CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Integrated and steady development of the country is possible only when competitive banking service reaches nooks and corners of the country. Commercial banks occupies quite an important place in the framework of every economy because it provides capital for the development of the industry, trade and business investing the saving collected as deposits. Besides these, commercial bank renders a numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world.

In many developing countries like Nepal, there are great challenges to the nation to eliminate the mass poverty of the country through gradual development of those areas and to provide basic needs to the people who are really very poor. Keeping in view these challenges in front of the country, several important programs have been launched but no vital achievement had got in the past. The growth of nation is only possible when saving and investment propensities are done. In Nepal, the real income is very low that's why the rate of saving is also low so the basic problem is raising the level of saving and investment. These problems can be solved only when the country can grasp the path of developing commercial banks1999.

Commercial banks are the heart of financial sector, which occupy important place in the framework of the economy. They hold deposits of people, government and other business units. They make funds available through their lending and investing activities to borrower's individuals, government and business units. By doing so, commercial banks provide capital for the development of the industry, business and services. Commercial banks make sound investment in various sectors of the economy, which boost quality and quantity of investment as well as achieve its own objective of profit maximization. Thus, well formulated and sound investment policies coordinated and planned efforts accelerate the pace of economic growth.

Credit affected the overall development of the country. The volume of credit is directly related with the place of development of country, itself. Lending is most fundamental function of bank. The quality of loan, quality of borrower and quality of securities determines the health of any banker. The efficiency of banker lies in how it multiplies the deposit of depositors' safety of funds, liquidity of funds, purpose security of loan, profitability, spread of loan portfolio and compliance with national interest are some of the principles that the banker should follow while granting loan. Expansion of bank credit is followed by increase in production, employment, sales and prices. In a developing economy, the banks offer more and more credit and increase the resources of the industries, thereby causing faster economic development; banks play a decisive role in the industrial development of the country. The flow of credit is very much like smooth and uniform throughout the organs of body credit should flow steadily and evenly through various sectors of the economy.

Nepalese money market and lending procedure is very much affected by its mass poverty, landlocked position, low social development, political instability and frequent changing policies of the government. Besides these international market plays a vital role while conduct a business in these days so banks and other organizations not only concentrate on their country but the outside world also.

Credit Management

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

Credit management strongly recommends analyzing and managing the credit risks credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and interbank explores. The goat of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loan are the largest and most obvious sources of credit risk, however, other sources of credit risk exist throughout the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than loan, including acceptances, inter bank transactions and guarantees and the settlement of transaction.

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

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

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

Book of Banking Management says that the banking sector or transaction, an unavoidableness of credit management and its methodology is regarded very important.

Under this management, many subject matters are considered and though. For example, there are subject matters like the policy of loan flow, the document of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, and the provision of security the provision of the payment of capital and its interest and other such procedures. This management plays a crucial role in healthy competitive activities. (Bhattarai 2003:170)

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

1.1.2 Banking System in Nepal

Established of Tejaratha Adda by the then Prime Minister Ranndip Singh (B.S. 1933) was the first step towards the institutional development of banking in Nepal .Tejaratha Adda did not collect deposits from the public but gave loans to employees & general public against the bullion.

The banking history of Nepal is not more than seven decade. Nepal bank Ltd. is the first of the country established in 1994 B.S. Till the establishment of Nepal Rastra Bank, Nepal Bank ltd. was also discharging the function of central bank. As a result, Nepal Rastra bank was established in 2014 B.S. The objective of the bank as to promote, develop & facilitate to banking sectors.

As the government provided favorable industrial policy, foreign investors were also attracted. As results some joint venture's banks were established after 2040 B.S. Among them Nepal Arab bank in the first joint venture's bank of Nepal. Then after so many JVB's are established in Nepal (as N.S. B.I., N.B.nepal H.B.etc.), Bank is business organization that receives & holds despite & funds from others makes loans & extends credits & transfer funds by written. Having observed the success of Nepal based on marketing concepts and also because of liberal economic policy adopted by the successive government. There are 32 licensed commercial Banks in Nepal. These commercial banks have given a new horizon to the financial sector of the country regarding healthy competition, foreign capital investment, technological transfer and experience and skills. The name of 32 Licensed Commercial Banks are as follows: Use the latest data.

Table 1.1

S.N.	**Names of the Banks**	**Operation Date (A.D)**	**Head Office**	**Paid up capital (Rs in Millions)**
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.3
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	9437.5
4	Nabil Bank Limited	1984/07/16	Kathmandu	2029.8
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2049.1
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	1398.5
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.0
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	1653.6
9	Nepal Bangladesh Bank Limited	1994/06/05	Kathmandu	1860.3
10	Everest Bank Limited	1994/10/18	Kathmandu	1079.6
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	1359.5
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupandehi	1399.6
13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan	1294.5
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar,Morang	1311.5
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1627.2
16	Kumari Bank Limited	2001/04/03	Kathmandu	1306.0
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1613.5

18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1516.0
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1473.4
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	1207.0
21	Prime Commercial Bank Ltd	2007/09/24	Kathmandu	1210.0
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1625.0
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1500.0
24	Grand Bank Nepal Ltd.	2008/05/25	Kamaladi, Kathmandu	1920.9
25	NMB Bank Ltd.	2008/06/05	Babarmahal ,Kathmandu	1651.6
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	2000.0
27	Janata Bank Nepal Ltd.	2010/04/05	NewBaneshwor, Kathmandu	1400.0
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	1631.0
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	1400.0
30	Civil Bank Ltd.	2010	Gairedhara,Kathmandu	1200.0
31	Century Bank Ltd.	2011/01/23	Putalisadak, Kathmandu	1080.0
32	Sanima Bank Ltd.	2011	Naxal, Kathmandu	2016.0

Source: Nepal Rastra bank Website (www.nrb.org.np)

With the growth rate of banking industry from the 1984 A.D., the risk on banking has also made a mark simultaneously. Virtually all banks have suffered from the credit risk, which is associated with the non-payment of loan by the borrowers. Nepal Bank Limited and Rastriya Banijya Bank are the greatest victims of such risk, leading these banks to have negative net worth. That is why this study is mainly focused on the credit risk faced by the commercial banks.

Commercial banks collect deposits from individuals and invest them in part as loan and advance to the borrowers and receive interest as the output of the business. Commercial banks’ profit and operating cost are borne by these interest collected from the borrowers. When these interests as well as the principal are not collected in due time, the existence of the bank and the deposits of individuals will be in threat. So, necessary arrangements must be made and implemented by the banks and government to avert this situation. In addition to the credit risk, the bank also faces other risks. According to the Nepal Rastra Bank Unified Directives 2005, the major sources of risk are credit risk, liquidity risk, foreign exchange risk, and interest rate risk and operation risk etc.

1.1.3 Brief Introduction of Sample Banks

a) Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Glob us (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 very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business 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- Himal Remit TM. 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.

Capital Structure of Himalayan Bank Ltd. '000'

Authorized Capital**ulars**	30,00,000
Paid up Capital	16,00,000
Capital Fund	42,717,125
Total Loan & Advances	308,840
Total Investment	8,444,910
Total Deposit	37,611,202

Source: Annual Report of Himalayan bank Ltd.

b) Nepal Bank Ltd. (NBL)

Nepal Bank Limited is the oldest commercial bank of Nepal. It was established on 1937 which marked the beginning of an era of formal banking in Nepal. The Bank is also one of the largest in Nepal with 109 branches in the 55 districts of the country. Despite being the oldest and one of the largest banks of Nepal the bank suffered massive difficulty in terms of unpaid loan and felling profits. Thus the Bank was put under the control of Nepal Rasta bank, the central bank of Nepal which hired services of Bank of the Scotland (Ireland), ICC Consulting from 2002 for the management of the bank for an initial period of 2 years. The bank is running under the leadership of Nepal Rastra Bank (NRB) appointed three management team under the leadership of NRB director, Mr. Maheshwor

Lal Shrestha. The period was extended and the bank is still managed by the above companies.

Capital Structure of Nepal Bank Ltd.

Present Capital Structure of NBL **Rs. '000'**

Authorized Capital**ulars**	10,00,000
Paid up Capital	380,383
Core Capital	-6,374,479
Capital Fund	-5,853,918
Total Loan & Advances	12,441,554
Total Investment	14,490,247
NPL	2,262,183
Total Deposit	35,829,765

Source: Annual Report ofNepal Bank Ltd.

1.2 Statement of the Problem

In the context of Nepal's financial sector, the number of commercial banks and other financial institutions are increasing day by day in recent time. With increasing these commercial banks also challenges and problems are arising. Credit management is one of the most important issues for the every commercial bank. So, none of commercial banks in long run can survive without implementing effective lending policy and practice. Most of the commercial banks are focusing loan on housing, vehicle, educations, and consumer loan etc. But to develop the economic condition of Nepal, commercial bank should encourage exploring new sector for credit management but it should also be considered that industrial loan should be given important.

Credit policies of commercial banks studied are not systematic and have no clear vision. In Nepal it has been found that loan approval and credit decisions are made flexible to favor to personal networks also. A new customer finds that credit providing process being very complicated. Due to the unhealthy competition among the banks, the recovery of the banks credit is going towards negative trends. Non-performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, NRB has renewed its directives of the credit loss provisions.

Followings are the major problems that have been identified for the purpose of this study:

1. Is there any stability in fund mobilization activities of commercial bank?
2. How is the risk diversification process in sample banks?
3. What volume of contribution is made by sample banks in credit creation?
4. How liquidity and profitability are matched with each other?
5. Whether deposits and loans are balanced in the sample banks?
6. Whether sample companies are able to manage their credit risk to maximize their profit?

1.3 Objectives of the Study

The study aims to examine and analyze how the selected commercial Banks have managed credit risk in this competitive Nepalese banking industry. The specific objectives of this study are:

- To examine the credit risk position of the selected commercial banks in Nepal (with reference to sample banks mentioned in this study).
- To analyze the credit risk management system and practices of commercial banks in Nepal.
- To compare the liquidity management, size of non-performing assets, NPL ratio, its trend, assets-liability maturity. asset management efficiency, profitability position, risk position, investment practices of aforesaid banks. I don't think the highlighted portions should be analyzed. Instead, you should analyze the size of non- performing assets, how the banks are managing their non-banking assets, what is their NPL ratio, its trend, how are the banks managing their assets-liability maturity?
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

1.4 Significance of the Study

Banking sector is vital sector for economic growth in a country. For the growth and development of this sector, proper management of credit risk by considering the return is required. In today's competitive scenario, several macro economic factors such as political, economical, social and technological factors have increased the challenges to the banking sector. The success of any organization is largely dependent on how properly the organization can manage the risk. Banking sector involves several risks, which need to be handled promptly for the survival and growth. As this research is made mainly to analyze the credit risks and their management in reference to NRB directives and measures, it will provide valuable insight to different stakeholders about the major problems of banks and bank's action for its management. The key stakeholders who will be largely facilitated by this research includes,

Commercial banks under study will highly be benefited by this research. This research identifies their current credit risk management styles, NRB guidelines on credit risk management and organization of basic compliance of such guidelines etc. Further, the banks will know not only the current performance but also the idea about their strength and weaknesses.

Individuals, who have keen interest in Nepalese economy and banking sector, will be benefited. This research provides an insight into the organizational credit risk management patterns within the standards set by NRB.

Policymakers will also be benefited as this paper identifies the problems in credit risk management and identifies the need for formulation of new policies or amendment of old policies.

Investors, depositors, borrowers also know about the credit risks with these banks to carry out business

1.5 Limitations of the study

This study has certain limitations which are as follows:

a) This study concentrates only on those factors that are related with credit practices.

b) This research is based on published documents such as: balance sheet, profit and loss account statements which are circulated at the end of the financial year.

c) The study is associated only to the financial performance of Himalayan bank. and Nepal bank ltd.

d) The study is based on the past five year's periods, since 2063/064- 2067/068. Use F/Y 67/68 as the latest data.
e) The study deals only with secondary data.

1.6 Organization of the Study

The whole study is divided in to five different chapters:

Chapter I

Introduction: Chapter one deals with the subject matter of study, consisting background of the study, profile of the company, statement of the problem, objective of the study, importance of the study, limitation of the study and organization of the study.

Chapter II

Review of literature: Chapter two deals with the review of literature. It includes conceptual framework along with review of major books, journals, research works etc.

Chapter III

Research Methodology: Chapter three deals with the research methodology. It includes methodology used to achieve the objective of the study, sources of data, populations and sample and financial and statistical tools used.

