

Chapter 1

Introduction

1.1 Background of the study

Developing countries like Nepal have been facing lot of problems for its economic development. Nepal has to make expansion in a financial sector. Financial market is very important for the economic growth of the country (*Economic Survey, 2004/05: 2*). The pace of development of the country is largely depends upon the economic activities. Economic activities are guided by finance. Financial institutions provide capital to develop trade, industry and business. Bank, finance companies, co-operative societies, insurance companies, stock exchanges helps in the economic development of the country (*Economic Survey, 2004/05: 2*).

The source of finance is the most essential element for the establishment and operation of any profit and not profit institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issues of shares and through financial institutions such as banks, in the form of credits, overdraft etc. It is during these stages for the establishment and operation of any organization, the role of banks come into effect in providing these sources, in the form of credit, overdrafts and other related services (*Vaidhya, 1999: 4*).

Banks are major institutions in financing. Bank involves in a process of collecting scattered money and to help its mobilization in different sectors according to the need of customers (*Shekher & Shekher, 1999:3*). Bank helps to develop saving habit of people, which in turns help to make other people t6o incest for their business. Banking loan helps to incest in industrial sector, commercial sector, production sector, trade & commerce, Band also helps to develop international business by initiating as a mediator on export & import. This way banks help to strengthen the national development (*Economic Survey, 2004/05: 3*).

Banking is one of the most heavily regulated businesses in the world (*Vaidhya, 1999: 5*). Banks are among the most important financial institutions in the economy. Banks are among the most important financial institutions in the economy.

They are the principal source of credit (loan-able funds) for millions of individuals and families and for many units of governments. Moreover, bank often act as a major source of credit to small local business ranging from grocery stores to automobile dealers for their stock. Banks are among the most important sources of short-term working capital for business and have become increasingly active in recent years in making long-term business loans for new plant and equipment (*Shekher & Shekher, 1999: 6*).

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

Lending is the most important function of a commercial bank. For lending procedure; bank has to make some banking practices such as transferring property in bank's name. The transfer is temporarily made for a loan price & interest. Lending money is nowadays becoming main resources of revenue to the bank and also involves high risk too. Bank will not provide loan unless it has sufficient resources to the borrower that will be needed in case of future recovery.

Today no banker can survive for long run without proper standing of economy and no pace ahead without proper banking system. Moreover, the ability of bank to gather and analyze financial information has given rise to another view of why banks exist in modern society. Most borrowers and depositors prefer to keep their financial records confidential, shielded especially from competitors. Banks are able to fulfill this need by offering high liquidity in the deposits they sell, more people believe that banks play only narrow role in the country- taking deposits and making loans. The modern bank has to adopt new roles in order to remain competitive and responsive to public needs (*NRB, Smarika, 2004/05: 41*).

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer needs to price that credit reasonably in line with competitively determined interest rates. Bank loan support the growth of new businesses and jobs within the banks trade territory and promote economic vitality.

Banks made a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles and buying new furniture, taking dream vacations of pursuing college educations, to constructing home and office buildings. Loans may be divided as, real estate loans, financial institution loans, agricultural loans, commercial and industrial loans, loans to individuals, miscellaneous loans lease financing receivables etc (*NRB, Smarika, 2004/05: 40*).

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

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

1.2 Profiles of Sample Banks:

1.2.1 Everest Bank Limited:

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 22 branches with its Head Office in Lazimpat. Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India having 112 years of banking history. PNB is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion.

The bank has been conferred with “*Bank of the Year 2006, Nepal*” by the banker, a publication of financial times, London. The bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector.

It has one of the Largest Network among private sector banks spread across Nepal and all connected with ABBS. It has representative office in India to facilitate remittance from India. It facilitates direct drawing arrangement with PNB and HDFC bank India whereby instant payment is done on presentation of the instrument. It has more than 126 remittance payout location in Nepal.

Recognizing the value of offerings a complete range of services, the bank has pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

The banks performance under all parameters has been outstanding during the fiscal year 2063-64 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 30.06 crore compared to Rs. 23.73 crore last year- an increase of 26.68 %. The bank was able to increase its operating profit by 31.9%, deposit by more than 38% and advances by 39% during the year compared to the corresponding period last year. During the last financial year, the Bank opened three branches namely Balaju in Kathmandu Valley, Nepalgunj and Birtamod. The Bank has further opened a branch at Baglung during the month of Bhadra, 2064. At Present, EBL has Twenty-Two Branches that spread out the nation. Everest Bank is first private commercial bank having largest network. Assets quality has improved by reduction of Non Performing Asset (NPA) to 0.80% from 1.27% in the previous year. This is one of the lowest NPA among the commercial banks in Nepal. Against the Paid-Up Capital by shareholders of Rs. 37.80 crore, the shareholders’ funds now amount to Rs. 119.87 crore – with Core Capital base of Rs. 81.67 crore. Earnings per Share have surged to Rs 62.78 from Rs 54.22. The local Nepalese Promoters hold

50% stake in the Bank's equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public. The capital adequacy ratio of EBL is 11.38% which is above the requirement of 11% set by the central bank.

EBL in association with Smart Choice Technology (SCT) is providing ATM service to its customers through more than 74 ATMs and over 850 Point of Sales across the country. ATM sharing arrangement with Punjab National Bank has facilitated usage of EBL Debit Card at more than 1000 PNB ATM outlets across the India at a nominal rate. Similarly, Indian tourists and businessmen having PNB cards will be able to use EBL ATM, while in Nepal. EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National Bank and remit their saving economically through banking channel of Nepal. The Bank is also offering Cash Management System through HDFC Bank., India for managing the funds of corporate exporting to India by collecting their fund from about 183 locations in India.

The Bank's own Web based online remittance product "Everest Remit" facilitates remittance from Malaysia, Doha, UK, Baharain, UAE and Qatar to more than 126 payout location in Nepal. With India Remit, the Bank has same day remittance facility with India with association of PNB's 2200 networked branches at 550 locations, besides draft drawing arrangement with 280 PNB branches across India. All the branches of the bank are connected with Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account.

1.2.2 Lumbini Bank Limited:

Lumbini Bank Limited is a national level commercial bank offering a wide range of banking solutions and services meticulously customized to the needs of the customers. Established in 1998, this is the first regional commercial bank in Nepal, which started its operation from Narayangarh spreading its wings to further four more places at Hetauda, Butwal, Durbarmarg and Biratnagar. Lumbini Bank Limited is highly committed to assure of the standard and excellence in the services it offers.

The bank is guided towards obtaining new challenges and opportunities. Backed by state-of-the-art technology and experienced professionals adept in modern banking management, we strive to make banking simple, fast and customer friendly. Just the way the people like it.

Lumbini Bank Limited has restructured various products, as a part of an ongoing process, to cater to the retail segment. The newly structured products cover Personal Loan, Home Loan, Vehicle Loan, Mortgage Loan, Educational Loan, Time Loan etc. Nepalese promoters holds 70% shares and general public holds 30% shares. The Bank's authorized capital is NPR 1 billion and paid up capital is NPR 750 million.

1.3 Statement of the Problem

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

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

off of the credit. As the sample of commercial banks, Himalayan Bank Limited and Nepal Arab Bank Limited have been selected.

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

-) Whether the sample banks have appropriate liquidity?
-) What is the volume of contribution made by sample banks in credit and advances?
-) What is the deposit collection and utilization trend of sample banks?
-) What is the relationship of deposits, loan & advances and net profits of sample banks?

1.4 Objectives of the study

It is no doubt that the role of commercial banks is significant in development of the country. Banks help in development of the country by providing credit to the necessary sectors. Therefore, the main objective of this study is to find out the credit management position of Lumbini Bank Limited and Everest Bank Limited.

The specific objectives of the study are as follows:

-) To analyze the volume of contribution made by sample banks in credit & advances.
-) To analyze the deposit collection and utilization trend of sample banks.
-) To study the relationship of deposit, loan & advances and net profit of sample banks.
-) To provide suitable and beneficial suggestions based on findings of this study.

1.5 Significance of the study

At present the joint venture banks are gaining a wide popularity through their efficient management and professional services and playing an eminent role in the economy. Lending is one of the main functions of commercial banks where the whole

banking business if rested upon. Study on joint venture commercial bank and especially their lending practices; carry a great significance to shareholders of the bank, to the professionals, to the students who wants to know about lending practices of commercial banks. This study adds new ideas and findings about the concerned joint venture banks.

This study no doubt will have importance to various groups but in particular if directed to a certain groups of people/organizations, which are.

-) Important to shareholders.
-) Important to management bodies of the bank for evaluation of bank's performance.
-) Important to outsiders who are mainly customers, finance agencies, stock exchanges etc.
-) Important to the government bodies or the policy makers such as central bank.
-) Interested outside parties such as investors, customers (depositors as well as credit takers), competitors, personnel of the banks, stockbrokers, dealers, market makers etc.

1.7 Limitations of the Study

To complete this research, we follow the different books, journals, articles and dissertation. Thus, reliability of the study is based of those things.

This study will not examine the credit management of all listed commercial banks due to lack of time, the study will see only the credit management two commercial banks- Lumbini Bank Limited and Nepal Everest Bank Limited , which are listed in NEPSE. This study will cover only the past five years period since 2059/2060 to 2063/2064. To prepare this reports secondary data are collected from annual general meeting (AGM)'s reports of the listed banks and trading reports of NEPSE. Primary information is collected from respective office and related persons. It may not cover the whole qualitative and quantitative analysis of the commercial banks of time and resource constraints.

The research study has some limitations. The main limitations of the study are as follows:

-) Though, there has been in operation of many commercial banks in Nepal, only two commercial banks are taken for the proposed study.
-) This study concentrates only on credit management of selected commercial banks.
-) The secondary data will be used for presentation and interpretation. Only a 6-years data will be considered.
-) This study is only a case study; hence the conclusion drawn from the study does not ensure wide applicability in all types of enterprise running in different situations.
-) Major portion of analysis and interpretation have been done on the basis of available secondary data and information. This reliability of the study is based on trueness of collected data and information.
-) In this study, only selected financial and statistical tools as well as techniques are used.

1.8 Organization of the Study

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

Chapter I is the introduction chapter. It includes background of the study, profile of the study, statement of the problems, objectives of the study, significance of the study, Limitations of the study and chapter plan of the study.

Chapter II deals with review of literatures, which includes conceptual/theoretical review and review of related studies.

Chapter III is research methodology which includes research design, population and sample, sources of data, data collection techniques and data analysis tools.

Chapter IV deals with the various analysis and interpretations of data like analysis of deposits, Loan and Advances and Profits of Lumbini Bank Limited and Everest Bank Limited, Financial and statistical analysis and analysis of primary data. It also shows major findings of the study.

Chapter V includes summary and conclusion of the study. It deals with recommendations suggested.

CHAPTER 2

LITERATURE REVIEW

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 research problem under study and what has not been done in the field of research study being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed. This part is divided into three headings:

- Conceptual review
- Review of different studies
- Research gap

2.1 Conceptual Review

2.1.1 History and evolution of banking

A bank is an institution, which collects money from those who have it spare or who are moving it out of their income and lends this out to those who required it. According to Indian banking company act 1949, "Banking means accepting for the purpose of lenders and investment of, deposit from the public, repayable on demand or otherwise and withdraw by cheques, draft, order or otherwise."

When the word 'bank' is used, it is meant for commercial bank. Actually, word of bank was originated from Germany though some people think it to be of French and Italic origin. Before 1960, there was no such word as "banking". However, in the temple of Babylon, the practices of safeguarding and saving flourished as early as 2000 B.C. Chanakya in his 'Arthashastra' written in about 300 B.C mentioning about the existence of powerful guilds of merchant's bankers received deposits, advance loans and hundies (letter of transfer).

Ancestors of bank are as follows:

Merchant

Goldsmith

Money Lenders

The origin of the "Bank" is linked to:

Latin word "*Bancus*"

Italian word "*Banco*" meaning a bench

French word "*Banque*"

The establishment of the first modern banking institution called "The Bank of Venice" in 1157 AD with a view of finance the monarch in wars was a landmark in the history of Banking. Subsequently, the establishment of "The bank of England" in 1694 AD as the first central bank contributed a great deal to the history of banking. Many countries quickly followed England and established a central bank of their own. But as the central bank is endowed with special rights and authorities, it lacked a direct interaction with the mass. Consequently, soon after, every country felt a pressing need of commercial bank.

History apart, it was the "Merchant Bank" who first evolved the system by trading in commodities than money. They used to do their trading activities by remitting the money from one place to another. For this, they used "Hundies". In India such merchant bankers were known as "Seths". The next stage in the growth of banking was goldsmith. His business was to take special precautions against theft of gold & jewelry. An honest goldsmith was also trusted with billions money and ornaments by merchants in neighborhoods. He started charging for acting as custodians of these valuables. As an evidence for receiving valuables he issued a receipt, which in turn became like a cheque as a mode of exchange.

The next stage was the moneylenders. He started advancing the coins on loan by charging interest. He started to keep some reserve as a safeguard. In this way the goldsmith, moneylender becomes a banker who started performing the two functions of modern banking that of accepting deposits and advancing loans.

Origin of modern bank

- 1157 AD - Establishment of bank of Venice
- 1401 AD - Establishment of bank of Barcelona
- 1407 AD - Establishment of bank of Genoa
- 1603 AD - Establishment of bank of Amsterdam

- 1619 AD - Establishment of bank of Haimberg
- 1694 AD - Establishment of bank of England
- 1770 AD - Establishment of The bank of Hindustan
- 1934 AD - Establishment of Nepal Bank Limited
- 1957 AD - Establishment of Nepal Rastra Bank

Origin of bank in Nepal

Pre-modern banking system is found during the reign of Rana Prime Minister Ranoddip Singh in 1880 A.D. Towards the end of 14th century, Tanka Dhari means money lender, were the owners of monetary transaction during the period of Prime Minister Ranoddip Singh established Tejarath. In 1938, state financial institute, which supply credit or loan against security.

Establishment of banking system in Nepal is as follows:

- 14th Century - Introduction of "Tankadhari"
- 1938 B.S. - Establishment of "Tejarath Adda"
- 1994 B.S. - Establishment of Nepal Bank Limited
- 2013 B.S. - Establishment of Nepal Rastra Bank
- 2013 B.S. - Industrial development center
- 2016 B.S. - Conversion of Industrial development center into Nepal Industrial Development Corporation.
- 2022 B.S. - Establishment of Rastriya Banijya Bank
- 2024 B.S. - Establishment of Agricultural Development Bank.
- 2041 B.S. - Nepal Arab Bank Limited
- 2042 B.S. - Indosuez Bank Limited (Nepal Investment Bank)
- 2043 B.S. - Nepal Grindlays Bank Limited (Standard Chartered Bank)
- 2049 B.S. - Himalayan Bank Limited

2.1.2 Meaning of Commercial Bank

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to definition of H. L., a banker or bank is a person or company carrying on the business of receiving money and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time

to time by the customers to the extent of the amount available on their customer (Shekher & Shekher, 1999).

Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore, commercial banks are those banks which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creations and agency functions. They provide short-term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

Commercial bank acts as an intermediately; accepting deposits and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short- term credit needs of business other than the long-term. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc to their customers (Vaidhya, 1999).

Commercial banks are organized as a joint stock company system, primarily for the purpose of earning profit. They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the United States where a banks operations are confined to a single office or to a few branches within a strictly limited area (Shekher & Shekhar, 1999).

The commercial banks are those banks that pool together the savings of community and arrange for their productive use. They activate the idle money to the different productive areas. They supply the financial needs of modern business by various means. Most of the banks in the world are found established with a view to finance and help in developing trade, industry and commerce. In fact, commercial banks can be defined according to the function they perform. Commercial banks can accept deposits and also provide loan primarily to business firms thereby facilitating the transfer of funds in the economy.

2.1.3 Functions of Commercial Bank

Commercial banks can be defined from the function it performs. Generally, all commercial banks perform following functions:

i. Accepting deposits

The main objective of the commercial bank is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds. Therefore, accepting deposit by banks is the oldest function. A bank accepts deposits in the form of saving, current and fixed deposit.

ii. Advancing loans

The second major function of commercial bank is providing loan to the needy person. Bank advances the loan against the security to the customer. Advancing loan is also known as the function of the deposit mobilization because bank gives loan to the people from the deposit that it collects from the public. There are various methods of advancing loans, e.g. overdraft, cash credit, direct loans, discounting bills of exchange, etc.

iii. Agency services

Agency services are those services, which are provided by the banks on benefit of its customer. A commercial Bank undertakes the payment of subscription, insurance premium, rent, etc and collection of cheques, bills, salaries, pensions, dividends, interest, etc on behalf of the customer. The bank charges the service cost to do these functions to its customers. The commercial banks also arrange the remit money from one place to another by means of cheques, drafts, wire transfer, etc.

iv. Credit creation

Credit creation is one of the most important functions of the commercial banks. In order to earn profits, they accept deposits and advance loans by keeping a small cash reserve ratio for day-to-day transaction as prescribed by the central bank. When a bank advances a loan, it opens an account to draw money by cheque according to his need, by granting a loan, the banks create credit or deposit.

v. General utility services

The commercial banks perform certain utility functions to its customer.

Following are the general utility services provided by the commercial banks:

- Safe keeping of valuables
- Assist in foreign trade
- Making venture capital loan
- Investment banking and merchant banking service
- Security brokerage service

2.1.4 Commercial Bank in Nepal

The history of commercial bank in Nepal starts from the establishment of Nepal Bank Limited on 1994 B.S. It is the first bank in Nepal and prior to this, there was no such organized banking system in the country.

As the time passed, Nepal Rastra Bank was established on 2013 B.S. and Rastriya Banijya Bank was established on 2022 B.S. in order to play a major role not only in domestic banking services but also in the foreign trade. After the establishment of these banks, there was progress in the banking industry in Nepal. Today, Nepal can take legitimate pride in the remarkable growth and progress in the banking industry. Nepal has opened its door to foreign commercial banks to operate in the kingdom almost a decade back.

Till 2066 B.S., there are several commercial as well as development banks has been working smoothly in Nepal. They are as follows:

List of commercial banks

S.No.	Name of Banks	Operation Date in AD	Head Office
1	Nepal Bank Ltd.	1937-11-15	Kathmandu
2	Rastriya Banijya Bank	1966-01-23	Kathmandu
3	Agricultural Development Bank Ltd.	1968-01-02	Kathmandu
4	Nabil Bank Ltd.	1984-07-16	Kathmandu
5	Nepal Investment Bank Ltd.	1986-02-27	Kathmandu
6	Standard Chartered Bank Limited	1987-01-30	Kathmandu
7	Himalayan Bank Limited	1993-01-18	Kathmandu
8	Nepal Bangladesh Bank Limited	1993-06-05	Kathmandu
9	Nepal SBI Bank Limited	1993-07-07	Kathmandu
10	Everest Bank Limited	1994-10-18	Kathmandu
11	Bank of Kathmandu Limited	1995-03-12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996-10-14	Siddhartha Nagar
13	Lumbini Bank Limited	1998-07-17	Narayangadh
14	NIC Bank Limited	1998-07-21	Biratnagar
15	Machhapuchre Bank Limited	2000-10-03	Pokhara
16	Kumari Bank Limited	2001-04-03	Kathmandu
17	Laxmi Bank Limited	2002-04-03	Birgunj Parsa
18	Siddhartha Bank Limited	2002-12-24	Kathmandu
19	Global Bank Limited	2007-01-02	Birgunj Parsa
20	Citizen Bank Limited	2007-06-21	Kathmandu
21	Prime Bank Limited	2007-09-24	Kathmandu
22	Sunrise Bank Limited	2007-10-12	Kathmandu
23	Bank of Asia Nepal Limited	2007-10-12	Kathmandu
24	Development Credit Bank Limited	2001-01-23	Kamaladi ,Kathmandu
25	NMB Bank Limited	1996-11-26	Babarmahal,Kathmandu
26	KIST Bank Limited	2009-05-07	Anamnagar, Kathmandu

Source: www.nrb.org.np

2.1.5 Concept of credit

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration about the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios (Johnson, 1940: 132).

Book named "Banking Management" says that in banking sector or transaction, an unavoidable-ness of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought. For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities (Bhandari, 2003: 170).

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 advances. Hence, risk of non-payment of loan is known as credit risk or default risk (Dahal, 2002: 114). 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, 2004: 300).

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 the credit (Oxford Advanced Learners Dictionary, 1992: 279).

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, 1994: 6).

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: (Chhabra, and Taneja, 1991: 4)

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

The basic purpose of a commercial bank is to maximize the shareholders' wealth by accepting deposits and granting loans in the society. In order to give maximum return to shareholders, the bank is required to invest most of its fund in loans and advances, risky assets. Consequently, a clear and sound loan credit policy is a must for the safety of depositors fund and adequate return to shareholders. Credit policy can be defined as the decision made in advance about the management of credit.

Credit is the vital and the most important activity in the bank, next only to deposit mobilization. It is the activity that generates the main income stream for the bank. The activity should therefore be pursued with the utmost professionalism conservation and circumspection. Banks should develop and implement policies and procedures to ensure that the credit portfolio is adequately diversified given the bank's target markets and overall credit strategy. In particular, such mix as well as set exposure limits on single counters parties and groups of connected counters parties, particular industries or economic sectors, geographic regions and specific products. Banks should ensure that their own internal exposure limits imply set by the banking supervisors. Credit policies establish the framework for lending and guide the credit granting activities of the bank.

2.1.6 Types of credit

a) Overdraft

It denotes the excess amount withdrawn over their deposits.

b) 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.

c) Direct credit**i) Term credit**

It refers to money lend in lump sum to the borrowers. It is principal form of medium term debt financing having maturities of 1 to 8 years. A bank credit with maturities exceeding 1 year is 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,1996: 80).

ii) 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.

iii) Priority or deprived sector credit

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

- Advances to poor/downtrodden/weak/deprived people up to Rs. 30,000 for generating income or employment.
- Institutional credit to rural development bank.
- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs. 30,000.

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

v) 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 itself.

vi) 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 credits are short-term credits made to developers 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 (Johnoson, 1940: 242). The basic guiding principle 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.

vii) Consortium credit

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

viii) Credit cards and revolving lines of 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 cards 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.

ix) Off-balance sheet transaction

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

x) 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.

xi) Letter of credit (L/C)

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

d) Discounting of bills

It is the main function of commercial banks. Discounting of bill means made payment of bills, which are issued by commercial banks as well as central bank, NRB, before their expiration date or matured time. Therefore, payment should be less than the total amount because of their uncertainty.

