

CREDIT MANAGEMENT OF NEPALESE COMMERCIAL BANK IN NEPAL

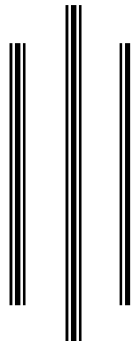
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**In partial fulfillment of the requirements for the
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Studies (M.B.S.)**



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Recommendation

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“Credit Management of Nepalese Commercial Banks in Nepal”

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Declaration

I hereby declare that the work reported in this thesis entitled "*Credit Management of Nepalese Commercial Banks in Nepal*" submitted to Bhairahawa Multiple Campus; Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (M.B.S.) under the supervision and guidance of **Associate Professor Mr. Prasad Mani Dixit**, Bhairahawa Multiple Campus.

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Abbreviation Used

A.D.	=	Anno Dominee
ADB	=	Agriculture Development Bank
AGM	=	Annual General Meeting
ANOVA	=	Analysis of Variance
B.S.	=	Bikram Sambat
BOK	=	Bank of Kathmandu
CD	=	Credit Deposit
CEO	=	Chief Executive Officer
CIB	=	Credit Information Bureau
C.V.	=	Coefficient of Variation
EBL	=	Everest Bank Limited
F/Y	=	Fiscal Year
FIs	=	Financial Institutions
GDP	=	Growth Domestic Product
HBL	=	Himalayan Bank Limited
IFRS	=	International Financial reporting Standards.
ISA	=	International Standards on Auditing
JVBs	=	Joint Venture Banks
LLP	=	Loan Loss Provision
MPB	=	Machhapuchchhre Bank Limited
NABIL	=	Nepal Arab Bank Limited
NBBL	=	Nepal Bangladesh Bank Limited
NBL	=	Nepal Bank Limited
NBL	=	Nepal Bangladesh Bank Limited
NCCB	=	Nepal Credit 7 Commerce Bank
NGBL	=	Nepal Grindlays Bank Limited

NIBL	=	Nepal Indosuez Bank Limited
NIBL	=	Nepal Industrial 7 Commercial Bank
NIDC	=	Nepal Industrial Development Corporation
NPA	=	Non Performing Assets
NPAT	=	Net Profit After Tax
NPL	=	Non Performing Loan
NRB	=	Nepal Rastra Bank
RBB	=	Rastriya Banijya Bank
SBI	=	State Bank of India
SCBL	=	Standard Chartered Bank Limited
S.D.	=	Standard Deviation
SPSS	=	Stastical Package of Social Science
WTO	=	World Trade Organization

Chapter-One

Introduction

1.1 Background of the study

Credit refers the derivative that creates risk. The risk arises from loan, corporate bonds, and other credit exposures. Credit is one of the most important activities of the bank. This activity generates the main income for the bank. The activity should therefore be perused with the utmost professionalism, conservatism and circumstance.

Credit is regarded as the most income generating assets especially in commercial banks and also known as the heart of the commercial banks in the sense that, it occupies large volume of transactions: it covers the main part of investment; the most of the investment activities based on credit, it is the main factor one surface for creating profitability; it determines the profitability. It affects the overall economy of the country. In today's context, it also affects on national economy. If the bank provides credit to retailer, it will make the customer status. Similarly, it provides to trader & industry, the government will get tax from them and help to increase national economy, it is the security against depositions. 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 the 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. Credit management is also the system, which helps to manage credit effectively. In other words, credit management refers 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 strongly recommends analyzing and managing the credit risks credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and inter bank explores. The goat 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, loan are the largest and most obvious sources of credit risk, however, other sources of credit risk exist through out 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 loan, including acceptances, inter bank transactions and guarantees and the settlement of transaction.

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 information and methods of credit analysis.

Making new credits and their management in financial institutions, credit management has to focus on the risk analysis in the loan investment portfolio, while granting loan a number of aspects have been taken into account like credit status, credit records. Cash flow or income, collateral maturity and repayment schedule. Microanalysis of affecting factors for purpose a loan seems very challenging.

In sincere response to this topics, let's bifurcate the term credit management into two separate terms: Credit and management in order to deliver the meaningful sense about the topic, oxford advanced learner's dictionary dubbed the term credit as, "A thing that is lent, especially a sum of money." Similarly the term management is defined as "The control and making decisions in a business or similar organization and further says," The process of dealing with or controlling people or thing." (Oxford Learner's Dictionary, 1997)

Book of Banking Management says that the banking sector or transaction, an unavoidsbleness of credit management and its methodology is regarded very important. Under this management, many subject matters are considered and though. For example, there are subject matters like the policy of loan flow, the document of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a crucial role in healthy competitive activities. (Bhattarai 2003:170)

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending function such as commercial, installment and mortgage portfolio. (Jonshon, 1940:132)

1.2 A Profile of Sample Commercial Banks

The development of an organization banking system and commercial banks is relatively recent phenomenon is Nepal. Before 2040, there was no single commercial bank established with foreign collaboration. Since then it's been a

dramatic increase in the number of joint venture banks in Nepal, especially after the restoration of democracy in Nepal in 2046. HMG's policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their banking capacity through competition, efficiency modernization, mechanization via computerization and prompt customer's services. The following JVBs have operating in Nepal after foreign banks were allowed to render services.

1.2.1 NABIL Bank Ltd.

NABIL Bank Ltd. setup as Nepal Arab Bank Ltd. as a first joint venture bank of Nepal with Emirates Bank International Ltd. (EBIL), Dubai, it was incorporated on 12th July 1984 A.D. (2041 B.S.) under commercial bank act 2031. The shareholder structure of NABIL changed after the shares owned by Dubai Bank Ltd. (DBL) were transferred 50% of its shares to Emirates Bank International Limited, Dubai by virtue of its annexation with the later. Later on, Emirates Bank international limited, Bangladesh National Bank Ltd., Bangladesh is managing the bank in accordance with the technical services agreement signed between it (NABIL) and the bank on June 1995. Thus, known 50% shares of bank (NABIL) is held by national Bank Limited, Bangladesh 20% by Nepalese Financial institution and remaining 30% by general public.

1.2.2 Himalayan Bank Ltd. (HBL)

After the restoration of democracy in 2046, the number of joint venture bank grew dramatically with introduction of liberal and market oriented economic policy of HMG. HBL is the first joint venture bank managed by Nepali-Chief executive. With a paid up capital of Rs. 60 Million, Himalayan Bank is joint venture bank was incorporated in 1992 under the company act 1964, by the distinguished business personalities of Nepal in partnership with employees provider fund and Habib Bank Ltd. one of the largest banks of Pakistan. The operation of the bank started from February 1993.

HBL is the first bank to introduce an automatic teller Machine in Nepal and has been a pioneer in introducing Nepalese's domestic credit card and VISA Card as well as ATM telebanking PSA etc are other special services provided by HBL along with regular commercial bank functions. It introduced interest banking debit card, Master Car, addition ATM etc.

1.2.3 Machhapurchhre Bank Ltd. (MPBL)

Machhapuchchhre Bank Limited was register is 1998 as the first regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. Today with a paid up capital of above 820 million rupees, it is one of the full fledged commercial bank operating in Nepal and it ranks in the topmost among the private commercial banks.

Machhapuchchhre Bank Limited is striving to facilitate its customer needs by delivering the best of services in combination with the state of the art technologies and best international practices. Machhapuchchhre Bank Limited is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software named Globus Banking System developed by remenos Nu. Switzerland currently it is using the latest version of Globus, referred as T-24 Banking system. The bank provides modern banking facilities such as any branch banking. Internet banking and mobile banking to its valued customers.

1.3 Statement of the Problem.

Most major banking problems have been caused by weakness in credit management banks should now have a keen awareness of the need identify, measure, monitor and control credit as well as to determine that they hold adequate capital against it. These risks that they are adequately compensated for these risks that they are adequately compensated for risks incurred. So, to

establish creditability position is a major issue in commercial banking sector during these days.

It is no debate that high profitable or successful organization can easily fulfill the every need of the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Thus, the creditability is the major source and building better creditability position is the major strategy of every commercial bank.

Credit is the most effective and sincere area in commercial bank. It is regarded as the heart of every commercial bank. But the banking sector is far from this fact. Thus, credit management is considered as the heart issues in Nepalese commercial banking sector.

Credit management concept has appeared as a major research gap in Nepalese commercial banking sector. There is lack of such scientific and empirical research that could identify the issues of credit management in Nepalese commercial banks. In this regard, the performance of Nepalese commercial banks is to be analyzed in terms of their credit some research questions regarding to the credit practices, credit efficiencies, liquidity positions. Industrial environments, management quality, organization climate, are considered as a clear evident in present situation. Thus, the specific research questions regarding credit management in Nepalese commercial banking sector are identified as follows:

1. What is the credit efficiency of the Nepalese commercial banks ?
2. Is the credit practices adopted by commercial bank in good position ?
3. It there any relationship between credit position and profitability situation ?
4. What is the position of commercial bank in banking industry ?
5. What is the impact of credit on overall profitability situation ?
6. Is the quality of management good in commercial banks ?

7. Is the credit management important in commercial bank or not ?
8. Is there any impact of non-performing loan on overall profitability situation ?
9. What may be the corrective action to improve creditability ?

1.4 Objective of the Study

Basic objective of the present study is to explore the credit efficiency and its management in commercial banks. It is also aimed to find out the relationship between credit practices and profitability situation moreover, the study has specified the following objectives.

1. To assess credit practices of selected Nepalese commercial banks.
2. To explore the credit efficiency of selected Nepalese commercial banks.
3. To analyze the industry environment of selected Nepalese commercial banks in term of credit practices.
4. To examine the management quality of selected Nepalese commercial banks in term of credit practices.
5. To explore the relationship with loan and advance, non-performing loan and net profit of selected Nepalese commercial banks.

1.5 Importance of the Study

Commercial banking sector is considered as successful are in financial sector of Nepal. In today's context, commercial banks have to be more organic and sincere to establish creditability position due to vast competition among them. The present concept deals with how commercial banks managed credit position and how do it affect to the organizational effectiveness.

Present study is very important from the point of view of bank management. The main strategy of every commercial bank is to establish the better creditability position, which has directly impacted the financial performance of an organization. Besides, it helps to build positive attitude and perception customer

that helps to make the organizational success in terms of better transaction, better turnover and better profitability most of the earlier researches were focused on financial performance of bank but few researches were focused on creditability position of bank. From view point of bank credit is the most important in and sincere area. Thus, the present study is very important in viewing an organizational performance or position in terms of creditability.

1.6 Limitation of the Study

The scope of the study in limitation only in commercial banks because of time and resource constraints. Most of the analyses are descriptive in present study. This study is very basic attempt to address the research issues, therefore, it might not be able to show casual linkage or effect. Instrument used for data collection is not standardized questionnaire.

Present study could not address all the aspects of credit position. The study is based on employees; self repeated response about their perception on primary analysis. It is therefore, the response collected from the employees might not be valid measure.

Secondary analysis is based on published financial data on collected from stock exchange center and share department of the concerned banks. The secondary analysis covers time span of current five years. Various financial tools are used to know financial condition of the bank. However, the study tries to find out credit position and its importance in selected commercial banks.

1.7 Process of the Study

The process of the study presents the various activities followed by the researches to complete the study. The activities are as follows.

Discussion with supervisor of the bank was the first activity at the very beginning of the research. The activity can be taken as a pervasive function because frequent visit and discussion with the supervisor was the routine of job for research. In the some time, various financial data (profit and loss account, balance sheet and other market related information) was collected for the secondary data analysis.

Extended literature review has been made in the subject area. The literature helped the researcher to understand the theory, to find out the appropriate methodology to inquire about problems to set objectives and to frame proper research design to cover the stated objectives. Some part of this job has been completed during the preparation of research proposal.

Questionnaire building was the next job for research. The questionnaire includes the necessary to find out the answer of the research problems to meet the stated objectives.

Pilot survey was made at the third step of the research. The researcher discussed with supervisor for many hours to make the questionnaire appropriate. The researcher visited ten to twelve employees to administer the questionnaire. This job helped the researcher to find out the weakness of the questionnaire. Then it was modified.

Administering questionnaire was the fourth step of the research. The researcher provided the modified questionnaire to employee to fill up and return the questionnaire in three to four consecutives days.

Tabulation and analysis of data was the next step of the research available information (i.e. administrated questionnaire) were coded, recorded and analyzed by using SPSS computer program. At the same time secondary data analysis (i.e.

financial condition) of the selected banks was also presented in tabular form and analyzed. And then required appendices were developed for reporting.

Writing the report in required format was the last and final job for the research. The developed primary data was compared with secondary data of the selected banks and the essential information is finished in the report. The format of the research report is discussed in the following section of the study.

1.8 Organizational of the Study.

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows.

Chapter – I Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study need or justification of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter – II Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter – III Research Methodology

Research methodology refers to the researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter – IV Presentation and analysis of data

This chapter analyses the data related study the presents the finding of the study and comments briefly on them.

Chapter – V Summary, conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization in terms of credit management. It also gives important suggestions to the concerned organization for better improvement.

Chapter – Two

Review of Literature

2.1 Conceptual Framework

Present chapter summarizes the findings of literature related to credit management. It is the process of learning and understanding the concept of related literature. It establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field. In other words, it helps to provide knowledge about the development and progress made by the earlier scholars on the related field of the study. Most of the earlier researcher has reviewed credit management on financial performance of the banks. But credit management is perhaps a new concept in a context of Nepalese research. Therefore, much focus is given to the various dimensions of the concept of credit management.

2.2 Factors affecting credit policy

Generally the following factors are to be considered to make effective credit 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.

- J **Management quality:** It determines the integrity, competence and nature of alliances of the borrower's management team. Weakness in replacements needs to be evaluated.
- J **Technical strength:** It determines the strength and quality of the technical support required for sustainable operation of the company in terms of manpower and the technology used. Appropriate technical competence of the manpower the viability of the technology uses, availability of after sales service, cost of maintenance and replacement need to be evaluated.
- J **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.

2.3 Conceptual review of credit management

A frequently neglected but increasingly of the total marketing package is the role of 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 study seeks first and like some other to examine the relative importance of credit policy in marketing decisions and, seconds, to assess the case for differentiating credit packages. It is also presented the result of an empirical

survey into the credit policies pursued. In concept, the empirical study is similar to earlier studies.

A commercial Bank is 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 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 Development Institutions Ordinance, 2060 has accumulated the five banking acts including commercial bank Act 2031, which defines the bank with respect to their transactions. This Act is trying to categories the banking institutions in two ways that I based on their transactions. According to this Act, "Bank is the institution which performs its transaction under the provisions mentioned on 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 for 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 institution, 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 there by, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces 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 bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investment."

Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institution ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required

to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (CIB) can blacklist the firm, company or clear the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs. 1 million. If the creditor fails to clear the amount within time, or is found mission the loans among others, the creditor can be blacklisted' (Kathmandu Post, 2003: 9)

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, bank start sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore portfolio management becomes very important both for an individuals as well as institutional investors.

In the post report titled 'Loan Loss provision rises Notably' published in the Kathmandu Post, the reporter had made an endeavor to highlight some facts and figures regarding loan loss provision of commercial banks. 'The banking sector is witnessing a huge surge in loan loss provisioning reserve lately. The increment is primarily a result of a directive issued by Nepal Rastra Bank (NRB) in 2001 that introduced stringent loan provisioning criteria for commercial banks. As per data recently released by the central bank, the total loan loss provision in the country's banking sector increased from around Rs. 8.73 billion in mid-April 2001 to Rs. 13.18 billion in mid-April 2003. The increment is over 51 percent. As per the latest NRB figures, a remarkable surge has been seen in loan provision of Nepal

Bank Ltd (NBL). Against the provision of Rs. 1.7 million in mid-April 2002, the loan provision amount surged to whopping Rs. 7.33 billion in a year” (Darshan Tamang)

The reporter further states that apart from the two technically involent government invested banks loan provision of other joint venture private banks has also risen significantly and the notable increments seen in the loan loss provisioning amounts is due to the eight-point prudential directives that the central bank issued in mid-to all commercial banks.

The reporter concluded, “The directives laid down stringement guidelines relating to loan loss provisioning to ensure a good health of the overall banking system. The directive requires loans to be provisioned to the extent of cent percent if payment is defaulted for one year. Likewise, the directives requires loans to be provisioned to the extent of 25 percent if payment is defaulted for over three months and so percent if the period of default extends beyond six months. The earlier directive required progressive provisioning of loans, but allowed maximum of three years, unlike the present system of just year for loans to be provisioned to the extent of cent percent. (Darshan Tamang)

In the article by Mr. Dependant B Chhetri, titled "Non Performing Assets: A need for Rationalization", the writer has attempted to provide connation of the term NPA and its potential sources, 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 principal 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 asset. 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." (Darshan Tamang)

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months, in India. Loans thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPAs are classified according to international practice into 3 categories namely Substandard, Doubtful and Loss depending upon the temporal position of loan default. "Thus the degree of NPA assets depends solely on the length of time the asset has been in the form of non obliged by the loan. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. "As per Mr. Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system credit program sponsored by Government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPAs.

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 sector. He mentioned that by reviving the activities of 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." (Darshan Tamang)

2.4 Review of related studies

Present section deals about concept 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.

2.4.1 Review of Articles

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

2.4.2 Review of Journals

In an article published in New Business Age, Mr. Kamal Subedi titled "Growth in Major Commercial Banks" has compared between the first six month of the fiscal year 2002-03 and 2003-04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB) (the government owned banks). There has been increase in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only on recovery of the huge Non Performing Assets (NPA). However, Mr. Subedi pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB all banks have increment in deposit collection.

A decrease in CD ratio (the percentage of the deposit mobilization over the credit) signifies the presence of high liquidity and comparatively lower fund mobilization and vice versa. High liquidity and idle funds will result in lower profits. HBL has

the highest growth of 18.47% in CD ratio over the last year. Similarly, NABIL, Everest Bank Ltd (EBL) and Nepal SBI Ltd (SBI) and Machhapuchchhre Bank Ltd. (MPB) have recorded growth rates of 6.28%, 11.83%, 7.45% and 8.8% respectively in their CD ratio. However, this ratio of other commercial banks has declined, largely due to factors external to the banks.

