

**A COMPARATIVE STUDY OF CREDIT RISK MANAGEMENT  
OF HIMALAYAN BANK LIMITED AND  
NABIL BANK LIMITED**

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

BY

**SUJATA UDAI**

T.U. Reg. No. 7-2-302-174-99

Roll No. 1322

Lumbini Banijya Campus

In partial fulfillment of the requirements for the degree of  
Master of Business Studies (M.B. S.)

Butwal, Nepal

May, 2011

## **RECOMMENDATION**

This is to certify that the thesis

Submitted by

**SUJATA UDAI**

Entitled

**“A COMPARATIVE STUDY OF CREDIT RISK MANAGEMENT OF HIMALAYAN  
BANK LIMITED AND NABIL BANK LIMITED**

has been prepared as approved by this department in the prescribed format of

Faculty of Management. This thesis is forwarded for examination.

---

**Mr. Krishna Gautam**

(Supervisor)

---

**Dr. Ishwor Gautam**

(Campus Chief / Head of Research Department)

# VIVA -VOCE SHEET

We have conducted the viva-voce examination of the thesis

**Submitted by**

**SUJATA UDAI**

Entitled

**“A COMPARATIVE STUDY OF CREDIT RISK MANAGEMENT OF HIMALAYAN  
BANK LIMITED AND NABIL BANK LIMITED**

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 of the requirements for

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

Viva-Voce Committee

Head, Research Department      Prof. Dr.Ishwor Gautam      .....

Member (Thesis Supervisor)      Associate Prof. Krishna Gautam .....

Member (External Expert)      .....

Date: .....

## **DECLARATION**

I hereby declare that the work done in thesis entitled "A COMPARATIVE STUDY OF CREDIT RISK MANAGEMENT OF HIMALAYAN BANK LIMITED AND NABIL BANK LIMITED" has been submitted to Lumbini Banijya Campus, Faculty of Management, Tribhuvan University, is my own created work reported in the form of partial fulfillment of the requirement of Master of Business studies (M.B.S.) course under the guidance of respected teacher supervisor Mr. Krishna Gautam Associate Prof. of Lumbini Banijya Campus.

Sujata Udai

## **ACKNOWLEDGEMENT**

This entitled thesis " A COMPARATIVE STUDY OF CREDIT RISK MANAGEMENT OF HIMALAYAN BANK LIMITED AND NABIL BANK LIMITED" has been prepared for the partial fulfillment of the requirement of Master's Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University, is based on research models involving the use of quantitative as well as qualitative aspect.

I extend my deep sense of indebtedness to my respected supervisor Mr. Krishna Gautam Associate Professor and campus chief Dr. Ishwor Gautam of Lumbini Banijya Campus for their precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without their valuable insight, I would not think of accomplishment of this thesis paper. I acknowledge my profound gratitude to Sample Banks for the cooperation shown and providing necessary data.

I want to give thanks for the staff members of Central Library of T.U.and Lumbini Banijya Campus, Lumbini Banijya Campus's Library who provided the reference and reading materials during the period of research.

Finally, I would like to express my sincere gratitude to all my family members for their assistance, timely encouragement in every steps and financial support. In addition, the special thanks to Mr, Sandeep Thapa, Mr. Santosh Mahat, Mr. Prakash Parajuli, Mr Ram Limbu, and other friends who provided me crucial support, is also part of my sincere thanks.

Sujata Udai

## TABLE OF CONTENTS

	<b>Page No.</b>
Declaration	i
Acknowledgement	ii
Table of contents	iii-v
List of Tables	vi
List of Figures	vii
List of Abbreviations	viii
<b>CHAPTER – I      INTRODUCTION</b>	<b>(1-10)</b>
1.1 Background of the study	1
1.1.1 Development of Banks in Nepal	4
1.1.2 Profile of Sample Banks	5
A) Himalayan Bank Ltd.	5
B) Nabil Bank Ltd.	6
1.2 Focus of the Study	7
1.3 Statement of the Problem	7
1.4 Objectives of the Study	8
1.5 Rationale of the study	9
1.6 Limitation of the study	9
1.7 Organization of the study	9
<b>CHAPTER – II      REVIEW OF LITERATURE</b>	<b>(11-50)</b>
2.1 Conceptual Review	11
2.1.1 Features of Soud Lending Policy	11

2.1.2 Types of Risk Faced by Finanacial Institution	12
2.1.3 Credit Risk Management	15
2.1.4 Credit Risk Management Technique	16
2.1.5 Capital Adequecy Ratio	17
2.1.6 Review of Unified NRB Directives, 2010	25
2.1.6.1 Credit Risk	25
2.1.6.2 Simplified Standardized Approach(SSA)	25
2.1.6.3 Risk Measurement and Risk Weights	26
2.1.6.4 Credit Risk Mitigation	32
2.1.6.5 Internl Capital Adequecy Assessment Process	35
2.2 Review of Related Studies	39
2.2.1Review of Journals and Articles	39
2.3 Review of Thesis	42
2.4 Research Gap	49
<b>CHAPTER – III RESEARCH METHODOLOGY</b>	<b>(51-59)</b>
3.1 Reasearch Design	51
3.2 Population and Sample	51
3.3 Sources of Data	52
3.4 Data Collecting Procedures	52
3.5 Tools and Techinques used	52
3.6 Financial Tools	52
3.6.1 Analysis of Finanacial Ratios	53
3.6.2 Ratio Analysis	53
3.7 Statistical Tools	57
3.7.1 Average Mean	58
3.7.2 Coffiecient of Variation	58

