

**CREDIT RISK MANAGEMENT OF NEPALESE
COMMERCIAL BANKS**
(With Reference to SCBNL & NSBL)

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RECOMMENDATION

This is to certify that the thesis

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Entitled

Credit Risk Management of Nepalese Commercial Banks

(With Reference to SCBNL & NSBL)

has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

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**Credit Risk Management of Nepalese Commercial Banks
(With Reference to SCBNL & NSBL)**

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

Master Degree in Business Studies (MBS)

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DECLARATION

I hereby declare that the work done in this thesis entitled "Credit Risk Management of Nepalese Commercial Banks" submitted to Saptagandaki Multiple Campus, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business studies (M.B.S.) under the supervision of Mr. Kapil Deb Subedi, Lecturer of Saptagandaki Multiple Campus.

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LIST OF ABBREVIATIONS

AD	-	Anno Domini
BOK	-	Bank of Kathmandu
BS	-	Bikram Sambat
CA	-	Current Assets
CR	-	Current Ratio
CV	-	Coefficient of Variation
FD	-	Fixed Deposit
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
Gov. Sec.	-	Government Securities
NIBL	-	Nepal Investment Bank Limited
NPA	-	Non Performing Assets
NPAT	-	Net Profit After Tax
NRB	-	Nepal Rastra Bank
NSBL	-	Nepal SBI Bank Limited
PBT	-	Profit Before Tax
PE	-	Probable Error
r	-	Correlation
r^2	-	Coefficient of Determination
RBB	-	Rastriya Banijya Bank
ROE	-	Return on Net worth
Rs.	-	Rupess (Nepali Currency)
SCBNL	-	Standard Chartered Bank Nepal Limited
SD	-	Standard Deviation
TD	-	Total Deposit
TU	-	Tribhuvan University

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuables under such arrangement the depositors would leave their gold for safekeeping would get back their gold and valuable after paying a small amount as fee for safekeeping and serving.

Credit risk management is regarded to the management of assets that is the most income generating assets especially in commercial banks. Credit is regarded as the heart of commercial bank in the sense that, it occupies large volume of transaction. It covers the main part of investment. It is the main factor for creating profit and determining the profitability. (Pradhan, 2006)

Credit policy of a firm provides the framework to determine whether or not to extend credit and loan such to extent. The credit policy decisions of banks have two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards to credit decision, develop appropriate sources of credit information and methods of credit analysis. (Pradhan, 2006)

Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary 2011). Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for

banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely. (Varshney and Swaroop, 2006)

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified date on demand. (Chhabra and Taneja, 2009)

1.2 Statement of Problems

Most of the banking problems have been caused by weakness in credit management. Banks should have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate security against it. These risks that they are adequately compensated for risks incurred. So, to establish credit position is a major issue in commercial banking sector during these days.

To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Thus, the creditability is the major source and building better creditability position is the major strategy of every commercial bank.

This study has been focused to solve the following research questions:

1. What are the conditions of liquidity, profitability, leverage of sample commercial banks?
2. What are the credit practices of sample commercial banks?
3. What is the effectiveness of credit risk management of the sample commercial banks?
4. What is the relationship between loans, deposit & net profit?

1.3 Objectives of the Study

The main objective of this study is to examine the credit risk management of SCBNL and NSBL. The specific objectives are as follows:

- i. To analyze liquidity, efficiency & profitability position of sample commercial banks.
- ii. To analyze the credit practices of sample commercial banks.
- iii. To analyze relationship between Loan & Advance, Deposit & Net Profit of sample commercial banks.
- iv. To examine the trend of deposit, loan and advance, net profit and investment of sample commercial bank.

1.4 Significance of the Study

There are few researches in commercial banking and especially on their Lending practice, which are insufficient for deep study. Lending is one of the essential and main functions where the whole banking business is rested upon. Thus, a study on the commercial banks and especially in their Lending and investment practices carry a great significant to various groups but in particular is directed to a certain groups of organization. Which are:

1. This study was important for the students as it provides theoretical as well as conceptual frame work of different aspect of credit management.
2. Importance to the management body and shareholders of these banks for the evaluation of the performance of their banks and in comparison with other banks.
3. Importance to "outsiders" which are mainly the customers, financial agencies, stock exchanges.

4. Importance to the government or the policy makers such as the central bank.

1.5 Limitation of the Study

1. The total 30 commercial banks are operating in Nepal but only two commercial banks have been chosen for sample in this study namely: Standard Charter Banks Nepal Limited and Nepal SBI Bank Limited.
2. This study follows only credit management of sample commercial banks.
3. This research study largely depends on published documents such as balance sheet, profit and loss account statement, which are circulated at the close of the financial year.
4. This study has been based on mainly secondary data but some primary data will be used.
5. The study based on only the past five year's periods since FY 2008/09 to FY 2012/13.

1.6 Organization of the Study

The study have been organized in to five chapters. Which are:-

Chapter I: Introduction

Chapter one deals with introduction, statement of the problems, objectives of the study, significance of the study, limitations of study and organization of the study.

Chapter II: Review of Literature

Chapter two consists of review of literature. This chapter is subdivided into various functions as conceptual framework, review from different

studies, review from journal, article and review from master's thesis for the concerned topic and research gap.

Chapter III: Research Methodology

Chapter three present methodologies adopted or the research. It comprises research design, sources of data method of analysis and its descriptive presentation.

Chapter IV: Presentation and Analysis of Data

Chapter four deals with the techniques used in analyzing the collected data and its presentation in the descriptive and analytical manner.

Chapter V: Summary, Conclusions and Recommendations

Chapter five consists of summary, conclusion and recommendation about the topic concerned.

At the bibliography and appendix are attach in back of this dissertations.

CHAPTER TWO

REVIEW OF LITERATURE

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of books, reports, journals and research studies published by various institution unpublished dissertations submitted by master level students have been reviewed.

2.1 Conceptual Review

Credit policy and deposit mobilization in Nepal has concluded that mobilization of the 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. (Bajracharya, 2009)

Banking sector or transaction, an unavoidable ness of loan management and its methodology is regarded very important. Under this management, many subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, the condition of loan flow the provision of security, this management plays a great role in healthy competitive activities (Bhandari, 2008)

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advance. Hence, risk of non-payment of loan is known as credit risk default risk (Dahal, 2010). Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. This method of managing

credit risk is guided by the saying do not put all the eggs in a single basket (Bhandari, 2008)

2.1.1 Functions of Commercial Banks

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

- i. Accepting Deposit
- ii. Advancing Credit
- iii. Agency Services
- iv. Credit Creation
- v. Financing of Foreign Trade
- vi. Safekeeping of Valuable
- vii. Making Venture Capital Credits
- viii. Financial Advising, Security Brokerage Services.

The bank assist the traders engaged in foreign trade of the country. He discounts the bills of exchange drawn by exports to receive money in the home currency. Similarly, he also accepts the bills drawn by foreign exports (Vaidhya, 2006). Banks today are following in the footsteps of leading of financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates, (Vaidhya, 2006). Further, they support the overall economic development of the country by various modes of financing.

2.1.2 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. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary, 2011).

Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely. (Varshney and Swaroop, 2004)

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified date on demand. Banks generally grants credit on four ways; overdraft, cash credit, direct credit and discounting of bills. (Chhabra and Taneja, 2005)

2.1.3 Types of Credit

i) Overdraft:

It denotes the excess amount withdraw over their deposits.

i) Cash Credit:

The credit is not given directly in cash but deposit account is being opened on the name of credit taker and the amount credited to that account. In this way, every credit creates deposit.

iii) Term Credit:

It refers to money lent in lump sum to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years. Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's

prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs (Richard, 2006).

iv) Working Capital Credit:

Working capital denotes the difference 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 in funds moving through the cycle are generated to repay a working capital credit.

v) Priority or Deprived Sector Credit:

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

- a. Advances to poor/downtrodden/weak/derived people for generating income or employment.
- b. Institutional Credit to Rural Development Bank.
- c. Credit to NGOs those are permitted to carryout banking transaction for lending up to Rs 30,000.

vi) Hire-purchase Financing (Installment Credit)

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

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

vii) Housing Credit (Real Estate Credit)

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

viii) Project Credit

Project Credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short- term credits made to develops for the purpose of completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project. The basic guiding principal involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage of completion must be spelled in disbursement policy? Term of credit needed for project fall under it.

ix) Consortium Credit

No single financial institution grant credit to the project due to single borrower limit or other reasons and two or more such institution may consent to grant credit facility to the project among them. Financiers bank equal or likely charge on the project's assets.

x) Credit cards and Revolving lines of Credit

Banks are increasingly utilizing charge cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized, department processes revolving credits resulting reduction on administrative cost, continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Charge and credit lines tied to demand deposit accounts are the two most common revolving credit agreements. It can be further divided into credit cards, automatic overdrafts lines and large credit lines.

xi) Off-Balance Sheet Transaction

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability which may or may not arise during the happening of certain event. Foot notes are kept as reference to them instead of recording in the books of accounts. It is non funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

xii) Bank Guarantee

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

xiii) Letter of Credit (L/C)

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

2.1.4 Objectives of the Sound Credit Policy

The purposes of a written credit policy are

- a. To assure compliance by lending personnel with the bank's policies and objectives regarding the portfolio of credits and
- b. To provide personnel with a framework of standards within which they can operate.
- c. To maintain uniformity in practice of lending within an institution.

2.1.5 Lending Criteria

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

1. Character

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

- a. Memorandum and Articles of Association
- b. Registration certification
- c. Tax registration certificate (Renewed)
- d. Resolution to borrow
- e. Authorization- person authorizing to deal with the bank

2. Capacity

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

- a. Certified balance sheet and profit loss account for at least past 3 years.
- b. In case of the personal loan they have to submit the proof source of income.
- c. References or other lenders with whom the applicant has dealt in the past or bank A/C.

3. Capital

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

4. Collateral

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

5. Conditions

Once the funding company is satisfied with the character, capacity, capital and Collateral then a credit agreement (Sanction letter) is issued in

favor of the Borrower stating conditions of the credit to which borrower's acceptance is accepted.

2.1.6 Principles of Sound Lending Policy

Lending constitutes the main business of a banking company. A major chunk of the profits of a bank comes out of this function. But no lending can take place without some inherent risks. As bankers are trustees of the depositors' money, they cannot take undue risks. A banker has to follow a cautious policy and conduct the business of lending on the basis of certain sound principles. Here are some of the important principles of sound lending.

1. Safety

The main business of banking consists in borrowing various types of deposits such as current, saving and fixed deposits and lending such deposits to needy borrowers in the form of advances and discounting of bills. This obviously implies that safety of such funds should be ensured. Otherwise the banker will not be in a position to repay his deposits and once the confidence of the depositors is shaken, he cannot carry on the banking business.

If the banker has to ensure safe lending, he has to look to the three C's of the borrower namely Character, Capacity and Capital. Character of the borrower is important because that determines his willingness to repay the loan. His capital and capacity to run the business successfully determine his capacity to pay. The safety of the loan depends on both his capacity to repay and willingness to repay.

Banks will have to keep a portion of the deposits received for honoring the demands made by the customers. Only the balance can be safely. The bank's endeavor is of course to lend as much of the deposits as possible,

without which he will not be in a position to meet his interest, obligations and the maintenance of establishment. Therefore, he has to lend with a view to earn interest but lend it safe.