As per the NRB directives, all commercial banks have to maintain Loan Loss provision according to the size of overdue loans. Nepal Credit and Commerce Bank (NCCB) were able to decrease its loan loss provision by 27.63% as compared to the previous year indicating a good recovery of interest as well as principal. In case of Nepal Investment Bank (NIBL), growth in loan loss provision (which in fact decreased by 6.73%) was much less than the growth of the total credit (which in fact decreased by 6.73%) was much less than the growth of the total credit (which increased by 53%). Similarly, NBL and HBL were able to maintain a healthy composition of loan loss provision (decreased by 9.49% & 0%) and credit (increased by 3.70% and 26.78%), again signifying good results from their loan recovery efforts. In case of remaining banks, the situation is not satisfactory as the growth of loan loss provision is higher than the growth of credit.

A bank's stability depends on the reserve it maintains. NABIL's reserve growth is very good i.e. 1400% on retained earning and 67.86% on other reserves. Similarly, all other banks have except NCCB and BOK made noticeable increment in it. The major yardstick to measure the status of the bank (which is the prime concern of shareholders) is the profitability of the banks-the spread between what the banks has earned and expensed. In this regard, KBL has made the significant growth of 181.25% in profit as compared to the previous year. Similarly Standard Chartered Bank (SCBL), NABIL, HBL, MPB, BOK, EBL, NIB, NSBI, NICB and NCCB have the growth percentage of 7.72%, 6.33%,

43.73%, 20.80%, 29.83%, 61.8%, 62.76%, 29.76%, 37.89% and 4.03% respectively.

His Majesty's Government of Nepal has promulgated Ordinance to replace several existing laws related to the banks and financial institution like Commercial Bank Act 2031, Finance Act etc related to financial institutions. The major highlights of the ordinance are universal banking that makes all the banks and a financial institution governed by a single act making the legal process much efficient and with less confusion and it has protected the rights and welfare of the depositors and investors.

However this ordinance has lots of unclear issues, which has created confusion to the existing banks and financial institutions. The ordinance has classified the financial institutions into categories replacing the present terms as commercial, development of finance companies. The act has classified the category, as "Ka" category can mention itself as a Bank, the rest of the category should name itself only as a financial institution. The ordinance has created confusion to the existing development banks and finance companies as what category they belong to? The positive aspect of this ordinance is that the financial institutions which fall under the "Kha" category will also be allowed to carry out several financial activities that were previously allowed to only commercial banks, such as opening current accounts, issuing drafts and traveler's cheques, dealing in foreign exchange and issuing Letter of Credits. Even the financial institutions, which falls under the category "Ga" are permitted to handle current account, saving account and to some extent, foreign currency transactions. Due to these changes, the consumer will benefit due to the competition among these banks and financial institutions.

In an article published in New Business Age written by Sudir Khatri, has analyzed the ordinance Pros and Cons, in general speaking termed as Umbrella Act. He has expressed his disagreement in the ordinance regarding the qualification of the Board of director's composition. The qualification set is out of the total number of

directors, two thirds have to be graduates in specified disciplines-management, commerce, economic, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background as the in the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) were engineers. He further writes that activities like project financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specified fields only. CEO of the “Ka” category qualification required is Masters Degree in the chosen few subject and the term would be four year. The act however does not mention the renewal of the CEOs term. The Board or AGM of the institution should be decided the CEO’s tenure.

Similarly, he points out argument in the requirement of five years work experience. The performance of the public limited companies is so poor that the efficiency of the staff is questionable. In such situation how can one hire some one with the experience in public limited companies? As per the act, it is mandatory to appoint a professional director in the Board chosen from the list of professional experts enlisted by NRB. Such director will not have voting right; it is questionable that can be contribute significantly towards the development of a bank or financial institution without the voting right?

For the existing banks and other financial institutions a two-year period has been granted to apply for the license. Entirely new Memorandum of Association and Articles of Association have to be prepared and a special general meeting of shareholder has to be called. If any institution fails to obtain the license on the said period their license will be seized. However, there is no clear information on whether the institutions can prepare Memorandum of Articles in their own format

or are there any prescribed format available or will be made available by the central bank-Nepal Rastra Bank for this purpose.

This ordinance has given the full authority to NRB for monitoring, inspection, supervision etc. NRB is vested with the power to fix interest rates in lending and deposits and the Act also states that NRB can also delegate this authority to the individual banks themselves. However, such delegated authority can be taken bank. This makes banking more risky; it indicate that NRB is interest to take control on fixation of interest rates as when required.

In an article published written by Mr. Atma Shrestha in Business Age entitled “Entrepreneur-Friendly Credit Policy” has reviewed the present credit policy with main focus of the credit decision being based on the collateral. He argues that only collateral should not be considered as the basis of the credit decision.

Access to finance is vital element for entrepreneurship development in the country. Without it one cannot think of starting business of any sort. It's mainly due to this reason; most of the students after completing there single-mindedly look for employment opportunity. No other options, mo matter how lucrative and attractive it would be enter into their mind. It has created huge pressure in the labor market. In the absence of entrepreneurial activities in the country, employment opportunity will be very limited and even qualified and competent people do not get job. The established very limited and even qualified and competent people do not get job. The established very limited and even qualified and competent people do not get job. The established notion of the Nepalese bankers that money lent to the wealthy people based on collateral is safe. But is not actually a safe assumption in the face of greater difficulty in loan recovery form these people. Also, this particular segment of market is already over-banked. With the worsening business performance of the Nepalese corporate sector mostly due to the poor management compounded by other factors like sluggish economic conditions and political instability, banks must now explore newer market

segment for their sustained growth and success. Under this backdrop, Nepalese commercial banks must change their policy and must understand that even the people living in the low and middle level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid is very intense and has already saturated. In this context, potential entrepreneurs armed with skills, knowledge and readiness to take plunge in the business world can form a formidable market opportunity for the Nepalese banking industry-only if it can come out of the cocoon of traditional collateral-driven lending approach.

At the time when Nepalese banking industry is confronting with the increasing NPA, it might seem unwise and untimely to suggest that commercial banks extend loan to the potential entrepreneurs without collateral. It is not that they must ignore the collateral altogether while making credit decision. Collateral may be one of the important elements of the credit decisions. But this should not be a precondition for any credit decision. Lesson should be learned from the past experience of this credit policy that collateral alone does not ensure quality of credit decision. The fluctuation and stagnancy in the real state business has further reinforces this view. More important, Nepalese bankers must themselves have to have entrepreneurship spirit which means, they should not hesitate to take educated risk by giving more weight to the entrepreneurship dimension of the credit proposals while making credit decision. The ability of lending is identifying and investing a distinct competitive advantage in the crowded market. However it's essential that any government rules and regulations that inhibit the promotion of entrepreneurship in the country must be abolished.

Entrepreneurship development is one of the important conditions for the economic growth of a country. There must be the sprout of entrepreneurship activities in the country for rapid economic growth and progress. However it does not happen

automatically. We must create necessary conditions and environment where people with skills, knowledge and hunger to make money by starting their own business can get easy access to capital.

The ordinance relating to banks and financial institutions has been promulgated that has been brought into existence effective February 4, 2004. The banks and financial institutions Ordinance, 2004 has replaced the existing Agricultural Bank Act, 2024. Commercial Bank Act, Development Bank Act, and Nepal Industrial Development Corporation Act and Finance Companies Acts and has brought all such institutions under the preview of a single Act. Though this ordinance came as an achievement in the financial sector reform program, it's being a matter of debate among the various finance experts that the ordinance having six months existence time should be enacted? At this time since there is no parliament in the country and the parliament is authorized to enact permanent law. It is obvious that the financial sector must go through uncertainty in the future. The ordinance, popularly called as Umbrella Act.

In an article "Comments on Umbrella Ordinance 2004" Mr. Tirth Upadhyay, President of ICAN has expressed clearly described the Ordinance along with his views. The Ordinance is comprehensive and prescribes in detail the provisions for licensing, incorporation, governance and merger and dissolution procedures for banks and financial institutions (FIs). This is a significant improvement over the existing Acts but apprehension is expressed about the discretionary power that the Ordinance has vested on Nepal Rastra Bank (NRB).

The ordinance is divided into 12 chapters and contains altogether 93 sections. The **Chapter 1** defines the various terms used in the Ordinance but has conspicuously omitted to define "security" and "collateral" among some important terms. These words have been frequently used in relation to lending activity but in the absence of universally acceptable definition the ongoing anomalies owing to the ambiguity

are expected to continue though it has been clarified that the financial institutions henceforth can lend against personal or corporate guarantees.

Chapter 2 specifies the procedures for establishing a bank or financial institution and has brought transparency in licensing procedure. The authority has to either issue the license within 120 days of application or notify the reason of refusal within the said period. Further, a foreign bank's presence in Nepal either through a joint venture or branch banking is legally mandated. This provision will probably meet the long outstanding demand of the donors and conforms to Nepal's entry to WTO. Buying back of its share by a financial institution, a unique provision is legal stated by this ordinance, and that could be considered progressive. But it has failed to explain the objective of such provision and at the same time appears to be too restrictive to implement. The ordinance has failed to prescribe condition for enhancing the stake of joint venture partner, fresh issue of shares to strategic partner, issue under Employees Stock option plan and preferential issue that is vital from the investor's perspective.

Chapter 3 deals with the constitution and Board of Directors and appointment of CEO. Henceforth, in addition to directors appointed by the shareholders, meeting, the FIs (Financial institution) must have one independent director in its Board appointed from amongst the names in a roster maintained by NRB. Also, the academic qualification of remaining directors has been prescribed that requires that $2/3^{\text{rd}}$ of all directors must possess required academic qualification and experience but it has failed to ensure that people of requisite qualification are elected by the general meeting. Similarly, academic qualification for a position of CEO is also prescribed and his /her tenure is limited to four years. But the intention for limiting the tenure of such paid executive remains unexplained. It might prevent young and dynamic person from taking this leadership position. Further, the authority and responsibility specified are not commensurate to the position of a CEO. As the law does not guarantee vesting of executive authority on

CEO, it may be played down at the hands of unscrupulous directors and might inconsistent with the principle of divesting management from investor to professional managers.

Chapter 4 places restriction on using bank of FI's name or carrying out financial transactions by institutions other than those licensed by NRB as per the Ordinance.

Chapter 5 deals with capital adequacy, reserves and provisioning for NPA's. But the more it has tried to be transparent, the more it has vested discretionary powers with NRB. To protect the interest of depositors, the prime concern of legislatures in drafting the law should be continued maintenance of adequate capital and such an important matter should not be left to the discretion of NRB. The lesson should be learnt from the past experiences where NRB's leniency sent two largest banks technically bankrupt. In this regard, it may be pertinent to remind why the Basel Committee recommendation on capital adequacy (that is universally acceptable) is not being made mandatory obligation on the part of the promoters is not created to meet the capital gap within specified time. Such an obligation is vital for protecting the depositor's interest. As it has been the case with the two largest banks (i.e. Nepal Bank Ltd. And Rastriya Banijya Bank) and a few other private sector banks in Nepal, continued flouting with NPA's has eaten away not only their equity but the depositor's money as well.

Chapter 6 prescribes the financial transactions that banks a FIs are empowered to undertake. It has attempted to include all types of traditional financial transactions hitherto undertaken by a bank or FI but has failed to visualize the requirement of a modern banking like debt securitization swap and hedge transactions and dealing in other financial derivatives. The finance company will be benefited with this Ordinance as they are now authorized to accept interest free deposit.

Regulatory, inspection and supervision responsibility with regard to FIs continue to remain with NRB. The new provision has enlarged the scope of NRB's regulatory role. Banks set up with foreign shareholding will now be required to submit to NRB the inspection reports prepared by their headquarters. Severe penalty including suspension of Board or taking over the management of FIs has been prescribed if the result of NRB inspection indicates non-compliance with its directives or if the FIs are found to be guilty of engaging in activities that are detrimental to the interest of the shareholders or the depositors.

The deregulated interest rate regime appears to be drifting away as the Ordinance has empowered NRB to intervene in rate fixation but it does not specify the conditions that would oblige NRB to do so. Looking at the current rate of interest offered on deposit on FIs that has gone below the inflation rate, NRB intervention could bring relief to thousands of small depositors especially old, disabled and pensioners whose lifetime saving is at stake.

Loan disbursement and its recovery procedures are covered under Chapter 8 that re-establishes the NRB's authority to regulate lending and minimize the chances of loan going to an unscrupulous borrower or diversion of the funds. The Ordinance has specifically provided for the compulsory registration of all charges on assets pledged as collateral but the agency responsible for such registration (other than real estate) is not identified. The authority of FIs in loan recovery has been extended and it may now reach to other assets of the borrower in case the security for loan falls short or becomes inadequate. The hitherto requirement of disposal of non-banking assets within seven years has been done away with. It may result in accumulation of significant unproductive assets in FIs balance sheet. The role of Loan Recovery Tribunal has been undermined and no role is envisaged for Asset Management Company that is in the offing.

The role of the auditor of FIs has been extended and it goes beyond the scope of expertise of accounting profession. Auditors shall require among others, to certify

whether FIs have acted (or failed to act) to protect the interest of depositors or investor and whether the business of FIs has been conducted satisfactorily. Basis of such opinion is not outlined and accordingly it will serve no purpose other than becoming a ritual.

Chapter 10 deals with merger that permits FIs to merge with another FIs only. This is a new provision but does not prescribe the circumstances when such merger will be permitted. The missing part on merger is the safeguard of interest of minority shareholders. It does not entitle shareholders opposed to the merger to ask for compulsory acquisition that is vital for promoting foreign investment.

Chapter 11 prescribes penalty for various offences that could be both various offences that could be both civil and criminal. Chapter 12 has laid down procedures for voluntary winding up of FIs, arbitration and miscellaneous administrative and operational procedures. The client confidentiality is guaranteed but with so many restrictive sub-clauses it is doubtful if the objective would ever be met. Similarly depositor's right is clearly protected by reiterating that there would be no other claimant on deposit kept with FIs other than the depositor himself or his nominee but with such right. The state may interfere in one or other pretext defeating the intension of law and lessening the confidence in the banking system.

For the first time, the law has taken recognizance of international terrorism and NRB is empowered to suspend operation of account related to organization or individual associated with such activity. But it has omitted any anti-money laundering provision. Probably, a separate Act is being envisaged to deal with such transaction.

In conclusion, it could be said that the Ordinance is comprehensive and deals with significant aspect of operation of FIs. However, attempts should be made to limit NRB's discretionary power by framing transparent, prudent and unambiguous

policies and regulations. Further work would be necessary to integrate the country's financial sector with international financial sector with international financial market and effort should be directed to encourage adoption of international best practices like International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA). Basel Committee Recommendation etc.

2.4.3 Review of Thesis

Raja Ram Khadka (1998) in his thesis "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). It is also comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of NGBL and NIBL. In case of profitability ratio he has concluded that the profitability position of NABIL is comparatively not better than that of other joint venture banks (JVBs). NABIL is more successful in deposit utilization but fails to maintain high growth rate of profit in comparison with NGBL and 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 JVB's to overcome this situation, NABIL is strongly recommended to follow liberal lending policy and invest more and more percentage amount percentage amount of total deposits in loans and advances.

He has focused his study on the investment policy of Nabil bank and has taken NGBL and NIBL average ratios as banking average. Mr. Khadka has recommended to adopt liberal lending policy however has not explained regarding liberal lending 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. He has also not explained the regarding what is good liberal lending policy.

A thesis study conducted by Lila Prasad Ojha on “Lending Practices: A study on Nabil Bank Limited, Machhapuchchhre Bank Ltd. and Himalayan Bank Limited” has found out that the measurement of lending strength in relative term has revealed that the total liability to total assets of MPB has the highest ratio. The steady and high volume of loans and advances throughout the years has resulted Nabil ratio to be the highest. The ratio of loans and advances and investment to deposits ratio has measured the portion of total deposits that is used to increase the income of the banks irrespective of the portfolios of its application. 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 analysis of lending strength of HBL in Loans and Advances is the best. However Loans and advances, investments to deposits 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 MPB 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 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. 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 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. The rural economy has always been realizing the credit needs and the dominance of non-organized moneylender in this area has been prevailing. To compromise between the liquidity and credit need of rural economy these banks are highly recommended to expand their credit in this area. MPB tendency to invest in government securities and foreign bank have resulted with the lowest ratio of loans and advances to total assets ratio. The increasing provision on loan loss and high volume of non-performing assets in Nabil and HBL certainly attracts the high attraction of any person interested with these banks. The high volume of HBL non-performing assets may have caused due to the failure of industrial and agricultural sector. Nabil's increased non-performing, assets may have caused due to the accumulated bad debts that is kept behind the curtain to show the efficiency of management.

He has used different statistical tools like standard deviation, correlation, trend analysis and financial tools fro the data analysis and presentation. In his study he has also taken sector wise loan priority sector. Productive sector etc. the different sector wise loan classification are presented and analyzed only secondary data has been used for the study the overview of the theoretical aspect of the lending practices of the banks has not been analyzed. He has taken five years data from 1997 to 2001 for study of lending practices of Nabil and HBL.

Mr. Santosh Pandey (2002) has carried out study on 'Nepal Rastra Bank –(NRB) Directives their Implementation and Impact on the Commercial Banks- A Case Study of Himalayan Bank Limited' with the objectives to find out the impact of change in NRB directives on the performance of the commercial banks and to find out whether the directives were implemented or not.

“The directives of not properly addressed brave potential to wreck the financial system of the country as they are the only tool of the NRB to supervise and monitor the financial institutions.” The directives in themselves are not that

important unless properly implemented. The implementation part depends upon the commercial banks. In case commercial banks are making such huge profit with full compliance of NRB directives, then the commercial banks would deserve votes of praise because they would then be instrumental in the economic development of the country. All the changes in NRB directives made impacts on the bank and the result are the followings:

Increase in operational procedures of the bank, which increases the operational cost of the bank. A short term decreases in profitability, which result to lesser dividends to shareholders and lesser bonus to the employees. Reduction in the loan exposure of the bank, which decreases the interest income but increase the protection of the depositor's money.

