CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The source of finance is the most essential element for the establishment and operation of any profit and not profits institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issued shares, and through the financial institutions such as banks, in the form of credit, overdrafts and other related services (Vaidhya, 2008: 4).

Nepal is a developing country. Developing countries face a lot of problems for their economical development. Financial market is very important for the economic growth of the country (Economic Survey, 2011/12: 2). The pace of development of the country is largely depends upon the economic activities. Economic activities are guided by finance, financial institutions provide societies, insurance companies, and stock exchange helps in the economic development of the country (Economic Survey, 2011/12: 2).

Banks are major institutions in financing. Bank involves in a process of collecting cattered money and to help its mobilization in different sectors according to the need of customers (Shekher & Shekhar, 2006: 3). Bank helps to develop saving habit of people, which in turns help to make other people to invest for their business. Banking loan helps to invest in industrial sector, commercial sector, production sector, trade & commerce. Bank also helps to develop international business by initiating as a mediator on export & import. This way banks help to strengthen the national economy (Economic Survey, 2011/12: 3).

Banking is one of the most heavily regulated businesses in the world (Vaidhya, 2008: 5). Banks are among the most important financial institutions in the economy. They are the principal source of credit (loan-able funds) for millions of individuals and families and for many units of government. Moreover, bank often act as a major source of credit to small local business ranging from grocery stores

to automobile dealers for their stock. Banks are among the most important sources of short term working capital foe business and have become increasingly active in recent years in making long-term business loans for new plant and equipment (Shekhar & Shekhar, 2006: 6).

Banks are those financial institutions that offer the widest range of financial services especially credit, savings payment services and perform the widest range of financial functions of any business firm in the economy. The most important function are; lending and investing money (the credit function), making payments on behalf of customers foe their purchase of goods and services (the payment function), managing financial assets and real property for customers in investing and raising funds (through the brokerage, investment banking and saving functions) (Vaidhya, 2008: 5).

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

Today no banker can survive for long run without proper standing of economy and no pace ahead without proper banking system. Moreover, the ability of banks to gather and 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 the country-taking deposits and making loans. The modern bank has to adopt new roles in order to remain competitive and responsive to public needs (NRB, Smarika, 2011/12: 41).

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and customer needs to price that credit reasonably

in line with competitively determined interest rates. Bank loan support the growth of new business and jobs within the banks trade territory and promote economic vitality. Banks made a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles, and buying new furniture, taking dream vacation or purchasing college education, to constructing home and office buildings. Loans may be divided as: real state loans, financial institutions loans, agricultural loans, commercial and industrial loans, loans to individuals, miscellaneous loans, lease financing receivables etc (NRB, Smarika, 2011/12: 40).

Going through loan granting provision, bank will 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 measures the quality of borrower and ultimately the quantity of the loan.

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

1.2 Meaning of Commercial Bank

Commercial Banks are those banks, which perform all kinds of banking function as accepting deposits, advancing credits, credits creation and agency functions etc. They provide short-term credit, medium-term credits and long-term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as they are considered as the main source of finance.

Without the development of sound commercial banking, underdeveloped countries cannot hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible

without the existence of banks to provide the necessary capital. Industrial development will be impossible without the existence of markets of the goods produced. On the other hand, the services of the commercial banks will help to extend the market. The commercial banks play an important role as follows:

a. Help in business expansion
b. Encouragement for the right type of industries
c. Necessary for trade and industry
d. Transfer of surplus funds to needy regions

1.3 Brief History of the Evolution of Banking in Nepal

The invention of money was a milestone in the history of economy and developing the banking as a habit people. It has made economic and business activity more precise and efficient. This gave the emergence of non-institutional banking activities. Merchants, Moneylenders and Goldsmith were the leader of such unorganized economic and financial transactions. Thus, the Merchants, Moneylender and Goldsmith were the ancestors of modern bankers. During the early periods although the banking business was mostly done by private individuals, many countries established public banks either for the purpose of facilitating commerce or to serve the government. The Bank of Venice established in 1157 A.D., is supposed to be the most ancient bank. Originally, it was not a bank in modern sense being simply an office for the transfer of public the public debt.

During 1401, a public bank was established in Barcelona. It used to exchange money, receive deposits and discount bill on exchange, both for the citizen and foreigners. During 1407, The Bank of Geneva was established. In 1609, The Bank of Amsterdam was established. It was established to meet the needs of merchants of the city. The bank also adopted a plan by which depositors receive a kind of certificate entitling them to withdraw his deposit within six months. The most of the European banks now in existence were found on the model of the Bank of Amsterdam.

The evolution of the original banking system in Nepal has a more recent history than in other countries of the world. Before the establishment of "Tejarath Addha" during the period of the premier of Ranoddip Singh, the unorganized sector i.e.; Moneylenders, Goldsmiths, Landlords have their universal domination on the financial matter. They used to charge very high interest rates. The Addha was initiated to provide credit at a cheap rate against gold and silver. The area of its functioning was limited to Kathmandu valley and some urban areas of the Terai. "Tejarath Addha" may be regarded as the father of the modern banking institutions and for a long time it rendered a good service to government servants as well as to general public by mobilizing scattered saving in the country and provide credit to the people at a cheaper rates.

The establishment of banking institutions depends upon the level of economic activities and monetary transactions. As a result of growing banking and business activities within the nation and the institutional progress in the neighboring countries, had forced Nepal to think of a new establishment of banking institutions. Consequently, Nepal Bank Limited was established in 1937 under the Nepal Bank Act 1936, having elementary function of a commercial bank. Later, in 1956, the first central bank, named as the "Nepal Rastra Bank" was set up under the Nepal Rastra Bank Act.1955, with and objective of supervising, protecting and directing functions of commercial banking activities. Another commercial bank fully owned by the government, named as the "Rastriya Banijya Bank" was establishes in 1966 A.D. to spread banking services to both the rural and urban areas. The subsequent tendency toward liberalization and need of revolutionary change in the financial sector allows the foreign banks to enter into the economy as "Joint Venture". This entry of foreign bank was expected to develop the banking with pace of change and to attract the foreign investment and technology. The establishment of Nabil Bank Limited in the name of Nepal Arab Bank Limited in 1984 A.D. under the company act 1984 was stride in the history of modern banking in Nepal. This was the first joint venture commercial bank established in collaboration with Emirates Bank International (Dubai). Following

this, in 2042 B.S. Nepal Indo-Suez Bank Limited (name has been changed to Nepal Investment Bank Ltd.), in 2043 B.S. Nepal Grind lays Bank Limited (name has been changed to Standard Chartered Bank Ltd.), in 2049 B.S. Himalayan Bank Limited and in 2050 Nepal Bangladesh Bank Limited were established. Now there are more than two dozen commercial banks performing their operation.

In this way, Nepalese banking has stepped a great stride in its development. However, Nepalese banking has not been succeeded in bringing change in the economy in society and in people. The large portion of national economy is still behind the touch of present banking system. The unorganized moneylender has been playing a monopoly role in granting the loan to public of remote economy and this monopoly results in excessively higher interest rate than that of institutional banker. Thus, the moneylenders are still exploiting the public of rural sector in the absence of easy access to banking activities. Increasing the number of financial institutions has not proportionately increased the total banking behavior of people. This is because most of the financial institutions are situated in the urban area and rural economy has not been touched by this change in financial sector. Hence, in conclusion it can be summarized that the technical and quantitative development of the financial sector is found satisfactory but its qualitative impact on overall economy cannot be considered utmost.

NRB is an apex institution in money and capital market in Nepal. It works as a central bank of the country. Banks and other financial institutions are supervised, directed, regulated and controlled by NRB. Following is the list of the licensed Commercial Bank as on Mid- July 2013.

Table 1.1

List of Class A Licensed Commercial Banks (Mid July 2013)

Names	Operation Date (A.D.)	Head Office
1. Nepal Bank Limited	1937/11/15	Dharmapath, Ktm.
2. Rastriya Banijya Bank	1966/01/23	Singhdarbarplaza, Ktm
3. NABIL Bank Limited	1984/07/16	Kantipath, Kathmandu
4. Nepal Investment Bank Ltd.	1986/02/27	Durbar Marg, Ktm.
5.Standard Chartered Bank Nepal Ltd.	1987/01/30	Naya Baneshwor, Ktm
6. Himalayan Bank Limited	1993/01/18	Thamel, Kathmandu
7. Nepal SBI Bank Limited	1993/07/07	Hattisar, Kathmandu
8. Nepal Bangladesh Bank Limited	1993/06/05	Naya Baneshwor, Ktm
9. Everest Bank Limited	1994/10/18	Lazimpat, Kathmandu
10. Bank of Kathmandu Limited	1995/03/12	Kamaladi, Kathmandu
11. Nepal Credit & Commerce Bank Ltd.	1996/10/14	Siddharthnagar, Rupandehi
12. Lumbini Bank Limited	1998/07/17	Narayanghat, Chitawan
13. NIC Asia Bank Ltd.	1998/07/21	Biratnagar, Morang
14. Machhapuchhre Bank Limited	2000/10/03	PrithiviChowke, Pokhara
15. Kumari Bank Limited	2001/04/03	Putalisadak, Ktm
16. Laxmi Bank Limited	2002/04/03	Adarshanagar, Birgunj
17. Siddhartha Bank Limited	2002/12/24	Kamaladi, Ktm.
18. Agricultural Development Bank Ltd.	2006/03/16	Ramshahapath, Ktm
19. Global IME Bank Limited	2007/01/02	Birgunj, Parsa
20. Citizens Bank International Ltd.	2007/04/22	Kamaladi, Kathmandu
21. Prime Commercial Bank Ltd.	2007/09/28	New Road Kathmandu
22. Sunrise Bank	2007/10/12	Gairidhara, Kathmandu
23. Grand Bank Nepal Ltd	2008/05/25	Kamaladi, Kathmandu
24. NMB Bank Ltd	2008/06/02	Babarmahal, Kathmandu
25. Kist Bank Limited	2009/05/07	Anamnagar, Kathmandu
26.Janata Bank Nepal Ltd	2010/04/05	New Baneshwor, Ktm
27. Mega Bank Nepal Ltd	2010/07/23	Kantipath, Kathmandu
28Commerz and Trust Bank Nepal Ltd	2010/09/20	Kamaladi, Kathmandu
29. Civil Bank Ltd	2010/11/26	Kamaladi, Kathmandu
30. Century Commercial Bank Ltd	2011/03/10	Putalisadak, Kathmandu
31. Sanima Bank Limited	2012/02/15	Nagpokhari, Kathmandu

Source: www.nrb.org.np

1.4 Credit Management

Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of the investment; the most of the investment activities based on credit; it is the mail factor for crating profitability; it is the main source of creating profitability; it determines the profitability. It affects the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer status. Similarly, it provides to trader and industry, the government will get tax from them and help to increase national economy. It is the security against depositors. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Management is the system, which helps to complete the every job effectively. Credit management is also the system, which helps to manage credit effectively. In other words, credit management refers management of credit exposures arising from loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

Credit management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and inter-bank explores. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loan are the largest and most obvious

sources of credit risk, however, other sources of credit risk exist through out the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlement of transactions.

The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit and methods of credit analysis.

1.5 Profile of Sample Banks

1.5.1 Himalayan Bank Limited (HBL)

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

The bank has seventeen branches in Kathmandu valley at the following locations: Thamel, New Road, Maharajgunj, Chabahil, Kaushaltar, Suryabinayak, Teku, Patan, Sorhkhutte, Swoyambhu, etc. In addition, the bank also has twenty six other branches outside Kathmandu valley in Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara, Dharan, Butwal, Ghorahi, Itahari, Gorkha, Kawasoti, Palpa, Parsa, Trishuli, etc. The bank also operates counter premises of Royal Palace. The bank will be aggressively

opening new branches at the different parts of the kingdom to serve its customers better.

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

Table 1.2

Capital Structure of Himalayan Bank Limited

Capital as at 2012	Amount in Rs. '000'
Authorized Capital	3,000,000
Issued Capital	2,400,000
Paid up capital	2,400,000

1.5.2 NABIL Bank Limited (NABIL)

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

NABIL as a pioneer in introducing many innovation products and marketing concepts in the domestic banking sector represents a milestone in the banking

history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.
Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele-banking system. NABIL Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in the kingdom of Nepal, the bank have been a lender in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the "Bank of 1st Choice" to all of its stakeholders and customers. For the customers, it want to be the first choice in meeting the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of model bank, it want to be an outstanding corporate citizen in all the communities, it work in finally, it want to be the first choice as an employer with whom to build a career. To achieve this mission, it has a core set values by which we live. The values are C.R.I.S.P. i.e. Customers Focused, Result Oriented, Innovative, Synergistic and Professional. They are committed to live our values everyday in every thing 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 Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing, Min aim is to be able to meet customer's entire gamut of financial requirements that is why it prides in being " Your Bank at Your Service".

1.6 Statement of the 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. Liquidity is maximum with the financial institutions. 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 purpose. Lack of good lending opportunities, banks is facing problems of over liquidity. Nowadays, banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays, due to competition among banks, the interest rate charge for loan is in decreasing trend. Due to unhealthy competition among 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 its directives of the credit loss provision. Therefore, it is necessary to analyze the 'credit management' or credit disbursement recovery provision for loss and write off of credit. As the sample of commercial banks, Himalayan Bank Limited and NABIL Bank Limited have been selected.

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

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

1.7 Objectives of the Study

It 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 sectors. Therefore, the main objective of this study is to find out credit management position of Himalayan Bank Limited and NABIL Bank Limited.

The specifics objectives of the study are as follows:

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

1.8 Limitations of the Study

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

This study will not examine the credit management of all listed commercial banks due to lack of time, the study will see only the credit management two commercial banks – Himalayan Bank Limited and NABIL Bank Limited, which are listed in NEPSE. This study will cover only the past five year's period since 2007/08 to 2011/12 (least 5-year data). To prepare this report, secondary data are collected from annual general meeting (AGM)'s report of the listed banks and trading reports of NEPSE. Primary information is collected from respective office and related persons. It may not cover the whole qualitative analysis of the commercial banks because of time and resource constraints.

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

- Though, there has been in operation 31 commercial banks in Nepal, only two commercial banks are taken for the proposed study.

- This study concentrates only on credit management of selected commercial banks.
- The secondary data will be used for presentation and interpretation. Only a 5-years data will be considered.
- This study is only a case study; hence the conclusion drawn from the study does not ensure wide applicability in all types of enterprise running in different situations.
- Major portion of analysis and interpretation have been done on the basis of available secondary data and information. Thus, reliability of the study is based on trueness of collected data and information.
- In this study, only selected financial and statistical tools as well as techniques are used.

1.9 Organization of the Study

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

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

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

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

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

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

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

CHAPTER - II
REVIEW OF LITERATURE

2.1 Conceptual Review

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

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

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

A commercial bank is a business organization that receives and holds deposits of fund from others makes loans or extends credits and transfers funds by written order of deposits. Commercial bank is a corporation, which accepts

demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services. A commercial banker is a dealer in money and substitute for money such as cheques or bill of exchange. He also provides a variety of financial services.

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

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

Financial activities are necessary for the economic development of the country and commercial banking in this context is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the commercial bank and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

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

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

2.1.1 Financial Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz. owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expressions" and "as the relationship between two things" (Adhikari, Evaluating the financial performance of NBL).

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

Webster's new collegiate dictionary defines a ratio as "The indicated quotient of two mathematical expressions and as the relationship between or more things." In financial analysis a ratio is used as benchmark for evaluating the financial position and performance of a firm. ("Webster's, New Collegiate Dictionary" 8th Edition Supering Field Mass.)

Standard of Comparison

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

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

Types of Ratios

Several ratios calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. Long-term creditors or the other are more interested in the long-term solvency and profitability of the firm. Similarly owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of firm's performance. They have to protect the interests of all parties and see that the firm grows profitability. In view of the requirement of various ratios they may classify into following groups.

Credit Practices Ratio

• Total Loan to Total Deposit Ratio

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

• Loan and Advances to Total Assets Ratio

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

• Loan and Advances to Current Assets

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

• Interest Income to Loan and Advances

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

• Loan Loss Provision to Total Loan and Advances Ratio

It describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loan and advances into the category of pass, standard, doubtful and loss and to wake the provision of 1, 25, 50 and 100 percent respectively. NRB has classified the pass and substandard loan as performing loans and other two types of loans non-performing loans. The provision created against the pass and substandard loan is called the general

loan loss provision and provision created against the doubtful and loss loan is called specific loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But Its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits.

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

• Non-Performing Loan to Total Loan and Advances Ratio

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

Credit Efficiency Ratio

• Interest Expenses to Total Deposit Ratio

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

• Total Loan to Liabilities Ratio

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

• Interest Expenses to Total Expenses Ratio

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

• Non-Interest Bearing Deposit to Total Deposit Ratio

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

• Interest Income to Total Income Ratio

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

• Interest from Loan, Advances and Overdraft to Total Interest Income Ratio

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

2.1.2 Factors Affecting Credit Policy

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

• Industry Environment

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

• Financial Condition

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

• Management Quality

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

• Technical Strength

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

• Security Realization

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

2.2 Review of Related Studies

Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

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

Nepal Rastra Bank has issued directives to all commercial banks and financial institutions ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (CIB) can blacklist the firm, company or clear the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs. 1 million. If the creditor fails to clear the amount within time, or is found mission the loans among others, the creditor can be blacklisted (Central bank tightens blacklisting procedure).

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick.