2. Liquidity

By liquidity is meant the readiness with which the bank can convert the assets into cash, Liquidity means short-term solvency of the borrower. A banker is essentially the lender of short-term funds because he knows that the bulk of his deposits are repayable on demand or at short notice. As the banker's deposits are subject to the legal obligation of being repayable on demand and at short notice, he must ensure liquidity also while lending, so that in times of need, he will be able to convert the assets into cash.

Bank can ensure high liquidity by keeping all deposits in the form of cash only. In such a case, he will not be in position to meet the interest obligations and expenditure of the establishment. From experience, he has learnt that he can safely lend out a substantial portion of the funds. But while lending he should try to ensure liquidity, i.e. in times of need, he must be able to obtain repayment of the money within a responsible short time. Liquidity also implies that the assets can be sold without any loss. Thus the concept of liquidity has twin aspects namely quick sale ability or ability or convert ability of the assets and the absence of risk of loss in such conversion.

3. Profitability

Commercial banks obtain funds from shareholders and naturally if dividend is to be paid on such shares it can only be paid by earning profits. Even in the case of public sector banks although they are service motivated they will have to justify their existence by earning profits. This is not possible unless the funds are employed profitably. From out of the

revenue earned, the banker has to pay interest on deposits, salary to the staff, meet other establishment expenses, build-up reserves and the balance must permit the payment of dividend to shareholders. So for the bank to sustain on a long run, it has to seek many profitable sectors where it can mobilize its collected fund. Before lending, a banker has to see that the advance and credit is on the whole profitable. Lending rates are affected by banks' internal policy like credit rating of the borrower, bank rate of NRB, inter-bank competition and NRB's guidelines on lending rates.

4. Purpose of Loan

Nowadays, the purpose for which loans are granted has acquired precedence over the principle of security. If a loan is required for a non-productive or speculative purpose, a banker will be reluctant to entertain the proposal. Loans for social functions, ceremonies, pleasure trips or for repayment of prior loans are not favored by a banker, as they are unproductive in nature. But it is very difficult for the bank to ensure that the advance has been used for the purpose for which it was taken. A person may take a loan obviously for a productive use, but may spend it on speculation. The central bank through its directives, also determines the policy to be followed by the banks with regard to the purpose for which advances may not be granted. So a banker should enquire the purpose for which it is taken for safe lending.

5. Security

Traditionally, bankers have been security oriented. The security offered against a loan can be of various types. It may vary from a piece of land or a building to a commercial paper or bullion. Whatever may be the security, a banker has to realize that it only a cushion to fall back upon in case of need and its adequacy alone should not form the sole

consideration for advance. It must be ensured that the security when accepted must be adequate, readily marketable, easy to handle and free from encumbrances.

6. Diversification of Loans

There is a very familiar saying that "Do not put all the eggs in the same basket." Banker should try to diversify loans as far as possible, so that he may minimize his risks in lending. If the banker lends only to one industry or only two few big firms or concentrates in a certain geographical area, the risk is great. He should diversify lending, so that he may not be affected by the failure of one industry or of a few big borrowers. A banker who puts all his eggs in one basket is not a prudent banker.

7. National Interest and Suitability

Bankers must ascertain on what type of business the customer is involved whether it serves the national interest or not, whether the firm is acting responsibly towards the society that it is operating in like brick industry or the cement industry was taken by it against environment pollution. Central bank issues directives to invest in various sectors such as the import of arms. Also bankers must remain vigilant of the law and order situation where borrower carries its business.

2.1.7 Some Important Banking Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below

A. Deposits

Deposits is the most important source of liquidity for a commercial bank. It is also the main source of fund that a bank usually uses for the

generation of profit. Therefore, the efficiency depends on its ability to attract deposits. Banks collect the scattered savings of the public through various accounts type like saving, current, fixed etc. Deposit being the borrowed amount from the depositors or from general public and institutions, it constitutes the liability of a bank. The management of a bank is always influencing it through deliberate policy action; the deposits of a bank are affected by various factors.

B. Investment on Government, Securities, Share and Debenture

“Though a commercial bank can earn some interest and dividend from the investment of government securities, share and debenture, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by treating it as a second source of banking business. A commercial bank may extend credit by purchasing government securities bonds and shares for several reasons.

Some of them are given as:

- i. It may want to space its maturates so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- ii. It may wish to have high grade marketable securities to liquidate if its primary reserve becomes inadequate.
- iii. It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors may demand fund in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

C. Investment on other Company's Share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB directives, the commercial banks purchase shares and debenture of regional development bank.

D. Liquidity

Liquidity is the ability of bank to meet its obligations on time, especially in relation to repayment of inter-bank borrowings and customer deposits. Liquidity management is a very crucial job of commercial bank and the bank should maintain adequate amount of cash in its vault and NRB for its daily operation and administrative purpose. As per the arrangement of NRB effective from fiscal year 2009, the commercial banks are required to maintain cash reserve of 5 percent with NRB of its total deposit liability with NRB. The previous provision of cash in vault maintenance has been withdrawn now.

E. Capital Adequacy

Capital is the blood of any business without which business cannot be run or established. In financial term, capital is the excess of assets over liabilities and can be defined as the wealth, which is employed for the production. Capital is required by a bank as a cushion to absorb losses, which should be borne by shareholders rather than depositors and to finance the infrastructure of the business. Capital adequacy is to maintain adequate amount of capital or fund to safeguard the money of the depositors against any possible loss. NRB requires banks to maintain a

certain capital adequacy ratio based on the total risk weighted assets and the banks are supposed to meet the minimum requirement of CAR.

F. Off-balance Sheet Activities

Off-balance sheet activities involve contract for future purchase or sale of assets and all these activities are contingent obligations. They are not recognized assets or liabilities on balance sheet. Some examples of these items are letter of credit, letter of guarantee, bills of collection etc. These activities are very important, as they are the good source of profit of bank though they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities.

G. Banking Risks

Normally, banks confront different kinds of risks, which are categorized as follows:

i. Credit Risk

Credit risk arises whenever another party enters into an obligation to make payment or deliver value to the bank. This risk is mostly associated with the lending.

ii. Liquidity Risk

Liquidity risk arises when bank itself fail to meet its obligation. The bank required to make payments to the different parties at different times, when they fall due to other parties, it is the liquidity risk.

iii. Yield Risk

It is the risk that bank's assets may generate less income than expense generated by its liabilities.

iv. Market Risk

The risk of loss resulting from movements in the market price of financial instruments in which the bank has a position is the market risk. Such

instruments include bonds, equities, foreign exchange and associated derivative products.

v. Operational Risk

The risk of failure in the banks procedures or controls, whether from external or internal causes or as a result of error or fraud within the institution is the operational risk.

vi. Ownership/Management Risk

The risk that shareholders directors or senior management be unfit for their respective positions or dishonest.

2.1.8 Project Appraisal

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

- i. Is the project technically sound?
- ii. Will the project provide a reasonable return?
- iii. Is the project in line with the overall economic objectives of the economy?

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

- i. Financial aspect
- ii. Economic aspect
- iii. Management/Organizational aspect
- iv. Legal aspect

2.1.9 Provision of NRB for Extending Advances & Investment in Productive, Priority and Deprived Sector

a) Productive Sector

productive Sector include advances to Priority Sector and Other Productive Sector which includes advances and investment in shares and debentures of small, medium and large industries as defined in industrial enterprises act; pre-shipment credit like purchase of merchandise, processing, assembling, packaging etc.; export bill financing, advances for purchase of public transport like truck, bus, tempo etc. and agricultural/farm equipment; investments on shares and debentures of government/semi-government or private sector, agricultural, insurance, banking or like companies etc.

As per NRB regulation, commercial banks required to extend 40 percent of the total advances to productive sector, which also includes 12 percent to priority sector including deprived sector.

b) Priority Sector Credit Program

"Priority sector" is defined to include micro and small enterprises which help increase production, employment and income as prioritized under the national development plans with an objective to uplift the living standard of general public particularly the deprived and low income people by progressively reducing the prevalent Unemployment, poverty, economic inequality and backwardness. Micro and small enterprises are classified into agricultural enterprises, cottage and small industries and services. In addition, other businesses as specified by NRB from time to time are also included under Micro and small enterprises. All credits extended to priority sector up to the limit specified by NRB are termed as "Priority Sector Credit."

c) Deprived Sector Lending

“Deprived Sector” includes low income 904 particularly socially backward women, tribes, lower caste, blind, hearing impaired and physically handicapped persons and Sukumbasi family. All credits extended for the operation of self-employment oriented micro-enterprises for the upliftment of economic and social status of deprived sector up to the limit specified by NRB is termed as "Deprived sector Credit". "Deprived Sector Credit" is considered as integral part of priority sector Credit and this credit comprise micro-credit programs and projects also.

The businesses under the Priority Sector Credit-Program have been classified under the following four major heads:

- i. Agriculture and Agro-bases business
- ii. Cottage and small industries
- iii. Services
- iv. Other business

Lending in Deprived Sector will be included in Priority Sector for the purpose of compliance test for 12 percent credit to Priority sector.

Deprived sector credit is advances up to Rs.30, 000 per borrower family meant for weak, poor and deprived people extended in the following manner by the commercial banks shall qualify to be included under deprived sector credit:

- i. Direct investment made by the commercial banks themselves in income generating employment oriented programs.
- ii. Investments made by commercial banks in share capital of Rural Development Banks, Rural Micro Finance Development Center and other Development Banks established with an objective to

extend credit to deprived sector.

- iii. Advances to the Rural Development Banks and other Development Banks engaged in the similar poverty alleviation programs.
- iv. Advances to Cooperatives, Non-governmental Organization and Small Farmers Cooperatives approved by NRB for carrying out banking transactions.
- v. Advances to Micro-Finance Institutions/ (Rural Development Banks and other financial institutions, cooperatives and non-governmental organizations approved by NRB for intermediation) stipulating the condition to disburse such credit to deprived sector only.
- vi. Loans extended by commercial banks to development banks engaged in micro credit activities with, stipulated condition to disburse the credit only to the deprived sector up to Rs.30,000 a family shall be eligible for the purpose of inclusion under Deprived Sector Credit.

2.1.10 Review of NRB Directives Related to Credit Management

The main focus of this study is to analyze the directives of Nepal Rastra Bank related to Credit Management of Commercial Banks. The directives issued from time to time are one of the tools used by the central bank to control and monitor the commercial banks. In the present context, the directives are issued by NRB quite regularly. In 2005, NRB, by using the rights given by the Nepal Rastra Bank Act 2058, has issued unified directives to regulate all three categories of financial sectors in Nepal to ensure that the banking industry functions as per the international standard and also to have more effective control mechanism for overall financial sector. In this new unified directive, loan classification and provisioning of loans of financial institutions are mentioned on E. Pra.

