

**COMPARATIVE CREDIT MANAGEMENT OF HIMALAYAN
BANK LIMITED, RASTRIYA BANIJYA BANK LIMITED
AND NABIL BANK LIMITED**

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**A Comparative Analysis of Credit Management of NABIL Bank Limited, Rastriya Banijya Bank Limited**" and **Himalayan Bank Limited** submitted to Shanker dev Campus, Faculty of Management, Tribhuvan University is my original work done in the form of In partial fulfillment of the requirement of the degree of Master in Business Studies (M.B.S) prepared under the supervision of **Mr. Achyut Raj Bhattarai**, Lecture of Shanker Dev Campus.

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ABBREVIATIONS

RBB	: Rastriya Banjiya Bank
NABIL	: Nepal Arab Bank Limited
HBL	: Himalayan Bank Limited
TD	: Total deposit
ROA	: Return on Total Assets
r	: Rate of Interest
F/Y	: Fiscal year
NPAIT	: Net profit after interest and tax
OI	: Operating Income
TE	: Total Expenditure
IP	: Interest Paid
NP	: Net profit
EPS	: Earning Per Share
DPS	: Dividend Per Share
C.V.	: Co-efficient of Variations
S.D.	: Standard Deviation
P.Er.	: Probable Error
R ²	: Co-efficient of Determinants
OBI	: Others banking institutions
CBs	: Commercial Banks
CSR	: Corporate Social Responsibility
NRB	: Nepal Rastra Bank
BAFIA	: Bank and Financial Institute Act
BLB	: Branch less banking
PAF	: Poverty Alleviation Fund
EMI	: Equated Monthly Installments
L/C	: Letter of credit
NPL	: Non-performing loan
L/ A	: Loan and Advance

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CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal, like a sandwiched between the two giant countries, India and china, is one of the land locked countries, and survive with her own natural beauty in Asia. Its half- century of experiments and efforts to raise the quality of life of its populace is defeated. Almost half of its population lies under absolute poverty line, especially living in the rural areas are deprived of even basic needs and facilitates like enough calories pure drinking water sanitation facilities, electricity, road facility etc. Some of the basic human indicators like life suspense, literacy, diet level etc. also show that Nepal occuppies among the nation to eliminate the massive poverty persisting in the country through gradual development of the total nation and by providing and availing basic needs to poor people. Actually slow pace of developing of Nepal is due to nothing but landlocked position, poor resources mobilization and its utilization, weak infrastructure development and more over unstable eco-political environment.

Nepal is one of the countries in the world in terms of rich and unique in natural resources and attributes like it's bio-diversity, socio-cultural, cultural heritage, manifested in its architecture, temples, sculptures, monuments etc. Beside from this, it is also richly gifted with natural resources like world's top pest mountain Everest, green forests, many perennial rivers and source of minerals. The economic development of nation is on initial stage. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade and transit policy.

Capital accumulation plays an important role in accelerate the economic growth of a nation, which in terms is basically determined among others, by saving and investment propensities. But the capacity to save in the developing countries is quite low with a

relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped into the circle of poverty. So the basic problem for the developing country is raising the level of saving and thus investments.

The source of finance is the most essential element for the establishment and operation of any profit and non-profit institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issues of shares and through financial institutions such as banks, in the form of credits, overdrafts etc Commercial banks, others banking institutions (OBIs), Non Bank Financial Institutions occupy important role in mobilizing financial resources. There are about 17 insurance companies including deposit insurance and Credit Guarantee Corporation, one Employee Provident Fund and one Citizen Investment Trust belong to this type of financial institutions. Apart from this, securities such as corporate shares debentures and bonds.

Banking plays significant role in the economic development of a country. Bank is a resource for the economic development which maintains the self- confidence of various segments of society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing, the objectives of commercial banks is to mobilized idle resources into the most profitable sector after collecting them from scattered sources commercial bank contributes significantly and the formation and mobilization of internal capital and development effort.

“A Loan is Financial Assets resulting from the delivery of cash or to the assets by a lender to a borrower in return for an obligation repay on specified date or dates or on demand.” (Johnson, 1940: 45)

Credit is the sum amount of money lent by the creditor (Bank) to the borrower (Customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary, 1992)³. Credit and advances is an important item on the asset side of the balance sheet of a commercial

bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely (Varshney and Swaroop, 1994: 42).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified on demand. Banks generally grants credit on four ways (Chhabra and Taneja, 1991).

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

1.2 Commercial Banks (CBs)

Nowadays banking field is being very tough competition. So every bank launches verity of services and new technology. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. In recent times, many commercial banks are providing consumer-financing facilities also. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances hire purchase etc. in this way the bank provide advance technology and quick service to cope and sustain competitive global banking environment. At present, there are 31 commercial banks.

1.3 Introduction of Sample Banks under study.

1.3.1 Himalayan Bank Limited (HBL)

Himalayan Bank Limited was established in 1992 with an authorized capital of Rs 240 million by the distinguished business personalities of Nepal in partnership with

Employees Provident Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides, commercial activities, the bank also offers industrial and merchant banking services. Its composition of the ownership capital is- 51% of share owned by Nepalese Promoters, 20% by Habib Bank Limited Pakistan, 14% by Employees Provident Fund and 15% by general Public.

The bank at present has total of 39 branches in Nepal. The bank has a very aggressive plan of establishing more branches in different parts of the kingdom in the near future. Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The Bank as far as possible offers facilities to its clients based on the unique needs and requirements. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but is prepared for future adoption of new technology. It is committed to be a "Bank with differences".

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL introduced several new products and services. Millionaire Deposit Scheme, Small and Medium Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Hima Remit™. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest

inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

HBL is not only a Bank, It is committed Corporate Citizen

Corporate Social Responsibility (CSR) holds one of the very important aspects of HBL. Being one of the corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

The Bank's Vision:

Himalayan Bank Limited holds of a vision to become a **Leading Bank of the country** by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

The Bank's Mission:

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; **Preferred Provider and Quality Financial Services**; therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers.

The Bank's Objective:

To become the Bank of first choice is the main objective of the Bank.

1.3.2. RastriyaBanijya Bank (RBB)

The history of organized financial institutions in Nepal began in 1937AD .after the establishment of Nepal Bank Limited (a semi government commercial bank). This bank provide credit mainly for trade and commerce .After establishment of Nepal Rastra Bank , the central bank of the country was established in 1956AD.before the establishment of NRB, Nepal Bank was acting as commercial bank as well as central Bank and performs the roles and activities of central bank too. RastriyaBanijya Bank (RBB) is fully government owned, and the largest commercial bank in Nepal. RBB Ltd. - established on January 23, 1966 (2022, Magh10) - a synonymous of stable and people's bank in Nepal - is one of the pioneer Bank in the country with the history of nearly a half century. Earlier constituted under RBB act 2021 with the full ownership of the government of Nepal, the Bank has been running under Bank and Financial Institute Act (BAFIA) and Company Act (CA) 2063 at present. RBB has been contributing to socio economic development of the country for the last five decades. RBB provides various banking services to a wide range of customers they include elite to poor individuals, institutional customers, and the customers from industry / business communities.

RBB has Nepal's most extensive banking network with 2600 hands has expanded its wings in the most part of the country through multiple distribution outlets of 141 branches, 10 counters, 8 branch less banking (BLB) and 50 ATMs. Through its widest branch and ABBS network RBB has been catering modern Banking services to millions of customers. The Bank was transformed in a Company in 2063-1-6 B.S. Following this historical transformation the bank has successfully completed its first ever general assembly on 2067-05-31 BS.

RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and interbank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with Western Union and International Money Express, two leading person-to-person funds transfer networks.

The bank has played crucial role for the development of financial sector i.e. bank, insurance companies through its promoter's role. As a second commercial bank of the country, the bank has been contributing in the trade, industry and agricultural sector of the country. The bank has also contributed in the hydropower sector. Health and Education sector are also benefitted through its disbursement.

As a government owned bank the bank is also contributing towards achieving national goals as per the government directives. The bank has made significant contribution in the development of private sector either by loan disbursement or by active participation in the fairs organized by industrial and business communities.

The bank is also in the frontline towards fulfilling corporate social responsibility. The bank has been working as a development partner by acting as a fund administrator of Poverty Alleviation Fund (PAF). Similarly, the bank has been working as a chief administrator in the Educational Assistance Project (run with the assistance of World Bank) aimed at assisting poor and diligent students learning at higher secondary and bachelor level.

RBBL – which has made glorious history of contributing for the monetization of the economy, eliminating dual currency in the market, initiating preliminary financial literacy, help flourish industrial, commercial and financial sector of the country has now emerged as a modern and strong financial institute of the country. The Bank with the highest public confidence- reflected in the highest deposit base and growing demand for branch establishment in the various parts -has stood as a pyramid in the financial arena of the country. The Bank with as many as 1.7 million satisfied /direct customers ranging from poor to elite ones and millions of indirect ones has drawn important imprint in the picture of country's economy through its significant involvement in the best use of its resources to enhance the production, income and employment opportunities. The Bank is fully committed to contribute its best for the socio economic development of the country and people in the days to come.

Vision: "To provide innovative banking services to everyone, every time and everywhere for the economic development of the nation."

Mission: "To provide easy and innovative banking products and services for our customers by implementing one stop service concept from our wide network using our modern technology qualified human resources in competitive environment. We always look for the benefit of the local communities supporting entrepreneurship, social responsibility and economic prosperity of the nation."

Objectives- RastriyaBanijya Bank Ltd.

- Focus on providing innovative financial services.
- Increase in capital base of the Bank by meeting the minimum capital requirement.
- Business growth and increase in market share.
- Enhance operational efficiency.
- Sustainable increase in profits.
- Focus on empowerment of deprived class.

1.3.3. Nabil Bank Limited (NBL)

Nepal Arab Bank Limited Nabil Bank, the 1st foreign joint venture Bank set up in the nation with an objective to introduce modern banking services, commenced its operations on 12th of July 1984 or 2041 Ashad 29 B.S. with Rs. 28 million capital. Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. Over the years the bank has expanded its outreach across 72 districts of the country through a network of 48 branches, 78 ATMs and 2330 remittance agents. With initial paid up capital of NRs.28 Million the bank has grown to become one of the largest capital based banks in the country today. In terms of asset size, net worth, profitability, deposit and lending portfolios the bank is regarded as one of the leading institutions. For financial year ending July 2012 Nabil Bank is perhaps the highest profit making private sector bank in Nepal posting a net profit of NRs.1,696 Million. As on date

the bank's asset base and capital fund stand at NRs.63,200 Million and NRs.6,087 Million respectively.

28 years ago NABIL pioneered professionalism in the banking industry in Nepal giving it a drive. The bank set up well equipped marketing teams conceptualizing the need for identification of customer's requirements and designing products and services to their full satisfaction. Since the beginning this culture was so deeply rooted that it has continued over time while we reached to every new locations. It has therefore established brand NABIL for quality banking. This can appropriately be attributed to this culture the bank has instilled from generation to generation and the legacies of professionalism left behind by the predecessors.

The first Joint Venture Bank in Nepal with a 28 Year old journey of History. NABIL Bank Limited was the first joint venture bank established in 1984 with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public. The shares owned by DBL were transferred to Emirates Bank International ltd (EBIL), Dubai. Later EBIL sold its entire holding to National Bank Ltd, Bangladesh (NBLB). Hence 50% of equity shares of NABIL Bank Ltd are held by NBLB and out of remaining, financial institutions have taken 20% and 30% were issued to general public of Nepal. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services across the nation and globe.

Vision

At Nabil, our Vision is to be a bank for all across all geopolitical zones and socioeconomic strata of the nation that can provide myriads of financial solutions and create values for all our stakeholders, to stand in the community without economic and civic roles. We look forward to emerging as a first rate bank across all strata of the nation.

Mission

We at Nabil work together up to our vision and to bring it into reality. Our mission is therefore to prove that Nabil is driven by the spirit for realizing those visionary aspirations. With that end in view, we work in partnership with our stakeholders and the community at large. Our roadmap to reaching where we have set our mind on is by maneuvering our strategic action plans through a well teamed and synergistic workforce into industrial end products – our customized services. Our approaches are to differentiate our products by reengineering them with the best technologies and management philosophy keeping in focus our customers' satisfaction over and above everything else at all times.

1.4. An Overview of Credit

Credit is the provision of resources (such as granting a loan) by one party to another party where that second party does not reimburse the first party immediately, thereby generating a debt, and instead arranges either to repay or return those resources (or materials) of equal value at a later date. The first party is called a Creditor, also known as a 'Lender', while the second party is called a Debtor, also known as a 'Borrower.'

Credit is also traded in the market. The purest form is the credit default swap market, which is essentially a traded market in credit insurance. A credit default swap represents the price at which two parties exchange this risk- the protection "seller" takes the risk of default of the credit in return for a payment, commonly denoted in basis (one basis point is 1/100 of a percent) of the notional amount to be referenced, while the protection "buyer" pays this premium and in the case of default of the underlying (a loan, bond or other receivable) delivers this receivable to the protection seller and receives from the seller the par amount (that is made whole). Borrowing money or money equivalent instrument through formal or informal lender is known as credit. Informal Lenders consists traditional type of borrowing (borrowing through Shahu, Mahajan etc) but formal sector consists legally valid procedures. Borrowing through Bank or Financial institution which is established by obeying the government legal framework is known as formal lenders. In this study, researcher will test the credit of formal lenders. In credit rendering process, Bank or Financial Institution follows various guidelines/credit

policies, which are provided by NRB as the main directives along with their own credit policies that are made within the boundary of NRB guidelines. The credit policy of the bank provides the framework to determine whether or not to extend credit and how much credit to be extended. The credit policy decision of a bank has two broad dimensions; credit standard and credit analysis.

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 inters bank exposures. 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 source of credit risk, however other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book and both on and off balance sheet. Banks are increasingly facing credit risk in various financial instruments other than land including acceptances; inter-bank transactions, trade financing, foreign exchange transactions, guarantees and the settlement of transactions. In Nepalese market various types of loan can be found against gold and silver, loan against first class bank guarantee, loan against mortgage of government security, demand loan, margin lending, overdraft pledge loan hypothecation, auto-loan, personal loan, structure demand loan etc.

In this study credit test will be made on the following headings.

- Sector wise Loans and Advances of Commercial Banks.
- Security- wise Loans and Advances of Commercial Banks.
- Priority and Deprived Sector Loans of Commercial Banks.
- Commercial Banks Loans to Public Enterprises.

1.5. Statement of the Problem

Trends of bank expansion, operations and establishment are in apex growth condition in Nepal. Recent political changes are also adding fuel to grow the financial sector. Daily

various news are broadcasted by media in the concern of merge, upgrade, new establishment, branch expansion etc .Recent activities of banking sector are also unique, some of them are busy to introduce new deposit product in high interest rate, some other are trying to catch attention of client by lowering interest rate on loan. So competition is high enough but Nepal Rastra Bank is lowering various services by adding various circular (restriction on margin lending, gift/prizes distribution, revised capital adequacy etc).

Nowadays due to competition among banks, the interest rate change for loan is in decreasing trend. Non-performing assets have become a large problem in the commercial banks. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Lack of good lending opportunities, banks is facing problems of liquidity. It has been able to control and capture a remarkable leadership of Nepalese banking sector. Project appraisal method followed by commercial banks is not scientific and appropriate.

Thus study aim to answer following problem and has tried to analyze how the banks are performing in credit sector and how they stand in comparison to one another. Looking the increased interest rate on deposit of commercial Bank, everyone says that bank are getting sufficient fund for their operation. So the matter of concern is to find out the movement of bank credit during the recent five year period. Normally, following problem of commercial Bank will be solved by this study:

- How Commercial Banks (CBs) are responding on loan and advances amount during recent five years?
- Which Commercial Banks is more Consistent in terms of Credit management?
- What is their interest pattern on credit at present?
- What is their Credit mix?
- What is the Impact on profitability trend of sample banks?
- What is the proportion of Non-performing Asset on total loans and advances of the bank?
- Is the bank mobilizations and credit Management effective and efficient?

- What is the situation of total loans and advances with total deposit and its net profit?

1.6. Objectives of the Study

Each and every of the research study posses a certain objective. Research without any specific objectives will be worthless. The primary concern of this study is to evaluate the performance of selected commercial banks (CBs) of Nepal and to recommend for the improvement of state of affairs .The following specific objective are as follows:

- To see sector wise loans and advances of selected Commercial Banks.
- To see priority and deprived sector loans of selected Commercial Banks.
- To see status of non- performing loans of selected Commercial Banks.
- To compare and evaluate credit performance of selected commercial Banks.
- To analyze the impact of credit management on profitability.
- To suggest and recommend on the basis of major findings.
- To analyze the portfolio of lending of selected sector of banks.
- To offer suitable suggestions based on findings of this study.

1.7. Significance of the Study

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

This study is also important for owners, creditors and potential investors to make their attitude on investment. The study will also have significance for management, policy maker, stakeholder of the banks and others those having investment on credit management decision.

Credit performance analysis of any banking sector is very important because it is only one measure to evaluate prosperity or recession of organization. After having the real knowledge of indicators of financial performance any stakeholder can decide what they ought to do. Similarly any concerning bodies will be benefited to study whole organization. So this study will be fruitful for those who want to know about HBL, RBB& NABIL in financial concern. Moreover this study can also be used by government bodies, investors, competitors.

This study no doubt will have importance to various groups but in particular is directed to a certain groups of people/organizations, which are:

- This study will provide importance information to those who are planning to invest in the study will give a clear picture of financial position of the company under study.
- Importance to shareholders.
- Importance to the management bodies of the bank for the evaluation of the performance of bank.
- Importance to "outsiders" which are mainly the customers, financing agencies, stock exchanges etc.
- Importance to the government bodies or the policy makers such as the central bank

1.8. Limitation of the Study

Every study has its own limitation. All the data may not be available due to business secrecy. Its limitation is as follows:

- This study will be concentrated only on few performance related factors that are related with credit practices.

- This study has focused on the credit behavior between three banks.
- Whole study is based on data of five year period (2007/2008 to 2011/2012).
- Some of the financial tools of comparison shall be used in this study. Hence the drawbacks and weakness of those tools may adversely affect the outcomes of the study.
- Standard Performance level may not be available especially in Nepalese context. In thesis context, concerned experts are also consulted. Secondary sources of data will be taken for the study.
- The source of data will be published annual report and internet website which is assumed to be correct.
- Lack of sufficient time and resources.

1.9. Organization of the Study

This study “Comparative Credit Management of Nepalese Commercial Banks” has been divided into five Chapters. These are:

Chapter 1: Introduction

This chapter deals with introduction parts of the study. It includes background, history of bank, Introduction of sample banks, statement of problem, objectives of study, limitation of the study.

Chapter 2: Review of Literature

The second chapter contains conceptual framework, review of books, review of bulletins, journals and annual reports published by banks, review of related articles and studies and previous thesis as well.

Chapter3: Research Methodology

This chapter is most important part of the study. It consists of research design, sample and population, sources of data, financial and statistical tools and techniques to measure the financial performance of HBL, RBB& NABIL.

Chapter 4: Presentation and Analysis of Data

In the fourth Chapter, the data required for the study has been presented, analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very lucid manner.

Chapter 5: Summary, Conclusion and Recommendation:

This is the last chapter of the study which provides summary of the research, conclusion derived on the basis of data analyzed, suggestions and recommendations for improving the future performance of the Sample banks.

CHAPTER-II REVIEW OF LITERATURE

2.1 Introduction

A literature review is an evaluative report of information found in the literature related to our selected area of study. The review should describe summaries, evaluate and clarify this literature. It should give a theoretical base for the research and help our (the author) determine the nature of your research. Works which are irrelevant should be discarded and those which are peripheral should be looked at critically.

A literature review is more than the search for information, and goes beyond being a descriptive [annotated bibliography](#). All works included in the review must be read, evaluated and analyzed, but relationships between the literatures must also be identified and articulated, in relation to our field of research.

In writing the literature review, the purpose is to convey to the reader what knowledge and ideas have been established on a topic, and what their strengths and weaknesses are. The literature review must be defined by a guiding concept (eg. our research objective, the problem or issue you are discussing, or our challenging thesis). It is not just a descriptive list of the material available, or a set of summaries.

This chapter deals with the review of materials related with ‘credit management’ in more detail and descriptive manner. It provides the basis for developing a comprehensive framework. In this chapter, an emphasis is given to the review of major related literature on the credit management and its analysis.