2.1.7 Objectives of credit policy

The credit policy should be carefully established, properly communicated to the lending officers and implemented effectively by the lending officers. The basic objective of credit policy is to maintain effective credit management and control over it. Moreover, it is specified as follows:

a) To have a good assets

Loans are the risky assets though a bank invests the most of its resources in granting loans and advances. The increasing of non-performing loan causes the non-existence of banks. It is the very quality of assets that led bankruptcy of many banks in South East Asia. The objective of sound loan policy is to protect depositors' interest and maximize returns to the shareholder by striking a balance between liquidity and profitability.

b) To contribute to economic development

A sound credit policy is required to ensure that the loans are given to the productive sector, which contributes to capital formulation and employment generation.

c) To give guidance to lending officials

A borrower should be assured that there would be no discrimination whether he deals with one officer or another. A sound credit policy is imperative to achieve a uniform standard procedure throughout the organization.

d) To establish a standard for control

Every policy requires periodic follow-up to ensure its proper implementation. A sound credit policy helps to determine the variance between actual performance and

practices and to take corrective actions. A sound policy is always flexible and works as a guideline. If the variation between the practice and policy is observed, proper education to lending officer or amendment of the policy will become inevitable.

2.1.8 Principle of credit policy

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

a) Principle of safety fund:

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

b) Principle of liquidity:

Liquidity refers to pay on hands on cash when it needed without having to sell long-term assets at loss in unfavorable market (American Institute of Banking, 1972: 149). A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

c) Principle of security:

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

d) Principle of purpose of credit:

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

e) Principle of profitability:

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

f) Principle of spread:

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

g) Principle of national interest:

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

2.1.9 Key characteristics of credit policy

Every policy has its own characteristics. The credit policy has the following characteristics:

a) Approved by top management

The credit policy is always prepared by the top management of an institution and is approved by the board of directors. It may be revised time to time.

b) Practical and manageable

The credit policy, prepared by the bank is not for theoretical rather it is for practical and manageable to apply.

c) Flexibility

Rigid credit policy is not practical. It has to be flexible according to the demand of customer.

d) Compliance

Credit policy is compliance with NRB policy as well as economic, political condition of the country.

2.1.10 Systems and Procedures of credit policy

A sound credit policy interact all the areas of credit effectively that ultimately helps to operate the organization successfully. Basically, a bank has to follow the following systems and procedures in credit policy.

a) Credit origination

Banks must operate within a sound and well-defined criteria for new credits as well as the expansion of existing credits. The credits should be extended within the target markets and lending strategy of the institution. Before allowing a credit facility, the banks must make an assessment of risk profile of the customer transaction.

This may include:

- i. Credit assessment of the borrower's industry, and macro economic factors
- ii. The purpose of credit and source of repayment
- iii. The track record/repayment history of borrower
- iv. Assess/evaluate the repayment capacity of the borrower
- v. The proposed terms and conditions and covenants
- vi. Adequacy and enforceability of collaterals
- vii. Approved form appropriate authority

In case of new relationships, consideration should be given to the integrity and repute of the borrowers or counter party as well as its legal capacity to assume the liability. Prior to entering into any new credit relationship, the bank must become familiar with the borrower or counter party and be confident that they are dealing with individual or organization of sound repute and cordite worthiness. However, a bank must not grant credit simply on the basis of the fact that the borrower is perceived to be highly reputable, i.e. name lending should be discouraged.

While structuring credit facilities institutions should appraise the amount and timing of the cash flows as well as the financial position of the borrower and intended purpose of the funds. It is utmost important that due consideration should be given to the risk reward trade-off in granting a credit facility and credit should be priced to cover all embedded costs. Relevant terms and conditions should be laid down to protect the institution's interest. Institutions have to make sure that the credit is used

for the purpose it was borrowed. Where the obligor has utilized funds for purposes not shown in the original proposal, institutions should take steps to determine the implications on creditworthiness. In case of corporate loans where borrower own group of companies such diligence becomes more important. Institutions should classify such connected companies and conduct credit assessment on consolidated/group basis.

In loan syndication, generally the lead institution does most of the credit assessment and analysis. While such information is important, institutions should not over rely on that. All syndicate participants should perform their own independent analysis.

Institution should not over rely on collaterals/covenant. Although the importance of collaterals held against loan is beyond any doubt, yet these should be considered as a buffer providing protection in case of default, primary focus should be on obligor's debt servicing ability and reputation in the market.

b) Limit setting

An important element of credit risk management is to establish exposure limits for single obligors and group of connected obligors. Institutions are expected to develop their own limit structure while remaining within the exposure limits set by the central bank (i.e. Nepal Rastra Bank). The size of the limits should be based on the credit strength of the obligor, genuine requirement of credit, economic conditions and the institution's risk tolerance. Appropriate limits should be set for respective products and activities. Institutions may establish limits for a specific industry, economic sector or geographic regions to avoid concentration risk.

Some times, the obligor may want to share its facility limits with its related companies. Institutions should review such arrangements and impose necessary limits if the transactions are frequent and significant.

Credit limits should be reviewed regularly at least annually or more frequently if obligor's credit quality deteriorates. All requests of increase in credit limits should be substantiated.

c) Credit administration

Ongoing administration of the credit portfolio is an essential part of the credit process. Credit administration function is basically a back office activity that support and control extension and maintenance of credit.

A typical credit administration unit performs following function:

i) Documentation:

It is the responsibility of credit administration to ensure completeness of documentation (loan agreements, guarantees, transfer of title of collaterals etc) in accordance with approved terms and conditions. Outstanding documents should be tracked and followed up to ensure execution and receipt.

ii) Credit disbursement:

The credit administration function should ensure that the loan application has proper approval before entering facility limits into computer systems. Disbursement should be affected only after completion of covenants and receipt of collateral holdings. In case of exceptions necessary approval should be obtained from competent authorities.

iii) Credit monitoring:

After the loan is approved and draw down allowed, the loan should be continuously watched over. These include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.

iv) Loan repayment:

The obligors should be communicated ahead of time as and when the principal/markup installment becomes due. Any exceptions such as non-payment or late payment should be tagged and communicated to the management. Proper records and updates should also be made after receipt.

v) Maintenance of credit files:

Institutions should devise procedural guidelines and standards for maintenance of credit files. The credit files not only include all correspondence with the borrower

but should also contain sufficient information necessary to assess financial health of the borrower and its repayment performance. It need not mention that information should be filed in organized way so that external/internal auditors or NRB inspector could review it easily.

vi) Collateral and security documents:

Institutions should ensure that all security documents are kept in a fireproof safe under dual control. Registers for documents should be maintained to keep track of their movement. Procedures should also be established to track and review relevant insurance coverage for certain facilities/collateral. Physical checks on security documents should be conducted on a regular basis.

2.1.11 Credit Monitoring and Control

Credit risk monitoring refers to incessant monitoring of individual credits inclusive of off-balance sheet exposures to obligors as well as overall credit portfolio of the bank. Banks need to enunciate a system that enables them to monitor quality of the credit portfolio of day-to-day basis and take remedial measures as and when any deterioration occurs. Such a system would enable a bank to ascertain whether loans are being serviced as per facility terms, the adequacy of provisions, the overall risk profile is within limits established by management and compliance of regulatory limits. Establishing an efficient and effective credit monitoring system would help senior management to monitor the overall quality of the total credit portfolio and its trends. Consequently the management could fine tune or reassess its credit strategy/policy accordingly before encountering any major setback. The banks credit policy should explicitly provide procedural guideline relating to credit risk monitoring. At the minimum it should lay down procedure relating to

- i. The roles and responsibilities of individuals responsible for credit risk monitoring
- ii. The assessment procedures and analysis techniques (for individual loans & overall portfolio)
- iii. The frequency of monitoring
- iv. The periodic examination of collaterals and loan covenants
- v. The frequency of site visits

vi. The identification of any deterioration in loan.

a) Financial position and business conditions

The most important aspect about an obligor is its financial health, as it would determine its repayment capacity. Consequently institutions need carefully watch financial standing of obligor. The key financial performance indicators on profitability, equity, leverage and liquidity should be analyzed. While making such analysis due consideration should be given to business/ industry risk, borrowers' position within the industry and external factors such as economic condition, government policies, regulation. For companies whose financial position is dependent on key management personnel and/or shareholders, for example, in small and medium enterprises, institutions would need to pay particular attention to the assessment of the capability and capacity of the management / shareholders.

b) Conduct of accounts

In case of existing obligor the operation in the account would give a fair idea about the quality of credit facility. Institutions should monitor the obligor's account activity, repayment history and instances of excesses over credit limits. For trade financing, institutions should monitor cases of repeat extensions of due dates for trust receipts and bills.

c) Loan covenants

The obligor's ability to adhere to negative pledges and financial covenants stated in the loan agreement should be assessed and any breach detected should be addressed promptly.

d) Collateral valuation

Since the value of collateral could deteriorate resulting in unsecured lending, banks need to reassess value of collaterals in periodic basis. The frequency of such valuation is very subjective and depends upon nature of collaterals. For instance loan granted against shares need revaluation on almost daily basis whereas if there is mortgage of a residential property the revaluation may not be necessary as frequently. Incase of credit facilities secured against inventory or goods at the obligor's premises,

appropriate inspection should be conducted to verify the existence the valuation of the collateral.

External Rating and Market Price of securities purchased as a form of lending or long-term investment should be monitored for any deterioration in credit rating of the issuer, as well as large decline in market price. Adverse changes should trigger additional effort to review the creditworthiness.

2.1.12 Managing credit problems

The institution should establish a system that helps to identify problem loan ahead of time when there may be more options available for remedial measures. Once the loan is identified as problem, it should be managed under a dedicated remedial process.

A bank's credit risk policies should clearly set out how the bank will manage problem credits. Banks differ on the methods and organization they use to manage problem credits. Responsibility for such credits may be assigned to the originating business function, a specialized workout section or a combination of the two, depending upon the size and nature of the credit and the reason for its problems. When a bank has significant credit-related problems, it is important to segregate the workout function from the credit origination function. The additional resources, expertise and more concentrated focus of a specialized workout section normally improve collection results.

A problem loan management process encompass following basic elements:

a) Negotiation and follow-up

Proactive effort should be taken in dealing with obligors to implement remedial plans, by maintaining frequent contact and internal records of follow-up actions. Often rigorous efforts made at an early stage prevent institutions from litigations and loan losses.

b) Workout remedial strategies

Some times appropriate remedial strategies such as restructuring of loan facility, enhancement in credit limits or reduction in interest rates help improve obligor's repayment capacity. However it depends upon business condition, the nature of problems being faced and most importantly obligor's commitment and willingness to repay the loan. While such remedial strategies often bring up positive results, institutions need to exercise great caution in adopting such measures and ensure that such a policy must not encourage obligors to default intentionally. The institution's interest should be the primary consideration in case of such workout plans it needs not mention here that competent authority, before their implementation, should approve such workout plan.

c) Review of collateral and security document

Institutions have to ascertain the loan recoverable amount by updating the values of available collateral with formal valuation. Security documents should also be reviewed to ensure the completeness and enforceability of contracts and collateral guarantee.

d) Status report and review

Problem of credits should be subject to more frequent review and monitoring. The review should update the status and development of the loan accounts and progress of the remedial plans. Progress made on problem loan should be reported to the senior management.

2.1.13 Lending criteria

While screening a credit application, 6Cs has to be first considered supported by documents.

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.

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

2. Capacity

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

- i. Certified balance sheet and profit and loss account for at least past 3 years.
- ii. 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.

6. Compliance

Credit agreement should be made according to the NRB Lending policy. NRB rules and regulation should also be considered before providing the credit to the customer.

2.1.14 Project appraisal

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

- Is the project technically sound?
- Will the project provide a reasonable return?
- Is the project in line with the overall economic objectives of the country?

Generally, the project appraisal involves the investigation from the following aspects (Gautam, U. K., 2004: 258):

- Financial aspect
- Economic aspect
- Management/Organizational aspect
- Legal aspect

Directives Issued by NRB for the Commercial Bank (Related to credit aspect only):

a) Credit Classifications and Provisioning:

Classification	Provision
1. Pass Credit	1%

2. Sub Standard Credit	25%
3. Doubtful Credit	50%
4. Bad Credit	100%

Those credits that have not crossed the time schedule of repayment and are within 3 months delay of maturity date fall under the classification topic 'pass credit'. It is also known as performing credit.

Sub standard credit are those credit which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months delay from the time to be recovered are classified as doubtful credit. Those credits, which are not recovered yet after 1 year from maturity date, are known as bad credit. All the above 3 types of credits are classified as non-performing credit also.

The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for non-performing credit is termed as specific credit loss provision.

Auditor has to correctly rate the credit and ensure that accurate credit loss provision has been made. The auditor should examine whether the bank has obtained complete documentation so that banks interest is secured. In addition, audit is made to inspect compliance of terms and conditions laid down. Credit audit is required to check whether credit given is within authority, drawing power, etc. Credit audit helps the bank to know quality of its credit, its weaknesses and strengths. This, in turn, helps the bank to adopt corrective measures where weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be establish with the help of credit audit.

b) Limit of Credit and Advances in a Particular Sector:

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

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

2.1.15 Steps of lending process

Commercial bank issue loans but before issuing loans, they follow some steps of lending process. Bank has certain process for providing loans. When an individual or organization needs capital for doing certain works, then they search for loans and bank is the only one reliable and economic source of loan and advances. So, bank imposes following process for providing loans.

a) Loan application

When a person need loan then he/she asks the loan procedure in the bank. If all the process and information is reasonable, then he/she makes loan application. It is also called loan proposal. For big business loan, it is appropriate to talk with loan officer. Loan officer can also contact to big account holder possessing business organization and ask if they are in need of loan. In developed country's bank, they search for probable debtors. Banks make report of economic activities and when they found good customers they contact with them and ask for loan necessity.

b) Loan interview

Second process involves the loan interview of applicants who apply for the loan. This interview helps to find out the loan applicant's nature, i.e. habit, obedient. Bank also collects information about the purpose.

2.1.16 Need of credit policy in Commercial Bank

In bank fund management, the cost of handling is, of course, as important as the availability of funding. Competition, deregulation, economic conditions and increased sophistication in money management on the part of retail and wholesale depositors have increased the cost of bank fund tremendously.

Making an unsecured loan involves taking a risk and losses on some loans are to be expected. Commercial banks are increasingly facing credit risk (or counter party risk) in various financial instruments other than loans, including acceptances, inter bank transactions, trade financing, foreign exchange transactions, financial

futures, swaps, bonds, equities, options, and in the settlement of transactions. Thus, the need of credit policy is the most, as the banks should always try to mitigate the risk related to the loan provided. Steps that banks can take to limit loan losses include obtaining sufficient information on loans and borrowers as well as establishing an internal system of loan review in addition to the loan reviews of regulatory agencies. Banks can also affect or offset credit risk in their loan portfolios by watching the business cycle, varying loan rates against the degree of risk and recognizing risk in loan concentration. Although specific credit risk policy and practices may differ among banks depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program should address the following areas:

- i) Establishing an appropriate credit risk environment,
- ii) Operating under a sound credit granting process,
- iii) Maintaining an appropriate credit administration, measurement and monitoring process.
- iv) Ensuring adequate controls over credit risk.

Credit risk is a factor in all loans, but to varying degrees. Bank should recognize this variability by matching loan rates to risk. A bank that charges the same rates for many types of loan is not receiving adequate compensation for its riskier loans. In comparison a loan's total yield to its risk, a bank also should consider any supporting deposit balances required in conjunction with the loan and may also want to consider other profitability generated from the customer's relationship with banks (Basel Committee Consultative Paper, 1999).

2.1.17 Types of credit policy in selected banks

There is a single combined credit policy as a whole and to have better control over the risk assets of the bank, the credit policy is sub divided into:

i) Business banking

Large and small-scale industries (i.e. large business houses & small houses) run by the individual come under business banking. The credit policies in this section are:

- a) Corporate customer credit policy
- b) Small business loan policy

ii) Consumer banking

The loan provided to personal interest and benefits comes under consumer banking. The credit policies in this section are:

- a) Home Loan Policy
- b) Auto Loan Policy
- c) Travel Loan Policy
- d) Education Loan Policy

2.2 Review of Related Studies

No more researches were conducted in similar field in Nepalese context. Some previous researches were conducted in financial performance of commercial banks. Many other researches were conducted to assess the investment analysis, lending practices, credit practices and credit policy of commercial banks. However, many international researches were conducted in similar field; few researches were conducted to assess the credit management and its casual linkage on profitability situation.

The effort has been made in this present section to examine and review the some related articles published in different economic journals, bulletins, magazines and newspapers. Besides, it has also been described the findings of previous researches (i.e. both national and international), conducted in similar areas.

2.2.1. Review of Relevant NRB Directives

NRB is the leader of money market. It is the chief of all the banks operating in the country. It supervises, regulates and controls the functions of commercial banks and others financial institution. NRB has issued various directives to supervise and control commercial banks.

Need of NRB Directives

Nepal Rastra Bank act, 2002 granted the central bank full independence in the pursuit of its mandate. It is the duty of independent central bank to be transparent and to communicate. Nepal Rastra Bank's act 2002 mentioned its role at preamble "whereas it is expedient to establish Nepal Rastra Bank to function as the central bank to formulate necessary monetary and foreign exchange policies, to maintain the stability of price, to consolidate balance of payment for sustainable development of the economy of the kingdom of Nepal, and to develop a secure, healthy and efficient system of payment, to appropriately regulate, inspect and supervise in order to maintain the stability and healthy development of banking and financial system, and for the enhancement of public credibility towards the entire banking and financial system of country".

To fulfill the theme that mentioned on its preamble of Act 2002 the Act 2002 chapter 2 sections 4 defined the objective of Nepal Rastra Bank. Objective (d) and (e) are related to manage bank and financial system, which are as follows:

- To regulate, inspect supervise and monitor the banking and system.
- To promote the entire banking and financial system of the kingdom of Nepal and to enhance its public credibility.

To fulfill objective as a central bank Nepal Rastra Bank issue various directives. Banking business is changing day by day not only from the external element but also within the bank. It is also observed from different element of the society that banking in Nepal is not being operated in such a manner to deserve sufficient public confidence. It is also not operated with due consideration of its long-term financial health. This environment in banking business is not only the challenge to the individual bank but also a big challenge to banking and financial as a whole and more to the central bank of the country. In order to safeguard from future damage on the banking sector and to have a healthy competition with the banking sector, new directive on code of ethics may help a lot this banking industry.

The following are some of the relevant directives are as follows.

Directive No. 1: "Regulation to maintain minimum capital fund by the commercial bank as per NRB Directive."

Table 2.1

Fund required on the basis of weighted risk assets

S.N.	Time Table	Core Capital in Percent	Capital Fund Percent
1.	F/Y 2058/2059	4.5	9
2.	F/Y 2059/2060	5	10
3.	F/Y2060/2061 onwards	6	12

Directive No. 2: "Loan classification and loan loss provision"

Loans should be classified into four categories.

Pass

Loans and advances whose principle amount are past due and past due for period up to three months should be included in this category. These are classified and as performing loans.

Sub-Standard

All loans and Advances that are past due for a period of three months to six months should be included in this category.

Doubtful

All loans and advance that are due for a period of six month to one year should be including on this category.

Loss

Loan and advance, which are due for a period of more than one year as well as advance, Which have least possibility of even partial of even partial recovery in future should be included in this category.

Loan and advance under the currently existing arrangement are classified on the basis of timetable which are as follows:

For FY 2001/2002

Pass: Loans not past due and past due up to three months.

Sub-Standards: Loans and advances past due for a period of three months to one year.

Doubtful: Loans and advances past due for a period of one year to three years.

Loss: Loans and advance past due for period of over three years.

For F/Y 2002/2003

Pass: Loans not past due up to three months.

Sub-Standard: Loans and advance past due for period of three months to one year.

Doubtful: Loans and advance past due for a period of over one year.

Loss: Loans and advance past due for a period of over three years.

For F/Y 2003/2004

Pass: Loans not due and past due up to three months.

Sub-Standard: Loans and advance past due for a period of three months to nine months.

Doubtful: Loans and advance past due for a period of over nine months to two years.

Loss: Loans and advance past due for a period of over two years.

For F/Y 2004/2005 onwards

Pass: Loans not past due and past due up to three months.

Sub-Standard: Loans and advances past due for a period of over three months to six months.

Doubtful: Loans and advance past due for a period of over six months to one year.

Loss: Loans and advance past due for a period of over one year.

Loans should be classified as loss in the following cases.

- No securities or securities not as per contract.
- Borrower has been declared bankrupt.
- In the case of borrower not found.
- Purchased or discounted bills are not repayable within 90 days from the due date.
- Loans amount has not been used for taken purpose.
- Blacklisted borrowers
- Loan loss provision

The loan loss provision on the basis of outstanding loans and advances and bills purchased classified as per this Directives. This is as follows.

Table 2.2

Classification of Loans	Loans Loss Provision
Pass	1.0%
Sub-standard	25.00%
Doubtful	50.00%
Loss	100.00%

Bank can reschedule and restructuring loan if non-performing loan receiving submit the External/internal reasons. Insured priority sector credit and deprived sector credit will have to be provisioned at 25% of the provision percentage to loan loss.

Directive NO.3: "Provision for single obligor limit. As per NBR Directives, bank should classified into fund based loan (overdraft, trust receipt, term loan etc) and non-fund loan (Letter of credit Guarantees, commitments etc.) The NBR has brought following limit."

Table 2.3

Loans and Advance	P.C. (2001/2002)	P.C. (2002/2003) onwards
Fund based	40% of core capital	25% of core capital
Non fund based	75% of core capital	50% of core capital

Banks should not maintain above limit, when loan provided under guarantees of fixed receipts. Bank deposits, government securities, NRB debentures and A+ rated national and international banks.

Banks need to be provision additional capital charge less than six months, in case banks provide loans and advances out of limit.

2.2.2 Review of Related Articles

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy has already sick. When any sector of economy caught cold, bank started sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, the portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select the best mix of investment assets (Shrestha, 1998: 15).

In the article "Efficiency indicators of commercial bank: A comparative analysis" Ghimire (1999) observed that indicators of the bank may be viewed on the basis of amount allocated for loan loss provisioning against loan and investment (Ghimire, 1999: 21).

In the article "Placing RBB and NBL under management contracts: Rational and opposition" Basyal (2000) agreed that the disappointing performance of these two banks has become serious concern to all the stakeholders. Further he mentions that they are having with huge level of NPA, which could be termed as the darkest sides of their operational inefficiency and undisciplined financial behavior (Basyal, 2000: 4).

In the article entitled "None performing assets: A need for rationalization", Chhetri (2000) has attempted to provide connect with the term NPA and its potential sources, implication of NPA in financial sector in the South East Asian Region. He had also given possible measures to contain NPA. Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. Since the date becomes past dues, the loan becomes non-performing asset. The book of the account with lending institution should be effectively operated by means of real transaction effected on the part of the debtor in order to remain loan performing (Chhetri, 2000: 17).