Increase protection to the money of the depositors through increased capital adequacy ratios and more stringent loan related documents. Increase demand for shareholder's contribution in the banks by foregoing dividends for loan loss provisions and various other reserves to increase the core capital.

All the aforesaid results lead to one direction; the bank will be financially healthy and stronger in the future. HBL will be able to withstand tougher economic situations in the future with adequate capital and provision for losses. The tough time through which the bank is undergoing at present will prevail only for a couple of years but in the long run, it will be strong enough to attract more deposits and expose itself to more risk with capital cushion behind it. The quality of the assets of the banks will become better as banks will be careful before creating credit. Ultimately, the changes in the directives will bring prosperity not only to the shareholders but also to the depositors, the employees and the economy of the country as a whole.”

He recommended that the bank has to make its monitoring and follow up department stronger needs to give priority in human resource development

through training to its staffs and make them efficient enough to monitor and collect already disbursed loans.

Ms. Anju Khadka (2002) has carried out research on “A Comparative Study on Investment Policy of Commercial Banks” with an objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NIBL.

She concludes “NBL is comparatively less successful in on balance sheet as well as off-balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the competitive market of banking. Profitability positions of NBL are comparatively worse than that of other CBs. It predicts that NBL may not maintain the confidence of shareholders, depositors and its all customers if it cannot increase its volume even in future.”

As the banks experience many difficulties in recovering the loans and advances and their large amount is being blocked as non performing assets, she suggested that there is an urgent need to work out a suitable mechanism through which the overdue loan can be realized.

2.5 Research Gap

Previous researchers analyzed the credit management by using secondary source of information in terms of credit practices or lending practices. But actually speaking credit management can be determined by various factors. Among of them, banking environment and management quality in terms of credit may be the strong determinant for credit management in banks. In present context these are the heart issue in Nepalese commercial banks. The previous scholars could not submit the present facts. Present study tries to define credit management by

applying those various facts. It can be very useful or important in this area. Thus, present may be valuable piece of research work.

Chapter -Three

Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. Basic objective of the study is to identify credit management (i.e. strength and weakness of credit) in selected commercial banks. The researcher uses primary as well as secondary data to meet the objectives. Besides, he also tries to define various tools and techniques, methods of data collection and analysis, data collection techniques and procedures employed for the study. Suitable research design is also followed for the study. The following section deals about various methodologies used for the study.

3.1 Research design

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. Present study follows the descriptive as well as analytical statistics of the analysis to meet the stated objectives of the study. 'Descriptive studies are primarily concerned to find out 'What is' (Brog & Gall, 1983). The secondary data were analyzed from the data collected from the share department of the related banks. Few financial statements of selected commercial banks were tabulated using spreadsheet.

3.2 Sources of data

The research is based on primary as well as secondary source of data. For research purpose, published financial statements (i.e. Annual report) of concerned banks were collected. Similarly, financial statement of selected commercial banks and various markets related information were collected and tabulated in spreadsheet.

Such secondary information was gathered from the share department of the concerned banks.

Carefully designed research instrument (questionnaire) used for primary data analysis. The researcher has carefully designed questionnaire by considering various influencing factor of industry environment, management quality. The factors derived from previous research findings on related area are to support credit management. Basic sources of primary information were employees of concerned banks. In addition, an answer on certain queries made to staffs of concerned organization personal requires and discussions were also being conducted for clarification and verification of collected data and for recommendation.

3.3 Population and Sample of survey design

Generally, employees of the banks are the persons who handle the daily banking transaction. They serve the banking services to the customers of the banks. However, there are only seventeen (17) commercial banks are registered and came into operation in Nepal in F.Y. 2059/60 as per Rasta bank notice. Commercial banks cover the large volume of financial areas in Nepal. The reputed and old banks have the large volume of transactions and they gave also many branches in different sectors of the country. So, the large numbers of employees are also involved in commercial banks. Therefore, the present study could not cover all the employees of commercial banks.

For the research purpose, all Nepalese commercial banks established and operated before F/Y 2053/054 (1996/97) were selected after analyzing and identification, these commercial banks on the basis of the strongest, weakest and average position were taken for secondary data analysis. These banks were taken judgmentally as a sample for survey design to compare them in terms of credit

management. The following table presents the details of respected groups of the selected sample.

Table 3.1
Population and sample of survey design

Name of Bank	Frequency	Percent	Valid percent	Cumulative percent
Nabil Bank	24	39.3	39.3	39.3
Himalayan Bank	27	44.3	44.3	83.6
Machhapuchchhre Bank	10	16.4	16.4	100.0

The above table 3.1 shows that the total number of respondent for primary data analysis is 61 out of total number the frequency distribution of Nabil Bank limited is 24, which covers 39.3% where as the frequency distribution of Himalayan Bank limited is 27, which covers 44.3% where as the frequency distribution of Machhapuchchhre Bank Limited is 10, which covers 16.4%

3.4 Primary data collection techniques

Individual data sheet was used to gather information about selected characteristics of the respondents. Selection of the items for individual data sheet was primarily based on earlier international researches concept on the related subject and the previous research findings. Few demographic variables such as gender position, age, major profession and experience in work in an organization were also designed and included in the instrument. The demographic variables were designed in nominal scale.

3.5 Primary data collection procedure

Convenient sampling technique was followed to gather the opinion or characteristics of employees of the concerned bank. Questionnaire were administered and returned in two to three days. In many situations, the researcher asked the respondents to give opinions of the questions and ticked on replied answers to administer the questionnaire. Researcher personally visited head office of the related banks. The last hour of the 4 day was used to request the respondents to fill up the questionnaire. In most of the cases, meaning of the items and instruments were described to the respondents, which helped them to give fair opinion.

3.6 Nature of respondents

This section deals the nature of respondents of present research. Nature of respondents can be discussed so many demographic variables such as gender, age, designation, department, experience.

The table presents the frequency of respondents of selecting banks and its valid percent. Out of 61 respondents, the questionnaire collected from the NABIL Bank is 24 (Twenty four) respondents and 27 respondents filled up the questionnaire in HBL and 10 respondents in MPB.

Table 3.2
Gender of respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	41	67.2	67.2	67.2
Female	20	32.8	32.8	100.0
Total	61	100.0	100.0	

The table 3.2 presents the frequency of male and female and its valid percent. Out of total 51 respondents, 33 respondents were male i.e. 64.7% and 18 respondents were female i.e. 35.3%.

Table 3.3
Age of respondents

Age	Frequency	Percent	Valid Percent	Cumulative Percent
20-29 year	20	32.8	32.8	32.8
30-39 year	38	62.3	62.3	95.1
40 & above year	3	4.9	4.9	100.0
Total	61	100.0	100.0	

The above table 3.3 presents the picture of frequency of respondents of different age group and its valid percent. The table presents the highest number of respondents of the age 30-39, the lowest number of respondents of the age 40 & above is 3 (i.e. 4.9%). Similarly the age group of 20-29 is 20 (i.e. 32.8%). The lowest number of respondents, of the age 40 & above is 3 (i.e. 5.9%). Similarly, age group of 20-29 is 14 (i.e. 27.5%).

Table 3.4
Designation of respondents

Designation	Frequency	Percent	Valid Percent	Cumulative percent
Assistant level	16	26.2	26.2	26.2
Officer Level	22	36.1	36.1	62.3
Manger Level	23	37.7	37.7	100.0
Total	61	100.0	100.0	

The above table 3.4 presents frequency of respondents in different categorized designation and its valid percent the designation was categorized into three parts out of total 61 valid respondents, the respondents of the manager level are the highest 23 (i.e. 37.7%) and the respondents of the assistant level are the lowest level 16 (i.e. 26.2%) similarly, the designation of the office level are 22, (i.e. 36.1%).

Table 3.5
Department of respondents

Designation	Frequency	Percent	Valid Percent	Cumulative percent
Customer Service	14	22.9	22.9	22.9
Credit	22	29.7	19.7	42.6
Trade, Finance and Planning	14	22.9	22.9	65.5
Marketing	2	3.3	3.3	63.3
HRM	12	19.7	19.7	38.5
Treasury	7	11.5	11.5	100.0
Total	61	100.0	100.0	

The above table 3.5 presents the frequency of the respondents in different departments and its valid percent. The table shows the number of respondents of customer service and trade finance and planning is same and highest, 14 (i.e. 22.9%) and the number of respondents of the marketing department are the lowest, 2 (i.e. 3.3%). Similarly, the number of the credit, HRM, treasury are, 22 (29.7%), 12 (19.7%) and 7 (11.5%) respectively.

Table 3.6
Experience of the respondents

Designation	Frequency	Percent	Valid Percent	Cumulative percent
1-9 years	52	35.2	85.2	85.2
10-19 year	9	14.8	14.8	100.0
Total	61	100.0	100.0	

The above 3.6 present the frequency distribution of respondents in term of their experience in the organization in categorized form. The number of respondents (1-9) year of work experience are 52 (i.e. 35.2%), where as the respondents of (10-19) year of work experience are the 9 (i.e. 14.8%).

3.7 Tools and techniques employed

To meet the objectives of the study, the sources of secondary data of commercial bank are analyzed by using financial tools such as Ratio analysis. Secularly all the scores of individual data sheet (represented by primary data) were entered into SPSS version 11.5 database for tabulation & analysis simple descriptive analysis tools such as frequency, mean, standard deviation were used.

3.8 Methods of Data Analysis

Presentation analysis of the collected data is the core of the research work. The collected raw data will be first presented in the systematic manner in tabular forms and will then be analyzed by applying different statistical and financial tools to achieve the research objectives. Under financial tools different ratios are calculated under statistical tools following are calculated.

-) Mean
-) Standard deviation

-) Coefficient of variation
-) Karl Pearson's Correlation coefficient
-) Coefficient of determination

a) Statistical Tools

Some important statistical tools are used to achieve the objectives of this study. In this study statistical tools such as arithmetic mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination are used.

i) Mean

A mean is the average value or the sum of all the observation divided by the number of observation. It is calculated by the following formula

$$\text{Mean } \bar{X} = \frac{\sum fX}{N}$$

Where,

$$\bar{X} = \text{mean}$$

$$\sum X = \text{Summation of values}$$

$$N = \text{no. of observation}$$

ii) Standard deviation

The standard deviation is a number that summarizes how far away from the data values typically are. It is said the higher the value of standard deviation higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter (read as sigma)

Formula,

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum \phi x^2}{n} - \left(\frac{\sum \phi x}{n}\right)^2}$$

Where,

$$\frac{\sum x^2}{n} = \text{Sum of squares of observation}$$

$$\frac{(\sum x)^2}{n} = \text{Sum of square of mean}$$

iii) The coefficient of variation

The coefficient of variation is the standard deviation divided by the average and summarizes the relative variability in the data as a percentage of the average. The coefficient of variation (C.V.) is given by the following formula and gives the percentage.

$$\text{Coefficient of variation (CV)} = \frac{s}{\bar{X}} \times 100$$

Where,

s = Standard deviation

\bar{X} = Mean

iv) Correlation coefficient

Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in the other then such variables are correlation variables. The correlation or correlation coefficient denoted r is a pure number between -1 and 1 summarizing the strength of relationship in the data. A correlation of 1 indicates a perfect straight line relationship in the data. With higher values of one variable associated with perfectly predictable higher values of the other. A correlation of -1 indicates perfectly negative straight line relationship with one variable decreasing as the other increases. The usual interpretation of a correlation of 0 is that there is no relationship just randomness.

Formula

$$\text{Corr. coe. (r)} = \frac{n\phi_{xy} \sum X \phi X \cdot \phi y}{\sqrt{n\phi x^2 \sum (\phi x)^2} \sqrt{n\phi y^2 \sum (\phi y)^2}}$$

v) Coefficient of determination (r^2)

The coefficient of determination is the measure of the degree of linear association or correlation between two variables X and Y one of which is dependent and another is independent variable. It is denoted by R^2 and it also means the ratio of explained variation to total variation. Zero to one is ranging measurement of this coefficient of multiple determinations.

b) Ratio Analysis

Ratio analysis is the mathematical relationship between accounting figures. According to Kothars, “Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decisions.” Therefore ratio analysis is comparing a firm’s credit management and status to that other firm’s or to itself of different time. Also qualitative judgment of a firm can be done with the help of ratio analysis.

There are many ratios to compare of firm’s credit management and status but have only these ratios have been covered which are related to credit management of the bank and these ratios are explained in chapter four.

Chapter – Four

Presentation and Analysis of Data

Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing the data in presentable form by using various tables, figures and sources.

Credit management is one of the most important factors that have been developed to facilitate effective performance of bank management credit management is the formal expression of the commercial bank's goals and objectives stated in financial term for specific future period of time credit is the very basic indicator for determining profit.

The main purpose of the objective is to assess the comparative credit management in selected commercial banks. Present chapter will discuss the various aspects of credit management and their actual accomplishment. Actually credit management is a fundamental managerial tool, which is applied in commercial banks. For this respect, it will analyze the data by using various financial and statistical tools to meet the stated objectives of the study. It also compares the data between selected banks. Besides, it also present the various funding generated from data analysis.

4.1 Comparative Financial Condition of Selected Nepalese Commercial Banks.

Financial analysis assists in identifying the major strengths and weaknesses of a firm. It indicates whether a company has enough cash to meet its obligations and ability to utilize properly their available resources. Financial analysis can also be used to assess the company's liability as and ongoing enterprise and determine

whether a satisfactory return is being earned for the risks return. Thus, comparative financial condition of the banks in terms of credit practices in those banks.

For research purpose, financial conditions of these banks in terms of credit practices credit efficiency and liquidity position are going to analyze the comparative credit position in selected commercial banks.

4.1.1 Comparative credit practices in Nabil Bank, Himalayan Bank and Machhapuchchhre Bank.

Comparative credit practices show the comparative lending policies and practices adopted by the selected commercial banks during the study period. It measures the ability of the organization in terms of credit practices by using historical data.

i) Loans and advances 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. The ratios are presented in the following table

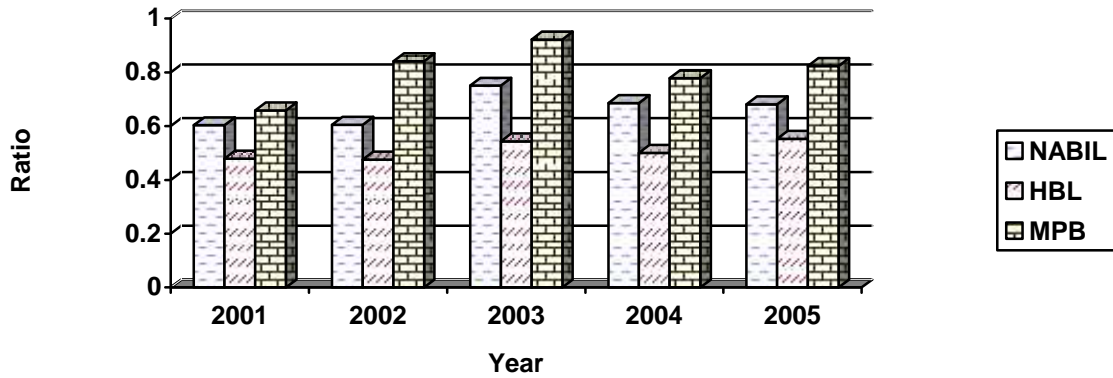
Table no. 4.1

Loans and Advances to Total Deposit Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	0.6034	0.6055	0.7505	0.6863	0.6813	0.6654	0.056	8.42%
HBL	0.4789	0.4761	0.5430	0.5007	0.5527	0.5108	0.0319	6.25%
MPB	0.6585	0.8409	0.9224	0.9183	0.7787	0.8238	0.0982	11.92%

Source: Appendix-1 & 28

Figure: 4.1
Loans and Advances to total deposit ratio



The table & figure no 4.1 shows that the ratio of credit deposit. NABIL has the highest ratio in F/Y 2003 i.e. 0.7505 and the lowest ratio in 2001 i.e. 0.6034. HBL has the highest ratio in F/Y 2005 i.e. 0.5527 and the lowest ratio in 2002 i.e. 0.4761. Similarly MPB has the highest ratio in F/Y 2003 i.e. 0.9224 and the lowest ratio in 2001 i.e. 0.6585.

In the same way the S.D. of Nabil is 0.056 while the coefficient of variation (CV) is 8.42%. Again the S.D. of HBL is 0.0319 and C.V. is 6.25%. Similarly the S.D. of MPB is 0.0982 and C.V. is 11.92%

From the mean point of view, HBL has maintained lower loans & advances to total deposit ratio among NABIL and MPB. MPB has maintained highest loans and advances to total deposit ratio among NABIL and HBL. It shows the MPB seems to be strong to mobilize its total deposit as loans & advances in comparison of HBL and NABIL from above description. But higher ratio is not better from the point of view of liquidity.

ii) Loans and Advances and investment to total deposit ratio

The main source of banks and investment depends on its deposits. The collected funds are mobilized in the form of loans and advances and investment. Loans & advances have more risk but higher return whereas investments have low risk and

low return. It measures the firm's fund mobilizing capacity. As and idle deposit means loss to the bank the higher ratio indicates that what portion of deposit are mobilized to generate income for the bank to pay interest for the sake of deposits.