“The investor or whether banks, financial institutions, individuals, private or government sector, must not take 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 thoroughly investment decisions to make its macro and micro level viability effective.” (NRB, 2058: 125)

2.1.1 Concept of commercial banking

A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees.

Commercial banking activities are different than those of investment banking, which include underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients. Some commercial banks, such as Citibank and JPMorgan Chase, also have investment banking divisions, while others, such as Ally, operate strictly on the commercial side of the business.

“Banks and financial institutions are the vehicles through which public deposits are mobilized in various development activity i.e. Agricultural, Industry. Trade, Commercial Institution like commercial banks, development banks, financial companies and various micro-financing institution with different model.”(Johnson, 1940: 130)

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

The banks pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. Commercial banks act as an intermediately accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short- term

credit needs of business other than the long-term. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc to their customers (Vaidya, 1999:24).

Commercial banks are organized as a joint stock company system, primarily for the purpose of earning a profit, They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the United States where a banks operations are confined to a single office or to a few branches within a strictly limited area (Shekher, 1999: 4).

2.1.2 Functions of Commercial Banks

The business of commercial bank is mostly to hold deposits and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit; other considerations are secondary. The major functions of commercial banks are as follows:

Accepting Deposit, Advancing credits, Agency Services, Credit Creation, Financing of Foreign Trade, and Safekeeping of valuables, Making Venture Capital Credits, Financial Advising and Offers Security Brokerage Services. They also function as issue of commercial paper, bond and debenture; invest in government security as well as underwriting function under rules and regulation of their Central Bank.

i) Assist in foreign Trade:

The bank assist the traders engaged in foreign trade of the country. He discounts the bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly, he also accepts the bills drawn by foreign exports.

ii) Offers Investment Banking and Merchant Banking Services:

Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategies marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rate. In this way they support the overall economic development of the country by various modes of financing.

2.1.3 Banking risk

Normally, Banks confront different kinds of risks, which are categorized as follows:

- **Credit Risk:** refers to the risk that a borrower will [default](#) on any type of debt by failing to make payments which it is obligated to do. The risk is primarily that of the lender and includes lost [principal](#) and [interest](#), disruption to [cash flows](#), and increased [collection costs](#). The loss may be complete or partial and can arise in a number of circumstances.
- **Liquidity Risk:** It is arises when bank itself fail to meet its obligation. The bank required to make payments to the different parties at different times, when they fall due to other parties, which is the liquidity risk.
- **Yield Risk:** It is the risk that bank's assets may generate less income than expense generated by its liabilities.
- **Operational Risk:** The risk is failure in the banks procedures or controls, whether from external or internal causes or as a result of error or fraud within the institution is the operational risk.

- **Market Risk:** The risk of loss resulting from movements in the market price of financial instruments in which the bank has a position is the market risk. Such instrument's include bonds, equities, foreign –exchange and associated derivative products.
- **Management Risk:** The risk that shareholders, directors or senior management be unfit for their respective positions or dishonest.

2.1.4 Concept of Credit

Credit is the sum amount of money lent by the creditor (Bank) to the borrower (Customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary, 1992)³. Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely (Varshney and Swaroop, 1994: 42).

Which allows one party to provide [resources](#) to another party where that second party does not [reimburse](#) the first party immediately (thereby generating a [debt](#)), but instead arranges either to repay or return those resources (or other materials of equal value) at a later date. The resources provided may be financial (e.g. granting a [loan](#)), or they may consist of [goods or services](#) (e.g. consumer credit). Credit encompasses any form of deferred payment.^[1] Credit is extended by a [creditor](#), also known as a [lender](#), to a [debtor](#), also known as a borrower. (latin credo)

“A Loan is Financial Assets resulting from the delivery of cash or to the assets by a lender to a borrower in return for an obligation repay on specified date or dates or on demand.” (Johnson, 1940: 45)

Credit is the sum amount of money lent by the creditor (Bank) to the borrower (Customers) either on the basis of security or without security. Sum of the money lent by

a bank, is known as credit (Oxford Advanced Learners Dictionary, 1992)³. Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely (Varshney and Swaroop, 1994: 42).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified on demand. Banks generally grants credit on four ways (Chhabra and Taneja, 1991).

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

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified on demand. Banks generally grants credit on four ways (Chhabra and Taneja, 1991).

1. Overdraft
2. Cash Credit
3. Direct Credit
4. Discounting of Bills

2.1.5 Principle of Credit Policy

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

i) Principle of Safety Fund

Banks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.

ii) Principle of Liquidity

Liquidity refers to pay on hands on cash when it needed without having to sell long-term assets at loss in unfavorable market. A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

iii) Principle of Security

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

iv) Principle of Purpose of Credit

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

v) Principle of Profitability

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

vi) Principle of Spread

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

vii) Principle of National Interest

In lending and granting advances, interest of nation should not be distorted (if undermined). Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances (Pitter, 2005).

Every Bank should always follow the rule “Do not put your all eggs in the same basket”. So every bank makes appropriate portfolio in their investment the credit management would be excellent.

2.1.6 Types of Credit

Overdrafts:

It denotes the excess amount withdrawn over their deposits. In other words bank provide sum limit of money to their value customer according to their believed and level of transaction.

Cash Credit:

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

Term Credit:

It refers to money lent in lump sum to the borrowers. It is principle form of medium term debt financing having maturities of 1 to 8 years.

Barely and Myers advise that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard, 1996:89).

Working Capital Credit:

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

Priority or Deprived sector Credit:

Commercial banks are required to extend advances to the priority and deprived sector 12% of the total Credit must be toward priority sector including deprived sector.

Hire Purchase Financing (Installment Credit):

Hire-Purchase credits are characterized by periodic repayment of principle and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principle as well as interest with an option to purchase.

A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as

direct and indirect installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

Housing Credit (Real Estate Credit):

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

Project Credit:

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on developers for completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project . The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it (Johnson, 1940:83).

Consortium Credit:

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

Credit Cards and Revolving Lines of Credit:

Banks are increasingly utilizing cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administration cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Loans against government bonds:

Short term loans of up to one year are provided against security of government bonds.

Loan against RBB fixed deposit:

Confessional short term loans provided against security of fixed deposits with RBB

Auto Loan:

If anyone looking for a brand new car for private use, s/he or their company, it does make good business sense to consider a car loan. The bank provides the Car loan scheme as structured over 5 -15 years at flexible EMI (Equated Monthly Installments).

Education Loan:

Education is the most important investment one makes in life. Higher studies and specialization in certain fields call for additional financial support from time to time. RBB Education Loans can help to study a head either abroad or in Nepal.

Loan against gold silver:

The bank has understood the borrower's financial needs during festivals, marriages, personal contingencies and other social commitments. Loans against gold/silver have just met that requirement by offering fast credit for up to 1 year.

e.g. Foreign Employment Loan: the bank has also offered flexible loans for financing the cost to take up the dream job abroad (World Bank).

Off-Balance Sheet Transaction:

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

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

- **Bank Guarantee:**

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

- **Letter of Credit (L/C):**

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities (Jhonson, 1940:85).

2.1.7 Lending Criteria

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

i). Character

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

- Memorandum and Article of Association
- Registration certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank.
- Reference of other lenders with whom the applicant has dealt in the past of bank A/C statement of the customer.

ii). Capacity

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

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

iii). Capital

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

iv). Collateral

Collateral is the security proposed by the borrower. Collateral may be of either nature moveable or immovable. Moveable collateral comprises right from stock, inventories to playing vehicles. In case of immovable it may be land with or without building or fixture, plant machineries attached to it.

v). Conditions

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

2.1.8 Objectives of Sound Credit Policy

The main purpose of Credit Policy is:

1. To have performing assets

Performing assets are those loans that repay principal and interest to bank from the cash flow it generates. Loans are risky assets though a bank invests most of its resources in granting loan and advances. If an individual bank has around 10% non performing assets/loans (NPAS), it sounds the death knell of that bank *ceteris paribus* (all other things remain constant). The objectives of sound loan policy is to maintain the financial health of the bank which results in safety of depositors' money and increase in the returns to the shareholders. Since the loan is a risky asset there is inherent risk in every loan. However, the bank should not take risk above a certain degree irrespective of returns prospect.

2. To contribute to economic development

Sound credit policy is required to ensure that loans are given to the productive sector which contributes to the society and economic development of a country.

3. To give guidance to lending officials

A borrower should be assured that there will be no discrimination whether he deals with one officer or another and one branch or another .A sound credit policy is imperative to achieve a uniform standard procedure throughout the organization. In the absence of a sound credit policy it is likely that individual loan officers make judgment inconsistent from each other and also inconsistent with the organizational goal.

4. To establish standard for control

Every policy requires periodic follow up to ensure its proper implementation. A sound policy helps to determine the variance between actual performance and practices and to take corrective actions. A sound policy is always flexible and works as a guideline rather than as a straitjacket. However, if the deviation between the practice and policy is observed, proper education to lending officers or amendment of the policy becomes inevitable. These objectives can be summarized as the sound policies that help commercial banks to maximize quality and quantity of investment and thereby achieve the own objectives of profit maximization. Formulation of sound policies and coordinated planned efforts pushes forward the forces of economic growth. Sound policy is also important to find the deviation between the practice and policy and establish a standard for control.

2.1.9 Loan Classification and Loan Loss Provisioning

A bank is required to classify their loan on the basis of overdue ageing schedule and provide on a quarterly basis as follows:

a. Pass loan

All loan and advances whose principal amount is past due for period up to three months should be included in this category. These loans are classified as performing loans.

b. Substandard

All loans and advances that are past due for a period up to six months should be included in this category. Sub standard loan is classified as non-performing loan.

c. Doubtful

All loan and advances that are due for a period of six months to one year should be included in this category. Doubtful loan is also from the category of non-performing loan.

d. Loss

All loan and advances which are due for a period of more than one year should be included in this category (NRB).

Provision for loss loan:

Loan should be classified as loss in the following cases,

- a. No security or security not as per contract.
- b. Borrower as been declared as bankrupt.
- c. In case of borrower not found.
- d. Purchased or discounted bill are not repayable within 90 days from due date.
- e. Loans amount has not been used for taken purpose.
- f. Loan provided for blacklisted borrowers

2.1.10 Credit Classifications and Provisioning:

With a view to improve the quality of assets of commercial bank ,NRB has directed commercial bank to classify their outstanding loan and advances ,investment and other assets into four catagories.NRB has directed commercial banks to maintain certain reserves for loans so classified. The existing loan loss provisioning is as under mentioned.

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

Those credits that have not crossed the time schedule of repayment and are within 3 months delay of maturity date fall under the classification topic 'pass credit'. It is also known as performing credit. Sub standard credit are those credit which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months delay from the time to be recovered are classified as doubtful credit. Those credits, which are not recovered yet after 1 year from maturity date, are known as bad credit All the above 3 types of credits are classified as non-performing credit also.

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

Auditor has to correctly rate the credit and ensure that accurate credit loss provision has been made. The auditor should examine whether the bank has obtained complete documentation so that banks interest is secured. In addition audit is made to inspect compliance of terms and conditions laid down. Credit audit is required to check whether credit given is within authority, drawing power, etc. Credit audit helps the bank to know quality of its credit, its weaknesses and strengths. This, in turn, helps the bank to adopt corrective measures where weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be establish with the help of credit audit.

2.2 Review of Related Studies

“Credit management is the process for controlling and collecting payments from your customers. A good credit management system will help you reduce the amount of capital tied up with debtors (people who owe you money) and minimize your exposure to bad debts. Good credit management is vital to your cash flow. It is possible to be profitable on paper and but lack the cash to continue operating your business.

An alternative credit approach to the strained trade relationship that may not lead to

customer divorce or even trial separation (holding orders) is the modern or contemporary approach of credit management dealing with the high maintenance customer. This approach is practical with the credit professional working with the sales force and management to preserve the strained trade relationship. In this role of relationship preserver, the credit professional is akin to a marriage counselor, looking to reestablish shared points in the trade relationship, such as continuing credit sales notwithstanding the delinquent invoices, but using the modern tools of credit enhancement to also mitigate credit risk. The view is that if the credit team evaluates the customer as viable, with an achievable repayment plan and turnaround in sight, coupled with trustworthy and competent management, repayment of past due invoices can be aligned with the customer's cash flow and new orders". By: Scott Blakeley

2.2.1 Review of Nepalese studies

In Nepalese context, here are some independent studies which are presented in the following ways:

- a) Review of relevant studies from report and articles
- b) Review from unpublished thesis

In the first section, effort has been made to examine and review some related articles and reports published in different journals, magazines, newspaper and books while in second section, unpublished thesis work conducted by various students have been presented.

2.2.1.1 Review of relevant studies from report and articles

Credit risk is the likelihood that a debtor or financial instrument issuer is unwilling or unable to pay interest or repay the principal according to the terms specified in a credit agreement resulting in economic loss to the bank. Credit risk also refers the risk of negative effects on the financial result and capital of the bank caused by borrower's default on its obligations to the bank. Credit risk is the major risk that banks are exposed during the normal course of lending and credit underwriting. Credit risk arises from non-performance by a borrower. For most banks, loans are the largest and most obvious source

of credit risk; however, credit risk could stem from activities both on and off balance sheet. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. In a bank's portfolio, losses arise from outright default due to inability or unwillingness of a customer or counter party to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively losses may result from reduction in portfolio value due to actual or perceived deterioration in credit quality. Credit risk comes from a bank's dealing with individuals, corporate, banks and financial institutions or a sovereign. Credit risk does not necessarily occur in isolation. The same source that endangers credit risk for the bank may also expose it to other risk. For instance a bad portfolio may attract liquidity problem. This section presents fundamental credit risk management policies and practices that are recommended for adoption by the banks. The guideline outlines general principles that are designed to govern the implementation of more detailed lending procedures and practices within the banks. A typical Credit risk management framework in a bank may be broadly categorized into following main components;

- Board and senior Management's Oversight
- Organizational structure
- Systems and procedures for identification, acceptance, measurement
- Monitoring and control risks.

Principles of NRB for the Assessment of Banks' Credit Risk management

According to the NRB risk management Guideline, Nepalese commercial bank should follow the three principal of risk minimization concept as bellow.

Principle 1:

The board of directors should have responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Principle 2:

Senior management should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, and monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels.

Principle 3:

Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee. The responsibilities of the board with regard to credit risk management shall include

Source: (NRB risk management guideline July 2010)

Mr. A Garg (2064BS) in his article "*Principles of Lending and Credit Culture at RBB*" has mentioned that the lending combines the science of obtaining and analyzing the facts of a loan request and the art of making judgments about that information, the feasibility of the business, and the credibility of the borrower.

The lender should make sure that he understands the various risks which affect it and wherever possible takes steps to manage the risks. First and foremost these include the major obvious risks such as the term and magnitude of the loan and what changes could affect the borrower's ability to repay the loan.

In view of Garg, lending primarily based on the Charisma, stature, reputation, market image of the borrower. All of us believe in something called –looks are deceptive, don't judge book by its cover, ever take anything at its face value etc. In the article he focused that the credit culture of RBB for the last several years is based on:

- -Name Lending
- -Collateral based Lending

- -Limit based lending
- -Universal Lending
- -One time lending
- -Attitude lending

In the article Garg has concluded that the successful banks have developed an internal credit culture that guides their banking operations .A bank’s credit culture is the unique combination of policies, practices, experience and management attitudes that defines the lending environment and determines the lending behavior acceptable to the bank.

Mr. Pradhan (2053 BS) in his article “*Deposit is the life blood of any financial institution i.e. commercial banks, financial companies and co-operative or non government organization.*” In consideration of thirty one commercial banks, nearly twelve dozens of finance companies, the latest figure produce a strong feeling that a serious review must be made on problems and prospects of deposit sector .Beside few joint venture banks, other organizations rely heavily on the business deposits receiving and credit disbursement.

In the light of this, Pradhan (2053) has pointed out following problems of deposits mobilization in Nepalese perspective.

1. Due to lack of education, most of Nepalese people do not go for saving in institutional manner, however they have saving as from cash and ornament. Their reluctance to deal with institutions system are governed by their lower level of understanding about financial organization, process requirement, office hour withdrawals system, availability of depositing facilities and so on.
2. Due to the lesser office hour of banking system people prefer for holding the cash in the personal possession.
3. Unavailability of the institutional services in the rural area.
4. No more mobilization and improvement of the employment of deposits in the loan sectors.

Pradhan (2053) has not only pointed out the problems but also suggested for the prosperity of deposit mobilization. They are given as:

- By adding service hours system will definitely be an appropriate step.
- If deposit mobilizations materialize by providing sufficient institutions service in rural area, the generated fund can be used somewhere else by the bank which can be taken as major achievement. NRB could be endorsing this deposit collection by continuing to subsidize overhead cost for little longer period .A full scale of field office system could be taken back and made manpower strength deputed to cut down overhead cost.
- NRB also organize training program to develop skilled manpower.
- By spreading co-operative to the rural areas, mini- banking services are to be launched.

Mr. Dahal (2002 AD) in his article *“The bank gives loan to various sectors”*. This is necessary for long term survival of the bank. Even if any sector is doing very well, the bank does not put its total money in that sector. If the bank concentrates its lending only in one sector, failure of the sector may cause bankruptcy of the bank.”

Mr. Karki (2053 BS) in his article, *“Challenges of non-performing loan management in Nepal”*, Karki has mentioned the causes of increasing trend of non-performing loan. She identifies “the major causes such as poor loan analysis, guarantee oriented loan system, depreciation of valued assets, misuse of loan, lack of regular supervision of loan.”

Loan mix is components of established credit policy. It is a kind of strategy in credit management for banks to be success. In context of Nepal, here are different sectors in economy such as priority sector, deprived sector, productive sector, government sector etc. So, there should be diversification in investment of every commercial bank. Making investment or lending to various sectors is necessary for the long term survival of banks.

2.2.1.2Review from unpublished thesis

a) Rai (2008) conducts a study; “*Lending practices- A study of NABIL, SCBNL and HBL*” has outlined his **objectives** and major **finding** as follows:

Objectives

- To find out sector wise loans and advances of selected Commercial Banks.
- To find out non-performing loans of selected Commercial Banks.
- To compare and evaluate credit performance of selected Commercial Banks.

Major finding

- SCBL’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.
- HBL is higher than other which seems that HBL is inefficient in lowering non-performing loan or improving credit efficiency. NABIL has improved most among these banks.
- SCBL's has higher loan loss provision, HBL has second higher and NABIL is in third position which indicates that NABIL is able to manage its credit more effectively and efficiently than other sample Banks.

b)Regmi, (2010) in his thesis entitled “*Credit practices of joint venture banks with reference to Nepal SBI bank Ltd and Nepal Bangladesh Bank Ltd*” has emphasized to analyze the credit practices of concerned joint venture commercial banks. He has **objectives** and **findings** as follows:

Objectives

- To evaluate liquidity position of selected Commercial Banks.
- To compare and evaluate credit performance of selected Commercial banks.
- To find out sector wise loan and advance of both Commercial banks.

Major Findings

- This study is based on five years data 1988-2002 of concerned banks.

- He has found that liquidity position of both banks is satisfactory, on the basis of asset management ratio; NBBL is in better position than NSBL.
- In credit portfolio, both banks have invested more in private sector than other sector.
- NBBL has better lending efficiency than that of NSBL. Deposit mobilization per branch ratio and credit mobilization per branch ratio of NSBL is higher than NBBL. At last, he has found that the profitability position of NBBL is better than that of NSBL.

c) Millan Shrestha, (2009) on “*Credit Management with Special Reference to Nepal SBI Bank Limited*” has **objectives** and **found out** as follows:

Objectives

- To find out sector wise loan and advance of SBI Banks.
- To evaluate liquidity position of SBI Banks.
- To find out non-performing loans of SBI Banks.

Major findings

- The analysis that loan and advances and investment to total deposit ratio of SBI bank is high.
- SBI Bank indicates good performance of lending for a bank and it has high amount of loan loss provision.
- SBI Bank has high volume of nonperforming loans which is not sign of efficient credit management. The bank is recommended to adopt innovative approach to marketing.

d) Mr. Khadka (2012) in his study entitled “*Credit management of bank of kathmandu, Everest bank limited, and himalayan bank limited.*” has emphasized to analyze the credit practices of concerned joint venture commercial banks. He has **objectives** and **findings** as follows:

Objectives

- To see relationship between the deposit collected and loan floated by the Commercial Banks.
- To see Credit performance of sampled commercial banks.
- To examined the information procedure in controlling the credit policies and practices of commercial banks.

