CREDIT MANAGEMENT OF NEPALESE COMMERCIAL BANKS

(With Special Reference to NABIL, EBL and HBL)

Submitted by

Dipendra Pun Magar

Central Department of Management

Campus Roll No.: 502/064

Symbol No.: 280385/066

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RECOMMENDATION

This is to certify that the thesis

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Dipendra Pun Magar

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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Asso. Prof. Sanjay Shrestha	Prof. Dr. Bal Krishna Shrestha	Prof. Dr. Dev Raj Adhikari
Supervisor	Chairperson, Research Committee	Head of the Department

Date: ……………..……

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Dipendra Pun Magar

Entitled

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Chairperson, Research Committee	-------------------------
Member (Thesis Supervisor)	--------------------------
Member (External Expert)	--------------------------
Member (Central Department of Management)	--------------------------

Date: ---------------------

DECLARATION

I hereby, declare that the work reported in this thesis entitled **"Credit Management of Nepalese Commercial Banks: With Special Reference to NABIL, EBL and HBL"** submitted to Central Department of Management, University Campus, T.U., Kirtipur is my original piece of work done in the form of partial fulfillment of the requirement for the Master's Degree in Business studies under the supervision and guidance of Sanjay Shrestha, Associate Professor, Central Department of Management.

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Dipendra Pun Magar

Roll No.: 502/064

Central Department of Management

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ABBREVIATIONS

AD	Anno Domini
ATM	Automatic Teller Machine
BS	Bikram Sambat
CAR	Capital Adequacy Ratio
CDM	Central Department of Management
CRR	Cash Reserve Ratio
EBL	Everest Bank Limited
EPS	Earning Per Share
FY	Fiscal Year
HBL	Himalayan Bank Limited
ME	Management Efficiency
NABIL	Nepal Arab Bank Limited
NEPSE	Nepal Stock Exchange
NPAT	Net Profit After Tax
NRB	Nepal Rastra Bank
P/E	Price Earning
r	Correlation Coefficient
ROA	Return on Assets
ROE	Return on Equity
TA	Total Asset
TC	Total Capital

CHAPTER: I

INTRODUCTION

1.1 Background of the Study

The source of finance is the most essential element for the establishment and operation of any profit and not profits making institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issued shares, and through the financial institutions such as banks, in the form of credit, overdrafts and other related services (Vaidhya, 1999: 4).

Nepal is a developing country. Developing countries face a lot of problems for their economical development. Financial market is very important for the economic growth of the country (Economic Survey, 2004/05: 2). The pace of development of the country largely depends upon the economic activities. Economic activities are guided by finance, financial institution provide societies, insurance companies, and stock exchange and helps in the economic development of the country (Economic Survey, 2004/05: 2).

Banks are major institutions in financing sector . Bank involves in a process of collecting cattered money and to help its mobilization in different sectors according to the need of customers (Shekher & Shekhar, 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 economy(Economic Survey, 2004/05: 3).

Banking is one of the most heavily regulated business in the world (Vaidhya, 1999: 5). Banks are among the most important financial institutions in the economy. They are the principal source of credit (loan-able funds) for millions of individuals and families and for many units of 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).

Banks are such financial institutions that offer the widest range of financial services especially credit, savings payment services and perform the widest range of financial functions of any business firm in the economy. The most important function are; lending and investing money (the credit function), making payments on behalf of customers for their purchase of goods and services (the payment function), managing financial assets and real property for customers in investing and raising funds (through the brokerage, investment banking and saving functions) (Vaidhya, 1999: 5).

Lending is the most important function of a commercial bank. For lending procedure, bank has to make some banking practices such as transferring property in bank's name. The transfer is temporarily made for a loan price & interest. Lending money is nowadays becoming main resources of revenge to the bank and 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 place ahead without proper banking system. Moreover, the ability of banks is to gather and analyze financial information that has given rise to another view of why banks exist in modern society. Most borrowers and depositors prefer to keep their financial records confidentially, 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).

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and customer needs to price that credit reasonably in line with competitively determined interest rates. Bank loan support the growth of new business and jobs within the banks trade territory and promote economic vitality. Banks make a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles, and buying new furniture, taking dream vacation or purchasing college education, to constructing home and office buildings.

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

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

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

NRB is an apex institution in money and capital market in Nepal. It works as a central bank of the country. Banks and other financial institutions are supervised, directed, regulated and controlled by NRB. Following is the list of the licensed Commercial Bank as at on Mid- July 2006.

1.2 Profile of The Sample Banks

1.2.1 Himalayan Bank Limited (HBL)

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

The bank has five branches in Kathmandu valley at the following locations: Thamel, New Road, Maharajgunj, Pulchowk (Patan) and Suryavinayak (moved from Nagarkot). In addition, the bank also has nine other branches outside Kathmandu valley in Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara, Dharan and Butwal. The bank also operates counter premises of Narayanhity. The bank will be rapidly opening new branches at the different parts of the kingdom to serve its customers better..

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

1.2.2 Everest Bank Limited (EBL)

Everest Bank Limited is highly successful commercial bank of Nepal established on 18th October 1994 under the company Act 1964 and licensed by Nepal Rastra Bank as an “A” class commercial bank,. United Bank of India Ltd, under technical services agreement signed between it and Nepalese promoters and it was managing the bank from very beginning till November 1996. Later on, it was handed over the management to Punjab National Bank Ltd. India (PNB). PNB is the largest Public Sector Bank of India having 109 years of banking history with more than 4400 offices all over India and is known for its strong systems and procedures and a distinct work culture. PNB is providing the top management services to EBL under a technical services agreement signed between the two institutions. EBL thus has advantage of the banking expertise and financial strength of its partner. Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations and established itself as a leading Private Sector Bank. EBL is ranked as No. 2 bank by NRB as per Capital Adequacy, Assets Quality, Management, Earning Capability, and Liquidity Position (CAMEL).

Everest Bank Limited has authorized capital of 1 billion and 718 million of paid up capital. Its main branch is located at New Baneshwor, Kathmandu, and Corporate/Head office is situated at Lazimpat, Kathmandu. It provides all the general services to its customers throughout the 26 branches of the bank. The branches are spread from Mechi, eastern part of Nepal to Kailali, Dhangadi, and western part of Nepal.

1.2.3 NABIL Bank Limited

Nepal Arab Bank Limited NABIL Bank, the 1st foreign joint venture Bank set up in the nation with an objective to introduce modern banking services, commenced its operations on 12th of July 1984 or 2041 Ashad 29 B.S. with Rs. 28 million capital. Dubai Bank Limited, Dubai was the foreign joint venture partner that extended NABIL a technical service agreement in the initial period. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. The first Joint Venture Bank in Nepal with a 23 Year old journey of History NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele-banking system. Nepal Arab Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in the Kingdom of Nepal, the bank has been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the Bank of 1st Choice to all of its stakeholders and customers. Customers to think of NABIL Bank first to meet any financial need of theirs. NABIL Bank would like investors to choose the Bank’s share as a blue-chip stock whenever they are in search of an investment opportunity. For the customers, it wants to be the first choice in meeting all of the financial requirements, for shareholders, it wants to be the investment of choice, for regulators, it want to be an example of a model bank, It wants to be an example for the regulators in terms of professionalism and transparency. NABIL wants to be an actively participating ‘good corporate citizen’ in all the Communities that the Bank works. It wants to be the first choice as an employer with whom to build a career and finally the entire NABIL Team embraces a set of Values that acronym is referred to as ‘C.R.I.S.P.’ representing the fact that we consistently strive to be Customer Focused, Result Oriented, Innovative, Synergistic and Professional. By living these values, individually as professionals and collectively as a Team, NABIL Bank is committed to Surge Ahead to be the Bank of 1st Choice in Nepal.

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

NABIL Bank Limited was the first joint venture bank established in 1984 with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public. The shares owned by DBL were transferred to Emirates Bank International ltd (EBIL), Dubai. Later EBIL sold its entire holding go National Bank ltd, Bangladesh (NBLB). Hence 50% of equity shares of Nabil Bank ltd are held by NBLB and out of remaining, financial institutions have taken 20% and 30% were issued to general public of Nepal. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 28 points of representation across the nation and over 170 reputed correspondent banks across the globe.

1.3 Statement of the Problem

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

However, the financial institutions are increasing regularly. Liquidity is maximum with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Banks and financial institutions are investing in house loan, hire purchase loan for safety purpose. Lack of good lending opportunities, banks are facing problems of over liquidity. Nowadays, banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays, due to competition among banks, the interest rate charge for loan is in decreasing trend. Due to unhealthy competition among banks, the recovery of the bank's credit is going towards negative trends. Non-performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, NRB has renewed its directives of the credit loss provision. Therefore, it is necessary to analyze the 'credit management' or credit disbursement recovery provision for loss and write off of credit. As the sample of commercial banks, have been selected.

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

- What is the credit efficiency of Nepalese commercial bank?
- Are credit practice adopted by commercial bank in good position?
- Are quality of management good in commercial banks?
- How does the commercial bank manage better creditability position?

1.4 Objective of the Study

The objective of the study is to analyze the Credit Management of Nepalese Commercial banks. The specific objectives of the study are as follows:

- To assess credit practices of the selected Nepalese commercial banks
- To explore the credit efficacies of selected Nepalese commercial banks
- To analyze the industry environment of selected Nepalese commercial banks in terms of credit practices
- To explore the relationship with loan and advances, non performing loan and net profit of selected Nepalese commercial bank.
- To analyze the volume of contribution made by sample banks in credit & advances.
- To analyze the deposit collection and utilization trend of sample banks.
- To study the relationship of deposit, loan & advances and net profit of sample banks.
- To provide suitable suggestions based on the findings of this study.

1.5 Limitations of the Study

To complete this research the different books, journals, articles and dissertations have been referred. Thus, reliability of the study is based on those things. This study does examine the credit management of all listed commercial banks due to lack of time, the study observes only the credit management of three commercial banks – Himalayan Bank Limited, NABIL and Everest bank. This study covers only for the last five years. To prepare this report, secondary data are collected from annual general meeting (AGM)'s report of the listed banks and trading reports of NEPSE. Primary information is collected from respective office and related persons. It may not cover the whole qualitative analysis of the commercial banks because of time and resource constraints.

1.6 Organization of the Study

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

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

Chapter: II: Review of literatures, which includes conceptual/ theoretical review and review of related studies.

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

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

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

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

CHAPTER: II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researches can be conducted or done. It is an integral mandatory process in research works. It is a crucial part of all dissertations. In other words it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

2.1 Conceptual Review

2.1.2 Concept of Bank

Simply, Bank is financial institution that accepts deposits and investor the amount in the leading activities and also commercial service provide. In ancient, the word Bank was emerged from 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 activities are formed as current banking activities.

According to S. and S.'s definition of bank, 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 fund 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 its self provided huge sense of banking activity.

2.1.3 Meaning of Commercial Bank

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

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

Without the development of sound commercial banking, underdeveloped countries cannot hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible without the existence of banks to provide the necessary capital. Industrial development will be impossible without the existence of markets of the goods produced. On the other hand, the services of the commercial banks will help to extend the market. The commercial banks play an important role as follows:

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

2.1.4 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: 9).

“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**.**

Brief History of the Evolution of Banking in Nepal

The invention of money was a milestone in the history of economy and developing the banking as a habit people. It has made economic and business activity more precise and efficient. This gave the emergence of non-institutional banking activities. Merchants, Moneylenders and Goldsmith were the leader of such unorganized economic and financial transactions. Thus, the Merchants, Moneylender and Goldsmith were the ancestors of modern bankers.

During the early periods although the banking business was mostly done by private individuals, many countries established public banks either for the purpose of facilitating commerce or to serve the government. The Bank of Venice established in 1157 A.D., is supposed to be the most ancient bank. Originally, it was not a bank in modern sense being simply an office for the transfer of public the public debt.

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

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

The establishment of banking institutions depends upon the level of economic activities and monetary transactions. As a result of growing banking and business activities within the nation and the institutional progress in the neighboring countries, had forced Nepal to think of a new establishment of banking institutions. Consequently, Nepal Bank Limited was established in 1937 under the Nepal Bank Act 1936, having elementary function of a commercial bank. Later, in 1956, the first central bank, named as the “Nepal Rastra Bank” was set up under the Nepal Rastra Bank Act.1955, with and objective of supervising, protecting and directing functions of commercial banking activities. Another commercial bank fully owned by the government, named as the “Rastriya Banijya Bank” was established in 1966 A.D. to spread banking services to both the rural and urban areas. The subsequent tendency toward liberalization and need of revolutionary change in the financial sector allows the foreign banks to enter into the economy as “Joint Venture”. This entry of foreign bank was expected to develop the banking with pace of change and to attract the foreign investment and technology. The establishment of Nabil Bank Limited in the name of Nepal Arab Bank Limited in 1984 A.D. under the company act 1984 was stride in the history of modern banking in Nepal. This was the first joint venture commercial bank established in collaboration with Emirates Bank International (Dubai). Following this, in 2042 B.S. Nepal Indo-Suez Bank Limited (name has been changed to Nepal Investment Bank Ltd.), in 2043 B.S. Nepal Grindlays Bank Limited (name has been changed to Standard Chartered Bank Ltd.), in 2049 B.S. Himalayan Bank Limited and in 2050 Nepal Banghladesh Bank Limited were established. Now there are more than a dozen commercial banks performing their operation.

2.1.5 Joint Venture Bank in Nepal

Join stock venture means two or more than two enterprise, persons or countries mutually performing some specific venture in any area for common objective. . When two or more independent firm mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture. When two commercial bank from different countries join hand to form an independent enterprise it is said as joint venture commercial bank. Joint venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing competitive advantages by performing joint investment schemes between Nepalese investors, financial and non- financial institution as well as private investors and their parents banks each supplying certain percent of investment.

Liberalization and globalization started after 70s. Many countries applied this policy. The government of Nepal also realized and started to apply the policy with greater responsibility in fulfilling national goal and objectives. With this realization, the government mushroomed into a number of establishments like agriculture, industry, commerce, public works, transport etc. In this context, banking was seen as a major industry to uplift the economic condition of public and country as well. Therefore the government was forced to adopt a liberal economic policy regarding operations of banks. About the financial liberalization process it was said that “the interest rate deregulation, curtailment or elimination of directed credits, lifting entry and exit barriers for financial intermediaries, restructuring of banking system and institution for regulatory and supervisory mechanism is some of the key components of such liberalization” (Shrestha, 2051 : 27).

Liberal economic policy and Restoration of democracy and policy of the government led the opening of various joint ventures in Nepal. Nepal Arab Bank Limited (Nabil) was the first joint venture bank which was established in 2041 B.S. Its joint venture partner was Emirates Bank international Limited, (Dubai Bank). Similarly Nepal IndoSwiss bank ltd, Nepal Greenland bank ltd, Himalayan bank, Nepal Bangladesh bank ltd, SBI bank ltd etc accordingly. Establishing the join stock commercial bank makes tough competition to domestic bank and compels improvement in their services and technology. All the Nepalese joint venture banks established and operated under the rules and regulation and guidance under Nepal Rastra Bank (NRB).

2.1.6 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, and Safekeeping of valuables, Making Venture Capital Credits, Financial Advising and Offers Security Brokerage Services. They also function as issue of commercial paper, bond and debenture; invest in government security as well as underwriting function under rules and regulation of their Central Bank**.**

i) Assist in foreign Trade:

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

ii) Offers Investment Banking and Merchant Banking Services:

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

2.1.7 Concept of Credit

Credit is the sum amount of money lent by the creditor (Bank) to the borrower (Customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary, 1992)[3]. Credit and advance is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only 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).

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

Credit Management

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

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

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

2.1.8 Types of Credit

Overdrafts:

It denotes the excess amount withdrawn over their deposits. In other words bank provide sum limit of money to their value customer according to their 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 liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops in funds moving through the cycle are generated to repay a working capital credit**.**

Priority or Deprived sector Credit:

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

- Advances to poor/downtrodden/weak/deprived people up to Rs 30,000 for generating income or employment.
- Institutional Credit to Rural Development Bank.
- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs.30, 000.

Hire Purchase Financing (Installment Credit):

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

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

Housing Credit (Real Estate Credit):

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

Project Credit:

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

Consortium Credit:

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

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.

Off-Balance Sheet Transaction:

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

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

Bank Guarantee:

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

Letter of Credit (L/C):

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

2.1.9 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

1. To assure compliance by lending personnel with the bank’s policies and objectives regarding the portfolio of credits
2. To provide personnel with a framework of standards within which they can operate.

2.1.10 Lending Criteria

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

i). Character

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

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

ii). Capacity

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

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

iii). Capital

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

iv). Collateral

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

v). Conditions

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

2.1.11 Principle of Credit Policy

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

i) Principle of Safety Fund

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

ii) Principle of Liquidity

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

iii) Principle of Security

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

iv) Principle of Purpose of Credit

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

v) Principle of Profitability

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

vi) Principle of Spread

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

vii) Principle of National Interest

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

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

2.1.12 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)

Lending appraisal and possessing

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.

2.1.13 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).

1. Financial aspect
2. Economic aspect
3. Management /organizational aspect
4. Legal aspect

Directives issued by NRB for the commercial Bank: (related to credit aspect only):

1. Credit classification and provisioning

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

Those credits that have not crossed the time schedule of repayment and are within three 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 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 weakness and strengths. This, in turn, helps the bank to adopt corrective measures where weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be established with the help of credit audit.

2. Limit of Credit and Advances in a Particular Sector.

- 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.

- 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 and 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.

2.2 Review of Related Studies

The article published in Annual Bank Supervision Report NRB (2008/09), Bank supervision Department; conclude that the loan and advances extended by banking industry. The loans and advances of the public banks (excluding ADB) have remained more or less the same for the last three years, while the private banks have enhanced their portfolio by more them Rs 20.50 billion resulting in the dilution of the concentration of public banks. However, the three public banks are still the three largest individual banks in Nepal, in respect of the size of their loans portfolio.

N. Crosby, N. French and M. Oughton (2007:66-83), in their article “Banking lending valuations on commercial property” elaborates that the banking community are trying to identify the value on which they can apply a loan value ratio and thus protect their loan in the future should the borrower default. A simplistic understanding the value therefore suggest that figure provided should be the figure which has a life for the length of the loan. However the very concept is economically impossible in any market with volatility. Values can only be snapshots in time. They do not have a shelf life.

