

# Chapter-I

## Introduction

### 1.1 Background of the study

Nepal is the land-locked country surrounded to the east, west and south by the India and to the north by the People's Republic of China, is one of the least developed countries in the world, which is directing her efforts in accelerating the pace of her economic development. Geographically, the country is at disadvantage in that, it is landlocked country and the nearest seaport is located at Bay of Bengal, Kolkata in India, 1126 km to the south-east of the country, which has greatly hindered its foreign trade situation.

Nepal has an agro based economy; more than 80 percent people are engaged in agriculture. The contribution of agricultural sector to GDP stood at 38.9 percent where that of non agricultural sector to the same stood at 61.1 percent (Nepal Rastra Bank, 2003:6). The main reason for agro based economy attribute to its

geographical construction, where major portion of the country is composed of hills and Terai very suitable for agriculture. The other reason is due to its low literacy rate (15.4%) which has restricted the people to limit themselves in primitive and traditional forms of occupation.

### **1.1.1 Evolution of the Modern Banking Globally**

Banking is the fundamental and very important basis of economic Development and growth in modern age. There is no idea regarding the starting of banking system. The origin of banking system can be traced to the origin of authentic history. The priest of Greek temples carried on a thriving business of safe keeping and lending, centuries before the evolution of modern banking. Modern banks have developed from very small beginning. The earlier bankers were goldsmith who dealt in precious metals and as such had to arrange for the safety of their treasure. People with surplus gold or money gradually began to deposit there precious metal with such persons. Since everyone believed in the integrity and ability of these goldsmiths to honour the receipts issued. The receipts gradually began to pass from one hand to another hand in

discharge of obligations. These receipts thus began to circulate as bank notes. The goldsmiths gradually came to know from experience that only a small proportion of precious metal deposited with them was withdrawn by the depositors. They could thus safely lend out a part of these deposits to others. (Jagrop Singh (2005) Commercial Bank Management New Delhi, Kalyani Publishers: pp1)

The granting of credit began in very stages in the growth process of civilization. In Babylon, credit was given even in 2000 B.C. In ancient Greece and Rome the practice of granting credit was widely prevalent. As far as the banking institution of a public nature is concerned, the "Bank of Venice" believed to be the first bank established in 1157. After that the "Bank of Barcelona" and "Bank of Geneva" were established in 1401 and 1407 respectively. The bank of England was established in 1694. The Italian money lenders were known as "Banchi" or "bancherri" because these people kept a special type of table to transact their business called "Banchi". The word 'Bank' is said to have derived from the French word 'Banco' or 'Bancus' or 'Banque' which means a bench. Another view point the word 'Bank' is derived from the German word 'Banck' which means heap or mound. The

Italian using 'Banco' which meant either of 'money' or of 'stock' ( op.cit. Jagrop Singh 2005).

*Some scholars are defined as according to Cairn cross, "A bank is a financial intermediary, a dealer in loans and debts".*

*According to Crowther, "A banker is a dealer in debts his own and other people's".*

*According to Sayers, "A bank is institution whose debts are widely accepted in settlement of other people's debts to each other".*

*According to Webster's Dictionary, "An institution which trades in money, establishment for the deposit, custody and issue of money as also for making loans and discount and facilitating the transmission of remittance from one place to another".( op.cit. Jagrop Singh (2005) pp-2-3).*

In real sense, a bank is an institution which accepts deposits with draw able by cheque and makes loans and advances for the purpose of earning profit.

### **1.1.2 Institutional Banking Development in Nepal**

Historical banking development in Nepal is not so old. The record of banking system in Nepal gives detail account of mixture of slow and steady, evolution in the financial and global economy of Nepalese life. Involvement of landlords, merchants, shopkeepers and other individuals have act as fence to institutional credit in presence of unorganized money market. The history of Nepalese banking can be described as a component of gradual and economic spare of the Nepalese life. According to the fact King Gunakamdev has debt to rehabilitation of Kathmandu in 723 A.D. Another fact shows that the new era known as 'Nepal Sambat' was introduced by 'Shankhadhar' a merchant from Kantipur in 880 A.D. After paying all outstanding debts of citizens at the end of 14<sup>th</sup> century, King Jaysthiti Malla has divided into 64 classes of people's professions. Among the 64 classes of people's one of the known as 'Tankdhari' who was flowed the amount (Rs) as debts. The 'Taksar' was established in 1989 B.S. and mint the coins. (Ram Adhin Yadav 2050 B.S Ktm, Nepal Bank Patrika, The end of kartik, title of article-Bank in Nepal and 6<sup>th</sup> decades of Nepal Bank).

The establishment of the 'Tejarath Adda' by prime minister 'Ranoddip Singh' during the year 1877 A.D. was fully subscribed

by the government which played vital role in the banking system, was regarded as the father of modern banking in Nepal. The prime task of 'Tejarath Adda' was granting the loans and safe guarding of total national deposits. At the time, Indian currency was commonly used in most part of terai. The primary task of the 'Tejarath Adda' was to attract the deposits in government exchequer at the beginning but latter on general public was also allowed to take the loan at the 5% of interest rate with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role in development process of banking system in Nepal. The absence of fund mobilization the 'Adda' faced financial crisis making it impossible to charter to the credit and service need of public.

The Udyog Parisad (Industrial Development Board) was founded in 1936 A.D. After 1 year of its constituted, it formulated the 'company Act and Nepal Bank Act in 1937 A.D'. The establishment of the this bank is the major contribution of Sardar Gunjman Singh who was the first contributor as like final drafting of Nepal Bank Act, Office Rule of Nepal Bank Ltd. ,Auditors Management & other required provisions have managed by him.

He was the first secretary of Great Britain for Nepal. The Udyog Parisad & Nepal Bank are also debtor of him to the connection of constitution of these organizations. Nepal Bank Limited was established in 30<sup>th</sup> karkit 1994 B.S (1937 A.D) under the Nepal Bank Act 1937 in the technical assistance of Imperial Bank of India. Nepal Bank is the oldest bank and pioneer bank in Nepal. The establishment of this bank laid the foundation of modern banking system in Nepal. (op.cit. Ram Adhin Yadav 2050 B.S pp2)

Nepal Bank Limited started its operation with authorized capital NRs 1 Crore, issued capital NRs 25 lacs and paid up capital NRs 842 thousands. There was 12 staff of the bank and one banking office which was rental.

The bank has following vision, mission and values which are discussed below:

**Vision:**

“To remain the leading financial institution of the country.”

**Mission:**

Nepal Bank Limited seeks to provide an environment within which the bank can bring unique financial value and services to all customers.....

**Values:**

At Nepal Bank Limited, we believe that our banking should be based on:

- ) Respect, service and safety for the customers we serve
- ) Respect, reward and opportunity for the people with whom we work
- ) Respect, cooperation and support for the economic community of Nepal

**Objectives:**

Nepal Bank Limited has the following objectives

- ) Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- ) Provide competitive and customer oriented banking services to all customers through competent and professional staff.

) Reclaim leadership within the national financial community.

**Table****NRs 000**

Year(B.S)	Current	Saving	Fixed	Total Deposit	Total Loans
1995	<b>1299</b>	<b>14</b>	<b>389</b>	<b>1702</b>	<b>1985</b>
2000	<b>2508</b>	<b>140</b>	<b>3234</b>	<b>5882</b>	<b>3893</b>
2005	<b>6572</b>	<b>442</b>	<b>6010</b>	<b>13024</b>	<b>16108</b>
2010	<b>20006</b>	<b>1744</b>	<b>5242</b>	<b>26992</b>	<b>17732</b>
2015	<b>30710</b>	<b>2887</b>	<b>11740</b>	<b>45337</b>	<b>37745</b>
2020	<b>74212</b>	<b>6854</b>	<b>33628</b>	<b>114694</b>	<b>91508</b>

Source – op. cit. Ram Adhin Yadav (2050 B.S) pp 3.

### **Expanded**

The bank has extended to the branches in primary stage as per as Birgunj and Nepalganj in 1998 B.S and Bharadpur, Gaur,

Janakpur and Biratnagar in 1999 B.S. The following table describes the full networks of Nepal Bank branch banking. Most of the branches are closed due to the Maoist revolution in country faced on 2052-2063 B.S. Some closed branches are restated and to be re-open in future. The first managing committee of NBL is mentioned below.

- 1) Mr. Bahadur Shumsher JBR - Director General
- 2) Mr. Mrigendra Shumsher JBR - Member Director
- 3) Mr. Som Shumsher JBR- Member Director
- 4) Mr. Dambar Shumsher JBR- Member Director
- 5) Mr. Bhakta Lal Raj Bhanadari- Member Director
- 6) Mr. Gunjanman Singh- Member Director

The running managing committee of Nepal Bank Limited is listed below which is appointed by NRB:

- 1) Dr. Pusparaj Rajkarnikar- Co-ordinator
- 2) Prof. Dr. Keshab Khadka- Member
- 3) Mr. Ramesh Prashad Sharma- Member
- 4) Mr. Surendra Mani Tripathi- Member
- 5) Mr. Pramod Raj Sharma- Member

### Management Team of NBL

- 1) Mr. Maheswor Lal Shrestha- Co-ordinator
- 2) Mr. Bimal Khanal- Member
- 3) Mr. Krishna Raj Silwal- Member

+ Existing

- Closed

\* To be restated

### Branch network of NBL

SN	Branch	Opening Date	District	Present Status
1	Head Office	1994/7/30	Kathmandu	+
2	Kathmandu Office	1994/7/30	Kathmandu	+
3	Birgunj Regional Office	2024/12/2	Parsa	-
4	City Office Nepalgunj	1998/11/10	Banke	+
5	Bhadrapur	1999/2/21	Jhapa	+
6	BiratnagarRegional Office	2023/5/5	Morang	-
7	Gaur	1999/8/27	Rauthat	+
8	City office Janakpur	1999/11/29	Dhanusha	+

9	<b>City Office Pokhara</b>	<b>2012/1/1</b>	<b>Kaski</b>	+
10	<b>Mills Area Biratnagar</b>	<b>2012/10/6</b>	<b>Morang</b>	+
11	<b>Siddharthnagar</b>	<b>2013/8/10</b>	<b>Rupendhi</b>	+
12	<b>Pokhara Regional Office</b>	<b>2031/7/1</b>	<b>Kaski</b>	-
13	<b>Rajbiraj</b>	<b>2013/9/27</b>	<b>Saptari</b>	+
14	<b>Krishnanagar</b>	<b>2014/8/25</b>	<b>Kapilvastu</b>	+
15	<b>Banepa</b>	<b>2014/11/7</b>	<b>Kabhre</b>	+
16	<b>Dharan</b>	<b>2015/10/10</b>	<b>Sunsari</b>	+
17	<b>Tansen Palpa</b>	<b>2017/1/1</b>	<b>Palpa</b>	+
18	<b>Lalitpur</b>	<b>2017/5/3</b>	<b>Lalitpur</b>	+
19	<b>Bhaktapur</b>	<b>2017/5/17</b>	<b>Bhaktapur</b>	+
20	<b>Bhedasingh</b>	<b>2017/8/9</b>	<b>Kathmandu</b>	+
21	<b>Kalaiya</b>	<b>2017/10/2</b>	<b>Bara</b>	+
22	<b>Baglung</b>	<b>2017/10/4</b>	<b>Baglung</b>	+
23	<b>Koilabas</b>	<b>2017/12/3</b>	<b>Dang</b>	-
24	<b>Narayangadh</b>	<b>2017/12/21</b>	<b>Chitwan</b>	+
25	<b>City Office Hetauda</b>	<b>2018/11/7</b>	<b>Makwanpur</b>	+
26	<b>Trishuli</b>	<b>2018/11/20</b>	<b>Nuwakot</b>	+
27	<b>Dang</b>	<b>2019/8/28</b>	<b>Dang</b>	+
28	<b>Rajapur</b>	<b>2019/12/12</b>	<b>Bardiya</b>	-
29	<b>Malangwa</b>	<b>2020/9/1</b>	<b>Sarlahi</b>	+

30	<b>Sanischre</b>	<b>2021/9/1</b>	<b>Jhapa</b>	<b>-</b>
31	<b>Rangeli</b>	<b>2021/9/22</b>	<b>Morang</b>	<b>+</b>
32	<b>Dilibazar</b>	<b>2022/2/29</b>	<b>Kathmandu</b>	<b>+</b>
33	<b>Barahbise</b>	<b>2022/2/29</b>	<b>Sindhupalchowk</b>	<b>-</b>
34	<b>Patan I.A</b>	<b>2022/5/3</b>	<b>Lalitpur</b>	<b>+</b>
35	<b>Balaju</b>	<b>2022/5/3</b>	<b>Kathmandu</b>	<b>+</b>
36	<b>Lahan</b>	<b>2022/5/3</b>	<b>Sirha</b>	<b>+</b>
37	<b>Teku</b>	<b>2022/12/1</b>	<b>Kathmandu</b>	<b>-</b>
38	<b>City Office Biratnagar</b>	<b>1999/3/3</b>	<b>Morang</b>	<b>+</b>
39	<b>Birgunj Bhansar Area</b>	<b>2023/8/16</b>	<b>Parsa</b>	<b>+</b>
40	<b>Illam</b>	<b>2023/11/7</b>	<b>Illam</b>	<b>+</b>
41	<b>Jachuka Compound</b>	<b>2023/11/7</b>	<b>Dhanusha</b>	<b>+</b>
42	<b>Kalimati</b>	<b>2024/9/27</b>	<b>Kathmandu</b>	<b>+</b>
43	<b>Bhotahiti</b>	<b>2024/11/7</b>	<b>Kathmandu</b>	<b>-</b>
44	<b>City Office Birgunj</b>	<b>1998/7/30</b>	<b>Parsa</b>	<b>+</b>
45	<b>Kirtipur</b>	<b>2025/1/30</b>	<b>Kathmandu</b>	<b>+</b>
46	<b>Putlikheth</b>	<b>2025/7/30</b>	<b>Syangja</b>	<b>-</b>
47	<b>Sankhu</b>	<b>2025/11/7</b>	<b>Kathmandu</b>	<b>+</b>
48	<b>Ratnanagar</b>	<b>2025/11/7</b>	<b>Chitwan</b>	<b>+</b>
49	<b>Shreepur</b>	<b>2026/2/30</b>	<b>Parsa</b>	<b>+</b>
50	<b>Lajimpat</b>	<b>2026/10/15</b>	<b>Kathmandu</b>	<b>+</b>

51	<b>Matihani</b>	<b>2026/11/9</b>	<b>Mahotari</b>	-
52	<b>Pyuthan</b>	<b>2027/2/30</b>	<b>Pyuthan</b>	+
53	<b>Hetauda I.A</b>	<b>2027/2/30</b>	<b>Makwanpur</b>	+
54	<b>Terahthum</b>	<b>2027/9/27</b>	<b>Terahthum</b>	+
55	<b>Dhulabari</b>	<b>2027/11/7</b>	<b>Jhapa</b>	+
56	<b>Harisidhi</b>	<b>2027/11/12</b>	<b>Lalitpur</b>	-
57	<b>Cahutara</b>	<b>2028/1/27</b>	<b>Sindhupalchowk</b>	+
58	<b>Butwal</b>	<b>2028/9/1</b>	<b>Rupandehi</b>	-
59	<b>Ithari</b>	<b>2028/9/1</b>	<b>Sunsari</b>	+
60	<b>Dhamauli</b>	<b>2029/1/1</b>	<b>Tanhun</b>	+
61	<b>Khasyauli</b>	<b>2029/1/1</b>	<b>Rupandehi</b>	+
62	<b>Taplegunj</b>	<b>2029/1/1</b>	<b>Taplegunj</b>	+
63	<b>Beni</b>	<b>2029/2/15</b>	<b>Myagdi</b>	+
64	<b>Chabhil</b>	<b>2029/7/25</b>	<b>Kathmandu</b>	+
65	<b>Chetrapati</b>	<b>2029/9/1</b>	<b>Kathmandu</b>	+
66	<b>Kusma</b>	<b>2029/9/14</b>	<b>Parwat</b>	+
67	<b>Fidim</b>	<b>2029/9/14</b>	<b>Panchthar</b>	+
68	<b>Jomsom</b>	<b>2030/2/4</b>	<b>Mustang</b>	+
69	<b>Judhasadak</b>	<b>2030/5/</b>	<b>Kathmandu</b>	-
70	<b>Mahendra Sugar Mill</b>	<b>2030/8/22</b>	<b>Rupandehi</b>	-
71	<b>Kanchanpur</b>	<b>2030/9/1</b>	<b>Saptari</b>	+

72	<b>Syangja</b>	<b>2030/9/14</b>	<b>Syangja</b>	+
73	<b>Gauriganj</b>	<b>2030/11/7</b>	<b>Jhapa</b>	+
74	<b>Salyan</b>	<b>2031/2/9</b>	<b>Salyan</b>	+
75	<b>Jajarkot</b>	<b>2031/2/16</b>	<b>Jajarkot</b>	+
76	<b>Rolpa</b>	<b>2031/3/17</b>	<b>Rolpa</b>	+
77	<b>Rukum</b>	<b>2031/3/25</b>	<b>Rukum</b>	+
78	<b>Chapagaun</b>	<b>2031/9/1</b>	<b>Lalitpur</b>	+
79	<b>Duhbi</b>	<b>2031/9/14</b>	<b>Sunsari</b>	+
80	<b>Khairnitar</b>	<b>2031/11/7</b>	<b>Tanhun</b>	-
81	<b>Chandranigahpur</b>	<b>2031/11/10</b>	<b>Rauthat</b>	+
82	<b>Sabela</b>	<b>2031/11/10</b>	<b>Dhanusha</b>	-
83	<b>Waling</b>	<b>2031/11/11</b>	<b>Syangja</b>	+
84	<b>Gauradha</b>	<b>2032/1/1</b>	<b>Jhapa</b>	+
85	<b>Rampur</b>	<b>2032/1/21</b>	<b>Chitwan</b>	-
86	<b>Nepalgunj Regional Office</b>	<b>2032/2/1</b>	<b>Banke</b>	-
87	<b>Dolpa</b>	<b>2032/4/5</b>	<b>Dolpa</b>	+
88	<b>Bhirthamod</b>	<b>2032/6/3</b>	<b>Jhapa</b>	+
89	<b>Chatra Bayarban</b>	<b>2032/7/22</b>	<b>Sunsari</b>	-
90	<b>Panauti</b>	<b>2032/7/22</b>	<b>Kabhre</b>	+
91	<b>Bagar</b>	<b>2032/7/22</b>	<b>Kaski</b>	+
92	<b>Baudha</b>	<b>2032/7/22</b>	<b>Kathmandu</b>	-

93	<b>Palung</b>	<b>2032/7/30</b>	<b>Makwanpur</b>	-
94	<b>Gausaala</b>	<b>2032/7/30</b>	<b>Dhanusa</b>	-
95	<b>Dhamboji</b>	<b>2032/8/5</b>	<b>Banke</b>	+
96	<b>Khajuri</b>	<b>2032/8/3</b>	<b>Mahotari</b>	-
97	<b>Naya Sadak</b>	<b>2032/9/14</b>	<b>Kathmandu</b>	-
98	<b>Chinkmugal</b>	<b>2032/9/14</b>	<b>Kathmandu</b>	-
99	<b>Urlavari</b>	<b>2032/9/14</b>	<b>Morang</b>	-
100	<b>Jeetpur</b>	<b>2032/9/14</b>	<b>Bara</b>	+
101	<b>Godar</b>	<b>2032/10/6</b>	<b>Dhanusa</b>	-
102	<b>Gitanagar</b>	<b>2032/10/25</b>	<b>Chitwan</b>	-
103	<b>Dumre</b>	<b>2032/11/7</b>	<b>Tanhun</b>	+
104	<b>Bazaar Adda Chowk</b>	<b>2032/2/1</b>	<b>Morang</b>	+
105	<b>British Gorkha Camp</b>	<b>2033/1/1</b>	<b>Sunsari</b>	-
106	<b>Kakadbhita</b>	<b>2033/9/27</b>	<b>Jhapa</b>	+
107	<b>Tikapur</b>	<b>2033/2/10</b>	<b>Banke</b>	+
108	<b>Babarmahal</b>	<b>2033/2/19</b>	<b>Kathmandu</b>	-
109	<b>Belbas</b>	<b>2033/2/24</b>	<b>Sarlahi</b>	-
110	<b>Kathariya</b>	<b>2033/2/24</b>	<b>Rauthat</b>	-
111	<b>Dhunche</b>	<b>2033/3/32</b>	<b>Rasuwa</b>	+
112	<b>Manigram</b>	<b>2033/6/8</b>	<b>Rupendhi</b>	+
113	<b>Phattepur</b>	<b>2033/6/22</b>	<b>Saptari</b>	-