Major findings

- Average loan and advances ratio of BOK, EBL and HBL. HBL has maintained higher loan & advances to total deposit. In this way, it shows that NIBL seems to be strong to mobilize its total deposit as loan & advances. However higher ratio does not mean it is always better from the point of liquidity.
- Increase ratio indicates the increased volume of non-performing loans and vice versa. Loan loss provision of BOK is decreasing trend, so the decreasing loan loss ratio indicates efficient credit policy and gradual increment on the performance of the company. Here loan loss provision to total loan and advances of HBL is in increasing trend, which indicates increased volume of non-performing loans of HBL.

e) Subedi Roshan (2013) in his thesis entitled “*Comparative analysis on credit management of Himalayan bank ltd, Everest bank ltd and NABIL bank ltd*” has **objective** and **major finding** as follows:

Objectives

- To evaluate priority and deprived sector loans of selected Commercial Banks.
- To evaluate status of non- performing loans of selected Commercial Banks.
- To compare and evaluate credit performance of selected commercial Banks.

Major findings

- Comparatively EBL is aggressively deploying credit, trend of credit mobilization of HBL is moderate and NABIL seems very defensive for credit mobilization.

- Sampled banks are trying to lower the Non-performing loan then past however ratio of HBL is higher than other which seems that HBL is inefficient in lowering non-performing loan or improving credit efficiency. NABIL has improved most among these banks.
- Comparatively EBL is mobilizing higher fund to the priority sector, HBL is moderately mobilizing priority sector credit and in the case of NABIL it can be said that credit to priority sector is lower than other sampled banks.

f) Basnet Saroj (2013) in his thesis entitled "*Credit Management of Rastriya Banijya Bank Limited*" has **objective** and **major finding** as follows:

Objectives

- To analyze the performance of the RBB.
- To analyze the credit and advances provided by the bank.
- To analyze the recovery status of the credit disbursed.

Major findings

- During the study period, the bank registered a significant increase in deposits, loans and advances and profitability.
- Increased ratio indicates the increased volume of non-performing loans and vice versa. Loan loss provision of RBB is decreasing trend, so the decreasing loan loss ratio indicates efficient credit policy and gradual increment on the performance of the bank.
- The average interest income to loan and advances of the bank is seeing the scenario of the commercial bank it is satisfactory level of the income.

g) Adhikari Ishwori Kumari (2013) in his thesis entitled "*Credit management of Everest Bank Limited*" has **objective** and **major finding** as follows:

Objectives

- To examine the impact of deposit in liquidity.

- To examine and evaluate the various stages occurred in loan management procedure.
- To analyze the lending efficiency of the bank.

Major findings

- The bank is able to be maintained in the good liquidity position of the bank. Therefore, that credit management is in good position of the EBL.
- EBL is able to keep the level of non-performing assets as an adequate position. The bank is able to obtain higher lending opportunity.
- Return on loan advances ratio of EBL is also in fluctuating trend. This shows the normal earning capacity of EBL in loan and advances.
- Loan loss provision to total loan advances ratio of EBL is also in fluctuating trend. The mean ratio of the study period is 0.94 times. This shows that good quality of assets in total volume of loan advances.

2.3 Research Gap

There are various factors that affect the lending practices. The directives of NRB change over time and commercial bank should adopt their policy with the changing time. So, up-to-date study over the change of time frame is major concern for the researcher and concerned organization as well as whole. This study covers the more recent financial data, NRB circulars and guidelines than that of studies previously conducted.

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance and credit management of various commercial banks. Some of the researchers have done the financial performance, credit policy between one, two or three different commercial bank. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring credit management of bank have focused on the limit ratios which are incapable of solving the problems. Actually credit management is determined by various factors. In this research various ratio are

systematically analyzed and generalized. Past Researchers are not properly analyzed about lending and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this study of credit management of HBL, RBB and NABIL bank is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of PardeepRai, (2008) Lending practices- A study of NABIL, SCBNL and HBL”, Anil Regmi, (2010) “Credit practices of joint venture banks with reference to Nepal SBI bank Ltd and Nepal Bangladesh Bank Ltd” and Millan Shrestha (2009) “Credit Management with Special Reference to Nepal SBI Bank Limited” has not use correlation, probable error and trend analysis. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit management of Bank and financial institutions.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It is study of various steps that is generally adopted by a researcher, studying his research problem among with the logic behind them. “Research is the process of systematic and in-depth collection, presentation and interpretation or relevant detail or data”. (Michael,1985:57).

The system of collecting data for research projects is known as research methodology. The data may be collected for either theoretical or practical research. In other words, research methodology is a systematized way to solve the research problem. The prime objective of this study is to compare, evaluate and assess the credit performance of selected commercial Banks i.e. HBL, RBB and NABIL. This chapter contains the methods that make convenience for comparison of the performance made so far by these banks by analyzing the strength and weakness of the financial performance of these three sampled banks.

3.2 Research Design

Research design is the planned structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic.

There are many methods of research design and this study will be based on recent historical data. Mostly, secondary data and information to be collected, evaluated, verified and synthesized to reach a conclusion. In this study, descriptive & analytical research design will be used.

3.2.1 Sources of Data

This study is mainly based on secondary data. Secondary data are collected from respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from Nepal Stock Exchange's website. Similarly, articles, journals, bank bulletins, newspaper related to financial performance study, previous research report etc, have also been taken into account while collecting information.

3.2.2. Population and Sample

The population in most studies usually consists of large groups. 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. The total commercial banks shall constitute the population of the data. So, among the various commercial banks in the banking industry-HBL, RBB and NABIL are randomly taken as sample for the study.

3.3. Method of Data Analysis and Presentation

For the purpose of the study all collected primary as well as secondary data are arranged, tabulated under various heads and them after disunities and statistical analysis have been carried out to enlighten the study.

1. Financial tools.
2. Statistical tools.

3.3.1 Financial Tools

Financial tools basically help to analyze the financial strength and weakness of a firm. Ratio analysis is a part of the whole process of analysis of financial statements of any

business or industrial concerned especially to take output and credit decisions. Ratio analysis is used to compare firm's financial performance and status with of the other firms. Even though there are many ratios to analyze and interpret the financial statement following ratios are calculated and analyzed.

3.3.1.1 Credit /Loan related ratios

In this study followings tools of ratio analysis have been used

a) Loan and advances to total assets ratio

Loan and advances is an important part of total assets (total working fund). Total working fund play important role in profit earning through fund mobilization. So bank should carefully mobilize the total assets. The ratio of loan and advances to total assets measures the volume of loan and advances in the structure of total assets. A high ratio indicates better in mobilization of funds as loan and advances and vice-versa.

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

b) Total investment to total deposit ratio

This ratio indicates how properly firms' deposits have been invested on government securities and shares and debentures of other companies and it is calculated by diving total amount of investment by total amount deposit .Mathematically,

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

c) Loan and advances to total deposit ratio

The main sources of banks lending is its deposit. This ratio is calculated to find out now successfully the banks are utilizing their deposits on loan and advances for profit generating activities. Greater ratio indicates better utilization of total deposits. Generally, a high ratio reflects higher efficiency to the utilization of fund and vice-versa.

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

Here loan and advances refers to total of loan, advances and overdraft and total deposits refer to total of all kinds of deposits.

d) Investment to loan and advances investment ratio

This ratio measures the contribution made by investment in total amount of loan and advances and investment. The proportion between investment and loan measures the management attitude towards risky assets and safety assets. Investment and loan and advances in whole do not provide the quality of assets that a bank has created. The ratio indicates the mobilization of funds in safe area and vice-versa.

$$\text{Investment to loan and advances and investment ratio} = \frac{\text{Investment}}{\text{Loan and advances and investment}}$$

e) Liquid Fund to Loan and Advances Ratio

This ratio is calculated by dividing loan and advances to liquidate ratio. The liquid fund includes-cash balance, money at call, etc whereas Loan and advances includes short term loan and advances, overdraft, cash credit etc

$$\text{Liquid Fund to loan and advances ratio} = \frac{\text{Liquid fund}}{\text{Loan and advance}}$$

f) Loan and Advances to Fixed Deposit Ratio

This ratio indicates how many times the amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are the main sources of deposit of bank and are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposits that is given below:

$$\text{Loan and advance to fixed deposit ratio} = \frac{\text{Loan and Advance}}{\text{Fixed Deposit}}$$

3.3.1.2 Credit Efficiency Ratio

It measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short term funds. These ratios are used to determine the efficiency, quality, and the contribution of loan and advances in the total profitability. 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 utilization of available fund.

a) Loan Loss Provision to total loans and advances ratio

Loan loss provision to total loan and 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 provision decreases in profit result to decreases in dividends but its 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 banks prosperity regulating increasing profits for long term. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

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

b) Non Performing loan to total loan and advances ratio

This ratio shows the relationship of Non-Performing loan and total loan and is to determine how efficiently management has used the total loan. Higher ratio shows the low efficient operating of the credit management and lower ratio shows the more efficient operating of credit management.

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

3.3.1.3 Loan and Advance Portfolio

a) Priority Sector credit to total credit ratio

Priority sector includes micro and small enterprises. Micro and small enterprises are classified as agriculture enterprises, cottage, small industries and services. This ratio is calculated as following formula.

$$\text{Priority Sector Credit to total Credit Ratio} = \frac{\text{Priority sector credit}}{\text{Total credit}}$$

b) Sector wise credit to total credit ratio

following heading are found in the sector wise credit-Agriculture, Mining, Productions, Construction, Metal Productions, Machinery and Electrical, Tools and Fittings, Transportation, Equipment Production and Fitting, Communications and Public Service, Wholesalers and Retailers, Finance, Insurance and Fixed Assets, Service Industries, Consumable Loan, Local Government, Others.

$$\text{Sector wise Credit to total Credit Ratio} = \frac{\text{Sector wise credit}}{\text{Total credit}}$$

c) Mix of security wise loan and advance

Under the security of loan and advances comparison, security status of selected bank is taken into consideration. Mainly following headings are found under the heading of security in the Nepalese scenarios-Gold/Silver, Government Securities, Non Government Securities, Fixed A/c Receipt, Asset Guarantee, on bills Guarantee.

d) Deprived sector to total credit

Deprived sector credit includes low income and particularly socially backward women, tribes, lower caste, blind, hearing impaired and physically persons and squatter family.

Deprived sector credit to total credit ratio can be calculated by dividing deprived sector credit by total credit.

3.3.1.4 Profitability Ratio

Profitability ratios indicate the efficiency of operation of a firm on term of profit. It is the main indicator of the financial performance of any business organization. It means higher the profitability ratio, better the financial performance of the bank and vice versa. Different profitability ratios can be calculated as follows.

a) Operating Profit to loan and advances ratio

Operating profit to loan and advances ratio measures the earning capacity of commercial banks. This ratio is calculated dividing operating profit by loan and advances.

$$\text{Operating profit to loan and advances ratio} = \frac{\text{Operating profit}}{\text{Loan and advances}}$$

b) Return on Loan and Advances ratio

This ratio measures the earning capacity of the commercial bank through it fund mobilization as loan and advances. Higher ratio indicated greater success to mobilize fund as loan and advances and vice versa. Mostly loan and advances includes cash, credit, bank overdraft, bills purchased and discounted.

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

c) Interest Income to Total Loan and Advances Ratio

Interest income is the major source of bank revenue. Interest incomes are the functions of mobilized loan and advances which are mobilized under the different headings of credit. Higher interest income shows higher revenue for the bank.

$$\text{Interest Income to Total loan and advances} = \frac{\text{Interest income}}{\text{Total loan and advances}}$$

d) Interest Expenses to 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 more the probability of generating loans, advances, and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expenses}}{\text{Total Deposit Ratio}}$$

e) Interest Spread Analysis

This analysis means gap between interest income and interest expenses is known as spread hereunder. Generally, banks are trying to maintain high spread either collecting lower costing deposit or lending high interest earning credits. In aggregate widening spreads are the indicators of banks profitability and vice versa.

$$\text{Interest spread rate} = \frac{\text{Interest income}}{\text{Loan and advances}} - \frac{\text{Intrest expenses}}{\text{Deposit}}$$

f) Loan to public Enterprise ratio

Commercial banks grant various types of loans to different Corporation. These Corporation includes Industrial, Trading, Financial, Service Oriented and Other Government Corporations. This ratio is calculated as dividing Corporation wise loan by total loan.

g) Interest Income to Total Income Ratio

The ratio measures the volume of interest income to total income. The high ratio indicated the banks performance on other fee-based activities. The high ratio indicates the high contribution made by lending and investing activities.

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

3.3.1.5 Market Value Ratios

A set of ratios that related the firm's stock price to its earnings and book value per share, and thus give management an indication of what investors think of the company's past performance and future prospects.

a) Earnings per share

Earnings per share measures the profit available to the cash equity holders. It only measures the overall operational efficiency bank. It is the profit tax figure EPS tells us what profit the common share holder get for every share.

$$\text{Earning per share} = \frac{\text{Profit after tax}}{\text{No. of common share}}$$

b) Price Earnings Ratio

This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. Higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the management. The ratio is computed by-

$$\text{P/E ratio} = \frac{\text{Price per share}}{\text{Earning per share}}$$

c) Dividend per Share

Investors are interested on the common stocks because of the dividend. Different companies have different dividend payout rate according to mainly their financial status. Dividend per Share includes dividend decision in earning per share. Although the behavior of companies towards dividend payment is disappointing in Nepal, the joint venture banks, other financial institutions, and some other companies have brought greater revolution in this trend. So that dividend per share calculated as following formulas:

$$\text{Dividend per share} = \frac{\text{Dividend paid to equity shareholders}}{\text{Number of equity shares}}$$

d) Dividend payout ratio

A ratio between dividends per share to earnings per share is known as dividend payout ratio. It can be computed by the following formula:

$$\text{Dividend payout ratio} = \frac{\text{DPS}}{\text{EPS}}$$

e) Dividend Yield

Dividend yield is the measure of rate of return in the form of dividends. It is relative term, which is calculated by dividing dividend per share by market price per share. Only higher dividends or lower dividends do not matter to investors. So it is essential to determine the rate of return on their investment.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

3.3.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges

of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as arithmetic mean, standard deviation, Karl Pearson's coefficient of correlation, Probable error, trend analysis adopted which are as follows

3.3.2.1 Arithmetic Mean

Arithmetic mean also called 'the mean' or 'average' as most popular and widely used measure of central tendency. Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the birds' eye view of the huge mass of a widely numerical data. It is calculated as:

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

Where:

\bar{X} = mean value or arithmetic mean

$\sum x$ = sum of the observation

N = number of observation

3.3.2.2 Standard Deviation

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by standard deviation . The standard deviation is the most important and widely used measure of studying dispersion. It is also denoted by the small Greek letter σ (Sigma). The standard deviation measures the absolute dispersion or variability of a distribution. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a serious, a large standard deviation means just the opposite. Hence, standard deviation is extremely useful in judging the representative of the mean. It is calculated as

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

Where ,

σ = Standard Deviation

$\frac{\sum X^2}{N}$ = Sum of Squares of Observation

$\left(\frac{\sum X}{N}\right)^2$ = Sum of Square of mean

3.3.2.3 Co-efficient of variation

The coefficient of variation (C.V) is the relative measure based on standard deviation and is defined as the ratio of standard deviation to mean expressed in percent. The coefficient of variation is the corresponding relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percentage. It is used in such problems where we want to compare the variability of two or more than two series. The series for which the co-efficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which co-efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogenous.

We can denote this by following formula,

$$\text{Coefficient of Variation (C.V)} = \frac{S}{\bar{X}} \times 100$$

Where,

C.V. = Coefficient of Variation

σ = Standard Deviation

\bar{X} = Mean

3.3.2.4 Co-efficient of Correlation (r)

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When $r = +1$, it means there is

perfect relationship between two variables and vice-versa. When $r=0$, it means there is no relationship between two variables. The Pearson's formula is:

$$r = \frac{N \sum xy - \sum x \times \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Where,

- r = Co-efficient of Correlation
- x = Independent Variable
- y = Dependent Variable
- N = Number of Periods

3.3.2.5 Probable Error

After the calculation of co-efficient of correlation the next thing is to find out extent to which it is dependable. For this purpose the probable error of the coefficient of correlation is calculated. If the probable error is added to and subtracted from the co-efficient of correlation it would give two such limits within which we can reasonably accept the value of co-efficient of correlation to vary. The formula for finding out the probable error of the Karl Pearson's co-efficient of correlation is:

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

Where,

- P.E.r = Probable Error of Co-efficient of Correlation
- r = Co-efficient of Correlation
- N = Number of Pairs of Observations

1. If the value of r is less than probable error there is no evidence of correlation i.e. value of r is not at all significant.

-
2. If the value of r is more than six times the probable error coefficient of correlation is practically certain i.e. the value of r is significant.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of relevant data of sampled commercial bank in order to fulfill the objectives of this study. To obtain best result, data have been analyzed according to the research methodology as mentioned in third chapter. Credit management is one of the most important factors that have been developed to facilitate effective performance of bank management. Credit management is the formal expression of the commercial banks goals and objectives stated in financial term for specific future period of time. Credit is the basic indicator for determining profit.

The purpose of this chapter is to introduce the mechanism of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight comparative credit management status of selected Commercial banks. For analysis, different types of analytical methods and tools such as financial ratio analysis and statistical tools are used to draw the conclusion of the study. Similarly analyzed results are graphically represented for the visibility and simplicity of conclusion.

4.1 Financial Tools

Various financial tools are used to draw the meaningful conclusion of the study. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decisions. Ratio analysis is used to compare firm's financial performances. Even though there are many ratios to analyze and interpret the financial statement those ratios that are related to the investment and credit operation of the bank have been covered in this study

4.1.1 Credit/Loan related ratios

In this study following ratios are analyzed.

4.1.1.1 Loan and advances to total assets ratio

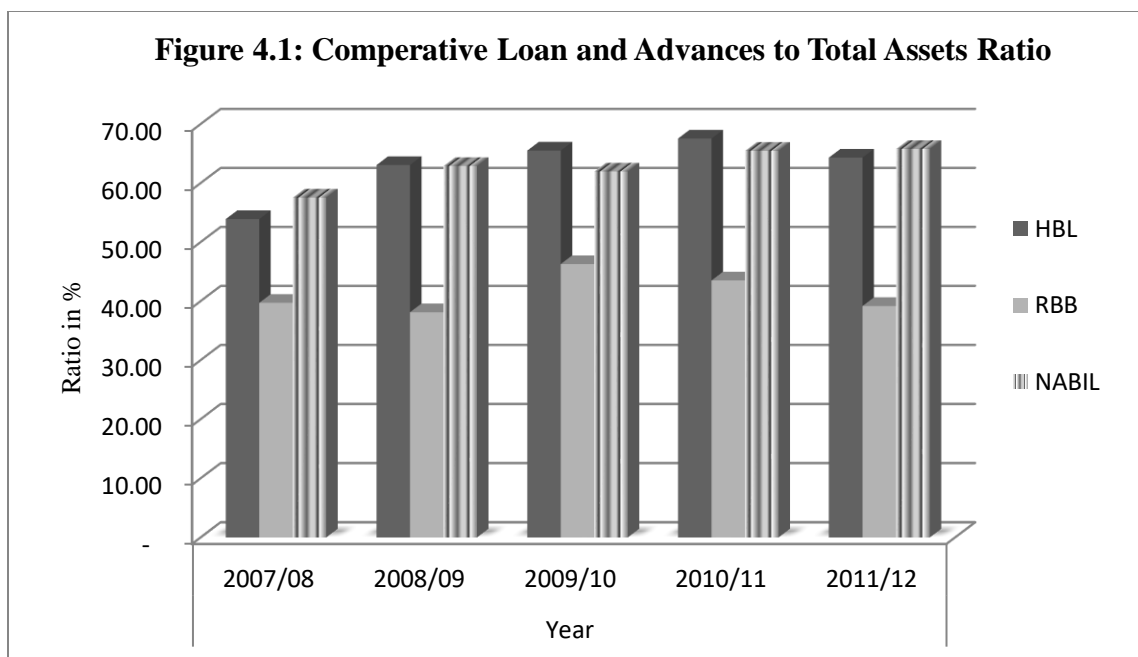
Loan and advances is the major part of total assets for the bank. This ratio indicates the volume of loan and advances out of total assets. A higher degree of ratio indicates that the bank has been able to mobilize its funds throughout lending function but not better from the point of liquidity.