Directive No. 2/061/62 with the objective to minimize the possible risks associated with credits extended by financial institutions in the form of overdraft, loans and advances, bills purchased and discounted. Therefore, as per this new unified directive No. 2, banks should classify the loans and advances on the basis of aging of principal amount into the following 4 categories. (www.nrb.org.np)

2.1.11 Classification of Loans and Advances and Loan Loss Provision

A) Classification of Loans and Advances

i. Pass Loan

Loan and advances which principal amount payment are not due yet or if the due has not exceeded the due date for a period of 3 months are included under this category. Such loans and advances are defined as Performing Loan.

ii. Substandard Loan

All the loans and advances, which due principal amounts have exceeded the due date for a period of 3 months to 6 months are included in this category.

iii. Doubtful Loan

All the loans and advances, which principal amounts are due for a period of 6 months to 1 year are included under this category.

iv. Bad Loan

All the loans and advances which principal amount has crossed the due date for a period of more than 1 year as well as the advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

- i. Pass Loans and advances are defined as Performing Loans.
- ii. Loans and Advances falling under the category of Sub-standard, Doubtful and Bad Loan are classified and defined as Non-Performing Loan.

Notes:

There is no restriction to grade the loans and advances from low-risk category to high-risk category. For e.g. Substandard loans and advances can be graded to the Doubtful or Bad Loans Category; and the Doubtful loans and advances can be graded under the Category of Bad Loans on the basis of the internal discretion of the bank's management.

The term "Loans and advances" also includes the Bills Purchase and Discounts.

2.2 Review of Related Unpublished thesis

Acharya (2001) has studied on "Deposit mobilization of commercial bank in Nepal". The main objective is to impact of interest rate on deposit mobilization as well as credit ratio increase or decrease as the change in interest rate. Besides this, the objective is to know the efficient utilization of the accumulated deposits. She has found out that the commercial bank have not been successful in the mobilization of the deposits collected by the commercial banks have not been successful in the mobilization of the deposits collected by the commercial banks. Its is because of the fact, the commercial banks have not able to motivate and facilitate to their cents except at change in the rate of interest. The problems are to attracting the savings to the maximum possible extent to channeling these savings into those sectors of the economy where there are most needed and to extending banking facilities in the country to un-banked areas. The changes of interest rates in loan are also recommended. Commercial

banks should extend long term and medium term credit in addition to short term credit.

Panta (2001) in his thesis paper "A study of commercial banks deposit and its Utilization" got to notice that the percentage of the total credit supplied by commercial banks within five years period (1995-2000) is more or less same while in the collection of deposits. The percentage has increased too much. Thus, the increasing gap between collection and utilization shows economic requirement and to contribute the economic upliftment of the country, commercial bank should a fair sector wise and planned policy.

The purpose of this research is to develop some expertise in one's to see what new Contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of NB bank. Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on those exact topics, i.e. Credit Management: A study on Nepal Bangladesh Bank Limited. Therefore, to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles, and various published and unpublished dissertation are followed as guidelines to make the research easier and smooth. In this regard, here we are going to analyze the' different procedure of credit management, which is considered only on NB bank. Our main research problem is to analyze whether the NB bank has right level of liquidity as well as is able to utilize its resources effectively or not. To achieve, this main objective, various financial and statistical tools are used. Similarly, trend analysis of investment and profit are reviewed to make this research

complete. Therefore, this study is useful to the concern bank as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc.

Aryal (2005) submitted a thesis entitled to, "A Evaluation of credit investment and recovery of Financial Public Enterprises in Nepal" a case study of ADB/N. His research statement of problem was as; because of high interest rate of non institutional sources, people are unable to pay their credit at fixed time. These institutions compel them to transfer their property to the moneylender resulting himself or herself 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 collection amounts 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. His major findings are 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 that is 0.996 Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual. Most of the customers are unaware of the policy of the bank. He recommends the borrowers should be 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 most of the bad credit disbursement is due to weak decision of the personal.

Joshi (2007), on her thesis, "Lending Policy of Commercial Banks of Nepal", has made an attempt to know and understand fund mobilization and investment policy of EBL, NABIL and BOK. The thesis work was performed with an objective of analyzing the trend of deposit utilization towards total investment and loan & advances and also to evaluate the growth ratios with other financial variables.

From the study, she has concluded the following findings:

- i. The liquidity position of EBL is comparatively better than NABIL and BOK.
- ii. The total investment of EBL is in between in compared to other two banks.
- iii. Total interest earned to total outside assets of EBL is lowest of all.
- iv. The total investment of EBL is in between in compared to other two banks.
- v. Total interest earned to total outside assets of EBL is lowest of all. EBL has higher capital risk ratio but average credit risk ratio compared to NABIL and BOK.

On the basis of the findings, she has recommended EBL to mobilize excess idle cash and bank balance in some profitable and productive sector. She also emphasized on investing more on shares and debentures as it encourages financial and economic development of the country. She has suggested the bank to make continuous efforts to explore new, competitive high yielding investment opportunity to optimize their investment portfolio. She has also recommended bank to adopt innovative approach to marketing. In the light of growing competition in the banking

sectors, the business of bank should be customer oriented. The bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

Subba (2008), has carried out the study to analyze in his thesis "Risk Management of Commercial Banks in Nepal A comparative study between Kumari Bank Ltd. and Machhapuchchhre Bank Ltd." how the selected commercial banks (have managed different types of risk in this competitive Nepalese banking Industry.

The major finding of his study was that in commercial banks, minimizing the risk is the major challenge. For combating the risk, both the banks have taken several measures. One of the major measures is capital adequacy ratio. The capital adequacy ratio depicts that both KBL and MBL has higher CAR than statutory requirement. He concludes that:

- i. For credit risk management, both banks have Credit Policies Guidelines (CPG). Similarly, NPL is regularly monitored by both the banks on regular basis and provisioning is done on quarterly basis by categorizing the loan as per NRB guidelines. Similarly, sector wise and security wise lending is being analyzed by these banks on monthly basis.
- ii. Gap analysis is the major tool for managing the liquidity risk. The top management analyzes the gap between asset and liabilities and makes decision to make adjustment for it. Further, the top management decides how much liquid asset is needed to be kept in the bank. Treasury and finance department of these banks continuously manage the CRR in NRB to ensure that statutory requirement is met.

- iii. Gap analysis of both types of asset and liabilities (i.e. Rate Sensitive and Fixed Rate) is required for the interest rate risk management. Besides, analysis of cost of fund, yield on loan & spread is made continuously in these banks to ensure that banks have competitive interest rate, which is profitable for the banks.
- iv. In regard to operational risk, the major steps banks are taking to reduce it are preparing and implementing the different operational guidelines and policies & frequently monitoring their compliance. Most of these policies are prepared as per NRB guidelines. Similarly, employees' training is also the major tools for minimizing the operation risk in these banks.

For minimizing the loss arising due to occurrence of the above risks, capital and reserve have been maintained by these banks within the standard prescribed by NRB. However, the trend of Capital Adequacy ratio of these banks suggests that both the banks need to increase their capital fund, which is possible mainly by issuing shares, debentures or preference share. The major gap in this study is the focus on the credit risk. This research has been made on the study on different types of risk including market risk and operational risk. However, the credit risk covers the major portion of the total risk i.e. almost 60 percent of the total risk. Therefore, additional research can be made for the detailed study of credit risk and the organizational structure of the commercial banks to manage the credit risk.

Ojha (2010) on “Lending Practices: A study on Nabil Bank Limited, standard chartered bank limited and Himalayan Bank Limited” has find found out that the measurement of lending strength in relative term has revealed that the total assets to total liability of SCBNL has the highest ratio. However the performance of other two banks has not deviated for

from the mean ratio of SCBNL and the combined average. SCBNL tendency to invest in government securities have resulted with the lowest ratio of loans and advances to total assets ratio. The steady and high volume of loans and advances throughout the years has resulted NABIL ratio to be the highest. The ratio of loans and advances and investment to deposit ratio has measured the portion of total deposit that is used to increase the income of the banks irrespective of the profiles of its application. NABIL has deployed the highest proportion of its total deposit in earning activities and this ratio is significantly above the ratio of other two banks. The combined ratio is highly deviated from the mean ratio of NABIL and SCBNL. This is the indicative of that in fund mobilizing activities NABIL is significantly better than SCBNL.

Similarly the absolute measures of lending strength have revealed that the mean volume of net assets and deposit is highest in SCBNL with moderate variation. The volume of net assets of HBL is the least due to the low share capital, reserve and surplus in its capital mix. But the volume contributed by NABIL is the greatest in the study period. NABIL has the best contribution in productive as well as industrial sector in economy.

He has further concluded that the overall liquidity strength of SCBNL can be considered the best among the banks. However, the liquidity risk arising from interest rate in SCBNL is the most likely. Since, the market is highly sensitive towards the interest rate; SCBNL has generally been offering low interest rate as compare to other banks. The analysis of lending strength of HBL in loans and advances is the best however, loans and advances, investments to deposit ratio have upgraded the performance of NABIL. If HBL strength succeeded in collecting the less chapter source of strength fund of HBL would push the performance of

NABIL and SCBNL for behind in the coming future. Also the contribution made by HBL in the productive sector of economy is highly appreciable and the best among these the commercial banks. The highest growth rate, proportionately high volume of loans and advances and the best contribution in agriculture and priority sector and the high level of deposit mobilization of HBL has put his level of deposit mobilization of HBL has put this bank in the top positive in the lending function as demand by national priority, national development. However the better activity ratio of SCBNL has proved this bank then best in managing the lending portfolio according to the demand of profit-oriented business. The high volume of lending activities and high volume of productive sector loan of NABIL has put this bank in the top position in absolute term.

On basis of the findings and conclusion he has recommended for the banks as the liquidity position of all these three banks is found to be high he has recommended the banks to look upon new area of lending and investment. The rural economy has always been realizing the credit needs and the dominance of non-organized moneylender in this area has been prevailing. To compromise between the liquidity and credit need of rural economy these banks are highly recommended to expand their credit in this area. SCBNL's contribution in loans and advances is the lowest and this has low degree of variation and low growth rate as compare to NABIL and HBL, SCBNL is recommended to give extra priority on productive and priority sector loan. The increasing provision as loan loss and high volume of non-performing assets in NABIL and HBL certainly attract the high attraction of any person interested with these banks. The high volume of NL non-performing assets may have caused due to the failure of industrial and agricultural sector. NABIL increased non-

performing, asset may have caused due to the accumulated bad debts that is kept behind the certain to show the efficiency of management.

He has used different statistical tools like standard deviation, correlation, trend analysis and financial tools for the data analysis and presentation. In his study he has also taken sector wise loan- priority sector, productive sector etc. the different sector wise loan classification are presented and analyzed only secondary data has been used for the study, the overview of theoretical aspect of the lending practices of the banks has not been analyzed.

Poudel (2012) on “Credit management of Nepalese Commercial Banks” his study main objectives are as follows:

- i. To examine the ratio of liquidity and credit management of sample commercial banks.
- ii. To analyze the credit risk of the sample commercial banks.
- iii. To analyze relationship between Deposit & Net Profit of sample banks.
- iv. To examine the trend of loan and advance, net profit, deposit and investment of sample commercial bank.

The major findings are as follows:

The observation and conclusion is derived by analyzing calculated various ratio like liquidity, asset management and risk ratio as we as relevant financial and statistical ratios of commercial banks. Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 2:1. The mean current ratio of MBL is 0.81 and NIBL is 1.08 the current ratio of NIBL is higher than MBL. It is indicate better liquidity position of NIBL. Cash and bank balance to total deposit ratio of NIBL has lower than MBL. The loan & advances to total

assets ratio of NIBL is lower than MBL. Investment on government securities to total assets ratio of MBL is little lower than NIBL. This indicates that NIBL has invested more portions of total assets on government securities. Coefficient of correlation Both MBL and NIBL have high positive correlation between total deposit and loan & advances. The correlation coefficient of both banks is significant. There is positive correlation between total deposit and total investment of MBL and NIBL. The trend analysis of deposits, loan and advance, investment and net profit of MBL and NIBL is increasing trend in study period. NIBL is more aggressive increasing trend then MBL.