Chapter IV

Data Presentation and Analysis: - Chapter four deals with analysis and interpretation of data by using financial and statistical models described in chapter three.

Chapter V

Summary, Conclusion and Recommendation: - Chapter five deals with Summary, Conclusion, Finding and Recommendation of the study.

CHAPTER –II

REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For review study the researcher uses different books, reports, journal and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

2.1 Conceptual Review

2.1.1 Meaning of Commercial Bank

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to definition of H.L, a banker or bank is a person or company carrying on the business of receiving money and collecting drafts, for customer subject to the obligation of honoring cheque drawn upon them from time to time by the customer to the extent of the amount available on their customer (Shekher and Shekhar, 1999). 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 creations and agency functions. They provide short-term credit medium term credits and long term credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit etc.

Commercial bank acts as an intermediary, accepting deposits and providing credit 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 (Vaidhya, 1999: 29) .

Commercial banks are organized as a joint stock company system, primarily for the purpose of earning profit. They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the united states where a bank operations are confined to a single office or to a few branches within a strictly limited area (Shekhar and Shekhar, 1999: 45)

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

2.1.2 Functions of Commercial Bank

i) Accepting deposits

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

ii) Advancing loans

The major functions of commercial banks is providing loan to the needy person. Bank advances the loan against the security to the customer. Advancing loan is also knows as the function of the deposit mobilization because bank gives loan to the people from the deposit that it collects from the public. There is various methods of advancing loans e.g. overdrafts, cash credit, direct loans, discounting bills of exchange etc.

iii) Agency services

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

iv) Credit Creation

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

v) General Utility Services

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

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

2.1.3 Concept of Credit

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

Credit is the amount of money lent by the bank to the borrower (customer) either on the basis of security or without security. Sum of the money lent by a bank is the credit (Oxford advanced learners Dictionary, 1992: 279)

Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credit 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 effect profitability adversely (Varshney and Swaroop, 1994:6)

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

2.1.4 Types of Credit (Rawal and Bhattrai,2012:4)

a) Overdraft

It denotes the excess amount withdrawn over their deposits.

b) Cash Credit

The credit is not gives 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.

c) Direct Credit

I. Term Credit

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

A bank credit with maturities exceeding 1 year is called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet firm's special needs (Richard, 1996:80)

II. Working Capital Credit

Working capital denotes the differences 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.

III. Priority or deprived sector credit

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

IV. Hire Purchase Financing (Installment Credit)

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

V. Housing Credit (Real State Credit)

Financial institutions also extend housing 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.

VI. Project credit

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credits are short-term credits made to developers for the purpose of completing proposed projects. (Johnson, 1940:242). The basic guiding principal involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage of completion must be spelled in disbursement policy. Terms of credit needed for project fall under it.

VII. 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 consort to grant credit facility to the project of which is baptized as consortium credit. It reduces the risk of project among them. Financiers bank equal (or likely) charge on the project's assets.

VII. Credit Cards and Revolving Lines of 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 administrative cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the funds to the customer at lower cost.

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

IX. 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.

X. Bank Guarantee

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

XI. Letter of Credit (L\C)

It is issued on behalf of the customer in favor of the exporter for the import of goods and services stating to pay certain sum of money on the submissions of certain documents complying the stipulated terms and conditions as per the agreement of L\C. It is also known as importer letter of credit since the bank of importer do not open separate L\C for the trade of same commodities.

D) Discounting of Bills

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

2.1.5 Principle of Credit Policy(Rawal and Bhattarai,2012: 13)

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

a) Principle of safety of fund

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

b) 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 (American institute of Banking, 1972;149). A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

c) Principle of Security

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

d) Principle of Purpose of credit

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

e) Principle of Profitability

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

f)Principle of Spread

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

g)Principle of national interest

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

2.1.6 Lending Criteria

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

1) Character

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

- Memorandum and Articles of Association
- Registration Certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank
- Reference of other lenders with sham the applicant has dealt in the past or bank A\C statement of the customer.

2) Capacity

Describes 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:

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

3) Capital

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

4) Collateral

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

5) Condition

Once the funding company is satisfied with the character, Capacity, Capital and Collateral than a credit agreement (sanction letter) is issued in favor of the borrower stating conditions of the credit to which borrower's acceptance is accepted.

2.1.7 Project Appraisal

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

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

Generally, the project appraisal involves the investigation from the following aspects (Rawal and Bhattrai:2012:176)

- Financial aspects
- Economic aspects
- Management\organizational aspect
- Legal aspect

Directives Issued by Nepal Rastra Bank (NRB) for the commercial bank (www. nrb.org.np)

a) Credit Classification and provisioning:

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

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

Sub standard credit are those credit which are already crossed repayment time schedule and are within 3-6 month 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 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 bank interest is secured. In addition, audit is made to inspect compliance of terms and conditions laid down. Credit audit is required to check whether credit given is within authority, drawing power etc. Credit audit helps the bank to know quality of its credit, its weakness and strengths. This in turn helps the bank to adopt corrective measures where weakness has 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.

b) Limit of Credit and Advances in a Particular Sector

1. Fund based credit and advances can be issued up to 25% upper limit) of core capital to a single customer firm, company and a group of related customer.

2. Non-fund based Off-balance sheet items) can be issued up to 50% of core capital to a single customer, firm, company and group of related customer.

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

2.1.8 Steps of Lending Process

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

a) Loan application

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

b) Loan Interview

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

c) Loan documentation

-Once the approval of credit facility is received, the job of loan documentation starts.

-Checklist

-Offer letter/property valuation letter

-Security Documentation

For individual client

- Loan application form
- Personal record
- Personnel financial statement or records
- Account opening documents
- Loan agreement (loan deed)

- Guarantees
- Others

For corporate client

- Application form
- Certificate of incorporation
- Articles of association
- PAN
- Tax clearance certificate
- By-laws (Niyamawali)
- Board of directors
- Guarantee
- Demand promissory
- Loan agreement
- Financial statement of guarantor and parent company
- Others

d) Credit assessment

‘**Interviewing the customers’**

- For an existing company it is important to know why the company has left the former bank connection or is thinking of leaving the presently associated bank?

  In case for a new project the credit officer should find out why the customer intends to avail credits from our bank if it is already associated with the other banks?
- What kinds of credit facility are required and why are they required?

  How much is needed?
- How and when will the loan be repaid?
- What are the possibilities that the plan of the customer will not work out?
- In case the plan does not work out, what will be situation of the company and how will it meets its commitment to the bank?

- What are the background, character and experience of the principals involved in the company?
- How old is the business?
- Is the company member of a group? If yes, then the credit officer should ask of an organizational chart of the group?
- How will the bank loan be insured?

<u>'Site visit'</u>

Check the stock position

- Condition of the fixed assets (in case of a manufacturing company)
- Location and area
- Debtors position from the register
- Labor-management relationship etc

e) Credit appraisal

<u>Format</u>

A. The party
B. Objective /purpose
C. Assessment

1. **Performance:**

   Strength and weakness

   - Management
   - Background and history of development of the business
   - Activity
   - Financial health
   - Research and development

2. **Environment**

   Opportunities & Threats

   <u>PEST Analysis</u>

   P = Political

   E = Economic

   S = Social

   T = Technological

Legislative

Intra Company

D. Conclusion

E. Recommendation

Yes/NO

If No = Give Reason

If Yes = Special Covenants (if any)

2.1.9 Types of lending policy in selected banks

(www.himalayan.bank.com.np/www.nepalbank.com.np)

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

1) Business banking

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

a) Corporate customer credit policy

b) Small business loan policy

2) Consumer banking

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

a) Home loan policy

b) Auto loan policy

c) Travel loan policy

d) Education loan policy

2.1.10 Need of credit policy in commercial banks

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

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

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

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

2.2 Review of Related Studies

2.2.1 Review of articles and journals

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy has already become sick. When any sector of economy caught cold, bank started sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, the portfolio management means to invest funds in various schemes of mutual funds like deposit, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individual as well as institutional investor. Large investors would like to select the best mix of investment assets (Shrestha, 1998:15)

In the article "placing RBB and NBL under management contracts: Rational and Opposition" agreed that the disappointing performance of these two banks has becomes serious concern to all the stakeholders. Further he mentions that they are having with huge level of NPA, which could be termed as the darkest sides of their operational inefficiency and undisciplined financial behavior (Basyal, 2000:4)

Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institutions ensuring transparency during loan disbursement. As per provision, all commercial bank as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The credit information bureau (CIB) can black list the firm, company clears the debt within the stipulated period. As per the set criteria for black listing, the CIB would monitors those individual and companies that have the principle loans of above Rs.1 million. If the creditor fails to clear the amount within time or is found missing the loan among others, the creditors can be black listed (Kathmandu Post, 2003:9)

In the article titled "Credit Sector Reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. Although the circumstances lending to financial problems of crisis in many Nepali banks differ in many respects, what are common areas of the most banks, which increased size of non- performing assets (NPA). To resolve the problem of the losses or likely losses of this nature facing the industry, NRB as the central bank, amended several old directives and issued many new circulars in the recent years (Ghimire, 2003:22)

Pradhan has done a research for which he carried out a survey of 178 enterprises. Through his research entitled "financial management practice in Nepal" he found some of the major feature of the Nepalese financial management. According to him the most important one appeared to be maintaining good relation with stock holders. The finding revel that banks and retained earning are most widely used, financing sources. Most enterprises do not borrow from one bank only and they do switch between bank to banks whichever offers best invest rate. Most enterprises find that banks are flexible in interest rate. Among the bank loan, bank loan of less than one year more popular in public sector where as banks loan of 1-5 year are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector doesn't fell so similarly. He conclude that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non traded sector find that the some is one higher side. (Pradhan, 1994:50)

In an article published in New Business Age, entitled "Growth in Major Commercial Banks" has compared between the first six month of the fiscal year 2002-2003 and 2003-2004, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. There has been increasing in credit deposit ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only in recovery of the huge non performing assets (NPA). However, he pointed out that no matter what the size of NPA is and the circumstances are each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB, all banks have increment in deposit collection (Subedi, 2004:19)

2.2.2 Review of Previous Thesis

Dhital (2010) conducted a thesis. "A Comparative Study on Investment Policy of Standard Chartered Bank Nepal Limited and Bank of Kathmandu Limited". The main ratio of each cash and bank balance to total deposit ratio of standard chartered bank Nepal limited is lower in comparison to Bank of Kathmandu. SCBNL has better liquidity position than BOKL. The mean ratio of loan and advances to current asset of SCBNL is lower than that of BOKL. SCBNL ratios are less consistency in comparison to BOKL. The mean ration of loan and advances to total deposit of SCBNL is lower than BOKL. The mean ratio of total deposit of SCBNL is higher in comparison to BOKL and the ratios of SCBNL are less consistency than that of BOKL. In case of loan and advance to working fund ratio, the SCBNL mean ratio is less than that of BOKL. The mean ratio return on loan and advances of SCBNL is greater than that of BOKL. The ratios of SCBNL are more variability in comparison to BOKL. The mean ratio of return on total working fund of SCBNL is higher than BOK. The mean ratio of total interest paid to total working fund of SCBNL is lower in comparison to BOKL. The liquidity risk ratio of SCBNL is less than that of BOKL. The mean ratio of credit risk ratio of SCBNL is less than that of BOKL and SCBNL ratios are less variability in comparison to BOKL.

Khadka, (2010), has submitted a thesis named "A study on investment policy of Nepal Arab Bank Limited, in Comparison With Other Joint Venture Banks in Nepal." Has compared investment policy of NABIL with NGBL and NIBL, this study is based on five years period from 1992-1996. He has taken two banks to compare the investment policy of NABIL. Mr. Khadka has suggested the joint venture bank to be careful increasing profit in real sense to main depositors and customers. He has strongly recommended NABIL to utilizing risk assets and shareholders funds to gain higher profit margin reduces it expenses and collect cheaper fund more profitability. Investing funds in different sector and administering various deposit schemes, gift cheques scheme, house building deposits schemes etc.

Chand (2009) has submitted his thesis entitled "Credit Disbursement and repayment of Agriculture Development Bank Nepal" and found (i) there is systematic relationship between credit disbursement and repayment. The coefficient of correlation values as calculated is 0.94, which shows that there are high and significance relationship between credit disbursement and repayment and (ii) repayment situation is satisfactory in production inputs and agro-based industry, warehouse and marketing percentage of repayment due to the farm mechanization and irrigation. Tea horticulture and livestock, poultry and fisheries are much less satisfactory.