For this reason EMLV is conceptually and practically redundant in real estate markets. It appears on the surface to be a solution to the banks’ requirement for the reduced risk property lending. In reality, it may indeed transfer that risk by demanding a level of protection to the bank that the valuation cannot give. But if values agree to it, it could open the way to successful negligence claims in the aftermath of poor lending decisions. This is because the concepts appears the determinants of the virtually certain level of value below which the value will not fall for an indeterminate time into the future. Values are vulnerable to claims that their valuation was too high, should values fall below that level at any time during the loan. Sustainable value is predicated on having a shelf life but the application believes this fundamental requirement. Values must have a time point. The concept is redundant, the target unidentifiable and the definition ambiguous. It is little wonder that the application appears mechanistic. Market value is an obtainable and useful piece of information to the lender. Worth in the market sets this in context and gives the lender a view of whether market prices are at current sustainable levels. In obtaining worth, the value is obliged to carry out both quantitative and qualitative investigation into the future and this generates other analyses at different time points during the course of the loan.

EMLV appears to be another blind alley which will divert the appraisal profession from its more important task of improving pricing estimates, and thereby influencing market prices, and providing all clients, whatever the valuation purpose, with the information in reports which puts the limitations of valuation figure into perspective.

Sujit Mundul, (2008:36), Understanding of credit derivative Business Age September" emphases Credit derivative enable financial institution and companies to transfer credit risk to a third parity and thymus reduce their exposure to the risk of an obligor's default. Credit enhancement technique, which helps reduce the credit risk of an obligation, play a key role in encouraging loans and investment in debts.

In legal term credit derivative are privately negotiated bilateral contract to transfer credit risk from one party to another. Some credit enhancement methodologies have existed for the in debts. Some credit enhancement methodologies have existed for a longtime with the support of guarantee, letter of credit or insurance product. However such mechanism works best during economic upturns. As an alternative to commercial risk mechanism, various financial mechanisms have been developed over the past few decades. Such credit risks instruments are normally refer to as credit derivatives. Credit derivative helps to transfer credit risk away from the lender to some other party. Now credit derivative grew popular both as tools for hedging credit risk exposure as well as method of investing in certain types of credit risk.

Credit derivative not only helps corporation and financial institution to manage to their credit risk but also enabled a new set of individual retail client to invest in bonds and stocks previously unaffordable. Through credit derivative individual investor ca invest indirectly in foreign bonds at a lower price. Credit derivative helps investor isolated credit, and transfer it to other investor who are better suited to managing it or who finds the investment opportunity more interesting. There are many credit instruments in the market they are

- Total return swap (TRS)
- Credit default swaps (CDS)
- Credit linked notes (CLN)
- Credit spread option (CSO)

According to the behavior of the asset or deal above credit instrument can be used and minimizing the risk. In this way credit derivative provide protection against credit peril and risk.

2.3 Review of Theses

This dissertation has been written after studying various books journals article website and previous thesis. I here comprise the some previous thesis review, which are mainly concerned about financial performance and fund mobilization policy, lending practices and investment policy, credit management and loan management of commercial bank.

Paudel, (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.

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 years data.

Ojha (2002) his dissertation about "Lending Practices" has written that the commercial banks have to expand their credit in the area if rural economy so as to compromise between the liquidity and credit need such economy. This helps in minimizing the idle find in business and at the same time contribute to the national economy. The banks should also increase the volume of credit in the sector of agriculture as the ratio of contribution made by the banks in this priority sector is decreasing.

He has found out that following the normal guidance of Nepal Rastra Bank and acting upon reduces many on the credit risk arising from borrower's defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers, and professional defaulter. The over confidence of commercial banks regarding credit appraisal efficiency and negligence taking information from Credit Information Bureau has caused many of the bad debts in these banks. He thinks that these banks have to follow the directives of NRB strictly and be more cautious and realistic while granting loans and advances.

Ojha has found that the high volume of liquidity reveals that a degree of lending strength has been prevailing in all of the commercial banks. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping these banks less oriented towards the lending function. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in rural economy. Posing the compulsions by directives does not create long-term healthy lending practices unless the commercial banks are not self-motivated to flow credit in this sector.

Bista, (2002) focuses in his dissertation found that the study has been undertaken to examine and evaluate the financial performance of NIBIL bank limited. The researcher has used the financial tools to make this study more effective and informative. This study has corrected ten years data from 1991/1992 to 2000/2001 of the NABIL bank limited. The analysis shows that the deposits of the bank have increased during the years 1999/00 and 2000/01. The rate of increase was comparatively low for the year 1996/97. Total loans and advances have been increasing at an average rate of 24% each year, highest of 51% in year and lowest of 7% in year 1996/97. Total investment of the bank has been increasing over the years, which is mainly due to the bank's strategy of safe lending and because of increase in customer's deposits and limited opportunities for prudent lending.

The main statements of the problem of his research is financial management aspect is considered to be the vital and integral part of overall management of any enterprises, ensuring financial strength through adequate cash flows, liquidity and better utilization of assets. Commercial joint venture banks set up in Nepal seem to need grater funds in terms of financing to the expansion of their assets because of growing number of new establishment of joint venture banks in the country. These banks deal with other people's deposits, most of which are payable on demand. There is no doubt that the survival of the existing commercial banks and other financial institution depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risks, and are guided by there important conflicting criteria of solvency, liquidity and profitability. Therefore, the financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should be sound be sound from the point of view of shareholders, debenture holders' financial institutions and nation as a whole. The main objectives is analyze liquidity, leverage, activity profitability and ownership ratios of the bank.

Joshi, (2008) In "A Comparative Study on Financial Performance of Standard Chartered Bank Nepal Limited and Everest Bank Ltd" states that the mean current ratio of EBL is slightly higher than that of the SCBNL and the variability of ratio of EBL is more consistence than SCBNL in comparison. The mean ratio of cash and bank balance to total deposit of SCBNL is lower in comparison to EBL. SCBNL has better liquidity position than EBL because of the high volume of liquidity indicated the inability of the bank to mobilize its current assets. Moreover SCBNL's ratios are homogeneous than EBL. The mean ratio of cash and bank balance to current assets of SCBNL is lower in comparison to EBL. Similarly, SCBNL's ratios of the study period are more consistent than EBL. The mean ratio of loan and advances to total deposit of EBL is higher than SCBNL. It can be said that EBL used to provide greater loan and advance in comparison to its total deposit than SCBNL. Likewise, SCBNL's ratio seems to be variable them EBL. The mean ratio of investment on government securities to total working fund of SCBNL is higher than EBL. Consequently, it has consistency in maintaining the ratio than EBL. The mean ratio of return on loan and advances of SCBNL has found to be significantly greater than EBL with more consistency than that of EBL. The mean ratio of credit risk of SCBNL is lower than that of EBL's ratios are more consistent than that of SCBNL.Grrowth ratio of deposit are more consistent than that of SCBNL is lower i.e. 19.28% in comparison to EBL i.e. 76.46%.

The main statement of the problem of his research is the investment decision is the major tool of financial institution. There are many finance companies and commercial banks operating in Nepal. The fast growth of such organizations has made pro-rata increment of in collecting deposits and their investment. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilizes their fund on the changing context of Nepal. Many banks or companies succumbed to liquidation although they had sustainable investment capacity. The increasing rate of liquidity has caused a downward trend in investment sectors. It has ensured bad impact on interest rate to the depositors, lower market value of shares etc. for the assessment of such adverse impact, this study has shown to contrast and analyses the investment policy of joint venture banks. Joint venture banks viz. Standard Chartered Bank Nepal Ltd and Everest bank limited. The main objectives are compare investment policy of concern banks, find out the relationship among total investment, deposit, deposit utilization loan and advance, net profit and outside asset and compare of SCBNL and EBL.

Parajuli, (2009) In his dissertation “Credit Management of Joint Venture Banks” states that concept of financial reform emerged since 1980s with economic liberalization. Nepal Government and NRB published the economic and monitory policy to support such reform. As the result of these policies various jointed venture bank established in the private sector.

Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monitory control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July 1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which it’s on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by NG in December 2000 such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non banking deposit institutions.

The main statement of the problem of the study is government owned banks are in critical condition they are unable to recover the credit. Financial sector reform programs are not being able to achieve the expected target. Performance on the credit is poor in the government banks. Amount of non - performing assets is increasing. Generally, it is accepted If bank maintain low ratio, bank may not able to make the payment of against cheque that disadvantage sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words such sectors in the economy are not receiving the financial supports as commercial banks hesitate to be involved in these sectors where they do not see adequate profit. The main objectives of his research are: procedures of granting loans, examine the level of non - performing loan, relevancy of the financial sectors reform program, measure the comparative output of credit management in joint venture bank and government.

Regmi, (2008) Entitled Thesis "Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Kathmandu" states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks and spreading over the risks to various portfolios. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an assets guarantee.

The main statement of the problem of his research is the Nepal is a small country with small market. Economic condition of the country is degrading. Nepal being an agriculture country needs more investment in this sector.

Nevertheless, commercial banks are rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NRB's, regulation of 12% investment of their total loans to priority sectors like agriculture, cottage and small industries and services. Similarly, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of invest able funds to reduce risks. Hence, the principle "do not put all the eggs in basket" really does not apply in context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that now come to the brick of extinction. The objectives of this research are to analyze the functions, objectives, activities, credits and advances procedure and recovery status of the NB bank and BOK.

Karki, (2004) in his entitled "A Comparative Study on Financial Performance of NABIL Bank and Standard Chartered Bank Limited" dissertation found that the development of any country largely depend upon its economic development capital formation is the prerequisite in setting the overall pace of the economic development of a country. Well-organized financial system contributes to the process of capital formation by converting scattered saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of the nation. The financial institution play dominant role in the process of economic development. Banks are indispensable elements in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bank of the money supply as well as the primary means of facilitating the flow of credit.

The main statement of the problem of his research is various financial institutions have been established to assist the process of economic development of Nepal. Delivering efficient services to the common people by enhancing efficiency of the commercial banks and improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and financial institutions needs to be reduced through an appropriate investment policies. Equally important is the challenge to minimizing their intermediation cost. In order to help realize the goal of poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low-income people through micro and medium sizes loan needs serious attention in the days to come. It is also necessary to identify the activities that ensure quick return of investment. Thus, the present study seems to explore the efficiency and weakness of NABIL and SCBNL.

The main objectives of his research are to compare analyze the liquidity, profitability, operating efficiency, capital structure, capital adequacy leverage and operation, overall performance, analyze the relationship between DPS and EPS of NABIL and SCBNL bank. Here various financial accounting and statistical tools have been used to achieve the objective of the study.

Shrestha, (2007) in his dissertation “Credit Management with Special Reference to Nepal SBI Bank ltd” illustrates that lending is one of the most important parts of function of a commercial bank and composition of loan and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available. Every bank is facing the problem of default loan and there is always possibility of a certain portion of the loan and advances, profitability deposits position of Nepal SBI Bank Limited is analyzed and its contribution in total profitability has been measured.

The main statement of the problem of his study is the credit management is the essence of commercial banking. Consequently, the formulation and implementation of sound Credit policies are among the most important responsibilities of bank directors and management. Well-conceived credit policies and credit careful credit practice are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit-credit management effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks. Measuring the credit performance in quality, efficiency and contribution of profitability, liquidity position and its effect on credit performance and measure the growth rate and propensity of growth based on trend analysis are the main objective of his dissertation.

Subedi, (2008) conducted a research title "Financial Performance of NABIL Bank Limited" states that deposit is the part of balance sheet which always remains the biggest in amount. It is the sensitive liability among all items. As like total liabilities and capital deposit also increase until 2057/58 and starts to fall down. The increment rate is satisfactory in first and second changing years, and then it has changed by negative digits therefore in two subsequent year's. The business in peak where the value was Rs.15839.0077millions. The proportion of debt over the total liabilities and capital is 83.35% in average. Fixed deposit is taken as a long-term debt in the banking business; it is key department factor to capital structure. The bank could collect the deposit is Rs.7667.8459 millions. In two subsequent years, it decreases and becomes Rs.2252.5464millions in the final study years. This items changes by in highly decreasing trend. The average change rate is 5.89%. The proportion over total liabilities and capital is 26.32% in average. The composition of paid up capital, reserve and surplus other reserves and undistributed profit is known as shareholders equity. Unlike other items mentioned above, shareholders equity is regularly increasing. The yearly change rate is in fluctuating trend varied from 8.97% to 24.63%.

The main statement of his research is the banking industry is one of the fast growing businesses in Nepal. After the liberalization policy was adopted by government this sector has been dramatically. Now, more than one and half dozen banks are in operation. Now too, new banks are being set up. Due to security, problem and political instability government could not be able to pay sufficient attention to business and industry sector. Regulation and monitoring by government has been weekend in the banking sector as like others free and fair competition is decreasing. Customers and stakeholders are too much sad to hear the news that banks have tried to cartel in taking treasury bills before some months other type non-business practices might have been occurred in this industry. Surely such types of practices will hamper the whole sector. Ultimately, the capital structure will be affected. We have been watching the type scenario where the capital structure is not so stagnant and continues progress. The main objectives of his research are to be familiar and analyze the composition of the capital, examine the existing financial position, profitability and overall trend analysis of NABIL bank. It's also provide the recommendation, suggestion for the development of an appropriate capital structure concern NABIL Bank limited.

Gurung, (2006) explored in his research "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 the 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.

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.

Paudel, (2009) The main statement of the problem of his research is the present banking system is the result of liberalization of economy requirement and globalization in 1990s. The development of banking in both quality and quantity was satisfactory. How ever, subsequent development of commercial banks in quality has not been satisfactory; commercial bank in Nepal has been facing several challengers. The main objectives of the study are to know contribution made by both banks in lending. determine the impact of deposit in liquidity and in effect on lending policy, analysis the portfolio lending, ratio and volume of loans and advances made in different sector and documentation, legal procedure and practice loan of SBL and HBL.

Sedai, (2010) in his dissertation “An Analysis on Lending Policy and Strength of Nepal Investment Bank Ltd” highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder‘s equity indicate a good performance of NIBL in its lending activities.

Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio incite that bank is good enough to judgment in their value customer. The better activity ratio of this bank been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

The recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision, required proper market analysis, diversify the investment sector etc. finally however, performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, pe5rsonal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business news and attractive lending scheme would be launched to the customer.

The main objective and target of this study is to observe the loan disbursement of Nepal Investment Bank Ltd. its shows the actual lending position, strength and weakness. The specific purpose are study of loan and advances provided to customer, amount loan investing in industrial sector, trend of loan disbursement, process are according to NRB rules & regulation and position of bank and its profitability.

Misra, (2007) entitled her Thesis “Credit Management of Everest Bank Limited” illustrate that liquidity position, cash reserve ratio shows the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain good financial condition. Cash and bank balance to current assets ratio shows that the bank’s sound ability to meet the daily cash requirement of their customers deposit.

In the aspect of profitability position, interest income to interest expenses ratio shows the more profitable salivation. In addition, total income to total expenses ratio shows the overall predominance of the bank is satisfactory operating income. Return on loan advances are showing position that is more profitable one of the EBL. Analysis of the assets management ratio, loan advances to total assets ratio shows the better performance but loan and advances to total deposit position in minimum than the averages. Whereas investment in loan and advances is safely and not taking more risk. That’s why assets management position of the bank shows better performance in the latest year.

After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank. EBL bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money.

This is to recommend that Cash and bank balance of EBL bank is high. Banks efficiency should be increased to satisfy the demand of depositor at low level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sectors. Bank should open their branches in the remote area with the objective to provide the banking services and minimum deposit amounts should be reduced. The main objective of this study is to evaluate the credit management of Everest Bank Limited. Besides, there may be other objectives as well like to examine the impact of deposit in liquidity, loan management procedure, asset management and lending efficiency of the Everest Bank Limited.

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. The past researches in measuring credit management of bank have focused on the limit ratios which are incapable of solving the problems. Actually credit management is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past researchers have not properly analyzed about lending and its impact on the profitability. The ratios have not categorized according to nature. Here, in this research all ratios are categorized according to their area and nature.

This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit management of Bank and financial institutions.

CHAPTER: III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to solving research problem systematically. It helps to understood as a science of studying how research is done scientifically.

Research methodology helps to find out accuracy, validity and suitability of research. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of the study, the applied methodology has been used.

3.2 Research Design

A research design is a plan for the collection and analysis of data. It presents a series of guide posts of enable 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 Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study.

3.3 Sources of Data

There are two sources of data collection. The research is based on primary as well as secondary source of data, even though adequate data are collected from secondary sources.

a) Primary Source:

The primary source of data has been collected from the concerned banks. The way of data collection is by making questionnaire and distribute to the credit department of the concerned banks and also to the clients of the banks. Some data and facts are only possible due to frequent inquire and asking to the concern personnel.

b) Secondary Sources

Books, journals, articles, published and unpublished thesis, annual report of selected Banks(HBL, EBL and NABIL, internet and E-mails, NRB directives, economy survey of Government of Nepal and Ministry of finance, Newspaper, and various magazines were used as main sources of secondary data.

3.4 Population and Sample

Here, the total 31 commercial banks constitute the population of the data and three banks under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here NABIL ,HBL,EBL Banks Limited have been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it.

3.5 Data Collection Procedure

Especially the annual report of selected banks and the website of the banks have been taken as main source of data collection for purpose of study. NRB publications such as economic reports and bulletin, banking and financial statistics, annual report of N RB etc. the other main source.

2.6 Method of Data Analysis Technique

For the purpose of the study all collected primary as well as secondary data are arranged, tabulated under various heads and them after disunities and statistical analysis have been carried out to enlighten the study. Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. To make the study more specific and reliable, the researcher uses two types of tool for analysis,

1 Financial method.
2 Statistical method

2.6.1 Financial Tool

Stakeholders of a business firm perform several types of analyses on a bank is financial statements. All of these analyses rely on comparisons or relationship of data that enhance the utility or practical value of accounting information.