3.7.3 Correlation Coefficient	58
3.7.4 Regression Analysis	59

**CHAPTER – IV DATA PRESENTATION AND ANALYSIS (60-99)**

4.1 Introduction	60
4.2 Financial Statement Analysis	60
4.2.1 Evaluation of Liquidity, Asset Management and Profitability Through Ration Analysis	60
4.2.2 Identification of Credit Risk Management Through Risk Ratio	78
4.2.3 Relationship between Total Investments, Deposits, Loans and Advances Net Profit and Asset Through Statistical Analysis	82
4.3 Regression Analysis	87
4.4 Major Findings of the Study	95

**CHAPTER –V SUMMARY, CONCLUSIONS AND RECOMMENDATIONS (100-103)**

5.1 Summary	100
5.2 Conclusion	101
5.3 Recommendations	102

**BIBLIOGRAPHY**

**APPENDIX**



## LIST OF TABLES

Table No.	Pages No.
2.1 Primary Capital	17
2.2 Supplementary Capital	18
4.1 Current Assets to Current Liabilities	61
4.2 Cash and Bank Balance to Total Deposits Ratio	62
4.3 Cash and Bank Balance to Current Assets Ratio	63
4.4 Investment on Government Securities to Current Assets Ratio	64
4.5 Loan and Advances to Total Deposits Ratio	66
4.6 Total Investment to Total Deposit Ratio	67
4.7 Loan and Advances to Total Working Fund Ratio	68
4.8 Investment on Government Securities to Total Working Fund Ratio	69
4.9 Investment on Shares and Debentures too Total Working Fund Ratio	70
4.10 Return on Loan and Advances Ratio	71
4.11 Return on Total Working Fund Ratio	73
4.12 Return on Equity Ratio	74
4.13 Total Interest Earned to Total Working Fund Ratio	75
4.14 Total Interest Earned to Total Operating Income Ratio	76
4.15 Total Interest Paid to Total Working Fund Ratio	77
4.16 Non Performing Loan to Total Loan and Advances Ratio	79
4.17 Liquidity Risk Ratio	80
4.18 Credit Risk Ratio	81
4.19 Relationship between Total Deposits and Total Investment	82
4.20 Relationship between Total Deposits and Loans and Advances	83
4.21 Correlation between Loan and Advance and Net Profit	84
4.22 Correlation between Total Investment and Net Profit	85
4.23 Correlation between Total Deposits of HBL & NABIL	85
4.24 Correlation between Total Investment of HBL & NABIL	86
4.25 Correlation between Loan & Advances of HBL & NABIL	86
4.26 Correlation between Net Profit of HBL & NABIL	87
4.27 Regression Analysis of Total Deposit of HBL & NABIL	88
4.28 Regression Analysis of Total Loan and Advance of HBL & NABIL	90
4.29 Regression Analysis of Total Asset between HBL & NABIL	92
4.30 Regression Analysis of Net Profit between HBL and NABIL	94

## LIST OF FIGURE

<b>Figure No.</b>	<b>Page No.</b>
4.1 Current Assets to Current Liabilities	61
4.2 Cash and Bank Balance to Total Deposits Ratio	62
4.3 Cash and Bank Balance to Current Assets Ratio	63
4.4 Investment on Government Securities to Current Assets Ratio	65
4.5 Loan and Advances to Total Deposits Ratio	66
4.6 Total Investment to Total Deposit Ratio	67
4.7 Loan and Advances to Total Working Fund Ratio	68
4.8 Investment on Government Securities to Total Working Fund Ratio	69
4.9 Investment on Shares and Debentures too Total Working Fund Ratio	71
4.10 Return on Loan and Advances Ratio	72
4.11 Return on Total Working Fund Ratio	73
4.12 Return on Equity Ratio	74
4.13 Total Interest Earned to Total Working Fund Ratio	75
4.14 Total Interest Earned to Total Operating Income Ratio	76
4.15 Total Interest Paid to Total Working Fund Ratio	78
4.16 Non Performing Loan to Total Loan and Advances Ratio	79
4.17 Liquidity Risk Ratio	80
4.18 Credit Risk Ratio	81
4.19 Regression Line of Total Deposit of HBL & NABIL	89
4.20 Regression Line of Total Loan and Advance of HBL & NABIL	91
4.21 Regression Line of Total Asset between HBL & NABIL	92
4.22 Regression Line of Net Profit between HBL and NABIL	94

## **ABBREVIATION**

ADB	Agricultural Development Bank
AGM	Annual General Meeting
BOK	Bank of Kathmandu Limited
BPS	Book-value Per Share
BS	Bikram Sambat (Abbreviation of Bikram Era)
CEO	Chief Executives Officer
CV	Coefficient of Variation
DPS	Dividend per Share
EBL	Everest Bank Limited
EPS	Earning Per Share
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
G/N	Government of Nepal
IMF	International Monetary Fund
MBL	Machhapuchre Bank Limited
MPS	Market Price of Share
NABIL	Nabil Bank Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NIB	Nepal Investment Bank Limited
NICB	Nepal Industrial & Commercial Bank Limited
NPV	Net Present Value
NRB	Nepal Rastra Bank
PE	Price Earnings
RBB	Rastra Banijya Bank
SBI	Nepal State Bank of India Limited
SCBNL	Standard Chartered Bank Nepal Limited
SEBO/N	Security Board of Nepal