Table 4.1: Total Loan and Advances to Total Assets Ratio

Bank	Year					Mean%	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	53.90	63.05	65.50	67.54	64.32	62.86	5.28	8.40
RBB	39.71	38.11	46.27	43.50	39.17	41.35	3.42	8.27
NABIL	57.54	62.89	61.96	65.46	65.77	62.73	3.33	5.31

(Source- Appendix I)

In Table 4.1, the mean ratio of total loan and advance to total assets of HBL is highest among sampled banks in recent five years being 62.86%. Mean ratio of RBB is lowest among sampled banks in recent 5 year being 41.35%. And mean ratio of NABIL is 5 year being 62.73%. In above tables ratio of HBL is increase in F/Y 2008/09 and slightly increase in F/Y 2008/09 to 2010/11 and the last F/Y ratio is slightly decrease. In case of RBB ratio is slightly fluctuating in F/Y 2007/08 to 2011/12 and NABIL's ration is slightly increase in F/Y 2007/08 to 2011/12. Also the ratio of NABIL is less volatile among other banks with standard deviation and C.V of 3.33 and 5.31 respectively. The same average ratio of HBL and NABIL is almost same but S.D and C.V of NABIL is less than HBL. And similar C.V of HBL and RBB but S.D of RBB is less than HBL.



In Figure 4.1, beginning, loans and advances of NABIL is highest among all two banks and with small fluctuating trend upto F/Y 2011/12 it has gone below that of HBL in F/Y 2009/10 and F/Y 2010/11. RBB has lowest ratio of loans and advances among two banks and its ratio is fluctuating in five year trend. HBL has slightly increase to F/Y 2011/12 with small start goes up with increasing trend and finally has succeeded to get equalize with NABIL in F/Y 11/2012. It is seen that in more recent years, the percentage of loan and advance to total assets is almost same.

From the above study we can say that average lending capacity of HBL and NABIL is satisfactorily catching the increasing trend and has improved lending efficiency along with lessening their liquidity position. But RBB lending capacity not fairly satisfactions with both Banks so RBB should more perform in the case of lending.

4.1.1.2 Total Investment to Total Deposit ratio

Commercial Banks may mobilize its deposit by investing its fund in different securities- issued by government and other financial and non- financial companies. High ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

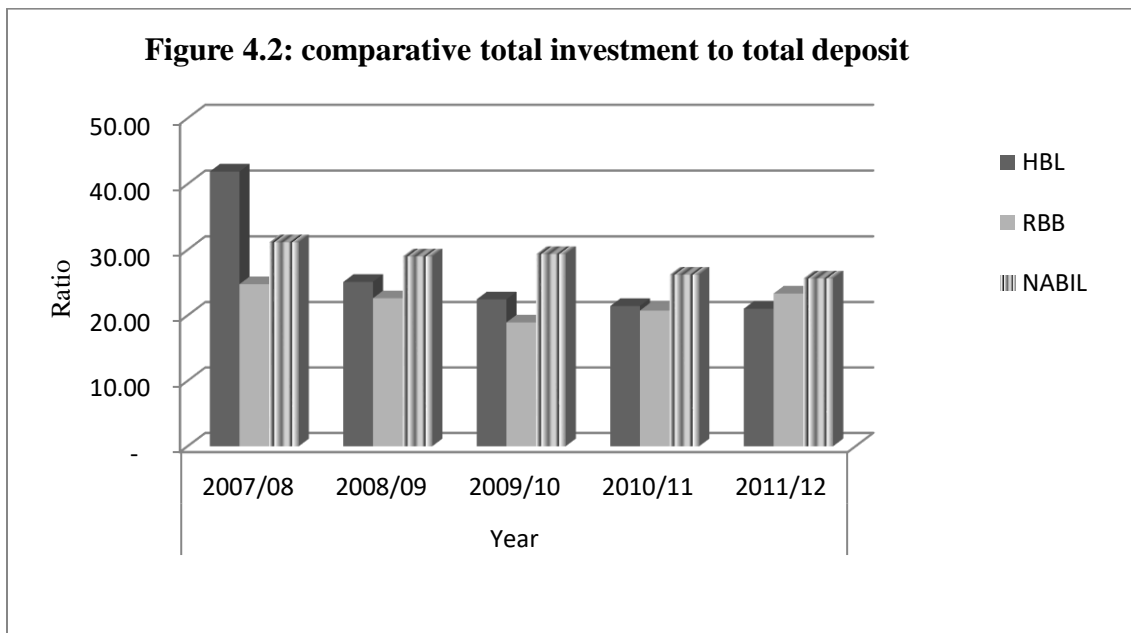
Table 4.2: Comparative Total Investment to Total Deposits Ratio

Bank	Year					Mean	S.D	C.V
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	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	41.89	25.12	22.45	21.43	21.02	26.38	8.82	33.42
RBB	24.77	22.62	18.92	20.73	23.35	22.08	2.29	10.36
NABIL	31.14	28.99	29.35	26.21	25.64	28.27	2.30	8.13

(Source- Appendix 2)

In Table 4.2, banks total investment to total deposit ratio is shown. The deposit mobilization ratio of NABIL seems higher with an average of 28.27%. Similarly, HBL has second highest capital utilization ratio i.e. 26.38% and RBB with weak ratio of 22.08%. Similarly, RBB is has less volatility in assets management ratio having S.D of 2.29 and C.V is less than NABIL i.e.8.13. HBL and NABIL have assets utilization of 26.38% and 28.27% respectively with C.V of 33.42 and 8.13 which seems more volatile than that of RBB.



In Figure 4.2, we can see the assets utilization of HBL at the beginning has sharply declined in F/Y 2008/2009 and then again get decreased slightly up to F/Y 2011/2012. The assets utilization of RBB at the beginning has slightly decreased up to F/Y 2009/10 and then slightly increases in F/Y 2010/11 and F/Y 2011/12 respectively and NABIL also

is in decreasing trend. Among other banks, RBB is weaker in its assets management. The overall assets managing trend is going down during this sample period.

4.1.1.3 Loan and Advances to Total Deposit ratio (C/D Ratio)

The main sources of banks lending is 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 better utilization of total deposits. Generally, a high ratio reflects higher efficiency to the utilization of fund and vice-versa. Here loan and advances refers to total of loan, advances and overdraft and total deposits refer to total of all kinds of deposits.

Table 4.3: Comparative Loan and Advance to Total Deposits Ratio

Bank	Year					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	61.23	71.49	74.39	77.14	73.26	71.50	6.10	8.53
RBB	36.23	38.42	45.79	44.05	46.24	42.15	4.54	10.78
NABIL	66.94	73.87	69.63	76.67	75.78	72.58	4.15	5.72

(Source- Appendix 3)

In Table 4.3, the deposit utilization of NABIL seems higher with mean ratio of 72.58% and also is less risky with S.D and C.V of 4.15 and 5.75. The deposit utilization efficiency of HBL is also satisfactory but RBB deposit utilization efficiency is not satisfaction. NABIL and HBL have utilized their deposits in loan and advances in a ratio of 72.58% and 71.50% respectively with S.D of 4.15 and 6.10 and also C.V of 5.72 and 8.53 respectively.

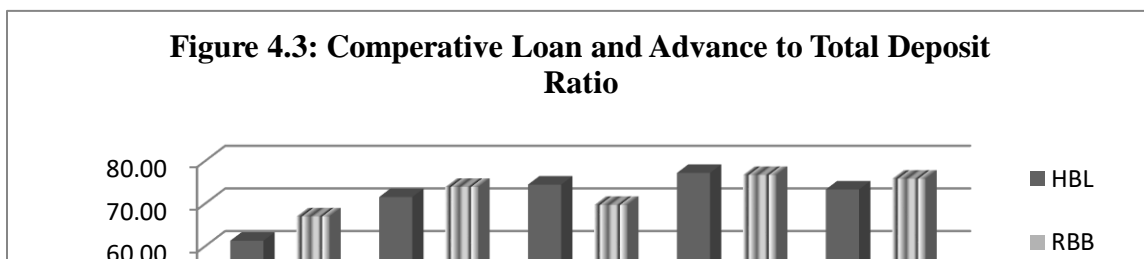


Figure 4.3, shows the rising trend in utilizing their deposits in loan and advances. In the beginning, HBL seems to have slightly efficiency in utilizing its deposits and has slightly decreased in last year. RBB trend is slightly increased in 5 year but F/Y 2010/11 has slightly decreased. NABIL seems have beginning of year slightly efficiency in utilizing its deposit and got sustained in last two years. HBL's ratio has gone up gradually and NABIL's ratio is also almost in increasing trend.

4.1.1.4 Investment to Loan and Advances and Investment Ratio.

This ratio measures the contribution made by investment in total amount of loan and advances and investment .The proportion between investment and loan and advances measures the management attitude towards risky assets and safety of assets. Investment and loans and advances in whole do not provide the quality of assets that a bank has created. The ratio indicates the mobilization of funds in safe area and vice-versa.

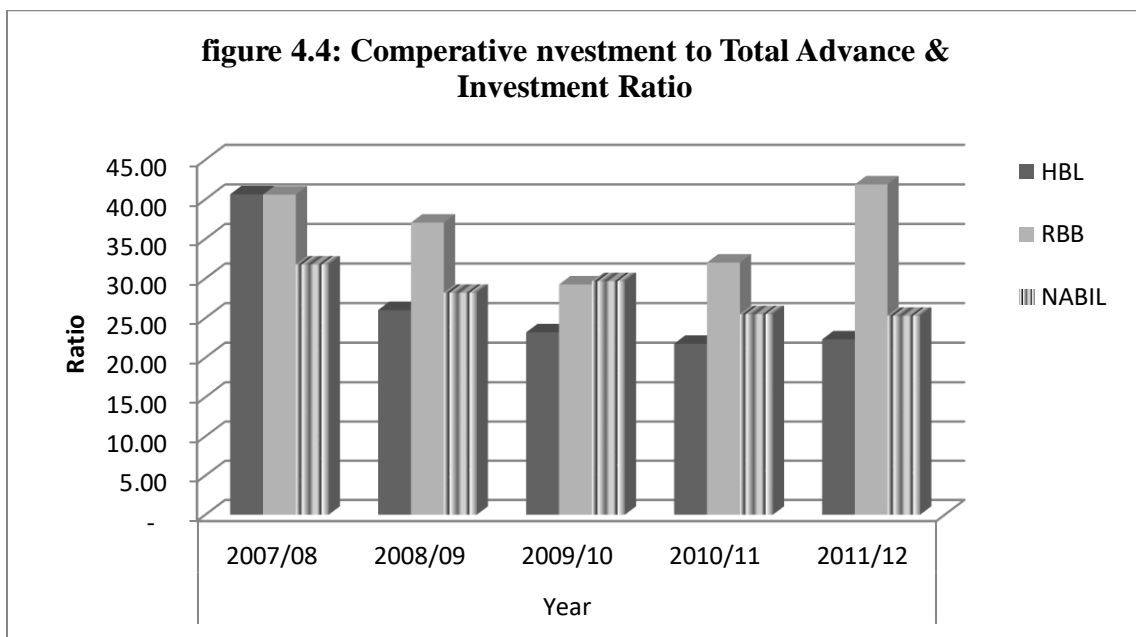
Table 4.4: Comparative Investment to Total loan and Advance & Investment Ratio.

Bank	Year					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	40.62	26.00	23.18	21.74	22.29	26.77	7.92	29.58
RBB	40.60	37.05	29.24	32.00	41.88	36.15	5.44	15.10
NABIL								9.85

	31.75	28.18	29.65	25.48	25.28	28.07	2.76	
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(Source- Appendix 4)

In Table 4.4, the average of fund mobilization ratio of RBB seems to be higher than other sampled banks with the value in average of 36.15% having the S.D and C.V of 5.44 and 15.0471. Similarly, HBL and NABIL have the fund ratio of 26.77% and 28.07% respectively. HBL in F/Y 2007/2008 has high fund mobilization ratio in terms of investment with the ratio of 40.62% and other F/Y fund mobilization ratio in terms of investment has slightly decreasing trend and there S.D and C.V of 7.92 and 29.58 and RBB has slightly fluctuating there mobilization fund. NABIL seems to be slightly fluctuating there mobilization ratio with lowest S.D and C.V of 2.76 and 9.85.



In Figure 4.4, RBB has highest ratio among all other sampled banks and sampled fiscal years in the starting year and slightly decreasing trend up to F/Y 2009/10 and then slightly decreasing trend for last two year. The ratio of fund utilization of other sampled banks is in decreasing trend. The amount of investment has been decreasing of all sampled banks but RBB has last year utilization of their Investment is highly increase.

4.1.1.5 Liquid Fund to Loan and Advances Ratio

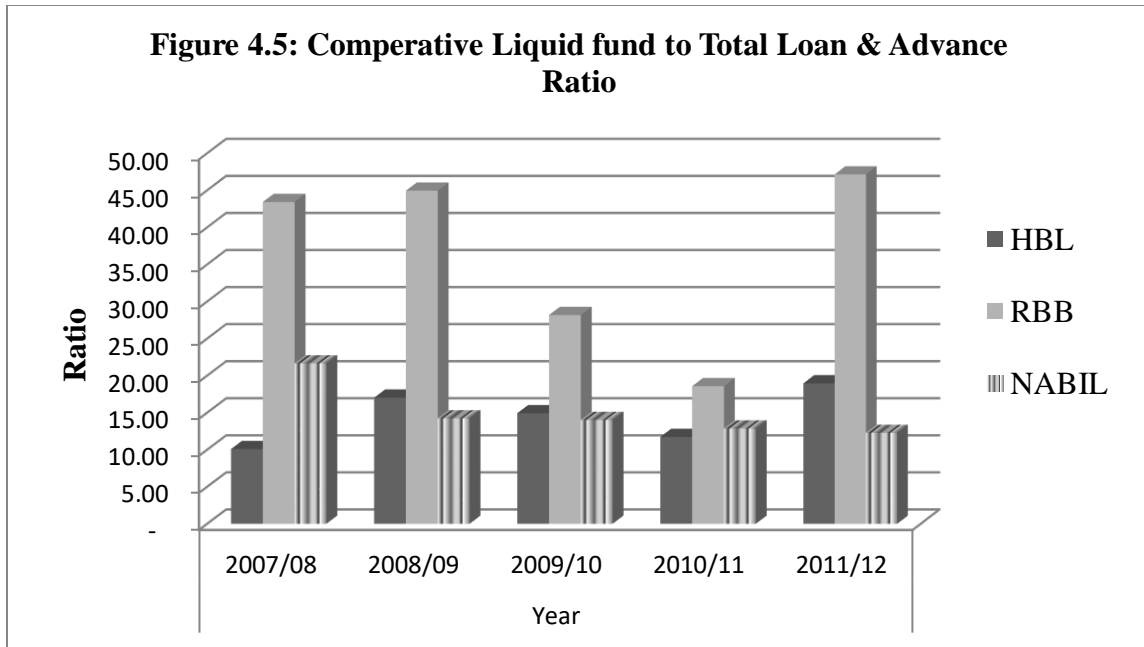
This ratio is calculated by dividing loan and advances to liquidate ratio. The liquid fund includes-cash balance, money at call, etc whereas Loan and advances includes short term loan and advances, overdraft, cash credit etc.

Table 4.5: Comparative Liquid fund to Total loan & advance ratio

Bank	Year					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	10.09	17.02	14.92	11.72	18.95	14.54	3.66	25.15
RBB	43.42	44.95	28.17	18.57	47.14	36.45	12.48	34.25
NABIL	21.64	14.23	14.00	12.85	12.26	15.00	3.80	25.34

(Source- Appendix 5)

In Table4.5, the average of fund holding to loan and advance ratio of RBB seems to be higher than other sampled banks with the value in average of 36.45% having with S.D and C.V of 12.48 and 34.25. Similarly, HBL and NABIL have the fund holding to loan and advance ratio of 14.54 % and 15% respectively.HBL in F/Y 2007/2008 has lowest fund holding ratio in terms of Loan and Advance with the ratio of 10.09% and other F/Y fund holding ratio in terms of loan and advance has slightly fluctuating trend with slight S.D and C.V of 3.66 and 25.15 and RBB has fluctuating there fundholding to loan and advance ratio. NABIL seems to be slightly decreasing there fund holding to loan and advance ratio with S.D and C.V of 3.80 and 25.34.



In Figure 4.5, RBB has highest fund holding ratio among all other sampled banks and sampled fiscal years in the starting year and slightly decreasing trend up to F/Y 2008/9 and then slightly decreasing trend for next two year then highly increased in last year. HBL has seems to be fund holding to loan advance ratio is slightly fluctuating in five year F/Y. The ratio of fund holding to loan and advance ratio of NABIL is in decreasing trend.

4.1.1.6 Loan and Advances to Fixed Deposit Ratio

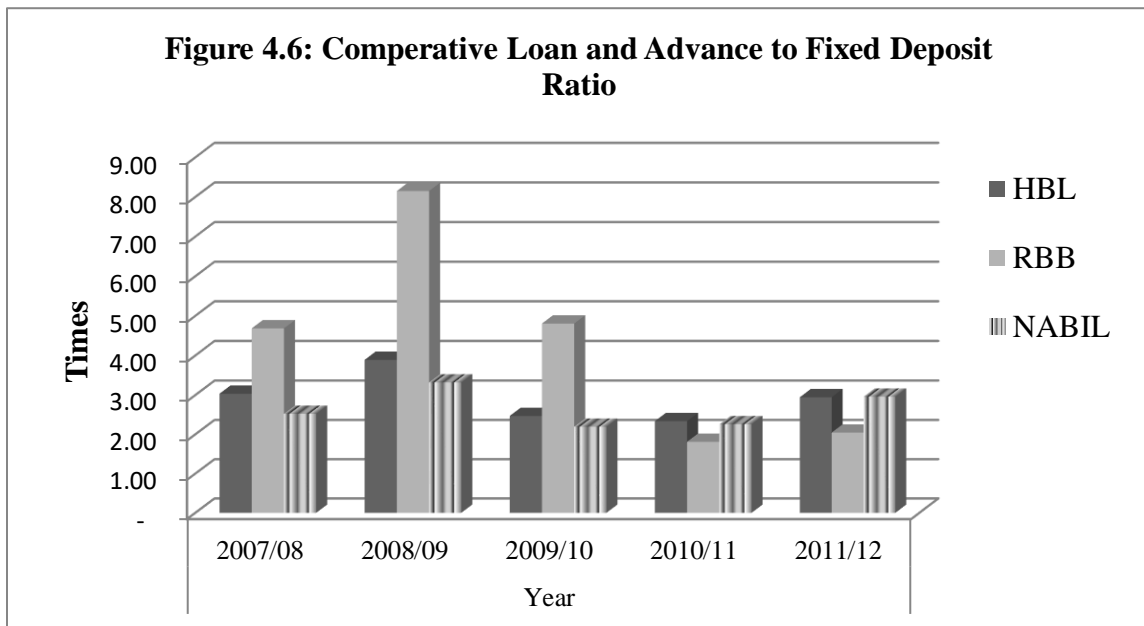
This ratio indicates how many times the amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are the main sources of deposit of bank and are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income for the commercial banks.

Table 4.6: Comparative Loan and Advance to Fixed Deposit

Bank	Year					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	3.04	3.89	2.47	2.34	2.95	2.94	0.61	20.83
RBB	4.69	8.15	4.81	1.81	2.05	4.30	2.57	59.88
NABIL	2.52	3.32	2.19	2.26	2.96	2.65	0.48	18.11

(Source- Appendix 6)

In Table 4.6: the average of loan and advance to fixed deposit ratio of RBB seems to be higher than other sampled banks with the value in average of 4.30 times having with S.D and C.V of 2.57 and 59.88. Similarly, HBL and NABIL have average the loan and advance to fixed deposit ratio of 2.94 and 2.65 times respectively. HBL in up to F/Y 2008/09 has slightly increase and then F/Y 2009/10 and F/Y 2010/11 has slightly decreased and last year slightly increase i.e. 2.95 times with S.D and C.V of 0.61 and 20.83. NABIL has seems to be lower then other sampled banks with the value in average of 2.65 times, NABIL has slightly volatile in their 5 year economic life with lowest S.D and C.V of 0.48 and 18.11 respectively.



In Figure 4.6, RBB has highest loan and advance ratio in up to F/Y 2009/10 among all other sampled banks and sampled fiscal years in the starting year and highly decreasing trend for next two year then slightly increased in last year. HBL has seems to be loan and advance to fixed deposit ratio is slightly fluctuating trend in five year F/Y. The ratio of loan and advance to fixed deposit of NABIL is in slightly volatile trend.

