CHAPTER- I

INTRODUCTION

1.1 Background of study

The economic development of any nation is highly dependent on the various industrial sectors. This industrial sector comprises public sectors, manufacturing enterprises, tourism, transportation, construction, consulting services, trade and services. The smooth operations of these sectors certainly have positive results over the economic growth and development of the nation. The failure of only one sector may also retard the economic growth. The level of contribution of these sectors on Gross Domestic Product (GDP) should be increased year by year. The contribution of financial and consultancy services in overall GDP cannot be overlooked. It is the fact that the existence of financial sector in the development of the capital market as well as money market is remarkable. Moreover, the sector has been able to lure a large community to invest in equity shares through primary and secondary market. Whatever may be the position of the sector, one can definitely state that it is one of the major catalysts in removal of backwardness and poverty from the nation. The financial and consultancy services, one of the important industrial sector, comprises banks, development banks, rural development banks, agriculture development banks, finance companies, co-operative with limited banking transactions.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channel zing the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resources. Financial system contains two components viz., depository financial institutions and non-depository financial institutions. Commercial Banks and Finance Companies (in Nepalese context) are the examples of depository financial institutions whereas Employee providence Fund, Development Bank, Insurance Companies etc, are the examples of non-depository financial institutions. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

Integrated and speedy development of the country and its financial position of the people are possible only when competitive banking service with its effective credit management reaches nooks and corners of the country. In the developing country like Nepal, there is always lack of financial resources not only because of its real absence but because of the available resource not properly mobilized and not fully utilized for the productive purpose; in this course the commercial banks play a vital role. In modern times, commercial banks, which are facilitated, regulated and supervised by the Central Bank, confined them and concentrated in their activities of fulfilling the as a powerful instrument of planning and economic growth of all the developed and underdeveloped sectors. The scope and scale of banking too have undergone substantial change in response to the saving and credit needs of people.

Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society that they are serving.

While talking about financial system there are two important aspects of financial deepening and financial repression. Financial repression is defined as a situation where the government and /or central bank's regulations distort the operation of financial market. In other words, it means banks are dictated by the central bank and/or government not to charge more than certain amount of interest and restriction on other activities too. The indicators of such situation are ceiling on the nominal interest rate, mandatory investment in government paper, imposition of reserve requirement limiting their ability to lend and mandatory directed credit in priority and deprived sector. Similarly, financial deepening is defined as the situation where banks are allowed to charge interest on the prevailing market rate. There is negligible restrictions imposed by the central bank and commercial banks have been given total freedom on their activities.

Nepal, a developing country, faces a lot of problems for their economical development. Financial market is very important for the economic growth of the country (Economic Survey, 2004/05: 2). The pace of development of the country is largely depends upon the economic activities. Economic activities are guided by finance, financial institutions provide societies, insurance companies, and stock exchange helps in the economic development of the country (Economic Survey, 2004/05: 2).Banks are major institutions in financing. Bank involves in a process of collecting scattered money and to help its mobilization in different sectors according to the need of customers (Shekher & Shekhar, 1999: 3). Bank helps to develop saving habit of people, which in turns help to make other people to invest for their business. Banking loan helps to invest in industrial sector, commercial sector, production sector, trade & commerce. Bank also helps to develop international business by initiating as a mediator on export & import. This way banks help to strengthen the national economic development (Economic Survey, 2004/05: 3). Banking is one of the most heavily regulated businesses in the world (Vaidhya, 1999: 5). Banks are among the most important financial institutions in the economy. They are the principal source of credit (loan-able funds) for millions of individuals and families and for many units of government. Moreover, bank often act as a major source of credit to small local business ranging from grocery stores to automobile dealers for their stock. Banks are among the most important sources of short term working capital for business and have become increasingly active in recent years in making long-term business loans for new plant and equipment (Shekhar & Shekhar, 1999: 6). Lending is the most important function of a commercial bank. For lending procedure, bank has to make some banking practices such as transferring property in bank’s name. Transfer is temporarily made for a loan price & interest. Lending money is nowadays becoming main resources of revenge to the bank and also involves high risk too. Bank will not provide loan unless it has sufficient sources to the borrower that will be needed incase of future recovery.

Today no banker can survive for long run without proper standing of economy and no pace ahead without proper banking system. Moreover, the ability of banks to gather and analyze financial information has given rise to another view of why banks exist in modern society. Most borrowers and depositors prefer to keep their financial records confidential, shielded especially from competitors. Banks are able to fulfill this need by offering high liquidity in the deposits they sell. More people believe that banks play only narrow role in the country-taking deposits and making loans. The modern bank has to adopt new roles in order to remain competitive and responsive to public needs *(NRB, Smarika, 2004/05: 41).*

For the development of any country, the financial sector of that country is responsible and must be strong. Financial sector comprises of bank, co-operatives, insurance companies, financial companies, stock exchange markets, mutual funds etc. Financial institutions play a major role in the proper functioning of an economy. These institutions collect idle & scattered money from the general public & finally invest in different enterprises and productive sector of the national economy that consequently help in increasing employment opportunities, increasing in life style of people, reducing poverty and thereby developing the society and the nation as a whole.

Nepal has been facing the problem of accelerating the pace of economic development. Economic development of a country depends upon the uplifting of the rural people through increasing their productivity thereby raising their incomes, which ultimately help them to cross the poverty line. The commercial banking system in Nepal is still in its infant stage as compared to other developed countries. However, their important role in the economic development of the country has been fully realized and these banks are being oriented in their activities best suited for the overall economic development of a country. Banks play a significant role in the development of a country. Bank is a financial institution, which maintains the self-confidence of various segments of society and extends credit to the people. The financial institution is an indispensable part for the uplifting of a country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange and foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country. Commercial bank is an institution, which accepts demand deposits, subject to check and make short-term loan to business enterprises, regardless of the scope of its other services.

1.2 Origin of the bank in Nepal

This way bank plays important part in the development of trade, commerce and industry. Today no banker can survive for long run without proper standing of economy and economy cannot pace ahead without proper banking system built. The history of banking system in Nepal in the form of money lending can be traced back in the reigning period of Gunakam Dev, 'the King of Kathmandu' (Nepal Bank Limited, 2037: 31). Tankadhari ’a special class of people’ was established to deal with the lending activities of money toward the end of fourteen century at the ruling period of king Jayasthiti Malla (Nepal Bank Limited, 2037: 32). During the Prime Ministerial period of Rannodip Singh, one financial institution was established to give loan facilities to the government staff & loan facilities to the public. in general in the term of 5% interest but 'Tejarath' did not accept money from public (Nepal Bank Limited, 2037: 40).On 30th Kartik, 1994 BS, Nepal Bank limited was established to provide modern & organized banking facilities. Up to 2012 BS, only NBL provided services to the public as an organized bank. Later, NRB act 2012 BS was made to establish NRB as a central bank to manage, control and develop monetary system in Nepal. NRB was formally establish on 14th Baisakh, 2013 BS & its capital at the starting time was 1 crore. Similarly, Rastriya Banijya Bank was set up in 2022 BS to fulfill the growing needs of the country. The birth of this bank brought a new landmark in the history of banking facility in the Nepal. Like other developed countries, Nepal also took the policy of open economy and liberal, to develop good competition in the banking field. Hence, the Joint Venture Banking policy is taken. Today, 31 commercial banks are operating to provide modern banking services & facilities. The history of modern financial system of Nepal was begun in 1994 BS, with the establishment of the Nepal Bank Ltd. (NBL) as the first commercial bank of Nepal with the joint ownership of government and general public. It was established under “special banking act 1993” having elementary function of commercial banks. Later, Nepal Rastra Bank (NRB) was established after 19 years since the establishment of the first commercial bank i.e. Nepal Bank Limited in 2013 B.S under “Nepal Rastra Bank act 2012” with an objective of supervising, protecting and directing the function of commercial bank activities. After the establishment of NRB, Nepal witnessed a systematic development of the financial system. After the restoration of democracy in 1991 AD, Nepal has clearly been following a liberalized economic policy and witnessing diversification in financial system. As a result, various banking and non-banking financial institutions have come into existence. Then after in 2016 BS Nepal Industrial Development Corporation, in 2022 BS Rastriya Banijya Bank (RBB) under “Rastriya Banijya Bank act 2021” and in 2024 BS Agriculture Development Bank was established in Nepalese financial sector. Nepal Bank Limited and Rastriya Banijya Bank are the two major Commercial banks in Nepal that are providing credit under different Priority Sector Credit Programs in rural areas from their initial stage. They have contributed a lot in the upliftment of rural people and socio-economic development of a country. As both banks are established as public enterprises in the development of a country, they have main objectives to maximum social benefit rather than profit maximization as profit making motive is their secondary objectives. The financial scenario has changed to a new horizon with the established of joint venture bank in the year 2041 B.S. The efficient operating practice and policy adopted by these joint venture banks helps Nepal to take a step in this banking field. With the opening of NABIL bank in 1984 AD the door of opening commercial banks was opened to the private sector then whole lot of commercial banks was opened in Nepal. Today all the banks except Nepal Bank Ltd and Rastriya Banijya bank are making profit. The efficiency of these two public sector banks has led to the success of other private banks. Joint venture Banks (JVBs) are increasing in Nepal. Nepal Arab Bank Limited (Currently named as NABIL Bank Limited) was the first joint venture bank established in 1984 with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public. In global perspective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups of industries and trades to achieve mutual exchange of goods and services for sharing comparative advantages. A Joint Venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation of industrial or commercial investment, production or trade) (Gupta, 1994: 24). Commercial banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post shipment finance to exporters. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. All these reveal the vital role and the need of joint ventures in Nepalese banking sector or financial service industry.

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the prosperity of its economy. The financial institutes act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. The economic activity of the country can hardly be carried forward without the assistance of financial institutions. They are indispensable part of the development process.

Commercial banks play an important part for economic development of a country as they provide capital for the development of the industries, trade, and business by investing the saving collected as deposits from the public. They vender various service to their customers facilitating their economic and social life. Therefore, a competitive and reliable banking is essential to the nation for the development. Nowadays, there is less opportunity in banking sector to make investment because of competition. In this condition, joint venture banks can take initiation in search of new opportunity, so that they can survive in the competitive market and earn profit. But investment is the very risk job. For a purposeful, safe, profitable investment, bank must follow sound investment and fund mobilizing policy in recent times, many commercial banks are providing consumer-financing facilities. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances, etc. These all activities affect the cash flows, liquidity and profitability of the banks. Lending is the most important function of a commercial bank. For lending procedure, bank has to make some banking practices such as transferring property in bank’s name. The transfer is temporarily made for a loan price & interest. Lending money is becoming main sources of revenue to the bank but it also involves high risk. Bank will not provide loan unless it has sufficient sources to the borrower that will be needed in case of future recovery. Today no banker can survive for long run without proper standing of economy and no pace ahead without proper banking system. Moreover, the ability of banks to gather and analyze financial information has given rise to another view of why banks exist in modern society. Most borrowers and depositors prefer to keep their financial records confidential, shielded especially from competitors. Banks are able to fulfill this need by offering high liquidity in the deposits they sell. More people believe that banks play only narrow role in the country-taking deposits and making loans. The modern bank has to adopt new roles in order to remain competitive and responsive to public needs.

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer needs to price that credit reasonably in line with competitively determined interest rates. Bank loan support the growth of new businesses and jobs within the banks trade territory and promote economic vitality. Banks made a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles and buying new furniture, taking dream vacations or pursuing college educations, to constructing home and office buildings. Loans may be divided as; real estate loans, financial institution loans, agricultural loans, commercial and industrial loans, loans to individuals, miscellaneous loans, lease financing receivables etc. Going through loan granting provision, bank will look through safety of funds, purpose of loans, and security for loans, profitability spread of loan portfolio etc. Besides this, the character of person receiving credit, the capacity of borrower to utilize the fund, the percentage of borrower stake in the business are the basic elements which measures the quality of borrower and ultimately the quantity of the loan. This way bank plays important part in the development of trade, commerce and industry.

Financial liberation took place in Nepal in the mid 1980's then after bank innovates to remain in forefront. Better use of funds, easily availability of funds to the entrepreneurs, better returns to the depositors, professional approach towards customer's satisfaction. As the July 2011 altogether there are around 31 Commercial Banks, 62 Development Banks, 80 Finance Companies, and 12 Micro Credit Development Banks, 16 saving and Credit Cooperatives and 47 NGOs functioning in the country. These financial institutions are under the regulation and supervision of the NRB. Besides these institutions, there are more than 1500 registered saving and credit co-operatives operating in the different part of the country and there are many NGOs involves in this sector. NRB is an apex institution in money and capital market in Nepal. It works as a central bank of the country. Banks and other financial institutions are supervised, directed, regulated and controlled by NRB. Following is the list of the licensed Commercial Bank as on Mid- July 2011

1.3 Profile of sample banks

There are 31 commercial banks operating in nation taking "ka" in rank. Among them only two banks are taken as a sample. The general introduction of bank is given below.

1.3.1 Everest Bank Limited (EBL)

Everest Bank Limited was incorporated in 1994 AD with the view of extending professionalized and efficient banking services to various segment of the society in joint venture with Punjab National Bank India, one of the largest commercial bank of India. Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has more than 37 branches in and out side of Katmandu valley.

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

Table 1 Capital Structure of Everest Bank Limited

Capital as (2010)	Amount in Rs. (000)
Authorized capital	1250000
Issued Capital	1050000
Paid up Capital	1030000

Sources: Annual Report and website of the Bank

1.3.2 Himalayan Bank Limited (HBL)

Himalayan Bank Limited (HBL) was incorporated in 1992 by few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares 80% are held by the Nepalese private sector and remaining by foreign. Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has 30 branches in and out side of Katmandu valley. Himalayan Bank has furnishing the service from the 50 onward counting ATM counters as well as it gives the 365 days banking service too.

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

Table 2 Capital Structure of Himalayan Bank Limited

Capital as (2010)	**Amount in Rs. (000)**
Authorized capital	3000000
Issued Capital	1600000
Paid up Capital	1600000

Sources: Annual Report and website of the Bank

1.4 Credit Management

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

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

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

The Credit policy of a firm provides the framework to determining whether or not to extend the 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.

1.5 Statement of problem

Commercial banks of Nepal have facing various challenges and problem which are arising due to internal as well external environmental conditions such as economic environment, political environment, socio-cultural environment, legal environment, governmental and policy maker. Some of them arise due to confused policy of government and many of them arising due to default borrowers. However financial institutions are increasing rapidly, they collect deposit in different names. Lack of secured sector, lack of proper knowledge and good lending opportunities they are facing so many problems such as over liquidity, financial as well as non financial problem and unfair competition. Due to poor credit administration, the credit recovery is ineffective and non performing credit increasing highly. The legal process of the credit recovery is lengthy and ineffective. The bank has been remaining the problem that they are facing.

- Whether the bank has maintained right level of liquidity?
- How far EBL & HBL are able to use its resources in credit and advances?
- Is their efficiency in lending?
- Has the bank been able to earn profit?
- What is the impact of growth in deposit on liquidity and lending practices?
- What are the deposit collection and utilization trends?

1.6 Objective of study

The role of commercial it in mobilizing and utilizing scattered resources of nation is praiseworthy one. The basis objectives of the study are to have true insight into the commercial bank aspect (practice of disbursing loan and recovery) of the Everest bank limited and Himalayan bank limited. This aims to examine its efficiency, effectiveness systematization and sincerity in disbursing and recovery loan as well as within the directives of Nepal Rastra bank (NRB), financial and institutions act and its own policy. This is no doubt that the role of commercial banks is significant in development of country. Banks help to develop country by providing credit to the necessary sectors. Therefore the main objective of this study is to find out credit management position of sample banks EBL & HBL.

- To examine the deposit collection and utilization trends of the sample banks.
- To examine and evaluate the liquidity, profitability of the banks.
- To examine the lending efficiency of the banks.
- To examine the relationship of deposit, loan & advance and net profit.

1.7 Significance of study

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

- Importance to the shareholders.
- To management body of this bank for evaluation of the performance of bank.
- To other who mainly concern customers, financing agency and stock exchange.
- To the government bodies and policy makers.
- To outside parties, investors and competitors and
- To the researchers as well.

1.8 Limitation of study

Every study has its own limitation; all necessary data may not be available due to business secrecy. Being a student lack of the sufficient time, resources and proper information and data are not available are remains as the major limitations.

- This study is mainly concerned with two commercial banks (EBL & HBL) and only that factor related with credit practices.
- Time constraints may limit the area covered by the study.
- The study based on the primary as well as secondary information. However the base of the source of information is secondary. On part of secondary information official documents, annual report, web site, newspaper, and other relevant publications have been examined.
- In this study only selected financial and statistical tools and techniques are used.
- It is based only on latest six years data.
- This study is conducted only for suggestion not for directory.

1.9 Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way.

The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

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

Chapter-II: Review of literature

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

Chapter-III: Research Methodology

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

Chapter-IV: Presentation and Analysis of data

This chapter consists of data collection and analysis of the data's related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher, concluded about the performance of the concerned organization for better improvement.

Chapter- II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is way to discover what other researcher in the area credit management. A literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of Credit Management of EBL & HBL. It can be helps to develop some experience in this area. To see what new contribution can be made, to receive some idea for developing a research design. This chapter will examine how to review the literature and how to actually find library materials. We study the review of literature in dividing two headings:

- Conceptual Review
- Review of related Studies

2.1 Theoretical /Conceptual Review

2.1.1 Concept of Bank

Simply, Bank is financial institution that accepts deposit and invests the amount in the leading activities and also provides commercial service. In ancient, the words Bank was emerge form Latin words Bancus, French words Banque and Italian words Banca, which means a Bench where sitting over there invest exchange and keep record of money and cash. These all functional activity is formed as current banking activities.

According to S and S, “A banker or bank is a person or company carrying on the business of receiving money collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent to the amount available on their customer (Shekher & Shekher, 1999)”. Paget state that no one can be a banker who does not take deposit accounts, take current accounts, issues and pay cheques of crossed and uncrossed, for his customers. He further adds that if the banking business carried on by any person is subsidiary to some other business he cannot be regarded as a banker (Paget, 1987). The words Bank refer as Central bank, Commercial bank, Development bank, Exchange bank, Saving bank, Cooperative bank, Merchant bank, Housing bank, Equipment bank, Infrastructure bank and Mutual fun etc. they provide financial as well as non-financial services. It is a financial intermediary between depositors or lender and withdrawal or loaner. Bank plays a great role that it helps investors to invest in different sector by giving a loan and providing other consultancy and agency services. Thus the word bank it self provide huge sense of banking activities.