3.6.1.1 Ratio Analysis:

A ratio is simply one number expressed in term of another and as such it express the quantitative relationship between any two numbers. Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with the other. A ratio can be expressed in term of percentage, proportion, and as a coefficient. A ratio is a figure or a percentage representing the comparison of two variables or any substance.

The relationship between two accounting figure, expressed mathematically is known as financial ratio. The technique of ratio analysis is part of the whole process of analysis of financial statement of any business and industrial company especially to tame output and credit decision. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Thus ratio analysis is useful to evaluate, judgment and taking appropriate decision.

A. Liquidity Ratio:

Liquidity means the ability of a firm to meet its short- term or current obligations. Liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and the present cash solvency as well as ability to remain in debt. It is not good for having excess liquidity and low liquidity in any organization. Inadequate liquidity can lead to unexpected cash short falls and reduce profitability as well as 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. To find -out the ability of bank or financial institution, following ratios are analyzed and find liquidity ratios to identify the liquidity position.

i. Cash Reserve Ratio

It is also known as Cash and Bank Balance to Total Deposit Ratio. 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. 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.

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

ii. **Cash and Bank Balance to current Assets Ratio**

Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the current assets. Higher ratio indicates the banks sound ability to meet the daily cash requirement of their customers' deposit. So bank has to maintain cash and bank balance to current assets ratio properly.

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{cash and bank balance}}{\text{current assets}}$$

iii. Cash and Bank Balance to Interest Sensitive Deposit Ratio

Saving deposit is deposited by public in a bank with objectives of increasing their wealth. Interest rate plays important role in the follow of interest sensitive deposit. Fixed and current deposits are not interest sensitive. Fixed deposits have a fixed term to maturity and Current deposits are not sensitive toward interest rate. The ratio of cash and bank balance to interest sensitive deposits measure the bank ability to meets its sudden out flow of interest sensitive deposits to the change interest rate.

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

B. Activity Ratio:

It is also known as efficiency turnover ratio or assets management ratio. Its measures how efficiently the firm utilize the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales. Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are as follows.

i. Credits Advances to Fixed Deposit Ratio:

Fixed deposits are the long-term interest bearing obligations and credits and advances is the major sources of investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former on includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

ii. Credits Advances to Total Deposits Ratio:

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

$$\text{Credits and Advances to Total Deposits Ratio: } = \frac{\text{Credit and Advances}}{\text{Total Deposits}}$$

iii. Credit and Advances to Total Assets Ratios:

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

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

iv. Non-Performing Assets to Total Assets Ratio:

This ratio shows the relationship of Non-Performing assets and total assets. This ratio represents the proportion between the non-performing assets and total assets of bank. It shows the how much assets is non – performing or idle in the total assets of bank. Higher NPA to total assets ratio indicates the worst performance, which reduces the profitability of bank. Higher ratio shows the low efficient operating of the credit management and lower ratio shows the more efficient operating of credit management.

$$\text{Non-performing assets to total assets ratio} = \frac{\text{Non-performing assets}}{\text{Total assets}}$$

C. Leverage Ratio:

It is also known as capital structure ratio. Leverage ratio helps to test long term solvency position of the firm. It informs us the relationship of long-term debt with total capital or shareholder fund. The use of finance is refers by financial leverage.. These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders.. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i. Total Debt to Equity Ratio:

It shows the relationship between debt and equity. Total debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, total debt includes total deposits, bills payable and other liabilities of the bank and equity includes paid up capital, retained earnings and reserves. The formula used to determine the ratio is:

Total Debt = long term Debt + current liability

$$\text{Total Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

ii. Total Debt to Total Assets Ratio:

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation. Stockholders on the other hand may want more leverage because it magnifies expected earnings. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

iii. Total Assets to Net worth Ratio:

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the share capital plus reverses and retained of the bank. It is calculated to see the amount of assets financed by net worth.

$$\text{Total Assets to Net Worth Ratio} = \frac{\text{Total Assets}}{\text{Net Worth}} \times 100\%$$

D. Profitability Ratio

This ratio shows the profitability conditions of the bank. Profit is essential for the survival of bank so it is regarded as the engine that drives the banking business and indicates economic progress. Profitability ratios are calculating to measure the management ability regarding how well they have utilized their funds. Lending is one of the major functions of commercial bank so following are the various types of ratio, which should the contribution of loan and advances in profit and help to be investor whether to invest in particular firm or not.

i. Net Profit to Gross Income Ratio

The ratio measures the position of profitability of the company to total income. This shows the sound and weakness of the company to utilize its resources. Higher ratio shows the higher efficiency of management and lower ratio shows the lower efficiency of the management. The formula of net Profit to Gross income ratio is-

$$\text{Net Profit to Gross income ratio}=\frac{\text{Net profit}}{\text{Gross income}}$$

ii. Interest Income to Total Income Ratio

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

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

iii. Operating Profit to Loan and Advances Ratio

Operating profit to loan and advances ratio measure the earning capacity of commercial bank. Operating profit to loan and advances ratio is calculated by dividing operating profit by loan and advances.

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

iv. Return on Loan and Advances Ratio

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

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

v. Net Profit to Total Assets

This ratio shows the relationship of Net profit and total assets and is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets. It also evaluates the present return on the total assets as a guide for return expected on future purchase of assets. Higher the ratio shows the more efficient operating of management and lower the ratio shows the low efficient operating of management. This ratio is computed by –

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

vi. Earnings per Share (EPS)

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

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

vii. Price Earnings Ratio

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

Price Earnings Ratio = ×100%

E. Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

i. Loan Loss Provision to Total Loan and Advances ratio

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

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

ii. Non-Performing Loan to Total Loan and Advances

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

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

iii. Interest Expenses to Total Deposit Ratio

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

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

3.6.2 Statistical Tools:

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation and diagrammatic cum pictorial tools have been used under it.

1. Arithmetic Means (average):

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

$$\bar{X} = \frac{1}{n}\sum_{i=1}^{n} X_i$$

Where:

$\bar{X}$ = mean value or arithmetic mean

$\sum_{i=1}^{n} X_i$ = sum of the observation

N = number of observation

2. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

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

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

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

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

i. Coefficient of variation (c.v.):

The coefficient of variation is measures the relative measures of dispersion , hence capable to compare two variables independently in term of variability**.**

$$c.v. = \frac{ó}{x} * 100$$

σ = Standard deviation

x = sum of the observation

ii. Probable Error:

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

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

Here, r = Correlation coefficient

N = Number of pairs of observations

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

3. Times series Analysis

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

Y= a + bx

Here,

Y is the dependent variable, a is y intercept or value of y when x = 0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

CHAPTER: IV

DATA PRESENTATION AND ANALYSIS

The financial analysis is undertaken to assess the financial strengths and weaknesses of the firm. The analysis is usually based on financial statements prepared by the firm. The analysis can be performed by insiders or by outsiders. One of the outsiders is financial institution considering the extension of credit to the firm. Financial analysis can serve as the basis for decision-making. The loan officer of the bank needs to decide whether or not to extend the loan to the firm. The insiders wanted to make financial analysis to an assessment of the performance of the firm or its various divisions. The analysis is also made to find out whether to use debt or equity funds to finance a planned plant expansion. Financial analysis uses data contained in the firm's financial statement. The financial statement are used the balance sheet and income statements, supplemented by the statement of cash flows. The primary tools are financial ratios. This chapter is devoted to definition and calculation of a set of commonly used financial ratios and an integrated model for analyzing financial performance.

Financial ratios are powerful tools of financial analysis. They provide a good technique for assessing financial performance of the firm. The particular ratio to be computed depends upon purpose in view. We have devoted to study and calculate a set of commonly used financial ratios in the aspect of bank

4.1 Capital Adequacy

The inception of every business requires funds commonly known as capital. Normally, the capital structure consists of an equity and debt mix. Equity refers to the funds contributed by the promoters/shareholders, whereas debt is a temporary way of raising funds without further dilution of ownership. This is mainly done by issuing bonds and debentures of various maturities. Unless a higher minimum ratio has been set by Nepal Rastra Bank for an

individual bank though a review process, every bank shall maintain at all times, the capital requirement set out below:-

a. A Tier I(Core) capital of not less than 6% of total risk weighted exposure.
b. A total capital fund of not less than 10% of its total risk weighted exposure.

"The capital adequacy ratio (CAR) is calculated by dividing eligible regulatory capital by total risk weighted exposure. The total risk weighted exposure shall comprise of risk weights calculated in respect of bank's credit, operational and market risk.

4.2.1 Capital Adequacy Ratio

The capital adequacy ratio is based on total risk-weighted assets. The sum of core and supplementary capital is measured to be total capital fund. For the purpose of calculation of capital fund, the risk-weighted assets have been classified in to two parts- On-Balance sheet Risk-weighted Assets and Off-Balance sheet Risk-weighted Items. The capital adequacy ratio would measure the total capital fund on the basis of total risk-weighted assets. According to NRB directives, commercial bank should maintain their CAR 11% according to BASEL-I up to fiscal year 2008/9 and 10% according to BASEL-II. All commercial banks should maintain CAR. This is created to protect the interest of the depositors. In the event of non-fulfillment of CAR in any quarter, the bank shall fulfill the shortfall amount within next six month. The capital adequacy ratio shall be determined as follows:

Table No. 4.1

Capital Adequacy Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	12.44	11.07	15.85
2006/07	12.31	12.32	14.91
2007/08	12.04	11.19	15.71
2008/09	11.10	11.44	14
2009/10	10.70	10.55	14.70
Average in %	11.72	11.31	15.03
S.D.	0.773	0.649	0.761
C.V	6.602	5.739	5.065

Source: Appendix1

The table 4.1 measures the capital adequacy ratio of the selected banks. Capital Adequacy Ratio of NABIL has adopted decreasing trend over the study period.

Capital Adequacy of NABIL has ranged between 12.44(2005/06) and 10.70(2009/10). It has average at 11.72 BASEL (I). The lower Coefficient Variation ie (6.602) indicates that Capital Adequacy Ratio has fluctuated less during the period.

Capital Adequacy Ratio of EBL has adopted fluctuated trend over the whole study period. It has ranged between 11.07(2005/06) and 10.55(2009/10) It has average at 11.31 BASEL (I). The lower Coefficient Variation ie(5.739) indicates that CAR has fluctuated less during the period.

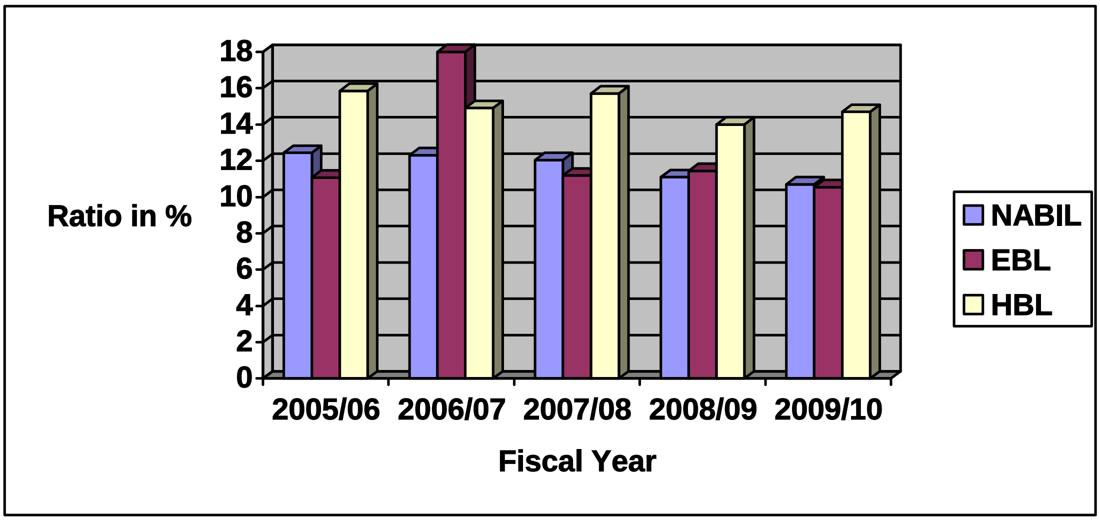
Capital Adequacy Ratio of HBL has adopted fluctuating trend over the whole period. It has ranged between 14.00 (2008/09) to 15.87 (2005/06).It has average at 15.03 BASEL (I).the lower C.V. ie (5.065) indicates that CAR has fluctuated less during the whole period.

The average case of HBL ie (15.03) is the highest and the average of other two Banks is about 11-12 %

The Coefficient of Variation all banks that is around 5-6% indicates that the there is high degree of consistency of Capital Adequacy Ratio in case of all the Banks.

Figure No. 4.1

Capital Adequacy Ratio of NABIL, EBL and HBL



4.2.2 Core Capital Ratio

The capital which is kept in the reserve for general purpose is known as core capital. It is the ratio which is used to measure the relationship of core capital fund and total risk weighted assets. As per the rule of NRB all commercial banks had to maintain core capital ratio of minimum 5.5% of total risk weighted assets during BASEL-I implementation in the FY 2007/08 and 2008/09. According to BASEL-II from the FY 2009/10 all commercial banks have to maintain 6% of Core Capital Ratio. Core capital consists of paid up equity share capital, share premium, non redeemable preference share, general reserve, cumulative profit and loss (up to previous fiscal year) and current year profit and losses per balance sheet. It is calculated by:

The above three tables showing Core Capital Ratio of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.2

Core Capital Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	11.35	9.58	13.81
2006/07	10.78	8.21	13.00
2007/08	10.40	7.82	13.77
2008/09	8.75	9.03	12.15
2009/10	8.74	7.73	13.05
Average in %	10	8.47	13.16
S. D.	1.198	0.804	0.681
C.V	11 .975	9.4835	5.1725

Source: Appendix2

The table 4.2 measures the capital adequacy ratio of the selected banks. Capital Adequacy Ratio of NABIL has seemed adopted decreasing trend in all over the five year. It has ranged between 11.35% (2005/06) and 8.74% (2009/10). In average, NABIL has maintained at 10.0 % CAR ration which is lower than

NRB's Standard. It has Coefficient of Variation ie (11.975) indicates that CAR has more increased during the period.

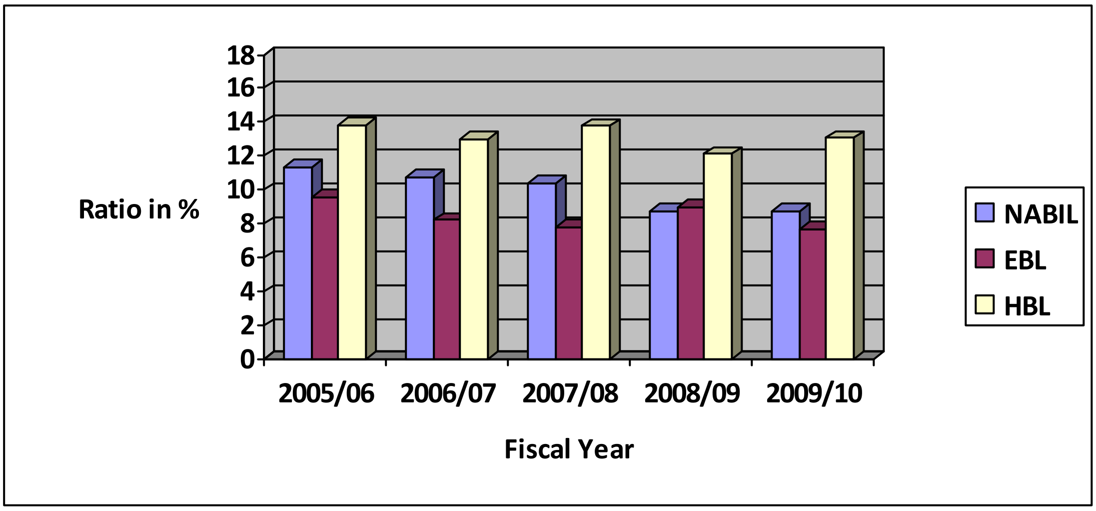
CAR of EBL has adopted fluctuated trend in all over the whole study period. It has ranged between 7.73 %(2009/10) and 9.58% (2005/06). It has seemed average at 8.47%.Lower coefficient variation indicates that CAR has fluctuated less during the study period.

CAR of HBL has adopted fluctuated trend during the study period. It has ranged between 12.15 %(2008/09) and 13.81% (2005/06). It has average at 13.16% . Lower Coefficient Variation indicates that CAR has fluctuated less during the study period.

The average case of HBL ie (1.198) is the highest and the average CAR of other two banks is about .05-1.00% The C.V of all the Banks that is around 5-12% indicates that the there is high degree of constancy of CAR in the case of all the banks.

Figure No. 4.2

Core Capital Ratio of NABIL, EBL and HBL



4.3 Assets Quality

Assets are the most vital factors in the determining the strength of the bank. Assets quality means the capacity of assets to create income as well as the recover ability of the principal amount. The major asset for the bank is loan and advances. This is the most risky assets item that needs crucial assessment. Banks collect fund in the form of capital, deposits, borrowing etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan and advances in high volume from which higher interest is generated as well as there is high risk. A significant part of the banks income is generated from the lending activities. Basically there are two types of loan, performing loan and Non-performing loan. Under this following ratios are calculated:

4.3.1 Performing Loan Ratio

All good and overdue loans below 90 days are performing loans. This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Higher ratio indicates efficiency in utilizing the good loans.

The Following three tables showing Performing Loan Ratio of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.3

Performing Loan Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	98.68	98.37	97.31
2006/07	98.62	98.73	97.87
2007/08	98.88	99.20	98.17
2008/09	99.26	99.32	99.08
2009/10	99.20	99.52	99.34
Average in %	98.93	99.03	98.35
S. D.	0.2928	0.4687	0.8452
C.V	0.2959	0.4733	0.8593

Source: Appendix3

The above table 4.3 measures the capital adequacy ratio of the selected banks. Capital Adequacy Ratio of NABIL has seemed adapted fluctuated trend during the study of all five years. It has ranged between 98.68% (2005/06) and 99.26% (2008/09). It seems average at BASEL I. The lower CV ie.0.2959 indicates that CAR has fluctuated less during the period.

