits and total loans and advances. As prominent from the table, it can be seen that there is a high degree of positive correlation between the two variables. This indicates that loans and advances are highly dependable on the amount of deposits collected. Since the value of (r) in the bank is more than six times the P.Er., the correlation between these two variables is significant. As noted the value of coefficient of determination is 0.9444, it indicates that 97.18% of the variation in loans and advances is explained by deposit and the rest of 1.68% is due to other factors such as necessity of utilization of deposit to other sectors, which is essential and requirement for banking operation. Thus by the figures that have been obtained above, we can say that the bank is making its loans and advances form a major portion of its deposits, which means the bank is efficiently mobilizing its deposits.

4.5.1 Correlation between Shareholders’ Equity and Loans and Advances

The correlation between shareholders’ equity and loans and advances describes the degree of impact of the increase in shareholders' equity due to increase in loans and advances. The loans and advances is the independent variable and the shareholders’ equity is considered as the dependent variable.

Table 4.20: Correlation, Coefficient of Determination and Probable Error between Shareholders' Equity and Total Loans & Advances

Evaluation Criterions			
r	**r^2**	**P.Er.**	**6*P.Er**
0.9518	**0.9060**	**0.0284**	**0.1702**

Source: Appendix 2

Above table explains that there is high degree of positive correlation between shareholder's equity and loans and advances in the bank. Since the value of r is greater than six times the P.Er., the value of (r) is significant. We can see that coefficient of determination between the said variables is 0.9060; this infers that the increment in loans and advance of HBL increases the shareholder's equity in higher degree. So, 90.60% of the variation in the shareholders’ equity has been resulted by the performance of loans and advances and rest of 9.40% is due to other variables.

4.5.1.1 Correlation between Total Income and Loans & Advances

The correlation between total income and loans and advances measures the degree of linear relationship between these two variables. Loans and advances is independent variable whereas total income is the dependent variable.

Table 4.21: Correlation, Coefficient of Determination and Probable Error between Total Income and Loans & Advances

Evaluation Criterions			
r	**r^2**	**P.Er.**	**6*P.Er**
0.9737	**0.9481**	**0.0157**	**0.0939**

Source: Appendix 2

According to above table, correlation between total income and loans and advances is high. The value or (r) is significant as the value of (r) is greater than six times P.Er. Both the variables are positively correlated, so there will certainly be change in total income with changes in loans and advances. The coefficient of determination is also high, which is 0.9481, which means that 94.81% of changes in total income is resulted by loan and advances and rest of 5.19% is due to other factors, such as fee based income and other income of HBL.

4.5.1.2 Correlation between Provision for Loan Loss and Loans and Advances

The provision for loan loss and loans & advances are co- related. The former is the product of the latter. Therefore, correlation between provision for loan loss and loans & advances measure the degree of linear relationship between these two variables. By the nature of variables, as an independent variable the increase in loan and advances must increase the volume of the dependent variable i.e. Provision for loan loss.

Table 4.22: Correlation, Coefficient of Determination and Probable Error between Provision for Loan Loss and Loans & Advances

Evaluation Criterions			
r	r^2	P.Er.	6*P.Er
0.8804	0.7752	0.0678	0.4069

Source: Appendix 2

As predicted by the calculations, there is high degree of correlation between two variables. So, changes in loans and advances will certainly result the changes in provision for loan loss. The value of (r) is greater than 6 * P.Er. so the coefficient of correlation is significant. Similarly, coefficient of determination 0.7752 explains that 77.52% of total variation in provision for loan loss is explained by loans and advances leaving only 23.48%, which is result of other factors. Here, other factor is again loans and advances, but difference is that in this case loans should be categorized to the higher degree of risk (i.e. non performing loan).

4.5.2 Correlation between Interest Income and Net Profit

The interest income contributes the major portion of total volume of commercial bank's income. This correlation measures the degree of linear relationship between interest income and net profit. Here, the interest income is independent variable and net profit is dependent variable.

Table 4.23: Correlation, Coefficient of Determination and Probable Error between Interest Income and Net Profit

Evaluation Criterions			
r	r^2	P.Er.	6*P.Er
0.9537	0.9096	0.0273	0.1636

Source: Appendix 2

Table 4.29 shows that the value of (r) for HBL is significant and the linear relationship between these two variables is also positive, as the value of (r) is greater than six times the P. Er. In determining the correlation, we can say that the net profit is dependent with interest income but not totally because as shown by the result coefficient of variation is not 1. As shown in the table 90.96% of variation in net profit is a result of interest income and rest of 9.04% is result of other factors.

4.6 Measuring the Growth Rate, Propensity of Growth based on Trend Value

So far we have calculated various measures of relative financial tools and absolute measures of statistical tools. In this section we shall examine the trend analysis of loans and advances, and EPS. The measures of trend analysis exhibit the behavior of given variables in a series of time. The performance of any commercial bank does not carry consistency over all the period and several factors causes the increase or decrease in the volume of various items of bank operation. The trend of any variable and the slope of trend line relating with the compound interest discount factor measures the growth rate of that variable. Thus along with the analysis of trend line, the growth rate has also been measured.

4.6.1 Trend Analysis, Growth Rate and Propensity of Growth of Loans and Advances.

Loan and Advances are the backbone of commercial banks. Volume of loans and advances directly affects the performance of the bank and its profitability as well. The trend line is obtained for the next five years and is based on least square methods of time series.