2.1.2 Concept of Commercial Bank

commercial bank is a corporate business venture which have certain paid up capital and provide loan, accept deposit, exchange money and other consultancy, agency, guarantee etc services are perform. Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creation and agency functions. They provide short-term credit, medium term credits and long terms credit as well as issuing guarantee, bonds, letter of credit, etc to trade and industry. "A commercial bank is the bank which exchanges money, accepts deposit transfers loans and performs banking functions" (Commercial Bank Act, 2031 B.S.). "Principally commercial bank accepts deposits and provides loans, primarily to business firms there by facilitating the transfer of fund in economy" (Rose, 1989: 89) the commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confluence of various segments and extends credit to people" (Ronald, 1999: 87) " A Bank is a business organization that's receives and holds deposits and funds from others, makes loans and extend credits and transfer funds by written order of depositors" (Grolier incorporation, 2000). Commercial Banks function as an intermediary; accepting deposits and providing credits to the needy area. The primary source of funds for commercial bank are capital (shareholder equity) reserve (retain earning) and other main source of the commercial bank is current deposit issue of commercial paper bond etc. Commercial banks are restricted to invest their funds in corporate securities. They invest their funds in long term as well as short-term needs of any trade and industry. They grant credits in the form of cash credits and overdraft. Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial Banks apart from financing, they also render a variety of service like collection of bills and cheques, safe-keeping of valuables, financial advising, agencies functions, keeping of guarantee etc to their value customers.

2.1.3 Functions of Commercial Banks

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

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

- Assist in foreign Trade: The bank assist the traders engaged in foreign trade of the country. He discounts the bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly, he also accepts the bills drawn by foreign exports.
- Offers Investment Banking and Merchant Banking Services: Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategies marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rate. In this way they support the overall economic development of the country by various modes of financing.

2.2 Concept of Credit

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

Credit management is also the system, which helps to manage credit effectively. In other words, credit management refers management of credit exposures arising from loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income. Credit management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and inter bank explores. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loan are the largest and most obvious sources of credit risk, however, other sources of credit risk exist through out the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlement of transactions. The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit and methods of credit analysis. In the field of banking transaction the term of credit referred to the loan. Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of the investment; the most of the investment activities based on credit; it is the main factor for crating profitability; it is the main source of creating profitability. Credit management is also a system, which helps to manage credit effectively. Credit management refers management of credit exposures arising from loan, corporate bonds and credit derivatives. Credit exposures are the main sources of investment in commercial banks, and returns on such investment is supposed to be main sources of income.

Credit is financial assets resulting from delivery of cash or other assets by a lender to a borrower return for an obligation of repay on specified date on demand. Management is the system, which helps to complete the every job effectively. Credit management is also the system, which helps to manage credit effectively. In other words, credit management refers management of credit exposures arising from loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

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

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

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

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

- Overdraft
- Cash Credit
- Direct Credit
- Discounting of Bills

2.2.1 Types of credit

There are different types of credit which are mentioned below.

- **Overdrafts:** It denotes the excess amount withdrawn over their deposits. In other words bank provide sum limit of money to their value customer according to their believe ness and level of transaction.
- **Cash Credit:** The credit is not given directly in cash but deposit account is being opened on the name of credit taker and the amount credited to that account. In this way, every credit creates deposit.
- **Term Credit:** It refers to money lent in lump sum to the borrowers. It is principle form of medium term debt financing having maturities of 1 to 8 years. Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard, 1996:89).

- **Working Capital Credit:** Working capital denotes the difference between current assets and 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.
- **Hire Purchase Financing (Installment Credit):** Hire-Purchase credits are characterized by periodic repayment of principle and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principle as well as interest with an option to purchase. A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credits on a variable rate basis.
- **Housing Credit (Real Estate Credit):** Financial institutions also extend credit to their customers. It is different types, such as residential building, commercial complex, construction of warehouse etc. It is given to those who have regular income or can earn revenue from housing project itself.
- **Credit Cards and Revolving Lines of Credit:** Banks are increasingly utilizing cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administration cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.
- **Bank Guarantee:** It used for the sake of the customers in favor of the other party (beneficiary) up to the approved limit. Generally, a certain percent amount is taken as margin from the customer and the customer's margin account is credited.
- **Letter of Credit (L/C):** It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also

known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities (Jhonson, 1940:85).

2.2.2 Factors Affecting Credit Policy

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

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

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

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

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

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

2.2.3 Lending Criteria

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

- **Character**: Character is the analysis of the applicant as to his ability to meet the obligations put forth by the lending institution. For this analysis, generally the following documents are needed. Memorandum and Article of Association. Registration certification. Tax registration certificate (Renewed) Resolution to borrow Authorization-person authorizing to deal with the bank. Reference of other lenders with whom the applicant has dealt in the past of bank A/C statement of the customer.

- **Capacity**: It is describes the customer's ability to pay. It is measured by applicants past performance records and followed by physical observation. For this, an interview with applicant's customers/suppliers/ will further clarify the situation. Documents relating to this area were: Certified balance sheet and profit and loss account for at least past 3 years. References or other lenders with whom the applicant has dealt in the past or bank A/C.
- **Capital**: Capital indicates applicant's capacity to inject his own money. By capacity analysis, it can be concluded that whether borrower is truing to play with lender's money only or is also injecting his own fund to the project. For capital analysis, financial statements, like certified balance sheet, profit and loss account is the only tools.
- **Collateral**: Collateral is the security proposed by the borrower. Collateral may be of either nature moveable or immovable. Moveable collateral comprises right from stock, inventories to playing vehicles. In case of immovable it may be land with or without building or fixture, plant machineries attached to it.
- **Conditions**: Condition Once the funding company is satisfied with the character, capacity, capital and collateral then a credit agreement (sanction letter) is issued in favor of the borrower stating conditions of the credit to which borrower's acceptance is accepted.

2.2.4 Features of Sound lending Policy

The income and profit of the commercial banks depend upon its lending procedure. The greater the credit created by bank, the higher wills the profitability. A sound lending policy is not only pre-requisite for commercial banks profitability, but also crucially significant for the promotion of commercial saving of backward country like Nepal. Some features of Sound lending policy are considered as under.

- **Safety**

  Safety is the most important principle of good lending. When a banker lends, he must feel certain that the advance is safe; that is, the money will definitely come back. For example, if borrower invests the money in an unproductive or speculative venture, or if the borrower himself is dishonest, the advance would be in jeopardy. Similarly, if the borrower suffers losses in his business due to his incompetence, the recovery of the money may become difficult. The banker ensure that the money advanced by him goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout, and after serving a useful purpose in the trade or industries where it is employed, is repaid with interest.

- **Liquidity:** It is not enough that the money will come back: it is also necessary that it must come back on demand or in accordance with agreed terms of repayment. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by borrower for short-term requirements and not locked up in acquiring fixed assets or in schemes, which take a long time to pay their way. The source of repayment must also be definite. The reason why bankers attach as much importance to “liquidity” as to “safety” of their funds is that a bulk of their deposits is repayable on demand or at short notice.

- **Purpose:** The purpose should be productive so that the money not only remains safe but also provide a definite source of repayment. The banker must closely scrutinize the purpose for which the money is required, and ensure, as far as he can, that the borrower applies the money borrowed for a particular purpose accordingly.

- **Profitability:** Equally important is the principle of profitability in bank advances. Like other commercial institutions, banks must make profit. They have to pay interest on deposits received by them. They have to incur expenses on establishment, rent, stationery, salary and other operating expenses so on. They have to make provision for depreciation of their fixed assets, and also for possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; otherwise, it will not be possible to carry anything to the reserve of pay dividend to shareholders. It is after considering all factors that a bank decides upon its lending rate.

- **Collateral/Security:** It has been the practice of banks not to lend as far as possible except against security. Security can be considered as insurance. Security may be generally classified as personal and tangible, as well as primary and collateral. The banker carefully scrutinizes all the different aspects of an advance before granting it. At the same time, he provides for an unexpected change in circumstance, which may affect the safety or liquidity of advance.
- **Legality:** Legal securities will bring out many problems for the investor. Commercial banks must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance and other while mobilizing its funds.
- **Spread:** Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance, however secure it might appear to be. In fact, the entire banking business is one of taking calculated risks and successful banker is an expert in assessing such risks. He is keen on spreading the risks involved in lending, over a large number of borrowers, over a large number of industries and areas, and over different type of securities.
- **National Interest:** Even when an advance satisfies al the aforesaid principles, it may still no be suitable. The advance may run counter to national interest. It in the changing concept of banking factors such as purpose of the advance, viability of the proposal and national interest are assuming greater importance than security, small borrowers and export-oriented industries

2.2.5 Lending / credit process: Commercial bank follows several steps to disburse loan to the borrowers. The lending policies might be different form one bank to another. In general, these steps can be pointed out of follows.

Application: the needy are required to submit an application to the bank along with required documents. The documents required for credit proposal appraisal and processing by banks are as follows:

Loan application, Citizenship certificate of applicant, Firm/ company registration certificate (if self employed), Income tax registration certificate (if self employed) Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation and mortgage of fixed property owned by company or property of third party named. Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company. Feasibility report/scheme (for new project)

2.2.6 Lending appraisal and possessing

- **Project Appraisal**

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

• Is the project technically sound?

• Will the project provide a reasonable return?

• Is the project in line with the overall economic objectives of the country?

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

a. Financial aspect

b. Economic aspect

c. Management/Organizational aspect

d. Legal aspect

- **Credit Classifications and Provisioning**

Directives Issued by NRB for the Commercial Bank: (related to credit aspect only):

Classification	Provision
Pass Credit	1%
Sub Standard Credit	25%

Doubtful Credit	50%
Bad Credit	100%

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

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

- **Limit of Credit and Advances in a Particular Sector**

I. 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.

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

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

- **Group of related customer:**
  - If a company takes 25% or more share of another company.
  - Member of board of directors of company shareholders of private limited company and such members and shareholders with others in a single house, even if husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother, brothers & sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.
  - Firm, company and members as a related group.
  - Members of board of directors, shareholders and other relatives as stated in serial number 'b' takes less than 25% of board of directors of the company solely or combined but have control on the other company by the following ways:

- Being president of board of directors of the company

- Being executive directors of the company.

- Nominating more than 25% of members of board of directors of the company.

- If cross guarantee is given by one company to another company.

Basically, appraisal of loan proposal is processing for the analysis of the variability of the scheme proposed. It also helps to assets the actual financial assistance needed to operate the scheme.

Commercial bank carries out loan appraisal on the basis of past performance, future forecast and information available form the documents submitted by aspirant borrowers.

The bank tries to ascertain the following during loan processing:

- The cost of estimate us examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.
- Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.

- The return rates should be adequate like return on investment (ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).
- The capacity, competency, integrity and commitment of promoters/ partners/ proprietors/ directors/ personnel should be intact.
- SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

2.3 Review of related studies

This dissertation has been written after studying various books journals article website and previous thesis. Here comprise the some previous thesis reviews, which are mainly concerned Credit management and loan management of commercial bank. Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

The effort has been made in this present section to examine and review some related articles published in different economic journals, bulletins, magazines and newspapers. Nepal Rastra Bank has issued directives to all commercial banks and financial institutions ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter’s name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (CIB) can blacklist the firm, company or clear the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs. 1 million. If the creditor fails to clear the amount within time, or is found mission the loans among others, the creditor can be blacklisted (Central bank tightens blacklisting procedure). Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, bank start sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select the best mix of investment assets

Reviews of articles

Mr. Binam Ghimire (1999) in his article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problems or crisis in many Nepali banks differ in many respects, what is common area most of the banks is the increased size of non-performing assets (NPAs). To resolve the problem of the losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years" (Ghimire, 1999: 47-49). As opined by him, since majority of the loans of most of the commercial banks are very lent able as they help to strengthen banks financially. He added that we also must remember that the old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that loan loss provisioning as a percentage of total credit of April 12, 2001 is 5.2% but as April 13, 2003, it has jumped to 18.39. If only private bank are considered, it is 2.12% of April 2001whereas it is 6.30% as of April 13, 2003. The total increment in LPP is Rs. 11,328.11 million and the total increment in credit is only Rs. 7,976.70. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns. In the conclusion he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis. "All prudential directives of NRB in connection of credit sector reform have been made revised on after April 2001. To adopt to such changes there can be some difficulties and for a better and harmonized reform NRB should continue to be supportive, proactive and also participative to take options of bankers for a change in regulation/policy taking place in the future."

Rabindra Bhattarai, (2002) in this article "Something is Rotten with the State of Commercial Banking in Nepal" starts with words like NPA, conflict of interest, merky offshore ownership, well connected defaulter, loan swapping and political obstruction to describe the commercial banks in Nepal. Mr. Bhattarai quoted the words of the Governor to describe the state of banking sector as 'terrible'. Also, he quotes one of the donor representatives involved in financial reform as "Nepal has the weakest central bank in the developing world. " As per the author, bankers with patronage could get away with getting anything they wanted approved by the regulator. He quotes Mr. Himalaya SJB Rana, the first governor of NRB, "only 3 out of 12 Governors actually completed their five year terms in its entire history because they were sacked for undefined exigencies." He also quotes Mr. Shovan Dev Pant, the then Executive Director of Nabil, "The financial sector is in appalling state." Bhattarai says that all the evidences gathered for his article point to one direction-the regulatory body, NRB not doing its job properly. He explains that the malaise with the financial sector was deep. As an instance, he presents Nabil Bank and its ownership. He bets on the fact that even Nabil Bank Shareholders do not know of the Bank's owners of the major block of shares. The author expects NRB to disclose this fact if they know about it.

Another example Bhattarai presents is on the profitability of the banks in the very first year. He questions their profit figures with the given state of ailing economy, where each sector is showing heavy losses. Also, the increasing trend of Non-performing Assets (NPAs) is explained by him is a result of scam. A scam process as explained to him by an NRB official goes like this, "You put in Rs.50 million to promote a bank and then borrow Rs.500 million from it. They are not opening banks to do banking but to siphon loans for themselves". However, the author is of a view that the new directives issued on October 2001 shall improve the situation.

Here, the author has not clearly mentioned of the research methodology. The conclusions are not well supported by data. The article reflects a one sided biased view of the author and the view of NRB on this has not been taken. The conclusion made by the author has not been tested.

Ganesh Shrestha, (1998) in this article "Lending Operations of Commercial banks of Nepal and its Impact on GDP" presented the objectives to make an analysis of contribution of commercial banks' lending to the Gross Domestic Product (GDP) of

Nepal. She has set a hypothesis that there has been a positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service, general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus in conclusion, she has accepted the hypothesis, i.e. there has been positive impact on GDP by the lending of commercial banks in various sectors of economy, except service sector investment."

Ghimire (2003) *(*Kathmandu Post, 2003: 9). In the article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what are common acres 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).* As opined by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lent able as they help to strengthen banks financially. He added that the old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that loan loss provisioning as a percentage of total credit of April 1, 2001 is 5.2% but as April 13, 2003, it has jumped to 18.39%. If only private banks are considered, it is 2.12% of April 2001 where as it is 6.30 % as of April 13, 2003. The total increment in loan loss provision is Rs 11,328.11 million and the total increment in credit is only Rs 7,976.70. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns. In the conclusions, he has mentioned that in the recent years, NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis. All prudential directives of NRB in connection of credit sector reform have been made revised on after April 2001. To adapt to such changes there can be some difficulties and for a better and harmonized reform, NRB should continue to be supportive, proactive and also participative to take opinions of bankers for a change in regulation/policy taking place in the future.

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 2002-03 and 2003-04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Limited (NBL) and Rastriya Banijya Bank Limited (RBBL). There has been increasing in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only in recovery of the huge non-performing assets (NPA). However, he pointed out that no matter what the size of NPA is and the circumstances are each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB, all banks have increment in deposit collection *(Subedi, 2004: 19).*

Review of thesis

Tamang (2002), studied the comparative study of credit management in HBL and NABIL in his thesis entitled ‘A comparative study on credit management in Himalayan Bank Limited and NABIL Bank Limited’. To explore the credit management, he tried to assess the existing credit practices, examine the credit efficiency, analyze the industry environment and the relationship among loan & advances, non-performing loan and net profit. To meet the stated objectives, he 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 & Regression Analysis, ANOVA as statistical tools.

He found from the study that credit practices and credit efficiency was relatively better in NABIL Bank Limited as compared to Himalayan Bank

Limited for the reason that the ratio analysis designed for credit practices and credit efficiency scored relatively in better for NABIL Bank Limited. He found that the correlation coefficient between non-performing loan and net profit in NABIL Bank

Limited and Himalayan Bank Limited was found to be 0.157 and -0.716 respectively. He further concluded that trend of non performing loan did not have high implication in NABIL Bank Limited while there was a significant impact of non performing loan in net profit in Himalayan Bank Limited.

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

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

Mr. Chand (2003) has submitted his thesis on "Credit Disbursement and Repayment of Agriculture Development Bank Nepal". His research statements of problems are:

- The bank does not benefit small farmers (i.e. problem of balance development).

- The collection of credit is slow, so it hinders the flow of capital required to develop economic growth.

Objectives of the study:

- To see the repayment situation.

- To find out the growth rate of investment.

- To explain possible causes of non and delay repayment.

Major findings:

- There is systematic relationship between credit disbursement and repayment .The coefficient of correlation value as calculated is 0.94 which shows significance relationship.

- Repayment situation is satisfactory on production and agro-based industry, warehouses and farm mechanization, irrigation, tea horticulture, livestock, poultry and fisheries is less satisfactory.

- As a recommendation given by Chand, ADB/N should play a significant role in such direction as to fulfill the credit demands of rural areas. For effective credit recovery from the borrowers or clients, credit should be channeled through the borrower groups (Mr. Ganesh Bahadur Chand, 2003).

Paudel, P. (2001) in his Thesis “A study on lending practices of joint venture commercial banks with reference to Nepal Bangladesh Bank Ltd (NBBL) and Himalayan Bank Ltd. (HBL)” has made comparative study of these two banks in different lending aspects and strategies. In his findings, the liquidity position of NBBL is comparatively better than HBL. The liquidity ratio of HBL is more stable and consistent than NBBL that indicates the stable policy of HBL. NBBL is found slightly better to be maintaining between assets and liabilities. NBBL has high loan and advances to total assets ratio, loan and advances to total deposit ratio, but HBL has high investment to total loans and advances and investment and total investment to total deposit ratio. He has concluded that NBBL is able to manage its assets to complete in this competitive banking business than HBL. As per his findings the liquidity position of NBBL is better and hence HBL is recommended to increase its liquidity position. He has suggested both banks to strictly follow the NRB directives, which will help them to reduce credit risk arising from borrower's defaulter, lake of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Loan loss provision of both banks is in fluctuating trend. So both banks are suggested to adopt sound credit collection policy which wills helps to decrease loan loss provision.

The main objective of his Thesis lending practices of joint venture commercial banks with reference to NBBL and HBL is investment criteria and sector, loan distribution and advance practice of joint venture bank. The limitation of the thesis was base on secondary data given by responded, five year's data and non ending year's data.

Gurung, A. K. (2005) explored in his thesis “Lending policy and recovery management of Standard Chartered Bank Nepal ltd and NABIL Bank Limited” has found out that the deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and NABIL has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. Thus, this ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and NABIL respectively. In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of NABIL, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of NABIL is negative.

Shrestha (2005) entitled with “Effective Implementation of Credit Policy in Nepalese Commercial Banks" has following objectives and major findings:

Objectives:

To study the relationship between deposits & lending.

To study the classification, provision for loan/advances & its effect in profitability.

To examine the sector wise and security wise lending

To identify and analyze the problems and prospects of lending practice of Nepalese

Commercial Banks

Major findings:

Flow of lending depends upon the availability of low cost deposit in the market

Consumer financing and loan to manufacturing units are more secured than other sectors

First preference of the Banks for security to loan is fixed assets collateral followed by Government Bonds

Lengthy procedure in loan processing and tedious legal procedures is the key factor affecting growth of lending.