114	<b>Chaughada</b>	<b>2033/7/4</b>	<b>Makwanpur</b>	-
115	<b>Duradanda</b>	<b>2033/7/22</b>	<b>Lamjung</b>	-
116	<b>N.I Bikas Nigam</b>	<b>2033/7/30</b>	<b>Kathmandu</b>	-
117	<b>Adarshnagar</b>	<b>2033/9/14</b>	<b>Parsa</b>	+
118	<b>Aathrai</b>	<b>2033/9/1</b>	<b>Terahthum</b>	-
119	<b>Dharan I.A</b>	<b>2033/9/27</b>	<b>Sunsari</b>	-
120	<b>Golbazar</b>	<b>2033/11/2</b>	<b>Shirha</b>	+
121	<b>Burtiwang</b>	<b>2033/11/8</b>	<b>Baglung</b>	-
122	<b>Thadi Biswaspatti</b>	<b>2033/11/13</b>	<b>Shirha</b>	-
123	<b>Galkot</b>	<b>2033/11/7</b>	<b>Baglung</b>	-
124	<b>Panchkhal</b>	<b>2033/12/11</b>	<b>Kabhre</b>	-
125	<b>Bhudhbare</b>	<b>2033/12/12</b>	<b>Jhapa</b>	-
126	<b>Chakraghati</b>	<b>2033/12/21</b>	<b>Sunsari</b>	-
127	<b>Maisthan</b>	<b>2034/1/1</b>	<b>Parsa</b>	-
128	<b>Chame</b>	<b>2033/12/25</b>	<b>Manang</b>	+
129	<b>Jhumka</b>	<b>2034/1/1</b>	<b>Sunsari</b>	+
130	<b>Charikot</b>	<b>2034/2/3</b>	<b>Dolkha</b>	+
131	<b>Bhiswa</b>	<b>2034/2/12</b>	<b>Parsa</b>	-
132	<b>Hariwan</b>	<b>2034/2/16</b>	<b>Sarlahi</b>	-
133	<b>Bhandara</b>	<b>2034/2/26</b>	<b>Chitwan</b>	-
134	<b>Lumbini</b>	<b>2034/4/9</b>	<b>Rupandehi</b>	-

135	<b>Kupandol</b>	<b>2034/4/20</b>	<b>Lalitpur</b>	<b>+</b>
136	<b>Jiri</b>	<b>2034/6/1</b>	<b>Dolkha</b>	<b>-</b>
137	<b>Dhangadi</b>	<b>2034/6/14</b>	<b>Kailali</b>	<b>+</b>
138	<b>Nawalpur</b>	<b>2034/6/27</b>	<b>Nawalparasi</b>	<b>-</b>
139	<b>Markhu Kulekhani</b>	<b>2034/7/22</b>	<b>Makwanpur</b>	<b>-</b>
140	<b>Barahthwa</b>	<b>2034/9/27</b>	<b>Sarlahi</b>	<b>+</b>
141	<b>Magragadhi</b>	<b>2037/1/1</b>	<b>Bardiya</b>	<b>-</b>
142	<b>Himal Cement Compound</b>	<b>2037/11/7</b>	<b>Kathmandu</b>	<b>-</b>
143	<b>Thankot</b>	<b>2038/1/1</b>	<b>Kathmandu</b>	<b>+</b>
144	<b>Parwanipur</b>	<b>2038/1/1</b>	<b>Parsa</b>	<b>-</b>
145	<b>Siraha</b>	<b>2038/1/1</b>	<b>Siraha</b>	<b>+</b>
146	<b>Nabdanda</b>	<b>2038/1/1</b>	<b>Kaski</b>	<b>-</b>
147	<b>Surunga</b>	<b>2038/2/13</b>	<b>Jhapa</b>	<b>+</b>
148	<b>Dhankuta</b>	<b>2038/2/13</b>	<b>Dhankuta</b>	<b>-</b>
149	<b>Manalbare</b>	<b>2038/2/31</b>	<b>Illam</b>	<b>-</b>
150	<b>Rabi</b>	<b>2038/2/25</b>	<b>Panchthar</b>	<b>-</b>
151	<b>Bagnah</b>	<b>2038/2/29</b>	<b>Bardiya</b>	<b>-</b>
152	<b>Purano Airport</b>	<b>2038/3/11</b>	<b>Morang</b>	<b>-</b>
153	<b>Sundar Bazar</b>	<b>2038/3/13</b>	<b>Lamgunj</b>	<b>-</b>
154	<b>Tharpu</b>	<b>2038/3/31</b>	<b>Tanhun</b>	<b>-</b>
155	<b>KathmanduRegionalOffice</b>	<b>2038/3/16</b>	<b>Kathmandu</b>	<b>-</b>

156	<b>Mahendranagar</b>	<b>2038/6/9</b>	<b>Kanchanpur</b>	+
157	<b>Bilaspur</b>	<b>2038/6/28</b>	<b>Kanchanpur</b>	-
158	<b>Ranipauwa</b>	<b>2038/11/7</b>	<b>Nuwakot</b>	-
159	<b>Kokuleshwor</b>	<b>2039/6/24</b>	<b>Darchula</b>	-
160	<b>Bijgadha</b>	<b>2039/6/27</b>	<b>Bajhang</b>	-
161	<b>Thatipokhari</b>	<b>2039/6/31</b>	<b>Gorkha</b>	-
162	<b>Pashupatinagar</b>	<b>2039/9/9</b>	<b>Bardiya</b>	-
163	<b>Dadeldhura</b>	<b>2039/9/14</b>	<b>Dadeldhura</b>	+
164	<b>Panchdewal</b>	<b>2039/9/26</b>	<b>Accham</b>	-
165	<b>Dhartigaun</b>	<b>2039/9/27</b>	<b>Rolpa</b>	-
166	<b>Haat</b>	<b>2039/9/27</b>	<b>Baitadi</b>	-
167	<b>Basantpur Bazar</b>	<b>2039/9/27</b>	<b>Terahthum</b>	-
168	<b>Melamchi</b>	<b>2039/9/27</b>	<b>Sindhupalchowk</b>	-
169	<b>Deuarali</b>	<b>2039/9/27</b>	<b>Nuwakot</b>	-
170	<b>Pikhuti</b>	<b>2039/9/27</b>	<b>Dolkha</b>	-
171	<b>Okharbote</b>	<b>2039/10/14</b>	<b>Shankusabha</b>	-
172	<b>Gaighat</b>	<b>2039/10/28</b>	<b>Udaypur</b>	+
173	<b>Tahun</b>	<b>2039/11/7</b>	<b>Palpa</b>	-
174	<b>6 no. Budhbare</b>	<b>2039/11/15</b>	<b>Dhankuta</b>	-
175	<b>Bhojpur</b>	<b>2040/1/1</b>	<b>Bhojpur</b>	+
176	<b>Godabari</b>	<b>2040/7/20</b>	<b>Lalitpur</b>	-

177	<b>Chyangthapu</b>	<b>2040/8/28</b>	<b>Panchthar</b>	-
178	<b>Dandaparajul</b>	<b>2041/2/25</b>	<b>Dailekh</b>	-
179	<b>Gangapipra</b>	<b>2041/2/28</b>	<b>Rauthat</b>	-
180	<b>Bhaluwang</b>	<b>2041/2/30</b>	<b>Dang</b>	-
181	<b>Mahuwan Bazar</b>	<b>2041/3/1</b>	<b>Parsa</b>	-
182	<b>Papal Chautara</b>	<b>2041/3/5</b>	<b>Salyan</b>	-
183	<b>Bhingri Bazar</b>	<b>2041/3/8</b>	<b>Pyuthan</b>	-
184	<b>Maheshwari</b>	<b>2041/3/25</b>	<b>Siraha</b>	-
185	<b>Ramnagar</b>	<b>2041/3/21</b>	<b>Rupendhi</b>	-
186	<b>Paiyuntiya</b>	<b>2041/3/23</b>	<b>Parwat</b>	-
187	<b>Baniyani</b>	<b>2041/3/23</b>	<b>Jhapa</b>	-
188	<b>Bhojbhagwanpur</b>	<b>2041/3/23</b>	<b>Banke</b>	-
189	<b>Rukumkot</b>	<b>2041/3/25</b>	<b>Rukum</b>	-
190	<b>Suntletar</b>	<b>2041/3/28</b>	<b>Syangja</b>	-
191	<b>Jawalekhel</b>	<b>2041/3/29</b>	<b>Lalitpur</b>	+
192	<b>Prithvichowk</b>	<b>2041/3/29</b>	<b>Kaski</b>	+
193	<b>Dalli</b>	<b>2041/3/32</b>	<b>Jajarkot</b>	-
194	<b>Birendranagar</b>	<b>2041/5/22</b>	<b>Surketh</b>	+
195	<b>Jorayal</b>	<b>2041/9/14</b>	<b>Doti</b>	-
196	<b>Damak</b>	<b>2041/9/27</b>	<b>Jhapa</b>	+
197	<b>Maheshpur</b>	<b>2042/1/1</b>	<b>Nawalparasi</b>	-

198	<b>Birgunj Sugar Facotry</b>	<b>2042/1/1</b>	<b>Parsa</b>	-
199	<b>Bhatbhateni</b>	<b>2042/1/22</b>	<b>Kathmandu</b>	-
200	<b>Patandhoka</b>	<b>2042/1/22</b>	<b>Lalitpur</b>	-
201	<b>Parsa Bazar</b>	<b>2042/2/27</b>	<b>Chitwan</b>	+
202	<b>Balkot</b>	<b>2042/3/13</b>	<b>Aarghkhanchi</b>	-
203	<b>Pasauni Bazar</b>	<b>2042/3/20</b>	<b>Bara</b>	-
204	<b>Panchani Bazar</b>	<b>2042/3/27</b>	<b>Taplegunj</b>	-
205	<b>Tanki Sinwari</b>	<b>2042/3/30</b>	<b>Morang</b>	-
206	<b>Ragni</b>	<b>2042/3/31</b>	<b>Okhaldhunga</b>	-
207	<b>UN Building</b>	<b>2042/5/3</b>	<b>Lalitpur</b>	-
208	<b>Haripur Bazar</b>	<b>2042/6/11</b>	<b>Sarlahi</b>	-
209	<b>Hetauda Cement Factory</b>	<b>2042/9/14</b>	<b>Makwanpur</b>	-
210	<b>Chowkde</b>	<b>2042/9/27</b>	<b>Nuwakot</b>	-
211	<b>Samanpur</b>	<b>2043/3/13</b>	<b>Rauthat</b>	-
212	<b>Dolalghat</b>	<b>2043/3/29</b>	<b>Kabhre</b>	-
213	<b>Simra</b>	<b>2043/6/13</b>	<b>Bara</b>	-
214	<b>Thutepipal</b>	<b>2043/7/22</b>	<b>Rupandehi</b>	-
215	<b>Sanik Sakha</b>	<b>2043/9/15</b>	<b>Kathmandu</b>	+
216	<b>Amleganj</b>	<b>2044/1/30</b>	<b>Bara</b>	-
217	<b>Kantipath</b>	<b>2044/1/30</b>	<b>Kathmandu</b>	+
218	<b>Ghyampesal</b>	<b>2044/3/29</b>	<b>Gorkha</b>	-

219	<b>Katachebazar</b>	<b>2044/3/29</b>	<b>Kailali</b>	-
220	<b>Dhakari</b>	<b>2044/3/32</b>	<b>Acham</b>	-
221	<b>Gumi</b>	<b>2044/11/25</b>	<b>Surkhet</b>	-
222	<b>Latinath</b>	<b>2044/12/30</b>	<b>Darchula</b>	-
223	<b>Muglin Bazar</b>	<b>2045/1/29</b>	<b>Chitwan</b>	-
224	<b>Annapurna</b>	<b>2045/3/4</b>	<b>Bhojpur</b>	-
225	<b>Khadbari</b>	<b>2045/3/10</b>	<b>Shankusabha</b>	+
226	<b>Thulopakhar</b>	<b>2045/3/22</b>	<b>Sindhupalchowk</b>	-
227	<b>Khimtibesi</b>	<b>2045/3/25</b>	<b>Ramechhap</b>	-
228	<b>Chandrauta</b>	<b>2045/3/27</b>	<b>Kapilvastu</b>	+
229	<b>Darkha</b>	<b>2045/3/29</b>	<b>Dhading</b>	-
230	<b>Barauhiya</b>	<b>2045/9/2</b>	<b>Kapilvastu</b>	-
231	<b>Jauwari</b>	<b>2045/9/14</b>	<b>Gorkha</b>	-
232	<b>Dhikure</b>	<b>2045/9/18</b>	<b>Nuwakot</b>	-
233	<b>Thimi</b>	<b>2045/10/19</b>	<b>Bhaktapur</b>	+
234	<b>Shantipur</b>	<b>2045/11/26</b>	<b>Gulmi</b>	-
235	<b>Basantpur</b>	<b>2049/7/16</b>	<b>Kathmandu</b>	-
236	<b>Kaliyanpur</b>	<b>2056/3/13</b>	<b>Saptari</b>	-
237	<b>Amahibela</b>	<b>2055/7/30</b>	<b>Morang</b>	-
238	<b>Besisahar</b>	<b>2056/3/12</b>	<b>Lamgunj</b>	+
239	<b>Gorkha</b>	<b>2056/5/12</b>	<b>Gorkha</b>	-

240	<b>Gulariya</b>	<b>2056/3/12</b>	<b>Bardiya</b>	<b>+</b>
241	<b>K.U compound</b>	<b>2057/7/30</b>	<b>Kabhre</b>	<b>-</b>
242	<b>Hariwan</b>	<b>2066/03/14</b>	<b>Sarlahi</b>	<b>Restarted</b>
243	<b>Panchkhal</b>		<b>Kabhre</b>	<b>*</b>
244	<b>Sundar Bazar</b>	<b>2066/07/29</b>	<b>Tanhun</b>	<b>Restarted</b>

### **Emergence**

The need of the central bank is as the regulatory, monitoring and government financial advisor required great urgency and the Nepal Rastra Bank was established in 14<sup>th</sup> Baisakh 2013 B.S under the NRB Act 2012. Nepal Rastra Bank is the apex/central bank of Nepal. As per required of nation other commercial banks are set up as publically and privately.

### **Nepalese Commercial Banks**

<b>S no.</b>	<b>Name of Banks</b>	<b>Establishment date (B.S)</b>
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<b>1</b>	Nepal Bank Ltd	1994/7/30
<b>2</b>	Rastriya Banijya Bank	2022/10/10
<b>3</b>	Agricultural Development Bank	2024/10/7
<b>4</b>	NABIL Bank	2041/3/29
<b>5</b>	Standard Chartered Bank	2043/10/17
<b>6</b>	Nepal Investment Bank	2042/11/26
<b>7</b>	Himalyan Bank Ltd	2049/10/5
<b>8</b>	Nepal SBI	2050/3/23
<b>9</b>	Nepal Bangladesh Bank Ltd	2051/2/23
<b>10</b>	Everest Bank Ltd	2051/7/1
<b>11</b>	Bank of Kathmandu	2052/1/5
<b>12</b>	NIC Bank	2055/4/5
<b>13</b>	Nepal Credit & Commerce Bank	2053/6/28
<b>14</b>	Lumbini Bank Ltd	2055/4/1
<b>15</b>	Siddhartha Bank Ltd	2059/9/9
<b>16</b>	Global Bank Ltd	2063/9/18
<b>17</b>	Machhapuchre Bank Ltd	2057/6/17
<b>18</b>	Citizens International Bank Ltd	2064/1/17
<b>19</b>	Bank of Asia Nepal Ltd	2064/6/25
<b>20</b>	Kumari Bank Ltd	2057/12/21
<b>21</b>	Laxmi Bank Ltd	2058/12/21

22	People's Bank of Nepal	2065/6/13
23	NMB Bank Ltd	May 2008 (A.D)
24	Sunrise Bank Ltd	2064/6/25
26	Prime Bank Ltd	2064/6/7
27	Kist Bank Ltd	May 2009 (A.D)
28	Megha Bank Ltd	2067/4/07
29	Commerce & Trust Bank	2067/6/4

## 1.2 Focus of the study

Credit management is the focused subject matter of the concern study. The sources of fund are most essential components of the financial institution as the bank is profit oriented organization usually obtain fund from ownership capital, public capital through issue of the shares and debentures, borrowing through banking organizations as 'credit' or 'loan' or borrowing etc. Nowadays the essential source of the organization for financial supporting is the credit, overdrafts and others providing by banking institution.

The focus term "credit" is derived from Latin word 'credo' which means believe. The word 'credit' is described as payment,

believe, having money course limit in educational sector, goodwill in account etc meanings are used in Cambridge Advanced Learner's Dictionary. Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the banks in the sense that it occupies large volume of transactions, it covers the main part of investment, the most the investment activities based on credit. Credit is the main factor of creating profitability, it determines the profitability. It affects the overall economy of the country and bank. If the bank provides credit to retailer, it will make the customer status. Similarly it provides to trade and industry, the government will get tax from bank's profit and help to increase national economy. It is the security against depositors. It is provide from beginning that credit is the shareholders wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is the most challenging job because it is the backbone of the bank. Thus, effective management of credit should seriously be considered.

Management is the system, which helps to undertake jobs effectively. Credit management is also a system which manage

credit effectively and efficiently. Credit management refers to management of credit exposure arising from loans, corporate bonds and credit derivatives. Credit exposure is the main source of investment in bank and return on such investment is supported to the income sources. Credit management requires analyzing and managing the credit risk. The credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with agreed terms and conditions credit risk is not registered to lending activities only but includes of balance sheet and inter-bank explorers. The goal of the credit risk management is to maximize the bank's return and minimize the credit risk within the acceptable parameters; other sources of credit risk exist throughout the activities of bank, including in the banking book and in the trading book and both increasingly facing credit risk in various financial instruments other than land, interbank transaction and guarantees and the settlement of transactions.

The credit policy of a bank to determine the area of credit, volume of credit and what pricing of credit (interest rate). The credit policy has many dimensions as well as credit standard, credit rating, credit analysis and credit terms etc. A firm has to establish and use standards in making credit decisions, develop

appropriate sources of credit information methods of credit analysis. Although NBL is one of the largest and oldest banks of the country, the financial health of the bank is very poor. To overcome from financial disaster, under financial sector reform programme of Nepal Rastra Bank in technical assistance programme of World Bank and DFID, a management team 'ICCMT' consisting of international bankers from Bank of Scotland (Ireland) has been appointed in NBL on July 22, 2002 to restructure the bank for 2 years contract. Having positive symptom regarding the loan recovery, HR management restructuring the bank and efficient services by adopting computerized system the government renewed the contract for another two years. The government puts some conditions for the renewal of contract such as ICCMT should reduce the non performing assets to 40% by July 2006 and to 32% by July 2007 and ICCMT should help the government to find out potential buyers for privatization of the bank. Due to lack of co-operation of NRB the contract was abounded by the ICCMT on 22<sup>nd</sup> July 2007.

Nepal Bank Limited is semi government and the previous structure of ownership is 51% government and 41% general

public. Now with the suggestion of World Bank to transfer the ownership to the private sector for better functioning of the financial sector the present shareholding pattern is 40.49% Nepal government and 59.41% general public.

### **1.3 Statement of the problem**

Many banking problems emerge due to weakness of credit management. Banks need to identify, monitor, supervision and control of credit as well as to determine that they hold adequate capital against it. There is no doubt that successful organizations can easily fulfill the needs of the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. The creditability is the major source and building better creditability position is the major strategy of every commercial bank. Credit is the most and vital beneficial instrument for the bank.