As a recommendation given by chand, ADB should play a significant role in such direction to fulfill the credit demand of rural areas. For effective credit recovery from the borrowers or clients, credit should be channeled through the borrower groups.

Dhungana (2010), Conducted a study "A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Other Joint Venture Banks" and concluded that NBBL has not good deposit collection. It has not made enough cash and negligible amount of investment in government securities. NBBL has higher loan and advances to total deposit ratio, loan and advances to total working fund ratio, lowest loan loss ratio and higher investment on share and debenture to total working fund ratio. NBBL has followed stable policy. NBBL is able to manage its assets regarding its on balance transaction. Lending position, investment position and net profit position of NBBL is not better in compare to HBL. But it has better position in comparison to NBBL. He suggested increasing the liquidity of NBBL to invest in government securities instead of keeping idle fund. He also suggested providing project oriented approach. He suggested NBBL for developing effective portfolio management. He also suggested developing innovative approach for bank marketing upgrades the banking facility, liberal lending policy and effective cost management strategy.

Tamang (2005) studied the comparative study of credit management in Himalayan Bank Limited (HBL) and NABIL Bank in his thesis entitled. "A comparative study on credit management in Himalayan Bank Limited and NABIL Bank Limited". To explore the credit management, he tried to assess the existing credit practices, examine the credit efficiency, analyze the industry environment and the relationship among loan and advances, non- performing loan and net profit. To meet the stated objectives, we used both secondary and primary information to analyze the data. Then, he applied different financial as well as statistical tools. Basically, Mr. Tamang used ratio analysis as financial tools and mean, standard deviation, correlation and regression analysis as statistical tools.

He found from the study that credit practices and credit efficiency was relatively better in NABIL bank ltd as compared to Himalayan bank ltd. for the reason that the ratio analysis designed for credit practice and credit efficiency scored relatively is better for NABIL bank ltd. He found that the correlation coefficient between non-performing loan and net profit in NABIL bank ltd. and Himalayan bank limited was found to be 0.157 and -0.716 respectively. He further concluded that trend of non performing loan did not have high implication in NABIL bank ltd. while there was a significant impact of non performing loan in net profit in Himalayan bank ltd.

He described in his primary information that industry environment as well as the management quality was relatively better in NABIL bank ltd. as compared to Himalayan Bank Ltd.

Lastly, he recommended to the bank management that proper level of portfolio should be maintained so that profitability position will be maximized with regard to credit practices. Similarly, the bank management of both banks recommended maintaining proper level of balance with regard to credit efficiency. He also suggested to the bank management of HBL to manage its loan more effectively so that the percentage of non- performing loan will be in minimum because the relation of loan and non- performing loan in HBL was found very high. Finally, he recommended to the future researchers to focus in to non financial indicators job satisfactions, customer satisfaction, stakeholders support, government rating, supervisors team work, human resource development, human resource planning, human resource management, job designation etc. as influencing factors for credit management.

Aryal (2003) has submitted a thesis named "An Evaluation of Credit Investment and Recovery of Financial Public Enterprises in Nepal" a case study of ADB\N. He focused on the problem that because of high interest rate of non institutional sources. People are unable to pay their credit at fixed time. These institutions compel them to transfer their property to the money lender resulting himself or herself as a land less person.

ADB\N is one of the major financial institutions supporting for the people for the different purposes like agro, industries, tea, coffee, livestock farming etc. ADB\N provides the credit for individual and co-operative sector to all region of the country. Credit outstanding among is increasing day by day but the collection amount is not good. However ADB\N has increased its effort to collect its credit. It is said that those people who really need don not receive sufficient amount of credit from ADB\N. So, Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB\N.

From the research, he has found out the following necessary facts.

- Actual credit disbursement, collection and outstanding are increasing in decreasing rate.
- Yearly increase in credit disbursement in higher than that of collection.
- Positive relation between credit disbursements is higher than that of collection.
- Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual.
- Most of the customers are unaware of the policy of the bank.
- The use of fund towards, the hire purchase credit is decreasing rapidly.
- As the direct data of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled.
- The loss provision of some company is more alarming an individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy.

2.3 Research Gap

Most of the research works I have found, in this field, are basically deal with the single bank. The researches deal with the cost and capital structure, SWOT analysis, profit planning and control, capital adequacy and market position. There are few researches which dealt with the banks' credit management but they are found only dealing with the single banks credit management and there is the necessity of conducting such a research which can compare the two banks' credit management system. So, the present research is aimed to fulfill the research gap since I rarely found few researches conducted on this field.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research is common parlance refers to a search for knowledge. The Webster international dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles diligent investigation in order to ascertain something (Webster Dictionary, 1995:1176)

Research methodology is a way to systematically solve the research problem (Kothari, 1990:10). It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher studying his research problem among with the logic behind them. This chapter looks into the research design, nature and source of data, data collection procedure and tools and techniques of analysis.

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

A research methodology helps us to find out accuracy validity and suitability. The justification on the present study can not be obtained without helps of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance's to the research purpose with economy in procedure. For the analysis of credit management of selected banks, analytical as well as descriptive designs applied to achieve the objective of the research.

3.3 Data Collection

Data have been collected only secondary data collection technique for this study.

Secondary Data

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

Major sources of Secondary data for this study are as follows:

- Annual reports of the bank
- Published and unpublished bulletins, reports of the banks
- published and unpublished bulletins, reports of the Nepal stock Exchange
- Previous studies and reports
- Unpublished official records
- "Banking and financial statistics" report of Nepal Rastra Bank magazines.
- Journals and other published and unpublished related documents and report for central library of T.U. and library of Nepal Rastra Bank.
- Various internet websites

3.4 Data Collection Procedure

This study is conducted on the basis of secondary data. The secondary sources of data are balance sheet, profit and loss account, concerned bank's annual reports, supplementary data and information are collected from number of institution and regulating authorities like, Nepal Rastra Bank, Security Exchange Board, Nepal stock Exchange ltd. central library of T. U. different journals, ministry of finance budget speech of different fiscal years and other published and unpublished report documented by the authorities.

According to the need and objectives of this study, all the secondary data are complied, processed and tabulated in order to judges the data provided by the banks and other sources, they were complied with the annual report of auditors. Formal and informal talks to the concerned head of the department of the banks were also helpful to obtain the additional information of the related problem.

3.5 Population and Samples

A population in most studies usually consists of large group because of its large size. It is fairly difficult to collect detailed information from each member of population rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub-group. The sampling allows the researcher more time to make an intensive study of a research problem. The total commercial banks shall constitute the sample for so among the various commercial banks in the banking industry. Himalayan bank Ltd. and Nepal Bank Ltd. is taken as sample for the study. Similarly, financial statements of those banks for 5 years from 2063/064 to 2067/068 have been taken as sample for the same purpose. The samples banks are chosen by lottery method. Mention how you come to choose these two banks as samples for your study i.e. whether it is a random sampling or stratified sampling or any other. Also mention the proportion of samples to the total population.

3.6 Tools for Data Analysis

Analysis and presentation of the data is the main part of every research work. To draw the strong conclusion and make the analysis more effective, convenience, reliable and authentic, various financial and statistical tools have been used. To make the study more specific and reliable the researcher uses two types of tools for analysis.

I. Financial tools

II. Statistical tools

3.6.1 Financial tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis.

Ratio Analysis

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

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are found reason for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings (Pandey 1979:102):

A. Liquidity Ratio

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

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

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

i. Cash and Bank Balance to Total Deposit Ratio

Bank's liquidity capacity can be measured on the basis of cash and bank balance which are the most liquid assets. Cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be shown as:

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

Where, Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposit consists of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

ii. Cash and Bank Balance to Current Deposit Ratio

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

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

B. Assets Management Ratio

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

i. Loan and Advances to Total Deposit Ratio

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

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

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

ii. Loan and Advances to total Assets Ratio

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

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

iii. Total Investment to Total Deposit Ratio

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

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

C.Leverage Ratio

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

i. Debt to Equity Ratio

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

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

ii. Total Debt Total Assets Ratio

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

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

C. Lending Efficiency Ratio

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

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

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

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

ii. Loan Loss Provision to Total Loan and Advance 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 that that 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 risk 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 resulting 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 and advances.

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

D. Profitability Ratio: Profit is the different between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profit is essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customers and society.

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

i. Net Profit\Loss to Total Assets Ratio

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

In this study, net profit\loss to total assets ratio is examined to measure the profitability of all the financial resources in bank assets and is calculated by applying the following formula:

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

ii. Interest Income to Interest Expenses Ratio

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

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

iii. Interest Income to Total Loan and Advances

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

$$\text{Interest Income to Total Loan and Advances} = \frac{\text{Interest Income}}{\text{Total Loan and advances}}$$

Other Ratio

i. Earning Per Share (EPS)

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

$$\text{EPS} = \frac{\text{Net Income after Taxes}}{\text{Number of ordinary shares Outstanding}}$$

Limitations of Ratio Analysis

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

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

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

Statistical Tools

For supporting this study, statistical tool such as mean, standard deviation, coefficient of variation, correlation coefficient, trend analysis have been used. (Gupta, 2000:117)

I. Arithmetic Mean ($\overline{\varepsilon}$)

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

$$\overline{\varepsilon} = \frac{\varepsilon}{\rho}$$

Where,

$\overline{\varepsilon}$ = Air thematic Mean

N = Number of observation

ε = Sum of observation

II. Standard Deviation (S.D)

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

$$\sigma = \sqrt{\frac{\int\varepsilon \ Z\varepsilon^{-} \AA}{\rho}}$$

Where,

σ = Standard Deviation

III.Coefficient of Variation (C.V)

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

$$\text{C.V.} = \frac{\pm}{\overline{\varepsilon}} \times 100$$

Where,

σ = Standard Deviation

$\overline{\varepsilon}$ = Mean

IV. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is categorized three types. They are

Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation, the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

$$r_{x1x2} = \frac{N\Sigma X_1X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2 - (\Sigma X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product $X_1$and X_2

$\Sigma X_1 \Sigma X_2$ = Sum of Product $X_1$and sum of Product X_2

V. Probable Error:

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

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

Here, r = Correlation coefficient

N = Number of pairs of observations

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

VI. Times series Analysis

Time series is used to measure the change of financial, economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight-line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

Y is the dependent variable, a is y intercept or value of y when x = 0, b is the slope of the trend line.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

Introduction review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed investment practices of Himalayan Bank Limited and Nepal Bank Limited Different tables and diagrams are shown to make the analysis simple and understandable.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed.

Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. HBL and NBL. Some important financial ratios are only calculated in the point of view of fund mobilization and investment patterns. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to Credit Risk Management of the selected commercial banks.

4.1.2 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A) Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

Table 4.1

Current Assets to Current Liability (in times)

FY	HBL			NBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2063/064	36778772	42230725	0.87	25275162	43901441	0.57
2064/065	15951943	32719362	0.48	25275161	46241657	0.55
2065/066	29657435	35700441	0.84	33912158	52413421	0.65
2066/067	32210344	38777920	0.83	38650729	49341582	0.78
2067/068	36778772	42230726	0.87	43238157	55635230	0.78
Total			3.89			3.33
Mean			0.78			.67
S.D			0.17			.11
C.V			21.79			17.19

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.1 reveals that the mean ratios of HBL is greater than NBL i.e. 0.7>0.6 times, which mean than HBL has better liquidity position than NBL.

However, the CV of ratios of NBL is less than that of HBL i.e. 17.19 %< 21.79% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of NBL and HBL during the study period.