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months in India. Loans, thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPA are classified according to international practice into 3 categories namely substandard, doubtful and loss depending upon the temporal position of loan default. Thus, the degree of NPA assets depends solely on the length of time the asset has been in the form of non-obliged by the loan taker. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. As per Chhetri's view, failure of business for which

loan was used, defective and below standard credit appraisal system credit program sponsored by Government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPA.

He further said that there is serious implication of NPA on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPA but extent to extra amount that required for provisioning depends upon the level of NPA and their quality. As per his view, rising level of NPA create a psyche of worse environment especially in the financial sector. He mentioned that by reviving the activities of the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc, NPA can be reduced. Finally, he concluded that financial institutions are the best with the burden of mounting level of NPA in developing countries. Such assets are income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPA cannot be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth.

In the article "NPA: some suggestions to tackle them" Pradhan (2001) observed that unless the growth in NPA is kept in control, it has the potential to cause systematic crisis. He has mentioned that a dream of globalization led to huge investment, which unfortunately could not be utilized properly due to hesitant liberalization policies. Large corporate misused the credits and delayed payments and contributed indirectly for enhancing NPA ratio. He further argues that lack of vision in appraisal of proposal while loan sanctioning, reviewing or enhancing credit limits, absence of risk management policy of financing, concentration of credit in few group of parties and sector, lack of coordination among various financiers, lack of initiatives to take timely action against willful defaulters, indecision on existing out of bad loans for fear of investigating agencies like special police, public accounts committee of the parliament have also contributed in whatsoever measures to the worsening situation of NPA front. He further pointed out that most crucial reason for the increase in the NPA is the shabby and defaulter friendly legal system. Suggesting the remedy of NPA he adds that administrative system should be strengthened, legal reforms should be made and assets reconstruction Company should be formed (Pradhan, 2001: 23).

Bodhi B. Bajracharya (1991), in his article "Monetary 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.

Bhandari (2003), says that in banking sector or transaction, and unavoidable ness of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought. For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, and audit of loan, renewal of loan, the condition of loan flow, and the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities.

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 advances. Hence, risk of non-payment of loan is known as credit risk or default risk (Dahal, 2002:114). Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. This method of managing credit risks is guided by the saying do not put all the eggs in a single basket.

Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institution ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (CIB) can blacklist the firm; company clears the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs.1 million. If the creditor fails to clear the amount within time or is found missing the loans among others, the creditor can be blacklisted (Kathmandu Post, 2003: 9).

In the article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what are common across of the most banks, which increased size of non-performing assets (NPA)? To resolve the problem of the losses or likely losses of this nature facing the industry, NRB as the central bank, amended several old directives and issued many new circulars in the recent years (Ghimire, 2003: 22).

As opined by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lenient as they help to strengthen banks financially. He added that the old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that loan loss provisioning as a percentage of total credit of April 1, 2001 is 5.2% but as April 13, 2003, it has jumped to 18.39%. If only private banks are considered, it is 2.12% of April 2001 where as it is 6.30 % as of April 13, 2003. The total increment in loan loss provision is Rs 11,328.11 million and the total increment in credit is only Rs 7,976.70. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns.

In the conclusions, he has mentioned that in the recent years, NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis. All prudential directives of NRB in connection of credit sector reform have been made revised on after April 2001. To adapt to such changes there can be some difficulties and for a better and harmonized reform, NRB should continue to be supportive, proactive and also participative to take opinions of bankers for a change in regulation/policy taking place in the future.

In the article of New Business Age entitled "Entrepreneur-Friendly Credit Policy" has reviewed the present credit policy with main focus of the credit decision

being based on the collateral. He argues that only collateral should not be considered as the basis of the credit decision.

Access to finance is vital element for entrepreneurship development in the country. Without it, one cannot think of starting business of any sort. It's mainly due to this reason; most of the students after completing there single-mindedly look for employment opportunity. No other options, no matter how attractive it would be enter into their mind. It has created huge pressure in the labor market. In the absence of entrepreneurial activities in the country, employment opportunity will be very limited and even qualified and competent people do not get job. The established notion of the Nepalese bankers that money lent to the wealthy people based on collateral is safe. But is not actually a safe assumption in the face of greater difficulty in loan recovery form these people. Also, this particular segment of market is already over-banked. With the worsening business performance of the Nepalese corporate sector mostly due to the poor management compounded by other factors like sluggish economic conditions and political instability, banks must now explore newer market segment for their sustained growth and success. Under this backdrop, Nepalese commercial banks must change their policy and must understand that event the people living in the low and middle level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid is very intense and has already saturated. In this context, potential entrepreneurs armed with skills, knowledge and readiness to take plunge in the business word can form a formidable market opportunity for the Nepalese banking industry-only if it can come out of the cocoon of traditional collateral driven lending approach.

At the time when Nepalese banking industry is confronting with the increasing NPA, it might seem unwise and untimely to suggest that commercial banks extend loan to the potential entrepreneurs without collateral. It is not that they must ignore the collateral altogether while making credit decision. Collateral may be one of the important elements of the credit decisions. But this should not be a pre-condition for any credit decision. Lesson should be learned from the past experience of this credit

policy that collateral alone does not ensure quality of credit decision. The fluctuation and stagnancy in the real state business has further reinforces this view. More important, Nepalese bankers must themselves have to have entrepreneurship spirit which means, they should not hesitate to take educated risk by giving more weight to the entrepreneurship dimension of the credit proposals while making credit decision. The ability of lending is identifying and investing a distinct competitive advantage in the crowded market. However it's essential that any government rules and regulations that inhibit the promotion of entrepreneurship in the country must be abolished.

Entrepreneurship development is one of the important conditions for the economic growth of a country. There must be the sprout of entrepreneurship activities in the country for rapid economic growth and progress. However it does not happen automatically. We must create necessary conditions and environment where people with skills, knowledge and hunger to make money by starting their own business can get easy access to capital. The ordinance relating to banks and financial institutions has been promulgated that has been brought into existence effective February 4, 2004. The banks and financial institutions Ordinance, 2004 has replaced the existing Agricultural Bank Act, 2024. Commercial Bank Act, Development Bank Act, and Nepal Industrial Development Corporation Act and Finance Companies Acts and have brought all such institutions under the preview of a single act. Though this ordinance came as an achievement in the financial sector reform program, it's being a matter of debate among the various finance experts that the ordinance having six months existence time should be enacted. At this time since there is no parliament in the country and the parliament is authorized to enact permanent law. It is obvious that the financial sector must go through uncertainty in the future.

In an article published in New Business Age, entitled "Growth in Major Commercial Banks" has compared between the first six month of the fiscal year 2002-03 and 2003-04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Limited (NBL) and Rastriya Banijya Bank Limited (RBBL). There has been increasing in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only in recovery of the huge non-performing assets (NPA). However, he pointed out that no

matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB, all banks have increment in deposit collection (Subedi, 2004: 19).

A decrease in CD ratio (the percentage of the deposit mobilization over the credit) signifies the presence of high liquidity and comparatively lower fund mobilization and vice versa. High liquidity and idle funds will result in lower profits. HBL has the highest growth, i.e. 18.47% of growth in CD ratio over the last year. Similarly, NABIL, Everest Bank Limited (EBL) and Nepal SBI Bank Limited (SBI) have recorded growth rates of 6.28%, 11.83% and 7.45% respectively in their CD ratio. However, this ratio of other commercial banks has declined, largely due to factors external to the banks.

As per the NRB directives, all commercial banks have to maintain loan loss provision according to the size of overdue loans. Nepal Credit and Commerce Bank Limited (NCCBL) was able to decrease its loan loss provision by 27.63% as compared to the previous year indicating a good recovery of interest as well as principal. In case of Nepal Investment Bank Limited (NIBL), growth in loan loss provision (which in fact decreased by 6.73%) was much less than the growth of the total credit (which increased by 53%). Similarly, NBL and HBL were able to maintain a healthy composition of loan loss provision (decreased by 9.49% and 0%) and credit (increased by 3.70% and 26.78%), again signifying good results from their loan recovery efforts. In case of remaining banks, the situation is not satisfactory as the growth of loan loss provision is higher than the growth of credit.

A bank's stability depends on the reserve, maintains NABIL's reserve growth is very good, i.e. 1400% on retained earning and 67.86% on other reserves. Similarly, all other banks have except NCCBL and BOK made noticeable increment in it. The major yardstick to measure the status of the bank (which is the prime concern of shareholders) is the profitability of the banks-the spread between what the banks has earned and expensed. In this regard, KBL has made the significant growth of 181.25% in profit as compared to the previous year. Similarly Standard Chartered Bank Nepal Limited (SCBNL), NABIL, HBL, BOK, EBL, NIBL, NSBIBL, NICBL

and NCCBL have the growth percentage of 7.72%, 6.33%, 43.73%, 29.83%, 61.8%, 62.76%, 29.76%, 37.89% and 4.03% respectively.

Government of Nepal has promulgated ordinance to replace several existing laws related to the banks and financial institutions like Commercial Bank Act 2031, Finance Act related to financial institutions. The major highlights of the ordinance are universal banking that makes all the banks and financial institutions governed by a single act making the legal process much efficient and with less confusion and it has protected the rights and welfare of the depositors and investors.

However, this ordinance has lots of unclear issues, which has created confusion to the existing banks and financial institutions. The ordinance has classified the financial institutions into categories replacing the present terms as commercial, development of finance companies. The act has classified the category, as “Ka” category that mentions itself as a bank; the rest of the category should name itself only as a financial institution. The ordinance has created confusion to the existing development banks and finance companies as what category they belong to? The positive aspect of this ordinance is that the financial institutions which fall under the “Kha” category will also be allowed to carry out several financial activities that were previously allowed to only commercial banks, such as opening current accounts, issuing drafts and traveler’s cheques, dealing in foreign exchange and issuing letter of credits. Even the financial institutions, which falls under the category “Ga” are permitted to handle current account, saving account and to some extent, foreign currency transactions. Due to these changes, the consumer will benefit due to the competition among these banks and financial institutions.

2.2.3 Review of Previous Thesis

Shrestha (1990), has submitted a thesis named, "A study of industrial credit provided by NIDC in Sunsari district" to T.U. His research objectives are:

- To study the financial assistance provided by NIDC in different industrial sectors in Sunsari districts.
- To study the attitudes of industrialists in regard to the performance of NIDC.
- To give suggestions to improve the role of NIDC.

Major findings:

- One of the most important policy taken by NIDC is it invests its fund to the industries in security oriented rather than industrial development oriented.
- It seems that NIDC lack definite, systematic and clear-cut long term financing policy.
- Repayment and follow up activities followed by NIDC are not efficient, as not taken side by side.

Khadka (1998), compared the investment policy of NABIL with NGBL and NIBL in his thesis entitled “A study on the Investment Policy of Nepal Arab Bank Limited in comparison to other joint venture banks of Nepal”. He found out that the liquidity position and profitability situation of NABIL are comparatively worse than that of Nepal Grindlays Bank Limited (NGBL) and Nepal Indosuez Bank Limited (NIBL). It is also comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of NGBL and NIBL. On contrary, NABIL is more successful in deposit utilization. Finally, it fails to maintain high growth rate of profit in comparison with NGBL and NIBL.

He suggested that NABIL should increase cash and bank balance to meet loan demand because the loan and advances to total deposits ratios were found lower in NABIL than that of other JVB's. To overcome this situation, NABIL is strongly recommended to follow liberal lending policy and invest more and more percentage amount total of deposits in loans and advances. Similarly, he further recommended that the bank must utilize depositor's money as loans and advances to get success in competitive banking environment. The largest item of the bank in the asset side is loans and advances. Negligence in administrating this asset could be the main cause of a liquidity crisis in the bank and one of the main reasons of bank failure.

He has also focused his study on the investment policy of NABIL bank and has taken NGBL and NIBL average ratios as banking average. He recommended to adopt liberal lending policy however there has not explained regarding liberal lending. However, while adopting liberal policy on lending, he has not explained the consequences like bad debt, default loan, which may arise due to very flexible and

liberal lending policy. He has also not explained the regarding what is good liberal lending policy. Shah (1998), conducted a thesis entitled ‘Investment of Commercial banks in Nepal’; recommended that commercial banks must mobilize its funds in different sectors such as purchasing of shares and debentures of other financial and non-financial companies. The banks should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize its investment portfolio. Loan default in commercial banks is a result of various factors, i.e. political influences, lack of necessary skills, entrepreneurship attitude etc. He suggested that enacting loan recovery act is to be enhanced the function of recovery of loan.

In his study, he also compared investment policy of Nepal Bank Limited with other joint venture banks like NABIL, NGBL and NIBL. The conclusion drawn regarding the investment policy by comparing it with other three JVBs is inappropriate as NBL is a semi government, which will be different in terms like interference level of government. NBL is unexposed to the global market unlike other joint-venture commercial banks.

Chand (1998), has submitted his thesis entitled “Credit Disbursement and Repayment of Agriculture Development Bank Nepal” and found: (i) there is systematic relationship between credit disbursement and repayment. The coefficient of correlation value as calculated is 0.94, which shows that there are high and significance relationship between credit disbursement and repayment and (ii) repayment situation is satisfactory in production inputs and agro-based industry, warehouses and marketing percentage of repayment due to the farm mechanization and irrigation. Tea horticulture and livestock, poultry and fisheries are much less satisfactory.

As a recommendation given by Chand, ADB should play a significant role in such direction to fulfill the credit demand of rural areas. For effective credit recovery from the borrowers or clients, credit should be channeled through the borrower groups.

Dhungana (2002), conducted a study “A Comparative Study on Investment Policy of Nepal Bangladesh Bank Limited and other Joint Venture Banks” concluded

that NBBL has not good deposit collection. It has not made enough cash and negligible amount of investment in government securities. NBBL has higher loan and advances to total deposit ratio, loan and advances to total working fund ratio, lowest loan loss ratio and higher investment on share and debenture to total working fund ratio. NBBL has followed stable policy. NBBL is not in better position on regarding off-balance sheet transaction. NBBL is able to manage its assets regarding its on balance transaction. Lending position, investment position and net profit position of NBBL is not better in compare to HBL. But it has better position in comparison to NBBL. He suggested increasing the liquidity of NBBL, to invest in government securities instead of keeping idle fund. He also suggested providing project-oriented approach. He suggested NBBL for developing effective portfolio management. He also suggested developing innovative approach for bank marketing upgrades the banking facility, liberal lending policy and effective cost management strategy.

Khadka (2002), has carried out research on “A Comparative Study on Investment Policy of Commercial Banks” an objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NIBL.

She concluded NBL is comparatively less successful in on balance sheet as well as off balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the competitive market of banking. Profitability positions of NBL are comparatively worse than that of other CBs. It predicts that NBL may not maintain the confidence of shareholders, depositors and its all customers if it cannot increase its volume even in future.

As the banks experience, many difficulties in recovering the loans and advances and their large amount is being blocked as non performing assets, she suggested that there is an urgent needs to workout a suitable mechanism through which the overdue loan can be realized.

Shrestha (2003), conducted a thesis entitled on “Impact and Implementation of NRB Guidelines (Directives on Commercial Banks - A study of NABIL Bank Limited and Nepal SBI Bank Limited)” found out that both the NABIL and SBI have been fully implementing the NRB’s directives.

Capital adequacy ratio of NABIL and Nepal SBI Bank are 13.40% and 12.86% respectively, which are more than 9%. Banks are following the directives but in some cases such like supplementary capital and balance at NRB there is shortfalls. The excess amount of core capital in supplementary capital and 1% excess amount of total deposits in balance at NRB can compensate this shortfall. The banks have categorized the loan amount in to four different categories as per NRB’s directives. The increasing loan loss-provisioning amount decreases the profit of the banks. The change in the single borrower limit has brought down the limit of the fund based and non-fund based loans, which have resulted to reduce loan exposure to banks. In her thesis paper, impact and implementation of NRB guidelines (Directives on Commercial Banks - A study of NABIL Bank Limited and Nepal SBI Bank Limited) found out that both the NABIL Bank and Nepal SBI Bank have been fully implementing the NRB’s directives. Capital adequacy ratio of NABIL and Nepal SBI are 13.40% and 12.86% respectively, which are more than 9%. Banks are following the directives but in some cases such like supplementary capital and balance at NRB there is shortfalls. The excess amount of core capital in supplementary capital and 1% excess amount of total deposits in balance at NRB can compensate this shortfall. The banks have categorized the loan amount into our different categories as per NRB directives. The increasing loan loss-provisioning amount decreases the profit of the banks. The change in the single borrower limit has brought down the limits of the fund based and non-fund based loans, which have resulted to reduce loan exposure to banks.

In her thesis study, she has recommended that both NABIL and SBI banks to increase its supplementary capital as it has shortfall in comparison with NRB guidelines and to meet the supplementary capital adequacy ratio even though it can be compensated by the excess amount of core capital. The supplementary capital needs to be increased by Rs.122.74 million in NABIL Bank and Rs.125.57 million in Nepal SBI Bank. She says liquidity and profitability are like two wheel of one cart so banks

cannot run in the absence of any one of them. One can be achieved only at the cost of the others. Only liquid banks can attract lower core deposits, which helps in reducing interest expenses and give loan to good customer at lower rate, which results in requirement of less provision and high net profit. So banks should increase their primary reserve now to maintain the liquidity risk due to scrap out the secondary reserves. On the basis of finding, NABIL Bank has a shortfall of Rs.140.74 million thus NABIL has to increase its balance at NRB by such amount for better performance even after adding 1% excess amount of cash of total deposit.

Primary data has been used in order to get the view of bankers on the directives issued by NRB. Questionnaire related to NRB Directives (1-5) are used to collect data for the study and implementation of directives by commercial bank. Secondary data are also used for the analysis. On this study the general directives are taken as guidelines. So all directives are not considered for study and further only directives issued in 2001 and 2002 are considered for the study. In issued directives of 2001 and 2002 there are 10 directives but only five directives i.e. (1-5) are highlighted and taken in the study.

Panday (2002), in his thesis, “NRB directives - their implementation and impact on commercial banks” has observed that the change in NBR Directory have made the impacts on the commercial banks. Because of new directives, banks have to increase the operation cost and dividends to shareholders and bonus to the employees are scaled down due to decrease in profits of banks. He has also observed about the protection of deposit of public because of reduction in the loan exposure. He further states that due to new directives, it's foresight result lead to bank financially healthy and strong in future. Finally, he laid down about the change in directive will bring prosperity to the shareholders, depositors, employees and the economy to the country as a whole. He suggested, in his thesis, to NRB that the "NBR should issued directives after being proper homework. NRB must strength the functioning of its credit information Bureau. NRB should be practical and should issue directives to be applicable in the context of Nepal, not only to meet the international standard. Otherwise complaints from commercial banks may arise. However, in the present polices and NRB will take action as per NRB Act, 1955.

Presently, NRB has issued directive relation to banking regulations and prudential comprises then directives. The findings of above study may indicate the certain impact of the new directive to the commercial banks.

Aryal (2003), has submitted a thesis named “A Evaluation of Credit Investment and Recovery of Financial Public Enterprises in Nepal” a case study of ADB/N. He focused on the problem that 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 purposes like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and cooperative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. So, Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB/N.

From the research, he has found out the following necessary facts:

- 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 disbursements is higher than that of collection.
- 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.
- The use of fund towards the hire purchase credit is decreasing rapidly.
- As the direct data of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled.

- The loss provision of some company is more alarming on individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy.

Dhital (2004), conducted a thesis “A comparative study on Investment policy of Standard Chartered Bank Nepal Limited and Bank of Kathmandu Limited.” The main ratios of cash and bank balance of total deposit ratio of SCBNL are lower in comparison to BOK. SCBNL has better liquidity position than BOK. The mean ratio of loan and advances to current asset of SCBNL is lower than that of BOK. SCBNL ratios are less consistency in comparison to BOK. The mean ratio of loan and advances to total deposit of SCBNL is lower than that of BOK. The mean ratio of total deposit of SCBNL is higher in comparison to BOK and the ratios of SCBNL are less consistency than that of BOK. In case of loan and advances to working fund ratio, the SCBNL mean ratio is less than that of BOK. The mean ratio of return on loan and advances of SCBNL is greater than that of BOK. The ratios of SCBNL are more variability in comparison to BOK. The mean ratio of return on total working fund of SCBNL is higher than BOK. The mean ratio of total interest earned to total outside asset of SCBNL is greater than BOK. The mean ratio of total interest paid to total working fund of SCBNL is lower in comparison to BOK. The liquidity risk ratio of SCBNL is less than that of BOK. The mean ratio of credit risk ratio of SCBNL is less than that of BOK and SCBNL ratios are less variability in comparison to BOK.

Tamang (2005), studied the comparative study of credit management in HBL and NABIL in his thesis entitled ‘A comparative study on credit management in Himalayan Bank Limited and NABIL Bank Limited’. To explore the credit management, he tried to assess the existing credit practices, examine the credit efficiency, analyze the industry environment and the relationship among loan & advances, non-performing loan and net profit.

To meet the stated objectives, he used both secondary and primary information to analyze the data. Then, he applied different financial as well as statistical tools. Basically, Mr. Tamang used ratio analysis as financial tools and mean, standard deviation, correlation & Regression Analysis, ANOVA as statistical tools.

He found from the study that credit practices and credit efficiency was relatively better in NABIL Bank Limited as compared to Himalayan Bank Limited for the reason that the ratio analysis designed for credit practices and credit efficiency scored relatively in better for NABIL Bank Limited. He found that the correlation coefficient between non-performing loan and net profit in NABIL Bank Limited and Himalayan Bank Limited was found to be 0.157 and -0.716 respectively. He further concluded that trend of non performing loan did not have high implication in NABIL Bank Limited while there was a significant impact of non performing loan in net profit in Himalayan Bank Limited.

He described in his primary information that industry environment as well as the management quality was relatively better in NABIL Bank Limited as compared to Himalayan Bank Limited. Lastly, he recommended to the bank management that proper level of portfolio should be maintained so that profitability position will be maximized with regard to credit practices. Similarly, the bank management of both the banks is recommended to maintain proper level of balance with regard to credit efficiency. He also suggested to the bank management of HBL to manage its loan more effectively so that the percentage of non-performing loan will be in minimum because the relation of loan and non-performing loan in HBL was found very high. Finally, he recommended to the future researchers to focus into non financial indicators job satisfaction, customer satisfaction, stakeholder support, government rating, supervisor's teamwork, human resource development, human resource planning, human resource management, job designation etc. as influencing factors for credit management.

Lakhey(2008) conducted a thesis " Credit Management : A Comparative study of Himalayan Bank Limited and Nepal Arab Bank Limited." His Research Objectives are:

- To analyze the volume of contribution made by sample banks in credit & advances.
- To analyze the deposit collection and utilization trend of sample banks.
- To study the relationship of deposit, loan & advances and net profit of sample banks.
- To provide suitable and beneficial suggestions based on findings of this study.