Table 4.24: Trend Equation, Growth Rate and Propensity of Growth of Loans & Advances

Rs in million

Linear Equation with base 2002/2003 = 14153.82 + 1673.86 X			
Fiscal Year	**X**	**Trend Equation**	**Trend Value**
2001/2002	-2	14153.82 +1673.86 x-2	10,806.10
2002/2003	-1	14153.82 +1673.86 x-1	12,479.96
2003/2004	0	14153.82 +1673.86 x-0	14,153.82
2004/2005	1	14153.82 +1673.86 x 1	15,827.69
2005/2006	2	14153.82 +1673.86 x 2	17,501.55
2006/2007	3	14153.82 +1673.86 x 3	19,175.41
2007/2008	4	14153.82 +1673.86 x 4	20,849.27
2008/2009	5	14153.82 +1673.86 x 5	22,523.13
2009/2010	6	14153.82 +1673.86 x 6	24,196.99
2010/2011	7	14153.82 +1673.86 x 7	25,870.85
		Average Growth in Percentage	9.20
		Propensity of Growth of Loans & Advances	1,673.86

Source: Appendix 2

Table 4.30 exhibits linear equation based on Y = a + bX of the bank and the average growth of the bank along with the propensity of growth with respect to the loans and advances. The growth exhibited by the table represents 9.20% growth, where it is likely to growth by Rs 1673.86m in one year period. However, the trend shows the encouraging sign as the loans and advances of the bank are likely to increase vastly in the future.

Figure 4.7

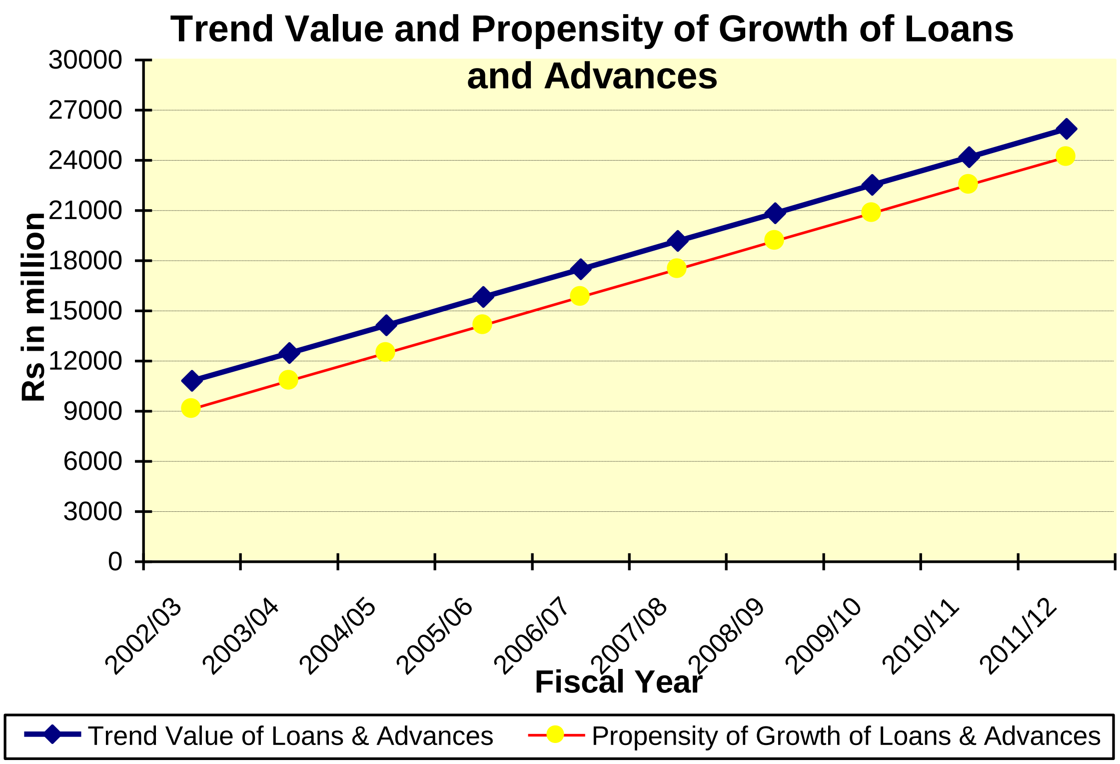


Figure 4.11 exhibits the trends lines representing the trend value performance of loans and advances of HBL. The trend line has been rising and representing that the bank has major focus on lending. The figure indicates that the bank will focus on lending as shown by the slope of the line. The slope of the line represents the high growth rate in its lending.

From this analysis, HBL can be concluded as a good performer in Loans and advances in the future. It has a good growth rate and the aspect of growing in loans in the future also looks good for the bank.

4.6.2 Trend Analysis, Growth Rate and Propensity of Growth of Earning per Share (EPS)

EPS and its trend reflect the overall efficiency of a commercial bank. This measures the efficiency of overall bank's performance and checks the financial health of the bank.