Credit management concept has appeared as a major research gap in Nepalese commercial banking sector. There is lack of such scientific and empirical research that could identify the issues of

credit management in Nepalese commercial banks. In this regard, the performance of Nepalese commercial banks need be analyzed in terms of their credit. Research questions rise regarding the credit practices, credit efficiencies, liquidity position, industrial environment, management quality, organization culture are considered as a clear picture of present situation. The specific research questions regarding credit management in Nepalese banking sector are identified as follows:-

- ) Are the credit practices adopted by commercial bank is good position?
- ) What are the efficiencies of credit management in bank?
- ) Is the quality of credit management good in the bank?
- ) What are the credit standards, credit analysis and credit rating in the bank?
- ) Is the credit management maintained the proper portfolio of credit?
- ) Is the government facilitated to the bank for their sound business environment?
- ) Is the regulating body of the banks proper monitoring and supervising?
- ) How can the bank manage credit in better way?

) Is the bank maintained proper and acceptable compliance of their business?

#### **1.4 Objectives of the study**

The basic objective of the study is to explore the credit efficiencies or inefficiencies and its management in the bank. It is also aimed to find out the relationship between credit practices and profitability situation. Moreover, the study has specified the following objectives:-

- ) To assess the credit practices of the bank.
- ) To explore the credit efficiency of the bank.
- ) To recommend measures for the improvement on the basis of findings of the study after analyzing the credit management.

#### **1.5 Significance of the study**

Commercial banking sector is considered as successful area in financial sector of the country. In the present context, the bank has to be more organic and sincere to establish better credibility position due to vast competition among them. The present concept deals with how bank management credit position and how do it affect to the organizational effectiveness.

This study is very important from the point of view of bank management. The main strategy of the bank is to establish the better credibility position, which has directly impacted the financial performance of a customer that helps to make the organizational success in the terms of better transaction, better turnover and better profitability most of the earlier researches were focused on financial performance of bank but few researches were focused on the credibility position of the bank. The credit is the most important and sensitive area in the bank. This study is very important in viewing an organizational performance or position in the terms of credibility.

## **1.6 Limitations of the study**

The scope of the study is limited to bank because of time bond and resources constraints. Most of the analysis is descriptive in present study. This study is very basic attempt to address the research issues; therefore it might not be able to show casual linkage or effect. Instrument used for data collection is not standard questionnaire. The study could not address all the aspects of credit position. The study is based on employees; self repeated response about their perception on primary analysis. It is therefore, the response collected from the employers might not be valid measures.

Secondary analysis is based on published and unpublished financial data collected from credit department, corporate planning and Marketing Management Department of the bank. Websites are used in the study. The secondary analysis covers time span of current five years. Various financial tools are used to know financial condition of the bank. However, the study tries to find out credit position and its significance in the bank.

## **1.7 Organization of the study**

The study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic and finding of the study. The report is designed in five chapters which are follows:-

### *Chapter 1: Introduction*

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

### *Chapter 2: Review of Literature*

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

### Chapter 3: Research Methodology

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

### Chapter 4: Presentation and Analysis of data

This chapter analyses the data related with study and presents the finding of the study and also briefly comments on them.

### Chapter 5: Summary, Conclusion and Recommendations

On the basis of the result from data analysis, the researcher conducted about the performance of the concerned organization in terms of credit management. It also gives important suggestions to the concerned organization for better improvement in their business.

## Chapter-II

# Literature Review

## 2.1 Introduction

The review of the literature is critical aspect of planning of the study. The main purpose of literature review is to find out what work have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. The researcher has received different reports, journals and research studies published by various institutions and unpublished dissertations submitted by master level students have also been reviewed.

It is divided into two headings:

- ) Conceptual Review
- ) Review of related studies

### 2.1.1 Conceptual Review

Credit administration involves the creation and management of the assets. The process of lending takes into consideration the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios (Johnson, 1940:132). Bodhi B. Bajrachary, in his article “Monetary Policy and Deposit Mobilization in Nepal” has concluded that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy.

Mr. D.R. Bhandari (2003:170) says that in banking sector or translations, an unavailability of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought, for example,

there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of payment of capital and interest and other such procedure. This management plays a great role in healthy competitive activities.

It is very important to be reminded the most of the bank failures in the world are due to shrinking in the value of loan and advances. Hence, risk of non-payment of loan is known as credit risk or default risk (Dahal B., 2002:114).

Portfolio management helps to minimize or manage the credit risk by spreading over the risk to various portfolios. These methods of managing credit risk is guided by the saying “do not put all the eggs in a single basket” (Bhandari, D.P., 2004:300).

### **2.1.2 Concept of Commercial Banking**

Banks plays an important role in the economic development of a country. Banking, when properly organized, aids and facilitates the growth of trade and industry and hence of national economy.

In the modern economy, banks are considered not as a dealer in the money but as the leaders of development. Banks are not just the store house of the country's wealth but are the reservoirs of resources necessary for economic development.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. No function is more important to the economy and it constitutes than financing. "Bank assists both the flow of goods and service from the products to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and it is important part of financial system, which makes loans to maintain and increase the level of consumption and production in the economy". (American Institute of Banking, 1972:162).

Commercial banks deal with other people's money. They have to find ways of keeping their liquid assets so that they could meet demands of their customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily reliable. The depositors must be made to understand the bank is fully solvent. The depositors' confidence could be secured only if the bank is able to meet the demand for cash promptly and

fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and bankers cannot afford to keep large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity. (M. Radheswamy, S.V. Vasudevan, 1979)

According to F.A. Bardford, “A bank is one who in the ordinary course of his business receives money which he repays by honoring cheques of persons from which of one whose account it receives it.” (F.A. Bardford: 453-454)

Commercial Bank Act 2031 B.S. of Nepal has defined that “Commercial Bank is one of which exchanges the money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for cooperative, agriculture, industries or such specific purpose” (Commercial Bank Act, 2031 B.S.)

Commercial banks are organized as joint stock company system, primarily for the purpose of earning a profit. They can be either of the branch banking types as we see in the most of countries, with a large network branches like Nepal or of the unit banking type,

as we see in a single office or to a few branches within a strictly limited area (Shekher & Shekher, 1999:4 ).

### **2.1.3 Function of Commercial Banks**

“The business of commercial banks is primarily to hold deposits and make loans and investments with project of securing profits for its shareholders. Its primary motive is profit, other consideration are secondary” (Sudharsan, 1976:123).

The major function of commercial banks are :

#### **A. Primary Function**

Primary functions of the commercial banks are also known as ‘acid test’ function of commercial banks. The followings are the primary functions of a commercial bank:

**1. Accepting Deposits:** The first main function of a commercial bank is acceptance of deposits from the public. This function is important because banks mainly depend on the funds deposited with them by the public. The banks collect money from those who have surplus to lend to those who require loans. The

deposits must be of money and not of other assets. People can deposit their cash balances in either of the following accounts as per their requirement:-

**i) Fixed Deposit Account:** Cash is deposited in this account for a fixed period. The depositors can withdraw money only on the expiry of the period for which the deposits has been made. On such deposits banks provides higher rate of interest as length of time period and amount of deposit.

**ii) Current Deposit Account:** In this account a depositor can deposit and withdraw his funds any number of times he likes. Businessmen deposit their funds in this account. In this account no interest is paid.

**iii) Saving Deposit Account:** This account is meant for small savings. There is a limit on total weekly withdrawals. Banks pays interest on this account.

**iv) Recurring Deposit Account:** Under this account a specified amount is deposited every month for a specified period. The amount cannot be withdrawn before the expiry of the given period except under exceptional circumstances.

**2. Advancing of Loans:** Another primary function of the commercial banks is to advance loans. A certain part of the cash received by the banks as deposits is kept in the reserve and the remaining is given as loan. Advancing loan is essential because banks undertake to pay interest on deposits they receive from the public. Banks advance following types of loans:-

**i) Money at Call:** It is the money lent for a very short period of time generally from 1 to 14 days. Such advances are usually made to other banks and financial institutions only.

**ii) Overdraft:** Overdraft means allowing the borrower to over draw his current balance. The drawee has to pay interest on extra amount withdrawn. The amount has to be repaid within short period.

**iii) Cash Credit:** It is also very popular form of advancing loan. Under this system, the bank advances loans to the customer on the basis of his current assets, receivables or fixed assets by hypothecating them in favour of the banker.

**iv) Discounting of Bills:** It is another very popular method of advancing credit. The banks facilitate trade and commerce by discounting bills of exchange.

**v) Credit of Government:** The commercial banks provide indirect credit to the central government by investing in their securities.

**3. Creation of Credit:** One of the most important functions, which the banking system plays in modern capitalist economy is to create demand deposit and helps in circulating it as medium of exchange. This is also called the credit creation. It has become the most important function of the commercial bank

**4. Limitations of credit creation:** The following are the limitations on the power of commercial banks to create credit.

**i. Adequate cash reserve:** The first factor that limits the capacity of banks to expand credit is the necessity to keep adequate cash reserve.

**ii. Availability of securities:** The power of banks to create credit is curtailed by the availability of adequate securities in the market and possession of the same by the borrowers.

**iii. Quantity of money in circulation:** Another limiting factor is the total quantity of money in circulation. The central bank of country has the monopoly power to issue currency notes.

**iv. Nature of business conditions:** The volume of credit creation depends on the nature of business conditions. The demand of loans will be small & banks could create credit to limited extent.

**v. Altitude of people:** The desire of the people to hold cash has its impact on the power of banks to multiply credit. If the public decide to hold cash due to uncertainty about economic conditions, they would draw a large part of deposits.

**vi. Policy of the central bank:** The policy of the central bank influences the capacity of the banks to multiply credit. Every commercial bank is required to keep a certain percentage of cash against its deposit liabilities with the central bank.

**vii. Leakages:** The actual expansion of deposits is usually below the maximum possible limit because of several types of leakages. The banks may not be able to expand credit according to its surplus funds.

**viii. Behaviour of other banks:** The power of credit creation is limited by the behaviour of other banks. If some banks do not grant loans to the extent required of the banking system, the credit expansion will be restricted.

**ix. Use of cheque:** The last factor that limits the capacity of banks to expand credit is the use of cheques. When the use of cheque currency is popular among public, they pay one another by cheque and the cash position of the banks is unaffected.

**5. Cheque System of payment of Funds:** A cheque as a negotiable instrument is the most popular credit instrument used by the customer to make payments. The cheque system was evolved in very early stages of banking and now it has become the main credit instrument in banking world.

## **B. Secondary Functions**

**1 Agency Functions:** Banks render a number of useful services to the customers apart from performing the primary functions. Commercial banks act as agents of their customers in following ways:-

**i) Collection and payment of Credit:** The commercial banks collect and pay the various negotiable instruments like cheques, bills of exchange, promissory notes, hundies etc. Banks also make payment on the behalf of the customers like payment of rents, income tax, fees, insurance premium etc.

**ii) Purchase and sale of Securities:** The modern commercial banks also undertake the purchase and sale of various securities like shares, stocks, bonds units and debentures etc. on behalf of the customers.

**iii) Trustee and Executor:** Banks also act as trustees and executors of the property of their advice. Banks undertake administration of will or settlements and trusteeship functions through its expert staff and specialized departments.

**iv) Remittance of money:** Banks also remit money from one place to the other. The commercial banks remit funds on behalf of customer from one place to another through cheques, drafts, mail transfers, etc.

**v) Representing and Correspondence:** Sometimes commercial banks act as representatives and/or correspondents of clients, especially in obtaining passports, travel tickets, booking of vehicles, plots etc.

**1. General Utility Services:** Banks provide many more utility services in addition to agency services:-

**i) Locker Facilities:** Banks provide locker facilities to their customers. People can keep their gold and silver jewellery or

other important documents in these lockers at very nominal annual rent.

**ii) Acting as a Referee:** Banks also act as a referee. Banks give information about the economic position of their customers to domestic and foreign traders. Bank can be referred by the third parties for getting information regarding the financial position of the customer.

**iii) Issuing Letter of Credit:** Letter of credit is a very popular document in foreign trade. Banks certify the credit worthiness of his customers in a way by issuing letter of credit.

**iv) Acting as Underwriters:** Banks also underwrites the new issues of the government and corporate bodies for commission. The name of a bank as an underwriter encourages investors to have faith in the shares of company.

**v) Acting as Information Banks:** Commercial banks also act as information bureau as they collect the financial, economic and statistical data relating to industry, trade and commerce.

**vi) Issuing of Traveller's Cheque:** Banks have been rendering great services by issuing traveler's cheques which enable a person to travel without fear of theft or loss of money.

Now, some banks have started credit card system under which a credit card holder is allowed to avail credit from listed outlets without any additional cost or effort.

**vii) Electronic Delivery Channels:** Banking activities through the traditional delivery channel of branch networks are on the decline and customers can now do banking business from the comfortable confines of their homes using most modern electronic delivery channels. The popular electronic delivery channels are the following:

**a. ATMs:** ATMs refer to Automatic Teller Machines. ATMs have become the order of the day in banking. Though they were evolved-as novel cash dispensers, now they have emerged as a marketing tool to target the masses. A network of connected ATMs of various banks has resulted in the improvement of customer services. ATMs are used to cross-sell other products also so as to meet the varied requirements of the customers. Voice activated ATMs, ATMs with finger print scanning technology etc are on the move. If they became operative, they can save the customers from the hassle of carrying a card. ATMs have been designed to perform financial services like accepting deposits,

withdrawal of money, transfer of money etc. without the need for any human interaction.

### **Procedure for operating ATMs**

) Every customer who wants to enjoy the ATM facility is given a card called ATM card or bank card.

) The customer, who wants to withdraw cash or deposit money, has to feed the card into the ATM.

) The machine reads the magnetic strip on the card and requests for the PIN (Personal Identification Number)

) The PIN provides security for transacting the banking business through the ATMs. The PIN can be changed often to provide for more safety and security.

) Every ATM is tied into the bank's computer system. Hence all withdrawals through ATM are automatically debited and credited respectively to the customer's account maintained in the bank.

**b. Smart Cards:** The smart card technology is also widely used by the bankers to market their products. Smart card, which is a chip-based card, is a kind of an electronic purse. In fact, a smart is a truly powerful financial token which carries out all the

functions of magnetic stripe cards like ATM card, credit card, debit card etc.

**c. Tele-Banking:** Tele-banking is increasingly used as delivery channel for marketing banking services. A customer can do entire non-cash related banking over the phone anywhere & anytime.

**d. Internet banking:** Internet has enabled banking at the click of a mouse. Internet banking is all poised to emerge as the most profound electronic channel in the near future. Internet banking is a platform for electronic delivery of banking services.

### **C. Developmental Functions**

**1. Mobilization of Savings:** Banks collect idle saving of the people and invest the same in productive activities. Banks help in accelerating the rate of capital formation in country by mobilizing the saving.

**2. Extension of banking services in rural area:** Commercial banks have opened their branches in rural areas and small towns to provide banking facilities to people living therein. Banks also give loans at low rate of interest to finance programme meant for rural development and removal of unemployment.

**3. Providing loans to weaker section:** Banks give loans to weaker sections of the society at low rate of interest. Small artisans, landless agricultural labourers and poor classes get cheap loans from the banks.

**4. Assistance to capital market:** Banks also take part in capital market by giving long-term loans to industry, agriculture, small scale industry, trader, transporters etc.

#### **2.1.4 Role of Commercial Banks in Economic Development**

Commercial banks play a dynamic role in the economic development of nation. It may not be an exaggeration to assert that without the evolution of commercial banks in the 18<sup>th</sup> and the 19<sup>th</sup> century, industrial revolution would not have occupied in Europe. It is equally true that without the development of sound commercial banking, underdeveloped countries cannot hope to join the group of advanced countries. Following observations highlight the role of commercial banks in economic development.

**1. Helpful in Mobilization of Saving:** Commercial banks offer facilities of deposits on lucrative forms. This attracts the idle saving into organized capital market of the country. The

most important role in mobilization of the savings of the society is played by the commercial banks. These savings must be mobilized and put into productive investments to create real wealth.

**2. Assist in Innovations:** Commercial banks are also useful in innovations. Innovations are yet another important parameter of growth and development. Commercial banks facilitate in innovation of new and advanced technology across different sectors of the economy by offering judicious financial help.

**3. Role in implementation of monetary policy:** The monetary policy of the central bank of the country is very important instrument of economic policy in a liberalized economy. The monetary policy must be implemented effectively and efficiently to manage the crucial factors of sound health of economy. In fact commercial banks constitute the centre-stage of any monetary programme of the government or the Central Bank of the country.

**4. Banks influence the Interest Rates:** Banks influence the rate of interest and structure of interest rates by means of credit creation. Banks influence the volume and pattern of

investment which is very important in the context of growth and development in less developed countries like Nepal.

**5. Helpful in the Development of Priority Sectors:**

Commercial banks also play a very important role in the development of priority sectors of the economy. Banks help in achieving the objective of development of priority sector through its selective credit policy.

**6. Directing funds into Desired Channels:**

Every government always wants a balanced growth and development of all the sectors of the economy. Banks ensure balanced growth of the economy by directing the funds into productive channels.

**7. Helpful in productive activities and export:**

Commercial banks are helpful in stimulating activity and expanding exports in less developed countries. Productive activities both in agricultural sector and industrial sector can be sustained and stimulated only when financial needs of these sectors are fulfilled by commercial banks at reasonable low rate of interest.

### **2.1.5 Concept of Credit:**

Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security.

According to the Oxford Advance Learners Dictionary credit is “sum of the money lent by a bank, etc. Credit and advances is an important item on the assets side of the balance sheet of commercial bank. “Banks earns interest on credits and advances which is one of the major sources of income for banks. Banks prepare credit portfolio, otherwise it will not add bad debts but also affect profitability adversely” (Varshney, N.P & Swaroop, G., 1994:4).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation repay on specified date on demand. Banks generally grant credit on four ways

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

### **2.1.6 Importance of Credit:**

One of the most important activities of commercial bank is the management of credits.

A commercial bank generates near about 65 to 70 percent of its income through the lending activity. The success of a bank is heavily dependent on its lending programs. Some of the important contributions of credit to economy are as follows:

**1. Agents of indirect Production:** Banks loans are called the agent of indirect production. The producers purchase raw materials, machinery, hire the labour and other means of production through these credits by the bank.

**2. Generates Employment:** Commercial banks have increased employment opportunities through their lending functions have contributed to mass production, mass distribution and mass consumption.

**3. Improvement in standard of living:** Bank credits may be used to increase production and employment. This will result in higher income and improve the living standard of the people.

**4. Contribution to economic development:** The banks promote the economic development of the country. Bank lending

contributes to develop infrastructural facilities to production, distribution and boosts exports and imports.

**5. Raise the level of consumption:** Banks also increase the level of consumption through their consumer loans. Banks provide consumer loans for creating constant demand for consumer goods like houses, furniture, appliances, fixtures etc. in addition to the financing of agricultural, commercial, and industrial activities.

**6. Sources of Bank's Profit:** Banking lending also plays an important role in the gross earnings and net profits of commercial banks. It is the most profitable as well as risky function performed by commercial banks.

### **2.1.7 Classification of Credits in Banks**

The bank loans may be classified in the following categories:

**1. Purpose:** A common classification of loans is by way of purpose or by use of borrowed funds. The loans may be advanced for productive activities such as agriculture, industry, trade and transport and for consumption purposes such as purchasing of automobiles, real estate and houses.

**2. Secured and Unsecured Loans:** The commercial Banks may also advance secured loans and unsecured loans. Secured loans involve the pledge of specific collateral securities. Pledged collateral security for secured loans may be real estate, plants and equipments, fixed deposit receipt, corporate stocks and bonds.

**3. On the basis of Maturity Period:** Bank loans can be classified on the maturity period of the loan. Banks advance: short term loans (one year to four years), intermediate loans (more than one year to five years), long term loans (five years to 20 years).

**4. Methods of Repayment:** Bank loan may be repaid in one lump sum or in installment basis. Under lump sum method, entire loan is to be repaid on one final maturity date.

**5. Origin:** The loan portfolio of commercial banks is derived from many sources. The sources may be capital, reserves, deposits, borrowing etc.

### **2.1.8 Types of Credit**

Bank loans can be advanced through following different schemes:

**1. Cash Credit:** It refers to the loan given in cash to business firms. Cash credits are generally allowed against the pledge or hypothecation or both or personal security. Under this system, the

bank advances loans to the customer on the basis of his current assets, receivable or fixed assets by hypothecating them in favour of the bank.

**2. Overdrafts:** An overdraft is an advance given by allowing a customer to overdraw his current account up to an agreed amount.