He found out that Nepal Arab Bank Limited (NABIL) has less liquid assets, it is able to maintain daily cash requirement, high lending ratio, low leverage ratio, low non-performing assets level, low loan loss provision ratio, high profit ratio than that of Himalayan Bank Limited (HBL). Therefore, the management of HBL must revise the lending policy and invest in profitable as well as productive sectors rather than only to increase lending ratio.

He had suggested management of HBL to search for new area of investments as well as bank should strictly follow the NRB directives to reduce its surplus cash balance. He had also suggested the bank to follow project-oriented approach and avoid more risky area of lending. He recommended HBL to adopt the sound credit collection policy. It helps to decrease loan loss provision and non-performing loan of the bank. He had recommended the credit management of HBL to follow the policy as rapid identification of delinquent loans, immediate contact with borrower and continual follow-up until a loan is recovered to decrease its non-performing loan and loan loss provision. He had recommended HBL to concentrate on decreasing ratio of return on total assets as well as return on loan & advances and invest in productive as well as profitable areas only, which give high return with low risk.

He suggested NABIL as well as HBL for a careful formulation of marketing strategies to serve its customers. The marketing strategies should be innovative that would attract and retain the customers. Both the banks are recommended to develop an innovative approach of bank marketing for its well-being and sustainability in the market. Banks should strictly band the policy of nepotism and favoritism. On the basis of capability and efficiency, recruitment, placement and promotion should be executed. He suggested that the new standards should be designed to make the bank management more accountable for credit policy. Besides, it should investigate what are the reasons of credit efficiency or inefficiency.

Silwal(2008) conducted a thesis entitled " Credit Management of Everest Bank Ltd." . His Research Objectives are :

- To analyze the functions, objectives, procedures and activities of the Everest bank.
- To analyze the lending practices and resource utilization of Everest Bank.

- To determine the impact of growth in deposit on liquidity and lending practices.
- To examine lending efficiency and its contribution to profit.
- To make suitable suggestions based on the findings of this study.

He found out that cash and bank balance of EBL bank is high. So, bank's efficiency should be increased to satisfy the demand of depositors at low level of cash and bank balance. Unused cash and bank balance do not provide return to the bank. Therefore, some percentage of the cash and bank balance should be invested somewhere in profitable sectors. He recommended bank to recover its credit on time and more facilities should be providing to credit department, so that credit officers will increase their effort to recover the credit of the bank. On the other hand, at the time of granting credit, bank should analysis other project report thoroughly. Whether the project is genuine or not, whether the project can generate sufficient income in time to pay the credit of bank, should be analyzed in detail. Collateral should be enough to recover the credit, in case, customer fails to pay the credit. He suggested EBL to avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records, as well as realistic cash flow projections should be obtained for proper assessment of the proposal.

2.3 Research Gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of Himalayan Bank Limited and Nepal Arab Bank Limited. 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 that exact topic, i.e. Credit Management [A comparative study of Himalayan Bank Limited and Nepal Arab 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 dissertations are followed as guideline to make the research easier and smooth.

Previous researchers could not cover all the aspects of credit management in Nepalese context. They analyzed the credit management by using secondary source of information in terms of credit practices or lending practices. But actually, credit management covers many other areas such as total deposit collection, total lending, NPL level, loan loss provision and relationship between them which are very much important for credit appraisal. Present study tries to define credit management by applying those facts. Furthermore primary data are collected by developing and distributing scheduled questionnaire to credit customers and staffs of credit department of the concerned banks to find out most reliable facts about the credit management. Therefore, this study is useful to the concerned banks as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc. Thus, present study may be valuable piece of research work.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

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

Research Methodology is a way to systematically solve the research problem (Kothari, 1990: 10). It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem along with the logic behind them. This chapter looks into the research design, nature and sources of data, data collection procedure and tools & techniques of analysis.

This topic presents the short outline of the methods applied in the process of analyzing the credit management of the selected joint venture banks. Research is a systematic method of finding out the solution to a problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view.

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

3.2 Research design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. For the analysis of credit management of selected joint venture banks, analytical as well as descriptive designs applied to achieve the objective of the research.

3.3 Data collection techniques

The researcher used two types of data collection techniques. One is primary data collection and other is secondary data collection.

i. Primary data

Primary data are those collected by the researcher on the concerned topic, which are original in nature. While studying about the credit management, we came across primary data from different sources like: direct in-depth interviews with staffs of credit department unit of Himalayan Bank Limited and Nepal Arab Bank Limited as well as concerned customers of banks.

ii. Secondary data

Secondary data are those collected by the researcher on the concerned topic, which are not original in nature or are originally collected for some other purposes. The main sources of secondary data were: statistical publication of Nepal Rastra Bank, websites, annual reports of Himalayan Bank Limited and Nepal Arab Bank Limited, different journals and business magazines etc.

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

- Annual reports of the banks
- Published and unpublished bulletins, reports of the banks
- Published and unpublished bulletins, reports of the Nepal Stock Exchange
- Previous studies and reports
- Unpublished official records
- "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines
- Journals and other published and unpublished related documents and reports for Central Library of T. U. and Library of Nepal Rastra Bank
- Various Internet Websites
- Other published materials etc.

3.4 Data collection procedure

As the study will also be based on primary data, information will be collected developing a scheduled questionnaire and distributing these to employees of the banks and clients. Question of both, open-end and close-end will be included in questionnaire. Besides this, junior employees and clients are also being observed and responses have been drawn from them about relevant questionnaires.

3.5 Population and Sample

A population in most studies usually consists of large group because of its large size. It is fairly difficult to collect detailed information from each member of population rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub-group. The sampling allows the researches more time to make an intensive study of a research problem. The total commercial banks shall constitute the population of data and two banks under the study constitute the sample for. So among the various commercial banks in the banking industry, Himalayan Bank Limited and Nepal Arab Bank Limited is taken as sample for the study. Similarly, financial statements of those banks for 6 years from 2000/01 to 2005/06 have been taken as samples for the same purpose.

3.6 Methods of data analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research.

To make the study more specific and reliable, the researcher uses two types of tool for analysis:

- i) Financial Tools
- ii) Statistical Tools.

3.6.1 Financial tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, total deposit, total investment and total income analysis have been used.

Ratio analysis

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the relationship between two or more things (Webster's New Collection Dictionary, 1975: 958).

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974: 97). 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 and performance 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, 1979: 97).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

A. Liquidity ratio

Liquidity refers to the ability of a firm to meet its short-term or current obligations. 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 (Van Horne, 1999: 693).

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand,

excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1992: 140).

To find out the ability of bank 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

Current ratio indicates the ability of bank to meet its current obligation. It measures the relationship between current assets and current liabilities. 2:1 ratio is the standard ratio, which is expressed as:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

Current assets are those assets which can be converted into cash within a year and so it includes cash and bank balance, investment in treasury bills, bills purchased and discounted, customer acceptances liabilities, prepaid expenses, bills for collection, likewise current liabilities denotes current account deposits, saving account deposits, margin deposits, bills payable, call deposits, bank overdraft, inter bank reconciliation account, provisions, customer's acceptance liabilities etc.

ii. Cash & bank balance to total deposit ratio

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash, may fail to make payment for the demands of depositors. So, sufficient and appropriate cash reserve should be maintained properly. 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 & bank balance' by deposits. This ratio can be calculated using the following formula.

$$\text{Cash \& Bank balance to total deposit ratio} \times \frac{\text{Cash \& Bank balance}}{\text{Total Deposit}}$$

iii. Cash & Bank Balance to Current Deposit Ratio

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the current deposit. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. If bank maintain low ratio, bank may not able to make the payment of against cheques. So bank has to maintain cash & bank balance to current ratio properly. This ratio is computed to disclose the soundness of company to pay total calls made of current deposits. It can be expressed as:

$$\text{Cash \& Bank balance to current deposit ratio} \times \frac{\text{Cash \& Bank balance}}{\text{Current Deposit}}$$

iv. Cash & Bank Balance to Interest Sensitive Deposit Ratio

Saving deposit is deposited by public in a bank with an objective of increasing their wealth, interest rate plays important role in the flow of interest sensitive deposit. Fixed and current deposits are not interest sensitive. Fixed deposits have a fixed term to maturity and current deposits are not sensitive toward interest rate. The ratio of cash & bank balance to interest sensitive deposits measure the bank ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

$$\text{Cash \& Bank balance to Interest sensitive deposit ratio} \times \frac{\text{Cash \& Bank balance}}{\text{Saving Deposit}}$$

B. Activity/Efficiency Ratio

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means; how many number of times the assets flow through a firm's operations and into sales (Kulkarni, 1994: 138). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i. Loan & Advances to Total Deposit Ratio

Commercial banks utilize the outsider's fund for profit generation purpose. Loan & advances to total deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose as loan & 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.

$$\text{Loan \& advances to total deposit ratio} \times \frac{\text{Loan \& advances}}{\text{Total Deposit}}$$

Loan and advances includes short-term loan and advances, overdrafts, cash credit, local and foreign bills purchased and discounted.

ii. Loan & Advances to Total Assets Ratio

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

$$\text{Loan \& advances to total assets ratio} \times \frac{\text{Loan \& advances}}{\text{Total assets}}$$

iii. Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial and non-financial companies. Effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa.

$$\text{Total investment to total deposit ratio} \times \frac{\text{Total investment}}{\text{Total Deposit}}$$

C. Leverage Ratio

The use of finance is referred to by financial leverage. When a firm borrows money, it promises to make a series of fixed payments, which create financial leverage (Brealy and Myers, 1991: 677). These ratios are also called solvency ratio or capital structure ratio. These ratios indicate the mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and Total Investment owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i. Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes the amount of fixed deposits and credits of the bank and equity includes paid up capital, reserve and surplus and undistributed profit. The formula used to determine the ratio is:

$$\text{Debt to equity ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

ii. Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

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

D. Profitability Ratios

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits are essential, but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society. Profitability

ratios are the indicators of degree of managerial success in achieving firm's overall goals (Pradhan, 1996:41). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

i. Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio measure the gap between interest rates offered and interest rate charged. NRB has restricted the gap between the interest taken in loan, advances and interest offered in deposits. The credit creation power of commercial banks has high impact on this ratio.

$$\text{Interest income to interest expenses ratio} \times \frac{\text{Interest Income}}{\text{Interest expenses}}$$

ii. Return on Loan & Advances Ratio

This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan & advances. Higher ratio indicates greater success to mobilize fund as loan & advances and vice versa. Mostly, loan & advances include cash, credit, overdraft, bills purchased and discounted.

$$\text{Return on Loan \& advances} \times \frac{\text{Net Profit}}{\text{Loan \& advances}}$$

iii. Net profit/Loss to Total Assets Ratio

This ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher ratio indicates the higher efficiency in utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\text{Net Profit / Loss to total assets ratio} \times \frac{\text{Net Profit}}{\text{Total assets}}$$

iv. Interest Income to Total Loan & Advances Ratio

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It is calculated by using the following formula:

$$\text{Interest income to total loan \& advances ratio} \times \frac{\text{Interest Income}}{\text{Total Loan \& advances}}$$

D. Lending Efficiency Ratio

The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. The following are the various type of lending efficiency ratios:

i. Non-Performing Loan to Total Loan & Advances Ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loan in balance sheet and profit and loss account.

$$\text{Non Z Performing loan to total loan \& advances ratio} \times \frac{\text{Non Z Performing Loan}}{\text{Total Loan \& advances}}$$

ii. Loan Loss Provision to Total Loan & Advances Ratio

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

$$\text{Loan loss provision to total loan \& advances} \times \frac{\text{Loan loss provision}}{\text{Total loan advances}}$$

Limitations of Ratio Analysis

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

- Financial statement records past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision-making.
- In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.
- The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.
- Sometimes ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Singh, 1993:101).

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

3.6.2 Statistical Tools

For supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, correlation, trend analysis and diagrammatic cum pictorial tools have been used under it.

i. Arithmetic Mean (\bar{X}):

Averages are statistical constants, which enable us to comprehend in a single effort of the whole (Gupta, 2000: 357). It represents the entire data by a single value.

It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\text{Average Mean}(\bar{X}) = \frac{\sum X}{N}$$

Where,

\bar{X} = Arithmetic mean

N = Number of observations

$\sum X$ = Sum of observations

ii. 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. (Shrestha, 1991: 43). It is used as absolute measure of dispersion or variability. It is calculated as:

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

Where,

\dagger = Standard deviation

iii. Coefficient of Variation (C.V.)

The co-efficient 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 percentage (Shrestha, 1991: 45). 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:

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

Where,

\dagger = Standard Deviation

\bar{X} = Mean

iv. Correlation Coefficient (r)

Correlation coefficient is the important tool to analyze the degree of relationship between two or more variables. It is used to describe the degree to which one variable is linearly related to other variables. It refers to the closeness of the relationship between two or more variables. In other words, it is an analysis of covariance between two or more variables.

It is the statistical measure of the relationship, if any, between series of numbers representing data of any kind, from returns to test scores. If two series move in the same direction, they are positively correlated; if the series move in opposite direction, they are negatively correlated.

The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively correlated series. Symbolically, correlation coefficient can be expressed as follows:

$$\text{Correlation coefficient (simply, } r) = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \{n \sum Y^2 - (\sum Y)^2\}}}$$

v. Probable Error (P. E.)

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

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

Where,

r = Correlation coefficient

N = Number of pairs of observations

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

Here, the researcher has been calculating the correlation coefficient between total deposits and total loan & advances as well as total loan & advances and net profit of Himalayan Bank Limited and Nepal Arab Bank Limited to know the relationship of these variables. This relationship result helps the management for policy formulation in the coming days.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

In this chapter, the data collected from various sources have been presented and analyzed to measure the various dimensions of problems of the study and major findings of the study are presented systematically.

4.1.1 Measuring Liquidity Position of the Bank

A commercial bank must maintain satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposits withdrawal, pay maturity obligation in time, convert non-cash assets in to cash to satisfy immediate needs without loss of the bank, and without consequent impact on long run profitability of the bank. To measure the liquidity position of bank, following measures of liquidity ratios have been calculated:

4.1.1.1 Current Ratio

Current ratio indicates the ability of bank to meet its current obligation. It measures the relationship between current assets and current liabilities.

Table 4.1 : Current Ratio of Everest Bank Ltd. (Rs. in ‘000000’)

Year	Current Assets	Current Liabilities	Ratios(%)
2001/02	6175.99	3374.41	186.34
2002/03	7647.34	4644.64	164.66
2003/04	9169.80	6030.29	152.06
2004/05	11338.95	7618.55	148.83
2005/06	14969.85	10454.12	143.20

Average = 159.02

S.D. = 15.37

C.V. =9.66

Above table shows the current assets to current liabilities ratio, i.e. current ratio of Everest Bank Ltd. from the fiscal year 2001/02 to 2005/06 of Five years study period. The ratios are 186.34%, 164.66%, 152.66%, 148.83%, and 143.20% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Likewise, average ratio of five years study period is 159.02%. As well, standard deviation is 15.37 and coefficient of variation is 9.66%. Current assets and current liabilities of Everest Bank Ltd. can also be presented by figure as follows:

Figure 4.1 : Current Assets and Current Liabilities of Everest Bank Limited

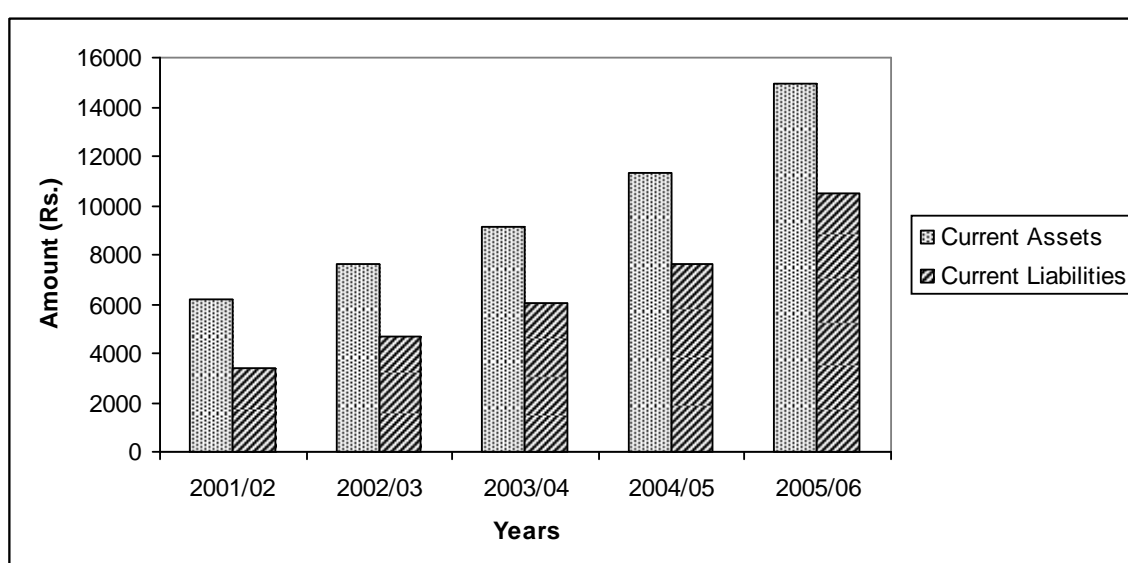


Table 4.2 : Current Ratio of Lumbini Bank Ltd. (Rs. in '00000')

Year	Current Assets	Current Liabilities	Ratios(%)
2001/02	2717.72	1198.99	226.67
2002/03	3100.13	1354.17	228.93
2003/04	3974.58	2238.19	177.58
2004/05	4001.37	2110.16	189.62
2005/06	3963.02	3165.04	125.21

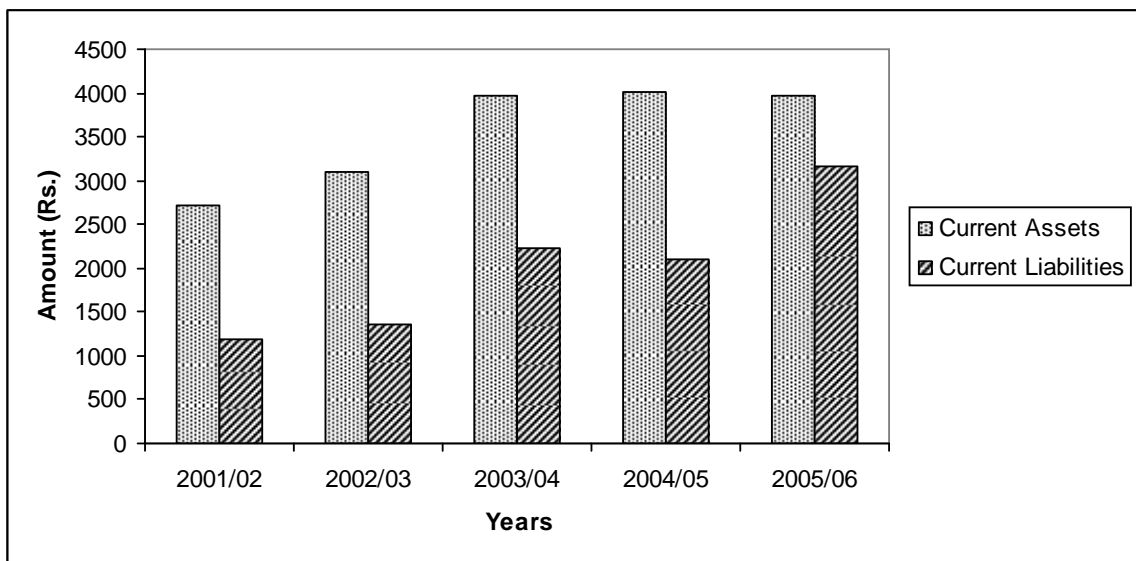
Average = 189.60

S.D. = 37.98

C.V. = 20.03

Above table shows the current ratio of Lumbini Bank Ltd. during the five years of study period from fiscal year 2000/01 to 2005/06. The ratios are 226.67%, 228.93%, 177.58%, 189.62%, and 125.21% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, the average ratio of five years study period is 189.60. Likewise, standard deviation is 37.98 and coefficient of variation is 20.03%. Current assets and current liabilities of Lumbini Bank Ltd. can also be presented by figure as follows:

Figure 4.2 : Current Assets and Current Liabilities of Lumbini Bank Limited



Comparison

Table 4.1 and 4.2 shows the current assets of Everest Bank Ltd. as well as Lumbini Bank Ltd. is higher than the current liabilities during the five years of study period. Ratios of Everest Bank Ltd. are in decreasing trend except in the year 2002/03 and 2004/05 and Lumbini Bank Ltd. has the fluctuating ratios.

During the study period, Lumbini Bank Ltd. kept higher mean ratio of current assets to current liabilities ratio than Everest Bank Ltd. But, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. because of high standard deviation and coefficient of variation.

Though the optimal standard of current ratio should be 2:1, the conventional measure of liabilities is not applicable in banking sector. Banking business holds big portion of deposits as a core deposit and this deposit remains all the time throughout the years. This core deposit forms the fixed liability on the bank though it is current in

nature. So the ratio maintained by commercial banks at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. Therefore, the above current ratio analysis of the banks over the five years period indicates that the banks have satisfactory liquidity position.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks in immediate funds to cover their deposits. Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa.

Table 4.3 : Cash and Bank Balance to Total Deposit Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Cash & Bank Balance	Total Deposit	Ratios (%)
2001/02	602.49	5466.61	11.02
2002/03	1139.57	6694.96	17.02
2003/04	631.81	8063.90	7.84
2004/05	1049.99	10097.69	10.40
2005/06	1552.97	13802.44	11.25

Average = 11.51

S.D. = 3.01

C.V. = 26.18

Above table depicted the cash & bank balance to total deposit ratio of Everest Bank over the five years period from 2001/02 to 2005/06. The ratios are 11.02%, 17.02%, 7.84%, 10.40%, and 11.25% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 11.51% during the five years study period. Likewise, standard deviation is 3.01 and coefficient of variation is 26.18%. Cash & bank balance and total deposit of Everest can be shown by following figure:

Figure 4.3: Cash & Bank Balance and Total Deposit of Everest Bank Ltd.