When any sector of economy catches cold, bank start sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the

investors with surplus income. Therefore portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select the best mix of investment assets (Shrestha, 2003: 15).

The investor or whether banks, financial institutions, individuals, private or government sector, most not took the proposal by making decision without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as well as through investment decisions to make its macro and micro level viability effective (Lamichhane, 2000:17).

The current volume of the total banking deposits is over 1550-folds higher than what used to be some 38 years ago whereas the Gross Domestic Product (GDP) of the country during the same period price, increased just by 62-folds. Central bank static's shows that the total banking deposit in 1965used to be just Rs. 129.8 million, but swelled to Rs. 867.98 billion by mid – July 2012. Similarly, the total loan and advances of the entire banking system in 1960 stood at Rs. 107 million, which was over 82 percent of them total deposit. However, total loans and advances went up to Rs. 612.32 billion, comparing almost 63 percent of the total deposit, during the period. The deposit of banking system, by the mid July 2012, touched Rs. 867.98 billion, which are 12-folds more than the deposit of the nineties. Loans and advances from the banking system touched Rs. 612.32 million by mid July 2012 and the amount was incredibly higher than what it used to be in 1985 (The Kathmandu Post, (July 2012), "Central bank tightens blacklisting procedures", p. 9).

In the post report titled "Loan loss provision rises Notably" published in the Kathmandu Post, the reporter had made an endeavor to highlight some facts and figures regarding loan loss provision of commercial banks. "The banking sector is witnessing a huge surge in loan loss provisioning reserve lately. The increment is primarily a result of a directive issued by Nepal Rastra Bank (NRB) in 2008 that introduced stringent loan provisioning criteria for

commercial banks. As per data recently released by the central bank, the total loan and advances in the country's banking sector increased from around Rs. 13.18 billion mid-April 2003 to Rs.603.06 billion in mid July 2013. The increment is very much higher.

The reporter further states that apart from the two technically insolvent government invested banks, loan provision of other joint venture private banks has also risen significantly and the notable increments seen in the loan loss provisioning amounts is due to the eight-point prudential directives that the central bank issued to all commercial banks. The reporter concludes, "The directives laid down stringent guidelines relating to loan loss provisioning to ensure a good health of the overall banking system. The directives requires loans to be provisioned to the extend of cent percent if payment is defaulted for one year. Likewise, the directives require loans to be provisioned to the extent of 25 percent if payment is defaulted for over three months and 50 percent if the period of default extends beyond six months. The earlier directives required progressive provisioning of loans, but allowed maximum of three years, unlike the present system of just year, for loans to be provisioned to the extent of cent percent.

Mr. Binam Ghimire (2012) in his 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 problems or crisis in many Nepali banks differ in many respects, what is common area most of the banks is the increased size of non-performing assets (NPAs). To resolve the problem of the losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years" (Ghimire, 2012).

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 lent able as they help to strengthen banks financially. He added that we also must remember 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 12, 2012 is 5.2% but as April 13, 2012, it has jumped to 18.39%. If only private bank are considered, it is 2.12% of April 2012whereas it is 6.30% as of April 13, 2003. The total increment in LPP is Rs. 11,328.11 million and the total increment in credit is only Rs. 7,976.70. 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 but also at strengthening banking supervision to reduce the likelihood of future crisis. "All prudential directives of NRB in connection of credit sector reform have been made revised on recently. To adapt 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 options of bankers for a change in regulation/policy taking place in the future."

The article of Patrick F. Reidy (2012) provides an overview of the credit portfolio management function, structural alternatives, the skill necessary for its effective implementation, and a final word on training and compensation. The focus is on corporate credit portfolios, as these often present the largest concentration challenges through they can be easily modified.

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

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

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

Protection measures against portfolio losses focused on loan loss reserves based on moving-average formulas. Concentration risk was to be avoided, but there were always those special customers for whom exceptions could be made. If the formulas were correct, then overall expected losses in the portfolio would be covered by reserves. But those formulas and expectations were not always so accommodative. As a result, certain concentrations would invariably lead to extraordinary, or unexpected, losses that were charged to income in the year of their incurrence.

Portfolio management looks at the impact of loans individually, collectively, and comparatively. Modern portfolio management techniques have supplemented these unwritten rules with portfolio analysis and policies that establish limits on exposure by country, by obligor, by industry, and so on.

These limits are derived from a specific focus on the technical aspects of this asset class, a segmentation of the credit product and an analysis of the effect of combining credits into portfolios. Credit portfolios can now be evaluated on the basis of fundamental as well as quantitative portfolio analysis. (This is now being further institutionalizes in terms of required capital as defined in the updated Basel Capital Accords.)

Functionally, Credit is now segmented into four parts

1. Origination and determination of the required level of customer commitment. The sales/relationship function in credit portfolio management is often separate from the analysis/underwriting function. This allows for an efficient use of resources for client development as well as analytical discipline and consistency. The relationship manager determines the commitment level that will maximize relationship income.
2. Fundamental analysis of the individual credit. The underwriting function in credit portfolio management is charged with the more traditional responsibility of individual credit analysis and monitoring. But this function is being driven more and more toward a specialization based on industry, so that the full benefits of analyzing alternative borrowers within an industry can be achieved. The more specialized structure enables CPM to provide key value-added analysis to relationship and product managers in complex customer support for example, merger and acquisition analysis. It also provides for a centralized, efficient use of analytical resources.
3. Portfolio monitoring. Many more tools and information resources exist today than were available in the past for portfolio monitoring. For example;
   - Institutions now set various portfolio limits to shape the structure of the desired portfolio.
   - Early-warning processes to measure portfolio deterioration have become an integral part of credit risk management.
   - For large corporate portfolios, Merton-based models relate information inherent in the equity markets to a firm's debt levels.

- Bond spreads and credit derivative premiums provide a forward looking credit view from the market that can be compared with a bank's own credit view.

4. The role of credit approval authorities. The credit approval function determines the desired exposure level for the institution's books within the context of pre-establishes limits by obligor and industry. As a result, credit approval manages expected loss and allocates capital to desirable transactions. CPM, as separate from credit approval, optimizes the use of capital through alterations to the portfolio's profile.

Alternative Structure for Credit Portfolio Management (CPM)

The establishment of credit portfolio management is typically an evolutionary process for each banking institution. At start-up, CPM usually takes a defensive role eliminating concentration risk and culling under performing relationships from the risk/return point of view. As CPM develops, optimization of the selected portfolio is added to its role, adjusting exposure to take into account the best risk/return structure. The adjustments often use the credit derivatives markets in order to disturb the primary relationship with the customer. In its advances form, CPM adds the bank's credit view to its role, with the intention of improving the portfolio's relative value performance among different asset classed.

The state of CPM along this development curve often dictates whether it is located inside the wall (subject to the possibility of receiving non public information) or outside the wall (not subject to non public information and freer to adjust positions).

Functions of Credit Portfolio Management

CPM achieves two principle goals:

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

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

- Serve as an analytical and advisory group to the line and to the approval authorities, plus serve as an integral part of critical deal teams.
- Prepare the credit approval package and advocate the transaction to the credit approval authorities.
- Closely monitor obligor risks, returns, and concentrations.
- Evaluate, establish, and effectively use advanced modeling techniques to help determine the potential risk inherent in the portfolio and its assets correlations.
- Manage those same risks through the judicious use of loan sales and synthetic instrument such as credit default swaps and CDOs (Reidy, RMA Journal, (2009) "Corporate credit portfolio management: changing skills requirements").

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

However this ordinance has lots of unclear issues, which has created confusion to the existing banks and financial institutions. The ordinance has classified the financial institutions into categories replacing the present terms as commercial, development of finance companies. The act has classified the category, as "Ka" category Ka category mention itself as a bank; the rest of the category should name itself only as a financial institution. The ordinance has created confusion to the existing development banks and finance companies as what category they belong to? The positive aspect of this ordinance is that the financial

institutions which fall under the “Kha” category will also be allowed to carry out several financial activities that were previously allowed to only commercial banks, such as opening current accounts, issuing drafts and traveler’s cheques, dealing in foreign exchange and issuing letter of credits. Even the financial institutions, which falls under the category “Ga” are permitted to handle current account, saving account and to some extent, foreign currency transactions. Due to theses changes, the customer will benefit due to the competition among these banks and financial institutions.

In an article published in New Business Age written by Sudir Khatri (2012), has analyzed the ordinance pros and cons, in general speaking termed as Umbrella Act. He has expressed his disagreement in the ordinance regarding the qualification of the Board of Director’s composition. The qualification set is out of the total number of directors, two thirds have to be graduates in specified disciplines-management, commerce, economics, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background as the in the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) were engineers. He further writes that activities like project financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specific fields only. CEO of the “Ka” category qualification required is Master Degree in the chosen few subject and the term would be four year. The act however does not mention the renewal of the CEOs term. The Board or AGM of the institution should be decided the CEO’s tenure. (Khatri, 2012)

The ordinance relating to banks and financial institutions has been promulgated that has been bought into existence effective from February 4, 2004. The banks

and financial institutions ordinance, 2004 has replaced the existing Agricultural Bank Act, 2024. Commercial Bank Act, Development Bank Act, and Nepal Industrial Development Corporation Act and Finance Companies Acts and brought all such institutions under the preview of a single Act. Though this ordinance came as an achievement in the financial sector reform program, it's being a matte of debate among the various finance experts that the ordinance having six months existing time should be enacted? The ordinance, popularly called as Umbrella Act.

In an article "Comments on Umbrella Ordinance 2004" Mr. Tirtha Upadhyay, former president of ICAN has expressed clearly described the ordinance along with his views. The ordinance is comprehensive and prescribes in detail the provisions for licensing, incorporation, governance and merger and dissolution procedures for banks and financial institutions. This is a significant improvement over the existing acts but apprehension is expressed about the discretionary power that the ordinance has vested on Nepal Rastra bank. (Upadhyay, "Comments on Umbrella Ordinance 2004", P 16-17)

The ordinance is divided into 12 chapters and contains altogether 93 sections. The first chapter defines the various terms used in the ordinance but has conspicuously omitted to define "Security" and "Collateral" among some important terms. These words have been frequently used in relation to lending activity but in the absence of university acceptable definition the ongoing anomalies owing to the ambiguity are expected to continue though it has been clarified that the financial institutions henceforth can lend against personal or corporate guarantees.

Second chapter specifies the procedures for establishing a bank or financial institution and has brought transparency in licensing procedure. The authority has to either issue the license within 120 days of application or notify the reason of refusal within the said period. Further, a foreign bank's presence in

Nepal either through a joint venture or branch banking is legally mandated. This provision will probably meet the long outstanding demand of the donors and conforms to Nepal's entry to WTO. Buying back of its share by a financial institution, a unique provision is legal slated by this ordinance, and that could be considered progressive. But it has failed to explain the objective of such provision and at the same time appears to be too restrictive to implement. The ordinance has failed to prescribe condition for enhancing the stake of joint venture partner, fresh issue of shares to strategic partner, issue under employees' stock option plan and preferential issue that is vital from the investor's perspective.

Chapter three deals with the constitution and board of directors and appointment of CEO. Henceforth, in addition to directors appointed by the shareholders, meeting, the financial institutions (FIs) must have one independent director in its board appointed from amongst the names in a roster maintained by NRB. Also, the academic qualification of remaining directors has been prescribed that requires that two-third of all directors must posses required academic qualification and experience but it has failed to ensure that people requisite qualification are elected by the general meeting. Similarly, academic qualification for a position of CEO is also prescribed and his/her tenure is limited to four years. But the intention for limiting the tenure of such paid executive remains unexplained. It might prevent young and dynamic person from taking his leadership position. Further, the authority and responsibility specified are not commensurate to the potion of a CEO. As the law does not guarantee vesting of executive authority on CEO, it may be played down at the hands of unscrupulous directors and might inconsistent with the principle of divesting management from investor to professional managers.

Chapter four places restriction on using bank of financial institutions name or carrying out financial transactions by institutions other than those licensed by NRB as per the ordinance.

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

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

Regulatory, inspection and supervision responsibility with regard to financial institutions continue to remain with NRB. The new provision has enlarged the scope of NRB's regulatory role. Banks set up with foreign shareholding will now be required to submit to NRB the inspection reports prepared by their headquarters. Severe penalty including suspension of board or taking over the management of financial institutions has been prescribed if the result of NRB inspection indicates non-compliance with its directives or if the financial

institutions are found to be guilty of engaging in activities that are detrimental to the interest of the shareholders or the depositors.

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

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

The role of the auditor of financial institutions has been extended and it goes beyond the scope of expertise of accounting profession. Auditors shall require among others, to certify whether financial institutions have acted (or failed to act) to protect the interest of depositors or investor and whether the business of financial institutions has been conducted satisfactorily. Basis of such option is

not outlined and accordingly it will serve to purpose other than becoming a ritual.

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

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

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

In conclusion, it could be said that the ordinance is comprehensive and deals with significant aspect of operation of financial institutions. However, attempts should be made to limit NRB's discretionary power by farming transparent, prudent and unambiguous policies and regulations. Further work would be necessary to integrate the country's financial sector with international financial

sector with international financial market and effort should be directed to encourage adoption of international bet practices like International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA). Basel Committee Recommendation etc.

Lila Prasad Ojha (2010) on "Lending Practices: A study on NABIL Bank Ltd, Standard Chartered Bank Nepal Ltd and Himalayan Bank Ltd." has found out that the measurement of lending strength in relative term has revealed that the total liability to total assets of SCBNL has the highest ratio. However, the performance of other two banks has not deviated far from the mean ratio of SCBNL and the combined average. SCBNL tendency to investment in government securities have resulted with the lowest ratio of loans and advances to total assets ratio. The steady and high volume of loans and advances throughout the years has resulted.

NABIL ratio to be the highest. The ratio of loans and advances and investment to deposits ratio has measured the proportion of total deposits that is used to increase the income of the banks irrespective of the portfolios of its application. NABIL has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratio of other two banks. The combine ratio is highly deviated from the mean ratio of NABIL and SCBNL. This is the indicative of that in fund mobilizing activities NABIL is significantly better than SCBNL.

He has further concluded that the overall liquidity strength of SCBNL can be considered the best among the banks. However the liquidity risk arising from interest rate in SCBNL is the most likely. Since the market is highly sensitive toward the interest rate and SCBNL has generally been offering low interest rate as compare to other banks. The analysis of lending strength of HBL in loan and advances is the best. However loan and advances, investment to deposit ratio have upgraded the performance of NABIL. If HBL succeeded in

collecting the less cheaper sources of fund in future, the lending strength of HBL would push the performance of NABIL and SCBNL far behind in the coming future. Also the contribution made by HBL in the productive sector of economy is highly appreciable and the best among these three commercial banks. The highest growth rate, proportionately high volume of loans and advances and the best contribution in agriculture and priority sector and the high level of deposits mobilization of HBL has put this bank in the top position in the lending function as demand by national priority, national development. However the better activity ratio of SCBNL has proved this bank is the best in managing the lending portfolio according to the demand of profit oriented business. The high volume of lending activities and high volume of productive sector loan of NABIL has put this bank in the top position in absolute term.

On the basis of the findings and conclusions he has recommended for the banks as the liquidity position of all these three banks is found to be high. He has recommended the banks to look upon new area of lending and investment. The rural economy has always been realizing the credit needs and the dominance of non-organized moneylender in this area has been prevailing. To compromise between the liquidity and credit need of rural economy these banks are highly recommended to expand their credit in this area. SCBNL's contribution in loans and advances is the lowest and this has low degree of variation and low growth rate as compare to NABIL and HBL. SCBNL is recommended to give extra priority sector loan. The increasing provision on loan loss and high volume of non-performing assets in NABIL and HBL certainly attracts the high attraction of any person interested with these banks. The high volume of HBL non-performing assets may have caused due to the failure of industrial and agricultural sector. NABIL's increased non-performing assets may have caused due to the accumulated bad debts that is kept behind the curtain to show the efficiency of management.

He has used different tools like standard deviation, correlation, trend analysis and financial tools for the data analysis and presentation. In this study he has also taken sector wise loan priority, productive sector etc. The different sector wise loan classification are presented and analyzed. Only secondary data has been used for the study, the overview of the theoretical aspect of lending practices of the bank has not been analyzed. He has taken five years data from 2006 to 2010 for study of lending practices of NABIL, SCBNL and HBL.

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

In the same way, the proportion of non-performing loan with regard to total loans of NBL, NABIL and SCBNL was found to be 48.37%, 10.67%, And 4.38% respectively. That means 51.63%, 89.33% and 95.62% of total loan of NBL, NABIL and SCBNL was found to be performing loan. Not only the public sector bank, even private sector bank like NABIL has higher proportion of non-performing loan. However, in recent years NABIL has shown significant decrement in non-performing asset, which are the result of effective

bank credit management and its efforts of recovering bad debts through the recovery of establishment of recovery cell.

In the same way, proportion loan loss provision of NBL was found to be significantly higher (i.e.; 40.17%) as compared to other two commercial banks. The proportion of NABIL and SCBNL was found to be 5.69% and 4.49% respectively.

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

The review of above relevant literature has contributed to enhance fundamental understanding and knowledge, which is required to make this study meaningful and purposive. There has been lots of article published related to investment policy, loan and advances of commercial banks. There are various researches conducted on investment analysis and policy of commercial banks, impact and implementation of NRB guidelines in commercial banks but there are a few research conducted on credit practices of commercial banks. However, no one has done on "A comparative study on credit management of commercial banks in Nepal". Therefore, the researcher attempts to study in this area with a comparative study of credit management of selected commercial banks will be the first study between the banks in the subject matter.