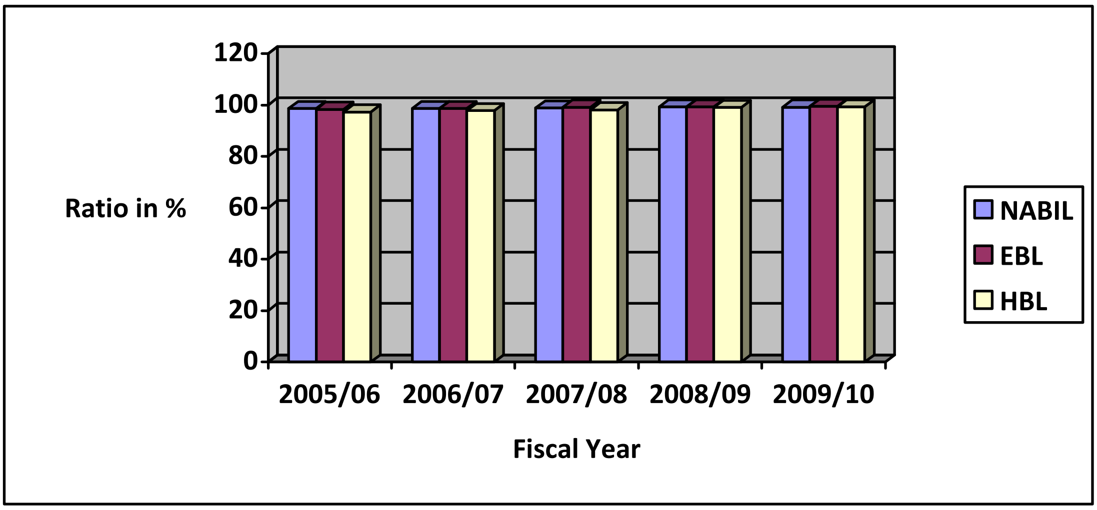
Capital Adequacy Ratio of EBL has been adopted increasing trend the study period. It has ranged between 98.37%(2005/06) and 99.52%(2009/10). The lower C.V ie (0.4733) indicates that CAR has fluctuated less during the period.

CAR of HBL has adopted increasing trend during the 5 years period. It has ranged between 97.31%(2005/06) and 99.08%(2009/10). It has been average at 98.35 %.The lower CV ie 0.85 indicates that the CAR has fluctuated less during the period.

The average case of EBL (ie 99.03) is the highest and the average of CAR other remaining banks is about 98%-99%. The CV all the banks that is around 025%-0.90 % indicates that the there is low degree is more consistent.

Figure No. 4.3

Performing Loan Ratio of NABIL, EBL and HBL



4.3.2 Non Performing Loan Ratio

It shows the percentage of non performing loan in relation to the total loan and advances. Lower ratio indicates the robust and sound credit management where as higher ratio indicates poor credit management. Hence, lower ratio is preferred. It is calculated by the following formula:

The following three tables showing Non Performing Loan Ratio of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.4

Non Performing Loan Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	1.32	1.63	2.69
2006/07	1.38	1.27	2.13
2007/08	1.12	0.80	1.83
2008/09	0.74	0.68	0.92
2009/10	0.80	0.48	0.66
Average in %	1.07	0.97	1.65
S. D.	0.293	0.4686	0.845
C.V	27.311	48.219	51.347

Source: Appendix4

The table 4.4 measures the capital adequacy ratio of the selected banks. In the above three banks are given. CAR of NABIL has adopted fluctuated trend during the study period. It has been ranged between 1.32% (2005/06) and 0.80% (2009/10) and has average 1.07. This C.V (27.31) indicates that CAR has fluctuated less during the period.

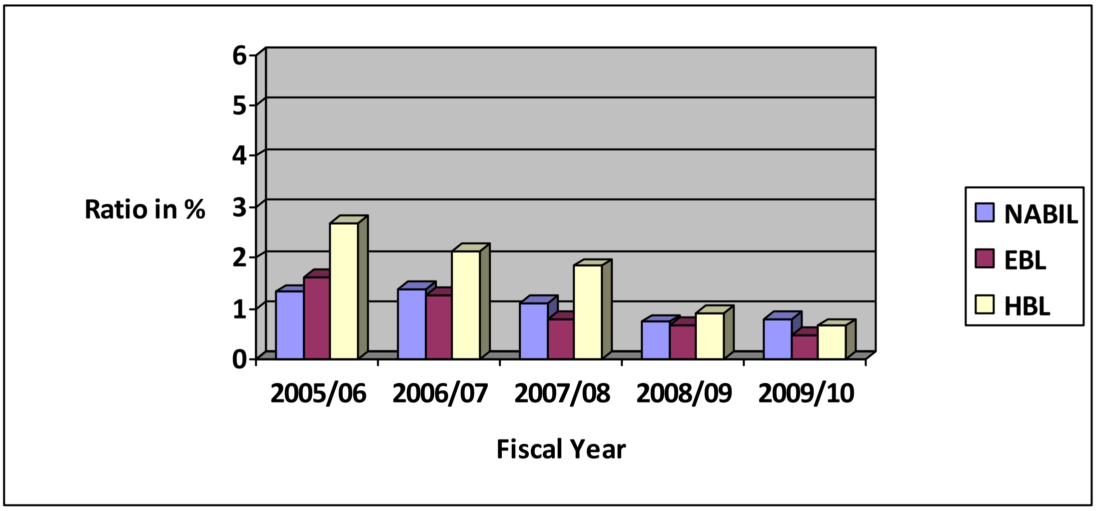
The Capital Adequacy Ratio of EBL has adopted decreasing trend during the study period. It has been ranged between 1.63% (2005/06) and 0.48% (2009/10) and has average 0.97%. Lower C.V indicates that CAR has very much inconsistent during the period.

The Capital Adequacy Ratio of HBL has adopted decreasing trend during the study period. It has ranged between 2.69% (2005/06) and 0.66% (2009/10) and has average 1.65%. Lower CV indicates that CAR has very much inconsistent during the period.

The average case of NABIL ie (1.07%) is highest and other remaining banks 0.97% to 1.65%. The CV all the banks that is around 27-52 indicates that the very much inconsistent of all banks during the study period.

Figure No. 4.4

Non Performing Loan Ratio of NABIL, EBL and HBL



4.3.3 Loan Loss Provision Ratio (LLP Ratio)

This is the provision set aside by the banks in order to cover the probable loss caused due to the default of the loan amount. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower LLP ratio signifies that the bank has higher volume of good loan and the provision is less required and vice versa. LLP to TL is always less than LLP to NPL as NPL is the part of TL. If the LLP to TL is lower then we can say that the quality of loan is better. But if the LLP to TL is higher then we can say that the quality of loan is not nice but at least we can feel safe as it has more provision for losses from loan.

This ratio is calculated by dividing the total provision made by the bank by its Total Loans & Advances. This can be presented as:

The following three tables showing Loan Loss Provision Ratio of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.5

Loan Loss Provision Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	3.29	3.56	3.30
2006/07	2.68	3.30	2.94
2007/08	2.25	2.97	2.66
2008/09	1.81	2.64	1.76
2009/10	1.46	2.39	1.44
Average in %	2.30	2.97	2.42
S. D.	0.7198	0.475	0.790
C.V	31.325	15.980	32.657

Source: Appendix5

The table 4.5 measures the capital adequacy ratio of the selected banks.

Capital Adequacy Ratio of NABIL has adopted decreasing trend over the whole study period. It has ranged between 3.29% (2005/06) and 1.46% (2009/10) and it has average at 2.30%. The lower Coefficient Variation i.e. (31.32) indicates that CAR has very much inconsistent during the period.

Capital Adequacy Ratio of EBL has adopted fluctuated trend over the study period. It has ranged between 3.56% (2005/06) and 2.64% (2008/09) . It has average at 2.97%. The Coefficient Variation (15.98) indicates that CAR has fluctuated less during the study period.

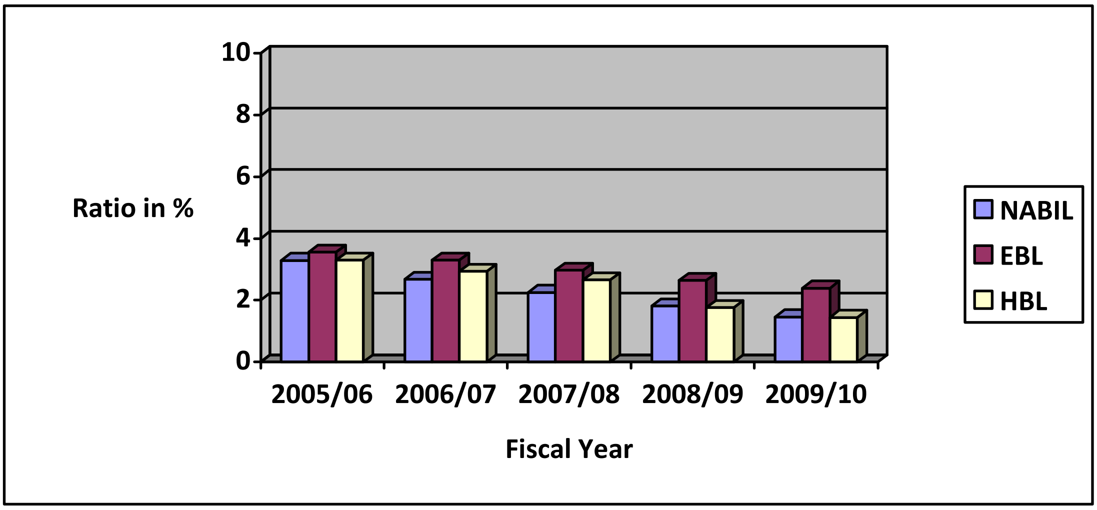
Capital Adequacy Ratio of HBL has adopted decreasing trend .It has ranged between 3.30% (2005/060) and 1.44% (2009/10). It has average at 2.42%. The higher Coefficient Variation i.e. (32.657) indicates that CAR has more fluctuated during the study period.

The average case of EBL i.e. (2.97%) is the highest and the average of other two banks is about 2.25-2.50%.

The Coefficient of Variation all the banks is around 15-33% indicates that the there is more inconsistency of CAR in case of all banks.

Figure No. 4.5

Loan Loss Provision Ratio of NABIL, EBL and HBL



The figure no 4.5 shows that the LLPR of all the three banks are in decreasing trend from fiscal year 2005/06 to 2009/10. It clearly indicates the sound credit management system followed by the banks under study. EBL has the highest LLPR (i.e. 3.56%) in the fiscal year 2005/06 whereas HBL has the lowest LLPR (i.e. 1.44%) in the fiscal year 2009/10.

4.3.4 Loan Loss Coverage Ratio (LLC Ratio)

Loan loss coverage ratio is mandatory that for every loan bank needs to keep some provision. It indicates the provision made by bank for exposure of loan loss in terms of non performing loans. Higher the loan loss coverage ratio better is the financial condition and vice-versa. Loan Loss Coverage Ratio can be calculated as:

The following three tables showing Loan Loss Coverage Ratio of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.6

Loan Loss Coverage Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	249.52	218.48	122.70
2006/07	195.07	259.17	138.24
2007/08	200.37	369.86	145.90
2008/09	244.84	390.66	190.64
2009/10	181.96	495.72	220.72
Average in %	214.35	346.78	163.64
S. D.	30.7524	110.428	40.6911
C.V	14.3467	31.8441	24.86128

Source: Appendix6

The above table 4.6 measures the capital adequacy ratio of the selected banks. The table shows that the CAR of NABIL has more fluctuated trend in the whole study period. It has ranged between 249.52% (2005/06) and 181.96% (2009/10).It has average at 214.35%. The lower Coefficient Variation i.e. (14.3467) indicates CAR has fluctuated less during the period.

CAR of EBL has adopted increasing trend in the study period. It has ranged between 218.48% (2005/06) and 498.72% (2009/10). It has average at 110.428. The higher Coefficient Variation i.e. (31.84) indicates CAR has very inconsistent during the period.

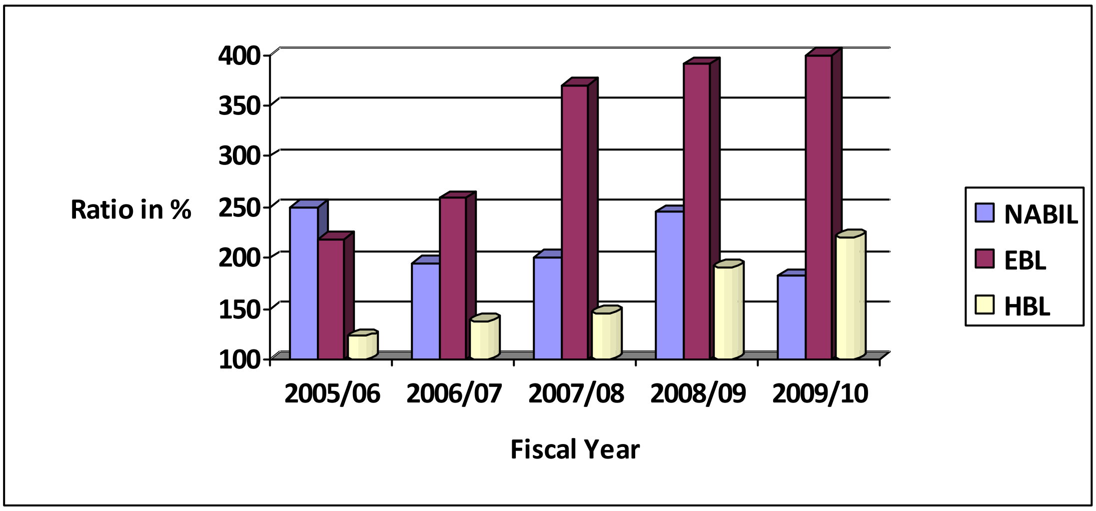
CAR of HBL has adopted increasing trend in the study period. It has ranged between 122.70% (2005/06) and 220.72% (2009/10). It has average at 163.64%. The lower Coefficient Variation i.e. (24.86) indicates that CAR has lower during the whole period.

The average case of EBL i.e. (346.78) is the highest and average of other two banks is about 163-350%.

The Coefficient of Variation all banks that is around 14-24% indicates that the there is high degree of consistency of Capital Adequacy Ratio in case of NABIL and HBL banks and CV EBL bank's CV has very much inconsistent during the period

Figure No. 4.6

Loan Loss Coverage Ratio of NABIL, EBL and HBL



The figure no 4.6 shows that all banks have maintained sufficient provision to cover future loan loss. The LLCR of EBL and HBL are in increasing trend whereas the ratio of NABIL bank has declined in the fiscal year 2009/10. EBL has the highest LLCR (i.e. 495.72%) in the

4.4 Management

Management is the pillar of an organization and is responsible for organizational growth and success. To meet the unlimited needs from limited resources, management is very essential. It has been said that an effective management can make the organization whereas an ineffective management can break. It is a set of activities like planning, organizing, leading, staffing, directing, communicating, motivating and controlling. Over the years, the Nepali financial sector has evolved strongly with robust management discipline. At the same time, we also have enough cases where due to poor management, banks have performed poorly. Human resource management is one of the key management issues; good or bad human resource management translates into efficient or inefficient staff performance.

In CREDIT analysis Management Efficiency Ratio is calculated in order to find out the contribution of each staff on the net profit of the organization. Management efficiency ratio measures the management quality and efficiency of per staff contribution to the earning of the organization.

4.4.1 Management Efficiency Ratio (ME Ratio)

Management Efficiency Ratio is the ratio of net income of any bank to its number of working employees. This ratio shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at its system. The higher ratio indicates existence of efficient management and vice versa. It can be calculated by using following formula:

The following three tables showing Management Efficiency Ratio of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.7

Management Efficiency Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	1220925	654531	1775645
2006/07	1440504	775460	1909437
2007/08	1578359	754222	1970564
2008/09	1794395	1004941	2172204
2009/10	2041689	1225974	2615088
Average	1615174	883025	2088587
S. D.	316754.021	230676.9807	327166.6059
C.V	19.6111	26.1235	15.6645

Source: Appendix7

The table 4.7 has presented the supplementary capital ratio of the banks. The table shows that CAR of NABIL has adopted increasing trend over the whole study period. It has ranged between 1220925 (2005/06) and 2041689(2009/10). It has average at 1615174. The lower CV (19.611) indicates that CAR has fluctuated less during the study period.

CAR of EBL has adopted increasing trend except (2006/07) over the study period. It has ranged between 654531(2005/06) and 1225374(2009/10). It has average at 883205. The lower CV (26.124) indicates that CAR has fluctuated less during the study period.

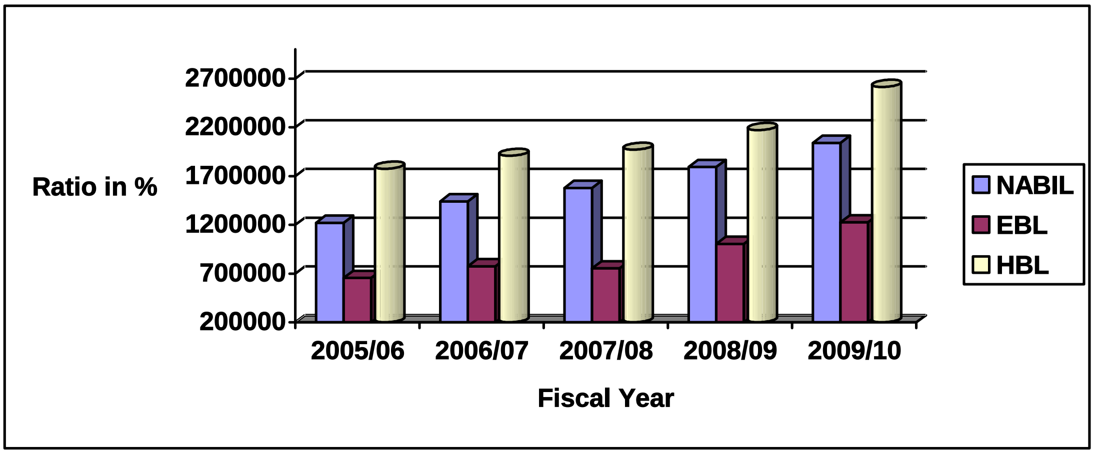
CAR of HBL has adopted increasing trend during the study period. It has ranged between 1775645 (2005/06) and 2615088(2009/10). It has average at 2088587.The lower CV (15.66) indicates that CAR has less consistent during the period.

