

CHAPTER-I

INTRODUCTION

1. Background of the Study

The source of finance is the most essential element for the establishment and operation of any profit and non profits institutions. Profit oriented institution usually obtain these sources through ownership capital, public capital through the issues of shares and through financial institutions such as banks, in the form of credits, overdrafts etc. During these stage for the establishment and operations of any organization the banks come into effect in providing these sources, in the form of credit, overdrafts and other related services (Vaidhya, 1999:4).

Nepal is a developing country. Developing countries face lot of problems for its economic development. Nepal has to make expansion in financial sector. Financial market is very important for the economic growth of country. The pace of development of the country is largely depends upon the economic activities. Economic activities are guided by finance. Financial institutions provide capital to develop trade, industry and business. Bank, finance companies, cooperative societies, insurance companies, stock exchanges helps in the economic development of the country (Economic Survey, 2004/005:2).

Banks are major institutions in financing. Bank involves in a process of collecting unused money and to help its mobilization in different sectors according to the need customers (Shekher and Shekher, 1999:3). Bank helps to develop saving habit of people which in-turns help to make other people to invest for their business. Bank helps to invest in industrial sector, commercial sector, production sector, trade & commerce. Bank helps to develop international business by initiating as a investor an export & import. This way banks help to strengthen the national development (Economy Survey, 2004/005:3).

Banking is one of the most heavily regulated business in the world (Vaidhya, 1999:5). Banks are among the most important financial institutions in the economy. They are the principal source of credit (loan able funds) for millions of individuals and families and for many units of governments. Moreover bank often act as a major source of credit to small local business ranging from grocery stores to auto mobile

dealers for their stock. Banks are among the most important sources of short term working capital for business and have become increasingly active in recent years in making long term business loans for new plant and equipment (Shekher & Shekher, 1999:6).

Banks are those financial institutions that offer the widest range of financial services specially credit, saving, payment services and perform the widest range of financial functions of any business firm in the economy. The most important functions are lending and investing money (credit function). Making payments on behalf of customers for their purchase of goods and services (the payments function), managing financial assets and real property for customers (the cash management, risk and trust functions) and assisting customers investing and raising funds (through the brokerage, investment bank, and saving functions) (Vaidhya, 1999:5).

Lending is the most important functions of commercial bank. For lending procedure, bank has to make some banking practices such as transferring property in bank's time. The transfer is temporarily made for a loan price & interest. Lending money is nowadays becoming main resources of revenue to the bank and also involves high risk. Bank will not provide loan unless it has sufficient sources to the borrower that will needed in case of further recovery.

Nowadays no banker can survive for long run without proper standing of economy and no one ahead without proper banking system. Moreover, the ability of banks to (gather analyze financial information has given rise to another view of why banks exist in modern society. Most borrowers and depositors prefer to keep their financial records confidential, shielded especially from competitors. Banks are able to fulfill this need by offering high liquidity in the deposits they sell. More people believe that banks play only narrow role in order to remain competitive and responsive to public needs (NRB, Smarika, 2004/005:41).

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer needs to price that credit reasonably in live with competitively determined interest rates. Bank loan support the growth of new businesses and jobs within the banks trade territory and promote economic utility. Banks made a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles and buying new furniture, pursuing collage educations, to constructively home and office building. Loans may

be divided as; real estate loans, financial institution loans, agricultural loans, commercial and industrial loans, loans to individuals, miscellaneous loans, lease financing receivables etc. (NRB, Smarika, 2004/005:40).

Doing through loan granting provision, bank will look through safety of funds, purpose of loans security for loans, profitability spread of loan portfolio etc. Besides this the character of person receiving credit, the capacity of borrower to utilize the fund, the percentage of borrower stake in the business are the basic elements which pressures the quality of borrower and ultimately the quantity of the loan.

This way bank plays an important part in the development of trade, commerce and industry. Today no banker can survive for long run without proper standing of economy and economy can not pace ahead without proper banking system built.

1.2 Profile of Sample Banks

1.2.1 Himalayan Bank Limited (HBL)

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

The bank has five branches in Kathmandu valley. In addition the bank also has nine other branches outside Kathmandu valley in Banepa, Jandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnager, Pokhara, Dharan and Butwal. The bank also operates a counter in the premises of Royal Places. The bank will be aggressively opening new branches at different parts of the country to serve its customers.

Himalayan Bank Limited has always been committed to providing a quality service to its customers with a personal touch. The bank wherever possible offers tailor made facilities to the clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank Limited has

adopted the latest banking technology. The bank has planned to adopt new banking technology and already offers unique services such SMS banking and Internet banking to ATM service customers and will be introducing more services like use in the near future.

Table 1.1

Capital structure of Himalayan Bank Limited

Capital as at 2007	Amount in Rs.'000'
Authorized Capital	1,000,000
Issued Capital	772,200
Paid up Capital	772,200

1.2.2 NABIL Bank Limited

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

NABIL as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal. Highly qualified and experienced team of NABIL bank managers day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, State-of-art, World-renowned Software from Intosys Technologies System, Bangalore, India, Internet Banking System and Tele-banking System NABIL Bank Limited is providing full the dyed commercial banking services to its clients.

Whom its inception period in 1984 as the first joint venture bank to commence transaction in the kingdom of Nepal, the bank have been a leader in terms of bringing the best international standard banking practices, produces services to the kingdom. Today mission of the bank is to be the "Bank of 1st Choice" to all of it is shareholders and customers. To achieve this mission, it

has a care set values by which we live. The values are C.R.I.S.P. ie. customer Focused, Result Oriented, Innovative, Synergistic and professional. They are committed to live our values every-day in everything we do, for it is, these values that make us uniquely NABIL bank.

NABIL bank is a full services bank providing an entire range of products and services starting with deposit accounts in local and foreign currency, visa and Master-card denominated in rupees and dollars, visa electron Debit card, Personal Lending products for Auto, Home and Personal loan. Trade Finance Products, Treasury Services and Corporate Financing Main aim is to be able to meet customer's entire gamut of financial requirements that is why it provides in being "Your Bank at Your Service".

1.3 Statement of Problem

Commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to the economic condition of the country, some of them arising due to confused policy of government and many of them arising due to default borrowers. After liberalization of economy, banking sector has various opportunities.

However the financial institutions are increasing regularly. Hence the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Banks and financial institutions are investing in house loan, hire purchase loan for safety propose. Lack of good lending opportunities banks are facing problems of over liquidity. Now a days, banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviours. So this has caused major problems in commercial banks. Now a days, due to competition among banks, the interest rate charge for loan is in decreasing trend. Due to unhealthy competition among the banks, the recovery of the banks credit is going towards negative trends, non-performing credits of the banks are increasing year by year. To control such type of state the regulatory body of the banks and financial institutions, NRB has renewed directives of the credit loss provision. Therefore, it is necessary to analyze the credit management or credit disbursement recovery provision

for loss and write off of the credit. So the proposed study will try to answer the following questions:

- Whether the sample banks have maximum or minimum liquidity?
- What is the volume of contribution made by sample banks in credit and advances?
- What is the deposit collection and utilization trend of sample banks?
- What is the relationship of deposit, loan and advances and net profits of sample banks?

1.4 Objective of the Study

There is no doubt that the role of commercial banks is significant in development of the country. Banks help in development of the country by providing credit to the necessary investors. Therefore the basic objective of this study is to analyze the credit management position of Himalayan Bank Limited and NABIL Bank Limited. The Specific objectives of the study are listed below:

- To analyze the volume of contribution made by sample banks in credit and advances.
- To analyze the deposit collection and utilization trend of sample banks.
- To study the relationship of deposit loan and advances and net profit of sample banks.

1.5 Significance of the Study

Basically, the proposed study is important for the researchers to fulfill the academic requirement of the master degree. A part from this, the study mainly fills the study gap of the study on lending practices of joint venture commercial bank. Also the study will provide a useful feedback to the decision makers of commercial bank and for the further researchers, scholars and students who wants to research on credit management.

1.6 Delimitation of the Study

The study have the following delimitation:

- The study mainly focuses on credit management of two commercial banks Himalayan Bank Limited and NABIL Bank Limited. Which are listed in NEPSE.
- This study have been cover only the past seven years period since 2000/01 to 2006/07 latest 7 year data.
- It has not cover whole qualitative and quantitative analysis of the commercial banks because of time and resources constraints.
- No attempt has been made to examine the reliability of secondary data.
- It has not compared with whole industry standard due to time and resources constraints.

1.7 Organization of the Study

The study has been completed with five chapters are as follows:

Chapter First: In this chapter background, statement of problem objectives of study, importance of the study, delimitation of the study and organization of the study has been included.

Chapter Second: Conceptual review and review over articles and dissertations has been included in this section.

Chapter Third: Research design, population and sample, nature and sources of data, data collection procedure and methods of data analysis have been included in this section.

Chapter Four: Data presentation, analysis and findings have been included in this section.

Chapter Five: Summary, conclusion and recommendation has been included in this section

At the final, bibliography has been included supplementary section.

CHAPTER-II

REVIEW OF LITERATURE

This chapter presents the view of credit management theories and relevant studies. The first part of this chapter presents relevant theories and second one presents the review of relevant unpublished studies and research articles published in different national and international journals.

2.1 Theoretical Review

This section consists of concept of bank, evaluation of bank, types of bank, meaning of commercial bank, functions of commercial bank, concept of credit and other theories which are related with credit policy or credit management.

2.1.2 Meaning and Historical Background of Bank

Bank is an institution, which collects money from these who have it spare or who move it out of their income and lend this out to those who require it. According to Indian banking company act 1949, "Banking means acceptancy for the purpose of lenders and investment of deposit from the public, repayable on demand or otherwise and withdraw by cheque, draft, order or otherwise."

When the word 'bank' is used it is meant for commercial bank. Actually, word of bank was originated from Germany though some people think to be of French and Venice origin. Before 1960, there was no such word as "banking". However, in people of Babylon, the policy of safeguarding and saving flourished as early as 2285 B.C. Chanakya in his "Arthashastra" written in 300 B.C. mutinously about existence of powerful guilds of merchant's bankers received deposits, advance and hundies (letter of transfer). Ancestors of bank are as follows:

Merchant

Goldsmith

Money Lenders

The origin of the "Bank" is linked to:

Latin word "Bancus"

French word "Banque"

Italian work "Banco" meaning a bench.

The establishment of the first modern banking institution called "The Bank of Venice" in 1157 A.D. with a view of finance the monarch in wars was a landmark in the history of Banking. Subsequently, the establishment of "The Bank of England" in 1694 A.D. as the first central bank contributed a great deal to the history of banking. Many countries quickly followed England and established a central bank of their own. But as the central bank is endowed with special rights and authorities, it lacked a direct interaction with the mass. Consequently, soon after, every country felt a pressing need commercial bank.

History Apart, it was the "Merchant Bank" who first evolved the system by trading in commodities than money. They used to do their trading activities by remitting the money from one place to another. For this, they used "Hundies". In India such merchant bankers were known as "seths". The next stage in the growth of banking was "goldsmith". His business was to take special precautions against theft of gold. An honest goldsmith was also trusted with billions money and ornaments by merchants in neighborhoods. He started charging for activity as custodians of these valuable. As an evidence for receiving valuables he issued a receipt which is turn some like a cheque as a made of exchange.

The next stage was the money lenders. He started advising the coins on loan by interest. He started to keep some reserve as a safeguard. In this way the goldsmith, money lender becomes a banker who started perform the two functions of modern banking that of accepting deposit and disbursing loans.

Origin of Modern Bank

1157 A.D.	Establishment of Bank of Venice
1401 A.D.	Establishment of Bank of Barcelona
1407 A.D.	Establishment of Bank of Genoa
1603 A.D.	Establishment of Bank of Amsterdam
1619 A.D.	Establishment of Bank of Haimbeng
1694 A.D.	Establishment of Bank of England
1770 A.D.	Establishment of Bank of Hindustan
1934 A.D.	Establishment of Nepal Bank Limited
1957 A.D.	Establishment of Nepal Rastra Bank

Origin of Bank of Nepal

The modern banking system is found during the reign of Rana Prime Minister Ranoddip Singh in 1880 A.D. towards the end of 14th century, Tanka Dhari means many lenders were the owners of monetary transaction during the period of Prime Minister Ranoddip Singh established Tejarath. In 1938, state financial institute, which apply credit or loan against security.

In the banking history of Nepal, Nepal Bank Limited is the first bank of Nepal which was established in 1994 B.S. After that, Nepal Rastra Bank, Rastriya Banijya Bank, Agriculture Development Bank and Nepal Industrial Development Bank were established. After the restoration of multiparty democracy in Nepal, government took liberal policy in the banking sector. So, now-a-days there are a number of commercial banks established in Nepal with the technical celebration foreign banks.

Establishment of Banking System in Nepal is as follows:

1400 B.S.	Introduction of "Tankadhari"
1938 B.S.	Establishment of "Tejnath Adda"
1994 B.S.	Establishment of Nepal Bank Limited
2013 B.S.	Establishment of Nepal Rastra Bank
2013 B.S.	Industrial Development Centre
2016 B.S.	Conversion of Industrial development centre into Nepal Industrial Development Corporation (NIDC)
2022 B.S.	Establishment of Rastriya Banijya Bank
2024 B.S.	Establishment of Agricultural Development Bank
2041 B.S.	NABIL Bank Limited
2042 B.S.	Indosuez Bank Limited (Nepal Investment Bank)
2043 B.S.	Nepal Grindlays Bank Limited (Standard Chartered Bank)

2.1.2 Meaning of Commercial Bank

Before defining the term commercial bank, let us define the meaning of bank and commercial. A banker or bank is a person or company on the business of receiving money and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amount available on their customer.

Commerce is the financial transaction related to selling and buying activities of goods and services. Therefore, commercial banks are those banks, which works from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creations and agency functions. They provide short term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bond, letter of credit etc.

Commercial bank acts as an intermediaries, accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such the specialize in satisfying the short term credit needs of business rather than the long term. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They can not finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to their customers (Vaidhya, 1999).

Commercial banks are organized as a joint stock company system. Primarily for the purpose of earning profit. They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or the unit, Banking type, as we see in the united states where a bank operations are continued to a single office or to a few branches within a strictly limited area (Shekher & Shekher, 1999).

The commercial banks are those banks that pool together the saving of community and arrange for their productive use. They activate the idle money to the different productive areas. They supply the financial needs of modern business by various means. Most of the banks in the world are found established with a view to finance and help in developing trade, industry and commerce. In fact, commercial banks can be defined according to the function they perform. Commercial banks can accept deposits and also provide loan priority to business firms hereby facilitating the transfer of funds in the economy.

2.1.3 Functions of Commercial Bank

Commercial banks can be defined from the function it performs, Generally, all commercial banks perform following functions:

I) Accepting Deposits

The main function or objective of the commercial bank is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds. Therefore, accepting deposit by banks is the oldest function. A bank accepts deposits in the form of saving, current and fixed deposit.

II) Advancing Loans

Commercial bank provides loan to the public and organizations for specific purpose against the security deposit of gold, silver and other current inventory, land, building, share and securities of company. It provides loan on the recommendation of board. Advancing loan is also known as the function of the deposit mobilization because bank gives loan to the people from the deposit that it collects from the public. There is various method of advancing loans eg. overdraft, cash, credit, direct loans, discounting bills of exchange etc.

III) Agency Services

Agency services are those services which are provided by the banks on benefit of its customer. A commercial bank undertakes the payment of subscription, insurance premium, rent etc and collection of cheques, bills, salaries, pensions, dividends, interest, etc. on behalf of the customer. The bank charges the service cost to do these functions to its customers. The commercial banks also arrange the remit money from one place to another by means of cheques, drafts, wire transfer etc.

IV) Credit Creation

Credit creation is one of the most important functions of the commercial banks. In order to earn profits, they accept deposits and advance loans by keeping a small cash reserve ratio for day-to-day transaction as prescribed by the central bank. When a bank advances a loan, it opens an account to draw money by cheque according to his need, by granting a loan, the banks credit or deposit.

V) General Utility Services

The commercial banks perform certain utility function to its customer. Following are the general utility services provided by the commercial banks:

-) Safe keeping of valuables
-) Assist in foreign trade
-) Making venture capital loan
-) Investment banking and merchant banking service
-) Security brokerage service

2.1.4 Commercial Banks in Nepal

Banks which are established to accept deposits and grant loan to the industries, individuals and traders with a view to earn profit are known as commercial banks. The first Commercial Bank of Nepal is Nepal Bank Limited, which was established in 1994 B.S.

As the time passed, Nepal Rastra Bank was established on 2013 B.S. and Rastriya Baniya Bank was established on 2022 B.S. Agriculture Development Bank has also started commercial functions since 2041 B.S. After the restoration of multiparty democracy in Nepal, government took liberal economic policy. As a result, a large number of commercial banks were established in joint venture with foreign commercial banks.

After the establishment of many banks, there was progress in the banking industry in Nepal. Today, Nepal can take legitimate pride in the remarkable growth and progress in the banking industry.

2.1.5 Concept of Credit

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

Book named "Banking Management" says that in banking sector or transaction, and unavoidable ness of loan 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. How, the documents 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 great role in healthy competitive activities (Bhandari, 2003:170).

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non payment of loan is known as credit or default risk (Dahal, 2002:114).

Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portals. This method of managing credit risk is guided by the saying do not put all the eggs in a single basket (Bhandari, 2004:300).

Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security sum of the money lent by a bank is the credit (Oxford Advance Learners Dictionary, 1992:279).

Credit and advance is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio. Otherwise it will not only bad debts but also affect profitability adversely (Varshney and Swaroop, 1994:6).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified date on demand.

Banks generally grants credit on four ways: (Chhabra, and Taneja, 1991:4)

-) Overdraft
-) Cash credit
-) Direct credit
-) Discounting of Bills

The basic purpose of a commercial bank is to maximize the shareholders wealth by accepting deposits and granting loans in the society. In order to give maximum return to shareholders, the bank required to invest most of its fund in loans and advances, risky assets. Consequently, a clear and saved loan credit policy is a must for the safety of depositors fund and adequate return to shareholders. Credit policy can be defined as the decision made in advance about the management of credit.

Credit is the vital and the most important activity in the bank, next only to deposit mobilization. It is activity that generates the main income stream for the bank. The activity should therefore be pursued with the utmost professionalism conservation and circumspection. Banks should develop and implement policies and procedures to ensure that the credit portfolio is adequately diversified given the banks target markets and overall credit strategy. In particular, such mix as well as set exposure commits on single counters parties and groups of connected counter parties, particular industries or economic sectors, geographic regions and specific products. Banks should ensure that their own internal exposure limits imply set by the banking supervisors. Credit policies establish the framework for lending and guide the credit granting activities of the bank.

2.1.6 Types of Credit

A) Overdraft

When amount withdrawn from bank is more than the amount deposited into bank, the excess money is called overdraft. Such facility is given only for a few reliable customers in a certain interest rate.

B) Cash Credit

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

C) Direct Credit

1. Term Credit

It refers to many lend in lump sum to the borrowers. It is principal from of medium term debt financing having maturities exceeding 1 year is called term credit. The firm agrees to pay interest based on the bank's prime rate and repay principal in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard, 1996:80).

2. Working Capital Credit

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

3. Priority or Deprived Sector Credit

Commercial banks are required to extend advances to the priority and deprived sector. 12% of the total credit must be towards priority sector including deprived sector. Rs.2 million for agriculture tailor service sector and Rs.2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to "Agriculture Development Bank" and "Rural Development Bank" are also considered under this category deprived sector lending includes:

-) Advances to poor/downtrodden/weak/deprived people up to Rs.30,000 for generating income or employment.
-) Institutional credit to rural development bank.
-) Credit to NGOs those are permitted to carryout banking transactions for lending up to Rs.30,000.

4. Hire Purchase Financing (Installment Credit)

Hire-purchase credits are characterized by periodic repayment of principal and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principal as well interest with an option to purchase. A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

5. Project Credit

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credits are short term credits made available to developers for the purpose of completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project (Johnson, 1940:242). The basic guiding principle involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage completion must be spelled in disbursement policies. Term of credit needed for project falls under it.

6. Housing Credit

Financial institutions also extend housing credit to their customers. It is of different types such as: residential building, commercial complex, construction of warehouse etc. It is given to those who have regular income or can earn revenue from housing project itself.

7. Consortium Credit

No single financial institution grants credit to the project due to single borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project of which is baptized as consortium credit. It reduces the risk of project among them. Financiers bank equal (or likely) share on the project's assets.

8. Credit Cards Revolving Lines of Credit

Revolving credit lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, Centralized department process revolving credits resulting reduction on administrative cost. Continued borrowing arrangement enhances cost advantages once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Charge cards and credit lines tied to demand deposit accounts are the two most common revolving credit agreement. It can be further divided into credit cards automatic overdrafts lines and large credit lines.