2.2 Research Gap

The purpose of this research is to development some expertise in 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 selected commercial banks (i.e.; NABIL Bank Ltd. and Himalayan Bank Ltd.). Thus, the previous studies cannot 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 cannot be found on that exact topic, i.e.; A comparative study on credit management of commercial banks in Nepal. Therefore, to fulfill this gap, this research is selected. To complete this research work, many books, journals, articles and various published and unpublished dissertation are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of credit management, which is considered only on NABIL Bank Limited and Himalayan Bank Limited. Our main research problem is to analyze whether these two commercial banks have right level of credit efficiency as well as are able to manage its credit effectively or not. To achieve this main objective, various financial and statistical tools are used. Similarly, trend analysis of investment and profit are reviewed to make this research complete. Therefore, this study is useful to the concern bank as well as different persons, such as shareholders, investors, policy makers, stockbrokers, state of government etc.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research is common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles: diligent investigation in order to ascertain something (Saravanavel, 2008: 1).

Research Methodology is a way to systematically solve the research problem (Kothari, 2008: 10). 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 among with the logic behind them. This chapter looks into the research design, nature and sources of data, data collection procedure and tools & techniques of analysis.

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

A Research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in

procedure. For the analysis of credit management of selected joint venture banks, analytical as well as descriptive designs applied to achieve the objective of the research.

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

The research design asks, what approach to the problem should be taken, what methods will be used, what strategies will be used, what strategies will be effective etc. Identification, selection and formulation of a research problem may be considered as planning stage of a research and the remaining activities refer to the design, operation and completion of the research study.

A research design is the specification of methods and procedures of acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from which sources and what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected objective and economical procedures.

3.3 Sources of Data

The researcher used two types of data collection techniques. One is primary data collection and other is secondary data collection.

i. Primary Data

Primary data are those collected by the researcher on the concerned topic, which are original in nature. While studying about the credit management, we came across primary data from different sources like: direct in-depth interviews with staffs of credit department unit of Himalayan Bank Limited and NABIL Bank Limited as well as concerned customers of banks.

ii. Secondary Data

Secondary data are those collected by the researcher on the concerned topic, which are not original in nature or are originally collected for some other purposes. The main sources of secondary data were: statistical publication of Nepal Rastra Bank, websites, annual reports of Himalayan Bank Limited and NABIL Bank Limited, different journals and business magazines etc.

In some cases primary data are also taken as personal interview, face to face and telephone interview but the study is mainly based on secondary data. So, the major sources of secondary data for this study are as follows:

- Annual reports of the banks
- Published and unpublished bulletins, reports of the banks
- Published and unpublished bulletins, reports of the Nepal Stock Exchange
- Previous studies and reports
- Unpublished official records
- "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines
- Journals and other published and unpublished related documents and reports for Central Library of T. U. and Library of Nepal Rastra Bank
- Various Internet Websites
- Other published materials etc.

3.4 Data Collection Procedure

As the study will also be based on primary data, information will be collected developing a scheduled questionnaire and distributing these to employees of the banks and clients. Question of both, open-end and close-end will be included in questionnaire. Besides this, junior employees and clients are also being observed and responses have been drawn from them about relevant questionnaires.

3.5 Populations and Sampling

A population in most studies usually consists of large group because of its large size. It is fairly difficult to collect detailed information from each member of population rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub-group. The sampling allows the researches more time to make an intensive study of a research problem. The total commercial banks shall constitute the population of data and two banks under the study constitute the sample for. So among the various commercial banks in the banking industry, Himalayan Bank Limited and NABIL Bank Limited are taken as sample for the study. Similarly, financial statements of those banks for 5 years from 2007/08 to 2011/12 have been taken as samples for the same purpose.

3.6 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 two types of tool for analysis:

i) Financial Tools, and ii) Statistical Tools.

3.6.1 Financial Tools

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

Ratio Analysis

Ratio analysis is a powerful and the most widely used tool 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, 2000: 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, 2005: 97). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 2008: 97).

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

A. Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short-term or current obligations. 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 same can be examined (Van Horne, 2007: 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 lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 2008: 140).

To find out the ability of bank to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are 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, provisions, customer's acceptance liabilities etc.

ii. Cash & Bank Balance to Total Deposit Ratio

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

cover the deposits and vice versa. It can be calculated by dividing 'cash & bank balance' by deposits. This ratio can be calculated using the following formula.

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

iii. Cash & Bank Balance to Current Deposit Ratio

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

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

iv. Cash & Bank Balance to Interest Sensitive Deposit Ratio

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

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

B. Activity/Efficiency Ratio

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

and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i. Loan & Advances to Total Deposit Ratio

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

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

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

ii. Loan & Advances to Total Assets Ratio

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

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

iii. Total Investment to Total Deposit Ratio

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

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

C. Leverage ratio

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

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

and Myers, 2003: 677). These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i. Debt to Equity Ratio

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 over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society.

Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goals (Pradhan, 2005: 41). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

i. Interest Income to Interest Expenses Ratio

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

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

ii. Return on Loan & Advances Ratio

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

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

iii. Net Profit/Loss to Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in the 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 & Advances Ratio

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by

taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It is calculated by using the following formula:

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

v. Earning Per Share (EPS)

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 shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below.

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

D. Lending Efficiency Ratio

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

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

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

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

ii. Loan Loss Provision to Total Loan & Advances Ratio

Loan loss provision to total loan & advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provisions decrease in profit result to decrease in dividends but it's positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related 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 indicates more risky assets in total volume of loan & advances.

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

Limitations of Ratio Analysis

Ratio analysis is suffered from some inherent limitations that are direct inherited from financial statements. Some of the most common weakness of ratio analysis is as follows:

- Financial statement records past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision-making.
- In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.
- The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.
- Some times ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Singh, 2005:101).

Although, various limitations of ratio analysis and doubt may arise about the valid measure of the financial performance but they are used widely to measure the financial performance of the firm.

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

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

Where,

$\bar{X}$ = Arithmetic mean

N = Number of observations

$\frac{\sum x}{N}$ = 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 S.D. or σ (Shrestha, 1991: 43). It is used as absolute measure of dispersion or variability. It is calculated as:

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

Where,

σ = Standard deviation

iii. Coefficient of Variation (C.V.)

The co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in

percentage (Shrestha, 2003: 45). It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

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

Where,

σ = 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 in the linearly related to other variables. It refers the closeness of the relationship between two or more variables. In other words, it is an 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 to 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.

The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively corrected series. Symbolically, correlation coefficient can be expressed as follows:

$$\text{Correlation Coefficient (simply, r)} = \frac{n\sum xy - \sum x \sum y}{\sqrt{\left[\left\{n\sum x^2 - \left(\sum x\right)^2\right\}\left\{n\sum y^2 - \left(\sum y\right)^2\right\}\right]}}$$

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:

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

Where,

r = Correlation coefficient

N = Number of pairs of observations

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

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

3.7 Limitation of the Methodology

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

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

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

In this chapter, the data have collected from various sources have been presented and analyzed to measure the various dimensions of problems of the study and major findings of the study are presented systematically.

4.1.1 Measuring Liquidity Position of the Bank

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

4.1.1.1 Current Ratio

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

Table 4.1

Current Ratio of NABIL

(Rs. in '000')

Year	Current Assets	Current Liabilities	Ratios (%)
2007/08	14602500	23231100	62.85
2008/09	14980900	28982300	51.69
2009/10	18538400	31099400	59.61
2010/11	18038500	32462800	55.56
2011/12	19223500	40428300	47.55
Average			55.45
S.D.			24.92
C.V.			44.94

Above table shows the current assets to current liabilities ratio, i.e. current ratio of NABIL from the fiscal year 2007/08 to 2011/12 of five years study period. The ratios

are 55.81%, 52.76%, 64.42%, 67.74%, 79.64%, 76.18% and 70.18% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11, and 2011/12 respectively. Likewise, average ratio of five years study period is 66.73%. As well, standard deviation is 9.93 and coefficient of variation is 14.88%. Current assets and current liabilities of NABIL can also be presented by bar diagram as follows:

Figure 4.1

Current Assets and Current Liabilities NABIL

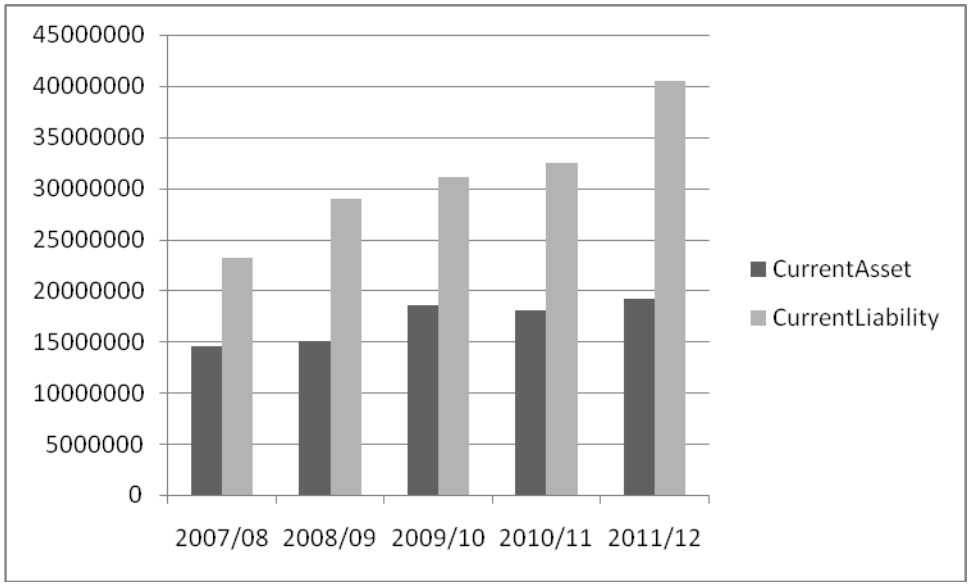


Table 4.2
Current Ratio of HBL

(Rs. in '000')

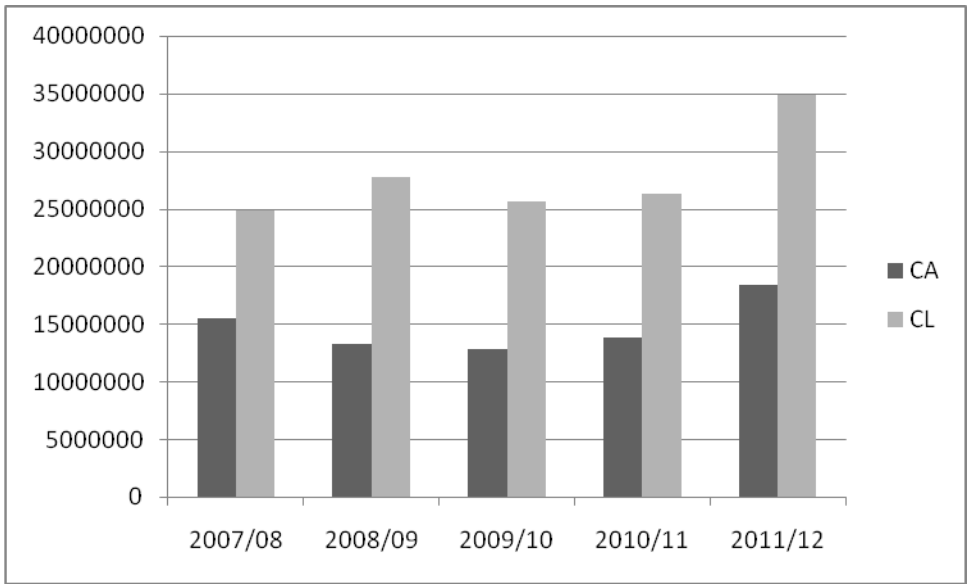
Year	Current Assets	Current Liabilities	Ratios (%)
2007/08	15504100	24837600	62.42
2008/09	13215300	27753300	47.62
2009/10	12767000	25639600	49.80
2010/11	13781200	26286500	52.43
2011/12	18383000	34912000	52.65
AV			52.98
SD			23.80
CV			44.92

Above table shows the current ratio of HBL during the five years of study period from fiscal year 2007/08 to 2011/12. The ratios are 79.08%, 54.82%, 55.90%, 63.00%, 58.61%, 63.59% and 66.30% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11,

and 2011/12 respectively. Similarly, the average ratio of five years study period is 63.04. Likewise, standard deviation is 8.23 and coefficient of variation is 13.05 %. Current assets and current liabilities of HBL can also be presented by bar diagram as follows:

Figure 4.2

Current Assets and Current Liabilities of HBL



Comparison

Table 4.1 and 4.2 shows the current liabilities of NABIL as well as HBL is higher than the current assets during the seven years of study period. Ratios of NABIL are in increasing trend except in the year 2007/08, 2008/09 and 2009/10 where ratios of HBL are in increasing trend except in the year 2001/02 and 2004/05. During the study period, NABIL kept a higher mean ratio of current assets to current liabilities ratio than HBL. But, the ratios of NABIL have more variation and less consistency that of 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 years. This core deposit forms the fixed liability on the bank though it is current in nature. So the ratio maintained by commercial banks at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. Hence, the above current

ratio analysis of the banks over the six years period indicates that the banks have satisfactory liquidity position.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

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

Table 4.3

Cash and Bank Balance to Total Deposit Ratio of NABIL

(Rs. in '000')

Year	Cash & Bank Balance	Total Deposit	Ratios (%)
2007/08	2671141	31915047	8.37
2008/09	3372512	37348255	9.02
2009/10	1400097	46410700	3.02
20010/11	2458549	49608376	4.95
2011/12	4294046	54905676	7.82
Average			6.63
S.D.			3.14
C.V.			47.36

Above table depicted the cash & bank balance to total deposit ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 8.37%, 9.02%, 3.02%, 4.95% and 7.82%, in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12, respectively. Similarly, the mean ratio remains at 6.63% during the five years study period. Likewise, standard deviation is 3.14% and coefficient of variation is 31.86%. Cash & bank balance and total deposit of NABIL can be shown by following diagram:

Figure 4.3

Cash and Bank Balance and Total Deposit of NABIL

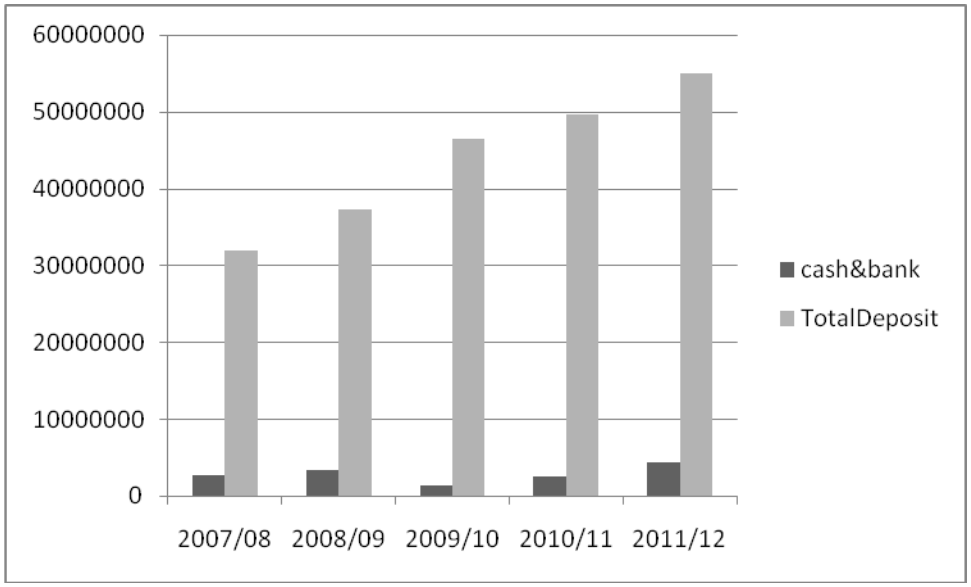


Table 4.4

Cash and Bank Balance to Total Deposit Ratio of HBL

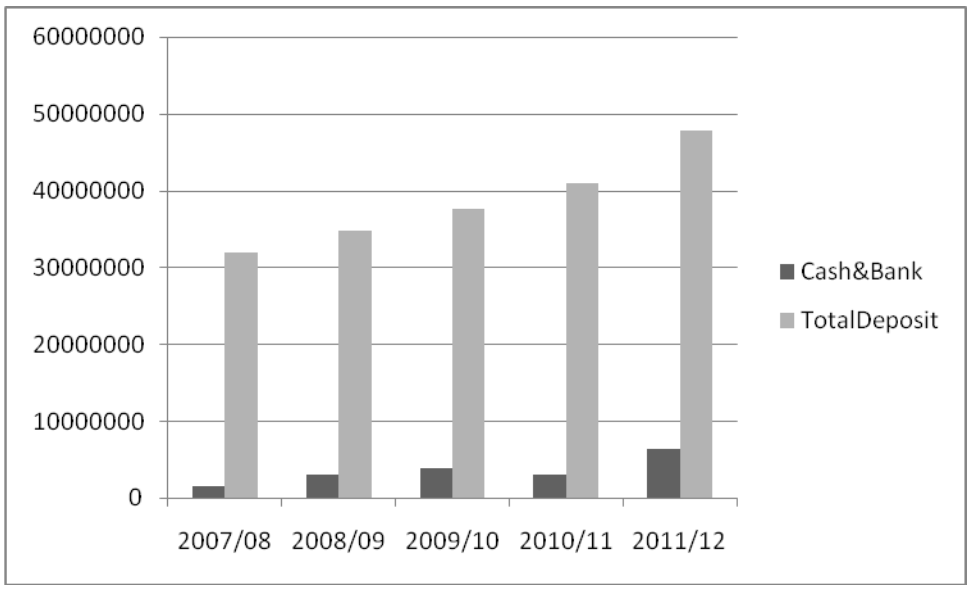
(Rs. in '000')

Year	Cash & Bank Balance	Total Deposit	Ratio
2007/08	1448142	31842789	4.54
2008/09	3048526	34681345	8.79
2009/10	3866490	37611202	10.28
2010/11	2964651	40920627	7.24
2011/12	6362296	47730993	13.32
AV			8.83
SD			4.16
CV			47.11

Above table depicted the cash & bank balance to total deposit ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 4.54%, 8.79%, 10.28%, 7.24%, and 13.33% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11, and 2011/12 respectively. Similarly, the mean ratio remains at 8.84% during the five years study period. Likewise, the standard deviation is 4.16 and coefficient of variation is 47.05%. Cash & bank balance and total deposit of HBL can be shown by following diagram:

Figure 4.4

Cash and Bank Balance and Total Deposit of HBL



Comparison

The cash & bank balance to total deposit ratio of NABIL is in increasing trend till to the fiscal year 2008/09 but in 2009/10 it decrease sharply and then it started to increase up-to the last fiscal year of the study period. But the cash & bank balance to total deposit ratio of HBL is in increasing trend except in the fiscal year 2010/11. There is highest mean ratio of cash & bank balance to total deposit ratio with HBL than NABIL. But, the ratios of HBL have more variation and less consistency than NABIL.