An overdraft loan is sanctioned by the bank to be drawn by the borrower over their deposits.

**3. Demand Loans:** A demand loan is that loan which can be recalled on demand. The salient feature of this loan is that the entire amount of the loan allowed is paid to the bank at one time.

It is paid either in cash or by transfer to the account of the borrower.

**4. Term Loans:** A term loan is a loan which is sanctioned for specific period. The specified period will be more than one year but less than ten years. These types of term loans are advanced against the security.

**5. Clean Advance:** A clean advance is generally granted for a short period after taking into consideration the net liquid resources of the borrower. These loans are granted only to very sound parties.

**6. Bank Guarantee:** It is used for the sake of the customer in favour of the party up to the approval limit. Generally a certain period amount is taken as margin from the customer's margin is credited.

**7. Letter of Credit:** Letter of credit assumes importance in international trade. The problem in foreign trade is the exporters and importers are separated by distance and are unfamiliar with each other. The exporter will send the goods only if he is satisfied with the credit worthiness of the importer.

**8. 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.

**9. Consumer Credit:** Consumer credit is granted to consumer for their consumer needs. These loans are to purchase of durable consumer goods like Cars, Refrigerators, V.C.R, Colour T.V and others consumable goods.

**10. Working Capital Credit:** Working capital denotes the differences between current assets and current liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops

wherein funds moving through the cycle are generated to repay a working capital credit.

**Credit Cycle:** There are several stages of credit cycle, they are as follows:

**a) Prospecting:** The first stage in Credit Cycle is 'Prospecting'. Prospecting is looking for new clients who would be requiring bank finance. The sources for acquisition of new client could be leads from existing borrowers or well-operated current account clients or a market survey.

**b) Credit Investigation:** This is the most important stage in the credit cycle. If the selection of client is good, half the battle is won in the credit process. Here, a thorough study is conducted about the prospect his business, his dealings with suppliers and customers, existing bankers. The Relationship Manager should be very tactful in gathering information about a client since it is a very delicate issue and if the client feels hurt at any stage, the chances of not getting the customer to bank's fold would be high.

**c) Credit Proposal:** Once the banker is satisfied about the genuineness of the client and the client risk rating is acceptable to the bank, the proposal is put up for approval of the facilities. We have found that in those cases where the facilities are to be approved within branch, the quality of the proposal is very poor with many important data fields left blank.

The following are the important things which are normally covered in the proposal:

- i. Basic Information:** Here, the name of the firm, Proprietor/Partners/Guarantors/Directors of the company, address and contact details, share holding pattern, share market data, ratings, if any, and the facilities sought, find a place. The data provided here are mostly of a static nature
- ii. Risk Assessment:** The project must be passed through political, environmental, economic, managerial, financial and structural aspects. The important points to be taken care of are
  - ) Whether the company is manufacturing any hazardous substances and has obtained environmental clearances

) Would there be any difficulty in the succession of business if the proprietor is quite aged

) Whether the supply chain management is in place with long term relationship having been signed with the suppliers

) In the end it should be verified whether the parameters under the bank credit policy are complied with.

**iii. Justification for sanctioning the loan:** A detailed write-up on the purpose of the loan, security that offered for the facilities, types of facilities to be sanctioned, interest rates and commission etc., important covenants (terms and conditions of sanction), methods of assessment of the working capital with detailed calculations, sources of repayment for the loan, an abridged analysis of important financial parameters, what are the benefits to the bank.

**d) Credit Approval:** The delay in disbursement of any facilities takes place more because of the delay at this stage of the cycle. The approval authority should be conversant with the delegation of powers of the bank, credit policy of the bank and to certain extent the profiles of various industries. The RM

should have good relationship with the approval authorities and take them into confidence.

**e) Credit Disbursement:** Disbursement means making available the amount of facility that has been approved for a party. As soon as the branch gets approval from the higher authorities for its proposal, the RM has to verify the covenants and confirm that they are the same as were recommended.

**f) Credit Monitoring:** Wikipedia says 'Monitoring generally means, to be aware of the state of a system'. Any account requires close monitoring if you wish that the accounts should be performing asset throughout its relationship.

### **2.1.9 Credit Documentation**

Proper documentation for the bank advances involves different steps to be followed. It is important to observe the steps at different stages to ensure that the sequencing is not disturbed. If there is overlapping of one step/omission of one stage, it may adversely affect the bank's legal right in a court of law.

Credit files will contain the following material:

) Credit investigation & appraisal reports, whenever applicable;

- ) Audited financial statements & corresponding financial analysis;
- ) Industry study reports, whenever applicable;
- ) The credit memorandum & approval form, which describes the purpose of the loan, the amount applied for & subsequently approved, facilities granted, and terms and conditions;
- ) Letter of advice to customers;
- ) Business development plans of the bank regarding the customers;
- ) Corresponding with customer, the customer call reports by account officers concerned. Every discussion with the client should be recorded in a written or typed memo to the file;
- ) Audit & loan review reports;

### **2.2.0 Some major credit products of NBL**

The major credit products of NBL are:

- i. Personal loan:** This loan provided to fulfill the personal needs & individuals too against the land & building. Its two types- personal term loan & personal overdraft loan.

**) Parameters of Personal term loan:**

<b>Interest rate</b>	<b>Tenure</b>	<b>Loan Amount</b>
12.50% p.a.	2-5 years	Minimum 5 Lacs
13.00% p.a.	up to 10 years	Maximum 50 Lacs
14% p.a.	up to 15 years	
15% p.a.	up to 20 years	

*If the prepayment is made within 1/3 of the loan period the bank will be charged 2% extra.*

**ii. Personal Overdraft Loan:**

<b>Interest</b>	<b>Tenure</b>	<b>Loan Amount</b>
13%-14.5% p.a.	1 Year & reviewed	5 Lacs-50 Lacs
	Subject to periodic Review	

**iii. Auto Loan:**

Generally this consumer loan is provided for purchase of new vehicles, old & used vehicles (only for private use) and swapping (only for private and commercial use). Its rate of interest is 13%-15%.

**iv. Margin Lending:** This loan is provided against the shares of the companies, which are listed in Nepal Stock Exchange (NEPSE) and acceptable to the bank. The companies whose shares are eligible for NBL margin lending as per list of NBL.

**v. Home loan:** This loan is providing for following purpose.

) Purchase of land for home

) Purchase of land and construct a building on that land

) Purchase of already built house

) Purchase of bungalow constructed by the builders or developers.

) Renovation, modification, extension of existing building.

) Construction of building on land already owned.

) Swapping home loan from another bank or financial institutions.

) Its rate of interest is 13%-15%.

**vi. Pledge Credit:** The goods which kept in banks lock & key is called pledge loan. Generally raw materials, trading goods and daily consumable goods kept in party's godown. The whole ownership of that goods into the customers but bank has lien right to the goods on the basis of documents. The tenure of this credit is generally

6 months of the disbursement date. The sanction credit limit should be renewal every year. The renewal authority has to local branch or head office of the bank based on credit limit.

**vii. Gold/Silver Credit:** The things which made from gold & silver as like coins, ornaments and small pots and raw gold & silver are pledged in bank custody. Individuals have got this type of credit against the gold & silver with certain margin. The period of this loan is 12 months. The bank provides this loan to the individuals for daily needs and social response.

**viii. Hypothetication:** In this credit hypotheticated goods is under the creditors. The bank has not physically right on that goods. The goods is kept under the party's godown , shop and factories. The bank has lien on the goods which are hypothecated. The customers has provided a monthly stock of goods which has mentioned as in quantity, per unit price and total value of goods.

The sanctioned credit limit should be renewal every year in particular time of period. The renewal authority has to local branch and head office based on the credit limit amount. The firms, retailers, wholesaler and other

agency business are continued run from last three years.

They are eligible for this credit.

- ix. Loan against FD receipt of NBL:** It is fully secured loan which is provided to the customer of NBL. Customers are deposited to deposit in his fixed deposit account. This type of deposits are basically depends upon the maturity period. Now the bank allows 1 month-2 years & above schemes for different rate of interest as the customer needed amount and periods. The margin of FDR credit is normally 10%.

### **2.2.1 Required Documentation:**

Application, Citizenship, Valuation by the engineer, 2PP size Photos of applicant/co-applicant, salary certificate, Tax/Pan/Vat certificate and other necessary documents are required as per bank demand, ownership of land & building and map passed etc.

### **2.2.2 Monitoring, Follow up & Review**

The word 'monitoring' is derived from the word 'monitor'. The Dictionary meaning of the word 'monitor' is a person or device used for checking or warning. Monitoring thus means an act of

checking through use of any device or by person. Monitoring of advances refers to the process of checking the advances made by the banker.

Generally, there are four tools used in monitoring of credit:

- i. Pre disbursement
- ii. Post Disbursement
  - a. Off site
  - b. On site

After the loan has been granted, the bank must monitor the loan to determine if the borrower is complying with the terms of the loan agreement. Part of the monitoring process is a loan review. This is an internal audit system for lending functions of the bank. Loan reviews help to identify potential problems with particular loans, and weakness in loan procedures. In addition, It is used to help quantify the risk in the loan portfolio.

Bankers generally refer to this pre disbursement monitoring as the care and caution to be exercised during the stage of disbursement. Off site supervision refers to monitoring of the advance account without visiting the unit or meeting the borrower in person. Every

credit officer working in the credit department of the bank, viz., should inspection be done on surprise or with prior notice?

### **2.2.3 Considerable factors while making loans**

Some of the important factors which a bank must consider before accepting loans proposal except above discussed basic principles of good lending are as under:

**1. The Borrower:** According to the principle of safety, the loan must be given to a borrower in whom the bank may have every confidence. The sound approach of good lending is that never advance any loan to a borrower on whom the bank cannot rely.

**2. The business of borrower:** Another factor to be considered while making advance is the business of borrower. The bank must pay full attention to the business of borrower and its prospectus with references to prevailing economic conditions while advancing loan. The repaying capacity of borrower depends upon the nature of his business.

**3. Capital Resources of the borrower:** The capital resource of the borrower is another important determinant while

advancing loan to the borrower. The bank should thoroughly and carefully analyze the capital resources of the borrower. Generally, a bank will not want to lend more the amount of the proprietor's capital.

**4. Amount of the loan:** Amount of the loan is important factor to be considered at the time of advancing loan. The amount of loan should be considered both in relation to the capital resources of the borrower and the purpose for which loan is to be used.

**5. The Purpose:** It is also very important factors to be considered while advancing the loan to borrower. The bank should thoroughly and carefully assess whether the purpose of loan is within the preview of the bank or not.

**6. The Sources of Repayment:** Before advancing loan to the borrower, the bank should properly assessed the repayment ability and source of the borrower. The bank can easily determine the facts and judge the reliability of the sources of payment. Every banker would like to know how loan is likely to outstand and from what source it is repaid by the borrower.

**7. Security:** Security is the last factor to be considered while advising loan to borrower. Every bank always tries to cover the

risks of non-recovery of loans by taking security against the uncertainties of loan recovery.

#### **2.2.4 Factors affecting credit policies**

**1. Portfolio Consideration:** Portfolio considerations have a very important influence on the loan policy of a bank. Portfolio management is the appropriate distributions of assets and liabilities of a bank in the light of its assets of its basic objectives. According to portfolio management, the assets of the bank must be so allocated that all the three main objectives liquidity, solvency and profitability can be achieved.

**2. Capital position of the Bank:** The capital position of a bank will determine and influence the lending policy of a bank. Capital provides cushion for absorbing losses. A bank with a strong capital structure can afford to take more risk than a bank with a weak capital structure.

**3. Monetary policy:** The monetary policy of the central bank of the country also determines the lending policy of a commercial bank. The central bank can influence the monetary policy of the

bank by affecting changes in the minimum reserve requirements and net liquidity ratio.

**4. Deposit Variability:** The lending policy of a bank is also influenced by variability in deposits. A bank which experiences wide fluctuations in deposits will avoid term loans, whereas a bank with stable and regularly increasing deposits will have liberal approach in lending policy.

**5. Terms and Conditions:** The banks usually compete with each other regarding terms and conditions of advancing loans. The competitive spirit will also influence the loan policy. The terms and conditions will also be influenced by the cost of funds.

**2.2.5 Components of a loan Policy:** The followings are the main components of a loan policy:

**1. Loan Territory:** The territory to be served by a bank is an important component of a loan policy of a bank. The loan territory depends on many factors such as amount of bank resource, competition, the demand of loans.

**2. Types of loans to be Made:** Bank management must decide what types of loans would be best for the bank. Type of loans to be advanced by bank depends on following considerations.

- i.** The need for diversification to spread the risks;
- ii.** The risks associated with various types of loan;
- iii.** The need for liquidity;
- iv.** The types of customers, the bank wants to serve;
- v.** The capabilities of bank personnel,
- vi.** Profitability of various types of loans.

**3. Acceptable security and creditworthiness:** A loan policy of a bank should deal with the question of what is considered acceptable security and credit worthiness to facilitate lending, reduce risk and maintain standard practices.

**4. Maturities:** The maturity of a bank's loan portfolio is another important component of bank's loan policy. The loan policy must indicate to what extent, a bank will advance intermediate and long-term loans.

**5. Loan liquidation:** A bank must have an adequate policy of loan liquidation to maintain an acceptable degree of loan quality and liquidity. Numerous renewals of a loan impair the liquidity of the loan portfolio and it increases the risk of bad debts to the bank.

**6. Problem loans:** Loan policy should indicate the various problems that may arise with a borrower with the passage of time. Loan policy should also describe various steps to be taken by a bank to handle the problems. The bank will also decide whether the previously responsible officers will continuously handle the problem loan or the bank should employ one or more officers who specialize in handling problems loans.

### **2.2.6 Credit Procedures adopted by Bank**

The process of grant of credit includes the following steps:

**1. Application Form:** The borrower has to apply for a loan through prescribed application form available with the bank. The application form may be divided into two parts for the conveniences of borrowers:

- i. Application form to be filled in and signed by the borrower containing important information of simple nature relating to himself and his credit requirements; and
- ii. Interview form in which additional information obtained by questioning the applicant and perusing his banks of account and other relevant papers may be recorded by the officer of the bank.

**2. Credit Reports:** Banks ascertain the creditworthiness of borrowers from time to time and maintain a credit reports on them, because advancing loans involves a great risk of bad debts if proper care is not taken. But in recent years, the work of maintaining credit reports on each and every borrower has become laborious and costly due to large increase in the number of borrowers.

**3. Credit Rating:** Commercial banks rely on large extent on the reports and data supplied by reputed credit investigating agencies in developed countries like the USA and the UK. The agencies are specialized in collecting and providing credit information on individuals, partnerships and companies. Credit Information Bureau is the one of the most popular agency to provide the credit information in Nepal.

**4. Scrutiny of Advances Proposals:** Application for advances of large amounts which are beyond the discretionary power of branch agents referred to head office/regional office by sending the proposal in the prescribed form. The branch agents should take into consideration the requirements for different types of facilities while assessing the credit requirements of a borrower.

**5. Supervision of Advances:** The banks conduct the follow up the action at the branch level for the periodical checking of operations of borrower, verification of the security, examination of stock statements submitted by the borrower in addition to the frequent visits by senior officials to borrower place of business activities.

**6. Management of Sick Accounts:** It is not possible for a bank to eliminate the problem, difficult and sick accounts from the business of lending. The bank has to decide its policy regarding sick accounts and implement it.

### **2.2.7 Portfolio Management of the banks**

Portfolio Management refers to appropriate distributions of assets and liabilities of a bank in the light of its basic objectives. For the

successful operations of a commercial bank, its assets must be so allocated that all the three main objectives such as liquidity, solvency and profitability can be achieved.

Thus, the portfolio management of a commercial bank is concerned with the employment or distribution of funds in various assets in such a way as to maximize its profit without jeopardizing liquidity and solvency.

### **2.2.8 Objective of Portfolio Management**

Followings are the main objectives of portfolio management:

**1. Liquidity:** Commercial banks mainly deal in money and debts. The deposits of the bank are the debts of public. These debts are payable on demand except time deposits. The commercial banks are under an obligation to repay the deposits of public on demand or on very short notice.

**2. Solvency:** The solvency is the capacity of the bank to meet its liabilities in the long run. The solvency of a bank depends upon the relationship between its total liabilities and total assets. To be solvent, the realizable value of the total assets at any time must be at least equal to total liabilities.

**3. Income or Profit:** Commercial banks are profits making organizations. Thus, the income or profit is also a very important factor of portfolio management. The bank must earn sufficient income to meet its day to day expenses and a reasonable return for the owners in form of dividend.

### **2.2.9 Security of Bank Loans**

All over the world, the main basis for sanctioning advances by banks continues to be security. A commercial bank deals in the money of others i.e. deposits. Every bank needs to retain the confidence of the customer to attract and retain deposits. The public will have confidence in the bank, if they believe that the bank is not undertaking undue risk, while advancing loans.

There are 4 types of security:

- i. **Primary Security:** Primary Security is one offered by the borrower himself.
- ii. **Collateral Security:** The collateral security is deposited by a party to secure the advance made to the customer.
- iii. **Tangible Security:** Tangible Security is one which is visible and can be sold or transferable e.g. Goods, documents of title of goods, real estate etc. are tangible securities.

iv. Personal Security: Personal security refers to the promise of the borrower himself to pay back the borrowed money.

### **2.3.0 Qualities of a Good Borrower**

From olden times, even a business man who wanted to take decision on whether to sell the goods on credit to a new prospect, used to follow “3 C’s of Lending” viz. Character, Capacity and Capital. These parameters hold well in case of a bank too. Over a period of time, three more C’s have been added i.e. Collateral, Conditions and Credit. Thus, the banker has to evaluate any prospect on the basis of 6 C’s.

#### **i. Character:**

The term credit character refers to the reputation of the prospective borrower in meeting his obligations to the bank. This includes certain moral and mental qualities of integrity, fairness responsibility, temperance, trustworthiness, industry and the like. The credit character of a person should be judged on the basis of his performance in bad times.

**ii. Capacity:**

Capacity refers to the ability of potential borrower to repay the debt when it falls due and is indicative of the competence of the borrower to use the loan effectively and profitably. It is very important variable of analysis of creditworthiness, for the ability of customer to repay is primarily dependent upon his earning capacity.

**iii. Capital:**

In addition to the character and capacity of a borrower, a banker looks into another aspect, i.e. capital. A bank provides mainly the working capital requirements of the business. A borrower should have sufficient capital to conduct his business and adequate plant and machinery to carry out normal production.

**iv. Collateral:**

Collateral is represented by the assets that may be offered as a pledge against the loan. Collateral serves as a cushion or shock absorber if one or several of the first three 'C' are insufficient to give a reasonable assurance of repayment of loan on maturity.

**v. Conditions:**

Conditions refers to the political stability of the country, the demand for the product, the industry prospects, availability of raw materials, infrastructure facilities etc.

**vi. Compliance:**

While the previous “C’s” concerned the borrower, compliance applies to the lender. Compliance with the court decisions, laws, regulations and act is an increasingly important part of the lending process. Lender liability means that the lender may be sued by the borrowers or others for losses damages.

**2.3.1 Principles of Good Lending**

We have seen earlier that major source of funds for lending comes from “Deposits”. These deposits could be of ‘Demand’ nature or ‘time deposits’. Customers may come and demand their deposit, whenever they need it, without any prior notice. The banker is expected to honour the customer’s mandate by paying the cheques issued by the customer. If, for any reason, the banker refuses to honour a cheque of customer having sufficient balance in the

account, he runs the danger of losing the trust reposed by the customer and this may lead to all customers of the bank coming simultaneously and demanding repayment of their deposits.

**i. Safety:** First cardinal principal of lending is 'Safety'. The banker should ensure that the funds lent are safe and would be repaid by the borrower as per the terms of sanction. The word 'Safety' is a subjective one but the credit policy and the guidelines of the bank help the relationship manager to take proper decision in ensuring safety of the loans.

**ii. Liquidity:** The second important quality of good lending is 'Liquidity'. By liquidity, we mean the ability of the bank to convert the assets into cash. In simple terms, it means 'how fast the bank can convert an asset into cash'. As earlier, the entire amount that bank mobilizes as deposits cannot be lent. A portion of the deposits should be kept with Nepal Rastra Bank in the form of cash (cash reserve ratio-CRR) and another sizable portion should be invested in approval securities.