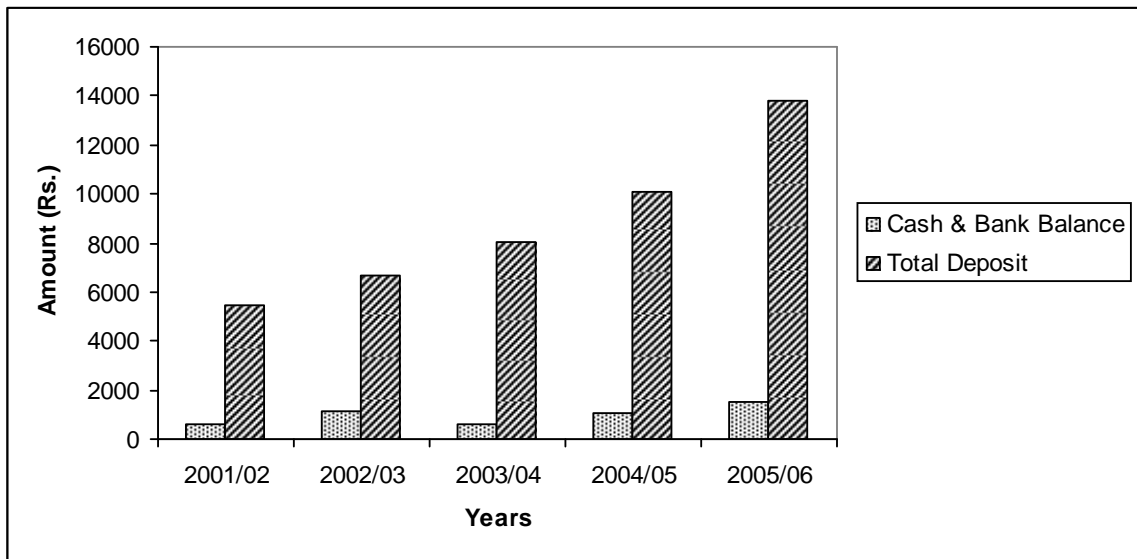


Table 4.4: Cash and Bank Balance to Total Deposit Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Cash & Bank Balance	Total Deposit	Ratios (%)
2001/02	532.39	2646.11	20.12
2002/03	333.56	2959.74	11.27
2003/04	531.13	3777.61	14.06
2004/05	419.01	4031.22	10.39
2005/06	402.13	4786.44	8.40

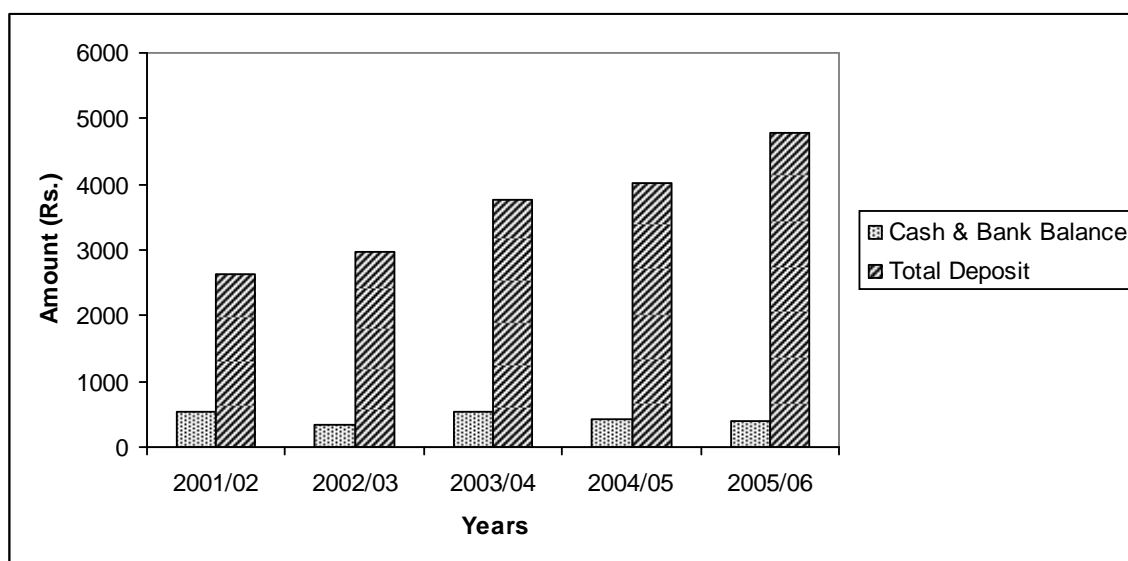
Average = 12.84

S.D. = 4.06

C.V = 31.65

Above table depicted the cash & bank balance to total deposit ratio of HBL over the five years period from 2001/02 to 2005/06. The ratios are 20.12%, 11.27%, 14.06%, 10.39% and 8.40% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 12.84% during the five years study period. Likewise, standard deviation is 4.06% and coefficient of variation is 31.65%. Cash & bank balance and total deposit of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.4: Cash & Bank Balance and Total Deposit of Lumbini Bank Ltd.



Comparison

The cash & bank balance to total deposit ratio of Everest Bank Ltd. has increased in the year 2002/03 and decreased in the year 2003/04. After then it has started gradually increasing trend till to the fiscal year 2005/06. But the cash & bank balance to total deposit ratio of Lumbini Bank Ltd. is in decreasing trend except in the fiscal year 2003/04. There is highest mean ratio of cash & bank balance to total deposit ratio with Lumbini Bank Ltd. than Everest Bank Ltd. But, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd.

From the mean point of view, it can be said that cash and bank balance to total deposit ratio of Lumbini Bank Ltd. is greater than Everest Bank Ltd. i.e. $12.84 > 11.51$. It indicates that Lumbini Bank Ltd. has relatively sound and better liquidity position. Commercial banks have to maintain their cash & bank balance in term of total deposit as directed by NRB time to time. Otherwise they are imposed penalty. A high ratio of invest in to short-term marketable securities, treasury bills etc. insuring enough liquidity, which will help the bank to improve in profitability.

4.1.1.3 Cash and Bank Balance to Current Deposit Ratio

This ratio shows the percentage of most liquid fund over current deposit of the bank. Higher ratio indicates the bank's sound ability to meet the daily cash requirement of their customer's deposit. Low ratio is also dangerous. If bank maintains low ratio, bank may not be able to make the payment against cheques.

Table 4.5: Cash and Bank Balance to Current Deposit Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Cash & Bank Balance	Current Deposit	Ratios (%)
2001/02	602.49	481.92	125.02
2002/03	1139.57	562.39	202.63
2003/04	631.81	719.76	87.78
2004/05	1049.99	1025.03	102.44
2005/06	1552.97	1145.79	135.54

Average = 130.68

S.D. = 39.67

C.V. = 30.36

Above table depicted the cash & bank balance to current deposit ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 125.02%, 202.63%, 87.78%, 102.44% and 135.54% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 130.68% during the five years study period. Likewise, standard deviation is 39.67 and coefficient of variation is 30.36%. Cash & bank balance and current deposit of Everest Bank Ltd. can be shown by following figure:

Figure 4.5: Cash & Bank Balance and Current Deposit of Everest Bank Ltd.

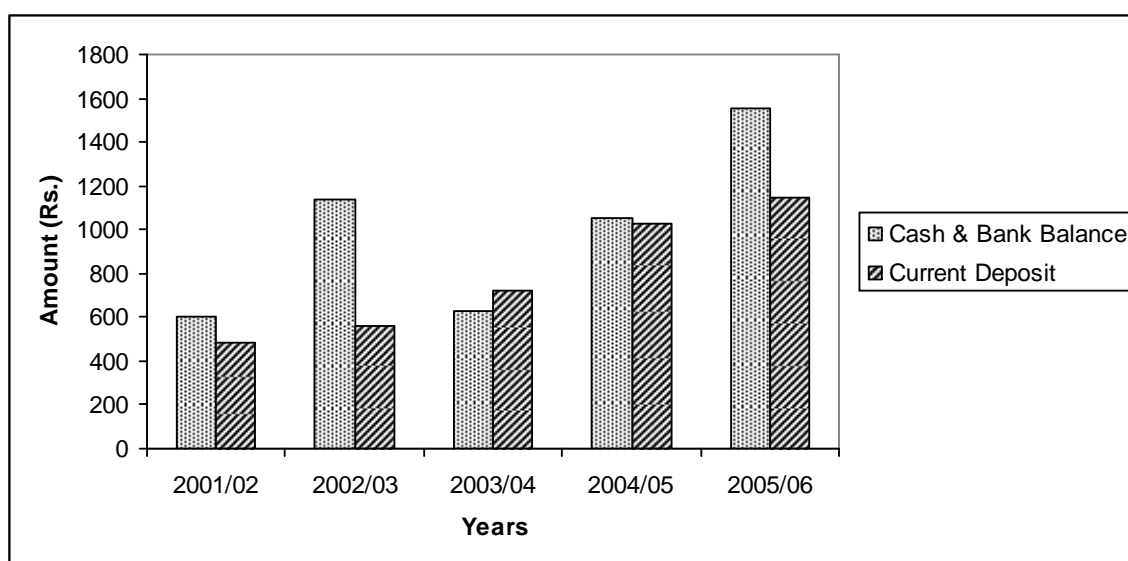


Table 4.6: Cash and Bank Balance to Current Deposit Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Cash & Bank Balance	Current Deposits	Ratios (%)
2001/02	532.39	122.78	433.62
2002/03	333.56	158.67	210.22
2003/04	531.13	200.01	265.56
2004/05	419.01	166.63	251.46
2005/06	402.13	159.84	251.58

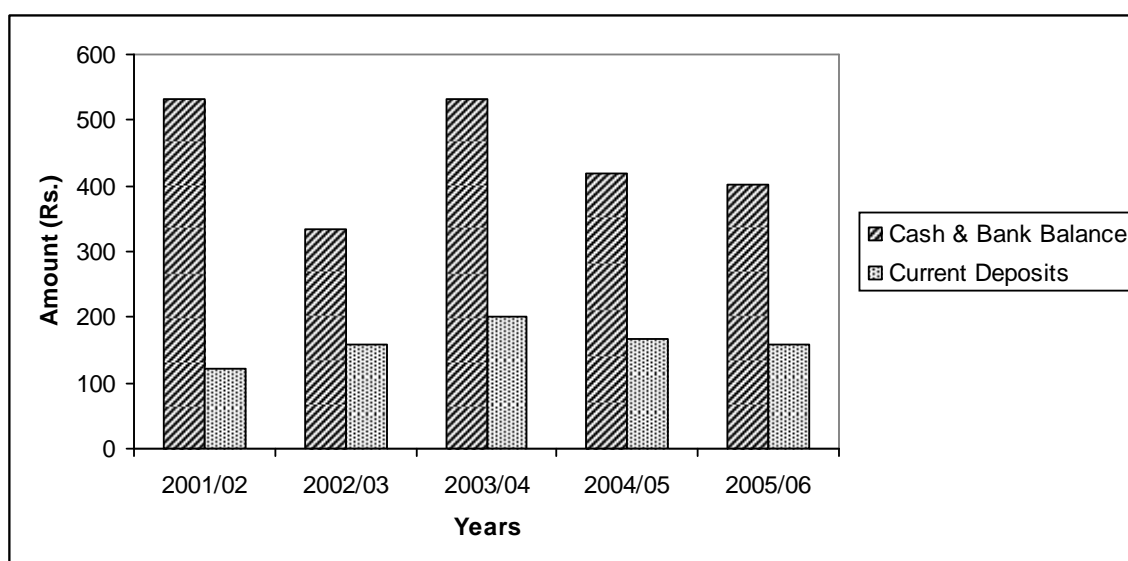
Average = 282.49

S.D. = 77.81

C.V. = 27.54

Above table depicted the cash & bank balance to current deposit ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 433.62%, 210.22%, 265.56%, 251.46% and 251.58% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 282.49% during the five years study period. Likewise, standard deviation is 77.81 and coefficient of variation is 27.54%. Cash & bank balance and current deposit of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.6: Cash & Bank Balance and Current Deposit of Lumbini Bank Ltd.



Comparison

Cash & bank balance to current deposit ratio of Everest Bank Ltd. has increased in the year 2002/03 and decreased in the year 2003/04. Afterwards there is gradually increasing trends during the five years of study period. Similarly, the ratio of Lumbini Bank Ltd. is in decreasing trend in the fiscal year 2002/03 and onwards the ratio is almost constant. The mean ratio of Lumbini Bank Ltd. is higher than that of Everest Bank Ltd. over the study period. Likewise, the ratios of Everest Bank Ltd. have more variation but more consistency than Everest Bank Ltd.

It can be said that Lumbini Bank Ltd. has high liquid assets in terms of cash & bank balance to current deposit ratio than Everest Bank Ltd. but it does not mean that Everest Bank Ltd. has mobilized its more funds in profitable sectors than Lumbini Bank Ltd. It actually means that Everest Bank Ltd. can tightly meet its daily requirements to make the payments on customer deposit withdrawals than Lumbini Bank Ltd.

4.1.1.4 Cash and Bank Balance to Interest Sensitive Deposits Ratio

The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

Table 4.7 : Cash and Bank Balance to Interest Sensitive Deposits Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Cash & Bank Balance	Saving Deposit	Ratios (%)
2001/02	602.49	1735.37	34.72
2002/03	1139.57	2757.95	41.32
2003/04	631.81	3730.61	16.94
2004/05	1049.99	4806.83	21.84
2005/06	1552.97	6929.22	22.41

Average = 27.45

S.D. = 9.08

C.V. = 33.10

Above table depicted the cash & bank balance to saving deposit ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 34.72%, 41.32%, 16.94%, 21.84% and 22.41% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 27.45% during the five years study period. Likewise, standard deviation is 9.08 and coefficient of variation is 33.10%. Cash & bank balance and saving deposit of Everest Bank Ltd. can be shown by following figure:

Figure 4.7: Cash & Bank Balance and Saving Deposit of Everest Bank Ltd.

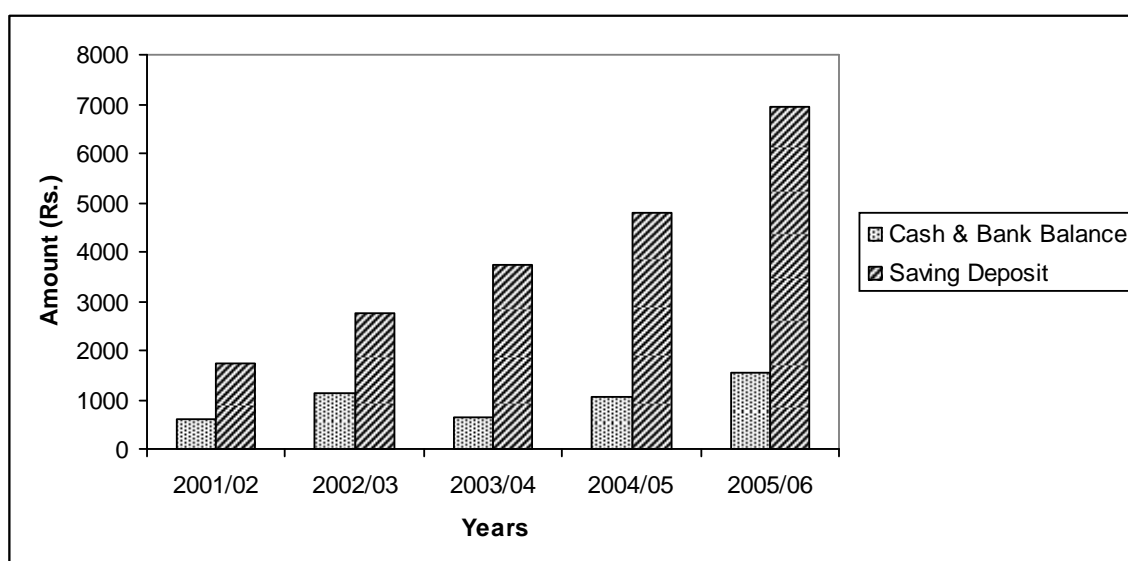


Table 4.8: Cash and Bank Balance to Interest Sensitive Deposits Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Cash & Bank Balance	Saving Deposit	Ratios (%)
2001/02	532.39	435.02	122.38
2002/03	333.56	548.45	60.82
2003/04	531.13	571.22	92.98
2004/05	419.01	833.25	50.29
2005/06	402.13	1003.73	40.06

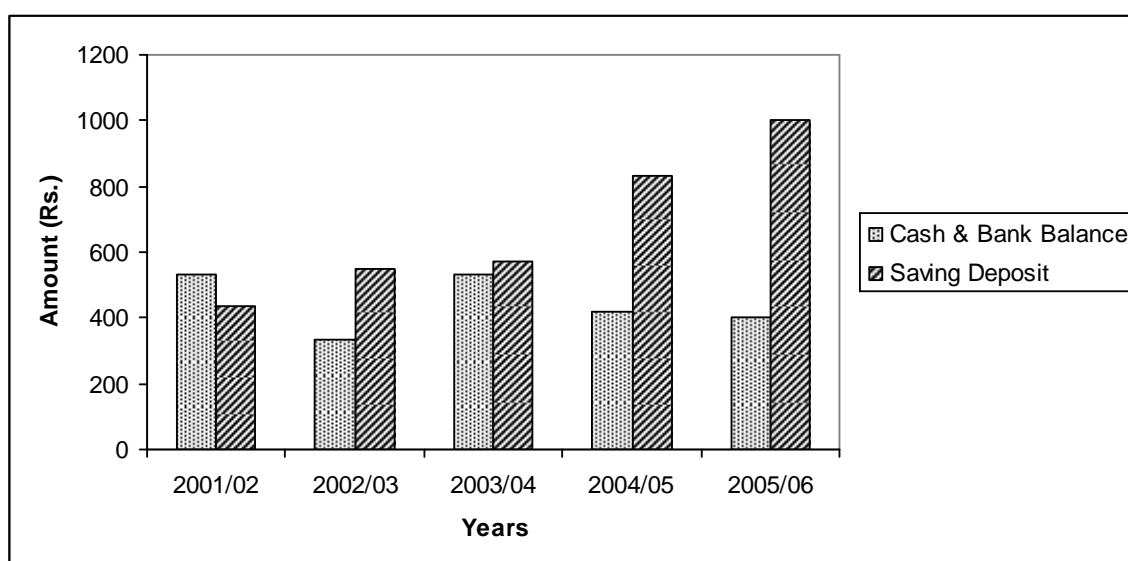
Average = 73.31

S.D. = 30.29

C.V. = 41.31

Above table depicted the cash & bank balance to saving deposit ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 122.38%, 60.82%, 92.98%, 50.29%, and 40.06% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 73.31% during the six years study period. Likewise, standard deviation is 30.29 and coefficient of variation is 41.31%. Cash & bank balance and saving deposit of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.8: Cash & Bank Balance and Saving Deposit of Lumbini Bank Ltd.



Comparison

Cash & bank balance to saving deposit ratio of Everest Bank Ltd. is in increasing trend in the fiscal year 2002/03 and then it has decreased in the fiscal year 2003/04 and then it is in increasing trend till to the last fiscal year of the study period where as the ratio of Lumbini Bank Ltd. is in decreasing trend except in the fiscal year 2003/04. But, Lumbini Bank Ltd. has higher mean ratio than Everest Bank Ltd. Similarly, ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd.

From the analysis of overall liquidity ratios of Lumbini Bank Ltd. and Everest Bank Ltd., we can say that Lumbini Bank Ltd. has high degree of liquid assets, i.e. high liquidity position than Everest Bank Ltd. High liquidity position is not so good because of interest expenses and it causes inverse impact in overall performance.

4.1.2 Assets Management Ratio

This ratio measures the efficiency of commercial bank in its fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit, maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of bank to manage its assets in profitable way satisfactorily. Help of the following ratios have analyzed asset management ability of Everest Bank Ltd. as well as Lumbini Bank Ltd.

4.1.2.1 Loan & Advances to Total Deposit Ratio

This ratio measures to the extent that bank is successful to manage its total deposit on loan & advances for the purpose of income generation or not. A high ratio indicates better mobilization of collected deposit and vice-versa. But it should be noted that too high ratio might not be better from liquidity point of view.

Table 4.9: Loan & Advances to Total Deposit Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Loan & Advances	Total Deposit	Ratios (%)
2001/02	4044.23	5466.61	73.98
2002/03	5049.51	6694.96	75.42

2003/04	6095.84	8063.90	75.59
2004/05	7900.09	10097.69	78.24
2005/06	10136.25	13802.44	73.44

Average = 75.33

S.D. = 1.67

C.V. = 2.22

Above table depicted the loan & advance to total deposit ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 73.98%, 75.42%, 75.59%, 78.24% and 73.44% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 75.33% during the five years study period. Likewise, standard deviation is 1.67 and coefficient of variation is 2.22%. Loan & advance and total deposit of Everest Bank Ltd. can be shown by following figure:

Figure 4.9: Loan & Advances and Total Deposit of Everest Bank Ltd.

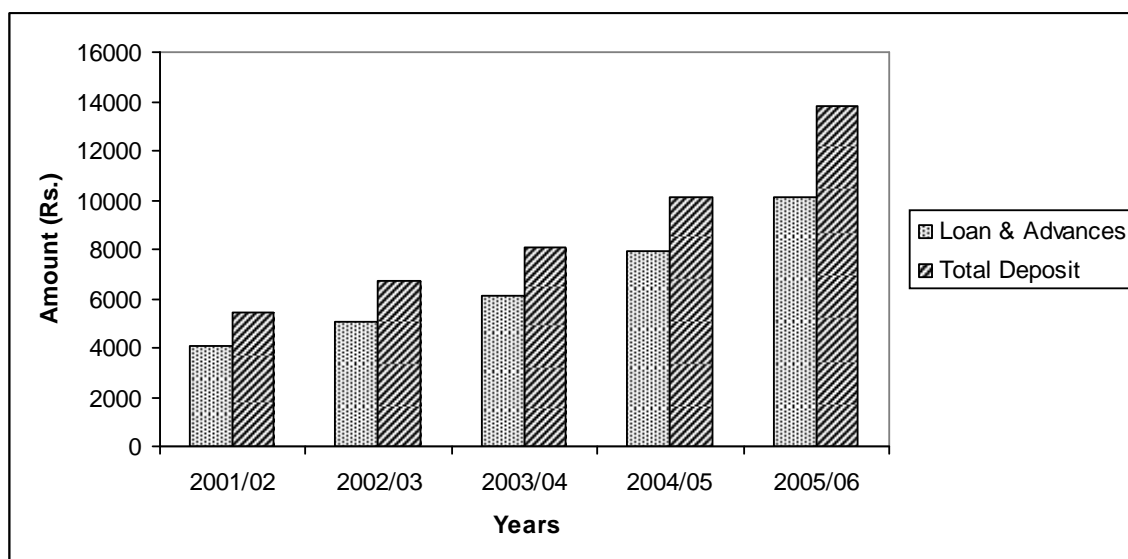


Table 4.10: Loan & Advances to Total Deposit Ratio of Lumbini Bank Ltd.