4.1.2 Credit Efficiency Ratio

It measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize

available funds, particularly short term funds. These ratios are used to determine the efficiency, quality, and the contribution of loan and advances in the total profitability. 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 utilization of available fund.

4.1.2.1 Loan Loss Provision to Total Loans and Advances Ratio

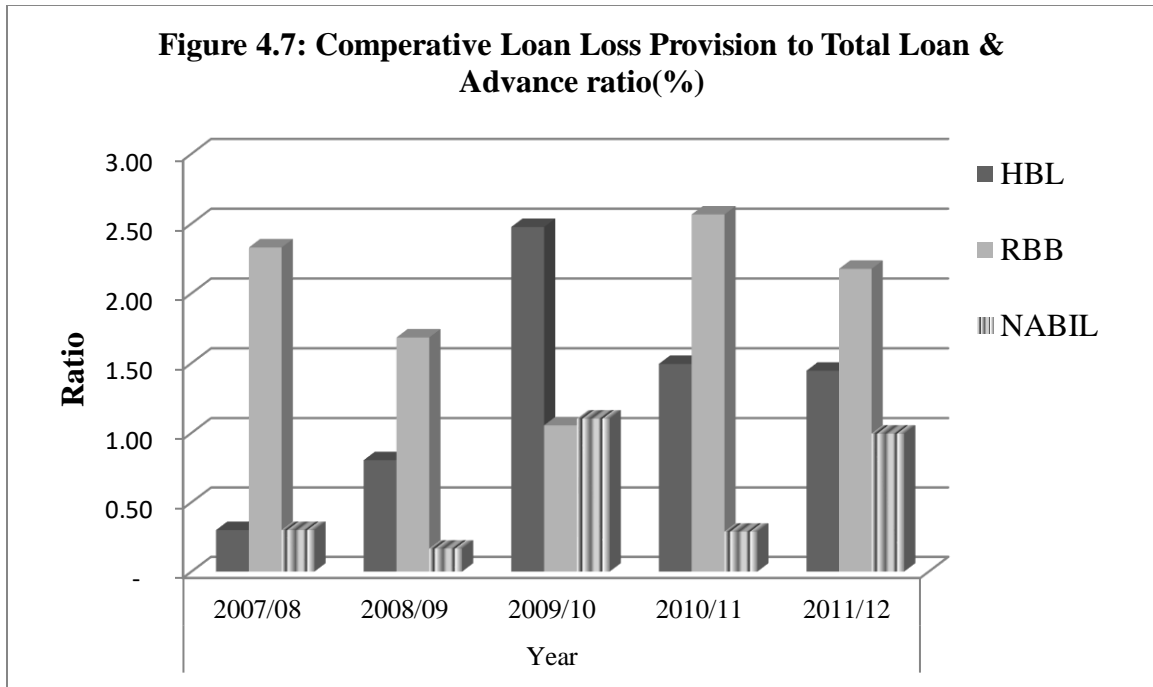
The provision for loan loss reflects the increasing profitability of nonperforming loan. Increase in loan loss provision decreases profit which results to decrease in dividend. But its positive impact is that it strengthens the financial condition of banks by controlling the credit risk and reduces the risk related to deposit. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan and advances.

Table 4.7: Comparative Loan loss provision to Total loan & Advance Ratio (%)

Bank	Year					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	0.30	0.80	2.48	1.49	1.45	1.30	0.82	62.87
RBB	2.33	1.68	1.05	2.57	2.18	1.96	0.60	30.65
NABIL	0.30	0.17	1.10	0.29	0.99	0.57	0.44	77.46

(Source- Appendix 7)

In Table 4.7, average loan loss provision of RBB is highest i.e. 1.96%. The lowest average loan loss provision is NABIL. There is a maximum average loan loss provision of 2.57% of RBB in F/Y 2010/2011 and minimum of same in F/Y 2008/2009 of NABIL. It can be assumed that profit percentage of RBB is lowest in F/Y 2010/2011 because of highest average ratio of loan loss provision to total loan and advance ratio. RBB is seen more consistent than other sampled banks with having S.D and C.V of 0.6 and 30.65 in terms of credit efficiency. HBL seems the ratio is first two years is slightly increased but in F/Y 2009/10 is highly increased i.e. 2.48% then last two year the ratio is decreased. NABIL seems more volatile according to this study.



In Figure 4.7, the provision of loan loss to total loans and advances of sampled banks has fluctuating then earlier. HBL seems to be fluctuating their ratio in fiscal year up to 2011/12. RBB has been beginning of the fiscal year to F/Y is decreasing trend then maximum of ratio in F/Y 2010/11, and then going to decreasing trend ratio. This ratio of NABIL is more fluctuating from beginning to end.

4.1.2.2 Nonperforming Loan to Total Loan and Advances Ratio

Non- performing loans to total loan and advances ratio shows the percentage of non-recovery loans in total loan and advances. This ratio is calculated as dividing non-performing loan by total loan and advances. Loan loss provision is the function of substandard credit which is also known as non performing loan (NPL). Higher the NPL, higher would be deduction on profit because of provision.

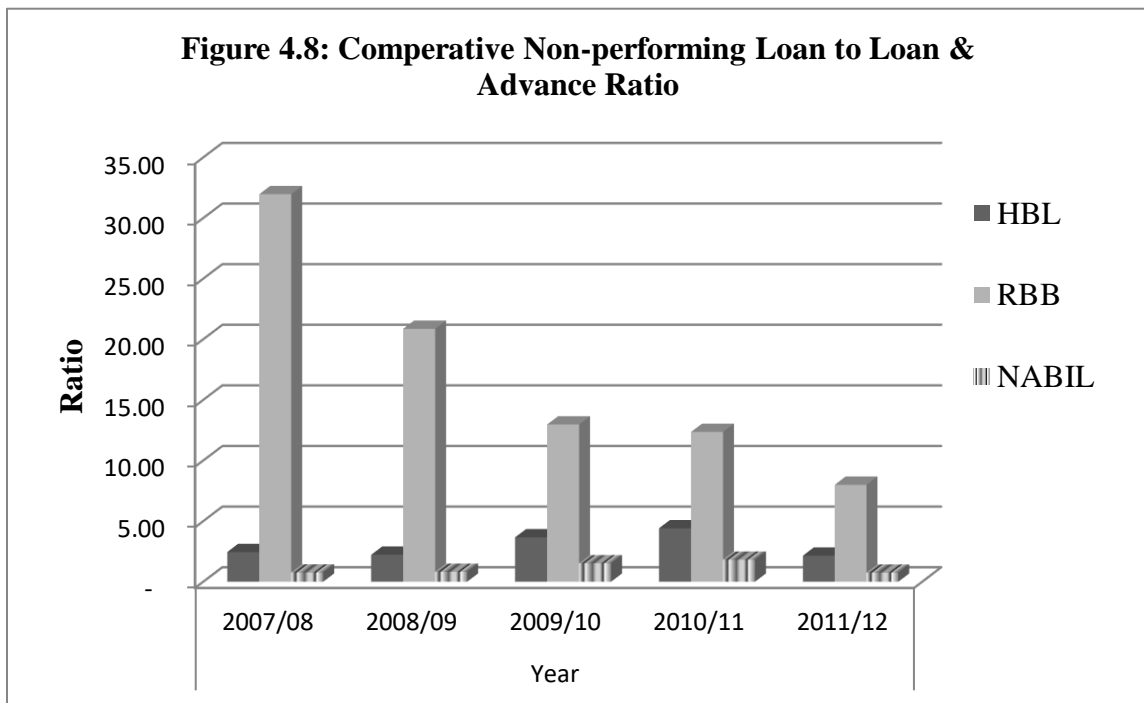
Table 4.8: Comparative non-performing loan to loan & advance ratio (%)

Bank	Year					Mean	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	2.45	2.22	3.66	4.41	2.15	2.97	1.01	33.86
RBB	31.97	20.86	12.97	12.36	7.99	17.23	9.45	54.87
NABIL		0.81	1.51	1.81				

	0.75				0.74	1.13	0.50	44.52
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(Source- Appendix 8)

In Table 4.8, the average ratio of nonperforming loan to loans and advances ratio of RBB is 17.23% which is highest then HBL and NABIL. This indicates that the credit efficiency of RBB is weak among sampled banks. RBB has highest none performing loan to loan and advances ratio in F/Y 2007/08 and NABIL has the lowest ratio in F/Y2011/12 i.e. 0.74%. In this context, RBB is more volatile and NABIL is less than other sampled banks having the S.D of 9.45 and 0.50 respectively.



In Figure 4.8, RBB seems to have higher ratios of nonperforming loan to total loans and advances. In F/Y 2007/08, the ratio of RBB has gone higher which indicates higher amount of unrecoverable credits and then after F/Y 2007/08 has been highly decreasing trend of nonperforming ratio. HBL seems to have nonperforming loan to total loans and advance ratio is slightly increasing trend but nothing as high ratio. NABIL seems to have lower nonperforming loan to total loan and advances then other sample bank and its ratio trend is slightly fluctuating.

4.1.3 Loan and Advances relating to Priority and Deprived Sector

4.1.3.1 Priority Sector Credit to Total Credit Ratio

Priority sector includes micro and small enterprises. Micro and small enterprises are classified as agriculture enterprises, cottage, small industries and services. This ratio is calculated by dividing priority sector credit by total credit.

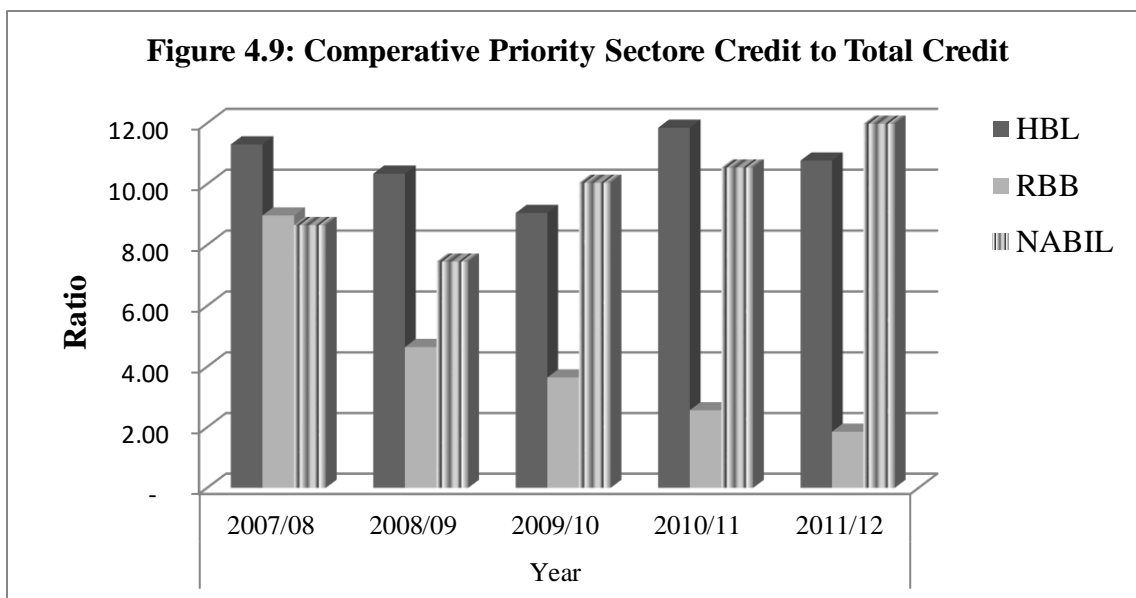
(Note: priority sector lending also includes deprived sector lending)

Table 4.9: Comparative Priority Sector Credit to Total Credit (%)

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	11.30	10.34	9.05	11.85	10.77	10.66	1.06	9.98
RBB	8.97	4.64	3.65	2.56	1.85	4.33	2.80	64.55
NABIL	8.65	7.45	10.04	10.54	11.98	9.73	1.74	17.93

(Source- Appendix 9)

In Table 4.8, the average priority sector lending of HBL figuring 10.66% of lending against total loans advances seems higher among all the sampled banks. NRB directives has stated this ratio should be 10% or above. HBL in F/Y 2009/10 and NABIL in F/Y 2007/08 and 2008/09 has also satisfactorily maintained their priority sector credit ratio though they have slightly decreased the amount of credit in this sector. RBB has all their five year F/Y could not be satisfactorily maintain NRB directive thus their priority ratio is decreasing trend on average of 4.33% with S.D and C.V of 2.80 and 64.55 respectively. NABIL seem to have slightly increasing trend their priority sector ratio on average of 9.73% with S.D and C.V of 1.73 and 17.93 respectively.



In Figure 4.9, above, HBL has high amount of lending in priority sector in F/Y 2007/08, F/Y 2008/09 and 2010/11. Such lending of RBB is highest in F/Y 2007/08 and that of NABIL is highest in F/Y 2011/12. The trend of NABIL is increasing from F/Y 2008/09 but RBB is continuing decreasing trend from F/Y 2007/08. HBL has fluctuating trend in lending to priority sector. Overall HBL and NABIL are following NRB guidelines under this heading but RBB aren't following NRB guidelines.

4.1.3.2 Deprived sector Credit to Total Credit Ratio

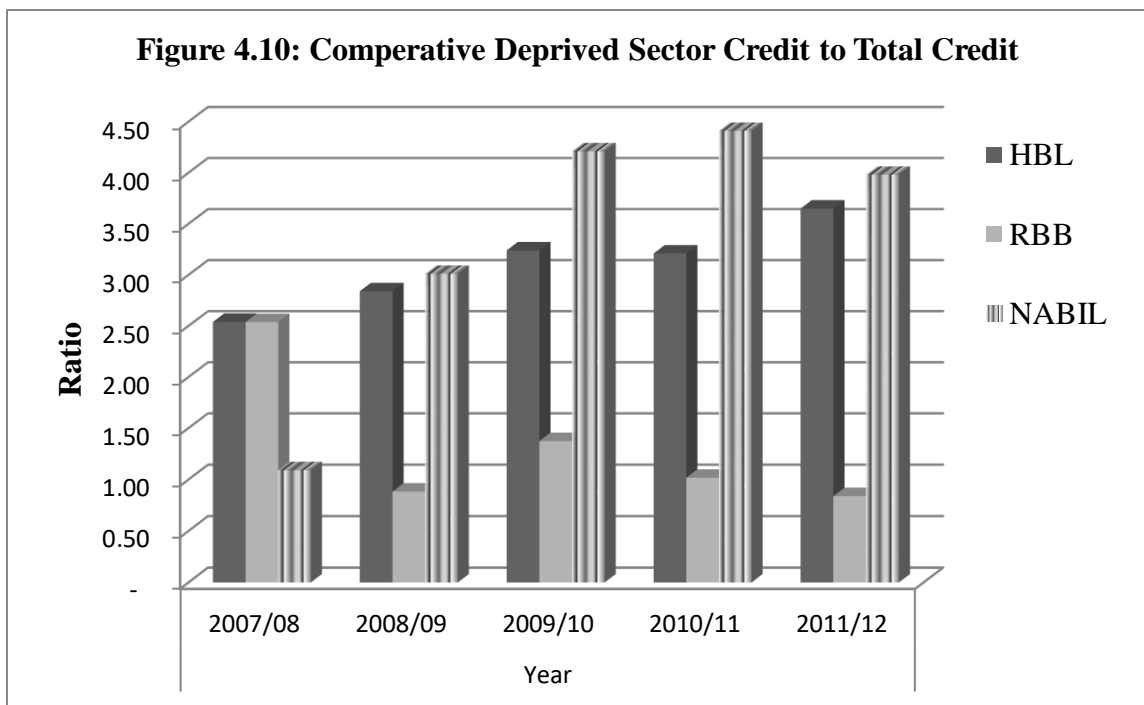
Deprived sector credit includes low income and particularly socially backward women, tribes, lower caste, blind, hearing impaired and physically challenged persons and squatter family. Deprived sector credit to total credit ratio can be calculated by dividing deprived sector credit by total credit.

Table 4.10: Comparative Deprived Sector Credit to Total Credit (%)

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	2.54	2.84	3.24	3.21	3.65	3.10	0.42	13.66
RBB	2.54	0.88	1.37	1.02	0.84	1.33	0.71	53.19
NABIL	1.09	3.01	4.21	4.41	3.98	3.34	1.37	40.95

(Source- Appendix 10)

Table 4.10, reflects the position of lending of sampled commercial banks in deprived sector. The average lending of NABIL bank is highest i.e. 3.34% and that of RBB is 1.33% which is lowest during the sampled five years. In 2011/12 the lending amount of two banks has crossed 3.5% which seems satisfactory but RBB has not found NRB directive of deprive sector. For the fiscal year 2011/12, NRB has stated the percentage of deprived sector lending to be 3.5% or more. Inpast years, the lending of around 0.25% to 2.5%. Was been stated by NRB directives in this sector. HBL is less volatile bank in this context having S.D of 0.42 and C.V of 13.66and RBB is more volatile bank with S.D and C.V of 0.7 and 53.19 Similarly NABIL is the most volatile bank with S.D and C.V of 1.37 and 40.95 respectively.



In Figure 4.10, the deprived sector lending of two sampled banking is almost in increasing trend but that of RBB is decreasing. NABIL has lent much in this sector among sampled banks since F/Y 2008/09. NABIL in F/Y 2009/10 and 2010/11 have substantial lending.HBL has lent of deprived sector is slightly increasing trend from F/Y 2007/08 to F/Y 2011/12. RBB has volatile decreasing trend on five year experiment life and it's notget on NRB directive of deprived sector.

4.1.4 Profitability Ratios

Profit is the outcome of monetary or non monetary efforts that the bank has made from the clients. Main source of bank income is credit and main sources of expenses are deposit. So, the proper trade off should be made between this two variables. Besides this two components, various services generates income to the bank, similarly staffs, advertisement etc impose the cost of the bank. So, study deals with the overall operating income, net income, interest expenses, interest income and spread analysis

4.1.4.1 Operating Profit to Loan and Advances Ratio

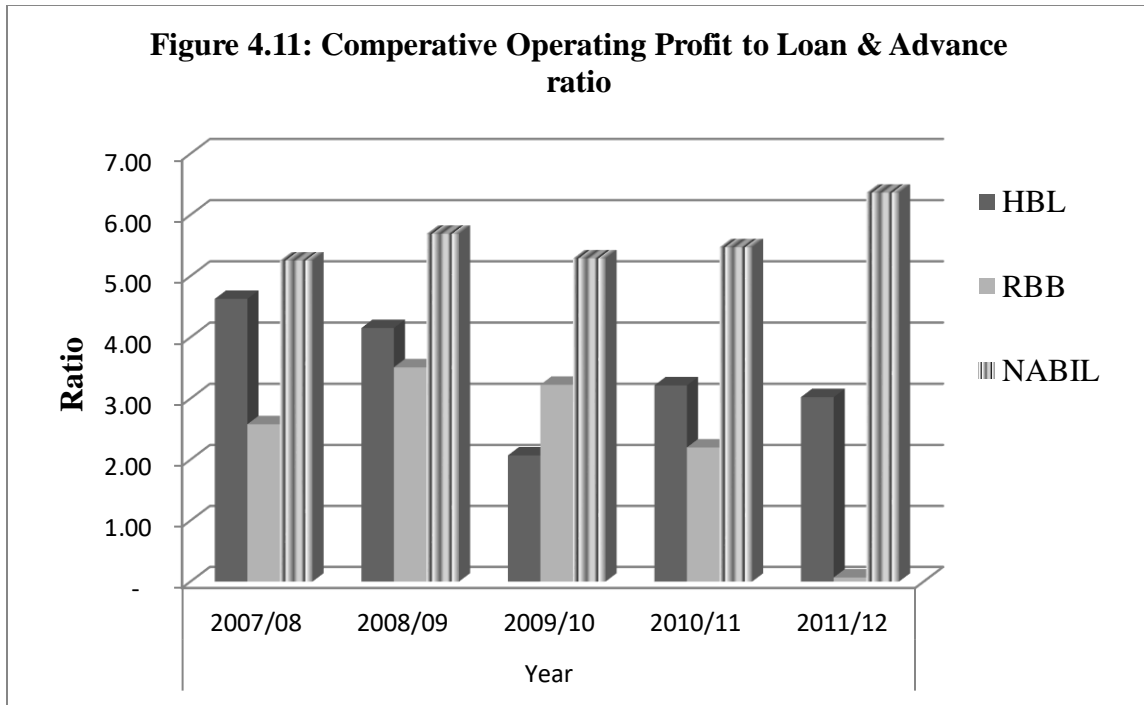
Operating profit to loan and advances ratio measures the earning capacity of commercial banks. This ratio is calculated dividing operating profit by loan and advances.