9. Off-balance Sheet Transaction

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may not arise during the happening of certain event. Footnotes are kept as reference to them instead of recording in the books of accounts.

It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

10. Bank Guarantee

It is used for the sake of the customers in favor of the other party (beneficiary) up to the approved limit. Generally, a certain percent amount is taken as margin from the customer and the customer's margin account is credited.

11. Letter of Credit (LC)

It is issued on behalf of the customer (buyer/ importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of LC. It is also known as importers letter of credit since the bank of importer do not open separate LC for the trade of same commodities.

12. Discounting of Bills

It is the main function of commercial banks. Discounting of bill means made payment of bills, which are issued by commercial banks as well as central bank. NRB, before their expiration date or matured time. Therefore payment should be less than the total amount because their uncertainty.

2.1.7 Objectives of Credit Policy

The credit policy should be carefully established, properly communicated to the lending officers and implemented effectively by the lending officers. The basic objectives of credit management and control over it. Moreover, it is specified as follows:

a) To have a Good Assets

Loans are the risky assets though a bank invests the most of its resources in granting loans and advances. The increasing to non performing loan causes the non-existence of banks. It is the very quality of assets that led bankruptcy of money banks in South East Asia. The objectives of saved loan policies are to protect depositors' interest and maximize return to the shareholder by striking a balance between liquidity and profitability.

b) To Contribute the Economic Development

A saved credit policy is required to ensure that the loans are given to the productive sector, which contributes to capital formation and employment generation. Ultimately it helps the development economy of the nation.

c) To Give Guidance to Lending Officials

A borrower should be assured that there would be no discrimination whether he deals with one officer or another. A saved credit policy is imperative to achieve a uniform standard procedure throughout the organization.

d) To Establish a Standard Control

Every policy requires periodic follow-up to ensure its proper implementation. A saved credit policy helps to determine the variance between actual performance and practices and to take corrective actions. A saved policy is always flexible and works as a guidelines. It the variation

between the practice and policy is observed, proper education to lending officer or amendment of the policy will become dishonored.

2.1.8 Principle of Credit Policy

Good credit policy is essential to carry out the business of lending more effectively. Some policies are as follows:

a) Principle of Liquidity:

Liquidity refers to pay on hands on cash when it needed without saving to sell long-term assets at loss in unfavorable market (American Institute of Banking, 1972:149). A banker has to ensure that money will come in as on demand or as per agreed term of repayment.

b) Principle of Safety Fund:

Banks should look the fact that is there any unproductive or speculative ventures or dishonored behaviour of the borrower.

c) Principle of Security:

It acts cushion to grant advances and credits. Adequate values of collaterals ensure the recovery of credit correctly at the right time. Accepted security should be readily marketable, handy and free from encumbrance.

d) Principle of Purpose of Credit:

Generally, credit request would be accepted for productive sector only. Bank should reject credit request for speculation, social functions pleasures trips, ceremonies and repayment of prior credit as they are unproductive.

e) Principle of Profitability:

Profitability denotes the value created by the use of resources is more than the total of the input resources. Bank should provide to such project that can provide optimum amount of return. For such purpose, bank should take a little bit risk by providing credit to ventures project.

f) Principle of Spread:

Portfolio of credit advances is to be spread not only among many borrowers of same industry. It across the industries in order to minimize the risk of lending keeping "Do not put your all eggs in the same basket" in mind.

g) Principle of National Interest:

In lending and granting advances, interest of nation should not be distorted life undermined. Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances.

2.1.9 Characteristics of Credit Policy

Every policy has its own characteristics. The credit policy has the following characteristics:

a) Approved by Top Management

The credit policy is always prepared by the top management of an institution and is approved by the board of directors. It may be revised time to time.

b) Practical and Manageable

The credit policy, prepared by the bank is not for theoretical rather it is for practical and manageable to apply.

c) Flexibility

Rigid credit policy is not practical. It has to be flexible according to the demand of customer.

d) Compliance

Credit policy is compliance with NRB policy as well as economic, political condition of the country.

2.1.10 Systems and Procedures of Credit Policy

A sound credit policy interact all the areas of credit effectively that ultimately helps to operate the organization successfully. Basically a bank has to follow the following systems and procedures in credit policy.

a) Credit Origination

Banks must operate within a sound and well-defined criteria for new credits as well as the expansion of existing credits. The credits should be extended within the markets and lending strategy of the institution. Before allowing a credit facility, the banks must make an assessment of risk profile of the customer transaction. This may include:

- i) Credit assessment of the borrower's industry and macro economic factors.
- ii) The purpose of credit and sources of repayment.
- iii) The back record/repayment history of borrower.
- iv) Assess/evaluate the repayment capacity of the borrower.
- v) The proposed terms and conditions and covenants.
- vi) Adequacy and enforceability of collaterals.
- vii) Approved from appropriate authority.

In case of new relationships, consideration should be given to the integrity and repute of the borrowers or counter party as well as its legal capacity to assume the liability. Prior to entering into any new credit relationship, the bank must become familiar with the borrower or counter party and be confident that they are dealing with individual or organization of sound repute and credit worthiness. However a bank must not grant credit simply on the basis of the fact that the borrower is perceived to be highly reputable, i.e. name lending should be discouraged.

While structuring credit facilities institutions should appraise the amount and timing of the cash flows as well as the financial position of the borrower and intend purpose of the funds. It is at most important that due consideration should be priced to cover all embedded costs. Relevant terms and conditions could be laid down to protect the institution's interest.

Institutions have to make sure that the credit is used for the purpose it was borrowed. Where the obligor has utilized funds for purpose not shown in the original proposal, institutions should take steps to determine the implications on credit worthiness. In case of corporate loans where borrower own group of companies such diligence becomes more important. Institutions should classify such connected companies and conduct credit assessment on consolidated/group basis.

In loan syndication, generally the lead institution does most of the credit assessment and analysis. While such information is important, institutions should not over rely on that. All syndicate participants should perform their own independent analysis.

Institution should not over rely on collarless/covenant. Although the importance of collaterals helps against loan is beyond and doubt, yet these should be considered as a buffer providing protection in case of default, primary focus should be on obligor's debt servicing ability and reputation in the market.

b) Limit Setting

An important element of credit risk management is to establish exposure limits for single obligors and group of connected obligors. Institutions are expected to develop their own limit structure while remaining within the exposure limit set by the central bank (i.e. Nepal Rastra Bank). The size of the limit should be based on the credit strength of the obligor, genuine requirement of credit, economic conditions and the institutions risk to clearance. Appropriate limits should be set for respective products and activities. Institutions may establish limits for a specific industry, economic sector or geographic regions to concentration risk.

Some times, the obligor may want to share it facility limits with the related companies. Institutions should review such arrangements and impose necessary limits if the transactions are frequent and significant.

Credit limits should be reviewed regularly at least annually or more frequently if obligor's credit quality deteriorates. All requests of increase in credit limits should be substantiated.

c) Credit Administration

On going administration of the credit portfolio is an essential part of the credit process. Credit administration function is basically a back office activity that support and control extension and maintenance of credit. A typical credit administration unit performs following function:

1. Documentation:

It is the responsibility of credit administration to ensure completeness of documentation (Loan agreements, guarantees, transfer of title of collaterals etc) in accordance with approved terms and conditions outstanding documents should be tracked and followed up to ensure execution and receipt.

2. Credit Disbursement:

The credit administration function should ensure that the loan application has proper approval before entering facility limits into computer systems. Disbursement should be affected only after completion of covenants and receipt of collateral holdings. In case of exceptions necessary approval should be obtained from competent authorities.

3. Credit Monitoring:

After the loan is approved and draw down allowed, the loan should be continuously watched over. These include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.

4. Loan Repayment:

The obligors should be communicated ahead of time as and when the principal/markup installment becomes due. Any expectations such as non payment or late payment should be ragged and communicated to the management. Proper records and updates should also be made after receipt.

5. Maintenance of Credit Files:

Institutions should devise procedural guidelines and standards for maintenance of credit files. The credit files not only include all correspondence with the borrower but should also contain sufficient information necessary to assess financial health of the borrower and its repayment performance. It need not mention that information should be filed in organized way so that external/internal auditors or NRB inspector could review it easily.

6. Collateral and Security Documents:

Institutions should ensure that all security documents are kept in a fireproof safe under dual control. Register for documents should be maintained to keep track of their movement. Procedures should also be established to track and review relevant insurance coverage for certain

facilities/collateral. Physical checks on security documents should be conducted on a regular basis.

2.1.11 Credit Monitoring and Control

Credit risk monitoring refers to incessant monitoring of individual credits inclusive of off-balance sheet exposures to obligors as well as overall credit portfolio of the bank. Banks need to enunciate a system that enables them to monitor quality of the credit portfolio of day-to-day basis and take remedial measures as and when any deterioration occurs. Such a system would enable a bank to ascertain whether loans are being serviced as per facility terms, the adequacy of provisions, the overall risk profile is within limits established by management and compliance of regulatory limits. Establishing an efficient and effective credit monitoring system would help senior management to monitor the overall quality of the total credit portfolio and its trends. Consequently the management could fine tune or reassess its credit strategy/policy according before encountering any major setback. The banks credit policy should explicitly provide procedural guideline relating to credit risk monitoring. At the minimum it should lay down procedure relating to:

- I) The roles and responsibilities of individuals responsible for credit risk monitoring.
- II) The assessment procedures and analysis techniques (for individual loans and overall portfolio).
- III) The frequency of monitoring.
- IV) The periodic examination of collaterals and loan covenants.
- V) The frequency of site visits.
- VI) The identification of any deterioration in loan.

a) Financial Position and Business Conditions

The most important aspect about an obligor is its financial health, as it would determine its repayment capacity. Consequently institutions need carefully watch financial standing of obligor. The key financial performance indicators on profitability, equity, leverage and liquidity should be analyzed. While making such analysis due consideration should be given to business/industry risk, borrower's position within the industry and external factors such as economic condition government policies, and regulation. For

companies whose financial position is dependent on key management personal and/or shareholders, for example, in small and medium enterprises, institutions would need to pay particular attention to the assessment of the capability and capacity of the management/shareholders.

b) Conduct of Accounts

In case of existing obligor the operation in the account would give a fair idea about the quality of credit facility. Institutions should monitor the obligor's account activity, repayment history and instances of excesses over credit limits. For trade financing institutions should monitor cases of repeat extensions of due dates for must receipts and bills.

c) Loan Covenants

The obligor's ability to adhere to negative pledges and financial covenants stated in the loan agreement should be assessed and any breach detected should be addressed promptly.

d) Collateral Valuation

Since the value of collateral could deteriorate resulting in unsecured lending, banks need to reassess value of collaterals in periodic basis. The frequency of such valuation is very subjective and depends upon nature of collaterals. For instance loan granted against shares need revaluation on almost daily basis whereas if there is mortgage of a residential property the revaluation may not be necessary as frequently. In case of credit facilities secured against inventory or goods at the obligor's premises, appropriate inspection should be conducted to verify the existence and valuation of the collateral.

External Rating and Market Price of securities purchased as a form of lending or long term investment should be monitored for any deterioration in credit rating of the issuer, as well as large decline in market price. Adverse changes should require additional effort to review the creditworthiness.

2.1.12 Managing Credit Problems

The institution should establish a system that helps to identify problem loan ahead of time when there may be more options available for remedial

measures. Once the loan is identified as problem, it should be managed under a dedicated remedial process.

A banks credit risk policies should clearly set out how the bank will manage problem credits. Banks differ on the methods and organization they use to manage problem credits. Responsibility for such credits may be assigned to the originating business function, a specialized workout section or a combination of the two, depending upon the size and nature of the credit and the reason for its problems. When a bank has significant credit-related problems, it is important to segregate the workout function for the credit organization function. The additional resources, expertise and more concentrated focus of a specialized workout section normally improve collection results. A problem loan management process encompass following basic elements.

a) Negotiation and Follow-up

Proactive effort should be taken in dealing with obligors to implement remedial plans, by maintaining frequent contact and internal records follow-up actions. Often rigorous efforts made at an early stage prevent institutions from litigations and loan losses.

b) Workout Remedial Strategies

Some times appropriate remedial strategies such as restructuring of loan facility, enhancement in credit limits or reduction in interest rates help improve obligor's repayment capacity. However it depends upon business condition, the nature of problems being faced and most importantly obligors commitment and willingness to repay the loan. While such remedial strategies often bring up positive results, institutions need to exercise great caution in adopting such measures and ensure that such a policy must not encourage obligors to default internationally. The institutions interest should be the primary consideration in case of such workout places it needs not mention here that competent authority, before their implementation, should approve such workout plan.

c) Review of Collateral and Security Document

Institutions have to ascertain the loan recoverable amount by updating the values of available collateral with formal valuation. Security documents should also be reviewed to ensure the completeness and enforceability of contracts and collateral guarantee.

d) Status Report and Review

Problem of credits should be subject to more frequent reviewed monitoring. The review should update the status and development of the loan accounts and progress of the remedial plans. Progress more on problem loan should be supported to the senior management.

2.1.13 Lending Criteria

While screening a credit application, 5Cs to be first considered supported by documents.

1) Character

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

-) Memorandum and article of association
-) Registration certificate
-) Tax registration certificate (renewed)
-) Resolution to borrow
-) Authorization-personal realizing to deal with the bank
-) Reference of other lending with whom the applicant has dealt in the past or bank A/C statement of the customer.

2) Capacity

Describes customer's about to pay. It is measured by applicant's past-performance records and followed by physical observation. For this, an interview with applicant's customers/ suppliers will clarify the situation. Documents relating to this area were:

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

3) Capital

This indicates applicants capacity to inject his own money. By capacity analysis, it can be concluded that whether borrower is truing to play with lender's money only or is also injecting his own fund to the project. For capital analysis, financial statements, like certified balance sheet, profit and loss account is the only tools.

4) Collateral

Collateral is the security proposed by the borrower. Collateral may be of either nature of movable or immovable. Movable collateral comprises right from stock, inventories to playing vehicles. On case of immovable it may be lend with or without building or fixtures, plant machineries attached to it.

5) Conditions

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

2.1.14 Project Appraisal

Before providing credit to the customer, bank makes analysis of project form various aspects and angles. It will help the bank to see whether project is really suitable to invest. The purpose of project appraisal is to achieve the guarantee of reasonable return from the project. Project appraisal answers the following questions:

-) Is the project technically Sound?
-) Will the project provide a reasonable return?
-) Is the project in line with the overall economic objectives of the country?

Generally, the project appraisal involves the investigation from the following aspects (Gautam, UK. 2004:258):

-) Financial aspect
-) Economic aspect
-) Management/organizational aspect
-) Legal aspect

Directives Issued by NRB for the commercial bank (Related to credit aspect only):

a) **Credit Classifications and Provisioning:**

Classification	Provision
1. Pass Credit	1%
2. Sub standard Credit	25%
3. Doubtful Credit	50%
4. Bad Credit	100%

Those credits that have not crossed the time schedule of repayment and are within 3 months delay of maturity date fall under the classification topic 'pass credit'. It is also known as performing credit.

Sub standard credit are those credit which are already crossed the repayment time schedule and are within 36 months delay of maturity date. Likewise, within 6-12 months delay from the time to be recovered are classified as doubtful credit those credits, which are not recovered yet after 1 year from maturity date, are known as bad credit. All the above 3 types of credits are classified as non-performing credit.

The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for non-performing credit is termed as specific credit loss provision.

Auditor has to correctly rate credit and that accurate credit loss provision has been made. The auditor should examine whether the bank has obtained complete documentation so that banks interest is secured. In addition, audit is made to inspect compliance of terms and conditions laid down. Credit audit is required to check whether credit given is within authority, drawing power, etc. Credit audit helps the bank to know quality of its credit, its weakness and strengths. This, in turn, helps the bank to adopt corrective

measures where weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be established with the help of credit audit.

b) Limit of Credit and Advances in a Particular Sector:

1. Fund based credit and advances can be issued up to 25% (upper limit) of core capital to a single customer, firm, company and a group of related customer.
2. Non-fund based loss-balance items can be issued up to 50% of core capital to a single customer, firm, company and group of related customer.

Note: The core capital includes {paid up capital + share premium + non-redeemable preference share + general fund + accumulated profit (loss) – goodwill (if any included)}

2.1.15 Steps of Lending Process

Commercial bank issue loans but before issuing loans they follow some steps of lending process. Bank has certain process for providing loans. When an individual or organization needs capital for doing certain works, then they search for loans and bank is the only one reliable and economic source of loan and advances, bank imposes following process for providing loans.

a) Loan Application

When a person need loan, then he/she ask the loan procedure in the bank. If all the process and information is reasonable, then he/she makes loan application. It is also called loan proposal. For big business loan, it is appropriate to talk with loan officers. Loan officer can also contact to big account holder possessing business organization and ask if they are in need of loan. In developed country's bank, themselves search for probable debtors. Banks make report of economic activities and when they found good customer they contact with them and ask for loan necessity.

b) Loan Interview

Second process involves the loan interview of applicants who apply for the loan. This interview helps to find out the loan applicant's nature, i.e. habit obedient. Bank also collects information about the purpose.

2.1.16 Need of Credit Policy in Commercial Bank

In bank fund management, the cost of handling is, of course, as important as the available of funding. Competition, deregulation, economic conditions and increased sophistication in money management on the part of retail and wholesale depositors have increased the cost of bank fund tremendously.

Making an unsecured loan involves taking a risk and losses on some loans are to be expected. Commercial banks are increasingly facing credit risk (or counter party risk) in various financial instruments other than loans, including acceptances, inter bank transactions, trade financing, foreign exchange transactions, financial futures. Swaps, hands, equities, options, and in the settlement of transactions. Thus, the need of credit policy is the most, as the banks should always try to mitigate the risk related to the loan provided step that banks can take to limit loans and borrowers as well as establishing an internal system of loan review in addition to the loan reviews of regulatory agencies. Banks can also affect or offset credit risk in their loan portfolios by watching the business cycle, varying loan rates against the degree of risk and recognizing risk in loan concentration although specific credit risk policy and practices may differ among banks depending upon the nature and complexity their credit activities, a comprehensive credit risk management program should address the following areas:

- I) Establishing of appropriate credit risk environment.
- II) Operating under a sound credit granting process.
- III) Maintaining an appropriate credit administration, measurement and monitoring process.
- IV) Ensuring adequate controls over credit risk.

Credit risk is a factor in all loans, but to varying degree. Bank should recognize this variability by matching loan rates to risk. A bank that charges the same rates for many types of loan is not receiving adequate compensation for its riskier loans. In comparison a loans total yield to its risk, a bank also should consider any supporting deposit balances required in conjunction with the loan and may also want to consider other profitability generated from the customer's relationship with banks (Basel committee consultative paper. 1999).

2.1.17 Types of Credit Policy in Selected Banks

There is a single combined credit policy as a whole and to have better control over the risks assets of the bank, the credit policy is sub divided into:

I) Business Banking

Large and small-scale industries (i.e. Large business house and small houses) run by individual come under business banking. The credit policies in the section are:

- a) Corporate customer credit policy
- b) Small business loan policy

II) Consumer Banking

The loan provided to personal interest and benefits comes under consumer banking. The credit policies in this sections are:

- a) Home loan Policy
- b) Auto loan policy
- c) Travel loan policy
- d) Education loan policy.

2.2 Review of Related Studies

In this section attempt has been made to review the relevant studies done by other researchers previously. This includes review of journals, reports, dissertations and other studies.

2.2.1 Review of Journals

In the article of New 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 offer correlating there single mindedly look for employment opportunity. No other options, no matter how attractive it would be enter into their mind. It has created huge pressure in the

labour 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 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 from 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 a 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 can potentially be a lucrative market. They can ignore them only at their, especially at the time when the competition in the market consisting of the 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 pre-condition 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 reinforced this view. More important, Nepalese bankers must themselves have to entrepreneurship spirit which means they should not hesitate to take the 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 advantages 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 carry access to capital.

The ordinance relating to banks and financial institutions has been promulgated that has been bought into existence effective February 4, 2004. The banks and financial institutions ordinance 2004 has replaced the exiting Agricultural Bank Act 2024. Commercial Bank Act, Development Bank Act, and Nepal Industrial Development Corporation Act and Finance Companies Act and have bought all such institutions under the preview of a single act. Though this ordinance come 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 mouths existence time should be enacted. At this time since authorized to enact permanent law. It is obvious that the financial sector must go through uncertainty in the future.

In an article published in New Business Age entitled. Growth in major commercial banks," has compared between the first six mouth 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 limited (NBL) and Rastriya Banijya Bank Limited (RBBL). There has been increasing 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 in recovery of the huge non-performing assets (NPA). However, he 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 new ventures. Expect RBB, all banks have increment in deposit collection (Subedi, 2004:19).

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

As per the NRB directives, all the commercial banks have to maintain loan loss provision according to the size of overdue loans. Nepal credit and Commercial Bank limited (NCCBL) was 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 Limited (NIBL), growth in loan loss provision (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% and 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.