(Rs. in '00000')

Year	Loan & Advances	Total Deposit	Ratios (%)
2001/02	2285.49	2646.11	86.37
2002/03	2622.36	2959.74	88.60
2003/04	3222.74	3777.61	85.31
2004/05	3685.13	4031.22	91.41
2005/06	4321.59	4786.44	90.29

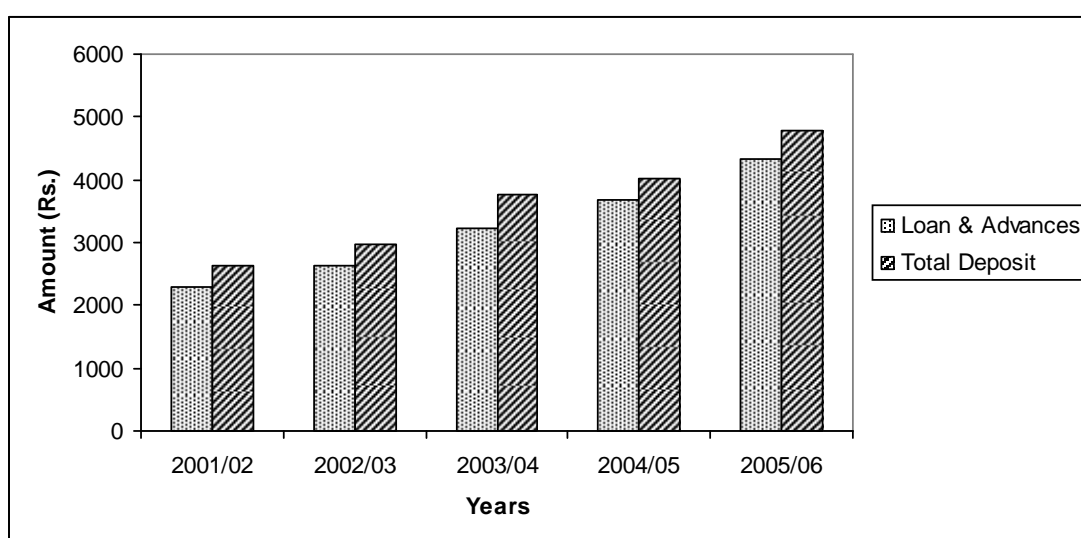
Average = 88.40

S.D. = 2.30

C.V = 2.60

Above table depicted the loan & advance to total deposit ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 86.37%, 88.60%, 85.31%, 91.41, and 90.29% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 88.40% during the five years study period. Likewise, standard deviation is 2.30 and coefficient of variation is 2.60%. Loan & advance and total deposit of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.10: Loan & Advances and Total Deposit of Lumbini Bank Ltd.



Comparison

Loan & advances to total deposit ratio of Everest Bank Ltd. is in increasing trend except in the fiscal year 2005/06 over the five years of study period where as the ratio of Lumbini Bank Ltd. is in increasing trend except in the fiscal year 2003/04.

Similarly, Lumbini Bank Ltd. has higher mean ratio than that of Everest Bank Ltd. during the study period. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd.

From the analysis, we can say that Lumbini Bank Ltd. is in good form according to deposit mobilization point of view than Everest Bank Ltd. But it does not mean that Everest Bank Ltd. is investing more of its collected fund in high return but with low risk sector than Lumbini bank Ltd. As well, lending ratios are very low than collection ratios over the study period. From this point of view, loan & advance to total deposit ratios of the banks are not so good but satisfactory.

4.1.2.2 Loan & Advances to Total Assets Ratio

Loan & advances of any commercial bank represent the major portion in the volume of total working fund. This ratio measures the volume of loan & advances in the structure of total assets. High degree of this ratio indicates good performance of the bank in mobilizing its funds by way of lending function. However, in its reverse side, high degree of this ratio is repressed enactive of low liquidity ratio.

Granting of loans & advances always carries a certain degree of risk. Thus, this asset of banking business is regarded as risky assets. This ratio measures the management attitude toward risky assets. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice-versa. The interaction between risk and return determines this ratio. This ratio also shows the credit risk taken by the bank towards mobilizing its funds into different types of assets. 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.

Table 4.11: Loan & Advances to Total Assets Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Loan & Advances	Total Assets	Ratios (%)
2001/02	4044.23	6616.90	61.12
2002/03	5049.51	8052.21	62.70
2003/04	6095.84	9608.57	63.44
2004/05	7900.09	11792.13	66.99
2005/06	10136.25	15959.28	63.51

Average = 63.55

S.D. = 1.92

C.V. = 3.02

Above table depicted the loan & advances to total assets ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 61.12%, 62.70%, 63.44%, 66.99% and 83.51% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 63.55% during the five years study period. Likewise, standard deviation is 1.92 and coefficient of variation is 3.02%. Loan & advance and total assets of Everest Bank Ltd. can be shown by following figure:

Figure 4.11: Loan & Advances and Total Assets of Everest Bank Ltd.

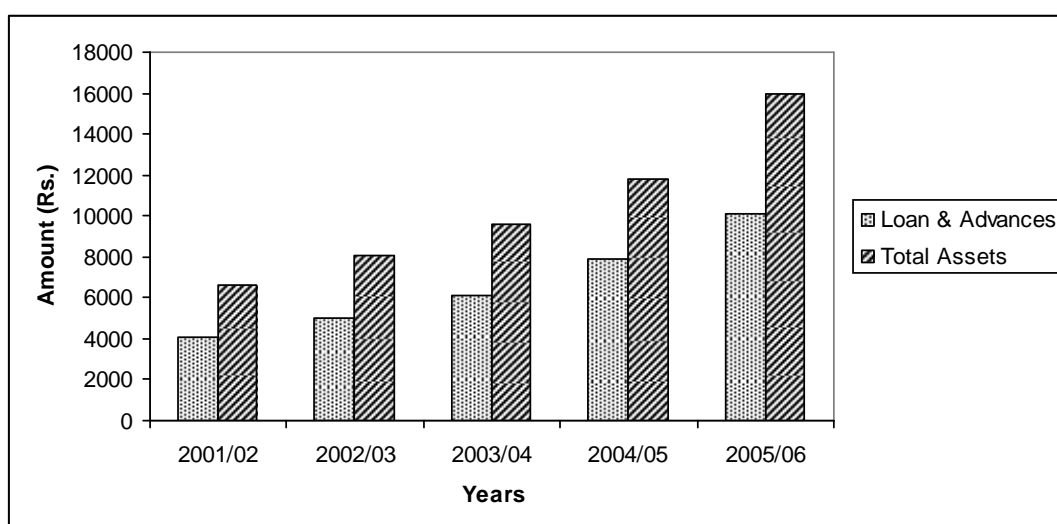


Table 4.12: Loan & Advances to Total Assets Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Loan & Advances	Total Assets	Ratios (%)
2001/02	2285.49	3061.64	74.64
2002/03	2622.36	3440.17	76.22
2003/04	3222.74	4364.20	73.85
2004/05	3685.13	4494.90	81.99
2005/06	4321.59	4259.34	101.46

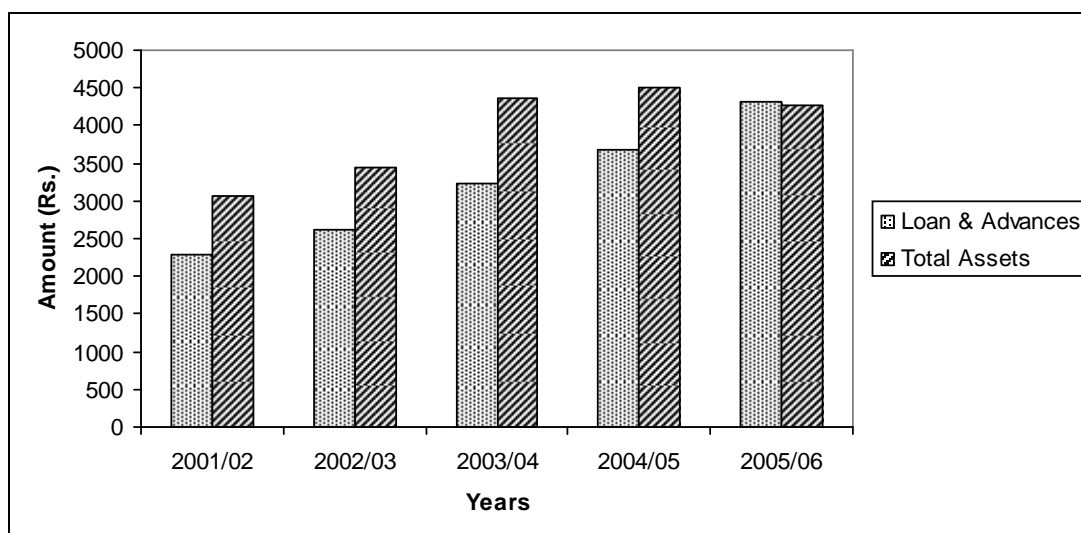
Average = 81.63

S.D. = 10.32

C.V. = 12.64

Above table depicted the loan & advances to total assets ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 74.64%, 76.22%, 73.85%, 81.99% and 101.46% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 81.63% during the five years study period. Likewise, standard deviation is 10.32 and coefficient of variation is 12.64%. Loan & advance and total assets of Lumbini Bank Ltd. can be shown by following figure:

Figure: 4.12: Loan & Advances and Total Assets of Lumbini Bank Ltd.



Comparison

Loan & advances to total assets ratio of Everest Bank Ltd. is in increasing trend except in the fiscal year 2005/06 over the five years of study period where as the ratio of Lumbini Bank Ltd. is in increasing trend except in the fiscal year 2003/04. Similarly, Lumbini Bank Ltd. has higher mean ratio than that of Everest Bank Ltd. But, the ratios of Lumbini Bank have more variation and less consistency than Everest Bank Ltd.

From the analysis, we can say that Lumbini Bank Ltd. has sound lending policy so that it is able to mobilize its resources as loan & advances than Everest Bank Ltd. As well, Lumbini Bank Ltd. is risk taker bank than Everest Bank Ltd. But assets management in terms of loan & advances of both banks are good as the mean ratio of both the bank is above 50 %.

4.1.2.3 Total investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial and non-financial organizations. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of management of bank assets, various factors such as excess availability of fund, liquidity requirement, central banks norms etc. are to be considered in general. This ratio indicates the proportion of deposits utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success of mobilizes deposits in securities and vice-versa.

Table 4.13: Total Investment to Total Deposit Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Total Investments	Total Deposit	Ratios (%)
2001/02	1693.00	4566.60	37.07
2002/03	1954.00	6695.00	29.19
2003/04	2535.70	8063.90	31.45
2004/05	2128.90	10097.70	21.08
2005/06	4200.50	13802.40	30.43

Average = 29.84

S.D. = 5.15

C.V. = 17.24

Above table depicted the total investment to total deposit ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 37.07%, 29.19%, 31.45%, 21.08% and 30.43% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 29.84% during the five years study period. Likewise, standard deviation is 5.15 and coefficient of variation is 17.24%. Total investment and total deposit of Everest Bank Ltd. can be shown by following figure:

Figure 4.13: Total Investment and Total Deposit of Everest Bank Ltd.

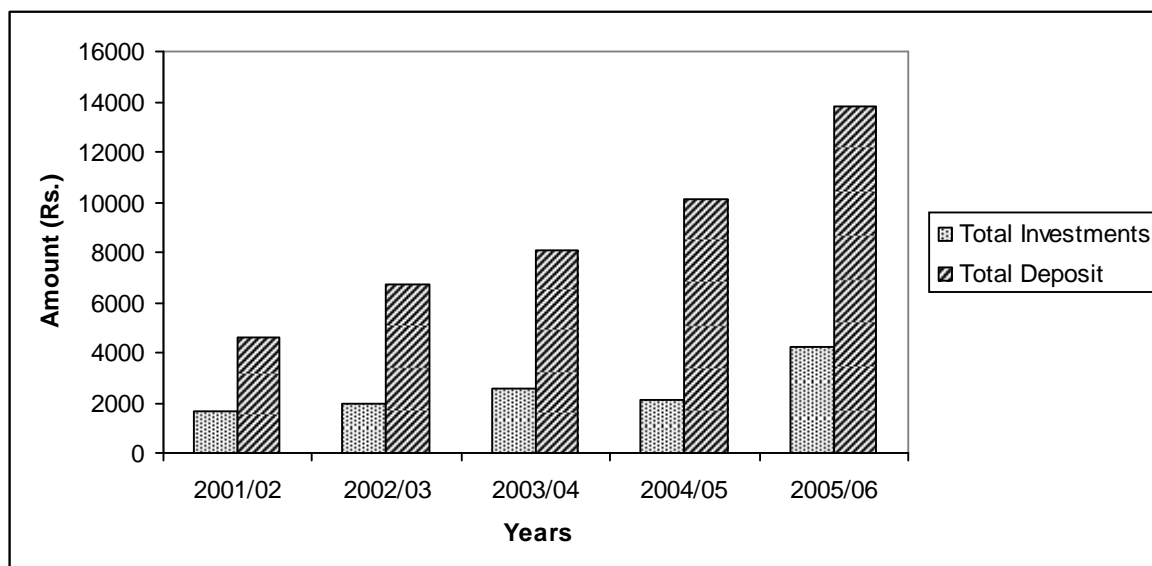


Table 4.14: Total Investment to Total Deposit Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Total Investment	Total Deposit	Ratios (%)
2001/02	269.87	2646.11	10.20
2002/03	382.75	2959.74	12.93
2003/04	558.19	3777.61	14.78
2004/05	535.18	4031.22	13.28
2005/06	673.99	4786.44	14.08

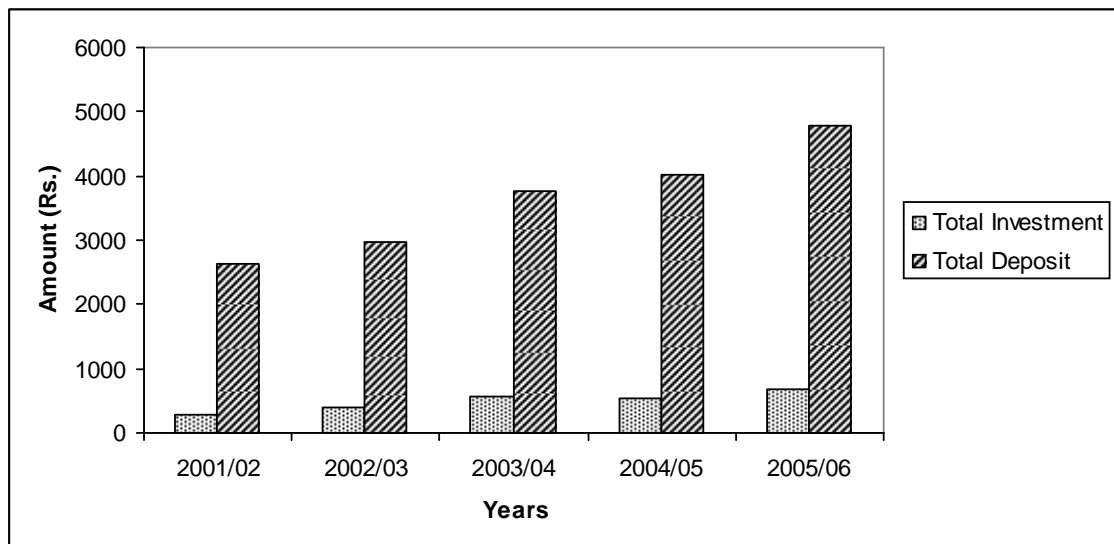
Average = 14.05

S.D. = 1.56

C.V. = 11.99

Above table depicted the total investment to total deposit ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 10.20%, 12.93%, 14.78%, 13.28% and 14.08% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 14.05% during the five years study period. Likewise, standard deviation is 1.56 and coefficient of variation is 11.99%. Total investment and total deposit of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.14: Total Investment and Total Deposit of Lumbini Bank Ltd.



Comparison

Total investment to total deposit ratio of Everest Bank Ltd. is in decreasing trend except in the fiscal year 2005/06 over the five years of study period where as the ratio of Lumbini Bank Ltd. is in increasing trend except in the fiscal year 2004/05 and 2005/06. Similarly, Everest Bank Ltd. has higher mean ratio than that of Lumbini Bank Ltd. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd.

During the study period, movements of ratios are first increasing, then decreasing and again increasing. It may be due to slack in the different sectors of

economy due to which bank is unable to mobilize its fund in loan & advances and share/debenture of other companies properly.

4.1.3 Leverage Ratio

These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity, strength and weakness of firm. Following ratios are included under leverage ratios.

4.1.3.1 Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes all the credits (long-term and short-term) of the bank where equity includes paid up capital, reserve & surplus and undistributed profit. Very high ratio is bad during the long-run period and vice-versa.

Table 4.15: Debt to Equity Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Total Debt	Total Equity	Ratios(%)
2001/02	619.38	530.91	116.66
2002/03	744.42	612.82	121.47
2003/04	864.35	680.32	127.05
2004/05	924.82	769.62	120.17
2005/06	1194.03	962.81	124.01

Average = 121.87

S.D. = 3.51

C.V. = 2.88

Above table depicted the total debt to total equity ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 116.66%, 121.47%, 127.05%, 120.17% and 124.01% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 121.87%

during the five years study period. Likewise, standard deviation is 3.51 and coefficient of variation is 2.88%. Total debt and total equity of Everest Bank Ltd. can be shown by following figure:

Figure 4.15 : Total Debt and Total Equity of Everest Bank Ltd.

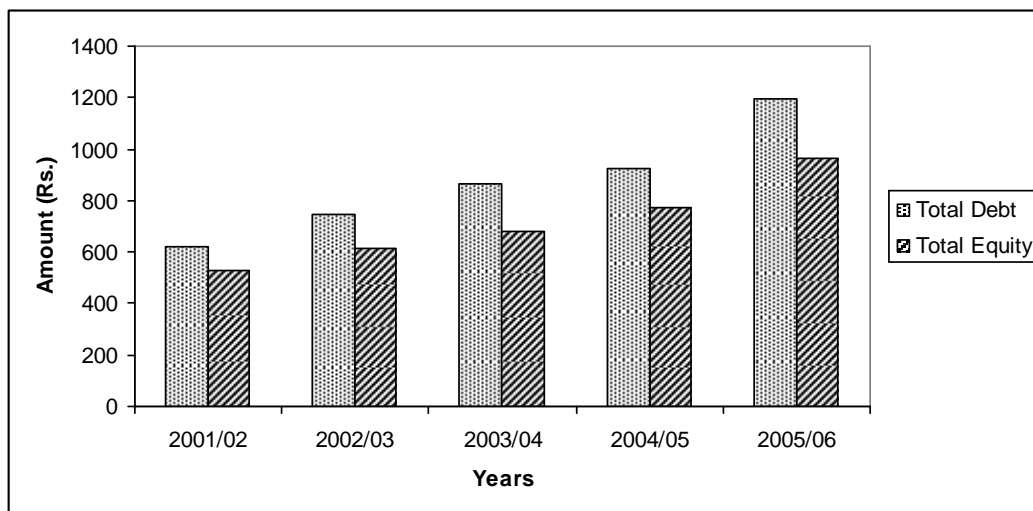


Table 4.16: Debt to Equity Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Total Debt	Total Equity	Ratio (%)
2001/02	226.83	188.71	120.2
2002/03	202.58	277.85	72.91
2003/04	290.11	296.49	97.85
2004/05	218.67	245.01	89.25
2005/06	194.97	(722.07)	(27.00)

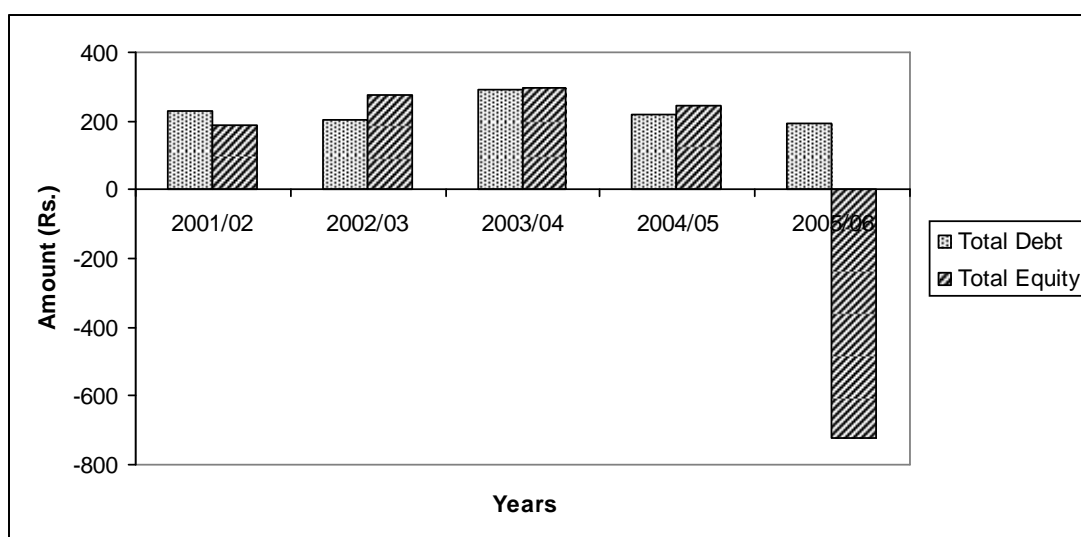
Average = 70.64

S.D. = 51.15

C.V. = 72.41

Above table depicted the total debt to total equity ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 120.2%, 72.91%, 97.85%, 89.85% and (27.00) % in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 70.64% during the five years study period. Likewise, standard deviation is 51.15 and coefficient of variation is 72.41%. Total debt and total equity of Lumbini Bank Ltd. by following figure:

Figure 4.16: Total Debt and Total Equity of Lumbini Bank Ltd.



Comparison

Total debt to total equity ratio of Everest Bank Ltd is in increasing trend except in the fiscal year 2004/05 and 2005/06 over the five years of study period where as the ratio of Lumbini Bank Ltd. is in first decreasing then increasing and again in decreasing trend in the subsequent years. But Everest Bank Ltd. has the higher mean ratio than that of Lumbini Bank Ltd. during the study period. Similarly, the ratios of Lumbini Bank Ltd. have more variation but less consistency than Everest Bank Ltd.

From the analysis, we can say that Everest Bank Ltd. is more levered firm than Lumbini Bank Ltd. during the five years of study period. Levered firm must bear more fixed expenses than non-levered. It may results bad impact on overall performance of the bank in the long-term.

4.1.3.2 Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets.

Table 4.17: Total Debt to Total Assets Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Total Debt	Total Assets	Ratios (%)
2001/02	619.38	6616.90	9.36
2002/03	744.42	8052.21	9.25
2003/04	864.35	9608.57	8.99
2004/05	1194.03	11792.13	10.13
2005/06	2044.81	15959.28	12.81

Average = 10.11

S.D. = 1.40

C.V. = 13.88

Above table depicted the total debt to total assets ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 9.36%, 9.25%, 8.99%, 10.13% and 12.81% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 10.11% during the five years study period. Likewise, standard deviation is 1.40 and coefficient of variation is 13.88%. Total debt and total assets of Everest Bank Ltd. can be shown by following figure:

Figure 4.17: Total Debt and Total Assets of Everest Bank Ltd.