Table no. 4.2

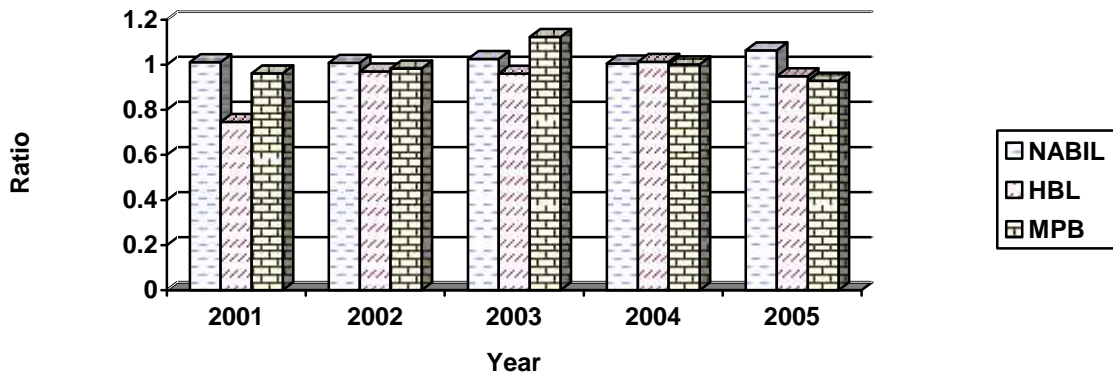
Loans and Advances and Investment to Total Deposit Ratio

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		1.0120	1.0084	1.0252	1.0057	1.0645	4.2642	0.0214	0.50%
HBL		0.7471	0.9705	0.9605	1.0133	0.9491	3.8812	0.0930	2.39%
MPB		0.9622	0.9827	1.1236	1.0020	0.9296	4.2564	0.0662	1.56%

Source: Appendix-2 & 29

Figure: 4.2

Loans and Advances and Investment to Total Deposit Ratio



The table & figure no. 4.2 shows that the ratio of NABIL in loans and advances and investment to total deposit of five years are 1.0120, 1.0084, 1.0252, 1.0057 & 1.0645 respectively. It has highest ratio in F/Y 2005 i.e. 1.0645 and the lowest ratio in F/Y 2004 i.e. 1.0057. Similarly the ratio of five years for HBL are 0.7471, 0.9705, 0.9605, 1.0133 & 0.9491 respectively whereas the highest ratio in F/Y 2004 i.e. 1.0133 and the lowest ratio in F/Y 2001 i.e. 0.7471. Again the five years ratio of MPB are 0.9622, 0.9827, 1.1236, 1.0020 & 0.9296 respectively whereas

the highest ratio in F/Y 2004 i.e. 1.1236 and the lowest ratio in F/Y 2003 i.e. 0.9296. In the same way the S.D. of NABIL is 0.0214 and C.V. is 0.50%, similarly the S.D. of HBL is 0.093 and the C.V. is 2.39% and the S.D. of MPB is 0.0662 and the C.V. is 1.56%.

From the mean point of view, the mean ratio of NABIL is more than HBL and MPB. It seems to conclude that HBL and MPB have not been able to mobilize the deposit efficiently whereas NABIL has the best performance in mobilizing the collected funds in generating income in comparison of HBL and MPB. In the same way from the S.D. point of view HBL has high risk in comparison of NABIL and MPB because it has higher S.D. in comparison of NABIL and MPB.

iii) Loans and Advances to Shareholders equity ratio

Shareholders equity consists of share capital, share premium, reserves and retained earnings. It is the investment loans & advances means mobilization of invested funds in profit earning sector. This ratio explains how well the investment made by the investors is generating assets to multiply its wealth. It also measures the success of converting liability into assets and measures size of the business.

Table no. 4.3

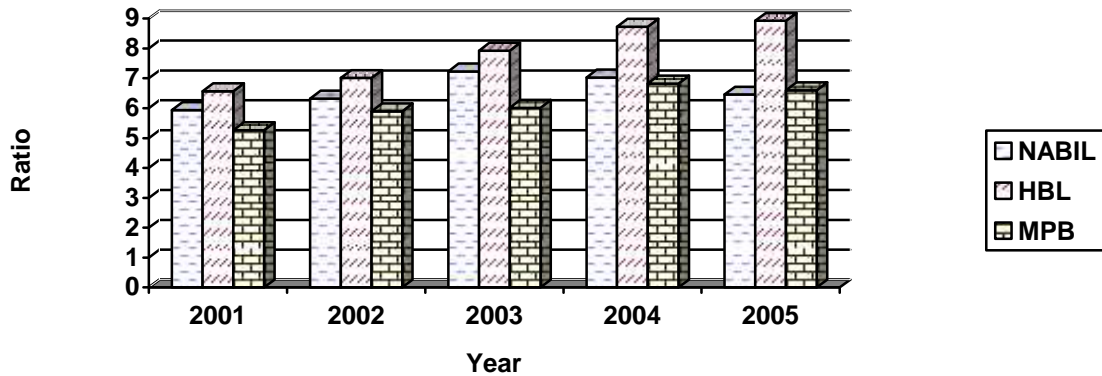
Loans and Advances to shareholders equity ratio

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		5.9348	6.3210	7.2345	7.0820	6.4553	6.6055	0.4850	7.34%
HBL		6.5722	7.0120	7.9218	8.7246	8.9244	7.8310	0.9227	11.78%
MPB		5.2618	5.8972	6.0123	6.8213	6.6015	4.7546	0.5616	11.60%

Source: Appendix-3 & 30

Figure: 4.3

Loans and Advances to Shareholders Equity Ratio



The table & figure no. 4.3 shows that the ratios in five years of NABIL are 5.9348, 6.3210, 7.2345, 7.0820 & 6.4553 respectively whereas the highest ratio of F/Y 2003 i.e. 7.2345 and the lowest ratio in F/Y 2001 i.e. 5.9348. Similarly the ratios of HBL are 6.5722, 7.0120, 7.9218, 8.7246 & 8.9244 respectively whereas the highest ratio in F/Y 2005 i.e. 8.9244 and the lowest ratio in F/Y 2001 i.e. 6.5722. Again the ratio of MPB are 5.2618, 5.8972, 6.123, 6.8213 & 6.6015 respectively whereas the highest ratio in F/Y 2004 i.e. 6.8213 and the lowest ratio in F/Y 2001 i.e. 5.2618. In the same way the S.D. of NABIL is 0.4850 and C.V. is 7.34%. Similarly the S.D. of HBL is 0.9227 and C.V. is 11.78% and the S.D. of MPB is 0.5616 and C.V. is 11.60%.

From the mean point of view, the mean ratio of HBL is more than the NABIL and MPB. It can be concluded that HBL has been successful in generating proportionately higher volume of loans and advances than NABIL and MPB. Similarly HBL has higher risk than NABIL and MPB. Because it has high S.D.

iv) Loans and advances to Total Assets Ratio

Loans & advances is the major part of total assets for the bank. This ratio indicates the volume of loans & advances out of the total assets. A high degree of

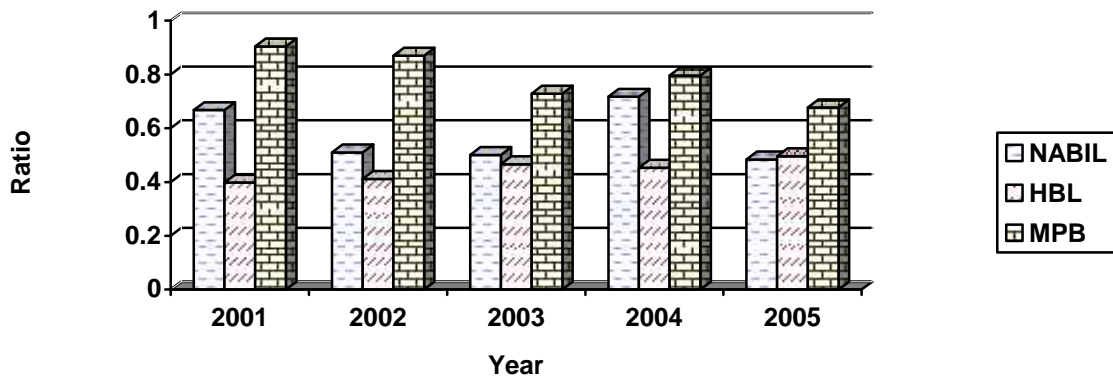
the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

Table no. 4.4
Loans and Advances to Total Assets Ratio

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		0.6674	0.5099	0.5010	0.7174	0.4837	0.5759	0.0967	26.79%
HBL		0.3979	0.4112	0.4665	0.4531	0.4959	0.4449	0.0361	8.10%
MPB		0.9639	0.8699	0.7282	0.7959	0.6776	0.8071	0.1016	12.59%

Source: Appendix-4 & 31

Figure: 4.4
Loans and Advances to Total Assets Ratio



The above table & figure shows that the ratio of loans & advances to total assets in five years for NABIL are 0.6674, 0.5099, 0.5010, 0.7174 & 0.4837 respectively. Similarly the ratios of HBL are 0.3979, 0.4112, 0.4665, 0.4531 & 0.4959. Again the ratios of MPB are 0.9639, 0.8699, 0.7282, 0.7959 & 0.6776 respectively whereas NABIL has highest ratio in F/Y 2004 i.e. 0.7174 & the lowest ratios in F/Y 2005 i.e. 0.4837. Similarly the highest ratio of HBL has in F/Y 2005 i.e. 0.4959 and lowest ratio in F/Y 2001 i.e. 0.3979. Again the highest ratio of MPB

has in F/Y 2001 i.e. 0.9039 and the lowest ratio in 0.6776. Similarly the S.D. deviation of NABIL, HBL, MPB are 0.0967, 0.0361 & 0.1016 respectively. Again the C.V. of NABIL, HBL and MPB are 16.79%, 8.10 and 12.59% respectively.

From the mean point of view it can be said that the mean ratio of MPB is higher than NABIL and HBL. It can be concluded that the higher mean ratio indicates the good lending performance. So MPB has good lending performance than NABIL and HBL. As well as MPB has high S.D. It indicates MPB has high risk than NABIL and HBL.

v) Loans and Advances to Current Assets Ratio

Loans & advances is the major component in total assets. Which indicates the ability of banks to analyze its deposit in the form of loans & 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 loss earnings. So commercial banks provide loan & advances in appropriate level to find out portion of current assets, Which is granted as loan & advances.

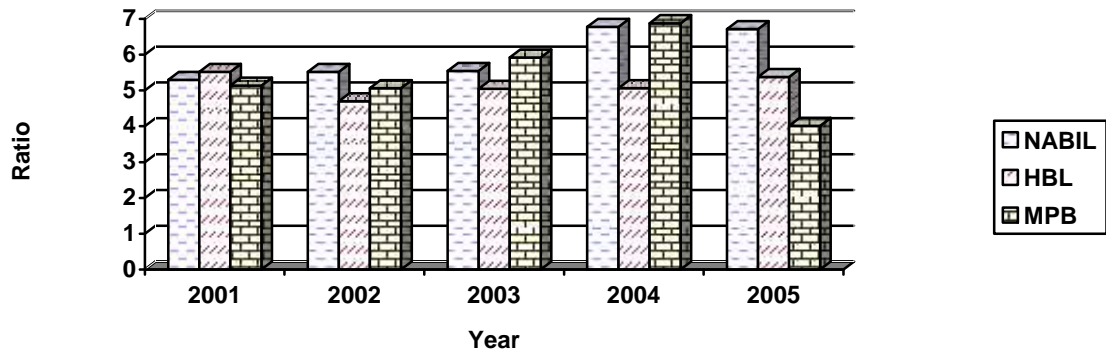
Table no. 4.5

Loans and Advances to Current Assets Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	5.2942	5.5173	5.5452	6.7733	6.7137	5.9687	0.6502	10.89%
HBL	5.5154	4.6971	5.0427	5.0597	5.3778	5.1385	0.2862	5.57%
MPB	5.1343	5.0654	5.9193	6.8759	4.0111	5.4012	0.9549	17.68%

Source: Appendix-5 & 32

Figure: 4.5
Loans and Advances to Current Assets Ratio



The table & figure no. 4.5 shows that the ratio of loans and advances to current assets in five years for NABIL are 5.2942, 5.5173, 5.5452, 6.7733 and 6.7137 respectively whereas the highest ratio in F/Y 2004 i.e.6.7733 and the lowest ratio in F/Y 2001 5.2942. Similarly the ratios of HBL are 5.5154, 4.6971, 5.0427, 5.0597 and 5.3778 respectively where as the highest ratio in F/Y 2001 i.e. 5.5154 and the lowest ratio in F/Y 2002 i.e. 4.6971 respectively. Again the ratios of MPB are 5.1343, 5.0654, 5.9193, 6.8759 and 4.0111 respectively where as the highest ratio in F/Y 2004 i.e. 6.8759 and the lowest ratio in F/Y 2005 i.e. 4.0111. In the same way the S.D. of NABIL, HBL and MPB are 0.6502, 0.2862 and 0.9549 respectively whereas C.V. are 10.89%, 5.57% and 17.68% respectively.

From the mean point of view, NABIL has the higher mean ratio in comparison of HBL and MPB. It indicates that NABIL has relatively better short term lending practices. Similarly the S.D. point of view MPB is more risky than NABIL and HBL.

vi) Non-performing loans to Total loan and Advances ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But all the concerned banks have not provided data an non-performing loan in Balance sheet and profit & loss %. To measure the

volume of non-performing loan to total loan and advances the main indicator of NABIL, HBL & MPB has been used. This ratio shows the percentage of non-recovery loans in total loans and advances.

Table no. 4.6

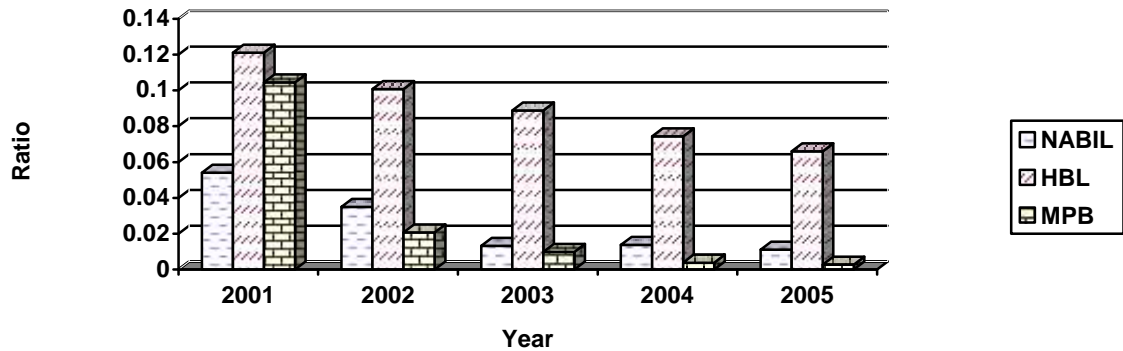
Non-performing Loans to Total Loan and Advances Ratio

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		0.054	0.035	0.0132	0.0138	0.0112	0.0254	0.0371	146.06%
HBL		0.1210	0.1008	0.0888	0.0744	0.0660	0.0902	0.0189	20.95%
MPB		0.1045	0.0208	0.0098	0.0039	0.0028	0.0284	0.0386	135.92%

Source: Appendix-6 & 33

Figure: 4.6

Non-performing Loans to Total Loan and Advances Ratio



The above table and figure shows that the ratio of non-performing loans to total loans and advances in five years for NABIL are 0.054, 0.035, 0.0132, 0.0138 & 0.0112 respectively whereas the highest ratio in F/Y 2001 i.e. 0.054 and the lowest ratio in F/Y 2005 i.e. 0.0112. Similarly the ratio of HBL are 0.1210, 0.1008, 0.0888, 0.0744 and 0.0660 respectively whereas the highest ratio in F/Y 2001 i.e. 0.1210 and the lowest ratio in F/Y 2005 i.e. 0.0660 respectively. And the ratio of MPB are 0.1045, 0.0208, 0.0098, 0.0039 & 0.0028 respectively whereas the highest ratio in F/Y 2001 i.e. 0.1045 and the lowest ratio in F/Y 2005 i.e. 0.0028. In the same way the S.D. of NABIL, HBL and MPB are 0.0371, 0.0189

and 0.0386 respectively. And C.V. are 146.06%, 20.95% and 135.92% respectively.

From the mean point of view it can be said that NABIL has low ratio in comparison of HBL and MPB. Banking sector is seriously affected by the non-performing loan. All three banks are not far from this above fact. If non-performing increases overall banking business will be affected. So provision amount will increase and profit will decrease so, we suggest all three banks to be very careful while granting loan and to do effective follow up for recovery to non-performing loan.

vii) 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 loans & 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 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 loan loss is called specific loan loss provision. The amount of loan loss provision in B/S refers to, general 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 decreases 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 loss & advances. High ratio indicates more risky assets in total volume of loans & advances.

Table no. 4.7

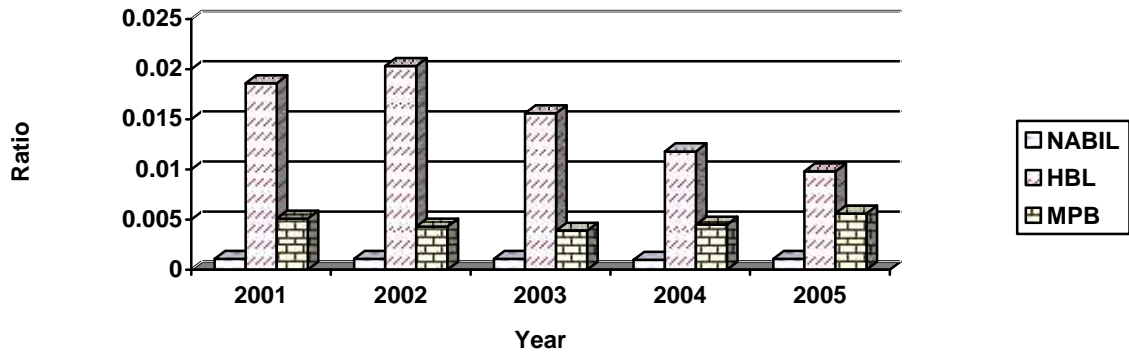
Loans Loss Provision to Total Loans & Advances Ratio

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		0.0011	0.0011	0.0011	0.0010	0.0011	0.0011	0.000	0.00%
HBL		0.0186	0.0203	0.0156	0.0118	0.0098	0.0152	0.0037	2.43%
MPB		0.0051	0.0043	0.0039	0.0045	0.0056	0.0047	0.006	127.7%

Source: Appendix-7 & 34

Figure: 4.7

Loans Loss Provision to Total Loans & Advances Ratio



The above table & figure shows that the ratio of loan loss provision to total loans & advances in five years for NABIL are 0.0011, 0.0011, 0.0011, 0.0010 & 0.0011 respectively whereas the ratio in F/Y 2001, 2002, 2003 & 2005 i.e. 0.0011 and the lowest ratio in F/Y 2004 i.e. 0.001. In the same way standard deviation is 0.00 and coefficient of variation is 0.00%. Similarly the ratio for HBL are 0.0186, 0.0203, 0.156, 0.0118 & 0.0098 respectively whereas the highest ratio in F/Y 2002 i.e. 0.0203 and the lowest ratio in F/Y 2005 i.e. 0.0098. In the same way the standard deviation is 0.0037 and coefficient of variation is 2.43%. And the ratio for MPB are 0.0051, 0.0043, 0.0039, 0.0045 and 0.0056 respectively whereas the highest ratio in F/Y 2005 i.e. 0.0056 and the lowest ratio in F/Y 2003 i.e. 0.0039. In the same way the standard deviation is 0.006 and the coefficient of variation is 127.7%.