In the article entitled "Non performing assets: a need rationalization", has attempted to provide connect with the term NPA and its potential sources, implication of NPA in financial sector in the South East Asian Region, the 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 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 operated by means of real transaction effected on the part of the debtor in order to remain loan performing (Cheetri, 2000:17)

As started by the winder, the definition of NPA different 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 NPA 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 taker. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. As per Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system credit program sponsored by government, slow down in economy/recession, diversion of fund is some of the factors leading to accumulation of NPA.

He further said that there is serious implication of NPA on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPA but extent to extra amount that required for provisionary depends upon the level of NPA and their quality. As per his view, rising level of NPA create a psyche of worse environment especially in the financial sector. He mentioned that by receiving 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, NPA can be reduced.

Finally, he concluded that financial institutions are the best with the burden of mounting level of NPA in developing countries such assets are income flow of the financial institutions while claiming additional resources in the form of provisioning hereby hindering gainful investment. Rising level of NPA can not 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.

In the article "NPA: some suggestions to tackle them " found saying that unless the growth in NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment, which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate misused the credits and argues that lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing concentration of credit in few group of parties and sector, lack of coordination among various financiers. Lack of initiations to take timely action against will full defaulters, indecision on existing out of bad loans for fear of investigating agencies like special police, public accounts committee of the parliament have also contributed in what's over measures to the worsening situation of NPA front. He further pointed out that most crucial reason for the increase in the NPA is the shabby and defaulter friendly legal system. Suggesting the remedy of NPA he adds that administrative system should be strengthened, legal reforms should be made and assets Reconstructions Company should be formed (Pradhan, 2001:23).

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. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulters and his family members. The Credit Information Bureace (CIB) can blacklist the firm; company clears 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 creditors fails to clear the amount within time or is found missing the loans among others, the creditor can be blacklisted (Kathmandu Post, 2003:9).

In the article titled "credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. Although the circumstances

leading to financial problem or crisis in many Nepali banks differ in many respects, what are common across of the most banks. Which increased size of non-performing assets (NPA)? To resolve the problem of the losses or likely losses of this nature facing the industry, NRB as the central bank, amended several old directions and issued many new circulars in the recent years. (Ghimire, 2003:22)

As opined by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lenient as the help to strengthen banks financially. He added that the old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that loan loss provisioning as a percentage of total credit of April 1, 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that loan loss provisioning as a percentage of total credit of April 1, 2001 is 5.2% but as April 13, 2003 it has jumped to 18.39%. If only private banks are considered, it is 2.12% of April 2001 whereas it is 6.30% as of April 13, 2003. The total increment in loan loss provision is Rs.11,328.11 million and the total increment in credit is only Rs.7976.70 million. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns.

In the conclusion, he has mentioned that in the recent years, NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks that also at strengthening banking supervision to reduce the likelihood of future crises. All prudential directives of NRB in connection of credit sector reform have been made revised on after 2001. To adopt to such changes there can be some difficulties and for a better and harmonized reform, NRB should continue to be supportive, proactive and also participative to take opinions of bankers for a change in regulation/policy taking place in the future.

2.2.2 Review of Master Dissertations

Shrestha (1990) conducted study on, "A study of industrial credit provided by NIDC in Sunsary district". The main objectives of the study was to study the financial assistance provided by NIDC in different industrial sectors and study the attitudes of industrialists in regard to the performance of NIDC. In this study Shrestha found that one of the most important policy taken by NIDC is it invests its fund to the industries in security oriented rather than industrial development oriented. It seems that NIDC lack definite, systematic and clear-cut long term financing policy. He also found repayment and follow up activities followed by NIDC are not efficient as not taken side by side.

Khadka (1998) carried out a study on "A study on the Investment policy of NABIL Bank Limited in comparison to other joint venture bank of Nepal". The main objective of the study was to analyze the investment policy of NABIL Bank Limited. He found out that the liquidity position and profitability situation of NABIL are comparatively worse than that of Nepal Grindlyas Bank Limited (NGBL) and Nepal Indosuez Bank Limited (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. On contrary, NABIL is more successful in deposit utilization. Finally, it fails to maintain high growth rate of profit in comparison with NGBL and NIBL. He suggested that NABIL should increase cash and bank balance to meet loan demand because the loan and advances to total deposits ratios were found lower in NABIL than that of other JVB's. To owner come this situation, NABIL is strongly recommended to follow liberal lending policy and invest more and more percentage amount total of deposits in loans and advances. Similarly, he further recommended that the bank must utilize depositor's money as loans and advances to get success in competitive banking environment. The largest item of the bank in the asset side is loans and advances. Negligence in administrative this asset could be the main cause of a liquidity crisis in the bank and one of the main reasons of bank failure. He has also focused his study on the investment policy of NABIL bank and has taken NGBL and NIBL average ratios as banking average. He recommended to adopt liberal

lending policy however there has not explained regarding liberal lending. 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.

Chand (1998) has submitted his thesis entitled "Credit Disbursement and Repayment of Agriculture Development Bank Nepal" and found (I) to here is systematic relationship between credit disbursement and repayment the coefficient of correlation value as calculated is 0.94, which shows that there are high and significance relationship between credit disbursement and repayment and (II) repayment situation is satisfactory in production inputs and agro-based industry. Warehouses and marketing percentage of repayment due to the form mechanization and irrigation. Tea horticulture and livestock, poultry and fisheries are mush less satisfactory. As a recommendation given by Chand, ADB should play a significant role in such direction to fulfill the credit demand of rural areas. For effective credit recovery from the borrowers or clients, credit should be channeled through the borrower groups.

Aryal (2003), has conducted a study on "A Evaluation of credit Investment and Recovery of Financial Public Enterprises in Nepal" a case study of ADB. He focused on the problem that because of high interest rate of non-institutional sources. People are unable to pay their credit at fixed time. There institutions compel them to transfer their property to the money lender resulting himself or herself as a landless person. ADB is one of the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB provides the credit for individual and cooperative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However ADB has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB. So, Aryal chose his bank to analyze the credit disbursement and recovery pattern of ADB.

Tamang (2005) studied the comparative study of credit management in HBL and NABIL in his thesis entitled 'A comparative study on credit

management in Himalayan Bank Limited and NABIL Bank Limited'. To explore the credit management, he tried to assess the existing credit practices, examine the credit efficiency, analyze the industry environment and the relationship among loan & advances, non performing loan and net profit. The study was based on secondary as well as primary data. He found from the study that credit practices and credit efficiency was relatively better in NABIL Bank Limited as compared to Himalayan Bank Limited for the reason that the ratio analysis designed for credit practices and credit efficiency scored relatively in better for NABIL Bank Limited. He found that the correlation coefficient between non-performing loan and net profit in NABIL Bank Limited and Himalayan Bank Limited was found to be 0.157 and -0.716 respectively. He further concluded that trend of non-performing loan did not have high implication in NABIL Bank Limited while there was a significant impact of non-performing loan in net profit in Himalayan Bank Limited. He described in his primary information that industry environment as well as the management quality was relatively better in NABIL Bank Limited as compared to Himalayan Bank Limited. Lastly, he recommended to the bank management that proper level of portfolio should be maintained so that profitability position will be maximized with regard to credit practices. Similarly, the bank management of both the banks is recommended to maintain proper level of balance with regard to credit efficiency. He also suggested to the bank management of HBL to manage its loan more effectively so that the percentage of non-performing loan will be in minimum because the relation of loan and non-performing loan in HBL was found very high. Finally, he recommended to the future researchers to focus into non-financial indicators job satisfaction customer satisfaction, stakeholder support, government rating, supervisor is team work, human resource development, human resource planning, human resource management, job designation etc. as influencing factors for credit management.

Thing (2006) conducted a study on "Credit planning and control in Maccapuchhre Bank Limited. Basic objective of the study is to explore credit planning and control and find the various causes of credit inefficiency in Machhapuchhre Bank Limited. The study is based on analytical and

descriptive research design. Both secondary as well as primary data used for the study. From the study, it is found that general status of credit planning was poor condition in beginning two years of the study period. It was found relatively better in following years. It was also found that the bank has given priority on secured lending such as real state property, local banks and financial institution guarantee, against fixed deposit receipt, personal guarantee. Finding showed that the performance of credit in beginning two years of the study period was found low in term of their target and achievement of credit classification, the findings also shows the percentage of non-performing loan was found very higher than its target that consequently increased the loan loss provision percentage. The non-performing loan growth and loan loss provision was found very high. A part from this, he has found that effective planning inefficiency such as relationship of client with top authority, personal integrity of borrower is also the cause of credit inefficiency. The study also found the internal reason such as weak monitoring, mismanagement, bad intension of borrower and short fall on security be the cause of credit inefficiency. Likewise the finding also proved that there are many external reasons for credit inefficiency. Economic and industrial recession and inconsistency in government policy be the main cause of credit inefficiency.

Shrestha (2007) conducted a study "Deposit collection and loan Disbursement of Agricultural Development Bank of Nepal. The main objectives of the study is to find out the deposit collection and loan disbursement of ADBN and also to have a practical knowledge of what we had learnt as the theory. The study is based on analytical descriptors and trend research design. The study was based on secondary data and both financial and statistical tools were used. From the study, it is found that total deposit has been increasing in each and every year however the increment trend seems volatile. While analyzing each types of deposit of the bank it is found that in case of current deposits the contribution to total deposit is declining in each and every year which is serious matter for the bank because it is a free of lost financing. The total amount of loan disbursement trend has increased which shows that increasing demand for agricultural credit. A part from this she has

found, the short term loan has been continuously increasing in each year. It shows that short term loan has highest growth rate which suggests the increasing attraction and requirement of the short term loan. Loan collection of short term is high than that of medium and long term to the total loan disbursement.

2.3 Research Gap

The purpose of this research is to develop some expertise one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of Himalayan Bank Limited and NABIL Bank Limited. Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here it is clear that the new research can not be found on that exact topic, i.e. Credit Management [A comparative study of Himalayan Bank Limited and NABIL Bank Limited]. Therefore, to fulfill this gap, this research is selected to complete this research work; many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth.

Previous researcher could not cover all the aspects of credit management in Nepalese context. They analyzed the credit management by using secondary source of information in terms of credit practices or lending practices. But actually, credit management covers many other areas such as total deposit collection, total lending, NPL Level, loan loss provision and relationship between them which are very much important for credit appraisal. Therefore, this study is useful to the concerned banks as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc. Thus present study may be valuable piece research work.

CHAPTER–III

RESEARCH METHODOLOGY

This chapter deals with the methodology adopted in this study. It is mainly designed to make the research work more effective so as to achieve the stated objectives effectively. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem along with the logic behind them. This chapter includes research design, Nature & sources of data population & sample, data collection procedure and data analysis tools used to analyze the data.

3.1 Research Design

The study is designed within the framework of descriptive and analytical research design to achieve the objective of the study. Descriptive research seeks to find out the fact with the help of sufficient data and information. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate credit management of NABIL Bank Limited and Himalayan Bank Limited.

3.2 Population and Sample Size

The population refers to the industries of the same nature and its services and product in general. Thus, the total commercial banks i.e.25 shall constitute the population of the study. So, among the various commercial bank under the banking industry NABIL and Himalayan Bank Limited are sampled for the study by adopting convenience sampling.

3.3 Nature and Sources of Data

This research work is mostly based on secondary data. So secondary source is the major source for data required to conduct research work. The annual reports of the bank are the major sources of data. The basic conceptual information was collected from NRB publications and work papers. Besides, required data were collected from NRB reports & bulletins and its official websites.

3.4 Data Collections Procedure

The annual report of concerned bank was obtained from the visiting of websites NRB publications, banking and financial statistics, economic report; annual report of NRB etc. has been collected.

3.5 Methods of Data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research. To make the study more specific and reliable, the researcher uses to types of tools for analysis:

- Financial Tools
- Statistical Tools

3.5.1 Financial Tools:

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Beside it, total deposit, total investment and total income analysis have been used.

Ratio Analysis

Ratio analysis is a powerful and the most widely used tools of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the relationship between two or more things (Webster's New collection Dictionary, 1975:958).

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

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

A. Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the some can be examined (Van Horne, 1999:693).

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

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

I. Current Ratio

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

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

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

II. Cash and Bank Balance to Total Deposit Ratio

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

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

III. Cash and Bank Balance to Current Deposit Ratio

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

$$\text{Cash and Bank Balance to current deposit ratio} = \frac{\text{Cash \& bank balance}}{\text{Current deposit}}$$

IV. Cash & Bank Balance to Interest Sensitive Deposit Ratio

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

$$\text{Cash and bank balance to interest sensitive deposit ratio} = \frac{\text{Cash \& bank balance}}{\text{Saving deposit}}$$

B. Activity/ Efficiency Ratio

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

I. Loan and Advances to Total Deposit Ratio

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

$$\text{Loan \& advances to total deposit ratio} = \frac{\text{Loan \& advances}}{\text{Total deposit}}$$

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

II Loan and Advances to Total Assets Ratio

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

$$\text{Loan \& advances to total assets ratio} = \frac{\text{Loan and advances}}{\text{Total assets}}$$

III) Total Investment to Total Deposit Ratio

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

indicator of high success to mobilize the banking fund as investment and vice-versa.

$$\text{Total Investment to total deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

C. Leverage Ratio

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

I) Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes the amount of fixed deposits and credits of the bank and equity includes paid up capital, reserve and surplus and undistributed profit. The formula used to determine the ratio is:

$$\text{Debt to equity ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

II) Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

$$\text{Total debt to total assets ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

D. Profitability Ratios

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

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

I. Interest Income to Interest Expenses Ratio

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

$$\text{Interest income to interest expenses ratio} = \frac{\text{Interest Income}}{\text{Interest Expenses}}$$

II. Return on Loan and Advances Ratio

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

$$\text{Return on loan and advances} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

III. Net Profit/Loss to Total Assets Ratio.

The ratio is useful to measure how well management uses all the assets in business to generate an operating surplus. Higher ratio indicates the higher efficiency in utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all

the financial resources in bank assets and is calculated by applying the following formula:

$$\text{Net Profit/Loss to total assets ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

IV. Interest Income to Total Loan and Advances Ratio

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

$$\text{Interest income to total loan and advances ratio} = \frac{\text{Interest income}}{\text{Total loan \& advances}}$$

V. Earning Per Share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share.

This figure tells us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference divided. Symbolic expression of EPS is given below.

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

E. Lending Efficiency Ratio

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

I. Non-performing Loan to Total Loan and Advances Ratio

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

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total loan \& advances}}$$

II. Loan Loss Provision to Total Loan and Advances Ratio

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

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan advances}}$$

3.5.2 Statistical Tools

For Supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, correlation, trend analysis and diagrammatic cum pictorial tools have been used under it.

I Arithmetic Mean (\bar{X}):

Averages are statistical constants, which enable to comprehend in a single effort of the whole (Gupta, 2000:357). It represents the entire data by a single value. It provides gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where,

\bar{X} = Arithmetic mean

N = Number of observations

X = Sum of observations

II. Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by SD or \exists (Shrestha, 1991:43). It is used as absolute measure of dispersion or variability. It is calculated as:

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

Where,

\exists = Standard Deviation

III. Coefficient of Variation (C.V.)

It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice-versa. It is calculated as:

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

Where,

\exists = Standard Deviation

\bar{X} = Mean

IV. Correlation Coefficient (r)

Correlation coefficient is the important tool to analyze the degree of relationship between two or more variables. It is used to describe the degree to which one variable is linearly related to other variables. It refers to the closeness of the relationship between two or more variables. In other words, it is analysis of covariance between two or more variables.

It is the statistical measure of the relationship, if any between series of numbers representing data of any kind, from returns test scores. If two series move in the same direction, they are positively correlated, if the series move in opposite direction, they are negatively correlated series. Symbolically correlation coefficient can be expressed as follows:

$$\text{Correlation Coefficient (r)} = \frac{n \sum xy - \sum x \sum y}{\sqrt{\{n \sum x^2 - (\sum x)^2\} \{n \sum y^2 - (\sum y)^2\}}}$$

V. Probable Error (P.E.)

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

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

Where,

r = Correlation coefficient

N = Number of pairs of observations

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

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

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the data collection from various sources have been presented and analyzed to measure the various dimension of problem of the study and major findings of the study are presented systematically.

4.1 Measuring Liquidity Position of the Bank

A commercial bank must maintain satisfactory liquidity position to satisfy the credit needs of community, to meet demand for deposits withdrawal, pay maturity obligation in time, convert non-cash assets in to cash to satisfy immediate needs without loss of the bank, and without consequent impact on long run profitability of the bank. To measure the liquidity position of bank, following measures of liquidity ratios have been calculated:

4.1.1 Current Ratio

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

Table 4.1
Current Ratio of NABIL

(Rs. in '000')

Year	Current Assets	Current Liabilities	Ratios (%)
2000/01	9068094	16248892	55.81
2001/02	8521083	16150774	52.76
2002/03	9570923	14858035	64.42
2003/04	10079212	14878641	67.74
2004/05	12013979	15084646	79.64
2005/06	15287684	20068292	76.18
2006/07	18561389	25051938	74.09
Average =	67.23%		
SD =	9.48		
CV =	14.10%		

Above table shows the current assets to current liabilities ratio, i.e. current ratio of NABIL from the fiscal year 2000/01 to 2006/07 of seven years study period. The ratio's are 55.81%, 52.76%, 64.42%, 67.74%, 79.64%, 76.18% and 74.09 in the fiscal year 200/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Likewise, average ratio of seven year study period is 67.23%. As well, standard deviation is 9.48 and coefficient of variation is 14.10%. Current assets and current liabilities of NABIL can also be presented by figure as follows:

Figure 4.1
Current Assets and Current Liabilities of NABIL

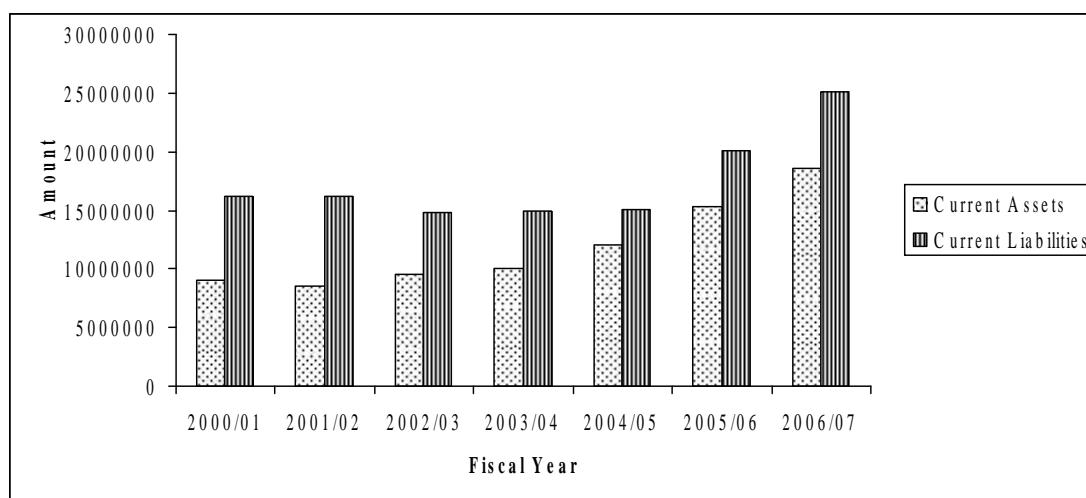


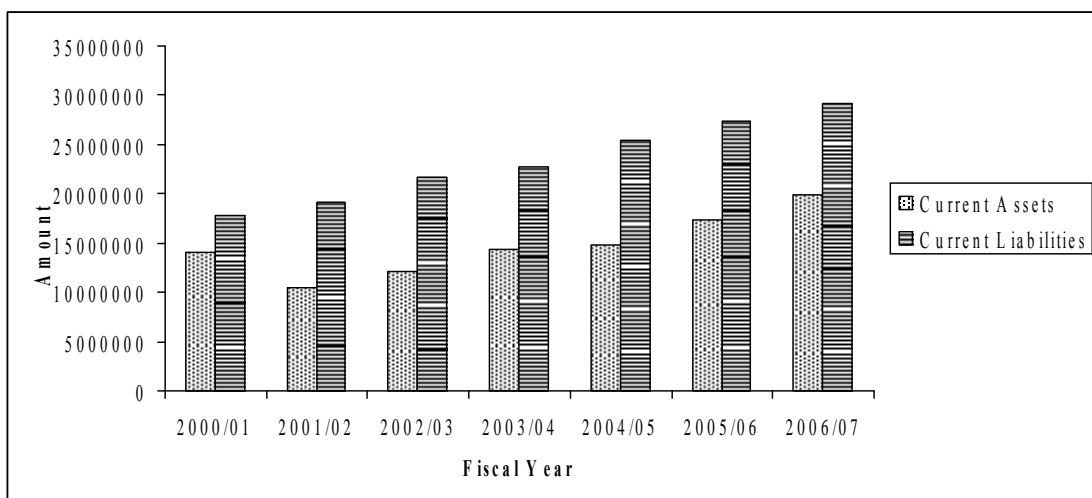
Table 4.2
Current Ratio of HBL

(Rs. in '000')

Year	Current Assets	Current Liabilities	Ratios (%)
2000/01	14030495	17742293	79.08
2001/02	10530746	19208964	54.82
2002/03	12131157	21699946	55.90
2003/04	14321953	22733721	63.00
2004/05	14880073	25388459	58.61
2005/06	17365192	27307464	63.59
2006/07	19850311	29226469	67.92
Average =	63.27%		
S.D. =	7.74		
C.V. =	12.23%		

Above table shows the current ratio of HBL during the seven years of study period from fiscal year 2000/01 to 2006/07. The ratios are 79.08%, 54.82%, 55.90%, 63.00%, 58.61%, 63.59% and 67.92% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, the average ratio of seven years study period is 63.27%. Likewise, standard deviation is 7.74 and coefficient of variation is 12.23%. Current assets and current liabilities of HBL can also be presented by figure as follows:

Figure 4.2
Current Assets and Current Liabilities of HBL



Comparison:

Current ratios of NABIL are in increasing trend except in the year 2001/02, 2005/06 and 2006/07. Where ratios of HBL are also in increasing trend except in the year 2001/02 and 2004/05. During the seven year study period, NABIL kept higher mean ratio of current assets to current liabilities ratio than HBL. But the ratio of NABIL have more variation and less consistency than HBL because of high standard deviation and coefficient of variation.