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

4.1.1.3 Cash and Bank Balance to Current Deposit Ratio

This ratio shows the percentage of most liquid fund over current deposit of the bank. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. Low ratio is also dangerous. If bank maintain low ratio, bank may not 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 (%)
2007/08	2671141	5284368	50.55
2008/09	3372512	5480533	61.53
2009/10	1400097	7904619	17.71
2010/11	2458549	5456894	45.05
2011/12	4294046	7604554	56.46
Average			46.26
S.D.			21.79
C.V.			47.10

Above table depicted the cash & bank balance to current deposit ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 50.55%, 61.53%, 17.71%, 45.05% and 56.46% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, mean ratio remains at 46.26% during the five years study period. Likewise, standard deviation is 21.79 and coefficient of variation is 47.10%. Cash & bank balance and current deposit of NABIL can be shown by following diagram:

Figure 4.5

Cash and Bank Balance and Current Deposit of NABIL

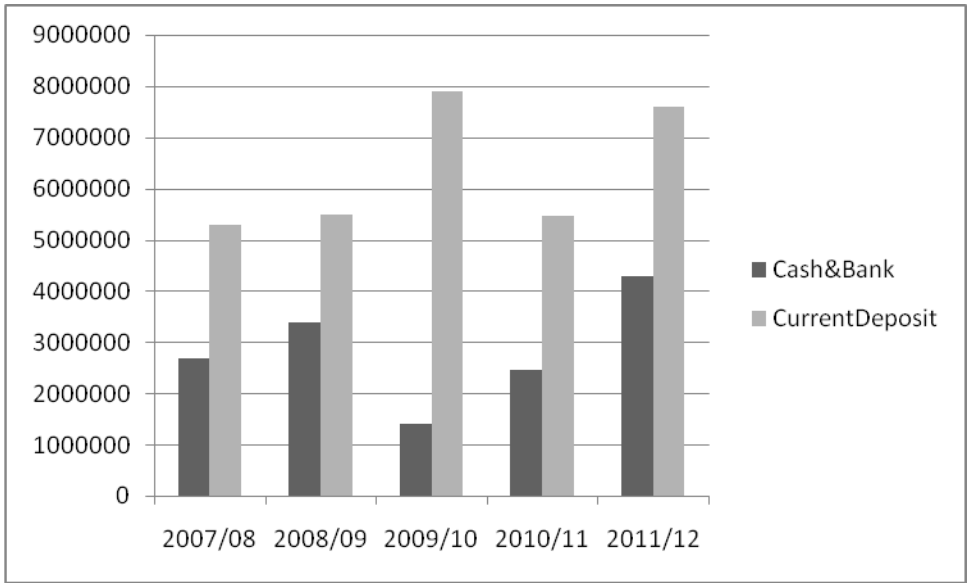


Table 4.6

Cash and Bank Balance to Current Deposit Ratio of HBL

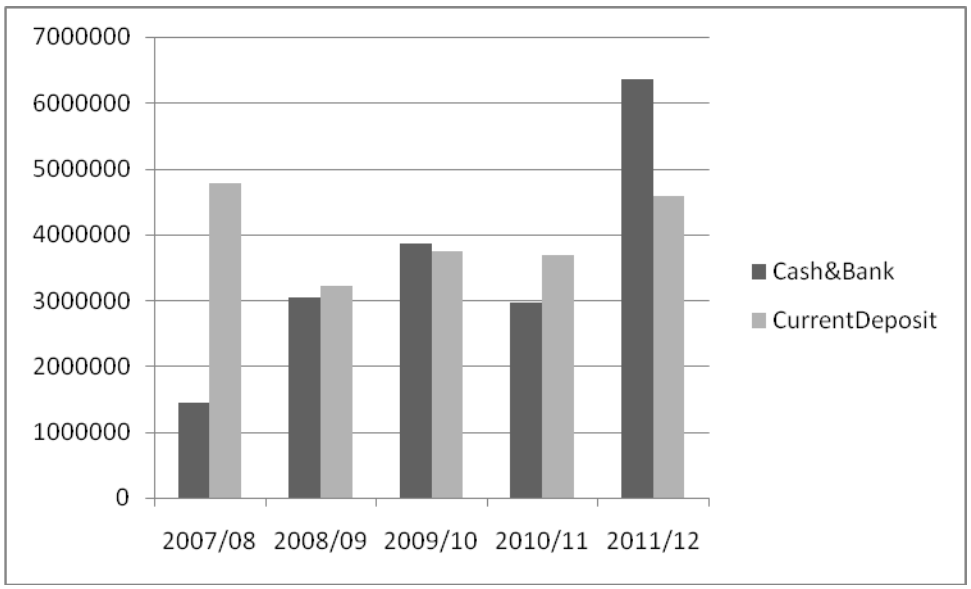
(Rs. in '000')

Year	Cash & Bank Balance	Current Deposits	Ratio
2007/08	1448142	4784216	30.27
2008/09	3048526	3218224	94.72
2009/10	3866490	3745624	103.22
2010/11	2964651	3694249	80.25
2011/12	6362296	4584233	138.78
AV			89.45
SD			43.00
CV			48.07

Above table depicted the cash & bank balance to current deposit ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 30.27%, 94.72%, 103.22%, 80.25% and 138.78% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, mean ratio remains at 89.45% during the seven years study period. Likewise, standard deviation is 43.00 and coefficient of variation is 48.07%. Cash & bank balance and current deposit of HBL can be shown by following diagram:

Figure 4.6

Cash and Bank Balance and Current Deposit of HBL



Comparison

Cash & bank balance to current deposit ratio of NABIL is in increasing trend but it suddenly declines in 2009/10 and then it starts increasing during the five years of study period. Similarly, the ratio of HBL show highly fluctuating trend. Where the mean ratio of HBL is highest than that of NABIL over the study period. Likewise, the ratios of HBL have more variation and inconsistency 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 dose 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.

4.1.2 Assets Management Ratio

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

4.1.2.1 Loan & Advances to Total Deposit Ratio

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

Table 4.9

Loan & Advances to Total Deposit Ratio of NABIL (Rs. in '000')

Year	Loan & Advances	Total Deposit	Ratios (%)
2007/08	21365053	31915047	66.94
2008/09	27589930	37348255	73.87
2009/10	32268873	46410700	69.52
2010/11	38034097	49608376	76.66
2011/12	41605682	54905676	75.77
Average			72.55
S.D.			32.49
C.V.			44.78

Above table depicted the loan & advance to total deposit ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 66.94%, 73.87%, 69.52%, 76.66% and 75.77% respectively. Similarly, mean ratio remains at 72.55% during the five years study period. Likewise, standard deviation is 32.49 and coefficient of variation is 44.78%. Loan & advance and total deposit of NABIL can be shown by following diagram:

Figure 4.9

Loan & Advances and Total Deposit of NABIL

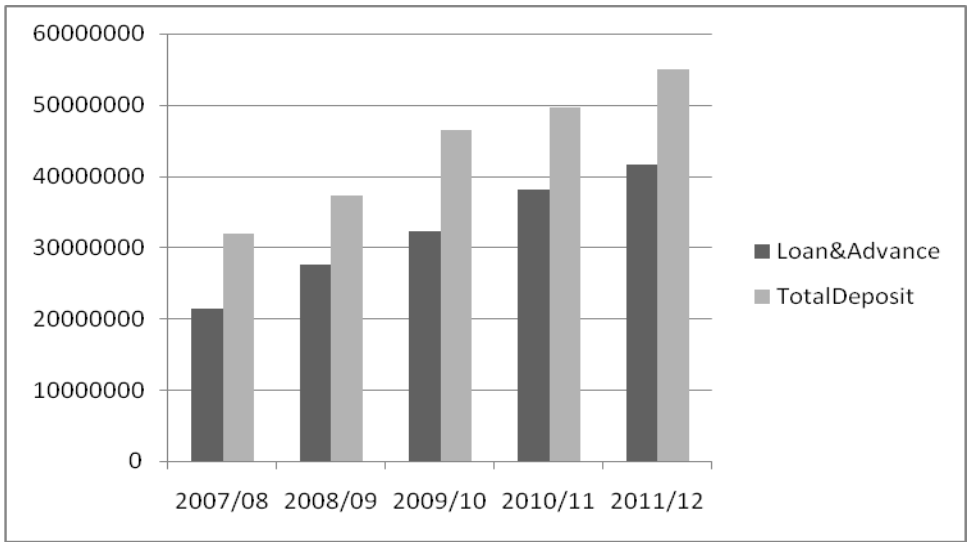


Table 4.10

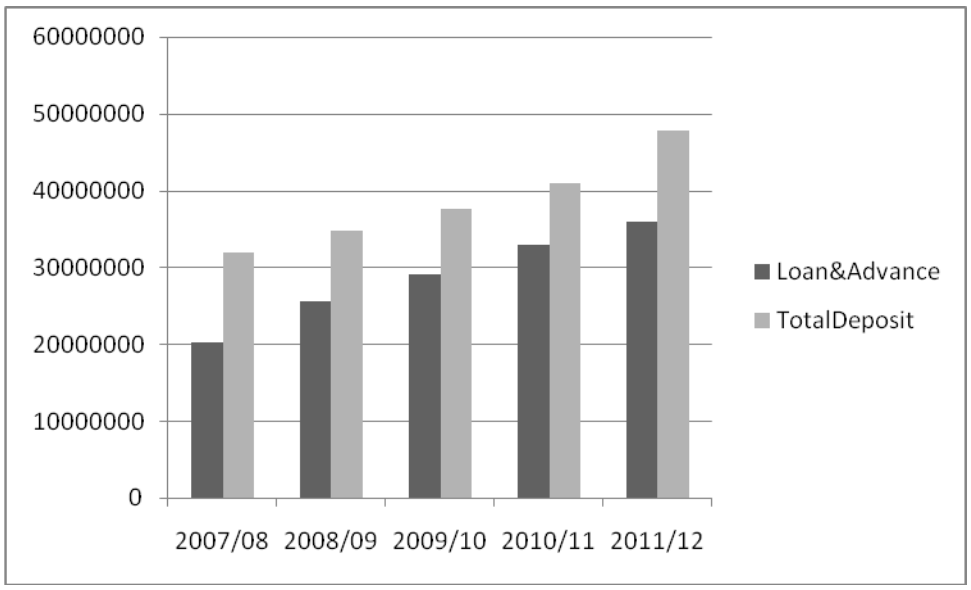
Loan & Advances to Total Deposit Ratio of HBL (Rs. in '000')

Year	Loan & Advances	Total Deposit	Ratio (%)
2007/08	20179613	31842789	63.37
2008/09	25519519	34682306	73.58
2009/10	29123754	37611202	77.43
2010/11	32968270	40920627	80.56
2011/12	35968472	47730993	75.35
AV			74.05
SD			33.22
CV			44.86

Above table depicted the loan & advance to total deposit ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 63.37%, 73.58%, 77.43%, 80.56% and 75.35% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 74.05% during the five years study period. Likewise, the standard deviation is 33.22 and coefficient of variation is 44.86%. Loan & advance and total deposit of HBL can be shown by following diagram:

Figure 4.10

Loan & Advances and Total Deposit of HBL



Comparison:

Loan & advances to total deposit ratio of NABIL is in increasing trend over the five years of study period. Whereas the ratio of HBL is in increasing trend except in the fiscal year 2011/12 it slightly decrease. Similarly, HBL has higher mean ratio than that of NABIL during the study period. Likewise, the ratios of NABIL have more variation and less consistency than HBL.

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

4.1.2.2 Loan & Advances to Total Assets Ratio

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

Granting of loans & advances always carries a certain degree of risk. Thus, this asset of banking business is regarded as risky assets. This ratio measures the management attitude toward risky assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice-versa. 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 (%)
2007/08	21365053	37132759	57.53
2008/09	2758993	43867397	62.89
2009/10	32268873	52150237	61.87
2010/11	38034097	52079725	73.03
2011/12	41605682	58099619	71.61
Average			65.38
S.D.			29.36
C.V.			44.90

Above table depicted the loan & advances to total assets ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 57.53%, 62.89%, 61.87%, 73.03% and 71.61% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 65.38% during the five years study period. Likewise, the standard deviation is 29.36 and coefficient of variation is 44.90%. Loans & advances and total assets of NABIL can be shown by following diagram:

Figure 4.11

Loan & Advances and Total Assets of NABIL

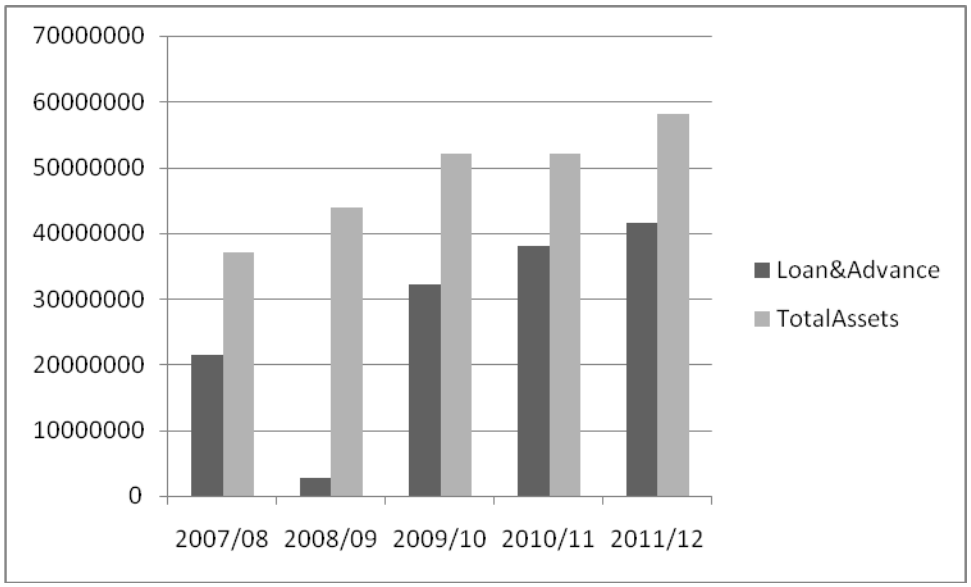


Table 4.12

Loan & Advances to Total Assets Ratio of HBL

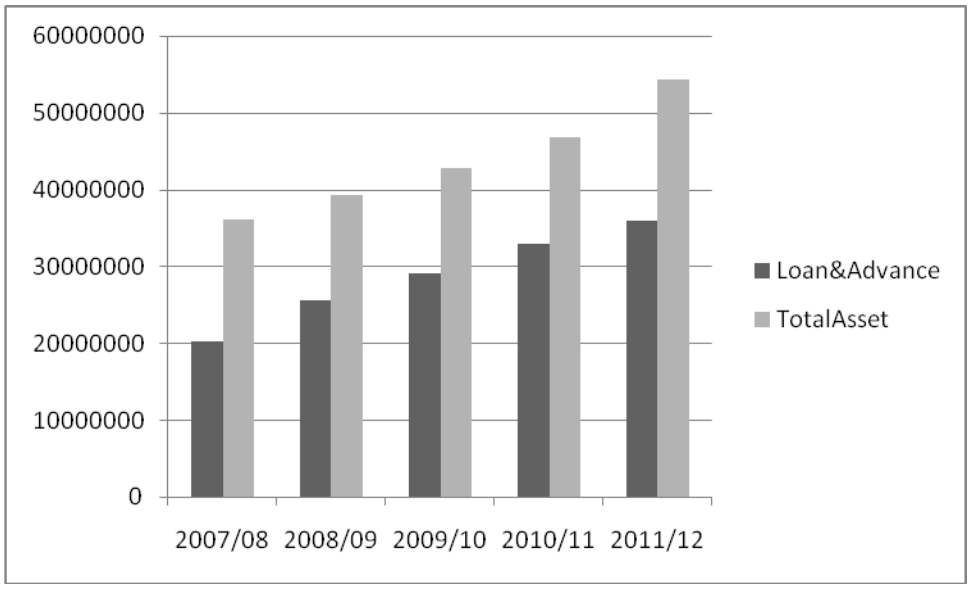
(Rs. in '000')

Year	Loan & Advances	Total Assets	Ratio (%)
2007/08	20179613	36175531	55.78
2008/09	25519519	39330131	64.88
2009/10	29123754	42717124	68.17
2010/11	32968270	46736203	70.54
2011/12	35968472	54364427	66.16
AV			65.10
SD			29.20
CV			44.85

Above table depicted the loan & advances to total assets ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 55.78%, 64.88%, 68.17%, 70.54% and 66.16% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 65.10% during the five years study period. Likewise, the standard deviation is 29.20 and coefficient of variation is 44.85%. Loan & advance and total assets of HBL can be shown by following diagram:

Figure 4.12

Loan & Advances to Total Assets Ratio of HBL



Comparison:

Loan & advances to total assets ratio of NABIL is in increasing trend except in the last fiscal year 2011/12 over the five years of study period. The ratio of HBL is also in increasing trend except in the fiscal year 2011/12. Similarly, NABIL has slightly higher mean ratio than that of HBL. Likewise, the ratios of both NABIL and HBL have more variation and less consistency.