Table 4.2

Cash and Bank Balance to Total Deposit Ratio

FY	HBL			NBL		
	Cash and balance	**Total Deposit**	**Ratio**	**Cash and balance**	**Total Deposit**	**Ratio**
2063/064	484798	30048418	1.6	1892434	39014204	0.049
2064/065	512301	31842789	1.6	2186351	41829391	0.052
2065/066	720121	34681345	2.1	2552089	45194232	0.056
2066/067	1261700	37611202	3.4	2648162	42882040	0.062
2067/068	1574025	40920627	3.8	2670590	46808435	0.057
Total			12.5			0.276
Mean			2.5			0.55
S.D			1			0.004
C.V			40			0.72

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.2 reveals that the mean ratios of HBL is greater than NBL i.e. 2.5>0.55 times, which mean than HBL has greater ability to meet customer demands on their deposits. However, the CV of ratios of NBL is less than that of HBL i.e. 0.72 %< 40% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

C) Cash and Bank Balance to Current Deposit Ratio

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

Table 4.3

Cash and Bank Balance to Current Deposit Ratio

FY	HBL			NBL		
	Cash and Bank Balance	**Current Deposit**	**Ratio**	**Cash and Bank Balance**	**Current Deposit**	**Ratio**
2063/064	484798	376366	1.29	39014204	6766342	5.77
2064/065	512301	1004559	0.51	41829391	7819756	5.35
2065/066	720121	1036435	0.69	45194232	9923275	4.55
2066/067	1261700	1044675	1.20	42882040	10942416	3.92
2067/068	1574025	1100277	1.43	46808435	10905855	4.29
Total			5.12			23.88
Mean			1.03			4.78
S.D			0.4			0.76
C.V			39.06			15.89

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.3 reveals that the mean ratios of NBL is greater than HBL i.e. 4.78>1.03 times which implies that NBL has sound ability to meet the daily cash requirement of their customer's deposit

However, the CV of ratios of NBL is less than that of HBL i.e. 15.89 %< 39.06% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table 4.4

Investment on Government Securities to Current Assets Ratio (000)

FY	HBL			NBL		
	Investment on Government Securities	**Current Assets**	**Ratio**	**Investment on Government Securities**	**Current Assets**	**Ratio**
2063/064	6454873	36778772	0.18	13226330	36778772	0.36
2064/065	7471668	15951943	0.47	12918439	15951943	0.81
2065/066	4212300	29657435	0.14	10597940	29657435	0.36
2066/067	4212399	32210344	0.13	4212419	32210344	0.13
2067/068	4465372	36778772	0.12	5582135	36778772	0.15
Total			1.04			1.81
Mean			0.21			0.36
S.D			0.15			0.27
C.V			71.43			75

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.4 reveals that the mean ratios of NBL is greater than HBL i.e. 1.81>1.04 times which implies that NBL has higher proportion of investment in government securities out of the total current assets. Investment in government securities means more investment in riskfree assets so the return from investment of NBL is also lower comparing to HBL. The CV of ratios of NBL is also less than that of HBL i.e. 71.43 %< 75% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

4.1.3 Assets Management Ratio

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

4.1.4 Loan and advances to Total Deposit Ratio

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

Table 4.5

Loan and advances to Total Deposit Ratio

FY	HBL			NBL		
	Loans and Advances	**Total Deposits**	**Ratio**	**Loans and Advances**	**Total Deposits**	**Ratio**
2063/064	16997997	30048418	0.57	11958478	39014204	0.31
2064/065	19497520	31842789	0.61	13251963	41829391	0.32
2065/066	24793155	34681345	0.66	17614899	45194232	0.39
2066/067	24793155	37611202	0.66	23560956	42882040	0.55
2067/068	27980629	40920627	0.68	24671282	46808435	0.53
Total			3.18			2.1
Mean			0.64			0.42
S.D			0.05			0.11
C.V			7.81			26.19

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 5.1 reveals that the mean ratios of NBL is greater than HBL i.e. 0.64>0.42 times which implies that to some extend HBL is successful to manage its total deposit on loan and advance for the purpose of income generation. So, the CV ratio of HBL is less than that of NBL i.e. 7.81 %< 26.19% respectively which means that HBL is more consistent than NBL in respect of variability of ratios.

B) Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of NABIL and MBL are calculated and presentation below.

Table 4.6

Total Investment to Total Deposit Ratio

FY	HBL			NBL		
	Total Investment	**Total Deposit**	**Ratio**	**Total Investment**	**Total Deposit**	**Ratio**
2063/064	11822985	30048418	0.39	16072170	39014204	0.41
2064/065	1334177	31842789	0.04	16570755	41829391	0.40
2065/066	8710691	34681345	0.25	13397550	45194232	0.30
2066/067	8444910	37611202	0.22	5784372	42882040	0.13
2067/068	8769939	40920627	0.21	7585544	46808435	0.16
Total			1.11			1.4
Mean			0.22			0.28
S.D			0.12			0.13
C.V			54.5			46.43

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.6 reveals that the mean ratios of NBL is greater than HBL i.e. 0.28>0.22 times which implies that NBL has successfully and efficiently mobilizing their funds on investment in various securities so that, the CV of ratios of NBL is less than that of HBL i.e. 46.43 %< 54.5% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

C) Loan and Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan and advances to total assets of NBL and HBL as follows.

Table 4.7

Loan and Advances to Total Assets Ratio

FY	HBL			NBL		
	Loans and Advances	Total Assets	Ratio	Loans and Advances	Total Assets	Ratio
2063/064	16997997	33519141	0.51	11958478	39258736	0.30
2064/065	19497520	36175532	0.54	13251963	42053444	0.31
2065/066	24793155	39320322	0.63	17614899	47559111	0.37
2066/067	24793155	42717125	0.58	23560956	44736652	0.53
2067/068	27980629	46736204	0.60	24671282	51158657	0.48
Total			2.86			1.99
Mean			0.57			0.4
S.D			0.04			0.10
C.V			7.02			25

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.7 reveals that the mean ratios of HBL is greater than NBL i.e. 0.57>0.40 times which implies that HBL has successful in mobilizing their total assets on loan and advances for the purpose of income generation. So that, the CV of ratios of HBL is less than that of NBL i.e.
7.02 %< 25% respectively which means that HBL is more consistent than NBL in respect of variability of ratios.

D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan and advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table 4.8

Investment on Government Securities to Total Assets ratio

FY	HBL			NBL		
	Investment on Govt. Securities	**Total Assets**	**Ratio**	**Investment on Govt. Securities**	**Total Assets**	**Ratio**
2063/064	6454873	33519141	0.19	13226330	39258736	0.34
2064/065	7471668	36175532	0.21	12918439	42053444	0.31
2065/066	4212300	39320322	0.11	10597940	47559111	0.22
2066/067	4212399	42717125	0.1	4212419	44736652	0.1
2067/068	4465372	46736204	0.1	5582135	51158657	0.11
Total			0.71			1.08
Mean			0.14			0.22
S.D			0.05			0.12
C.V			35.71			45.55

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.8 reveals that the mean ratios of NBL is greater than HBL i.e. 0.22>0.14 times which implies that NBL has successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. However, the CV of ratios of HBL is less than that of NBL i.e. 35.71 %< 45.55% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

4.1.5 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NBL and HBL.

A) Return on Loan and advances

Every financial institution tries to mobilize their deposits on loan and advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan and advances ratio of selected banks are presented as follows.

Table 4.9

Return on Loan and advances

FY	HBL			NBL		
	Net Profit	Loans and advances	Ratio	Net Profit	Loans and advances	Ratio
2063/064	491823	16997997	0.03	226953	11958478	0.02
2064/065	635869	19497520	0.03	239214	13251963	0.02
2065/066	752835	24793155	0.03	894254	17614899	0.05
2066/067	508798	24793155	0.02	249382	23560956	0.01
2067/068	893115	27980629	0.03	128347	24671282	0.005
Total			0.14			0.11
Mean			0.03			0.021
S.D			0.005			0.018
C.V			16.67			85.15

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.9 reveals that the mean ratios of HBL is greater than NBL i.e. 0.03>0.021times which implies that NBL has higher return from loans and advances in comparison to NBL

However, the CV ratios of HBL are less than that of NBL i.e. 16.67 %< 85.15% respectively which means that HBL is more consistent than NBL in respect of variability of ratios.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table 4.10

Return on Total Assets Ratio

FY	HBL			NBL		
	Operating Profit	**Total Assets**	**Ratio**	**Operating Profit**	**Total Assets**	**Ratio**
2063/064	1393362	33519141	0.04	1544635	39258736	0.04
2064/065	1597495	36175532	0.04	1829812	42053444	0.04
2065/066	1988048	39320322	0.05	2417421	47559111	0.05
2066/067	2157958	42717125	0.05	2758993	44736652	0.06
2067/068	2586744	46736204	0.06	2672110	51158657	0.05
Total			0.24			0.24
Mean			0.05			0.05
S.D			0.01			0.01
C.V			20			20

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.10 revels that the mean ratios of NBL and HBL are equal to each other which implies that both banks have sound ability to meet the daily cash requirement of their customer’s deposit. Since, total, mean, standard deviation of both banks are equal, C.V. of them are also equal i.e. 20% which means both the banks are equally consistent.

C) Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and there by, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflect the extend to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of NBL and HBL during the study period.

Table 4.11

Return on Equity Ratio

FY	HBL			NBL		
	Net Income	Equity	Ratio	Net Income	Equity	Ratio
2063/064	491823	2146500	0.23	226953	(6247515)	(0.04)
2064/065	635869	2512992	0.25	239214	(6008301)	(0.04)
2065/066	752835	3119881	0.24	894254	(4854312)	(0.18)
2066/067	508798	3439205	0.15	249382	(4604929)	(0.05)
2067/068	893115	3995478	0.22	128347	(4476583)	(0.03)
Total			1.09			-0.34
Mean			0.23			-0.68
S.D			0.04			0.06
C.V			17.4			-8.8

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.11 reveals that the mean ratios of HBL is greater than NBL i.e. 0.23 >-0.68 times which implies that HBL has higher return on equity than NBL. It is seen that NBL has not maintained equity. Here average return on equity of NBL has been calculated to be negative throughout our study period. It is solely because of heavy losses suffered by NBL throughout the study period and hence resulting in negative shareholders' reserve giving HBL far more superior average return on equity than NBL.

Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of NBL and HBL

Table 4.12

Total Interest Earned to Total Assets Ratio

FY	HBL			NBL		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2063/064	1775583	33519141	0.05	1848612	39258736	0.05
2064/065	1963647	36175532	0.05	2094906	42053444	0.05
2065/066	2342196	39320322	0.06	2690058	47559111	0.06
2066/067	3148605	42717125	0.07	3067554	44736652	0.07
2067/068	4326141	46736204	0.09	3749719	51158657	0.07
Total			0.32			0.30
Mean			0.064			0.06
S.D			0.02			0.01
C.V			31.25			16.67

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.12 reveals that the mean ratios of HBL is greater than NBL i.e. 0.064>0.06 times which implies that HBL has fully utilized its assets to earn the interest in comparison to NBL.

However, the CV of ratios of NBL is less than that of HBL i.e. 16.67%< 31.25% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

E) Total Interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund in interest generating assets. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Table 4.13

Interest Earned to Operating Income Ratio

FY	**HBL**			**NBL**		
	Interest Earned	**Operating Income**	**Ratio**	**Interest Earned**	**Operating Income**	**Ratio**
2063/064	1775583	1393362	1.27	1848612	1544635	1.2
2064/065	1963647	1597495	1.23	2094906	1829812	1.15
2065/066	2342196	1988048	1.18	2690058	2417421	1.11
2066/067	3148605	2157958	1.46	3067554	2758993	1.11
2067/068	4326141	2586744	1.67	3749719	2672110	1.4
Total			6.81			5.97
Mean			1.36			1.2
S.D			0.20			0.13
C.V			14.71			10.8

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.13 reveals that the mean ratios of HBL is greater than NBL i.e. 1.36>1.2 times which implies that HBL has utilized its funds in income generating sources.
However, the CV of ratios of NBL is less than that of HBL i.e. 10.8 %<14.71% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

F) Total Interest Paid to Total Assets Ratio

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of NBL and HBL.

Table 4.14

Interest Paid to Total Assets Ratio

FY	HBL			NBL		
	Interest Paid	**Total Assets**	**Ratio**	**Interest Paid**	**Total Assets**	**Ratio**
2063/064	767411	33519141	0.02	772644	39258736	0.02
2064/065	823745	36175532	0.02	772657	42053444	0.02
2065/066	934778	39320322	0.02	791712	47559111	0.02
2066/067	1553530	42717125	0.04	909991	44736652	0.02
2067/068	2414807	46736204	0.05	1482205	51158657	0.03
Total			0.15			0.11
Mean			0.03			0.02
S.D			0.014			0.005
C.V			46.67			25

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.14 reveals that the mean ratios of HBL is greater than NBL i.e. 0.03>0.02 times which implies that the interest expenditure on total assets of HBL is higher than NBL bank.

However, the CV of ratios of NBL is less than that of HBL i.e. 25 %< 46.67% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

4.1.6Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization cannot achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds.

Through following ratios, effort has been made to measure the level of risk inherent in the NBL and HBL.