Table 4.25: Trend Equation, Growth Rate and Propensity of Growth of EPS

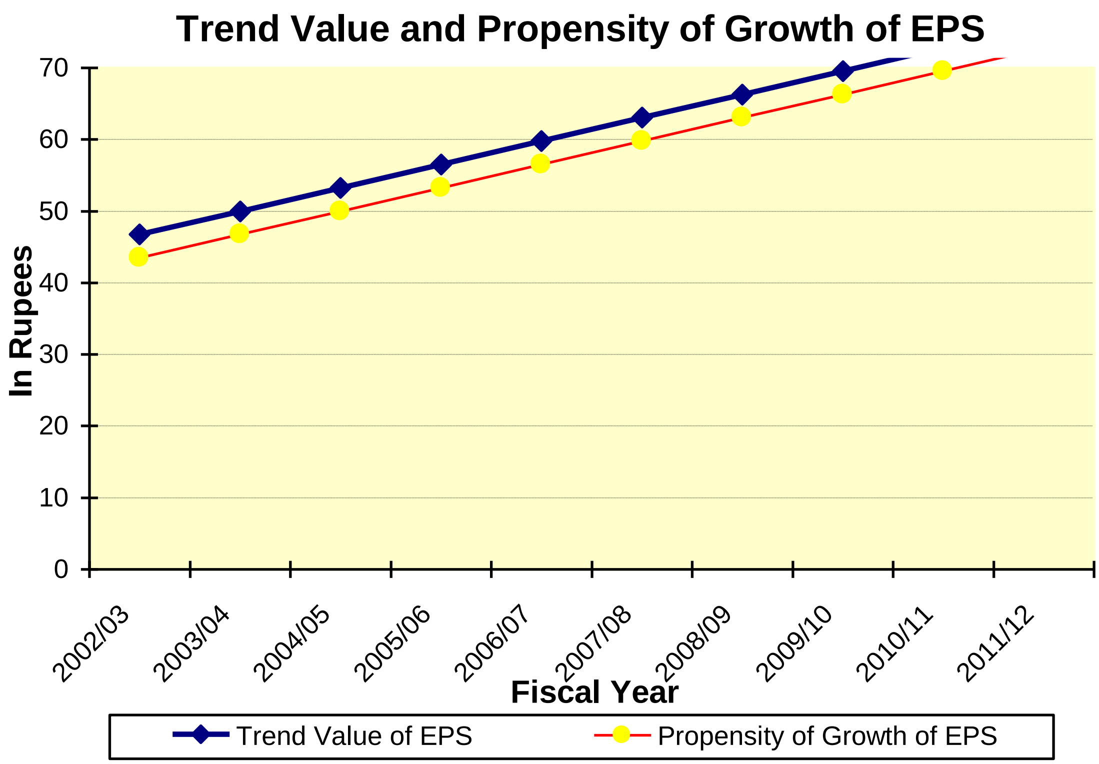
In Rupees

Linear Equation with base 2002/2003 = 53.26 + 3.26 X			
Fiscal Year	**X**	**Trend Equation**	**Trend Value**
2002/2003	-2	53.26 + 3.26 x-2	46.74
2003/2004	-1	53.26 + 3.26 x-1	50.00
2004/2005	0	53.26 + 3.26 x 0	53.26
2005/2006	1	53.26 + 3.26 x 1	56.52
2006/2007	2	53.26 + 3.26 x 2	59.78
2007/2008	3	53.26 + 3.26 x 3	63.05
2008/2009	4	53.26 + 3.26 x 4	66.31
2009/2010	5	53.26 + 3.26 x 5	69.57
2010/2011	6	53.26 + 3.26 x 6	72.83
2011/2012	7	53.26 + 3.26 x 7	76.09
Average Growth in Percentage			5.01
Propensity of Growth of EPS			3.26

Source: Appendix 2

Table 4.31 represents that the growth rate of EPS of HBL is on increasing trend. The average rate of EPS is 5.01% per year. But the bank efficiency may have a increase in the future. The trend value shows that the EPS may be increase within next five years. However, this type of growth is dependent to many factors of the bank's operation such as interest earning, performance of loans and advances and overall goodwill of the bank.

Figure 4.8



The chart explains the overall increasing trend of EPS. Looking at the figure, we can conclude that the average line of EPS of the bank will increase slowly; this can be identified via the slope of the line. Since the slope of the line has a moderate degree of upward trend, the rise in the EPS can thus be concluded to some extent. HBL should focus to keep the trend on track as shown in the figure or even to improve more by mean of generating more profit. Thus, HBL can provide good level of return to its shareholders'.

4.7 Major Findings of the Study

4.7.1 Findings from measurement of Lending Strengths

1. The measurement of lending strengths in relative term has reveled that the total liability to total asset of the bank is moderate. The fluctuating ratio is the result of the high volume of shareholders equity in the liability mix. The ratio of the bank however has not deviated vastly from the mean. It depicts average performance of the bank, as it seems the bank has not been efficiently using its funds as its liability permits.
2. Loans and advances to total assets ratio of the bank has been increasing. It shows that the bank has increased its loans and advances almost four times since the past 5 years. This indicates that the bank has been following a policy of high lending. At the same time the assets of the bank has almost tripled in the five years time period. The ratio in the mean time also depicts that the bank has maintained a right mix of conducting other fee-based activity to move along with its loans and advances. However, the ratio cannot be deemed as outstanding but can be mentioned satisfactory.
3. The ratio of loans and advances to shareholders equity has gained significant importance in measuring the capital fund and corresponding contribution in loans and advances. There has been a good level of increment during the year 2001/02 and 2002/03; however this increase in the ratio is owed to the low volume of the entire component of shareholders' equity in the bank's capital mix and proportionately high volume of business. This has led HBL to be one of the best performers amongst the whole banking industry. Thus it can be concluded that the bank has been able to increase its loans and advances in proportion to the size of its capital.
4. Similarly, the absolute measures of lending strengths have revealed that the mean volume of net assets has a moderate variation. The average growth of the

net assets throughout five years is measured at 9.33% indicating the bank has had substantial success in maintaining the satisfaction to its shareholders and also has been able to increase the volume of its business. This reveals that the bank has been increasing its assets by mean of loan and investment.