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 in terms of loan & advances of both banks are better because of above the fifty percent of total assets.

4.1.2.3 Total Investment to Total Deposit Ratio

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

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

Table 4.13

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

Year	Total Investments	Total Deposit	Ratios (%)
2007/08	9939771	31915047	31.14
2008/09	10826379	37348255	28.98
2009/10	13670916	46410700	29.45
2010/11	13003205	49608376	26.21
2011/12	14076850	54905676	25.63
Average			28.28
S.D.			12.68
C.V.			44.83

Above table depicted the total investment to total deposit ratio of NABIL over the five years period from 2007/08 to 200/11/12. The ratios are 31.14%, 28.98%, 29.45%, 26.21% and 25.63% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 28.28% during the five years study period. Likewise, the standard deviation is 12.68 and coefficient of variation is 44.83%. Total investment and total deposit of NABIL can be shown by following diagram:

Figure 4.13
Total Investment and Total Deposit of NABIL

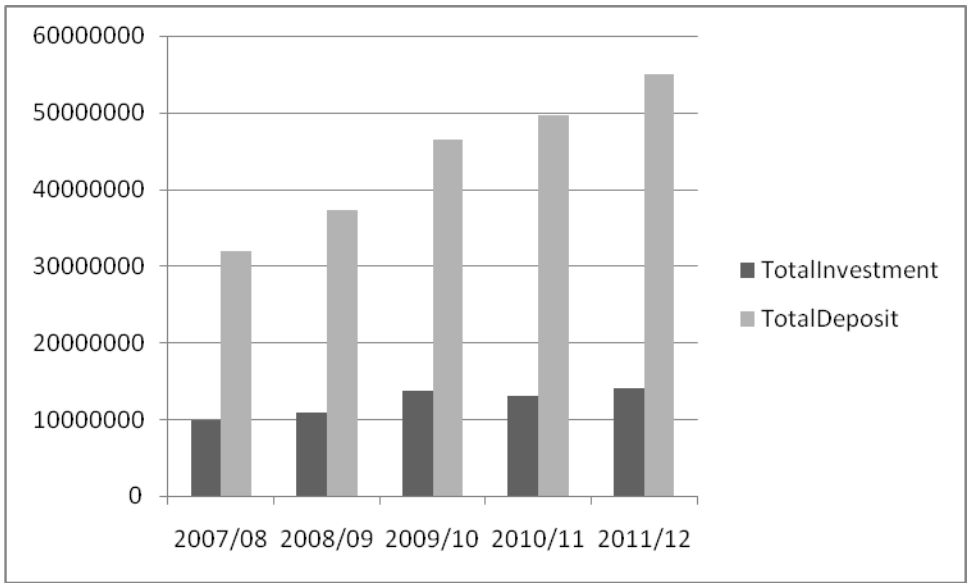


Table 4.14

Total Investment to Total Deposit Ratio of HBL

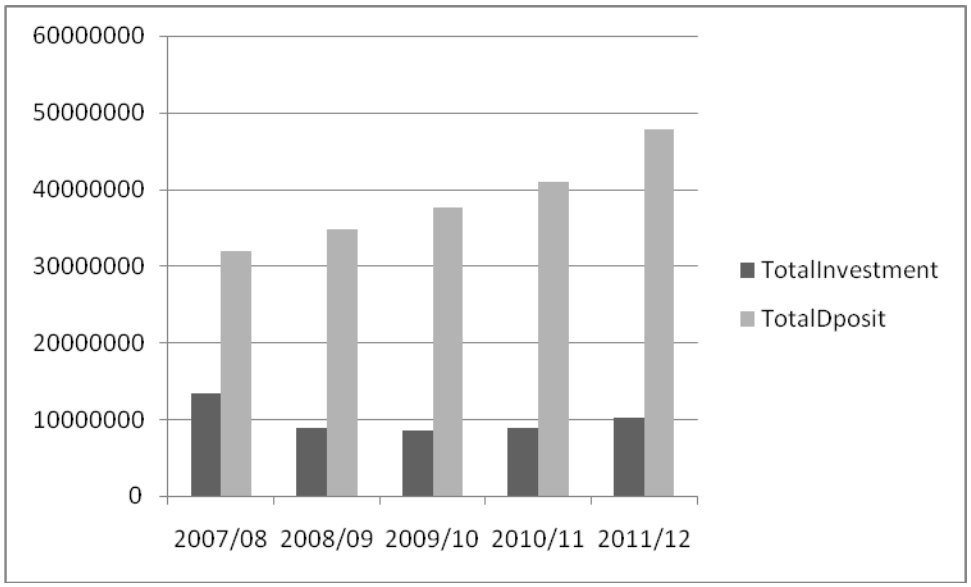
(Rs. in '000')

Year	Total Investment	Total Deposit	Ratio (%)
2007/08	13429735	31842789	42.17
2008/09	8804574	34682306	25.38
2009/10	8523792	37611202	22.66
2010/11	8858725	40920627	21.64
2011/12	10120367	47730993	21.20
AV			26.61
SD			12.41
CV			46.63

Above table depicted the total investment to total deposit ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 42.17%, 25.38%, 22.66%, 21.64% and 21.20% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 26.61% during the five years study period. Likewise, the standard deviation is 12.41 and coefficient of variation is 46.63%. Total investment and total deposit of HBL can be shown by following diagram:

Figure 4.14

Total Investment and Total Deposit of HBL



Comparison:

Total investment to total deposit ratio of NABIL is in decreasing trend over the five years of study period. The ratio of HBL is also in decreasing trend. Similarly, NABIL has highest mean ratio than that of HBL. Likewise, the ratios of HBL have more variation and less consistency than NABIL.

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

4.1.3 Leverage Ratio

These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. 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.

4.1.3.1 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 (%)
2007/08	240000	2437198	9.84
2008/09	300000	3130240	9.58
2009/10	300000	3834754	7.82
2010/11	300000	4566517	6.56
2011/12	300000	4572056	6.56
Average			8.07
S.D.			3.66
C.V.			45.35

Above table depicted the total debt to total equity ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 9.84%, 9.58%, 7.82%, 6.56% and 6.56% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 8.07% during the five years study period. Likewise, the standard deviation is 3.66 and coefficient of variation is 45.35%. Total debt and total equity of NABIL can be shown by following diagram:

Figure 4.15

Debt to Equity Ratio of NABIL

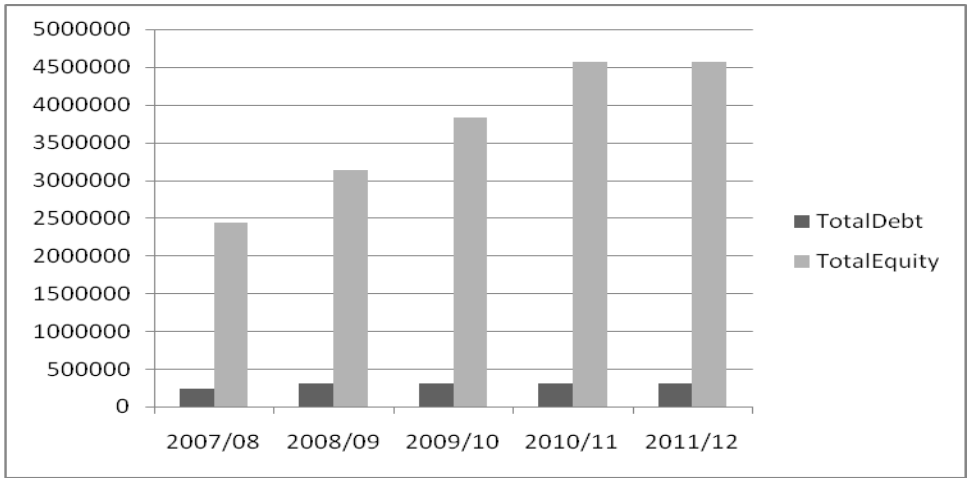


Table 4.16
Debt to Equity Ratio of HBL

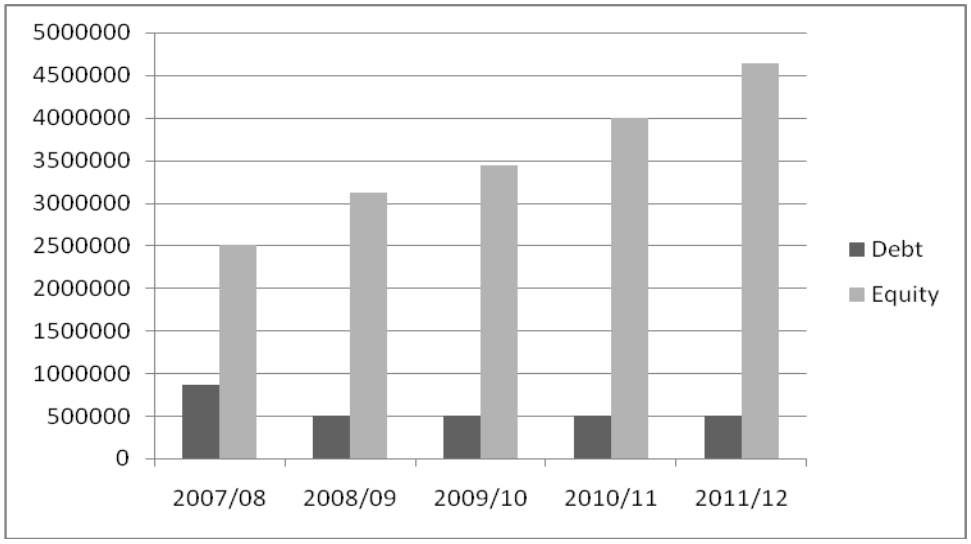
(Rs. in '000')

Year	Total Debt	Total Equity	Ratio (%)
2007/08	860000	2512991	34.22
2008/09	500000	3119880	16.12
2009/10	500000	3439205	14.53
2010/11	500000	3995478	12.51
2011/12	500000	4632010	10.79
AV			17.63
SD			8.75
CV			49.63

Above table depicted the total debt to total equity ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 34.22%, 16.12%, 14.53%, 12.51%, 10.79% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 17.63% during the five years study period. Likewise, the standard deviation is 8.75 and coefficient of variation is 49.63%. Total debt and total equity of HBL can be shown by following diagram:

Figure 4.16

Debt and Equity of HBL



Comparison:

Total debt to total equity ratio of NABIL is in decreasing trend over the five years of study period. Similarly the ratio of HBL is also in continuously decreasing trend in the subsequent years. But HBL has the highest mean ratio than that of NABIL during the study period. Similarly, the ratios of HBL have more variation but more consistency than NABIL.

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

4.1.3.2 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.

Table 4.17

Total Debt to Total Assets Ratio of NABIL **(Rs. in '000')**

Year	Total Debt	Total Assets	Ratios (%)
2007/08	240000	37132759	6.46
2008/09	300000	43867397	6.83
2009/10	300000	52150237	5.75
2010/11	300000	52079725	5.76
2011/12	300000	58099619	5.16
Average			5.99
S.D.			2.69
C.V.			44.90

Above table depicted the total debt to total assets ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 6.46%, 6.83%, 5.75%, 5.76% and 5.16% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, mean ratio remains at 5.99% during the five years study period. Likewise, standard deviation is 2.69 and coefficient of variation is 44.90%. Total debt and total assets of NABIL can be shown by following diagram:

Figure 4.17

Total Debt and Total Assets of NABIL

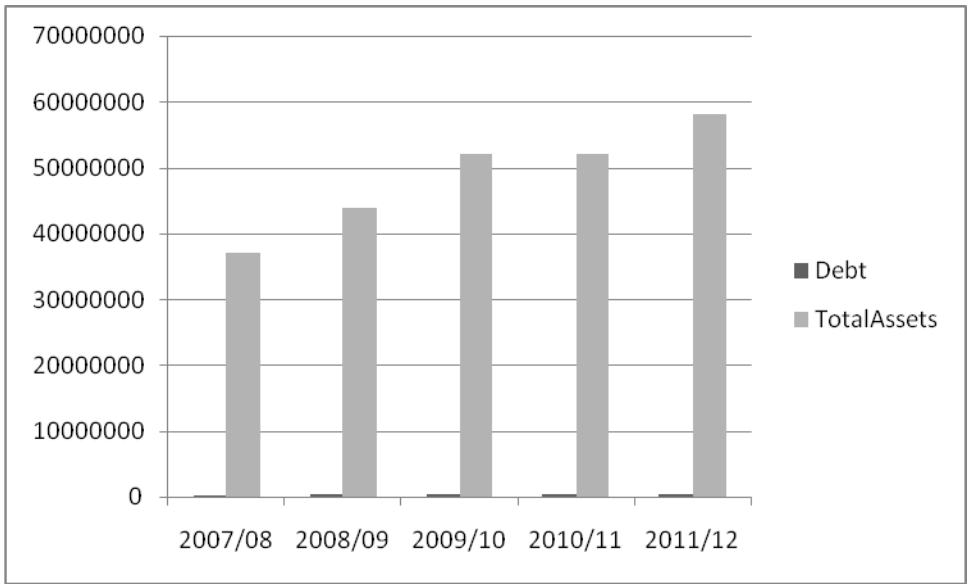


Table 4.18

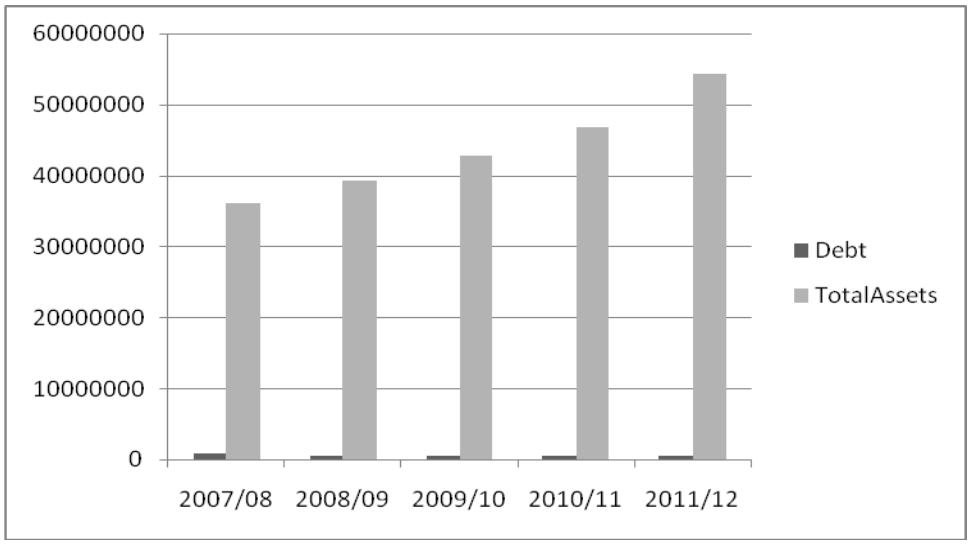
Total Debt to Total Assets Ratio of HBL **(Rs. in '000')**

Year	Total Debt	Total Assets	Ratio (%)
2007/08	860000	36175531	2.38
2008/09	500000	39330131	1.27
2009/10	500000	42717124	1.17
2010/11	500000	46736203	1.07
2011/12	500000	54364427	0.92
AV			1.36
SD			0.65
CV			47.79

Above table depicted the total debt to total assets ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 2.38%, 1.27%, 1.17%, 1.07% and 0.92% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 1.36% during the five years study period. Likewise, the standard deviation is 0.65 and coefficient of variation is 47.79%. Total debt and total assets of HBL can be shown by following diagram:

Figure 4.18

Total Debt and Total Assets of HBL



Comparison:

Total debt to total assets ratio of NABIL is in decreasing trend except in the year 2008/09 of study period during the five years. The ratio of HBL is in continuously

decreasing trend over the study period. But NABIL has the highest mean ratio than that of HBL. Similarly, the ratios of NABIL have more variation and less consistency than HBL.

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

4.1.4 Profitability Ratios

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

4.1.4.1 Interest Income to Interest Expenses Ratio

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

Table 4.19

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

Year	Interest Income	Interest Expenses	Ratios (%)
2007/08	1978696	758436	260.89
2008/09	2798486	1153280	242.65
2009/10	4047725	1960107	206.50
2010/11	4049714	2955430	137.02
2011/12	5254030	3325451	157.99
Average			201.01
S.D.			92.37
C.V.			45.95

Above table depicted the interest income to interest expenses ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 260.89%, 242.65%, 206.50%, 137.02% and 157.99% respectively. Similarly, the mean ratio remains at 201.01% during the five years study period, the standard deviation is 92.37 and coefficient of variation is 45.95%. Interest income and interest expenses of NABIL can be shown by following diagram.