The average case of HBL (2088587) is the highest and other remaining banks are less than HBL.

The CV of two bank's CV (NABIL and HBL) is less consistent and EBL bank's CV is relative consistent .

Figure No. 4.7

Management Efficiency Ratio of NABIL, EBL and HBL



4.4.2 Subjective Analysis of Management Quality

The quality of management is reflected from its service that it provides to its customer. For this I made a personal visit to selected bank's office and rate them on the basis of service and outlay of banks rating is done from 1 to 5 in which 5 is rated to best where as 1 is rated to poor quality of bank's service. The rating is shown on the table below:

Table No. 4.8

Rating of NABIL, EBL and HBL

Basis of Rating	NABIL	EBL	HBL
Brand Position	4	4	5
Parking Space	5	5	5
Customer Service	4	4	4
Securities	5	5	5
Space for Customer	4	4	4
Relation with Customer	5	5	4
Lighting	5	5	5
ATM's	5	4	3
International Status	4	4	5
Office Environment	4	4	5
No. of Branches	5	4	3
Ranking	**1st**	**3rd**	**2nd**

From the table no 4.8, we can say that brand position of HBL is stronger than that of NABIL and EBL. Parking space, customer service, securities, lighting of all the three banks are satisfactory. According to above table, NABIL ranked 1st, HBL ranked 2nd and EBL ranked 3rd.

4.5 Earning Capacity

In simple sense earning can be understood as profit. Profit is earned by the banks largely through financing activities, in the form of loans and advances to the customers, placements in other banks, investment in government securities etc. Revenue is earned through non-exposure functions by way of commissions and fees, but its contribution in the overall profit remains in the lowest side. Hence, banks earns major portion of their income through funding money, which it acquires through various means such as collecting deposits in various accounts, by issuing shares, debentures etc.

Thus, it can be said that an analysis of earning helps the management, shareholders and depositors to know about the performance of the bank, sustainability of earnings, and to forecast the growth of the bank. The success of a bank relies heavily upon the efficiency of the management to drive it towards earning good profits. The following ratios have been analyzed to test earning capacity of the bank.

4.5.1 Earning Per Share (EPS)

It measures the profit available to the equity shareholders on a per share basis, i.e. the amount that they can get on each share held. In other words, this ratio measures the earnings available to equity shareholders on a per share basis. It is calculated as:

The following three tables showing Earning per Share of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.9

Earnings Per Share of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	105.49	54.22	143.14
2006/07	129.21	62.78	175.84
2007/08	137.08	78.42	167.37
2008/09	108.31	91.82	131.92
2009/10	106.76	99.99	109.99
Average	117.37	77.45	145.65
S. D.	14.7008	19.1784	26.96
C.V	12.525	24.7558	18.325

Source: Appendix 8

The table 4.9 presents the Capital Adequacy Ratio of NABIL has adopted increasing trend (2005/06) up to (2007/08) and decreasing trend (2007/08) up to (2009/10) over the study period . It has ranged between 105.49% (2005/06) and 129.21% (2006/07). It has average at 117.37%. The lower coefficient variation ie (12.525) indicates that Capital Adequacy Ratio has fluctuated less during the period.

CAR of EBL has adopted increasing trend over the study period . It has ranged between 54.22% (2005/06) and 99.99% (2009/10). It has average at 77.45% . The lower coefficient variation i.e. (24.7558) indicates that Capital Adequacy Ratio has fluctuated less during the period.

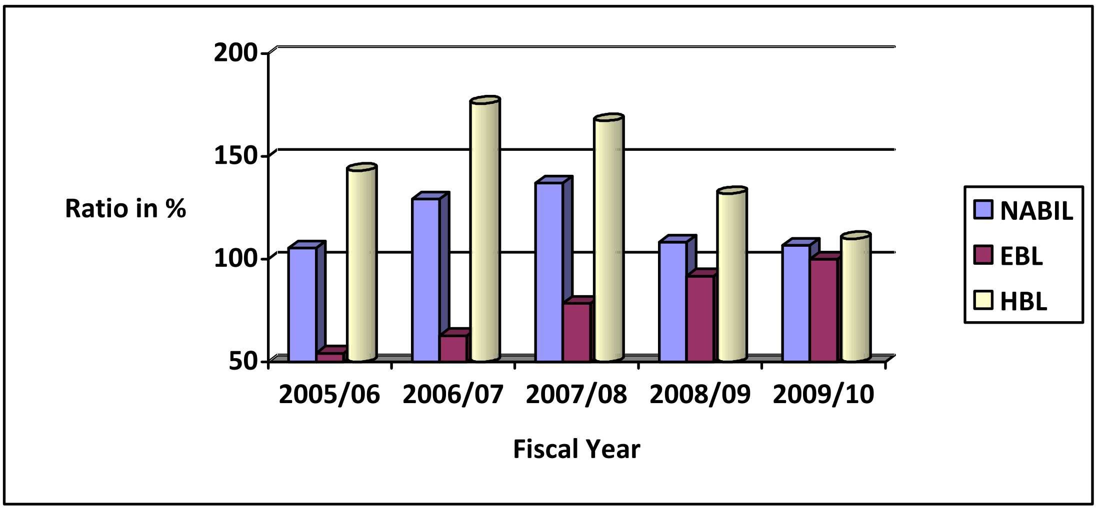
CAR of HBL has adopted fluctuated trend over the whole study period . It has ranged between 109.99% (2009/10) and 175.84% (2006/07). It has average at 145.65%. The lower coefficient i.e. (18.325) indicates that Capital Adequacy Ratio has fluctuated less during the period.

The average case of HBL i.e. (145.65) is the highest and the average of other two banks is about 77-118.9%.

The coefficient of variation all banks that is around 12-25% indicates that the there is high of consistency of Capital Adequacy Ratio in case of all Banks.

Figure No. 4.9

Earning Per Share of NABIL, EBL and HBL



The figure no 4.9 shows that the average EPS of HBL is the highest which is Rs. 145.65 where as the average EPS of EBL is the lowest .NABIL has the increasing trend of EPS from fiscal year 2005/06 to 2007/08 then it starts to decrease in the year 2008/09 and 2009/10. EBL has the increasing trend of EPS from fiscal year 2005/06 to 2009/10. Similarly HBL has increasing trend in initial two year then after it starts to decrease. There is no standard value prescribed for EPS but higher value is preferable. Higher volume of profit is required to have higher level of EPS. So, the banks need to increase profit volume.

4.5.2 Price Earning Ratio (P/E Ratio)

This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. This ratio helps security analysts to assess a bank's performance as expected by the investors. Higher ratio indicates better place for the investment and vice versa. It can be calculated by using following formula:

The following three tables showing Price Earning Ratio of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.10

Price Earning Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	14.27	16.04	16.38
2006/07	17.34	21.97	21.47
2007/08	36.84	30.99	35.25
2008/09	48.70	34.11	51.77
2009/10	45.89	24.55	54.64
Average	32.61	25.53	35.90
S. D.	15.9896	7.19586	17.2679
C.V	49.0358	28.1837	48.0973

Source: Appendix9

The table 4.10 measures the capital adequacy ratio of the selected banks. The Capital Adequacy Ratio of NABIL has adopted increasing trend in whole study period except year 2009/10. It has ranged between 14.27% (2005/06) and 48.70% (2008/09). It has average at 32.61%. The higher coefficient variation i.e. (49.035) indicates that CAR has very much inconsistent over the study period.

CAR of EBL has adopted increasing trend in the whole study period except year 2009/10. It has ranged between 16.04% (2005/06) and 34.11% (2008/09). It has average at 25.53%. The lower coefficient variation ie (28.1837) indicates that CAR has relative consistent during the period.

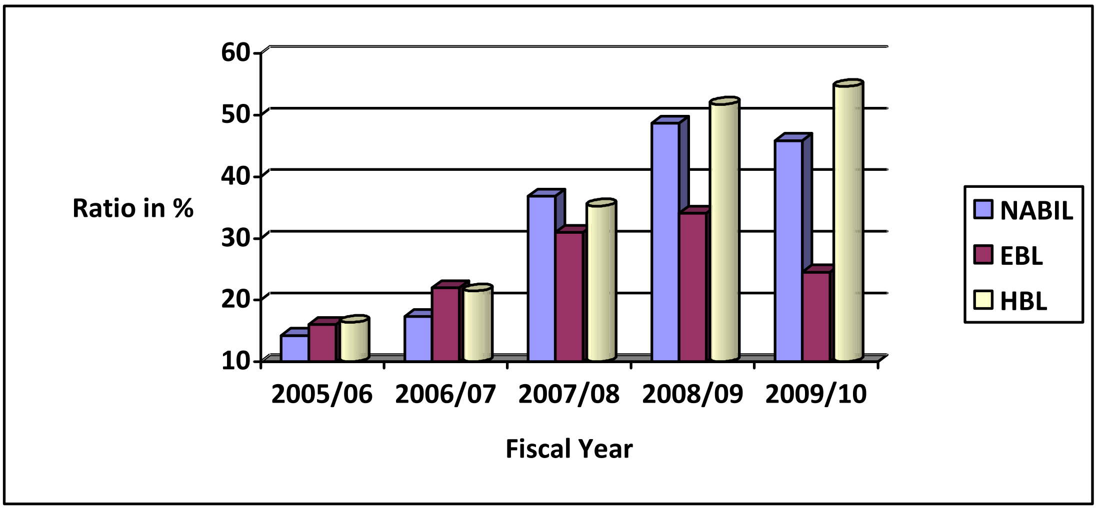
CAR of HBL has adopted increasing trend all over the study period. It has ranged between 16.38% (2005/06) and 54.64% (2009/10). It has average at 35.90%. The higher coefficient variation ie (48.0973) indicates that CAR has very much inconsistent over the study period.

The average case of HBL ie (35.90%) is the highest and the average of other two banks is about25-33%.

The coefficient of variation all banks that is around 28-50%. Indicates that the there is low degree of moderate consistency of Capital Adequacy Ratio in case of all the Banks.

Figure No. 4.10

Price Earning Ratio of NABIL, EBL and HBL



4.5.3 Return on Assets (ROA)

This ratio indicates how efficient a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio the better it is as it shows higher turnover of assets. It measures a company's success in earning a return for the common stockholders. Higher ROA indicates better utilization of total assets. The return on assets is derived by dividing net profit after tax by total assets. Mathematically:

The following three tables showing Return on Assets of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.11

Return on Assets of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	3.05	1.43	2.45
2006/07	2.84	1.49	2.56
2007/08	2.47	1.38	2.42
2008/09	2.01	1.66	2.46
2009/10	2.35	1.73	2.53
Average in %	2.54	1.54	2.48
S. D.	0.4098	0.15057	0.0586
C.V	16.1106	9.7897	2.3577

Source: Appendix10

The above table 4.11 measures the capital adequacy ratio of the selected banks. The CAR of NABIL has adopted decreasing trend over the whole period except year 2009/10.It has ranged between 2.01% (2008/09) and 3.05% (2005/06). It has average at 2.54%.The lower coefficient variation ie (16.1106) indicates that CAR has fluctuated less during the period.

Capital Adequacy Ratio of EBL has adopted increasing trend over the study period. It has ranged between 1.43% (2005/06) and 1.73% (2009/10). It has average at 1.54%.The lower coefficient variation i.e. (9.78) indicates that CAR has fluctuated less during the period.

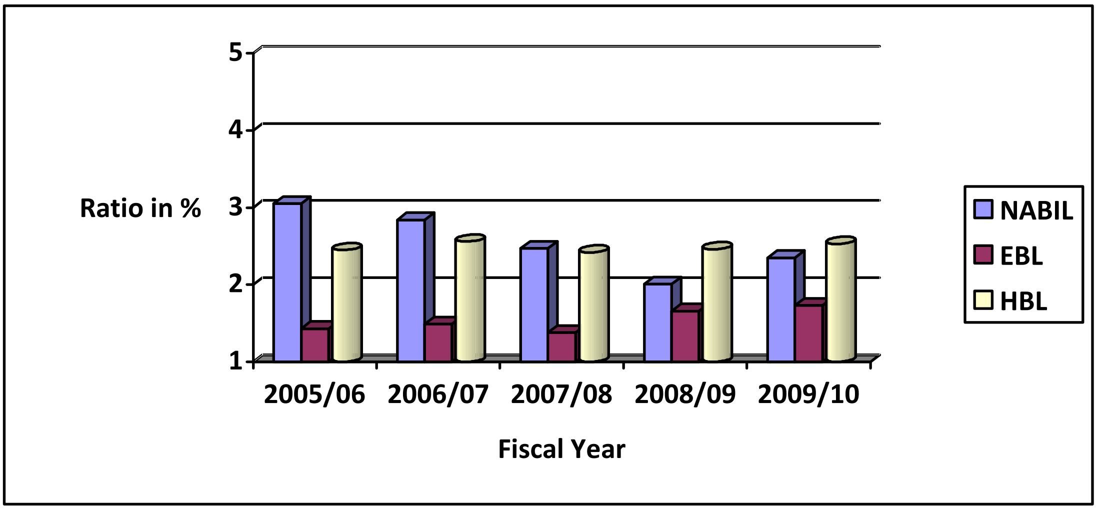
Capital Adequacy Ratio of HBL has adopted fluctuated trend over the study period. It has ranged between 2.42% (2007/08) and 2.565% (2006/07) . It has average at 2.48%. The lower coefficient variation i.e. (2.3577). indicates that CAR has fluctuated less during the whole period.

The average case of NABIL i.e. (2.54) is the highest and the average of other two banks is about 1.50 -2.50 %.

The coefficient of variation all banks that is around 2-17% indicates that the there is high degree of consistency of CAR is case of all the Banks.

Figure No. 4.10

Return on Assets of NABIL, EBL and HBL



4.5.4 Return on Equity (ROE)

This is one of the important ratios to judge whether the firm has earned a satisfactory return for its equity-holders or not. This ratio reveals how well the firm has used the resources of the owners to earn profit. So, the higher the ratio, the more favorable it is for the stock holders which represent the sound management and efficient mobilization of the owner's equity. The return on equity ratio can be calculated by using the following formula:

The following three tables showing Return on Equity of NABIL, EBL and HBL are summarized in the following table:

Table No. 4.12

Return on Equity of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	32.96	20.45	37.76
2006/07	33.88	24.65	37.55
2007/08	32.76	24.67	34.25
2008/09	30.63	23.48	32.85
2009/10	32.94	28.98	33.58
Average in %	32.63	24.45	35.20
S. D.	1.2025	3.06391	2.2981
C.V	3.68	12.5334	6.5291

Source: Appendix11

Table 4.12 measures the capital adequacy ratio of the selected banks. Capital Adequacy Ratio of NABIL has been adopted fluctuating trend during the study period. It has ranged between 30.63% (2008/09) and 33.88% (2006/07).It has average at 32.63%.The lower coefficient variation ie (3.68) indicates that Capital Ratio has fluctuated less during the period.

CAR of EBL has adopted increasing trend except year 2008/09.over the study period. It has ranged between 20.45% (2005/06) and 28.98% (2009/10). It has average at 24% . The lower coefficient variation ie (12.5334) indicates that CAR has fluctuated less during the period.

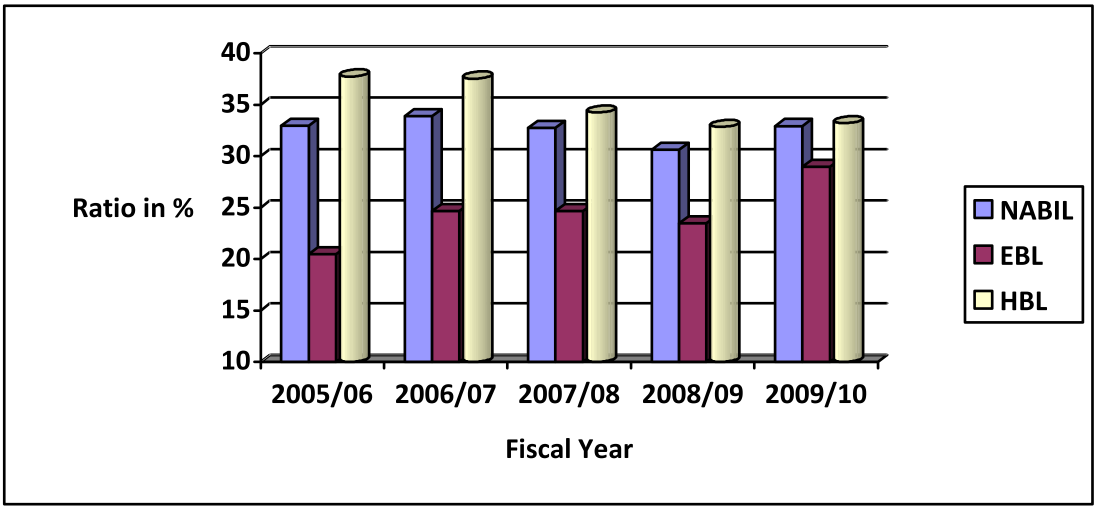
CAR of HBL has adopted been decreasing trend expect year 2009/10 over the study period. It has ranged between 32.85 (2008/09) and 37.76 (2005/06). It has average at 35.20%. The lower coefficient variation ie(6.5291) indicates that CAR has fluctuated less during the period.

The average case of HBL ie (35.20%) is the highest and average of other two Banks is about 24-33%.

The coefficient of variation all banks that is around 3-13% indicates that the there is high degree of consistency of CAR in case of all the Banks.

Figure No. 4.12

Return on Equity of NABIL, EBL and HBL



The Figures no 4.11 shows that the average ROE ratio of HBL is the highest which is 35.20% where as the average ROE ratio of EBL is the lowest which is 24.45%. NABIL and EBL both have inconsistent and fluctuating trend of ROE ratio where as HBL has decreasing trend of ROE from fiscal year 2005/06 to fiscal year 2007/08 but increased in the year 2009/10. Higher ROE ratio indicates the bank is utilizing its fund in a proper way.