Though the optimal standard of current ratio should be 2:1, the conventional measure of liabilities is not applicable in banking sector. Banking business holds big portion of deposits as a core deposit and this deposit remains all the time throughout the year. This core deposit forms the fixed liability on the bank though it is current in nature. So the ratio maintained by commercial bank at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. Therefore the

above current ratio of the banks over the seven year period indicates that the banks have satisfactory liquidity position.

4.1.2 Cash and Bank Balance to Total Deposit Ratio

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

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

(Rs. in '000')

Year	Cash & Bank Balance	Total Deposit	Ratios (%)
2000/01	812907	15839008	5.13
2001/02	1051820	15506428	6.78
2002/03	1144767	13447661	8.51
2003/04	970486	14119032	6.87
2004/05	559381	14586609	3.83
2005/06	630239	19347399	3.26
2006/07	1383820	23342290	5.93
Average = 5.76%			
S.D. = 1.70			
C.V. = 29.51%			

Above table depicted the cash & bank balance to total deposit ratio of NABIL over the seven years period from 2001/01 to 2006/07. The ratios are 5.13%, 6.78%, 8.51%, 6.87%, 3.83%, 3.26% and 5.93% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 5.76% during the seven years study period. Likewise standard deviation is 1.70 and coefficient of variation is 29.51% cash and bank balance and total deposit of NABIL can be shown by following figures:

Figure 4.3
Cash and Bank Balance and Total Deposit of NABIL

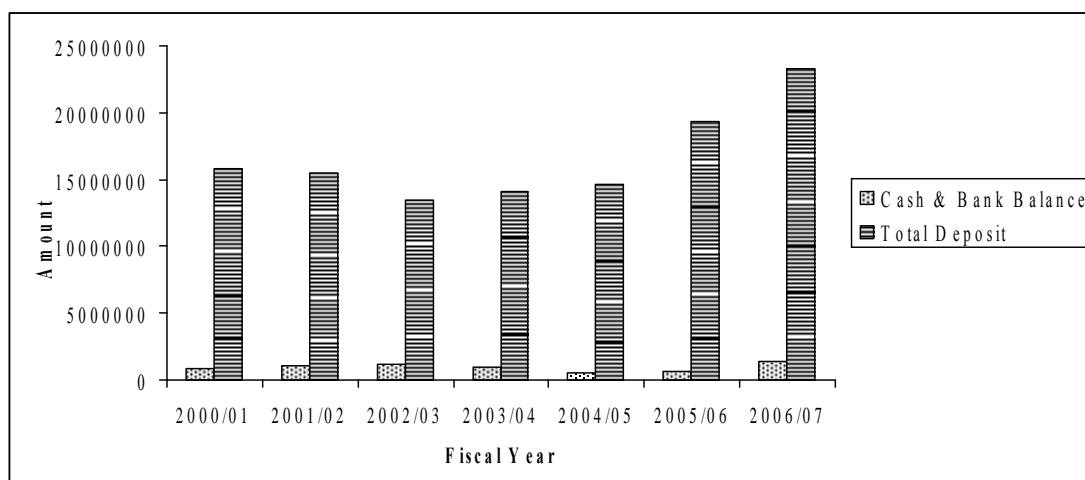


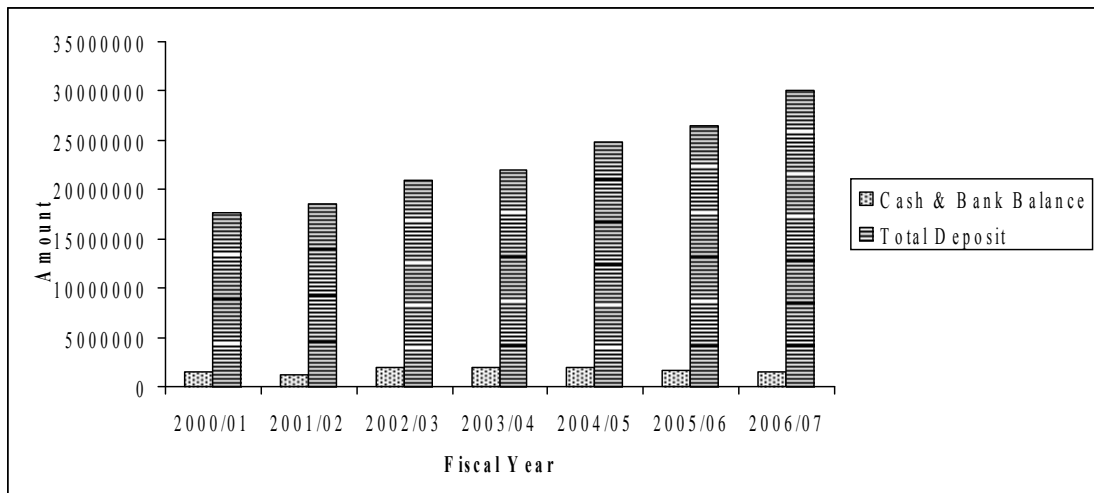
Table 4.4
Cash and Bank Balance to Total Deposit Ratio of HBL

(Rs. in '000')

Year	Cash & Bank Balance	Total Deposit	Ratios (%)
2000/01	1435175	17636847	8.14
2001/02	1264672	18619375	6.79
2002/03	1979209	21007379	9.42
2003/04	2001184	22010333	9.09
2004/05	2014471	24814012	8.12
2005/06	1717352	26490852	6.48
2006/07	1449790	30048420	4.82
Average = 7.55%			
S.D. = 1.55			
C.V. = 19.86%			

Above table depicted the cash & bank balance to total deposit ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 8.14%, 6.79%, 9.42%, 9.09%, 8.12%, 6.48% and 4.82% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 7.55% during the seven years study period. Likewise, standard deviation is 1.50 and coefficient of variation is 19.86% cash & bank balance and total deposit of HBL can be shown by following figure:

Figure 4.4
Cash and Bank Balance and Total Deposits of HBL



Comparison:

The cash and bank balance to total deposit ratio of NABIL is in increasing trend till to the fiscal year 2002/03 and then it started to decrease upto the fiscal year 2005/06 of the study period. But the ratio of HBL is in decreasing trend except in the fiscal year 2002/03. The mean ratio of HBL higher than NABIL. Similarly the ratios of NABIL have more variation and less consistency than HBL.

From the mean point of view, it can be said that cash and bank balance to total deposit ratio of HBL is greater than NABIL i.e. 7.55% vs 5.76% but the average of both banks below the average of industry i.e. 20.42%. It indicates that HBL has relatively sound and better liquidity position. Commercial banks have to maintain their cash & bank balance in term of total deposit as directed by NRB time to time. Otherwise they are imposed penalty. A high ratio of invest into short term marketable securities, treasury bill etc insuring enough liquidity. Which will help the bank to improve in profitability.

4.1.3 Cash and Bank Balance to Current Deposit Ratio

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

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

(Rs. in '000')

Year	Cash & Bank Balance	Current Deposit	Ratios (%)
2000/01	812907	2850972	28.51
2001/02	1051820	2703819	38.90
2002/03	1144767	3034003	37.73
2003/04	970486	2688967	36.09
2004/05	559381	2799185	19.98
2005/06	630239	2910590	21.65
2006/07	1383820	3395240	40.76
Average = 31.95%			
S.D. = 7.91			
C.V. = 24.75%			

Above table depicted the cash and bank balance to current deposit ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 28.51%, 39.90%, 37.73%, 36.09%, 19.98%, 21.65% and 40.76% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 31.95% during the seven years study period. Likewise, standard deviation is 7.91 and coefficient of variation is 24.75%. Cash and bank balance and current deposit of NABIL can be shown by following figure:

Figure 4.5
Cash & Bank Balance and Current Deposit of NABIL

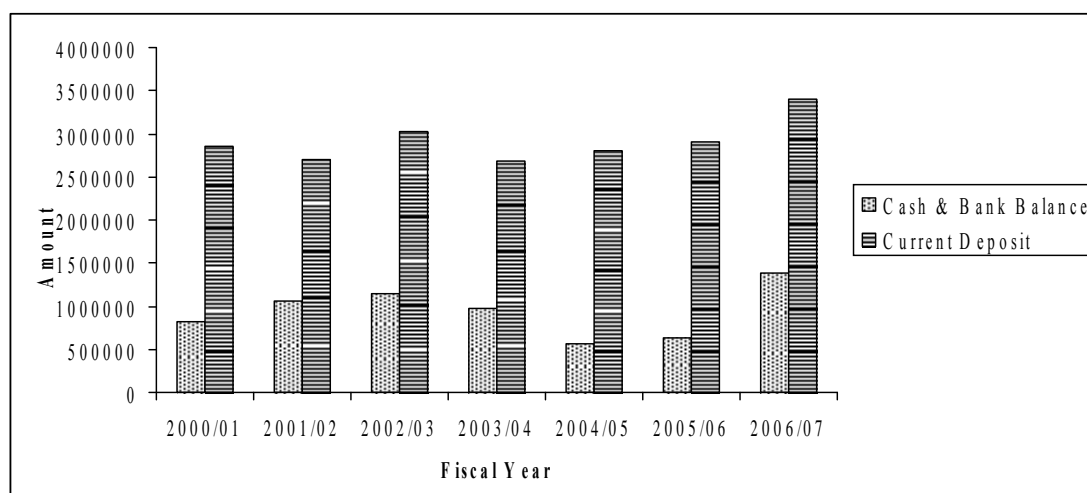
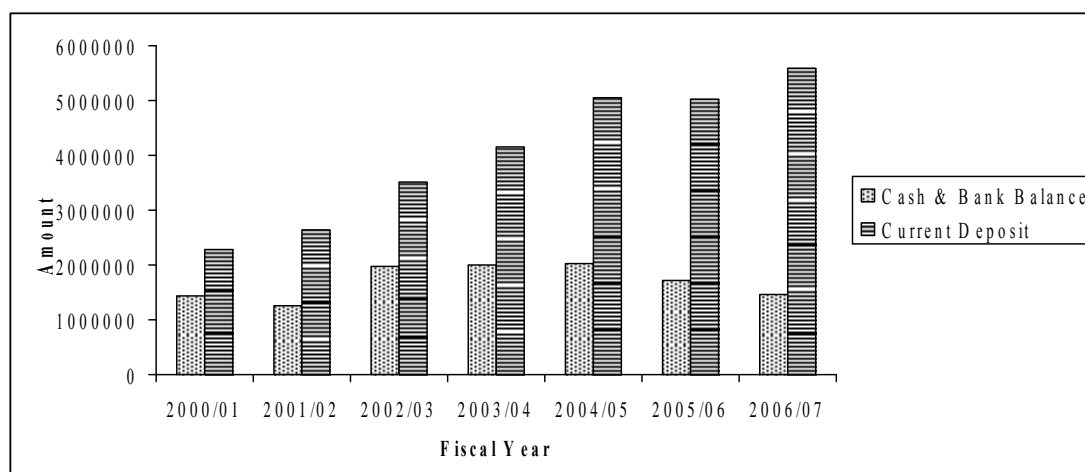


Table 4.6
Cash and Bank Balance to Current Deposit Ratio of HBL
(Rs. in '000')

Year	Cash & Bank Balance	Current Deposit	Ratios (%)
2000/01	1435175	2287151	62.75
2001/02	1264672	2634370	48.01
2002/03	1979209	3503144	56.50
2003/04	2001184	4145448	48.27
2004/05	2014471	5045161	39.93
2005/06	1717352	5028151	34.15
2006/07	1449790	5589580	24.94
Average = 45.08%			
S.D. = 11.79			
C.V. = 26.16%			

Above table depicted the cash & bank balance to current deposit ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 62.75%, 48.01%, 56.50%, 48.27%, 39.93%, 34.15% and 25.94% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 45.08% during the seven year study period. Likewise, standard deviation is 11.79 and coefficient of variation is 26.26% cash & bank balance and current deposit of HBL can be shown by following figure:

Figure 4.6
Cash & Bank Balance and Credit Deposit of HBL



Comparison:

Cash and bank balance to current deposit ratio of NABIL is in decreasing trend except in the fiscal year 2001/02 and 2006/07 during the seven years of study period. Similarly the ratio of HBL is also in decreasing trend except in the fiscal year 2002/03. Where the mean ratio of HBL is higher than that of NABIL over the study period. Likewise, the ratios of HBL have more variation but less consistency than NABIL.

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

4.1.4 Cash and Bank Balance to Interest Sensitive Deposits Ratio

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

Table 4.7

Cash and Bank Balance to Interest Sensitive Deposits Ratio of NABIL

(Rs. in '000')

Year	Cash & Bank Balance	Saving Deposit	Ratios (%)
2000/01	812907	4917138	16.53
2001/02	1051820	4972057	21.15
2002/03	1144767	5229723	21.89
2003/04	970486	5994121	16.19
2004/05	559381	7026334	7.96
2005/06	630239	8770760	7.19
2006/07	138320	10187354	13.58
Average =	14.93%		
S.D. =	5.36		
C.V. =	35.94%		

Above table depicted the cash & bank balance to saving deposit ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratio are 16.53%, 21.15%, 21.89%, 16.19%, 7.96%, 7.19% and 13.58% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 14.93% during the seven years study period. Likewise, standard deviation is 5.36 and coefficient of variation is 35.94% cash and bank balance and saving deposit of NABIL can be shown by following figure.

Figure 4.7

Cash & Bank Balance and Saving Deposit of NABIL

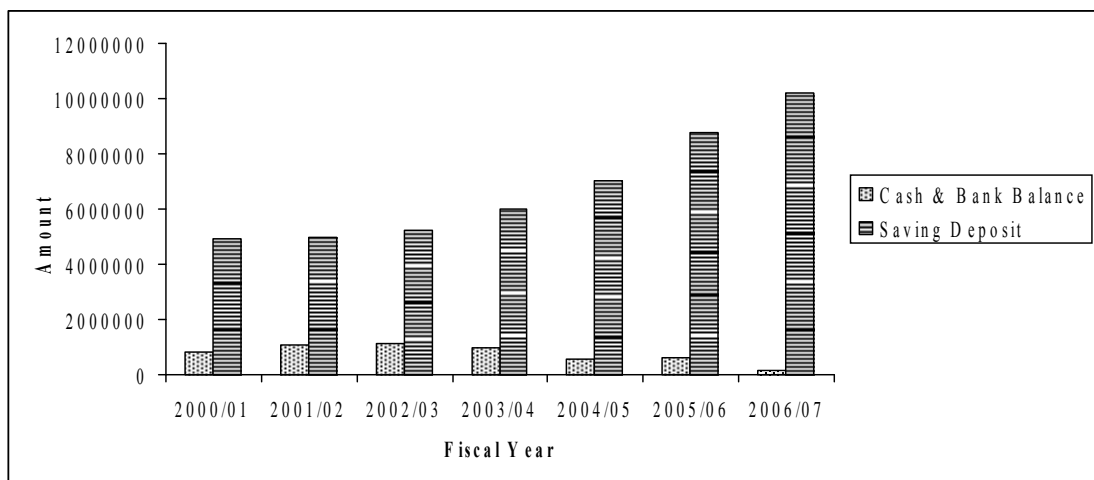


Table 4.8

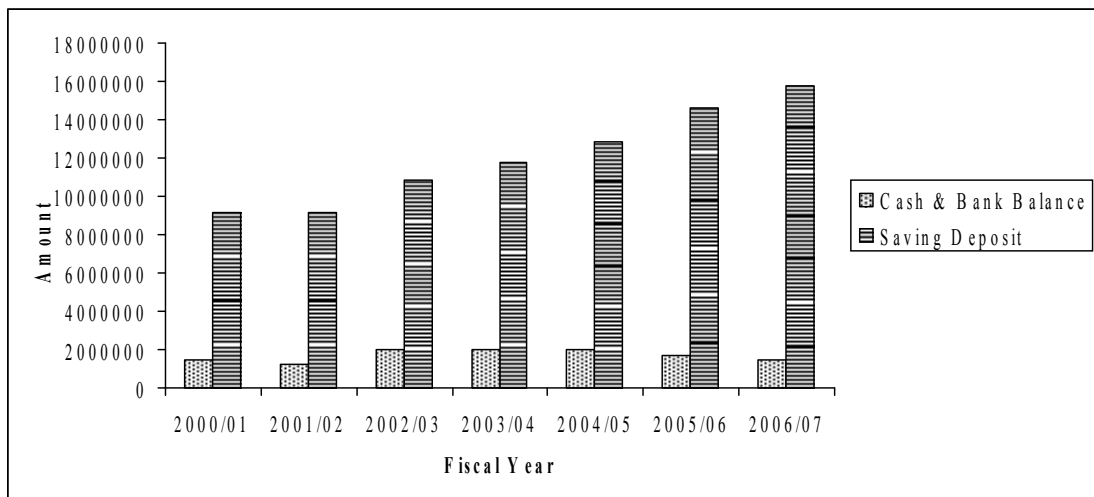
Cash and Bank Balance to Interest Sensitive Deposit Ratio of HBL

(Rs. in '000')

Year	Cash & Bank Balance	Saving Deposit	Ratios (%)
2000/01	1435175	9163444	15.66
2001/02	1264672	9163946	13.80
2002/03	1979209	10870542	18.21
2003/04	2001184	11759602	17.02
2004/05	2014471	12852415	15.67
2005/06	1717352	14582855	11.78
2006/07	1449790	15784770	9.18
Average =	14.47%		
S.D. =	2.90		
C.V. =	20.06%		

Above table depicted the cash and bank balance to saving deposit ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 15.66%, 13.80%, 18.21%, 17.02%, 15.67%, 11.78% and 9.18% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 14.47% during the seven years study period. Likewise, standard deviation is 2.90 and coefficient of variation is 20.06. Cash & bank balance and saving deposit of HBL can be shown by following figure.

Figure 4.8
Cash & Bank Balance and Saving Deposit of HBL



Comparison:

Cash and bank balance to saving deposit ratio of NABIL is in increasing trend till to the fiscal year 2002/03 and then it is in decreasing trend till to the fiscal year 2005/06 of the study period. Where the ratio of HBL is in decreasing trend except in the fiscal year 2002/03. But NABIL has higher mean ratio than HBL over the study period. Likewise the ratios of NABIL have more variation and less consistency than HBL.

From the analysis of overall liquidity ratios of NABIL and HBL, we can say that NABIL has high degree of liquid assets i.e. high liquidity position than HBL. High liquidity position is not so good because of interest expenses and it causes inverse impact in overall performance.

4.2 Assets Management Ratio

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

4.2.1 Loan & Advances to Total Deposit Ratio

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

Table 4.9

Loan & Advances to Total Deposit Ratio of NABIL

(Rs. in '000')

Year	Loan & Advances	Total Deposit	Ratios (%)
2000/01	7732637	15839008	48.82
2001/02	7437895	15506428	47.97
2002/03	7755952	13447661	57.68
2003/04	8189993	14119032	58.01
2004/05	10586170	14586609	72.57
2005/06	12922543	19347399	66.79
2006/07	15545780	23342290	66.60
Average =	59.78%		
S.D. =	8.67		
C.V. =	14.51%		

Above table depicted the loan & advance to total deposit ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 48.82%, 47.97%, 57.68%, 58.01%, 72.57%, 66.79% and 66.60% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly mean ratio remains at 59.78% during the seven years study period. Likewise, standard deviation is 8.67 and coefficient of variation is 14.51% loan & advance and total deposit of NABIL can be shown by following figure.