Figure 4.19

Interest Income and Interest Expenses of NABIL

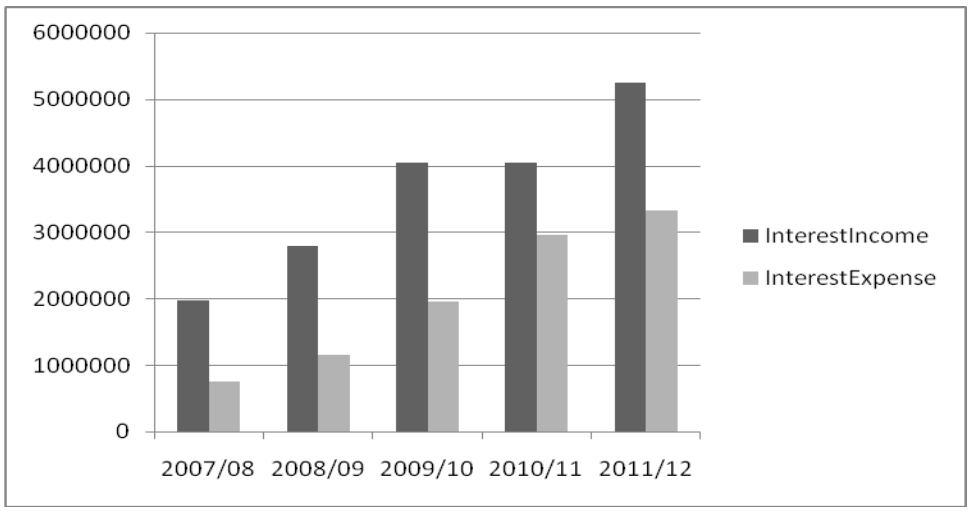


Table 4.20

Interest Income to Interest Expenses Ratio of HBL (Rs. in '000')

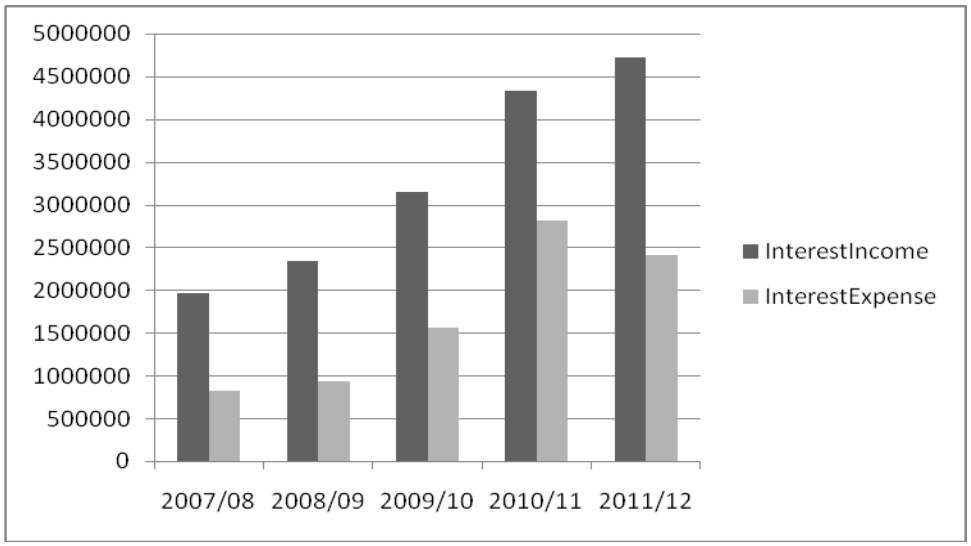
Year	Interest Income	Interest Expenses	Ratio (%)
2007/08	1963647	823744	238.38
2008/09	2342198	934778	250.56
2009/10	3148605	1553530	202.67
2010/11	4326140	2816441	153.60
2011/12	4724887	2414807	195.66
AV			208.17
SD			94.35
CV			45.32

Above table depicted the interest income to interest expenses ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 238.38%, 250.56%, 202.67%, 153.60% and 195.66% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 208.17%

during the five years study period. Likewise, the standard deviation is 94.35 and coefficient of variation is 45.32%. Interest income and interest expenses of HBL can be shown by following diagram:

Figure 4.20

Interest Income and Interest Expenses of HBL



Comparison:

Interest income to interest expenses ratio of NABIL is in decreasing trend during the five years of study period. The ratio of HBL is in increasing trend for first two years and then it climbs up suddenly in third year and thereafter it declines. Similarly, NABIL has the highest mean ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL.

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

4.1.4.2 Return on Loan & Advances Ratio

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

Table 4.21

Return on loan & advances ratio of NABIL **(Rs. in '000')**

Year	Net Profit	Loan & Advances	Ratios (%)
2007/08	746468	21365053	3.49
2008/09	1031053	27589930	3.73
2009/10	1139099	32268873	3.53
2010/11	1344179	38034097	3.53
2011/12	1700375	41605682	4.08
Average			3.67
S.D.			1.64
C.V.			44.68

Above table depicted the return on loan & advances ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 3.49%, 3.73%, 3.53%, 3.53% and 4.08% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 3.67% during the five years study period. Likewise, the standard deviation is 1.64 and coefficient of variation is 44.68%. Net profit and loan & advances of NABIL can be shown by following diagram:

Figure 4.21
Return on Loan & Advances of NABIL

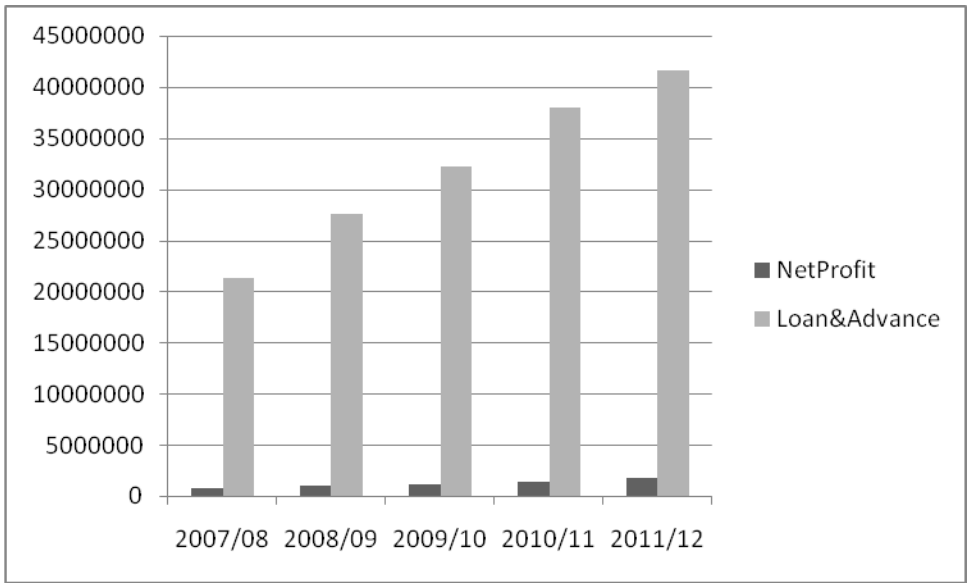


Table 4.22

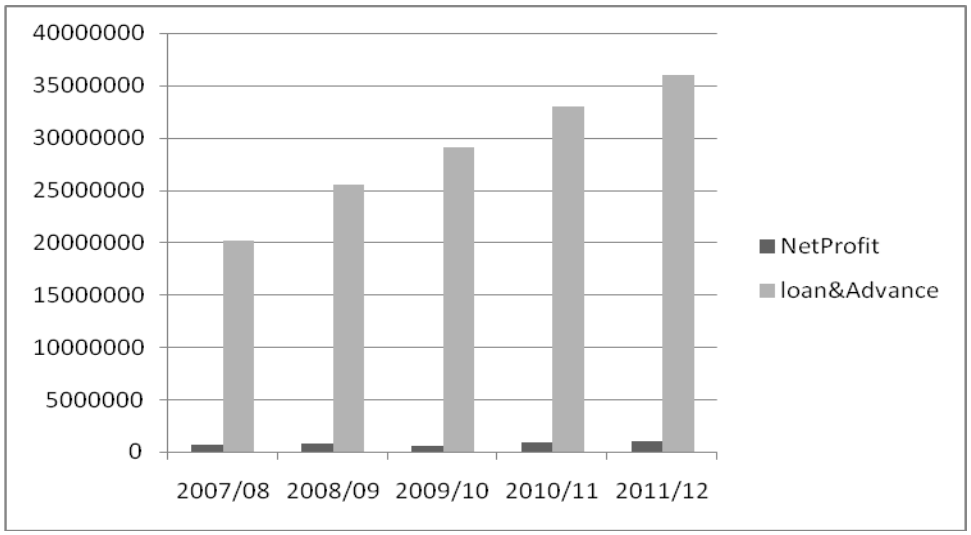
Return on Loan & Advances Ratio of HBL **(Rs. in '000')**

Year	Net Profit	Loan & Advances	Ratio (%)
2007/08	635868	20179613	3.15
2008/09	752834	25519519	2.95
2009/10	508798	29123754	1.75
2010/11	893115	32968270	2.70
2011/12	958638	35968472	2.66
AV			2.64
SD			1.20
CV			45.45

Above table depicted the return on loan & advances ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 3.15%, 2.95%, 1.75%, 2.70%, 2.66% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 2.64% during the five years study period. Likewise, the standard deviation is 1.20 and coefficient of variation is 45.45%. Net profit and loan & advances of HBL can be shown by following diagram:

Figure 4.22

Return on Loan & Advances of HBL



Comparison:

Return on loan & advances ratio of NABIL is in increasing trend except in the fiscal year 2009/10 and 2010/11 where it slightly declines over the five years of study period. The ratio of HBL in first decreasing trend till to the fiscal year 2009/10 then it increases. As well, NABIL has the higher mean ratio than that of HBL. Similarly, the ratios of NABIL have more 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 ratio is 4.08% of NABIL and 3.15% of HBL during the five years of study period. It shows the normal earning capacity of NABIL and HBL in loan & advance. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactorily in the present economic situation.

4.1.4.3 Net Profit/Loss to Total Assets Ratio

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 (%)
2007/08	746468	37132759	2.01
2008/09	1031053	43867397	2.35
2009/10	1139099	52150237	2.18
2010/11	1344179	52079725	2.58
2011/12	1700375	58099619	2.92
Average			2.41
S.D.			1.08
C.V.			44.81

Above table depicted the return on total assets ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 2.01%, 2.35%, 2.18%, 2.58% and 2.92% respectively. Similarly, the mean ratio remains at 2.41% during the five years study period, the standard deviation is 1.08 and coefficient of variation is 44.81%. Net profit and total assets of NABIL can be shown by following diagram:

Figure 4.23

Net Profit and Total Assets of NABIL

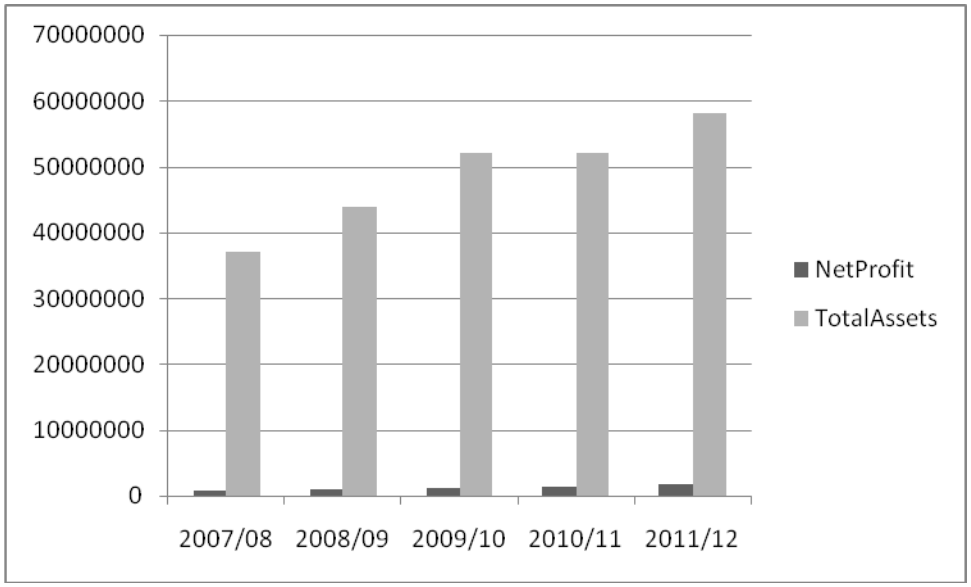


Table 4.24

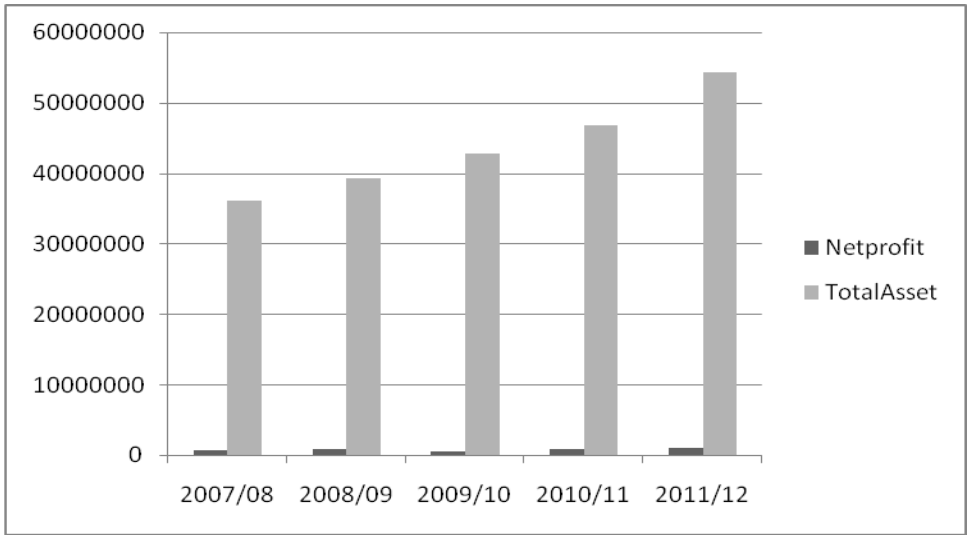
Net Profit/Loss to Total Assets Ratio of HBL (Rs. in '000')

Year	Net Profit	Total Assets	Ratio (%)
2007/08	635868	36175531	1.75
2008/09	752834	39330131	1.91
2009/10	508798	42717124	1.19
2010/11	893115	46736203	1.91
2011/12	958638	54364427	1.76
AV			1.70
SD			0.77
CV			45.29

Above table depicted the return on total assets ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 1.75%, 1.91%, 1.19%, 1.91% and 1.76% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12respectively. Similarly, the mean ratio remains at 1.70% during the five years study period. Likewise, the standard deviation is 0.77 and coefficient of variation is 45.29%. Net profit and total assets of HBL can be shown by following diagram:

Figure 4.24

Net Profit and Total Assets of HBL



Comparison:

Return on total assets ratio of NABIL is in increasing trend except in the fiscal year 2009/10 over the five years of study period. The ratio of HBL is in first increasing trend and then decreasing trend. Similarly, NABIL has the higher mean ratio than that of HBL during the study period. Likewise, the ratios of HBL have more variation and less consistency nature than NABIL.

From the analysis, we can say that NABIL has better earning capacity than HBL. The highest ratio of NABIL is 2.92% where of HBL is 1.91% over the study period. It means that NABIL can earn 2.92% profit of total assets and HBL can earn only 1.91% profit of total assets.

