

**CREDIT MANAGEMENT  
(A COMPARATIVE STUDY OF HIMALAYAN BANK LIMITED AND  
NABIL BANK LIMITED)**

By

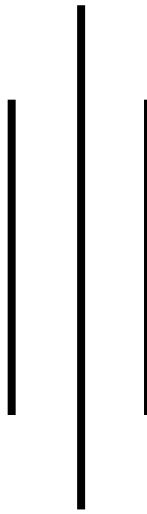
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**A Thesis Submitted to:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**

*In partial fulfillment of the requirement for the Degree of  
Master of Business Studies (M.B.S)*

**Thapathali, Kathmandu**

**Jan, 2010**

Ref. ....

Date: .....

## RECOMMENDATION

This is to certify that the thesis

Submitted by:  
**KRISHNA SINGH**  
Entitled:

***“CREDIT MANAGEMENT”***  
***(A Comparative Study of Himalayan Bank Limited and Nabil Bank Limited)***

has been prepared as approved by this Department in the prescribed format of the Faculty of Management.  
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## VIVA - VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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***(A Comparative Study of Himalayan Bank Limited and Nabil Bank Limited)***

And found the thesis to be the original work of the student and written according to the prescribed format.

We recommend the thesis to be accepted as partial fulfillment for the degree of Master of Business Studies (M.B.S)

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**DECLARATION**

I hereby declare that the work reported in this thesis entitled “CREDIT MANAGEMENT (A COMPARATIVE STUDY OF HIMALAYAN BANK LIMITED AND NABIL BANK LIMITED)” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of Mr. Shankar Thapa, HOD of St. Xavier's College.

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**Krishna Singh**

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## ABBREVIATIONS

$\bar{X}$	Arithmetic mean
A.D.	Anno Domine
ADB	Agricultural Development Bank
ADB/N.	Agricultural Development Bank of Nepal
AGM	Annual General Meeting
AMC	Asset Management Company
APEC	Asia Pacific Economic Cooperation
B.S.	Bikram Sambat
BC	Before Christ
C.V.	Co-efficient of variation
CB	Commercial Bank
CD	Credit-Deposit
CDO	Credit Default Swaps
CIB	Credit Information Bureau
CPM	Credit Portfolio Management
DPS	Divided Per Share
EBL	Everest Bank Limited
EPS	Earning per share
F/Y	Fiscal Year
FOM	Faculty of Management
HBL	Himalayan Bank Limited
HMG	His Majesty's Government
i.e.	That is
JVB	Joint Venture Bank
KTM	Kathmandu
L/C	Letter of credit
MBA	Masters of Business Administration
MBS	Masters of Business Studies
MPS	Market Price Per Share

NABIL	Nepal Arab Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange Limited
NGBL	Nepal Grindlay's Bank Limited
NGOs	Non-Government Organizations
NIBL	Nepal Investment Bank Limited
NIDC	Nepal Industrial Development Corporation
NPA	Non-Performing Assets
NPL	Non-Performing Loan
NRB	Nepal Rastra Bank
P.E.	Probable Error
r	Correlation coefficient
RBBL	Rastriya Banijya Bank Limited
Rs.	Rupees
S.D.	Standard Deviation
SCBNL	Standard Chartered Bank Nepal Limited
SD	Standard Deviation
SDR	Stock Dividend Ratio
SEBO	Security Board
SEC	Security Exchange Center
SMS	Short Message Service
T.U.	Tribhuvan University
T-Bill	Treasury Bill
Var	Variance

# **CHAPTER – I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Today, the world economy has been more competitive and complicated due to globalization. The source of finance is the most essential element for the establishment and operation of any profit and not profits institutions.

Like blood is necessary for human beings, finance is for business organizations and industries. Each and every business organization should base their decision making in financial management. Financial management is mainly concerned with the acquisition and utilization of funds. For this, financial market plays vital role in utilizing financial resources for expanding productive sectors in the country. It mobilizes unproductive and unutilized financial resources towards productive sectors and helps in expanding economic growth of the country

Nepal is a developing country. Developing countries face a lot of problems for their economical development. Financial market is very important for the economic growth of the country (Economic Survey, 2004/05: 2). The pace of development of the country largely depends upon the economic activities.

Banks are major institutions in financing. Bank is a financial intermediary, accepting deposits from general public, corporate bodies and private organization and deploys those collections for profitable purpose in the form of loans and advances. In the present context, a bank is not only involved in accepting deposits and granting loans, it offers the widest menu of services such as credit, saving and payment services, remittance facility, exchange currency, bank guarantee, underwriting, discounting bills and many more. Banks are important players in the financial markets and offer services such as investment funds and loans. Banking is one of the most heavily regulated businesses in the world (Vaidhya, 1999: 5).

Banks are among the most important financial institutions in the economy. They are the principal source of credit (loan-able funds) for millions of individuals and families and for many units of government. Moreover, bank often act as a major source of credit to small local business ranging from grocery stores to automobile dealers for their stock. Banks are among the most important sources of short term working capital for business and have become increasingly active in recent years in making long-term business loans for new plant and equipment (Shekhar & Shekhar, 1999: 6).

The most important function are; lending and investing money (the credit function), making payments on behalf of customers for their purchase of goods and services (the payment function), managing financial assets and real property for customers in investing and raising funds (through the brokerage, investment banking and saving functions) (Vaidhya, 1999: 5).

Lending is the most important function of a commercial bank. It lends money to the borrowers charging interests against some collateral. Lending money is now a day becoming main resources of revenue to the bank and also involves high risk too. If the bank lends more, it affects the bank's liquidity position and if it lends less, it affects its profit. So, the bank has to efficiently manage its credit to earn more profit and minimize possible losses. An effective lending procedure is needed for the banks to minimize the risk of bad debt and losses and to secure the credit.

The modern bank has to adopt new roles in order to remain competitive and responsive to public needs (NRB, Smarika, 2004/05: 41). Bank loan support the growth of new business and support for economic development.. Banks made a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles, and buying new furniture, taking dream vacation or purchasing college education, to constructing home and office buildings. Loans may be divided as: real estate loans, financial institutions loans, agricultural loans,

commercial and industrial loans, loans to individuals, miscellaneous loans, lease financing receivables etc (NRB, Smarika, 2004/05: 40).

In this way bank plays an important part in the development of trade, commerce and industry. Today no bankers can survive for long run without proper understanding of economy and economy cannot pace ahead without the proper development of the banking sector.

## **1.2 Meaning of Commercial Bank**

A Commercial bank is a bank which operates currency exchange transactions, accepts deposits, provides loans and performs other commercial transactions. They provide short-term credit, medium-term credit and long-term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

Commercial banks play an important role in directing affairs of the economy in various ways. The operation of commercial bank records the economic pulses of the economy. So, commercial banks are the heart of the financial system. The mainstream function of commercial bank remains with the mobilization of otherwise rigid and scattered saving of public for providing credit to needy firms, industries or people to get productive use. A commercial bank accepts deposits and advances loans against the security of property such as land, building etc. They provide interest on deposits and charge interest on credit. Hence, the industrial development of the economy is not possible without the proper development of commercial banks.

The main functions of commercial banks include:

- i. accepting deposits in the forms of current, saving and fixed deposits,
- ii. providing short, medium and long term loans,
- iii. acting as an agency in transfer of money, make payment on commission basis for the cheque, draft, bill of exchange etc. by the customer,

- iv. buying and selling shares and debentures of any company and government bonds
- v. collecting interests on debenture and government bonds, dividend on shares and funds from other banks for its customers
- vi. making payments on insurance premium, rent, income tax, school fees, telephone bills to the concerned offices on behalf of customers
- vii. carrying out the foreign currency exchange, and
- viii. helping in foreign trade etc.

Moreover, other functions include: to protect the precious jewellery; to provide travelers cheque, to underwrite the debentures; to issue credit card, debit card, master card, visa card etc.; to create credit on the specific basis and expand credit and so on.

### **1.3 Brief History of the Evolution of Banking in Nepal**

The word bank is originated from three different words- Bancus in Latin, Banco in Italian and Banque in French. It means the accumulation of money or stock by providing and exchanging of cash loan from an appropriate bench. The money lenders, goldsmiths and merchant traders are the ancestors of banker.

The bank of Venice which was established in 1157 A.D was the first bank in the history of banking and it was established to finance the monarch in the wars. The Bank of Barcelona Spain which was established in 1404A.D. was the second bank in the World and the Bank of Genoa was set up in 1407 AD.

The first central bank was the bank of England which was established in 1844 A.D. Banking has come to the present advanced form through various stages. Some sorts of banking activities have been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. With large banking firms established in Florence, Rome,

Venice and other Italian cities the banking activities spread throughout the Europe and it slowly spread throughout the world.

The evolution of the original banking system in Nepal has a more recent history than in other countries of the world. Before the establishment of “Tejarath Addha” during the reign of Ranodip Singh, the unorganized sector i.e; Moneylenders, Goldsmiths, Landlords have their universal domination on the financial matter. They used to charge very high interest rates. The Addha was initiated to provide credit at a cheap rate against gold and silver. It has also extended its branches outside Kathmandu valley for giving loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks. Nevertheless the institutional banking system had started from then. After having concluded a treaty with British India in 1980(B.S), Nepal could trade over sea freely for the diversification of trade. As, a result, in 1993 the draft of the company Act and Banking Act were prepared by forming industrial council.”A Jute Mill” was established in Biratnagar under this Act and both commercial and industrial development as well as institutional banking system had been together at a time in Nepal.

Nepal Bank Limited was established in 1937 under the Nepal Bank Act 1936, having elementary function of a commercial bank. Later, in 1956, the first central bank, named as the “Nepal Rastra Bank” was set up under the Nepal Rastra Bank Act.1955, with an objective of supervising, protecting and directing functions of commercial banking activities. Another commercial bank fully owned by the government, named as the “Rastriya Banijya Bank” was established in 1966 A.D. to spread banking services to both the rural and urban areas. The subsequent tendency toward liberalization and need of revolutionary change in the financial sector allows the foreign banks to enter into the economy as “Joint Venture”. This entry of foreign bank was expected to develop the banking with pace of change and to attract the foreign investment and technology. The establishment of NABIL Bank Limited in the name of Nepal Arab Bank Limited in 1984 A.D. under the

company act 1984 was stride in the history of modern banking in Nepal. This was the first joint venture commercial bank established in collaboration with Emirates Bank International (Dubai). Following this, in 2042 B.S. Nepal Indo-Suez Bank Limited (name has been changed to Nepal Investment Bank Ltd.), in 2043 B.S. Nepal Grindlays Bank Limited (name has been changed to Standard Chartered Bank Ltd.), in 2049 B.S. Himalayan Bank Limited and in 2050 Nepal Bangladesh Bank Limited were established. Now there are more than a dozen commercial banks performing their operation.

In this way, Nepalese banking has stepped forward toward development. But, it cannot contribute in the development of the overall sector of the economy. The large portion of national economy is still behind the touch of present banking system. This is because most of the financial institutions are situated in the urban area and rural economy has not been touched by this change in financial sector. Hence, in conclusion it can be summarized that the technical and quantitative development of the financial sector is found satisfactory but its qualitative impact on overall economy cannot be considered utmost.

NRB is the central bank of the country. Banks and other financial institutions are supervised, directed, regulated and controlled by NRB. During the last two and half decades the Nepalese Financial System has grown significantly. At the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions in the country. Consequently, by the end of Mid – July 2009, altogether 242 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 26 are “A” class commercial banks, 63 “B” class development banks, 77 “C” class finance companies, 15 “D” class micro-credit development banks, 16 saving and credit cooperatives and 45 NGOs.

Following is the list of the Class A licensed Commercial Bank as on Mid- July, 2009.

**Table 1.1**  
**List of Class A Licensed Commercial Banks (Mid-July, 2009)**

Names	Operation Date (A.D.)	Head Office
1. Nepal Bank Limited	1937/11/15	Dharmapath, Ktm.
2. Rastriya Banijya Bank	1966/01/23	Singhdarbarplaza, Ktm
3. NABIL Bank Limited	1984/07/16	Kantipath, Ktm
4. Nepal Investment Bank Ltd.	1986/02/27	Darbar Marg, Ktm.
5. Standard Chartered Bank Nepal Ltd.	1987/01/30	Naya Baneshwor, Ktm
6. Himalayan Bank Limited	1993/01/18	Thamel, Ktm
7. Nepal SBI Bank Limited	1993/07/07	Hattisar, Ktm
8. Nepal Bangladesh Bank Limited	1993/06/05	Naya Baneshwor, Ktm
9. Everest Bank Limited	1994/10/18	Lazimpat, Ktm
10. Bank of Kathmandu Limited	1995/03/12	Kamaladi, Ktm
11. Nepal Credit & Commerce Bank Ltd.	1996/10/14	Siddharthenagar, Rupandehi
12. Lumbini Bank Limited	1998/07/17	Narayanghat, Chitawan
13. Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biratnagar, Morang
14. Machhapuchhre Bank Limited	2000/10/03	PrithiviChowke, Pokhara
15. Kumari Bank Limited	2001/04/03	Putalisadak, Ktm
16. Laxmi Bank Limited	2002/04/03	Adarshanagar, Birgunj
17. Siddhartha Bank Limited	2002/12/24	Kamaladi, Ktm.
18. Agricultural Development Bank Ltd.	2006/03/16	Ramshahapath, Ktm
19. Global Bank Limited	2007/01/02	Birgunj, Parsa
20. Citizens Bank International Ltd.	2007/06/21	Kamaladi, Ktm
21. Prime Commercial Bank Ltd.	2007/09/24	New Road Ktm
22. Bank of Asia Nepal Ltd.	2007/10/12	Tripureshwor, Ktm
23. Sunrise Bank Ltd.	2007/10/12	Garirdhara, Ktm
24. Development Credit Bank Ltd.	2001/01/23	Kamaladi, Ktm
25. NMB Bank Ltd.	1996/11/26	Babarmahal, Ktm
26. Kist Bank Ltd.	2003/02/21	Anamnagar, Ktm

Source: [www.nrb.org.np](http://www.nrb.org.np)

## **1.4 Credit Management**

The increased competition in financial and banking sector usually lead to a number of unforeseen difficulties and increased problems of borrowers over-indebtedness, reduced loan repayment incentives and growing areas of financial institutions. So, credit management is significant for the management of credit risks and smooth inflow of returns for every bank.

Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks as it occupies large volume of transactions; it covers the main part of the investment; the most of the investment activities are based on credit; it is the main factor for creating profitability; it is the main source of creating profitability; it determines the profitability. It also affects national economy because the banks provide credit to borrowers who in turn make investment on different sectors of the economy. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Management is the system, which helps to complete the every job effectively. It consists of planning, organizing, leading, controlling and decision making functions so as to achieve some definite objectives. Credit management is also the system, which helps to manage credit effectively. In other words, credit management refers to management of credit exposures arising from loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

Credit management is concerned with analyzing and managing the credit risks. Credit risk is the risk of a loss as a result of failure by a client or counter party to meet its contractual obligations. Credit risk is not restricted to lending activities only but includes off balance sheet and inter-bank exposures. Credit risk if not tackled well has a direct and long-lasting impact on bank management and its growth. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loans are the largest and most obvious sources of credit risk, however, other sources of credit risk exist throughout the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than loans, including acceptances, inter bank transactions and guarantees and the settlement of transactions.

The banks must have ability to identify risks and develop ways to mitigate these risks with capability to properly monitor insurable inflow of predetermined returns. In order to minimize such risks, the bank has to monitor lending portfolio periodically and take appropriate decision with regard to exposure in a borrower and in a factor. The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit and methods of credit analysis. The credit policy guides all the lending officials from credit serving to settlement and helps to reduce non-performing loans. The credit review assessment should be done which includes risk rating systems, portfolio analysis, large exposures and risk concentrations. Thus, bank has to manage its credit portfolio with established and proper credit standards and policies.

## **1.5 Profile of Sample Banks**

### **1.5.1 Himalayan Bank Limited (HBL)**

Himalayan Bank Limited (HBL) was incorporated in 1992 by few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the bank also offers industrial and merchant banking services.

The bank has many branches at the following locations: Thamel, New Road, Maharajgunj, Pulchowk (Patan), Bhaktapur, Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara, Dharan, Butwal, Nepalgunj, Itahari, Palpa, chabahil, Trisuli, Swoyambhu, Teku and Ghorahi.. The bank will be aggressively opening new branches at the different parts of the kingdom to serve its customers better. Himalayan Bank Limited has always been committed to providing a quality service to its valued customers, with a personal touch. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank Limited 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.HBL offers a wide range of deposit products that caters to the requirement of its clients. HBL brings the convenience of networked branches/ATMs and facility of E-channels like Internet, and SMS Banking. In simple words, HBL brings banking at its clients' doorstep.

**Table 1.2**  
**Capital Structure of Himalayan Bank Limited**

Capital as at 2009	Amount in Rs. '000'
Authorized Capital	2,000,000
Issued Capital	12,16,215
Paid up capital	12,16,215

### **1.5.2 Nepal Arab Bank Limited (NABIL)**

Nepal Arab Bank Limited (NABIL), the first foreign joint venture commercial bank of Nepal, started operations in July 1984. Nepal Arab Bank Limited was incorporated with the objectives of extending international standard modern banking services to various sectors of the society. Pursuing its objectives, the bank provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL as a pioneer in introducing many innovation products and marketing concepts in the domestic banking sector represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele-banking system. Nepal Arab Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in the kingdom of Nepal, the bank have been a lender in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the “Bank of 1<sup>st</sup> Choice” to all of its stakeholders and customers. For the customers, it want to

be the first choice in meeting its financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of model bank, it want to be an outstanding corporate citizen in all the communities, it work in finally, it want to be the first choice as an employer with whom to build a career. To achieve this mission, it has a core set values by which we live. The values are C,R.I.S.P. i.e. Customers Focused, Result Oriented, Innovative, Synergistic and Professional. They are committed to live our values everyday in ever thing we do, for it is, these values that make us uniquely NABIL bank.

NABIL bank is a full service bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing, Main aim is to be able to meet customer’s entire financial requirements that is why it prides in being “Your Bank at Your Service”.

**Table 1.2.1**  
**Capital Structure of NABIL Bank Limited**

Capital as at 2009	Amount in Rs. ‘000’
Authorized Capital	1,600,000
Issued Capital	9,65,747
Paid up capital	9,65,747

### **1.6 Focus of the study**

As we have stated above the meaning and importance of the credit management of the banks. The main purpose of this study is to evaluate the credit management of the private banks. Credit management recommends analyzing and managing the credit risks.

This study is focused on the study of credit by using various relative measurement tools. This study is based on analysis of non-performing loans and advances, loan loss provision, earning per share, interest income, interest expense, return on loan and advances etc. Credit management plays vital role in every organization. It minimizes credit risks by making proper credit policy with regard to credit standard and credit analysis. So, this study tries to evaluate the credit management of banks using various financial variables for the purpose of comparative evaluation.

### **1.7 Statement of the Problem**

Bank plays a significant role in the economic development of the country by extending credit to the people. Although banking industry in Nepal is making remarkable progress and growth. It's not without the problems. At the present context, the main problem faced by the business sector as well as bank is the unstable political and economic condition of the country.

After liberalization, financial institutions are increasing regularly and banks are facing liquidity problems. The economic condition of the country is weakening as liquidity crunch in banks has been affecting the business activities. The profitability of banks is greatly affected by high cost of branch expansion, lending to small sectors and rapidly escalating personnel cost. The gross margin has been affected by the introduction of several schemes for concessional lending. However, the revenues in gross terms have been rising, mainly due to general hike in interest rates so that the allocated cost of capital is fully recovered. So, this has caused major problems in commercial banks. Due to unhealthy competition among banks, the recovery of the bank credit is going towards negative trends. Non-performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, NRB has renewed its directives of the credit loss provision. Therefore, it is necessary to analyze the 'credit management' or credit disbursement recovery provision for loss and write off of credit. As so, the sample of commercial banks, Himalayan Bank Limited and NABIL Bank Limited have been selected.

Research problems may be stated in the form of following questions:-

- What level of liquidity is maintained by the sample banks?
- What is the volume of contribution made by sample banks in credit and advances?
- What is the deposit collection and utilization trend of sample banks?
- What is the relationship of deposits, loan & advances and net profits of sample banks?

### **1.8 Objective of the Study**

Banks help in development of the country by providing credit to the necessary sectors. Therefore, the main objective of this study is to find out credit management position of Himalayan Bank Limited and NABIL Bank Limited.

The specific objectives of the study are as follows:

- To analyze the volume of contribution made by sample banks in credit & advances.
- To analyze the deposit collection and utilization trend of sample banks.
- To study the relationship of deposit, loan & advances and net profit of sample banks.
- To provide suitable suggestions based on the findings of this study.

### **1.9 Significance of the study**

First of all, it is the fact that this study is undertaken to apply the theoretical concept and knowledge of Financial Management to the practical aspect as a partial fulfillment of the requirement of Master of Business Study (MBS) under faculty of Management, Tribhuvan University. This study would contribute an overall look at the coming up new credit policies to be taken by the bank and the factors that should be taken in consideration while preparing the next year's policy. The bank which would be included in as sample would likely see the point of their weakness and significance of this study on their future plan. The

study will also have significance for management, policy maker, stakeholder of the banks, debtors, creditors and others those involved in credit decision.

The main significance of the study is:

1. It will be valuable property for the library use.
2. The study will be used as a pilot work for the future research.
3. It will be helpful to other Commercial Banks and others.

### **1.10 Limitations of the Study**

To complete this research, we follow the different books, journals, articles and dissertations. Thus, reliability of the study is based on those things.

This study will not examine the credit management of all listed commercial banks due to lack of time, the study will see only the credit of two commercial banks – Himalayan Bank Limited and NABIL Bank Limited, which are listed in NEPSE. This study will cover only the past nine year's period since 2000/01 to 2002008/09. To prepare this report, secondary data are collected from annual general meeting (AGM)'s report of the listed banks and trading reports of NEPSE. It may not cover the whole qualitative analysis of the commercial banks because of time and resource constraints.

The research study has some limitations. The main limitations of the study are as follows: -

- Though, there are over 20 commercial banks in Nepal, only two commercial banks are taken for the proposed study.
- This study concentrates only on credit management of selected commercial banks.
- The secondary data will be used for presentation and interpretation. Only a 9-years data will be considered.
- This study is only a case study; hence the conclusion drawn from the study does not ensure wide applicability in all types of enterprise running in different situations.

- Major portion of analysis and interpretation have been done on the basis of available secondary data and information. Thus, reliability of the study is based on trueness of collected data and information.
- In this study, only selected financial and statistical tools as well as techniques are used.

### **1.11 Organization of the Study**

The whole study is divided into five different chapters. They are:

Chapter I is the introduction chapter. It includes background of the study, the profile of the study, statement of the problems, objectives of the study, significance of the study, and limitations of the study and chapter plan of the study.

Chapter II deals with review of literatures, which includes conceptual/theoretical review and review of related studies.

Chapter III is research methodology which includes research design, population and sample, source of data, data collection techniques and data analysis tools.

Chapter IV deals with the various analysis and interpretations of data like analysis of deposits, loan & advances and profile of Himalayan Bank Limited and NABIL Bank Limited, financial and statistical analysis. It also shows major finding of the study.

Chapter V includes summary and conclusion of the study. It also deals with recommendations suggested.

The list of biography and annexes are given at the last for references.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Review**

According to Kent, “A bank is an organization whose principle operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure”.

“Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker’s business is then to taken the debt of other people to offer his own in exchange and thereby to create money. He may be a dealer in debts, but in distress is only the observe of wealth and it would be equally permissible to describe the banker as a liquefies of wealth” (Crowther, 2001: 81).