From the mean point of view, it can be said that HBL has high loan loss provision in comparison of NABIL and MPB. And S.D. point of view MPB is more risky.

From the above calculation, it is concluded that the increase ratio indicates the increased volume of non-performing loans. The increasing loan loss ratio indicates the poor and ineffective credit policy.

4.2 Credit efficiency in NABIL Bank, Himalayan Bank and Machhapuchchhre Bank.

This ratio measures the efficiency of a commercial bank is in fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit maintaining the appropriate level of liquidity. It measures the efficiency of the bank to manage its assets in profitable way.

i) Total assets to Total Liabilities Ratio:

Bank create credit through loans and advances and multiply their assets much more times than their liabilities permits. This ratio measures the ability into assets. The higher ratio of total assets to total liabilities ratio is favourable as it increases overall capacity of the bank.

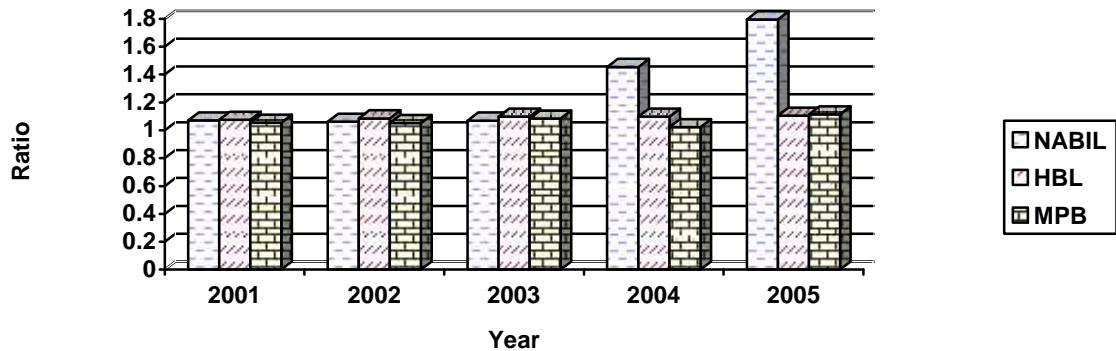
Table no. 4.8

Total Assets to Total Liabilities Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	1.0701	1.0614	1.0696	1.4544	1.7955	1.2902	0.2938	22.77%
HBL	1.0758	1.0855	1.0978	1.0976	1.1042	1.0922	0.0141	1.29%
MPB	1.0548	1.0513	1.0846	1.0226	1.1143	1.0655	0.0313	2.94%

Source: Appendix-8 & 35

Figure: 4.8
Total Assets to Total Liabilities Ratio



The table & figures no. 4.8 shows that the ratio of total assets to total liabilities in five years for NABIL are 1.0701, 1.0614, 1.0696, 1.4544 and 1.7955 respectively whereas the highest ratio in F/Y 2005 i.e. 1.7955 and the lowest ratio in F/Y 2002 i.e. 1.0614. In the same way mean, S.D., C.V are 1.2902, 0.2938 & 22.77% respectively. Similarly the ratio for HBL are 1.0758, 1.0855, 1.0978, 1.0976 and 1.1042 respectively whereas the highest ratio in F/Y 2005 i.e. 1.1042 and the lowest ratio in F/Y 2001 i.e. 1.0758. In the same way mean, S.D. and C.V are 1.0922, 0.0141 and 1.29% respectively. And the ratio for MPB are 1.0548, 1.0513, 1.0846, 1.0226 and 1.1143 respectively whereas the highest ratio in F/Y 2005 i.e. 1.1143 and the lowest ratio in F/Y 2004 i.e. 1.0226. In the same way mean, S.D., and C.V. are 1.0655, 0.0313 and 2.94% respectively.

From the mean point of view NABIL has higher ratio in comparison HBL and MPB. And from S.D. point of view again NABIL has high ratio. It shows NABIL has been able to utilize the fund more efficiently and effectively.

ii) Interest Expenses to Total Deposit Ratio:

This ratio measures the percentage of total interest expense paid against total deposit. A high ratio indicates higher interest expenses on total deposit, low ratio indicates lower interest expenses on total deposit commercial banks are dependent

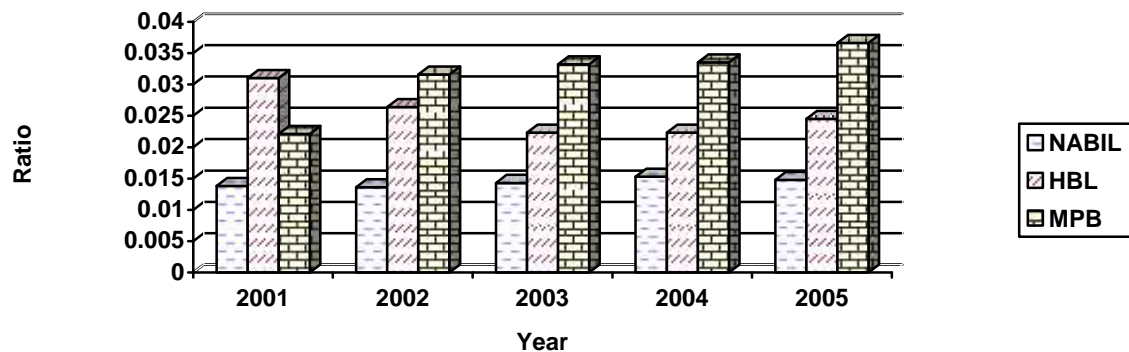
upon its ability to generate cheaper fund. The cheaper fund has moved the probability of generating loans and advances and vice-versa.

Table no. 4.9
Interest Expenses to Total Deposit Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	0.0138	0.0136	0.0143	0.0153	0.0148	0.0144	0.0006	4.17%
HBL	0.0310	0.0264	0.0223	0.0226	0.0245	0.0254	0.0032	12.59%
MPB	0.0221	0.0316	0.0332	0.0335	0.0366	0.0314	0.0049	15.61%

Source: Appendix-9 & 36

Figure: 4.9
Interest Expenses to Total Deposit Ratio



The above table & figure shows that the ratio of interest expenses to total deposit in five years for NABIL are 0.0138, 0.0136, 0.0143, 0.0153 & 0.0148 respectively whereas the highest ratio in F/Y 2004 i.e. 0.0153 and the lowest ratio in F/Y 2002 i.e. 0.0136. in the same way mean, Standard Deviation and Coefficient of Variation are 0.0144, 0.0006 and 4.17% respectively. Similarly the ratio for HBL are 0.0310, 0.0264, 0.0223, 0.0226 and 0.0245 respectively whereas the highest ratio in F/Y 2001 i.e. 0.0310 and the lowest ratio in F/Y 2003 i.e. 0.0223. In the same way mean, S.D. and C.V. are 0.0254, 0.0032 and 12.59% respectively. And the ratio for MPB are 0.0221, 0.0316, 0.0332, 0.335 and 0.0366 respectively

whereas the highest ratio in F/Y 2005 i.e. 0.0366 and the lowest ratio in F/Y 2001 i.e. 0.0221. And mean, S.D. & C.V. are 0.0314, 0.0049 and 15.61% respectively.

From the mean point of view, it can be said that NABIL has low interest expenses to total deposit ratio in comparison of HBL & MPB. Thus, we can say that NABIL is Successful to collect cheaper deposit.

iii) Interest Expenses to Total Expenses Ratio

This ratio measures interest expense paid in total expenses ratio. The high ratio indicates the low operational expenses and vice-versa.

Table no. 4.10

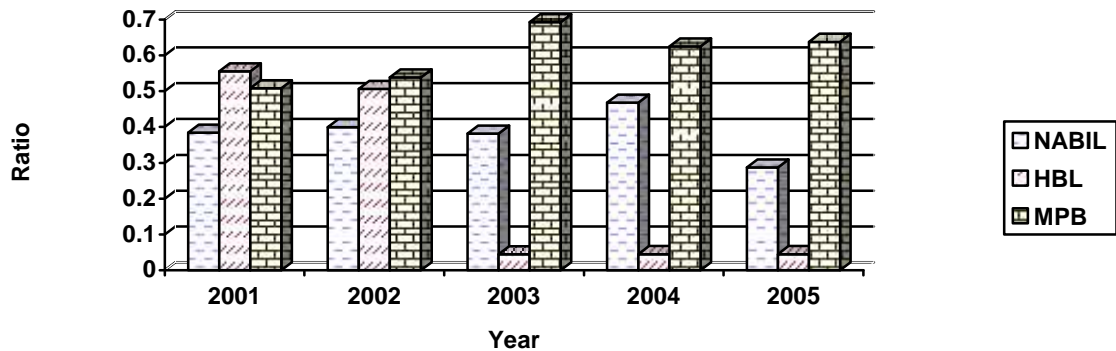
Interest Expenses to Total Expenses Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	0.3844	0.3993	0.3819	0.4679	0.2869	0.3841	0.0677	17.63%
HBL	0.5555	0.5064	0.0447	0.0454	0.0454	0.2395	0.2385	9.96%
MPB	0.5083	0.5382	0.6927	0.6245	0.6377	0.6003	0.0677	4.06%

Source: Appendix-10 & 37

Figure: 4.10

Interest Expenses to Total Expenses Ratio



The table & figure no 4.10 shows that the ratio of interest expenses to total expenses for NABIL are 0.3844, 0.3993, 0.3819, 0.4679 and 0.2869 respectively. Where as the highest ratio in F/Y 2004 i.e. 0.4679 and the lowest ratio in F/Y

2005 i.e. 0.2869. In the same way mean, S.D & C.V are 0.3841, 0.0677 and 17.63% respectively. Similarly the ratio for HBL are 0.555, 0.5064, 0.0447, 0.0454 & 0.454 respectively whereas the highest ratio in F/Y 2001 i.e. 0.5555 and the lowest ratio in F/Y 2003 i.e. 0.447. In the same way mean, S.D. and C.V are 0.2395, 0.2385 and 9.96% respectively. And the ratio for MPB are 0.5083, 0.5382, 0.6927, 0.6245 & 0.6377 respectively whereas the highest ratio in F/Y 2003, i.e. 0.6927 and the lowest ratio in F/Y 2001 i.e. 0.5083. In the same way mean, S.D. and C.V. are 0.6003, 0.0677 and 4.06% respectively.

From the mean point of view, it can be said that HBL has low interest expenses to total deposit ratio in comparison of NABIL and MPB. Thus, we can say that NBL is successful to collect cheaper deposit.

iv) Non-Interest Bearing Deposits to Total Deposit Ratios

This ratio measures the volume of non-interest bearing deposits to total deposits. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits are 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 favourable but the high ratio might create a problem as because current deposits might create a problem as because current deposit might have with draws in no time and prior information. But in practices, interest bearing deposits always plays a significant role in the mix of deposit liability.

Table no. 4.11

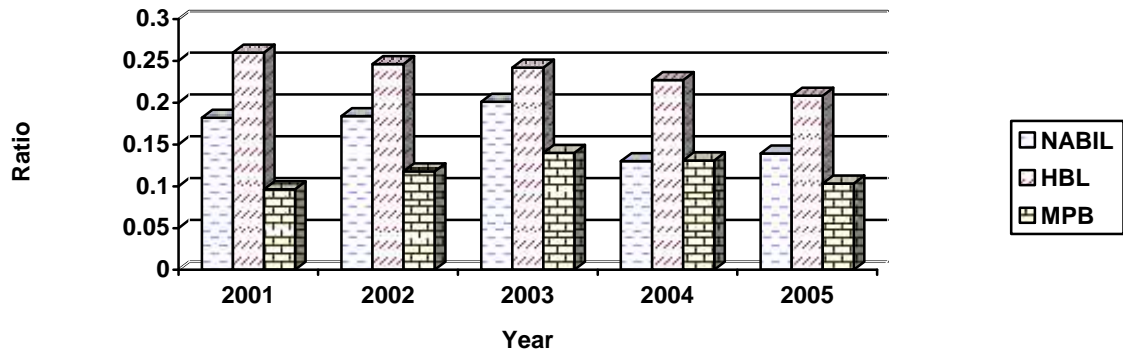
Non-Interest Bearing Deposits to Total Deposit Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	0.1819	0.1839	0.2011	0.1299	0.1390	0.1672	0.0276	16.19%
HBL	0.2596	0.2460	0.2418	0.2269	0.2082	0.2365	0.0009	0.00038%
MPB	0.0963	0.1176	0.1399	0.1309	0.1031	0.1176	0.0168	14.28%

Source: Appendix-11 & 38

Figure: 4.11

Non-Interest Bearing Deposits to Total Deposit Ratio



The above table & figure shows that the ratio of non-interest bearing deposits to total deposits in five years for NABIL are 0.1819, 0.1839, 0.2011, 0.1299 & 0.1390 respectively. Whereas the highest ratio in F/Y 2003 i.e. 0.2011 and the lowest ratio in F/Y 2004 i.e. 0.1299. And mean, S.D. & C.V are 0.1672, 0.0276 & 16.49% respectively. Similarly the ratios for HBL are 0.2596, 0.2460, 0.2418, 0.2269 & 0.2082 respectively. Whereas the highest ratio in F/Y 2001 i.e. 0.2596 and the lowest ratio in F/Y 2005 i.e. 0.2082. In the same way mean, S.D. & C.V. are 0.2365, 0.0 & 0.0% respectively. Again the ratios for MPB are 0.0963, 0.1176, 0.1399, 0.1309 & 0.1031. Whereas the highest ratio in F/Y 2003 i.e. 0.1399 and the lowest ratio in F/Y 2001 i.e. 0.0963. In the same way mean, S.D. & C.V are 0.1176, 0.0168 & 14.28% respectively.

From the mean point of view, it can be said that HBL has higher mean ratio in comparison of NABIL and MPB. The deposit mixture of HBL carries the lowest level of interest bearing deposits in its deposit mixture. This indicates that HBL is most successful in collecting cheapest fund. The major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises.

v) Interest Suspense to interest income from loans & Advances Ratio

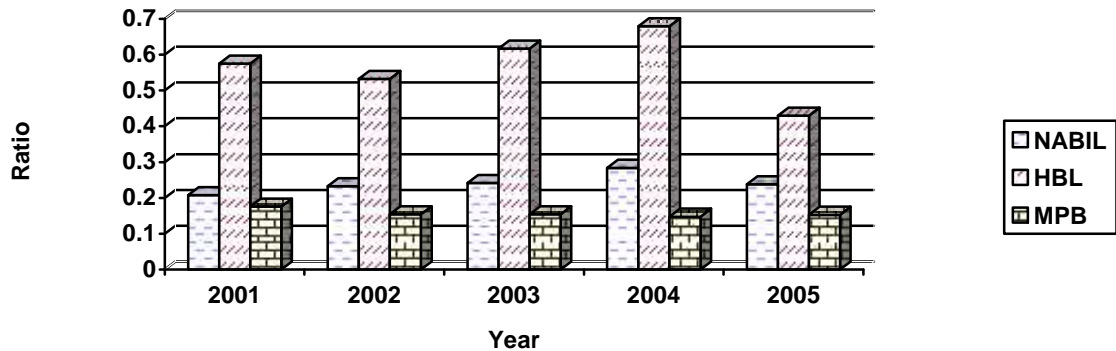
Interest suspense means the interest due but not collected NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the bank. Such interest is shown in liability side of balance sheet under the heading "other liability". This ratio, interest suspense to total interest income from loans & 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 loans & advances.

Table no. 4.12
Interest Suspense to Interest Income

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		0.2079	0.2328	0.2416	0.2841	0.2384	0.2410	0.0249	10.33%
HBL		0.5752	0.5318	0.6168	0.6795	0.4296	0.5666	0.0839	14.81%
MPB		0.1755	0.1543	0.1547	0.1478	0.1532	0.1571	0.0089	5.69%

Source: Appendix-12 & 39

Figure: 4.12
Interest Suspense to Interest Income



The above table & figure shows that the ratio of interest suspense to interest income from loans & advances in five years for NABIL are 0.2079, 0.2328, 0.2416, 0.2841 & 0.2384 respectively whereas the highest ratio in F/Y 2004 i.e. 0.2841 and the lowest ratio in F/Y 2001 i.e. 0.2079. In the same way mean, S.D. & C.V. are 0.2410, 0.0249 & 10.33% respectively. Similarly the ratio for HBL are 0.5752, 0.5318, 0.6168, 0.6795 & 0.4296 respectively whereas the highest ratio in F/Y 2004 i.e. 0.6795 and the lowest ratio in F/Y 2005 i.e. 0.4296. In the same way mean, S.D. & C.V. are 0.5666, 0.0839 & 14.81% respectively. Again the ratio for MPB are 0.1755, 0.1543, 0.1547, 0.1478 & 0.1532 whereas the highest ratio in F/Y 2001 i.e. 0.1755 and the lowest ratio in F/Y 2004 i.e. 0.1478. In the same way mean, S.D. & C.V. are 0.1571, 0.0089 & 5.69% respectively.