Table 4.11: Comparative operating profit to loan & advance ratio (%)

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	4.63	4.15	2.07	3.22	3.02	3.42	1.00	29.33
RBB	2.58	3.51	3.22	2.20	0.07	2.32	1.36	58.67
NABIL	5.25	5.69	5.29	5.47	6.36	5.61	0.45	8.07

(Source- Appendix 11)

In Table 4.11, there is highest average ratio of operating profit of NABIL resulting 5.61%. Similarly RBB has the lowest average among the sampled banks. In F/Y 2011/12, NABIL has registered the highest operating profit of 6.36% and in the fiscal year 2011/12 RBB has earned the lowest during the sampled period resulting the operating profit of 0.07%. HBL ratio is slightly decreasing trend, in F/Y 2009/10 has lowest operating ratio and 2007/08 has high with S.D and C.V of 1.00 and 29.33. Considering the risk factor or volatility of the earning of sampled banks, NABIL is less volatile whereas RBB is the most having S.D and C.V of 0.45 and 8.07(NABIL) and 1.36 and 58.59 (RBB) respectively.



The trend line in Figure 4.11 represents the operating profit pattern of the sampled banks. Here, we can see that the operating profit trend of NABIL is smoothly going upward with a slight decline in F/Y 2009/10. The ratio of HBL has seriously declined in F/Y 2009/10 and has tried to get recovered in later years. The operating profit of RBB was dissatisfactory going to be decreased. The overall performance of NABIL is good in recent years in comparison with other sampled banks.

4.1.4.2 Return on Loan and Advances ratio

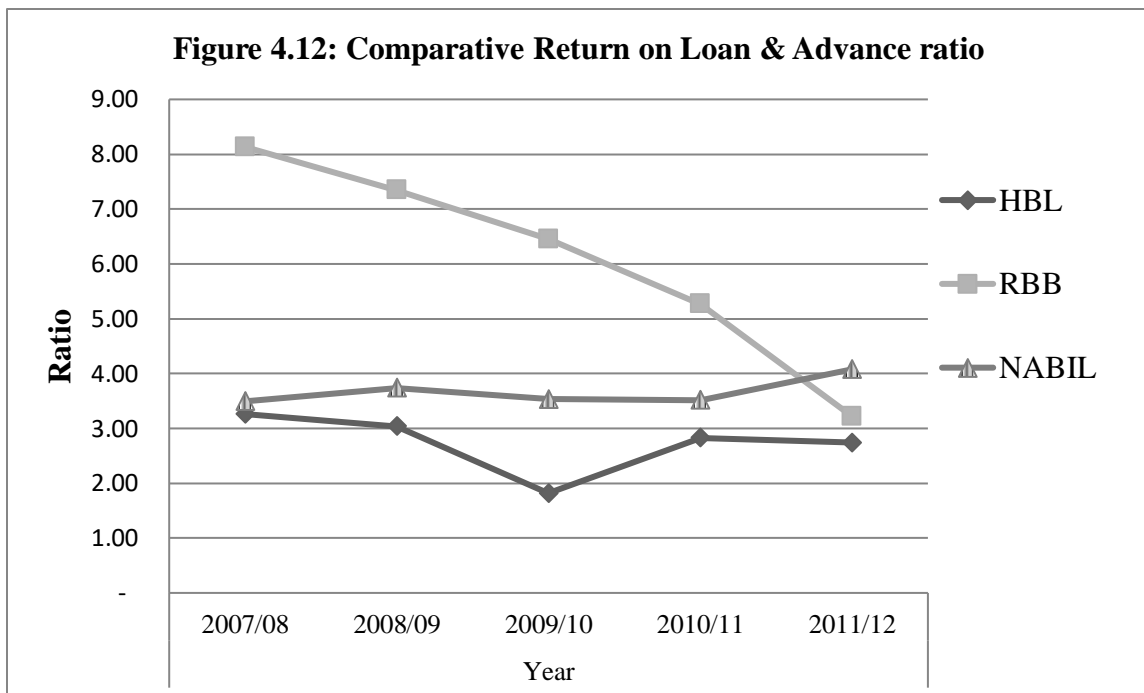
This ratio measures the earning capacity of commercial banks through its fund mobilization as loan and advances. Higher ratio indicates greater success to mobilize fund as loan and advances and vice-versa. Mostly loan and advances includes loan cash credit, overdraft, bill purchased and discounted.

Table 4.12: Comparative Return on loan & advance ratio (%)

Bank	Year					Mean%	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	3.26	3.04	1.82	2.83	2.74	2.74	0.55	20.15
RBB	8.13	7.35	6.45	5.27	3.22	6.08	1.92	31.60
NABIL	3.49	3.74	3.54	3.52	4.08	3.67	0.25	6.70

(Source- Appendix 12)

In Table 4.12, the earning capacity of RBB is stronger among sampled with an average earning of 6.08%. Similarly the earnings ratio of HBL and NABIL is 2.74% and 3.67% respectively. RBB in F/Y 2007/08 has registered the highest return of 8.13% and HBL in 2009/10 has the lowest ratio of net profit to total loans and advances. The earnings of NABIL are less volatile among sampled banks having S.D and C.V of 0.25 and 6.70 respectively. Similarly RBB has most volatile and fluctuating earnings having S.D and C.V of 1.92 and 31.60 respectively.



In Figure 4.12, NABIL is seen more successful in earning among the sampled banks. Here, we can see that the net profit trend of NABIL is smoothly going upward with a slight decline in F/Y 2009/10. The net profit ratio of HBL has seriously declined in F/Y 2009/10 and has tried to get recovered in later years. RBB has highest ratio in the beginning of the period but it decreased sharply and finally get lower than of NABIL. The overall performance of NABIL is good in recent years in comparison with other sampled banks in terms of net profit.

4.1.4.3 Interest Income to Total Loan and Advance ratio

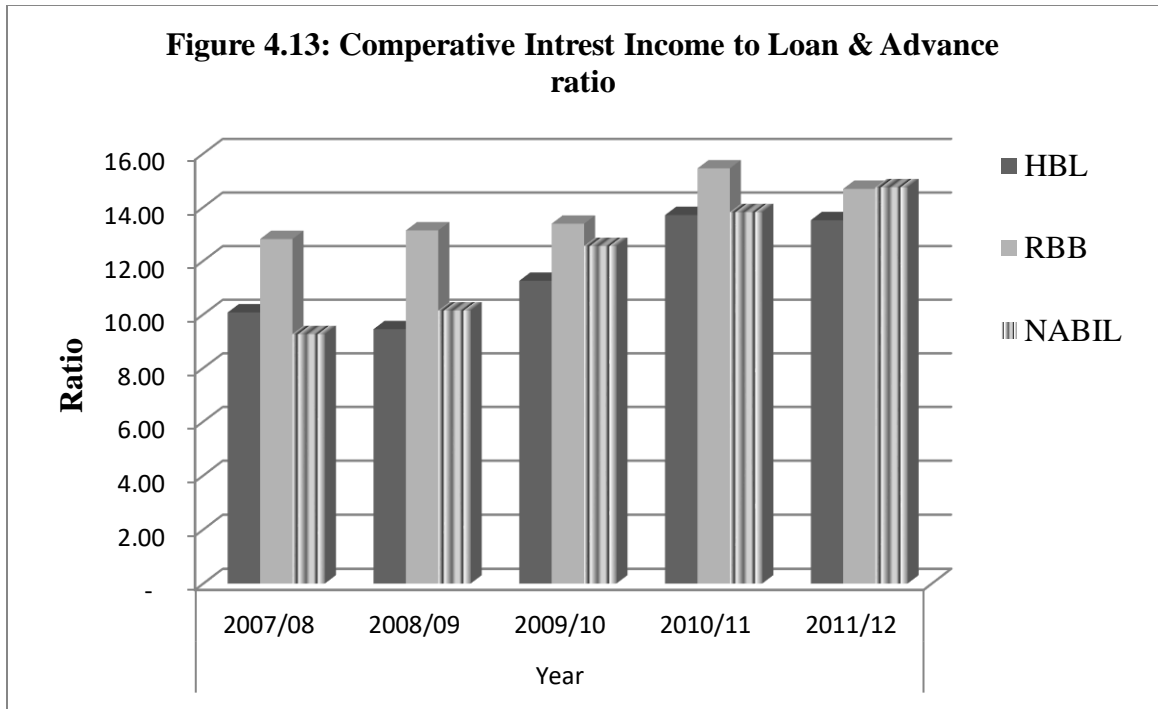
Interest income is the major source of bank revenue. Interest incomes are the functions of mobilized loan and advances which are mobilized under the different headings of credit. Higher interest income shows higher revenue for the bank.

Figure 4.13: Comparative Interest Income to Loan&Advance ratio(%)

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	10.07	9.45	11.25	13.70	13.51	11.60	1.95	16.80
RBB	12.81	13.13	13.38	15.45	14.68	13.89	1.12	8.09
NABIL	9.26	10.14	12.55	13.81	14.74	12.10	2.35	19.38

(Source- Appendix 13)

In Table no. 4.13, the mean ratio of interest income to loan and advances of RBB is highest among the sampled banks having the ratio of 13.89% and the HBL and NABIL is 11.60% and 12.10% respectively. RBB has earned the maximum amount of interest in F/Y 2010/11 i.e. 15.45% and NABIL has earned the lowest amount of interest among all sampled banks and sampled year i.e. 9.26 in F/Y 2007/08 and its ratio is slightly increase with S.D and C.V of 2.35 and 19.38, its greater than other sample bank. HBL seems to have less volatile in earning interest. Similarly, RBB is slightly increasing trend but last year slightly decrease on earning interest among sampled banks having S.D and C.V of 1.12 and 8.09 respectively.



In Figure 4.13, we can see all sample banks are successful in increasing their interest from loans and advances but RBB has slightly increasing trend their interest income to loan and advance but in F/Y 2011/12 has slightly decreased. NABIL has sharply increased its interest volume but after F/Y 2010/11 interest earning of HBL has slightly decreased. We can see the all the sample bank have gone through sound credit policy.

4.1.4.4 Interest expenses to Deposit ratio

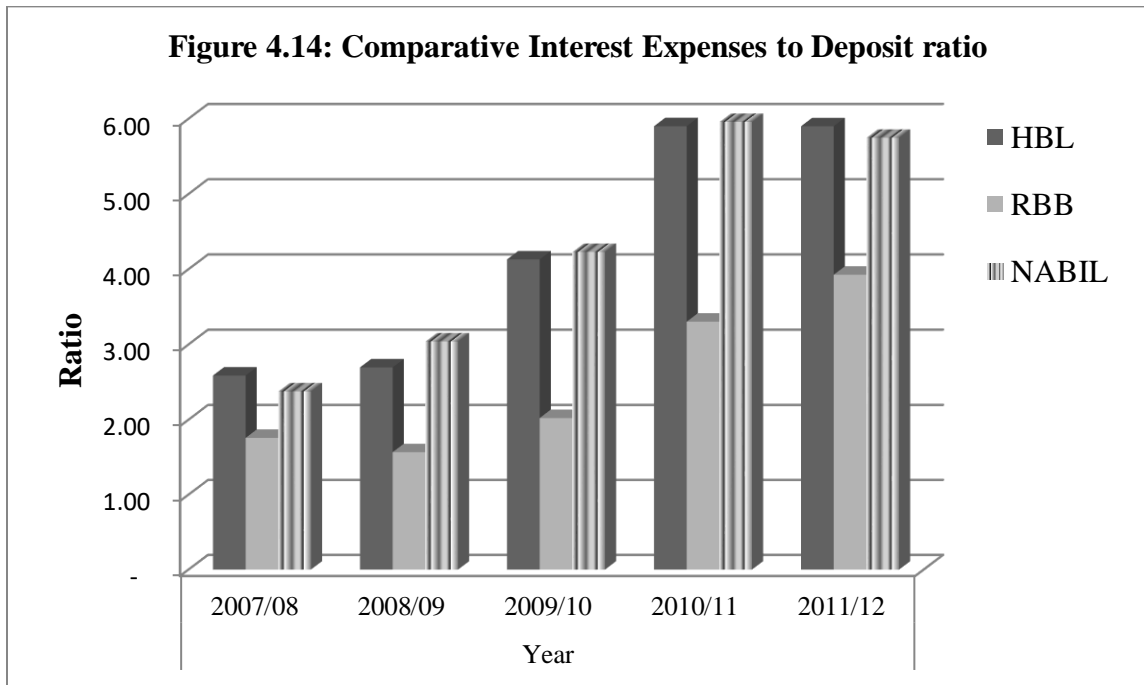
This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial bank is dependent upon its ability to generate cheaper fund. The cheaper fund has moved profitability of generating loans and advances and vice-versa.

Table 4.14: Comparative Interest Expenses to Deposit Ratio(%)

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	2.59	2.70	4.13	5.90	5.90	4.24	1.63	38.45
RBB	1.76	1.57	2.02	3.30	3.93	2.52	1.04	41.36
NABIL	2.38	3.04	4.23	5.96	5.75	4.27	1.59	37.27

(Source- Appendix 14)

In the above Table 4.14, NABIL has accepted most expensive deposits in an average cost of deposit equal to 4.27% during the sampled five years of period. Similarly, the mean interest expenses ratio of RBB and HBL is 2.52% and 4.24% respectively. NABIL has used the most expensive fund i.e. 5.96% in F/Y 2010/11 and similarly RBB was success in using cheaper fund i.e.1.57% in F/Y 2008/09. NABIL's cost of fund is less volatile of fluctuating having S.D and C.V of 1.59 and 37.27 and the cost of RBB is more volatile having S.D and C.V of 1.04 and 41.36



In the above Figure 4.14, the increasing cost of fund can be seen clearly up to F/Y 2010/11 from the beginning and has decreased of HBL and NABIL banks. We can see the sign of cost effectiveness of banks in F/Y 2011/12. From F/Y 2008/09, we can see the cost of fund has intensively increased up to F/Y 2010/11. HBL and NABIL banks are using almost equal cost fund since recent years but RBB is using cost of fund less than other bank since recent year.

4.1.4.5 Comparative Interest Spread Analysis.

This analysis means gap between interest income and interest expenses is known as spread hereunder. Generally, banks are trying to maintain high spread either collecting lower costing deposit or lending high interest earning credits. In aggregate widening spreads are the indicators of banks profitability and vice versa. Net spread of a particular

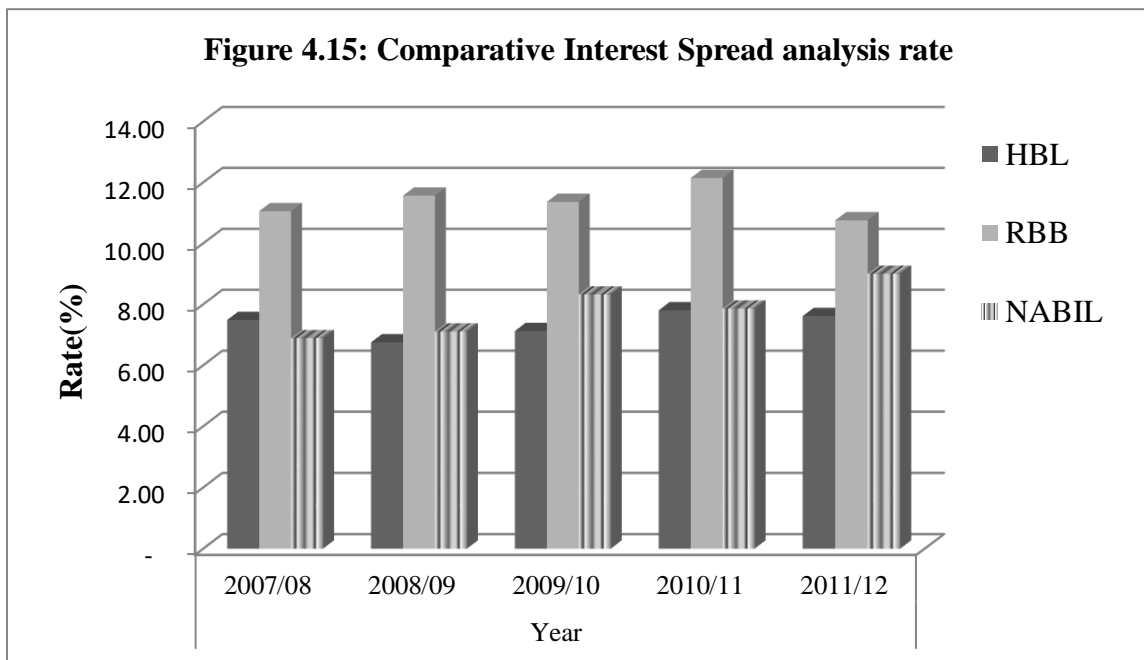
year may not provide proper information about the profitability because previous year credit mobilization also affects the profitability of the bank due to loan loss provisions, non performing loans etc. But after knowing the figure of particular year one can estimate, how bank is trying to maintain its spread higher.

Table 4.15: Comparative Interest Spread analysis rate (%)

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	7.48	6.75	7.12	7.80	7.61	7.35	0.42	5.70
RBB	11.05	11.57	11.36	12.14	10.76	11.38	0.53	4.64
NABIL	6.88	7.10	8.32	7.86	9.00	7.83	0.87	11.09

(Source- Appendix 15)

In Table 4.15, the average percentage of spread of RBB is highest i.e. 11.38%. Similarly that of HBL and NABIL is 7.35% and 7.83%. There is a highest spread of RBB i.e. 12.14% in F/Y 2010/11 and lowest spread of HBL i.e. 6.75%. Spread rate of NABIL seems to be more fluctuating with S.D and C.V of 0.87 and 11.09. Similarly RBB's spread rate is less volatile with S.D and C.V of 0.53 and 4.64 among all sampled banks.



In Figure 4.15, the overall increment trend in interest spread rate is seen in the sampled commercial banks except HBL. Spread rate of HBL has decreased sharply in F/Y

2008/09 and decreased slightly in 2011/12 comparing to last F/Y 2010/11, the increase rate of spread of NABIL it seen better than other banks. Similarly RBB is sharply decreased but HBL's spread percent is slightly going down. HBL was the highest spread earner in F/Y 2010/11 but in F/Y 2011/12, it is last among the sampled banks. RBB was volatile increasing up to F/Y 2010/11. So we can be said that RBB has progressed more in comparison to other banks in managing deposits and credits.

4.1.4.6 Interest Income to Total Income Ratio

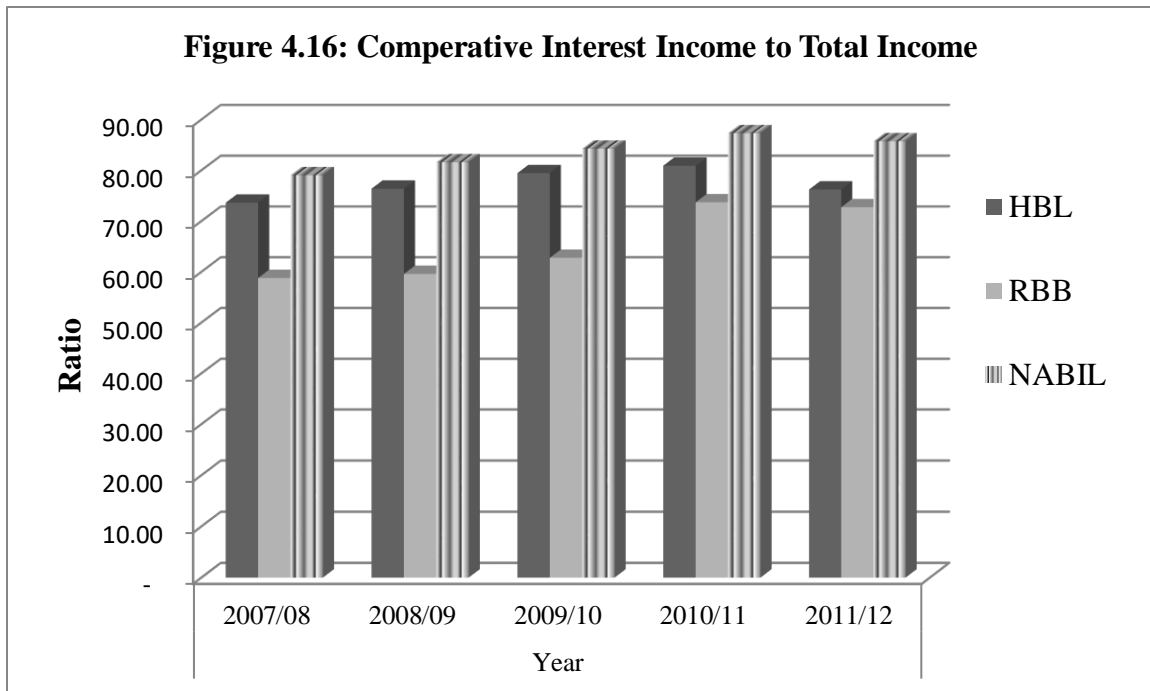
The ratio measures the volume of interest income to total income. The high ratio indicated the banks performance on other fee-based activities. The high ratio indicates the high contribution made by lending and investing activities.