Figure 4.9
Loan & Advances and Total Deposit of NABIL

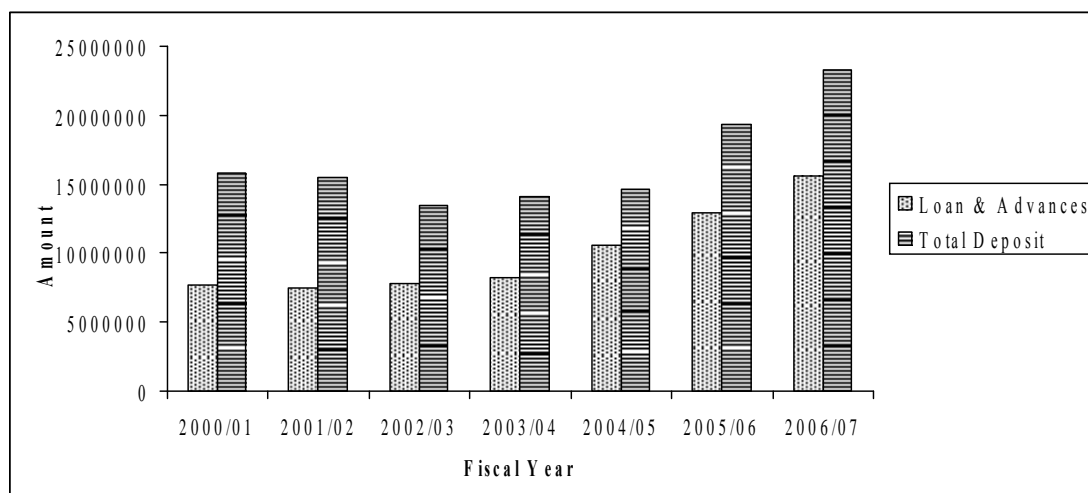
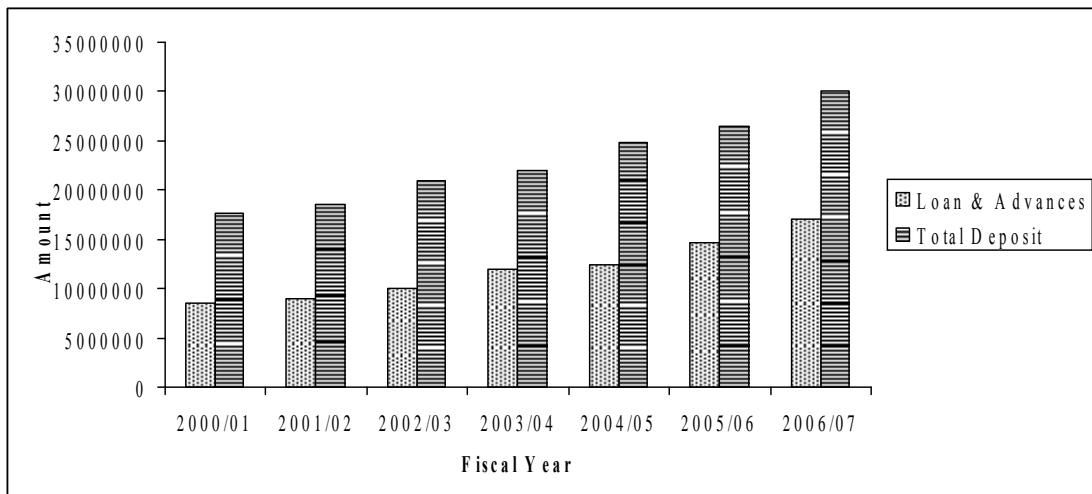


Table 4.10
Loan & Advances to Total Deposit Ratio of HBL
(Rs. in '000')

Year	Loan & Advances	Total Deposit	Ratios (%)
2000/01	8537666	17636847	48.41
2001/02	8913724	18619375	47.87
2002/03	10001848	21007379	47.61
2003/04	11951869	22010333	54.30
2004/05	12424521	24814012	50.07
2005/06	14642560	26490852	55.27
2006/07	16998000	30048420	56.57
Average =	51.44%		
S.D. =	3.54		
C.V. =	6.88%		

Above table depicted the loan & advances to total deposit ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 48.41%, 47.87%, 47.61%, 54.30%, 50.07%, 55.27% and 56.57% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 51.44% during the seven years study period. Likewise, standard deviation is 3.54 and coefficient of variation is 6.88%. Loan & advance and total deposit of HBL can be shown by following figure:

Figure 4.10
Loans & Advances and Total Deposit of HBL



Comparison:

Loan and advances to total deposit ratio of NABIL is increasing trend except in the fiscal year 2000/01, 2005/06 and 2006/07 over the seven years of study period. Where the ratios of HBL is in decreasing trend except in the fiscal year 2003/04, 2005/06 and 2006/07. Similarly, NABIL has highest mean ratio than that of HBL during the study period. Likewise the ratio of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL is in good position according to deposit mobilization point of view than HBL because the average of NABIL is higher than that industry average i.e. $59.78 > 52.88$. But it does not mean that NABIL is investing more of its collected fund in high return but with low risk, sector than HBL. As well lending ratios are very low than collection ratios over the study period. From this point of view loan and advances to total deposit ratios of the banks are not so better but satisfactory.

4.2.2 Loan & Advances to Total Assets Ratio

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

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

Table 4.11
Loan & Advances to Total Assets Ratio of NABIL

(Rs. in '000')

Year	Loan & Advances	Total Assets	Ratios (%)
2000/01	7732637	17770651	43.51
2001/02	7437895	17629252	42.19
2002/03	7755952	16562625	46.83
2003/04	8189993	16745487	48.91
2004/05	10586170	17186331	61.60
2005/06	12922543	22329971	57.87
2006/07	15545780	27253990	57.04
Average = 51.14%			
S.D. = 7.08			
C.V. = 13.85%			

Above table depicted the loan & advances to total assets ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 43.51%, 42.19%, 46.83%, 48.91%, 61.60%, 57.87% and 57.04% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 51.14% during the seven years study period. Likewise, standard deviation is 7.08 and coefficient of variation is 13.85. Loan & advances and total assets of NABIL can be shown by following figure:

Figure 4.11

Loan & Advances and Total Assets of NABIL

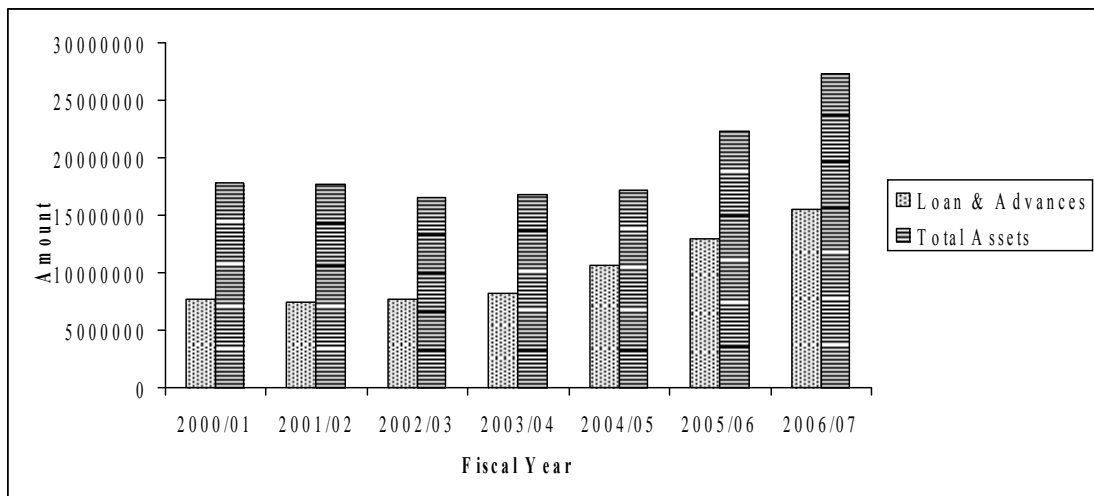


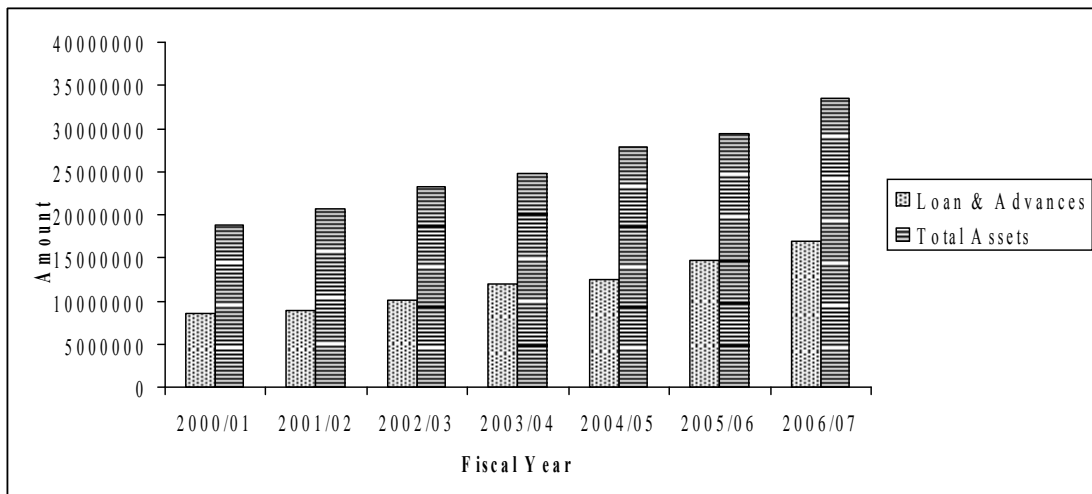
Table 4.12

Loan & Advances to Total Assets Ratio of HBL

Year	Loan & Advances	Total Assets	Ratios (%)
2000/01	8537666	18870804	45.24
2001/02	8913724	20672434	43.12
2002/03	10001848	23279341	42.96
2003/04	11951869	24762025	48.27
2004/05	12424521	27844695	44.62
2005/06	14642560	29460390	49.70
2006/07	16998000	33519140	50.71
Average =	46.37%		
S.D. =	2.93		
C.V. =	6.32%		

Above table depicted the loan & advances to total assets ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 45.24%, 43.12%, 42.96%, 48.27%, 44.62%, 49.70% and 50.71% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 46.37% during the seven years study period likewise, standard deviation is 2.93 and coefficient of variation is 6.32%. Loan & advances and total assets of HBL can be shown by following figure:

Figure 4.12
Loan & Advances and Total Assets of HBL



Comparison:

Loan & advances to total assets ratio of NABIL is in increasing trend except in the fiscal year 2001/02, 2005/06 and 2006/07 over the seven year. Where the ratio of HBL is in decreasing trend except in the fiscal year 2000/01, 2003/04, 2005/06 and 2006/07. Similarly NABIL is higher mean ratio than that of HBL. Likewise the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL has sound lending policy so that it is able to mobilize its resources as loan & advances than HBL. As well NABIL is risk taker bank than HBL. But assets management is terms of loan & an advances of HBL is not so good because of below the fifty percent of total assets.

4.2.3 Total Investment to Total Deposit Ratio

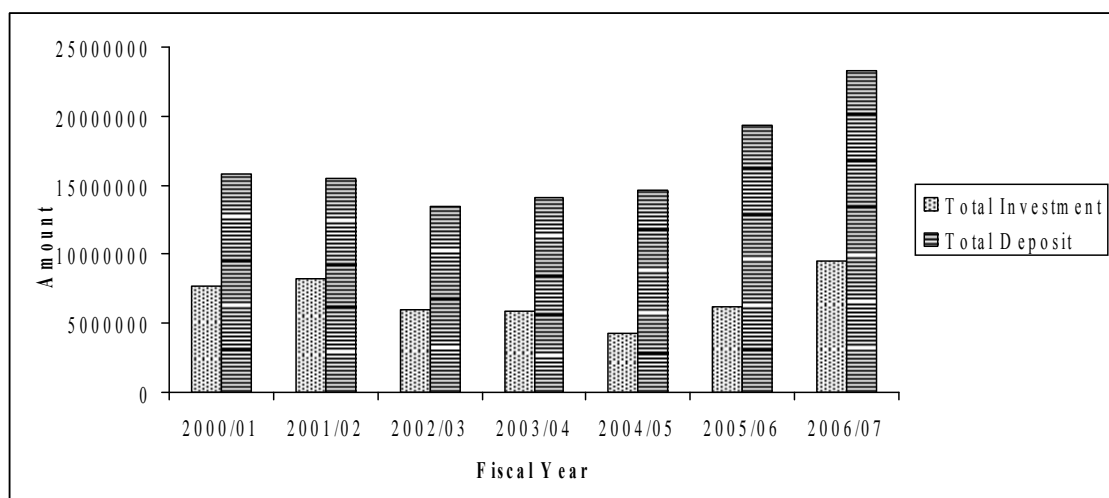
A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial and non-financial organizations. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of management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

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

Table 4.13**Total Investment to Total Deposit Ratio of NABIL****(Rs. in '000')**

Year	Total Investment	Total Deposit	Ratios (%)
2000/01	7704309	15839008	48.64
2001/02	8199515	15506428	52.88
2002/03	6031176	13447661	44.85
2003/04	5835948	14119032	41.33
2004/05	4267233	14586609	29.25
2005/06	6178533	19347399	31.93
2006/07	9524850	23342290	40.81
Average =	41.38%		
S.D. =	7.87		
C.V. =	19.02%		

Above table depicted the total investment to total deposit ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 48.64%, 52.88%, 44.85%, 41.33%, 29.25%, 31.93% and 40.81% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 41.38% during the seven years study period. Likewise, standard deviation is 7.87 and coefficient of variation is 19.02. Total investment to total deposit of NABIL can be shown by following figure.

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

Total 4.14

Total Investment to Total Deposit Ratio of HBL

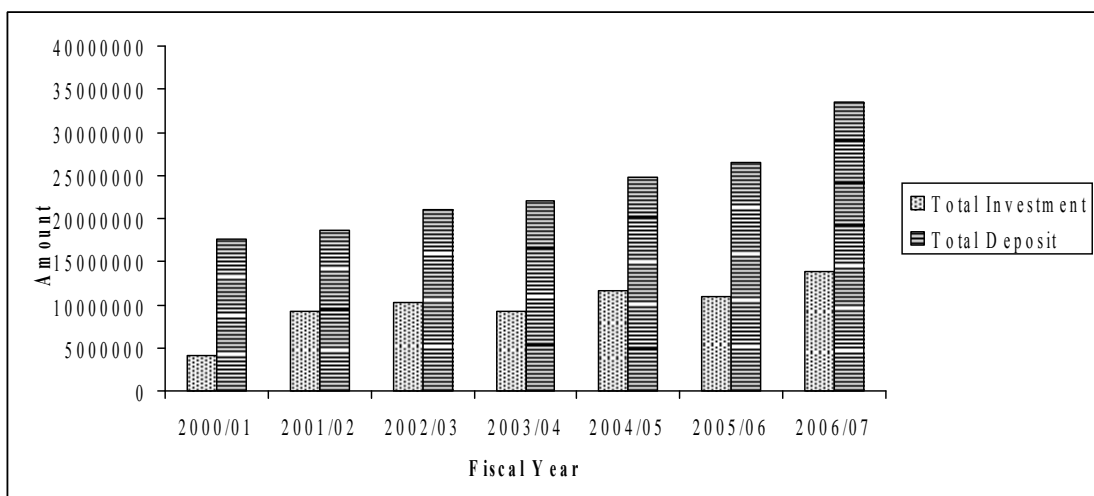
(Rs. in '000')

Year	Total Investment	Total Deposit	Ratios (%)
2000/01	4083160	17636847	23.15
2001/02	9157107	18619375	49.18
2002/03	10175435	21007379	48.44
2003/04	9292103	22010333	42.22
2004/05	11692342	24814012	47.12
2005/06	10889031	26490852	41.10
2006/07	13840560	33519140	41.29
Average = 41.78%			
S.D. = 8.24			
C.V. = 19.73%			

Above table depicted the total investment to total deposit ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 23.15%, 49.18%, 48.44%, 42.22%, 47.12% 41.10% and 41.29% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 41.78% during the seven years study period. Likewise, standard deviation is 8.24 and coefficient of variation is 19.73%. Total investment to total deposit of HBL can be shown by following figure:

Figure 4.14

Total Investment and Total Deposit of HBL



Comparison:

Total investment to total deposit ratio of NABIL is in decreasing trend except in the fiscal year 2001/02 and 2005/06 over the seven years of study period. Where the ratio of HBL is in decreasing trend except in the fiscal year 2001/02 and 2004/05. Similarly HBL has higher mean ratio than that of NABIL. Likewise the ratios of HBL have more variation and less consistency than NABIL. Total investment to total deposit ratio of both banks are higher than that the average of industry i.e. 22.24 this shows both banks mobilize their deposit.

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

4.3 Leverage Ratio

The ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lender. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity, strength and weakness of firm. Following ratios are included under leverage ratios.

4.3.1 Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes all the credits (long-term and short-term) of the bank where equity includes paid up capital reserve & surplus and undistributed profit. Very high ratio is bad during the long-run period and vice-versa.

Table 4.15
Debt to Equity Ratio of NABIL

(Rs. in '000')

Year	Total Debt	Total Equity	Ratios (%)
2000/01	16707805	1354222	1233.76
2001/02	16482824	1418067	1162.34
2002/03	15248438	1730423	881.20
2003/04	15263804	1936993	788.02
2004/05	15528693	1665064	932.62
2005/06	20454977	2510256	814.86
2006/07	25196340	2731010	922.60
Average = 962.2%			
S.D. = 158.05			
C.V. = 16.43%			

Above table depicted the total debt to total equity ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 1233.76%, 1162.34%, 881.20%, 788.02%, 932.62%, 814.86% and 922.60% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 962.2% during the seven years study period. Likewise, standard deviation is 158.05 and coefficient of variation is 16.43%. Total debt to total equity of NABIL can be shown by following figure:

Figure 4.15
Total Debt and Total Equity of NABIL

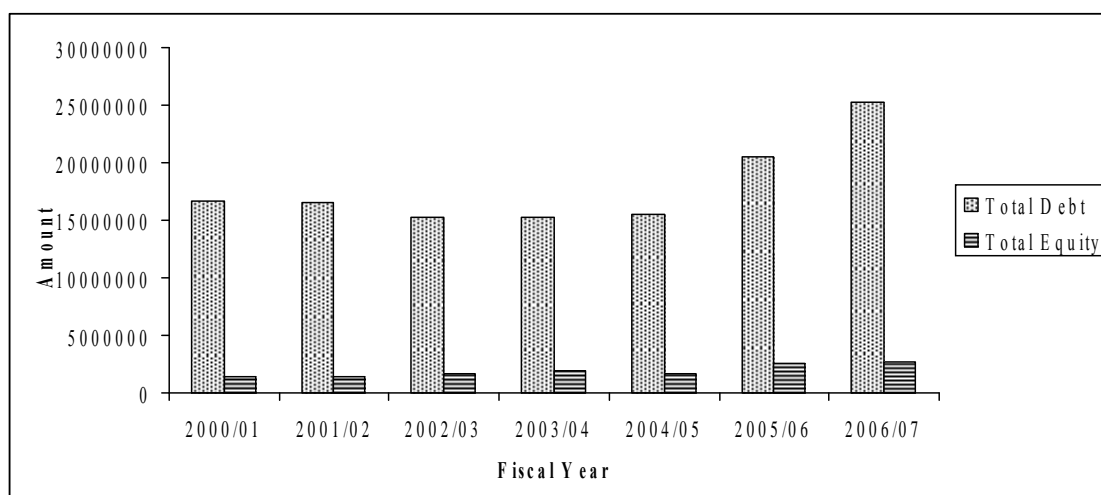


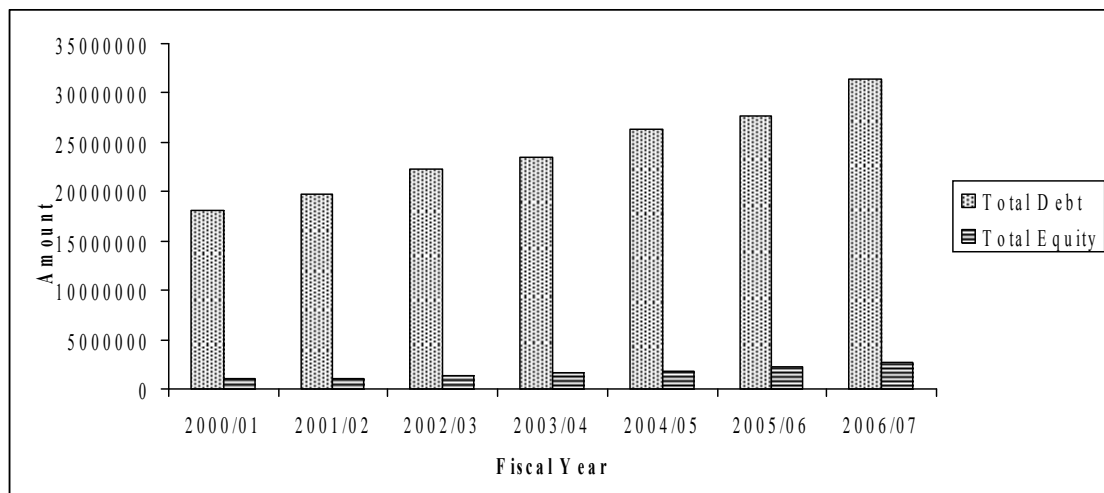
Table 4.16
Total Debt to Equity Ratio of HBL

(Rs. in '000')

Year	Total Debt	Total Equity	Ratios (%)
2000/01	18150213	997631	1819.33
2001/02	19814319	1093139	1812.61
2002/03	22292091	1275260	1748.04
2003/04	23437859	1587219	1476.66
2004/05	26302948	1850021	1421.76
2005/06	27694215	2223634	1245.45
2006/07	31372640	2638320	1189.11
Average = 1530.72%			
S.D. = 245.78			
C.V. = 16.06%			

Above table depicted the total debt to total equity ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 1819.33%, 1812.61%, 1748.04%, 1476.66%, 1421.76%, 1245.45% and 1189.11% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 1530.42% during the seven years study period. Likewise standard deviation is 245.78 and coefficient of variation is 16.06%. Total debt to total equity of HBL can be shown by following figure.