A frequently neglected but an important role is the provision of credit. Credit policy is sometimes, omitted entirely from an analysis of marketing mix by academics. This is despite empirical findings that although the credit package is unlikely to be the primary factor in determining overall patronage success. It may serve to clinch a contract when suppliers’ offerings are otherwise equally attractive.

The credit policy cannot be sound unless it is based on clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

A commercial bank is a business organization that receives and holds deposits of fund from others makes loans or extends credits and transfers funds by written order of deposits. Commercial bank is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services. A commercial banker is a dealer in money and substitute for money such as cheques or bill of exchange. He also provides a variety of financial services.

Commercial bank Act 2031 B.S. of Nepal has defined that “A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank mean for cooperative, agriculture, industries for such specific purpose.” But, recently, the Bank and Financial Institutions Ordinance, 2060 has merged the five banking Acts including the commercial bank Act, 2031 which defines the bank with respect to their transactions. This Act is trying to categorize the banking institutions in two ways based on their transactions. According to this Act, “Bank is the institution which performs its transactions under the section 47 of this Act.”

This Act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills of exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers, provided that they are paid for their services.

Financial activities are necessary for the economic development of the country and commercial banking in this context is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the commercial bank and other financial institutions the

sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institutions, they must mobilize (i.e; investment in different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested, these information include as financial background, nature of business as well as its ability to pay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies is always taken in mind that “the greater the credit created by the bank, the higher will be the profitability.” A sound lending and investment policy is not only prerequisite for bank’s profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the force of economic growth.

Commercial banks as financial institutions perform a number of internal functions. Among them, providing credit is considered as most important one. “Commercial banks brings into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investment.”

Credit management is concerned with analyzing and managing the credit risks. Credit risk is the risk of a loss as a result of failure by a client or counter party to meet its contractual obligations. Credit risk is not restricted to lending activities only but includes off balance sheet and inter-bank exposures. Credit risk if not tackled well has a direct and long-lasting impact on bank management and its growth. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters.

In order to minimize such risks, the bank has to monitor lending portfolio periodically and take appropriate decision with regard to exposure in a borrower and in a factor. The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit and methods of credit analysis. The credit policy guides all the lending officials from credit serving to settlement and helps to reduce non-performing loans. The credit review assessment should be done which includes risk rating systems, portfolio analysis, large exposures and risk concentrations. Thus, bank has to manage its credit portfolio with established and proper credit standards and policies

### **2.1.1 Financial Analysis**

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz. owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974: 97)

Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures.

Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 1979: 97).

### **Standard of Comparison**

The ratio analysis involves comparison for a useful interpretation of financial statements. A single ratio in itself doesn't indicate favorable or unfavorable condition. It should be compared with some standard. Standard of comparison may consist of:

- Past ratios – ratio calculated from the past financial statement of the same firm.
- Projected ratio – ratio developed using the projected or financial statement of the same firm.
- Competitor's ratio – ratio of some selected firms, especially the most progressive and successful competitor, at the same point in time.
- Industry ratio – ratios of the industry to which the firm belongs.

### **Types of Ratios**

Several ratios calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. In view of the requirement of various ratios they may classify into following groups.

#### **Credit Practices Ratio**

##### **• Total Loan to Total Deposit Ratio**

The main source of bank's lending depends on its deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposits on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits.

- **Loan and Advances to Total Assets Ratio**

Loan and advance is the major part of total assets for the bank. This ratio indicates the volume of loans and advance out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

- **Loan and Advances to Current Assets**

Loan and advances is the major component in total assets, which indicates the ability of banks to canalize its deposits in the form of loan and advances to earn high return. If sufficient loan and advances cannot be granted it should be pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

- **Interest Income to Loan and Advances**

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

- **Loan Loss Provision to Total Loan and Advances Ratio**

It describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loan and advances into the category of pass, standard, doubtful and loss and to wake the provision of 1, 25, 50 and 100 percent respectively. NRB has classified the pass and substandard loan as performing loans and other two types of loans non-performing loans. The provision created against the pass and substandard loan is called the general loan loss provision and provision created against the doubtful and loss loan is called specific loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But Its positive impact is that

strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits.

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

- **Non-Performing Loan to Total Loan and Advances Ratio**

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But our concerned banks have not provided data on non-performing loan in Balance Sheet and Profit & Loss A/C. To measure the volume of non-performing loan to total loan and advances the main indicator of NABIL and SCBNL has been used. This ratio shows the percentage of non-recovery loans in total loans and advances.

### **Credit Efficiency Ratio**

- **Interest Expenses to Total Deposit Ratio**

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

- **Total Loan to Liabilities Ratio**

Banks create credit through loans and advances and multiply their assets much more times than their liability permits. This ratio measures the ability of a bank to multiply its liability into assets. The higher ratio of total assets to total liability ratio is favorable as it increases overall capacity of the organization.

- **Interest Expenses to Total Expenses Ratio**

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly sources of funds.

- **Non-Interest Bearing Deposit to Total Deposit Ratio**

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits were managed affectively in the total volume of expenses. The banks need to manage the portfolio of the deposits i.e; it has to maintain certain proportion between interest bearing deposits and non-interest bearing deposits by administering the interest rate structure. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix deposit liability.

- **Interest Income to Total Income Ratio**

Income is one of the most important factors of each and every organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measures the bank's performance on other fee based activities too. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending and investment and high contribution by other fee based activities in total income.

- **Interest from Loan, Advances and Overdraft to Total Interest Income Ratio**

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence this ratio measures how efficiently the banks have employed their fund and loan & advances and overdraft.

- **Interest Suspense to Total Interest Income from Loan & Advances Ratio**

Interest suspense means the interest due but not collected. NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in liability side of Balance Sheet under the heading “other liability”. This ratio, interest suspense to total interest income from loan & advances, measures the composition of due but uncollected interest in the total interest income from loans & advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loan and advances.

### **2.1.2 Factors Affecting Credit Policy**

Generally, the following factors are to be considered to make effective loan management. It is also called the factors of credit policy. It helps to get effective credit worthiness.

- **Industry Environment**

It determines the nature of the industry structure, its attractiveness and the company’s position within the industry, structural weakness of a company, which is disadvantaged, theaters first way out and security value.

- **Financial Condition**

It determines the borrower’s capacity to repay through cash flow as the “First way-out”. The strength of “second way-out” i.e; through collateral liquidation is also assessed. Further the possibility to fall back on income of sister concerns in case of financial crunch of the company condition theaters repayment capacity.

- **Management Quality**

It determines the integrity, competence and nature of alliances of borrower’s management team. Weakness in replacements needs to be evaluated.

- **Technical Strength**

It determines the strength and quality of the technical support required for sustainable operation of the company in terms of manpower and technology used. Appropriate technical competencies of the manpower, the viability of the technology uses, availability of after sales service, cost of maintenance and replacement need to be evaluated.

- **Security Realization**

It determines the control over various securities obtained by bank to secure the loan provided excitability of the security documents and present value of the properties mortgaged with the bank. Weakness in security threatens the bank's second way out.

## **2.2 Review of Related Studies**

It is concerned with the review of past studies or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

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

In the special publication of NRB (July, 2009) entitled "Credit Information Bureau in Nepal: Analysis of critical success factors" by Mr. Anil Chandra Adhikari, it is written that the availability of credit is the engine that drives credit growth. In developed economies, businesses and consumers have a relatively access to credit. One of the reasons for this is the ability of the financier to assess the credit risk of the applicant in a quick and efficient manner. This ability results from the highly developed systems of formatted and standardized information on the financial state and behavior of the

companies and individuals in hands of specialized agency like Credit Information Bureau. Successful credit economies have as their backbone credit bureaus which play an important role in the area of credit risk management and the promotion of sound credit culture in the financial system of the country. Credit Information Bureau was established in Nepal in 14 May, 1989 with the sole objective of improving the functionality of the country's financial system. With an alarming proportion of the non performing assets (NPAs) in the economy, it became imperative to arrest accretion of the fresh NPAs in the banking sector through an efficient system of credit information on borrowers as a first step in credit risk management and controlling NPAs. In this context the requirement of an adequate, comprehensive and reliable information system on the borrowers through an efficient data base was felt by the Nepal Rastra Bank (NRB), Central Government, credit institutions and other players in the banking and financial sector of the country. The answer took shape when the Credit Information Bureau was incorporated under Nepal Bankers' Association in 1989 as a nonprofit organization to provide vital credit information service to its member institutions, in order to allow them to make informed and objective credit decisions. The alarming proportion of NPAs carried over by two leading national banks and the subsequent liberalization of the financial sector even more necessitated the presence of credit information bureau in the country. The increased credit risk problems which emerged because of the sector specific deficiencies like permissive banking practices, absence of risk based pricing methodologies, lack of customer risk rating models, absence of credit rating agencies, absence of credit risk transfer instruments, lack of transparency among the banks and financial institutions (FIs) and lack of many other credit risk management tools made the strengthening of credit information bureau a first and preliminary step in the direction towards restraining the fresh NPAs and enhancing the CIB's operation was initially guided by the NRB directive which was insufficient. Many litigation cases followed against CIB that challenged its very existence and its legality for blacklisting and disclosure of information. Legal challenges, poor compliance,

and inadequate enforcement led to strengthen its regulatory framework. NRB came out with new amendments to consolidate the functioning of CIB and gave a legal framework for its operation through Nepal Rastra Bank Act 2058, Article 88. It was reorganized as a public company in order to strengthen its independence and increase its operational efficiency. It was renamed as Karja Suchana Kendra Limited as per the new directive and got registered as the Company in 2004 under the Company Act 2053 and started its operation as an independent and autonomous entity from April 2006. The major shareholders of this public limited company are commercial banks with 60%, finance companies with 15%, development banks with 15% and NRB with 10% shares.

In the special publication of NRB (July,2009), entitled “Nepalese Financial System: Policy Developments And Challenges”, by Mr. Bhubanesh Pant, it is written that the large amount of non-performing assets (NPA) has been a major challenge for financial sector development and its stability. As a measure to reduce the NPA level, the NRB is coordinating with the government in strengthening the capacity of Debt Recovery Tribunal and establishing an ‘Asset Management Company’ (AMC). To discourage the possible fraud and crimes in the financial system, the “Anti-Money Laundering Act 2008” and “Banking Crime and Punishment Act, 2008” have been enacted on January 28, 2008 and February 5, 2008 respectively. In this connection, the Financial Intelligence Unit has been established in the NRB and the related by laws and directives are being prepared. The profile of all commercial banks and financial institutions along with their major financial indicators has been prepared and posted on the web site of NRB to provide adequate information on financial conditions of commercial banks and financial institutions to the public. In addition, the directives issued to the licensed financial institutions by the NRB on the basis of on-site and off-site supervision has been placed on the website from 2006/07 for the use of the general public. The NRB as a regulator and supervisor of the banking and financial sector has been trying to ensure a healthy, and efficient financial sector by improving regulation on par with

international standard. As such, the capital adequacy, single borrower limit, loan loss provisioning, professionalism of the promoter, standardized capital base, total deregulation in interest rate, open licensing policy, phasing out the directed credit, etc., have been the major prudential regulatory reforms undertaken by the NRB.

“Current Macro Economic Situation” (based on annual data of 2008/09), published by NRB states **Deposit Mobilization, Credit Flows and Liquidity Position of Commercial Banks**. In the review year, deposits of commercial banks increased by Rs. 128.3 billion (30.4percent) to Rs. 549.8 billion as at mid-July 2009. In the previous year, total deposits had increased by Rs. 87.0 billion (26.0 percent). Of the total deposits, saving and time deposits increased by 22.9 percent and 41.8 percent respectively compared to a growth of 21.1 percent and 33.6 percent in the previous year. Expansion of branch network by the existing banks, upgrade of one finance company to a commercial bank and higher remittance inflows contributed to such a significant growth of deposits in the review year. Commercial banks, in addition to deposits mobilization, have increased financial resource mobilization through an additional capital mobilization of Rs.8.9 billion in the review year. The increasing size of capital mobilization by banks can be viewed as a positive sign to financial sector stability. The growth of credit to the private sector remained marginally lower in the review year compared to that of the previous year. The credit to the private sector expanded by 31.6 percent (Rs 97.2 billion) in the review year compared to a growth of 32.5 percent (Rs. 75.3 billion) in the previous year. Therefore, the credit-deposit ratio declined to 81.2 percent in 2008/09 from a ratio of 82.6 percent a year ago. Liquid assets of commercial banks increased significantly in the review year. Of the liquid assets, liquid funds of commercial banks grew by 47.0 percent to Rs. 116.1 billion in the review year compared to an increase of 21.7 percent in the previous year. An elevated inflow of remittances and increased spending of the government at the end of the fiscal year contributed to the increase of the liquid funds of commercial

banks significantly. As at mid-July 2009, commercial banks' deposit with the NRB increased by 92.2 percent compared to an increase of 5.6 percent in the previous year. Likewise, the balance held abroad by commercial banks increased by 29.9 percent to Rs. 53.4 billion in the review year compared to a growth of 21.1 percent in the previous year. The total liquid asset of the commercial banks increased by 24.2 percent in the review year. Such assets had increased by 15.5 percent in the previous year.

In the article of Mr. Dependra Bdr. Chhetri (1998), titled “Non-performing Assets: A need for Rationalization”, has attempted to provide connotation of the term NPA and its potential source, implication of NPA in financial sector in the South East Asian region. He had also given possible measures to contain NPA. “Loans and advances of financial institutions are meant to be serviced either part of principle of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. Since the date becomes past dues, the loan becomes non-performing assets. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to remain loan performing” (Chhetri, 1998: 17).

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPA but extend to extra amount that required for provisioning depends upon the level of NPAs and their quality. As per his view, rising level of NPAs create a psyche of worse environment especially in the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc NPAs can be reduced.

Finally, he concluded that financial institutions are beset with the burden of mounting level of NPAs in developing countries. “Such assets debar income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPAs cannot be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth.”

This article of Patrick F. Reidy (1995) provides an overview of the credit portfolio management function, structural alternatives, the skill necessary for its effective implementation, and a final word on training and compensation. The focus is on corporate credit portfolios, as these often present the largest concentration challenges through they can be easily modified.

Modern portfolio management of bank assets has fundamentally changed the requirements for individuals using this technique: their backgrounds, their training, and their skills in using available resources. While traditional credit training remains necessary, today’s portfolio manager arguments this background with knowledge of early-warning systems, alternative structures to better set risk/return parameters, and more.

Traditional training focused on the individual loan. Traditional credit training focused on the analysis of a firm’s management, operations, and financial structure as the basis for determining a borrower’s credit worthiness; now training program incorporate not only these techniques, but also that elusive element called a bank’s credit culture.

In essence, a bank’s credit culture was a series of written and unwritten rules about which types of customers, industries and credit profiles were acceptable. This culture ultimately dictated the structure and composition of the bank’s total portfolio.

Portfolio management looks at the impact of loans individually, collectively, and comparatively. Modern portfolio management techniques have supplemented these unwritten rules with portfolio analysis and policies that establish limits on exposure by country, by obligor, by industry, and so on. These limits are derived from a specific focus on the technical aspects of this asset class, a segmentation of the credit product and an analysis of the effect of combining credits into portfolios. Credit portfolios can now be evaluated on the basis of fundamental as well as quantitative portfolio analysis. (This is now being further institutionalized in terms of required capital as defined in the updated Basel Capital Accords.)

#### Functions of Credit Portfolio Management

CPM achieves two principle goals:

- i. To match required hold levels with desired hold levels
- ii. To optimize the portfolio of assets ultimately held by the bank.

To do this effectively, CPM must perform all or some of the following key functions, depending on the state of the developmental curve discussed above:

- Serve as an analytical and advisory group to the line and to the approval authorities, plus serve as an integral part of critical deal teams.
- Prepare the credit approval package and advocate the transaction to the credit approval authorities.
- Closely monitor obligor risks, returns, and concentrations.
- Evaluate, establish, and effectively use advanced modeling techniques to help determine the potential risk inherent in the portfolio and its assets correlations.
- Manage those same risks through the judicious use of loan sales and synthetic instrument such as credit default swaps and CDOs (Reidy, RMA Journal, (2005) “Corporate credit portfolio management: changing skills requirements”).

In an article published in *New Business Age*, Mr. Sujit Mundul (Jan,2010) titled “Commercial Banks in Nepal” has analyzed that at present, one of the important areas of concern for commercial banks in Nepal is the sustainability of profit. While the rate of expansion of banking services to hitherto unbanked sectors is growing, the profitability of the banks in absolute terms has been in the wane. An interesting feature of this trend is: it has resulted in less commensurate rise on the revenues compared to escalation in costs. Most of the discussions around profitability have now focused on high cost of branch expansion, lending to small sectors and rapidly escalating personnel cost. It is widely accepted that the banks would need a full cost-plus type of target pricing, target being a satisfactory payment on equity. The modern approach to pricing a credit product in commercial banking is to calculate the attendant risk and the cost associated with it.

In an interview published in *New Business Age* (Jan,2010), NRB Governor Bijay Nath Bhattarai said that “NRB can’t be more liberal in margin lending”. Nepal is feared heading towards a serious economic crisis. The financial sector has a severe liquidity crunch along with the absence of profitable investment climate and opportunities. Similarly, there are multitudes of problems ailing corporate governance. One of the reasons leading to such a situation is the overexposure of the banks and financial institutions to the housing and real estate sectors. This in turn is viewed as an inefficiency on the part of NRB the regularity authority of the country’s financial system. He said that there are three reasons for the current severe scarcity of liquidity in the market like high growth in imports, decelerated remittance inflow and excessive investment from banks, finance companies and cooperatives in unproductive sectors like the real estate. The commercial banks have unnaturally expanded their investment. In average, the 26 commercial banks have invested 20.4% of their total loan portfolio in the real estate and housing. Some banks have up to 45% of their portfolio exposed to the real estate and housing. The credit deposit ratio of some banks is very high. He also advised the banks not to increase the credit

deposit ratio, keep it at the right level and not to increase investment in unproductive sectors like real estate.

On the voices published in *New Business Age* (Jan,2010) Mr. Narayan Das Manandhar said that “The main issue should be risk management, not the size of housing or any other portfolio”. He argued that the fear spread recently about banks that have big loan outstanding on housing and real estate sector is baseless. Similarly Mr. Sudhir B Khatri said that “The risk management system should be based on primary capital, not on the percentage of the total loan on a particular sector”. He also demands amendment in the recent directive from NRB that asked the banks to limit their exposure on housing and real estate sector.

Raja Ram Khadka (1998) “A study on the Investment Policy of Nepal Arab Bank Ltd. in comparison to other joint venture banks of Nepal” has compared investment policy of NABIL with NGBL and NIBL. Mr. Khadka has found out that the liquidity position of NABIL is comparatively worse than that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosuez Bank Ltd. (NIBL). He has recommended that NABIL bank should increase cash and bank balance to meet loan demand. NABIL’s loan and advances to total deposits ratios are lower than that of other JVBS to overcome this situation, NABIL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loans and advances. However, while adopting liberal policy on lending he has not explained the consequences like bad debt, default loan, which may arise due to very flexible and liberal lending policy (Khadka, 1998).

Lila Prasad Ojha (2002) on “Lending Practices: A study on Nabil Bank Ltd, Standard Chartered Bank Nepal Ltd and Himalayan Bank Ltd.” has found out that the measurement of lending strength in relative term has revealed that the

total liability to total assets of SCBNL has the highest ratio. However, the performance of other two banks has not deviated far from the mean ratio of SCBNL and the combined average. SCBNL tendency to investment in government securities have resulted with the lowest ratio of loans and advances to total assets ratio. The steady and high volume of loans and advances throughout the years has been resulted.

Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratio of other two banks. The combine ratio is highly deviated from the mean ratio of Nabil and SCBNL. This is the indicative of that in fund mobilizing activities Nabil is significantly better than SCBNL.

He has further concluded that the overall liquidity strength of SCBNL can be considered the best among the banks. However the liquidity risk arising from interest rate in SCBNL is the most likely. Since the market is highly sensitive toward the interest rate and SCBNL has generally been offering low interest rate as compare to other banks. The analysis of lending strength of HBL in loan and advances is the best. However loan and advances, investment to deposit ratio have upgraded the performance of Nabil. If HBL succeeded in collecting the less cheaper sources of fund in future, the lending strength of HBL would push the performance of Nabil and SCBNL far behind in the coming future. Also the contribution made by HBL in the productive sector of economy is highly appreciable and the best among these three commercial banks. The highest growth rate, proportionately high volume of loans and advances and the best contribution in agriculture and priority sector and the high level of deposits mobilization of HBL has put this bank in the top position in the lending function as demand by national priority, national development. However the better activity ratio of SCBNL has proved this bank is the best in managing the lending portfolio according to the demand of profit oriented business. The high

volume of lending activities and high volume of productive sector loan of Nabil has put this bank in the top position in absolute term.

On the basis of the findings and conclusions he has recommended for the banks as the liquidity position of all these three banks is found to be high. He has recommended the banks to look upon new area of lending and investment.

Gautam (2002) “Lending Practices and Procedures of Nepal Bangladesh Bank Limited” has outlined his major findings as follows.

Not concentrating only in big cities and large groups he has suggested NB Bank to expand branches in rural areas. Banks should invest in productive sector, develop the concept of micro financing and group financing make should maintain the balance in its loan portfolio and current requirement of the customers. Banks should give preference to the short term lending. Banks should provide the consortium loan for those projects under government guarantee and security thereby uplifting the economic condition of the country (Gautam, 2002).

Mr. Kishor Poudel conducted a study entitled "A Study on Liquidity and Investment Position of Joint Venture Commercial Banks in Nepal" with reference to EBL and NABIL in 2002. The main objective of his study was to examine the investment liquidity policy of EBL and NABIL. His major findings from the study includes,

- ) In aggregate, the liquidity position of EBL is comparatively better than NABIL's. However, there are some instances where EBL has maintained more liquid funds than requirements,
- ) EBL has not been successful for mobilization of funds on investments in comparison with NABIL. However, EBL has been able to mobilize most of the investment in government securities than NABIL's,

) The growth rate of investment portfolio of NABIL is comparatively better than EBL. However, NABIL has given more priority to profitability than liquidity and so on.

Subi Joshi (2003) on “ Financial Analysis of NIBL” has found out that the analysis of the banks shows that the deposit have been increasing gradually during the study period i.e.; (2053/54 – 2057/58). However the rate of increase was comparatively low in the year 1997/98 than in the year 2000/01. Total loans and advances have been also increasing. The total investment of bank has been increasing over the years, which is mainly due to bank strategy of safe lending. As the loan and advances from the bank is increasing provision for loan loss has also been increasing. The bank has been holding adequate provision for losses over the years and the general loan loss provision was 4% in average of the total risk assets.

In her study, she has recommended that the bank should focus more on non-risky lending opportunities such as mortgages, housing loans and personal loans. It should carefully examine safety of principle as well as sources of repayment, capital structure, requirement and credit worthiness of a borrower for providing credits.

A study conducted by Niva Shrestha (2004) on the topic “A study on non-performing loans and loan loss provisioning of commercial banks” revealed that SCBNL had risk averse attitude of the management or they have policy of investing low in the risky assets i.e; loan and advances as compared to NBL and Nabil because the loan and advances to total asset ratio of NBL, Nabil and SCBNL during the study period was appeared to be 52.3%, 47%, and 29.34% respectively. The SCBNL has higher proportion of the investment in risk free or nominally risky asset like treasury bills, National saving bonds. Similarly, the loans and advances to total deposit ratio of NBL, Nabil and SCBNL during the study period was found to be 57.63%, 56.35%, and 35.94% respectively. It indicates that SCBNL has the most consistent and variability during the study period where as the NBL has the higher consistent and variability as comparison to other two banks. Nabil has the moderate level of consistent and variability.