4.6 Liquidity

Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. In other organizations too, liquidity is required for various purposes. Inadequate liquidity does damage credit-standing of those organizations but if banks fail to repay the deposits on demand, the bank loses the trust of the public. This leads to "runs" in the bank and probably bankruptcy thereof. The following ratios have been analyzed to test Liquidity Position of the bank:

4.6.1 Cash Reserve Ratio (CRR)

As per the rule of NRB all commercial banks are required to maintain 5.5% of their total deposit of Nepalese currency as CRR in their account with NRB for maintaining adequate liquidity. NRB has prescribed this mandatory requirement in order to save the commercial banks from the liquidity risk. CRR can be computed as follows:

$$\textbf{CRR} = \frac{\textbf{NRB Balance (LCY)}}{\textbf{LCY Deposits} - \textbf{Margin Deposits}}$$

Computation of Cash Reserve Ratio:

Table No. 4.13

Cash Reserve Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	3.83	1.9	8.77
2006/07	3.26	1.9	6.86
2007/08	6.00	2.9	5.46
2008/09	8.37	3.40	5.84
2009/10	9.03	2.83	8.18
Average in %	6.09	2.59	7.02
S. D.	2.59	0.66	1.43
C.V	42.57	25.66	20.46

Source: Annual Report of NABIL, EBL and HBL

Table 4.13 measures the capital adequacy ratio of the selected banks. The table shows that the CAR of NABIL has adopted increasing trend during the study period. It has ranged between 3.26% (2006/07) and 9.03% (2009/10).It has average at 6.09%. The lower coefficient variation ie (42.57) indicates that CAR has fluctuated less during the period.

Capital Adequacy Ratio of EBL has adopted fluctuated trend during the study period. It has ranged between 1.9% (2005/06) and 3.40% (2008/09) . It has average at 2.59%. The lower coefficient variation i.e. (25.66) indicates that CAR has fluctuated less during the period.

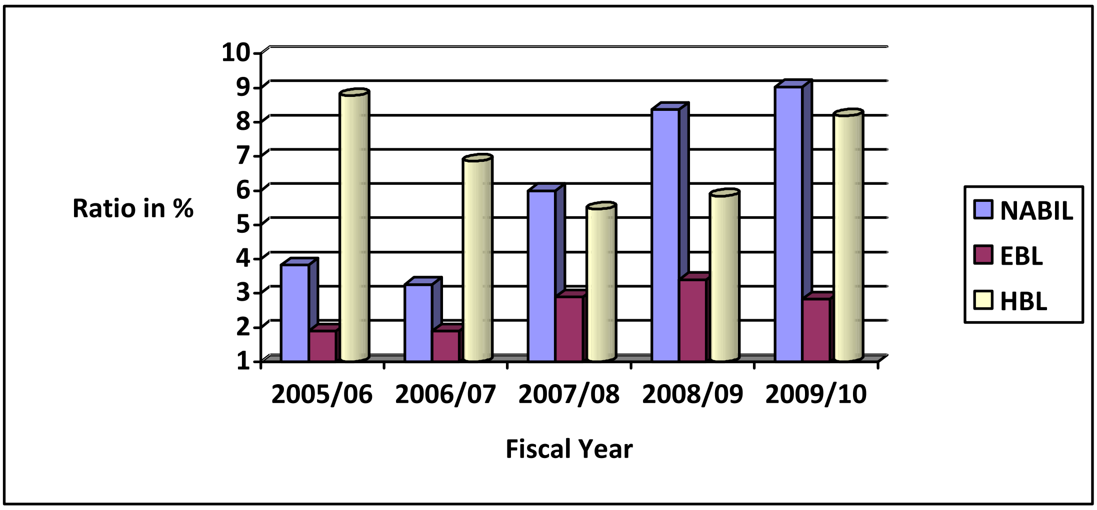
CAR of HBL has adopted fluctuated trend during the study period. It has ranged between 5.46% (2007/08) and 8.77% (2005/06). It has average at 7.02%.The lower coefficient variation i.e. (20.46) indicates that CAR has fluctuated less during the period.

The average case of HBL i.e. (7.02%) is the highest and the average of other two Banks is about 2-7%.

The coefficient of variation all banks that is around 20-43% indicates that the there is high degree of consistency of Capital Adequacy Ratio in case of all the Banks.

Figure No. 4.13

Cash Reserve Ratio of NABIL, EBL and HBL



As prescribed by NRB the commercial banks have to maintain a reserve of 5% against their deposits up to fiscal year 2008/09 according to BASEL-I & from fiscal year 2009/10 they have to maintain a reserve of 5.5% against their deposits according to BASEL-II. The above figure shows that, NABIL bank fails to maintain CRR in fiscal year 2005/06 & 2006/07. But from fiscal year 2007/08 to 2009/10, it has maintained CRR. Everest bank has failed to maintain CRR in every year which may have bad impact on their customer. HBL is able to maintain CRR in every year which is very good for bank to be safe from liquidity problem. As NRB wants bank to maintain CRR on weekly basis, the above shown CRR may not reflect actual position of banks.

4.6.2 Cash and Bank Balance Ratio

This ratio is designed to measure the Bank's ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that banks might face liquidity crunch while paying its obligations whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. Cash and bank balance ratio is derived by dividing the cash and bank balance by total deposits. Symbolically:

Table No. 4.14

Cash & Bank Balance Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	3.83	10.40	5.75
2006/07	3.27	11.25	5.53
2007/08	6.00	13.15	8.20
2008/09	8.38	11.13	6.90
2009/10	9.04	18.50	8.75
Average in %	6.10	12.89	7.03
S. D.	2.5987	3.29	1.4346
C.V	42.57	25.59	20.41

Source: Appendix12

The above table 4.14 measures the capital adequacy ratio of the selected banks. Capital Adequacy Ratio of NABIL has been adopted increasing trend all the study period except year 2005/06 is decrease. It has ranged between 3.27% (2006/07) and 9.04% (2009/10).It has average at 6.10% .The lower coefficient variation ie(42.57) indicates that CAR has more inconsistent over the study period.

Capital Adequacy Ratio of EBL has adopted fluctuated trend. It has ranged between 10.40(2005/06) and 18.50(2009/10). It has average at 12.89%. The lower coefficient variation ie (25.59)indicates that CAR has fluctuated has during the period.

CAR of HBL has adopted fluctuating trend all over the study period. It has ranged between

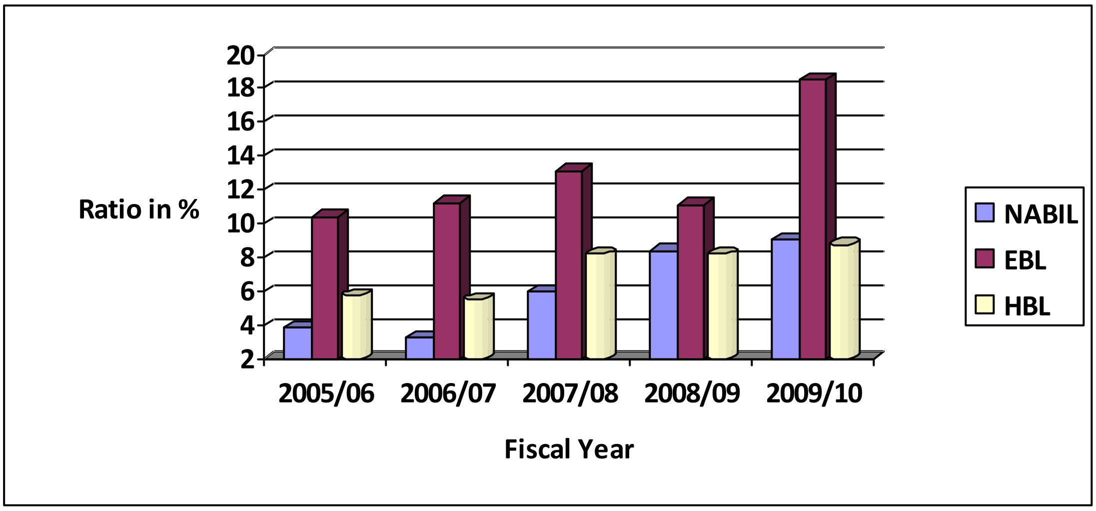
5.53(2006/07) and 8.75 (2009/10) . It has average at 7.03. The lower coefficient variation ie (20.41) indicates that CAR has fluctuated has during the period.

The average case of EBL ie (3.29) is the highest and the average of other two banks is about 1-3%.

The Coefficient of Variation of EBL (25.59) and HBL (20.41) banks has indicated that the less consistent during the period. The CV of NABIL (42.57) has indicated that more inconsistent.

Figure No. 4.14

Cash & Bank Balance Ratio of NABIL, EBL and HBL



This ratio reflects the banks ability to pay short term and immediate obligation to the average customers. The above figure shows that the Everest bank has the highest average ratio of 12.89% among the three banks where as NABIL has the lowest average ratio of 6.10%. The ratio of HBL is more fluctuating in comparison to EBL and NABIL which shows that the banks need to manage their cash effectively so that there won't be extra idle cash and the obligation should also meet.

4.6.3 Investment in Government Securities Ratio

Banks around the world invest significant portion of their deposits in government securities because merely maintaining adequate CRR and C&B Balance cannot be considered sufficient for liquidity maintenance. Government securities are those securities which are risk free and can be easily converted into cash anytime. Banks can utilize their fund investing into government securities which are liquid in nature. And whenever they need cash they can easily manage because government securities are easily accepted by any investing organization. Investment in government securities ratio depicts ratio of total deposits invested in government securities. Mathematically:

Table No. 4.15

Investment in Government Securities Ratio of NABIL, EBL and HBL

Year	NABIL	EBL	HBL
2005/06	16.58	20.80	37.73
2006/07	11.90	25.71	36.89
2007/08	20.60	25.87	28.84
2008/09	14.56	20.11	27.36
2009/10	9.92	15.44	27.87
Average in %	14.71	21.59	31.74
S. D.	4.1548	4.3568	5.1228
C.V	28.2414	20.1838	16.1410

Source: Appendix13

The table 4.15 measures the capital adequacy ratio of the selected banks. Capital Adequacy Ratio of NABIL has adopted fluctuated trend in the whole study period. It has ranged between 9.92% (2009/10) and 16.58% (2005/06). It has average at 14.71%. The lower coefficient variation i.e. (28.24) indicates that CAR has relative consistent during the period.

Capital Adequacy Ratio of EBL has adopted increasing trend 2005/06 up to 2007/08 and decreasing trend 2008/09 up to 2009/10. It has ranged between 15.44% (2009/10) and 25.87% (2007/08). It has average at 21.59%. The lower coefficient variation ie (20.18) indicates that CAR has fluctuated less during the period.

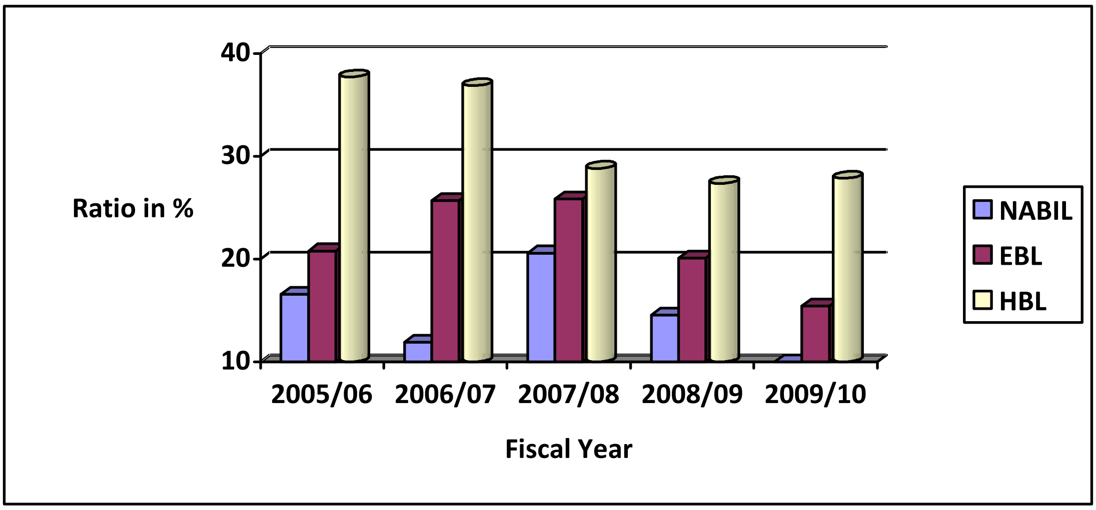
CAR of HBL has adopted decreasing trend all over the period except 2009/10.It has ranged between 37.73% (2005/06) and 27.87% (2009/10). It has average at 31.74. The lower coefficient variation ie (16.14) indicates that CAR has fluctuated less during the period.

The average case of HBL ie (31.74) is the highest and the average of other two Banks is about 14-22%.

The Coefficient Variation of NABIL has 28.41 indicates that relative consistent and other two banks that is around 16-20% indicates that the there is high degree of consistency of Capital Adequacy Ratio in case of all the Banks.

Figure No. 4.15

Investment in Government Securities Ratio of NABIL, EBL and HBL



The figure no 4.15 shows that HBL has invested the highest proportion of its deposit in the government securities i.e. 31.74%. All three banks have fluctuating trend of investment in government securities ratio. Generally the investment depends on the combination of deposits the bank has. The more the percentage of fixed deposits higher the investment in government securities. The higher percentage shows the better liquidity position of the bank.

4.7 Trend Analysis

A trend is a series of situation that follows a sequence. A widely and most commonly used method to describe the trend is the method of least square. Under this, a trend line is fitted to the data satisfying the conditions. It is used to describe the trend of any variable whether it increases or decreases with the passage of time. The trend analysis of profit of different banks, have been presented as below:

4.7.1 Profit Analysis

Profit is the return for taking risk on certain assets. Investors may buy and sell financial assets in order to earn return on them. They expect certain rate of return from the investment capital which is its profit. Its sources are interest spread between loans and deposits, commissions, investment and other earnings.

Table No. 4.16

Actual and Estimated Profit of NABIL, EBL and HBL

(Rs. in million)

Year	NABIL		EBL		HBL	
	Actual	Estimated	Actual	Estimated	Actual	Estimated
2005/06	520	495	168	127	536	518
2006/07	635	608	237	243	658	632
2007/08	674	721	296	358	691	746
2008/09	746	834	451	473	819	860
2009/10	1031	948	638	589	1025	974

Source: Annex 2

The table no 4.16 shows the Actual profit & estimated profit of NABIL, EBL and HBL from the fiscal year 2005/06 to 2009/10. All the three banks have increasing trend of profit from beginning to ending. NABIL bank has highest profit in year 2009/10 than EBL and HBL. But from the year 2005/06 to 2008/09 HBL has higher profit than NABIL and EBL. The estimated profit of all the banks are, less or more very close to its actual profit which shows the trend equation of profit of all the banks is reliable. Estimated profit of all the banks are calculated by using least square method which is shown in annex 2. All the banks should keep continue of growth rate of their profit for the better future of the bank. On the basis of above table, the actual profit of all the three banks is shown in graph below:

4.8 Analysis of Primary Data

To meet the objective of the study, primary data have been taken, analyzed and then conclusion drawn on the basis of the findings. Primary data are collected from listed joint venture commercial banks and investors or depositors as well as individual academicians. More than one respondent have been included from the same organization as possible. The respondent of the data covers customers, commercial bank's officers available within banking hour at main branch of each joint venture commercial banks under study. NABIL Newbaneshwor, EBL Newbaneshwor and HBL Newbaneshwor and also individual academicians.

Analysis of questionnaire covering customers, staffs and individual academician

Table No. 4.17

Total Number of Respondent

S.No.	Designation	Number
1.	Staffs of the selected banks.	18
2.	Interested customers.	9
3.	Individual academicians.	5
Total		32

Table No. 4.17 shows the number of respondents. All together 32 respondents were participated in this part, among them 18 were the staffs of joint venture commercial banks, 6 each from the selected joint venture commercial banks. 9 were those customers who are interested in financial analysis of bank's performance and 5 were those academicians who have knowledge about financial analysis of banks financial performance.

Table No. 4.18

List of answer given by Respondent

S.N.	Statement	Option		
		a	b	c
1.	Are the commercial banks implementing the directives issued by NRB?	25	2	5
2.	Who will be benefited most by maintaining capital adequacy requirement?	18	10	4
3.	Is CAR set by NRB fit for regulation and supervision of commercial bank?	25	6	1
4.	Whether loan and advance are reviewed on periodic basis?	20	8	4
5.	Are you satisfied with existing requirement for the loan and loan loss provision?	24	2	6
6.	Do you that contributions per staff on profit are appropriate to analyze management quality?	22	7	3
7.	Incremental EPS has positive impact on every stakeholder of the bank, to whom do you think the impact is more?	24	2	6
8.	Does the increment in CRR from 5% to 5.5% have decrease lending capacity of bank?	26	4	2
9.	NRB intend to increase interest rate on deposit by increasing CRR, do bank increase their interest rate on deposit?	19	9	4

1st query that, are the commercial banks implementing the directives issued by NRB, 25 respondent opinions that ‘yes’, 2 respondent opinions that ‘No’ and 5 respondent’s opinions that they don’t know. Most of the respondent agrees that the commercial banks are implementing the NRB directives regularly and minority respondents don’t know about the NRB directives.

2nd query that, who will be benefited most by maintaining capital adequacy requirement, 18 respondent agree that the depositors would be benefited by maintaining capital adequacy requirement. 10 respondents agree with the shareholders also be benefited and 4 respondents agreed that the others benefited, who are relating to the commercial banks.

3rd query that, is capital adequacy requirement set by NRB fit for regulation and supervision of commercial banks, 25 respondent agreed that it’s all right to setting capital adequacy requirement by NRB fit for effective regulation and supervision of commercial bank and 6 respondent did not agree to setting capital adequacy requirement by NRB.

4th query that, whether loan and advance are reviewed on periodic basis, 20 respondents showed their opinion to review the loan and advances on periodic basis regularly, 8 respondent showed their opinion that don’t review the loan and advance on periodic basis, it is enough to loan and loan loss provision.