5. The volume contributed by HBL in case of loans and advances is highly appreciable. There is good level of increment in loan and advances. Loans and advances made during the year 2002/03 were somewhat lesser in comparison to other years because during that year the deposit where low and since deposit where low, proposed mobilization of funds could not be initiated. But the hindering part for the bank during that period was that even though the loans and advances for the past years were increasing, the bank could not continue and steady growth of loans and advances. However, there is excellent average growth of 10.66 percent over past five years.
6. One noted finding is that the bank is positive towards increasing its assets from the loans and advances. The performance of the bank is pointed to the right direction as it has cut out on its provision for loans and more important, the bank has made reductions in the non performing loans of the bank. Thus, this concludes that the bank is steeping forward to efficiently perform in the case of pace of development of the above variables.
7. The bank had earned a maximum interest during the fiscal year 2005/2006, where as the highest level of increment is during the year 2004/2005. The reason for the overall increase in the interest income lies in the fact that the lower interest earned through investment has been offset by the higher interest earned through loans and advances and vice versa. One other major factor contributing to the fluctuating rate of collection of interest could be because of the uncollected interest during yearly closing, which is counted towards expenses or receivables. Bank suffers through a high credit risk, which could have hampered the collection of the interest from the clients.
8. From the analysis of Loan Loss Provisioning of the bank it can be seen that

there has been an increase in the provisioning by the bank. During the year 2002/2003 and 2003/2004, there has been almost no change in the year's provisioning. Provisioning, if decreased is favorable to the bank as it decreases the liability of the bank, but on the other hand if the provisioning stays the same, that will be the result no additional business by the bank. Although, least increment of provisioning with an increase in the loans and advances of the bank is very good. Hence, the minimal increase in the provisioning of the loans and advances shows a positive effect on the bank's performance. Thus, we can predict that HBL either have been facing problem of risky assets (bad loans) or there is tremendous increase in loan and advances.

9. The figures of net profit reveals that HBL has a excellent growth rate over last five years, which is good for goodwill of bank. From the calculation we can see that HBL has average growth rate of 15.97% in net profit over last five year's period.

Findings from analysis of Portfolio behaviour of Loans and Advances

The portfolio analysis has revaluated that the flow of loan and advances in agriculture sector is the lowest contribution from the bank. The mean of 1% indicates very low contribution in this sector. The high operating cost, high degree of risk, small-scale loans etc. has made the commercial banks to flow low percentage of their credit in this sector. If the combined mean is taken as the standard percentage, then the performance of the bank in the manufacturing sector deserves a high degree of appreciations compared to other sectors. The contribution of the bank on the manufacturing sector is appreciable and the increase of credit in this sector is crucial for the national development also. However, bank should divert its lending to different sector because focusing to only one sector may create high for the bank's future. The lending in the commercial purpose has however, been efficient in the case of HBL. The contribution of the bank to this sector is given second priority from the data obtained. The service sector too has been given importance by the bank. The bank has contributed 14% if its total credit to this sector.

4.7.2 Findings from Lending Efficiency and its Contribution in Total Profitability

1. The ratio of provision for loans and advances to loans and advances has a relatively lower degree of effect of HBL. There has been a variation on this ratio; however, a decline in this ratio has been noted in the earlier years and HBL has been able to maintain low level of ratio almost all the years. As per NRB directives, provisions against all type of loans should me done and booked under separate accounts. This type of regulations has been imposed by NRB in order to minimize the risk of loan and advances flowed by the banks. In case of HBL, we can see that some loans have been crossed the rating of

good loan. Thus, from the analysis we can say that HBL has provisioned more than 1% for some of its loans, which shows that defaulters are present in HBL. However, ratio of five years predict that provisioned amount does not exceed 5% of total loan of HBL, which proves HBL has been putting its effort and is conscious to minimize the risky loans. Regarding NPL, HBL has to improved the category of its loan and try to minimize the bad loans, which fall under Non-performing Loan. Even though, the percentage of NPL of HBL is low, it will have to make a review of its lending policy to recover bad loans from its default clients, but certainly HBL has been putting efforts to reduce in Non Performing Loans (NPL) as we can see in the decrease in the amount of the NPL of HBL in the year after 2001/2002. But in the contrary, increase in the previous year has affected performance of HBL.

2. The mean ratio of interest income to total income has concluded that the contribution of interest income to total income mixed of HBL has been fluctuating for the different years. The performance of HBL has been moderate and the average ratio indicates that the ratio of the five years do not have a high degree of deviation from the mean of the bank. We can see that the overall trend of the ratio of the bank is not fixed. This ratio indicates that the cost of funds in HBL is not so high and that it does have relatively less effect on this ratio. HBL, has advancement of technology and modern banking, thus, it has capitalized in collection funds in the cheapest possible price.

4.7.3 Findings From measurement of Profitability Ratios

1. Among the various measures of profitability ratios, the total income total assets ratio measures the earning power of each rupee employed by an organization irrespective of volume of expenditure incurred. The ratio of total income to total expense measures the earning capacity a rupees of expenses. The ratio indicates how much a rupee of expense would result in total income. Thus higher the ratio, better the productivity of expenditure. The productivity of

expense in NIBL is not so good as it’s a rupee expense is able to contribute 1.55 times the expenditure made. Regarding the performance of a bank, it is considered good to have a total income to total expense ratio of more than 2.