**iii. Security:** Banker should be confident of recovering the loans from the business income of the borrower. The assets acquired out of bank finance constitute primary security for the loan. In some

cases, where the banker perceives higher risks in the finance, he may seek additional security in the form of immovable property.

**iv. Spread:** We are all familiar with the old saying “Don’t put all your eggs in one basket”. This applies to a banker also. The banker cannot afford to grant his entire advances to one particular individual or one type of industry.

**v. Purpose:** The loan granted should be for an approved purpose and should be for a productive activity. Banks do not grant loans for activities which promote anti-national interests or for speculative purposes.

**vi. Profitability:** It is general common sense that nobody would do any business to incur losses. This holds good even for banker, who, by the very nomenclature of ‘commercial bank’ is there to do business for profits.

### **2.3.2 Objectives of a Sound Credit Policy**

A sound policy on credit seeks to achieve a healthy balance between credit volumes, earnings and assets quantity as discussed below:

*a) Credit Volumes:* Every bank is a competitive entity operating in a free market. As such growth is important for all banks and efforts are needed to retain and improve market share. Hence one of the objectives of credit policy should be to promote the desired level of growth in the volume of loans and advances.

*b) Earnings:* Growth in business is meaningless unless accompanied by a commensurate increase in earnings. Therefore the credit policy framework should ensure that the rate of growth in the loan portfolio is matched by an increase in interest and earnings from the loan assets of the bank.

*c) Assets Quality:* The third and most important objective of the policy pyramid is the quality of the loans dispensed. Without quality the earnings will be compromised. Bad loans not only stop earning interest, they also require provisions, which eat into profits.

It is easy to see that these three objectives can be sometimes conflicting with each other if pursued singly. For instance concentrating only on volumes could lead to poor quality assets and bring down earnings. On the other hand, if quality standards or pricing of loans is unrealistically high, growth may suffer. A

sound credit policy however optimizes these three objectives within the framework of:

*i. Regulatory prescriptions:* The credit policy is formulated ensuring that the norms and procedures detailed in the policy document confirm to guidelines and rules prescribed by NRB and Government.

*ii. Corporate goals:* Besides adhering to guidelines and rules prescribed by NRB and government, the credit policy also lays down the road map necessary for achieving the business goals of the bank in the area of credit.

*iii. Bank's social responsibilities:* Bank's social responsibilities as a corporate citizen in relation to lending activity are covered by the credit policy.

### **2.3.3 Project Appraisal:**

The exercise of project appraisal simply means the assessment of a project in terms of its economic, social and financial viability.

This exercise is critically as it calls for a multidimensional analysis of a project that is a scanning of a project. There are six steps involved in the project appraisal:

<u>Aspects</u>	<u>Measures</u>
) Economic	indicates priority use.
) Technical	involves scale of the project & the Process adopted.
) Organizational	suitability is examined.
) Managerial	adequacy & competence are critically examined.
) Operational	capability of the project.
) Financial	determines the financial viability for Sound implementation & efficient operation.

### **2.3.4 Credit Approval Authority of NBL**

The establishment of the Nepal Bank Limited provided for a Board of Directors that would be responsible for policy, control and management of the bank. At present the Management Committee exercises that role. Presently, the Management Committee consists of Coordinator, and other members who are appointed by the NRB, the Central Bank of Nepal. This

Committee, serving in a non-executive capacity, is required to meet at least once a month at the request of the Coordinator or the Chief Executive Officer (CEO) of the NBL. The board should review at least the following:

*The Credit Decision Making Process*

*The Credit Policy Guide*

*The Problem Loan Handling*

*The progress report on recovery of problem loans*

*Critical and High Concentrated Problem Loans Report & Watch List*

*Loans to Employees, Executive officers, Directors, Shareholder(s) and their related interests*

*Exception Reports*

*Adequacy of Provisions of Loan Losses*

The CEO of the bank has been appointed for two years and is responsible to the Board and to the Central Bank for all aspects of administration and operation of the bank. This includes presenting

plans, budgets, annual reports etc. to the Board for approval and present all reports required by the supervising authority, the NRB.

As the highest body in the bank, the board is vested with the authority to approve the extensions of credit by the Chief Executive Officer and/ or the credit committee within their delegated authorities and to authorize credit extensions above the authority vested with the CEO on his recommendation. The Board, therefore, delegate its authority for incurring credit exposure to the CEO through specific approval/authority limits. Notwithstanding, the Board of Directors is ultimately accountable for the performance of the bank's lending operations. It, in turn, holds the CEO, to whom it has delegated authority, accountable to it for his actions.

The Board of Directors and management provide assurance to the public, the depositors, the creditors, the shareholder(s) and the supervising authorities that the lending policies of NBL confirm with acceptable and established norms of banking and that loans are granted, approved and are being administered with the highest degree of prudence required by the public trust. They also ensure that timely and adequate action will be taken on problem assets to

prevent accumulation of portfolio losses. Recent credit approval authority has mentioned in *annexure-H*.

### **2.3.5 The Credit Committee of NBL**

The Credit Committee is an executive management committee entrusted principally with the evaluation of credit applications of a specified limit for approval, and a corresponding review of credit extensions granted at the lower levels, it is based on as per credit manual. The Committee serves as a forum for senior management members to discuss credit matters extensively. Such discussions pave the way for a proper investigation of all issues related to pending loan applications and thereby provide appropriate safeguard for arriving at professional decisions.

The specific functions of the Credit Committee are as follows:

- ) To evaluate and approve credit applications from the Head Office and Branches;
- ) To review industry studies and exposures reports and to prepare recommendations to the Board of Directors for the management and control of risk;

) To review and recommend to the Board of Directors new credit policies, and to propose amendments to existing ones;

) To serve as a forum for training both senior and middle-level bank personnel through the exchange of ideas in the course of making credit decisions;

) To review the lending and deposit ratio of the bank and set credit/deposit ceiling;

The committee should meet frequently and may meet to convene extraordinary meetings when so required.

) The CEO of NBL, as chairman;

) The NBL Chief Lending Officer, as Vice-Chairman;

) The Head of – Loans and Credit Head Office, of NBL

) The Head of Credit Administration, as manager;

) Other members of management as indicated by the CEO from time to time;

The presence of three members, with either the chairman or vice-chairman amongst them, will constitute a quorum for purposes of convening a meeting. The committee should be supported by a secretariat within the credit department who will insure that all required documentation is in hand prior to the meetings. The

committee may invite any officer in the bank to attend its meetings when the presence of the officer(s) may be required to answer questions concerning an individual credit.

**2.3.6 Credit Classification & Provisioning:** The NRB Directives no. 2/061/062 for classification of loans & provisioning of loan loss.

<u>Classification of loans</u>	<u>Provisions</u>	<u>Tenure Basis</u>
1. Pass (Good) Credit	1%	overdue within 3 months
2. Sub standard credit	25%	overdue within 3-6 months
3. Doubtful Credit	50%	overdue 6-12 months
4. Bad Credit	100%	overdue more than 1 year.

Pass credit is also known as performing assets and rest 3 credits are known as non-performing credit. Gold and silver loan, FDR loan, credit cards, government securities and NRB's debentures are mentioned in good loan as per NRB directives. The directives also comment on general credit loss & specific credit loss provisions.

**Additional provisions for bad debts:** Passed the due or not in any credit the following remarks must be maintain as bad debt loan treated:

- ) Insufficient/unadequate collateral.
- ) Declaration of bankruptcy of creditor.
- ) Missing of creditor or misuse of credit.
- ) Purchased or discounted of bills are actual payment date LC and guarantee as based on non funded facilities are converted into funded based ,the payment should be not done within 90days.

### **2.3.7 Credit Risk Management**

Risk is an internal part of any activity. Sometimes it is possible to identify, isolate and quantifying it. It is said that risk and return go hand in hand. It is a proactive process, not reactive. Risk cannot be eliminated, but it can be managed. Risks have been categorized as unacceptable, can be eliminated or reduced. If the risks cannot be altogether eliminated or reduced to an acceptable level. Risk management usually comes at a price , it varies with the nature of activity. Banks in the process of financial intermediate face

various kinds of financial and non financial risks. They are as follows and NBL risk grading matrix is mentioned in annex G.

- ) Credit risk
- ) Interest rate risk
- ) Foreign exchange rate risk
- ) Liquidity risk
- ) Legal, regulatory, reputational risks
- ) Operational risk, etc.

**i. Credit Risk:** The danger in sanctioning a loan is the chance that the borrower may not open repay the loan or fail to comply with servicing the dues as agreed. This uncertainty is known as Credit Risk or Default Risk. It is the risk of repayment, i.e. the possibility that an obligor will fail to perform as agreed.

**ii. Default Risk:** Potential failure to make the agreed repayments, either fully or in part, by a borrower can lead to default risk.

**iii. Credit Spread Risk:** The downward change in credit quality of a borrowal account even if a borrower does not default immediately may result in the possible credit risk at a failure date.

**iv. Portfolio Risk:** Certain types of lending like Credit Card, etc.. is inherent to intrinsic risk.

**v. Concentration Risk:** The disproportionate concentration of loans to specific industries, sectors, regions or types of loans is known as concentration risk. This in turn may affect credit portfolio of the bank having concentration in any segment.

**vi. Counterparty Risk:** A variant of credit risk is 'Counterparty risk'. The counter party risk arises from nonperforming of the trading partners.

**vii. Country Risk (Political Risk):** A country risk, its government or its central bank, commercial banks in a country, or customers in that country cannot or will not honour its past obligations. Contributory reasons include war or war like situation, revolution, riot, natural calamity, official moratorium.

**viii. Credit Risk Control and Monitoring:** Credit risk can be controlled and monitored through an elaborate and well communicated credit policy both at transaction level and portfolio level providing guidelines for risk taking.

**ix. Credit control and monitoring at portfolio level:** It deals with risk of a given portfolio, expected losses, requirements of risk capital, impact of changing the portfolio mix on risk, expected losses and capital.

**x. Credit Risk Mitigation:** There are eight techniques to reduce their credit risk.

i. **Transfer:** Credit risk is reduced by transferring it to a counter party & selling securitized loans.

ii. **Avoid:** Avoid making high risk loans.

iii. **Collateral:** It reduced the risk of lender & a secondary source of repayment in the event of loan default.

iv. **Diversify:** It means making loans to a variety of borrowers.

v. **Documentation:** It refers to all document needed to legally in force a loan contract and to protect a bank's interest.

vi. **Guarantees:** Guarantees do not eliminate default risk or the riskiness of a loan portfolio.

vii. **Limit:** It is the amount of credit extended to any single borrower, or groups of borrower with related cash flow patterns, in order to avoid undue loan concentration.

viii. **Monitor:** Monitor is the behavior of the borrower after the loan is made to insure compliance with the loan agreement. Some borrowers have a moral hazard problems and take excessive risk other borrower may be affected by the external factors such as price hike, recessions, floods, droughts and other natural calamities.

**Financial Risk:** There are three broad segments of financial risk.

**i. Exchange Rate Risk:** Changes in the exchange rates between two currencies result in foreign exchange risk. Appreciation or depreciation of one currency against other is the cause for FX risk. Adverse exchange rate will affect bank's profitability.

**ii. Liquidity Risk:** Liquidity risk rises due to mismatch of assets and liabilities. To meet the adverse liquidity position the bank may have to borrow from the market at a very high cost. Asset Liability Committee (ALCO) of banks adopt prudent policies to mismatches. A bank will be unable to meet its funding requirements or execute a transaction at a reasonable price. Nepalese banks faced liquidity risk at 2065 Dashain.

**iii. Interest Risk:** World over, the most important market risk faced by banks is the interest rate risk. Interest Rate Risk can be defined as the risk faced by the bank due to adverse market movement in the interest rates. Deposits, loans, Investments are prone to interest rate risk. The adverse movement will affect the profitability of banks.

**iv. Legal, Regulatory, Reputational Risks:** Legal Risk arises due to non compliance to statutes of the country. Similarly

Regulatory Risk arises due to non compliance to Regulatory Guidelines.

**v. Operational Risk, Controlled Risk:** Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed international processes, people and systems or from external events, backup and disasters management procedures lack up infrastructures, lack of proper checks and balances, lack of risk evaluation system.

### **2.3.8 Review of Related Studies**

Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study a slink in a chain of research that is developing and emerging the knowledge about the related field.

### **2.3.9 Review of Articles**

The effort has been made in this section to examine and review the some related articles published in different economic journals, bulletins, magazine and newspapers.

Nepal Rastra Bank has issued directives to all commercial banks and financial institutions ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of dissolving the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (CIB) can blacklist the firm, company or clear the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individual and companies that live the principle loans of above Rs 1 million. If the creditor fails to clear the amount within time, or is found mission the loans among others, the creditor can be blacklisted. (Central bank tightens blacklisting procedures: 9)

An article was published in New Business Age; September 2004 entitled "All Banks in Profit". It focused that in general all banks for fiscal year 2003-04 are bullish in their performance. During the year all banks were in profit but in the previous year two commercial banks, Nepal Bank Ltd and Rastriya Banijya Bank

were in loss of 252 million and 3246 million respectively. NBL, RBB, Siddhartha Bank, Laxmi Bank, Kumari Bank and Machhapuchre Bank have increased their operating profit in substantial amount. Also the old banks with huge losses in the previous years (NBL and RBB) have succeeded to improve their performance.

### **Limit of Credit and Advances in a particular Sector:**

- i.** Fund based credit and advances can be issued up to 25% (upper limit) of core capital to single customer, firm, company and group of related customer.
- ii.** Non-fund based (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and a group of related customer.

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

### **Group of related customer:**

) If any company takes 25% or more share of another company.

) Member of board of directors of company shareholders of Pvt. Ltd. Company and such members and shareholders with other in single house, even if husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother and brothers and sister whom he should look after. And the above members personally or combined take 25% or more share of another company.

) Firm company and members as related group.

) Members of board of directors, shareholders and other relative 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.

## 2.4.0 Review of Related Thesis

*Ms Rurukkusum Gautam (2000)* has submitted thesis named “Investment Analysis of Finance Company of Nepal”. Her major objectives relevant to my research are;

- ) An analysis of the interest rate structure of credit.
- ) An analysis of the repayment of the credits

Major findings;

- ) The use of funds towards the hire purchase credit is decreasing rapidly.
- ) As the direct data of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled
- ) The loss provision of some company is more alarming on individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy.

*Mr. Khimananda Aryal (2003)* has submitted a thesis named “An Evaluation of Credit Investment Recovery of Financial Public Enterprises in Nepal”. His research statement of problem

is; Because of High interest rate of non-institutional source, people are unable to pay their credit at fixed time. These institutional compel them to transfer their property to the moneylender resulting himself as a landless person.

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

Major findings;

) Actual credit disbursement, collection and outstanding are increasing in decreasing rate.

- ∫ Yearly increase in credit disbursement is higher than that of collection.
- ∫ Positive relation between credit disbursement and collection is 0.996
- ∫ Targeted credit collection and disbursement fixed by planning and project department is not significantly different than actual.
- ∫ Most of the customers are unaware of the policy of the bank.

#### Recommendation;

- ∫ The borrowers should be informed about the credit, its use and its payment procedures and schedule.
- ∫ Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it.
- ∫ To accelerate the collection, credit should be followed continuously in a regular interval of time.
- ∫ The behavioral of the personal should be strictly supervised in granting credit in proper investment proposal because of the most bad credit disbursement is due to weak decision of the personnel.

*Mr. Pawan Regmi (2004)* has submitted a thesis named “Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank & Bank of Kathmandu”.

Major findings of his research are;

- ) Both the banks have maximum liquidity due to lack of safety investment sector.
- ) There is highly positive correlation between total deposits and credit and advances of both banks.
- ) Provision for credit loss has been increasing year by year for both the banks due to economic crisis in the country.

*Ms. Noora Shrestha (2005)* has submitted her thesis titled “A Comparative Study of the financial Performance of Nepal Bank Limited & Rastriya Banijya Bank”. Her research statement of problem is;

- ) Analyze the financial position of NBL and RBB.
- ) Comparative study of banks

Major findings;

) The major problem is seen in loan recovery department of both the banks due to which the banks are facing loss.

) Both the banks have high level of negative net worth.

) The influence of government and political situation in banking sector affects the overall activities of the banks.

) Both the banks still lack scientific MIS.

### **2.4.1 Research Gap**

Going through the review of literature it has been found that various researches have been found on banking sector but most of the previous works are concentrated on the financial performance of banking sector. From the study it has been found that credit management is one of the challenges faced by commercial banks in the present context. Although some researchers selected the topics but they entertain only private sector commercial banks which are recently opened. These newly opened commercial banks could not present the actual status of Nepalese financial market semi government bank. Hence, an attempt has been made

to fill this research gap by taking references of Nepal Bank Limited and This research will able to deliver some of the critical facts that have been faced by the Nepalese banking industry, present issues, latest information and data regarding credit management.

## Chapter- III

# Research Methodology

### 3.1 Introduction

Research in common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as “a careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something” (Saravanel, P., 1990:1).

Research Methodology describes the methods and process applied in the entire subject of the related study. Every research should follow the systematic research methodology to solve the research problem. The research methodology is wider concept. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. Research Methodology is a way to

solve systematically about the research problems, which includes many tools, if it is necessary in each and every steps of this study. This chapter looks into the research design, nature and sources of data, data collection procedure and tools and techniques of analysis.

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

### **3.2 Research Design**

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the purpose with economy in procedure. Descriptive and exploratory research designs have been used to this study.

### 3.3 Data Collection

The researcher uses two types of data:

- a) Primary Data
- b) Secondary data

The primary data are those which are collected a fresh and the first time and thus happen to be original in character. The secondary data on the other hand are those, which have already been collected by someone else and already been passed through the statistical process (Kothari, C.R., 1990:115).

In some cases primary data are also taken as personal interview, face and telephone interview but the study is mainly based on the secondary data. So, the major sources of secondary data for this study are as follows:

- a) Annual reports of the banks
- b) Published and unpublished bulletins, reports of the banks
- c) Published and unpublished bulletins, reports of the Nepal Stock Exchange

- d) Previous studies and reports
- e) “Banking and Financial Statistics” report of Nepal Rastra Bank Magazines
- f) Journals and other published and unpublished related documents and reports of Regional Library TRMC, Birgunj, Nepal Rastra Bank Library, Birgunj.
- g) Various Internet Websites
- h) Other published materials
- i) Unpublished official records.

### **3.4 Data Collection Procedure**

As the study also based on primary data, information will be collected by developing a schedule questionnaire and distributing to employees of the banks and clients. Questions of open end (i.e. yes or no) are included in questionnaire. Besides this, junior employees and clients are also being observed and responses have been drawn from them about relevant questionnaires.

### **3.5 Population and Sampling**

29 commercial banks are operating in Nepal. Out of this one commercial bank, Nepal Bank Limited has been selected as sample for the present study. Similarly, financial statement of this bank for 5 years from 2001/2002 to 2006/2007 (2058/59 to 2063/64) has been taken as sample for the same purpose.

### **3.6 Methods of Data Presentation & Analysis**

The data presentation and analysis are focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of the data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, regression analysis and the technique of the least square are adopted in this study. In the same way, some strong financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

## **Tools for Analysis**

As mentioned above for the purpose of the data analysis, financial as well as statistical tools are used to make the analysis more effective, convenience, dependable and genuine. Analysis and presentation of the data is the core of the study. The researcher has followed financial analysis as well as statistical tools. Financial analysis helps the judgment about the operating performance of investment position and statistical tools help the find out the trends of financial position of the bank. The financial tools are most reliable.

### **3.6.1 Financial Tools**

Financial Analysis basically helps to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret the financial performance of a firm. Financial ratio analysis is a reliable way to understand how a company is performing financially. Ratio analysis is one of the important financial tools has been used in this study. It helps to show mathematical relationship between two accounting items or figures. By applying ratios to an organization's financial statements, managers are able to better evaluate its short and long

term financial performance. Although, there are various types of ratios to analyses and interpret the financial statement, only four ratios have been taken in this study which are mainly related to the investment policy of the bank. They are:

### **Ratio Analysis**

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as “the indicated quotient of two mathematical expression” and as “the relationship between two or more things” (Webster’s New Collection Dictionary”, 1975:958). A ratio is a figure or a percentage representing the comparison of one –dollar amount with some other dollar amount as a base (Roy, A.F., 1974:97). It is used to find out the strength and weakness of the firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of the firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm’s financial performance. (Pandey, I.M., 1979:97)

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound

reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

### **A. Liquidity Ratios**

Difference between current assets and current liabilities is known as working capital, which provides the liquidity in business organizations. It is extremely essential for a business organization to be able to meet its obligations as they become due, so it should maintain sufficient liquidity neither excess or nor less. As it measures the ability of firm to meet its short term obligations, it reflects the short term financial strength and weakness of the firm.