5th query that, are you satisfied with existing requirement for the loan and loan loss provision, 24 respondents showed their opinion that the loan and loan loss provision of present ratio is adequate to commercial banks. More than 50% respondent satisfied with the NRB loan loss provision directives, only 2 respondents would not be satisfied with the present provision in NRB and 6 respondents did not know about the question.

6th query that, do you agree that contribution per staff on profit are appropriate to analyses management quality, 22 respondents showed their opinion that contribution per staff on profit is appropriate to analyze management quality, 2 respondents would not satisfy that contribution per staff on profit is appropriate measure and 3 respondents did not know about the question.

7th query that, incremental EPS has positive impact on every stakeholders of the banks, to whom do you think the impact is more, 24 respondents showed their opinion that the impact on shareholders is more, 2 respondents showed their opinion that the impact on depositors is more and 6 respondents showed their opinion that impact on bank is more.

8th query that, does the incremental CRR from 5% to 5.5% decrease lending capacity of bank, 26 respondents showed their opinion that the incremental CRR has decreased lending capacity of banks, 4 respondents showed their opinion that the incremental CRR has not decreased lending capacity of banks and 2 respondents did not know about the question.

9th query that, NRB intends to increase interest rate on deposit by increasing CRR, do banks increase their interest rate on deposit, 19 respondents showed their opinion that the bank will increase their interest rate due to increment on CRR, 9 respondents showed their opinion that the bank will not increase their interest rate and 4 respondents did not know about the question.

4.9 Major Findings

The major findings of the study are derived on the basis of analyzing financial data of the relevant banks which can be enlisted as follows:

- The capital adequacy ratio of all three banks is more than the prescribed values of NRB, which is 11% & 10% according to BASEL-I & BASEL-II respectively. BASEL-II is implemented from the year 2008/09. Among three banks, HBL has the highest average ratio of 15.03%, the average ratio of NABIL & EBL are 11.72% & 11.31% respectively. This explains that HBL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up.

- The core capital ratio of all the banks has more than the prescribed values of NRB which is 5% up to fiscal year 2007/08 & 5.5% from fiscal year 2008/09 according to BASEL-I & BASEL-II respectively. Among three banks, HBL has ranked 1st every time by having highest CCR where as NABIL & EBL is ranked as 2nd & 3rd respectively.
- The performing loan ratio of EBL and HBL is in increasing trend where as NABIL has fluctuating trend of performing loan ratio. The increasing trend of performing loan ratio of EBL and HBL shows that the bank has invested their funds in proper way. But the decreasing trend of NABIL shows that the bank should improve their credit management system.
- The non-performing loan ratio of EBL and HBL is in decreasing trend from fiscal year 2004/05 to 2008/09 which indicates that the credit and risk management of both the bank is good. NABIL bank has inconsistent and fluctuating trend of non-performing loan ratio which shows NABIL should focus on managing its loan and advances.
- The loan loss provision ratio of all the banks is in decreasing trend from fiscal year 2004/05 to 2008/09 which shows the banks are reducing their non-performing loan and that’s why the amount of provision made for non-performing loan is decreasing. EBL has highest average ratio of 2.97% which shows EBL has good capacity to bear the non-performing loan loss.

CHAPTER: V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Analysis of Joint Venture Commercial Banks" with reference to NABIL Bank Limited, Everest bank Limited and Himalayan Bank Nepal Limited has been prepared to fulfill the requirement of Master's of Business Studies (MBS) program. This study is mainly based on the annual report provided by the concerned Banks. While sampling the Banks for study, three joint venture commercial banks working in same field and similar nature have been taken as sample.

For this work various tools are used to study and this study is primarily based on secondary data. However the analysis is done on the basis of primary data also. For secondary data the most important tool used is financial tool where different types of ratios are used for the findings. Similarly statistical method is used to find out mean, trend analysis. The secondary data is abstracted from the annual report of three selected joint venture commercial banks. The study covers the periods of five year from 2004/05 to 2008/09. For collection of the primary data, the schedules of questionnaires were developed and asked to the employees and customers of the banks. The personal interview was also conducted to know their opinion.

To conclude this study, the whole study has been divided into five chapters of the different aspects. The summary of each chapter can be presented in each paragraph.

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

The objective of the study is to analyze the Credit Management of Nepalese Commercial banks. The specific objectives are to assess credit practices of the selected Nepalese commercial banks, to explore the credit efficacies of selected Nepalese commercial banks, to analyze the industry environment of selected Nepalese commercial banks in terms of credit practices, to explore the relationship with loan and advances, non performing loan and net profit of selected Nepalese commercial bank, to analyze the volume of contribution made by sample banks in credit & advances, to analyze the deposit collection and utilization trend of sample banks, to study the relationship of deposit, loan & advances and net profit of sample banks and to provide suitable suggestions based on the findings of this study.

Literature review is done in second chapter relating to the financial performance has been reviewed. By reviewing some previous studies, many inputs can be taken for the study and other researcher can also take advantages from this section. However, various researchers have been conducted on lending practice, credit policy, financial performance and credit management of various commercial banks. Past researchers have not properly analyzed about lending and its impact on the profitability. The ratios have not categorized according to nature. Here, in this research all ratios are categorized according to their area and nature. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit management of Bank and financial institutions.

In third chapter explains about the methodology of the study. 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 Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The research is based on primary as well as secondary source of data, even though adequate data are collected from secondary sources. Here, the total 31 commercial banks constitute the population of the data and three banks under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here NABIL ,HBL,EBL Banks Limited have been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it. Especially the annual report of selected banks and the website of the banks have been taken as main source of data collection for purpose of study. NRB publications such as economic reports and bulletin, banking and financial statistics, annual report of N RB etc. the other main source. For the purpose of the study all collected primary as well as secondary data are arranged, tabulated under various heads and them after disunities and statistical analysis have been carried out to enlighten the study. Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used.

Fourth chapter is data presentation and analysis. Data analysis tools mentioned in the third chapter is used to analyze the data in this chapter. Various ratios that are related to financial performance of the bank have been used to analyze the financial performance of the NABIL, EBL and HBL. I have followed the CAMEL approach for the performance analysis of the banks and which has been done through ratio analysis, trend analysis and graphical presentation. Capital, Assets, Management, Earning and Liquidity position of the banks have been analyzed and compared to get the idea about the financial position of these banks.

5.2 Conclusion

The study shows that all the selected banks are performing well under the NRB regulations despite of having unstable political situation of the country. After going through the overall study and findings plus the financial reports, I found that all the three banks are well managed with good capital structure and sound performance. The banks do have an encouraging financial trend of the fiscal year generating profit.

- The study shows that the capital adequacy ratio is more than 11% & 10% as prescribed by NRB according to BASEL-I & BASEL-II respectively maintained by all banks throughout the study year. It seems very good condition of capital adequacy in the banks, which will protect to its depositors. HBL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up. CCR of all the selected banks are above the NRB's standard i. e. 5.5% up to fiscal year 2007/08 according to BASEL-I & 6% from fiscal year 2008/09 according to BASEL-II. Among three banks, HBL has ranked 1st every time by having highest CCR where as NABIL & EBL is ranked as 2nd & 3rd respectively.

- The study shows that the performing loan ratio of EBL & HBL is in increasing trend from fiscal year 2004/05 to 2008/09. NABIL bank has also increasing trend of performing loan ratio from the year 2005/06 to 2007/08. In overall performing loan ratio of all three banks is in good position. NPL ratio of EBL and HBL is in decreasing trend from beginning to ending but NABIL has fluctuating trend of NPL ratio. NPL ratio has to be as minimum as possible for effective utilization of asstes. The conclusion is that all three banks are effective and efficient in utilizing their assets and are successful in decreasing their NPL ratio satisfactorily. Loan loss provision ratio (LLPR) of all the three banks is in decreasing trend from the fiscal year 2004/05 to 2008/09. It clearly shows the sound credit management system followed by the banks. Loan loss coverage ratio of all the banks is very good which shows that all the banks have maintained sufficient provision to cover future loan loss.

- For effective and efficient management, management efficiency ratio has to be high. From the study, management efficiency ratio of all banks is well. HBL has highest management efficiency ratio than NABIL and EBL. NABIL has higher management efficiency ratio than EBL. The conclusion is that HBL & NABIL have good management quality than EBL under study.

- Higher the earning higher the banks is rated as successful and efficient. It is not only important to bank but also equally important to shareholders and depositors. From the study, HBL has the decreasing trend of EPS from the year 2005/06 and increasing trend of P/E ratio from beginning to ending. But it has highest average EPS and P/E ratio than that of two other banks NABIL & EBL. EBL has the increasing trend of EPS and P/E ratio from the year 2004/05 to 2008/09, which shows that the earning capacity of the bank is increasing. NABIL has increasing trend of EPS and P/E ratio in the initial year but decreased at the ending year, which shows that NABIL has fluctuating trend of earning. All the three banks have fluctuating trend of ROA but in the average NABIL has highest ROA than EBL & HBL. HBL has decreasing trend of ROE but in average it has highest ROE than NABIL & EBL. NABIL & EBL have fluctuating trend of ROE.

- NABIL Bank fails to maintain CRR in fiscal year 2005/06 & 2006/07, but from fiscal year 2007/08 to 2009/10 it is able to maintain CRR. Everest bank has failed to maintain CRR in every year. HBL has maintained CRR in every year. All three banks have fluctuating trend of cash and bank balance ratio. But among three banks, the cash & bank balance ratio of EBL is highest in average than NABIL & HBL which shows the better liquidity position of EBL. All the three banks have fluctuating trend of investment in government securities ratio. HBL has highest average ratio of investment in government securities which is good for maintain liquidity but less earning from the fund invested in government securities.

- The trend of the profit of all the banks is in increasing trend, which encourages the bank to perform better than current situation in future to earn more and more profit by satisfying their customer.

- NRB as the bank of the bank is a regulating body of all the commercial banks. It has established various standards such as CAR, CCR, and CRR for the protection of depositor and investors. From the study, all selected banks found to maintain NRB's regulation except in case of CRR, NABIL has failed to maintain CRR in initial two years and EBL has failed to maintain CRR in all the year of study period.

5.3 Recommendations

On the basis of analysis made and conclusion drawn above, some important recommendations have been made here which will be beneficial for the banks to overcome their problems and inefficiencies if applied. They will help the banks to improve their future performances.

Recommendations to NABIL Bank Limited

- NABIL has fluctuating trend of performing loan and non-performing loan. So it is better for NABIL to have increasing trend of performing loan and decreasing trend of non-performing loan.

- Management efficiency ratio of NABIL is in increasing trend which is good for the bank and to keep it continue, the bank should adopt new technology as per the change and train their employees accordingly.

- EPS of NABIL is in increasing trend in the initial three years, after then it is in decreasing trend. So it should perform its activities more efficiently to increase EPS in future. NABIL's return on assets is in decreasing trend and return on equity is in fluctuating trend, it is better to have increasing trend of return on assets and return on equity.

- From the liquidity management perspective NABIL could incur liquidity risk in year 2004/05 & 2005/06 because its CRR was below 5%. So it must maintain its CRR as per NRB directive.

Recommendations to Everest Bank Limited

- EBL has increasing trend of performing loan and decreasing trend of non-performing loan which is very good for the bank and the same trend should be continued in the future also.

- Management efficiency ratio of EBL is in increasing trend which is good for the bank but in comparison to other bank it is lower. Therefore, the bank should adopt new technology and innovations as per the change and train their employees accordingly, to maximize per employee contribution.

- Though EBL has increasing trend of EPS, but in comparison to other banks it is lower. So it should perform its activities more efficiently to increase EPS in future. EBL has lowest ROA; it explains that EBL has not effectively utilized its assets to increase profit, so EBL must effectively utilize its assets.

- From the liquidity management perspective EBL could incur liquidity risk in all the years because it's CRR was below the NRB's standard. So it must maintain its CRR as per NRB directive.

Recommendations to Himalayan Bank Nepal Limited

- High capital adequacy ratio in excess to statutory requirement indicates bank's inability to invest its resources, possibly limiting its future earnings. HBL should strive their best to invest their resources in productive sector as their CAR is higher than requirement.

- HBL has increasing trend of performing loan ratio and decreasing trend of non-performing loan ratio which is very good for the bank and should be continued in future. Similarly loan loss provision ratio is in decreasing trend and loan loss coverage ratio is in increasing trend which indicates the better credit management system applied by the bank for their better future.

- Management efficiency ratio of HBL is in increasing trend which shows that the bank is able to mobilize its human resources efficiently. The bank should train their employees as per the change in new technology and innovations for better contribution from them.

- EPS of HBL is in decreasing trend so it should perform its activities more efficiently to increase EPS in future. Similarly, ROA and ROE of HBL are in fluctuating trend, it is better to have increasing trend.

- Investment in government securities of HBL is very high, it is good for its depositors but it might lose opportunities to earn more interest than from that of government securities.

Furthermore

- The banks should improve their customer's service so the customers are motivated to deposit their surplus resulting in incremental profit.

- The bank should not only copy the product such as Credit Cards ATM Machine, Master Cards etc of international marketing but also should launch the product that suits the requirements of the common public in Nepal.

- The bank should give emphasis to all its customers equally to increase its deposits. The bank should not only focus the high income earners and provide service in and around urban areas, but also should provide service to people living in rural areas because large number of Nepalese population live in rural areas.

- In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strenghten and activates its marketing functions as it is an effective tool of attracting and retaining customers. For this, the bank should formulate new strategies of serving customers in a more convenient and satisfactory way.

- The bank should not escape from its overall social responsibilities.

- The bank should provide incentive to the employee in order to motivate them in their performance which leads to improve the overall bank performance.

- The project oriented approach has to be encouraged in lending business of the bank in which security is not necessary, risk is high but the project is important from the point of view of national economy. This gives rise to the bank and economy as a whole.

- The bank is recommended to open its branches not only in the urban areas, but also in the rural areas of the country for boosting up the lower level people.

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ANNEX 1

QUESTIONNAIRE

Dear respondent,

I would like to request you to fill up the following questionnaires prepared for collection of your views as valuable resources for my research work. This research is conducted for partial fulfillment of the requirements for the degree of MBS. It would be of great value should you help in this project work by filling the following question ire:

Please tick (√) an option which you favor most.

1. Are the commercial banks implementing the directives issued by NRB?
   (a) Yes ( )
   (b) No ( )
   (c) Don't Know ( )
2. Who will be benefited most by maintaining capital adequacy requirement?
   (a) Depositors ( )
   (b) Shareholders ( )
   (c) Don't Know ( )
3. Is CAR set by NRB fit for regulation and supervision of commercial bank?
   (a) Fit ( )
   (b) Unfit ( )
   (c) Don't Know ( )
4. Whether loan and advance are reviewed on periodic basis?
   (a) Yes ( )
   (b) No ( )
   (c) Don't Know ( )
5. Are you satisfied with existing requirement for the loan and loan loss provision?
   (a) Yes ( )
   (b) No ( )
   (c) Don't Know ( )

6. Do you agree that contributions per staff on profit are appropriate to analyze management quality?

   (a) Yes ( )

   (b) No ( )

   (c) Don't Know ( )

7. Incremental EPS has positive impact on every stakeholders of the bank. To whom do you thin the impact is more?

   (a) Shareholders ( )

   (b) Depositors ( )

   (c) Don't Know ( )

8. Does the increment in CRR from 5% to 5.5% decrease lending capacity of banks?

   (a) Yes ( )

   (b) No ( )

   (c) Don't Know ( )

9. NRB intend to increase interest rate on deposit by increasing CRR. Do banks increase their interest rate on deposit?

   (a) Yes ( )

   (b) No ( )

   (c) Don't Know ( )

ANNEX 2

Trend Analysis of Profit of NABIL, EBL and HBL

(Rs. in million)

Year	X	NABIL (Y)	EBL (Y_1)	HBL (Y_2)	x = (X-3)	x^2	xY	xY_1	xY_2
2005/06	1	520	168	536	-2	4	-1040	-336	-1072
2006/07	2	635	237	658	-1	1	-635	-237	-658
2007/08	3	674	296	691	0	0	0	0	0
2008/09	4	746	451	819	1	1	746	451	819
2009/10	5	1031	638	1025	2	4	2062	1276	2050
Total	n= 5	$\sum Y$= 3606	$\sum Y_1$= 1790	$\sum Y_2$= 3729	$\sum x$= 0	$\sum x^2$= 10	$\sum xY$= 1133	$\sum xY_1$= 1154	$\sum xY_2$= 1139

Year 2007/08 is taken as base year

For NABIL Bank Limited:

$a = \sum Y/n = 3606/5 = 721.2$ we have the least square trend is y= a+bx

y = 721.2+113.3x

$b = \sum xY/\sum x^2 = 1133/10 = 113.3$

For Everest Bank Limited:

$a = \sum Y_1/n = 1790/5 = 358$ we have the least square trend is y= a+bx

y = 358+115.4x

$b = \sum xY_1/\sum x^2 = 1154/10 = 115.4$

For Himalayan Bank:

$a = \sum Y_2/n = 3729/5 = 745.8$ we have the least square trend is y= a+bx

y = 745.8+113.9x

$b = \sum xY_2/\sum x^2 = 1139/10 = 113.9$

Calculation of Estimated Profit of NABIL, EBL and HBL (Rs. in million)

Bank	Trend Equation Of Profit	2005/6	2006/7	2007/8	2008/9	2009/10
NABIL	y= 721.2+113.3x	494.6	607.9	721.2	834.5	947.8
EBL	y= 358+115.4x	127.2	.6	358	473.4	588.8
HBL	y= 745.8+113.9x	518	631.9	745.8	859.7	973.6

ANNEX 3

NABIL Bank Limited

Balance Sheet as at 15 July 2010 (31 Ashadd 2067)

Capital & Liabilities	**2009/10** (Amount)	**2008/09** (Amount)
1. Share Capital	965,747,000	689,216,000
2. Reserve & Surplus	2,164,493,637	1,747,982,989
3. Debenture & Bond	300,000,000	240,000,000
4. Loan & borrowings	1,681,305,000	1,360,000,000
5. Deposit Liabilities	37,348,255,840	31,915,047,467
6. Bills Payable	463,138,615	238,421,890
7. Proposed & Unpaid Dividend	361,325,024	437,373,004
8. Income Tax Liabilities	80,232,454	38,776,869
9.Other Liabilities	502,899,934	465,940,930
Total Liabilities	**43,867,397,504**	**37,132,759,149**

Assets	**2009/10** (Amount)	**2008/09** (Amount)
1. Cash in hand	674,395,434	511,426,584
2. Balance with Nepal Rastra Bank	2,648,596,348	1,829,470,769
3. Bank Balance	49,520,689	330,243,702
4. Money at call & short Notice	552,888,297	1,952,360,700
5.Investment	10,826,379,001	9,939,771,428
6.Loan, Advances & Bills Purchased	27,589,933,041	21,365,053,318
7.Fixed Assets	660,988,986	598,038,998
8.Non Banking Assets	-	-
9.Other Assets	864,695,708	606,393,650
Total Assets	**43,867,397,504**	**7,132,759,149**

Sources: Annual report of fiscal year 2009/10 of Nabil Bank Limited.