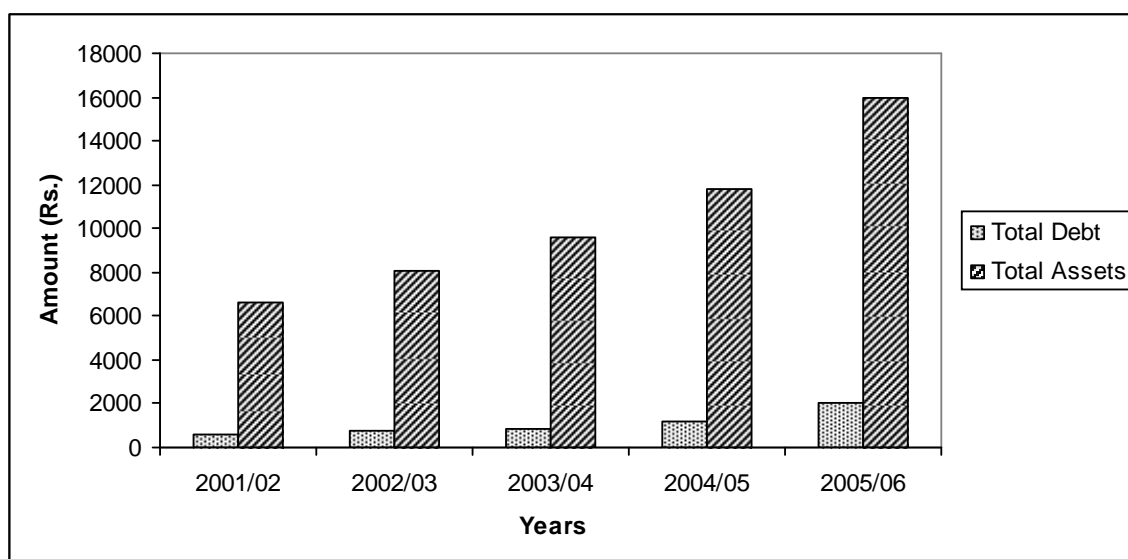


Table 4.18: Total Debt to Total Assets Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Total Debt	Total Assets	Ratio (%)
2001/02	226.83	3061.65	7.41
2002/03	202.58	3440.18	5.89
2003/04	290.11	4364.20	6.65
2004/05	218.67	4494.90	4.86
2005/06	194.97	4259.34	4.58

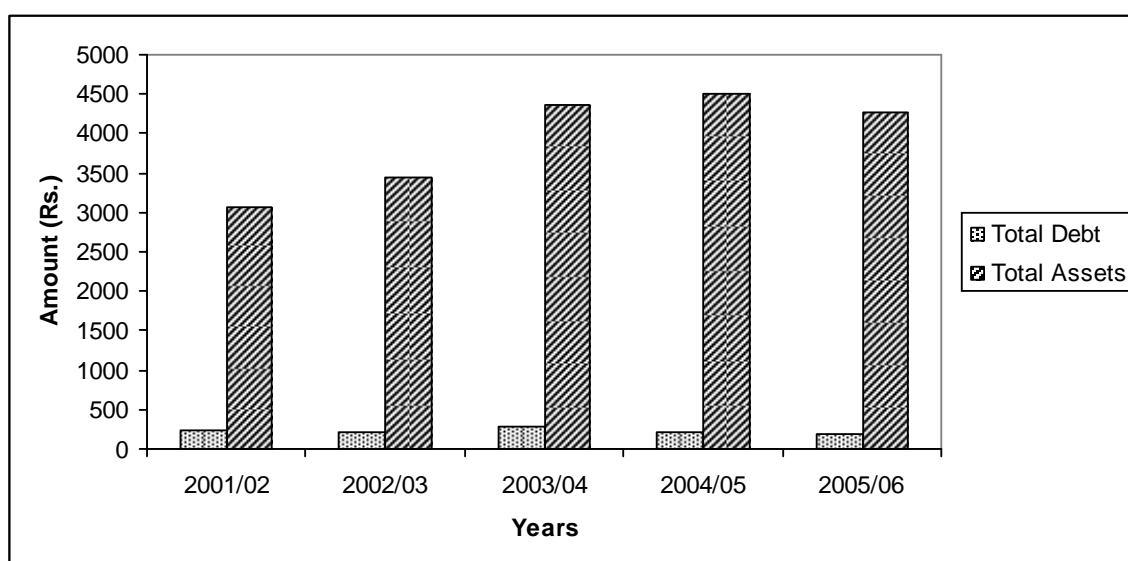
Average = 5.88

S.D. = 1.06

C.V. = 18.11

Above table depicted the total debt to total assets ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 7.41%, 5.89%, 6.65%, 4.86% and 4.58% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 5.88% during the five years study period. Likewise, standard deviation is 1.06 and coefficient of variation is 18.11%. Total debt and total assets of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.18: Total Debt and Total Assets of Lumbini Bank Ltd.



Comparison

Total debt to total assets ratio of Everest is in decreasing trend from fiscal year 2001/02 to 2003/04 then there is gradual increasing trend during the five years where as the ratio of Lumbini Bank Ltd. is in continuously decreasing trend over the study period. Everest Bank Ltd. has the higher mean ratio than that of Lumbini Bank Ltd. Similarly, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd.

According to the above analysis, we can say that Everest Bank Ltd. used outsider's fund more than owner's fund during the formation of capital structure. But Lumbini Bank Ltd. has more variation in the ratios during the study period. It is bad symptom for the bank.

4.1.4 Profitability Ratios

Profitability ratios are very helpful to measure the overall operation efficiency of a financial institution. In the context of banks, no bank can survive without profit. Profit is one of the major indicators or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan & advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are under the profitability ratio.

4.1.4.1 Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio is the gap between interest rates offered and interest rate charged. NRB has restricted the gap between interests taken in loan & advances and interest offered in deposit. The credit creation power of commercial bank has high impact on this ratio.

Table 4.19: Interest Income to Interest Expenses Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Interest Income	Interest Expenses	Ratios (%)
2001/02	443.82	257.05	172.66
2002/03	520.17	307.64	169.08
2003/04	657.25	316.37	207.75
2004/05	719.30	299.57	240.11
2005/06	903.41	401.40	225.07

Average = 202.93

S.D. = 28.13

C.V. = 13.86

Above table depicted the interest income to interest expenses ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 172.66%, 169.08%, 207.75%, 240.11% and 225.07% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 202.93% during the five years study period. Likewise, standard deviation is 28.13 and coefficient of variation is 13.86%. Interest income and interest expenses of Everest Bank Ltd. can be shown by following figure.

Figure 4.19: Interest Income and Interest Expenses of Everest Bank Ltd.

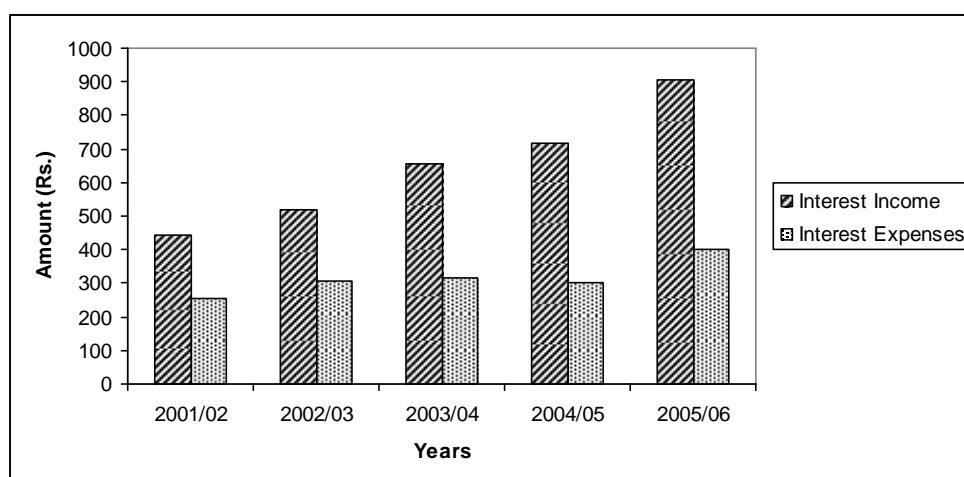


Table 4.20: Interest Income to Interest Expenses Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Interest Income	Interest Expenses	Ratio (%)
2001/02	266.38	170.50	156.23
2002/03	308.68	186.48	165.52
2003/04	361.24	197.32	183.07
2004/05	384.60	193.47	198.79
2005/06	343.82	215.55	159.51

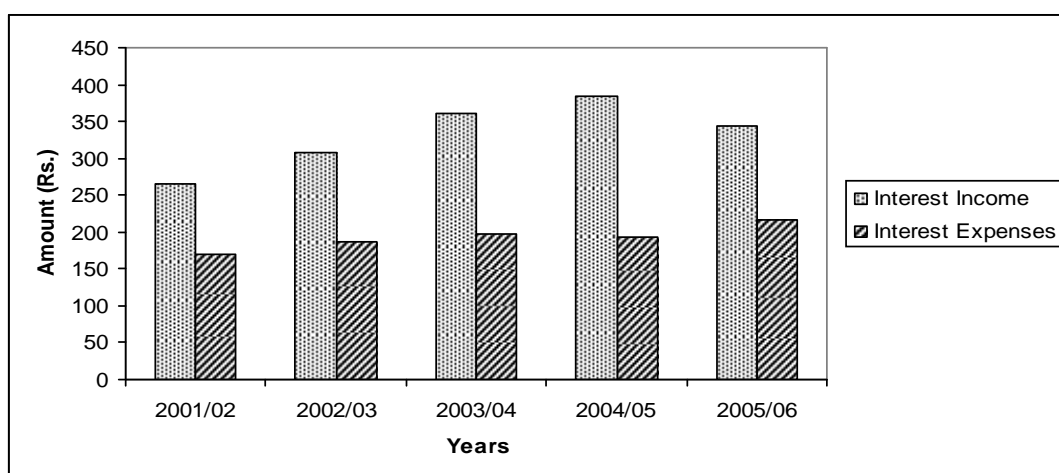
Average = 172.62

S. D. = 16.03

C. V. = 9.29

Above table depicted the interest income to interest expenses ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 156.23%, 165.52%, 183.07%, 198.79% and 159.51% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 172.62% during the five years study period. Likewise, standard deviation is 16.03 and coefficient of variation is 9.29%. Interest income and interest expenses of Lumbini Bank can be shown by following figure:

Figure 4.20: Interest Income and Interest Expenses of Lumbini Bank Ltd.



Comparison

Interest income to interest expenses ratio of Everest Bank Ltd. is in increasing trend except in the fiscal year 2002/03 and 2005/06 during the five years of study

period where as the ratio of HBL is also in increasing trend except in the fiscal year 2005/06 over the study period. Similarly, Everest Bank Ltd. has the higher mean ratio than that of Lumbini Bank Ltd. Likewise, the ratios of Everest Bank Ltd. have more variation and less consistency than Lumbini Bank Ltd.

From the analysis, we can say that Everest Bank Ltd. has high degree of gap between interest offered and interest charged than Lumbini Bank Ltd. This shows that Everest Bank Ltd. has charged high interest rate to borrowers and offering low interest rate to depositors. The higher cost of deposit mix of Everest Bank Ltd. has caused the gap between interest income and interest expenses to be least.

4.1.4.2 Return on Loan & Advances Ratio

This ratio measures the earning capacity of commercial bank through its fund mobilization as loan & advances.

Table 4.21: Return on Loan & Advances Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Net Profit	Loan & Advances	Ratios (%)
2001/02	85.35	4044.23	2.11
2002/03	94.18	5049.58	1.87
2003/04	143.57	6095.84	2.36
2004/05	170.81	7900.09	2.16
2005/06	237.29	10136.25	2.34

Average = 2.17

S.D. = 0.18

C.V. = 8.22

Above table depicted the return on loan & advances ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 2.11%, 1.87%, 2.36%, 2.16% and 2.34% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 2.17% during the five years study period. Likewise, standard deviation is 0.18 and coefficient of variation is 8.22%. Net profit and loan & advances of Everest Bank Ltd. can be shown by following figure:

Figure 4.21: Net Profit and Loan & Advances of Everest Bank Ltd.

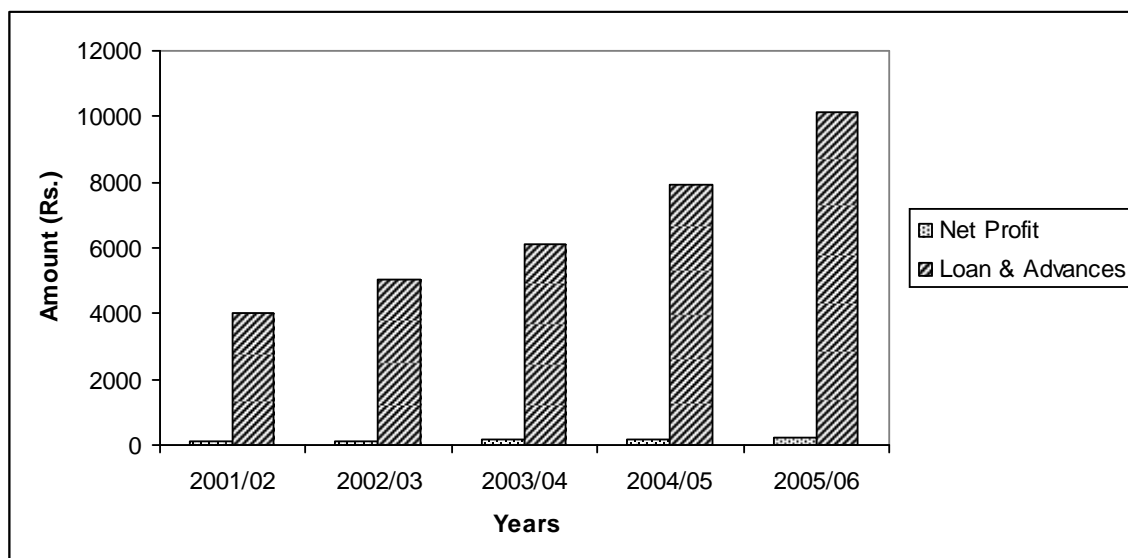


Table 4.22: Return on Loan & Advances Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Net Profit	Loan & Advances	Ratio (%)
2001/02	(36.93)	2285.49	(1.62)
2002/03	(97.97)	2622.36	(3.74)
2003/04	89.14	3222.75	2.77
2004/05	18.64	3685.13	0.51
2005/06	(196.77)	4321.59	(4.55)

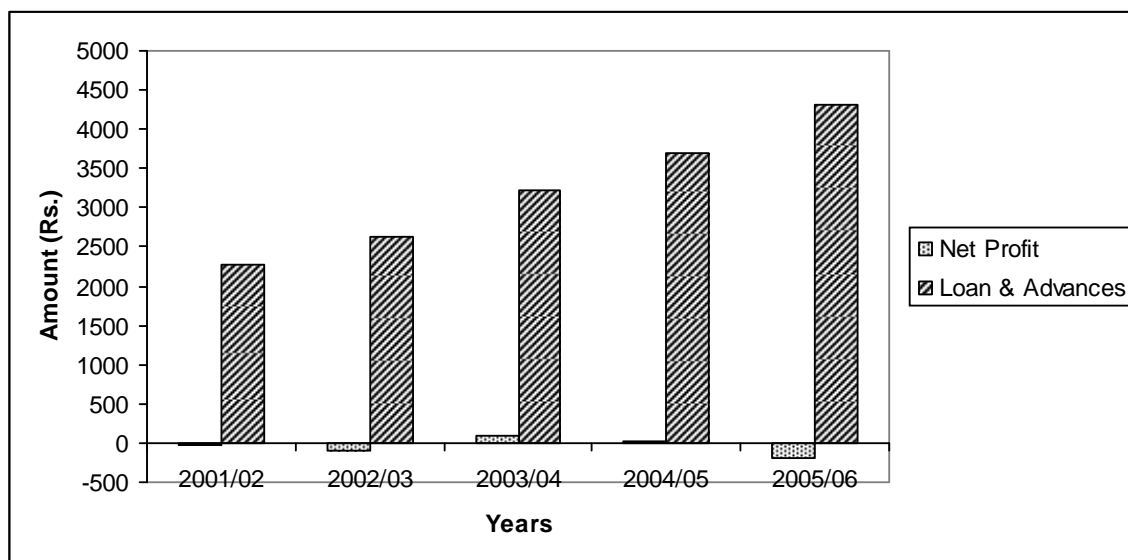
Average = (1.33)

S.D. = 2.70

C.V. = (203.64)

Above table depicted the return on loan & advances ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are (1.62)%, (3.74)%, 2.77%, 0.51% and (4.55)% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at (1.33)% during the five years study period. Likewise, standard deviation is 2.70 and coefficient of variation is (203.64)%. Net profit and loan & advances of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.22: Net Profit and Loan & Advances of Lumbini Bank Ltd.



Comparison

Return on loan & advances ratio of Everest Bank Ltd. is almost constant except the fiscal year 2002/03 over the five years of study period where as the ratio of Lumbini Bank Ltd. is in first decreasing trend till to the fiscal year 2002/03 and then in increasing trend in the following years of study period. As well, Everest Bank Ltd. has the higher mean ratio than that of Lumbini Bank Ltd which is in negative figure. Similarly, the ratio of Lumbini Bank Ltd. has high variation and less consistency than Lumbini Bank Ltd.

From the analysis, we can say that return on loan & advances ratio of Everest Bank Ltd. is very low and Lumbini Bank Ltd. is very poor and in fluctuating trend also. The highest ratio is 2.36% of Everest Bank Ltd. and 2.77% of Lumbini Bank Ltd. during the five years of study period. It shows the normal earning capacity of Everest Bank Ltd. and Lumbini Bank Ltd. in loan & advance. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors. However Everest Bank Ltd is satisfactory in the present economic situation but Lumbini Bank Ltd. need great revision and modification for the lending policy for identification of the profitable sectors.

4.1.4.3 Net Profit/Loss to Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in business to generate an operating surplus. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa.

Table: 4.23: Net Profit/Loss to Total Assets Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Net Profit	Total Assets	Ratios(%)
2001/02	85.35	6616.90	1.29
2002/03	94.18	8052.21	1.17
2003/04	143.57	9608.57	1.49
2004/05	170.81	11792.13	1.45
2005/06	237.29	15959.28	1.49

Average = 1.38

S.D. = 0.13

C.V. = 9.25

Above table depicted the return on total assets ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 1.29%, 1.17%, 1.49%, 1.49%, and 1.49% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 1.38% during the five years study period. Likewise, standard deviation is 0.13 and coefficient of variation is 9.25%. Net profit and total assets of Everest Bank Ltd. can be shown by following figure:

Figure 4.23: Net Profit and Total Assets of Everest Bank Ltd.

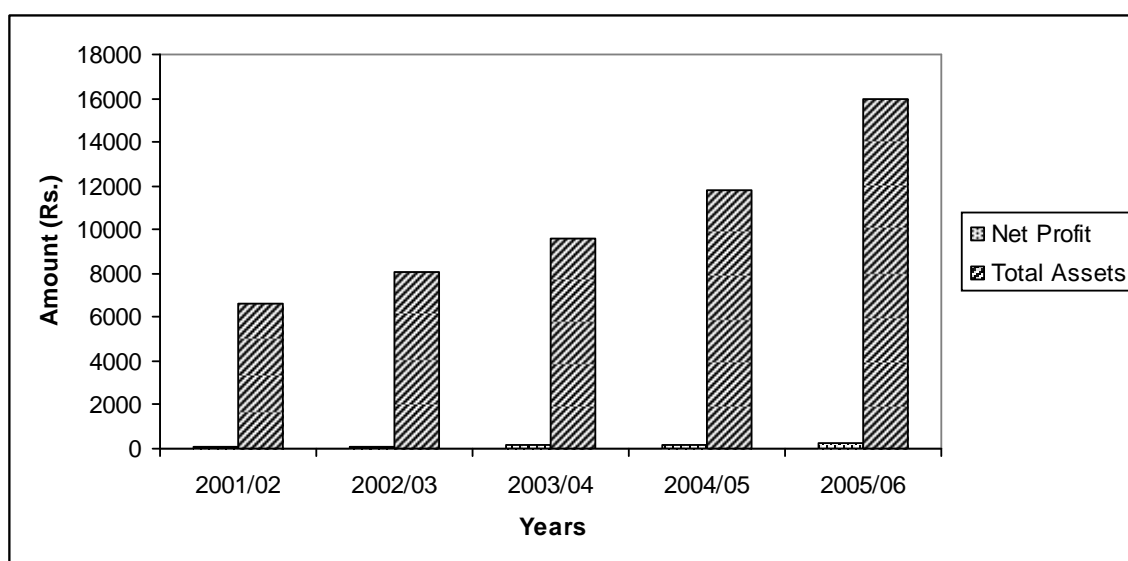


Table 4.24: Net Profit/Loss to Total Assets Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Net Profit	Total Assets	Ratios (%)
2001/02	(36.93)	2449.20	(1.51)
2002/03	(97.97)	3061.65	(3.20)
2003/04	89.14	3440.17	2.59
2004/05	18.64	4364.20	0.43
2005/06	(196.77)	4494.90	(4.38)

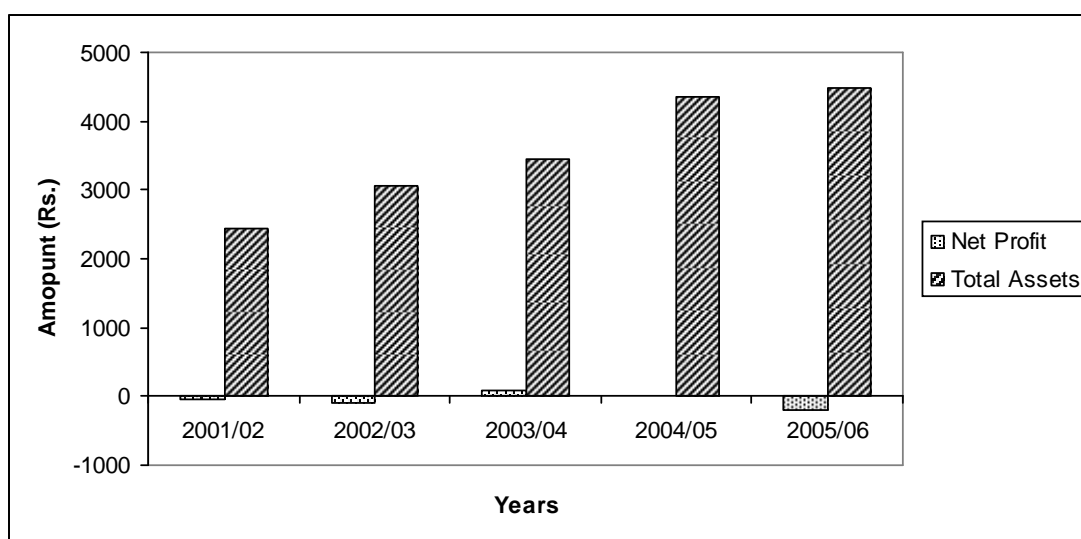
Average = (1.21)

S.D. = 2.50

C.V. = (205.86)

Above table depicted the return on total assets ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are (1.51)%, (3.2)%, 2.59%, 0.43% and (4.38)% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at (1.21)% during the five years study period. Likewise, standard deviation is 2.50 and coefficient of variation is (205.86)%. Net profit and total assets of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.24: Net Profit and Total Assets of Lumbini Bank Ltd.