Lack in follow ups and irregular site visits lead to generation of NPA.

Shrestha (2006) entitled with "Credit Risk Management of Joint Venture Banks" has following objectives and major findings:

Objectives:

To determine and analyze credit risk of joint venture banks in Nepal.

To evaluate strength, weakness, opportunity and threats in credit management in commercial banks

To provide suggestions & recommendations about credit risk management

Major findings:

Lending in one lucrative sector and concentration in urban areas only is increasing the risk of loss for the Bank

Credit policies and practices were found satisfactory. Bank has opportunity to explore the virgin village market and SMEs.

Most of the customers are satisfied with the Joint Venture Banks in terms of service and counseling regarding credit facilities.

Nepal (2007) entitled with "Credit Management of Commercial Banks in Nepal" has following objectives and major findings:

Objectives:

To assess the credit practices of selected Nepalese commercial banks.

To explore the credit efficiency, analyze the industry environment and management quality in terms of credit practices

To explore the relationship with loan & advances, NPA and Net profit

Major findings:

Repayment is satisfactory in agro based industry and production sector compared to other sectors.

Management quality and credit efficiency of selected banks found satisfactory as they have standard credit practices

Credit disbursement and repayment has significant relationship. Flow of new credit depends upon the recovery status

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance and credit management of various commercial banks. Some of the researchers have done the financial performance, credit policy between two or three different commercial bank. In order to perform those analysis researchers have used various ratio analysis. Actually, credit management is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about lending and its impact on the profitability. Here in this research all ratios are categorized according to their area and nature.

In this study of credit management of The Everest bank Limited and The Himalayan banks are measuring by various ratios, trend analysis and various statistical tools as well as financial tools are used for analyzing survey data. Since the researcher has used data only six fiscal year but all the data are current and fact. Clearly, these are the issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of Sunita Misara, (2007) “Credit management of Everest Bank Limited” has not use correlation, probable error and trend analysis.

Parajuli Yadab (2010) “Credit Management of HBL and NABIL” has not shown or used the risk related data analysis or portfolio of lending made in different sectors as per his thesis objectives.

Ram Limbu (2008) “Credit management of NABIL Bank Limited” has done using all financial as well as statistical tools. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient probably this will be the appropriate research in the area of credit management of Bank and financial institutions.

CHAPTER-lll

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the systematic way of solving research problem and which ultimately refers to the overall research process. It includes all the procedures from theoretical frame work to collection and analysis of the data research is systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well through out activities of gathering, recording, classifying, analyzing, and interpreting the data with the purpose of findings answer the problem. Thus the entire process by which we attempt to solve problem is called research. Research methodology helps to find out accuracy, validity, and suitability. The justification on the present study can't be obtained without help of proper research methodology, for this purpose to achieving the objectives of study the applied methodology is used.

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 principals: diligent investigation in order to ascertain something (Saravanavel, 1990: 1)

Research methodology is a way to systematically solve the research problem (Khatri, 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 sources of data, data collection procedure and tools & techniques of analysis.

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

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

3.2 Research design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economic in procedures. Research design asks what approach to the problem should be taken. What method will be used? What strategies will be used? And what strategies will be effectives? Etc. generally in a common research methodology has five basic elements, i.e. selection problem, methodology, data gathering, data analyzing and report writing. A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. For the analysis of credit management of selected joint venture banks, analytical as well as descriptive designs applied to achieve the objective of the research. Thus, a research design is a plan for the collection and analysis of data. It presents a series of guideposts for the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) data analysis and (v) report writing. The research design asks, what approach to the problem should be taken, what methods will be used, what strategies will be used, what strategies will be effective etc. Identification, selection and formulation of a research problem may be considered as planning stage of a research and the remaining activities refer to the design, operation and completion of the research study.

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

3.3 Population and sample

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. A small portion chosen form the population for studying its properties is called sample. The researcher cannot normally survey everyone in the population so a small part of the total population is taken to represent the total population. Hence, a sample is a collection of items or elements from a population or universe. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection on part of the population on the basis of which a judgment or inference about the universe is made (Sharma and Chaudhary, 2058:171-173).

This study is based on the comparative study of credit management of two commercial banks. There are 31 commercial banks are operating, among them EBL and HBL has been selected as sample for proposed study. 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; 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 research more time to make an intensive study of research problem. The total commercial banks shall constitute the population of data and two banks under the study constitute the sample for. So among the various commercial banks in the banking industry, Everest Bank Limited and Himalayan Bank Limited are taken as sample for the study. Similarly, financial statement of those banks for 6 years from 2004/05 to 2009/10 has been taken as samples for the same purpose.

3.4 Source of data

It is an essential part of a research. Most of the data are taken from its formal and non formal sources. Most of the data is based on secondary data which are taken from, especially the annual report of Everest bank limited and Himalayan bank limited bank. The website of concern Bank limited is taken as main source of data collection for purpose of study. Formal and informal publications of concerted bank and related research book which are done before. NRB publication such as economic report and bulletin, banking and financial statistics, annual report of NRB etc. other main source is website of NRB and web site of Nepal share market.

- **Primary data**

The primary data are those which are collected fresh and for the first time and thus happen to be original in character. The primary data is that data which is collected on the target study area either by population i.e. Census or by sampling.

- **Secondary data**

Secondary data are those collected by the researcher on the concerned topic, which is not original in nature or are originally collected for some other purposes. In this study statistical publication of Nepal Rastra Bank, websites of concerned banks, annual reports of EBL & HBL, different journals, business magazines and previous thesis in related topic etc.

3.5 Methods of Data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are used. Among them correlation analysis regarded as major one is used fore this research.

To make the study more specific and reliable, the researcher uses two types of tool for analysis:

- Financial Tools
- Statistical tools

3.5.1 Financial tools

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

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

3.5.1.1 Ratio analysis

Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures. Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the relationship between two or more things (Webster's New Collection Dictionary, 1975: 958)

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

(A) Liquidity ratio

Liquidity refers to the ability of a firm to meet its short-term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present scan solvency as well as ability to remain solvent in the event of advertises 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 positions.

i. Cash & bank balance to total deposit ratio (CRR)

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

$$\text{Cash and bank balance to total deposit} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

ii. Cash & Bank Balance to Current Deposit Ratio

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

$$\text{Cash and bank balance to total current assets} = \frac{\text{Cash and bank balance}}{\text{Total current assets}}$$

iii. Cash & Bank Balance to Interest Sensitive Deposit Ratio

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

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

(B). Activity / Efficiency Ratio

It is also known as turn over or efficiency ratio or assets management ratio; measures how efficiency the firm employs the assets. Turnover means; how many numbers of times the assets flow through a firm's operations and into sales (Kulkarni, 1994: 138).

Greater rate of turnover or conversation indicates more efficiency of a firm in managing and utilizing its assets, being other thing equal. Various ratios are examined under this heading.

i. Loan & advances to total deposit ratio.

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

$$\text{Loan and advance to total deposit Ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}}$$

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

ii. Loan & Advances to Total Assets Ratio

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

$$\text{Loan and advance to total assets Ratio} = \frac{\text{Loan and advance}}{\text{Total Assets}}$$

iii. Total Investment to Total Deposit Ratio

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

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

(C) Profitability Ratios

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer society. Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goals Pradhan, 1996: 41). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

i. Interest Income to Interest Expenses Ratio

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

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

ii. Return on Loan & advances Ratio

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

$$\text{Return on loan and advance Ratio} = \frac{\text{Return (net profit)}}{\text{Loan and advance}}$$

iii. Net Profit/Loss to Total Assets Ratio

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

$$\text{Net profit/ loss to total assets} = \frac{\text{Net profit}}{\text{Total assets}}$$

iv. Interest Income to Total Loan & Advances Ratio

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

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

v. Earning per share (EPS)

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

$$\text{Earning per share (EPS)} = \frac{\text{Net profit after tax}}{\text{Number of common stock outstanding}}$$

(D). Lending Efficiency Ratio

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

i. Non-performing loans to total loan & advances ratio

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

$$\text{Non performing loan to total loan and advance ratio} = \frac{\text{Non performing loan}}{\text{Total loan and advance}}$$

ii. Loan Loss Provision to Total Loan & Advances Ratio

This ratio describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision for loan mean the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits. So it can said that loan suffers it only for short-term while good financial conditions and safety of loans will make bank's prosperity resulting increasing profit 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. It is calculated as:

$$\text{Loan loss provision to loan and advance ratio} = \frac{\text{Loan Loss Provision}}{\text{Loan and advance}}$$

(E) Credit Risk Management Ratio

Credit Risk

General: Credit risk is the major risk that banks are exposed to during the normal course of lending & credit underwriting. Within Basel II, the two approaches for credit risk measurement: the standardized approach and the internal ratings based (IRB) approach. Due to various inherent constraints of the Nepalese banking system, the standardized approach in nits simplified form, Simplified Standardized Approach (SSA), has been prescribed in the initial phase.

(I) On- Balance Sheet Risk-Weighted Items For the purpose of calculation Capital Fund, and On –Balance Sheets Assets are divided as follows with assignment of separate risk weightage. Accordingly, for determining the Total Risk-Weightage

Assets, the amount as exhibited in the balance sheet assets shall be multiplied by their respective risk-weights and the added together.

Table (A) On Balance Sheet Risk Weighted Assets

On Balance Sheet Assets	**Risk Weightage %**
Cash Balance	0
Gold (Tradable)	0
Balance with Nepal Rastra Bank	0
Investment in Govt. Securities	0
Investment in NRB Bonds	0
Fully secured loan against own Fixed Deposit Receipt	0
Fully secured loan against Govt. Securities	0
Balance with Domestic banks and Fin. Institutions	20
Fully secured FDR Loan against Fixed Deposit Receipt of Other banks	20
Balance with foreign banks	20
Money at Call	
Loan against the guarantee of internationally rated */foreign Banks	20
Other investments with internationally rate*/foreign banks	20
Investments in Shares, Debentures and Bonds	100
Other investments	100
Loan, Advances and Bills Purchased /Discounted**	100
Fixed Assets	100
All Other Assets	100

Sources: NRB Directives Manual

(II) Off- Balance Sheet Risk-Weighted Items

For the purpose of calculation Capital Fund, the Off-Balance Sheet items are divided as follows with assignments of separate risk weightage. Accordingly, for determining the Total Risk-Weighted off Balance sheets assets, the amount of such transactions shall be multiplied by their respective risk weights and then added together.

Table (B) Off Balance Sheet Risk-Weighted Assets

Particulars of Off-Balance Sheet Items	**Risk Weighted %**
Bills Collection	0
Forward Foreign Exchange Contract	10
L/Cs with Maturity of less than 6 months (full value)#	20
Guaranties provided against counter guarantee of internationally rated*/foreign banks	20
L/Cs with Maturity of more than 6 months (full value)#	50
Bid Bond	50
Performance Bond	50
Advance payment Guarantees	100
Financial Guarantee	100
Other Guarantee	100
Irrevocable Loan Commitment	100
Contingent Liability in respect of Income Tax	100
All other contingent liabilities	100

Sources: NRB Directives Manual

i. Risk Weighted Assets to Total Assets Ratio

This is the ratio that measures the risk weighted assets to the Total assets of the banks and then it gives the percentage of the risk weighted assets that exposed to the risk in comparision to the total amount of the banks assets. The lower the ratio shows the less risky assets involve.

$$\text{Risk weighted Assets to the Total Assets} = \frac{\text{Risk Weighted Assets}}{\text{Total Assets}}$$

3.5.2 Statistical Tools

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

i. Arithmetic Mean

Average is statistical constant, and single value that provides the gist and gives the bird's eye view of the huge mass of wieldy numerical data. It is calculated as:

$$\overline{X} \; \mathrm{X} \; \frac{x}{N}$$

Where,

$\overline{X}$ = Arithmetic mean

N = Number of observations

ii Standard Deviation (S.D)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D or σ. It is used as absolute measure of description or variability. It is calculated as:

$$\sigma = \sqrt{\frac{(x \, \mathrm{Z} \, \bar{x})^2}{N}}$$

Where,

σ = Standard deviation

iii. Coefficient of variation (C.V.)

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

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

Where,

σ = Standard Deviation

$\bar{X}$ = Mean

v. Trend Analysis

The topic analyze the trend of loan and advances to total deposit ratio and trend of net profit of the sample Banks i.e. Everest Bank and Himalayan Bank from the fiscal year 2004/05 to 2009/10 and makes the forecast for the next five years i.e. up to the fiscal year 2014/15. Under this topic the following sub topics have been presented.

Trend analysis of Total Deposit.

Trend analysis Total Loan and advances .

Trend analysis of Net Profit.

v. Correlation Coefficient (r)

Correlation may be defined as the degree of liner relationship existing between two or more variables. There variable are said to be correlated when the change in the valve of one results change in another variable. Correlation may be:-

- Simple or partial or multiple correlations

- Position or negative or zero correlation

- Linear or non-linear correlation

-Perfect or non-perfect correlation

It can be calculated by using following formulae,

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}}$$

vi. Probable Error (P.E)

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

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

Where,

r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of ‘r’ is significant. Here, the researcher has been calculating the correlation coefficient between total deposits and total loan & advances as well as total loan & advances and net profit of Everest Bank Limited and Himalayan Bank Limited to know the relationship of these variables. This relationship result helps the management for policy formulation in the coming days.

3.6 Limitation of the Research Methodology

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

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

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the data have collected from various sources have been presented and analyzed to measure the various dimensions of problems of the study and major findings of the study are presented systematically. This chapter needs the analysis, presentation, interpretation and major finding of relevant data of The EBL and HBL in order to fulfill the objectives of research study. To obtain better result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. To analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used. This chapter deals with the various aspects of credit management such as financial ratios, impact of deposit in liquidity, priority sector lending, lending efficiency, correlation and trend analysis.

4.1 Financial Statement Analysis

Financial analysis is done by applying various financial tools in order to clear picture on the viability of the project. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. The concept of financial statement analysis has been already discussed in previous chapter. Here, we study and analyze the data by using accounting tools.

4.1.1 Measuring Liquidity Position of the Bank

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

4.1.1.1 Cash and Bank Balance to Total Deposit Ratio (CRR)

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

Table 4.1 Cash and Bank Balance to Total Deposit Ratio of EBL (Rs. In 'Million')

Years	Cash & bank balance	Total deposit	Ratios
2004/05	1049.97	10097.69	10.39
2005/06	1552.95	13802.44	11.25
2006/07	2391.40	1818.25	13.15
2007/08	2727.95	23976.30	11.37
2008/09	6164.36	33322.94	18.50
2009/10	7818.81	36932.31	21.17
		Average	14.31
		S.D.	4.07
		C.V.	28.44

Sources: Annual Report and website of the Bank

Above table depicted the cash & bank balance to total deposit ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 10.39%, 11.25%, 13.15%, 11.37%m, 18.50% and 21.17% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, respectively. Similarly, the mean ratio remains at 14.31% during the six years study period. Likewise, standard deviation is 4.07 and coefficient of variation is 28.44%. Cash & bank balance and total deposit of EBL can be shown by following diagram:

Figure 4.1 Cash and Bank Balance and Total Deposit of EBL

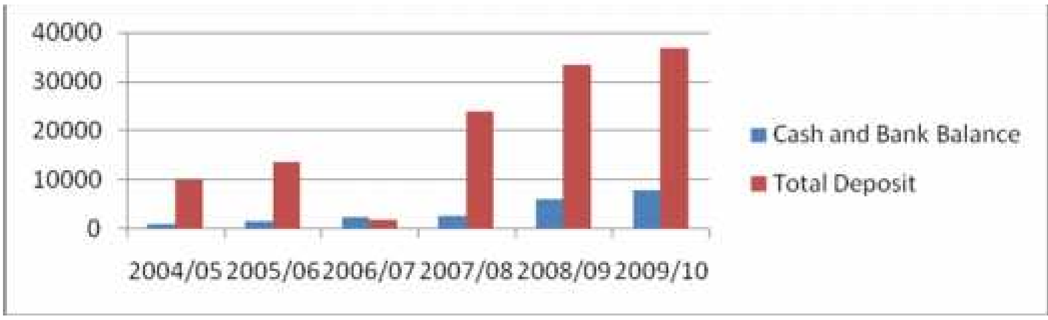


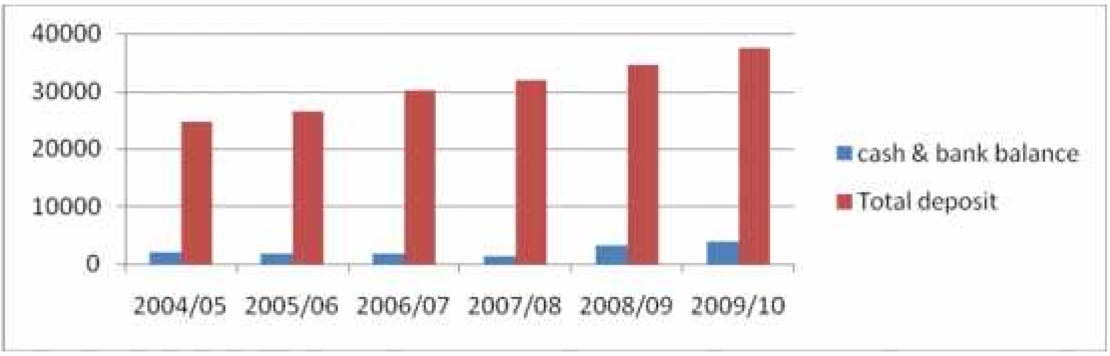
Table 4.2 Cash and Bank Balance to Total Deposit Ratio of HBL (Rs. In 'Million')

Years	cash & bank balance	Total deposit	Ratio
2004/05	2014.47	24814.01	8.12
2005/06	1717.35	26490.85	6.48
2006/07	1757.34	30048.41	5.85
2007/08	1448.14	31842.79	4.55
2008/09	3048.52	34681.34	8.79
2009/10	3866.49	37611.20	10.28
		AV	7.34
		SD	1.92
		CV	26.16

Sources: Annual Report and website of the Bank

Above table depicted the cash & bank balance to total deposit ratio of HBL over the sex year's period from 2004/05 to 2009/10. The ratios are 8.12%, 6.48% 5.85%, 4.55%, 8.79% and 10.28% in the fiscal year 2004/05, 2005/06 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 7.34% during the sex years study period. Likewise, the standard deviation is 1.92 and coefficient of variation is 26.16%. Cash & bank balance and total deposit of HBL can be shown by following diagram:

Figure 4.2 Cash and Bank Balance and Total Deposit of HBL (CRR)



Comparison

The cash & bank balance to total deposit ratio of EBL is in increasing trend throughout the whole fiscal year 2004/05 except the fiscal year 2006/07. But the cash & bank balance to total deposit ratio of HBL is in decreasing trend except in the last two fiscal years 2008/09, 2009/10. There is highest mean ratio of cash & bank balance to total deposit ratio with EBL than HBL. But, the ratio of EBL has more variation and less consistency than HBL. Though the ratios are not consistent, cash & bank balance position of EBL as well as HBL with respect to deposit is better to serve the customers deposit withdraw demands. Commercial banks have to maintain their cash & bank balance in term of total deposit as directed by NRB time to time. Otherwise they are imposed penalty. A high ratio of invest in to short-term marketable securities, treasury bills etc. insuring enough liquidity, which will help the bank to improve in profitability.