4.1.4.4 Interest Income to Total Loan & Advances Ratio

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

Table 4.25

Interest Income to Total Loan & Advances Ratio of NABIL (Rs. in '000')

Year	Interest Income	Loan & Advances	Ratios (%)
2007/08	1978696	21365053	9.26
2008/09	2798486	2758993	10.14
2009/10	4047725	32268873	12.54
2010/11	4049714	38034097	10.06
2011/12	5254030	41605682	12.63
Average			10.92
S.D.			4.92
C.V.			45.05

Above table depicted the interest income to loan & advances ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 9.26%, 10.14%, 12.54%, 10.06% and 12.63% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 10.92% during the five years study period. Likewise, the standard deviation is 4.92 and coefficient of variation is 45.05%. Interest income and loan & advances of NABIL can be shown by following diagram:

Figure 4.25

Interest Income and Loan and Advances of NABIL

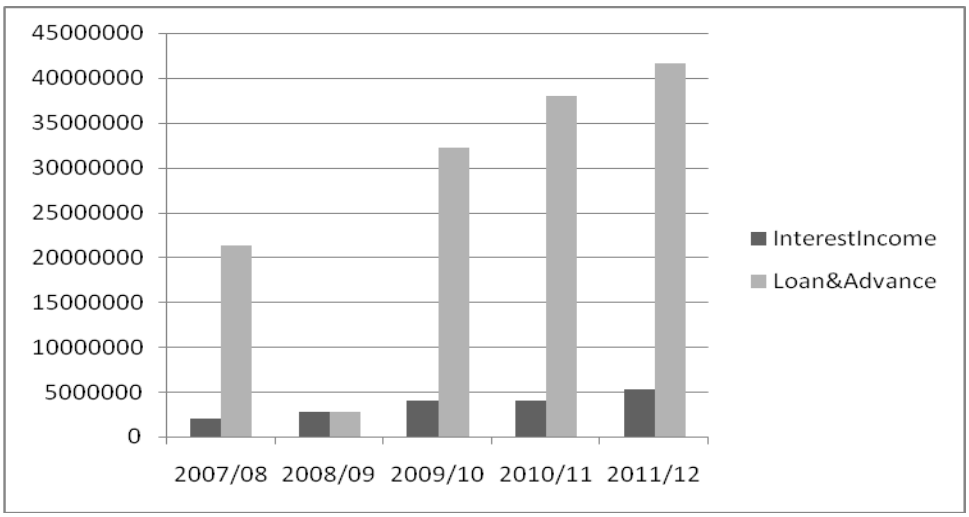


Table 4.26

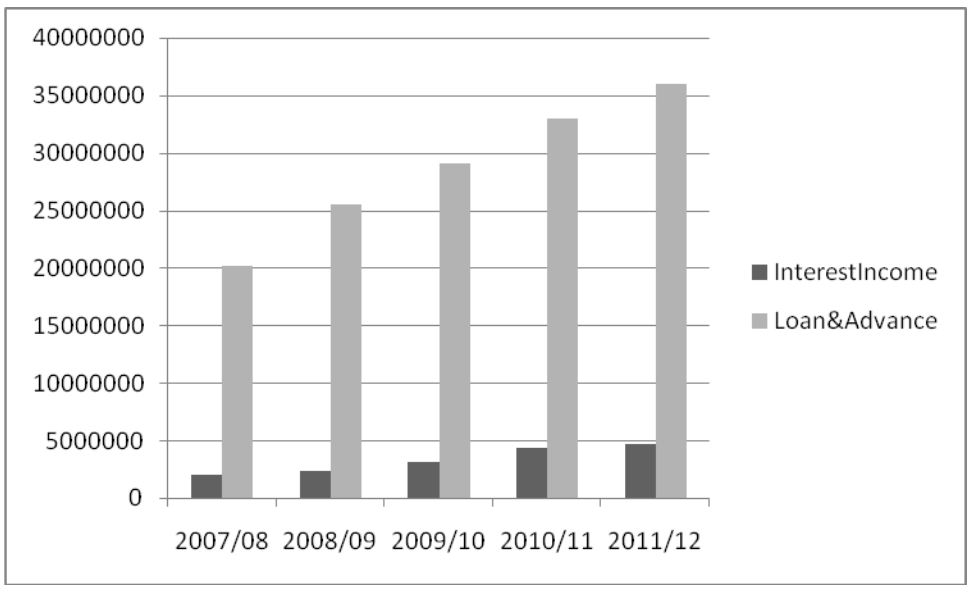
Interest Income to Total Loan & Advances Ratio of HBL (Rs. in '000')

Year	Interest Income	Loan & Advances	Ratio (%)
2007/08	1963647	20179613	9.73
2008/09	2342198	25519519	9.17
2009/10	3148605	29123754	10.81
2010/11	4326140	32968270	13.12
2011/12	4724887	35968472	13.14
AV			11.19
SD			5.06
CV			45.22

Above table depicted the interest income to loan & advances ratio of HBL over the five years period from 2007/08 to 2011/12. The ratios are 9.73%, 9.17%, 10.81%, 13.12% and 13.14% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 11.19% during the five years study period. Likewise, the standard deviation is 5.06 and coefficient of variation is 45.22%. Interest income and loan & advances of HBL can be shown by following diagram:

Figure 4.26

Interest Income and Loan and Advances of HBL



Comparison:

Interest income to loan & advances ratio of NABIL is in continuously increasing trend except in 2010/11 during the five years of study period. The ratio of HBL is also in increasing trend except in the fiscal year 2008/09 where it slightly declines. Similarly, HBL has the higher mean ratio than that of NABIL. Likewise, the ratios of HBL have more variation and less consistency than NABIL.

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

4.1.4.5 Earning per share (EPS)

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 shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below.

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

Table 4.27

Earning Per Share of NABIL and HBL

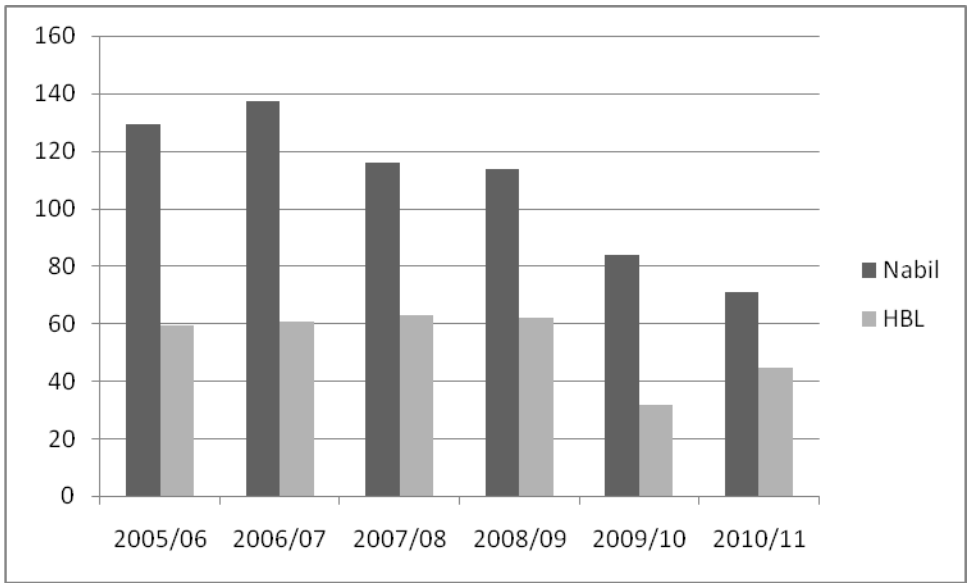
Banks / Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Average
NABIL	129.21	137.08	115.86	113.44	83.81	70.67	108.34
HBL	59.24	60.66	62.74	61.90	31.80	44.66	53.50

Source: Major indicators of respective banks

Above table depicted the earning per share of NABIL and HBL over the six years period from 2005/06 to 2010/11. The EPS of NABIL are Rs. 129.21, Rs. 137.08, Rs. 115.86, Rs. 83.81 and Rs. 70.67 respectively. The mean EPS of NABIL remains at Rs. 108.34 during the six years of study period. Similarly, the EPS of HBL are Rs. 59.24, Rs. 60.66, Rs. 62.74, Rs. 61.90, Rs. 31.80 and Rs. 46.66 respectively. The mean EPS of HBL is Rs. 53.50 over the six years of study period. Earning per share of NABIL and HBL can be shown by following diagram:

Figure 4.27

Earning per Share of NABIL and HBL



Comparison:

Earning per share of NABIL is increasing for first two years and then it starts rapidly decreasing. Where earning per share of HBL is slightly increasing for first three years and then it starts declining for next two years and it increases in last year of study period during the six years. Similarly, NABIL has the higher mean of EPS than that of HBL. It shows that NABIL is able to earn and provide good return to its shareholders than HBL over the study period.

4.1.5 Lending Efficiency Ratios

Lending efficiency, quality of lending and its effect is measured in this topic. The efficiency of a firm depends to a large extent on the efficiency with which its assets

are managed and utilized. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratios.

4.1.5.1 Loan Loss Provision to Total Loan & Advances Ratio

Loan loss provision to total loan & advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. 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 (Rs. in '000')

Year	Loan Loss Provision	Loan & Advances	Ratios (%)
2007/08	394407	21365053	1.84
2008/09	409079	27589930	1.48
2009/10	762095	32268873	2.36
2010/11	762095	38034097	2.00
2011/12	871390	41605682	2.09
Average			1.95
S.D.			0.55
C.V.			28.20

Above table depicted the loan loss provision to loan & advances ratio of NABIL over the five years period from 2007/08 to 2011/12. The ratios are 1.84%, 1.48%, 2.36%, 2.00% and 2.09% respectively. Similarly, the mean ratio remains at 1.95%, the standard deviation is 0.55 and coefficient of variation is 28.20% during the five years study period. Likewise, loan loss provision and loan & advances of NABIL can be shown by following diagram:

Figure 4.28

Loan Loss Provision to Loan & Advances of NABIL

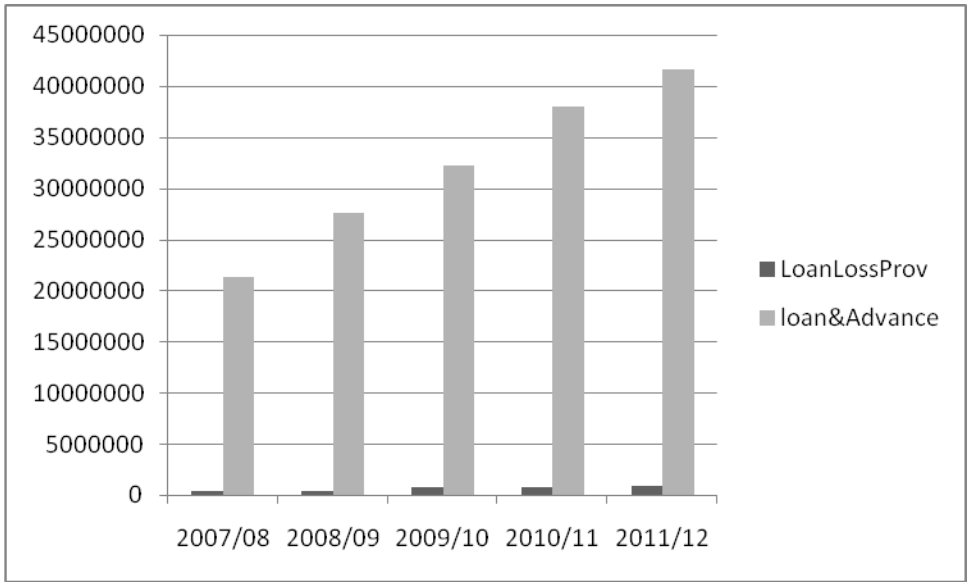


Table 4.29

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

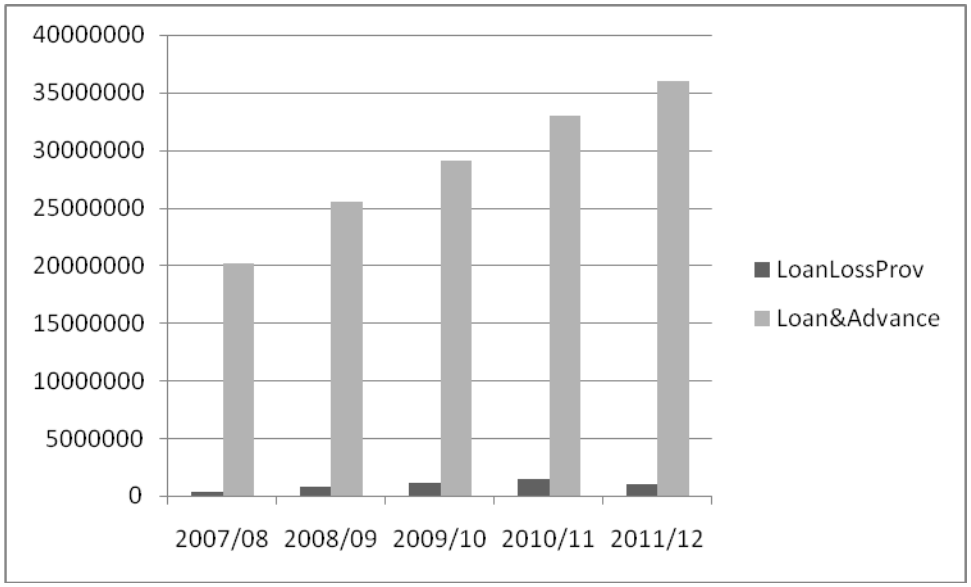
Year	Loan Loss Provision	Loan & Advances	Ratio (%)
2007/08	372599	20179613	1.57
2008/09	726363	25519519	1.87
2009/10	1143126	29123754	2.03
2010/11	1401293	32968270	1.56
2011/12	1003038	35968472	1.18
AV			1.39
SD			0.52
CV			37.50

Above table depicted the loan loss provision to loan & advances ratio of HBL over the five years period from 2000/01 to 2006/07. The ratios are 1.57%, 1.87%, 2.03%, 1.56% and 1.18% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Similarly, the mean ratio remains at 1.39% during the five years study

period. Likewise, the standard deviation is 0.52 and coefficient of variation is 37.50%. Loan loss provision and loan & advances of HBL can be shown by following diagram:

Figure 4.29

Loan Loss Provision to Total Loan & Advances of HBL



Comparison:

Loan loss provision to loan & advances ratio of NABIL is in fluctuating trend during the five years of study period. Where the ratio of HBL is in first increasing till to the fiscal year 2009/10 and then in decreasing trend in the subsequent years of study period. Similarly, NABIL has higher mean ratio than that of HBL over the study period. But the ratios of HBL have more variation and less consistency than NABIL.

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

4.1.5.2 Non-Performing Loan to Total Loan & Advances Ratio

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

performing loan in balance sheet, profit and loss account. To measure the volume of non-performing loan to total loan & advances, the major indicators of NABIL and HBL is used. This ratio shows the percentage of non-recovery loan in total loans & advances.

Table 4.30

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

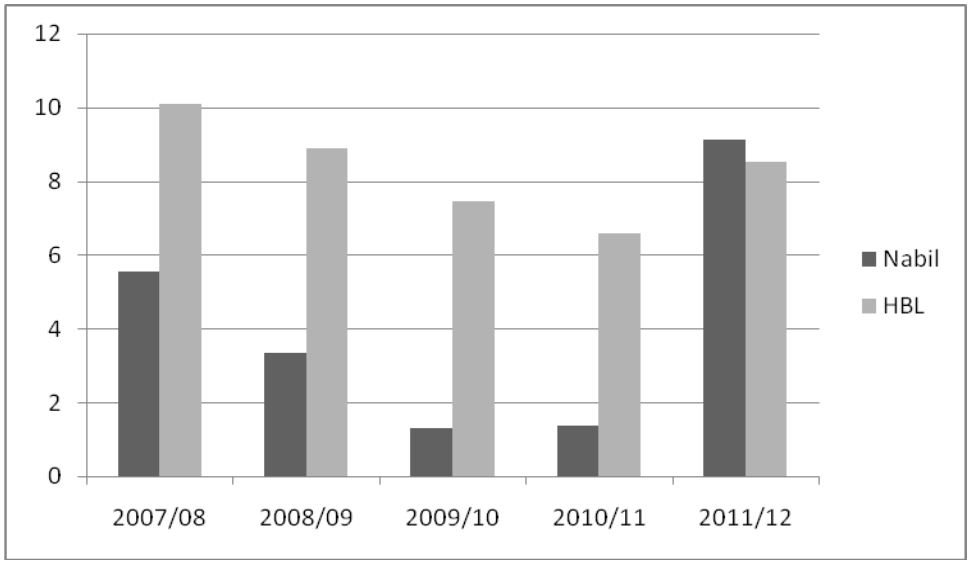
Banks / Years	2007/08	2008/09	2009/10	2010/11	2011/12	Average
NABIL	5.54	3.35	1.32	1.38	9.14	4.16
HBL	10.08	8.88	7.44	6.6	8.54	8.31

Source: Major indicators of respective banks

Above table depicted the non-performing loan to total loan & advances ratio of NABIL and HBL over the five years period from 2007/08 to 2011/12. The ratios of NABIL are 5.54%, 3.35%, 1.32% , 1.38% and 9.14% in the fiscal year 2007/08, 2008/09, 2009/10 ,2010/11 and 2011/12 respectively. The mean ratio of NABIL remains at 4.16% during the five years of study period. Similarly, the non-performing loan to total loan & advances ratios of HBL are 10.08%, 8.88%, 7.44% , 6.60% and 8.54% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The mean ratio of HBL remains at 8.31% over the five years of study period. Non-performing loan and loan & advances of NABIL and HBL can be shown by following diagram:

Figure 4.30

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



Comparison:

Non-performing loan to total loan & advances ratio of NABIL is in rapidly decreasing trend except in 2011/12 of study period over the five years. The ratio of HBL is in continuously decreasing trend expect last year over the study period. But HBL has the highest mean ratio than that of NABIL. It shows that lending policy of NABIL is sound and effective than HBL. Loan recovery process, efficient management and in depth study are the main causes of low NPA level of NABIL.

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

4.1.6 Coefficient of Correlation Analysis

Under this topic, Karl 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 Nepal Arab Bank Limited as well Himalayan Bank Limited.

4.1.6. Coefficientof Correlation betweenTotalDeposits and TotalLoan& 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 variables 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
2007/08	15.84	7.73	250.91	59.75	122.44
2008/09	15.5	7.43	240.25	55.20	115.17
2009/10	13.44	7.75	180.63	60.06	104.16
2010/11	14.12	8.19	199.37	67.08	115.64
2011/12	14.58	10.58	212.58	111.94	154.26
N = 5	73.48	41.68	1083.74	354.03	611.67

Where,

X = Total deposit of NABIL.

Y = Total loan & advances of NABIL.

Total = Summation of the value from fiscal year 2007/08 to 2011/12.