Table 4.16: Comparative Interest Income to Total Income ratio (%)

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	73.61	76.38	79.44	80.90	76.23	77.31	2.88	3.72
RBB	58.78	59.58	62.76	73.70	72.73	65.51	7.20	10.99
NABIL	79.02	81.57	84.24	87.29	85.71	83.57	3.30	3.95

(Source- Appendix 16)

In table 4.16, the average percentage of interest income to total income of NABIL is highest among the sampled banks having the ratio of 83.57% and the HBL and RBB is 77.31% and 65.51% respectively. NABIL has earned the maximum amount of interest income in F/Y 2010/11 i.e. 87.29 and RBB has earned the lowest amount of interest income among all sampled banks and sampled year i.e. 58.78% in F/Y 2007/08 and its ratio is slightly increase but few decrease in last year with S.D and C.V of 7.20 and 10.99, its greater than other sample bank. HBL seems to have less volatile in interest income percentage compare with total income so their S.D and C.V of 2.88 and 3.72. NABIL is slightly increasing trend but last year decrease on interest income to total income with S.D and C.V of 3.30 and 3.95 respectively.



In the above Figure 4.16, the increasing interest income to total income seen clearly up to F/Y 2010/11 from the beginning and has decreased of all sample banks. We can see that the interest incomes trend of HBL and NABIL are slightly increasing trend up to F/Y 2010/11 but still decline in F/Y 2011/12. The ratio of RBB is slightly increasing trend up to F/Y 2010/11 from the beginning and last year the interest income to total income ratio are slightly decreasing trend. The overall performances of all sample banks are increasing trend so all sample banks are indicates the increasing trend of lending and investing activities.

4.1.5. Market Value Ratios

A set of ratios that related the firm's stock price to its earnings and book value per share, and thus give management an indication of what investors think of the company's past performance and future prospects.

4.1.5.1 Earnings per share

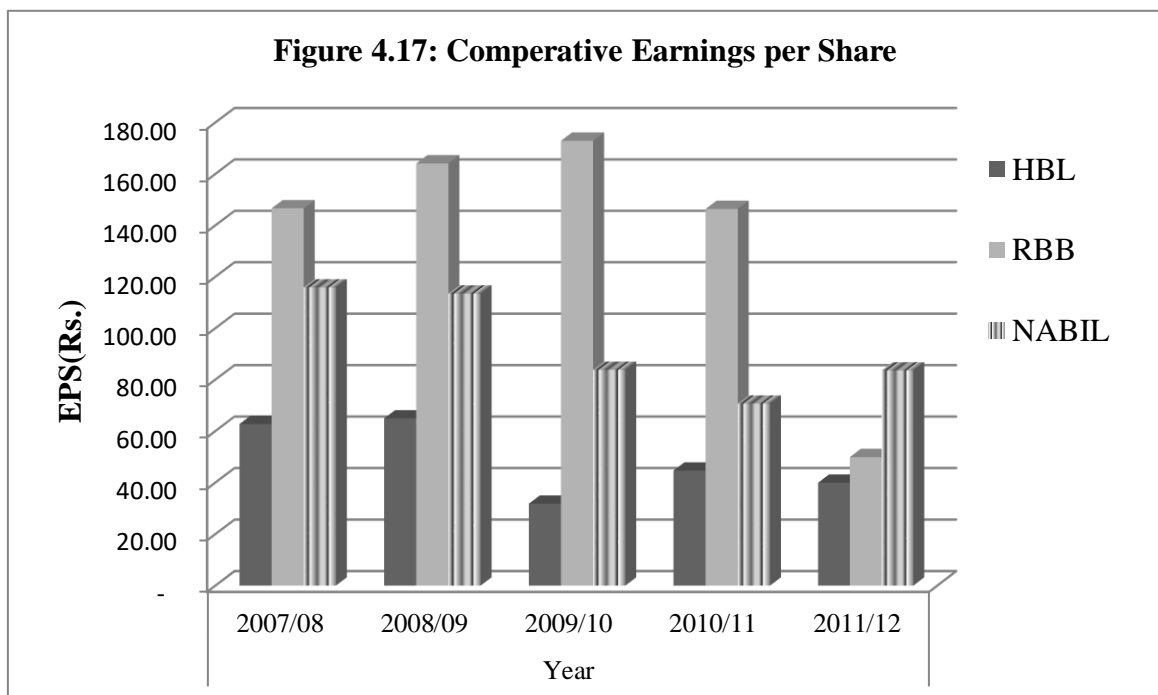
Earnings per share measure the profit available to the cash equity holders. It only measures the overall operational efficiency bank. It is the profit tax figure EPS tells us what profit the common share holder get for every share.

Table 4.17: Comparative Earnings per share(EPS) in Rs.

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	62.74	64.90	31.80	44.66	39.94	48.81	14.48	29.66
RBB	146.63	164.09	172.91	146.41	49.89	135.99	49.47	36.38
NABIL	115.86	113.44	83.81	70.65	83.57	93.47	20.08	21.48

(Source- Appendix 17)

In table 4.17: the average earning per share of RBB is greater than other sample bank having the earning per share is Rs. 135.99 and the HBL and NABIL is Rs. 48.81 and Rs. 93.47 respectively. RBB has earned the maximum amount of EPS in F/Y 2009/10 i.e. Rs.172.91 and HBL has earned the lowest amount of EPS in same fiscal year i.e. 31.80 and its amount of EPS is decreasing trend up to F/Y 2009/10 from beginning then after EPS is slightly volatile and EPS made of last year Rs. 39.94 with S.D and C.V of 14.48 and 29.66 respectively. RBB seems to be increased trend up to F/Y 2009/10 from beginning then slightly decreased in F/Y 2010/11 and sharply decline in F/Y 2011/12 i.e. 49.89 with S.D and C.V of 49.47 and 36.38, its greater than other sample bank. NABIL seems to be decreasing trend in F/Y 2008/09 then sharply decline in F/Y 2009/10 and slightly increasing up to F/Y 2011/12 with S.D and C.V of 20.08 and 21.48.



In figure 4.17, we can see the EPS of RBB is slightly increasing trend up to F/Y 2009/10 from beginning but other two sample bank are slightly decreasing trend. In last two F/Y the two sample bank are slightly increasing trend but that of RBB is sharply decreasing trend. The overall performances of all sample banks are not satisfactory trend so two sample banks are indicates the decreasing trend of EPS but RBB is increasing trend up to F/Y 2009/10 from beginning ant then after sharply decreasing trend but its utilization of their fund and management is greater than other sample bank.

4.1.5.2 Price Earnings Ratio

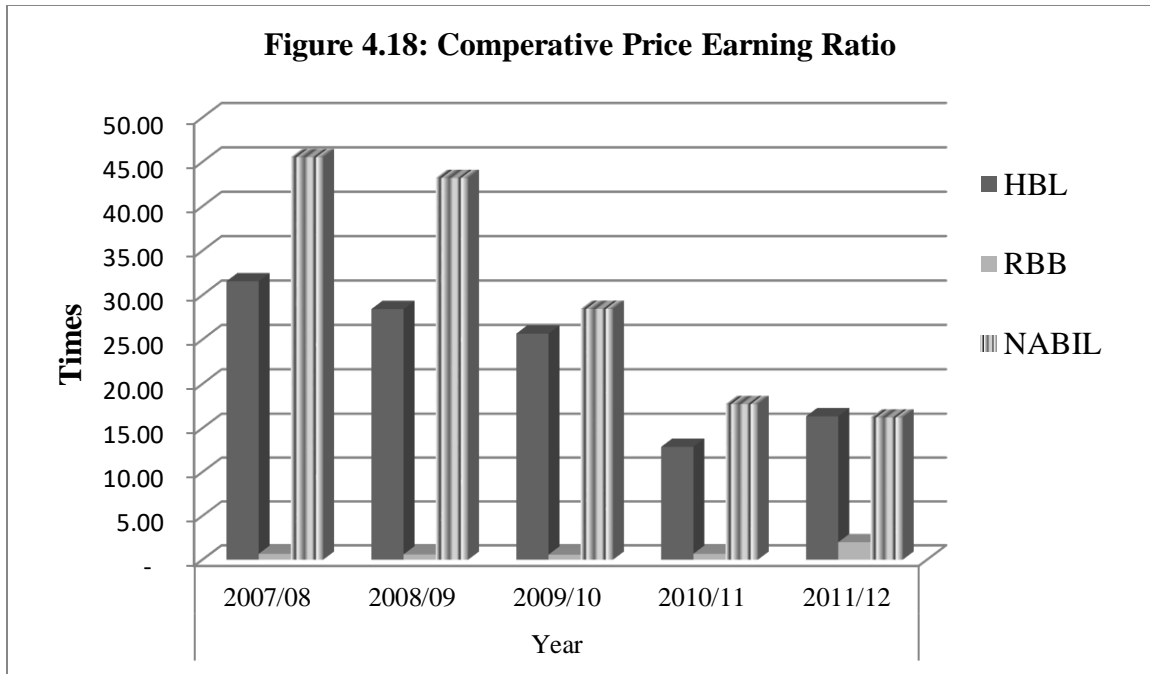
This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. Higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the management. The ratio is computed by.

Table 4.18: Comparative Price Earnings ratio (times)

Bank	Year					Mean (times)	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	31.56	28.43	25.66	12.88	16.35	22.98	8.01	34.85
RBB	0.68	0.61	0.58	0.68	2.00	0.91	0.61	67.13
NABIL	45.53	43.19	28.45	17.72	16.21	30.22	13.77	45.56

(Source- Appendix 17)

In Table 4.18, the average times of price earnings of NABIL are highest i.e. 30.22 times. Similarly that of HBL and RBB is 22.98 times and 0.91 times. There is a highest price earnings ratio of NABIL i.e. 45.53 times in F/Y 2007/08 and lowest price earnings ratio of RBB i.e. 0.58 times. Price earnings rate of NABIL seems to be more fluctuating with S.D and C.V of 13.77 and 45.56. Similarly RBB's price earnings ratio rate is less volatile with S.D and C.V of 0.53 and 4.64 among all sampled banks but RBB is fully government bank so its share not registers in NEPSE for the transaction thus its price always at par value i.e. Rs. 100.



In the above Figure 4.18, we see the price earnings ratio is decreasing trend up to F/Y 2011/12 from beginning of two sample banks but RBB has seems to be constant trend because of its MPS is equal to at par. We can see that the price earnings ratio of NABIL has greater than HBL and P/E ratio of both bank are slightly decreasing trend. The overall performances of two sample banks are decreasing trend so two sample banks are indicates the decreasing trend of Earning activities because of main reasons is increasing number of share.

4.1.5.3 Dividend per Share

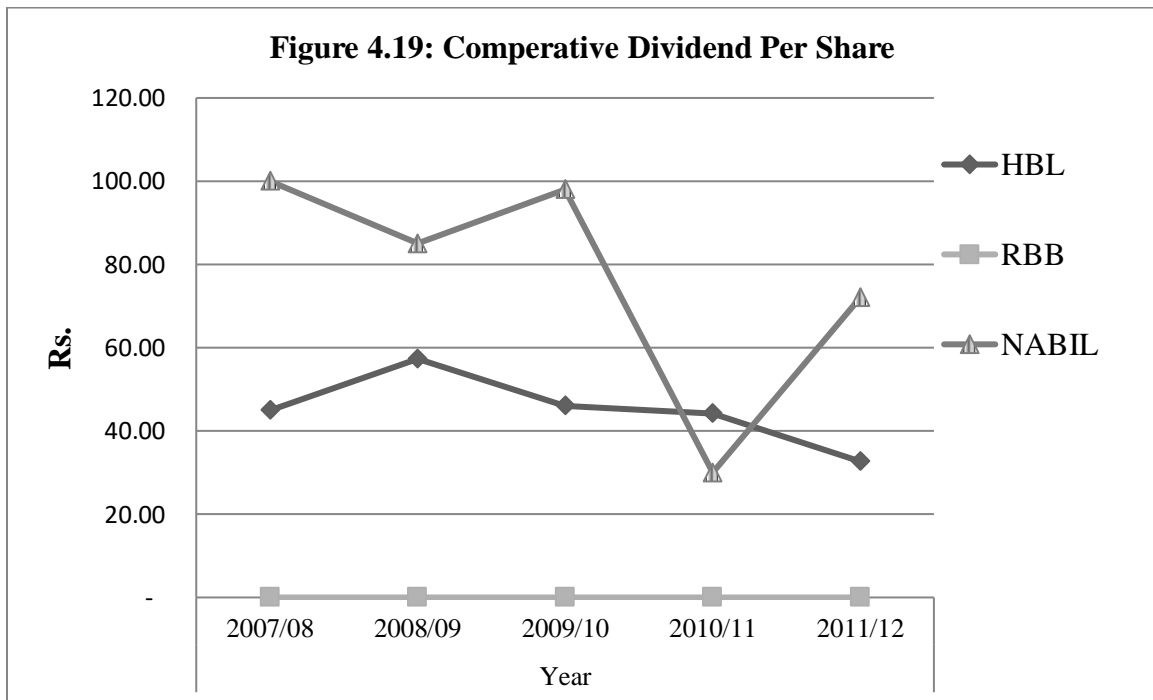
Investors are interested on the common stocks because of the dividend. Different companies have different dividend payout rate according to mainly their financial status. Dividend per Share includes dividend decision in earning per share. Although the behavior of companies towards dividend payment is disappointing in Nepal, the joint venture banks, other financial institutions, and some other companies have brought greater revolution in this trend.

Table 4.19: Comparative Dividend per share(Rs.)

Bank	Year					Mean Rs.	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	45.00	57.31	46.05	44.21	32.68	45.05	8.73	19.38
RBB	-	-	-	-	-	-	-	-
NABIL	100.00	85.00	98.00	30.00	72.00	77.00	28.58	37.12

(Source- Appendix 18)

In Table 4.19, the average amount of dividend per share of NABIL is highest i.e. Rs. 77. Similarly that of HBL is 45.05 but RBB has no any amount of dividend per share because of it's fully government bank. There is a highest dividend per share of NABIL i.e. Rs.100 in F/Y 2007/08 and lowest dividend per share is Rs.30 in F/Y 2010/11. Dividend per share of NABIL seems to be more fluctuating with S.D and C.V of 8.73 and 19.38. Similarly HBL dividend per share is increase in F/Y 2008/09 i.e. Rs. 57.31 then slightly decreasing trend with S.D and C.V of 8.73 and 19.38.



In the above Figure 4.19, we see the dividend is volatile trend up to F/Y 2011/12 from beginning of two sample banks but RBB is government bank so it has seems to be constant trend because of its dividend is equal to zero. We can see that the dividend per

share of NABIL has grater then HBL but in F/Y 2010/11 has less than HBL. NABIL is seems to be more fluctuating trend but HBL is slightly decreasing trend and dividend per share of both bank are decreasing trend because of main reasons is increasing number of share.

4.1.5.4 Dividend payout ratio

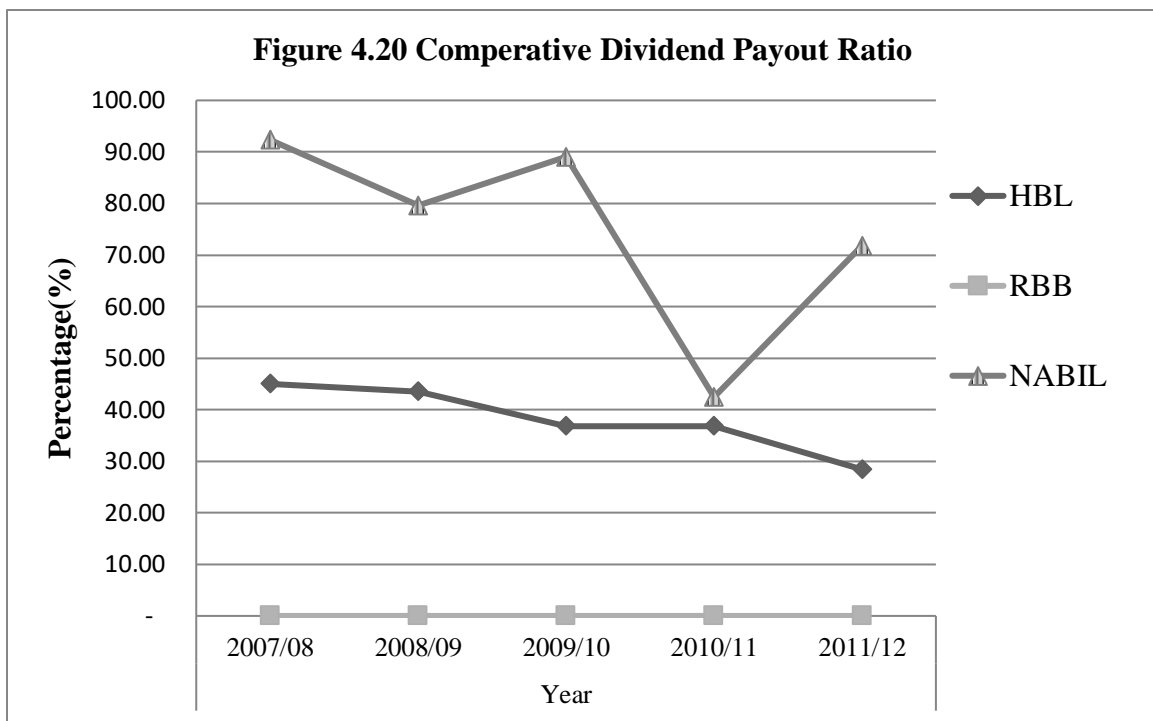
A ratio between dividends per share to earnings per share is known as dividend payout ratio.

Table 4.20: Comparative Dividend Payout Ratio (%)

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	45.00	43.56	36.84	36.84	28.42	38.13	6.60	17.31
RBB	-	-	-	-	-	-	-	-
NABIL	92.33	79.62	89.05	42.45	71.80	75.05	19.93	26.56

(Source- Appendix 18)

In the above table 4.20, the average percentage of dividend payout ratio of NABIL is highest i.e. 75.05%. Similarly that of HBL is 38.13% but RBB has 0% because of its earnings ratio is 100% thus its fully government bank. There is a highest dividend payout ratio of NABIL i.e. 92% in 2007/08 and lowest dividend payout ratio of HBL is 28.42% in F/Y 2011/12. Dividend payout ratio of NABIL seems to be more fluctuating with S.D and C.V of 19.93 and 26.56. Similarly HBL dividend payout ratio is slightly decreasing trend with S.D and C.V of 6.60 and 17.31.



In the above Figure 4.20, we see the dividend payout ratio is volatile trend up to F/Y 2011/12 from beginning of two sample banks but RBB is government bank so it has seems to be constant trend because of its dividend payout ratio is equal to zero. We can see that the dividend payout ratio of NABIL has greater than HBL. NABIL is seems to be more fluctuating trend but HBL is slightly decreasing trend and dividend payout ratio of both bank are decreasing trend.