Figure 4.16
Total Debt and Total Equity of HBL



Comparison:

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

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

4.3.2 Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (ie. total debt) and total assets. It shown the relative extent to which the firm is using borrowed money. A lower ratio is profitable since it reduces the distress of the creditors by using more amount of equity on total assets.

Table 4.17
Total Debt to Total Assets Ratio of NABIL

Year	Total Debt	Total Assets	Ratios (%)
2000/01	16707805	17770651	94.02
2001/02	16482824	17629252	93.50
2002/03	15248438	16562625	92.07
2003/04	15263804	16745487	91.15
2004/05	15528693	17186331	90.35
2005/06	20454977	22329971	91.60
2006/07	25196340	27253390	92.45
Average = 92.16%			
S.D. = 1.19			
C.V. = 1.29%			

Above table depicted the total debt to total assets ratio of NABIL over seven years period from 2000/01 to 2006/07. The ratios are 94.02%, 93.50%, 92.50%, 92.07%, 91.15%, 90.35%, 91.60% and 92.45% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio

remains at 92.16% during the seven years study period. Likewise standard deviation is 1.19 and coefficient of variation is 1.29%. Total debt and total assets of NABIL can be shown by following figure.

Figure 4.17

Total Debt and Total Assets of NABIL

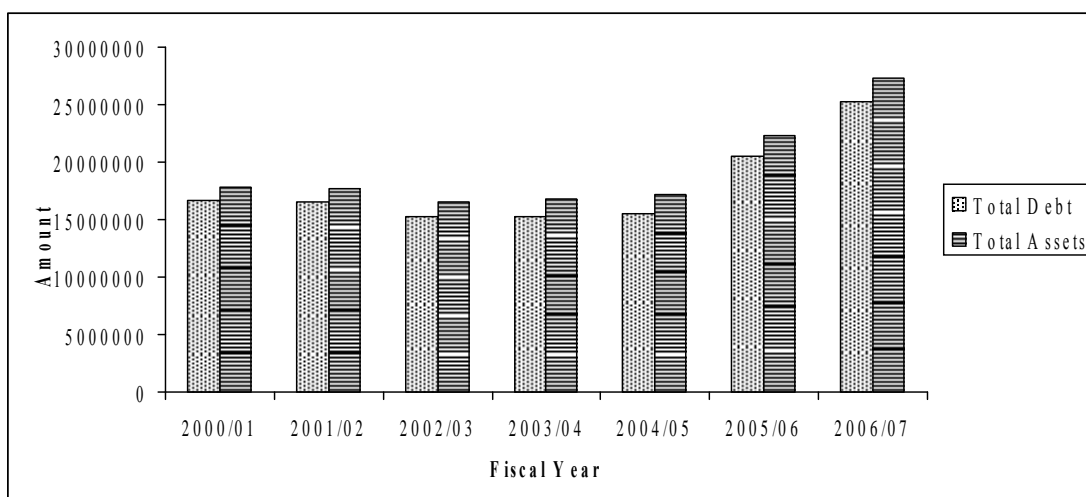


Table 4.18

Total Debt to Total Assets Ratio of HBL

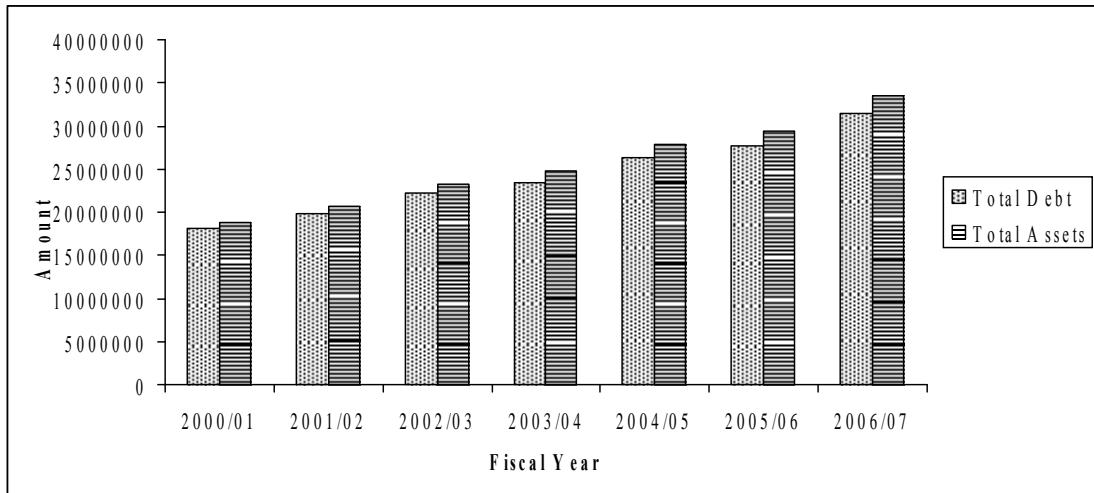
(Rs. in '000')

Year	Total Debt	Total Assets	Ratios (%)
2000/01	18150213	18870804	96.18
2001/02	19814319	20672434	95.85
2002/03	22292091	23279341	95.76
2003/04	23437859	24762025	94.65
2004/05	26302948	27844695	94.46
2005/06	27694215	29460390	94.00
2006/07	31372640	33519140	93.60
Average =	94.93%		
S.D. =	0.93		
C.V. =	0.98%		

Above table depicted the total debt to total assets ratio of HBL over the seven years period from 2000/01 to 2006/07 respectively. The ratios are 96.18%, 95.85%, 95.76%, 94.65%, 94.46%, 94.00% and 93.60% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively.

2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 94.43% during the seven years study period. Likewise, standard deviation is 0.93 and coefficient of variation is 0.98%. Total debt and total assets of HBL can be shown by following figure.

Figure 4.18
Total Debt and Total Assets of NABIL



Comparison:

Total debt to total assets ratio of NABIL is in decreasing trend except in the last two years over the seven years study period. Where the ratio of HBL is in continuously decreasing trend over the study period. But HBL has the higher mean ratio than that of NABIL similarly, the ratio of NABIL have more variation and less consistency than HBL.

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

4.4 Profitability Ratios

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

advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are under the profitability ratio.

4.4.1 Interest Income to Interest Expenses Ratio

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

Table 4.19
Interest Income to Interest Expenses Ratio of NABIL
(Rs. in '000')

Year	Interest Income	Interest Expenses	Ratios (%)
2000/01	1266704	578367	219.02
2001/02	1120184	462079	242.42
2002/03	1017872	317349	320.74
2003/04	1001617	282948	353.99
2004/05	1068747	243545	438.83
2005/06	1309998	537161	366.78
2006/07	1587760	555710	285.72
Average = 318.21%			
S.D. = 70.54			
C.V. = 22.17%			

Above table depicted the interest to interest expenses ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 219.02%, 242.42%, 320.74%, 353.99%, 438.83%, 366.78% and 285.72% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 318.21% during the seven years study period. Likewise, standard deviation is 70.54 and coefficient of variation is 22.17%. Interest income and interest expenses of NABIL can be shown by following figure.

Figure 4.19

Interest Income and Interest Expenses of NABIL

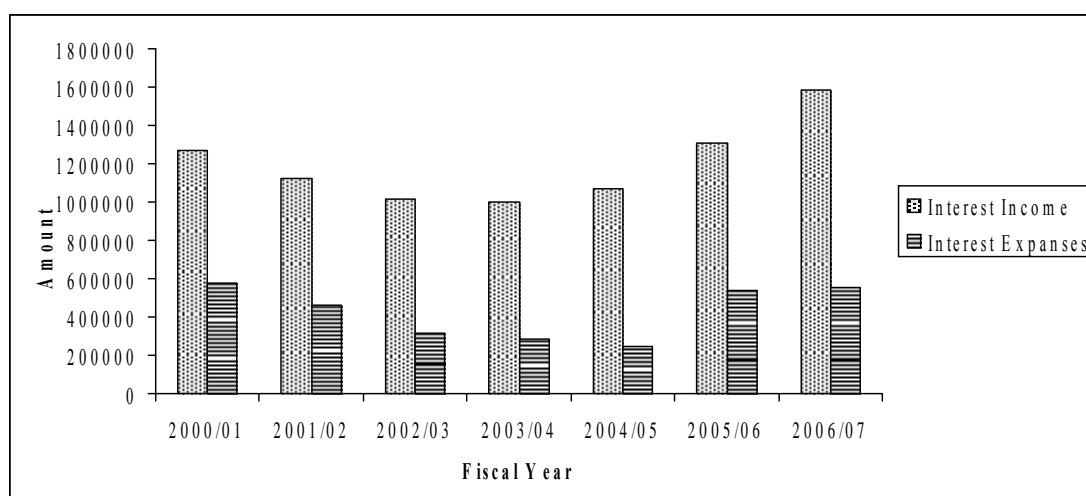


Table 4.20

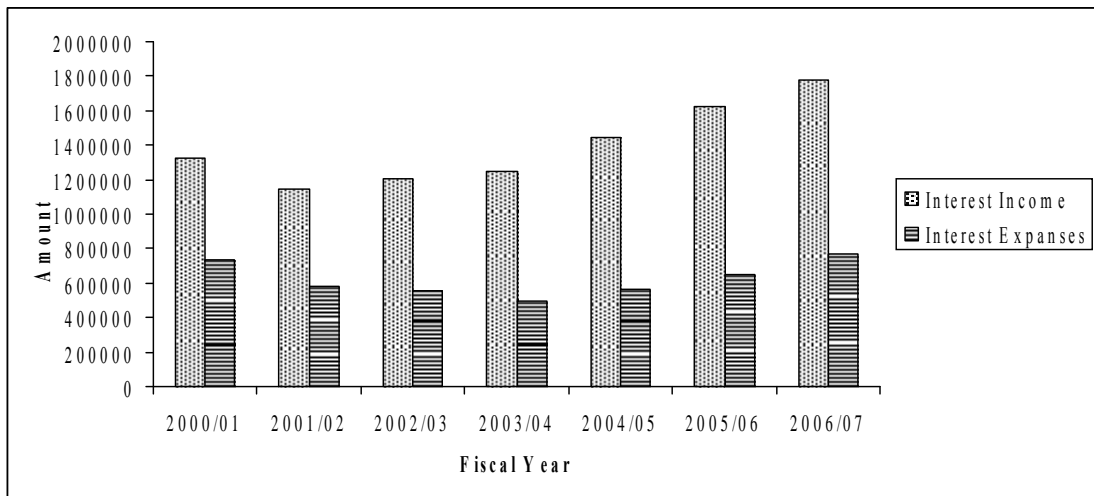
Interest Income & Interest Expenses Ratio of HBL

(Rs. in '000')

Year	Interest Income	Interest Expenses	Ratios (%)
2000/01	1326378	734518	180.58
2001/02	1148998	578133	198.74
2002/03	1201234	554128	216.78
2003/04	1245895	491543	253.47
2004/05	1446468	561964	257.40
2005/06	1626474	648842	250.67
2006/07	1775680	767410	231.39
Average =	227.00%		
S.D. =	21.78		
C.V. =	9.59%		

Above table depicted the interest income to interest expenses ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 180.58%, 198.74%, 216.78%, 253.47%, 257.40%, 250.67% and 231.39% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 227% during the seven years study period. Likewise, standard deviation is 21.78 and coefficient of variation is 9.59%. Interest income and interest expenses of NABIL can be shown by following figure:

Figure 4.20
Interest Income and Interest Expenses of HBL



Comparison:

Interest income to interest expenses ratio of NABIL is in highly increasing trend except in the fiscal year 2005/06 and 2006/07 over the seven years of study period. Where the ratio of HBL is also in increasing trend except in the fiscal year 2006/07. Similarly NABIL has the higher mean ratio than the of HBL. Likewise the ratios of NABIL have more variation and less consistency than HBL.

From the analysis, we can say that NABIL has high degree of gap between interest offered and interest charged than HBL. This shows that NABIL has charged high interest rate to borrowers and offering low interest rate to depositors. The higher cost of deposit mix of NABIL has caused the gap between interest income and interest expenses to the least.

4.4.2 Return on Loan & Advances Ratio

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

Table 4.21**Return on Loan & Advances Ratio of NABIL****(Rs. in '000')**

Year	Net Profit	Loan & Advances	Ratios (%)
2000/01	291376	7732637	3.77
2001/02	2711639	7437895	3.65
2002/03	406235	7755952	5.37
2003/04	455311	8189993	5.56
2004/05	518636	10586170	4.90
2005/06	635262	12922543	4.92
2006/07	673960	15545780	4.34
Average = 4.64%			
S.D. = 0.69			
C.V. = 14.87%			

Above table depicted the return on loan & advances ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 3.77%, 3.65%, 5.37%, 5.56%, 4.90%, 4.92% and 4.34% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 4.64% during the seven years study period. Likewise, standard deviation is 0.69 and coefficient of variation is 14.87%. Net profit and loan & advances of NABIL can be shown by following figure.

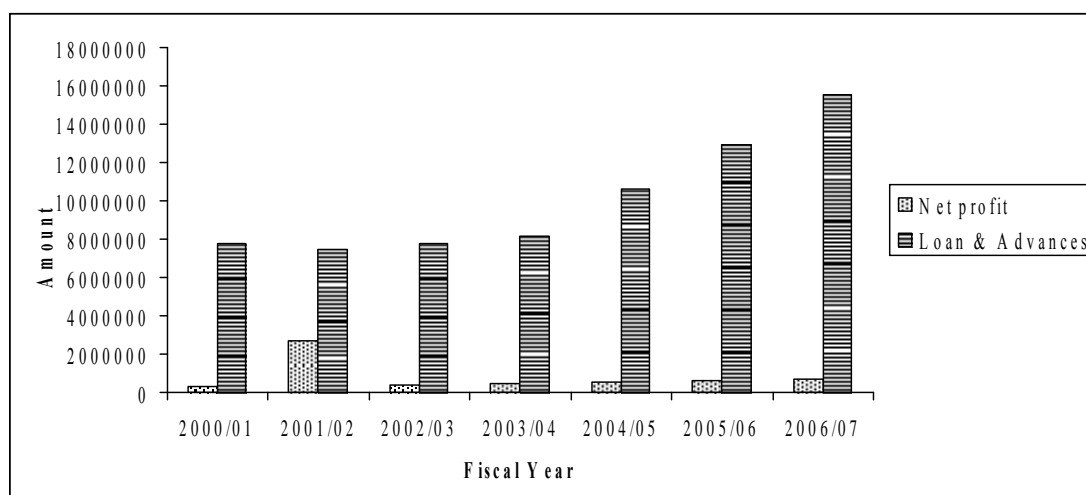
Figure 4.21**Net profit and Loan & Advances of NABIL**

Table 4.22
Return on Loan & Advances Ratio of HBL

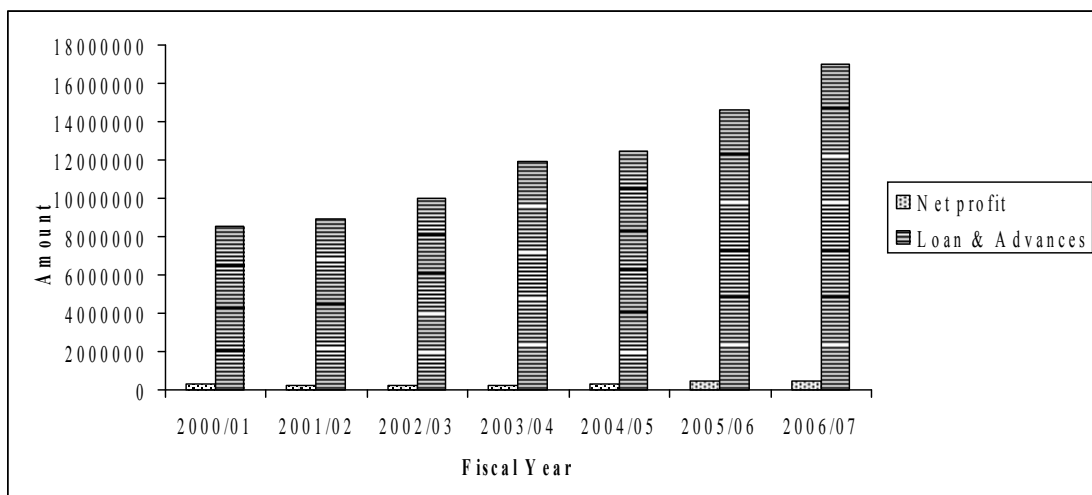
(Rs. in '000')

Year	Net Profit	Loan & Advances	Ratios (%)
2000/01	277040	8537666	3.24
2001/02	235024	8913724	2.64
2002/03	212128	10001848	2.12
2003/04	263053	11951869	2.02
2004/05	308275	12424521	2.48
2005/06	457458	14642560	3.12
2006/07	491820	16998000	2.89
Average = 2.64%			
S.D. = 0.44			
C.V. = 16.51%			

Above table depicted the return on loan & advances ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 3.24%, 2.64%, 2.12%, 2.02%, 2.48%, 3.12% and 2.89% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 2.64% during the seven years study period. Likewise, standard deviation is 0.44 and coefficient of variation is 16.51%. Net profit and loan & advances of HBL can be shown by following figure:

Figure 4.22

Net Profit and Loan & Advances of HBL



Comparison:

Return on Loan & advances ratio of HABIL is in increasing trend except in the fiscal year 2001/02, 2004/05, and 2006/07 over the seven years of study period. Where the ratio of HBL is in first decreasing trend till to the fiscal year 2002/03 and in increasing trend in following years of study period except in the fiscal year 2006/07. As well NABIL has the higher mean ratio than of HBL. Similarly the ratios of NABIL has less variation but more consistency than HBL.

From the analysis, we can say that return on loan & advances ratio of NABIL and HBL is very low and in fluctuating trend also. The highest ratios is 5.56% of NABIL and 3.24% of HBL during the seven years of study period. It shows the normal earning capacity of NABIL and HBL in loan & advance. That means, lending policy of both banks are not so sound and credit are not granted in profitable sectors but satisfactorable in the present economic situation.

4.4.3 Net Profit/Loss to Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in business to generate an operating surplus. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa.