Here, $\Sigma X = 73.48$, $\Sigma Y = 41.68$, $\Sigma X^2 = 1083.74$, $\Sigma Y^2 = 354.03$, $\Sigma XY = 611.67$, $N = 5$

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

$$r = -0.0124$$

The above calculation shows that there is negative relationship between total deposits and total loan & advances of NABIL. That means, if the total deposit is increased absolutely the total loan & advances is decreased and vice versa. The coefficient of correlation between total deposits and total loan & advances is -0.0124 and probable

error is 0.4471. Comparing the value of 'r' and 6 times P.E., we can say that there is negative relationship and insignificant at all time between total deposits and total loan & advances of NABIL because 'r' is greater than 6 times of P.E., i.e. 0.4471>0.0124. So, we can conclude that NABIL has negative relationship and insignificant at all time between total deposits and total loan & advances. The relationship is insignificant, i.e. loan & advances is decrease as the portion increase in deposits.

Table 4.32

Correlation between total deposits and total loan & advances of HBL

Year	X	Y	X^2	Y^2	XY
2007/08	17.64	8.54	311.06	72.89	150.58
2008/09	18.62	8.91	346.68	79.45	165.97
2009/10	21.01	10.00	441.31	100.04	210.11
2010/11	22.01	11.95	484.45	142.85	263.06
2011/12	24.81	12.42	615.74	154.37	308.30
N = 5	104.09	51.82	2199.24	549.60	1098.02

Where,

X = Total deposit of HBL.

Y = Total loan & advances of HBL.

Total = Summation of the value from fiscal year 2007/08 to 2011/12.

Here, $\Sigma X = 104.09$, $\Sigma Y = 51.82$, $\Sigma X^2 = 2199.24$ $\Sigma Y^2 = 549.60$, $\Sigma XY = 1098.02$, $N = 5$

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

$$r = +0.955$$

The above calculation shows that there is positive relationship between total deposits and total loan & advances of HBL. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice versa. The coefficient of correlation between total deposits and total loan & advances is 0.97 and probable error is 0.026. Comparing the value of 'r' and 6 times of P.E., we can say that there is significantly positive relationship between total deposits and total loan & advances of HBL because 'r' is higher than 6 times P.E., i.e. 0.955>0.026.

From the above analysis, we can conclude that HBL has positive relationship with significant between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.955 and vice-versa.

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

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

Table 4.33

Correlation between Total Loan & Advances and Net Profits of NABIL

Year	X	Y	X^2	Y^2	XY
2007/08	7.73	0.29	59.75	0.08	2.24
2008/09	7.43	0.27	55.20	0.07	2.01
2009/10	7.75	0.41	60.06	0.17	3.18
2010/11	8.19	0.45	67.08	0.20	3.69
2011/12	10.58	0.51	111.94	0.26	5.40
N = 5	41.68	1.93	354.03	0.78	16.52

Where,

X = Total loan & advances of NABIL.

Y = Net profit of NABIL.

Total = Summation of the value from F/Y 2007/08 to 2011/12.

Here, $\Sigma X = 41.68$, $\Sigma Y = 1.93$, $\Sigma X^2 = 354.03$, $\Sigma Y^2 = 0.78$, $\Sigma XY = 16.52$, $N = 5$

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

$$r = +0.895$$

The above calculation shows that there is positive relationship between total loan & advances and net profit of NABIL. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice versa. The coefficient of

correlation between total loan & advances and net profit is 0.895 and probable error is 0.060. Comparing the value of 'r' and 6 times P.E., we can say that there is significantly positive relationship between total loan & advances and net profit of NABIL because 'r' is higher than 6 times P.E., i.e. 0.895>0.060.

From the above analysis, we can conclude that NABIL has positive relationship with significant between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.895 and vice-versa.

Table 4.34

Correlation between Total Loan & Advances and Net Profits of HBL

Year	X	Y	X^2	Y^2	XY
2007/08	8.54	0.28	72.89	0.08	2.37
2008/09	8.91	0.24	79.45	0.06	2.09
2009/10	10.00	0.21	100.04	0.04	2.12
2010/11	11.95	0.26	142.85	0.07	3.14
2011/12	12.42	0.31	154.37	0.10	3.83
N = 5	51.82	1.3	549.60	0.35	13.55

Where,

X = Total loan & advances of HBL.

Y = Net profit of HBL.

Total = Summation of the value from F/Y 2007/08 to 2011/12.

Here, $\Sigma X = 51.82$, $\Sigma Y = 1.30$, $\Sigma X^2 = 549.60$, $\Sigma Y^2 = 0.35$, $\Sigma XY = 13.55$, $N = 5$

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

$r = +0.198$

The above calculation shows that there is positive relationship between total loan & advances and net profits of HBL. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan & advances and net profit is 0.198 and probable error is 0.065. Comparing the value of 'r' and 6 times P.E., we can say that there is positive relationship but not significant at all time between total loan & advances and net profit of HBL because 'r' is less than 6 times P.E., i.e. 0.198>0.39.

From the above analysis, we can conclude that HBL has positive relationship is significant at all time between total loans & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.198 and vice-versa but not significant at all.

4.1.7 Primary Data Analysis

Analysis of credit practices provides the knowledge about the financial condition in terms of credit and credit efficiency of selected commercial banks. In this section, the researcher tried to focus on the important areas of credit policy. The researcher designed structured questionnaire to analyze the meaning and importance of credit components.

In order to find out various opinions of existing employees of the sample banks regarding their credit policy, 50 selected employees (25 employees from each bank) were approached randomly and asked to fill up the questionnaires as mentioned in the annex. Out of them, 40 employees (20 employees from each bank) were convinced to fill up and provide response. However, only 20 of them filled up themselves and the rest responded verbally.

Likewise, to find out various problems of credit customers in the sample banks, 20 credit customers (10 credit customers from each bank) were approached randomly and asked to fill up structured questionnaire as mentioned in the annex. All of them were convinced to fill up and provide response.

4.1.7.1 Interpretation of questionnaire's responses given by employees of NABIL Bank Limited and Himalayan Bank Limited

Table 4.35

Analysis of responses given by employees of NABIL and HBL

Particulars	**Yes % (No.)**	**No % (No.)**	**Total % (No.)**
Is there credit related problems in your bank	100 (40)	- -	100 (40)
Does the service charges taken by bank is satisfactory	60 (24)	40 (16)	100 (40)
Have you granted the entire credit to same sector as specified at	62.5	37.5	100

the time of policy formulation	(25)	(15)	(40)
Does any bank officer visit the project site at the time of granting credit	87.5 (35)	12.5 (5)	100 (40)
Borrowers need to submit the detail proposal in the bank	100 (40)	- -	100 (40)
The relation to the top authority sometimes influences in loan decision rather than the credit appraisal	30 (12)	70 (28)	100 (40)
The past track record of the borrower is analyzed before floating loan	100 (40)	- -	100 (40)
The installment payment ability and regular income mechanism of the borrower is ensured while granting credit	100 (40)	- -	100 (40)
This bank provide the loan to large parties without much analysis	20 (8)	80 (32)	100 (40)
Taking sufficient collateral is the basis for floating loan here	90 (36)	10 (4)	100 (40)
This bank has the system of periodic valuation of the collateral	100 (40)	- -	100 (40)
Is your bank makes provision for loan loss?	100 (40)	- -	100 (40)
Are you satisfied with the bank's credit policy?	60 (24)	40 (16)	100 (40)

Table 4.35 shows the responses given by employees of NABIL and HBL over structured questionnaires. According to the primary survey, following results was obtained:

- 100% survey employees of both banks were agreed on that there existed credit related problems during the working time.
- 40% survey employees argued that service charges taken by the bank was not sati factorable and more than necessary but 60% replied that it was sati factorable.
- Similarly, 37.5% sample employees replied that both banks did not granted the entire credit to same sectors as specified at the time of policy formulation but 62.5% replied that entire credit was granted in same sector as specified.
- Only 87.5% respondents were agreed with that bank officer visited the project site at the time of granting credit but 12.5% replied not.
- 100% sample employees were agreed with entire borrowers need to submit detail proposal in the bank for credit taking.30% respondents replied that the relation

with top authority sometimes influenced the loan decision rather than the credit appraisal but 70% said not influenced in loan decision according to the relation with top authority.

- 100% sample employees agreed on that the past record of the borrower was analyzed before floating loan as well as installment payment ability and regular income mechanism of the borrower was ensured while granting credit.
- 20% sample employees were not satisfied with that bank provided the loans to large parties without much analysis but 80% were satisfied because of high and regular transaction.
- 90% respondents thought that sufficient collateral was the basis of floating loan but 10% respondents were not agreed with that.
- The entire sample respondents, i.e. 100% employees of both banks told that bank has the system of periodic valuation of collateral as well as bank made provision for loan loss to survive from future loss.
- Although all of matters were in positive side, only 60% sample employees were satisfied with the bank's credit policy and rest, i.e. 40% were not satisfied because of availability of loan to large parties without much analysis, influence in loan decision by the relation to top authority, sufficient collateral to the base of floating loan, higher service charges etc.

4.1.7.2 Interpretation of questionnaire's responses given by credit customers of NABIL Bank Limited and Himalayan Bank Limited

Table 4.36

Analysis of responses given by credit customers of NABIL and HBL

Particulars	Yes % (No.)	No% (No.)	Not clear % (No.)
Do you have all knowledge about bank's credit policies?	50 (10)	50 (10)	- -
Are you satisfied with the rate of interest on credit charging by bank?	20 (4)	80 (16)	- -
Have you received any notice before credit expiration date?	70 (14)	10 (2)	20 (4)
Does any bank officer visit your project site at the time of granting credit?	90 (18)	10 (2)	- -

Do you want to take further credit from the bank?	70 (14)	10 (2)	20 (4)
Are you satisfied with the bank services?	70 (14)	30 (6)	- -

Only the 50% of total sample customers said that they were up to date with the bank's credit policies and remaining said 'No'.

- 16 customers, out of 20 were unsatisfied with the bank interest rate. Only four customers said," We are more or less satisfied".
- 70% of the total sample customers of bank received information of repaying credit from the bank, 20% of the total customers were uncooperative with the researcher, and remaining 10% said 'No'.
- 90% of the sample customers said that the bank officer visited their project site at the time of granting credit. 2 customer said 'No' because there is representative of the credit-taking group.
- 14 customers, out of 20 responded that they would take credit from the same bank in the near future, 2 said 'No' and the remaining 4 customers did not responded clearly.
- 90% of the sample customers said that they utilized the credit for the same sector as specified at the time of taking loan. Two customers did not response clearly. Nobody said 'No'.
- 70% of sample customers of the bank told that they were satisfied with the bank's services and the remaining percentage said not.

4.2 Major Findings of the Study

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

i. Liquidity Ratio

NABIL has kept highest mean of current assets to current liabilities ratio than HBL. But, the ratios of NABIL have more variation and less consistency than HBL because of high standard deviation and coefficient of variation. Though the optimal standard of current ratio should be 2:1 for convention measure of liquidity, it is not appraisable on banking business. So analyzing over the study period, it indicates the satisfactory liquidity position with both banks.

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

There is highest mean of cash & bank balance to current deposit ratio of HBL than that of NABIL over the study period. But the ratios of HBL have more variation and more 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 dose not mean that NABIL has mobilized its more funds in profitable sectors than HBL.

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

ii. Assets Management Ratio

HBL has highest mean of loan & advances to total deposit ratio than that of NABIL during the study period. Likewise, the ratios of HBL have more variation and less

consistency than NABIL. From the analysis, we can say that HBL is in good form according to deposit mobilization point of view than NABIL. But it does not mean that HBL is investing more of its collected fund in high return but with low risk sector than NABIL.

NABIL has highest mean of loan & advances to total assets ratio than that of HBL. Likewise, the ratios of NABIL have more variation and less consistency than HBL. From the analysis, we can say that NABIL has sound lending policy so that it is able to mobilize its resources as loan & advances than HBL. But assets management in terms of loan & advances of both banks are good because of above the fifty percent of total assets.

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

iii. Leverage Ratio

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

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

iv. Profitability Ratio

HBL has the highest mean of interest income to interest expenses ratio than that of NABIL. Likewise, the ratios of NABIL have more variation and less consistency than HBL. From the analysis, we can say that HBL has high degree of gap between interest

offered and interest charged than NABIL. This shows that HBL has charged high interest rate to borrowers and offering low interest rate to depositors.

NABIL has the highest mean of net profit to loan & advances ratio than that of HBL. Similarly, the ratio of NABIL has more variation 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. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactorable in the present economic situation.

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

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

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

v. Lending Efficiency Ratio

NABIL has highest mean of loan loss provision to loan & advances ratio than that of HBL over the study period. But the ratios of NABIL have more variation and less consistency than HBL. From the analysis, we can say that HBL has very low degree of provision over total lending than NABIL. It indicates that HBL has decreasing volume of non-performing loans during the study period than NABIL.

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

vi. Co-efficient of Correlation Analysis

NABIL has negative relationship and insignificant at all time between total deposits and total loan & advances. The relationship is insignificant, i.e. loan & advances is decrease as the portion increase in deposits in relation to -0.0124 and vice-versa.

HBL has positive relationship with significant between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to +0.955 and vice-versa.

NABIL has positive relationship with significant between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.895 and vice-versa.

HBL has positive relationship but not significant at all time between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.198 and vice-versa but not significant at all.

vii. Primary Data Analysis

In order to find out various opinions of existing employees of the sample banks regarding their credit policy, 40 employees (20 employees from each bank) were convinced to fill up and provide response. However, only 20 of them filled up themselves and the rest responded verbally.

According to the primary data analysis, all of the sample employees of both banks were agreed on that points; the banks have credit related problems, borrowers need to submit the credit proposal in the bank for loan flotation, past track record of the borrower was analyzed before floating loan, installment payment ability and regular income mechanism of the borrower was ensured while granting credit as well as bank makes provision for loan loss. Most of the survey respondents were not satisfied with

the sample banks because of high service charges, credit was not granted to the same sector as specified at the time of policy formulation, relationship with top authority influenced the loan decision rather than credit proposal as well as they did not satisfied with the banks credit policy.

Likewise, to find out various problems of credit customers in the sample banks, 20 credit customers (10 credit customers from each bank) were approached randomly and asked to fill up structured questionnaire. All of them were convinced to fill up and provide response.

According to the questionnaire survey of credit customers of sample banks, more than 50% customers were not up to date with the lending policy of bank, almost 80% customers were dissatisfied with interest rate charging by bank on loan and advances, nearly 70% credit customers received notice about the credit expiration date as well as they want to take further credit from the bank, 90% sample respondents replied that bank officer visit the project site at the time of granting credit so that they utilize the entire credit to the same sector as specified at the time of taking credit. But almost 30% credit customers of the bank were not satisfied with the banking services and they want to divert on another bank.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In this chapter, summary, conclusion and recommendation are included. We have done credit management of NABIL Bank Limited (NABIL) and Himalayan Bank Limited (HBL) by using financial as well as statistical tools. After completing the basic analysis required for the study, little recommendations have made which would be beneficial for the management of the both banks and concerned persons.

5.2 Conclusion

Present study is successful to explore the findings of the results designed for the study. Various financial as well as statistical tools were used as per requirement of nature of data. Primary as well as secondary source of information were used for analysis of data. Based on the data analysis and finding of the result, the conclusion can be drawn as follows:

- NABIL has more current ratio than that of HBL.
- HBL has more cash & bank balance to total deposit ratio as well as cash & bank balance to current deposit ratio and cash & bank balance to 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 companies' shares, debentures, bonds as well as government Treasury bill than NABIL.
- From the analysis of overall efficiency ratio of NABIL and HBL, we can say that NABIL has sound lending policy so that it is able to mobilize its resources more than HBL.
- From the analysis of overall leverage ratio of NABIL and HBL, we can say that HBL is more levered firm than NABIL during the five years of study period. It

means HBL is using outsider's fund more than owner's fund during the formation of capital structure.

- HBL is able to earn more interest form total credit granting than that of NABIL.
- NABIL has high return on loan & advances ratio as well as return on total assets ratio than that of HBL.
- From the analysis of overall profitability ratio of NABIL and HBL, we can say that NABIL can earn more profit from its lending and investment activities than HBL during the seven years period.
- NABIL has high earning per share than HBL.
- HBL has kept high loan loss provision than NABIL because of high non-performing to total lending ratio.
- NABIL has positive but not significant relationship between total deposit collection and total lending. Where HBL has positive with significant relationship between these two variables.
- NABIL has positive with significant relationship between total loan & advances and net profits. Where HBL has positive but not significant relationship between these two variables.
- All of the sample employees of both banks were agreed on that the banks have credit related problems.
- More than 50% credit customers were not up to date with the lending policy of bank and almost 80% customers were dissatisfied with interest rate charging by bank on lending.

So main findings of this study is that even NABIL Bank Limited (NABIL) has less liquid assets, it is able to maintain daily cash requirement, high lending ratio, low leverage ratio, low non-performing assets level, low loan loss provision ratio, high profit ratio than that of Himalayan Bank Limited (HBL). Therefore, the management of HBL must revise the lending policy and invest in profitable as well as productive sectors rather than only to increase lending ratio.

5.3 Recommendations

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

The liquidity position of HBL is more positive than NABIL. So the management of HBL should search for new area of investments as well as bank should strictly follow the NRB directives to reduce its surplus cash balance. Following of NRB directives will help to reduce credit risk arising from borrower's defaulter leak of proper credit appraisal, defaulter by black listed borrowers and professional defaulter. Government has established credit inebriation bureau, which will guide commercial banks. So the bank is suggested to follow project-oriented approach and avoid more risky area of lending.

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

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

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

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

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

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

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

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