2. The EPS reflects the relative measures of profitability. The performance of HBL is relatively not so satisfactory. But the high volume of reserve and surplus in the capital mix of HBL has resulted in the bank to acquire a compromising position as compared to net profit to shareholders equity ratio. Although there is decrease in EPS of HBL over last two year, it is also can be considered satisfactory because it has not gone down from the mean EPS of HBL.

4.7.4 Findings from measurement of correlation between different variables

The correlation chapter has shown generally high degree of significant correlation between all the variables.

The bank has a high degree of correlation in respect of total deposits and total loans and advances, shareholder's equity and loans & advances, total income and loans and advances, which are indicative of good performance of HBL in generating profit through lending. This also concludes that increment in deposits is the most likely to increase the volume of loans and advances. As far as the lending function and its correlation with other variables is concerned, the correlation of HBL has shown the best contribution toward national economy. There is also a high degree of correlation between shareholders' equity and loans and advances and between total income and loans and advances, which predicts the return generated by lending of HBL has a great contribution towards bank's profitability.

4.7.5 Findings from Trend Analysis

1. Trend analysis has revealed the future performance of HBL in the case of loans & advances and the earning per share. The slope of the trend line is high in the bank. Especially, through the pattern of the recent times, HBL's efficiency in loans & advances is forecasted to increase. The measured growth, depending on the trend values, has projected the increasing performance of HBL's for the next five years. The growth rates of loans & advances of HBL seem good. This added to the vital power of lending in HBL. The high degree of growth in loans and advances puts the bank in a good position in the lending functions for the future. Although, there is little bit lower degree of growth rate in EPS as compared with loans and advances, it can be improved with the growth of loans & advances as expected.

2. The propensity of growth measured by trend analysis also reveals HBL's forecasted good performance, not only in the percentage growth but also in the volume of growth.

CHAPTER 5

Summary, Conclusions and Recommendations

In this chapter we examine the processed data to come into summary, conclusions on the performance of the bank on an individual basis and put some recommendation for the subject bank in order to improve its weaknesses. This chapter is divided into summary, conclusions and recommendations.

Summary and Conclusions

The lending strengths of HBL in term of exposure of loans and advances is good. The ratio of loans & advances to total assets, loans & advances to shareholder's equity indicate a good performance of HBL in its lending activities. The bank has been able to upgrade the performance by increasing its loan portfolio. If HBL succeeds in collecting the cheap sources of fund in the future, the lending strengths of HBL would push its performance upward.

Viewing the productivity of loans and advances and its contribution in the national economy, the performance of HBL has been satisfactory. The contribution made by this bank in agricultural purpose, however, is lower; it has increased contribution to the manufacturing sector continuously. A considerable percentage of HBL's credit has been granted to unproductive sector of general use and social purpose, however such loans are also required in order to improve individual's social status and fulfillment of basic needs. But the overall slowdown in the economy, increasing failure of the industrial sector in generating profit, increasing tendency bad performance of industrial loan etc. has put HBL to the tough stage. Thus, element of credit risk in HBL has increased due to the failure of industrial sector in the economy. If the present economic conditions improved and the industrial performance turned to success, HBL would be the superior entity in the commercial banking groups in the future. Whatsoever the case, the contribution made by the bank in industrial sector of the economy is highly appreciable.

The propensity of growth of loans and advances is good but the opportunity in lending activities is limited, thus there is uncertainty to meet the expected growth. This however, decreases the bank's capability in making credits but if the economy takes the upward trend there would certainly be a strong position of HBL in terms of lending, which will help to generate more profit. Looking at the asset management ratio, the performance of HBL seems good in the area of lending, productivity and impact on national economy. The activity ratio on the other hand, also reflects to the soaring performance of HBL. The decreasing loan loss provision ratio is the indicative of the bank's better performance in judging the good customers. The high growth rate, proportionately high volume of loans and advances, better contribution to the industrial sector and the increasing level of deposits mobilization, has put the bank into one of the most competitive banks in the industry. It has also been able to contract a good renowned position in the lending function as deemed by the national priority, and national development. However, better activity ratio of this bank, been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of HBL has put this bank in the top position in absolute term. Thus, looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/2003 and has continued till 2004/2005 and the bank has the potentiality to become a leading bank in Nepal.

Recommendations

Based on the findings in chapter four and above conclusions the following recommendations have been forwarded:

1. The rural economy has always been realizing the credit needs; the dominancy of non-organized moneylender in this area has been prevailing. To compromise between the liquidity and credit need of rural economy, the bank is highly recommended to expand its credit in this area. This helps minimizing idle fund in business and at the same time contribute to the national economy.
2. The ratio between loans and advances and shareholders' equity shows that there is good growth rate over last five years. This implies that HBL is able to increase loans proportionately with the capital. So, Bank should continue to maintain or further increase this performance.
3. The provision on loan loss and relatively decreasing volume of non-performing loans in HBL does somewhat attention. The moderate volume of NPL in HBL may have caused a slight hassle in the performance of the bank. But the bank must get rid of its accumulated bad debts and show high efficiency.