The average ratio of provision held to non-performing loan of NBL, Nabil and SCBNL was found to be 80.03%, 57.85% and 122.32% respectively shows that the SCBNL has maintained adequate level of provision against non-performing loan whereas Nabil was found to be comparatively lower. The NBL was found to be an average position (Shrestha, 2004).

A study conducted by Mr. Chutra Bahadur Gumanju entitled "A Comparative Study of Financial Performance Analysis of HBL and NIB" in 2004, with the general objective of examining and evaluating the financial performance of HBL and NIB concludes the findings such as,

- ) The liquidity position of NIB is better than that of HBL,
- ) The analysis of leverage ratio shows that HBL has higher ability in utilizing debts than NIB in terms of total debt to total equity, total assets and total capital ratio,
- ) The profitability position of NIB is better than that of HBL in terms of ROA,

- ) The EPS and DPS of HBL are better than NIB,
- ) The correlation coefficient showed the positive relationship between total debt and net profit of HBL and NIB etc.

On the basis of analysis and evaluation of various financial and statistical tools, he recommended that both the banks should maintain standard current ratio. Moreover, he also suggested that both the banks should improve their capacity by improving effective organization structure and controlling capital structure and so on.

The review of above relevant literature has contributed to enhance fundamental understanding and knowledge, which is required to make this study meaningful and purposive.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Researcher needs sequential steps to adopt realistic study or studying a problem with certain object/objects in view. Therefore, through research methodology researcher can get appropriate guidelines and knowledge about the various sequential steps to adopt a systematic analysis. Research methodology is the investigation tools of any certain area and it means clearly observation of certain object.

Research is the process of systematic and in depth study or search of any particular topic, subject or area of investigation backed by collection presentation and interpretation of relevant details or data. It is a systematic and organized effort to investigate a specific problem that needs a solution..

Research Methodology is a way to systematically solve the research problem (Kothari, 1990: 10). It may be understood as a science of studying how research is done scientifically. It is the process of arriving to the solution of the problems through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. This chapter looks into the research design, nature and sources of data, data collection procedure and tools & techniques of analysis.

This topic presents the short outline of the methods applied in the process of analyzing the credit management of the selected joint venture banks. Research is a systematic method of finding out the solution to a problem whereas research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objective in view.

A Research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research

methodology. This chapter mainly deals with the research methodology used to ascertain the study objectives. The research methodology used in the present study is briefly mentioned below.

### **3.2 Research Design**

Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. It includes an outline of what the investigator will do from writing of the hypotheses and their operational implications to the final analysis of data.

A research design is a plan for the collection and analysis of data. It presents a series of guidelines for the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) data analysis and (v) report writing.

The method and definite technique, which guides to study and give ways to perform research work is known as research design. It is most necessary to complete the research and fulfill the objective of the research.

First of all information and data are collected. The important information and data are selected. Then data is arranged in useful manner. After that, data are analyzed by using appropriate financial and statistical tools. In analysis part, interpretation and comments are also made wherever necessary. Result and conclusion are given after analysis of data, recommendation and suggestion is also given, the thesis has been adopted from previous research works. Previous thesis styles and formats have been followed.

The main objective of research work is to analyze the credit management of selected joint venture banks. To complete this study, following design and format has been adopted.

### **3.3. Data Collection Procedure**

#### **3.3.1 Nature and Sources of Data**

Mainly, the study is conducted on the basis of secondary data. The required data are extracted from balance sheets, profit and loss accounts and different financial schedules of concerned banks' annual reports. Other supplementary data are collected from statistical publication of Nepal Rastra Bank, Published and unpublished bulletins, reports of the Nepal Stock Exchange, websites, previous studies and reports, different journals and business magazines etc. This study is based on the historical data of 9 year period.

#### **3.3.2 Populations and Sampling**

A population in most studies usually consists of large group because of its large size. It is difficult to collect detailed information from each member of population. Rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub-group. The sampling allows the researches more time to make an intensive study of a research problem. The total commercial banks shall constitute the population of data and two banks under the study constitute the sample for. So, among the various commercial banks in the banking industry, Himalayan Bank Limited and Nabil Bank Limited are taken as sample for the study. Similarly, financial statements of those banks for 9 years from 2000/01 to 2008/09 have been taken as samples for the same purpose.

### **3.4 Methods of Data Analysis**

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research.

For the purpose of data analysis, various financial and statistical tools are used to achieve the objective of the study as:

i) Financial Tools and        ii) Statistical Tools.

### **3.4.1 Financial Tools**

For the analysis of data, various financial tools are used. The basic tools used are ratio analysis. Besides it, total deposit, total investment and total income analysis are also used.

#### **Ratio Analysis**

Ratio analysis is a technique of analyzing and interpreting financial statements to evaluate the performance of an organization by creating the ratios from the figures of different accounts consisting in balance sheet and income statement. The qualitative judgment concerning financial performance of a firm can be carried out with the help of ratio analysis.

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974: 97). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 1979: 97).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

### **A. Liquidity Ratio**

Liquidity refers to the ability of a firm to meet its short-term or current obligations. Liquidity ratio is the financial tool which helps in analyzing the firms' maturity obligations. In other words it is the ratio that shows the relationship of a firm's cash and other current asset to its current liabilities. So, liquidity ratios are used to measure the ability of a firm to meet its short-term obligations.

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1992: 140).

To find out the ability of bank to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are examined under it:

#### **i. Current Ratio**

Current ratio indicates the ability of bank to meet its current obligation. It measures the relationship between current assets and current liabilities. 2:1 ratio is the standard ratio, which is expressed as:

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

Current assets are those assets which can be converted into cash within a year and so it includes cash and bank balance, investment in treasury bills, bills purchased and discounted, customer acceptances liabilities, prepaid expenses, bills for collection, likewise current liabilities denotes current account deposits, saving account deposits, margin deposits, bills payable, call deposits, bank overdraft, interbank reconciliation account, provisions, customer's acceptance liabilities etc.

### **ii. Cash & Bank Balance to Total Deposit Ratio**

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash, may fail to make payment for the demands of depositors. So, sufficient and appropriate cash reserve should be maintained properly. This ratio shows the ability of banks' immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash & bank balance' by deposits. The ratio can be calculated as:

$$\text{Cash \& Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

### **iii. Cash & Bank Balance to Current Deposit Ratio**

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the current deposit. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. If bank maintain low ratio, bank may not able to make the payment of against cheques. So, bank has to maintain cash & bank balance to current ratio properly. This ratio is computed to disclose the soundness of company to pay total calls made of current deposits. It can be expressed as:

$$\text{Cash \& Bank Balance to Current Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Deposit}}$$

#### **iv. Cash & Bank Balance to Interest Sensitive Deposit Ratio**

Saving deposit is deposited by public in a bank with an objective of increasing their wealth, interest rate plays important role in the flow of interest sensitive deposit. Fixed and current deposits are not interest sensitive. Fixed deposits have a fixed term to maturity and current deposits are not sensitive toward interest rate. The ratio of cash & bank balance to interest sensitive deposits measure the bank ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

$$\text{Cash \& Bank Balance to Interest Sensitive Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Saving Deposit}}$$

### **B. Activity/Efficiency Ratio**

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales (Kulkarni, 1994: 138). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. The ratios examined under it are:

#### **i. Loan & Advances to Total Deposit Ratio**

Commercial banks utilize the outsider's fund for profit generation purpose. Loan & advances to total deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose as loan & advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

Loan and advances includes short-term loan and advances, overdrafts, cash credit, local and foreign bills purchased and discounted.

### **ii. Loan & Advances to Total Assets Ratio**

It measures the ability in mobilizing total assets into loan & advances for profit generating income. A higher ratio is considered as an adequate symbol for effective utilization of total assets of bank into loan and advances which creates opportunity to earn more and more. It is calculated as:

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

### **iii. Total Investment to Total Deposit Ratio**

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial and non-financial companies. Effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

## **C. Leverage ratio**

When a firm borrows money, it promise to make series of fixed payments, which create financial leverage (Brealy and Myers, 1991: 677). These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt

servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

### **i. Debt to Equity Ratio**

The debt equity ratio measures the long term components of capital structure. Long term debt and shareholder's equity are used in financing assets of the companies. So, it reflects the relative claims of creditors and shareholders against the assets of the firm. Debt to equity ratio indicates the relative proportions of debt and equity. The relationship between outsiders claim and owners' capital can be shown by debt equity ratio. This ratio is also known as debt to net worth ratio. A high debt equity ratio indicates that the claims of the creditors are greater than that of the shareholders or owners of the company. Here, debt includes the amount of fixed deposits and credits of the bank and equity includes paid up capital, reserve and surplus and undistributed profit. It is calculated as:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

### **ii. Total Debt to Total Assets Ratio**

This ratio measure the extent to which borrowed funds have been used to finance the company's assets. It is related to calculate total debt to the total assets of the firm. The total debt included long term debt and current liabilities. The total assets consist of permanent assets and other assets. The lower total debt to total assets ratio indicates that the creditors claim in the total assets of the company is lower than the owner's claim and vice versa. It is calculated as:

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

## **D. Profitability Ratios**

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society.

Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goals (Pradhan, 1996: 41). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

**i. Interest Income to Interest Expenses Ratio**

Interest income to interest expenses ratio measure the gap between interest rates offered and interest rate charged. NRB has restricted the gap between the interest taken in loan, advances and interest offered in deposits. The credit creation power of commercial banks has high impact on this ratio.

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

**ii. Return on Loan & Advances Ratio**

This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan & advances. Higher ratio indicates greater success to mobilize fund as loan & advances and vice versa. Mostly, loan & advances include cash, credit, overdraft, bills purchased and discounted.

$$\text{Return on Loan \& Advances} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

**iii. Net Profit/Loss to Total Assets Ratio**

Return on total assets ratio measures the profitability of bank that explains a firm to earn satisfactory return on all financial resources invested in the banks' assets. The ratio explains net income for each unit of assets. Higher ratio indicates efficiency in utilizing its overall resources and vice versa. From the point of view of judging operational efficiency, rate of return on total assets is more useful measure. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\text{Net Profit/Loss to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

#### **iv. Interest Income to Total Loan & Advances Ratio**

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It is calculated by using the following formula:

$$\text{Interest Income to Total Loan \& Advances Ratio} = \frac{\text{Interest Income}}{\text{Total loan \& Advances}}$$

#### **v. Earning Per Share (EPS)**

The profitability of bank from the point of view of the ordinary shareholders is earning per share. The ratio explains net income for each unit of share. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. Earning per share of an organization gives the strength of the share in the market. It shows how much of the total earnings belong to the ordinary shareholders A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. EPS is calculated as:

$$\text{EPS} = \frac{\text{Net Profit After Tax}}{\text{Number of Common Stock Outstanding}}$$

#### **D. Lending Efficiency Ratio**

The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. The following are the various type of lending efficiency ratios:

#### **i. Non – Performing Loan to Total Loan & Advances Ratio**

NRB has directed all the commercial banks to create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loan in balance sheet and profit and loss account.

$$\text{Non-Performing Loan to Total Loan \& Advances} = \frac{\text{Non - Performing Loan}}{\text{Total Loan \& Advances}}$$

## **ii. Loan Loss Provision to Total Loan & Advances Ratio**

Loan loss provision to total loan & advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provisions decrease in profit result to decrease in dividends but it's positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related to deposits. So, it can be said that loan suffer it only for short term while the good financial conditions and safety of loans will make bank's prosperity resulting increasing profits for long term. The low ratio indicates the good quality of assets in total volume of loan & advances. High ratio indicates more risky assets in total volume of loan & advances.

$$\text{Loan Loss Provision to Total Loan \& Advances} = \frac{\text{Loan Loss Provision}}{\text{Total Loan Advances}}$$

## **Limitations of Ratio Analysis**

Some of the most common weakness of ratio analysis is as follows:

- Financial statement records past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business.
- In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.
- The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.
- Sometimes ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Shingh, 1993:101).

Although, there are various limitations of ratio analysis but they are widely used to measure the financial performance of the firm.

### 3.4.2 Statistical Tools

To meet the objectives of the study statistical tools are equally important. It helps us to analyze the relationship between two or more variables. In this research, the statistical tools used are mean, standard deviation, coefficient of variation, correlation and diagrammatic tools have also been used under it.

#### i. Arithmetic Mean ( $\bar{X}$ ):

The arithmetic mean is the sum of total values to the number of values in the sample. Averages are statistical constants, which enable us to comprehend in a single effort of the whole (*Gupta, 2000: 357*). It represents the entire data by a single value. It is calculated as:

$$\bar{X} = \frac{\sum x}{N}$$

Where,

$\bar{X}$  = Arithmetic mean

N = Number of observations

$\sum x$  = Sum of observations

#### ii. Standard deviation (S.D.)

Standard deviation is an absolute measure of dispersion. It is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or  $\sigma$  (*Shrestha, 1991: 43*). It is used as absolute measure of dispersion or variability. It is calculated as:

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

Where,

$\sigma$  = Standard deviation

### iii. Coefficient of Variation (C.V.)

The co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (Shrestha, 1991: 45). It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

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

Where,

$$\sigma = \text{Standard Deviation}$$
$$\bar{x} = \text{Mean}$$

### iv. Correlation Coefficient (r)

Correlation coefficient measures the relationship between two and more than two variable, when they are so related that the change in the value of one variable is accompanied by the change in the value of the other or it indicates the direction of relationship among variables. If two series move in the same direction, they are positively correlated; if the series move in opposite direction, they are negatively correlated. The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively corrected series.

The correlation coefficient can be calculated by using following formula:

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

Where,

r=correlation coefficient

N= number of observations

X and Y are variables.

The decision criteria:

When,

r = 0, there is no relationship between the variables.

r = 1, the variables have perfectly positive correlated.

r = -1, the variables have perfectly negative correlated.

#### **v. Probable Error (P. E.)**

P.E. interprets the value of correlation co-efficient. It helps to determine applicability for the measurement of reliability of computed value of the correlation coefficient 'r'. It can be calculated as:

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

Where,

r = Correlation coefficient

N = Number of pairs of observations

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of 'r' is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of 'r' is significant.

Here, the researcher has been calculating the correlation coefficient between total deposits and total loan & advances as well as total loan & advances and net profit of Himalayan Bank Limited and Nabil Bank Limited to know the relationship of these variables. This relationship result helps the management for policy formulation in the coming days.

### **3.5 Limitation of the Methodology**

To carry out the research work, various financial and statistical tools are used. Similarly, descriptive as well as analytical analysis of credit management has been carried out however these tools and techniques have some limitations.

For research purpose, the nine-year data are used in analyzing the financial and statistical tools, which may mislead the research work, as it is not sufficient to make projections for future regarding the performance of the bank. As far as the financial tools concerned, only ratio and trend analysis has been carried out to know the performance of the bank however there are various financial tools to measure the financial performance of the bank. With regard to statistical tools, the researcher carried out different statistical tools to make the result more concise but it may not be the valid measurement. Although, there were certain limitations during the research work, it is not so crucial that it can weaken the basic findings of the study.

## **CHAPTER – IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Data Presentation and Analysis**

This is the most important chapter of the study. In this chapter, collected data are analyzed and presented mathematically. All the above-mentioned financial and statistical tools are used to present the data and to measure the various dimensions of problems of the study and major findings of the study are presented systematically.

##### **4.1.1 Measuring Liquidity Position of the Bank**

Liquidity ratio is the financial tool which helps in analyzing the firms' maturity obligations. It shows the relationship of a firm's cash and other current asset to its current liabilities. A commercial bank must maintain satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposits withdrawal, pay maturity obligation in time, convert non-cash assets into cash to satisfy immediate needs without loss of the bank, and without consequent impact on long run profitability of the bank. To measure the liquidity position of bank, following measures of liquidity ratios have been calculated:

###### **4.1.1.1 Current Ratio**

Current ratio indicates the ability of bank to meet its current obligation. It measures the relationship between current assets and current liabilities.

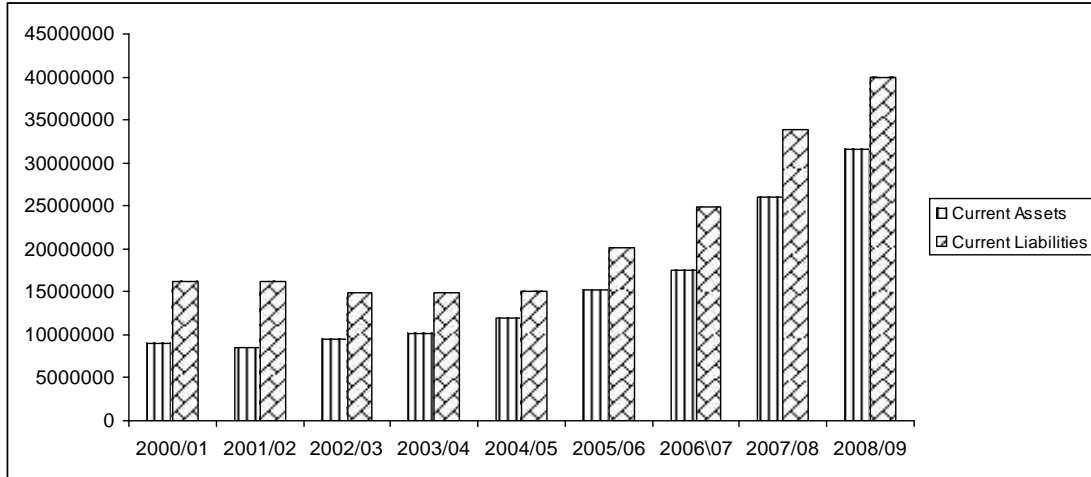
**Table 4.1**  
**Current Ratio of NABIL**

(Rs. in '000')

Year	Current Assets	Current Liabilities	Ratios (%)
2000/01	9068094	16248892	55.81
2001/02	8521083	16150774	52.76
2002/03	9570923	14858035	64.42
2003/04	10079212	14878641	67.74
2004/05	12013979	15084646	79.64
2005/06	15287684	20068292	76.18
2006/07	17509138	24817791	70.55
2007/08	25988555	33950843	76.55
2008/09	31515334	39854025	79.08
Average			69.19
S.D.			9.34
C.V.			13.50

Above table shows the current assets to current liabilities ratio, i.e. current ratio of NABIL from the fiscal year 2000/01 to 2008/09 of nine years study period. The ratios are 55.81%, 52.76%, 64.42%, 67.74%, 79.64%, 76.18%, 70.55%, 76.55% and 79.08% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Likewise, average ratio of seven years study period is 69.19%. As well, standard deviation is 9.34 and coefficient of variation is 13.50%. Current assets and current liabilities of NABIL can also be presented by bar diagram as follows:

**Figure 4.1**  
**Current Assets and Current Liabilities NABIL**



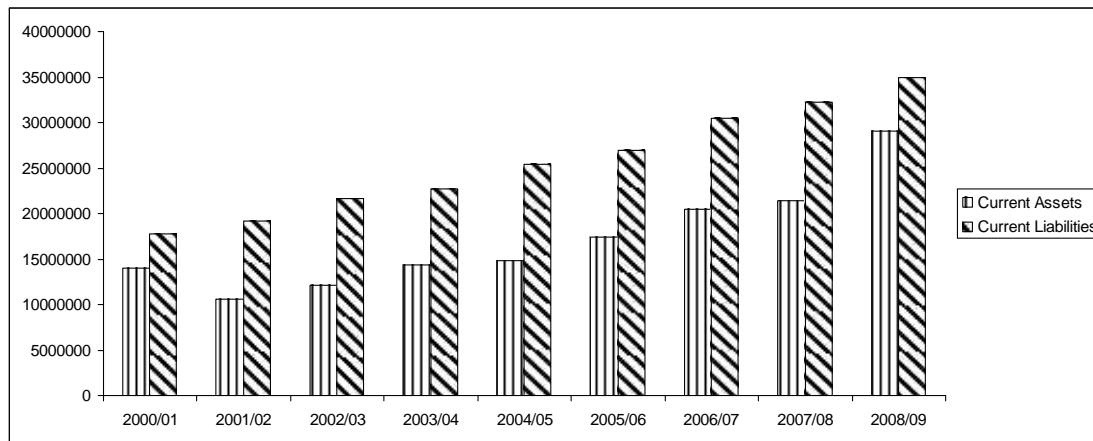
**Table 4.2**  
**Current Ratio of HBL**

(Rs. in '000')

Year	Current Assets	Current Liabilities	Raito (%)
2000/01	14030495	17742293	79.08
2001/02	10530746	19208964	54.82
2002/03	12131157	21699946	55.90
2003/04	14321953	22733721	63.00
2004/05	14880073	25388459	58.61
2005/06	17365192	26947463	64.44
2006/07	20465362	30506629	67.08
2007/08	21464193	32291713	66.47
2008/09	29012476	34956951	82.99
AV			65.82
SD			9.15
CV			13.90

Above table shows the current ratio of HBL during the nine years of study period from fiscal year 2000/01 to 2008/09. The ratios are 79.08%, 54.82%, 55.90%, 63.00%, 58.61%, 64.44%, 67.08%, 66.47% and 82.99% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the average ratio of seven years study period is 65.82%. Likewise, standard deviation is 9.15 and coefficient of variation is 13.90%. Current assets and current liabilities of HBL can also be presented by bar diagram as follows:

**Figure 4.2**  
**Current Assets and Current Liabilities of HBL**



### Comparison

Table 4.1 and 4.2 shows the current liabilities of NABIL as well as HBL is higher than the current assets during the nine years of study period. Ratios of NABIL are in increasing trend except in the year 2001/02, 2005/06 and 2006/07 whereas the ratios of HBL are in increasing trend except in the year 2001/02, 2004/05 and 2007/08. During the study period, NABIL kept a higher mean ratio of current assets to current liabilities ratio than HBL. But, the ratios of NABIL have more variation and more consistency than that of HBL because of high standard deviation and less coefficient of variation.

Though the optimal standard of current ratio should be 2:1, the conventional measure of liabilities is not applicable in banking sector. Banking business holds big portion of deposits as a core deposit and this deposit remains all the time throughout the years. This core deposit forms the fixed liability on the bank though it is current in nature. So the ratio maintained by commercial banks at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. Hence, the above current ratio analysis of the banks over the nine years period indicates that the banks have satisfactory liquidity position.