2.3 Research Gap

Since the above mentioned studies offer limited findings, more extensive testing and adjustment of necessary variables are needed in order to be more conclusive about the credit Management. Previous studies were directed to find the effect of the credit management of different commercial banks. Similarly, above study is unable to present the exact condition of credit risk management in Nepalese banking sector in Nepal.

Presently, this study aims to attempt to study about credit risk management of Nepalese commercial banks in Nepal. The previous relevant literature related to banking business has just reviewed to support the study. In above study, they failed to study the perfect credit risk management of Nepalese commercial banks. This study tries to fulfill this weakness. And there is also less research made in this topic especially in banking sector.

Credit risk has very big role to sustain any banking business. It is equally important to identify the relation of performance of the banking business.

So, it tries to assess the credit management of banking sector and by providing the proper atmosphere for the banking market in our country.

The present study is based on five years 2008/09 to 2012/13 latest data of commercial banks, which tries to achieve its objectives by analyzing secondary source of data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese banking sector. The current study is a supplement to overcome the weakness and limitation of previous studies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research simply means to search again and again. It is a systematic activity to achieve truth or finding solution to a problem. It is a process of a systematic and in-depth of study any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. So the research methodology refers to the overall research process, which a researcher conducts during his study. The purpose of research is to discover answers to questions through the application of scientific procedures. The main aim of research is to find the truth which is hidden and which has not been discovered at yet. (Kothari, 2005:7)

The basic framework of this study is descriptive as well as exploratory. In order to reach and accomplish the objectives of this study, different activities are carried out and different stages are crossed during the study period. For this purpose, the chapter aims to present and reflect the methods and techniques those are carried out and followed during the study period.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers the research questions and to control variances. There are many methods of research design and this study is based on past data. Mostly, secondary data and information were collected, evaluated, verified and synthesized to reach a conclusion. To achieve the objective of this study data from different journals and articles relevant with the study, annual reports of different fiscal years of

concerned banks, NRB Directives, banking and financial statistics report published by NRB and other related materials are collected and studied. With the help of descriptive research design, the study evaluates the credit management of Nepalese commercial banks. This study based on analytical and descriptive design.

3.3 Population and Sample

There are altogether 30 commercial banks (www.nrb.org.np, mid July, 2014) functioning all over the country at present, which are taken as a population of this study work. Among them, this study includes two commercial banks namely; SCBNL and NSBL, which have been selected as a sample for this research study. Similarly financial statements of two banks for five years from 2008/09 to 2012/13 have been taken as samples for same purpose and convenience sampling method was used.

3.4 Sources of Data

The data presented in the study are secondary type. The annual reports of the concerned banks are the major sources of the data for the study. However, besides the annual reports of the subjected banks websites, journal and article shall also be used in the respective corner of the study.

3.5 Tools Used

To make the study more specific and reliable here two types of tools were used; financial tools and statistical tools.

3.5.1 Financial Tools

For the sake of analysis, various financial tools were used. The basis tools used were analysis. They are followings:

I) Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 2010).

A. Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short-term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined.

To find-out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

i) Current Ratio:

It establishes the relationship between current assets and current liabilities. It is computed by dividing current assets by current liabilities. It is calculated as follows :

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

ii. Cash and Bank Balance to Current Assets Ratio:

Higher the ratio shows higher liquidity position and ability to cover the current assets and vice versa. It can be calculated by dividing ‘cash and bank balance’ by current assets. This ratio can be calculated using the following formula:

$$\text{Cash and Bank Balance to Current Assets} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

iii. Cash and Bank Balance to Total Deposit Ratio:

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing ‘cash and bank balance’ by deposit. This ratio can be calculated using the following formula:

$$\text{Cash and Bank Balance to Total Deposit} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

iv. Investment on Government Security to Current Assets Ratio:

This ratio computed to disclose the soundness of the financial company to investment on government security by current assets. It can be expressed as:

$$\begin{aligned} \text{Investment on Government Security to Current Assets} \\ = \frac{\text{Investment on Government Security}}{\text{Current Assets}} \end{aligned}$$

B. Assets Management Ratio:

It is also known as turn over or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turn over means the number of times and assets flow through a firm’s operations and into sales. Greater rate of turnover or conversion indicates more

efficiency of a firm in managing and utilizing its assets, being other things equals. Various ratios are examined under this headings.

i. Loan and Advances to Total Deposits Ratio:

Commercial banks utilized the outside's fund for profit generation purpose. Loan and Advances to Total Deposit ratios shows whether the banks are successful to utilize the outsiders fund (i.e. total deposit) for the profit generating purpose on the credit and advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa. The ratio can be calculated by using following formula:

$$\text{Loan and Advances to Total Deposit} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

ii. Investment to Total Deposit Ratio:

Total deposits are the long-term interest bearing obligations and credits and advances are the major sources to investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in investment in comparison to total deposit for the income generating purpose. The following formula is used to obtain this ratio:

$$\text{Investment to Total Deposit} = \frac{\text{Investment}}{\text{Total Deposit}}$$

iii. Loan and Advances to Total Assets Ratio:

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

$$\text{Loan and Advances to Total Assets} = \frac{\text{Loan and Advances}}{\text{Total Assets}}$$

iv. Investment on Government Security to Total Assets Ratio:

It tells the present of Investment on Government Security on total assets. It is useful to know the fact that whether the good credit is increasing or not. We can generate more earning by increasing good credit and reducing bad and inferior credit. It teaches us to invest sources only on good credit (i.e. profitable venture). It is computed as:

$$\begin{aligned} \text{Investment on Government Security to Total Assets} \\ = \frac{\text{Investment on Government Security}}{\text{Total Assets}} \end{aligned}$$

C) Credit Risk Ratio

The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds.

i) Credit Risk Ratio or Non-Performing Loan to Total Loan Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan & Advances. Higher ratio indicates more risky assets in the volume of Loan & Advances of the bank and vice-versa.

$$\text{Credit Risk Ratio} = \frac{\text{Total Non Performing Loan}}{\text{Total Loans}}$$

ii) Liquidity Risk Ratio:

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

3.5.2 Statistical Tools

For supporting the study, Statistical tools such as Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis have been used under it.

A. Arithmetic Mean (Average):

Average is statistical constants which enables us to comprehend in a single effort the significance of the whole. It represents the entire data by a single value. It is calculated as:

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

Where;

\bar{X} = Arithmetic Mean

n = Number of observations

$\sum X$ = Sum of Observations

B. Standard Deviation (S.D.):

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

$$\sigma = \sqrt{\frac{\sum(X - \bar{X})^2}{n-1}}$$

Where,

σ = Standard Deviation

C. Coefficient of Variation (C. V.):

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

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

Where, \bar{X} = Arithmetic Mean

σ = Standard Deviation

C. V. = Coefficient of Variation

D. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation

can be classified as linear or non-linear. Here we study simple correlation only. “In simple correlation the effect of others is not excluded rather these are taken as constant considering them to have no serious effect on the dependent variable”. It is calculated as:

$$r_{x_1x_2} = \frac{n\sum X_1X_2 - \sum X_1\sum X_2}{\sqrt{[n\sum X_1^2 - (\sum X_1)^2]} \sqrt{[n\sum X_2^2 - (\sum X_2)^2]}}$$

E) Probable Error (PE)

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

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where,

r = correlation coefficient

n = number of pairs of observation

It is used in interpretation whether calculated value of r is significant or not.

If $r < PE$, it is insignificant. So, perhaps there is no evidence of correlation.

If $r > 6PE$, it is significant.

In other cases nothing can be concluded.

F) Times Series Analysis

Time series is used to measure the change of financial, economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in

practice. The Straight-line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Where,

y= Dependent variable

x = Independent variable

a = Y - intercept

b = Slope of the trend line

Y is the dependent variable, a is y intercept or value of y when x = 0, b is the slope of the trend line.

This topic has been presented following:

- i. Trend analysis of Total Deposit
- ii. Trend analysis of Loan and Advances
- iii. Trend analysis of Investment
- iv. Trend analysis of Net Profit

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter is the heart of the study. It includes the analysis and interpretation of data as stated in research methodology. To find out the strength and weakness of the commercial banks in terms of their financial performance various ratios, variables and their statistical value have been calculated in this chapter. It is related to the quantitative analysis of various financial and statistical tools to study & analyze the credit risk management of the commercial banks.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed. Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. SCBNL and NSBL. Some important financial ratios are only calculated in the point of view of financial performance analysis. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposit, withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A) Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of banks to meet the current liquidity.

Table 4.1
Current Ratio

(Rs. in Millions & Ratio in times)

FY	SCBNL			NSBL		
	CA	CL	Ratio	CA	CL	Ratio
2008/09	3613.99	2283.10	1.58	1817.00	1555.72	1.17
2009/10	1827.70	1880.02	0.97	2152.80	1878.99	1.15
2010/11	2219.85	1780.09	1.25	1886.81	1513.06	1.25
2011/12	3233.23	2261.48	1.43	2748.39	1921.31	1.43
2012/13	3402.39	2479.98	1.37	2615.68	1979.84	1.32
Mean	2859.43	2136.93	1.32	2244.13	1769.78	1.26
SD	786.99	294.91	0.23	421.54	218.37	0.12
CV	27.52	13.80	17.36	18.78	12.34	9.24

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The current ratio of SCBNL and NSBL are in fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short-term obligations. For FY 2008/09 SCBNL standard ratio is 1.58 and in FY 2011/12 NSBL standard ratio is 1.43. In an average, liquidity position of SCBNL is greater than NSBL i.e. $1.32 > 1.26$ due to high mean

ratio. So, SCBNL is sound in meeting short-term obligation than NSBL. Likewise, S. D. and C.V. of NSBL is less than SCBNL i.e. $0.12 < 0.23$ and $17.36 > 9.24$. It can be said that credit ratio of NSBL is more consistent than SCBNL. Lastly from the above analysis it is known that all these two banks have weak liquidity position because the standard ratio is 2:1.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits.

Table 4.2
Cash & Bank Balance to Total Deposit Ratio

(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	CBB	TD	Ratio	CBB	TD	Ratio
2008/09	3137.3	35871.8	8.75	1910.9	27957.2	6.84
2009/10	1929.3	35182.7	5.48	3549.5	37896.3	9.37
2010/11	2975.8	37999.2	7.83	4877.5	42415.4	11.5
2011/12	6366.1	35965.6	17.7	5508.4	53337.1	10.33
2012/13	6404.1	39466.45	16.23	7713.4	58290.46	13.23
Mean	4162.52	36897.15	11.20	4711.94	43979.29	10.25
SD	2081.29	1780.05	5.42	2171.84	12129.86	2.39
CV	50.00	4.82	48.42	46.09	27.58	23.32

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table no. 4.2 reveals that the cash and bank balance to total deposit ratio of SCBNL and NSBL are in fluctuating trend. The highest ratio of SCBNL is 17.70 percent in FY 2011/12 and lowest is 5.48

percent in FY 2009/10. Similarly, the highest ratio of NSBL is 13.23 percent in FY 2012/13 and lower in 6.48 percent in FY 2008/09.