A) Non-Performing Loan to Total Loan Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan and Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of non-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

Table 4.15

Non performing Loan to Total Loan Ratio

FY	HBL			NBL		
	Non Performing Loan	Total Loan	Ratio	Non Performing Loan	Total Loan	Ratio
2063/064	641615	17793724	0.04	1856049	13756620	0.13
2064/065	477229	20179613	0.02	1951725	15764997	0.12
2065/066	551310	25519519	0.02	966723	19560094	0.05
2066/067	1208118	29123755	0.04	1344119	25052352	0.05
2067/068	1391748	32968270	0.04	1534849	26705879	0.06
Total			0.16			0.41
Mean			0.032			0.082
S.D			0.011			0.039
C.V			34.38			47.56

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.15 reveals that the mean ratios of NBL is greater than HBL i.e. 0.082>0.032 times which implies that NBL is not being able to collect the entire loan amount. It's total loan collection is ineffective which may cause an increase in bad debts.
However, the CV of ratios of HBL is less than that of NBL i.e. 34.38 %< 47.56% respectively which means that HBL is more consistent than NBL in respect of variability of ratios.

(B) Liquidity Risk Ratio: - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposit}$$

Table 4.16

Liquidity Risk Ratio

FY	HBL			NBL		
	Cash and Bank Balance	Total Deposit	Ratio	Cash and Bank Balance	Total Deposit	Ratio
2063/064	1757341	30048418	0.06	7117294	39014204	0.18
2064/065	1448143	31842789	0.05	6616992	41829391	0.16
2065/066	3048527	34681345	0.09	9171790	45194232	0.21
2066/067	3319015	37611202	0.09	10141280	42882040	0.02
2067/068	2964651	40920627	0.07	12013865	46808435	0.26
Total			0.36			0.83
Mean			0.72			0.16
S.D			0.18			0.09
C.V			25			56.25

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.16 reveals that the mean ratios of HBL is greater than NBL i.e. 0.72>0.16 times which implies that HBL has high more cash and bank balance which implies the need of more cash and exposure to the risk of decrease in profitability.
However, the CV of ratios of HBL is less than that of NBL i.e. 25 %< 56.25% respectively which means that HBL is more consistent than NBL in respect of variability of ratios.

(C) Interest Income to Interest Expenses Ratio:- Interest income to interest expenses ratio is the gap between interest rate offered and interest rate charged. The credit creation power of commercial bank has high impact on this ratio.

Table 4.17

Interest Income to Interest Expenses Ratio

FY	HBL			NBL		
	Interest Income	Interest Expenses	Ratio	Interest Income	Interest Expenses	Ratio
2063/064	1775583	767411	2.31	1848612	772644	2.39
2064/065	1963647	823745	2.38	2094906	772657	2.71
2065/066	2342196	934778	2.51	2690058	791712	3.39
2066/067	3148605	1553530	2.02	3067554	909991	3.37
2067/068	4326141	2414807	1.79	3749719	1482205	2.53
Total			11.01			14.39
Mean			2.02			2.87
S.D			0.29			0.47
C.V			14.36			16.38

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.17 reveals that the mean ratios of NBL is greater than HBL i.e. 2.87>2.02 times which implies that NBL has sound higher interest income than the interest expenses which helps in increasing profitability.
However, the CV of ratios of HBL is less than that of NBL i.e. 14.36 %< 16.38% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

D) Loan loss provision to total loan ratio

Loan loss provision to total loan ratio is the provision created to cover the amount of loan loss which occurs due to non-payment of loan by the debtors.

Table 4.18
Loan Loss Provision to total loan ratio

FY	HBL			NBL		
	Loan Loss Provision	**Total Loan**	**Ratio**	**Loan Loss Provision**	**Total Loan**	**Ratio**
2063/064	795727	17793724	0.04	2698142	13756620	0.2
2064/065	682093	20179613	0.03	2513034	15764997	0.16
2065/066	726384	25519519	0.03	1945195	19560094	0.09
2066/067	1401294	29123755	0.05	2034597	25052352	0.08
2067/068	1143126	32968270	0.03	1491396	26705879	0.06
Total			0.18			0.59
Mean			0.04			0.12
S.D			0.09			0.06
C.V			22.5			50

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.18 reveals that the mean ratios of NBL is greater than HBL i.e. 0.12>0.04 times which implies that NBL has created high loan loss provision which indicate that NBL is not able to collect the loan amount which decreases profit. .

However, the CV of ratios of HBL is less than that of NBL i.e. 22.5 %< 50% respectively which means that NBL is more consistent than HBL in respect of variability of ratios.

4.1.7 Other Ratios

A) Earning Per Share

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn’t reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table 4.19
Earning Per Share

FY	HBL			NBL		
	Net Income	Total No. of o/s shares	EPS	Net Income	Total No. of o/s shares	EPS
2063/064	491823000	8108100	60.66	226953000	3803826	59.66
2064/065	635869000	10135125	62.74	239214000	3803826	62.89
2065/066	752835000	12162150	61.90	894254000	3803826	235.09
2066/067	508798000	20000000	31.80	249382000	3803826	65.56
2067/068	893115000	24000000	44.66	128347000	3803826	33.74
Total			261.76			456.94
Mean			52.35			91.38
S.D			13.69			81.33
C.V			26.15			89

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.19 reveals that the mean ratios of NBL is greater than HBL i.e. 52.35>91.38 % which implies that NBL has high earning power per share is more than that of HBL. Profit availability of NBL is higher than HBL.
However, the CV of ratios of HBL is less than that of NBL i.e. 89%< 26.5% respectively which means that HBL is more consistent than NBL in respect of variability of ratios.

B) Dividend per Share

Shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, and dividend so, each firm must announce the total dividend and dividend per Share, which shows the position of the firm. A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute dividend and sometime issues bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share which show the position of the firm.

Table 4.20

Dividend per Share (Rs.)

FY	HBL			NBL		
	Total Dividend	Total no. of Shares	DPS	Total Dividend	Total no. of Shares	DPS
2063/064	121621500	8108100	15	0	3803826	0
2064/065	253378125	10135125	25	0	3803826	0
2065/066	145945800	12162150	12	0	3803826	0
2066/067	236800000	20000000	11.84	0	3803826	0
2067/068	404160000	24000000	16.84	0	3803826	0
Total			80.68			0
Mean			16.14			0
S.D			5.38			0
C.V			33.33			0

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.20 reveals that NBL has not issued divided within these five fiscal years. But, HBL has been issuing divided in a yearly basis.
However, the CV of ratios of NBL is less than that of HBL i.e. 33.33 %< 0% respectively which means that the dividend policy of HBL is not consistent as it varies with the varying net profit and the investment opportunities.

C) Market Price per Share

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

Table 4.21

Market Price Per Share (in Rs)

FY	HBL			NBL		
	Market Value	**No. of shares**	**MPPS**	**Market Value per share**	**No. of shares**	**MPPS**
2063/064	14108094000	8108100	1740	0	3803826	0
2064/065	20067547500	10135125	1980	0	3803826	0
2065/066	21405384000	12162150	1760	0	3803826	0
2066/067	16320000000	20000000	816	0	3803826	0
2067/068	13800000000	24000000	575	0	3803826	0
Total			6871			0
Mean			1374.2			0
S.D			632.45			0
C.V			46.02			0

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.21 reveals that NBL has not issued shares in these five fiscal years. So, there is not market price of the shares of NBL as they are not traded in the market. HBL has issued its shares so its market price per share is calculable.

Market price of NBL is not calculable but price of HBL is not consistent.

D) Price Earnings Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table 4.22

Price Earning Ratio

FY	HBL			NBL		
	MPPS	**EPS**	**P/E Ratio**	**MPPS**	**EPS**	**P/E Ratio**
2063/064	1740	60.66	28.69	0	59.66	0
2064/065	1980	62.74	31.56	0	62.89	0
2065/066	1760	61.90	28.43	0	235.09	0
2066/067	816	31.80	25.66	0	65.56	0
2067/068	575	44.66	12.88	0	33.74	0
Total			127.2			0
Mean			25.44			0
S.D			7.33			0
C.V			28.81			0

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Table 4.22 reveals that NBL has not issued shares in these five fiscal years. So, there is not market price of the shares of NBL as they are not traded in the market and calculation of price earning ratio is not possible without MPS and EPS. HBL has issued its shares so its market price per share is calculable. Mean PE ratio of HBL is 25.44% while its C.V. is 28.81% which shows its consistency.
Market price of NBL is not calculable but price of HBL is not consistent.

4.2 Coefficient of Correlation between Total Deposits and Total Loan and Advances

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

Table 4.23

Correlation between Total Deposits and Total Loan and Advances of HBL (in million)

Years	X	Y	ε^{2}	ψ^{2}	XY
2063/064	30.05	16.70	903.00	278.89	501.835
2064/065	31.84	19.50	1013.79	380.25	620.88
2065/066	34.68	24.80	1202.70	615.04	860.06
2066/067	37.61	24.80	1414.51	615.04	932.73
2067/068	40.92	27.98	1674.45	782.88	1144.94
N=5	ε =175.1	ψ =113.78	ε^{2} = 6208.45	ψ^{2} = 2672.1	$\varepsilon\,\psi$ =4060.45

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Where,
X= Total Deposits of HBL

Y= Total Loan and Advances of HBL

Total = Summation of the value from fiscal year 2063/64 to 2067/68

Now,

Correlation (r) = $$\frac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^{2} Z f \quad \varepsilon \mathring{A}^{2}}\sqrt{\rho \quad \psi^{2} Z f \quad \psi \mathring{A}^{2}}}$$

r = 0.95

The above calculation shows that there is positive relationship between total deposits and total loan and advances of HBL. That means, it the total deposit is increased absolutely the total loan and advances is also increased and vice-versa. The coefficient of correlation between total deposits and total loan and advances is 0.95 and probable error is 0.029. Comparing the values of ‘r’ and 6 times P.E., we can say that there is significant positive relationship between total deposit and total loan and advances of HBL because ‘r’ is greater than 6 times of P.E., i.e. 0.95>0.1765

Table 4.24

Correlation between Total Deposits and Total Loan and Advances of Nepal Bank Limited

Years	X	Y	ε^2	ψ^2	XY
2063/064	39.01	11.96	1521.78	143.042	466.56
2064/065	41.83	13.25	1749.75	175.56	554.25
2065/066	45.19	17.61	2042.14	310.11	795.80
2066/067	42.88	23.56	1838.69	555.074	1010.25
2067/068	46.81	24.67	2191.18	608.61	1154.80
N=5	ε = 215.72	ψ = 91.05	ε^2 = 9343.54	ψ^2 = 1792.396	$\varepsilon\,\psi$ = 3981.66

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Where,

X = Total deposit of Nepal Bank limited

Y = Total loan and advances of Nepal Bank limited

Total = Summation of the value from fiscal year 2063/64 to 2067/68

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$$\text{Correlation (r)} = \frac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^2 Z f \quad \varepsilon \AA}\sqrt{\rho \quad \psi^2 Z f \quad \psi \AA}}$$

r = 0.97

The above correlation shows that, there is positive relationship between total deposit and total loan and advances of Nepal Bank limited. That means, if the total deposit is increased absolutely the total loan and advances is also increased and vice-versa. The coefficient of correlation between total deposit and total loan and advances is 0.97 and probable error is 0.0178. Comparing the value of ‘r’ and 6 times of P.E. we can say that there is significant positive relationship between total deposit and total loan and advances of Nepal Bank because ‘r’ is greater than 6 times of P.E. i.e. 0.97>0.1068.

4.2.1 Coefficient of Correlation between Total Loan and Advances and Net Profit

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

Table 4.25

Correlation between Total Loan and Advances and Net Profit of HBL

Year	X	Y	ε^2	ψ^2	XY
2063/064	5.33	0.12	28.41	0.0144	0.6396
2064/065	5.83	0.13	33.99	0.0169	0.7579
2065/066	7.23	0.20	52.27	0.04	1.446
2066/067	9.36	0.26	87.61	0.0676	2.4336
2067/068	12.40	0.36	153.76	0.1296	4.464
N=5	ε =40.15	ψ =1.07	ε^2 =356.04	ψ^2 =0.31	$\varepsilon\psi$ =9.74

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Where,

X = Total loan and advances of HBL

Y = Net profit of HBL

Total = Summation of the value from fiscal year 2063/64 to 2067/68.