#### **4.1.1.2 Cash and Bank Balance to Total Deposit Ratio**

This ratio shows the ability of banks in immediate funds to cover their deposits. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

**Table 4.3**  
**Cash and Bank Balance to Total Deposit Ratio of NABIL**

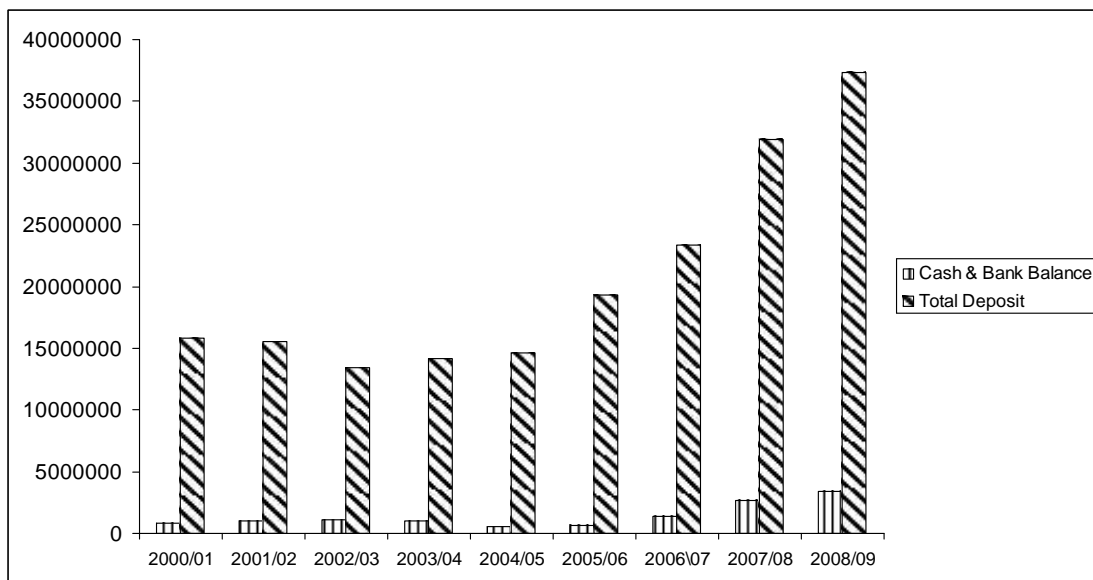
(Rs. in '000')

Year	Cash & Bank Balance	Total Deposit	Ratios (%)
2000/01	812907	15839008	5.13
2001/02	1051820	15506428	6.78
2002/03	1144767	13447661	8.51
2003/04	970486	14119032	6.87
2004/05	559381	14586609	3.83
2005/06	630239	19347399	3.26
2006/07	1399826	23342285	6.00
2007/08	2671141	31915047	8.37
2008/09	3372512	37348256	9.03
Average			6.42
S.D.			1.94
C.V.			30.22

Above table depicted the cash & bank balance to total deposit ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 5.13%, 6.78%, 8.51%, 6.87%, 3.83%, 3.26%, 6.0%, 8.37% and 9.03% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 6.42% during the nine years study period. Likewise, standard deviation is 1.94 and coefficient of variation is 30.22%. Cash & bank balance and total deposit of NABIL can be shown by following diagram:

**Figure 4.3**

**Cash and Bank Balance and Total Deposit of NABIL**



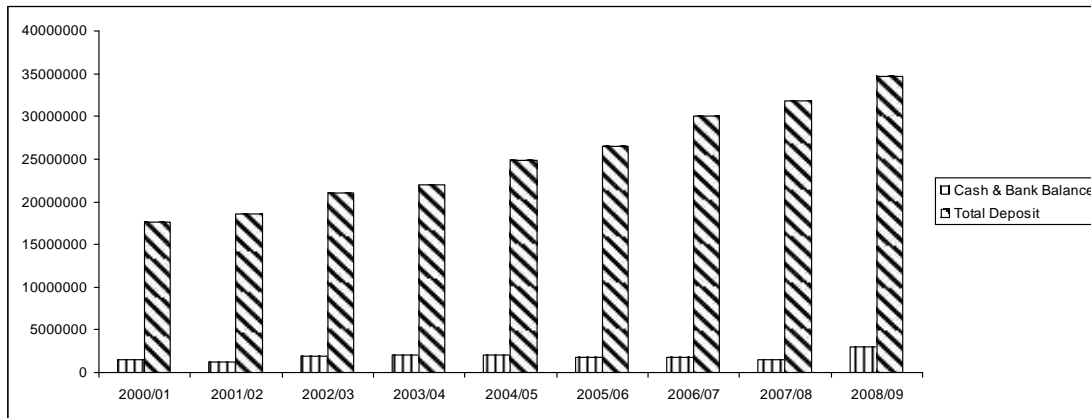
**Table 4.4**  
**Cash and Bank Balance to Total Deposit Ratio of HBL**

(Rs. in '000')

<b>Year</b>	<b>Cash &amp; Bank Balance</b>	<b>Total Deposit</b>	<b>Ratio</b>
2000/01	1435175	17636847	8.14
2001/02	1264672	18619375	6.79
2002/03	1979209	21007379	9.42
2003/04	2001184	22010333	9.09
2004/05	2014471	24814012	8.12
2005/06	1717352	26490852	6.48
2006/07	1757341	30048418	5.85
2007/08	1448143	31842789	4.55
2008/09	3048527	34681345	8.79
AV			7.47
SD			1.55
CV			20.75

Above table depicted the cash & bank balance to total deposit ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 8.14%, 6.79%, 9.42%, 9.09%, 8.12%, 6.48%, 5.85%, 4.55% and 8.79% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 7.47% during the nine years study period. Likewise, the standard deviation is 1.55 and coefficient of variation is 20.75%. Cash & bank balance and total deposit of HBL can be shown by following diagram:

**Figure 4.4**  
**Cash and Bank Balance and Total Deposit of HBL**



### Comparison

The cash & bank balance to total deposit ratio of NABIL is in increasing trend except in the fiscal year 2003/04, 2004/05 and 2005/06. But the cash & bank balance to total deposit ratio of HBL is in decreasing trend except in the fiscal year 2002/03 and 2008/09. There is highest mean ratio of cash & bank balance to total deposit ratio with HBL than NABIL. But, the ratios of NABIL have more variation and less consistency than HBL.

Though the ratios are not consistent, cash & bank balance position of NABIL as well as HBL with respect to deposit is better to serve the customers deposit withdraw demands. Commercial banks have to maintain their cash & bank balance in term of total deposit as directed by NRB time to time. Otherwise they are imposed penalty. A high ratio of invest in to short-term marketable securities, treasury bills etc. insuring enough liquidity, which will help the bank to improve in profitability.

#### 4.1.1.3 Cash and Bank Balance to Current Deposit Ratio

This ratio shows the percentage of most liquid fund over current deposit of the bank. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. Low ratio is also dangerous. If bank maintain low ratio, bank may not be able to make the payment against cheques.

**Table 4.5**  
**Cash and Bank Balance to Current Deposit Ratio of NABIL**

(Rs. in '000')

<b>Year</b>	<b>Cash &amp; Bank Balance</b>	<b>Current Deposit</b>	<b>Ratios (%)</b>
2000/01	812907	2850972	28.51
2001/02	1051820	2703819	38.90
2002/03	1144767	3034003	37.73
2003/04	970486	2688967	36.09
2004/05	559381	2799185	19.98
2005/06	630239	2910590	21.65
2006/07	1399826	3395240	41.23
2007/08	2671141	5284368	50.55
2008/09	3372512	5480533	61.54
Average			37.35
S.D.			12.49
C.V.			33.44

Above table depicted the cash & bank balance to current deposit ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 28.51%, 38.90%, 37.73%, 36.09%, 19.98%, 21.65%, 41.23%, 50.55% and 61.54% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, mean ratio remains at 37.35% during the nine years study period. Likewise, standard deviation is 12.49 and coefficient of variation is 33.44%. Cash & bank balance and current deposit of NABIL can be shown by following diagram:

**Figure 4.5**  
**Cash and Bank Balance and Current Deposit of NABIL**

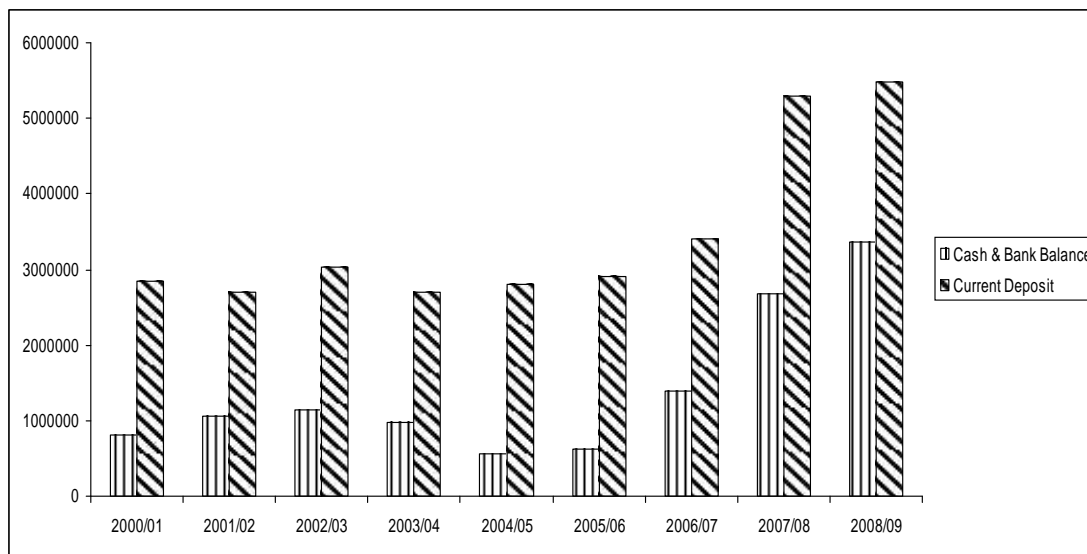


Table 4.6

**Cash and Bank Balance to Current Deposit Ratio of HBL**

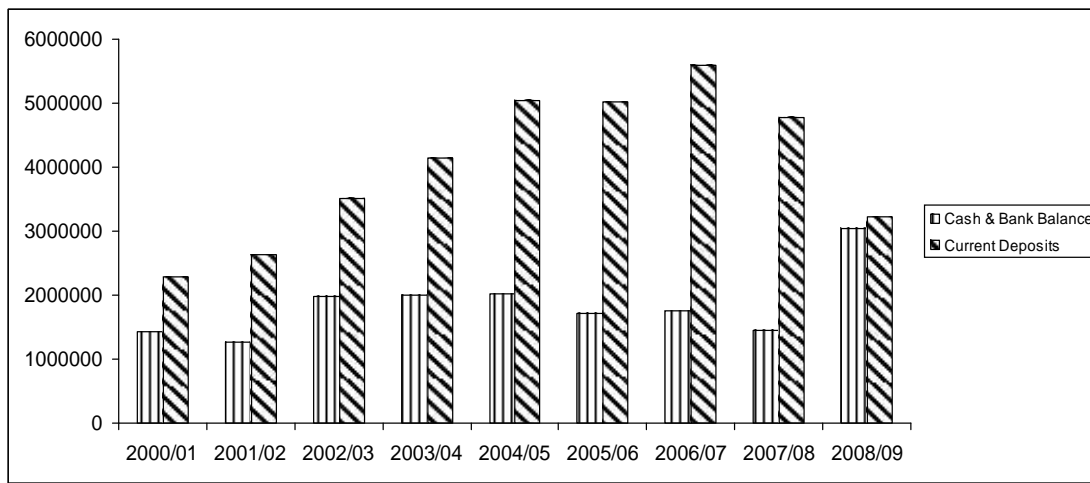
(Rs. in '000')

Year	Cash & Bank Balance	Current Deposits	Ratio
2000/01	1435175	2287151	62.75
2001/02	1264672	2634370	48.01
2002/03	1979209	3503144	56.50
2003/04	2001184	4145448	48.27
2004/05	2014471	5045161	39.93
2005/06	1717352	5028151	34.15
2006/07	1757341	5589580	31.44
2007/08	1448143	4784216	30.27
2008/09	3048527	3218225	94.73
	AV		49.56
	SD		19.14
	CV		38.62

Above table depicted the cash & bank balance to current deposit ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 62.75%, 48.01%, 56.50%, 48.27%, 39.93%, 34.15%, 31.44%, 30.27% and 94.73% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, mean ratio remains at 49.56% during the nine years study period. Likewise, standard deviation is 19.14 and coefficient of variation is 38.62%. Cash & bank balance and current deposit of HBL can be shown by following diagram:

**Figure 4.6**

**Cash and Bank Balance and Current Deposit of HBL**



### **Comparison**

Cash & bank balance to current deposit ratio of NABIL is in increasing trend except in the fiscal year 2002/03, 2003/04 and 2004/05 during the nine years of study period. Similarly, the ratio of HBL is also in decreasing trend except in the fiscal year 2002/03 and 2008/09 whereas the mean ratio of HBL is highest than that of NABIL over the study period. Likewise, the ratios of HBL have more variation and less consistency than NABIL.

It can be said that HBL has high liquid assets in terms of cash & bank balance to current deposit ratio than NABIL but it does not mean that NABIL has mobilized its more funds in profitable sectors than HBL. It actually means that NABIL can tightly meet its daily requirements to make the payments on customer deposit withdrawals than HBL.

#### **4.1.1.4 Cash and Bank Balance to Interest Sensitive Deposits Ratio**

The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

**Table 4.7**

**Cash and Bank Balance to Interest Sensitive Deposits Ratio of NABIL**

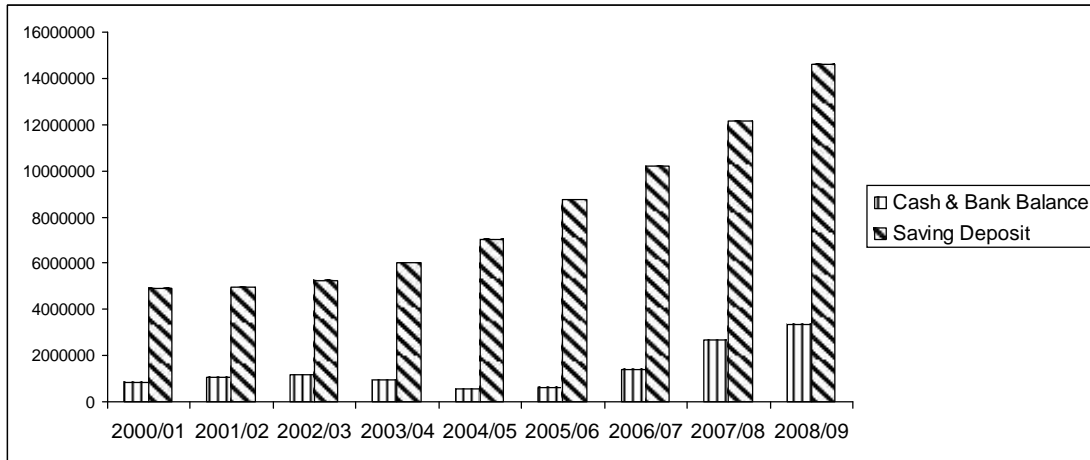
**(Rs. in '000')**

<b>Year</b>	<b>Cash &amp; Bank Balance</b>	<b>Saving Deposit</b>	<b>Ratios (%)</b>
2000/01	812907	4917138	16.53
2001/02	1051820	4972057	21.15
2002/03	1144767	5229723	21.89
2003/04	970486	5994121	16.19
2004/05	559381	7026334	7.96
2005/06	630239	8770760	7.19
2006/07	1399826	10187354	13.74
2007/08	2671141	12159966	21.97
2008/09	3372512	14620407	23.07
Average			16.63
S.D.			5.69
C.V.			34.22

Above table depicted the cash & bank balance to saving deposit ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 16.53%, 21.15%, 21.89%, 16.19%, 7.96%, 7.19%, 13.74%, 21.97% and 23.07%% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, mean ratio remains at 16.63% during the nine years study period. Likewise, standard deviation is 5.69 and coefficient of variation is 34.22%. Cash & bank balance and saving deposit of NABIL can be shown by following diagram:

**Figure 4.7**

**Cash and Bank Balance and Interest Sensitive Deposits of NABIL**



**Table 4.8**

**Cash and Bank Balance to Interest Sensitive Deposits Ratio of HBL**

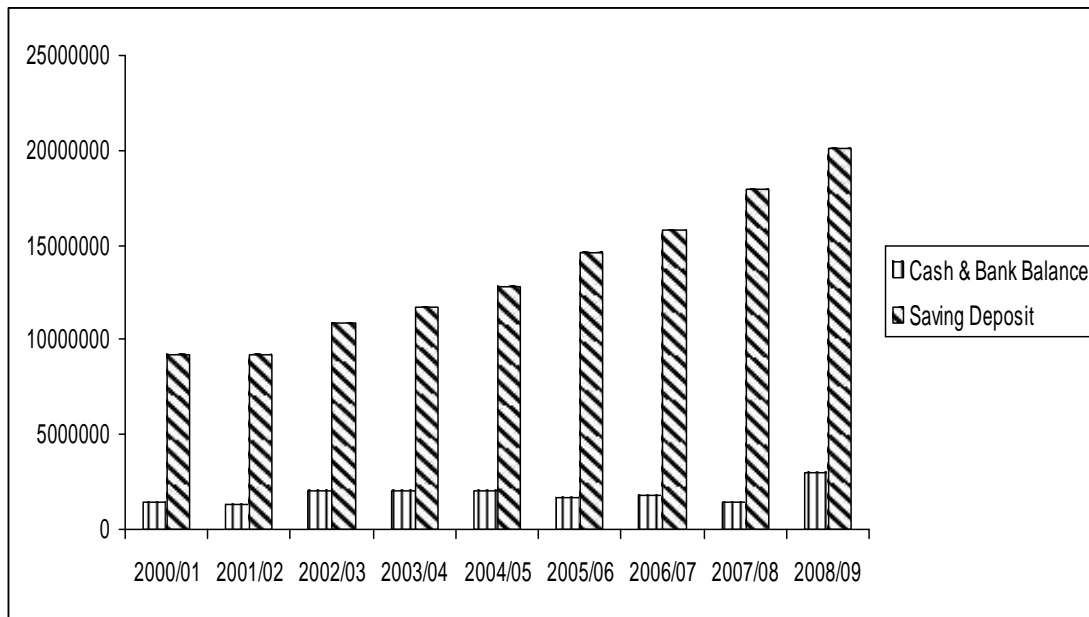
(Rs. in '000')

Year	Cash & Bank Balance	Saving Deposit	Ratio
2000/01	1435175	9163444	15.66
2001/02	1264672	9163946	13.80
2002/03	1979209	10870542	18.21
2003/04	2001184	11759602	17.02
2004/05	2014471	12852415	15.67
2005/06	1717352	14582855	11.78
2006/07	1757341	15784770	11.13
2007/08	1448143	17972441	8.06
2008/09	3048527	20061048	15.20
AV			14.06
SD			3.02
CV			21.48

Above table depicted the cash & bank balance to saving deposit ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 15.66%, 13.80%, 18.21%, 17.02%, 15.67%, 11.78%, 11.13%, 8.06% and 15.20% in the fiscal year 2000/01,

2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, mean ratio remains at 14.06% during the nine years study period. Likewise, standard deviation is 3.02 and coefficient of variation is 21.48%. Cash & bank balance and saving deposit of HBL can be shown by following diagram:

**Figure 4.8**  
**Cash and Bank Balance and Interest Sensitive Deposits of HBL**



### Comparison

Cash & bank balance to saving deposit ratio of NABIL is in increasing trend except in the fiscal year 2003/04, 2004/05 and 2005/06 of the study period. The ratio of HBL is in a decreasing trend except in the fiscal year 2002/03 and 2008/09. But, NABIL has higher mean ratio than HBL. Similarly, ratios of NABIL have more variation and less consistency than HBL.

From the analysis of overall liquidity ratios of NABIL and HBL, we can say that NABIL has high degree of liquid assets, i.e. high liquidity position than HBL. High liquidity

position is not so better because of interest expenses and it may cause inverse impact in overall performance.

#### **4.1.2 Assets Management Ratio**

This ratio measures the efficiency of commercial bank in its fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit, maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of bank to manage its assets in profitable way satisfactorily. Help of the following ratios have analyzed asset management ability of NABIL as well as HBL.

##### **4.1.2.1 Loan & Advances to Total Deposit Ratio**

This ratio measures to the extent that bank is successful to manage its total deposit on loan & advances for the purpose of income generation or not. A high ratio indicates better mobilization of collected deposit and vice-versa. But it should be noted that too high ratio might not be better from liquidity point of view.

**Table 4.9**

#### **Loan & Advances to Total Deposit Ratio of NABIL**

**(Rs. in '000')**

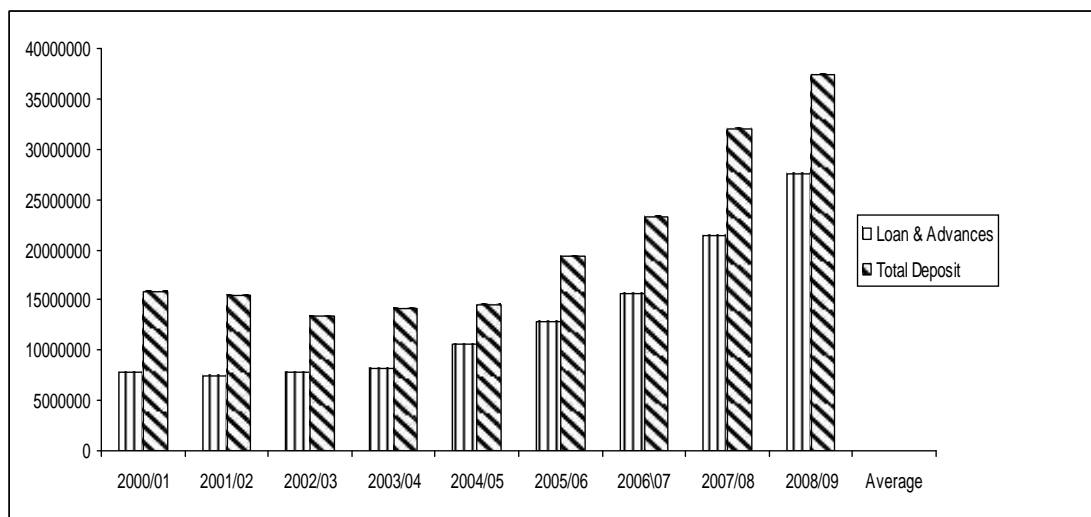
<b>Year</b>	<b>Loan &amp; Advances</b>	<b>Total Deposit</b>	<b>Ratios (%)</b>
2000/01	7732637	15839008	48.82
2001/02	7437895	15506428	47.97
2002/03	7755952	13447661	57.68
2003/04	8189993	14119032	58.01
2004/05	10586170	14586609	72.57
2005/06	12922543	19347399	66.79
2006\07	15545779	23342285	66.60
2007/08	21365053	31915047	66.94
2008/09	27589933	37348256	73.87
Average			62.14
S.D.			8.98

C.V.	14.45
------	-------

Above table depicted the loan & advance to total deposit ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 48.82%, 47.97%, 57.68%, 58.01%, 72.57%, 66.79%, 66.60%, 66.94% and 73.87% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, mean ratio remains at 62.14% during the nine years study period. Likewise, standard deviation is 8.98 and coefficient of variation is 14.45%. Loan & advance and total deposit of NABIL can be shown by following diagram:

**Figure 4.9**

**Loan & Advances and Total Deposit of NABIL**



**Table 4.10**

**Loan & Advances to Total Deposit Ratio of HBL**

(Rs. in '000')

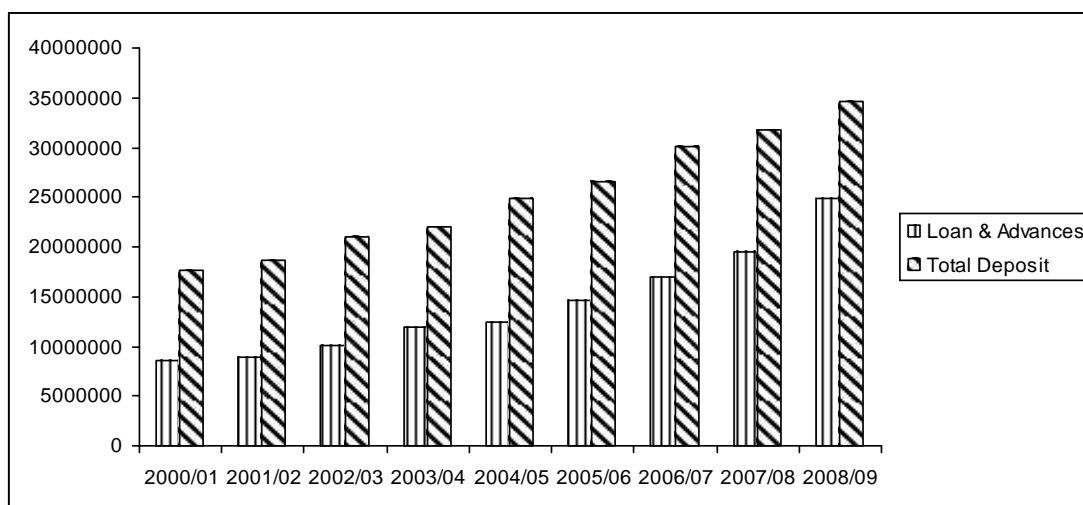
Year	Loan & Advances	Total Deposit	Ratio (%)
2000/01	8537666	17636847	48.41
2001/02	8913724	18619375	47.87
2002/03	10001848	21007379	47.61
2003/04	11951869	22010333	54.30
2004/05	12424521	24814012	50.07
2005/06	14642560	26490852	55.27

2006/07	16997997	30048418	56.57
2007/08	19497520	31842789	61.23
2008/09	24793155	34681345	71.49
AV			54.76
SD			7.35
CV			13.42

Above table depicted the loan & advance to total deposit ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 48.41%, 47.87%, 47.61%, 54.30%, 50.07%, 55.27%, 56.57%, 61.23% and 71.49% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 54.76% during the nine years study period. Likewise, the standard deviation is 7.35 and coefficient of variation is 13.42%. Loan & advance and total deposit of HBL can be shown by following diagram:

**Figure 4.10**

**Loan & Advances and Total Deposit of HBL**



**Comparison:**

Loan & advances to total deposit ratio of NABIL is in increasing trend except in the fiscal year 2001/02, 2005/06 and 2006/07 over the nine years of study period whereas the ratio of HBL is also in increasing trend except in the fiscal year 2001/02, 2002/03 and

2004/05. Similarly, NABIL has higher mean ratio than that of HBL during the study period. Likewise, the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL is in good form according to deposit mobilization point of view than HBL. But it does not mean that NABIL is investing more of its collected fund in high return but with low risk sector than HBL. The lending ratios are very low than collection ratios over the study period. From this point of view, loan & advance to total deposit ratios of the banks are not so better but satisfactory.