The mean ratio of SCBNL and NSBL are 11.20 percent and 10.25 percent respectively. NSBL has lower ratio than the SCBNL, which shows its lower ability to pay depositor's money as they want. Similarly, the coefficient of variation of SCBNL is 48.42 times and NSBL is 23.32 times. S.D. of SCBNL is higher than the NSBL. C.V. of NSBL is lower than C.V. of SCBNL, so NSBL is more consistent than SCBNL.

The above analysis has to conclude that the cash and bank balance position of NSBL with respect to SCBNL is better in order to serve its customer's deposits. It implies the better liquidity position of NSBL from the viewpoint of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's ability to invest its fund income generating areas. Thus NSBL should invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

C) Cash and Bank Balance to Current Assets Ratio

Cash and bank balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis. Following the states the cash and bank balance to current assets SCBNL and NSBL during the study period.

Table 4.3
Cash & Bank Balance to Current Asset Ratio

(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	CBB	CA	Ratio	CBB	CA	Ratio
2008/09	3137.3	3613.99	86.81	1910.9	1817.00	105.17
2009/10	1929.3	1827.70	105.56	3549.5	2152.80	164.88
2010/11	2975.8	2219.85	134.05	4877.5	1886.81	258.51
2011/12	6366.1	3233.23	196.90	5508.4	2748.39	200.42
2012/13	6404.1	3402.39	188.22	7713.4	2615.68	294.89
Mean	4162.52	2859.43	142.31	4711.94	2244.13	204.77
SD	1861.56	703.91	43.79	1942.56	377.04	67.14
CV	44.72	24.62	30.77	41.23	16.80	32.79

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table reveals that cash and bank balance to current assets ratio of SCBNL is fluctuating trend and NSBL is also in fluctuating trend. The higher ratio of SCBNL is 196.90 percent and lower is 86.81 percent likewise the higher ratio of NSBL is 294.89 percent and lower ratio is 105.17 percent. The mean ratio of SCBNL and NSBL is 142.31 percent and 204.77 percent respectively. The lower mean ratio shows SCBNL'S liquidity position is poor than that of NSBL. Moreover the S.D. of SCBNL is lower than NSBL and CV is higher than SCBNL. The higher C.V. of NSBL indicates that it has more inconsistency in the ratios in comparison to SCBNL

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different

securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table 4.4
Investment on Government Securities to Current Assets Ratio
(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	Inv. GS.	CA	Ratio	Inv. GS.	CA	Ratio
2008/09	9998.8	3613.99	276.67	3306.6	1817.00	181.98
2009/10	8531.5	1827.70	466.79	3720.6	2152.80	172.83
2010/11	9957.3	2219.85	448.56	5574.8	1886.81	295.46
2011/12	7862.7	3233.23	243.18	4560.7	2748.39	165.94
2012/13	4830.9	3402.39	141.99	3665.2	2615.68	140.12
Mean	8236.24	2859.43	315.44	4165.58	2244.13	191.27
SD	1891.65	703.91	124.45	815.87	377.04	53.93
CV	22.97	24.62	39.45	19.59	16.80	28.19

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The table 4.4 shows investment on government securities to current assets ratio of SCBNL and NSBL. Both Banks has fluctuating type ratios. The table shows the highest ratio of SCBNL is 466.79 percent in FY 2009/10 and lowest is 141.99 percent in FY 2012/13. In the same way, the highest ratio of NSBL is 295.46 percent in FY 2010/11 and lowest is 140.12 percent in FY 2012/13. The mean ratio of SCBNL is 315.44 percent, which is higher than the mean ratio of NSBL 191.27 percent. It means

NSCBL has invested more money in risk free assets than that of NSBL. In another words NSBL has emphases on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, NSBL should divert its investment in govt. securities. Similarly, S.D. is 124.45 and 53.93 and C.V is 39.45 and 28.19 of SCBNL and NSBL respectively. The higher C.V. of SCBNL shows the more inconsistency in the ratios with compare to NSBL.

4.1.1.2 Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, so to satisfy its customers and for own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. Through following ratios, assets management ability of banks has been measured.

A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks.

Table 4.5
Loan and Advance to Total Deposit Ratio

(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	L&A	TD	Ratio	L&A	TD	Ratio
2008/09	13118.6	35871.8	36.57	15465.2	27957.2	55.32
2009/10	15932.2	35182.7	45.28	17887.2	37896.3	47.20
2010/11	17698.2	37999.2	46.58	21657.1	42415.4	51.06
2011/12	18376	35965.6	51.09	26403.8	53337.1	49.50
2012/13	22828.84	39466.45	57.84	28788.15	58290.46	49.39
Mean	17590.77	36897.15	47.47	22040.29	43979.29	50.49
SD	3564.29	1780.05	7.83	5594.65	12129.86	3.03
CV	20.26	4.82	16.49	25.38	27.58	5.99

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table shows that the loan & advances to total deposit ratio of SCBNL is fluctuating trends but NSBL is fluctuating trend. The mean ratio of SCBNL and NSBL are 47.47 percent and 50.49 percent respectively. So, NSBL has higher ratio than that of SCBNL. It reveals that the deposit of NSBL is quickly converted in to loan and advances to earn income. The bank will be able to better mobilization of collected deposit if there is above 70 percent to 80 percent of loan and advances to total deposit according to NRB. Both banks have not met the NRB requirement or it has not utilized its deposit to provide loan properly.

The S.D. and C.V of SCBNL is 7.83, 16.49 similarly NSBL has 3.03 and 5.99 respectively.

B) Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of SCBNL and NSBL are calculated and presentation below.

Table 4.6

Investment to Total Deposit Ratio (Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	Investment	TD	Ratio	Investment	TD	Ratio
2008/09	10007.3	35871.8	27.90	3306.6	27957.2	11.83
2009/10	8540	35182.7	24.27	4313.3	37896.3	11.38
2010/11	9965.8	37999.2	26.23	5574.8	42415.4	13.14
2011/12	7871.2	35965.6	21.89	4560.7	53337.1	8.55
2012/13	12753.5	39466.45	32.31	25906.1	58290.46	44.44
Mean	9827.56	36897.15	26.52	8732.30	43979.29	17.87
SD	1877.34	1780.05	3.94	9634.28	12129.86	14.95
CV	19.10	4.82	14.86	110.33	27.58	83.66

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table shows that investment to total deposit ratio of SCBNL and NSBL. Both banks have fluctuating trend investment to total deposit ratio. Higher ratio of SCBNL is 32.31 percent in FY 2012/13 and lowest ratio is 21.89 percent in FY 2011/12 in the same way the highest ratio of NSBL 44.44 percent in FY 2012/13 and lowest ratio is 8.55 percent in FY 2011/12. Investment volume of NSBL is lower than that of SCBNL because more funds of SCBNL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean ratio of SCBNL and NSBL are 26.52 percent and 17.87 percent respectively. So, SCBNL has higher ratio. It signifies SCBNL has successfully allocated its deposit in investment portfolio to get higher investment return. It also implies that NSBL has lower investment opportunities. The S.D and C.V. of SCBNL is 3.94 and 14.86 and NSBL has 14.95 and 83.66 respectively.

C) Loan & Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of SCBNL and NSBL as follows.

Table 4.7

Loan & Advances to Total Assets Ratio (*Rs. in Millions & Ratio in %*)

FY	SCBNL			NSBL		
	L&A	TA	Ratio	L&A	TA	Ratio
2008/09	13118.6	41678.8	31.48	15465.2	31989.8	48.34
2009/10	15932.2	41525.2	38.37	27957.2	39381.3	70.99
2010/11	17698.2	45227.2	39.13	21657.1	47129.9	45.95
2011/12	37999.2	42970.8	88.43	26403.8	59196.8	44.60
2012/13	35965.6	45631.1	78.82	28788.2	64796.2	44.43
Mean	24142.76	43406.62	55.24	24054.29	48498.80	50.86
SD	11855.99	1935.06	26.30	5538.08	13579.42	11.36
CV	49.11	4.46	47.60	23.02	28.00	22.33

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table shows the loan & advances to total assets ratio of SCBNL and NSBL are in fluctuating trend during the study period. While observing their ratios, NSBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year in comparison of SCBNL.

The highest ratio of SCBNL is 88.43 percent in FY 2011/12 and lowest ratio of SCBNL is 31.48 percent in FY 2008/09. Similarly, the highest ratio of NSBL is 70.99 percent in FY 2009/10 and lowest ratio of NSBL is 44.43 percent in FY 2012/13.

The mean of SCBNL and NSBL are 55.24 percent and 50.86 percent respectively. So, NSBL has lower ratio than that of SCBNL. It reveals that in total assets, SCBNL has high proportion of loan and advances. SCBNL has utilized its total assets more efficiently in the form of loan & advances. The lower C.V. of SCBNL states that it has uniformity in these ratios throughout the study period than that of NSBL. S.D. of SCBNL and NSBL have 26.30 and 11.36 respectively.

D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan & advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table 4.8**Investment on Government Securities to Total Assets ratio***(Rs. in Millions & Ratio in %)*

FY	SCBNL			NSBL		
	Inv. GS	TA	Ratio	Inv. GS	TA	Ratio
2008/09	9998.8	41678.8	23.99	3306.6	31989.8	10.34
2009/10	8531.5	41525.2	20.55	3720.6	39381.3	9.45
2010/11	9957.3	45227.2	22.02	5574.8	47129.9	11.83
2011/12	7862.7	42970.8	18.30	4560.7	59196.8	7.70
2012/13	4830.9	45631.1	10.59	3665.2	64796.2	5.66
Mean	8236.24	43406.62	19.09	4165.58	48498.80	8.99
SD	2114.93	1935.06	5.19	912.18	13579.42	2.39
CV	25.68	4.46	27.18	21.90	28.00	26.57

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

Above table shows that the investment on government security to total assets of SCBNL and NSBL are in fluctuating trend. The highest ratio of SCBNL is 23.99 percent in 2008/09 and NSBL is 11.83 percent in 2010/11 and the lowest ratio of SCBNL and NSBL are 10.59 percent in 2012/13 and 5.66 percent in 2012/13 respectively. From the table we notice that mean ratio of SCBNL and NSBL are 19.09 percent and 8.99 percent respectively. SCBNL has higher ratio in every year and mean too. It means SCBNL has invested more money in risk free assets than that of NSBL.

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business

activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

A) Return on Loan & advances

Every financial institution tries to mobilize their deposits on loan & advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan & advances ratio of selected banks are presented as follows.