From the mean point of view, HBL has the highest mean ratio in comparison of NABIL and MPB. If there is increasing trend of this ratio, the volumes of non-performing loans will increase resulting in bad interest turnover.

4.3 Comparative Liquidity Position of NABIL Bank, Himalayan Bank and Machhapuchchhre Bank

Liquidity position measures the short-term solvency position of the organization. Basically, it measures the short-term liquidity or financial position

of a business enterprises. Liquidity represents the firm's ability to pay its current obligations within the short period of time. The ratios are important from the view point of creditors as well as the management.

i) Cash and Bank Balance to total Deposit Ratio

Deposit is one of the major liability of the commercial bank. Bank has to manage its liquidity to meet depositors demand. This ratio measures the availability of bank's highly liquid or immediate funds to meet its unanticipated calls on all types of deposits. 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 the depositors. So, sufficient appropriate cash reserve should be maintained properly.

Table no. 4.13

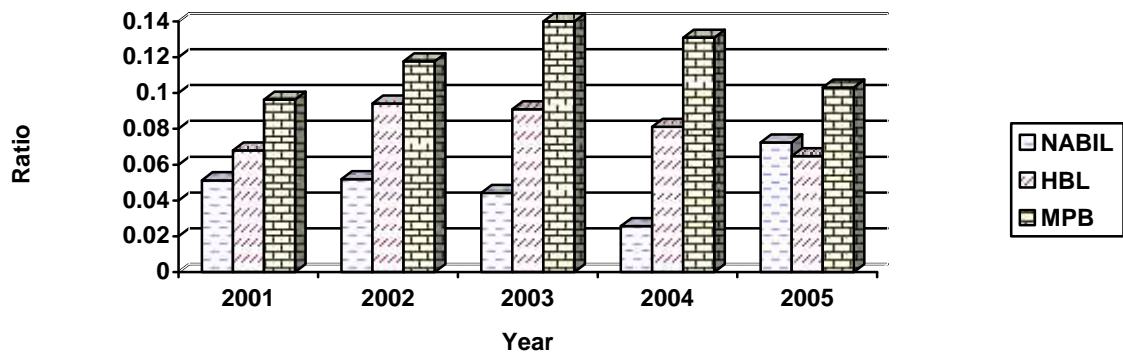
Cash and Bank Balance to Total deposit Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	0.0513	0.0519	0.0443	0.0258	0.0724	0.0491	0.0148	30.14%
HBL	0.0679	0.0942	0.0909	0.0812	0.0648	0.0798	0.0109	13.66%
MPB	0.0963	0.1179	0.1399	0.1309	0.1031	0.1176	0.0167	14.2%

Source: Appendix-13 & 40

Figure: 4.13

Cash and Bank Balance to Total deposit Ratio



The above table & figure shows that the ratio of cash and bank balance to total

deposit ratio in five years for NABIL are 0.0513, 0.0519, 0.0443, 0.0258 & 0.0724 respectively whereas the highest ratio in F/Y 2005 i.e. 0.0724 and the lowest ratio in F/Y 2004 i.e. 0.0258. In the same way mean, S.D. and C.V. are 0.0491, 0.0148 and 30.14% respectively. Similarly the ratios for HBL are 0.0679, 0.0942, 0.0909, 0.0812 & 0.0648 respectively. Whereas the highest ratio in F/Y 2002 i.e. 0.0942 and the lowest ratio in F/Y 2005 i.e. 0.0648. in the same way mean, S.D. and C.V. are 0.0798, 0.0109 and 13.66% respectively. Again the ratio for MPB are 0.0963, 0.1176, 0.1399, 0.1309 and 0.1031 respectively whereas the highest ratio in F/Y 2003 i.e. 0.1399 and the lowest ratio in F/Y 2001 i.e. 0.0963. In the same way mean, S.D. and C.V. are 0.1176, 0.0167 and 14.2% respectively.

From the mean point of view, it can be said that cash & bank balance to total deposit ratio of MPB is greater than NABIL and HBL. It indicates that HBL has relatively sound and better liquidity position in comparison of NABIL and HBL. In contrast, a high ratio of non-earning cash and bank balance may be unfit which indicates that bank's unavailability in invest its fund in income generation area. Thus MPB should invest in more productive sectors like short-term marketable securities, treasury bills etc.

ii) Current Ratio

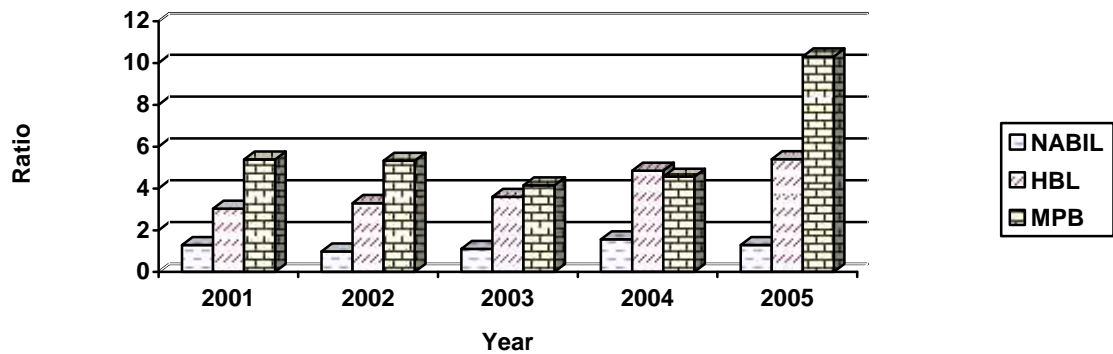
It is the ratio of total current assets to current liabilities. Current ratio measures the short-term obligation or measure of creditors versus current assets. It indicates each rupee of current assets available for each rupee of current assets available for each rupee of current liabilities. Although, there is no hard and fast rule as a conventionally rule a current assets twice the current liabilities is more consider satisfactory.

Table no. 4.14
Current Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	1.2915	0.9879	1.1108	1.5627	1.2957	1.2497	0.01949	15.59%
HBL	3.0281	3.2969	3.5965	4.8524	5.3953	4.0338	0.9241	22.91%
MPB	5.3778	5.3189	4.1396	4.5621	10.3059	5.9409	2.2317	37.57%

Source: Appendix-14 & 41

Figure: 4.14
Current Ratio



The above table & figure shows that the ratio of current assets in five years for NABIL are 1.2915, 0.9879, 1.1108, 1.5627 and 1.2957 respectively whereas the highest ratio in F/Y 2004 i.e. 1.5627 and the lowest ratio in F/Y 2002 i.e. 0.9879. in the same way mean, S.D. and C.V. are 1.2497, 0.1949 and 15.59% respectively. Similarly the ratio for HBL are 3.0281, 3.2969, 3.5965, 4.8524 & 5.3953 respectively whereas the highest ratio in F/Y 2005 i.e. 5.3953 and the lowest ratio in F/Y 2001 i.e. 3.0281. In the same way mean, S.D. and C.V. are 4.0338, 0.9241 and 22.91% respectively. Again the ratios for MPB are 5.3778, 5.3189, 4.1396, 4.5621 & 10.3059 respectively whereas the highest ratio in F/Y 2005 i.e. 10.3059 and the lowest ratio in F/Y 2003 i.e. 4.1396. In the same way mean, S.D. and C.V. are 5.9409, 2.2317, 37.57% respectively.

From the mean point of view, MPB has the highest mean ratio in comparison of NABIL and HBL. It indicates that MPB has sound ability to meet the payable in short term obligation.

4.4 Profitability Ratios of NABIL Bank, Himalayan Bank and Machhapuchchhre Bank.

Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. In the context of banks, no bank can survive without profit is one the major indicators or efficient operation of a bank. The banks acquire profit by providing different services to its, customers or by providing loan and 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.

i) Interest Income to Loans & Advances Ratio

Interest income from loans 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.

Table no. 4.15

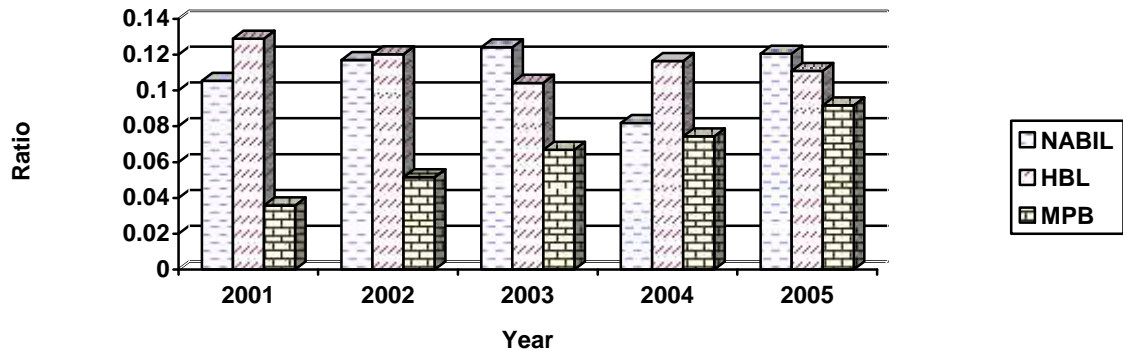
Interest Income to Loans & Advances Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	0.1053	0.1170	0.1241	0.0818	0.1205	0.1097	0.0002	0.18%
HBL	0.1288	0.1201	0.1042	0.1164	0.1109	0.1161	0.0077	6.63%
MPB	0.0358	0.0515	0.0669	0.0744	0.0917	0.0641	0.0193	30.11%

Source: Appendix-15 & 42

Figure: 4.15

Interest Income to Loans & Advances Ratio



The above table & figure shows that the ratio of interest income to loans & advances in five years for NABIL are 0.1053, 0.1170, 0.1241, 0.0818 & 0.1205 respectively whereas the highest ratio in F/Y 2003 i.e. 0.1241 and the lowest ratio in F/Y 2004 i.e. 0.0818. in the same way mean, S.D. and C.V. are 0.10974, 0.0002 and 0.18% respectively. Similarly the ratio for HBL are 0.1288, 0.1201, 0.1042, 0.1164 and 0.1109 respectively whereas the highest ratio in F/Y 2001 i.e. 0.1288 and the lowest ratio in F/Y 2003 i.e. 0.1042. In the same way mean, S.D. and C.V. are 0.1161, 0.0077 and 6.63% respectively. Again the ratio for MPB are 0.0358, 0.0515, 0.0669, 0.0744 and 0.0917 respectively whereas the highest ratio in F/Y 2005 i.e. 0.0917 and the lowest ratio in F/Y 2001 i.e. 0.0358. IN the same way mean, S.D. and C.V are 0.0641, 0.0193 and 30.11% respectively.

From the mean point of view HBL has higher mean ratio in comparison of NABIL and MPB. It indicates that HBL has good performance in interest income.

ii) Interest Income to Total Income Ratio

Income is one of the most important factors of each & 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 measure

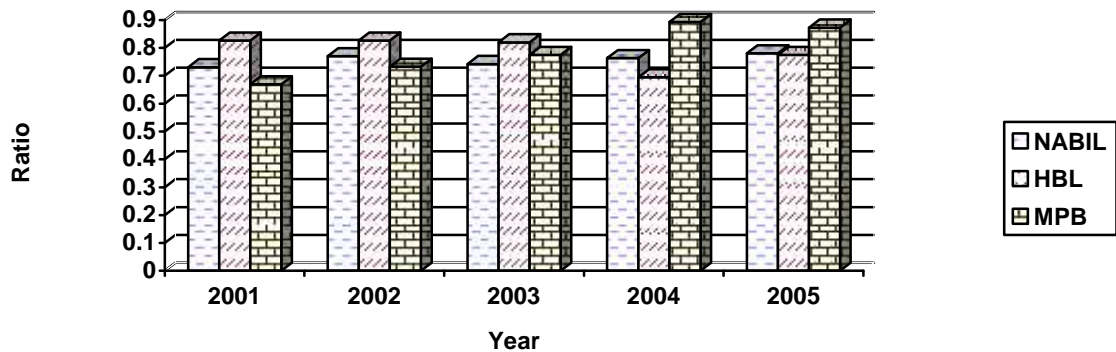
the bank's performance on other free based activities too. The high ratio indicates the high contribution made by lending and investment, whereas low ratio indicates low contribution made by lending & investment and high contribution by other free based activities in total income.

Table no. 4.16
Interest Income to Total Income Ratio

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		0.7306	0.7703	0.7420	0.7631	0.7799	0.7572	0.0179	2.36%
HBL		0.8267	0.8260	0.8199	0.6943	0.7742	0.7882	0.0508	6.44%
MPB		0.6698	0.7326	0.7750	0.8926	0.8726	0.7867	0.0866	11.01%

Source: Appendix-16 & 43

Figure: 4.16
Interest Income to Total Income Ratio



The above table & figure shows that the ratio of interest income to total income in five years NABIL are 0.7306, 0.7703, 0.7420, 0.7631 & 0.7799 respectively whereas the highest ratio in F/Y 2005 i.e. 0.7799 and the lowest ratio in F/Y 2001 i.e. 0.7306. In the same way mean, S.D. and C.V. are 0.7572, 0.0179 & 2.36%. Similarly the ratio for HBL are 0.8267, 0.8260, 0.8199, 0.6943 & 0.7742 respectively whereas the highest ratio in F/Y 2001 i.e. 8267 and the lowest ratio in

F/Y 2004 i.e. 0.6943. In the same way mean, S.D. and C.V. are 0.7882, 0.0508 & 6.44% respectively. Again the ratios for MPB are 0.6698, 0.7326, 0.7750, 0.8926 & 0.8726 respectively. Whereas the highest ratio in F/Y 2004 i.e. 0.8926 and the lowest ratio in F/Y 2001 i.e. 0.6608. In the same way mean, S.D. and C.V. are 0.7867, 0.0866 and 11.01% respectively.

From the mean point of view, it can be said that HBL has high interest income to total income ratio among three banks. It shows HBL is greater dependency on fund-based activities or the highest ratio indicates greater dependency on fund-based activities and the lowest ratio indicates low dependency on fund-based activity.

iii) Interest from Loans Advances, and overdraft to total Interest Income Ratio

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

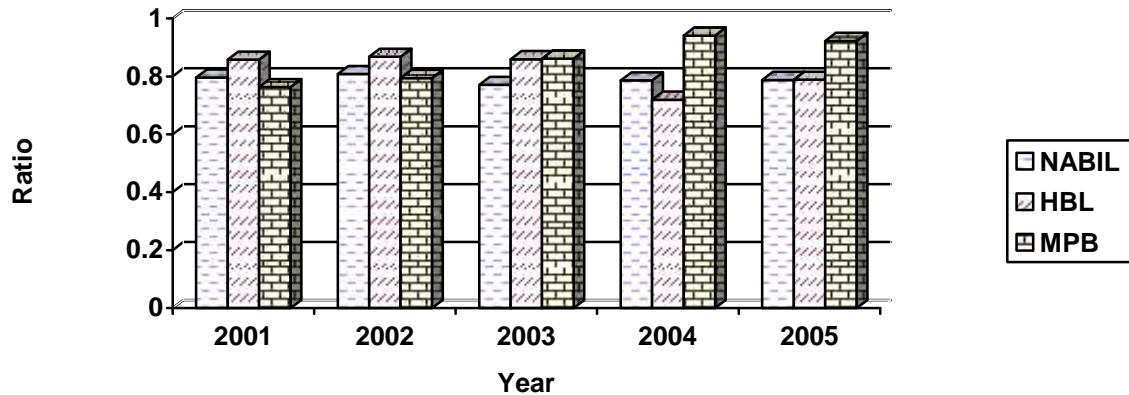
Table no. 4.17
Interest Income to Total Income Ratio

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		0.7959	0.8081	0.7707	0.7865	0.7880	0.7898	0.0118	1.49%
HBL		0.8579	0.8678	0.8598	0.7193	0.7884	0.8186	0.0573	6.99%
MPB		0.7632	0.7944	0.8619	0.9410	0.9225	0.8566	0.0694	8.10%

Source: Appendix-17 & 44

Figure: 4.17

Interest Income to Total Income Ratio



The above table & figure shows that the ratio of interest from loans & advances and overdraft to total interest income in five years for NABIL are 0.7959, 0.8081, 0.7707, 0.7865 & 0.7880 respectively whereas the highest ratio in F/Y 2002 i.e. 0.8081 and the lowest ratio in F/Y 2003 i.e. 0.7707. IN the same way mean, S.D. and C.V. are 0.7898, 0.0118 and 1.49% respectively. Similarly the ratio for HBL are 0.8579, 0.8678, 0.8598, 0.7193 and 0.7884 respectively whereas the highest ratio in F/Y 2002 i.e. 0.8678 and the lowest ratio in F/Y 2004 i.e. 0.7193. IN the same way mean, S.D. and C.V. are 0.8186, 0.0573 and 6.99% respectively. Again the ratios for MPB are 0.7632, 0.7944, 0.8619, 0.9410 and 0.9225 respectively whereas the highest ratio in F/Y 2004 i.e. 0.9410 and the lowest ratio is F/Y 2001 i.e. 0.7632. In the same way mean, S.D. and C.V are 0.8566, 0.0694 and 8.10% respectively.

From the mean point of view MPB has highest mean ratio among three banks. It shows that MPB is strong to mobilize its loans & advances and overdraft to earn interest.

iv) Return on Assets

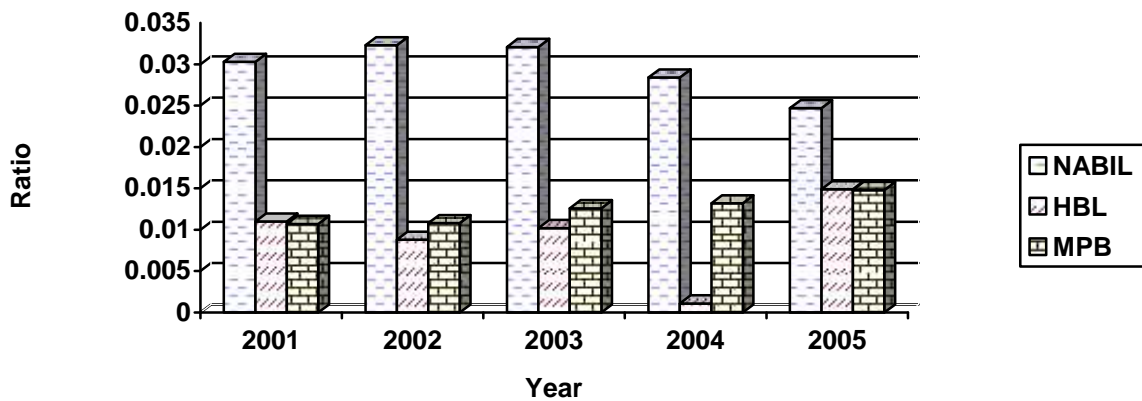
This ratio measures the return or profit generated out of total assets of the firm. Higher ratio indicates the efficiency of the bank in utilizing its resources and vice-versa.