A high degree of liquidity shows inability of proper utilization of funds where as the lack of liquidity shows the signal of poor credit worthiness, loss of creditors confidence or even in legal tangles resulting in the closure of the company. So the firm should maintain appropriate liquidity over the immediate future to need its short term liabilities as they fall due. To measure the liquidity position of bank under the study the following ratios have been calculated:

**i. Current Ratio:** The calculation of current ratio is based on a simple comparison between current assets and current liabilities. It measures short-term solvency, so it is often called liquidity solvency ratio & working capital ratio. Current ratio is calculated by applying following formula-

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Where, current assets represents the amount of liquid i.e. cash and near cash assets available to the business which can be converted into cash within a year. Likewise, current liabilities give an indication of the upcoming cash requirements are payable within a year from current assets. The proportion of current ratio is 2:1 or more is considered satisfactory. Thus, the conventional rule is based on the assumption that even if half decreases the current assets, the firm can meet its current obligations. It is not any hard and fast assumption that the current ratio must equal to 2:1. So many firms below this standard are also seen sound and meeting those obligations efficiently. It is the trend over time rather than the absolute value that gives the most valuable information.

**ii. Cash & bank balance to Total Deposits Ratio:** Cash and Bank Balance to total deposits ratio reflects the ability of banks immediate funds to meet their current deposits, margin call and saving deposits. This ratio is computed by dividing the amount of cash and bank balance by the total deposit. The ratio can be calculated by applying the following formula-

$$\text{Cash \& Bank balance to total deposits ratio} = \frac{\text{Cash \& bank balance}}{\text{Total deposits}}$$

Higher ratio shows that higher liquidity position and ability to cover the deposits and vice versa. In this study, cash and bank balance includes total cash in hand and total cash at banks. Similarly, deposit includes all types of deposits, money at call and other deposits.

**iii. Cash & Bank Balance to Current Assets Ratio:** Cash & bank balance to current assets ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than other in current assets portion so this

ratio visualizes higher liquidity position than current ratio. The ratio can be calculated by using the following formula:

$$\text{Cash \& bank balance to CAR} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

The ratio shows the percentage of readily available fund within the bank. In the present study, cash and bank balance represent total of local currency, foreign currency, cheque in hand and various bank balances in local as well as foreign bank.

**iv. Loan & Advances to Current Assets Ratio:** It shows the relationship between loan & advances to current assets or it shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. This ratio can be computed in the following way:

$$\text{Loan \& advances to current assets ratio} = \frac{\text{Loan \& advance}}{\text{Total Current Assets}}$$

Loan and advances are the current assets, which is general income to the bank. It shows the percentage of loan and advances in the total current assets. In the present study, loan and advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currencies.

### **B. Assets Management Ratio/Activity Ratios**

Assets management ratio or activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. The efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the rate of turnover or conversion, the more efficient is the management/utilization of assets.

These ratios are concerned with measuring the efficiency in assets management. If available assets are not utilized efficiently, the investment upon them will be idle and profitability decreases, and also if the investment is not sufficient, then adequate production and revenue cannot be made and profitability decreases. So, proper balance between revenue and assets is desired for the reflection of optimum utilization of the assets. Here some of these

ratios are computed to assess the banks' efficiency in utilization of available assets.

**i. Loan & Advances to Total Deposits Ratio:** Commercial banks utilize the outsider's fund for profit generation purpose. Loan and advances to deposit ratio shows whether the banks are successful to utilize the outsider's fund (i.e. total deposits) for profit generating purpose on the loan & advances or not. The formula is:

$$\text{Credit \& advances to TDR} = \frac{\text{Loan \& Advance}}{\text{Total Deposits}}$$

Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice versa. Here, credit and advances refer to total of loan; advances and overdraft (i.e. in local currency plus convertible foreign currencies) and total deposits refer to total of kinds of deposits.

**ii. Loan & Advances to Total Assets Ratio:** It measures the ability in mobilizing total assets into loan and advances for generating income. A higher ratio is considered as an adequate symbol for effective utilization of total assets of bank to credit

and advances of which creates opportunity to earn more & more.

It is calculated as:

$$\text{Credit \& advances to TAR} = \frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

**iii. Total Investment to Total Deposit Ratio:** Total investment to total deposits ratio indicates how properly firms deposit have invested on government securities and debentures of the other companies. This ratio can be computed by dividing the total amount of investment by total amount of deposits collections. This ratio can be calculated by using the following formula:

$$\text{Total investment to TDR} = \frac{\text{Total investment}}{\text{Total Deposits}}$$

Here, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

**iv. Credit Loss Provision to Credit & Advances Ratio:** It measures the percentage of credit loss provision on credit and advances. Credit loss provision on credit is given to reduce risk of non-payment of released credit. As per directives to bank and finance company by NRB (2058 B.S), 1% of good credit can be provisioned as credit loss provision to reduce risk that may arise due to no recovery of disbursed credit. It is computed as:

$$\text{Credit loss provision ratio} = \frac{\text{Total Credit Loss Provision}}{\text{Credit and Advances}}$$

### **C. Profitability Ratios:**

One of the important objectives of the commercial bank is to earn more profit, management, owner and creditors of the bank expect reasonable and more return. Efficiencies of any firm can be measured in term of profit. Profitability ratio also indicates public acceptance of the service of bank and run competitively. In this study, the profitability ratios are computed by relating the profits of banks to their investment.

“Profitability ratios are the indications of degree of managerial success in achieving firm’s overall goals”(Pradhan, S., 1996:41). It shows the overall efficiency of the business concern”.

**i. Net profit/loss to total assets ratio:** The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice versa.

In this study, Net Profit/Loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

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

**ii. Interest Income to Total Credit and Advances:** It tells the income as interest from total credit and advances. It is useful to know the facts that whether the credit has given good return or not. We can increase interest income by taking good and recovery

credit policy. High return shows the soundness of credit policy. It is calculated by using the formula:

$$\text{Interest Income to TCA} = \frac{\text{Interest Income}}{\text{Total Credit and Advances}}$$

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

$$\text{Earning Per Share} = \frac{\text{Net Income after Taxes}}{\text{Number of common stocks outstanding}}$$

#### **D. Risk Ratios:**

Risk means, possibility of incurring loss or misfortune. Risk taking is the almost important business of every banks investment management. A firm wants to bear risk and uncertainty, the profitability and effectiveness of the firm increases. These ratios indicate the amount of risk associated with the various banking operation, which ultimately influences the investment policy of the bank. To measure the risk ratios of reference bank, the following ratios have been calculated and analyzed.

**i. Credit Risk Ratio:** Credit risk ratio helps to check the profitability of loan non repayment or the possibility of loans to go into default. Credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. This ratio is calculate by dividing total loan and advances by assets. It can be shown as:

$$\text{Credit risk ratio} = \frac{\text{Total loan \& advances}}{\text{Total assets}}$$

**ii. Capital Risk Ratio:** The capital risk of a bank indicates how much assets value may decline before the position of deposition and other creditors are jeopardized. Therefore, a bank must maintain adequate capital in relation to nature and condition of its assets, its deposits liabilities and other corporate responsibilities. Capital risk ratio measures bank's ability to attract deposits and interbank funds. It also determines the level of profit, a bank can earn if a bank chooses to take high capital risk, and its ROE will be higher and vice versa. It can be shown as:

$$\text{Capital Risk Ratio} = \frac{\text{Capital}}{\text{Risk weighted assets}}$$

Only loans & advances are taken as risk weighted assets.

### **Limitations of Ratio Analysis**

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

i. Different firms in the industry although apparently comparable in respect to size, age, location; product mix and technology may

not be really comparable if they are following different accounting methods.

ii. Financial statements record past transactions. They are, thus index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision making.

iii. In the context of persistent price level changes, intra firm trends analysis loses much of its operational significance.

iv. The difference in the definition of items in the balance sheet and the income statement makes the interpretation of ratios difficult.

v. Sometimes ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Singh, S.P., 1993:101)

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

### 3.6.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection; fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical statistical tools such as standard deviation, Karl Pearson's Coefficient of correlation, trend analysis are adopted which are as follows:

#### A. Arithmetic Mean (Average)

“Averages are statistical constants which enables us to comprehend in a single effort the significance of the whole” (Bowley, A.I. as quoted on S.C Gupta, 2000:357). It represent the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwidely numerical data. It is calculated as:

$$\bar{X} = \frac{\sum X}{N}$$

Where,

$\bar{X}$ = Arithmetic mean

N= Number of observations

$\Sigma X$ = Sum of observations

### **B. Standard Deviation**

Standard deviation is an important and widely used to measure dispersion. “A standard deviation is the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is denoted by the letter (Sigma)”. (Shrestha, K.N., 2048:112).

It is calculated as:

$$= \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

= Standard Deviation

### **C. Coefficient of Variance (C.V)**

The coefficient of variance is the most commonly used measure of relative variance. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used in

such problems where the researcher wants to compare the variability of data more than two years. It can be shown as,

$$\text{Coefficient of variance} = \frac{\text{Standard deviation}}{\bar{X}}$$

Where,

$\bar{X}$  = Mean

= Standard deviation

#### **D. Coefficient of Correlation (r)**

Coefficient of correlation is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and another independent. This analysis interprets & identifies the relationship between two or more variables. In the case of highly correlated variables, the efforts of one variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

- i. Coefficient of correlation between deposit and loan and advances.

ii. Coefficient of correlation between total deposit and total investment.

The above analysis tools analyze the relationship between these variables & help the bank to make appropriate policies regarding deposit collection, fund utilization (loan & advances investment) and profit maximization.

To find out these relationships, the following formula is used:

$$r_{x_1x_2} = \frac{x_1x_2}{x_1^2 x_2^2}$$

Where,

$r_{x_1x_2}$  = Correlation between  $X_1$  &  $X_2$

$X_1$  =  $\bar{X}_1 - X_1$

$X_2$  =  $\bar{X}_2 - X_2$

The result of coefficient is always between -1 to +1, when  $r=+1$ , it means there is significant relationship between two variables and when  $r=-1$ , it means there is no significant relationship between two variables.

### **E. Trend Analysis**

Under this topic we analyze and interpret the trend of deposits, loan and advances, investment and net profit of this bank helps to make forecasting for next five years. The following trend value analyses have been used in this study.

- i. Trend analysis of total deposit
- ii. Trend analysis of total investment
- iii. Trend analysis of net profit

The trend of related variables can be calculated as,  $Y=a+bX$

### **3.7 Limitations of Research Methodology**

1. Only the selected financial and statistical tools have been used in this thesis.
2. Research mainly depends on the secondary data i.e. Balance Sheet of the bank and data provided by the NRB.
3. Sample taken by the researchers is only two.

4. In the process of taking primary data from bank, only 'yes' or 'no' questionnaires have been used by the researcher. Only 10 customers and 10 employees of the bank has chosen to take the view of this towards bank.
5. Only the five years data 2001/2002 to 2006/2007 have been collected to analyze the credit management position of the bank.
6. In the process of data collection procedure, thesis could not be found written on credit management of NBL. In the same topic related to other commercial banks have been used as a guide.

## Chapter- IV

# Analysis & Interpretation of Data

### 4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data of bank in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in the third chapter. “A report can be worthless if interpretation is faulty, even if valid and reliable data have been collected” (Pant, P.R., 1998:23)

“The data after collection has to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan” (Kothari, C.R., 1990:10). The purpose of this chapter is to introduce to the mechanics of data analysis and interpretation. Data analysis is the relationships or differences supporting or conflicting with original or new

hypothesis should be subjected to statistical tests of significance to determine with what validity data can be served to indicate any conclusion.

With the help of this analysis, efforts have been made to highlight credit management as well as other cases or problems of bank can be visualized. For the analysis, the researcher uses the different types of analytical methods and tools such as financial ratio analysis plus other statistical analysis.

## **4.2 Financial Statement Analysis**

The concept of financial statement analysis has been already discussed in previous chapter. Here we study and analyze the data by using accounting tools.

### *Ratio Analysis*

Ratio Analysis has been already discussed in previous chapter. Here the researcher calculates different ratios of bank analyzes and interpret them.

## 4.2.1 Liquidity Ratio

### i) Analysis of Current Ratio

Table No. 1

Amt in million

Year			
	Current Assets	Current Liabilities	Ratio
2002/2003	19,260	15,581	1.32
2003/2004	24,080	17,441	1.38
2004/2005	24,441	17,290	1.41
2005/2006	11,481	4,673	2.46
2006/2007	11,921	4,887	2.44
<b>Mean</b>			<b>1.802</b>
<b>S.D</b>			<b>0.530</b>
<b>C.V</b>			<b>29.41</b>

(Source Annexure-A1)

Current ratio of this bank is increasing in the earlier four years and slightly decreasing in the following fifth year. The lowest

ratio is 1.32 in the first year and the highest ratio is 2.46 in the fourth year.

## ii) Analysis of cash and Bank Balance to Total Deposit Ratio

Table No. 2

Amt in million

Year	Cash & Bank Balance	Total Deposit	Ratio
2002/2003	4,596	35,014	0.131
2003/2004	5,861	35,735	0.164
2004/2005	6,160	35,934	0.171
2005/2006	6,465	35,830	0.180
2006/2007	6,311	39,014	0.161
<b>Mean</b>			<b>0.161</b>
<b>S.D</b>			<b>0.017</b>
<b>C.V</b>			<b>10.56</b>

(Source Annexure-A2)

Cash and Bank Balance to total deposit of this bank is increasing in earlier four years and decreasing in the last fifth year. The least ratio is 0.13 in the first year and the highest ratio is 0.180 in the fourth year.

**iii) Analysis of Cash and Bank Balance to Current Assets Ratio**

Table No. 3

Amt in million

Year	Cash & Bank Balance	Current Assets	Ratio
2002/2003	4,596	19,260	0.239
2003/2004	5,861	24,080	0.243
2004/2005	6,160	24,441	0.252
2005/2006	6,465	11,481	0.563
2006/2007	6,311	11,921	0.529
<b>Mean</b>			<b>0.365</b>
<b>S.D</b>			<b>0.148</b>
<b>C.V</b>			<b>40.64</b>

(Source Annexure-A3)

Cash and bank balance to current assets ratio of this bank is increasing in the first four years and decreasing for last fifth year.

The lowest ratio is 0.239 in first and highest ratio is 0.563 for fourth year.

#### iv) Analysis of Loan and Advances to Current Assets Ratio

Table No. 4

Amt in million

Year			
	Loan Advances	& Current Assets	Ratio
2002/2003	7,971	19,260	0.414
2003/2004	8,882	24,080	0.369
2004/2005	8,219	24,441	0.336
2005/2006	9,756	11,481	0.850
2006/2007	11,058	11,921	0.928
<b>Mean</b>			<b>0.579</b>
<b>S.D</b>			<b>0.255</b>
<b>C.V</b>			<b>44.10</b>

(Sources Annexure-A4)

Loan and advances to current assets ratio of this bank has been observed as 0.414, 0.369, 0.336, 0.850 and 0.928 throughout the

study period. From the table no. 4, it is clear this bank has fluctuating trend throughout the study period.

## 4.2.2 Assets Management Ratio

### 1) Analysis of Loan and Advances to total deposit ratio

Table No. 5

Amt in million

Year	Loan Advances	& Total Deposit	Ratio
2002/2003	7,971	35,014	0.228
2003/2004	8,882	35,735	0.249
2004/2005	8,219	35,934	0.229
2005/2006	9,756	35,830	0.172
2006/2007	11,058	39,014	0.283
<b>Mean</b>			<b>0.252</b>
<b>S.D</b>			<b>0.024</b>
<b>C.V</b>			<b>9.52</b>

(Sources-B1)

Loan and advances to total deposits ratio of this bank has been observed as 0.228, 0.249, 0.229, 0.172 and 0.283 throughout the study period. From the table no. 5 it is clear this bank has fluctuating trend throughout the study period.

## 2) Analysis of Loan and Advances to Total Assets Ratio

Table No. 6

Amt in million

Year			
	Loan Advances	& Total Assets	Ratio
2002/2003	7,971	39,816	0.200
2003/2004	8,882	44,162	0.201
2004/2005	8,219	47,045	0.175
2005/2006	9,756	35,919	0.272
2006/2007	11,058	39,259	0.282
<b>Mean</b>			<b>0.226</b>
<b>S.D</b>			<b>0.043</b>
<b>C.V</b>			<b>19.03</b>

(Sources-B2)

Loan and advances to total assets ratio of this bank has been observed as 0.200, 0.201, 0.175, 0.272 and 0.208 throughout the study period. From the table no. 6 it is clear this bank has fluctuating trend throughout the study period.

### 3) Analysis of Total Investment to Total Deposit Ratio

Table No. 7

Amt in million

Year			
	Total Investment	Total Deposit	Ratio
2002/2003	12,448	35,014	0.356
2003/2004	11,005	35,735	0.308
2004/2005	14,199	35,934	0.395
2005/2006	14,490	35,830	0.404
2006/2007	16,072	39,014	0.412
<b>Mean</b>			<b>0.375</b>
<b>S.D</b>			<b>0.039</b>
<b>C.V</b>			<b>10.40</b>

(Sources Annexure-B3)

Total investment to total deposit ratio of this bank has been observed as 0.356, 0.308, 0.395, 0.404 and 0.412 throughout the study period.

#### 4) Analysis of Credit Loss Provision to Credit and Advances Ratio

Table No. 8

Amt in million

Year	Credit Loss Provision	Credit Advance	& Ratio
2002/2003	16	7,971	0.002
2003/2004	0.0005	8,882	0
2004/2005	4	8,219	0.0005
2005/2006	607	9,756	0.062
2006/2007	80	11,058	0.007
<b>Mean</b>			<b>0.0143</b>
<b>S.D</b>			<b>0.0241</b>
<b>C.V</b>			<b>168.41</b>

(Source Annexure-B4)

Credit loss provision to credit and advance ratio of this bank has been observed as 0.002, 0.000, 0.005, 0.062 and 0.007 throughout the study period. From the above table it is clear this bank has fluctuating trend study period.

### 4.2.3 Profitability Ratio

#### 1) Analysis of Net Profit/Loss to Total Assets Ratio

Table No. 9

Amt in million

Year	Net Profit (Loss)	Total Assets	Ratio
2002/2003	(252)	39,816	-0.006
2003/2004	710	44,162	0.016
2004/2005	1,730	47,045	0.037
2005/2006	1,207	35,919	0.034
2006/2007	227	39,259	0.006
<b>Mean</b>			<b>0.0174</b>
<b>S.D</b>			<b>0.0161</b>
<b>C.V</b>			<b>92.53</b>

(Source Annexure-C1)

Net profit (loss) to total assets ratio of this bank has been observed as -0.006, 0.016, 0.037, 0.034 and 0.006 throughout the study period. From the above table it is clear this bank has fluctuating trend throughout the study period.

## 2) Analysis of Interest Income to Total Credit and Advances

Table No. 10

Amt in million

Year	Interest Income	Total Credit & Advances	Ratio
2002/2003	2,200	7,971	0.276
2003/2004	1,825	8,882	0.205
2004/2005	1,987	8,219	0.242
2005/2006	2,049	9,756	0.210
2006/2007	1,849	11,058	0.167
<b>Mean</b>			<b>0.22</b>
<b>S.D</b>			<b>0.037</b>
<b>C.V</b>			<b>16.82</b>

(Source Annexure-C2)

Interest income to total credit and advances ratio of this bank has been observed as 0.276, 0.205, 0.242, 0.210 and 0.167 throughout

the study period. From the above table it is clear this bank has fluctuating trend throughout the study period.