4.1.1.2 Cash and Bank Balance to Current Deposit Ratio

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

Table 4.3 Cash and Bank Balance to Current Deposit Ratio of EBL (Rs. In 'Million')

Years	Cash & bank balance	Current deposit	Ratios
2004/05	1049.97	11792.10	89.04
2005/06	1552.95	15959.20	97.31
2006/07	2391.40	2391.40	100
2007/08	2727.95	3014.00	90.50
2008/09	6164.36	4859.94	126.84
2009/10	7818.81	4173.31	187.35
		Average	115.17
		S.D.	18.48
		C.V.	16.05

Sources: Annual Report and website of the Bank

Above table depicted the cash & bank balance to current deposit ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 89.04%, 97.31%, 100% 90%, 126.84% and 187.35% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, mean ratio remains at 115.17% during the six years study period. Likewise, standard deviation is 18.48 and coefficient of variation is 16.05%. Cash & bank balance and current deposit of EBL can be shown by following diagram:

Figure 4.3 Cash and Bank Balance and Current Deposit of EBL

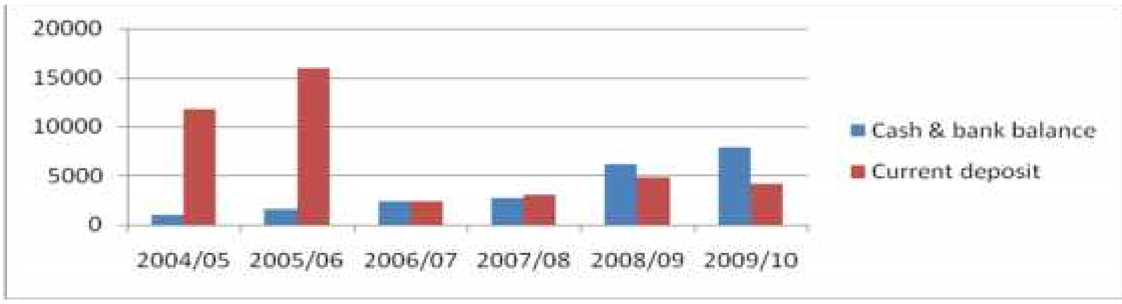


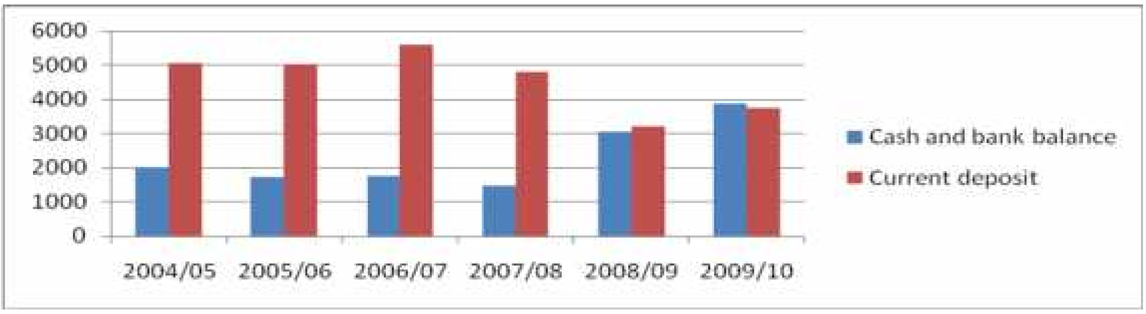
Table 4.4 Cash and Bank Balance to Current Deposit Ratio of HBL (Rs. In 'Million')

Years	Cash and bank balance	Current deposit	Ratio (%)
2004/05	2014.47	5045.16	39.93
2005/06	1717.35	5028.15	34.15
2006/07	1757.34	5589.58	31.44
2007/08	1448.14	4784.21	30.27
2008/09	3048.52	3218.22	94.73
2009/10	3866.49	3745.62	103.23
		AV	55.62
		SD	30.90
		CV	55.55

Sources: Annual Report and website of the Bank

Above table depicted the cash & bank balance to current deposit ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 39.93%, 34.15%, 31.44%, 30.27%, 94.73% and 103.23% in the fiscal year 2004/05, 2005/06, 2006/07 2007/08, 2008/09 and 2009/10 respectively. Similarly, mean ratio remains at 55.62% during the six years study period. Likewise, standard deviation is 30.90% and coefficient of variation is 55.55%. Cash & bank balance and current deposit of HBL can be shown by following diagram:

Figure 4.4 Cash and Bank Balance and Current Deposit of HBL



Comparison

Cash & bank balance to current deposit ratio of EBL is in increasing trend throughout the study period except the fiscal year 2007/08. Similarly, the ratio of HBL is also in decreasing trend except in the fiscal year 2007/08 but in last two fiscal year the ratios sharply increases. Where, the mean ratio of EBL is higher than that of HBL over the study period. Likewise, the ratios of EBL have more variation but more consistency than HBL. It can be said that EBL has high liquid assets in terms of cash & bank balance to current deposit ratio than HBL but it dose not mean that HBL has mobilized its more funds in profitable sectors than EBL. It actually means that HBL can meet its daily requirements tightly to make the payments on customer deposit withdrawals than EBL.

4.1.1.3 Cash and Bank Balance to Interest Sensitive Deposits Ratio

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

Table 4.5 Cash and Bank Balance to Interest Sensitive Deposits Ratio of EBL

(Rs. In 'Million')

	Cash & bank balance	Saving deposit	Ratios
2004/05	1049.97	4806.80	21.84
2005/06	1552.90	6929.22	22.41
2006/07	2391.40	9029.25	26.48
2007/08	2727.95	11883.86	22.95
2008/09	6164.36	14782.33	41.70
2009/10	7818.81	13360.03	58.52
		Average	32.31
		S.D.	13.56
		C.V.	41.97

Sources: Annual Report and website of the Bank

Above table depicted the cash & bank balance to saving deposit ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 21.84%, 22.41%, 26.48%, 22.95%, 41.70% and 58.52% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, mean ratio remains at 32.31% during the six years study period. Likewise, standard deviation is 13.56% and coefficient of variation is 41.97%. Cash & bank balance and saving deposit of EBL can be shown by following diagram:

Figure 4.5 Cash and Bank Balance and Interest Sensitive Deposits of EBL

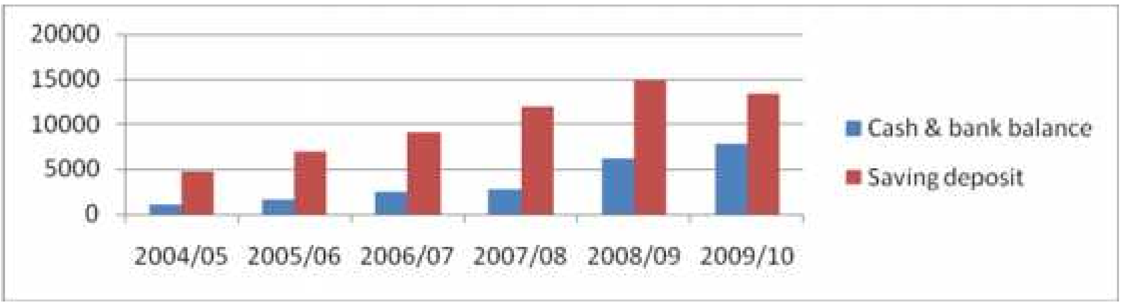


Table 4.6 Cash and Bank Balance to Interest Sensitive Deposits Ratio of HBL

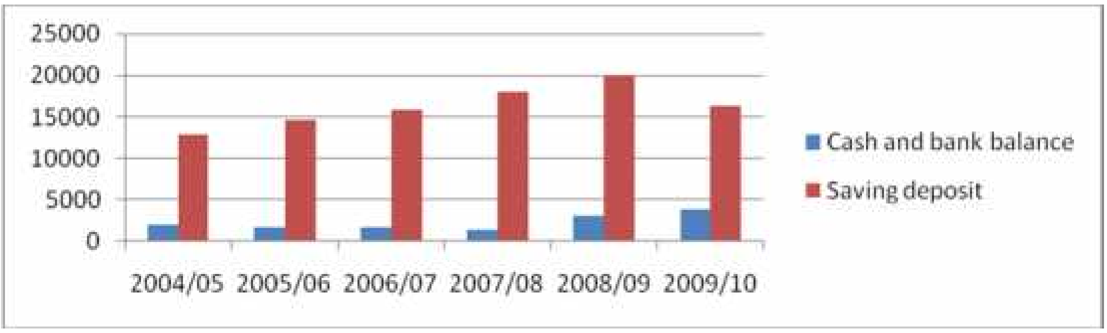
(Rs. In 'Million')

Years	Cash and bank balance	Saving deposit	Ratio
2004/05	2014.47	12852.41	15.67
2005/06	1717.35	14582.85	11.78
2006/07	1757.34	15784.77	11.13
2007/08	1448.14	17972.44	8.06
2008/09	3048.52	20061.04	15.20
2009/10	3866.49	16294.68	23.73
		AV	14.26
		SD	4.94
		CV	34.64

Sources: Annual Report and website of the Bank

Above table depicted the cash & bank balance to saving deposit ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 15.67%, 11.78%, 11.13%, 8.06%, 15.20% and 23.73 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, mean ratio remains at 14.26% during the six years study period. Likewise, standard deviation is 4.94% and coefficient of variation is 34.64%. Cash & bank balance and saving deposit of HBL can be shown by following diagram:

Figure 4.6Cash and Bank Balance and Interest Sensitive Deposits of HBL



Comparison

Cash & bank balance to saving deposit ratio of EBL is in increasing trend throughout the study period except the fiscal year 2007/08. The ratio of HBL is in a decreasing trend but in the final two fiscal years the ratios increases. EBL has higher mean ratio than HBL. Similarly, ratio of EBL has more variation and less consistency than HBL. From the analysis of overall liquidity ratios of EBL and HBL, we can say that EBL has high degree of liquid assets, i.e. high liquidity position than HBL. High liquidity position is not so better because of interest expenses and it caused inverse impact in overall performance.

4.1.2 Assets Management Ratio

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

4.1.2.1 Loan & Advances to Total Deposit Ratio

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

Table 4.7 Loan & Advances to Total Deposit Ratio of EBL (Rs. In 'Million')

Years	Loan and advance	Total deposit	Ratios
2004/05	7618.67	10097.69	75.44
2005/06	9801.30	13802.44	71.01
2006/07	13664.08	1818.25	75.13
2007/08	18339.08	23976.30	76.48
2008/09	23884.67	33322.94	71.67
2009/10	27556.35	36932.31	74.61
		Average	74.05
		S.D.	1.86
		C.V.	2.51

Sources: Annual Report and website of the Bank

Above table depicted the loan & advance to total deposit ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 75.44%, 71.01%, 75.13%, 76.48%, 71.67% and 71.61% in the fiscal year 2004/05, 2005/06 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, mean ratio remains at 74.05% during the six years study period. Likewise, standard deviation is 1.86 and coefficient of variation is 2.51%. Loan & advance and total deposit of EBL can be shown by following diagram:

Figure 4.7 Loan & Advances and Total Deposit of EBL

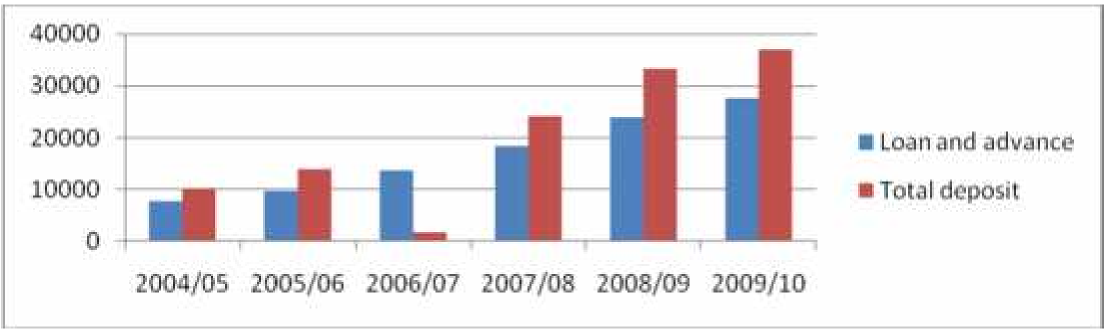


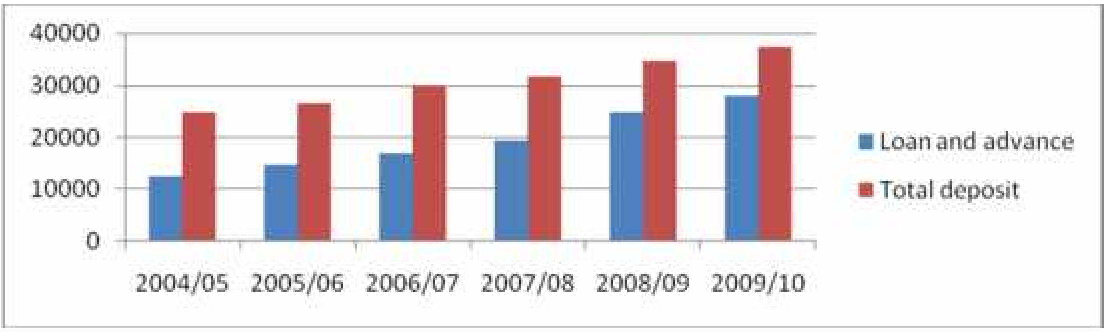
Table 4.8 Loan & Advances to Total Deposit Ratio of HBL (Rs. In 'Million')

Years	Loan and advance	Total deposit	Ratio (%)
2004/05	12424.52	24814.01	50.07
2005/06	14642.56	26490.85	55.27
2006/07	16997.99	30048.41	56.57
2007/08	19497.52	31842.79	61.23
2008/09	24793.15	34681.34	71.49
2009/10	27980.62	37611.20	74.39
		AV	61.50
		SD	8.75
		CV	14.23

Sources: Annual Report and website of the Bank

Above table depicted the loan & advance to total deposit ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 50.07% , 55.27% 56.57% 61.23%, 71.49% and 74.39% in the fiscal year 2004/05, 2005/06 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 61.50% during the six years study period. Likewise, the standard deviation is 8.75 and coefficient of variation is 14.23%. Loan & advance and total deposit of HBL can be shown by following diagram:

Figure 4.8 Loan& Advances and Total Deposit of HBL



Comparison

Loan & advances to total deposit ratio of EBL is in decreasing trend except in the fiscal year 2007/08 over the six years of study period. In these fiscal years the ratios are not more in fluctuation. Where as, the ratio of HBL is in increasing trend. Similarly, EBL has higher mean ratio than that of HBL during the study period. Likewise, the ratios of EBL have less variation and more consistency than HBL. From the analysis, we can say that EBL is in good form according to deposit mobilization point of view than HBL. But it does not mean that EBL is investing more of its collected fund in high return but with low risk sector than HBL. As well, lending ratios are very low than collection ratios over the study period. From this point of view, loan & advance to total deposit ratios of the banks are not so better but satisfactory.

4.1.2.2 Loan & Advances to Total Assets Ratio

Loan & advances of any commercial bank represent the major portion in the volume of total working fund. This ratio measures the volume of loan & advances in the structure of total assets. High degree of this ratio indicates good performance of the bank in mobilizing its funds by way of lending function. However, in its reverse side, high degree of this ratio is repressed enactive of low liquidity ratio. Granting of loans & advances always carries a certain degree of risk. Thus, this asset of banking business is regarded as risky assets. This ratio measures the management attitude toward risky assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice-versa. The interaction between risk and return determines this ratio. This ratio also shows the credit risk taken by the bank towards mobilizing its funds into different types of assets. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation.

Table 4.9 Loan & Advances to Total Assets Ratio of EBL (Rs. In 'Million')

Years	Loan and advance	Total assets	Ratios
2004/05	7618.67	11732.51	64.93
2005/06	9801.30	15959.28	61.41
2006/07	13664.08	21432.57	63.75
2007/08	18339.08	27149.34	67.54
2008/09	23884.67	36916.84	64.69
2009/10	27556.35	41382.76	66.58
		Average	64.82
		S.D.	1.97
		C.V.	3.04

Sources: Annual Report and website of the Bank

Above table depicted the loan & advances to total assets ratio of EBL over the six years period are 64.93%, 61.41%, 63.75%, 67.54%, 64.69% and 66.58% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 64.82% during the six years study period. Likewise, the standard deviation is 1.97 and coefficient of variation is 3.04%. Loans & advances and total assets of EBL can be shown by following diagram:

Figure 4.9 Loan & Advances to Total Assets of EBL

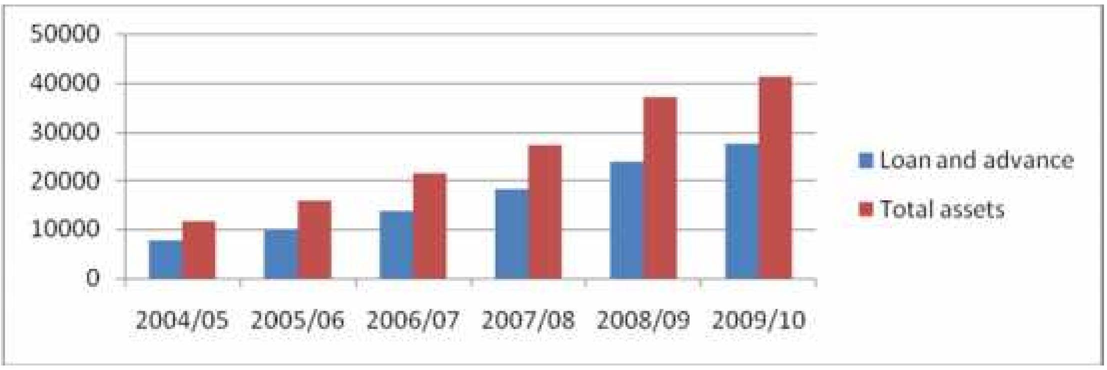


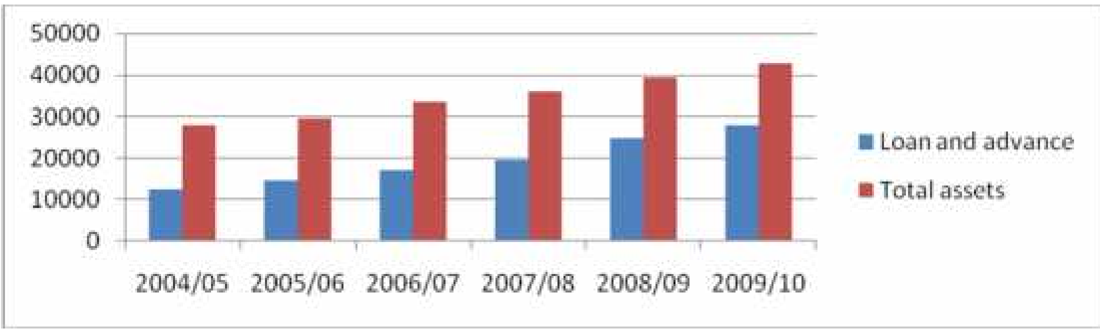
Table 4.10 Loan & Advances to Total Assets Ratio of HBL (Rs. In 'Million')

Years	Loan and advance	Total assets	Ratio (%)
2004/05	12424.52	27844.69	44.62
2005/06	14642.56	29460.39	49.70
2006/07	16997.99	33519.14	50.71
2007/08	19497.52	36175.53	53.90
2008/09	24793.15	39320.32	63.05
2009/10	27980.62	42717.12	65.50
		AV	54.58
		SD	7.40
		CV	13.56

Sources: Annual Report and website of the Bank

Above table depicted the loan & advances to total assets ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 44.62%, 49.70%, 50.71%, 53.90%, 63.05% and 65.50% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 54.58% during the six years study period. Likewise, the standard deviation is 7.40 and coefficient of variation is 13.56%. Loan & advance and total assets of HBL can be shown by following diagram:

Figure 4.10 Loan & Advances to Total Assets Ratio of HBL



Comparison

Loan & advances to total assets ratio of EBL is in decreasing trend except in the fiscal year 2007/08 over the six years of study period. The ratio of HBL is in increasing trend. Similarly, EBL has higher mean ratio than that of HBL. Likewise, the ratios of EBL have less variation and more consistency than HBL. From the analysis, we can say that EBL has sound lending policy so that it is able to mobilize its resources as loan & advances than HBL. As well, EBL is risk taker bank than HBL. But assets management in terms of loan & advances of EBL is much better than HBL because of their lending performance of total assets.

