A Study of Loan Management Comparative Study Of Everest Bank Limited and Nepal Bangladesh Bank Limited

Submitted by:
Tilak Ghising
Hari Khetan Multiple Campus
T.U. Regd No.:-7-2-15-0783-2001
Roll No. 01/063

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In Partial Fulfillment of the Requirement of the Degree of Master in Business Studies (MBS)

Birganj, Nepal September 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Tilk Ghishing

Entitled

"A Study of Loan Management Comparative Study Of Everest Bank Limited and Nepal Bangladesh Bank Limited"

has been prepared as approved this department in the prescribed format of the Faculty of management. This thesis is forwarded for examination.

| Hiral Lal Yadav | Mr.Shambu Prasad Chaurasiya |
|---------------------|-----------------------------|
| (Thesis Supervisor) | Head, Research Committee |
| | |
| | |
| | |
| | Dr. Bhagawan Prasad Yadav |
| | Campus Chief |

VIVA – VOCE SHEET

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

Mr. Tilak Ghising

Entitled

"A Study of Loan Management Comparative Study Of Everest Bank Limited and Nepal Bangladesh Bank Limited"

and found the thesis to be the original work of the students of written according to the prescribed format we recommend the thesis to thesis to be Accepted as fulfillment of the requirement for the Master Degree in Business studies (MBS)

<u>Viva – Voce Committee</u>

| Chairperson, Research Committee : |
|-----------------------------------|
| Member (Thesis Supervisor): |
| Member (External Expert): |
| Date : |

DECLARATION

I hereby declare that the work reported in the entitled A Study of Loan Management Comparative Study Of Everest Bank Limited and Nepal Bangladesh Bank Limited submitted to Faculty of Management Hari Khetan Multiple Campus Thribhuvan University, is my original work done in the format of T.U. for the partial fulfillment of the Master's Degree in Business Studies (MBS) under the supervision and guidance of Mr. Hira Lal Yadav Lecturer of Hari Khetan Multiple Campus Birgunj Parsa.

Tilak Ghising
Researcher
Hari Khetan Multiple Campus

ACKNOWLEDGEMENTS

This study entitled " A Study of Loan Management Comparative Study Of Everest Bank Limited and Nepal Bangladesh Bank Limited" is essentially an output of partial requirement for the degree of Master in Business Study (MBS), Tribhuvan University prepared under the supervision of Lecturer Mr. Hiralal Yadav

This study has not happed over day or night. I am indebted to many benevolent creditors who thought to assist others is to oneself and sacrificed their precious time willingly in guiding me, in providing information imperative to study and have placed themselves in a row of social responsible citizen.

First and the foremost I would like to express my sincere gratitude to all those ladies and gentlemen related to the different organizations and bodies as auditors, practitioners and regulating authorities who have considerably helped me by sharing their opinion by one or another means in preparing this dissertation.

I am in truth indebted to my respected teacher and supervisor Lecturer Mr. Hiralal Yadav for his proper guidance and continual inspiration throughout the entire study in bringing this thesis in this form. I would like to express my heartfelt thanks to Mr. Shambu Prasad Chaurausiya, Lecturer of Hari Khetan Multiple Campus, for his kind cooperation and guidelines. I would also like to express my sincere thanks to Dr. Bhagwan Yadav Chief of Hari Kethan Multiple Campus.

Special thank goes to various for providing me various materials for the study. Mr. Ram Kishor Yadav deserves special thanks for extending full co-operation in assembling material for the review. I owe to all authors cited in bibliography. I also owe the librarians of white house Library, Apex College Library, Nepal Commerce Campus Library and Thakur Ram Multiple Campus Library for making related books and articles available. I am especially thankful to the respondents who filled up the questionnaires despite of their busy schedule.

I am solely responsible for any errors or omissions in the thesis.

Thank you.