   Following the normal guidelines of NRB and acting upon this also reduces many of the credit risk arising from borrower's defaulter, lack of proper credit appraisals, black listed borrowers, and willful defaulters. The over confidence in commercial banks regarding credit appraisal efficiency and negligence in taking information from Credit Information Bureau has caused many bad debts in the bank. Hence, the bank is recommended to follow the directives of NRB strictly and be more cautious and realistic while granting loans and advances. The major solution of reducing the risk is to avoid lending in the more risky area until the bank is fully satisfied regarding the future viability of the project. Although the government has established an office named 'Debt Recovery Tribunal' in order to help the banks for recovery of bad debts. An additional effort for establishment of 'Assets Management Company', which helps the banks in collecting their debts and improving their credit rating efficiency, should be initiated.

4. There is dramatic change in Net Assets of HBL in last year, which is good for banks image and shareholders' satisfaction. This type of dramatic change is due to drastic increase in loans and advances over last year. Shareholders' satisfaction is one of the major factor for bank's status. Thus, the bank is recommended to increase sustainable banking practice to cope up with the future challenges in the coming days by continually increasing loans and advances.
5. As examined by interest income and interest expense ratio, the interest gap is highly unfavourable for the bank. As the total loans and advances the total deposits ratio is not even 1:1, this gap has its reason with not succeeding to lend the available fund to the optimum level. This ratio has clearly indicated that the bank is not able to maintain the maximum gap of 5% between interest collected and interested paid as permitted by NRB. Thus, bank is recommended to increase this gap especially by increasing interest rate on lending. Increasing interest rate on lending generates high return to the bank and helps in increasing the sustainable lending practice with proper analysis. This will also create room to solicit deposit in case of liquidity crunch by mean of offering higher interest rate. However, this type of changes should be implement with due care because there is high risk of loosing existing business, so tiny analysis of market is required for this.
6. The actual status of any bank is explored by net profit of that bank. HBL's net profit shows a good sign of growth, so there is confidence in public towards HBL. So, HBL is recommended to continue the present growth rate over net profit in order to maintain its status by focusing on the strength of lending and giving emphasis to mobilize the collected deposit to the great extent.
7. The ratio contribution made by the bank in agriculture and priority sector does not look fulfilling. HBL's volume of agricultural and priority sector both is not satisfactory, though lending to agricultural is increasing. Since, the prosperity of national economy is highly dependent upon this sector, the bank is

recommended to increase its volume of credit to these sectors. So, as focused by HBL, contribution to industrial sectors only does not complete the responsibility of the banks to the national economy. So, HBL should put effort to lend out money to the prioritized sectors like tourism, hydro powers, information and technology, and small scale businesses.

8. The high volume of liquidity shows that the high degree of lending strengths has been prevailing in the bank. The lack of reliable lending opportunities and fear of losing the principal in case of lending in rural sector has been keeping the bank less oriented towards the lending function to rural sector. Hence, the government should take appropriate action to initiate the banks to attract to flow credit in the rural economy. Imposing the compulsion by directives does not create long term healthy lending practices unless the commercial banks are not self motivated to flow credit in this sector. But in view of the risk element in lending, the banks still prefer to have a negative outlook in handling lending proposals. This attitude requires to be changed among the banks and any proposal coming to them should be processed to conform to banking norms so that it can be sanctioned for fulfillment of national and social objectives.
9. Finally, however, performance of HBL seems to be good till date, there is still many opportunities for further growth of the bank. HBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strengths, personal integrity and credibility of the borrower for loan disbursement. It should maintain high level of monitoring and control system over the disbursed loans and advances. To create opportunities of business new and attractive lending schemes should be launched to the public. HBL should be more responsive towards national economy and economic development. It should not neglect the deprived sector, as upliftment of this sector plays vital role for national economy. The bank should avoid credit concentration to a limited sector in order to maintain its performance. If there is recession to any specific sector, remaining sectors of economy may function well and there may

not be severe impact on the whole lending portfolio of the bank. NRB also should be more concerned and active for proper monitoring and formulating or reviewing its policies and regulations to safeguard the interest of the banks.

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Appendix 2

Calculation I

1. Calculation of Mean, Standard Deviation and Coefficient of Variation of Net Assets

Fiscal Year	Net Assets (X)	Mean X - X = x	x^2
2002/03	1,905.90	612.90	375648.86
2003/04	2,291.90	226.90	51484.52
2004/05	2,568.39	(49.59)	2458.97
2005/06	2,885.59	(366.79)	134534.91
2006/07	2,942.23	(423.43)	179292.97
	$\sum X$= 12,594.01		$\sum x^2$ = 743,420.23

Mean X ($\overline{X}$) = $\frac{\sum X}{N}$, where N = 5

Therefore, Mean X = $\frac{12{,}594.01}{5}$ = 2,518.80

Now, standard deviation (σ) = $\sqrt{\frac{\sum x^2}{N}}$

= $\sqrt{743{,}420.23 / 5}$

= 385.60

Coefficient of Variation (C.V.) = $\frac{\sigma}{\text{Mean X}}$ x 100

= 385.60 x 100 / 2,518.80

= 15.31%

2. Calculation of Mean, Standard Deviation and Coefficient of Variation of Loans and Advances

Fiscal Year	**Loans & Advances (X)**	**Mean X - X = x**	**x^2**
2002/03	10844.60	3309.68	10953982.00
2003/04	12919.63	1234.65	1524360.60
2004/05	13451.17	703.11	494363.67
2005/06	15762.00	(1607.72)	2584763.60
2006/07	17794.00	(3639.72)	13247562.00
	$\sum X$= 70,771.40		$\sum x2$ = 28,805,031.00