#### **4.1.2.2 Loan & Advances to Total Assets Ratio**

Loan & advances of any commercial bank represent the major portion in the volume of total working fund. This ratio measures the volume of loan & advances in the structure of total assets. High degree of this ratio indicates good performance of the bank in mobilizing its funds by way of lending function. However, in its reverse side, high degree of this ratio is repressed enactive of low liquidity ratio.

Granting of loans & advances always carries a certain degree of risk. Thus, this asset of banking business is regarded as risky assets. This ratio measures the management attitude toward risky assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice-versa. The interaction between risk and return determines this ratio. This ratio also shows the credit risk taken by the bank towards mobilizing its funds into different types of assets. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation.

**Table 4.11**

#### **Loan & Advances to Total Assets Ratio of NABIL**

**(Rs. in '000')**

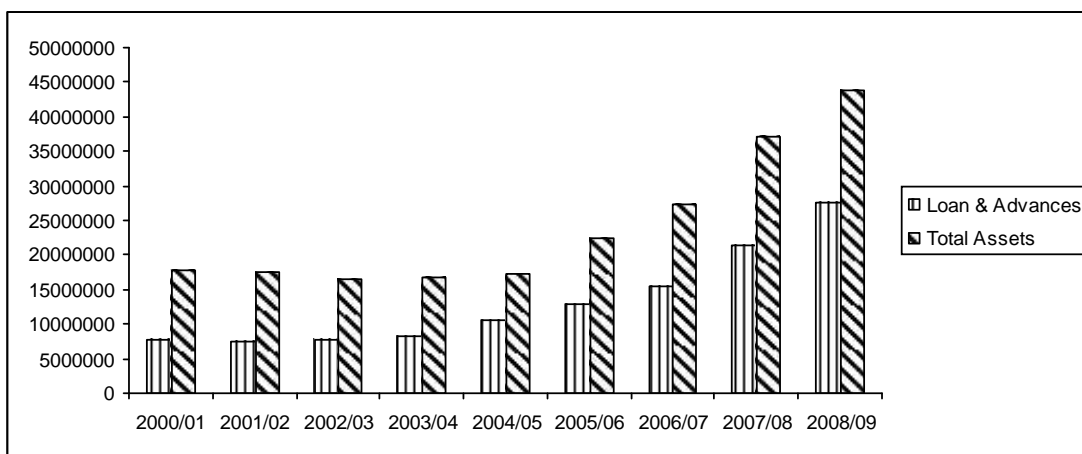
<b>Year</b>	<b>Loan &amp; Advances</b>	<b>Total Assets</b>	<b>Ratios (%)</b>
2000/01	7732637	17770651	43.51
2001/02	7437895	17629252	42.19
2002/03	7755952	16562625	46.83
2003/04	8189993	16745487	48.91

2004/05	10586170	17186331	61.60
2005/06	12922543	22329971	57.87
2006/07	15545779	27253393	57.04
2007/08	21365053	37132759	57.54
2008/09	27589933	43867398	62.89
Average			53.15
S.D.			7.41
C.V.			13.94

Above table depicted the loan & advances to total assets ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 43.51%, 42.19%, 46.83%, 48.91%, 61.60%, 57.87%, 57.04%, 57.54% and 62.89% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 53.15% during the nine years study period. Likewise, the standard deviation is 7.41 and coefficient of variation is 13.94%. Loans & advances and total assets of NABIL can be shown by following diagram:

**Figure 4.11**

**Loan & Advances and Total Assets of NABIL**



**Table 4.12**

**Loan & Advances to Total Assets Ratio of HBL**

(Rs. in '000')

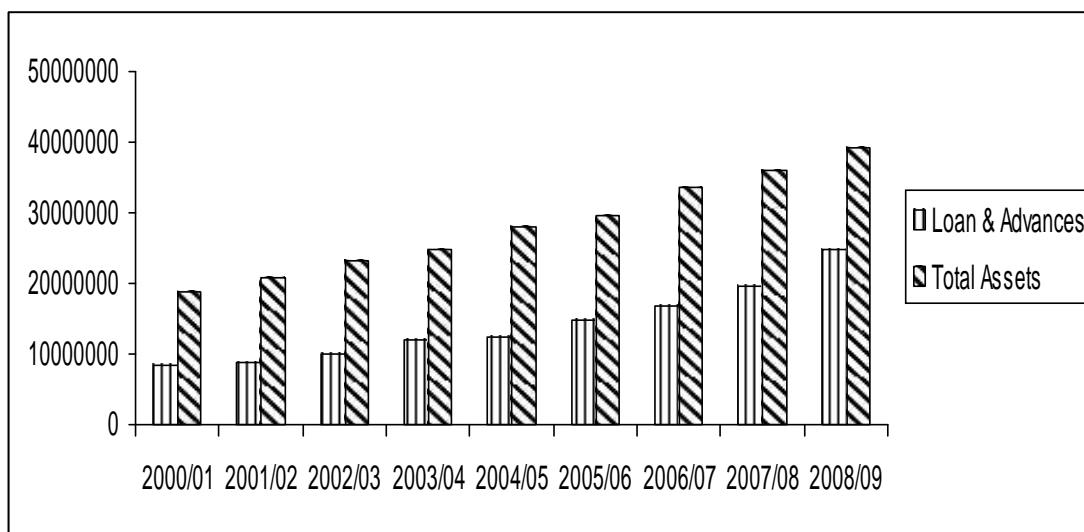
Year	Loan & Advances	Total Assets	Ratio (%)
2000/01	8537666	18870804	45.24
2001/02	8913724	20672434	43.12
2002/03	10001848	23279341	42.96

2003/04	11951869	24762025	48.27
2004/05	12424521	27844695	44.62
2005/06	14642560	29460390	49.70
2006/07	16997997	33519141	50.71
2007/08	19497520	36175531	53.90
2008/09	24793155	39320322	63.05
AV			49.06
SD			6.05
CV			12.33

Above table depicted the loan & advances to total assets ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 45.24%, 43.12%, 42.96%, 48.27%, 44.62%, 49.70%, 50.71%, 53.90% and 63.05% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 49.06% during the nine years study period. Likewise, the standard deviation is 6.05 and coefficient of variation is 12.33%. Loan & advance and total assets of HBL can be shown by following diagram:

**Figure 4.12**

**Loan & Advances to Total Assets Ratio of HBL**



**Comparison:**

Loan & advances to total assets ratio of NABIL is in increasing trend except in the fiscal year 2001/02, 2005/06 and 2006/07 over the nine years of study period. The ratio of HBL

is also in increasing trend except in the fiscal year 2001/02, 2002/03 and 2004/05. Similarly, NABIL has higher mean ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL has sound lending policy so that it is able to mobilize its resources as loan & advances, more than HBL.

#### **4.1.2.3 Total Investment to Total Deposit Ratio**

A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial and non-financial organizations. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of management of bank assets, various factors such as excess availability of fund, liquidity requirement, central banks norms etc. are to be considered in general.

This ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success of mobilized deposits in securities and vice-versa.

**Table 4.13**

#### **Total Investment to Total Deposit Ratio of NABIL**

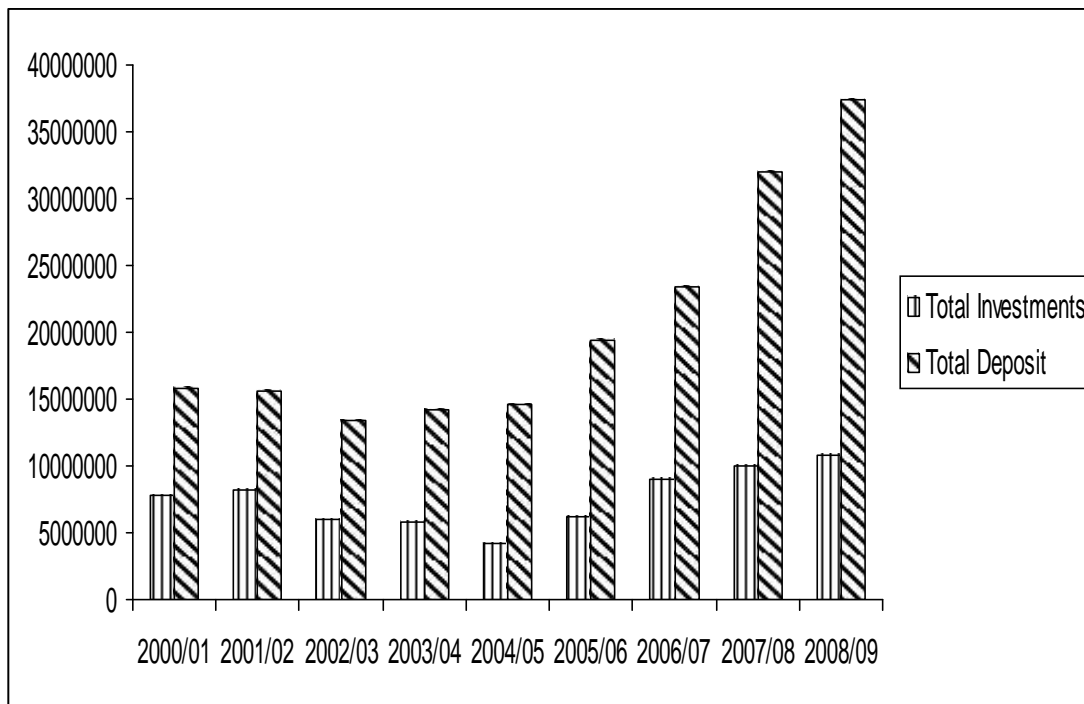
**(Rs. in '000')**

<b>Year</b>	<b>Total Investments</b>	<b>Total Deposit</b>	<b>Ratios (%)</b>
2000/01	7704309	15839008	48.64
2001/02	8199515	15506428	52.88
2002/03	6031176	13447661	44.85
2003/04	5835948	14119032	41.33
2004/05	4267233	14586609	29.25
2005/06	6178533	19347399	31.93
2006/07	8945311	23342285	38.32
2007/08	9939771	31915047	31.14

2008/09	10826379	37348256	28.99
Average			38.59
S.D.			8.37
C.V.			21.69

Above table depicted the total investment to total deposit ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 48.64%, 52.88%, 44.85%, 41.33%, 29.25%, 31.93%, 38.32%, 31.14% and 28.99% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 38.59% during the nine years study period. Likewise, the standard deviation is 8.37 and coefficient of variation is 21.69%. Total investment and total deposit of NABIL can be shown by following diagram:

**Figure 4.13**  
**Total Investment and Total Deposit of NABIL**



**Table 4.14**  
**Total Investment to Total Deposit Ratio of HBL**

(Rs. in '000')

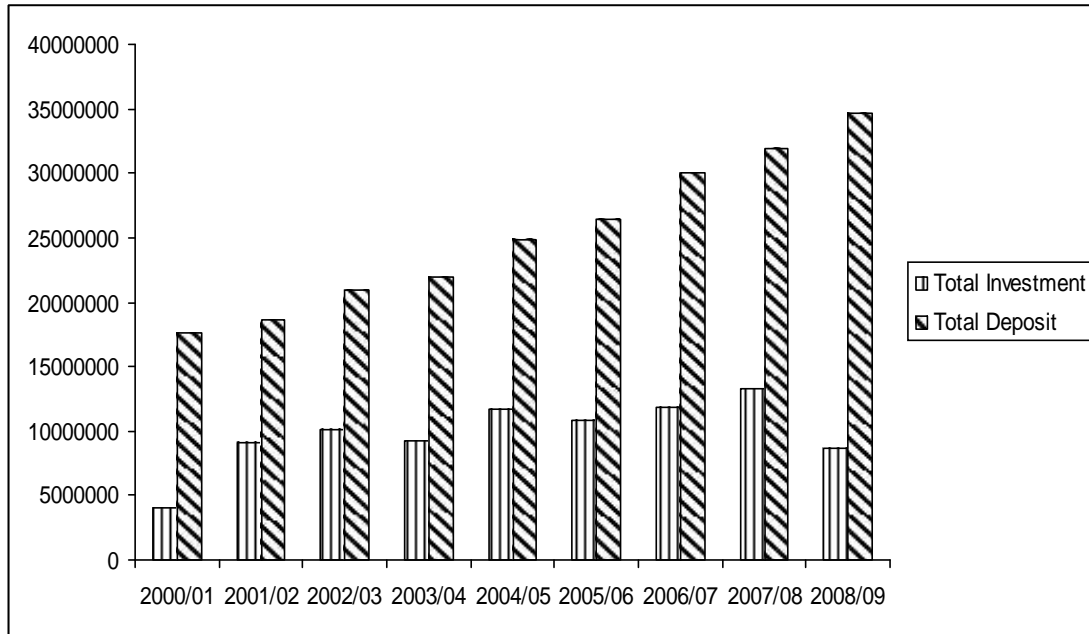
Year	Total Investment	Total Deposit	Ratio (%)
------	------------------	---------------	-----------

2000/01	4083160	17636847	23.15
2001/02	9157107	18619375	49.18
2002/03	10175435	21007379	48.44
2003/04	9292103	22010333	42.22
2004/05	11692342	24814012	47.12
2005/06	10889031	26490852	41.10
2006/07	11822985	30048418	39.35
2007/08	13340177	31842789	41.89
2008/09	8710691	34681345	25.12
AV			39.73
SD			8.95
CV			22.53

Above table depicted the total investment to total deposit ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 23.15%, 49.18%, 48.44%, 42.22%, 47.12%, 41.10%, 39.35%, 41.89% and 25.12% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 39.73% during the nine years study period. Likewise, the standard deviation is 8.95 and coefficient of variation is 22.53%. Total investment and total deposit of HBL can be shown by following diagram:

**Figure 4.14**

**Total Investment and Total Deposit of HBL**



**Comparison:**

Total investment to total deposit ratio of NABIL is in decreasing trend except in the fiscal year 2001/02, 2005/06 and 2006/07 over the nine years of study period. The ratio of HBL is in decreasing trend except in the fiscal year 2001/02, 2004/05 and 2007/08. Similarly, HBL has highest mean ratio than that of NABIL. Likewise, the ratios of HBL have more variation and less consistency than NABIL.

During the study period, movements of ratios are first increasing, then decreasing and again increasing. It may be due to slack in the different sectors of economy due to which bank is unable to mobilize its fund in loan & advances and share/debenture of other companies properly.

**4.1.3 Leverage Ratio**

These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. Changes in leverage result in changes in level of return and associated risk. Generally, increase in leverage result in increase in return and risk, where as decrease in leverage result in decreased return and risk. The amounts of leverage in the firm's capital structure as the mix of long term debt and equity maintained by the firm can significantly affect its value by affecting return and risk.

Because of its effect on value, the financial manager must understand how to measure and evaluate leverage when attempting to create the best capital structure. The leverage ratio highlights the long-term financial health, debt servicing capacity, strength and weakness of firm. Following ratios are included under leverage ratios.

#### **4.1.3.1 Debt to Equity Ratio**

Debt equity ratio is used to show the relationship between borrowed funds and owners' capital. It reflects the relative claims of creditors and shareholders against the assets of the firm. It is an important tool for the financial analysis to appraise the financial structure of a firm. The ratio reflects the relative contribution of owners and creditors capital of business in its financing. Here, debt includes all the credits (long-term and short-term) of the bank whereas equity includes paid up capital, reserve & surplus and undistributed profit. Very high ratio is bad during the long-run period and vice-versa.

**Table 4.15**  
**Debt to Equity Ratio of NABIL**

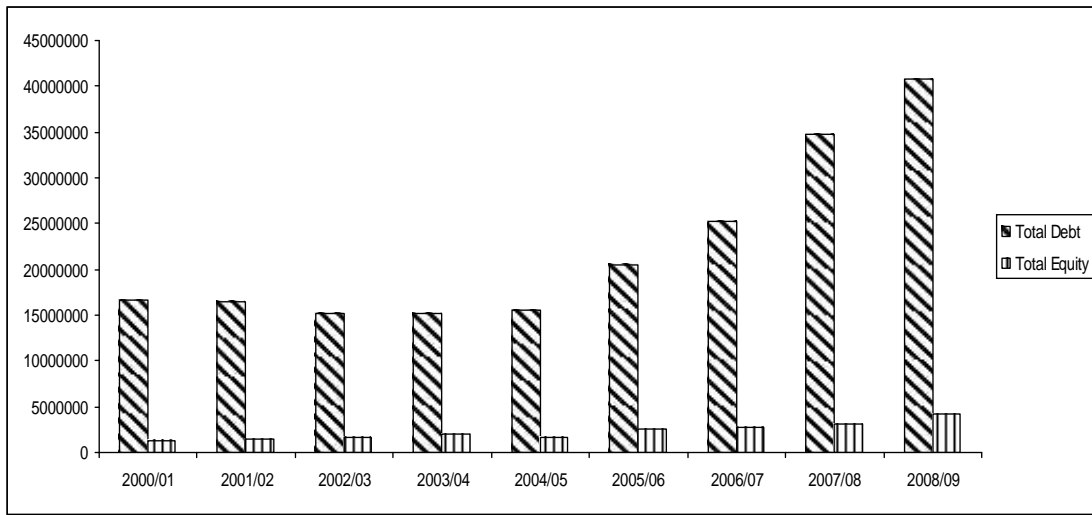
(Rs. in '000')

Year	Total Debt	Total Equity	Ratios (%)
2000/01	16707805	1354222	1233.76
2001/02	16482824	1418067	1162.34
2002/03	15248438	1730423	881.20
2003/04	15263804	1936993	788.02
2004/05	15528693	1665064	932.62
2005/06	20454977	2510256	814.86
2006/07	25196343	2731009	922.60
2007/08	34695560	3183667	1089.80
2008/09	40737157	4161294	978.95
Average			978.24
S.D.			144.95
C.V.			14.82

Above table depicted the total debt to total equity ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 1233.76%, 1162.34%, 881.20%, 788.02%, 932.62%, 814.86%, 922.60%, 1089.80% and 978.95% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 978.24% during the nine years study period. Likewise, the standard deviation is 144.95 and coefficient of variation is 14.82%. Total debt and total equity of NABIL can be shown by following diagram:

**Figure 4.15**

**Debt to Equity Ratio of NABIL**



**Table 4.16**

**Debt to Equity Ratio of HBL**

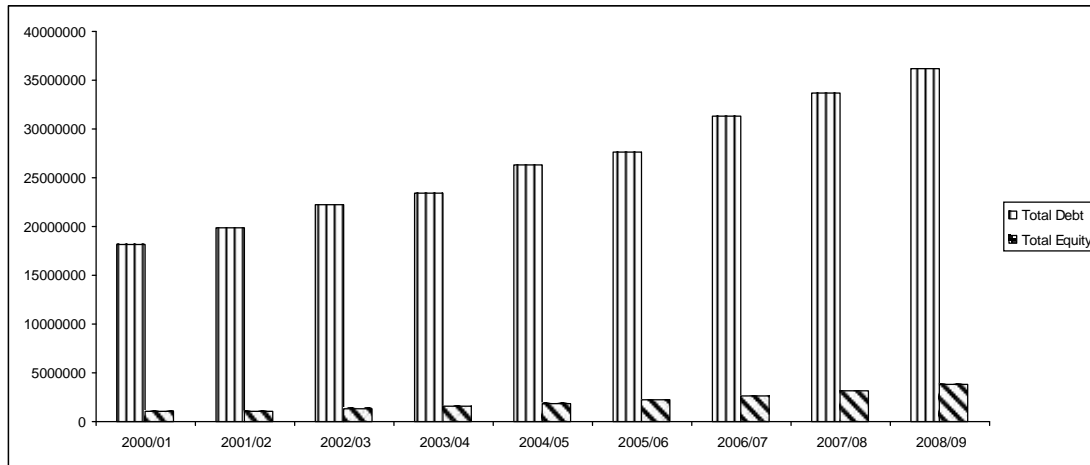
(Rs. in '000')

Year	Total Debt	Total Equity	Ratio (%)
2000/01	18150213	997631	1819.33
2001/02	19814319	1093139	1812.61
2002/03	22292091	1275260	1748.04
2003/04	23437859	1587219	1476.66
2004/05	26302948	1850021	1421.76
2005/06	27694215	2223634	1245.45
2006/07	31372641	2638323	1189.11
2007/08	33662540	3148860	1069.04
2008/09	36200442	3872715	934.76
	AV		1412.97
	SD		310.27
	CV		21.96

Above table depicted the total debt to total equity ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 1819.33%, 1812.61%, 1748.04%, 1476.66%, 1421.76%, 1245.45%, 1189.11%, 1069.04% and 934.76% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 1412.97% during the nine years study

period. Likewise, the standard deviation is 310.27 and coefficient of variation is 21.96%. Total debt and total equity of HBL can be shown by following diagram:

**Figure 4.16**  
**Debt and Equity of HBL**



**Comparison:**

Total debt to total equity ratio of NABIL is in decreasing trend except in the fiscal year 2004/05, 2006/07 and 2007/08 over the nine years of study period. The ratio of HBL is in continuously decreasing trend in the subsequent years. But HBL has the highest mean ratio than that of NABIL during the study period. Similarly, the ratios of HBL have more variation but less consistency than NABIL.

From the analysis, we can say that HBL is more levered firm than NABIL during the nine years of study period. Levered firm must bear more fixed expenses than non-levered. It may result bad impact on overall performance of the bank in the long-term.