4.1.5.5 Dividend Yield

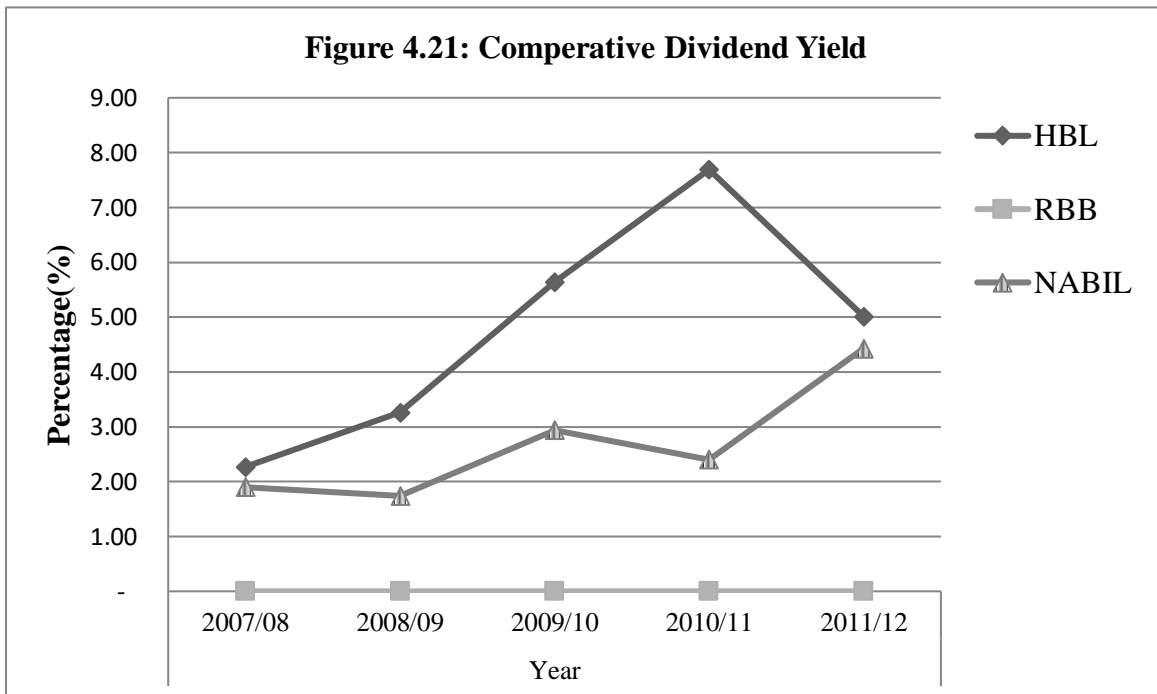
Dividend yield is the measure of rate of return in the form of dividends. It is relative term, which is calculated by dividing dividend per share by market price per share. Only higher dividends or lower dividends do not matter to investors. So it is essential to determine the rate of return on their investment.

Table 4.21 Comparative Dividend Yield

Bank	Year					Mean %	S.D	C.V
	2007/08	2008/09	2009/10	2010/11	2011/12			
HBL	2.27	3.26	5.64	7.69	5.01	4.77	2.11	44.28
RBB	-	-	-	-	-	-	-	-
NABIL	1.90	1.74	2.94	2.40	4.43	2.68	1.08	40.42

(Source- Appendix 18)

In the above table 4.21, the average percentage of dividend yield of HBL is highest i.e. 4.77%. Similarly that of NABIL is 2.68% but RBB has 0% because of its dividend is zero as well as MPS is fixed i.e. Rs. 100 thus it's fully government bank. There is a highest dividend yield of HBL i.e. 7.69% in 2010/11 and lowest dividend payout ratio of NABIL is 1.74% in F/Y 2008/09. Dividend yield of HBL seems to be sharply increasing trend and last year is slightly decrease to 5.01% with S.D and C.V of 2.11 and 44.28. Similarly NABIL dividend yield is slightly decrease in F/Y 2008/09 then seems to be slightly increasing trend to 4.43% trend with S.D and C.V of 6.60 and 17.31.



In the above Figure 4.21, we see the dividend payout ratio is sharply increasing trend up to F/Y 2011/12 from beginning of HBL banks and we see the dividend payout ratio is volatile trend up to F/Y 2011/12 but RBB is government bank so it has seems to be constant trend because of its dividend payout ratio is equal to zero. We can see that the dividend per share of HBL has greater than NABIL. NABIL is seems to be fluctuating increasing trend but HBL is sharply increasing but last year sharply decreasing trend.

4.2 Co-efficient of Correlation (r)

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree

of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When $r = +1$, it means there is perfect relationship between two variables and vice-versa. When $r = 0$, it means there is no relationship between two variables.

4.2.1 Correlation Coefficient between Net profit to Total Deposit of HBL, RBB and NABIL

Table 4.22: Calculation of r, P.Er and 6P.Er between Net Profit & Total Deposit

Banks	Evaluation criteria				Impact
	r	r ²	P.Er	6P.Er	
HBL	0.716703462	0.513663852	0.146701145	0.880206867	Insignificant
RBB	0.894086984	0.799391535	0.060512654	0.363075924	Significant
NABIL	0.959325129	0.920304704	0.024039733	0.144238398	Significant

(Source- Appendix 19)

Table 4.22 shows the correlation coefficient between net profit and total deposit of HBL, RBB and NABIL for F/Y 2007/08 to F/Y 2011/12.

From the table it is found that the correlation coefficient of net profit and total deposits of HBL is 0.716. This shows positive correlation between these two variables. The value of coefficient of determination ($r^2 = 0.513$) is lower than the value of 6P.Er (0.880) which says there is no significant differences between net profit and total deposits

In case of RBB the correlation coefficient of net profit and total deposits 0.8941. This shows positive correlation between these two variables. The value of coefficient of determination ($r^2 = 0.79939$...) is higher than the value of 6P.Er (0.36307) which says there is a significant difference between net profit and total deposits.

Similarly in case of NABIL, the correlation coefficient of net profit and total deposits is 0.9593 which shows highly positive correlation between these two variables. The value

of coefficient of determination ($r^2=0.920...$) is higher than the value of 6P.Er (0.144...) which says there is a significant difference between net profit and total deposits.

4.2.2 Correlation Coefficient between Total Deposits and Loans and Advances of HBL, RBB and NABIL

Table 4.23: Calculation of r, P.Er and 6P.Er between Total Deposits & Loan and Advances

Banks	Evaluation criteria				Impact
	r	r^2	P.Er	6P.Er	
HBL	0.964470346	0.930203048	0.021053941	0.126323648	Significant
RBB	0.924507544	0.854714199	0.043824818	0.262948908	Significant
NABIL	0.988023153	0.976189751	0.007182256	0.043093537	Significant

(Source- Appendix 20)

Table 4.23 states the coefficient of correlation between the value of total deposit and loan and advances of HBL, RBB and NABIL for the study period of 2007/08 to 2011/12.

From the table it is found that the correlation coefficient of total deposit and loans and advances of HBL is 0.964... This shows highly positive correlation between these two variables. The value of coefficient of determination ($r^2=0.930...$) is higher than the value of 6P.Er (0.126...) which says there is a significant difference between deposits and loan and advances.

In case of RBB, the correlation coefficient of total deposit and loans and advances is 0.92450... This shows highly positive correlation between these two variables. The value of coefficient of determination ($r^2=0.85471...$) is higher than the value of 6P.Er (0.8629489...) which says there is a significant difference between deposits and loan and advances.

Similarly in case of NABIL, the correlation coefficient of total deposit and loans and advances of HBL is 0.988... This shows highly positive correlation between these two

variables. The value of coefficient of determination ($r^2=0.9761\dots$) is higher than the value of 6P.Er (0.043...) which says there is a significant difference between deposits and loan and advances.

4.2.2 Correlation Coefficient between Non-Performing Loan and Loans and Advances of HBL, RBB and NABIL

4.24: Calculation of r, P.Er and 6P.Er between Non-performing Loan and Loan &Advances

Banks	Evaluation criteria				Impact
	r	r ²	P.Er	6P.Er	
HBL	0.59652135	0.355837721	0.194308697	1.165852182	Insignificant
RBB	-0.99721959	0.994446927	0.001675059	0.010050354	Significant
NABIL	0.607627268	0.369210897	0.190274738	1.141648428	Insignificant

(Source- Appendix 21)

Table 4.24 states the coefficient of correlation between the value of non-performing loan and loan & advances of HBL, RBB and NABIL for the study period of 2007/08 to 2011/12.

From the table it is found that the correlation coefficient of non-performing loan and loans & advances of HBL is 0.596521... This shows positive correlation between these two variables. The value of coefficient of determination ($r^2=0.355837\dots$) is lower than the value of 6P.Er (1.1658521...) which says there is a no significant difference between non-performing loan and loan & advances.

In case of RBB, the correlation coefficient of non-performing loan and loans & advances is -0.99721959. This shows highly negative correlation between these two variables. The value of coefficient of determination ($r^2=0.9944\dots$) is higher than the value of 6P.Er (0.01005...) which says there is a significant difference between non-performing loan and loan & advances.

Similarly in case of NABIL, the correlation coefficient of non-performing loan and loans & advances of HBL is 0.607627... This shows positive correlation between these two variables. The value of coefficient of determination ($r^2=0.36921...$) is lower than the value of 6P.Er (1.141648...) which says there is a no significant difference between non-performing loan and loan & advances.

4.3 Major Findings

Credit/ Loan related ratios

- Comparatively HBL is aggressively deploying credit, trend of credit mobilization of NABIL is moderate and RBB seems very defensive for credit mobilization.
- Comparatively NABIL is mobilizing higher investment to total deposit, HBL is moderate condition and RBB is in lower level. However, during the period of 2007 investment of HBL has exceeded than that of NABIL.
- Deposit mobilization on credit of NABIL is in higher side, HBL is slightly lower in mobilizing its deposit on credit then NABIL and in the same way RBB is mobilizing its credit slightly lower than that of HBL.
- Ratio of investment to total loan and advance and investments is in higher side for RBB than other. Similarly NABIL has moderate ratio and HBL has lower ratio.
- Comparatively liquid fund hold to loan & advance ratio of RBB is aggressively developing, trend of liquid fund of NABIL is moderate and HBL seems to be defensive for liquid fund holding.
- Ratio of loan and advances to fixed deposit ratio of higher side for RBB then other. Similarly HBL has moderate ratio and NABIL has lower ratio.

Credit efficiency ratio

- RBB has higher loan loss provision, HBL has second higher and NABIL is in third position which indicates that it is able to manage its credit more effectively and efficiently than other sampled banks.
- Sampled banks are trying to lower the Nonperforming loan than past however ratio of RBB is higher than other which seems that HBL is inefficient in lowering nonperforming loan or improving credit efficiency. NABIL has improved most among these banks.

Loan and Advance Portfolio

- Comparatively HBL is mobilizing higher fund to the priority sector, NABIL is moderately mobilizing priority sector credit and in the case of RBB it can be said that credit to priority sector is lower than other sampled banks.
- Comparatively NABIL is mobilizing higher fund to the deprived sector, HBL is moderately mobilizing deprived sector credit and in the case of RBB it can be said that credit to deprived sector is lower than other sampled banks

Profitability Ratio

- Operating Profit to loan and advance of NABIL is slightly increasing trend. HBL is decreasing volatile trend however RBB is in a beginning of the year increasing trend and their after it is high decreasing trend.
- The net profit ratio of HBL has seriously declined in F/Y 2009/10 and has tried to get recovered in later years. RBB has highest ratio in the beggining of the period but it decreased sharply and finally get lower then of NABIL. The overall performance of NABIL is good in recent years in comparison with other sampled banks in terms of net profit.
- Interest income to total loan & advance of all bank are satisfactory increasing trend although the average interest income of RBB is greater than other sample bank and HBL is less than other sample bank.
- HBL and NABIL banks are using almost equal cost fund since recent years but RBB is using cost of fund less than other bank since recent year. Interest expenses to deposit ratio of all bank are equal increasing trend.
- The spread of RBB is found higher than other two sampled banks. RBB is following a slightly increasing trend but last year is highly decrease and similarly NABIL is also following satisfactory increasing trend but HBL is in slightly decreasing trend with lower average interest spread on other sample bank.
- Interest income to total income ratio's overall performances of all sample banks are increasing trend so all sample banks are indicates the increasing trend of lending and investing activities.

Market Value Ratios

- The overall performances of EPS all sample banks are not satisfactory trend so two sample banks are indicates the decreasing trend of EPS but RBB is increasing trend up to F/Y 2009/10 from beginning ant then after sharply decreasing trend but its utilization of their fund and management is greater than other sample bank.
- RBB is fully government bank so its share not registers in NEPSE for the transaction thus its price always at par value i.e. Rs. 100. P/E ratio of two sample banks are decreasing trend so two sample banks are indicates the decreasing trend of Earning activities because of main reasons is increasing number of share.
- RBB is government bank so it has seems to be constant trend because of its dividend is equal to zero. NABIL is seems to be more fluctuating trend but HBL is slightly decreasing trend and dividend per share of both bank are decreasing trend because of main reasons is increasing number of share.
- RBB's dividend payout ratio is equal to zero. We can see that the dividend payout ratio of NABIL has grater then HBL. NABIL is seems to be more fluctuating trend but HBL is slightly decreasing trend and dividend payout ratio of both bank are decreasing trend.

Correlation Analysis

- There is highly positive correlation between the net profit and total deposit of HBL and also there is no significant difference between these two variables.
- There is highly positive correlation between the net profit and total deposit of EBL and also there is a significant difference between these two variables.
- There is highly positive correlation between the net profit and total deposit of NABIL and also there exists significant differences between these two variables.
- There is highly positive correlation between total deposit and total loan and advances of HBL and also there is a significant difference between these two variables.
- There is highly positive correlation between total deposit and total loan and advances of EBL and also there exists significant differences between these two variables.
- There is highly positive correlation between total deposit and total loan and advances of NABIL and also there is a significant difference between these two variables.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

This is the last chapter of the study which includes summary, conclusion and Recommendation. In this study, analysis of various aspect of the credit management of the commercial banks is done by using some important financial tools and statistical tools. The task of researcher is to summarize the study after completing basic analysis and recommend for further importance. It would be meaningful to the concerned banks to initiate the action and achieve the desired results.

5.1 Summary

Being the first chapter, as an introduction, this study basically provides the brief background of the bank regarding its establishment, its capital composition and its vision. As there are many commercial banks only three commercial banks-, HBL, RBB and NABIL are taken for sample study. This study gives brief view of credit aspect and tried to analyze the study of priority and deprived sector loans, evaluation of nonperforming loans, issues of profitability, liquidity position which is set as an objective of the study.

Chapter second deals with the overall review of credit related issues of other relevant studies in related areas so that all part of studies can be conducted. This study deals with major review of literature related to credit management in more descriptive and detailed manner. It consists of review from other articles, books, journals, research studies and conceptual review of overall banking sector and its growth in Nepal, legal frame work, guidelines and directives of Nepal Rastra Bank etc.

Chapter third consists of research methodology designed to solve the research problems. In this study among many tools of analysis, financial tools and statistical tools are used to draw out conclusion. All the data are taken from the secondary sources-Annual reports of banks, telephone conversation with bankers, etc so accuracy of data depends upon the publisher. Only five years data are taken so the results may not be fully applicable.

Fourth Chapter shows the presentation, analysis and interpretation of relevant sampled data of selected commercial bank. Various types of ratio and statistical tools are calculated and presented in proper diagram to show the real picture of the banks.

Chapter five presents the Summary, Conclusion and Recommendations of above studies.

5.2 Conclusion

Comparatively HBL is aggressively deploying credit, trend of credit mobilization of NABIL is moderate and RBB seems very defensive for credit mobilization. Comparatively NABIL is mobilizing higher investment to total deposit, HBL is moderate condition and RBB is in lower level. However, during the period of 2007 investment of HBL has exceeded than that of NABIL. Deposit mobilization on credit of NABIL is in higher side, HBL is slightly lower in mobilizing its deposit on credit than NABIL and in the same way RBB is mobilizing its credit slightly lower than that of HBL. Ratio of investment to total loan and advance and investments is in higher side for RBB than other. Similarly NABIL has moderate ratio and HBL has lower ratio. Comparatively liquid fund hold to loan & advance ratio of RBB is aggressively developing, trend of liquid fund of NABIL is moderate and HBL seems to be defensive for liquid fund holding. Ratio of loan and advances to fixed deposit ratio of higher side for RBB then other. Similarly HBL has moderate ratio and NABIL has lower ratio. RBB has higher loan loss provision, HBL has second higher and NABIL is in third position which indicates that it is able to manage its credit more effectively and efficiently than other sampled banks. Sampled banks are trying to lower the Nonperforming loan than past however ratio of RBB is higher than other which seems that HBL is inefficient in lowering nonperforming loan or improving credit efficiency. NABIL has improved most among these banks. Comparatively HBL is mobilizing higher fund to the priority sector, NABIL is moderately mobilizing priority sector credit and in the case of RBB it can be said that credit to priority sector is lower than other sampled banks. Comparatively NABIL is mobilizing higher fund to the deprived sector, HBL is moderately mobilizing deprived sector credit and in the case of RBB it can be said that credit to deprived sector is lower than other sampled banks.

Operating Profit to loan and advance of NABIL is slightly increasing trend. HBL is decreasing volatile trend however RBB is in a beginning of the year increasing trend and their after it is high decreasing trend. The net profit ratio of HBL has seriously declined in F/Y 2009/10 and has tried to get recovered in later years. RBB has highest ratio in the begging of the period but it decreased sharply and finally get lower then of NABIL. The overall performance of NABIL is good in recent years in comparison with other sampled banks in terms of net profit. Interest income to total loan & advance of all bank are satisfactory increasing trend although the average interest income of RBB is greater than other sample bank and HBL is less than other sample bank. HBL and NABIL banks are using almost equal cost fund since recent years but RBB is using cost of fund less than other bank since recent year. Interest expenses to deposit ratio of all bank are equal increasing trend. The spread of RBB is found higher than other two sampled banks. RBB is following a slightly increasing trend but last year is highly decrease and similarly NABIL is also following satisfactory increasing trend but HBL is in slightly decreasing trend with lower average interest spread on other sample bank. Interest income to total income ratio's overall performances of all sample banks are increasing trend so all sample banks are indicates the increasing trend of lending and investing activities. The overall performances of EPS all sample banks are not satisfactory trend so two sample banks are indicates the decreasing trend of EPS but RBB is increasing trend up to F/Y 2009/10 from beginning ant then after sharply decreasing trend but its utilization of their fund and management is greater than other sample bank. RBB is fully government bank so its share not registers in NEPSE for the transaction thus its price always at par value i.e. Rs. 100. P/E ratio of two sample banks are decreasing trend so two sample banks are indicates the decreasing trend of Earning activities because of main reasons is increasing number of share. RBB is government bank so it has seems to be constant trend because of its dividend is equal to zero. NABIL is seems to be more fluctuating trend but HBL is slightly decreasing trend and dividend per share of both bank are decreasing trend because of main reasons is increasing number of share. RBB's dividend payout ratio is equal to zero. We can see that the dividend payout ratio of NABIL has grater then HBL. NABIL is seems to be more fluctuating trend but HBL is slightly decreasing trend and dividend payout ratio of both bank are decreasing trend.

There is highly positive correlation between the net profit and total deposit of HBL and also there is no significant difference between these two variables. There is highly positive correlation between the net profit and total deposit of EBL and also there is a significant difference between these two variables. There is highly positive correlation between the net profit and total deposit of NABIL and also there exists significant differences between these two variables. There is highly positive correlation between total deposit and total loan and advances of HBL and also there is a significant difference between these two variables. There is highly positive correlation between total deposit and total loan and advances of EBL and also there exists significant differences between these two variables. There is highly positive correlation between total deposit and total loan and advances of NABIL and also there is a significant difference between these two variables.

5.3 Recommendations

- RBB seems very defensive in mobilization of credit which may lower its earning, to compare HBL and NABIL. So, RBB is recommended to mobilize credit properly by forwarding efficient credit policies.
- RBB seems weak in mobilizing its deposits so it should create efficient portfolio for further investment in profitable sectors.
- The loan loss provision of RBB is higher than HBL and NABIL, so it should follow the credit guidelines properly and regulate it.
- However all these sampled banks are in the trend of lowering nonperforming assets, RBB should improve credit efficiency more rapidly.
- Priority sector lending of RBB is lower than other sample bank, so it is recommended to increase lending to such sector to earn goodwill and remain within the NRB regulations.
- Deprived sector lending of RBB is comparatively low, so it is recommended to increase such lending to earn goodwill as well as recommended to HBL and NABIL for improve deprived sector lending within the NRB regulations.
- RBB is losing its profit trend since F/Y 2010/11, so it is recommended for RBB to increase overall banking efficiency to increase profitability for sustainability as

well as also recommended for HBL and NABIL to slightly increase profitability for sustainability.

- Interest expenses ratio of all banks are increasing trend but HBL is more than other two banks, so it is recommended HBL to reduce the cost of fund to increase profitability by efficient adopting financing decision.
- The spread ratio of HBL is weak which is adversely affecting its growth, so it is recommended for HBL to take necessary corrective action to enhance its growth.