4.1.2.3 Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial and non-financial organizations. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of management of bank assets, various factors such as excess availability of fund, liquidity requirement, central banks norms etc. are to be considered in general. This ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success of mobilizes deposits in securities and vice-versa.

Table 4.11 Total Investment to Total Deposit Ratio of EBL (Rs. In 'Million')

Years	Total investment	Total deposit	Ratios
2004/05	2128.93	10097.69	21.08
2005/06	4200.51	13802.44	30.43
2006/07	4984.31	1818.25	27.40
2007/08	5059.55	23976.30	21.10
2008/09	5948.48	33322.94	17.85
2009/10	5008.30	36932.31	13.56
		Average	21.90
		S.D.	5.63
		C.V.	25.70

Sources: Annual Report and website of the Bank

Above table indicated the total investment to total deposit ratio of EBL over the six years period are 21.08%, 30.43%, 27.40%, 21.10%, 17.85% and 13.56% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 21.90% during the six years study period. Likewise, the standard deviation is 5.63 and coefficient of variation is 25.70%. Unhealthy competition among banks, political and economical instability create uncertainty in economic environment. Total investment and total deposit of EBL can be shown by following diagram

Figure 4.11Total Investment and Total Deposit of EBL

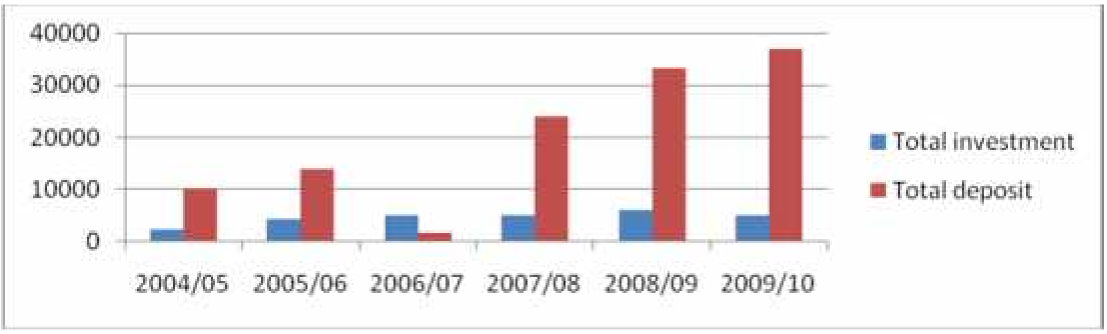


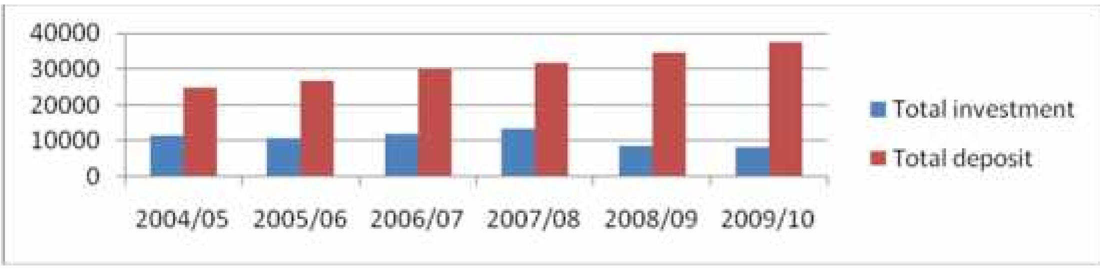
Table 4.12 Total Investment to Total Deposit Ratio of HBL (Rs. In 'Million')

Years	Total investment	Total deposit	Ratio (%)
2004/05	11692.34	24814.01	47.12
2005/06	10889.03	26490.85	41.10
2006/07	11822.98	30048.41	39.35
2007/08	13340.17	31842.79	41.89
2008/09	8710.69	34681.34	25.12
2009/10	8444.91	37611.20	22.45
		AV	36.17
		SD	9.10
		CV	25.16

Sources: Annual Report and website of the Bank

Above table indicated the total investment to total deposit ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 47.12%, 41.10% 39.35%, 41, 89%, and 25.12% in the fiscal year 2004/05, 2005/06 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 36.17% during the six years study period. Likewise, the standard deviation is 9.10 and coefficient of variation is 25.16%. The environment which appears in economy sector makes investment sector unsecured and being limited sector for investment, its ratios decreased in last fiscal year. Total investment and total deposit of HBL can be shown by following diagram:

Figure 4.12 Total Investment to Total Deposit of HBL



Comparison

Total investment to total deposit ratio of EBL is in downward going trend except the single fiscal year over the six years of study period. The ratio of HBL is in decreasing trend except in the fiscal year 2007/08. Similarly, HBL has highest mean ratio than that of EBL. Likewise, the ratios of HBL have more variation and less consistency than EBL. During the study period, movements of ratios are first increasing, then decreasing and again increasing. It may be due to slack in the different sectors of economy due to which bank is unable to mobilize its fund in loan & advances and share/debenture of other companies properly.

4.1.3 Profitability Ratios

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

4.1.3.1 Interest Income to Interest Expenses Ratio

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

Table 4.13 Interest Income to Interest Expenses Ratio of EBL (Rs. In 'Million')

Years	Interest income	Interest expenses	Ratios (%)
2004/05	719.30	299.56	240.12
2005/06	903.41	401.39	225.07
2006/07	1144.40	517.16	221.28
2007/08	1548.65	632.61	244.80
2008/09	2186.82	1012.87	215.90
2009/10	3102.45	1572.79	197.25
		Average	224.07
		S.D.	15.71
		C.V.	7.01

Sources: Annual Report and website of the Bank

Above table depicted the interest income to interest expenses ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 240.12%, 225.07%, 221.28%, 244.80%, 215.90% and 197.25% in the fiscal year 2004/05, 2005/06 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 224.07% during the six years study period. Likewise, the standard deviation is 15.71 and coefficient of variation is 7.01%. Interest income and interest expenses of EBL can be shown by following diagram.

Figure 4.13 Interest Income to Interest Expenses of NABIL

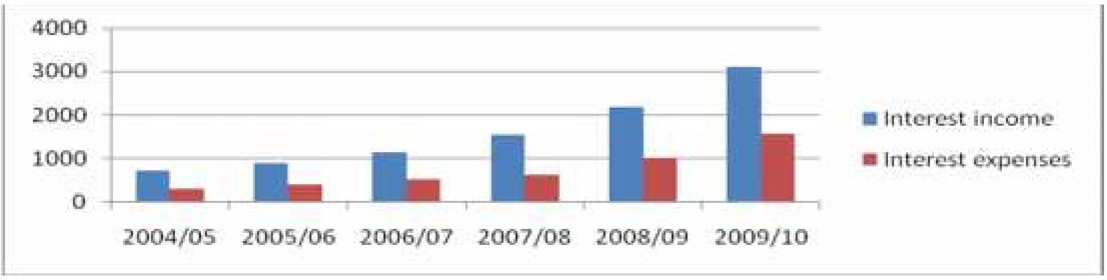


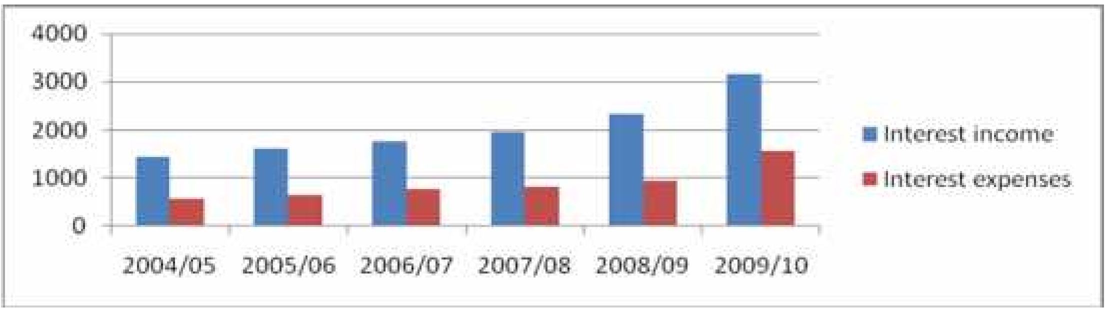
Table 4.14 Interest Income to Interest Expenses Ratio of HBL (Rs. In 'Million')

Years	Interest income	Interest expenses	Ratio (%)
2004/05	1446.46	561.96	257.40
2005/06	1626.47	648.84	250.67
2006/07	1775.58	767.41	231.37
2007/08	1963.74	823.74	238.39
2008/09	2342.19	934.77	250.56
2009/10	3148.60	1553.53	202.67
		AV	238.51
		SD	18.19
		CV	7.63

Sources: Annual Report and website of the Bank

Above table depicted the interest income to interest expenses ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 257.40%, 250.67% 231.37%, 238.39%, 250.56% and 202.67% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 238.51% during the six years study period. Likewise, the standard deviation is 18.19 and coefficient of variation is 7.63%. Interest income and interest expenses of HBL can be shown by following diagram:

Figure 4.14 Interest Income and Interest Expenses of HBL



Comparison

Interest income to interest expenses ratio of EBL has in decreasing trend except the fiscal year 2007/08 in six years of study period. The ratio of HBL is also in decreasing trend in exception of the fiscal year 2008/09. Similarly, HBL has the highest mean ratio than that of EBL. Likewise, the ratios of HBL have more variation and less consistency than EBL.

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

4.1.3.2 Return on Loan & Advances Ratio

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

Table 4.15 Return on loan & advances ratio of EBL (Rs. In 'Million')

Years	Net profit	Loan and advance	Ratios (%)
2004/05	168.21	7618.67	2.20
2005/06	237.29	9801.30	2.42
2006/07	296.41	13664.08	2.16
2007/08	451.21	18339.08	2.46
2008/09	638.73	23884.67	2.67
2009/10	831.76	27556.35	3.01
		Average	2.48
		S.D.	0.29
		C.V.	11.69

Sources: Annual Report and website of the Bank

Above table depicted the return on loan & advances ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 2.20%, 2.42%, 2.16%, 2.46%, 2.67%, and 3.01% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 2.48 during the six years study period. Likewise, the standard deviation is 0.29 and coefficient of variation is 11.69%. Net profit and loan & advances of EBL can be shown by following diagram:

Figure 4.15 Returns on Loan & Advances of EBL

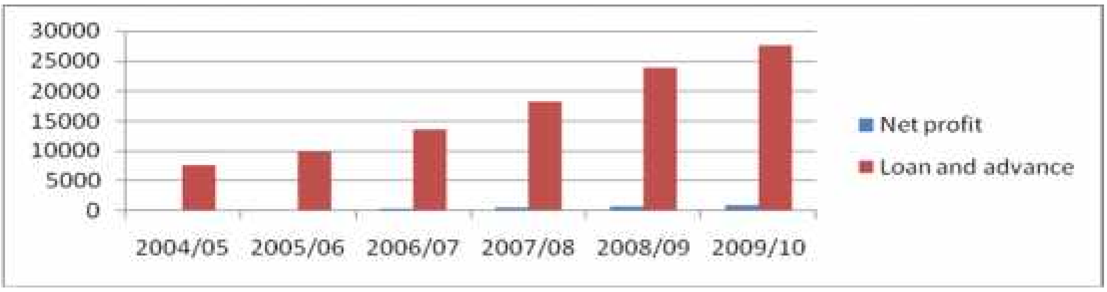


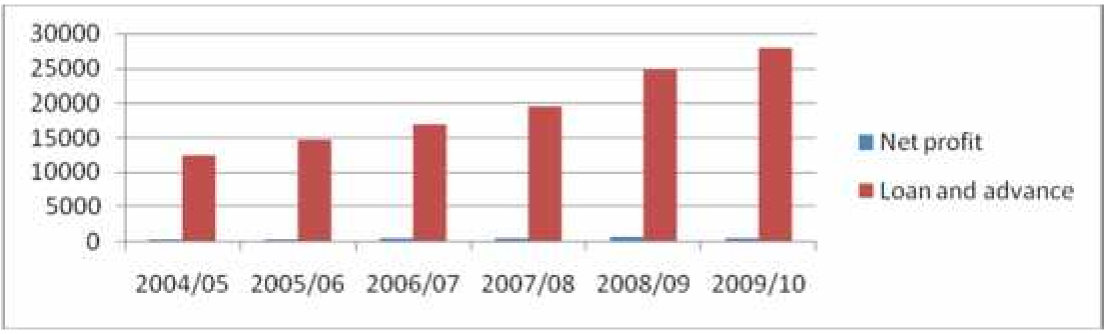
Table 4.16 Return on Loan & Advances Ratio of HBL (Rs. In 'Million')

Years	Net profit	Loan and advance	Ratio
2004/05	308.27	12424.52	2.48
2005/06	457.45	14642.56	3.12
2006/07	491.82	16997.99	2.89
2007/08	638.56	19497.52	3.28
2008/09	752.83	24793.15	3.04
2009/10	508.79	27980.62	1.82
		AV	2.77
		SD	0.62
		CV	22.38

Sources: Annual Report and website of the Bank

Above table depicted the return on loan & advances ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 2.48% 3.12%, 2.89%, 3.28%, 3.04% and 1.82% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 respectively. Similarly, the mean ratio remains at 2.77% during the six years study period. Likewise, the standard deviation is 0.62 and coefficient of variation is 22.38%. Net profit and loan & advances of HBL can be shown by following diagram:

Figure 4.16 Returns on Loan & Advances of HBL



Comparison

Return on loan & advances ratio of EBL no more fluctuation just nominal ups and down. It is in average over the six years of study period. The ratio of HBL is in increasing but also remarkable up and down trend over the fiscal year of study. As well, HBL has the higher mean ratio than that of EBL. Similarly, the ratios of HBL have more variation but less consistency than EBL. From the analysis, we can say that return on loan & advances ratio of EBL and HBL is very low and in fluctuating trend also. The highest ratio is 2.77% of HBL and 2.48% of EBL during the six years of study period. It shows the normal earning capacity of HBL and EBL in loan & advance. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactorily in the present economic situation.

4.1.3.3 Net Profit/Loss to Total Assets Ratio

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

Table 4.17 Net profit/loss to total assets ratio of EBL (Rs. In 'Million')

years	Net profit	Total assets	Ratios (%)
2004/05	168.21	11732.51	1.43
2005/06	237.29	15959.28	1.49
2006/07	296.41	21432.57	1.38
2007/08	451.21	27149.34	1.66
2008/09	638.73	36916.84	1.73
2009/10	831.76	41382.76	2.01
		Average	1.62
		S.D.	0.21
		C.V.	12.96

Sources: Annual Report and website of the Bank

Above table depicted the return on total assets ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 1.43%, 1.49%, 1.38%, 1.66%, 1.73% and 2.01% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 1.62% during the six years study period. Likewise, the standard deviation is 0.21 and coefficient of variation is 12.96%. Net profit and total assets of EBL can be shown by following diagram:

Figure 4.17 Net Profit and Total Assets of EBL

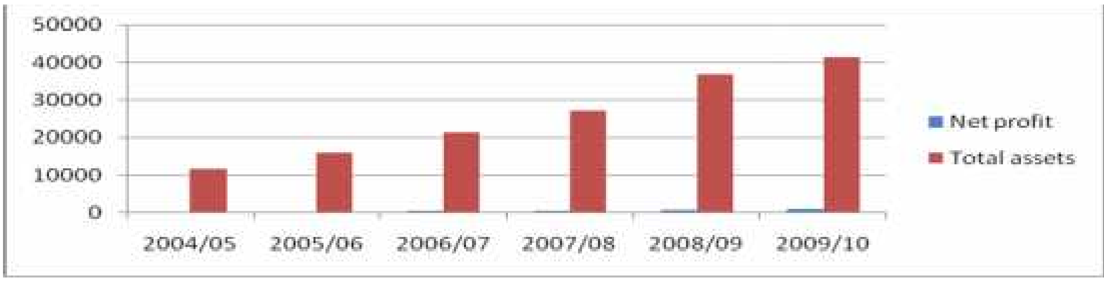


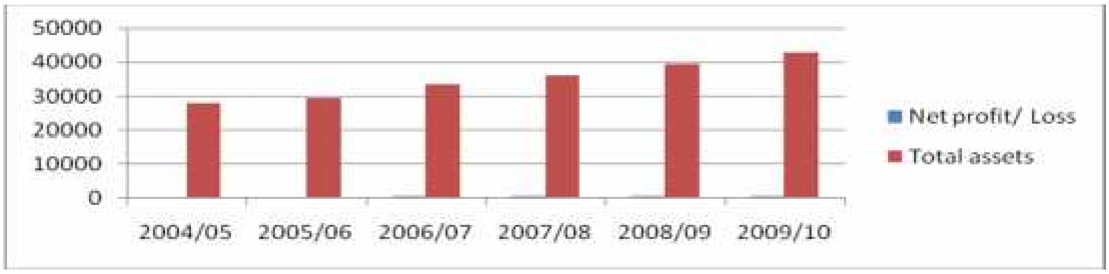
Table 4.18 Net Profit/Loss to Total Assets Ratio of HBL (Rs. In 'Million')

Years	Net profit/ Loss	Total assets	Ratio (%)
2004/05	308.27	27844.69	1.11
2005/06	457.45	29460.39	1.55
2006/07	491.82	33519.14	1.47
2007/08	638.56	36175.53	1.77
2008/09	752.83	39320.32	1.91
2009/10	508.79	42717.12	1.19
		AV	1.50
		SD	0.35
		CV	23.33

Sources: Annual Report and website of the Bank

Above table indicate the return on total assets ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 1.11%, 1.55% 1.47%, 1.77%, 1.91% and 1.19% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 1.50% during the six years study period. Likewise, the standard deviation is 0.35 and coefficient of variation is 23.33%. Net profit and total assets of HBL can be shown by following diagram:

Figure 4.18 Net Profit to Total Assets of HBL



Comparison

Return on total assets ratio of EBL is in increasing trend over the six years of study period. The ratio of HBL is in nominally increasing trend till to the fiscal year of study but in the last fiscal year it is decreased. Similarly, EBL has the higher mean ratio .than that of HBL during the study period. Likewise, the ratios of EBL have less variation and more consistency nature than HBL. From the analysis, we can say that EBL has better earning capacity than HBL. The highest ratio of EBL is 1.62% where of HBL is 1.50% over the study period. It means that EBL can earn 1.62% profit of total assets and HBL can earn only 1.50% profit of total assets.