Table 4.23
Net Profit/Loss to Total Assets Ratio of NABIL

(Rs. in '000')

Year	Net Profit	Total Assets	Ratios (%)
2000/01	291376	17770651	1.64
2001/02	271639	17629252	1.54
2002/03	416235	16562625	2.05
2003/04	455311	16745487	2.72
2004/05	518636	17186331	3.02
2005/06	635262	22329971	2.84
2006/07	673960	27253390	2.47
Average =	2.39%		
S.D. =	0.55		
C.V. =	23.01%		

Above table depicted the return on total assets ratio of NABIL over seven years period from 2000/01 to 2006/07. The ratios are 1.64%, 1.54%, 2.51%, 2.72%, 3.02%, 2.84% and 2.47% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly mean ratio remains at 2.39% during the seven years study period. Likewise, standard deviation is 0.55 and coefficient of variation is 23.01%. Net profit and total assets of NABIL can be shown by following figure:

Figure 4.23

Net Profit and Total Assets of NABIL

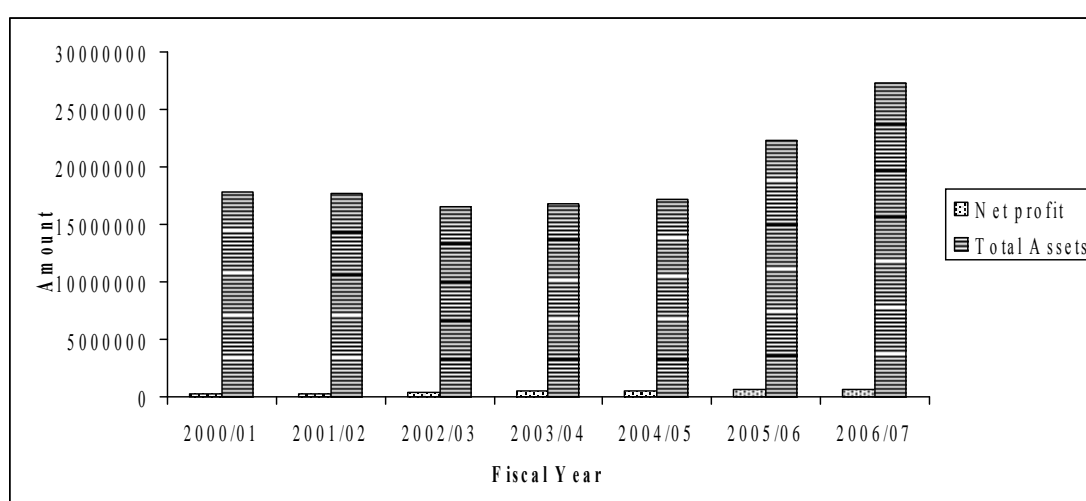


Table 4.24

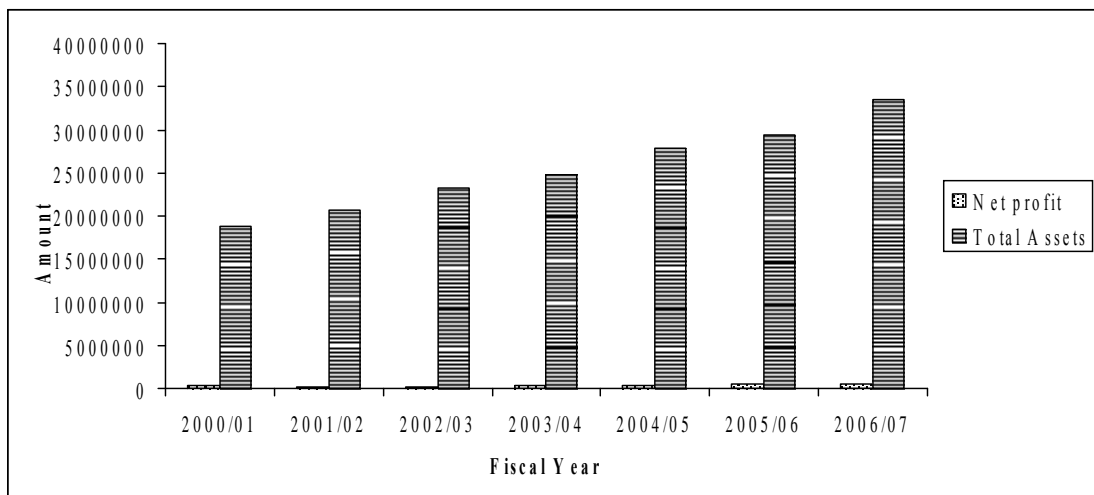
Net Profit/Loss to Total Assets Ratio of HBL

(Rs. in '000')

Year	Net Profit	Total Assets	Ratios (%)
2000/01	277040	18870804	1.47
2001/02	235024	20672434	1.14
2002/03	212128	23279341	0.91
2003/04	263053	24762025	1.06
2004/05	308275	27844695	1.11
2005/06	457458	29460390	1.55
2006/07	491820	33519140	1.47
Average = 1.24%			
S.D. = 0.23			
C.V. = 18.55%			

Above table depicted the return on total assets ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 1.47%, 1.14%, 0.91%, 1.06%, 1.11%, 1.55% and 1.47% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 1.24% during the seven years study period. Likewise, standard deviation is 0.23 and coefficient of variation is 18.55%. Net profit and total assets of HBL can be shown by following figure:

Figure 4.24
Net Profit and Total Assets of HBL



Comparison:

Return on total assets ratio of NABIL is in increasing trend except in the fiscal year 2000/02, 2005/06 and 2006/07 over the seven years of study period. Where the ratio of HBL is in first decreasing trend till to the fiscal year 2002/03 and then in increasing trend in the subsequent year of the study period. Similarly, NABIL has the higher mean ratio then that HBL during the study period. Likewise, the ratios of NABIL have more variation and less consistency nature than HBL.

From the analysis, we can say that NABIL has better earning capacity than HBL. The highest ratio of NABIL is 3.02% where of HBL is 1.55% over the study period. It means that NABIL can earn 3.02% profit of total assets and HBL can earn only 1.55% profit of total assets.

4.4.4 Interest Income to Total Loan & Advances Ratio

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

Table 4.25

Interest Income to Total Loan & Advances Ratio of NABIL

(Rs. in '000')

Year	Interest Income	Loan & Advances	Ratios (%)
2000/01	1266704	7732637	16.38
2001/02	1120184	7437895	15.06
2002/03	1017872	7755952	13.12
2003/04	1001617	8189993	12.23
2004/05	1068747	10586170	10.10
2005/06	1309998	12922543	10.14
2006/07	1587760	15545780	10.21
Average =	12.46%		
S.D. =	2.35		
C.V. =	18.85%		

Above table depicted the interest income to loan & advances ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 16.38%, 15.06%, 13.12%, 12.23%, 10.10%, 10.14% and 10.21% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 12.46% during the seven year study period. Likewise, standard deviation is 2.35 and coefficient of variation is 18.85%. Interest income and loan & advances of NABIL can be shown by following figure:

Figure 4.25

Interest Income to Total Loan & Advances Ratio of NABIL

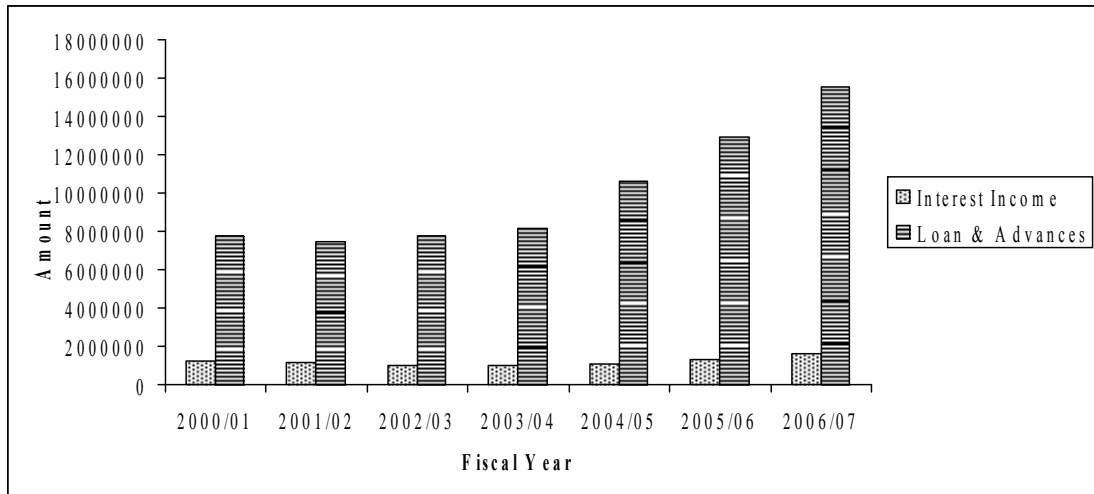


Table 4.26

Interest Income to Total Loan & Advances Ratio of HBL

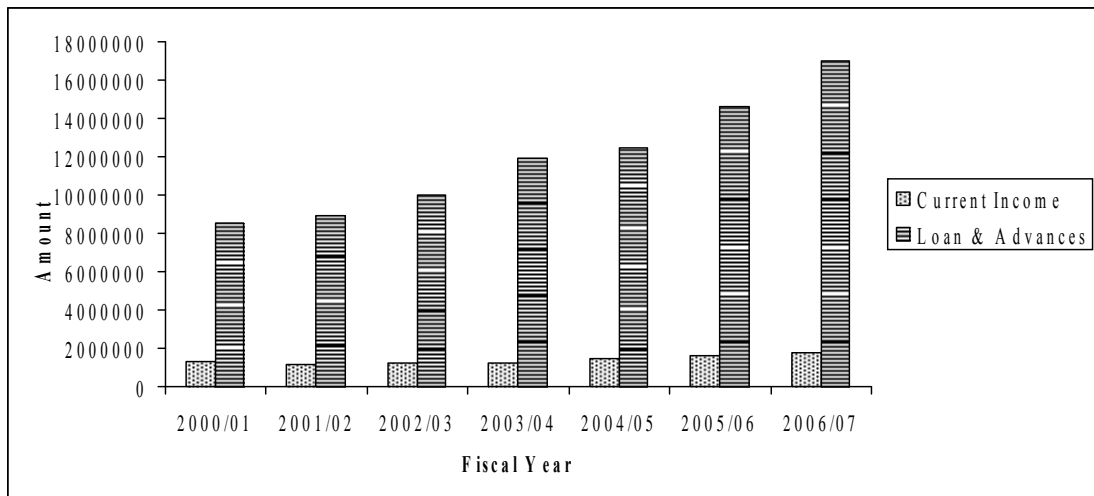
(Rs. in '000')

Year	Interest Income	Loan & Advances	Ratios (%)
2000/01	1326378	8537666	15.54
2001/02	1148998	8913724	12.89
2002/03	1201234	10001848	12.01
2003/04	1245895	11951869	10.42
2004/05	1446468	12424521	11.64
2005/06	1626474	14642560	11.11
2006/07	1775680	16998000	10.44
Average =	12.01%		
S.D. =	1.66		
C.V. =	13.78%		

Above table depicted the interest income to loan & advances ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 15.54%, 12.89%, 12.01%, 10.42%, 11.64%, 11.11% and 10.44% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 12.01% during the seven years study period. Likewise, standard deviation is 1.66 and coefficient of variation is 13.78%. Interest income and loan & advances of HBL can be shown by following figure.

Figure 4.26

Interest Income and Total Loan & Advances Ratio of HBL



Comparison:

Interest income to total loan and advances ratio of NABIL is in continuously decreasing trend except in the last two years during the seven years of study period. Where the ratio of HBL also in rapidly decreasing trend except in the fiscal year 2004/05 and 2006/07. Similarly, NABIL has the higher mean ratio than that of HBL. Likewise the ratios of NABIL have more variation less consistency than HBL.

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

4.4.5 Earning Per Share (EPS)

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

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

Table 4.27
Earning per Share of NABIL and HBL

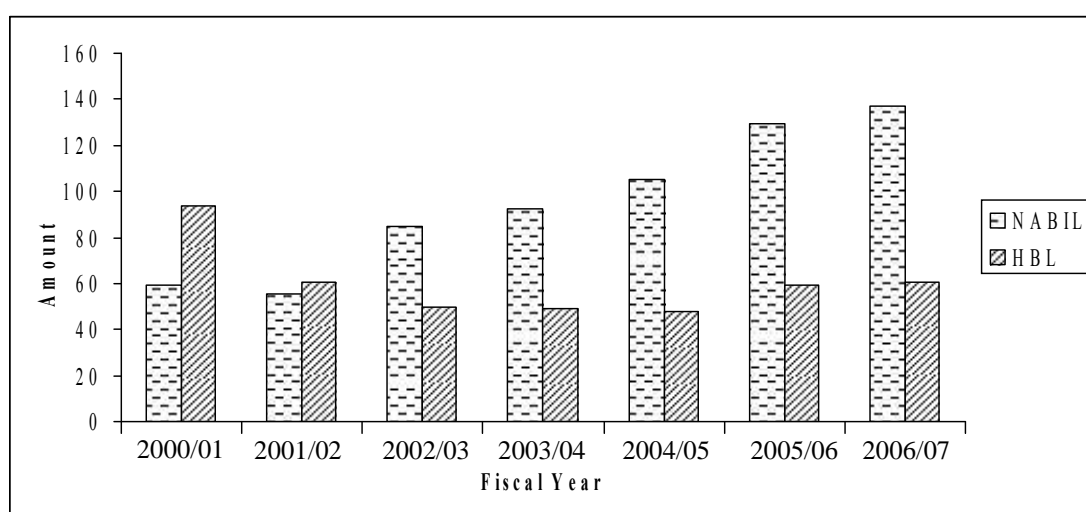
(in Rs.)

Years Banks	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
NABIL	59.26	55.25	84.66	92.61	105.49	129.21	137.08	94.79
HBL	93.57	60.26	49.45	49.05	47.91	59.24	60.66	53.01

Source: Major indicators of respective banks

Above table depicted the earning per share of NABIL and HBL over seven years. Period from 2000/01 to 2006/07. The EPS of NABIL are Rs. 59.26, 55.25, 84.66, 92.61, 105.49, 129.21 and 137.08 in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The mean EPS of NABIL remains at 94.79 during the seven years of study period. Similarly, the EPS of HBL are Rs. 93.57, 60.26, 49.45, 49.05, 47.91, 59.24 and Rs.60.66 in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The mean EPS of HBL is Rs.53.01 over the seven years of study period. Earning per share of NABIL and HBL can be shown by following figure:

Figure 4.27
Earning Per Share of NABIL and HBL



Comparison:

Earning per share of NABIL is in rapidly increasing trend except in the fiscal year 2001/02 where earning per share of HBL is in continuously decreasing except in the last two year of study period during the seven years. Similarly, NABIL has the higher mean of EPS than that of HBI. It shows that NABIL is able to earn and provide good return to its shareholders than HBL over the study period.

4.5 Lending Efficiency Ratios

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

4.5.1 Loan Loss Provision to Total Loan & Advances Ratios

Loan loss provision to total loan & advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision of loan means the profit of banks will come down by such amount. Increase in loan loss provisions, decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the banks, by controlling the credit risk and reduces the risks related to deposits. So it can be said that banks suffer it only for short-term while the good financial conditions and safety of loans will make bank's prosperity resulting increasing profits for long-term.

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

Table 4.28
Loan Loss Provision to Loan & Advances Ratio of NABIL
(Rs. in '000')

Year	Loan Loss Provision	Loan & Advances	Ratios (%)
2000/01	165767	7732637	2.14
2001/02	0	7437895	0.00
2002/03	0	7755952	0.00
2003/04	1052	8189993	0.01
2004/05	4207	10586170	0.04
2005/06	3770	12922543	0.03
2006/07	14210	15545780	9.14
Average = 1.62%			
S.D. = 3.03			
C.V. = 187.27%			

Above table depicted the loan loss provisions to loan & advances ratio of NABIL over the seven years period from 2000/01 to 2006/07. The ratios are 2.14%, 0.0%, 0.0%, 0.01%, 0.04%, 0.03% and 9.14% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 1.62% during the seven years study period. Likewise, standard deviation is 3.03 and coefficient of a variation is 187.27%. Loan loss provision and loan & advances of NABIL can be shown by following figure:

Figure 4.28
Loan Loss Provision and Loan & Advance of NABIL

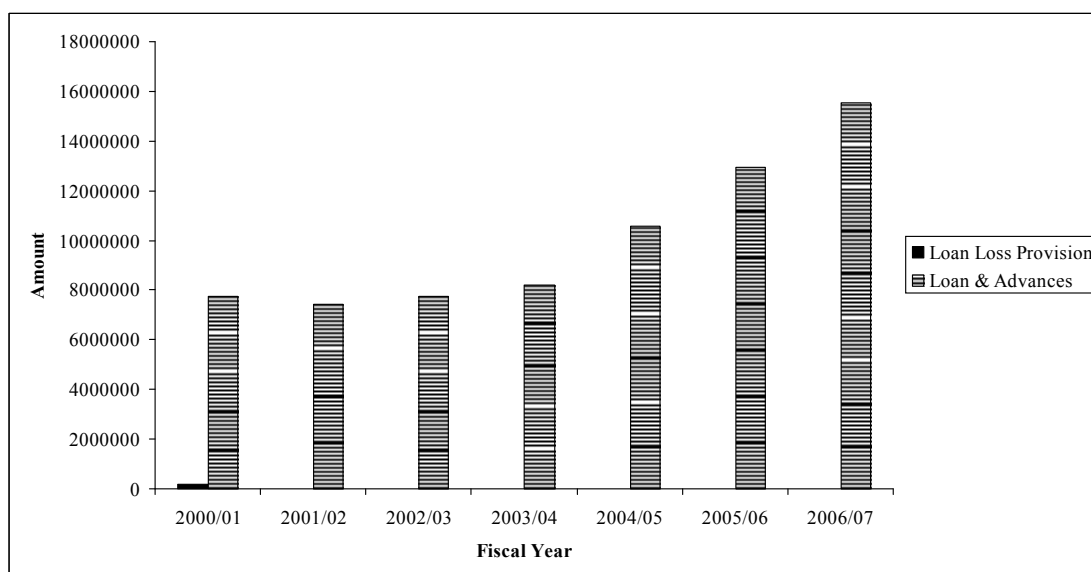


Table 4.29

Loan Loss Provision to Total Loan & Advances Ratio of HBL

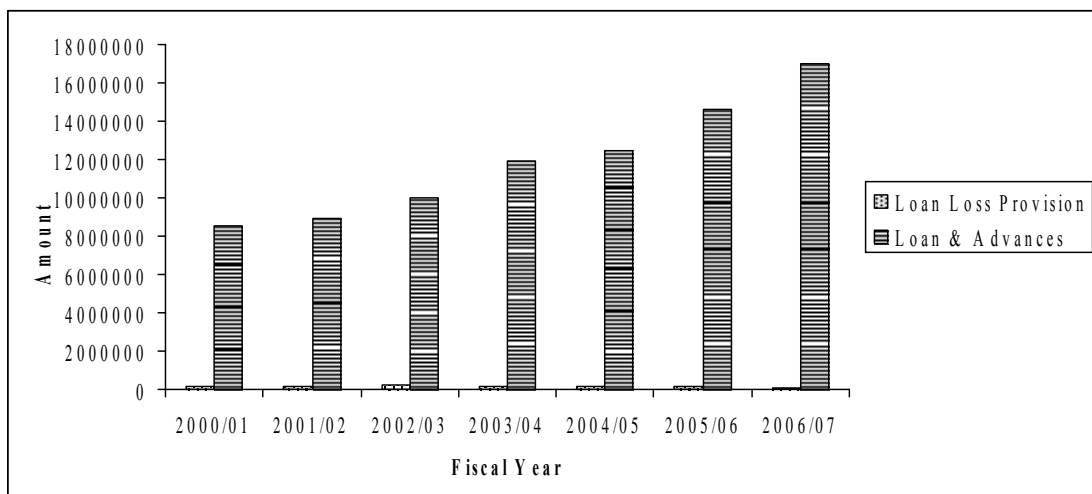
(Rs. in '000')

Year	Loan Loss Provision	Loan & Advances	Ratios (%)
2000/01	134320	8537666	1.57
2001/02	166506	8913724	1.87
2002/03	202873	10001848	2.03
2003/04	186226	11951869	1.56
2004/05	147139	12424521	1.18
2005/06	145155	14642560	0.99
2006/07	90690	16998000	5.34
Average =	2.08%		
S.D. =	1.37		
C.V. =	66.01%		

Above table depicted the loan loss provision to loan & advances ratio of HBL over the seven years period from 2000/01 to 2006/07. The ratios are 1.57%, 1.87%, 2.03% 1.56%, 1.18%, 0.99% and 5.34% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, mean ratio remains at 2.08% during the seven years period. Likewise, standard deviation is 1.37 and coefficient of variation is 66.01%. Loan loss Provision and loan & advances of HBL can be shown by following figure:

Figure 4.28

Loan Loss Provision and Total Loan & Advances of HBL



Comparison:

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

From the analysis, we can say that NABIL has very low degree of provision over total lending than HBL except in the fiscal year 2006/07. It indicates that NABIL has decreasing volume of non-performing loans loss provision ratio of NABIL than HBL. In the last year of the study period. HBL shows the better performance effective credit policy than NABIL.