**4.1.3.2 Total Debt to Total Assets Ratio**

It examines the relationship between borrowed funds (i.e. total debt) and total assets. Debt to total assets ratio express the relationship between creditors fund and total assets. It is also the leverage ratio, which is generally called the debt ratio. This type of capital structure ratio is a variant of debt equity ratio. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets.

**Table 4.17**

**Total Debt to Total Assets Ratio of NABIL**

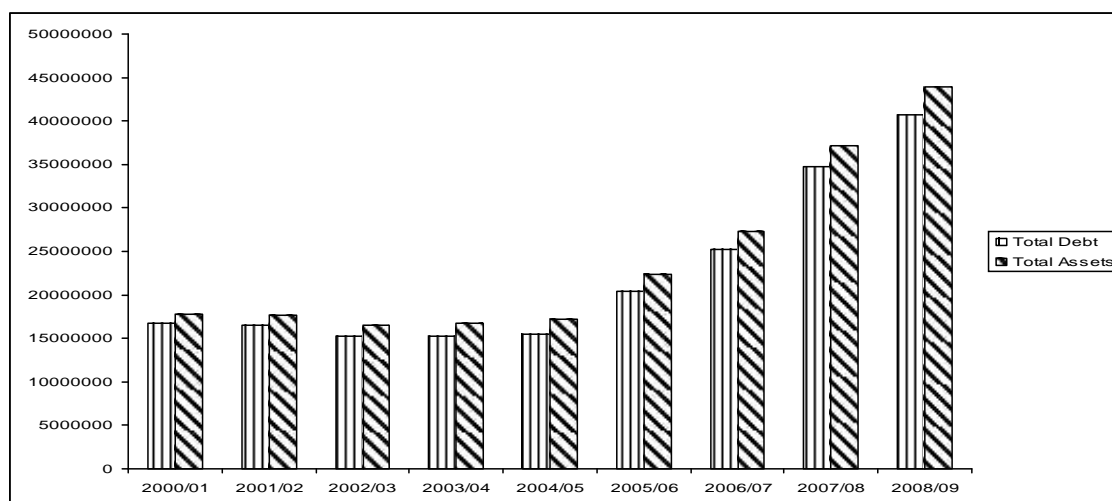
**(Rs. in '000')**

Year	Total Debt	Total Assets	Ratios (%)
2000/01	16707805	17770651	94.02
2001/02	16482824	17629252	93.50
2002/03	15248438	16562625	92.07
2003/04	15263804	16745487	91.15
2004/05	15528693	17186331	90.35
2005/06	20454977	22329971	91.60
2006/07	25196343	27253393	92.45
2007/08	34695560	37132759	93.44
2008/09	40737157	43867398	92.86
Average			92.38
S.D.			1.14
C.V.			1.23

Above table depicted the total debt to total assets ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 94.02%, 93.50%, 92.07%, 91.15%, 90.35%, 91.60%, 92.45%, 93.44% and 92.86% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, mean ratio remains at 92.38% during the nine years study period. Likewise, standard deviation is 1.14 and coefficient of variation is 1.23%. Total debt and total assets of NABIL can be shown by the following diagram:

**Figure 4.17**

**Total Debt and Total Assets of NABIL**



**Table 4.18**

**Total Debt to Total Assets Ratio of HBL**

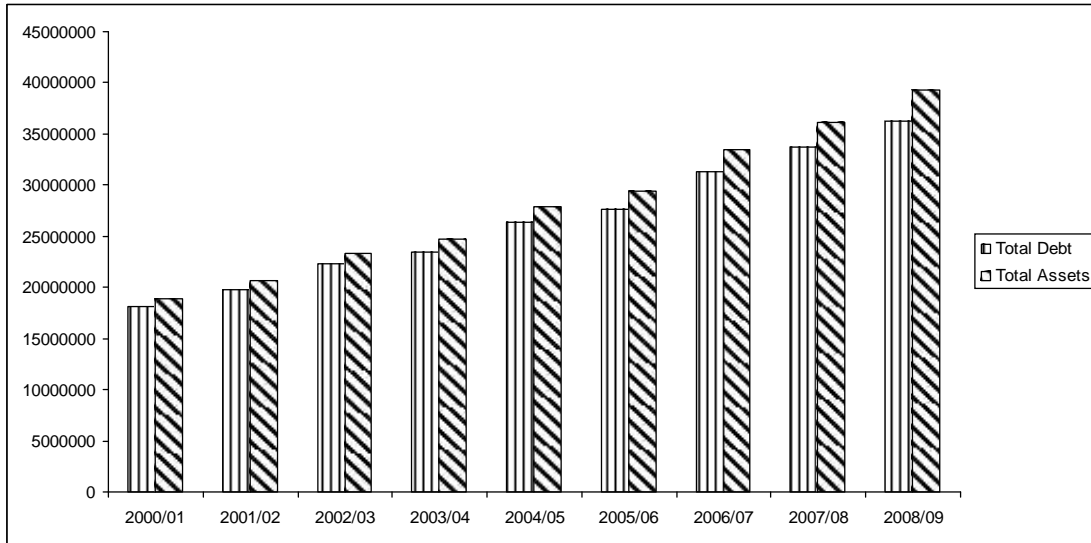
(Rs. in '000')

<b>Year</b>	<b>Total Debt</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2000/01	18150213	18870804	96.18
2001/02	19814319	20672434	95.85
2002/03	22292091	23279341	95.76
2003/04	23437859	24762025	94.65
2004/05	26302948	27844695	94.46
2005/06	27694215	29460390	94.00
2006/07	31372641	33519141	93.60
2007/08	33662540	36175531	93.05
2008/09	36200442	39320322	92.07
AV			94.40
SD			1.30
CV			1.38

Above table depicted that the total debt to total assets ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 96.18%, 95.85%, 95.76%, 94.65%, 94.46%, 94.00%, 93.60%, 93.05% and 92.07% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 94.40% during the nine years study period. Likewise, the standard deviation is 1.30 and coefficient of variation is 1.38%. Total debt and total assets of HBL can be shown by following diagram:

**Figure 4.18**

**Total Debt and Total Assets of HBL**



### Comparison:

Total debt to total assets ratio of NABIL is in decreasing trend except in the fiscal year 2005/06, 2006/07 and 2007/08 of the study period during the nine years. The ratio of HBL is in continuously decreasing trend over the study period. But HBL has the highest mean ratio than that of NABIL. Similarly, the ratios of HBL have more variation and less consistency than NABIL.

According to the above analysis, we can say that HBL used outsider's fund more than owner's fund during the formation of capital structure but NABIL has more variation in the ratios during the study period. It is bad symptoms for the bank.

#### 4.1.4 Profitability Ratios

Profitability ratios are very helpful to measure the overall operation efficiency of a financial institution. In the context of banks, no bank can survive without profit. Profit is one of the major indicators or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan & advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are under the profitability ratio.

#### 4.1.4.1 Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio is the gap between interest rates offered and interest rate charged. NRB has restricted the gap between interests taken in loan & advances and interest offered in deposit. The credit creation power of commercial bank has high impact on this ratio.

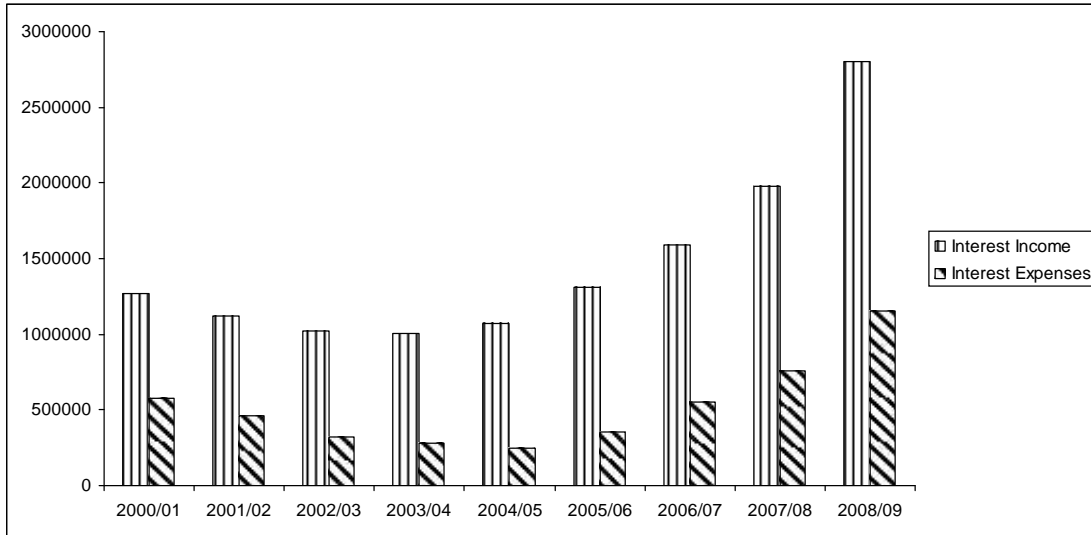
**Table 4.19**  
**Interest Income to Interest Expenses Ratio of NABIL**

(Rs. in '000')

Year	Interest Income	Interest Expenses	Ratios (%)
2000/01	1266704	578364	219.02
2001/02	1120184	462079	242.42
2002/03	1017872	317349	320.74
2003/04	1001617	282948	353.99
2004/05	1068747	243545	438.83
2005/06	1309998	357161	366.78
2006/07	1587759	555710	285.72
2007/08	1978697	758436	260.89
2008/09	2798486	1153280	242.65
Average			303.45
S.D.			68.20
C.V.			22.47

Above table depicted the interest income to interest expenses ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 219.02%, 242.42%, 320.74%, 353.99%, 438.83%, 366.78%, 285.72%, 260.89% and 242.65% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 303.45% during the nine years study period. Likewise, the standard deviation is 68.20 and coefficient of variation is 22.47%. Interest income and interest expenses of NABIL can be shown by following diagram.

**Figure 4.19**  
**Interest Income and Interest Expenses of NABIL**



**Table 4.20**  
**Interest Income to Interest Expenses Ratio of HBL**

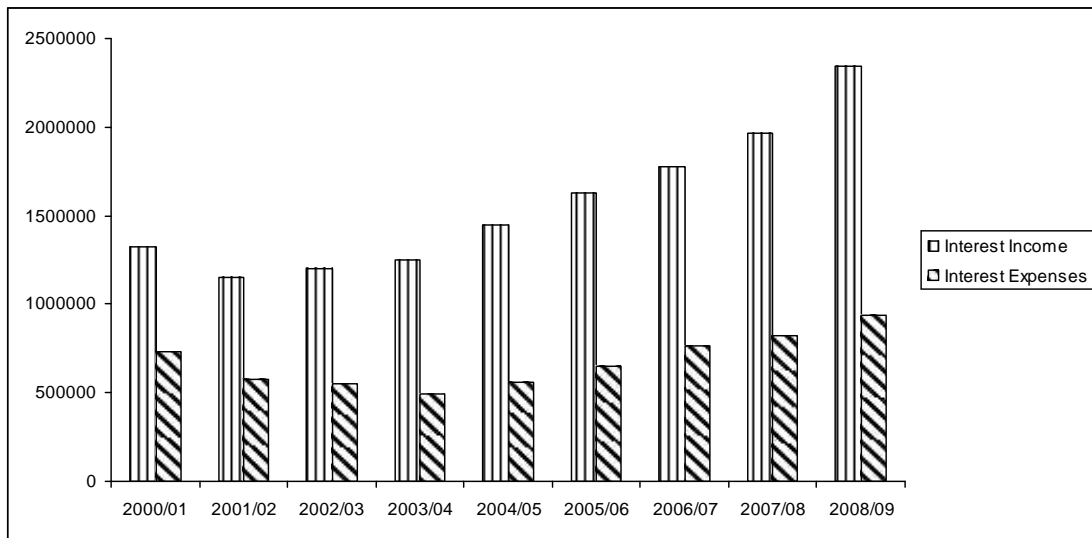
(Rs. in '000')

Year	Interest Income	Interest Expenses	Ratio (%)
2000/01	1326378	734518	180.58
2001/02	1148998	578133	198.74
2002/03	1201234	554128	216.78
2003/04	1245895	491543	253.47
2004/05	1446468	561964	257.40
2005/06	1626474	648842	250.67
2006/07	1775583	767411	231.37
2007/08	1963647	823745	238.38
2008/09	2342198	934778	250.56
AV			230.88
SD			25.41
CV			11.01

Above table depicted the interest income to interest expenses ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 180.58%, 198.74%, 216.78%, 253.47%, 257.40%, 250.67%, 231.37%, 238.38% and 250.56% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 230.88% during the nine years study period. Likewise, the standard deviation is 25.41 and coefficient of variation is 11.01%. Interest income and interest expenses of HBL can be shown by following diagram:

**Figure 4.20**

**Interest Income and Interest Expenses of HBL**



**Comparison:**

Interest income to interest expenses ratio of NABIL is in highly increasing trend except in the last four year during the nine years of study period. The ratio of HBL is also in increasing trend over the study period except in the fiscal year 2005/06, 2006/07 and 2007/08. Similarly, NABIL has the highest mean ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL has high degree of gap between interest offered and interest charged than HBL. This shows that NABIL has charged high interest rate to borrowers and offering low interest rate to depositors.

**4.1.4.2 Return on Loan & Advances Ratio**

This ratio measures the earning capacity of commercial bank through its fund mobilization as loan & advances.

**Table 4.21**

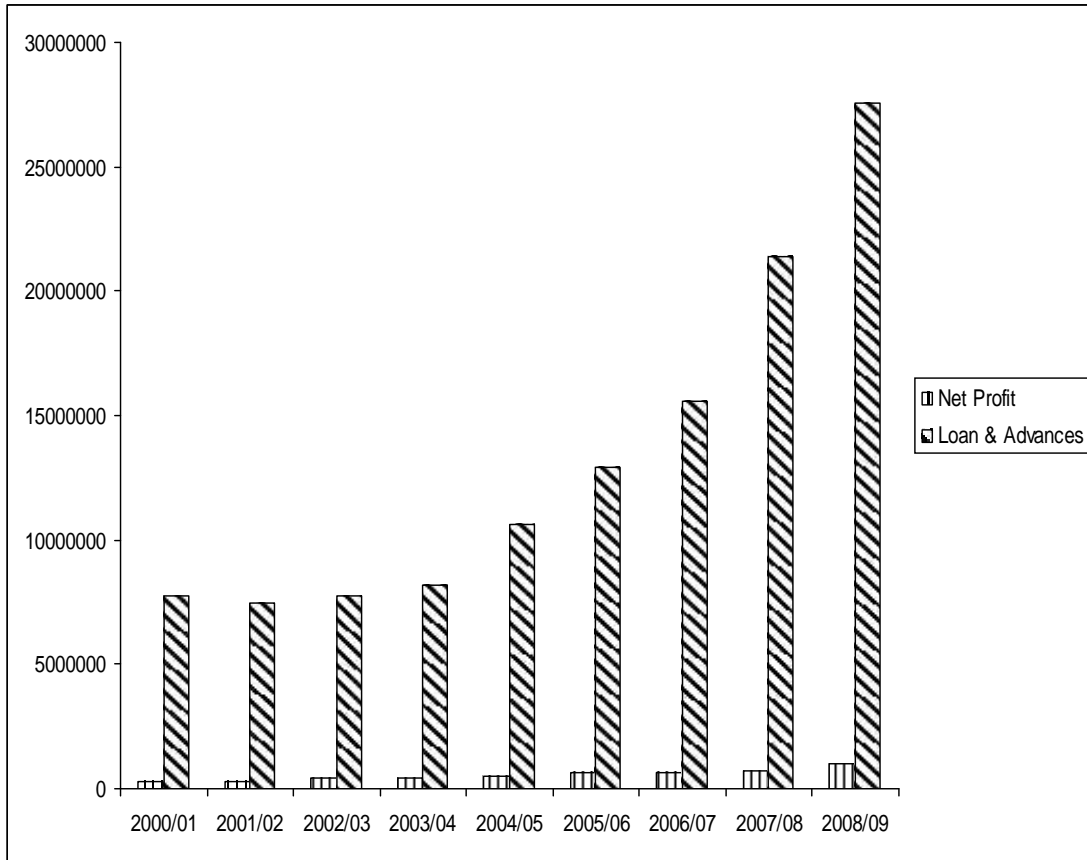
**Return on loan & advances ratio of NABIL**

(Rs. in '000')

<b>Year</b>	<b>Net Profit</b>	<b>Loan &amp; Advances</b>	<b>Ratios (%)</b>
2000/01	291376	7732637	3.77
2001/02	271639	7437895	3.65
2002/03	416235	7755952	5.37
2003/04	455311	8189993	5.56
2004/05	518636	10586170	4.90
2005/06	635262	12922543	4.92
2006/07	673960	15545779	4.34
2007/08	746468	21365053	3.49
2008/09	1031053	27589933	3.74
Average			4.42
S.D.			0.75
C.V.			16.97

Above table depicted the return on loan & advances ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 3.77%, 3.65%, 5.37%, 5.56%, 4.90%, 4.92%, 4.34%, 3.49% and 3.74% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 4.42% during the nine years study period. Likewise, the standard deviation is 0.75 and coefficient of variation is 16.97%. Net profit and loan & advances of NABIL can be shown by following diagram:

**Figure 4.21**  
**Return on Loan & Advances of NABIL**



**Table 4.22**

**Return on Loan & Advances Ratio of HBL**

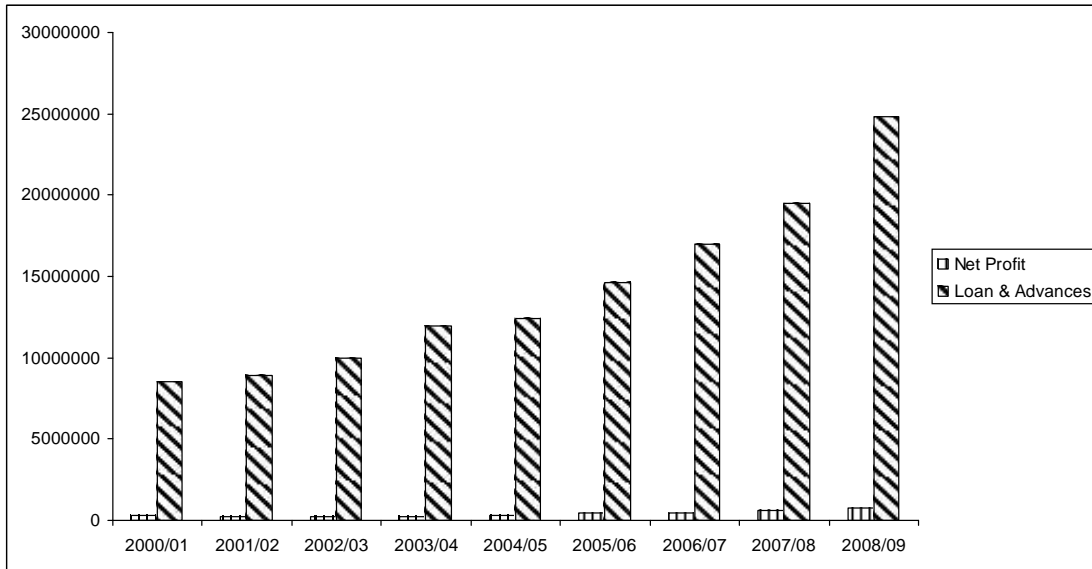
(Rs. in '000')

Year	Net Profit	Loan & Advances	Ratio (%)
2000/01	277040	8537666	3.24
2001/02	235024	8913724	2.64
2002/03	212128	10001848	2.12
2003/04	263053	11951869	2.20
2004/05	308275	12424521	2.48
2005/06	457458	14642560	3.12
2006/07	491823	16997997	2.89
2007/08	635869	19497520	3.26
2008/09	752834	24793155	3.04
	AV		2.78
	SD		0.41
	CV		14.75

Above table depicted the return on loan & advances ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 3.24%, 2.64%, 2.12%, 2.20%, 2.48%, 3.12%, 2.89%, 3.26% and 3.04% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 2.78% during the nine years study period. Likewise, the standard deviation is 0.41 and coefficient of variation is 14.75%. Net profit and loan & advances of HBL can be shown by following diagram:

**Figure 4.22**

**Net profit Loan & Advance of HLB**



**Comparison:**

Return on loan & advances ratio of NABIL is in increasing trend except in the fiscal year 2001/02, 2004/05, 2006/07 and 2007/08 over the nine years of study period. The ratio of HBL is increasing except in 2001/02, 2002/03, 2006/07 and 2008/09 of the study period. As well, NABIL has the higher mean ratio than that of HBL. Similarly, the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that return on loan & advances ratio of NABIL and HBL is very low and in fluctuating trend also. The highest ratio is 5.56% of NABIL and 3.26% of HBL during the nine years of study period. It shows the normal earning capacity of NABIL and HBL in loan & advance. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactorily in the present economic situation.

#### 4.1.4.3 Net Profit/Loss to Total Assets Ratio

Return on total assets ratio measures the profitability of bank that explains a firm to earn satisfactory return on all financial resources invested in the bank's assets. The ratio explains net income for each unit of assets. Higher ratio indicates efficiency in utilizing its overall resources and vice versa.