Now, Correlation (r) = $\dfrac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^2 Zf \quad \varepsilon Å^2}\sqrt{\rho \quad \psi^2 Zf \quad \psi Å^2}}$

r = 0.69

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

and net profit is 0.69 and probable error is 0.16. Comparing the value of ‘r’ and 6 times P.E. we can say that there is positive relationship but not significant at all time between total loan and advances and net profit of HBL because ‘r’ is less than 6 times of P.E. i.e. 0.69<0.96

Table 4.26

Correlation between Total Loan and Advances and Net Profit of Nepal Bank Limited

Years	X	Y	ε^2	ψ^2	XY
2063/064	5.04	0.06	25.40	0.0036	0.30
2064/065	6.06	0.05	36.72	0.0025	0.30
2065/066	7.45	0.11	55.50	0.0121	0.82
2066/067	9.27	0.25	85.93	0.0625	2.32
2067/068	11.94	0.24	142.56	0.0576	2.87
N = 5	ε =39.76	ψ=0.71	ε^2 =346.11	ψ^2 =0.14	$\varepsilon\,\psi$ =6.61

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Where,

X = Total loan and advances of Nepal Bank limited

Y= Net profit of Nepal Bank limited

Total= Summation of the value from fiscal year 2063/64 to 2067/68

Now, correlation (r) = $\dfrac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^2 Z f \quad \varepsilon \mathring{A}}\sqrt{\rho \quad \psi^2 Z f \quad \psi \mathring{A}}}$

r = 0.87

The above correlation shows that there is positive relationship between total loan and advances and net profit of Nepal Bank ltd. That means, if the total loan and advances is increased absolutely the net profit is also increases and vice versa. The coefficient of correlation between total loan and advances and net profit is 0.87 and probable error is 0.074. Comparing the value of ‘r’ and 6 times P.E. we can say that there is significant positive relationship between total loan and advances and net profit of Nepal Bank because ‘r’ is higher than 6 times of P.E. i.e. 0.87>0.44

4.2.3 Coefficient of Correlation between Total Investment and Total Deposit

Total deposit is independent variable (X) and total investment is dependent variable (Y). The coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables.

Table 4.27

Correlation between total deposit and total investment of HBL

Years	X	Y	ε^2	ψ^2	XY
2063/064	7.19	1.90	51.69	3.61	13.66
2064/065	8.65	2.60	74.82	6.76	22.49
2065/066	11	3.75	121	14.06	41.25
2066/067	11.44	2.65	130.87	7.02	30.31
2067/068	13.71	3.08	187.96	9.48	42.22
N=5	ε = 51.99	ψ =13.98	ε^2 =566.34	ψ^2 =40.93	$\varepsilon\ \psi$ =149.93

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Where,

X = Total deposit of HBL

Y = Total investment of HBL

Total = Summation of the value from fiscal year 2063/64 to 2067/68

Now, correlation (r) = $\dfrac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^{2} Zf \quad \varepsilon Å^{2}}\sqrt{\rho \quad \psi^{2} Zf \quad \psi Å^{2}}}$

r = 0.66

The above correlation shows that, there is positive correlation between total deposit and total investment of HBL. The coefficient of correlation between total deposit and total investment is 0.66 and probable error is 0.17. Comparing the value of ‘r’ and 6 times of P.E. we can say that there is positive relationship but not significant at all time between total deposit and total investment of HBL because ‘r’ is less than 6 times P.E. i.e. 0.66<1.02

Table 4.28

Correlation between total deposit and total investment of NBL

Years	**X**	**Y**	ε^{2}	ψ^{2}	**XY**
2063/064	7.74	2.47	59.91	6.10	19.12
2064/065	8.94	2.59	79.92	6.70	23.15
2065/066	10.48	3.37	109.83	11.36	35.32
2066/067	12.38	2.99	153.26	8.94	37.01
2067/068	15.83	3.20	250.59	10.24	50.66
N = 5	ε =55.37	ψ =14.62	ε^{2} =653.51	ψ^{2} =43.34	$\varepsilon\psi$ =165.26

Source: Annual reports of HBL and NBL 2063/064 to 2067/68

Where,

X = Total deposit of NBL

Y = Total investment of NBL

Total = Summation of the value from fiscal year 2063/64 to 2067/68

Now, correlation (r) = $\dfrac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^{2} Zf \quad \varepsilon Å^{2}}\sqrt{\rho \quad \psi^{2} Zf \quad \psi Å^{2}}}$ r = 0.69

The above correlation shows that there is positive correlation between total deposit and total investment of NBL. The coefficient of correlation between total deposit and total investment is 0.69 and probable error is 0.16. Comparing the value of ‘r’ and 6 times of P.E. we can say that there is positive relationship but not significant at all time between total deposit and total investment of NBL because ‘r’ is less than 6 times P.E. i.e. 0.69<0.96.

4.3 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of Himalayan Bank Limited and Napal Bank Limited for further five years.

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{\phi Y}{n}$ $b = \frac{\phi XY}{\phi x^2}$

HBL	NBL
a = 35.018	a = 43.14

b = 2.75 b = 1.67 Where as

Yc = 35.018 + 2.75 X of HBL

Yc = 43.14+1.67 X of NBL

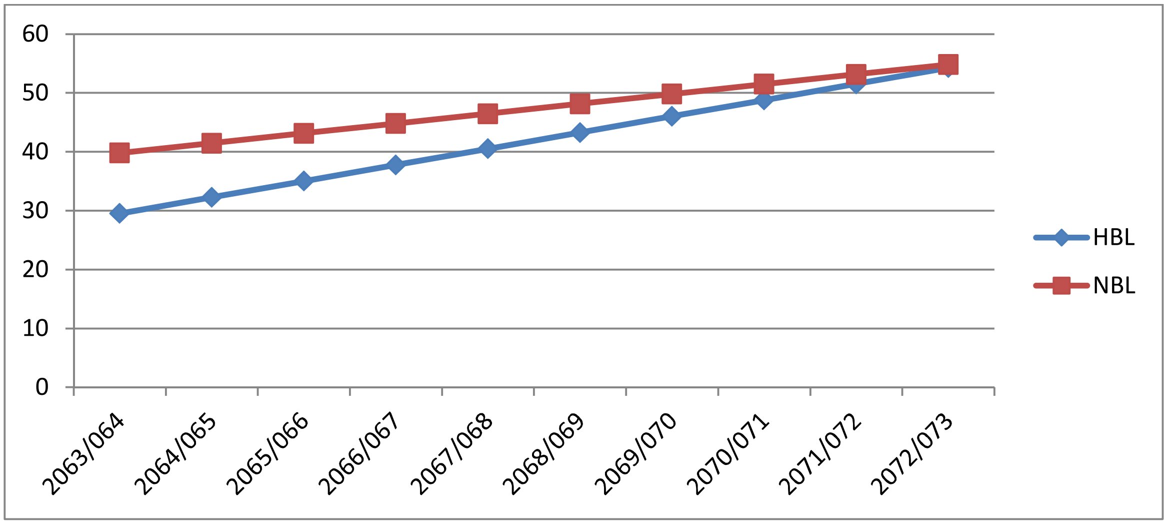
Table 4.29

Trend analysis of Total Deposit of HBL and NBL		
Year(x)	HBL	NBL
2063/064	29.52	39.80
2064/065	32.27	41.47
2065/066	35.02	43.14
2066/067	37.77	44.81
2067/068	40.52	46.48
2068/069	43.27	48.15
2069/070	46.02	49.82
2070/071	48.77	51.49
2071/072	51.52	53.16
2072/073	54.27	54.83

Source: Annul Report of Concern Bank

Figure No 4.1

Trend Analysis of Total Deposit of HBL and NBL



Above table and figure shows that total deposit of HBL and NBL. Both Banks is in increasing trend. The rate of increment of total deposit for NBL seems to be higher than that of HBL. The increasing trend of total deposit of NBL is more aggressive and high rather than HBL. It indicates NBL has more prospect of collecting Total deposit. The trend analysis has projected deposit amount in fiscal year FY 2063/64 to FY 2072/73. From the above trend analysis it is clear that NBL has higher position in collecting deposit than HBL.

B) Trend Analysis of Loan and advances

Here, the trend values of loan and advances Between HBL and NBL have been calculated for further five years. The following Table shows the actual and trend values of HBL and NBL.

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x$…………………… (I)

Where $x = X$ - Middle year

Here,

$a = \frac{\phi Y}{n}$

$b = \frac{\phi XY}{\phi x^2}$

HBL

a = 22.82

b = 2.73

NBL

a = 18.21

b = 3.57

Yc = 22.82 + 2.73 X of HBL

Yc= 18.21 + 3.57 X of NBL

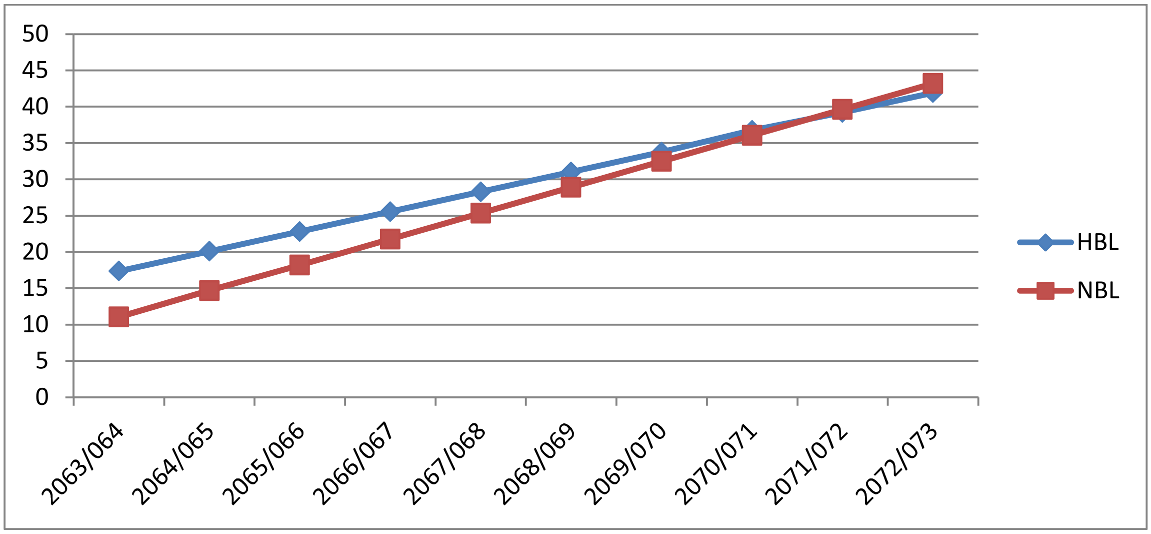
Table 4.30

Trend Analysis of Total Loan and Advance of HBL and NBL		
Year(x)	HBL	NBL
2063/064	17.36	11.07
2064/065	20.09	14.69
2065/066	22.82	18.21
2066/067	25.55	21.78
2067/068	28.28	25.35
2068/069	31.0	28.92
2069/070	33.74	32.49
2070/071	36.74	36.06
2071/072	39.2	39.63
2072/073	41.93	43.2

Source: Annul Report of Concern Bank

Figure No 4.2

Trend Analysis of Total Loans and Advances of HBL and NBL



Above table depicts that loan and advances of HBL and NBL. Both Banks has in increasing trend. The increasing trend of HBL is higher than NBL . The actual value of loan and advances for HBL is quite fluctuating in relation to NBL. The trend projected for father five years FY 2063/64 to FY 2072/73 From the above analysis, it is clear that both HBL and NBL is mobilizing its collected deposits and other funds in the form of loan and advances. Above table and figure shows the HBL has highly mobilizing loan and advances than the NBL.

C) Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of NABIL and MBL for further eight years

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\phi Y}{n}$$

$$b = \frac{\phi XY}{\phi x^2}$$

HBL

a = 10.22

b = -1.1

NBL

a = 9.88

b = -2.78

Yc = 10.22 – 1.1 X of HBL

Yc = 9.88 – 2.78 X of NBL

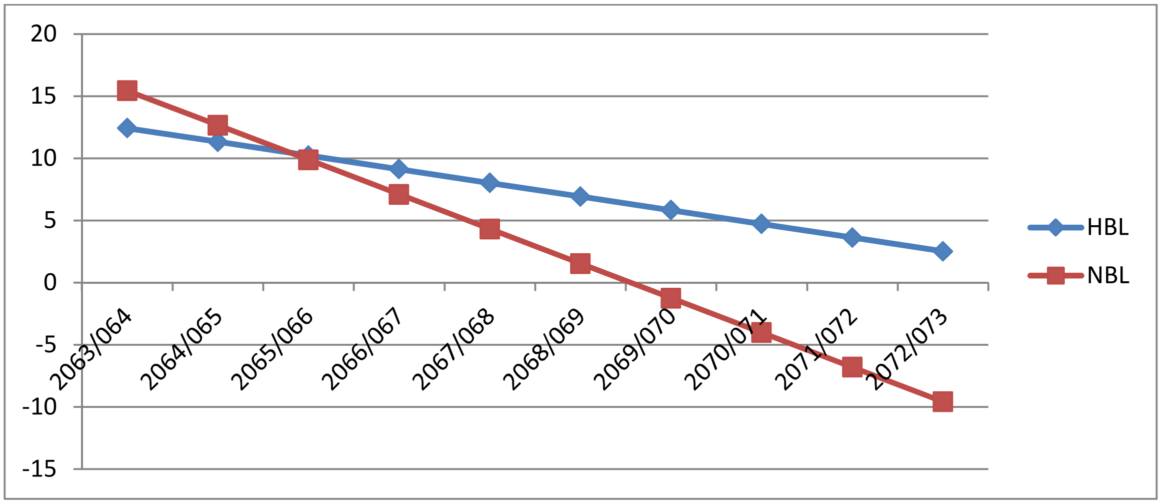
Table 4.31

Trend Analysis of Total Investment of HBL and NBL		
Year(x)	HBL	NBL
2063/064	12.42	15.44
2064/065	11.32	12.66
2065/066	10.22	9.88
2066/067	9.12	7.1
2067/068	8.02	4.32
2068/069	6.92	1.54
2069/070	5.82	- 1.24
2070/071	4.72	- 4.02
2071/072	3.62	- 6.8
2072/073	2.52	- 9.58

Source: Annual Report of Concern Bank

Figure No 4.3

Trend Analysis of Total Investment of HBL and NBL



Above table shows the Trend of Total Investment between HBL and NBL. Both Bank HBL and NBL have decreasing trend in making investment. NBL has little low and downward trend of decreasing, but HBL has moderately decrease in trend of total investment. The trend of total investment projected from FY 2063/64 to FY 2072/73. The forecasted trend projected that the NABIL has greater increment rate in total investment than the increment rate of MBL. The figure indicates NBL has not mobilized the total investment.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of NABIL and MBL have been calculated for five years FY 2063/64 to FY 2067/68 and forecasting for the next five years till FY 2072/73.

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x…………………… (I)

Where x = X - Middle year

Here,

a = $\frac{\phi Y}{n}$

b = $\frac{\phi XY}{\phi x^2}$

HBL

a = 3.28

b = 0.67

NBL

a = 1.74

b = - 0.019

Yc = 3.28 + 0.067 X HBL

Yc= 1.74 - 0.019 X NBL

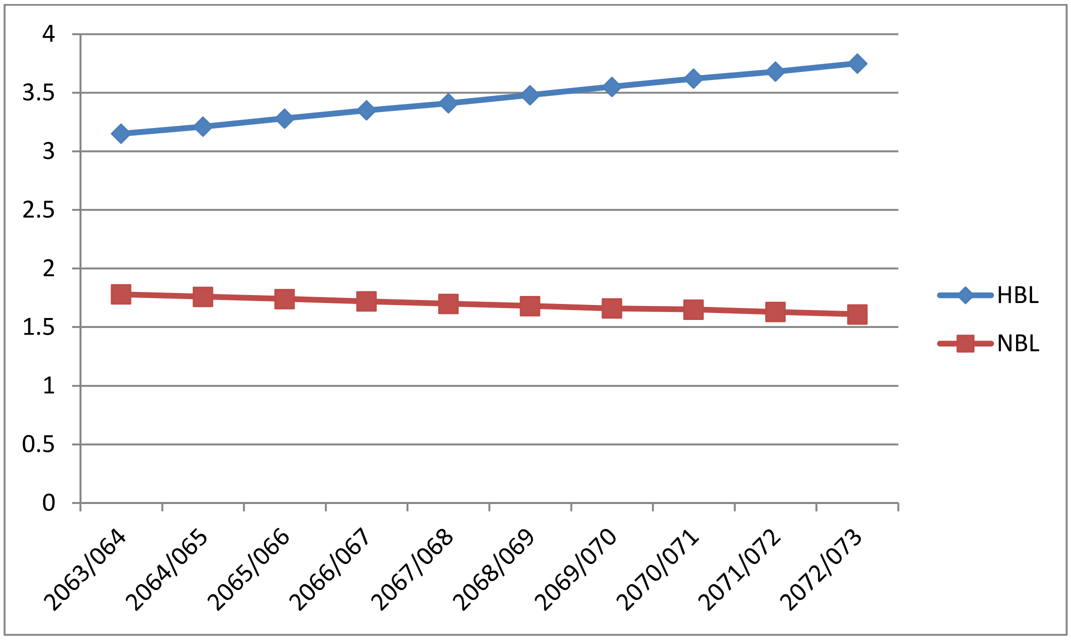
Table 4.32

Trend Analysis of Net Profit off HBL and NBL		
Year(x)	HBL	NBL
2063/064	3.15	1.78
2064/065	3.21	1.76
2065/066	3.28	1.74
2066/067	3.35	1.72
2067/068	3.41	1.70
2068/069	3.48	1.68
2069/070	3.55	1.66
2070/071	3.62	1.65
2071/072	3.68	1.63
2072/073	3.75	1.61

Source: Annul Report of Concern Bank

Figure No 4.4

Trend Analysis of Net Profit of HBL and NBL



The above table reveals the trend of Net profit of HBL and NBL. Net profit both bank HBL is in increasing trend and NBL is in decreasing trend. The trend of increasing value of net profit of HBL is higher and aggressive than NBL. The trend of Net profit projected to FY 2072/73 i.e. further five years. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, HBL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of HBL is higher than NBL.

E. Trend Analysis of Non-Performing Loan of HBL and NBL

Here, the trend values of net profit of HBL and NBL have been calculated for five years FY 2063/64 to FY 2067/68 and forecasting for the next five years till FY 2072/73.

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{\phi Y}{n}$ $b = \frac{\phi XY}{\phi x^2}$

HBL NBL

a = 3.28 a = 1.74

b = 0.67 b = - 0.019

Yc = 3.28 + 0.067 X HBL

Yc= 1.74 - 0.019 X NBL

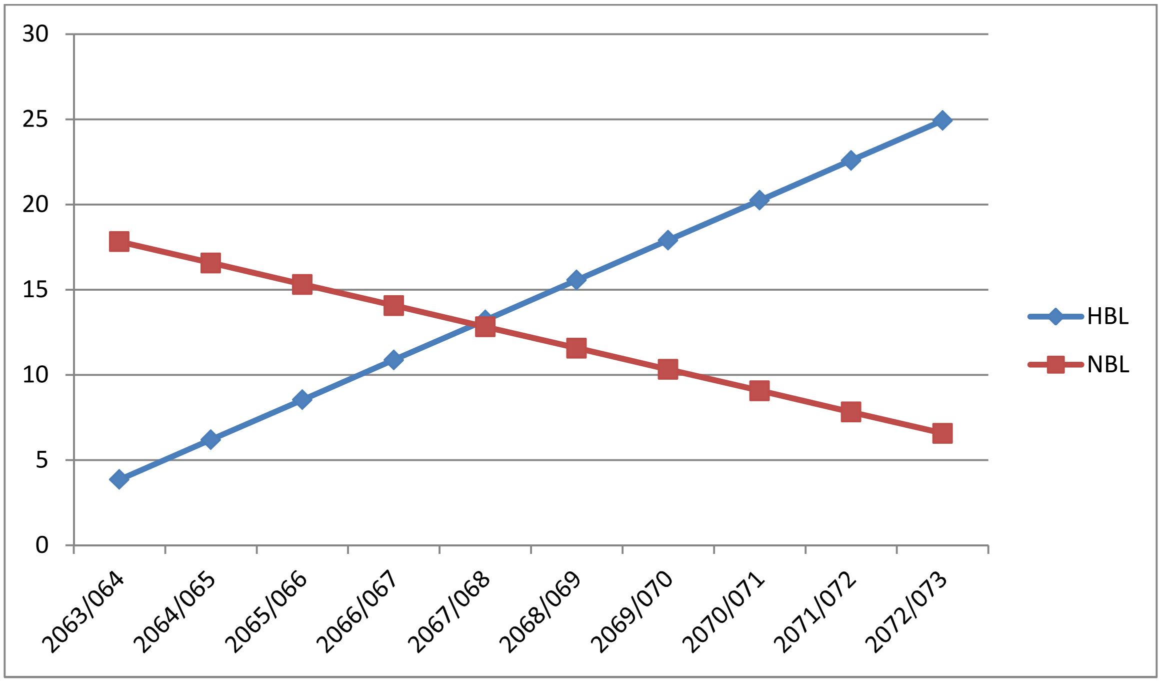
Table 4.33

Trend analysis of Non-Performing Loan of HBL and NBL		
Year(x)	HBL	NBL
2063/064	3.86	17.82
2064/065	6.2	16.57
2065/066	8.54	15.31
2066/067	10.88	14.07
2067/068	13.22	12.82
2068/069	15.57	11.57
2069/070	17.9	10.32
2070/071	20.24	9.07
2071/072	22.58	7.82
2072/073	24.92	6.57

Source: Annual Report of Concern Bank

Figure No 4.5

Trend Analysis of Non Performing Loan of HBL and NBL



The above table reveals the trend of Non- performing loan of HBL and NBL. NPL of HBL is increasing whereas NPL of NBL is in decreasing trend. The increasing trend of NPL of HBL is aggressive than the decreasing trend of NBL which shows that there is high ratio of loan uncovering is more in HBL. It increases the risk of decrease in profit.

F. Trend Analysis of Loan Loss Provision of HBL and NBL

Here, the trend values of net profit of HBL and NBL have been calculated for five years FY 2063/64 to FY 2067/68 and forecasting for the next five years till FY 2072/73.

Table 4.34

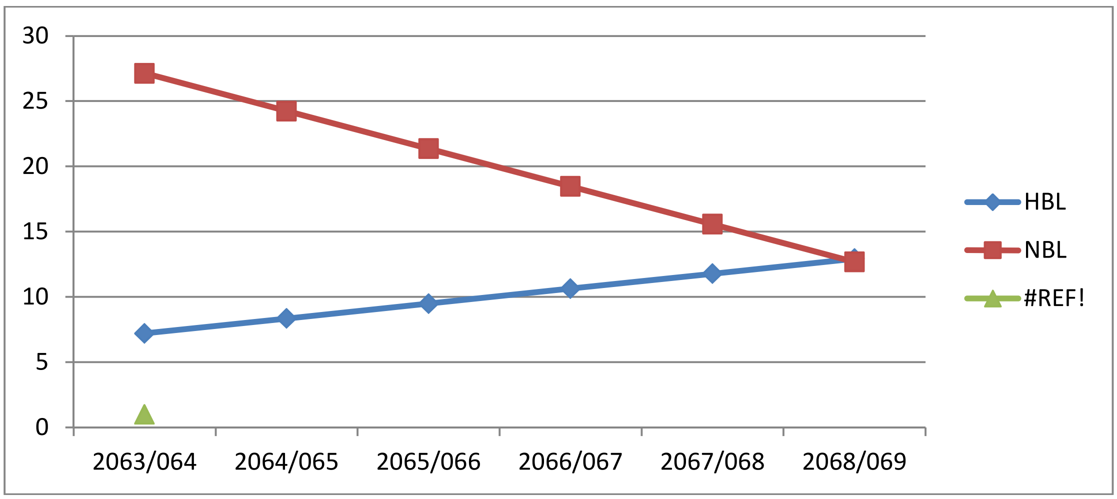
Trend analysis of Loan loss Provision of HBL and NBL		
Year(x)	HBL	NBL
2063/064	7.21	27.14
2064/065	8.35	24.25
2065/066	9.49	21.36
2066/067	10.64	18.47
2067/068	11.78	15.58

2068/069	12.93	12.69
2069/070	14.07	9.8
2070/071	15.21	6.91
2071/072	16.35	4.02
2072/073	17.5	1.13

Source: Annual Report of Concern Bank

Figure 4.6

Trend Analysis of Loan Loss Provision of HBL and NBL



The above table reveals the trend of Loan Loss Provision of HBL and NBL. Loan loss of provision of HBL is in increasing trend whereas trend of NBL is decreasing. There is high possibility of not recovering of loan that is why provision is more which dreceases net profit of the company.

4.4 Major Findings:

1. The liquidity ratio of HBL is greater than NBL which indicates that NBL is not being able to meet its day to day cash obligation in compare to HBL.
2. Cash and bank balance ratio of HBL is higher than NBL. HBL has more capacity to meet the daily cash demand of the depositors than NBL.
3. NBL has higher amount of investment in government securities than that of HBL which is a risk free investment.