Table 4.9
Return on Loan and Advance (Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	NP	L&A	Ratio	NP	L&A	Ratio
2008/09	1025.11	13118.6	7.81	316.37	15465.2	2.05
2009/10	1085.87	15932.2	6.82	391.74	17887.2	2.19
2010/11	1119.17	17698.2	6.32	464.56	21657.1	2.15
2011/12	1168.97	18376	6.36	480.1	26403.8	1.82
2012/13	1217.94	22828.84	5.34	771.47	28788.15	2.68
Mean	1123.41	17590.77	6.53	484.85	22040.29	2.18
SD	74.33	3564.29	0.90	172.95	5594.65	0.32
CV	6.62	20.26	13.76	35.67	25.38	14.53

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

Above table shows that return on loan and advances ratio of SCBNL is in fluctuating trend and NSBL is also fluctuating trend. The highest ratio of SCBNL is 7.81 percent in the year 2008/09 and lowest ratio 5.34 percent in year 2012/13. The mean ratio is 6.53 percent. Whereas highest ratio of NSBL is 2.68 percent in year 2012/13 and lowest ratio is 1.82 percent in 2011/12. The mean ratio is 2.18 percent. SCBNL bank shows the good earning capacity in loan and advances whereas NSBL show poor earning capacity in form of loan and advances. The C.V. of SCBNL is lower than NSBL.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table 4.10
Return on Total Assets Ratio (Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	NP	TA	Ratio	NP	TA	Ratio
2008/09	1025.11	41678.8	2.46	316.37	31989.8	0.99
2009/10	1085.87	41525.2	2.61	391.74	39381.3	0.99
2010/11	1119.17	45227.2	2.47	464.56	47129.9	0.99
2011/12	1168.97	42970.8	2.72	480.1	59196.8	0.81
2012/13	1217.94	45631.1	2.67	771.47	64796.2	1.19
Mean	1123.41	43406.62	2.59	484.85	48498.80	0.99
SD	74.33	1935.06	0.12	172.95	13579.42	0.13
CV	6.62	4.46	4.50	35.67	28.00	13.52

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

Above table shows the return on total assets of SCBNL and NSBL. However, SCBNL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.59 percent of total assets in an average which is higher than that of NSBL (i.e. $2.59 > 0.99$). SCBNL has also higher ratio in each year. Whereas S.D. and C.V. of SCBNL and NSBL are 0.12, 4.50 and 0.13 and 13.52 respectively. Lower C.V. of NSBL shows that it has relatively low inconsistencies in the ratios.

C) Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of SCBNL and NSBL during the study period.

Table 4.11
Return on Equity Ratio (Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	NP	SHE	Ratio	NP	SHE	Ratio
2008/09	1025.11	2305.6	44.46	316.37	1404.3	22.53
2009/10	1085.87	2833.3	38.33	391.74	2131.6	18.38
2010/11	1119.17	3130.6	35.75	464.56	2448.3	18.97
2011/12	1168.97	3418.6	34.19	480.1	2811.8	17.07
2012/13	1217.94	4617.58	26.38	771.47	3798.75	20.31
Mean	1123.41	3261.14	35.82	484.85	2518.95	19.45
SD	74.33	862.82	6.57	172.95	883.34	2.08
CV	6.62	26.46	18.35	35.67	35.07	10.67

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above listed table shows return on equity ratio of SCBNL and NSBL. Above calculated statistic indicate that SCBNL have decreasing trend and NSBL have fluctuating trend. SCBNL has higher ratios in each year and it has also higher mean ratio (i.e. $35.82 > 19.45$). Despite stiff competition and an adverse macroeconomic environment, SCBNL is currently generating higher ROE in comparison with NSBL. In brief, it signifies

that the shareholders of SCBNL are getting higher return but in case of NSBL, they are getting lesser. It can be concluded that SCBNL has better utilized the equity for the profit generation. It proves to be a good strength of SCBNL in attracting future investment also while NSBL shows its weakness regarding efficient utilization of its owner's equity in comparison with SCBNL. SCBNL has homogeneous return in each year. It is the strength point of SCBNL. SCBNL has relatively less inconsistency throughout the study period due to its lower C.V.

D) Interest Earned to Total Assets Ratio

Interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of SCBNL and NSBL.

Table 4.12
Total Interest Earned to Total Assets Ratio

(Rs. in Millions & Ratio %)

FY	SCBNL			NSBL		
	Interest Earned	TA	Ratio	Interest Earned	TA	Ratio
2008/09	1887.22	41678.8	4.53	1460.45	31989.8	4.57
2009/10	2042.11	41525.2	4.92	2269.7	39381.3	5.76
2010/11	2718.7	45227.2	6.01	3104.23	47129.9	6.59
2011/12	2870.97	42970.8	6.68	3769.48	59196.8	6.37
2012/13	2535.36	45631.1	5.56	4110.51	64796.15	6.34
Mean	2410.87	43406.62	5.54	2942.87	48498.79	5.93
SD	427.83	1935.06	0.86	1086.67	13579.40	0.82
CV	17.75	4.46	15.47	36.93	28.00	13.82

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

This table shows that the total interest earned to total assets ratio of both banks are fluctuating trend. The mean ratio of SCBNL is 5.54 percent, and NSBL is 5.93 percent. The C.V. of SCBNL is higher than the C.V. of NSBL which shows that SCBNL is more inconsistency than that of NSBL.

4.2 Statistical Analysis

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, co-relation analysis, trend analysis etc. There is used following convenient statistical tools are used in this thesis study.

4.2.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan & advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan & advances and net profit SCBNL and NSBL using Karl Persons coefficient of correlation, value of coefficient of determination (r^2), probable error (P.E.) and (6 P.E.) are also calculated and value of them are analyzed.

A) Correlation Coefficient between Deposit & Loan & Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables.

In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objectives of computing “r” between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not.

Table 4.13
Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criteria			
	r	r ²	PE	6 PE
SCBNL	0.625	0.3900	0.1840	1.1040
NSBL	0.968	0.9363	0.0192	0.1153

From the above table, it is found that coefficient of correlation between deposits and loan & advances of SCBNL and NSBL is 0.625 and 0.968. It is shows that NSBL have the highly positive relationship between these two variables and SCBNL have moderate positive relationship between these tow variables. Moreover, the coefficient of determination of SCBNL is 0.39.. Similarly, value of coefficient of determination of NSBL is 0.936. It refers that 93.6 percent variance in loan & advances are affected by total deposit. The correlation coefficient of NSBL is significant because the correlation coefficient is greater than the relative value of 6PE and SCBNL is insignificant because the correlation coefficient is lower than the relative value of 6PE.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y). The following Table No. 4.30 shows the coefficient correlation between deposits and total investments i.e. r, P. E., 6 P.E. and coefficient of determination (r²) of SCBNL and NSBL during the study period.

Table 4.14

Correlation between Deposit and Total Investment

Name of Banks	Evaluation Criteria			
	r	r²	P.E.	6 P.E.
SCBNL	0.562	0.3163	0.2062	1.2374
NSBL	0.777	0.6041	0.1194	0.7165

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of SCBNL is 0.562. It shows the moderate degree positive correlation. In addition, coefficient of determination of SCBNL is 0.31.63. It means only 31.63 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than value of 6PE. It refers that there is insignificant relationship between total deposit and total investment of SCBNL. Similarly, there is positive coefficient between total deposit and total investment of NSBL, which is indicator by correlation coefficient of 0.777. The value of coefficient of determination is found 0.6041, this refers that 60.4 percent of the variation in total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6PE. It refers that there is significant relationship between total deposit and total investment of NSBL.

C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of SCBNL and NSBL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and

advance through the coefficient of determination. The following table shows the r , r^2 , P.E. and 6 P. E. between those variables of SCBNL and NSBL for the study period.

Table 4.15
Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criteria			
	r	r^2	P.E.	6 P.E.
SCBNL	0.814	0.6628	0.1245	0.6874
NSBL	0.952	0.9069	0.0281	0.1686

Above table shows correlation coefficient between, Loan and advance and net profit is 0.814 of SCBNL. It refers that there is highly positive correlation between these two variables. Here, 66.28 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.6628 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6PE. Likewise NSBL also high degree positive correlation i.e. 0.952 between Loan and advance and net profit. The coefficient of determination r^2 is 0.9069, which indicates that 90.69 percent variability in net profit is explained by Loan and advance. Moreover, high correlation coefficient than 6PE. Show that the relationship between Loan and advance and net profit is significant for NSBL. In conclusion, SCBNL has more significant relationship between Loan and advance and net profit than that of NSBL.

D) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following table shows the coefficient of correlation coefficient of

determination, probable error and six times of P.E. during the fiscal year 2008/09 to 2012/13.

Table 4.16
Correlation between Total Investment and Net Profit

Name of Banks	Evaluation Criteria			
	r	r ²	P.E.	6 P.E.
SCBNL	0.154	0.687	0.2457	1.4742
NSBL	0.900	0.8094	0.0575	0.3450

Above table shows correlation coefficient between total investment and net profit of SCBNL is 0.154 which implies there is low degree correlation between total investment and net profit. In addition, coefficient of determination of SCBNL is 0.687. This correlation is insignificant at all due to coefficient of correlation is lower than 6PE on the other hand NSBL has positive correlation between total investment and net profit i.e. 0.90. The coefficient of determination of NSBL is 0.8094. It means 80.94 percent of profit is contributed by total investment but this relationship is significant as its correlation coefficient is higher than 6PE. i.e. 0.3450.

Thus it can be concluded that the degree of relationship between total investment and net profit of SCBNL is poor than the NSBL. This correlation coefficient indicates that the NSBL has higher performed in order to generate net profit through investment.

4.2.2 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

A) Trend Analysis of Total Deposit

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of SCBNL and NSBL for further five year.

$$Y = a + bx$$

Where as

$$Y_c = 34952.64 + 1457.08 X \text{ of SCBNL}$$

$$Y_c = 35064.28 + 9370.16 X \text{ of NSBL}$$

Table 4.17
Trend Line of Total Deposit (Rs. in Millions)

Year(x)	SCBNL		NSBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2008/09	35871.8	32038.48	27957.2	16323.96
2009/10	35182.7	33495.56	37896.3	25694.12
2010/11	37999.2	34952.64	42415.4	35064.28
2011/12	35965.6	36409.72	53337.1	44434.44
2012/13	39466.5	37866.80	58290.5	53804.60
2013/14		39323.88		63174.76
2014/15		40780.96		72544.92
2015/16		42238.04		81915.08
2016/17		43695.12		91285.24
2017/18		45152.20		100655.40

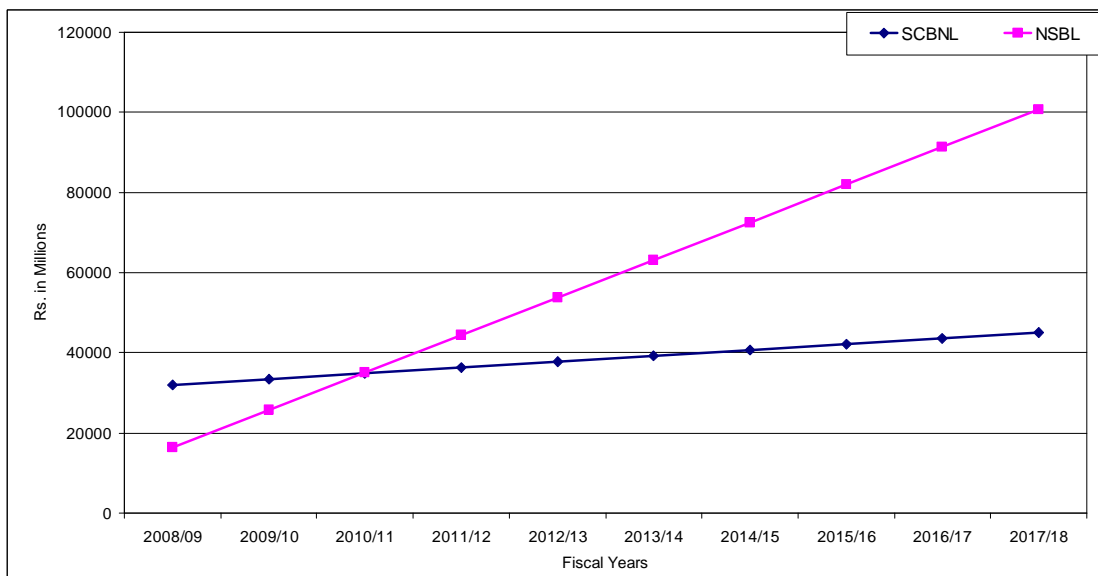
Source: Appendix I

Above table and below figure shows that total deposit of SCBNL and NSBL. Both banks is in increasing trend. The rate of increment of total deposit for NSBL seems to be higher than that of SCBNL. The increasing

trend of total deposit of NSBL is more aggressive and high rather than SCBNL. It indicates NSBL has more prospect of collecting total deposit. The trend analysis has projected deposit amount in fiscal year FY 2013/14 to FY 2017/18. From the above trend analysis it is clear that NSBL has higher position in collecting deposit than SCBNL.