### 3) Analysis of Earning Per Share

Table No. 11

Amt in million

Year	Net Income after tax	No. of Common Stock	Ratio
2002/2003	(252)	3.803826	-66.25
2003/2004	710	3.803836	186.65
2004/2005	1730	3.803836	454.81
2005/2006	1207	3.803826	317.31
2006/2007	227	3.803826	59.68
<b>Mean</b>			<b>190.44</b>
<b>S.D</b>			<b>184.01</b>
<b>C.V</b>			<b>96.63</b>

(Source Annexure-C3)

Earning per share of this bank is increasing for the year 2004/005 after that it follows decreasing trend. Highest EPS is observed as 454.81 in the year 2004/005 and lowest in 2002/003 is -66.25.

## 4.2.4 Risk Ratio

### 1) Analysis of Credit Risk Ratio

Table No. 12

Amt in million

Year			
	Total Loan & Advances	Total Assets	Ratio
2002/2003	7,971	39,816	0.200
2003/2004	8,882	44,162	0.201
2004/2005	8,219	47,045	0.175
2005/2006	9,756	35,919	0.272
2006/2007	11,058	39,259	0.282
<b>Mean</b>			<b>0.226</b>
<b>S.D</b>			<b>0.043</b>
<b>C.V</b>			<b>19.03</b>

(Source Annexure-D1)

Credit risk ratio of this bank has been observed as 0.200, 0.201, 0.175, 0.272 and 0.282 throughout the study period. From the above table it is clear this bank has fluctuating trend throughout the study period.

## 2) Analysis of Capital Risk Ratio

Table No. 13

Amt in million

Year	Capital	Risk Weighted Assets	Ratio
2002/2003	380	9,971	0.048
2003/2004	380	8,882	0.043
2004/2005	380	8,219	0.046
2005/2006	380	9,756	0.039
2006/2007	380	11,058	0.034
<b>Mean</b>			<b>0.042</b>
<b>S.D</b>			<b>0.005</b>
<b>C.V</b>			<b>11.90</b>

(Source Annexure-D2)

Capital risk ratio of this bank has been observed as 0.048, 0.043, 0.046, 0.039 and 0.034 throughout the study period. From the above table it is clear that bank has fluctuating trend throughout the study period.

### 4.3 Statistical Analysis

The concept of statistical analysis has been already discussed in previous chapter. Here we study and analyze the data by using statistical tools.

#### 4.3.1 Correlation Coefficient (r)

##### 1) Analysis of correlation coefficient between total deposit and loan & advances

Deposits have played a very important role in the performance of a bank and similarly loan & advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variable ( $X_1$ ) and loan & advances are dependent variable ( $X_2$ ). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan & advances in a proper way or not.

*(Source Annexure-E1)*

$$r_{x_1x_2} = \frac{x_1x_2}{\sqrt{x_1^2 x_2^2}}$$

$$= \frac{6901117.6}{9693527.2 \quad 6332626.8}$$

$$= \frac{6901117.6}{3113.443 \times 2516.471}$$

$$= 0.881$$

Where,

$r_{x_1x_2}$  = Correlation between deposit & loan & advances

$x_1$  =  $X_1 - \overline{X_1}$

$x_2$  =  $X_2 - \overline{X_2}$

## **2) Analysis of correlation coefficient between total deposit and total investment**

The relationship between Coefficient of correlation of total deposits and total investment are measure by the degree of two variables. In this analysis, deposit is independent variable ( $X_1$ ) and investment is dependent variable ( $X_2$ ). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as investment in a proper way or not.

*(Source Annexure-E2)*

$$\begin{aligned}
 r_{x_1x_2} &= \frac{\sum x_1x_2}{\sqrt{\sum x_1^2 \sum x_2^2}} \\
 &= \frac{9017965.4}{\sqrt{9693527.2 \times 15313654.8}} \\
 &= \frac{9017965.4}{3113.443 \times 3913.267} \\
 &= 0.740
 \end{aligned}$$

Where,

$r_{x_1x_2}$  = Correlation between deposit and total investment

$$x_1 = X_1 - \bar{X}_1$$

$$x_2 = X_2 - \bar{X}_2$$

### 4.3.2 Trend Value

#### 1) Analysis of trend values of total deposit

(Source Annexure-F1)

Table No. 14

Trend values of total deposit

(Amt in million)

<b>Years</b>	<b>Trend Values</b>
2002/2003	34686.4
2003/2004	35495.9
2004/2005	36305.4
2005/2006	37114.9
2006/2007	37924.4
2007/2008	38733.9
2008/2009	39542.4
2009/2010	40352.9
2010/2011	41162.4
2011/2012	41971.9

From the above table, it is clear that the total deposit of bank is increasing trend. Other things remaining same, total deposit of the

bank in FY 2011/2012 will be Rs. 41971.9 million, which is the highest in the study period.

## 2) Analysis of trend values of loan & advances

(Source Annexure-F2)

Table No. 15

Trend values of loan & advances

(Amt. in million)

<b>Years</b>	<b>Trend Values</b>
2002/2003	3686.8
2003/2004	6432
2004/2005	9177.2
2005/2006	11922.4
2006/2007	14667.6
2007/2008	17412.8
2008/2009	20158
2009/2010	22903.2
2010/2011	25648.4
2011/2012	28393.6

From the above table, it is clear that the loan & advances of bank is in increasing trend. Other things remaining same, total loan & advances of the bank in FY 2011/2012 will be Rs. 28393.6 million, which is the highest in the study period.

### 3) *Analysis of trend values of total investment*

(Source Annexure-F3)

Table No. 16

Trend values of total investment

(Amt. in million)

<b>Years</b>	<b>Trend Values</b>
2002/2003	11496.2
2003/2004	12569.5
2004/2005	13642.8
2005/2006	14716.1
2006/2007	15789.4
2007/2008	16862.7
2008/2009	17936
2009/2010	19009.3
2010/2011	20082.6
2011/2012	21155.9

From the above table, it is clear that total investment of bank is increasing trend. Other things remaining same, total investment of

the bank in FY 2011/2012 will be Rs. 21155.9 million, which is the highest in the study period.

#### 4) *Analysis of trend values of net profit*

(Source Annexure-F4)

Table No. 17

Trend values of net profit

(Amt. in million)

<b>Years</b>	<b>Trend Values</b>
2002/2003	434
2003/2004	579.3
2004/2005	724.6
2005/2006	869.9
2006/2007	1015.2
2007/2008	1160.5
2008/2009	1305.8
2009/2010	1451.1
2010/2011	1596.4
2011/2012	1741.7

From the above table, it is clear that net profit of bank is increasing trend. Other things remaining same, total investment of

the bank in FY 2011/2013 will be Rs. 1741.7 million, which is the highest in the study period.

#### **4.4 Major findings of the study**

The preceding chapter has discussed and explored the facts and matters for the various parts of the study. Analytical part, which is the heart of the study, makes an analysis of various aspects of the credit management policy of bank by using some of important financial as well as statistical tools.

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding issues and gaps of the study and give suggestions for further improvement. This would be meaningful to the top management of the bank to initiate action and achieve the desire result. The objective of the researcher is only to point errors and mistakes but also to correct them and give directions for further growth and improvement.

The main findings of the study that derived on the basis of financial data analysis is given below:

#### **4.4.1 Findings from the Liquidity Ratios Analysis**

**i.** From the analysis of the current ratio, bank has higher average current ratio i.e. 1.802. bank utilizes its short-term funds for long-term purpose.

**ii.** The cash & bank balance to total deposits ratio of bank is increasing in the earlier four years and decreasing in the last fifth year. The mean ratio is for the study period of bank is 0.161 and standard deviation is 0.017 of bank and coefficient of correlation of NBL is 10.56% which shows that the ratios are not consistent.

**iii.** The cash & bank balance to current assets ratio of bank is increasing in the earlier four years and decreasing in the last fifth year. The mean ratio is for the study period of bank is 0.365 and standard deviation is 0.148 of bank and coefficient of correlation of NBL is 40.64% which shows that the ratios are not consistent.

It indicates that bank is in better position in maintaining its cash & bank balance to meet its daily requirements to make the payments on customers deposit withdrawal.

**iv.** The loan & advances to current assets ratio of bank is in fluctuating trend with mean ratio of 0.579 of bank and C.V is 44.10% of bank, which shows that bank has not better position of loan and advances.

#### **4.4.2 Findings from the Assets Management Ratio/Activity Ratios Analysis**

- i.** The mean ratio of loan & advances to total deposit of NBL is 0.252 with C.V of 9.52%. It has fluctuating trend. From above ratios, it can be concluded that NBL is not in strong to mobilize its deposit as loan & advances.
- ii.** Loan & advances to total assets ratio is found always lower to NBL over the study period. Obviously, the average ratio of NBL (0.226), which indicates bank is not in better position in utilizing the outside fund for the purpose of profit generating process.
- iii.** The investment to total deposit ratios is in fluctuating trend during the study period for the bank. The higher ratio for NBL is 0.412 in 2006/2007 and lowest is 0.308 in 2003/2004 with mean ratio of 0.0375 and C.V of 10.40%, it shows that the ratio is better.
- iv.** Credit loss provision to credit and advances ratio of the bank is in fluctuating trend. Hence, from the above calculation we can conclude that the position loans are better in NBL.

#### **4.4.3 Findings from Profitability Ratios Analysis**

**i.** Net profit/loss to total assets ratio helps us to conclude that the overall profitability of NBL is not better. NBL is not efficient using its total assets to earn higher rate of profit. But the decreasing ratio may signify the bad effects in coming future for the bank. However, comparatively the bank is in satisfactory position.

**ii.** Interest earned to total credit and advances ratio of NBL is good. So, it can be concluded that NBL has been able to earn more interest in relation to total credit and advances. It shows that NBL efficiently utilized its credit and advances for interest earning purpose.

**iii.** Average earning per share of NBL is found to be high throughout the study period. So, from calculation we can conclude that position of share is good on NBL.

#### **4.4.4 Findings from Risk Ratios Analysis**

**i.** Credit risk ratio of the bank is in fluctuating trend but average ratio of NBL is found to be low i.e. 0.226. Higher the ratio higher would be the chance of credit loss. Hence, from above calculation we can conclude that position of credit is not better in NBL.

ii. Capital risk ratio of NBL is following fluctuating trend. The average ratio of NBL is 0.042. Higher the ratio higher would be the chance of capital loss. Hence, from above calculation we can conclude that position of capital is better in NBL.

#### **4.4.5 Findings from the Correlation Analysis**

- i. The correlation between total deposits and total loan & advances shows that the correlation ( $r$ ) between deposits and loan & advances of NBL is 0.880. ' $r$ ' is positive and near to 1 in the bank. So, it is inferred that there is positive correlation between total deposits and loan and advances during the study period.
- ii. The correlation between total deposit and total investment shows that the correlation coefficient ( $r$ ) between total deposits and total investment of NBL is 0.740.

#### **4.4.6 Findings from the Trend Analysis**

From the trend analysis of total deposit, loan & advances, total investment and net profit of NBL, we found increasing trend for the bank for the fiscal year 2002/2003 to 2011/2012.

#### **4.4.7 Findings from Primary Data Analysis**

Analysis of credit practices provides the knowledge about the financial condition in terms of credit and credit efficiency of selected bank. In this section, the researcher tried to focus on the important areas of credit policy. The researcher designed structured questionnaire to analyze the meaning and importance of credit components.

In order to find out various opinions of existing employees of the bank regarding their credit policy, 50 selected employees were approached randomly and asked to fill up the questionnaire as mentioned in the annex. Out of them 40 employees were convinced to fill up and provide response. However, only 20 of them filled up themselves and the rest responded verbally.

Likewise, to find out various problems of credit customers in the bank 20 credit customers were approach randomly and asked to fill up structured questionnaire as mentioned in the annex. All of them were convinced to fill up and provide response.

According to the primary survey, following results were obtained:

**Interpretation of questionnaire's responses given by employees of Nepal Bank Ltd:**

) 100% survey employees of the bank agreed on its exists credit related problems during the working time.

) 40% survey employees agreed that service charged taken by the bank is not satisfactory and quite more than necessary but 60% replied that it is satisfactory.

) Similarly, 37.75% sample employees replied that the bank do not grant the entire credit to same sectors as the time of policy formulation but 62.5% replied that entire credit is granted in same sector as specified in the time of policy formulation.

) Only 87.5% respondents agreed with the officer visited the project site at the time of granting credit but 12.5% replied not.

) 100% sample employees agreed with entire borrowers need to submit detail proposal in the bank for credit taking.

) 100% sample employees agreed on that the past record of the borrower is analyzed before floating loan as well as installment payment ability and regular income mechanism of the borrower is ensured while granting credit.

) 80% sample employees did not agree with the bank provides the loan to large parties without much analysis but 20% agreed because of high and regular transaction.

) 90% respondents agreed that sufficient collateral is the basis of floating loan but 10% respondents did not agree with that.

) The entire sample respondents, i.e. 100% employees of the bank said that bank has the system of periodic valuation of collateral as well as bank makes provisions for loan to survive from future loss.

) Although all of matters are in positive side, only 60% sample employees are satisfied with the bank's credit policy and rest i.e. 40% are not satisfied because availability of loan to large parties without much analysis. Sufficient collateral to the base of floating loan, higher service charges etc.

**Interpretation of questionnaires responses given by credit customers of Nepal Bank Ltd:**

) Only the 50% of total sample customers said that they are up to date with the bank's credit policies and remaining said "No".

) 16 customers, out of 20 are dissatisfied with the bank interest rate. Only four customers, "we are more or less satisfied".

) 70% of the total sample customers of bank received information of repaying credit from the bank, 20% of the total customers were uncooperative with the researcher and remaining 10% said 'No'.

) 90% of the sample customers said that the bank officer visited their project site at the time of granting credit, 2 customer said "No" because there was representative of the credit-taking group.

) 14 customers, out of 20 respondents that they would take credit from the same bank in near future, 2 said 'No' and the remaining 4 customers did not respond clearly.

) 90% of the sample customers said that they utilizes the credit for the same sector as specified at the time of taking loan. 2 customers did not respond clearly. Nobody said 'No'.

) 70% of sample customers of the bank said that they are satisfied with the bank's services and the remaining said 'No'.

## Chapter-V

### **Summary, Conclusion & Recommendation**

The last chapter of this includes summary, conclusion and recommendation which were developed from the fact findings through analysis of various aspects of investments of bank by using some important financial as well as statistical tools.

Present study seems very successful to meet the stated objectives designed for study. The present study has been designed to overcome the issue relating to credit management of bank. It was aimed to find out comparative credit management in Nepal Bank Ltd. The prime components of credit management is the financial condition in terms of lending practices, industrial environment of that bank and management quality in terms of lending practices, designed for the study to meet the objectives. Present study successfully explored the financial condition in terms of lending practices of selected bank, industrial environment of this bank management quality to support credit management. It is clear evident that bank having the good financial position or condition

has its good industrial environment and high quality of management.

## **5.1 Summary**

The development of a country is measured by its economic indicators. Therefore, countries have given emphasis to the development of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like bank necessary to collect scattered savings and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the economy. It will be

diverted abroad or channeled into unproductive conspicuous consumption including real estate speculation.

The main objective of this study is to evaluate the credit management of NBL and to suggest measures to improve the credit management of the bank. In this study, some of the financial tools such as, ratio analysis, trend analysis and coefficient of correlation have been used. The role of NBL in the country cannot over emphasize. Today, NBL has already spend more than 72 years in serving the nation, apart from. Its traditional function, it has served as a major institution for the development of the nation. Thus it has contributed the major role for the betterment of the country.

This study has been constrained by various common limitations. The study is based on the secondary data from F/Y 2002/2003 to 2006/2007. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank personnels have been made.

Financial as well as statistical tools have been used deployed in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, activity ratio and profitability ratio and risk ratio have been analyzed and interpret .Under statistical analysis, some relevant tools i.e. co-efficient of correlation and trend analysis, have been used. The analysis gives clear picture of the performance of the bank with regard to its investment operation.

The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in difference securities. The greater the credit created by the bank, the higher will be the profitability. A sound lending and investment policy is not significant for the promotion of commercial savings of a backward country like Nepal.

Present study is very successful to meet the stated objectives designed for the study. The researcher highlights or introduces the meaning and importance of research paper and meets the objectives followed by various sequential steps.

## **5.2 Conclusion**

The largest commercial bank, NBL has potentially importance role to play in the economy to enhance the healthy competition. The political invention, weak management, poor financial information system and ever growing bad loans have tremendously impacted on financial health of this bank in the past. Recent auditing work reveals a high negative net worth, weak internal control and information systems and poor internal financial management. Thus, it is advised to employ technical support to assist in developing a strategic plan for the implementation, such as downsizing privatization, splitting, merger, acquisition etc. In the same way, technical support has been expected to implement any strengthening work identified by the reform proposal. The present ownership structure of NBL will be gradually changed by their privatization and entry of new reputed, fit the proper private sector banks and financial institutions.

The EPS is negative in F/Y 2002/2003 for the bank. The commercial bank NBL has been handed over to external management team charged with correction of the poor financial condition, updating accounts, cleaning up portfolios and reducing

non-performing assets complying with prudential banking and disclosure and international accounting and auditing guidelines and modernization the bank through computerization and training. A voluntary retirement scheme has been introduced and staffing and operational costs have been substantially reduced. The bank is expected to generate profit in years to come.

### **5.3 Recommendation**

The research is carried out on the topic “The Credit Management of Nepal Bank Ltd”. From the research it is found that the present status of bank management is not so good. There is a need of improvement on structural and functional aspects. To bring drastic change in the management and to have better progress is not a single night work. Beside this government is also not able to bring the changes in the structural and functional aspects at once because of political situation, financial burden and existing rules and regulations.

Therefore the researcher thinks that it will be appropriate to present the recommendation about credit management in this bank. According to the analysis of the available data the following guidelines are highlighted to put forward for the further improvement of the bank:

) The global banking scenario is changing very fast. New and emerging economies have been able to report a higher level of economic growth and are on the path of making the growth rates sustainable. The main strategy of the development is liberalization, competition and exploration of natural resources. Therefore, the development strategy of Nepal needs to be compactable with the global economy.

) The major problem is seen in loan recovery department of the bank, due to which the bank are facing loss on the critical period. Thus the department should introduce new methods of recovery of loans than those of routine methods.

) The bank has high level of negative net worth. So, a capital plan needs to be worked out and the shareholders of this bank need to inject the capital to the level required by the regulatory authority.

) The influence of the government & political situation in banking sector affects the overall activities of the bank. So government must be aware of this fact and policy must be developed to improve the current situation of NBL.

) The bank suffers lack of scientific MIS. The IT platform needs to be installed as soon as possible, it has extremely delayed are in the reform process. Only after computerization public will feel

visible improvements in the banking operation. The bank targets all branches to be computerization till in B.S 2067 Karttik. The bank needs to improve the quality of reporting system.

) The bank needs to implement successor planning in the bank capable to replace the NRB Management Team.

) As capital structure of the bank is levered, the bank is recommended to maintain and improve mix of debt and owner's equity by increasing equity base.

) Profitability position of NBL is satisfactory. If resources held idle, bank faces high cost and cause the low profit margin.

) The bank should fulfill some obligations by extending its resources to rural areas and promoting the development of poor and disadvantages group. In order to do so, it should open branches in the remote areas with the objectives of providing cheaper banking services.

) The economic liberalization policy adopted by the government has created an environment of strict competition even in the banking sector. In this context, bank is suggested to formulate and implement some sound and effective financial and non financial strategies to minimize its operational expenses to meet required level of profitability.

) The bank should introduce major programs that the customers demand these days such as consumer banking, ATM card, good services etc. These facilities are provided by the foreign and joint venture banks which makes NBL to lag behind.

) There is lack of Integrated Software System in NBL. At present most of branches are computerized. Bank has huge customers in rural and urban areas. So, bank must be aware and accountable to these people for the implementation of integrated banking package.

) Before investment of funds bank must give attention about liquidity, profitability, security, diversification and many other factors.

) For the better mobilization of deposit and credit the bank must take the help of media. It means special publicity campaign should be launched to popularize its services, which helps to boost up the banking habits and confidence among the people upon the bank.

) The staff of the bank must be empowered by providing training and knowledge will get better services of customers.

) The reform in financial sector, despite a slow start, has now moved to a critical stage. Strong efforts now needed to operation

the institutional mechanisms that have been set up for expediting debt recovery, and to reduce the Non Performing Assets (NPA) of the bank. To cut off the staff size and re-organization and divestment plans, strong political will and commitment would be needed.