Tilak Ghising

Researcher

Table of Contents

Recommendation

Viva-Voce Sheet

<u>Declaration</u>

Acknowledgement

Table of Contents

<u>List of Tables</u>

List of Figures

Abbreviation

CHAPTER I

| <u>1. INT</u> | RODUCTION | | 1 |
|---------------|--|---|----|
| <u>1.1</u> | Background of the Study | | 1 |
| <u>1.2</u> | A Brief Profile of the Banks | | 3 |
| 1.2.1 | Everest Bank Limited (EBL) | 4 | |
| 1.2.2 | Nepal Bangladesh Bank Limited (NBBL) | 5 | |
| <u>1.3</u> | Statement of the Problem | | 6 |
| <u>1.4</u> | Objective of the Study | | 7 |
| <u>1.5</u> | Significance and Focus of the Study | | 8 |
| <u>1.6</u> | <u>Limitation of the Study</u> | | 8 |
| <u>1.7</u> | <u>Chapter Scheme</u> | | 9 |
| | <u>CHAPTER II</u> | | |
| 2 REV | VIEW OF LITERATURE | 1 | 11 |
| <u>2.1</u> | Conceptual Framework | j | 11 |
| <u>2.2</u> | Financial Performance of Commercial Banks | 1 | 11 |
| 2.3 | NPLS in the Nepal and the Other Countries | 1 | 13 |
| <u>2.4</u> | Sources of Major Problem in Credit Risk Management | 1 | 13 |
| <u>2.5</u> | Reviewing the Books | 1 | 14 |
| <u>2.6</u> | Review of Journals | 1 | 17 |
| 2.7 | Review of Thesis | | 20 |

26

| CHAPTER III | | | |
|---------------------|--|---------------------|-------------|
| 3 RESE | ARCH METHODOLOGY | | 27 |
| 3.1 <u>F</u> | Research Design | | 27 |
| <u>3.1.1</u> | Sources of Data | 28 | |
| 3.1.2 | Data Collection Procedures | 28 | |
| <u>3.2</u> <u>S</u> | Selection of the Banks as the Sample from the total Population | | 29 |
| <u>3.2.1</u> | <u>Population</u> | 29 | |
| <u>3.3</u> <u>N</u> | Method of Data Analysis | | 30 |
| 3.3.1 | Financial Tools | 30 | |
| 3.3.2 | Correlation Coefficient Analysis | 31 | |
| 3.3.3 | Trend Analysis | 32 | |
| <u>3.3.4</u> | Analysis of Primary Data | 32 | |
| | | | |
| | <u>CHAPTER IV</u> | | |
| 4. DAT | A PRESENTATION AND ANALYSIS | | 33 |
| <u>4.1</u> <u>N</u> | Measuring the Liquidity Position of the Bank | | 33 |
| <u>4.1.1</u> | Current Ratio | 33 | |
| <u>4.1.2</u> | Liquid Fund to Current Liability Ratio | 34 | |
| 4.1.3 | Liquid Fund to Total Deposit Ratio | 35 | |
| <u>4.2</u> <u>N</u> | Measuring the Lending Strength | | 35 |
| 4.2.1 | Total Asset to Total Liabilities Ratio | 36 | |
| 4.2.2 | Loans and Advances to Total Deposit Ratio | 37 | |
| 4.2.3 | Loans and Advances and Investment to Total Deposit Ratio | 37 | |
| <u>4.2.4</u> | Loans and Advances to Shareholders Equity | 38 | |
| <u>4.3</u> <u>A</u> | Analyzing the Lending Efficiency and its Contribution in Total F | <u>Profitabilit</u> | <u>y</u> 39 |
| 4.3.1 | Interest Income to Total Income Ratio | 42 | |
| 4.3.2 | Interest Expenses to Total Deposit Ratio | 43 | |
| 4.3.3 | Interest Income to Interest Expenses Ratio | 43 | |
| <u>4.4</u> <u>A</u> | Analysis of Growth Rate | | 44 |

| 4.4.1 Growth Ratio of Total Deposit | 45 | |
|---|-------------|-----------|
| 4.4.2 Growth Ratio of Loans and Advances | 46 | |
| 4.4.3 Growth Ratio of Total Investment | 47 | |
| 4.4.4 Growth Ratio of Net Profit | 48 | |
| 4.5 Correlation Coefficient Analysis | | 49 |
| 4.5.1 Correlation Coefficient between Deposits and Loans of EBL and NI | 3BL | 50 |
| 4.5.2 Correlation Coefficient between Total Investment and Loans and Ad | <u>dvan</u> | <u>ce</u> |
| | 50 | |
| 4.5.3 Correlation Coefficient between Total Income and Loans and Advan | nces | 51 |
| 4.5.4 Correlation Coefficient between Interest Income and Net Profit | 52 | |
| 4.6 Trend Analysis of Deposit Utilization | | 52 |
| 4.6.1 Trend Analysis of Loans and Advances and Total Deposit Ratio | 52 | |
| 4.6.2 Trend Analysis of Investment and Total Deposit Ratio | 54 | |
| 4.7 Major Findings of the Study | | 55 |
| | | |
| CHAPTER V | | |
| 5. SUMMARY, CONCLUSION AND RECOMMENDATION | | 58 |
| 5.1 Summary | | 58 |
| 5.2 Conclusion | | 61 |
| 5.3 Recommendation | | 62 |
| | | |
| BIBLIOGRAPHY | | 64 |
| ANNEXES | | |