Figure 4.1

Trend Line of Total Deposit between SCBNL and NSBL



Source: Table No. 4.17

B) Trend Analysis of Loan & advances

Here, the trend values of loan & advances Between SCBNL and NSBL have been calculated for further five year. The following table shows the actual and trend values of SCBNL and NSBL.

$$Y = a + bx$$

Where as

$$Y_c = 15696.0 + 1462.16 X \text{ of SCBNL}$$

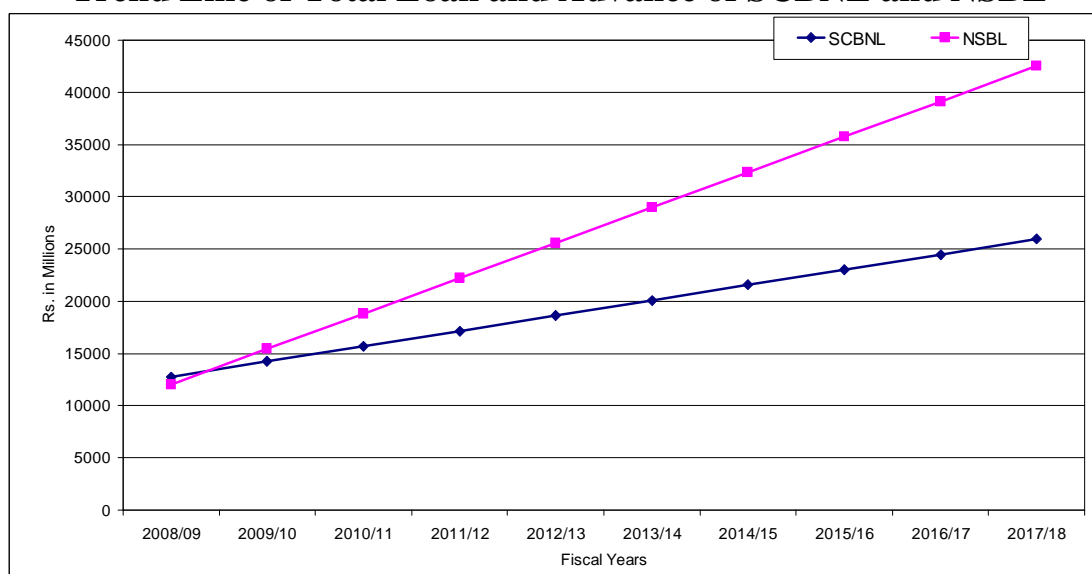
$$Y_c = 18797.64 + 3384.97 X \text{ of NSBL}$$

Table 4.18
Trend Line of Total Loan and Advance (Rs. in Millions)

Year(x)	SCBNL		NSBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2008/09	13118.6	12771.68	15465.2	12027.70
2009/10	15932.2	14233.84	17887.2	15412.67
2010/11	17698.2	15696.00	21657.1	18797.64
2011/12	18376.0	17158.16	26403.8	22182.61
2012/13	22828.84	18620.32	28788.15	25567.58
2013/14		20082.48		28952.55
2014/15		21544.64		32337.52
2015/16		23006.80		35722.49
2016/17		24468.96		39107.46
2017/18		25931.12		42492.43

Source: Appendix II

Figure 4.2
Trend Line of Total Loan and Advance of SCBNL and NSBL



Source: Table No. 4.18

Above table depicts that loan & advances of SCBNL and NSBL. Both Banks has in increasing trend. The increasing trend of SCBNL is lower

than NSBL. The actual value of loan & advances for SCBNL is quite fluctuating in relation to NSBL. The trend projected for further five year FY 2013/14 to FY 2017/18. From the above analysis, it is clear that both SCBNL and NSBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the NSBL has highly mobilizing loan & advances than the SCBNL.

C) Trend Analysis of Investment

Under this topic, an attempt has been made to analyze trend analysis investment of SCBNL and NSBL for further five years.

$$Y = a + bx$$

Where as

$$Y_c = 8906.08 + (59.13) X \text{ of SCBNL}$$

$$Y_c = 4169.80 + 520.24 X \text{ of NSBL}$$

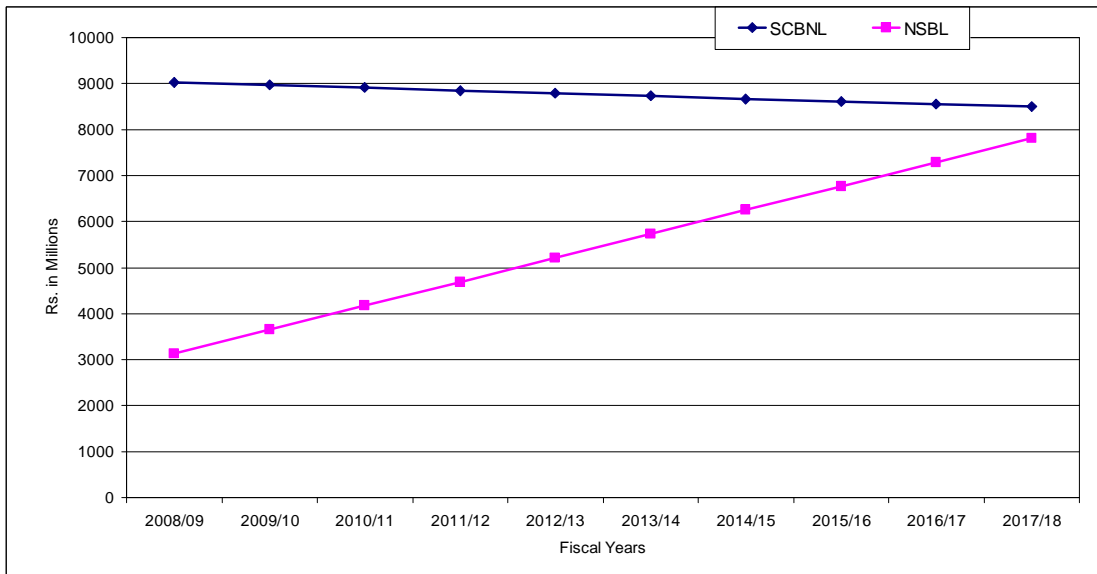
Table 4.19
Trend Line of Investment (Rs. in Millions)

Year(x)	SCBNL		NSBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2008/09	10007.3	9024.34	3306.6	3129.32
2009/10	8540.0	8965.21	4313.3	3649.56
2010/11	9965.8	8906.08	5574.8	4169.80
2011/12	7871.2	8846.95	4560.7	4690.04
2012/13	12753.5	8787.82	25906.1	5210.28
2013/14		8728.69		5730.52
2014/15		8669.56		6250.76
2015/16		8610.43		6771.00
2016/17		8551.30		7291.24
2017/18		8492.17		7811.48

Source: Appendix III

Figure 4.3

Trend Line of Total Investment between SCBNL and NSBL



Source: Table No. 4.19

Above table shows the trend of investment between SCBNL and NSBL. NSBL have increasing trend in making investment and SCBNL have decreasing trend. NSBL has high and upward trend of increasing, but SCBNL has decreasing trend of investment. The trend of investment projected to FY 2017/18. The forecasted trend projected that the NSBL has greater increment rate in investment than the increment rate of SCBNL. The figure indicates NSBL has highly mobilized the total investment rather than SCBNL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of SCBNL and NSBL have been calculated for five years FY 2008/09 to FY 2012/13 and forecasting for the next five year till FY 2017/18.

$$Y = a + bx$$

Where as

$$Y_c = 1143.61 + 179.42 X \text{ SCBNL}$$

$$Y_c = 380.11 + 61.29 X \text{ NSBL}$$

Table 4.20**Trend Analysis of Net Profit (Rs. in Millions)**

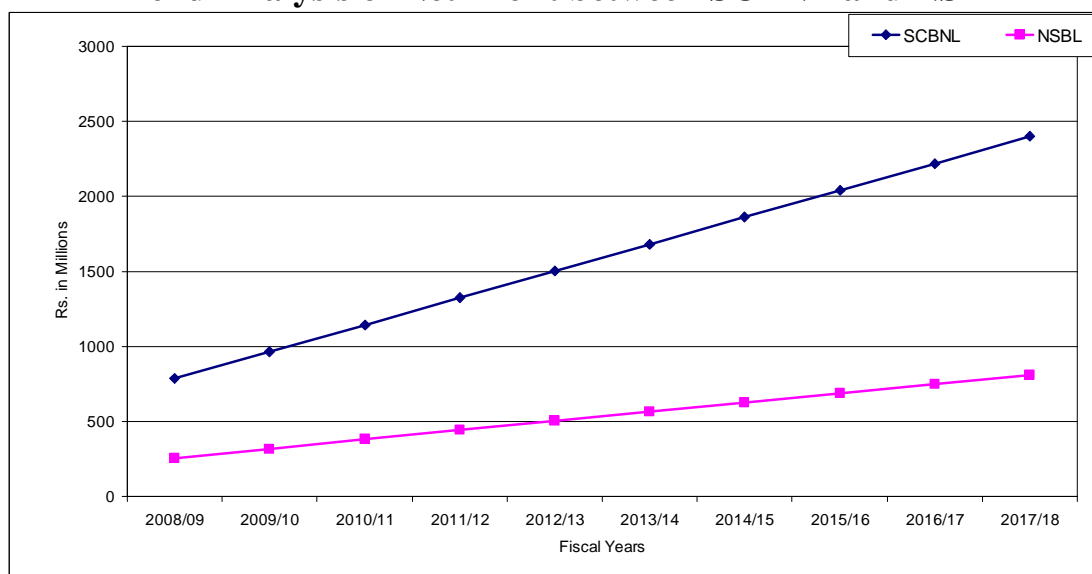
Year(x)	SCBNL		NSBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2008/09	1025.11	784.78	316.37	257.54
2009/10	1085.87	964.19	391.74	318.82
2010/11	1119.17	1143.61	464.56	380.11
2011/12	1168.97	1323.02	480.1	441.39
2012/13	1217.94	1502.44	771.47	502.68
2013/14		1681.86		563.96
2014/15		1861.27		625.25
2015/16		2040.69		686.53
2016/17		2220.10		747.82
2017/18		2399.52		809.10

Source: Appendix IV

The above table reveals the trend of net profit of SCBNL and NSBL. Net profit both banks forecasted in increasing trend. The trend of increasing value of net profit of SCBNL is higher and aggressive than NSBL. The net profit of SCBNL and NSBL has been increasing every year by Rs.179.42 million and Rs. 61.29 million respectively. The trend of Net profit projected to FY 2017/18 i.e. further five year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, SCBNL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of SCBNL is high than the NSBL.