4.1.3.4 Interest Income to Total Loan & Advances Ratio

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

Table 4.19 Interest Income to Total Loan & Advances Ratio of EBL (Rs. In 'Million')

years	Interest income	loan and advance	Ratios (%)
2004/05	719.30	7618.67	9.44
2005/06	903.41	9801.30	9.22
2006/07	1144.40	13664.08	8.37
2007/08	1548.65	18339.08	8.44
2008/09	2186.82	23884.67	9.15
2009/10	3102.45	27556.35	11.25
		Average	9.31
		S.D.	0.95
		C.V.	10.20

Sources: Annual Report and website of the Bank

Above table depicted the interest income to loan & advances ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 9.44%, 9.22%, 8.37%, 8.44%, 9.15% and 11.25% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The ratios of EBL are in decreasing order but the final last two fiscal years are in increasing order. Similarly, the mean ratio remains at 9.31%, the standard deviation is 0.95 and coefficient of variation is 10.20%. Interest income and loan & advances of EBL can be shown by following diagram:

Figure 4.19 Interest Income and Loan and Advances of EBL

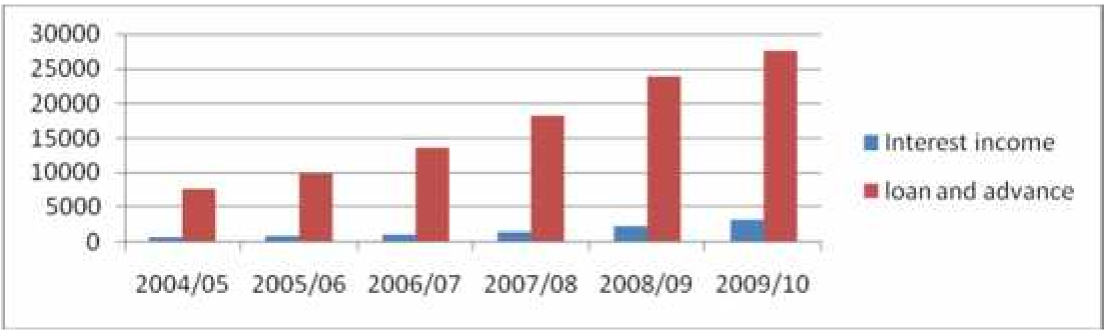


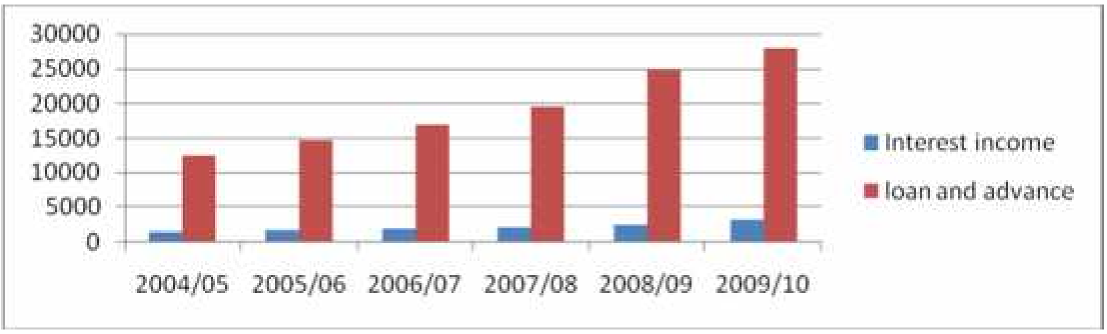
Table 4.20 Interest Income to Total Loan & Advances Ratio of HBL (Rs. In 'Million')

years	Interest income	loan and advance	Ratio (%)
2004/05	1446.46	12424.52	11.64
2005/06	1626.47	14642.56	11.11
2006/07	1775.58	16997.99	10.45
2007/08	1963.74	19497.52	10.07
2008/09	2342.19	24793.15	9.45
2009/10	3148.60	27980.62	11.25
		AV	10.66
		SD	0.75
		CV	7.04

Sources: Annual Report and website of the Bank

Above table indicate the interest income to loan & advances ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 11.64%, 11.11% 10.45%, 10.45%, 9.45% and in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 10.66% during the six years study period. The standard deviation is 0.75 and coefficient of variation is 7.04%. The HBL has no more fluctuation in interest income to total loan and advance ratio in second last fiscal year the ratio has decreased caused by unhealthy competition among banks effect and change in lending policy and global environment. Interest income and loan & advances of HBL can be shown by following diagram:

Figure 4.20 Interest Income and Loan and Advances of HBL



Comparison

Interest income to loan & advances ratio of EBL is in continuously decreasing trend except in the last fiscal year during the six years of study period. The ratio of HBL is also in decreasing trend except in the fiscal year 2009/10. Similarly, EBL has the lower mean ratio than that of HBL. From the analysis, we can say that EBL has nominally low interest income ratio than HBL. That means EBL is able to grant its credit (loan & advances) in high interest earning area. But it will be risky lending because high interest rate carry high risk and low interest rate carry low risk.

4.1.3.5 Earning per share (EPS)

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

$$\text{Earning per share (EPS)} = \frac{\text{Net profit after tax}}{\text{Number of common stock outstanding}}$$

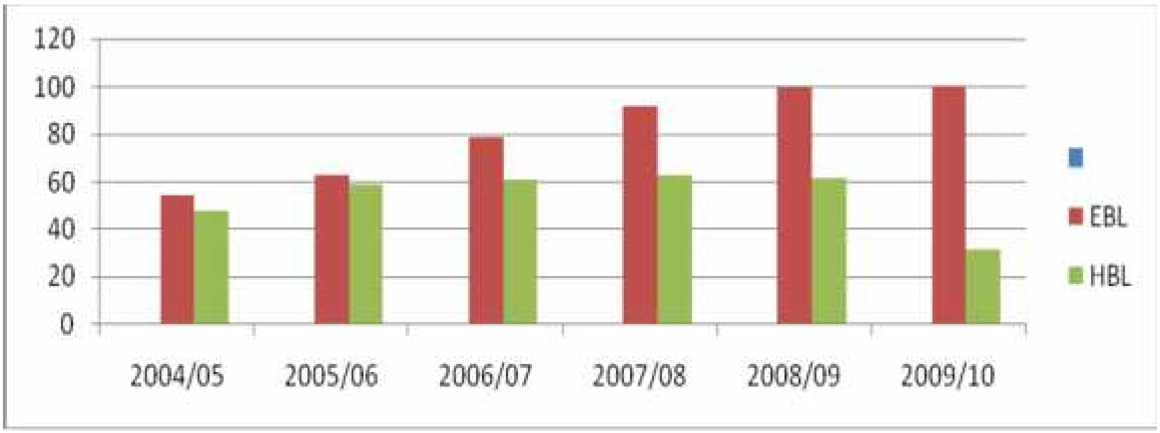
Table 4.21 Earning Per Share of EBL and HBL

Years	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	AV
EBL	54.22	62.78	78.40	91.82	99.98	100.16	81.23
HBL	47.91	59.24	60.66	62.74	61.90	31.80	54.04

Source: Major indicators (annual report) of respective banks

Above table depicted the earning per share of EBL and HBL over the six years period from 2004/05 to 2009/10. The EPS of EBL are Rs. 54.22, Rs. 62.78, Rs. 78.40, Rs. 91.82, Rs. 99.98, Rs. 100.16 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The mean EPS of EBL remains at Rs. 81.23 during the six years of study period. Similarly, the EPS of HBL are Rs. 47.91, Rs. 59.24, Rs. 60.66, Rs.62.74, Rs. 61.90 and Rs. 31.80 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The mean EPS of HBL is Rs. 54.04 over the six years of study period. The EPS of EBL is in increasing trend throughout the study period where as HBL has up and down but sharp down in last fiscal year. Earning per share of EBL and HBL can be shown by following diagram:

Figure 4.21 Earning per Share of EBL and HBL



Comparison

Earning per share of EBL is in rapidly increasing trend where earning per share of HBL is in continuously increasing and sharp fall in the fiscal year 2009/10 of study period during the six years. Similarly, EBL has the higher mean of EPS than that of HBL. It shows that EBL is able to earn and provide good return to its shareholders than HBL over the study period.

4.1.4 Lending Efficiency Ratios

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

4.1.4.1 Loan Loss Provision to Total Loan & Advances Ratio

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

Table 4.22 Loan Loss Provision to Loan & Advances Ratio of EBL (Rs. In 'Million')

years	Loan loss provision	loan and advance	Ratios (%)
2004/05	87.00	7618.67	1.41
2005/06	70.50	9801.30	0.72
2006/07	89.70	13664.08	0.65
2007/08	99.30	18339.08	0.54
2008/09	93.00	23884.67	0.39
2009/10	77.00	27556.35	0.28
		Average	0.11
		S.D.	0.11
		C.V.	100.00

Sources: Annual Report and website of the Bank

Above table depicted the loan loss provision to loan & advances ratio of EBL over the six years period from 2004/05 to 2009/10. The ratios are 1.41%, 0.72%, 0.65%

0.54%, 0.39 and 0.28% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 respectively. Similarly, the mean ratio remains at 0.11% the standard deviation is 0.11 and coefficient of variation is 100%. The loan loss provision to loan & advances of EBL can be shown by following diagram:

Figure 4.22 Loan Loss Provision to Loan & Advances of EBL

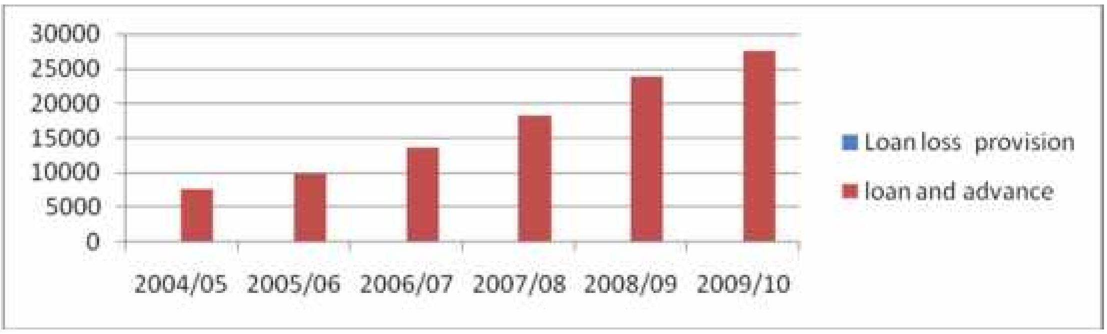


Table 4.23 Loan Loss Provision to Total Loan & Advances Ratio of HBL

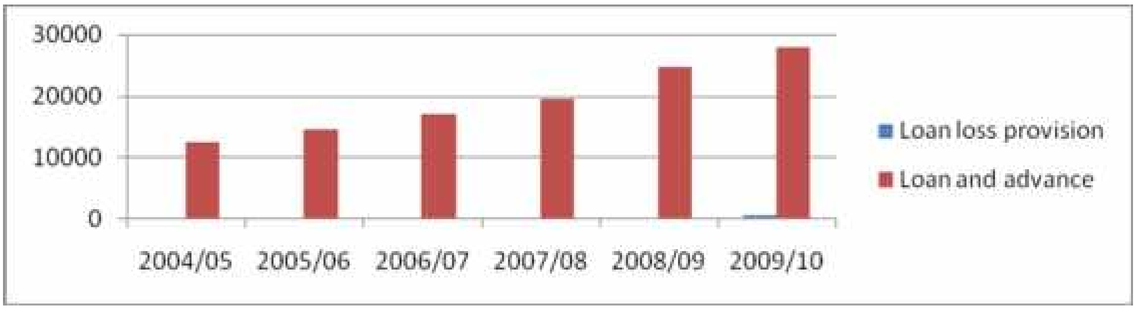
(Rs. In 'Million')

Years	Loan loss provision	Loan and advance	Ratio
2004/05	147.13	12424.52	1.18
2005/06	145.15	14642.56	0.99
2006/07	90.68	16997.99	0.53
2007/08	6.00	19497.52	0.03
2008/09	68.80	24793.15	0.28
2009/10	692.64	27980.62	2.48
		AV	0.92
		SD	0.80
		CV	86.96

Sources: Annual Report and website of the Bank

Above table indicate the loan loss provision to loan & advances ratio of HBL over the six years period from 2004/05 to 2009/10. The ratios are 1.18%, 0.99%, 0.53%, 0.03%, 0.28% and 2.48% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly, the mean ratio remains at 0.92%, standard deviation is 0.80 and coefficient of variation is 86.96%. The decreasing Loan loss provision ratio indicates better performance and effective credit policy in year 2008/09 but the last fiscal year is sharp increase in ratio. Loan loss provision increased due to change in economic environment which create uncertainty such as impact of inflation, directives of NRB which adversely effect on banks performance. Loan loss provision and loan & advances of HBL can be shown by following diagram:

Figure 4.23 Loan Loss Provision to Total Loan & Advances of HBL



Comparison

Loan loss provision to loan & advances ratio of EBL is in decreasing trend except in the last fiscal year 2009/10 during the six years of study period. Where, the ratio of HBL is in continuously decreasing trend till to the years of study period. Similarly, HBL has higher mean ratio than that of EBL over the study period. But the ratios of EBL have more variation and less consistency than HBL. From the analysis, we can say that EBL has very low degree of provision over total lending than HBL. It indicates that EBL has decreasing volume of non-performing loans during the study period than HBL. The decreasing loan loss provision ratio indicates the better performance and effective credit policy of EBL than HBL.

4.1.4.2 Non- Performing Loan to Total Loan & Advances Ratio

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

Table 4.24 Non-Performing Loan to Total Loan & Advances Ratio of EBL and HBL

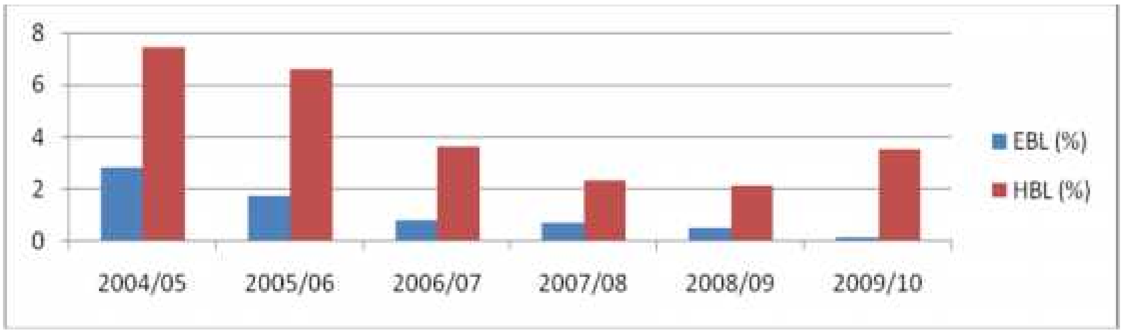
(In %)

YEAR	EBL (%)	HBL (%)
2004/05	2.82	7.44
2005/06	1.73	6.60
2006/07	0.80	3.61
2007/08	0.68	2.36
2008/09	0.48	2.16
2009/10	0.16	3.52
AV	1.11	4.28

Sources: Annual Reports and websites of the banks

Above table depicted the non-performing loan to total loan & advances ratio of EBL and HBL over the six years period from 2004/05 to 2009/10. The mean ratio of EBL remains at 1.11% during the six years of study period. Similarly, the non-performing loan to total loan & advances ratios of HBL over the six years of study period from the above the mean ratios remains 4.28%. Non-performing loan and loan & advances of both banks continuously decreasing which is better for banking activities.

Figure 4.24 Non-Performing Loan to Total Loan & Advances of EBL and HBL



Comparison

Non-performing loan to total loan & advances ratio of EBL is in rapidly decreasing trend in the study period over the six years. The ratio of HBL is in continuously decreasing trend over the study period except the last fiscal year. But HBL has the highest mean ratio than that of EBL. It shows that lending policy of EBL is sound and effective than HBL. Loan recovery process, efficient management and in depth study are the main causes of low NPA level of EBL. Banking sector is seriously affected by the non-performing loan. Around 7.44% of nonperforming loan indicate the bad performing of bank even though the decreasing trend shows the better improvement of the bank. If non-performing loan will increases that affect in overall banking business, provision amount will increases and profit will decrease. So we suggest the bank to be very careful while granting loan and to do effective follow up for recovery of loan.

4.1.5 Credit Risk Ratio

Credit risk ratio is the major risk that banks are exposed to during the normal course of lending and credit underwriting. Here I have taken the risk weighted assets (RWA) of the sample banks from their annual report which was as directed by the NRB rules.

4.1.5.1Risk Weighted Assets to Total Assets Ratio

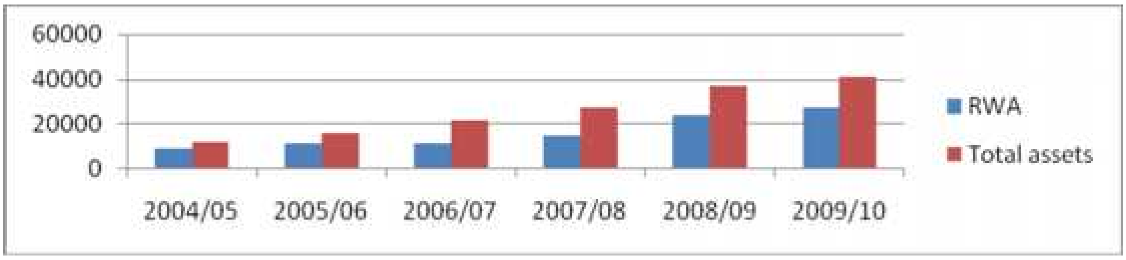
This Ratio gives the total risk weighted assets in comparison to the total assets of the bank and how well the bank is following the NRB directive as well.