4.5.2 Non-performing Loan to Total Loan & Advances Ratio

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

Table 4.30

Non-performing Loan to Total Loan & Advances Ratio of NABIL and HBL

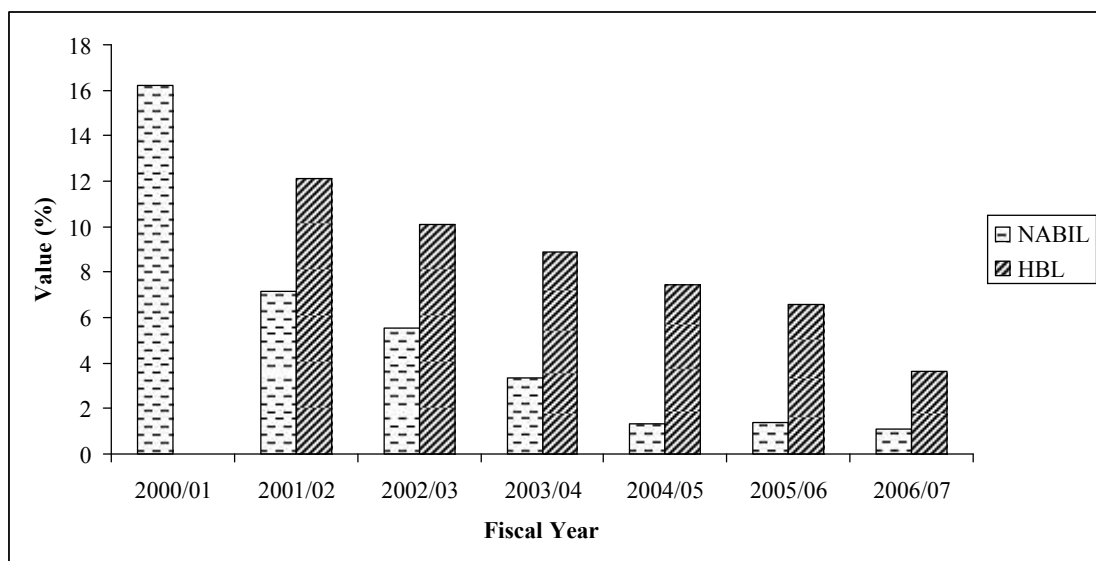
Years	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
NABIL	16.20	7.14	5.54	3.35	1.32	1.38	1.12	5.15
HBL	0	12.10	10.08	8.88	7.44	6.60	3.61	6.95

Source: Major indicators of respective banks

Above table depicted the non performing loan to total loan & advances ratio of NABIL and HBL over the seven years period from 2000/01 to 2006/07. The ratios of NABIL are 16.20%, 7.14%, 5.54%, 3.35%, 1.32%, 1.38% and 1.12% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07

respectively. The mean ratio of NABIL remains at 5.15 during the seven years of study period. Similarly, the non performing loan to total loan & advances ratios of HBL are 0.00%, 12.10%, 10.08%, 8.88%, 7.44%, 6.60% and 3.61% in the fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The mean ratio of HBL remains at 6.95% over the seven years of study period. Non-performing loan and loan & advances of NABIL and HBL can be shown by following figure:

Figure 4.30
NPL and Loan & Advances Ratio of NABIL and HBL



Comparison:

Non performing loan to loan and advance ratio of whole industry is 22.01%. The mean ratios of both banks are 5.15% and 6.95% respectively. NPL ratio of industry is higher than NABIL and HBL.

Non-performing loan to loan & advances ratio of NABIL is rapidly decreasing trend except in the fiscal year 2005/06 over the seven years of study period. Where the ratio of HBL is in continuously decreasing trend over the seven years. But HBL has the higher mean ratio than that of NABIL. It shows that lending policy of NABIL is sound and effective than HBL. Loan recovery process, efficient management and in depth study are the main causes of low NPA level of NABIL.

Banking sector is seriously affected by the non-performing loan. Around 8% of non-performing loan indicate the bad performing of bank even though the decreasing trend shows the better improvement of the bank. If non-performing loan

will increase that affect in overall banking business. Provision amount will increases and profit will decrease. So we suggest the bank to be very careful while granting loan and to do effective follow up for recovery of loan.

4.6 Coefficient of Correlation Analysis

Under this topic, Kart Pearson's coefficient of correlation is used to find out the relationship between total deposit and loan & advances as well as net profit and loan & advances of NABIL Bank Limited as well Himalayan Bank Limited.

4.6.1 Coefficient of Correlation between Total Deposit and Total Loan & Advances

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

Table 4.31

Correlation between Total Deposits and Total Loan & Advances of NABIL

(Rs in '000' million)

Year	X	Y	X ²	Y ²	XY
2000/01	15.84	7.732	250.91	59.75	122.44
2001/02	15.50	7.43	240.25	55.20	115.17
2002/03	13.44	7.75	180.63	60.06	104.16
2003/04	14.12	8.19	199.37	67.08	115.64
2004/05	14.58	10.58	212.58	111.94	154.26
2005/06	19.34	12.92	374.04	166.93	249.87
2006/07	23.34	15.55	544.76	241.80	362.94
N=7	$\Sigma X=116.16$	$\Sigma Y=70.15$	$\Sigma X^2=2002.5$	$\Sigma Y^2=762.76$	$\Sigma XY=1224.48$

Where,

X= Total Deposit of NABIL

Y= Total loan & advances of NABIL

Total = Summation of the value from fiscal year 2000/01 to 2006/07

N = No. of year

Here, X = 116.16 Y = 70.15 X² = 2002.5

Y² = 762.76 XY = 1224.48 N = 7

Now,

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

r = +0.90

PE = 0.0718

The above calculation shows that there is positive relationship between total deposit and total loan & advances of NABIL. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice-versa. The coefficient of correlation between total deposits and total loan & advances is 0.90 and probable error is 0.0718. Comparing the value of 'r' and 6 times PE., we can say that there is significantly positive relationship between total deposits and total loan and advances of NABIL because 'r' is greater than 6 times of PE. i.e. 0.90 > 0.4308.

From the above analysis, we can conclude that NABIL has positive relationship. The relationship is significant i.e. loan and advances is increase as the portion increase in deposits in relation to 0.90 and vice-versa.

Table 4.32

Correlation between Total Deposits and Total Loan & Advances of HBL

(Rs. in '000' million)

Year	X	Y	X ²	Y ²	XY
2000/01	17.64	8.54	311.06	72.89	150.58
2001/02	18.62	8.91	346.68	79.45	165.97
2002/03	21.01	10.00	441.31	100.04	210.11
2003/04	22.01	11.95	484.45	142.85	263.06
2004/05	24.81	12.42	615.74	154.37	308.30
2005/06	26.49	14.64	701.77	214.40	387.89
2006/07	30.05	16.99	903.00	288.66	510.55
N=7	∑X=160.63	∑Y=83.45	∑X²=3804.01	∑Y²=1052.66	∑XY=1996.46

Where,

X= Total Deposit of HBL

Y= Total loan & advances of HBL

Total = Summation of the value from fiscal year 2000/01 to 2006/07

N = No. of year

Here, X = 160.63 Y = 83.45 X² = 38.4.01
 Y² = 1052.66 XY = 1996.46 N = 7

Now,

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

$$r = 0.98$$

$$PE = 0.014$$

The above calculation shows that there is positive relationship between total deposits and total loan and advances of HBL. That means, if the total deposit is increased absolutely the total loan and advances is also increased and vice-versa. The coefficient of correlation between total deposits and total loan and advances is 0.98 and probable error is 0.014. Comparing the value of 'r' and 6 times of PE, we can say that there is significantly positive relationship between total deposits and total loan & advances of HBL because 'r' is higher than 6 times PE. i.e. 0.98 > 0.084.

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

4.6.2 Coefficient of Correlation between Total Loan & Advances and Net Profits

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

Table 4.33

Correlation between Total Loan & Advances and Net profit of NABIL

(Rs. in '000' million)

Year	X	Y	X ²	Y ²	XY
2000/01	7.73	0.29	59.75	0.08	2.24
2001/02	7.74	0.27	55.20	0.07	2.01
2002/03	7.75	0.41	60.06	0.17	3.18
2003/04	8.19	0.45	67.08	0.20	3.69
2004/05	10.58	0.51	111.94	0.26	5.40
2005/06	12.92	0.63	166.93	0.40	8.14
2006/07	15.55	0.67	241.80	0.45	10.42
N=7	∑X= 70.15	∑Y= 3.23	∑X²= 762.76	∑Y²= 1.63	∑XY= 35.08

Where,

X= Total loan & advances of NABIL

Y= Net of NABIL

Total = Summation of the value from fiscal year 2000/01 to 2006/07

N = No. of year

Here, X = 70.15 Y = 3.23 X² = 762.76
Y² = 1.63 XY = 35.08 N = 7

Now,

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

$$r = 0.94$$

$$PE = 0.041$$

The above calculation shows that there is positive relationship between total loan and advances and net profit of NABIL. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice-versa. The coefficient of correlation between total loan & advances and net profit is 0.94 and probable error is 0.041. comparing the value of 'r' and 6 times PE. We can say that there is significantly positive relationship between total loan & advances and net profit of NABIL because 'r' is higher than 6 times PE. i.e. 0.94 > 0.2460.

From the above analysis, we can conclude that NABIL has positive and significant relationship between total loan and advances and net profit. The

relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.94 and vice-versa.

Table 4.34
Correlation between Total Loan & Advances and Net Profit of HBL
(Rs in '000' million)

Year	X	Y	X ²	Y ²	XY
2000/01	8.54	0.28	72.89	0.08	2.37
2001/02	8.91	0.24	79.45	0.06	2.09
2002/03	10.00	0.21	100.04	0.04	2.12
2003/04	11.95	0.26	142.85	0.07	3.14
2004/05	12.42	0.31	154.37	0.10	3.83
2005/06	14.64	0.46	214.40	0.21	6.70
2006/07	16.99	0.49	288.66	0.24	8.33
N=7	∑X= 83.45	∑Y= 2.25	∑X²= 1052.66	∑Y²= 0.8	∑XY= 28.58

Where,

X= Total loan & advances of HBL

Y= Net profit of HBL

Total = Summation of the value from fiscal year 2000/01 to 2006/07

N = No. of year

Here, $\sum X = 83.45$ $\sum Y = 2.25$ $\sum X^2 = 1052.66$
 $\sum Y^2 = 0.8$ $\sum XY = 28.58$ $N = 7$

Now,

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

$$r = 0.83$$

$$PE = 0.114$$

The above calculation shows that there is positive relationship between total loan & advances and net profit of HBL. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice-versa. The coefficient of correlation between total loan & advances and net profit is 0.83 and probable error is 0.114. Comparing the value of 'r' and 6 times PE we can say that there is significantly positive relationship between total loan & advances and net profit of HBL because 'r' is higher than 6 times PE. i.e. $0.83 > 0.6840$.

From the above analysis, we can conclude that HBL has positive and significant relationship between total loan & advances and net profit. The relationship is significant i.e. profit is increase as the portion increase in loan & advance in relation to 0.83 and vice-versa.

4.7 Major Finding of the Study

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

I) Liquidity Ratio:

-) NABIL has kept higher mean of current assets to current liabilities ratio than HBL. But the ratio of NABIL has more variation and less consistency than HBL because of high standard deviation and coefficient of variation. Though the optimal standard of current ratio should be 2:1 but, it is not applicable on banking business. So analyzing over the study period, it indicates the satisfactory liquidity position with both banks.
-) The mean ratio of cash and bank balance to total deposit ratio of HBL is greater than NABIL and the ratio of NABIL have more variation and less consistency than HBL. It indicates that HBL has relatively sound and better liquidity position. Commercial banks have maintained their cash & bank balance in terms of total deposit as directed by NRB time to time.
-) The mean ratio of cash and bank balance to total deposit ratio of HBL is higher than that of NABIL, over the study period but the average of both banks below the average of industry. The ratios of HBL have more variation and less consistency than NABIL. It can be said that HBL has high liquid assets in terms of cash & bank balance to current deposit ratio than NABIL but it does not mean that NABIL has mobilized its more fund in profitable sectors than HBL.
-) NABIL has higher mean ratio than HBL over the study period. But the ratios of NABIL have more variation and less consistency than HBL. From the analysis of overall liquidity of NABIL and HBL, we can say that NABIL has high degree of liquid assets i.e. high liquidity position than

HBL. High liquidity position is not so good because of interest expenses and its cause inverse impact in overall performance.

II) Assets Management Ratio

-) NABIL has higher mean of loan and advances to total deposit ratio than that of HBL during the study period. Likewise the ratio of NABIL has more variation and less consistency than HBL. From the analysis, we can say that NABIL is in good position according to deposit mobilization point of view than HBL because the average of NABIL is higher than that of industry average. But it does not mean that NABIL is investing more of its collected fund in high return but with low risk, sector than HBL.
-) NABIL has higher mean of loan & advances to total assets ratio than that of HBL. Likewise the ratios of NABIL have more variation and less consistency than HBL. From the analysis, we can say that NABIL has sound lending policy so that it is able to mobilize. Its resources as loan and advances than HBL. As well NABIL is risk taker bank than HBL.
-) Total investment to total deposit ratio of both banks are higher than that the average of industry.
-) HBL has higher mean of total investment to total deposit ratio than that of HBL. Likewise, the ratios of HBL have more variation and less consistency than NABIL. During the study period, movement ratios are first increasing, then decreasing and again increasing. It may be due to slack in the different sectors of economy due to which bank is unable to mobilize its fund in loan & advances and share/ debenture of other companies, properly.

III) Leverage Ratio

-) HBL has higher mean of total debt to total equity ratio than that of NABIL during the study period. Similarly, the ratios of HBL have more variation but less consistence and significance than NABIL. From the analysis, we can say that HBL is more levered firm than NABIL during the seven years of study period.
-) HBL has the higher mean of total debt to total assets ratio than that of NABIL during the study period. Similarly, the ratios of NABIL have more

variation and less consistency than HBL. According to the analysis, we can say that HBL used outsider's fund more than owner's fund during the formation of capital structure.

IV) Profitability Ratio

-) NABIL has the higher mean of interest income to interest expenses ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL, from the analysis, we can say that NABIL has high degree of gap between interest offered and interest charged than HBL. This shows that NABIL has charged high interest rate to borrowers and offering low interest rate to depositors.
-) NABIL has the higher mean of net profit to loan and advances ratio than that HBL. Likewise, the ratio of NABIL has less variation but more consistency than HBL. From the analysis, we can say that return on loan and advances ratio of NABIL and HBL is very low and in fluctuating trend also. The highest ratios are 5.56% of NABIL and 3.24% of HBL during the seven years of study period. It shows the normal earning capacity of NABIL and HBL in loan & advances. That means, lending policy of both banks are not so sound and credit are not granted in profitable sector.
-) NABIL has the higher mean of net profit/ loss to total assets ratio than that of HBL. Likewise, the ratios of NABIL more variation and less consistency nature than HBL. From this, we can say that NABIL has better earning capacity than HBL the highest ratio of NABIL is 3.02% where of HBL is 1.55% over the study period. It means that NABIL can earn 3.02% profit of total assets and HBL can earn only 1.55% profit of total assets.
-) NABIL has higher mean of interest income to total loan & advances ratio than HBL. Likewise the ratios of NABIL have more variation and less consistency than HBL. From this, we can say that NABIL has higher interest income ratio than HBL. That means NABIL is able to grant its credit in high interest earning area.
-) NABIL has the higher mean of EPS than that of HBL. It shows that NABIL is able to earn and provide good return to its shareholders than HBL over the study period.

V) Lending Efficiency Ratio

-) The mean ratio of both banks is lower than that of industry average. HBL has higher mean of loan loss provision to loan & advances ratio than that of NABIL over the seven years of study period. But the ratios of NABIL have more variation and less consistency than HBL. From the analysis, we can say that NABIL has very low degree of provision over total lending than HBL except in the fiscal year 2006/07. It indicates that NABIL has increasing volume of non-performing loans in 2006/07.
-) HBL has the higher mean of non-performing loan to loan and advances ratio than that of NABIL. It shows that lending policy of NABIL is sound and effective than HBL. Loan recovery process, efficient management and depth study are the main causes of low NPA level of NABIL.

VI) Co-efficient of Correlation Analysis

-) NABIL has significantly positive relationship between total deposit and total loan and advances. The relationship is significant, i.e. loan and advances is increased as the portion increases in deposits in relation to 0.90 and vice-versa.
-) HBL has positive with significant relationship between total deposit and total loan and advances. The relationship is significant. i.e. loan and advances is increased as the portion increase in deposits in relation to 0.98 and vice-versa.
-) NABIL has positive with significant relationship between total loan and advances and net profit. The relationship is significant, i.e. profit is increased as the portion increases in loan and advances in relation to 0.94 and vice-versa.
-) HBL has positive with significant relationship between total loan and advances and net profit. The relationship is significant, i.e. profit is increased as the portion increases in loan & advances in relation to 0.83 and vice-versa.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The development of the country highly depends upon its economic activities and there is a need for addition capital investment to earn higher rate of economic growth. Domestic saving and foreign capital are two principle source of capital available to investment. Financial institution plays vital role in economic development. The main function of financial institution is collection of domestic fund and disbursement of collected fund to needy sector. Commercial bank acts as intermediaries who accepting deposits and providing the loan to needy sector. They grant credits in the form of cash, credit and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising to their customers. In other words commercial banks accept deposit and also provide loan priority to business firms hereby facilitating the transfer of funds in the economy. Credit management is most important function of commercial bank for lending procedure bank has to make some banking practices, lending are now a days becoming main sources of revenue to bank and also involves hire risk. So it is very difficult to manage the credit. Therefore knowledge of principle of credit, characteristics, system and procedures are almost importance. And it also important to assess regular credit monitoring and control, lending criteria and managing credit problems.

Most of previous studies analyzed the credit management by using secondary data, source of information in term of credit practices or lending practices. They could not cover the all aspect of credit management. During the study period various books, journals, articles, websites have been reviewed in national as well as international context related with credit management further various unpublished masters degree dissertation related with credit management have been reviewed to get the study more informative various financial tools like ratio analysis and statistical tools like arithmetic mean, Standard deviation, correlation coefficient, Coefficient of variance have been used. From the analysis of data it was found that, NABIL has kept higher means of current assets to current liabilities ratio, than HBL. Similarly NABIL has

higher means of interest income to interest expenses ratio than HBL. On the other hand HBL has higher mean of total debt equity ratio than NABIL, similarly HBL has higher means of loan loss provision to loan advance ratio than NABIL.

5.2 Conclusion:

From the above analysis of data and major findings of result conclusion can be drawn as follow:-

-) NABIL has more current ratio than that of HBL. Similarly HBL has more cash and bank balance to total deposit ratio as well as cash & bank balance to current deposit and saving deposit ratio than of NABIL. From the analysis of overall liquidity ratios of NABIL and HBL, we can say that HBL has high degree of liquid assets, i.e. high liquidity position than NABIL.
-) NABIL is able to mobilize its resources in lending as loan & advances than HBL. HBL is able to invest its resources more in other company's shares, debentures, bond as well as government treasury bill than NABIL. From the analysis of overall efficiency ratio of NABIL and HBL, we can say that NABIL has sound lending policy so that it is able to mobilize its resources more than HBL.
-) From the analysis of overall leverage ratio of NABIL and HBL, we can say that HBL is more levered firm than NABIL during the seven years of study period. It means HBL is using outsider's fund more than owner's fund.
-) NABIL has high return on loan & advances ratio as well as return on total assets ratio than that of HBL that means NABIL is able to earn more interest from total credit granting. NABIL has high earning per share than HBL from the analysis overall profitability ratio of NABIL and HBL, we can say that NABIL can earn more profit from its lending and investment activities than HBL.
-) HBL has kept high loan loss provision than NABIL because of high non-performing to total lending ratio.
-) NABIL and HBL has positive with significant relationship between total deposit collection and total lending.

-) NABIL and HBL both has positive with significant relationship between total loan & advances and net profits.

5.3 Recommendations:

On the basis of analysis and finding of the study following suggestions and recommendations can be obtained:-

-) The liquidity position of HBL is more positive than NABIL. So the management of HBL should search for new area of investment as well as bank should strictly follow the NRB directives to reduce its surplus cash balance. Following of NRB directives will help to reduce credit risk arising from borrower's defaulter leak of proper credit appraisal, defaulter by black listed borrowers and professional defaulter. So the bank is suggested to follow project oriented approach and avoid more risky area of lending.
-) NABIL and HBL should adopt the sound credit collection policy. It helps to decrease loan loss provision and non-performing loan of the bank. Thus, the credit management must follow the policy as rapid identification of delinquent loans, immediate contact with borrower and continual follow-up a loan is recovered to decrease its non-performing loan and loan loss provision.
-) HBL must concentrate on decreasing ratio of return on total assets as well as return on loan and advances and invest in productive as well as profitable areas only, which give high return with low risk.
-) To satisfied their customers and increase in loan & advances, NABIL should consider on interest rate.
-) So many findings of the study is that NABIL has less liquid assets, it is able to maintain daily cash requirement, high lending ratio, low leverage ratio, low non-performing assets level, loan loss provision ratio, high profit ratio than that of HBL. Therefore the management of HBL must revise the lending policy and invest in profitable as well as productive sector rather than only to increase lending ratio.
-) The new standards should be designed to make the bank management more accountable for credit policy. It should investigate what are the reasons of credit efficiency or inefficiency.

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