) The bank needs to capture all the financial areas of the bank in restructuring process.

) The bank needs to implement business plan for new lending based on the fund available from recovery of loans. Unless and until the bank cannot explore the income streams of high yield and generate adequate income for the bank, the bank could not restore its financial health quickly.

) Privatization road map needs to be prepared and discussed.

) The bank should not distribute the bonus, unless and until the bank eliminates its negative capital from the balance sheet. It is not prudent to distribute profits after capitalizing the losses.

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**ANNEX****Calculation of mean, standard deviation and coefficient of variation:*****Annexure A-1*****Current Ratio:**

Year		
	$\bar{X}$	
2002/2003	-0.482	0.232
2003/2004	-0.422	0.178
2004/2005	-0.392	0.154
2005/2006	0.658	0.433
2006/2007	0.638	0.407
Total ( )		1.404

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 1.802 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{(\overline{X-\bar{X}})^2 / N} \\ &= \sqrt{1.404/5} \\ &= 0.530\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 29.41\end{aligned}$$

**Annexure A-2****Cash & Bank balance to total deposit ratio:**

Year		
	$\bar{x} - \bar{X}$	$(\bar{x} - \bar{X})^2$
2002/2003	-0.03	0.0009
2003/2004	0.003	0.000009
2004/2005	0.01	0.0001
2005/2006	0.019	0.0004
2006/2007	0.00	0.00
Total ( )		0.0014

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{\sum X}{N} \\ &= 0.161 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{0.0014/5} \\ &= 0.017\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 10.56\end{aligned}$$

**Annexure A-3****Cash & bank balance to current assets ratio:**

Year		
	$X - \bar{X}$	$(X - \bar{X})^2$
2002/2003	-0.126	0.016
2003/2004	-0.122	0.015
2004/2005	-0.113	0.013
2005/2006	0.198	0.039
2006/2007	0.164	0.027
Total ( )		0.11

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 0.365 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{0.11/5} \\ &= 0.148\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{s}{\bar{X}} \times 100 \\ &= 40.64\end{aligned}$$

**Annexure A-4****Loan & advance to current assets ratio:**

Year		
	$\bar{X}-\bar{X}$	$(\bar{X}-\bar{X})^2$
2002/2003	-0.165	0.027
2003/2004	-0.21	0.044
2004/2005	-0.243	0.059
2005/2006	0.271	0.074
2006/2007	0.349	0.122
Total ( )		0.326

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{\sum X}{N} \\ &= 0.579 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X-\bar{X})^2}{N}} \\ &= \sqrt{0.326/5} \\ &= 0.255\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 44.10\end{aligned}$$

**Annexure B-1****Loan & advance to total deposit ratio:**

Year		
	$X - \bar{X}$	$(X - \bar{X})^2$
2002/2003	-0.024	0.0006
2003/2004	-0.003	0.00001
2004/2005	-0.023	0.010
2005/2006	0.02	0.0004
2006/2007	0.031	0.0010
Total ( )		0.003

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 0.252 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{0.003/5} \\ &= 0.024\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 9.52\end{aligned}$$

**Annexure B-2****Loan & advances to total assets ratio:**

Year		
	$X - \bar{X}$	$(X - \bar{X})^2$
2002/2003	-0.0026	0.0007
2003/2004	-0.025	0.0006
2004/2005	-0.051	0.0026
2005/2006	0.046	0.0021
2006/2007	0.056	0.0031
Total ( )		0.0091

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 0.226 \end{aligned}$$

$$\begin{aligned} \text{Standard Deviation ( )} &= \sqrt{(X - \bar{X})^2 / N} \\ &= \sqrt{0.0091/5} \end{aligned}$$

$$= 0.043$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\overline{X}}{\overline{X}} \times 100 \\ &= 19.03\end{aligned}$$

**Annexure B-3****Total investment to total deposit ratio:**

Year		
	$x - \bar{x}$	$(x - \bar{x})^2$
2002/2003	-0.19	0.00036
2003/2004	-0.067	0.0045
2004/2005	0.02	0.0004
2005/2006	0.029	0.001
2006/2007	0.037	0.0014
Total ( )		0.0075

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{\sum X}{N} \\ &= 0.375 \end{aligned}$$

$$\text{Standard Deviation ( )} = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

$$= 0.0075/5$$

$$= 0.039$$

$$\text{Coefficient of Variation} = \frac{\bar{X}}{\bar{X}} \times 100$$

$$= 10.40$$

**Annexure B-4****Credit loss provision to credit & advance ratio:**

Year		
	$X - \bar{X}$	$(X - \bar{X})^2$
2002/2003	-0.0123	0.00015
2003/2004	-0.0143	0.0002
2004/2005	-0.0138	0.0002
2005/2006	0.0477	0.0023
2006/2007	-0.073	0.0001
Total ( )		0.0029

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 0.0143 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{0.0029/5} \\ &= 0.0241\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 168.41\end{aligned}$$

*Annexure C-1***Net profit loss to total assets ratio:**

Year		
	$x - \bar{x}$	$(x - \bar{x})^2$
2002/2003	-0.0234	0.00055
2003/2004	-0.00014	0.000002
2004/2005	0.0196	0.00038
2005/2006	0.0166	0.00028
2006/2007	-0.0114	0.00013
Total ( )		0.0013

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 0.0174 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{0.0013/5} \\ &= 0.0161\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 92.53\end{aligned}$$

*Annexure C-2***Interest income total credit & advance ratio:**

Year		
	$\bar{X}-\bar{X}$	$(\bar{X}-\bar{X})^2$
2002/2003	0.056	0.0031
2003/2004	-0.015	0.0002
2004/2005	0.0022	0.0005
2005/2006	-0.01	0.0001
2006/2007	-0.053	0.0028
Total ( )		0.0067

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 0.22 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{0.0067/5} \\ &= 0.037\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 16.82\end{aligned}$$

**Annexure C-3****Earning per share:**

Year		
	$X - \bar{X}$	$(X - \bar{X})^2$
2002/2003	-256.69	65889.76
2003/2004	-3.79	14.36
2004/2005	264.97	70209.10
2005/2006	126.87	16095.10
2006/2007	-130.76	17098.18
Total ( )		169306.50

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 190.44 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{169306.50/5} \\ &= 184.01\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 96.63\end{aligned}$$

**Annexure D-1****Credit risk ratio:**

Year		
	$x-\bar{x}$	$(x-\bar{x})^2$
2002/2003	-0.026	0.0007
2003/2004	-0.025	0.0006
2004/2005	-0.051	0.0026
2005/2006	0.046	0.0021
2006/2007	0.056	0.0031
Total ( )		0.091

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 0.226 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{0.091/5} \\ &= 0.043\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 19.03\end{aligned}$$

**Annexure D-2****Capital risk ratio:**

Year		
	$X - \bar{X}$	$(X - \bar{X})^2$
2002/2003	0.066	0.00004
2003/2004	0.001	0.000001
2004/2005	0.0004	0.000016
2005/2006	-0.003	0.000009
2006/2007	-0.008	0.000064
Total ( )		0.00013

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{X}{N} \\ &= 0.042 \end{aligned}$$

$$\begin{aligned}\text{Standard Deviation ( )} &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{0.00013/5} \\ &= 0.005\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation} &= \frac{\text{Standard Deviation}}{\bar{X}} \times 100 \\ &= 11.90\end{aligned}$$

**Annexure -F**

**The total no. of staff of Nepal Bank Limited are as below:**

**Permanent Staff**

<b>S.No.</b>	<b>Level</b>	<b>Post</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
1		Chief Executive Officer	<b>1</b>		<b>1</b>
		CEO's team member	<b>2</b>		<b>2</b>
2		Deputy General Manager	<b>5</b>		<b>5</b>
3	10	Chief Manager	<b>4</b>	<b>1</b>	<b>5</b>
4	10	Acting Chief Manager	<b>6</b>	<b>0</b>	<b>6</b>
5	9	Senior Manager	<b>16</b>	<b>2</b>	<b>18</b>
6	8	Manager	<b>51</b>	<b>5</b>	<b>56</b>
7	7	Deputy Manager	<b>154</b>	<b>14</b>	<b>169</b>
8	6	Assistant Manager	<b>336</b>	<b>72</b>	<b>408</b>
9	5	Senior Assistant	<b>609</b>	<b>257</b>	<b>867</b>
10	4	Assistant	<b>676</b>	<b>232</b>	<b>908</b>
11	3	Junior Assistant	<b>13</b>	<b>0</b>	<b>13</b>
		Senior Peon	<b>356</b>	<b>58</b>	<b>414</b>
		Peon	<b>16</b>	<b>15</b>	<b>31</b>
		<b>Total</b>	<b>2245</b>	<b>656</b>	<b>2903</b>

**Contract-Based Staff**

<b>S.No.</b>	<b>Post</b>	<b>Total</b>
1	Security Personnel	<b>379</b>
2	Others	<b>30</b>
	<b>Total</b>	<b>409</b>

Source-NBL web 2009/04/04

## Annexure -G

### **Risk Grading Matrix:**

As per NBL's RGM is divided into 5 parts, these are mentioned below:

- I) Character Risk (CR):
  - a) Integrity
  - b) Resourceful
  - c) Past Track
  - d) Knowledge & Education
  - e) Market Reputation
- II) Management Risk (MR):
  - a) Professional/ Family
  - b) Competency & Capability
  - c) Qualified & Educated
  - d) Past History of Success
- III) Business Risk (BR):
  - a) Stability/Vulnerable
  - b) Supply/Production
  - c) Demand/Competition
  - d) Market/Buyers quantity
  - e) Political Geographical Env.
- IV) Financial Risk (FR):
  - a) Ability to serve debt.
  - b) Liquidity
  - c) Leverage
  - d) Profitability
  - e) Turnover
- V) Security Coverage Risk (SR):
  - a) Primary Sector Cover
  - b) Additional Security Cover

RDM measures rating rationally divided into parts as good, substandard, doubtful and loss.

Good rating has 5 parts:

- |      |                          |    |
|------|--------------------------|----|
| i)   | Minimum Risk             | :1 |
| ii)  | Better Than Average Risk | :2 |
| iii) | Average Risk             | :3 |
| iv)  | Acceptable Risk          | :4 |

v) Special Mention :5

Others Ratings are Substandard, Doubtful and Loss/Bad

## Annexure – H

### Credit Authorities

NRS. In Million

Approving Authorities	Secured Limits (Funded and/or Non Funded)	Existing- Funded Limits	Existing- Non Funded Limits	New Exposures- Funded Limits	New Exposures- Non Funded Limits	Unchanged Renewals (Funded and/or Non Funded)
Deputy Chief Credit Officer	20	20	20	20	20	20
Chief Manager (HO)	12.5	12.5	12.5	8.0	10	15.0
Branch Manager KBO	12.5	12.5	12.5	8.0	10	15.0
Branch Manager Category 'A' (Senior Manager Level)	8.0	5.0	5.0	4.0	5.0	8.0
Branch Manager Category 'B' (Manager Level Branch)	5.0	3.0	4.0	2.0	3.0	5.0
Branch Manager Category 'C' (Assistant Manager Level Branch)	3.30	2.0	3.0	1.0	2.0	4.0
Branch Manager Category 'D 1' (Assistant Manager Level Branch)	2.0	1.0	2.0	0.5	1.0	2.0
Branch Manager Category 'D 2' (Assistant Manager Level Branch)	1.0	1.0	1.0	0.2	0.5	1.0

## Calculation of correlation coefficient

### *Annexure E-1*

#### Correlation coefficient between deposit and loan and advances:

Years	Deposit ( $X_1$ )	$x_1 = X_1 - \bar{X}_1$	Loan & Adv. ( $X_2$ )	$x_2 = X_2 - \bar{X}_2$	$x_1 X_2$	$x_1^2$	$x_2^2$
2002/2003	35,014	-1291.4	7,971	-1206.2	1557686.6	1667713.9	1454918.4
2003/2004	35,735	-570.4	8,882	-295.2	1683820.8	325356.16	87143.04
2004/2005	35,934	-371.4	8,219	-958.2	355875.48	137937.96	918147.24
2005/2006	35,830	-475.4	9,756	578.8	-275161.52	226005.16	335009.44
2006/2007	39,014	2708.6	11,058	1880.8	5094334.8	7336513.9	3537408.6
Total ( )	181,527		45886		6901117.6	9693527.2	6332626.8

$$\begin{aligned} \overline{X_1} &= X_1/N & \overline{X_2} &= \\ X_2/N & & & \\ &= 181527/5 & &= \\ 45886/5 & & & \\ &= 36305.4 & &= \\ 91772.2 & & & \end{aligned}$$

### *Annexure E-2*

**Correlation of coefficient between total deposit and total investment:**

Years	Deposit (X <sub>1</sub> )	x <sub>1</sub> =X <sub>1</sub> -X <sub>1</sub>	Loan & Adv. (X <sub>2</sub> )	x <sub>2</sub> =X <sub>2</sub> -X <sub>2</sub>	x <sub>1</sub> X <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
2002/2003	35,014	-1291.4	12,448	-1194.8	1542964.72	1667713.96	1427547.04
2003/2004	35,735	-570.4	11,005	-2637.8	1504601.12	325356.16	6957988.84
2004/2005	35,934	-371.4	14,199	556.2	206572.68	137937.96	309358.44
2005/2006	35,830	-475.4	14,490	847.2	402758.88	226005.16	717747.84

<b>2006/2007</b>	<b>39,014</b>	<b>2708.</b>	<b>16,07</b>	<b>2429.</b>	<b>6579731.1</b>	<b>7336513.9</b>	<b>59010112.6</b>
		<b>6</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>4</b>
<b>Total</b> ( )	<b>181,52</b> <b>7</b>		<b>6821</b> <b>4</b>		<b>9017865.4</b>	<b>9693527.2</b>	<b>15313654.8</b>

$$\begin{aligned} \bar{X}_1 &= \frac{\sum X_1}{N} & \bar{X}_2 &= \\ X_2/N & & & \\ &= 181527/5 & &= \\ 68214/5 & & & \\ &= 36305.4 & &= \\ 13642.8 & & & \end{aligned}$$

## Calculation of trend value

### *Annexure F-1*

#### Trend Analysis of Total Deposit

NRs in Million

Year (t)	Total Deposit (y)	$x=t-2001.5$	$x^2$	xy	$y_c = a+bx$
2002/2003	35014	-2	4	-70028	34686.4
2003/2004	35735	-1	1	-35735	35495.5
2004/2005	35934	0	0	0	36305.4
2005/2006	35934	1	1	35830	37114.9
2006/2007	39014	2	4	78028	37924.4
	$y=181527$		$x^2=10$	$xy=8095$	

$N=5$

$$a = \frac{y}{N} = \frac{181527}{5} = 36305.4$$

$$N = 5$$

$$b = \frac{xy}{x^2} = \frac{8095}{10} = 809.5$$

#### Trend Value of total deposits (2007/2008-2011/2012)

Year (t)	X	$y_c = a+bx$
2007/2008	3	38733.9
2008/2009	4	39543.4
2009/2010	5	40352.9
2010/2011	6	41162.4
2011/2012	7	41971.9

The equation the straight line trend is  $y_c = a+bx$

$$y_c = 36305.4 + 809.5x$$

**Annexure F-2****Trend Analysis of Loan & Advances**

NRs in Million

Year (t)	Loan & Advance (y)	x=t-2001.5	x <sup>2</sup>	xy	y <sub>c</sub> = a+bx
2002/2003	7971	-2	4	-15942	3686.8
2003/2004	8882	-1	1	-8882	6432
2004/2005	8219	0	0	0	9177.2
2005/2006	9756	1	1	9756	11922.4
2006/2007	11058	2	4	22116	14667.6
	y=45886		x <sup>2</sup> =10	xy=7048	

N=5

$$a = \frac{\sum y}{N} = \frac{45886}{5} = 9177.2$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{7048}{10} = 704.8$$

**Trend Value of loan & advances (2007/2008-2011/2012)**

Year (t)	X	y <sub>c</sub> =a+bx
2007/2008	3	17412.8
2008/2009	4	20158
2009/2010	5	22903.2
2010/2011	6	25648.4
2011/2012	7	28393.6

The equation the straight line trend is  $y_c = a + bx$

$$y_c = 9177.2 + 2745.2x$$

**Annexure F-3****Trend Analysis of total investment**

NRs in Million

Year (t)	Total Investment (y)	x=t-2001.5	x <sup>2</sup>	Xy	y <sub>c</sub> = a+bx
2002/2003	12448	-2	4	-24896	11496.2
2003/2004	11005	-1	1	-11005	12569.5
2004/2005	14199	0	0	0	13642.8
2005/2006	14490	1	1	14490	14716.1
2006/2007	16072	2	4	32144	15789.4
	y=68214		x <sup>2</sup> =10	xy=10733	

N=5

$$a = \frac{y}{N} = \frac{68214}{5} = 13642.8$$

$$b = \frac{xy}{x^2} = \frac{10733}{10} = 1073.3$$

**Trend Value of total investment (2007/2008-2011/2012)**

Year (t)	X	y <sub>c</sub> =a+bx
2007/2008	3	16862.7
2008/2009	4	17936
2009/2010	5	19009.3
2010/2011	6	20082.6
2011/2012	7	21155.9

The equation the straight line trend is  $y_c = a + bx$

$$y_c = 13642.8 + 1073.3x$$

**Annexure F-4****Trend Analysis of Net Profit**

NRs in Million

Year (t)	Net Profit (y)	x=t-2001.5	x <sup>2</sup>	Xy	y <sub>c</sub> = a+bx
2002/2003	-251	-2	4	502	434
2003/2004	710	-1	1	-710	579.3
2004/2005	1730	0	0	0	724.6
2005/2006	1207	1	1	1207	869.9
2006/2007	227	2	4	454	1015.2
	y=3623		x <sup>2</sup> =10	xy=1453	

N=5

$$a = \frac{\sum y}{N} = \frac{3623}{5} = 724.6$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{1453}{10} = 145.3$$

**Trend Value of Net Profit (2007/2008-2011/2012)**

Year (t)	X	y <sub>c</sub> =a+bx
2007/2008	3	1160.5
2008/2009	4	1305.8
2009/2010	5	1451.1
2010/2011	6	1596.4
2011/2012	7	1741.7

The equation the straight line trend is  $y_c = a + bx$

$$y_c = 724.6 + 145.3x$$

*Annexure G-1***Questionnaires given to the employees of the bank:**

Dear respondents (employees)

The following questions have been given to you for your independent views & opinion about the bank. The responses & views obtained from your side will be kept confidential & will be used for this study purpose only. Please be kind and provide the rational information on the basis of their performances without hesitation. Thank you

.....

(Researcher)

A .Personal Profile

Name.....

Address.....

B. Questionnaires for survey

1. Is there credit related problems in your bank?
2. Does the service charges taken by is satisfactory?
3. Have you granted the entire credit to same sector as specified at the time of policy formulation?

4. Does any bank officer visit the project site at the time of granting credit?
5. Borrowers need to submit the detail proposal in the bank?
6. The relation to the top authority sometimes influences in loan decision rather than credit appraisal?
7. The past track record of the borrower is analyzed before floating loan.
8. The installment payment ability and regular income mechanism of the borrower is ensured while granting credit.
9. This bank provides the loan to large parties without much analysis.
10. Taking sufficient collateral is the basis for floating loan here.
11. This bank has the system of periodic valuation of the collateral.
12. Does your bank make provision for loan loss?
13. Are you satisfied with the bank's credit policy?

## *Annexure G-2*

### **Questionnaires given to the credit customers of the bank:**

Dear respondents (credit customers),

The following questions have been put forward to you for your independent views and opinion about the bank. The responses and views obtained from your side will be kept confidential and will be only used for this study purpose only. Please be kind and provide the rational information on the basis of their performances without hesitation. Thank you.

.....

(Researcher)

#### A. Personal Profile

Name.....

Address.....

#### B. Questionnaires for sample survey

1. Do you have all knowledge about the bank's credit policy?
2. Are you satisfied with the rate of interest on credit charging by the bank?
3. Have you received any notice before credit expiration date?
4. Does any bank officer visit the project site at the time of granting credit?

5. Do you want take further credit from this bank?
6. Have you utilized the entire credit to same sector as specified at the time of taking credit?
7. Are you satisfied with the bank service?