Table 4.25 Risk Weighted Assets (RWA) to Total Assets Ratio of EBL (Rs. In 'Million')

Years	RWA	Total assets	Ratios
2004/05	9195.59	11732.51	78.38
2005/06	11291.14	15959.28	70.75
2006/07	11273.29	21432.57	52.59
2007/08	14976.74	27149.34	55.16
2008/09	24131.92	36916.84	65.37
2009/10	27499.89	41382.76	66.45
		Average	64.78
		S.D.	8.80
		C.V.	13.58

Sources: Annual Report and website of the Bank

Figure 4.25 Risk Weighted Assets (RWA) to Total Assets Ratio of EBL



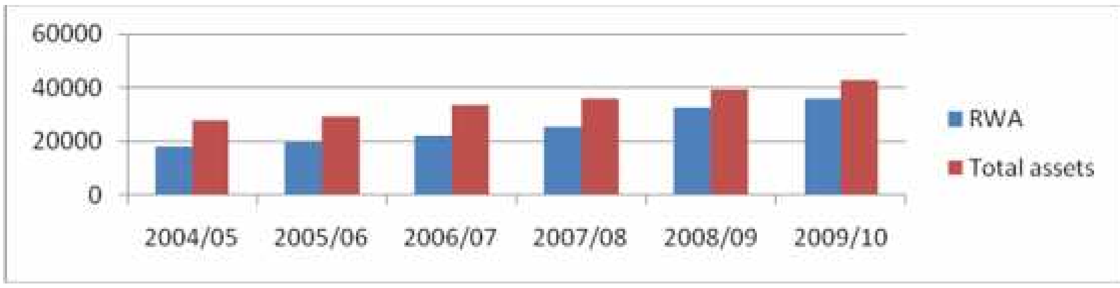
In the above table Risk weighted assets of the EBL with it's Total assets has been depicted from the fiscal year 2004/05 to 2009/10 and the ratios are 78.38%, 70.75%, 52.59%, 55.16%, 65.37% and 66.45% respectively to preceding year of the study period. The Mean AV is 64.78 through out the period and SD is 8.80, likewise the CV of the data is 13.85%

Table 4.26 Risk weighted Assets (RWA) to Total Assets of HBL (Rs. In 'Million')

Years	RWA	Total assets	Ratio (%)
2004/05	18321.71	27844.69	65.79
2005/06	19918.32	29460.39	67.61
2006/07	21889.71	33519.14	65.30
2007/08	25624.46	36175.53	70.83
2008/09	32628.84	39320.32	82.98
2009/10	36049.31	42717.12	84.39
		AV	72.81
		SD	7.89
		CV	10.84

Sources: Annual Report and website of the Bank

Figure 4.26 Risk weighted Assets (RWA) to Total Assets of HBL



In the above table Risk weighted assets of the HBL with it's Total assets has been depicted from the fiscal year 2004/05 to 2009/10 and the ratios are 65.79%, 67.61%, 65.30%, 70.83%, 82.98% and 84.39% respectively to preceding year of the study period. The Mean AV is 72.81 through out the period and SD is 7.89, likewise the CV of the data is 10.84%

4.2 Statistical Tools

4.2.1 Trend Analysis

Under this topic the trend of Total deposit, Total loan and advances and Net profit of the EBL and HBL is analyzed from the fiscal year 2004/05 to 2009/10 and forecast for next five year from the fiscal year 2010/11 to 2014/15.

Table 4.27 Trend Analysis of Total Deposit of Everest bank and Himalayan bank (Rs. In Million)

Fiscal Year	Trend Value of EBL	Trend Value of HBL
2004/05	5096.43	16396.85
2005/06	13908.01	23655.81
2006/07	22719.65	30914.77
2007/08	31531.29	38173.73
2008/09	40342.93	45432.69
2009/10	49154.57	52691.65
2010/11	57966.21	59950.61
2011/12	66777.85	67209.57
2012/13	75589.49	74468.53
2013/14	84401.13	81727.49
2014/15	93212.77	88986.45

Sources: Annual Reports and websites of the banks

The total deposits of EBL and HBL have in the increasing trend where EBL has less in comparison to the HBL up to the fiscal year 2011/12 and is becomes higher than HBL from the fiscal year 2012/13. If all other things remain the same the total deposits of the EBL will be higher than the HBL from the trend we can conclude but during the most of the study period the Total deposit of the HBL is quite better than the EBL.

Figure 4.27 Trend Value of Total Deposit of EBL and HBL

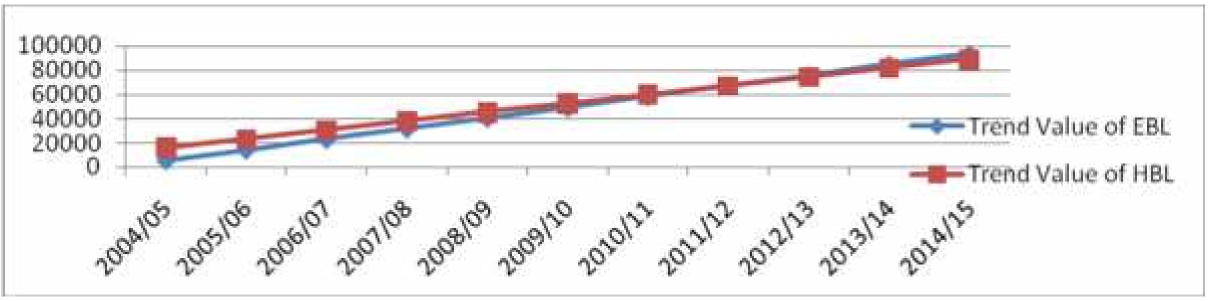


Table 4.28 Trend Analysis of Loan and Advances of EBL and HBL (Rs In Million)

Fiscal Year	Trend Value of EBL	Trend Value of HBL
2004/05	3785.55	7438.43
2005/06	10298.12	13413.91
2006/07	16810.69	19389.39
2007/08	23323.26	25364.87
2008/09	29835.83	31340.35
2009/10	36348.40	37315.83
2010/11	42860.97	43291.31
2011/12	49373.54	49266.79
2012/13	55886.11	55242.27
2013/14	62398.68	61217.75
2014/15	68911.25	67193.23

Sources: Annual Reports and websites of the banks

From the above analysis it is found that the Loan and Advances position of EBL is higher during the fiscal year 2011/12 to onwards but the most of the studied period the position of the HBL is quite high. On the same time the Loan and advances of the both banks is in increasing order.

Figure 4.28 Trend value of Loan and Advances of EBL and HBL

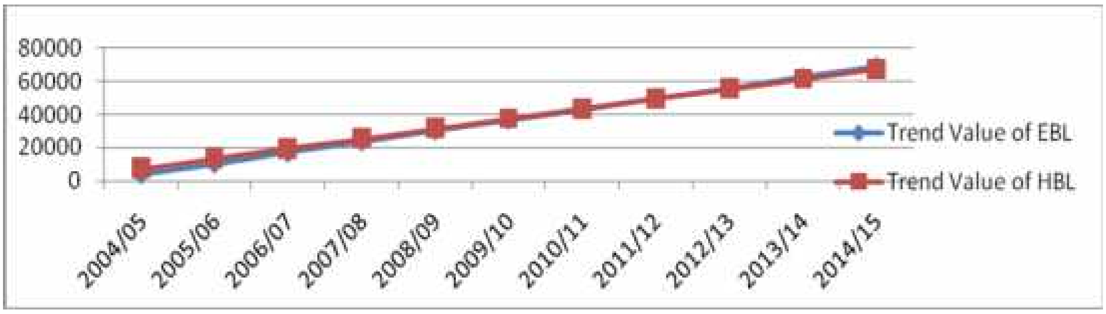


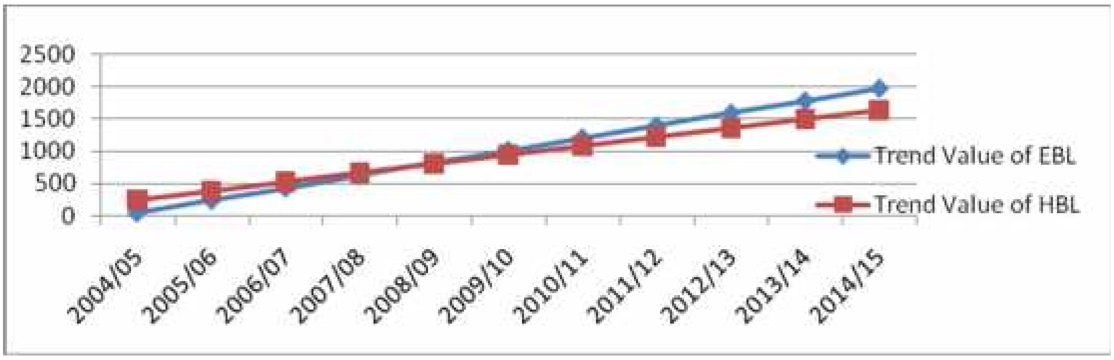
Table 4.29 Trend analysis of Net Profit of EBL and HBL (Rs. In' Million')

Fiscal Year	Trend Value of EBL	Trend Value of HBL
2004/05	53.04	249
2005/06	245.15	387.64
2006/07	437.26	526.28
2007/08	629.32	664.92
2008/09	821.48	803.56
2009/10	1013.59	942.20
2010/11	1205.70	1080.84
2011/12	1397.81	1219.48
2012/13	1589.92	1358.12
2013/14	1782.03	1496.76
2014/15	1974.14	1635.40

Sources: Annual Reports and websites of the banks

The above table shows the Net Profit of both banks have the increasing trend value. The Net Profit of EBL during the fiscal Year 2009/10 is greater than the HBL and also in the fiscal year 2014/15 during the initial fiscal year HBL has the higher Net Profit. So we find the Net Profit of the EBL is in progressive way.

Figure 4.29 Trend value of Loan and Advances of EBL and HBL



4.2.2 Coefficient of Correlation Analysis

Under this topic, Karl Pearson's Coefficient of Correlation is used to find out the relationship between total deposit and loan & advances as well as net profit and loan & advances of Nepal Arab Bank Limited as well Himalayan Bank Limited.

4.2.2.1 Coefficient of Correlation between Total Deposits and Total Loan & Advances

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

Table 4.30 Correlation between Total Deposits and Total Loan & Advances of EBL

(Rs. in‘000’million)

Fiscal Year	Deposit (X)	Total & Adv. (Y)	X^2	Y^2	XY
2004/05	10.10	7.62	102.01	58.06	76.96
2005/06	13.80	9.80	190.44	96.04	135.24
2006/07	18.18	13.66	330.51	186.59	248.34
2007/08	23.98	18.34	575.04	336.59	439.79
2008/09	33.32	23.88	1110.22	570.25	795.68
2009/10	36.93	27.56	1363.82	759.55	1017.79
N=6	**ΣX =**	**ΣY =100.86**	**ΣX^2**	**ΣY^2=2007.0**	**ΣXY**

	136.31		**=3672.04**	**5**	**=2713.80**

Sources: Annual Reports and websites of the banks

Now,

$$\text{Correlation (r)} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{\left[n\sum x^2 - \left(\sum x\right)^2\right]\left[n\sum y^2 - \left(\sum y\right)^2\right]}}$$

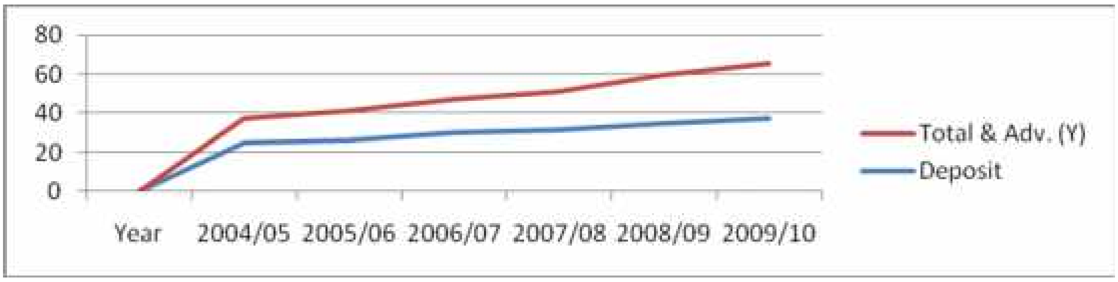
r = +0.9893 i.e. 0.99

P.E = $0.6745 \times \frac{1-r^2}{\sqrt{N}}$ = 0.0054

And,

P.E × 6 =0.0328

Figure 4.30 Correlation between Total Deposits and Total Loan & Advances of EBL



The above calculation shows that there is positive relationship between total deposits and total loan & advances of EBL. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice versa. The coefficient of correlation between total deposits and total loan & advances is 0.99 and probable error is 0.0054 Comparing the value of 'r' and 6 times PE, we can say that there is positive relationship and significant at all time between total deposits and total loan & advances of EBL because 'r' is greater than 6 times PE, i.e. 0.99>0.0328. From the above analysis, we can conclude that EBL has positive relationship and significant at all time between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.98 and vice-versa.

Table 4.31 Correlation between total deposits and total loan & advances of HBL

(Rs. in'000'million)

Fiscal Year	Deposit (X)	Total & Adv. (Y)	X^2	Y^2	XY
2004/05	24.81	12.42	615.54	154.26	308.14
2005/06	26.49	14.64	701.72	214.33	387.81
2006/07	30.05	17.00	903.00	289.00	510.85
2007/08	31.84	19.50	1013.79	380.25	620.88
2008/09	34.68	24.89	1202.70	619.51	863.19
2009/10	37.61	27.98	1414.51	782.82	1052.33
N=6	**ΣX = 185.48**	**ΣY =116.43**	**ΣX^2 =5851.26**	**ΣY^2=2440.23**	**ΣXY =3743.20**

Sources: Annual Reports and websites of the banks

Now,

Correlation (r) = $$\frac{n\sum XY - \sum X \sum Y}{\sqrt{\left[n\sum x^2 - \left(\sum x\right)^2\right]\left[n\sum y^2 - \left(\sum y\right)^2\right]}}$$

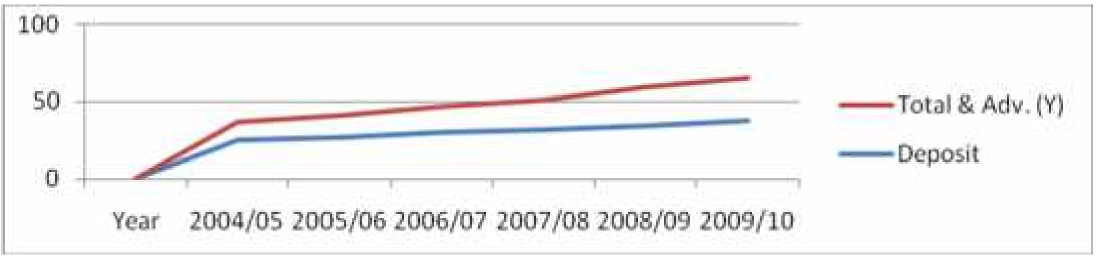
r = +0.98

P.E = $0.6745 \times \frac{1-r^2}{\sqrt{N}}$ = 0.0071

And,

P.E×6 = 0.0426

Figure 4.31 Correlation between total deposits and total loan & advances of HBL



The above calculation shows that there is positive relationship between total deposits and total loan & advances of HBL. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice versa. The coefficient of correlation between total deposits and total loan & advances is 0.98 and probable error is 0.0071. Comparing the value of 'r' and 6 times of P.E., we can say that there is significantly positive relationship between total deposits and total loan & advances of HBL because 'r' is higher than 6 times P.E., i.e. 0.96>0.0426. From the above analysis, we can conclude that HBL has positive relationship with significant between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.98 and vice-versa.

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

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

Table 4.32 Correlation between Total Loan & Advances and Net Profits of EBL

(Rs. in '000' million)

Fiscal Year	Total & Adv. (X)	Net Profit (Y)	X^2	Y^2	XY
2004/05	7.62	0.17	5804.91	0.0289	1.29
2005/06	9.80	0.24	9605.96	0.0576	2.35
2006/07	13.66	0.29	186.59	0.0841	3.96
2007/08	18.34	0.45	336.56	0.2025	8.25
2008/09	23.88	0.64	570.25	0.4096	15.28

2009/10	27.56	0.83	759.55	0.6889	22.87
N=6	**ΣY =100.86**	**ΣY =2.62**	**ΣX^2 =2007.05**	**ΣY^2=1.47**	**ΣXY =54.00**

Sources: Annual Reports and websites of the banks

Now,

$$\text{Correlation (r)} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}}$$

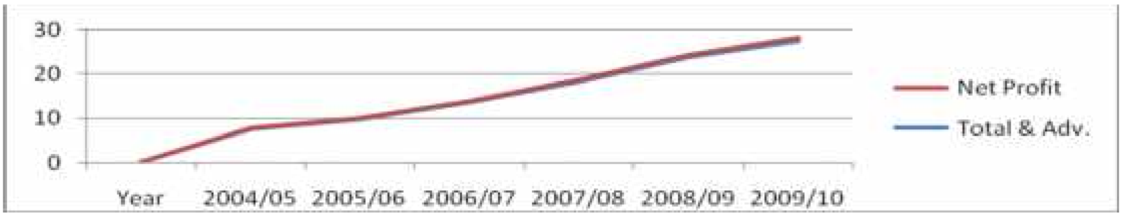
r = +0.98

P.E = $0.6745 \times \frac{1-r^2}{\sqrt{N}}$ = 0.0078

And,

P.E×6 = 0.0469

Figure 4.32 Correlation between Total Loan & Advances and Net Profits of EBL



The above calculation shows that there is positive relationship between total loan & advances and net profit of EBL. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan & advances and net profit is 0.98 and probable error is 0.0078. Comparing the value of 'r' and 6 times P.E., we can say that there is significantly positive relationship between total loan & advances and net profit of EBL because 'r' is higher than 6 times P.E., i.e. 0.98>0.0469. From the above analysis, we can conclude that EBL has positive relationship with significant between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.98 and vice-versa.

Table 4.33 Correlation between Total Loan & Advances and Net Profits of HBL

(Rs.In'000'Million)

Fiscal	Total & Adv.	Net Profit	X^2	Y^2	XY

Year	(X)	(Y)			
2004/05	12.42	0.31	154.26	0.10	3.85
2005/06	14.64	0.46	214.33	0.21	6.73
2006/07	17.00	0.49	289.00	0.24	8.33
2007/08	19.50	0.64	380.25	0.41	12.48
2008/09	24.89	0.75	619.51	0.56	18.67
2009/10	27.98	0.50	782.82	0.25	13.99
N=6	**ΣY =116.43**	**ΣY =3.15**	**ΣY^2=2440.23**	**ΣY^2=1.77**	**ΣXY =65.55**

Sources: Annual Reports and websites of the banks

Now,

$$\text{Correlation (r)} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{\left(n\sum x^2 - (\sum x)^2\right)\left(n\sum y^2 - (\sum y)^2\right)}}$$

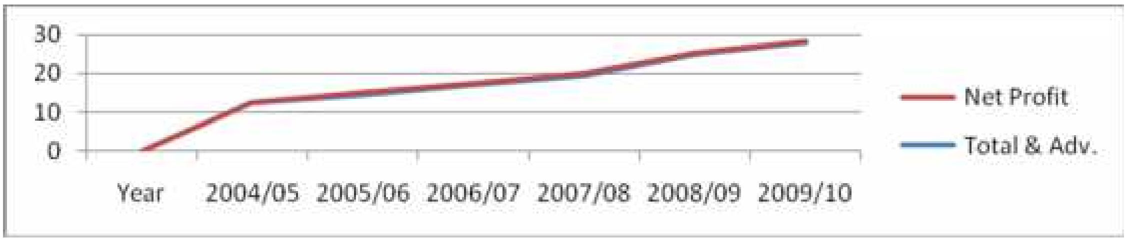
$$r = +.96$$

P.E = $0.6745 \times \frac{1-r^2}{\sqrt{N}}$ = 0.0216

And,

P.E ×6 = 01295

Figure 4.33 Correlation between Total Loan & Advances and Net Profits of HBL



The above calculation shows that there is positive relationship between total loan & advances and net profits of HBL. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan & advances and net profit is 0.96 and probable error is 0.0216. Comparing the value of 'r' and 6 times P.E., we can say that there is positive relationship but not significant at all time between total loan & advances and net profit of HBL because 'r' is less than 6 times P.E., i.e. 0.96>0.01295. From the above analysis, we can conclude that HBL has positive relationship is significant at all time between total loans & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.96 and vice-versa but not significant at all.