| List | of T | 'ab | les |
|-------|------|-------|-----|
| Table | 1 1 | C_2 | nit |

| Table 1.1 | Capital Structure of EBL and NBBL | 4 |
|-------------------|---|---------------|
| Table 2.1 | Bank wise Black listed Borrowers and the account due from them | 17 |
| Table 3.1 | Lists of Commercial Banks in Nepal | 29 |
| Table 4.1 | Current Ratio | 33 |
| Table 4.2 | Liquid fund to Current Liability Ratio Fiscal Year (mid July) | 34 |
| Table 4.3 | Liquid Fund to Total Deposit Ratio | 35 |
| Table 4.4 | Total Assets to Total Liabilities Ratio | 36 |
| Table 4.5 | Loans and Advances to Total Deposit Ratio | 37 |
| Table 4.6 | Loans and Advances and Investment to Total Deposit Ratio | 38 |
| Table 4.7 | Loans and Advances to Shareholders Equity | 39 |
| Table 4.8 | Purpose wise Loan Classification of EBL: Loans disbursed for differen | t purpose to |
| | Total loans and Advances | 39 |
| Table 4.9 | Purpose-wise Loan Classification of NBBL: Loans Disbursed for differ | rent purposes |
| | to Total Loans and Advances | 40 |
| <u>Table 4.10</u> | Interest Income to Total Income Ratio (%) | 42 |
| <u>Table 4.11</u> | Interest Expenses to Total Income Ratio (%) | 43 |
| <u>Table 4.12</u> | Interest Income to Interest Expenses Ratio | 44 |
| <u>Table 4.13</u> | Growth Ratio of Total Deposit of EBL and NBBL | 45 |
| <u>Table 4.14</u> | Growth Ratio of Loans and Advances of EBL and NBBL | 46 |
| <u>Table 4.15</u> | Growth Ratio of Total Investment of EBL and NBBL | 47 |
| <u>Table 4.16</u> | Growth Ratio of Net Profit of EBL and NBBL | 48 |
| <u>Table 4.17</u> | Evaluation Criterion | 50 |
| <u>Table 4.18</u> | P.Er. and 6×P.Er. between Investment and Loans and Advances | 51 |
| <u>Table 4.19</u> | P.Er. and 6×P.Er. between Total Income and Loans and Advances | 51 |
| <u>Table 4.20</u> | P.Er. and 6×P.Er. between Interest Income and Net Profit | 52 |
| <u>Table 4.21</u> | Trend Analysis of Loans and Total Deposit Ratio of EBL and NBBL | 53 |
| <u>Table 4.22</u> | Trend Analysis of Investment and Total Deposit Ratio of EBL and | |
| | NBBL | 54 |

List of Figures

| Figure 1: | Functions of a Bank | 2 |
|-----------|--|-----------|
| Figure 2: | Mean Ratios of EBL: Loans disbursed for different purposes to Total | |
| | loans and Advances over the study period | 40 |
| Figure 3: | Mean Ratios of NBBL: Loans disbursed for different purposes to Total | |
| | loans and Advances over the study period | 41 |
| Figure 4: | Growth Trend of Deposit Over the Study Period | 45 |
| Figure 5: | Growth Trend of Loan and Advances Over the Study Period | 46 |
| Figure 6: | Growth Trend of Total Investment of EBL and NBBL Over the Study F | Period 47 |
| Figure 7: | Growth Trend of Investment of EBL and NBBL Over the Study Period | 48 |
| Figure 8: | Trend Analysis of Loans and Advances and Total Deposit | 53 |
| Figure 9: | Trend Analysis of Investment and Total Deposit of EBL and NBBL | 54 |

ABBREVIATION

BOK : Bank of Kathmandu CBs : Commercial Banks EBL : Everest Bank Limited

FY : Fiscal Year

GDP : Gross Domestic Product HBL : Himalayan Bank Limited

i.e. : That is

LBL : Lumbini Bank Limited

Ltd. : Limited

NABIL : Nepal Arab Bank Limited

NBBL : Nepal Bangladesh Bank Limited

NBL : Nepal Bank Limited NBL : Nepal Bank Limited

NCCBL : Nepal Credit and Commerce Bank Limited

NIBL : Nepal Investment Bank Limited

NICBL : Nepal Industrial & Commercial Bank Limited

NRB : Nepal Rastra Bank

NSBIBL : Nepal State Bank of India Bank Limited

NSEL : Nepal Stock Exchange Limited

RBB : Rastriya Banijya Bank

Rs. : Rupees

SCBNL : Standard Chartered Bank Nepal Ltd.

T.U. : Tribhuvan University