Figure 4.4

Trend Analysis of Net Profit between SCBNL and NSBL



Source: Table No. 4.20

4.3 Major Findings

From the above research study, following findings are drawn on the financial performance of the selected commercial banks. Generally banks have to maintain more deposits but the current ratios of all banks are below the standard of 2:1.

- i. The mean current ratio of SCBNL is 1.32 and NSBL is 1.26, the current ratio of SCBNL is little higher than NSBL. It is indicate better liquidity position of SCBNL.
- ii. Cash and bank balance to total deposit ratio of SCBNL has higher than NSBL i.e. 11.20 percent > 10.25 percent which indicates that the bank has higher liquidity of NSBL as compare to SCBNL. A high ratio of cash and bank balance may be undesirable which indicates to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good.

- iii. Cash and bank balance to current assets ratio of SCBNL is lower than NSBL i.e. $204.77 > 142.31$ Regarding the analysis, it can be said that NSBL has a better ability to meet daily cash requirements of their customers but it should be noted that NSBL has excess cash due to the low investment opportunities.
- iv. Investment on government securities to current assets of SCBNL has higher than NSBL. It shows SCBNL has invested more fund in government securities. NSBL has invested little portion in government securities. Its suggest NSBL to increase investment in purchasing of government securities.
- v. The loan & advances to total deposit ratio of SCBNL is lower than NSBL. It indicates the better mobilization of deposit by NSBL. So, NSBL has more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.
- vi. The total investment to total deposit of SCBNL is higher than NSBL. It shows the SCBNL is mobilizing its funds on investment in various securities efficiently. It can be said that SCBNL is more successful in utilizing its total deposit by investing in marketable securities.
- vii. The loan & advances to total assets ratio of SCBNL is greater than NSBL i.e. $55.24\% > 50.86\%$. It refers SCBNL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio.
- viii. Investment on government securities to total assets ratio of SCBNL is higher than NSBL i.e. $19.09\% > 8.99\%$. This indicates that SCBNL has invested more portions of total assets on government securities. It means SCBNL has invested more money in risk free assets than that of NSBL.

- ix. Return on loan & advances ratio of SCBNL is higher than that of NSBL i.e. $6.53\% > 2.18\%$. It can be concluded that SCBNL bank has utilized the loan and advance for the profit generation purpose in proper way.
- x. Return on total assets ratio of SCBNL is higher than NSBL. However, SCBNL seems successful in managing and utilizing the available assets in order to generate revenue.
- xi. Return on equity of SCBNL is higher than NSBL i.e. $35.82\% > 19.45\%$ which shows that SCBNL is more successful to earn high profit through the efficient utilization of its equity capital.
- xii. Total interest earned to total assets ratio of NSBL is relatively little higher than that of SCBNL i.e. $5.93 \text{ percent} > 5.54 \text{ percent}$ and also has higher variability in the ratio. It indicates that NSBL has efficiently used its total assets to earn higher interest income in comparison to SCBNL. SCBNL seems less conscious about managing its assets in order to earn more interest ratio.
- xiii. Both SCBNL and NSBL have positive co-relation between total deposit and loan & advances because SCBNL and NSBL have 0.625 and 0.968 of co-relation coefficient between deposit and loan & advances. These relationship SCBNL has insignificant and NSBL has significant.
- xiv. Both SCBNL and NSBL have positive co-relation between total deposit and loan & advances because SCBNL and NSBL have 0.562 and 0.777 of co-relation coefficient between deposit and loan & advances. These relationship SCBNL has insignificant and NSBL has significant.
- xv. There is positive correlation between Loan and advance and net profit. Correlation between Loan and advance and net profit of

SCBNL is 0.814 and NSBL is 0.952. SCBNL has little low degree of positive correlation. The relationship between Loan and advance and net profit of SCBNL & NSBL has significant due to more than 6 P.E.

- xvi. The degree of relationship between total investment and net profit of SCBNL is poor than NSBL i.e. correlation coefficient between total investment and net profit of SCBNL and NSBL is 0.154 and 0.90 respectively. It refers that NSBL is comparatively successful to generate net profit due to positive correlation.
- xvii. SCBNL and NSBL have increasing trend in collecting deposit the rate of increment of total deposit for SCBNL seems to be lower than that of NSBL. Here NSBL has better position in collecting deposit than SCBNL.
- xviii. The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances. The trend line of loan and advances for NSBL seems high growing than SCBNL. It refers that NSBL is more aggressive in mobilizing its loan and advance.
- xix. The total investment trend line of NSBL is upward slopping and SCBNL is downward slopping. Where as NSBL has aggressive upward slopping of total investment trend line. It refers that NSBL has better increasing trend of total investment.
- xx. The trend line of Net profit for SCBNL and NSBL is upward slopping But SCBNL has aggressively and NSBL has smoothly. The position of SCBNL is better in order to generate profit than NSBL.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about credit risk management of Standard Chartered Bank Nepal Limited and Nepal SBI Bank Limited. The main objective of the study is to analyze the credit management of SCBNL and NSBL. The specific objectives of the study are: To examine the liquidity, profitability position of the banks. To analyze the relationship between total deposit, loan & advance and net profit of sample commercial banks. To examine the trend of total deposit, loan & advance and net profit of sample commercial banks. The significance of the study proper management of deposit for the growth and development of this sector, by considering the return is required. In today's competitive scenario, several macro economic factors such as political, economical, social and technological factors have increased the challenges to the banking sector.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concerned bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists various ratio likes current ratio, liquidity ratio, assets management ratio, profitability ratio and risk ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation and trend analysis have been applied to fulfill the objective of this study.

In the context of current competitive scenario, banks need to face challenges from all around. For this purpose, descriptive cum analytical research design was adopted. Out of total population of 30 commercial banks (till April, 2014), 2 banks were taken as sample using judgmental sampling method. SCBNL and NSBL have been taken for comparative study because of their similarities in terms of business size, date of establishment, capital size etc.

5.2 Conclusions

The mean current ratio of SCBNL is better liquidity position of NSBL and cash and bank balance to total deposit ratio of NSBL has higher than SCBNL. A high ratio of cash and bank balance may be undesirable which indicates to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. NSBL has invested little portion in government securities. Its suggest NSBL to increase investment in purchasing of government securities.

The loan & advances to total deposit ratio of SCBNL is lower than NSBL. It indicates the better mobilization of deposit by NSBL. So, NSBL has more efficiently utilizing the outsiders' funds in extending credit for

profit generating sectors. Both SCBNL and NSBL have positive co-relation between total deposit and loan & advances. These relationships are insignificant of SCBNL and significant of NSBL. There is positive correlation between total deposit and investment of SCBNL and NSBL. Where as SCBNL has low degree of positive co-relation than NSBL. The trend line of deposit for both banks is upward slopping. It refers that both the banks are increasing in deposit collection but NSBL have aggressive increasing trend than that SCBNL. The trend line of net profit for SCBNL and NSBL is upward slopping but SCBNL has aggressively and NSBL has smoothly. The position of SCBNL is better in order to generate profit than NSBL.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the credit risk management of SCBNL and NSBL effective and efficient. This would help to draw some outline and make reforms in the respective banks.

1. Generally, banks have to maintained liquid assets. The current ratio of the two banks, SCBNL and NSBL is considerable. This can be regarded as good liquidity position. So, it is recommended to maintain sound liquidity position to SCBNL and NSBL.
2. Government securities such as treasury bills, development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market.
3. Both banks have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate the investment opportunities and

alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

4. Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
5. Keeping all these in consideration, the SCBNL has less performance than that of NSBL. SCBNL seems lower creditworthiness than NSBL. Therefore, in the future ahead, the SCBNL should improve its weaknesses by adopting the innovative approach to recover their bad loans.
6. For this purpose, it is recommended to form a strong credit recovery department in its central level, which deals with the default credit customers and take necessary action to recover their non performing loan.

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Appendix I

Trend analysis of Total Deposit of SCBNL and NSBL

(Rs. in Millions)

Year(x)	SCBNL	NSBL
2008/09	35871.8	27957.2
2009/10	35182.7	37896.3
2010/11	37999.2	42415.4
2011/12	35965.6	53337.1
2012/13	39466.5	58290.5

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where $x = X - 2010/11$

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

SCBNL

NSBL

$$a = 34952.64$$

$$a = 35064.28$$

$$b = 1457.08$$

$$b = 9370.16$$

Where as

$$Y_c = 34952.64 + 1457.08 X \text{ of SCBNL}$$

$$Y_c = 35064.28 + 9370.16 X \text{ of NSBL}$$

Appendix II
Trend line of Total Loan and Advance of SCBNL and NSBL
(Rs. in Millions)

Year(x)	SCBNL	NSBL
2008/09	13118.6	15465.2
2009/10	15932.2	17887.2
2010/11	17698.2	21657.1
2011/12	18376.0	26403.8
2012/13	22828.84	28788.15

Let trend line be

$$Y = a + bx \dots \dots \dots (I)$$

Where $x = X - 2010/11$

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

SCBNL

NSBL

$a = 15696.0$

$a = 18797.64$

$b = 1462.16$

$b = 3384.97$

Where as

$Y_c = 15696.0 + 1462.16 X$ of SCBNL

$Y_c = 18797.64 + 3384.97 X$ of NSBL

Appendix III
Trend Line of Total Investment between SCBNL and NSBL
(Rs. in Millions)

Year(x)	SCBNL	NSBL
2008/09	10007.3	3306.6
2009/10	8540.0	4313.3
2010/11	9965.8	5574.8
2011/12	7871.2	4560.7
2012/13	12753.5	25906.1

Let trend line be

$$Y = a + bx \dots\dots\dots (I)$$

Where $x = X - 2010/11$

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

SCBNL

$$a = 8906.08$$

$$b = -59.13$$

NSBL

$$a = 4169.80$$

$$b = 520.24$$

Where as

$$Y_c = 8906.08 + (59.13) X \text{ of SCBNL}$$

$$Y_c = 4169.80 + 520.24 X \text{ of NSBL}$$

Appendix IV

Trend Analysis of Net Profit between SCBNL and NSBL

(Rs. in Millions)

Year(x)	SCBNL	NSBL
2008/09	1025.11	316.37
2009/10	1085.87	391.74
2010/11	1119.17	464.56
2011/12	1168.97	480.1
2012/13	1217.94	771.47

Let trend line be

$$Y = a + bx \dots\dots\dots (I)$$

Where $x = X - 2010/11$

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

SCBNL

$$a = 1143.61$$

$$b = 179.42$$

NSBL

$$a = 380.11$$

$$b = 61.29$$

Where as

$$Y_c = 1143.61 + 179.42 X \text{ SCBNL}$$

$$Y_c = 380.11 + 61.29 X \text{ NSBL}$$