4.2.2.3 Coefficient of correlation between Total Deposit and Net Profits

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

Table 4.34 Correlation between Total Deposit and Net Profits of EBL

(Rs. In '000' million)

Fiscal Year	Deposit (X)	Net Profit (Y)	X^2	Y^2	XY
2004/05	10.10	0.17	102.01	0.0289	1.71
2005/06	13.80	0.24	190.44	0.0576	3.31
2006/07	18.18	0.29	330.51	0.0841	5.27
2007/08	23.98	0.45	575.04	0.2025	10.79
2008/09	33.32	0.64	1110.22	0.4096	21.32
2009/10	36.93	0.83	1363.82	0.6889	30.65
N=6	**ΣX = 136.31**	**ΣY =2.62**	**ΣX^2 =3672.04**	**ΣY^2=1.47**	**ΣXY =73.06**

Sources: Annual Reports and websites of the banks

Now,

Correlation (r) = $$\frac{n\sum XY - \sum X \sum Y}{\sqrt{\left[n\sum x^2 - \left(\sum x\right)^2\right]\left[n\sum y^2 - \left(\sum y\right)^2\right]}}$$

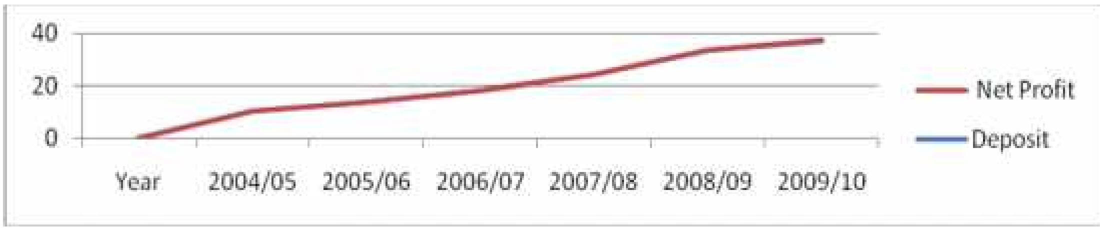
r = +0.98

P.E = $0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.0076$

And,

P.E ×6 = 0459

Table 4.34 Correlation between Total Deposit and Net Profits of EBL



The above calculation shows that there is positive relationship between Total Deposit and net profits of EBL. That means, if the total deposit is increases absolutely the net profit is also increases and vice versa. The coefficient of correlation between total deposit and net profit is 0.98 and probable error is 0.0076. Comparing the value of 'r' and 6 times P.E., we can say that there is positive relationship between total deposit and net profit of EBL because 'r' is greater than 6 times P.E., i.e. 0.96>0.0459. From the above analysis, we can conclude that EBL has positive relationship and is significant at all time between total deposit and net profit. The relationship is significant, i.e. profit increase as the portion increase in loan & advances in relation to 0.98 and vice-versa.

Table 4.35 Correlation between Total Deposit and Net Profits of HBL (Rs. In '000' million)

Fiscal Year	Deposit (X)	Net Profit (Y)	X^2	Y^2	XY
2004/05	24.81	0.31	615.54	0.10	7.79
2005/06	26.49	0.46	701.72	0.21	12.68
2006/07	30.05	0.49	903.00	0.24	14.72
2007/08	31.84	0.64	1013.79	0.41	20.48
2008/09	34.68	0.75	1202.70	0.56	26.31
2009/10	37.61	0.50	1414.51	0.25	18.80
N=6	**ΣX = 185.48**	**ΣY =3.15**	**ΣX^2 =5851.26**	**ΣY^2=1.77**	**ΣXY =100.78**

Sources: Annual Reports and websites of the banks

Now,

Correlation (r) = $$\frac{n\sum XY - \sum X \sum Y}{\sqrt{\left[n\sum x^2 - \left(\sum x\right)^2\right]\left[n\sum y^2 - \left(\sum y\right)^2\right]}}$$

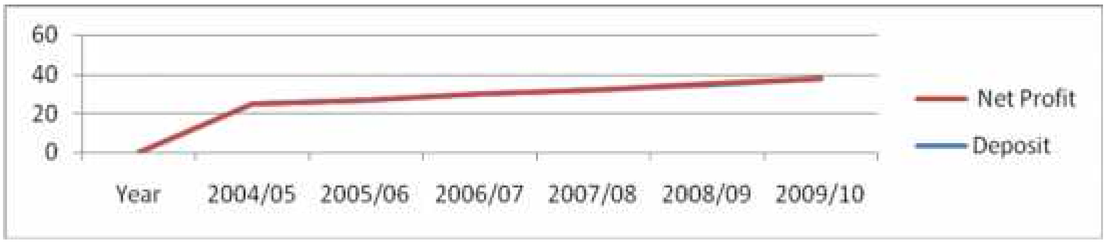
r = +0.92

P.E = $0.6745 \times \frac{1-r^2}{\sqrt{N}}$ = 0.0423

And,

P.E ×6 = 0.2538

Figure 4.35 Correlation between Total Deposit and Net Profits of HBL



The above calculation shows that there is positive relationship between total deposit and net profits of HBL. That means, if the total deposit is increases absolutely, the net profit also increases and vice versa. The coefficient of correlation between total deposit and net profit is 0.92 and probable error is 0.0423. Comparing the value of 'r' and 6 times P.E., we can say that there is positive relationship and is significant to total deposit and net profit of HBL because 'r' is greater than 6 times P.E., i.e. 0.96>0.01295. From the above analysis, we can conclude that HBL has positive relationship and is significant at all time between total deposit and net profit. The relationship is significant, i.e. profit is increase as the portion increase in total deposit in relation to 0.92 and vice-versa.

Major Findings

Some major points has been drawn as major findings in this study and average (AV) represents to the mean ratio and S.D. represents the Standard deviation which measures the total risk and CV represents the coefficient of variation which measures the risk per unit and gives the better measure of Risk.

- The ratio of cash and bank balance to total deposit measure the ability of the bank to meet the total liquidity condition ie how well the bank manage the sudden out lay of money and maintain the liquidity state of the bank in response to the total deposit of the bank. EBL has higher AV ratio than HBL (14.31>7.34). In the same way EBL has SD 4.07 and HBL has 1.92. Then the CVs are 28.44 and 26.16 of EBL and HBL respectively.
- Cash and Bank Balance to Current Deposit ratio measures the bank's sound ability to meet the daily cash requirement of their customers' deposit. High ratio means the good position to make the payment against cheques. EBL has AV 115.17 where HBL has 55.62 and the SD of EBL is 18.48 and SD of HBL is 30.90. Similarly EBL has low CV 16.05 than HBL's CV 55.55.
- Cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate. Mean ratio remains at 32.31%. Likewise, S.D. is 13.56 and CV is 41.97% of EBL and HBL has mean ratio remains at 14.26% during the six years study period. S.D. is 4.94 and CV is 34.64%.
- Loan and advance to total deposit 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, the mean ratio remains at 74.05%, likewise, S.D. is 1.86 and CV is 2.51% of EBL and HBL has the mean ratios which remain at 61.50% during the six years study period, the S.D. is 8.75 and CV is 14.23%.
- The loan and advance to total assets ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation. EBL has, the mean ratio at 64.82% the S.D. is 1.97 and CV is 3.04% and HBL has mean ratio remains at 54.58% in the six years study period. Likewise, the S.D. is 7.40 and CV is 13.56%.
- Total investment to total deposit ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success of mobilization of deposits in securities and vice-versa. The mean ratio remains at 21.90% during the six years study period, the S.D. is 5.63 and CV is

25.70% of EBL and the HBL has the mean ratio remains at 36.17% the S.D. is 9.10 and CV is 25.16%. HBL has maintained it's deposit well than the EBL.

- Interest income to interest expenses ratio is the gap between interest rates offered and interest rate charged. The mean ratio of EBL remains at 224.07% during the six years study period. Likewise, the S.D. is 15.71 and CV is 7.01% and HBL has the mean ratio remains at 238.51%, S.D. is 18.19 and CV is 7.63% throughout the study period. The greater ratio mean the bank has the higher profit from the interest earning assets. Or also it pays less interest to the depositors.

- Return on loan and advance ratio of EBL has mean AV 2.48%, so as SD 0.29 and CV 11.69% and HBL has the mean ratio remains at 2.77% during the six years study period likewise, the S.D. is 0.62 and CV is 22.38%. Here EBL has higher mean and standard deviation than HBL so it makes more profit from loan and advances.

- Return on assets of the banks i.e. (ROA) or net profit to total assets; the higher ratio indicates higher efficiency in the utilization of total assets and vice-versa. The EBL has the mean ratio remains at 1.62% the S.D. is 0.21 and CV is 12.96% and the mean ratio AV remains at 1.50% during the six years study period likewise, the S.D. is 0.35 and CV is 23.33% of HBL.

- The interest income to total loan and advance ratio is useful to know the fact that whether the loan has given good return or not. High return shows the soundness of credit policy and vice-versa. The mean ratio AV remains at 9.31% during the six years study period, the S.D. is 0.95 and CV is 10.20% of EBL. HBL has the mean ratio remains at 10.66% during the six years study period, likewise, the S.D. is 0.75 and CV is 7.04%.

- The earning per share (EPS) is the major indicator of the bank. In our study we find that the EBL has the higher mean AV or average earning per share than the HBL bank i.e. EBL has Rs.81.23 where as HBL has Rs. 54.04.

- The provision for loan loss shows the increasing probability of nonperforming loan. Increase in loan loss provisions means decreases in profit and vice-versa, the mean ratio AV of EBL remains at 0.11% during the six years study period and likewise, the S.D. is 0.11 and CV is 100.00%. HBL has the mean ratio which remains at 0.92%, S.D. is 0.80 and CV is 86.96%. Here from data the nonperforming loan of HBL is higher than EBL.

- Non-performing loan to total loan and advances in the initial years of the study are high in both banks but decreasingly the ratio come to least in the final years of the study except the HBL has some fluctuation in the data and also higher ratio in comparison to the EBL, ie EBL has mean AV 1.11% and HBL has 4.28%.
- The Risk weighted assets of both banks are in increasing order but the HBL has greater than the EBL. The ratio percentage of RWA to Total Assets of EBL are lower than the HBL and the ratios decreasing order.
- Trend analysis of total deposits of the EBL bank is higher than the bank HBL ie final fiscal year's data from the above table is 93212.77 and 88986.45 respectively.
- Trend analysis of the loan and advances of both banks are in the increasing order and the EBL has slightly higher value than the HBL bank. So in future EBL will project high loan and advances in comparison to the HBL.
- In the trend analysis of the Net Profit both banks have in increasing order. Comparatively EBL has the higher net profit trend than HBL.
- The coefficient of correlation represents or measures the relationship between two variables. The correlation between total deposit and loan and advance of both banks are positive i.e. r= +0.99 of EBL and r= +0.98 of HBL. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice versa.
- The correlation between total loan & advances and net profit of EBL and HBL both have positive that means, if the total loan & advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan & advances and net profit of EBL is 0.98 and HBL has 0.96.
- The Coefficient of Correlation between Total deposit and the Net Profit of the sample banks are positive and this means if the total deposit increase the net

profit also increases and the vice-versa. EBL has r = +0.98 and HBL has r = +0.92. Comparatively EBL has made more profit than HBL.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Banks are major financial institutions which occupy quite an important place in the framework of every economy because they provide capital for the development of industry trade and business and other resources deflect sectors investing the saving collected as deposit in the bank by playing active role have been changed the economic structure of the world. Banks have its own role and contribution in the world. Banks have its own role and contribution in the economic development. It maintains economic confidence of various segments and extends credit to people. The banking sector has to play development role to boost the economy by adopting good credit management in the banks and moreover to be safe and make the financial market healthy.

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

i. Liquidity ratio

EBL has highest mean of cash & bank balance to total deposit ratio with respect to the HBL. But, the ratios of EBL have more variation and less consistency than HBL. Though the ratios are not consistent, cash & bank balance position of EBL good with respect to HBL. The deposit is better to serve the customers deposit withdraws demands. Commercial banks have to maintain their cash & bank balance in terms of total deposit as directed by NRB time to time. Otherwise they are imposed penalty. There is highest mean of cash & bank balance to current deposit ratio of EBL than that of HBL over the study period. But the ratios of EBL have more variation and more consistency than HBL. It can be said that EBL has high liquid assets in terms of cash & bank balance to current deposit ratio than that of HBL but it dose not mean that EBL has mobilized its more funds in profitable sectors than HBL. EBL has highest mean of cash & bank balance to interest sensitive deposit ratio than HBL. Similarly, ratios of EBL have more variation and less consistency than HBL. From the analysis of overall liquidity ratios of EBL and HBL, we can say that EBL has high degree of liquid assets, i.e. high liquidity position than HBL. High liquidity position is not so better because of interest expenses and its cause inverse impact in overall performance.

ii. Assets management ratio

EBL has highest mean of loan & advances to total deposit ratio than that of HBL during the study period. Likewise, the ratios of EBL have less variation and more consistency than HBL. From the analysis, we can say that EBL is in good form in deposit mobilization point of view than HBL. But it does not mean that EBL is investing more of its collected fund in high return but with low risk sector than HBL. EBL has highest mean of loan & advances to total assets ratio than that of HBL. Likewise, the ratios of EBL have less variation and more consistency than HBL. From the analysis, we can say that EBL has sound lending policy so that it is able to mobilize its resources as loan & advances than that of HBL. HBL has highest mean of total investment to total deposit ratio than that of EBL. Likewise, the ratios of HBL have less variation and more consistency than EBL. During the study period, movements of ratios are first increasing, then decreasing. It may be due to slack in the different sectors of economy due to which bank is unable to mobilize its fund in loan & advances and share/debenture of other companies properly.

iii. Profitability ratio

HBL has the highest mean of interest income to interest expenses ratio than that of EBL. Likewise, the ratios of HBL have less variation and more consistency than HBL. From the analysis, we can say that HBL has high degree of gap between interest offered and interest charged than EBL. This shows that HBL has charged high interest rate to borrowers and offering low interest rate to depositors. HBL has the highest mean of net profit to loan & advances ratio than that of EBL. Similarly, the ratio of HBL has more variation but more consistency than EBL. From the analysis, we can say that return on loan & advances ratio of HBL and EBL is very low and in fluctuating trend also. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactory in the present economic situation. EBL has the highest mean of net profit to total assets ratio than that of HBL during the study period. Likewise, the ratios of EBL have less variation and more consistency nature than that of HBL. From the analysis, we can say that EBL has better earning capacity than HBL. HBL has the highest mean of interest income to loan & advances ratio than that of EBL. Likewise, the ratios of HBL have more variation and less consistency than HBL. From the analysis, we can say that EBL has highest interest income ratio than HBL. That means EBL is able to grant its credit (loan & advances) in high interest earning area. EBL has the highest mean of EPS than that of HBL. It shows that EBL is able to earn and provide good return to its shareholders than HBL over the study period.

iv. Lending efficiency ratio

HBL has highest mean of loan loss provision to loan & advances ratio than that of EBL over the study period. But the ratios of HBL have more variation and less consistency than EBL. From the analysis, we can say that EBL has very low degree of provision over total lending than HBL. It indicates that EBL has decreasing volume of non-performing loans during the study period than that of HBL. HBL has the highest mean of non-performing loan to loan & advances ratio than that of EBL. It shows that lending policy of EBL is sound and effective than of HBL. Loan recovery process, efficient management and in depth study are the main causes of low NPA level of EBL.

v. Risk weighted assets to total assets ratio

EBL has decreasing order of the ratios and low mean AV at 64.78% where as the HBL has greater mean i.e. 72.81% and has less variant and consistent ratio data.

vi. Trend analysis

Trend analysis of Total Deposit of EBL is higher than that of HBL throughout the study period and more five year's forecasting as well. Similarly, trend analysis of Total loan and advances of EBL is greater than that of HBL and trend analysis of Net Profit of EBL is also greater than that of HBL through the whole period of the study and forecasting as well.

vii. Co-efficient of correlation analysis

EBL has positive relationship but not significant at all time between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increases as the portion increase in deposits in relation to 0.99 and vice-versa. HBL has positive relationship with significant between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.98 and vice-versa. EBL has positive relationship with significant between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.98 and vice-versa. HBL has positive relationship between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.96 and vice-versa. EBL has the positive relationship with significant between Total deposit and Net Profit. The relationship is significant, i.e. profit increases as the portion increases in Total Deposit in relation to 0.98 and vice versa. HBL has positive relationship between Total Deposit and net profit. The relationship is significant, i.e. profit increase as the portion increase in Total Deposit in relation to 0.92 and vice-versa.

5.2 Conclusion

This study is successful to explore the findings of the result designed for the study. Various financial as well as statistical tools were used as per requirement of nature of data. Primary as well as secondary sources of information were used for analysis of data. The conclusion can be drawn as follows from the above base of analysis and findings:

- EBL has more cash & bank balance to total deposit ratio as well as cash & bank balance to current deposit ratio and cash & bank balance to interest sensitive deposit ratio than that of HBL.
- From the analysis of overall liquidity ratios of EBL and HBL, we can say that EBL has high degree of liquid assets, i.e. high liquidity position than HBL.
- EBL is able to mobilize its resources in lending as loan & advances than HBL.
- From the analysis of overall efficiency ratio of EBL and HBL, we conclude that EBL has sound lending policy so that it is able to mobilize its resources more than HBL.
- HBL is able to earn more interest form total credit granting than that of EBL.
- HBL has high return on loan & advances ratio and less in return on total assets ratio than that of EBL.

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

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

5.3 Recommendation

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

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

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

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

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

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

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

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

NRB recommended following the NRB directives which will helps to reduce credit risk arising from defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So EBL and HBL suggested collecting as much information about borrowers and lending to non-risky area and to non-defaulter.

Non-performing assets of HBL bank is high. Non-performing assets do not provide return to the bank. Therefore, bank should increase its effort to recover its credit on time. More facilities should be provided to credit department/unit, so that credit officers will increase their effort to recover the credit of the bank. On the other hand, at the time of granting credit, bank should analyses the project report thoroughly. Whether the project is genuine or not, whether the project can generate sufficient income in time to pay the credit of bank, should be analyzed in detail. Collateral should be enough to recover the credit, in case, customer fails to pay the credit.

Due to poor credit administration, the credit recovery process would be slow as well as legal process in the recovery of credit could be lengthy and ineffective. Clear-cut objective and policy of the credit management is lacking so that nonperforming credit is going upward. To get better result in the coming future, bank should reduce the volume of non-performing credit.

The economic liberalization policy adopted by HMG/N has created an environment of cut-through-neck competition even in the banking sectors. In this context, NB bank is suggested to formulate and implement some sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

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

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