4. HBL's ratio of loan and advances to total deposit is higher than that of NBL which implies that HBL has been successful to some extent to utilize its total deposits to loans and advances for income generation. Again, HBL highly utilized its total assets on loans and advances
5. HBL has high return on loans and advances in the study period than NBL.
6. Return on total assets of both the banks is equal which indicates that both have been successful in investing in total assets in income generation.
7. The equity capital of NBL is seen to be negative in the study period which indicated that NBL has not maintained equity capital whereas HBL has invested in its equity capital and has earned profit from the equity capital.
8. HBL has higher return on interest earned to total assets which indicates that HBL has been fully utilizing its total assets.
9. HBL pays more interest on total assets than NBL which increase the operating expenses of the firm.
10. NBL has high rate of non-performing loan which indicates that NBL has high bad debts than that of HBL.
11. NBL has high interest income than interest expenses in comparison to HBL.
12. NBL earning per share is more than that of HBL. Net income of NBL is rising.
13. NBL has not paid any dividend during the study period.
14. The co-relation between total loans and advances and net profit of both the banks is positively correlated.
15. There is also positive but not significant co-relation between total investment and total deposit of both the banks.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about credit risk management of Himalayan Bank Limited and Nepal Bank Limited. The main objective of the study is to analyze the credit risk management of HBL and NBL Bank Limited. The specific objectives of the study are: to examine the credit risk position of the selected commercial banks in Nepal (HBL and NBL), to analyze the credit risk management system and practices of HBL and NBL, to compare the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks, to determine the impact of deposit in liquidity and its effect on lending practices and to offer suitable suggestions based on findings of this study. The significance of the study proper management of credit risk for the growth and development of this sector, by considering the return is required. In today's competitive scenario, several macro economic factors such as political, economical, social and technological factors have increased the challenges to the banking sector. The success of any organization is largely dependent on how properly the organization can manage the risk. Banking sector involves several risks, which need to be handled promptly for the survival and growth. As this research is made mainly to analyze the credit risks and their management in reference to NRB directives and measures, it will provide valuable insight to different stakeholders about the major problems of banks and bank's action for its management. The key stakeholders who will be largely facilitated by this research.

To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to undertake this research more precisely. This chapter presents the conceptual review of credit risk management including different types of risk that exist in Bank, credit risk management system and credit risk management frame work and techniques. The Central Bank's regulations regarding the risk management has been also discussed. This chapter focuses on the review of literature relevant to understand credit and credit management of Bank. There are some books, journals, articles, other studies done related with lending and investment aspect of banks. Some of the relevant studies, literatures on lending and investment are reviewed below. This chapter is categorized in conceptual review and review of Related Studies into two different headings.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists various ratio likes current ratio, liquidity ratio, assets management ratio, profitability ratio and risk ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, regression analysis and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary. The major findings of the study are also included in the final section of the presentation and analysis chapter.

Economic development is not possible without the proper development of banking sector in a country, as banks are the real facilitator for mobilizing the resources. Banks are the institutions, which collect the scattered small savings from the public and invest them into productive sector that ultimately contributes to economic development of a country. Besides providing the services for economic development, they are established to earn profit. In the context of current competitive scenario, banks need to face challenges from all around. One of the major challenges for Nepalese commercial banks is to properly manage the risk, especially the credit risk as it covers about 60% of the total risk that a bank face. Considering the importance of credit risk management in commercial banks, this research aimed at studying the credit risk management system of selected commercial banks. For this purpose, descriptive cum analytical research design was adopted. Out of total population of 26 commercial banks (till 2010), 2 banks were taken as sample using judgmental sampling method. HBL and NBL have been taken for comparative study because of their similarities in terms of business size, date of establishment, capital size etc.

The basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets, which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

Credit practice of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

Credit positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return.

5.2 **Conclusions**

Thus this research is conducted with the major objective of highlighting credit risk management of two commercial banks. The observation and conclusion is derived by analyzing calculated various ratio like liquidity, asset management, profitability and risk ratio as we as relevant financial and statistical ratios of commercial banks. This has helped to reach conclusion and provide workable solution for the liquidity management and profitability of selected banks.

Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 2:1. The mean current ratio of HBL is 0.78 and NBL is 0.67 the current ratio of HBL is little higher than NBL. It indicates better liquidity position of HBL. Cash and bank balance to total deposit ratio of HBL is higher than NBL i.e. 2.5 >0.55. Cash and bank balance to current assets ratio of NBL is higher than HBL and Investment on government securities to current assets of NBL has higher than HBL i.e. 0.36 > 0.21. It shows NBL has invested more fund in government securities

In the aspect of Asset Management Ratio The loan & advances to total deposit ratio of NBL is lower than HBL. The total investment to total deposit of NBL is slightly higher than HBL i.e. 0.28 > 0.22. It shows the NBL is mobilizing its funds on investment in various securities efficiently. The loan & advances to total assets ratio of HBL is greater than NBL. Investment on government securities to total assets ratio of NBL is higher than HBL i.e. 0.22 > 0.44. This indicates that NBL has invested more portions of total assets on government securities.

The major performance indicator of any firm is profit. Return on loan & advances ratio of HBL is higher than that of NBL i.e. 00.3> 0.021. Return on total assets ratio of both the banks is equal. Return on equity of HBL is higher than NBL i.e. 0.23 > -0.68 which shows that HBL is more successful to earn high profit through the efficient utilization of its equity capital Return on equity of NBL is negative which indicates that NBL has not maintained equity capital. Total interest earned to total assets ratio of HBL is relatively little higher than that of NBL. Total interest earned to total operating income ratio of

HBL is higher than NBL i.e. 1.36 < 1.2. It means the greater portion of total operating income is occupied by total interest for HBL. It reveals HBL has successful mobilizing their fund in interest generating assets. Total interest paid to total assets ratio of HBL is higher than NBL i.e.0.03 > 0.02. It shows HBL has high interest expenditure to total assets. It supports HBL to increase to interest paid to operating income**.**

From the research study, following conclusion are drawn on the credit risk position of the sample banks. The credit risk ratio shows the proportion of non-performing loan in total Loan & Advances. Average credit risk ratio of HBL is lower than NBL i.e.0.032< 0.082. NBL has efficient operating of credit management than that of HBL from the mean point of view. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of HBL is greater than that of NBL (i.e. 0.72 > 0.16). It signifies that HBL has sound liquid fund to make immediate payment to the depositors.
On the aspect of other ratios Average earning per share of NBL is much greater than that of HBL i.e. Rs. 91.38 > Rs. 52.35. The dividend per share of HBL is higher than NBL i.e. 16.14 > 0.0. It can be concluded that NBL has not paid any dividend in these five years of study period. Average market price of the share of HBLis greater than that of NBL i.e.1374.5 > 0.0. It indicates that shareholder of HBL are getting higher price. It shows HBL has better financial performance than NBL in order to increase market price per share. The C.V. of HBL is little bit high it indicates that HBL has little bit inconsistent in its market price. The mean price-earnings ratio of HBL is little higher than that of NBL i.e. 25.44 is greater than 0.0. The conclusion is that HBL seems riskier than NBL. HBL has seem better in every angle than NBL.

Coefficient of correlation both NBL and HBL have high positive co-relation between total deposit and loan & advances i.e. HBL is 0.95 and NBL have 0.97. The correlation coefficient of both banks is significant. There is positive correlation between total deposit and total investment of HBL and NBL. Correlation between Loan and advance and net profit of HBL is 0.67 and NBL is 0.87. Correlation coefficient between total investment and net profit of HBL and NBL is 0.69 and 0.66 respectively. The relationship between Loan and advance and net profit of NBL has significant and HBL has insignificant. The correlation of total investment, loan and advance and net profit between HBL and NBL is positive. It means all ratios of these two banks moves in the same direction in high. Correlation coefficient is significant due to more than 6 P.Er

Conclusion drawn from analysis of Trend Analysis NBL and HBL have increasing trend in collecting deposit the rate of increment of total deposit for HBL seems to be higher than that of NBL. The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances. The trend line of loan and advances for HBL seems high growing than NBL. The total investment trend line of NBL and HBL is downward sloping where as NBL has aggressive downward sloping of total investment trend line. The trend line of Net profit for HBLis upward sloping whereas net profit of NBL seems slightly downward sloping. The position of HBLL is better in order to generate profit than NBL.

Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the credit risk management of NBLand HBL effective and efficient. This would help to draw some outline and make reforms in the respective banks

- Generally, banks have to maintained liquid assets. The current ratio of the two banks, NBL and HBL is relatively same. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to NBL and HBL.

- Banks have to manage their credit portfolio well diversified. This focuses on the principal that" don't put your all egg in one basket". Concentration of credit on one industry, business sector or particularly one businessman can significantly raise risk of default if that particular sector fails or crashes. In this regard Himalayan bank is well ahead of Nepal bank limited. High percentage of nonperforming loans and relatively less liquidity to meet depositor's requirement shows NBL's vulnerability of higher credit risk than HBL. So it strongly recommended to NBL to review their credit policy to reduce their Non performing loans.

- There are some some positive aspects of NBL performance since its restructuring which commenced on July 22, 2002 and lasted two years. There have been significant improvement in their operations loan recovery, accounting and audit, human resources development and IT/MIS. It has better manage its assets to reduce its asset risk ratio than Himalayan bank limited. But NBL has lots of ground to cover to become competent with other private sector bank. So it is strongly recommended to NBL to continue their commendable achievements through strict implementations of their overhauling policies.

- Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks, NBL and HBL have made some amount of fund in Government securities. But NBL and HBL are recommended to invest more funds in Government securities instead of keeping them idle not adversely affecting their daily liquidity.

- To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. It has been found that loan & advances to total deposit ratio of NBL is lower than that of HBL. NBL and HBL have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

- Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. Being government bank NBL has widespread network in rural areas but HBL is significantly behind NBL in this aspect.HBL should consider rural areas in making investment.

- EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the better performance of banks. Here EPS of NBL is considerably higher than HBL Whereas NBL has not declared dividend for our study period mainly because of majority of government shares in the bank. So, HBL is highly recommended to keep up with industry EPS to keep their shareholders satisfied and to increase market value of their shares.

- Both banks should be careful in increasing profit of the bank to maintain the confidence of shareholders, depositors and all its customers. NBL profitability position is not better than that of HBL. In fact, Return on equity ratio is negative of NBL throughout our study period So, NBL is strongly recommended investigate the main cause behind such poor profitability position and take corrective steps. Utilizing risky assets and government fund to gain high amount of profit could be one of the many corrective steps that the bank take to improve their profitability position.

- NRB has given directives to commercial banks to invest their certain percentage of investment in deprive and priority sector. Both banks have earned profit from profitable and private sector. So, they are recommended to strictly follow up the directives issued by NRB and should make investment on public utilities sector like health, sanitation, education, drinking water, agriculture, hydropower etc.

- Lastly, political instability directly affected the economic sector such as hotel & tourism, manufacturing and trading sector. Bank loan & advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.

Keeping all these in consideration, the NBL has less performance than that of HBL. NBL seems lower creditworthiness than HBL. Therefore, in the future ahead, the NBL should improve its weaknesses by adopting the innovative approach to recover their bad loans. In the light of growing competition in the banking sector both bank NBL and HBL should be customer oriented. It should strengthen and activate its lending and recovery function as it is an effective tool to attract and retain the customers. For this purpose, it is recommended to form a strong credit recovery department in its central level, which deals with the default credit customers and take necessary action to recover their non performing loan.

Please make the above mentioned changes throughout this chapter. Also make a trend analysis of the NPL to total loan ration and loan loss provision to total loan ratio.

5.4 Recommendation for future studies

Findings of this research can be seen as a meaningful and valuable piece of work for academician, practioners, researchers and investors. All the bankers and businessman can find very important findings from this study. So that they can follow new strategy in future but researchers still can further explore many more area relating the credit management of commercial banks.

5.5 The following are recommendation for future studies

1. This study is focuses how credit risk position of two sample banks. Same study can be conducted by taking more than two sample banks.
2. This study focuses on credit risk management only. Many studies can be done showing the credit management in Nepalese commercial banks and in other many organizations.
3. Comparative study of credit management by other financial institution (Development banks, finance companies and micro finance) can be carried out.
4. In this study private bank(HBL) and Government bank(NBL) has been compared to analyze credit risk .Only private or government bank can be compared on same topic.

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