ANNEX 4

Everest Bank Limited

Balance Sheet as at 15 July 2010 (31 Ashadd 2067)

Capital & Liabilities	**2009/10** (Amount)	**2008/09** (Amount)
1. Share capital	838,821,000	831,400,000
2. Reserve & Surplus	1,364,804,055	1,089,837,580
3. Debenture & bonds	300,000,000	300,000,000
4. Loan & borrowings	312,000,000	-
5. Deposit Liabilities	33,322,946,246	23,976,298,535
6. Bills Payable	148,655,592	49,429,700
7. Proposed & Unpaid Dividend	230,524,766	140,790,370
8. Income Tax Liabilities	20,522,280	41,143,107
9. Other Liabilities	378,574,715	720,443,592
Total Liabilities	**36,916,848,654**	**27,149,342,884**

Assets	**2009/10** (Amount)	**2008/09** (Amount)
1. Cash in hand	944,695,793	822,989,425
2. Balance with Nepal Rastra Bank	4,787,163,541	1,080,914,584
3. Bank Balance	432,511,829	764,067,851
4. Money at call & short Notice	-	346,000,000
5.Investment	5,948,480,273	5,059,557,544
6.Loan, Advances & Bills Purchased	23,884,673,616	18,339,085,562
7.Fixed Assets	427,157,451	360,512,480
8.Non Banking Assets	-	-
9.Other Assets	492,166,151	376,215,468
Total Assets	**36,916,848,654**	**27,149,342,884**

Sources: Annual report of fiscal year 2009/10 of Everest Bank Limited.

ANNEX 5

Himalayan Bank limited

Balance Sheet as at 15 July 2010 (31 Ashadd 2067)

Capital & Liabilities	**2009/10** (Amount)	**2008/09** (Amount)
1. Share capital	931,966,400	620,784,000
2. Reserve & Surplus	2,120,503,331	1,871,763,996
3. Debenture & bonds	-	-
4. Loan & borrowings	300,000,000	-
5. Deposit Liabilities	35,871,721,127	29,743,998,794
6. Bills Payable	72,941,748	87,397,021
7. Proposed & Unpaid Dividend	476,296,048	506,366,940
8. Income Tax Liabilities	4,262,601	2,051,550
9. Other Liabilities	809,776,754	503,426,025
Total Liabilities	**40,587,468,009**	**33,335,788,326**

Assets	**2009/10** (Amount)	**2008/09** (Amount)
1. Cash in hand	463,345,996	414,875,467
2. Balance with Nepal Rastra Bank	1,851,132,637	1,266,273,524
3. Bank Balance	822,684,902	369,094,223
4. Money at call & short Notice	2,055,549,000	2,197,537,600
5.Investment	20,236,121,082	13,902,819,011
6.Loan, Advances & Bills Purchased	13,679,756,990	13,718,597,132
7.Fixed Assets	137,292,540	117,272,258
8.Non Banking Assets	-	-
9.Other Assets	1,341,584,862	1,349,319,111
Total Assets	**40,587,468,009**	**33,335,788,326**

Sources: Annual report of fiscal year 2009/10 of Himalayan Bank Ltd.

APPENDICES

APPENDIX 1: Capital Adequacy Ratio

$$CAR = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100$$

Capital Adequacy Ratio of NABIL Bank Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in %)
2004/05	1766072530	14193071630	12.44
2005/06	2089324022	16976368425	12.31
2006/07	2307632395	19166766033	12.04
2007/08	2998730164	27010564315	11.10
2008/09	3727082787	34816500849	10.70

Capital Adequacy Ratio of Everest Bank Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in %)
2004/05	766879000	6924807000	11.07
2005/06	1391339000	11291137000	12.32
2006/07	1676115000	14976737000	11.19
2007/08	2406056000	21039879000	11.44
2008/09	2703870000	25619753000	10.55

Capital Adequacy Ratio of Himalayan Bank Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in %)
2004/05	1664361021	10497531776	15.85
2005/06	1844242000	12369488438	14.91
2006/07	2225284000	14168420035	15.71
2007/08	2655277000	18969853751	14
2008/09	3190367000	21703164000	14.70

APPENDIX 2: Core Capital Ratios

$$CCR = \frac{\textbf{Total Core Capital}}{\textbf{Total Risk Weighted Assets}} \times 100$$

Core Capital Ratio of NABIL Bank Limited

Year	Total Core Capital	Total Risk Weighted Assets	Ratio (in)
2005/06	1610510308	14193071630	11.35
2006/07	1830794417	16976368425	10.78
2007/08	1992849715	19166766033	10.40
2008/09	2363598989	27010564315	8.75
2009/10	3044340637	34816500849	8.74

Core Capital Ratio of Everest Bank Limited

Year	Total Core capital	Total Risk Weighted Assets	Ratio (in %)
2005/06	663269000	6924807000	9.58
2006/07	927550000	11291137000	8.21
2007/08	1171133000	14976737000	7.82
2008/09	1900859000	21039879000	9.03
2009/10	1981579000	25619753000	7.73

Core Capital Ratio of Himalayan Bank limited

Year	Total Core capital	Total Risk Weighted Assets	Ratio (in %)
2005/06	1450185184	10497531776	13.81
2006/07	1606898000	12369488438	13
2007/08	1951117000	14168420035	13.77
2008/09	2304758000	18969853751	12.15
2009/10	2832761000	21703164000	13.05

APPENDIX 3: Performing Loan Ratio

$$\text{Performing Loan Ratio} = \frac{\text{Performing Loan}}{\text{Total loan}} \times 100$$

Performing Loan Ratio of NABIL Bank Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2005/06	10802229684	10946736577	98.68
2006/07	13096157779	13278782259	98.62
2007/08	15724729781	15903023765	98.88
2008/09	21598374339	21759460334	99.26
2009/10	27774194658	27999012071	99.20

Performing Loan Ratio of Everest Bank Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2005/06	7771282526	7900090271	98.37
2006/07	10007018658	10136254448	98.73
2007/08	13969507151	14082686087	99.20
2008/09	18709121394	18836431762	99.32
2009/10	24351570294	24469555526	99.52

Performing Loan Ratio of Himalayan Bank Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2005/06	8194560390	8420868793	97.31
2006/07	9010347896	9206280211	97.87
2007/08	10593131204	10790148357	98.17
2008/09	13835263970	13963983752	99.08
2009/10	13789661419	13880703075	99.34

APPENDIX 4: Non Performing Loan Ratio

$$\text{NPL Ratio} = \frac{\text{Non performing Loan}}{\text{Total Loan}} \times 100$$

Non Performing Loan Ratio of NABIL Bank limited

Year	Non performing Loan	Total Loan	Ratio (in %)
2005/06	144506893	10946736577	1.32
2006/07	182624480	13278782259	1.38
2007/08	178293983	15903023765	1.12
2008/09	161085995	21759460334	0.74
2009/10	224817413	27999012071	0.80

Non Performing Loan Ratio of Everest Bank Limited

Year	Non performing Loan	Total Loan	Ratio (in %)
2005/06	128807745	7900090271	1.63
2006/07	129235790	10136254448	1.27
2007/08	113178936	14082686087	0.80
2008/09	127310368	18836431762	0.68
2009/10	117985232	24469555526	0.48

Non Performing Loan Ratio of Himalayan Bank Limited

Year	Non performing Loan	Total Loan	Ratio (in %)
2005/06	226308403	8420868793	2.69
2006/07	195932315	9206280211	2.13
2007/08	197071153	10790148357	1.83
2008/09	128719782	13963983752	0.92
2009/10	91041656	13880703075	0.66

APPENDIX 5: Loan Loss Provision Ratio (LLP Ratio)

$$\text{LLP Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loans \& Advances}} \times 100$$

Loan Loss Provision Ratio of NABIL Bank Limited

Year	Total Loan Loss Provision	Total Loan & Advances	Ratio (in %)
2005/06	360566575	10946736577	3.29
2006/07	356239106	13278782259	2.68
2007/08	357245035	15903023765	2.25
2008/09	394407016	21759460334	1.81
2009/10	409079030	27999012071	1.46

Loan Loss Provision Ratio of Everest Bank Limited

Year	Total Loan Loss Provision	Total loan & Advances	Ratio (in %)
2005/06	281418795	7900090271	3.56
2006/07	334946772	10136254448	3.30
2007/08	418604423	14082686087	2.97
2008/09	497346200	18836431762	2.64
2009/10	584881910	24469555526	2.39

Loan Loss Provision Ratio of Himalayan Bank Limited

Year	Total Loan Loss Provision	Total Loan & Advances	Ratio (in %)
2005/06	277661010	8420868793	3.30
2006/07	270862401	9206280211	2.94
2007/08	287511222	10790148357	2.66
2008/09	245386620	13963983752	1.76
2009/10	200946085	13880703075	1.44

APPENDIX 6: Loan Loss Coverage Ratio (LLC Ratio)

$$\text{LLC Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Non Performing Loan}} \times 100$$

Loan Loss Coverage Ratio of NABIL Bank Limited

Year	Total Loan Loss Provision	Total Non performing Loan	Ratio (in %)
2005/06	360566575	144506893	249.52
2006/07	356239106	182624480	195.07
2007/08	357245035	178293983	200.37
2008/09	394407016	161085995	244.84
2009/10	409079030	224817413	181.96

Loan Loss Coverage Ratio of Everest Bank Limited

Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2005/06	281418795	128807745	218.48
2006/07	334946772	129235790	259.17
2007/08	418604423	113178936	369.86
2008/09	497346200	127310368	390.66
2009/10	584881910	117985232	495.72

Loan Loss Coverage ratio of Himalayan Bank Limited

Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2005/06	277661010	226308403	122.70
2006/07	270862401	195932315	138.24
2007/08	287511222	197071153	145.90
2008/09	245386620	128719782	190.64
2009/10	200946085	91041656	220.72

APPENDIX 7: Management Efficiency Ratio (ME Ratio)

$$\text{Management Efficiency Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total No. of staff}}$$

Management Efficiency Ratio of NABIL Bank Limited

Year	Net Profit After Tax	No. of Staff	MER
2005/06	520114085	426	1220925
2006/07	635262349	441	1440504
2007/08	673959698	427	1578359
2008/09	746468394	416	1794395
2009/10	1031053098	505	2041689

Management Efficiency Ratio of Everest Bank Limited

Year	Net Profit After Tax	No. of Staff	MER
2005/06	168214611	257	654531
2006/07	237290936	306	775460
2007/08	296409281	393	754222
2008/09	451218613	449	1004941
2009/10	638732757	521	1225974

Management Efficiency Ratio of Himalayan Bank limited

Year	Net Profit After Tax	No. of Staff	MER
2005/06	536244885	302	1775645
2006/07	658755881	345	1909437
2007/08	691668064	351	1970564
2008/09	818921008	377	2172204
2009/10	1025114536	392	2615088

APPENDIX 8: Earning Per Share (EPS)

$$EPS = \frac{\text{Net profit after Tax (NPAT)}}{\text{Total No. of Shares}}$$

Earnings Per Share of NABIL Bank Limited

Year	Net Profit After Tax	No. of Shares	EPS (Npr)
2005/06	520114085	4916544	105.49
2006/07	635262349	4916544	129.21
2007/08	673959698	4916544	137.08
2008/09	746468394	6892160	108.31
2009/10	1031053098	9657470	106.76

Earning Per Share of Everest Bank Limited

Year	Net Profit After Tax	No. of Shares	EPS (Npr)
2005/06	168914611	3150000	54.22
2006/07	237290936	3780000	62.78
2007/08	296409281	3780000	78.42
2008/09	451218613	4914000	91.82
2009/10	638732757	6388210	99.99

Earning Per Share of Himalayan Bank Limited

Year	Net profit After tax	No. of Shares	EPS (Npr)
2005/06	536244885	3746404	143.14
2006/07	658755881	3746404	175.84
2007/08	691668064	4132548	167.37
2008/09	818921008	6207840	131.92
2009/10	1025114536	9319664	109.99

APPENDIX 9: Price Earnings Ratio (P/E Ratio)

$$\text{P/E Ratio} = \frac{\text{Market Price per Share}}{\text{Earning Per Share}}$$

Price Earning Ratio of NABIL Bank Limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2005/06	1505	105.49	14.27
2006/07	2240	129.21	17.34
2007/08	5050	137.08	36.84
2008/09	5275	108.31	48.70
2009/10	4899	106.76	45.89

Price Earning Ratio of Everest Bank Limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2005/06	870	54.22	16.04
2006/07	1379	62.78	21.97
2007/08	2430	78.42	30.99
2008/09	3132	91.82	34.11
2009/10	2455	99.99	24.55

Price Earning Ratio of Himalayan Bank limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2005/06	2345	143.14	16.38
2006/07	3775	175.84	21.47
2007/08	5900	167.37	35.25
2008/09	6830	131.92	51.77
2009/10	6010	109.99	54.64

APPENDIX 10: Return on Assets (ROA)

$$ROA = \frac{\text{Net profit after Tax (NPAT)}}{\text{Total Assets (TA)}} \times 100$$

Computation of Return on Assets:

Return on Assets of NABIL Bank Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2005/06	520114085	17064082093	3.05
2006/07	635262349	22329971078	2.84
2007/08	673959698	27253393008	2.47
2008/09	746468394	37132759149	2.01
2009/10	1031053098	43867397504	2.35

Return on Assets of Everest Bank Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2005/06	168214611	11732516418	1.43
2006/07	237290936	15959284687	1.49
2007/08	296409281	21432574300	1.38
2008/09	451258613	27149342884	1.66
2009/10	638732757	36916848654	1.73

Return on Assets of Himalayan Bank Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2005/06	536244885	21893578211	2.45
2006/07	658755881	25776332320	2.56
2007/08	691668064	28596689451	2.42
2008/09	818921008	33335788326	2.46
2009/10	1025114536	40587468009	2.53

APPENDIX 11: Return on Equity (ROE)

$$ROE = \frac{\textbf{Net Profit after Tax (NPAT)}}{\textbf{Shareholder's Fund}} \times 100$$

Return on Equity of NABIL Bank Limited

Year	Net Profit After Tax	Shareholder's Fund	ROE (in %)
2005/06	520114085	1578206825	32.96
2006/07	635262349	1874994417	33.88
2007/08	673959698	2057049715	32.76
2008/09	746468394	2437198989	30.63
2009/10	1031053098	3130240637	32.94

Return on Equity of Everest Bank Limited

Year	Net Profit After Tax	Shareholder's Fund	ROE (in %)
2005/06	168214611	822625825	20.45
2006/07	237290936	962808301	24.65
2007/08	296409281	1201515266	24.67
2008/09	451218613	1921237580	23.48
2009/10	638732757	2203625055	28.98

Return on Equity of Himalayan Bank Limited

Year	Net Profit After Tax	Shareholder's Fund	ROE (in %)
2005/06	536244885	1420122785	37.76
2006/07	658755881	1754138777	37.55
2007/08	691668064	2368963119	34.25
2008/09	818921008	2492547996	32.85
2009/10	1025114536	3052469731	33.58

APPENDIX 12: Cash and Bank Balance Ratio

$$\text{Cash and Bank Balance Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}} \times 100$$

Cash & Bank Balance Ratio of NABIL Bank Limited

Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2005/06	559380614	14586608707	3.83
2006/07	630238588	19347399440	3.27
2007/08	1399825851	23342285327	6.00
2008/09	2671141055	31915047467	8.38
2009/10	3372512471	37348255840	9.04

Cash & Bank Balance Ratio of Everest Bank Limited

Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2005/06	1049989208	10097690989	10.40
2006/07	1552967494	13802444988	11.25
2007/08	2391420594	18186253541	13.15
2008/09	2667971830	23976298535	11.13
2009/10	6164371163	33322946246	18.50

Cash & Bank Balance Ratio of Himalayan Bank Limited

Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2005/06	1111116894	19335094726	5.75
2006/07	1276241423	23061032081	5.53
2007/08	2021021068	24647020755	8.20
2008/09	2050243214	29743998794	6.90
2009/10	3137163535	35871721127	8.75

APPENDIX 13: Investment in Government Securities Ratio

$$\text{Investment in Gov. Securities} = \frac{\text{Investment in Gov. Securities}}{\text{Total Deposits}} \times 100$$

Investment in Government Securities Ratio of NABIL

Year	Total Investment in govt. Securities	Total Deposits	Ratio (in %)
2005/06	2418431378	14586608707	16.58
2006/07	2301463338	19347399440	11.90
2007/08	4808348503	23342285327	20.60
2008/09	4646883136	31915047467	14.56
2009/10	3706102662	37348255840	9.92

Investment in Government Securities Ratio of EBL

Year	Total Investment in govt. Securities	Total Deposits	Ratio (in %)
2005/06	2100289702	10097690989	20.80
2006/07	3548616968	13802444988	25.71
2007/08	4704632426	18186253541	25.87
2008/09	4821604744	23976298535	20.11
2009/10	5146045773	33322946246	15.44

Investment in Government Securities Ratio of HBL

Year	Total Investment in govt. Securities	Total Deposits	Ratio (in %)
2005/06	7294875438	19335094726	37.73
2006/07	8507036501	23061032081	36.89
2007/08	7107937303	24647020755	28.84
2008/09	8137615178	29743998794	27.36
2009/10	9998753558	35871721127	27.87