Table no. 4.18
Return on Assets

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	0.0303	0.0323	0.0321	0.0284	0.0247	0.0296	0.0028	9.46%
HBL	0.0110	0.0088	0.0102	0.0011	0.0149	0.0092	0.0047	51.09%
MPB	0.0107	0.0108	0.0126	0.0132	0.0148	0.0124	0.0016	12.90%

Source: Appendix-18 & 45

Figure: 4.18
Return on Assets



The above table & figure shows that the ratios of return on assets in five years for NABIL are 0.0303, 0.0323, 0.0321, 0.0284 & 0.0247 respectively. Whereas the highest ratio in F/Y 2002 i.e. 0.0323 and the lowest ratio in F/Y 2005 i.e. 0.0247. In the same way mean, S.D. and C.V. are 0.0296, 0.0028 and 9.46% respectively. Similarly the ratio for HBL are 0.0110, 0.0088, 0.0102, 0.0011 & 0.0149 respectively, whereas the highest ratio in F/Y 2005 i.e. 0.0149 and the lowest ratio in F/Y 2004 i.e. 0.0011. In the same way mean, S.D. and C.V. are 0.0092, 0.0047 & 51.09% respectively. Again the ratio for MPB are 0.0107, 0.0108, 0.0126,

0.0132 & 0.0148 respectively whereas the highest ratio in F/Y 2005 i.e. 0.0148 and the lowest ratio in F/Y 2001 i.e. 0.0107. In the same way mean, S.D. and C.V. are 0.0124, 0.0016 and 12.90% respectively.

From the mean point of view NABIL has highest mean ratio in comparison of HBL and MPB. It shows that NABIL is utilizing its resources more than HBL and MPB.

v) Return on Shareholder equity:

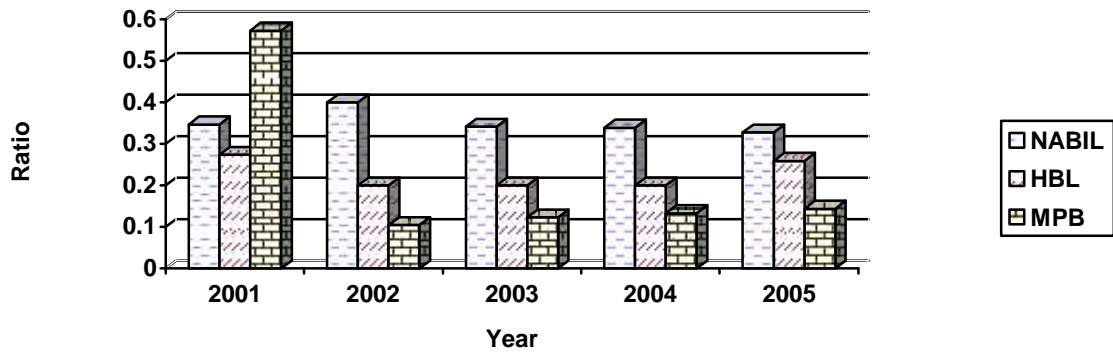
This ratio explains the investment made by the investors is generating assets to multiplying its wealth. The higher ratio indicates good utilization of resources and vice-versa.

Table no. 4.19
Return on Shareholders Equity

Bank	F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL		0.3469	0.4004	0.3412	0.3391	0.3279	0.3511	0.0249	7.09%
HBL		0.2739	0.1995	0.2002	0.1999	0.2590	0.2265	0.0332	14.64%
MPB		0.5736	0.1043	0.1231	0.1331	0.1439	0.2156	0.1795	83.26%

Source: Appendix-19 & 46

Figure: 4.19
Return on Shareholders Equity



The table & figure no 4.19 shows that the ratio of return on shareholders equity in five years for NABIL are 0.3469, 0.4004, 0.3412, 0.3391 & 0.3279 respectively whereas the highest ratio in F/Y 2002 i.e. 0.4004 and the lowest ratio in F/Y 2005 i.e. 0.3279. In the some way mean, S.D. and C.V are 0.3511, 0.0249 & 7.09% respectively. Similarly the ratios for HBL are 0.2739, 0.1995, 0.2002, 0.1999 & 0.2590 respectively whereas the highest ratio in F/Y 2001 0.2739 and the lowest ratio in F/Y 2002 i.e. 0.1995. In the same way mean, S.D. and C.V. are 0.2265, 0.0332 and 14.64% respectively. Again the ratios for MPB are 0.5736, 0.1043, 0.1231, 0.1331 & 0.1439 whereas the highest ratio in F/Y 2001 i.e. 0.5736 and the lowest ratio in F/Y 2002 i.e. 0.1043. In the same way mean, S.D. and C.V. are 0.2156, 0.1795 and 83.26% respectively.

From the mean point of NABIL has highest mean ratio in comparison of HBL and MPB. It shows NABIL is good to utilize its resource in comparison of HBL and MPB.

vi) Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio the gap between interest rates offered and interest rate changed, 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 no. 4.20

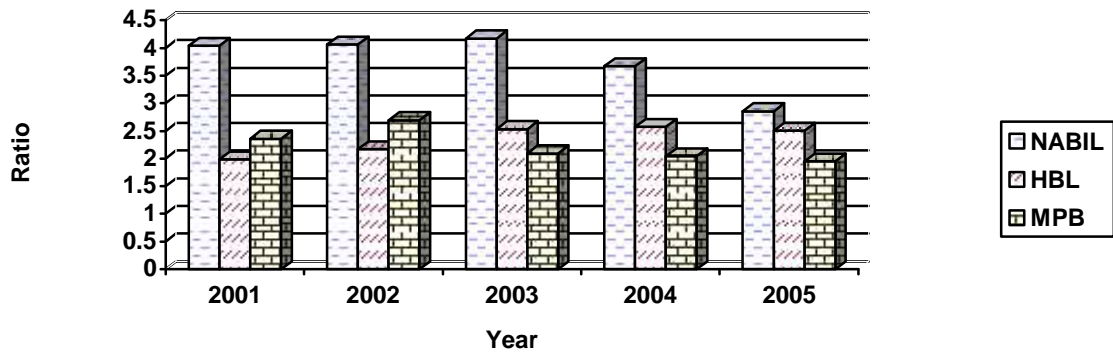
Interest Income to Interest Expenses Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	4.0416	4.0629	4.1719	3.6678	2.8571	3.7603	0.4826	12.83%
HBL	1.9874	2.1678	2.5347	2.5740	2.5067	2.3541	0.2339	9.94%
MPB	2.3592	2.6972	2.0947	2.0421	1.9516	2.2290	0.3768	16.90%

Source: Appendix-20 & 47

Figure: 4.20

Interest Income to Interest Expenses Ratio



The above table & figure shows that the ratio of interest income to interest expenses in five years for NABIL are 4.0416, 4.0629, 4.1719, 3.6678 & 2.8571 respectively whereas the highest ratio in F/Y 2003 i.e. 4.1719 and the lowest ratio in F/Y 2005 i.e. 2.8571. In the same way mean, S.D. and C.V. are 3.7603, 0.4826 & 12.83% respectively. Similarly the ratios for HBL are 1.9874, 2.1678, 2.5347, 2.5740 & 2.5067 respectively whereas the highest ratio in F/Y 2004 i.e. 2.5740 and the lowest ratio in F/Y 2001 i.e. 1.9874. In the same way mean, S.D. and C.V. are 2.3541, 0.2339 and 9.94% respectively. Again the ratio for MPB are 2.3592, 2.6972, 2.0947, 2.0421 & 1.9516 respectively whereas the highest ratio in F/Y 2002 i.e. 2.6972 and the lowest ratio in F/Y 2005 i.e. 1.9516. In the same way mean, S.D. and C.V. are 2.2290, 0.3768 and 16.90% respectively.

From the mean point of NABIL has high mean ratio in comparison of HBL and MPB. NABIL has high degree of gap between interest offered and interest charged. This shows that NABIL has charged high interest to borrowers and offering low interest rate to depositors.

vii) Total Income to Total Expenses Ratio:

Total income to total expenses ratio measures the productivity of expenses to generate income. The amount of income that a unit of expenses is greater measured by the ratio of total income to total expenses.

Table no. 4.21

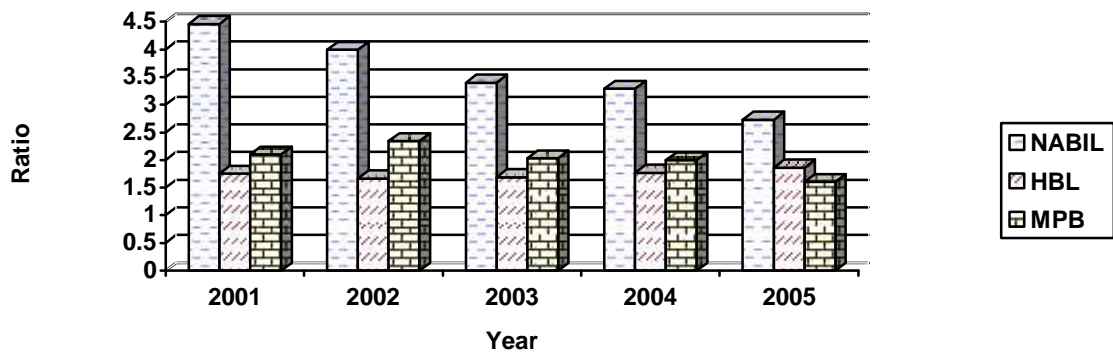
Total Income to Total Expenses Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean	S.D.	C.V.
NABIL	4.4596	3.9917	3.3975	3.2908	2.7306	3.5740	0.5969	16.70%
HBL	1.7545	1.6665	1.6923	1.7728	1.8625	1.7497	0.0684	3.91%
MPB	2.1002	2.3448	2.0286	1.9988	1.6054	2.0156	0.2385	11.83%

Source: Appendix-21 & 48

Figure: 4.21

Total Income to Total Expenses Ratio



The above table & figure shows that the ratio of total income to total expenses in five years for NABIL are 4.4596, 3.9917, 3.3975, 3.2908 & 2.7306 respectively. Whereas the highest ratio in F/Y 2001 i.e. 4.4596 and the lowest ratio in F/Y 2005 i.e. 2.7306. In the same way mean, S.D. and C.V. are 3.5740, 0.5969 & 16.7% respectively. Similarly the ratios for HBL are 1.7545, 1.6665, 1.6923, 1.7728 & 1.8625 respectively. Whereas the highest ratio in F/Y 2005 i.e. 1.8625 and the lowest ratio in F/Y 2002 i.e. 1.6665. In the same way mean, S.D. and C.V. are 1.7497, 0.0684 & 3.91% respectively. Again the ratios for MPB are 2.1002,

2.3448, 2.0286, 1.9988 & 1.6054 respectively. Whereas the highest ratio in F/Y 2002 i.e. 2.3448 and the lowest ratio in F/Y 2005 i.e. 1.6054. IN the same way mean, S.D. and C.V. are 2.0156, 0.2385 and 11.83% respectively.

From the mean point of view NABIL has high mean ratio in comparison of HBL and MPB. It indicates NABIL has high productivity.

4.5 Other Ratio

Under this ratio following ratios are calculated.

i) Earning Per Share (EPS)

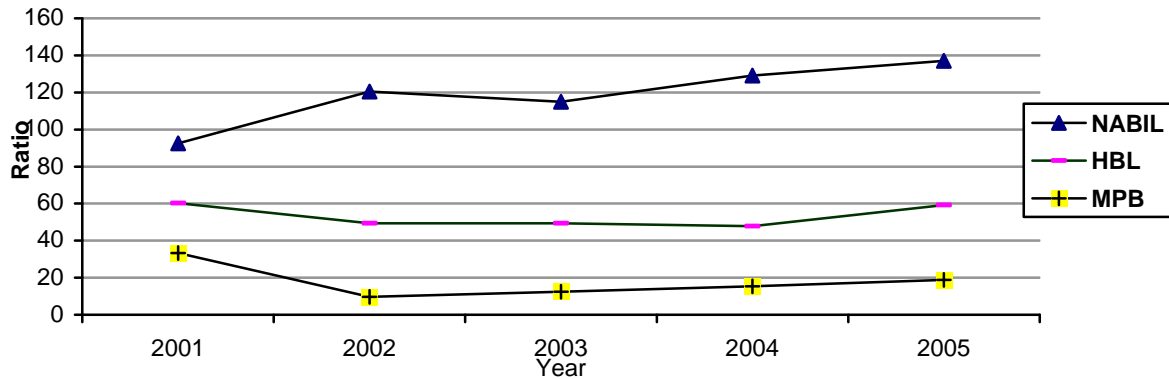
Earning per share is the actual earning available to the shareholders.

Table no. 4.22
Earning Per Share

Bank \ F.Y	2001	2002	2003	2004	2005	Mean
NABIL	92.5447	120.4390	114.8821	129.1179	136.9837	118.7935
HBL	60.2615	49.4476	49.4496	47.8696	59.2565	53.2570
MPB	33.3529	9.6176	12.40	15.4309	18.7399	17.9083

Source: Appendix-22

Figure: 4.22
Ratio of Earning Per Share



The above table & figure shows that the ratios of earning per share in five years for NABIL are 92.5447, 120.4390, 114.8821, 129.1179 and 136.9837 whereas the highest ratio in F/Y 2005 i.e. 136.9837 and the lowest ratio in F/Y 2001 i.e. 92.5447. Similarly the ratio for HBL are 60.2615, 49.4476, 49.4496, 47.8696 & 59.2565 respectively whereas the highest ratio in F/Y 2001 i.e. 60.2615 and the lowest ratio in F/Y 2004 i.e. 47.8696. Again the ratio for MPB are 33.3529, 9.6176, 12.40, 15.4309 & 18.7399 respectively whereas the highest ratio in F/Y 2001 i.e. 33.3529 and the lowest ratio in F/Y 2002 i.e. 9.6176.

From the mean point of view NABIL has highest mean ratio among three banks. It indicates that shareholders of NABIL are well satisfied and happy with management as to have good results every year providing them the dividend more than they aspect.

ii) Price Earning Ratio (P/E Ratio)

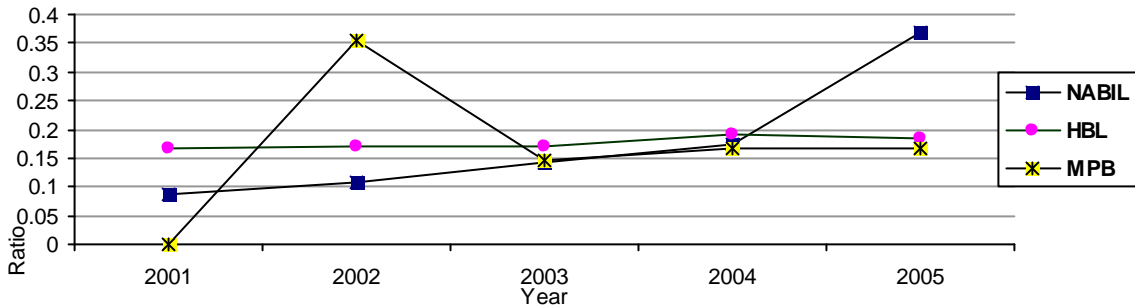
Price earning ratio highlights the earning power per share.

Table no. 4.23
Price Earning Ratio

Bank \ F.Y	2001	2002	2003	2004	2005	Mean
NABIL	0.0874	0.1080	0.1427	0.1734	0.3684	0.1760
HBL	0.1659	0.1691	0.1712	0.1920	0.1857	0.1768
MPB	-	0.3555	0.1472	0.1659	0.1708	0.1679

Source: Appendix-23

Figure: 4.23
Ratio of Price Earning Ratio



The above table & figure shows that the ratio of price earning. It indicates the times earning per share are covered by its market price HBL has highest P/E ratio i.e. 0.1768. It is in increasing trend from 2001 to 2004 but F/Y 2005 it is in decreasing trend. Whereas the P/E ratio of NABIL is in increasing trend. And the P/E ratio of MPB is in fluctuating trend.

iii) Book Value per Share

The book value per share indicates the worthiness of the share as per the record of the firm. The book value is the actual outcome for the shares invested by the common stock holders. This is the overall retention of the shares which includes the capitalization of the shares of stockholders.

Table No. 4.24
Book Value Per Share

(In Rs.)

Year	NABIL	HBL	MPB
2001	267	220.02	58.40
2002	301	247.81	92.20
2003	337	246.93	100.77
2004	381	239.59	115.95
2005	418	228.72	130.22
Mean	340.8	236.62	99.51

The above calculation shows that the book value per share of NABIL and MPB are increasing trend. Whereas the book value per share of HBL is in increasing trend 2001 to 2003 but it is going decreasing trend from 2004.

From the mean point of view NABIL has highest mean ratio among three banks.

4.6 Correlation of Coefficient between loans & Advances and Net Profit

Effective loans directly affect net profit volume of the organization. It is regarded as the most important profit indicator. It helps to increase the net profit volume of the company whereas weak level of loan is the signal of lower level of the profit. This, it is logical to review the relation of loans & advances and net profit.

For the research purpose, loans & advances and net profit during study period (5 years) are averaged to get profit and loan variable. After getting profit and loan variable, then data are analyzed using Karl Person's correlation coefficient. The following table presents the correlation coefficient of the profit and loans & advances during study period.