**Table 4.23**

#### **Net profit/loss to total assets ratio of NABIL**

**(Rs. in '000')**

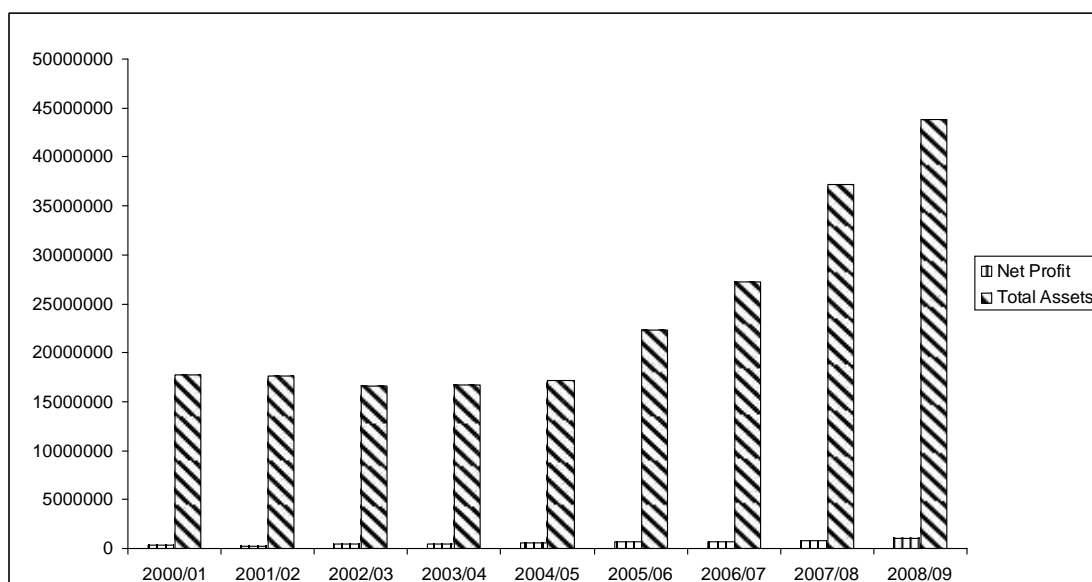
<b>Year</b>	<b>Net Profit</b>	<b>Total Assets</b>	<b>Ratios (%)</b>
2000/01	291376	17770651	1.64
2001/02	271639	17629252	1.54
2002/03	416235	16562625	2.51
2003/04	455311	16745487	2.72
2004/05	518636	17186331	3.02
2005/06	635262	22329971	2.84
2006/07	673960	27253393	2.47
2007/08	746468	37132759	2.01
2008/09	1031053	43867398	2.35
Average			2.34
S.D.			0.49
C.V.			20.94

Above table depicted the return on total assets ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 1.64%, 1.54%, 2.51%, 2.72%, 3.02%, 2.84%, 2.47%, 2.01% and 2.35% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05,

2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 2.34% during the nine years study period. Likewise, the standard deviation is 0.49 and coefficient of variation is 20.94%. Net profit and total assets of NABIL can be shown by following diagram:

**Figure 4.23**

**Net Profit and Total Assets of NABIL**



**Table 4.24**

**Net Profit/Loss to Total Assets Ratio of HBL**

(Rs. in '000')

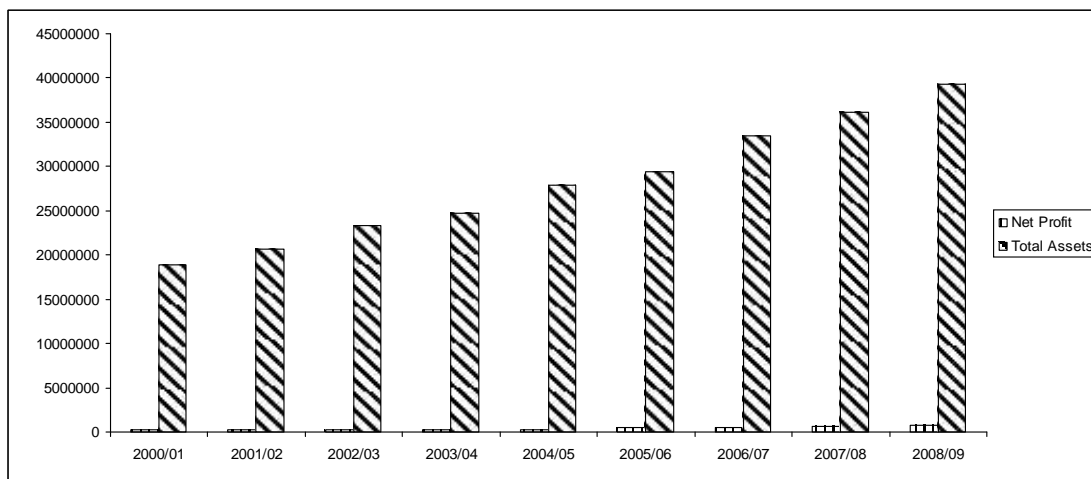
Year	Net Profit	Total Assets	Ratio (%)
2000/01	277040	18870804	1.47
2001/02	235024	20672434	1.14
2002/03	212128	23279341	0.91
2003/04	263053	24762025	1.06
2004/05	308275	27844695	1.11
2005/06	457458	29460390	1.55
2006/07	491823	33519141	1.47
2007/08	635869	36175531	1.76
2008/09	752834	39320322	1.91
AV			1.38

SD	0.32
CV	23.19

Above table depicted the return on total assets ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 1.47%, 1.14%, 0.91%, 1.06%, 1.11%, 1.55%, 1.47%, 1.76% and 1.91% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 1.38% during the nine years study period. Likewise, the standard deviation is 0.32 and coefficient of variation is 23.19%. Net profit and total assets of HBL can be shown by following diagram:

**Figure 4.24**

**Net Profit and Total Assets of HBL**



**Comparison:**

Return on total assets ratio of NABIL is in increasing trend except in the fiscal year 2001/02, 2005/06, 2006/07 and 2007/08 over the nine years of the study period. The ratio of HBL is in increasing trend except in the fiscal year 2001/02, 2002/03 and 2006/07. Similarly, NABIL has the higher mean ratio than that of HBL during the study period. Likewise, the ratios of NABIL have more variation and more consistency nature than HBL.

From the analysis, we can say that NABIL has better earning capacity than HBL. The highest ratio of NABIL is 3.02% where of HBL is 1.91% over the study period. It means that NABIL can earn 3.02% profit of total assets and HBL can earn only 1.91% profit of total assets.

#### **4.1.4.4 Interest Income to Total Loan & Advances Ratio**

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy and vice-versa.

**Table 4.25**  
**Interest Income to Total Loan & Advances Ratio of NABIL**

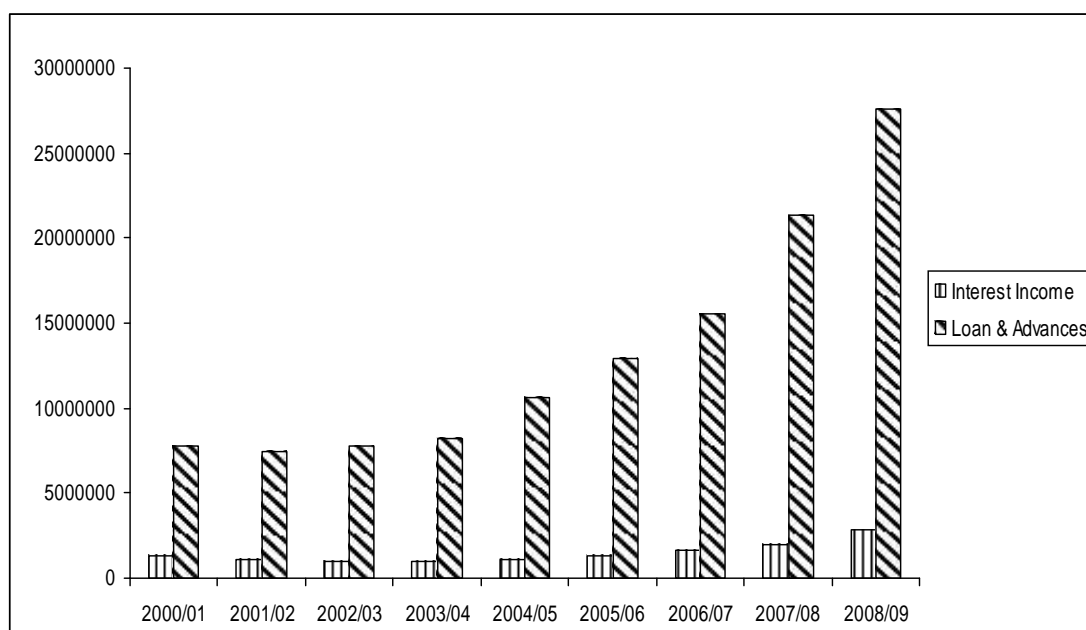
(Rs. in '000')

<b>Year</b>	<b>Interest Income</b>	<b>Loan &amp; Advances</b>	<b>Ratios (%)</b>
2000/01	1266704	7732637	16.38
2001/02	1120184	7437895	15.06
2002/03	1017872	7755952	13.12
2003/04	1001617	8189993	12.23
2004/05	1068747	10586170	10.10
2005/06	1309998	12922543	10.14
2006/07	1587759	15545779	10.21
2007/08	1978697	21365053	9.26
2008/09	2798486	27589933	10.14
Average			11.85
S.D.			2.38
C.V.			20.08

Above table depicted the interest income to loan & advances ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 16.38%, 15.06%, 13.12%, 12.23%, 10.10%, 10.14%, 10.21%, 9.26% and 10.14% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09

respectively. Similarly, the mean ratio remains at 11.85% during the nine years study period. Likewise, the standard deviation is 2.38 and coefficient of variation is 20.08%. Interest income and loan & advances of NABIL can be shown by following diagram:

**Figure 4.25**  
**Interest Income and Loan and Advances of NABIL**



**Table 4.26**  
**Interest Income to Total Loan & Advances Ratio of HBL**

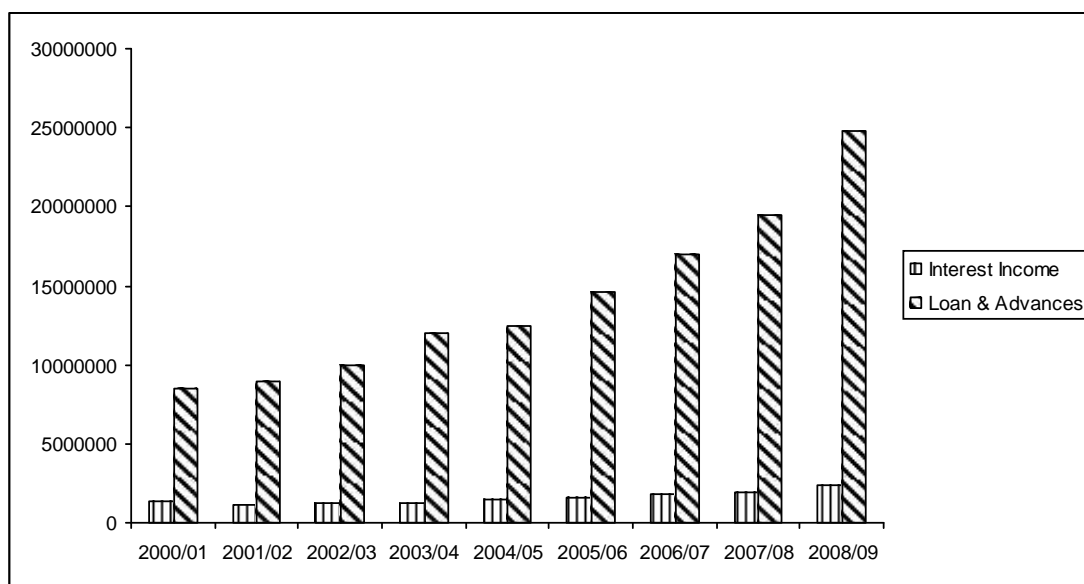
(Rs. in '000')

Year	Interest Income	Loan & Advances	Ratio (%)
2000/01	1326378	8537666	15.54
2001/02	1148998	8913724	12.89
2002/03	1201234	10001848	12.01
2003/04	1245895	11951869	10.42
2004/05	1446468	12424521	11.64
2005/06	1626474	14642560	11.11
2006/07	1775583	16997997	10.45
2007/08	1963647	19497520	10.07

2008/09	2342198	24793155	9.45
AV			11.51
SD			1.74
CV			15.12

Above table depicted the interest income to loan & advances ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 15.54%, 12.89%, 12.01%, 10.42%, 11.64%, 11.11%, 10.45%, 10.07% and 9.45% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 11.51% during the nine years study period. Likewise, the standard deviation is 1.74 and coefficient of variation is 15.12%. Interest income and loan & advances of HBL can be shown by following diagram:

**Figure 4.26**  
**Interest Income and Loan and Advances of HBL**



**Comparison:**

Interest income to loan & advances ratio of NABIL is in continuously decreasing trend except in 2005/06, 2006/07 and 2008/09 during the nine years of study period. The ratio of HBL is also in rapidly decreasing trend except in the fiscal year 2004/05. Similarly,

NABIL has the higher mean ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL has highest interest income ratio than HBL. That means NABIL is able to grant its credit (loan & advances) in high interest earning area. But it will be risky lending because high interest rate carry high risk and low interest rate carry low risk.

#### **4.1.4.5 Earning per share (EPS)**

The profitability of bank from the point of view of the ordinary shareholders' is earning per share. The ratio explains net income for each unit of share. Earning per share of an organization gives the strength of the share in the market. It shows how much theoretically belongs to the ordinary shareholders. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below.

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{Number of common stock outstanding}}$$

**Table 4.27**  
**Earning Per Share of NABIL and HBL**  
**(In Rs.)**

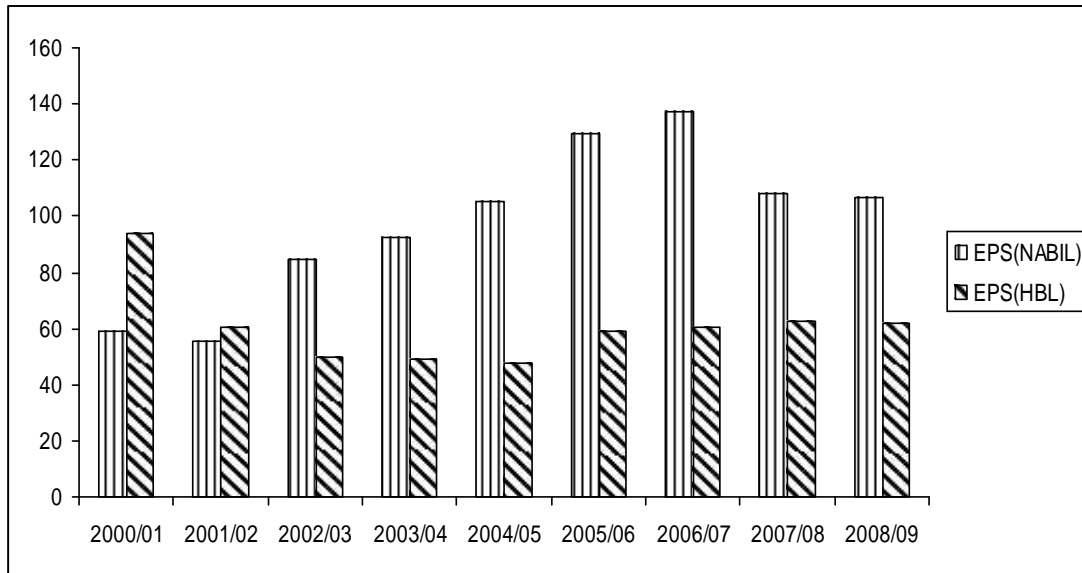
<b>Year</b>	<b>EPS(NABIL)</b>	<b>EPS(HBL)</b>
2000/01	59.26	93.57

2001/02	55.25	60.26
2002/03	84.66	49.45
2003/04	92.61	49.05
2004/05	105.49	47.91
2005/06	129.21	59.24
2006/07	137.08	60.66
2007/08	108.31	62.74
2008/09	106.76	61.90
<b>Average</b>	97.63	60.53

*Source: Major indicators of respective banks*

Above table depicted the earning per share of NABIL and HBL over the nine years period from 2000/01 to 2008/09. The EPS of NABIL are Rs. 59.26, Rs. 55.25, Rs. 84.66, Rs. 92.61, Rs. 105.49, Rs. 129.21, Rs.137.08, Rs. 108.31 and Rs. 106.76 in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The mean EPS of NABIL remains at Rs. 97.63 during the nine years of study period. Similarly, the EPS of HBL are Rs. 93.57, Rs. 60.26, Rs. 49.45, Rs. 49.05, Rs. 47.91, Rs. 59.24, Rs. 60.66, Rs. 62.74and Rs. 61.90 in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The mean EPS of HBL is Rs. 60.53 over the nine years of study period. Earnings per share of NABIL and HBL can be shown by following diagram:

**Figure 4.27**  
**Earnings per Share of NABIL and HBL**



### Comparison:

Earnings per share of NABIL is in rapidly increasing trend except in the fiscal year 2001/02, 2007/08 and 2008/09 whereas the earning per share of HBL is in continuously decreasing except in the 2005/06 , 2006/07 and 2007/08 of study period during the nine years. Similarly, NABIL has the higher mean of EPS than that of HBL. It shows that NABIL is able to earn and provide good return to its shareholders than HBL over the study period.

### 4.1.5 Lending Efficiency Ratios

Lending efficiency, quality of lending and its effect is measured in this topic. The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratios.

#### 4.1.5.1 Loan Loss Provision to Total Loan & Advances Ratio

Loan loss provision to total loan & advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of banks will come down by such amount. Increase in loan loss provisions, decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. So it can be said that

banks suffer it only for short-term while the good financial conditions and safety of loans will make bank's prosperity resulting increasing profits for long-term.

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

**Table 4.28**

**Loan Loss Provision to Loan & Advances Ratio of NABIL**

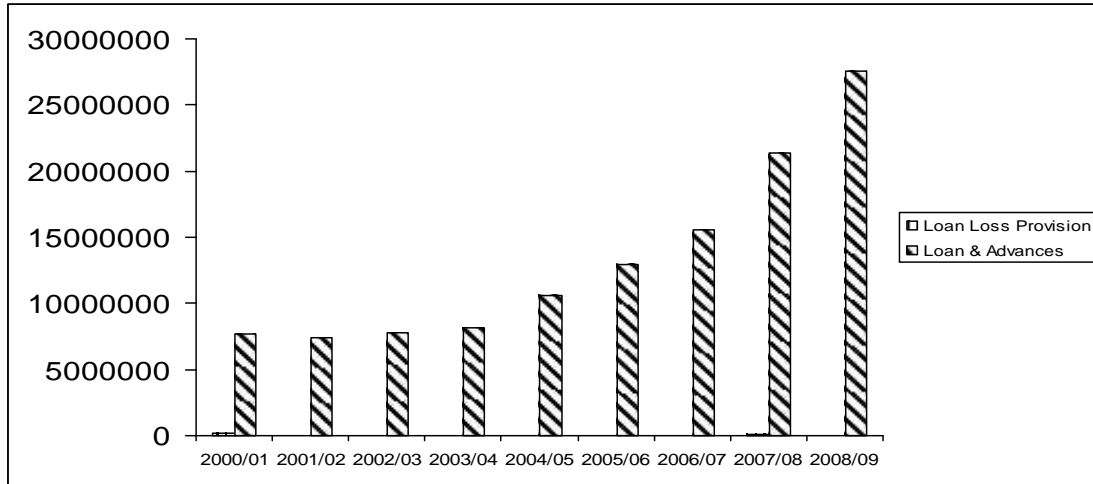
(Rs. in '000')

<b>Year</b>	<b>Loan Loss Provision</b>	<b>Loan &amp; Advances</b>	<b>Ratios (%)</b>
2000/01	165767	7732637	2.14
2001/02	0	7437895	0.00
2002/03	0	7755952	0.00
2003/04	1052	8189993	0.01
2004/05	4207	10586170	0.04
2005/06	3770	12922543	0.03
2006/07	14206	15545779	0.09
2007/08	64055	21365053	0.30
2008/09	45722	27589933	0.17
Average			0.31
S.D.			0.65
C.V.			209.68

Above table depicted the loan loss provision to loan & advances ratio of NABIL over the nine years period from 2000/01 to 2008/09. The ratios are 2.14%, 0.0%, 0.0%, 0.01%, 0.04%, 0.03%, 0.09%, 0.30% and 0.17% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 0.31% during the nine years study period. Likewise, the standard deviation is 0.65 and coefficient of variation is 209.68%. Loan loss provision and loan & advances of NABIL can be shown by following diagram:

**Figure 4.28**

**Loan Loss Provision to Loan & Advances of NABIL**



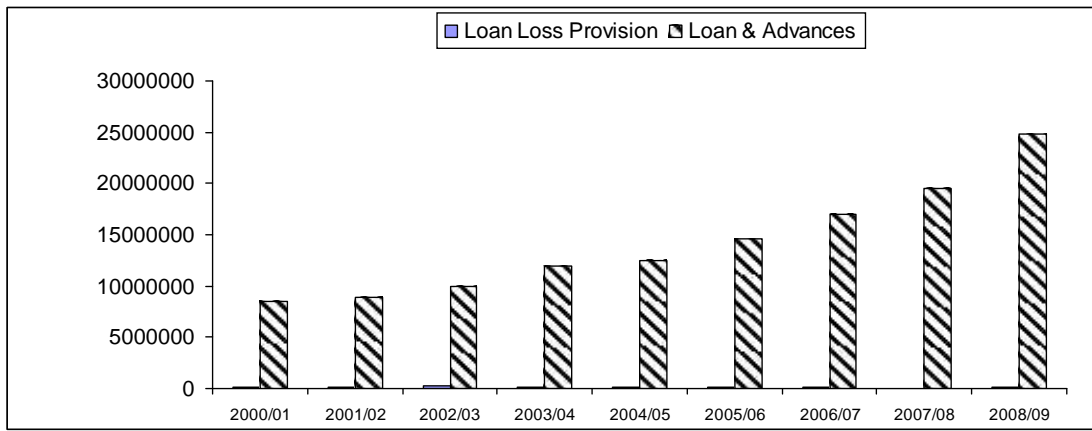
**Table 4.29**  
**Loan Loss Provision to Total Loan & Advances Ratio of HBL**  
 (Rs. in '000')

Year	Loan Loss Provision	Loan & Advances	Ratio (%)
2000/01	134320	8537666	1.57
2001/02	166506	8913724	1.87
2002/03	202873	10001848	2.03
2003/04	186226	11951869	1.56
2004/05	147139	12424521	1.18
2005/06	145155	14642560	0.99
2006/07	90689	16997997	0.53
2007/08	58431	19497520	0.30
2008/09	68806	24793155	0.28
AV			1.15
SD			0.63
CV			54.78

bove table depicted the loan loss provision to loan & advances ratio of HBL over the nine years period from 2000/01 to 2008/09. The ratios are 1.57%, 1.87%, 2.03%, 1.56%, 1.18%, 0.99%, 0.53%, 0.30% and 0.28% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 , 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, the mean ratio remains at 1.15% during the nine years study period. Likewise, the standard deviation is 0.63 and coefficient of variation is 54.78%. Loan loss provision and loan & advances of HBL can be shown by following diagram:

**Figure 4.29**

**Loan Loss Provision to Total Loan & Advances of HBL**



**Comparison:**

Loan loss provision to loan & advances ratio of NABIL is in highly decreasing trend except in the fiscal year 2004/05, 2006/07 and 2007/08 during the nine years of study period whereas the ratio of HBL is in first increasing till to the fiscal year 2002/03 and then in decreasing trend in the subsequent years of study period. Similarly, HBL has higher mean ratio than that of NABIL over the study period. But the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL has very low degree of provision over total lending than HBL. It indicates that NABIL has decreasing volume of non-performing loans during the study period than HBL. The decreasing loan loss provision ratio indicates the better performance and effective credit policy of NABIL than HBL.

**4.1.5.2 Non-Performing Loan to Total Loan & Advances Ratio**

NRB has directed all the commercial banks to create loan loss provision against the doubtful and bad debts. But of our concerned banks have not provided data on non-performing loan in balance sheet, profit and loss account. To measure the volume of non-performing loan to total loan & advances, the major indicators of NABIL and HBL is used. This ratio shows the percentage of non-recovery loan in total loans & advances.