Mean X ($\overline{X}$) = $\frac{\sum X}{N}$, where N = 5

Therefore, Mean X = $\frac{70,771.40}{5}$ = 14,154.28

Now, standard deviation (σ) = $\sqrt{\frac{\sum x^2}{N}}$

= $\sqrt{28,805,031/ 5}$

= 2,400.21

Coefficient of Variation (C.V.) = $\frac{\sigma}{\text{Mean X}}$ x 100

= 2,400.21 x 100 / 14,154.28

= 16.96%

Calculation II

1. ***Calculation of correlation between loan and advances and deposits***

F/Y	Deposit (X)	dx= (X-x)	dx^2	Loan (Y)	dy=Y-y	dy^2	dx*dy
2002/03	21,007.37	(3,866.74)	14951693.69	10844.6	(3309.62)	8,701,131.25	12797438.92
2003/04	22,010.33	(2,863.78)	8201247.34	12919.6	(1234.62)	2,763,267.89	3535676.81
2004/05	24,814.01	(60.10)	3612.25	13451.17	(703.05)	170,339.45	42254.60
2005/06	26,490.85	1,616.74	2613841.76	15762	1607.78	891,630.72	2599362.26
2006/07	30,048.00	5,173.89	26769117.04	17793.72	3639.50	10,595,623.93	18,830,375.72
	∑X = 124,370.56		∑dx2= **52539512.09**	∑Y= 70,771.40		∑dy2 = **28,803,067.17**	∑ dx*dy = **37,805,108.30**

Here, N = 5

Mean of X (x) = $\frac{\text{Sum of X}}{N}$ = 124,370.56 / 5 = 24,874.11

Mean of Y (y) = $\frac{\text{Sum of Y}}{N}$ = 70,771.40/ 5 = 14,154.28

Now, for calculation of correlation coefficient (r),

we have $r = \frac{\sum dx\, dy}{N\, \sigma_x\, \sigma_y}$

= 37,805,108.30 / (5 x 3241.59 x 2400.13)

= 0.9718

Calculation of Probable Error (P.Er.)

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

= $0.6745\ [1 - (0.9718)^2\ ] / \sqrt{5}$

= 0.6745 x 0.0556 / 2.236

= 0.01677

Note: σ_x and σ_y has been calculated as per the calculation given in Calculation I.

2. **Calculation of correlation between shareholders' equity and loans and advances**

F/Y	Loans & Advances (X)	dx= (X-x)	dx^2	Shareholders' Equity (Y)	dy=Y-y	Dy^2	dx*dy
2002/2003	10,844.60	(3309.62)	8,701,131.25	1905.88	(612.9)	375,646.41	2028466.09
2003/2004	12,919.63	(1234.62)	2,763,267.89	2291.82	(226.96)	51,510.84	280209.36
2004/2005	13,451.17	(703.05)	170,339.45	2568.39	49.61	2461.15	-34878.31
2005/2006	15,762.00	1607.78	891,630.72	2885.59	366.81	134,549.58	589749.78
2006/2007	17,793.72	3639.50	10,595,623.93	2942.22	423.44	179,301.43	1541109.88
	∑X = 70771.12		∑dx2 = **28,803,067.17**	∑Y= **12593.9**		**∑dy2 = 743,469.41**	**∑ dx*dy = 4,404,656.81**

Here, N = 5

Mean of X (x) = $\frac{\text{Sum of X}}{N}$ = 70,771.12 / 5 = 14,154.28

Mean of Y (y) = $\frac{\text{Sum of Y}}{N}$ =12,593 / 5 = 2,518.78

Now, for calculation of correlation coefficient (r),

we have $r = \frac{\sum dx\, dy}{N\, \sigma_x\, \sigma_y}$

= 4,404,656.81 / (5 x 2,400.13 x 385.61)

= 0.9518

Calculation of Probable Error (P.Er.)

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

= $0.6745\ [1 - (0.9518)^2\ ] / \sqrt{5}$

= 0.6745 x 0.0941 / 2.236

= 0.02999

Note: σ_x and σ_y has been calculated as per the calculation given in Calculation I.

3. *Calculation of correlation between Total Income and loans & advances*

F/Y	Loans & Advances (X)	dx= (X-x)	dx^2	Total Income (Y)	dy=Y-y	dy^2	dx*dy
2002/2003	10,844.60	(3309.62)	8,701,131.25	1283	-238.2	56739.24	702634.74
2003/2004	12,919.63	(1234.62)	2,763,267.89	1334	-187.2	35043.84	311184.06
2004/2005	13,451.17	(703.05)	170,339.45	1484	-37.2	1383.84	-449.92
2005/2006	15,762.00	1607.78	891,630.72	1621	99.8	9960.04	94237.35
2006/2007	17,793.72	3639.50	10,595,623.93	1844	362.8	131623.84	1180947.38
	∑X = 70771.12		∑dx2 = **28,803,067.17**	**∑Y= 7606**		**∑dy2 = 234750.8**	**∑ dx*dy = 2288553.60**

Here, N = 5

Mean of X (x) = $\frac{\text{Sum of X}}{\text{N}}$ = 70,771.12 / 5 = 14,154.28

Mean of Y (y) = $\frac{\text{Sum of Y}}{\text{N}}$ = 7,606 / 5 = 1,521.20

Now, for calculation of correlation coefficient (r),

we have $r = \frac{\sum dx\, dy}{N\, \sigma_x\, \sigma_y}$

= 2288553.60 / (5 x 2,400.13 x 216.67)

= 0.8802

Calculation of Probable Error (P.Er.)