Table No. 4.25

Correlation between Net Profit and Loans & Advances of NABIL

(In Rs. Million)

Item \ F.Y	2001	2002	2003	2004	2005
Net Profit	455	593	565	635	674
Loans & Advances	9557	9389	10092	16020	13181
Correlation Coefficient 'r'	-	-	-	-	0.6647
Coefficient of Determination 'r' ²	-	-	-	-	0.4418

Source: Appendix – 25

In table 4.25 present the correlation coefficient between loans & advances and net profit during study period of NABIL Bank. The calculated Karl Pearson's correlation coefficient is found 0.6647, which shows moderate level relationship.

In indicates that loans & advances and net profit are found positively related with each other. That means, increasing loans & advances help to increase the net profit. Similarly, coefficient of determination is found 0.4418. Which indicates that 44.18% of total change in profit has been determined by loans & advances. Effective loans management directly affects the net profit of the NABIL Bank and help to increase and stable the net profit of the Bank. No exception is found in case of NABIL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table No. 4.26
Correlation between Net Profit and Loans & Advances of HBL

(In Ra. Million)

F.Y	2001	2002	2003	2004	2005
Item					
Net Profit	235	212	263	308	457
Loans & Advances	8918	10002	11952	12424	14641
Correlation Coefficient 'r'	-	-	-	-	0.9067
Coefficient of Determination 'r' ²	-	-	-	-	0.8221

Source: Appendix – 26

The table 4.26 shows the correlation coefficient between net profit and loans & advances during study period of HBL bank. The calculated Karl Person's correlation coefficient is found 0.9067, which shows high degree of correlation.

It indicates that loans & advances and net profit are found positively high degree related with each other. That means, increasing loan helps to increase the net profit. Similarly, coefficient of determination is found 0.8221, which indicates that 82.21% of total change in profit has been determined by loans. Effective

loans management directly affects the net profit and help to increase and stable the net profit of the HBL. No exception is found in case of HBL. Thus, it is logical to review the impact of various component of working in net profit of the HBL.

Table No. 4.27
Correlation between Net Profit and Loans & Advances of MPB

(In Rs. Million)

F.Y	2001	2002	2003	2004	2005
Item					
Net Profit	45	52	68	85	134
Loans & Advances	5812	5409	4636	5130	6147
Correlation Coefficient 'r'					0.0413
Coefficient of Determination 'r' ²					0.0017

Source: Appendix – 27

The table 4.27 presents the correlation coefficient between loans & advances and net profit during study period of MPB. The calculated Karl Pearson's correlation coefficient is found 0.0413, which shows positive but low degree of correlation.

If indicates that loans & advances and net profit is found positively but low degree related with each other. That means, increasing loan helps to increase the net profit. Similarly coefficient of determination is found 0.0017, which indicated that 0.17% of total change in net profit has been determined by loans & advances. Effective loans management directly affects the net profit and help to increase and stable the net profit of MPB. No exception is found in case of MPB. Thus, it is logical to review the impact of various components of working on net profit.

4.7 Major Findings of the Study

The present section deals about some meaningful results on credit management in selected commercial banks resulted from analysis of data. Present study is found successful in findings of result consistent to theoretical assumption.

Primary objectives of the study were designed to assess the financial conditions of the selected banks in terms of their creditability. It is designed to find out the creditability positions of the bank for this research purposes. Both secondary as well as primary sources of information are used to meet the stated objectives of the study. Details of the finding are presented as below:

1. The credit practices of MPB interms of loans and advances to deposit ratio was found the relatively high mean score in comparison of NABIL and HBL. It indicates that MPB has been strong to mobilize its total deposit as loan and advances.
2. The ratio of loan & advances and investment to total deposit was found greater in NABIL bank as compared to HBL and MPB. It indicates that NABIL has been able to mobilize the deposit efficiently whereas it has the best performance in mobilizing the collected funds in generating income.
3. The result of loans and advances to shareholder's equity in HBL is found greater in comparison of NABIL and MPB. It shows that HBL has taken successful in generating proportionately higher volume of loans and advances.
4. The ratio of loans and advances to total assets is found greater in MPB in comparison of NABIL and HBL. It indicates that MPB has good lending performance.
5. Efficiency in terms of loans and advances to current asset ratio is found higher in NABIL in comparison of HBL and MPB. It indicates that short-term lending practices of NABIL ban is found relatively good position.
6. Lending policy of NABIL bank with regard to non-performing loans to total loans & advances is found relatively better in comparison to HBL and MPB because the mean score is found relatively the lowest. The result indicates that

if non-performing loan increases, the overall banking business will be affected.

7. Lending policy of NABIL bank informs of loan loss provision to total loans & advances are found relatively low. The result indicates that the low degree of the ratio shows the strong and effective credit policy and healthy performance of the economy.
8. Efficiency of NABIL bank in terms of total assets to total liability is found relatively better in comparison of HBL and MPB. Because the mean score of the result is found relatively high. It indicates that NABIL is able to utilize its fund most successfully than an other two banks.
9. Efficiency of NABIL Bank with regard to interest expenses to total deposit is found relatively better in comparison of NBL and MPB. Because the mean ratio of the result is found relatively low. It shows that NABIL is able to collect cheaper deposits to pay the low interest rate.
10. The mean ratio of interest expenses to total expenses ratio in NABIL, HBL and MPB are found 0.3841, 0.2395 and 0.6003 respectively which indicates that HBL has lower ratio in comparison of NABIL and MPB. It indicates that operational expenses of HBL are found relatively high.
11. The ratio of non-interest bearing deposits to total deposits is found higher in HBL in comparison of NABIL and MPB. It shows that HBL is able to collect cheapest deposit.
12. The ratio of interest suspense to interest income from loans and advances is found lower in MPB in comparison of NABI and HBL. It indicates that low degree of the ratio shows high interest turnover and also helps to analyze the capacity of the bank in collecting the repayment of loans & advances.
13. The efficiency of MPB in terms of cash and bank balance to total deposit ratio is found relatively higher, which indicates that MPB invest in productive. Sector in comparison of NABIL and HBL like treasury bill and marketable security.

14. The liquidity position in terms of current assets and current liabilities is found relatively better in MPB in comparison of NABIL and HBL. It means that MPB has relatively better positive position to meet the short-term obligation.
15. HBL has high interest income from loans & advances in comparison to NABIL and MPB. It indicates that HBL has the best performance to generate interest from loans & advances.
16. The ratio of interest income to total income in HBL is found higher in comparison of NABIL and MPB. It indicates that the high ratio of HBL shows its high dependency on fund-based activities.
17. The ratio of interest form loans and advances & overdraft to total interest income is found higher in MPB in comparison of NABIL and HBL. It indicates that MPB is strong to mobilize the loans and advances & overdraft to earn interest.
18. The ratio of return on assets is found relatively higher in NABIL in comparison of HBL and MPB. It shows NABIL is better utilizing its resources in productive sector in comparison of HBL and MPB.
19. The ratio of return on shareholder's equity is found relatively higher in NABIL in comparison of HBL and MPB. It shown NABIL is able to utilize its resource in better way.
20. The ratio of interest income to interest expenses is found higher in NABIL. It shows NABIL is able to earn more interest to interest expenses, in comparison of HBL and MPB.
21. The ratio of total income to total expenses is found higher in NABIL in comparison of HBL and MPB. It shows that NABIL is earning better income.
22. The earning per share of NABIL is very high and its ratio in average during the analysis period stand at 136.98, and another two banks are from 18 to 60 during the analysis period.
23. The price earning ratio is relatively higher in HBL in comparison of NABIL and MPB.

24. The book value per share of NABIL is higher level in comparison of HBL and MPB. The average book value per share of NABIL is Rs. 340.8.
25. The correlation coefficient between loans & advances and net profit of NABIL bank limited is found 0.6647. It indicates that the relationship between loans and advances and net profit related with each other at moderate level. Similarly, the correlation of Himalayan Bank Limited is found 0.9067. It indicates that the relationship between loans & advances and net profit related with each other at high level. Again the correlation of Machhapuchchhre Bank Limited is found 0.0413. It indicates that the relationship between loans & advances and net profit related with each other at low level. In the same way, coefficient of determination of NABIL bank indicates that 44.18% of total change in net profit has been explained by total loans & advances. Similarly coefficient of determination of Himalayan Bank Limited indicates that 82.22% of total change in net profit has been explained by total loans & advances. Again coefficient of determination of Machhapuchchhre Bank Limited indicates that 0.17% of total change in net profit has been explained by total loans & advances.

Chapter Five

Summary, Conclusion and Recommendation

Present study seems very successful to meet the stated objective designed for study. The present study has been designed to overcome the issues relating to credit management in commercial banks. It is aimed to find out credit management in NABIL Bank, Himalayan Bank and Machhapuchchhre Bank. This chapter presents summary, conclusion, problems and discrepancies shorted out during the study period and recommendation derived from the analysis and findings of the study.

5.1 Summary

Present study is designed very successful to meet the stated objectives designed for the study. The researcher highlights or introduces the meaning and importance of research paper and meets the objectives followed by various sequential steps.

First chapter of the study deals about basic assumption of the study. Basically it high lights the concept and introduction of the study. It also presents research issues, research problems, basic objectives, importance of the study, rationality of the study, limitation of the study, process of the study. Lastly it discuss about the organizational structure of the study.

Second chapter helps the researcher to provide knowledge about the development and progress made by the earlier researcher on the concerned field. More over it summarizes the finding of the previous findings of the study to provide knowledge about the background of the work done by them.

Third chapter of the study discusses about various research methodologies use for the study. Basically, research methodology, research design, source of data, population and sample of data, data collection procedure, data collection techniques, data collection methods, tools and techniques employed etc.

Fourth chapter of the study deals about data presentation and analysis. It first presents the generated data in tabular form and analyzed is systematically as per the objectives mentioned above.

➤ **These ratio are calculated under credit practices:**

The mean ratio of loans & advances to total deposit are found 0.6654, 0.5108 and 0.8238 in NABIL, HBL and MPB respectively. The mean ratio of loans & advances and investment to total deposit are found 4.2642, 3.8812 & 4.2564 in NABIL, HBL and MPB respectively. Similarly the mean ratio of loans & advances to shareholders equity are found 6.6055, 7.8310 & 4.7546 in NABIL, HBL and MPB respectively. The mean ratio of loans & advances to total asset are found 0.5759, 0.4449 & 0.8071 in NABIL, HBL & MPB respectively. Again the mean ratio of loans & advances to current assets are found 5.9687, 5.1385 and 5.4012 in NABIL, HBL and MPB respectively. The mean ratio of nonperforming loans to total loans and advances are 0.0254, 0.0902 & 0.0284 in NABIL, HBL and MPB respectively. Lastly the mean ratio of loan loss provision to total loans and advances are found 0.0011, 0.0152 and 0.0047 in NABIL, HBL and MPB respectively.

➤ **These ratio are calculated under credit efficiency:**

The mean ratios of total assets to total liabilities are found 1.2902, 1.0922 and 1.0655 in NABIL, HBL and MPB respectively. The mean ratio of interest expenses to total deposit are found 0.0144, 0.0254 and 0.0314 in NABIL, HBL and MPB respectively. The mean ratio of interest expenses to total expenses are found 0.3841, 0.2395 and 0.6003 in NABIL, HBL and MPB respectively.

The mean ratio of non interest bearing deposits to total deposit are found 0.1672, 0.2365 & 0.1176 respectively in NABIL, HBL & MPB. The mean ratio of interest suspense to interest income from loans & advances are found 0.2410, 0.5666 & 0.1571 in NABIL, HBL and MPB respectively.

➤ **These ratio are calculated under liquidity position:**

The mean ratio of cash and bank balance to total deposit are found 0.0491, 0.0798 & 0.1176 in NABIL, HBL and MPB respectively. Similarly the current ratios are 1.2497, 4.0338 and 5.9409 in NABIL, HBL and MPB respectively.

➤ **These ratio are calculated under profitability ratio:**

The mean ratio of interest income to loans & advances are found 0.1097, 0.1161 & 0.0641 in NABIL, HBL and MPB respectively. The mean ratios of interest income to total income are found 0.7572, 0.7882 and 0.7867 in NABIL, HBL and MPB respectively. The mean ratio of interest from loans & advances and overdraft to total interest income are found 0.7898, 0.8186 and 0.8566 in NABIL, HBL & MPB respectively. Similarly the mean ratios of return on assets are found 0.0296, 0.0092 and 0.0124 in NABIL, HBL and MPB respectively. The mean ratios of return on shareholders equity are found 0.3511, 0.2265 and 0.2156 in NABIL, HBL and MPB respectively. Again the ratios of interest income to interest expenses are found 3.7603, 2.3541 & 2.2290 in NABIL, HBL and MPB respectively. Lastly the mean ratios of total income to total expenses are found 3.5740, 1.7497 and 2.0156 in NABIL, HBL and MPB respectively.

➤ **These ratio are calculated under other ratio:**

The mean ratios of earning per share are found 136.98, 59.26 & 18.74 in NABIL, HBL and MPB respectively. The mean ratios of price earning are found 0.1760, 0.1768 & 0.1679 in NABIL, HBL and MPB respectively. The

book values per share are found Rs. 340.8, Rs. 236.62 & Rs. 99.51 in NABIL, HBL and MPB respectively.

The correlation coefficient between loans & advances and net profit are found 0.6647, 0.9067 & 0.0413 in NABIL, HBL and MPB. The coefficients of determination are found 0.4418, 0.8221 & 0.0017 in NABIL, HBL and MPB respectively.

5.2 Conclusion

Present study successfully explored the result to meet the stated objectives of study. The result showed that credit practices of NABIL were found relatively better in comparison of HBL and MPB because most of the ratio of credit practices scored the better position in NABIL bank limited. In the same way, credit efficiency of Himalayan Bank and Machhapuchchhre Bank were found better because the equal ratio designed for the study supported. Similarly the liquidity position of Machhapuchchhre Bank was found relatively better as compared to NABIL and HBL. Again the profitability ratio of NABIL bank was found better because most of the ratio designed for the study supported the NABIL bank. Lastly, in other ratio again NABIL bank was found relatively better in comparison of Himalayan Bank and Machhapuchchhre Bank. The correlation between loans & advances to net profit was found positive level in NABIL Bank i.e. 0.6647, positive high level in Himalayan Bank i.e. 0.9067 and positive low level in Machhapuchchhre Bank i.e. 0.0413.

5.3 Recommendations

Present study can be a valuable piece of research works in credit management topic. It explores the existing situation and identified the various components for further improvement in credit management. Both primary as well as secondary source of information are used for fulfilling the objectives. It may be useful for

academicians, practitioners, especially to bank management and/or any others who are directly or indirectly involved in banking activities. Based on the findings of the study, the researcher recommended highlights the guidelines to put forward for further improvement.

1. A credit practice of NABIL is found relatively better in comparison of HBL and MPB during the study period. It is suggested to the bank management of HBL and MPB for better improvement. The ratio of loans & advances and investment to total deposit and loans & advances to current assets ratio are found greater in NABIL similarly the ratio of non-performing loans to total loans & advances and loan loss provision to total loans & advances are found less in NABIL bank. Again the ratio of loans & advances to total deposit and loans & advances to total assets are found greater in MPB. Similarly the ratio of loans & advances to shareholder equity, is found greater in Himalayan bank. Thus, proper level of portfolio should be maintained so that profitability position will be maximized.
2. The credit efficiency of HBL and MPB are found relatively better than NABIL. So, the bank management of NABIL is recommended for better improvement. The percentage of non-interest bearing deposit to total deposit and interest suspense to total interest income are found high in HBL. It indicates that the HBL has used its funds in diversified sectors, successful to collect cheaper deposit and successful to manage loans & advances. Thus, the bank management of both the banks NABIL and MPB are recommended to maintain proper level of balance.
3. The percentage of cash and bank balance to total deposit is found high in MPB. So it is recommended to MPB, utilize its cash in productive sector to earn better profit, in cash of current assets NABIL is in standard position. But HBL and MPB are more than standard level. So it is recommended to HBL and MPB to keep require amount in hand and invest other amount to earn profit. So that profit will not be reduced.

4. All the banks have not so sound return on assets. This is due to having huge amount of fixed assets. The increment in profit is lower than that to fixed assets. As said earlier, a fixed asset is not considered to generate profit as working capital does. The banks therefore need to increase its NPAT and keep its fixed assets constant.
5. In case of profitability ratio, NABIL is found in satisfactory condition. And it is recommended to bank management of HBL and MPB invest its fund in profitable sector.
6. The earning per share of NABIL is best among all three banks. Thus, rest of the banks should take deep consideration in keeping its EPS high to attract and retain its valuable customers. Similarly the book value per share is high in NABIL.
7. The relationship between loans & advances to net profit is found moderate positive level in NABIL (i.e. 0.6647) high positive level in HBL (i.e. 0.9067) and low positive level in MPB (0.0413). Thus, it is recommended to the bank management of MPB to manage its loan effectively so that the percentage of non-performing loan will be in minimum.
8. Future researchers are recommended to focus into non financial performance indicators such as job satisfaction, service quality performance, customer's satisfaction, stakeholders support, government rating, supervisor's teamwork, human resource development, human resource planning, human resource management, job designation etc.
9. Internal system, strategies and major functions should be brought to improve existing credit management.

5.4 Future Avenues

Finding of the present research can be seen a meaningful and valuable piece of work for academician, practioners, researchers and investors. All the bankers and businessman can find very important findings from this study. So that they can

follow new strategy in future but researchers still can further explore many more area relating the credit management of commercial banks.

The following are future avenues:

1. The same topic could be carried form and taking into account the entire available commercial banks listed in Nepal stock exchange.
2. The study gives a clue that the market in inefficient Researchers can explore at what level of efficiency is relatively seen between the Nepalese government banks and private commercial banks.
3. An Exploratory study could be persued to determine the reason behind the efficiency of the efficient sectors.
4. A deep study can done showing the credit management in Nepalese commercial banks and in other many organizations.

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