**Table 4.30**  
**Non-Performing Loan to Total Loan & Advances Ratio of**  
**NABIL and HBL(In %)**

<b>Year</b>	<b>NABIL</b>	<b>HBL</b>
2000/01	16.2	0
2001/02	7.14	12.1
2002/03	5.54	10.08
2003/04	3.35	8.88
2004/05	1.32	7.44
2005/06	1.38	6.60
2006/07	1.12	3.61
2007/08	0.74	2.36
2008/09	0.80	2.16
<b>Average</b>	4.18	5.91

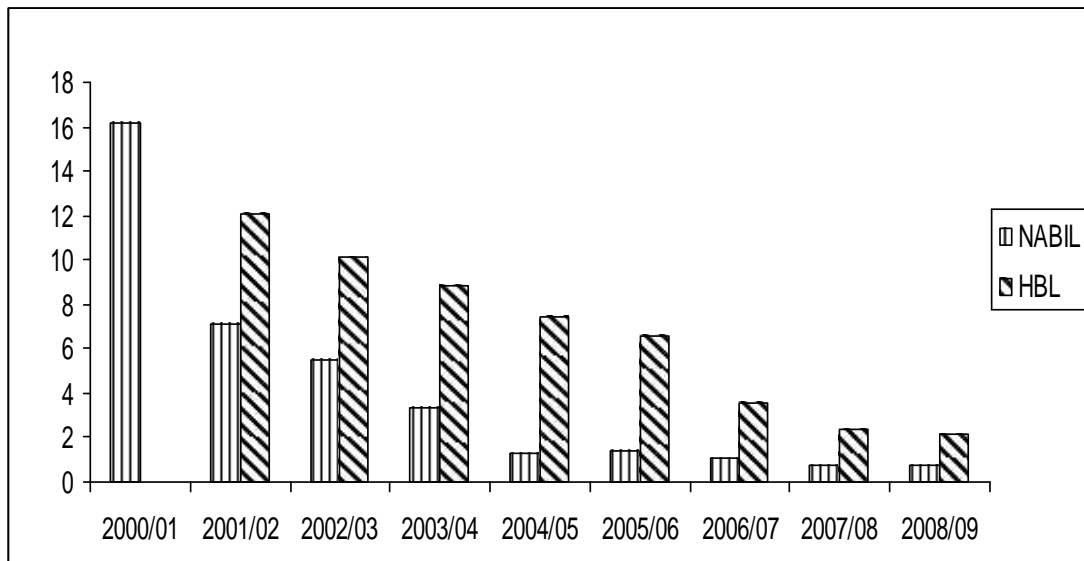
*Source: Major indicators of respective banks*

Above table depicted the non-performing loan to total loan & advances ratio of NABIL and HBL over the nine years period from 2000/01 to 2008/09. The ratios of NABIL are 16.20%, 7.14%, 5.54%, 3.35%, 1.32% , 1.38%, 1.12%, 0.74% and 0.80% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 ,2005/06, 2006/07, 2007/08 and 2008/09 respectively. The mean ratio of NABIL remains at 4.18% during the nine years of study period. Similarly, the non-performing loan to total loan & advances ratios of HBL are 0.0%, 12.10%, 10.08%, 8.88%, 7.44% , 6.60%, 3.61%, 2.36% and 2.16% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The mean ratio of HBL remains at 5.91% over the nine years of

study period. Non-performing loan and loan & advances of NABIL and HBL can be shown by following diagram:

**Figure 4.30**

**Non-Performing Loan to Total Loan & Advances of NABIL and HBL**



**Comparison:**

Non-performing loan to total loan & advances ratio of NABIL is in rapidly decreasing trend except in 2005/06 and 2008/09 of study period over the nine years. The ratio of HBL is in continuously decreasing trend expect 2001/02 over the study period. But HBL has the highest mean ratio than that of NABIL. It shows that lending policy of NABIL is sound and effective than HBL. Loan recovery process, efficient management and in depth study are the main causes of low NPA level of NABIL.

Banking sector is seriously affected by the non-performing loan. Around 8% of non-performing loan indicate the bad performing of bank even though the decreasing trend shows the better improvement of the bank. If non-performing loan will increases that affect in overall banking business, provision amount will increases and profit will decrease. So we suggest the bank to be very careful while granting loan and to do effective follow up for recovery of loan.

#### 4.1.6 Coefficient of Correlation Analysis

Correlation analysis enables us to have an idea about the degree and direction of the relationship between the two or more variables. The correlation is a statistical tool which studies the relationship between two or more variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between the two or more variables. It is denoted by 'r'. However, it fails to reflect upon the cause and effect relationship between the variables. Although there are three types of correlation i.e. simple, partial and multiple but here we focus on simple correlation based on 'Pearson's coefficient of correlation' to find out the relationship between total deposit and loan & advances as well as net profit and loan & advances of Nabil Bank Limited as well Himalayan Bank Limited.

##### 4.1.6.1 Coefficient of Correlation between Total Deposits and Total Loan & Advances

Total deposit is independent variable and total loan & advances is dependent variable. The coefficient of correlation between total deposit and total loan & advances measure the degree of relationship between two variables. In analysis, total deposit is independent variable and total loan & advances are dependent variable. The main objective of computing 'r' between these two variables is to justify whether total deposits are significantly used as total loan & advances in a proper way or not.

**Table 4.31**  
**(Rs. in '000' million)**

<b>Year</b>	<b>X</b>	<b>Y</b>	<b>X<sup>2</sup></b>	<b>Y<sup>2</sup></b>	<b>XY</b>
2000/01	15.84	7.73	250.91	59.75	122.44
2001/02	15.51	7.44	240.56	55.35	115.39
2002/03	13.45	7.76	180.90	60.22	104.37
2003/04	14.12	8.19	199.37	67.08	115.64
2004/05	14.59	10.59	212.87	112.15	154.51

2005/06	19.35	12.92	374.42	166.93	250.00
2006/07	23.34	15.55	544.76	241.80	362.94
2007/08	31.92	21.37	1018.89	456.68	682.13
2008/09	37.35	27.59	1395.02	761.21	1030.49
N = 9	185.47	119.14	4417.7	1981.17	2937.91

Where,

X = Total deposit of NABIL.

Y = Total loan & advances of NABIL.

Total = Summation of the value from fiscal year 2000/01 to 2008/09.

Here, X = 185.47, Y = 119.14, X<sup>2</sup> = 4417.7, Y<sup>2</sup> = 1981.17, XY = 2937.91, N = 9

$$\text{Now, Correlation (r)} = \frac{NSXY - SXS Y}{\sqrt{NSX^2 - (SX)^2} \times \sqrt{NSY^2 - (SY)^2}}$$

$$r = +0.98$$

The above calculation shows that there is positive relationship between total deposits and total loan & advances of NABIL. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice versa. The coefficient of correlation between total deposits and total loan & advances is 0.98 and probable error is 0.0089. Comparing the value of 'r' and 6 times P.E., we can say that there is significantly positive relationship between total deposits and total loan & advances of NABIL because 'r' is higher than 6 times of P.E., i.e. 0.98 > 0.0534.

From the above analysis, we can conclude that NABIL has positive relationship with significant between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.98 and vice-versa.

**Table 4.32**

**Correlation between total deposits and total loan & advances of HBL**

Year	X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2000/01	17.64	8.54	311.17	72.93	150.65
2001/02	18.62	8.91	346.70	79.39	165.90
2002/03	21.01	10.00	441.42	100.00	210.10
2003/04	22.01	11.95	484.44	142.80	263.02
2004/05	24.81	12.42	615.54	154.26	308.14
2005/06	26.49	14.64	701.72	214.33	387.81
2006/07	30.05	17.00	903.00	289.00	510.85
2007/08	31.84	19.50	1013.79	380.25	620.88
2008/09	34.68	24.79	1202.70	614.54	859.72
N = 9	227.15	127.75	6020.48	2047.5	3477.07

Where,

X = Total deposit of HBL.

Y = Total loan & advances of HBL.

Total = Summation of the value from fiscal year 2000/01 to 2008/09.

Here, X = 227.15, Y = 127.75, X<sup>2</sup> = 6020.48, Y<sup>2</sup> = 2047.5, XY = 3477.07, N = 9

$$\text{Now, Correlation (r)} = \frac{NSXY - SXS Y}{\sqrt{NSX^2 - (SX)^2} \times \sqrt{NSY^2 - (SY)^2}}$$

$$r = +0.97$$

The above calculation shows that there is positive relationship between total deposits and total loan & advances of HBL. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice versa. The coefficient of correlation between total deposits and total loan & advances is 0.97 and probable error is 0.0133. Comparing the value of 'r' and 6 times of P.E., we can say that there is significantly positive relationship between total deposits and total loan & advances of HBL because 'r' is higher than 6 times P.E., i.e. 0.97 > 0.0798.

From the above analysis, we can conclude that HBL has positive relationship with significant between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.97 and vice-versa.

#### 4.1.6.2 Coefficient of correlation between Total Loan & Advances and Net Profits

Total loan & advances is independent variable and net profit is dependent variable. The main objectives of computing 'r' between these two variables are to justify whether total loan & advances are significantly used to earn profit in a proper away or not. The value of 'r' explains whether a percentage change in total loan & advances contribute to change the same percentage of net profit or not.

**Table 4.33**

**Correlation between Total Loan & Advances and Net Profits of NABIL**

<b>Year</b>	<b>X</b>	<b>Y</b>	<b>X<sup>2</sup></b>	<b>Y<sup>2</sup></b>	<b>XY</b>
2000/01	7.73	0.29	59.75	0.08	2.24
2001/02	7.44	0.27	55.35	0.07	2.01
2002/03	7.76	0.42	60.22	0.18	3.26
2003/04	8.19	0.46	67.08	0.21	3.77
2004/05	10.59	0.52	112.15	0.27	5.51
2005/06	12.92	0.64	166.93	0.41	8.27
2006/07	15.55	0.67	241.80	0.45	10.42
2007/08	21.37	0.75	456.68	0.56	16.03
2008/09	27.59	1.03	761.21	1.06	28.42
<b>N = 9</b>	<b>119.14</b>	<b>5.05</b>	<b>1981.17</b>	<b>3.29</b>	<b>79.93</b>

Where,

X = Total loan & advances of NABIL.

Y = Net profit of NABIL.

Total = Summation of the value from F/Y 2000/01 to 2008/09.

Here, X = 119.14, Y = 5.05, X<sup>2</sup> = 1981.17, Y<sup>2</sup> = 3.29, XY = 79.93, N = 9

$$\text{Now, Correlation (r)} = \frac{NSXY - SXS Y}{\sqrt{NSX^2 - (SX)^2} \times \sqrt{NSY^2 - (SY)^2}}$$

$$r = +0.96$$

The above calculation shows that there is positive relationship between total loan & advances and net profit of NABIL. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan & advances and net profit is 0.96 and probable error is 0.0176. Comparing the value of 'r' and 6 times P.E., we can say that there is significantly positive relationship between total loan & advances and net profit of NABIL because 'r' is higher than 6 times P.E., i.e.  $0.96 > 0.1056$ .

From the above analysis, we can conclude that NABIL has positive relationship with significant between total loan & advances and net profit. The relationship is significant, i.e. net profit is increase as the portion increase in loans and advances in relation to 0.96 and vice-versa.

**Table 4.34**

**Correlation between Total Loan & Advances and Net Profits of HBL**

<b>Year</b>	<b>X</b>	<b>Y</b>	<b>X<sup>2</sup></b>	<b>Y<sup>2</sup></b>	<b>XY</b>
2000/01	8.54	0.28	72.93	0.08	2.39
2001/02	8.91	0.24	79.39	0.06	2.14
2002/03	10.00	0.21	100.00	0.04	2.10
2003/04	11.95	0.26	142.80	0.07	3.11
2004/05	12.42	0.31	154.26	0.10	3.85
2005/06	14.64	0.46	214.33	0.21	6.73
2006/07	17.00	0.49	289.00	0.24	8.33
2007/08	19.50	0.64	380.25	0.41	12.48
2008/09	24.79	0.75	614.54	0.56	18.59
N = 9	127.75	3.64	2047.5	1.77	59.72

Where,

X = Total loan & advances of HBL.

Y = Net profit of HBL.

Total = Summation of the value from F/Y 2000/01 to 2008/09.

Here,  $X = 127.75$ ,  $Y = 3.64$ ,  $X^2 = 2047.5$ ,  $Y^2 = 1.77$ ,  $XY = 59.72$ ,  $N = 9$

$$\text{Now, Correlation (r)} = \frac{NSXY - SXS Y}{\sqrt{NSX^2 - (SX)^2} \times \sqrt{NSY^2 - (SY)^2}}$$
$$r = +0.96$$

The above calculation shows that there is positive relationship between total loan & advances and net profits of HBL. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan & advances and net profit is 0.96 and probable error is 0.0176. Comparing the value of 'r' and 6 times P.E., we can say that there is significantly positive relationship between total loan & advances and net profit of HBL because 'r' is higher than 6 times P.E., i.e.  $0.96 > 0.1056$ .

From the above analysis, we can conclude that HBL has positive relationship with significant between total loans & advances and net profit. The relationship is significant, i.e. net profit is increase as the portion increase in loan & advances in relation to 0.96 and vice-versa

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#### **4.2 Major Findings of the Study**

Based on the presentation, interpretation and analysis of data, the major findings are summarized as follows:

##### **i. Liquidity Ratio**

NABIL has kept highest mean of current assets to current liabilities ratio than HBL. But, the ratios of NABIL have more variation and more consistency than HBL because of high standard deviation and less coefficient of variation. Though the optimal standard of

current ratio should be 2:1 for convention measure of liquidity, it is not appraisable on banking business. So analyzing over the study period, it indicates the satisfactory liquidity position with both banks.

There is highest mean of cash & bank balance to total deposit ratio with HBL than NABIL. But, the ratios of NABIL have more variation and less consistency than HBL. Though the ratios are not consistent, cash & bank balance position of NABIL as well as HBL with respect to deposit is better to serve the customers deposit withdraw demands. Commercial banks have to maintain their cash & bank balance in terms of total deposit as directed by NRB time to time. Otherwise they are imposed penalty.

There is highest mean of cash & bank balance to current deposit ratio of HBL than that of NABIL over the study period. But the ratios of HBL have more variation and less consistency than NABIL. It can be said that HBL has high liquid assets in terms of cash & bank balance to current deposit ratio than NABIL but it does not mean that NABIL has mobilized its more funds in profitable sectors than HBL.

NABIL has highest mean of cash & bank balance to saving deposit ratio than HBL. Similarly, ratios of NABIL have more variation and less consistency than HBL. From the analysis of overall liquidity ratios of NABIL and HBL, we can say that HBL has high degree of liquid assets, i.e. high liquidity position than NABIL. High liquidity position is not so better because of interest expenses and it may cause inverse impact in overall performance.

## **ii. Assets Management Ratio**

NABIL has highest mean of loan & advances to total deposit ratio than that of HBL during the study period. Likewise, the ratios of NABIL have more variation and less consistency than HBL. From the analysis, we can say that NABIL is in good form according to deposit mobilization point of view than HBL. But it does not mean that

NABIL is investing more of its collected fund in high return but with low risk sector than HBL.

NABIL has highest mean of loan & advances to total assets ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL. From the analysis, we can say that NABIL has sound lending policy so that it is able to mobilize its resources as loan & advances than HBL.

HBL has highest mean of total investment to total deposit ratio than that of NABIL. Likewise, the ratios of HBL have more variation and less consistency than NABIL. During the study period, movements of ratios are first increasing, then decreasing and again increasing. It may be due to slack in the different sectors of economy due to which bank is unable to mobilize its fund in loan & advances and share/debenture of other companies properly.

### **iii. Leverage Ratio**

HBL has the highest mean of total debt to total equity ratio than that of NABIL during the study period. Similarly, the ratios of HBL have more variation and less consistency than NABIL. From the analysis, we can say that HBL is more levered firm than NABIL during the nine years of study period. Levered firm must bear more fixed expenses than non-levered. It may results bad impact on overall performance of the bank in the long-term.

HBL has the highest mean of total debt to total assets ratio than that of NABIL. But the ratios of HBL have more variation and less consistency than NABIL. According to the above analysis, we can say that HBL used outsider's fund more than owner's fund during the formation of capital structure.

### **iv. Profitability Ratio**

NABIL has the highest mean of interest income to interest expenses ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL has high degree of gap between interest offered and interest charged than HBL. This shows that NABIL has charged high interest rate to borrowers and offering low interest rate to depositors.

NABIL has the highest mean of net profit to loan & advances ratio than that of HBL. Similarly, the ratio of NABIL has more variation and less consistency than HBL. From the analysis, we can say that return on loan & advances ratio of NABIL and HBL is very low and in fluctuating trend also. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactory in the present economic situation.

NABIL has the highest mean of net profit to total assets ratio than that of HBL during the study period. Likewise, the ratios of NABIL have more variation and more consistency nature than HBL. From the analysis, we can say that NABIL has better earning capacity than HBL.

NABIL has the highest mean of interest income to loan & advances ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL. From the analysis, we can say that NABIL has highest interest income ratio than HBL. That means NABIL is able to grant its credit (loan & advances) in high interest earning area.

NABIL has the highest mean of EPS than that of HBL. It shows that NABIL is able to earn and provide good return to its shareholders than HBL over the study period.

#### **v. Lending Efficiency Ratio**

HBL has highest mean of loan loss provision to loan & advances ratio than that of NABIL over the study period. But the ratios of NABIL have more variation and less

consistency than HBL. From the analysis, we can say that NABIL has very low degree of provision over total lending than HBL. It indicates that NABIL has decreasing volume of non-performing loans during the study period than HBL.

HBL has the highest mean of non-performing loan to loan & advances ratio than that of NABIL. It shows that lending policy of NABIL is sound and effective than HBL. Loan recovery process, efficient management and in depth study are the main causes of low NPA level of NABIL.

#### **vi. Co-efficient of Correlation Analysis**

NABIL has positive relationship with significant between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.98 and vice-versa.

HBL has positive relationship with significant between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.97 and vice-versa.

NABIL has positive relationship with significant between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.96 and vice-versa.

HBL has positive relationship with significant between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.96 and vice-versa.

# CHAPTER - V

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

In this study, to analyze about capital structure, two commercial banks have been chosen. These banks are Himalayan Bank and Nabil Bank Ltd. Both banks are listed in NEPSE. To make the study more reliable, the whole study has been divided into five chapters. The summaries of each chapter are presented as follows:

**First chapter:** First chapter starts with historical background of the study. In this chapter an introduction to banking industry in Nepal, introduction of the banks selected for the study, description of the credit management is presented briefly. This study endeavors to evaluate credit management of commercial banks with reference to Himalayan Bank Ltd and Nabil Bank Ltd. The statement of problems consists of the following questions as: What level of liquidity is maintained by the sample banks?, What is the volume of contribution made by sample banks in credit and advances?, What is the deposit collection and utilization trend of sample banks?, What is the relationship of deposits, loan & advances and net profits of sample banks? The main objectives of the study presented are to analyze the volume of contribution made by sample banks in credit & advances, to analyze the deposit collection and utilization trend of sample banks, to study the relationship of deposit, loan & advances and net profit of sample banks and to provide suitable suggestions based on the findings of this study. Finally, "significance of the study" and "limitations of the study" are also presented in the first chapter.

**Second chapter:** In this chapter various books, research studies and articles concerned with the credit management have been reviewed and presented as the review of literature to make the concept of credit management more clear. The concept of bank, commercial bank, credit management, ratio analysis, factors affecting credit policy etc are described in this chapter. Review of different management journals, articles as well as related Nepalese studies have been presented as well.

**Third chapter:** In this chapter the steps to adopt realistic study needed for the researchers have been presented. The methodology, researcher can use to get appropriate guidelines and knowledge about the various sequential steps to adopt a systematic analysis has been explained in this chapter. Most of data used in this study are secondary in nature that is annual reports provided by concerned companies. Nine years data are taken as sample years and are analyzed by using financial and statistical tools such as ratio analysis, correlation analysis, probable error etc. Methods, which the study is going to use, are exhibited in this chapter.

**Fourth chapter:** The data mentioned in the third chapter are presented and analyzed in this chapter using methods mentioned in the chapter third above such as ratios analysis, correlation and probable errors. Various tables and diagrams are given for the detail analysis of data.

**Fifth chapter:** In this chapter, summary of the study are presented in brief to understand the whole to get about the study instantly after which conclusion of the study with recommendation are presented.

## **5.2 Conclusion**

In this study, comparison among concerned banks has been done taking data of these banks. Various financial as well as statistical tools were used as per requirement of nature of data. Mainly, secondary source of information were used for analysis of data. Based on the data analysis and finding of the result, the conclusion can be drawn as follows:

- ) NABIL has more current ratio than that of HBL.
- ) HBL has more cash & bank balance to total deposit ratio as well as cash & bank balance to current deposit ratio. But, Nabil has more cash and bank balance to saving deposit ratio.
- ) From the analysis of overall liquidity ratios of NABIL and HBL, we can say that HBL has high degree of liquid assets, i.e. high liquidity position than NABIL.
- ) NABIL is able to mobilize its resources in lending as loan & advances than HBL.

- ) HBL has the high total investment to total deposit ratio than Nabil. So, HBL is able to invest its resources more in other companies' shares, debentures, bonds as well as government treasury bill than NABIL.
- ) From the analysis of overall efficiency ratio of NABIL and HBL, we can say that NABIL has sound lending policy so that it is able to mobilize its resources more than HBL.
- ) From the analysis of overall leverage ratio of NABIL and HBL, we can say that HBL is more levered firm than NABIL during the nine years of study period. It means HBL is using outsider's fund more than owner's fund during the formation of capital structure.
- ) NABIL is able to earn more interest form total credit granting than that of HBL.
- ) NABIL has high return on loan & advances ratio as well as return on total assets ratio than that of HBL.
- ) From the analysis of overall profitability ratio of NABIL and HBL, we can say that NABIL can earn more profit from its lending and investment activities than HBL during the nine years period.
- ) NABIL has high earning per share than HBL.
- ) HBL has kept high loan loss provision than NABIL because of high non-performing to total lending ratio.
- ) NABIL and HBL both have positive with significant relationship between total deposit and loans and advances.
- ) NABIL and HBL both have positive with significant relationship between total loan & advances and net profits.

So, the main findings of this study is that even Nepal Arab Bank Limited (NABIL) has less liquid assets, it is able to maintain daily cash requirement, high lending ratio, low leverage ratio, low non-performing assets level, low loan loss provision ratio, high profit ratio than that of Himalayan Bank Limited (HBL). Therefore, the management of HBL

must revise the lending policy and invest in profitable as well as productive sectors rather than only to increase lending ratio.

### **5.3 Recommendations**

Findings of the study may provide important information for those who are concerned directly or indirectly with the credit policy of joint venture commercial banks (with respect to NABIL and HBL). On the basis of analysis and findings of the study, following suggestions and recommendations can be given as follows:

The liquidity position of HBL is more positive than NABIL. High liquidity position is not so better because of interest expenses and it may cause inverse impact in overall performance. So, the management of HBL should search for new area of investments as well as bank should strictly follow the NRB directives to reduce its surplus cash balance. Following of NRB directives will help to reduce credit risk arising from borrower's defaulter leak of proper credit appraisal, defaulter by black listed borrowers and professional defaulter. Government has established credit inebriation bureau, which will guide commercial banks. So, the bank is suggested to follow project-oriented approach and avoid more risky area of lending.

The loan loss provision and non-performing asset of HBL is high. So, HBL should adopt the sound credit collection policy. It helps to decrease loan loss provision and non-performing loan of the bank. Thus, the credit management of HBL must follow the policy as rapid identification of delinquent loans, immediate contact with borrower and continual follow-up until a loan is recovered to decrease its non-performing loan and loan loss provision.

HBL must concentrate on decreasing ratio of return on total assets as well as return on loan & advances and invest in productive as well as profitable areas only, which give high return with low risk.

To minimize credit risks, the bank has to monitor lending portfolio periodically and take appropriate decision with regard to exposure in a borrower and in a factor.

Bank has to manage its credit portfolio with established and proper credit standards and policies.

The credit review assessment should be done which includes risk rating systems, portfolio analysis, large exposures and risk concentrations.

An appropriate credit policy should be made which guides all the lending officials from credit serving to settlement and helps to reduce non-performing loans.

Most of the customers are unsatisfied with the service charges and interest rates of credit. Therefore, the banks management should be considered on these variables more seriously.

Banks should regularly follow the credit customers to confirm that whether the customers have utilized their credit for the same purpose or not, committed at the time of taking credit from the banks.

Looking at the current trend of business, both banks, i.e. NABIL as well as HBL must be very careful on formulating marketing strategies to serve its customers. The marketing strategies should be innovative that would attract and retain the customers. Both the banks are recommended to develop an innovative approach of bank marketing for its well-being and sustainability in the market.

Banks should strictly band the policy of nepotism and favoritism. On the basis of capability and efficiency, recruitment, placement and promotion should be executed.

The new standards should be designed to make the bank management more accountable for credit policy. Besides, it should investigate what are the reasons of credit efficiency or inefficiency.

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