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

= $0.6745\ [1 - (0.8802)^2\ ] / \sqrt{5}$

= 0.6745 x 0.2253 / 2.236

= 0.0679

Note: σ_x and σ_y has been calculated as per the calculation given in Calculation I.

4. *Calculation of correlation between provision for loan loss and loans & advances*

F/Y	Loans & Advances (X)	dx= (X-x)	dx^2	Provision Amount (Y)	dy=Y-y	dy^2	dx*dy
2002/2003	10,844.60	(3309.62)	8,701,131.25	643.41	-276.59	76500.92	263029.57
2003/2004	12,919.63	(1234.62)	2,763,267.89	842.75	-77.25	5967.25	121695.66
2004/2005	13,451.17	(703.05)	170,339.45	967.76	47.762	2281.21	-5904.30
2005/2006	15,762.00	1607.78	891,630.72	1026.65	106.65	11374.65	30562.74
2006/2007	17,793.72	3639.50	10,595,623.93	1119.42	199.42	39769.13	647041.34
	∑X = 62534.54		**∑dx2= 23121993.24**	**∑Y= 4599.99**		**∑dy2 = 135893.16**	**∑ dx*dy = 1056425.01**

Here, N = 5

Mean of X (x) = $\frac{\text{Sum of X}}{N}$ = 62,534.54 / 5 = 12,506.91

Mean of Y (y) = $\frac{\text{Sum of Y}}{N}$ = 4599.99 / 5 = 919.99

Now, for calculation of correlation coefficient (r),

we have $r = \frac{\sum dx\, dy}{N\, \sigma_x\, \sigma_y}$

= 1,056,425.01 / (5 x 2,997.30 x 75.87)

= 0.9289

Calculation of Probable Error (P.Er.)

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

= $0.6745\ [1 - (0.9289)^2\ ] / \sqrt{5}$

= 0.6745 x 0.1371 / 2.236

= 0.0414

Note: σ_x and σ_y has been calculated as per the calculation given in Calculation I.

5. *Calculation of correlation between Interest Income and Net Profit*

F/Y	Loans & Advances (X)	dx= (X-x)	dx^2	Provision Amount (Y)	dy=Y-y	dy^2	dx*dy
2000/2001	2429.00	2429.00	5900041.00	110.2	-78.70	6193.69	263029.57
2001/2002	2713.50	2713.50	7363082.25	149.1	-39.80	1584.04	121695.66
2002/2003	5921.80	5921.80	35067715.24	149.7	-39.20	1536.64	-5904.30
2003/2004	7338.50	7338.50	53853582.25	208.4	19.50	380.25	30562.74
2004/2005	10453.10	10453.10	109267299.61	327.1	138.20	19099.24	647041.34
	$\sum X$ = 2753.67		**$\sum dx^2$= 244705.31**	**$\sum Y$= 944.50**		**$\sum dy^2$ = 21595.78**	**$\sum$ dx*dy = 70759.17**

Here, N = 5

Mean of X (x) = $\frac{\text{Sum of X}}{N}$ = 2,753.67 / 5 = 550.73

Mean of Y (y) = $\frac{\text{Sum of Y}}{N}$ = 615.00 / 5 = 123.00

Now, for calculation of correlation coefficient (r),

we have $r = \frac{\sum dx\ dy}{N\ \sigma_x\ \sigma_y}$

$= 70{,}759.17 / (5 \times 221.23 \times 65.72)$

$= 0.9734$

Calculation of Probable Error (P.Er.)

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

$= 0.6745\ [1 - (0.9734)^2\ ] / \sqrt{5}$

$= 0.6745 \times 0.0526 / 2.236$

$= 0.0159$

Note: σ_x and σ_y has been calculated as per the calculation given in Calculation I.

Calculation III

1. Calculation of Trend Equation of Loans and Advances

Year	t	Loans and Advances (Y)	X = (t-3)	X^2	XY
2002/2003	1	10,844.60	-2	4	(21,689.2)
2003/2004	2	12,919.63	-1	1	(12,919.63)
2004/2005	3	13,451.17	0	0	0
2005/2006	4	15,762.00	1	1	15,762.00
2006/2007	5	17,793.72	2	4	35,587.44
		$\sum$Y = 70,771.12	**$\sum$X = 0**	**$\sum X^2 = 10$**	**$\sum$XY = 16,740.61**

Here, N = 5, mid value of t is considered 3

a = $\sum Y / N$

= 70,771.12 / 5

= 14,154.22

b = $\sum XY / \sum X^2$

= 16,740.61 / 10

= 1,674.06

Thus, the Trend Equation Line obtained for Total Deposit is

$Y = a + b X$

i.e. $Y = 14{,}154.22 + 1{,}674.06 X$

2. *Calculation of Trend Equation of Earning Per Share (EPS)*

Year	t	EPS (Y)	X = (t-3)	X^2	XY
2002/2003	1	49.45	-2	4	(98.90)
2003/2004	2	49.05	-1	1	(49.05)
2004/2005	3	47.91	0	0	-
2005/2006	4	59.24	1	1	59.24
2006/2007	5	60.66	2	4	121.32
		$\sum Y = 266.31$	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY = 32.61$

Here, N = 5, mid value of t is considered 3

a = $\sum Y / N$

= 266.31/ 5

= 53.26

b = $\sum XY / \sum X^2$

= 32.61 / 10

= 3.261

Thus, the Trend Equation Line obtained for Total Deposit is

Y = a + b X

i.e. Y = 14,154.22 + 1,674.06 X