Comparison

Return on total assets ratio of Everest Bank Ltd. is in increasing trend except in the fiscal year 2002/03 and 2004/05 over the five years of study period where as the ratio of Lumbini Bank Ltd. is in first decreasing trend except the fiscal year 2003/04 of the study period. Similarly, Everest Bank Ltd. has the higher mean ratio than that of Lumbini Bank Ltd. during the study period. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency nature than Everest Bank Ltd.

From the analysis, we can say that Everest Bank Ltd. has better earning capacity than Lumbini Bank Ltd. The highest ratio of Everest Bank Ltd. is 1.49% where as of Lumbini Bank Ltd. is 2.59% over the study period. It means that Everest Bank Ltd. can earn 1.49% profit of total assets and Lumbini Bank Ltd. can earn 2.59% profit of total assets but Lumbini Bank Ltd has negative mean ratio which means the institution is running on loss and is not able to gain profit.

4.1.4.4 Interest Income to Total Loan & Advances Ratio

It tells the income as interest from total loan & advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy and vice-versa.

TABLE 4.25: Interest Income to Total Loan & Advances Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Interest Income	Loan & Advances	Ratios (%)
2001/02	443.82	4044.23	10.97
2002/03	520.17	5049.51	10.30
2003/04	657.25	6095.84	10.78
2004/05	719.30	7900.09	9.10
2005/06	903.41	10136.25	8.91

Average = 10.01

S.D. = 0.85

C.V. = 8.52

Above table depicted the interest income to loan & advances ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 10.97%, 10.30%, 10.78%, 9.10 and 8.91% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 10.01% during the five years study period. Likewise, standard deviation is 0.85 and coefficient of variation is 8.52%. Interest income and loan & advances of Everest Bank Ltd. can be shown by following figure:

Figure 4.25: Interest Income and Loan & Advances of Everest Bank Ltd.

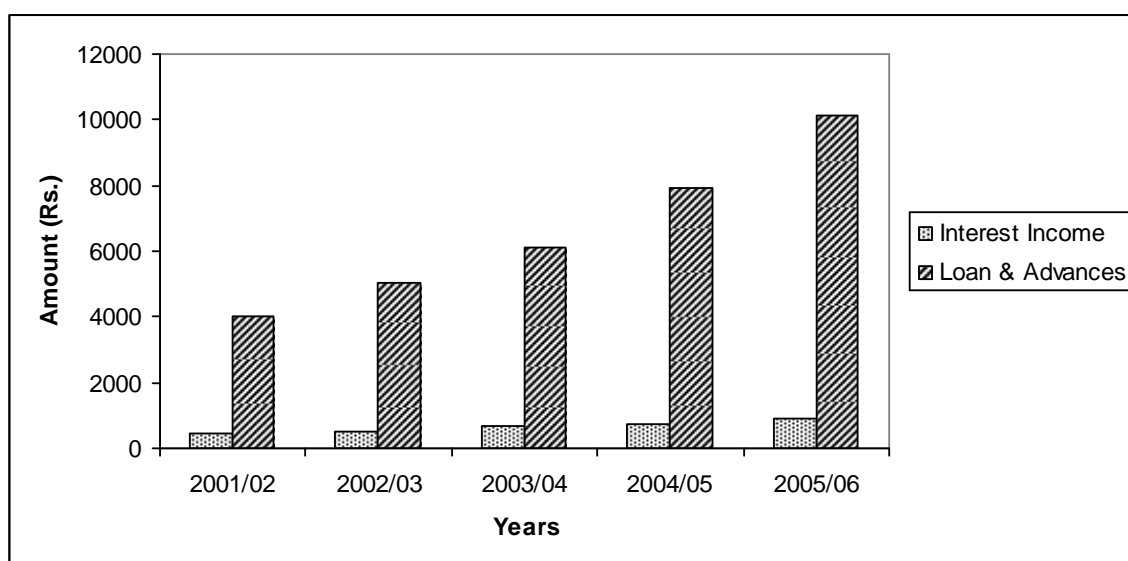


Table 4.26: Interest Income to Total Loan & Advances Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Interest Income	Loan & Advances	Ratios %)
2001/02	266.38	2285.49	11.66
2002/03	308.68	2622.36	11.77
2003/04	361.24	3222.74	11.21
2004/05	384.60	3685.13	10.44
2005/06	343.82	4321.59	7.96

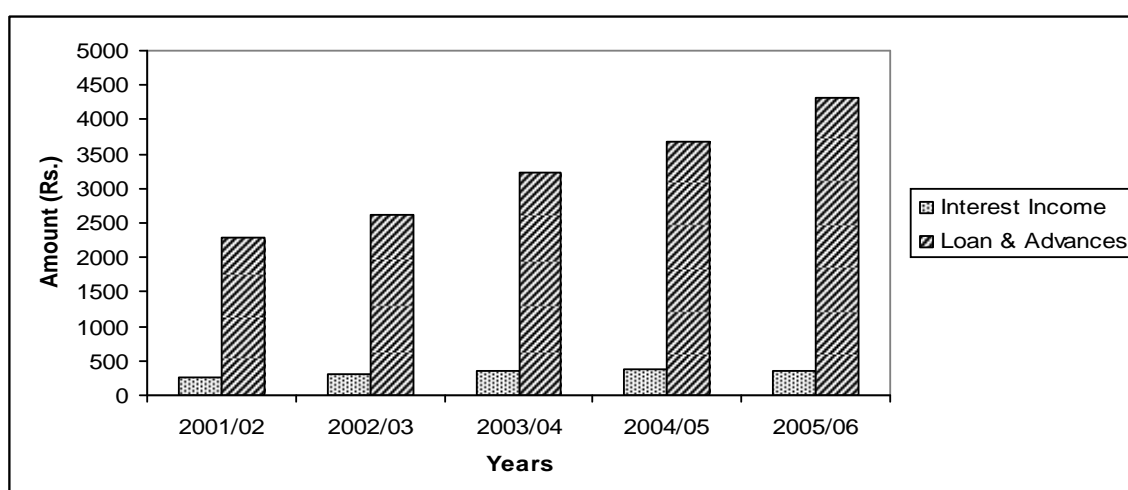
Average = 10.61

S. D. = 1.40

C. V. = 13.24

Above table depicted the interest income to loan & advances ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 11.66%, 11.77%, 11.21%, 10.44% and 7.96% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 10.61% during the five years study period. Likewise, standard deviation is 1.40 and coefficient of variation is 13.24%. Interest income and loan & advances of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.26: Interest Income and Loan & Advances of Lumbini Bank Ltd.



Comparison

Interest income to loan & advances ratio of Everest Bank Ltd. is in continuously decreasing trend except in the fiscal year 2003/04 during the five years of study period where as the ratio of Lumbini Bank Ltd. is also in decreasing trend except in the fiscal year 2002/03. Similarly, Lumbini Bank Ltd. has the higher mean ratio than that of Everest Bank Ltd. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd.

From the analysis, we can say that Lumbini Bank Ltd. has higher interest income ratio than Everest Bank Ltd. That means Lumbini Bank Ltd. is able to grant its credit (loan & advances) in high interest earning area. But it will be risky lending because high interest rate carry high risk and low interest rate carry low risk.

4.1.5 Lending Efficiency Ratios

Lending efficiency, quality of lending and its effect is measured in this topic. The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratios.

4.1.5.1 Loan Loss Provision to Total Loan & Advances Ratio

Loan loss provision to total loan & advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of banks will come down by such amount. Increase in loan loss provisions, decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. So it can be said that banks suffer it only for short-term while the good financial conditions and safety of loans will make bank's prosperity resulting increasing profits for long-term.

The low ratio indicates the good quality of assets in total volume of loan & advances. High ratio indicates more risky assets in total volume of loan & advances.

Table 4.27: Loan Loss Provision to Loan & Advances Ratio of Everest Bank Ltd.

(Rs. in '000000')

Year	Loan Loss Provision	Loan & Advances	Ratios (%)
2001/02	95.75	4044.23	2.37
2002/03	141.12	5049.58	2.79
2003/04	211.72	6095.84	3.47
2004/05	281.42	7900.09	3.56
2005/06	334.95	10136.15	3.30

Average = 3.10

S.D. = 0.45

C.V. = 14.56

Above table depicted the loan loss provision to loan & advances ratio of Everest Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 2.37%, 2.79%, 3.47%, 3.56% and 3.30% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 3.10% during the five years study period. Likewise, standard deviation is 0.45 and coefficient of variation is 14.56%. Loan loss provision and loan & advances of Everest Bank Ltd. can be shown by following figure:

Figure 4.27: Loan Loss Provision and Loan & Advances of Everest Bank Ltd.

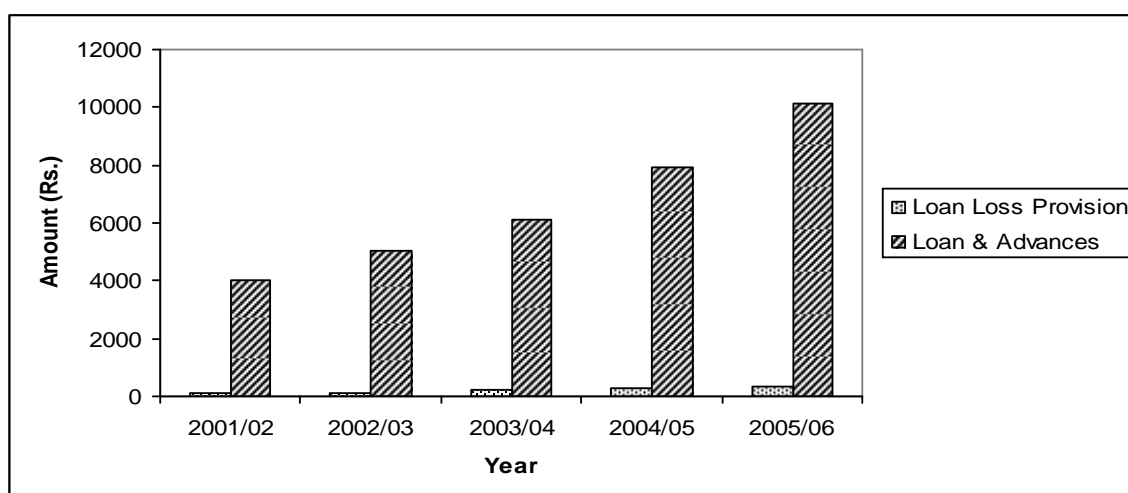


Table 4.28: Loan Loss Provision to Total Loan & Advances Ratio of Lumbini Bank Ltd.

(Rs. in '000000')

Year	Loan Loss Provision	Loan & Advances	Ratios (%)
2001/02	200.16	2285.49	8.76
2002/03	180.72	2622.36	6.89
2003/04	242.35	3222.75	7.52
2004/05	517.41	3685.13	14.04
2005/06	1337.69	4321.59	30.95

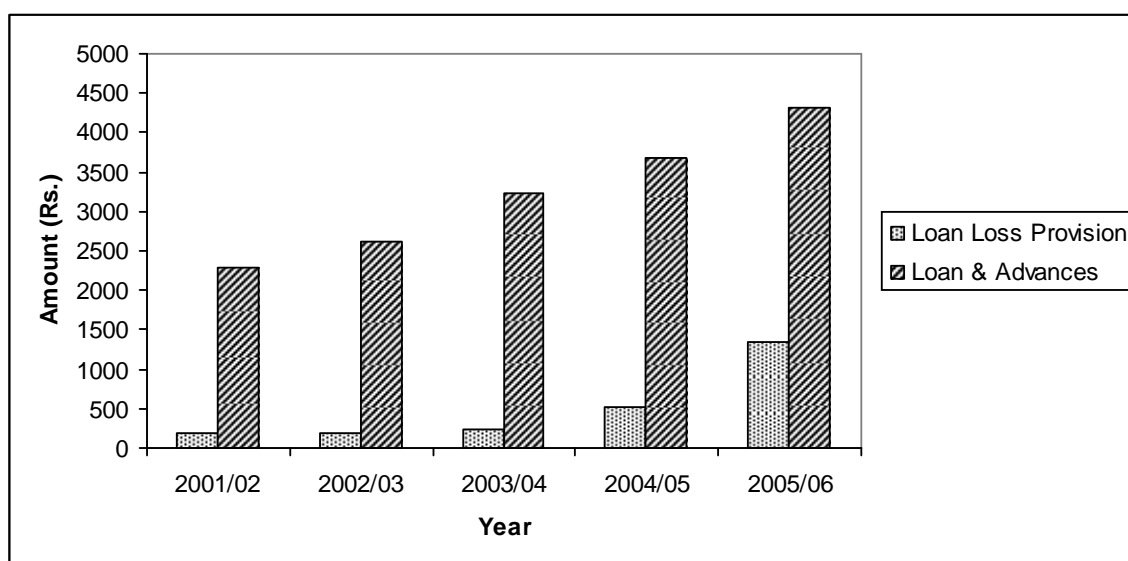
Average = 13.63

S.D. = 9.02

C.V. = 66.15

Above table depicted the loan loss provision to loan & advances ratio of Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios are 8.76%, 6.89%, 7.52%, 14.04% and 30.95% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Similarly, mean ratio remains at 13.63% during the five years study period. Likewise, standard deviation is 9.02 and coefficient of variation is 66.15%. Loan loss provision and loan & advances of Lumbini Bank Ltd. can be shown by following figure:

Figure 4.28: Loan Loss Provision and Loan & Advances of Lumbini Bank Ltd.



Comparison

Loan loss provision to loan & advances ratio of Everest Bank Ltd. is increasing trend except in the fiscal year 2005/06 during the five years of study period. Where as the ratio of Lumbini Bank Ltd. is in first decreasing in the fiscal year 2002/03 and then increasing rapidly in the subsequent years of study period. Similarly, Lumbini Bank Ltd. has higher mean ratio than that of Everest Bank Ltd. over the study period. But the ratios of Lumbini Bank have more variation and less consistency than Everest Bank Ltd.

From the analysis, we can say that Everest Bank Ltd. has very low degree of provision over total lending than Lumbini Bank Ltd. It indicates that Everest Bank Ltd. has decreasing volume of non-performing loans during the study period than Lumbini Bank Ltd. The decreasing loan loss provision ratio indicates the better performance and effective credit policy of Everest Bank Ltd. than Lumbini Bank Ltd.

4.1.5.2 Non-Performing Loan to Total Loan & Advances Ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But of our concerned banks have not provided data on non-performing loan in balance sheet, profit and loss account. To measure the volume of non-performing loan to total loan & advances, the major indicators of NABIL and HBL is used. This ratio shows the percentage of non- recovery loan in total loans & advances.

Table 4.29: Non-Performing Loan to Total Loan & Advances Ratio of Everest Bank Ltd. and Lumbini Bank Ltd.

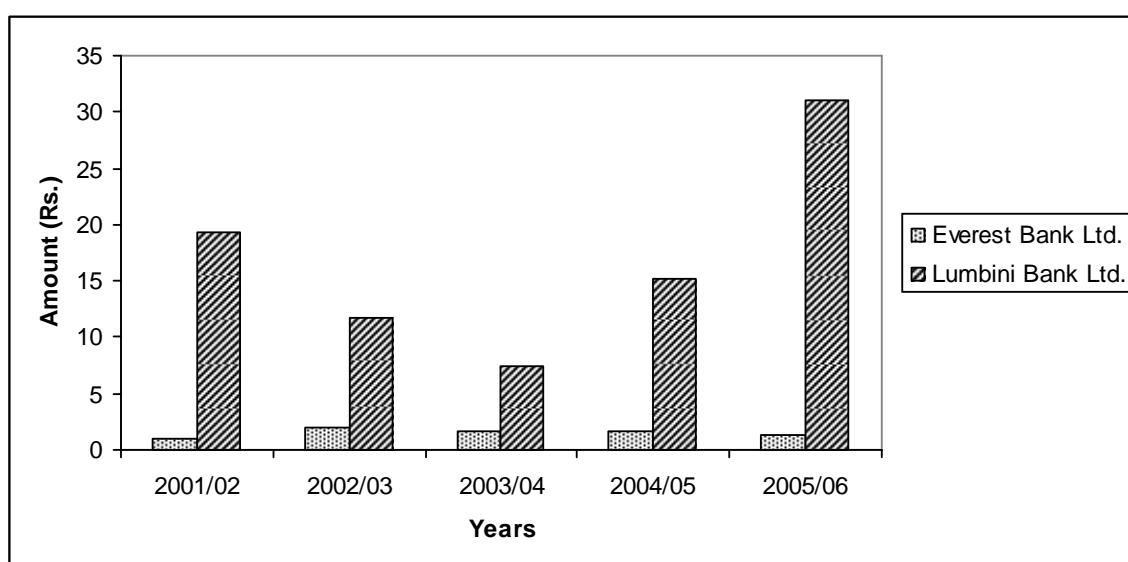
Banks	2001/02	2002/03	2003/04	2004/05	2005/06	Average
Everest Bank Ltd.	1.07	2.02	1.72	1.63	1.28	1.54
Lumbini Bank Ltd.	19.32	11.70	7.36	15.23	30.99	16.92

Source: Major indicators of respective banks

Above table depicted the non-performing loan to total loan & advances ratio of Everest Bank Ltd. and Lumbini Bank Ltd. over the five years period from 2001/02 to 2005/06. The ratios of Everest Bank Ltd. are 1.07%, 2.02%, 1.72%, 1.63% and

1.28% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. The mean ratio of Everest Bank Ltd. remains at 1.54% during the five years of study period. Similarly, the non-performing loan to total loan & advances ratios of Lumbini Bank Ltd. are 19.32%, 11.70%, 7.36%, 15.23% and 30.99% in the fiscal year 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 respectively. The mean ratio of Lumbini bank Ltd. remains at 16.92% over the five years of study period. Non-performing loan and loan & advances of Everest Bank Ltd. and Lumbini Bank Ltd. can be shown by following figure:

Figure 4.29: NPL to loan & advances ratio of Everest Bank Ltd. and Lumbini Bank Ltd.



Comparison

Non-performing loan to total loan & advances ratio of Everest Bank Ltd. is increasing in the year 2002/03 and then gradually decreasing trend except in the last year of study period over the five years. Whereas the ratio of Lumbini Bank Ltd. is in decreasing trend upto the fiscal year 2003/04 and then rapidly increasing over the study period. But Lumbini Bank Ltd. has the higher mean ratio than that of Everest bank Ltd. It shows that lending policy of Everest Bank Ltd. is sound and effective than Lumbini Bank Ltd. Loan recovery process, efficient management and in depth study are the main causes of low NPA level of Everest Bank Ltd.

Banking sector is seriously affected by the non-performing loan. Around 8% of non-performing loan indicate the bad performing of bank even though the decreasing trend shows the better improvement of the bank. If non-performing loan will increases that affect in overall banking business, provision amount will increases and profit will decrease. So we suggest the bank to be very careful while granting loan and to do effective follow up for recovery of loan.

4.1.6 Coefficient of Correlation Analysis

Under this topic, Karl Pearson's Coefficient of Correlation is used to find out the relationship between total deposit and loan & advances as well as net profit and loan & advances of Everest Bank Ltd. as well as Lumbini Bank Ltd.

4.1.6.1 Coefficient of Correlation between Total Deposits and Total Loan & Advances

Total deposit is independent variable and total loan & advances is dependent variable. The coefficient of correlation between total deposit and total loan & advances measure the degree of relationship between these two variables. In analysis, total deposit is independent variable and total loan & advances are dependent variable. The main objective of computing 'r' between these two variables is to justify whether total deposits are significantly used as total loan & advances in a proper way or not.

Table 4.30: Correlation between Total Deposits and Total Loan & Advances of Everest Bank Ltd.

(Rs. in '000000' million)

Year	X	Y	X ²	Y ²	XY
2001/02	5.47	4.04	29.92	16.32	22.10
2002/03	6.70	5.05	44.89	25.50	33.84
2003/04	8.06	6.10	64.96	37.21	49.17
2004/05	10.10	7.90	102.01	62.41	79.79
2005/06	13.80	10.14	190.44	108.37	139.93
N = 5	$\sum X = 44.13$	$\sum Y = 33.23$	$\sum X^2 = 432.22$	$\sum Y^2 = 249.81$	$\sum XY = 324.83$

Where,

X = Total deposit of Everest Bank Ltd.

Y = Total loan & advances of Everest Bank Ltd.

$$\text{Correlation coefficient (r)} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \{n \sum Y^2 - (\sum Y)^2\}}}$$

$$r = +0.90$$

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

$$P.E. = 0.057$$

The above calculation shows that there is positive relationship between total deposits and total loan & advances of Everest Bank Ltd. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice versa. The coefficient of correlation between total deposits and total loan & advances is 0.90 and probable error is 0.057. Comparing the value of 'r' and 6 times P.E., we can say that there is positive relationship and significant at all time between total deposits and total loan & advances of Everest Bank Ltd. because 'r' is greater than 6 times of P.E., i.e. $0.90 > 0.344$.

From the above analysis, we can conclude that Everest Bank Ltd. has positive and significant relationship at all time between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 0.74 and vice-versa.

Table: 4.31: Correlation between Total Deposits and Total Loan & Advances of Lumbini Bank Ltd.

Year	X	Y	X ²	Y ²	XY
2001/02	2.65	2.29	7.02	5.24	6.07
2002/03	2.96	2.62	8.76	6.86	7.76
2003/04	3.78	3.22	14.29	10.37	12.17
2004/05	4.03	3.69	16.24	13.61	14.87
2005/06	4.79	4.32	22.94	18.66	20.69
N = 5	∑X = 18.21	∑Y = 16.14	∑X² = 69.25	∑Y² = 54.74	∑XY = 61.56

Where,

X = Total deposit of Lumbini Bank Ltd.

Y = Total loan & advances of Everest Bank Ltd.

$$\text{Correlation coefficient (r)} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \{n \sum Y^2 - (\sum Y)^2\}}}$$

$$r = +1$$

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

$$P.E. = 0$$

The above calculation shows that there is perfect relationship between total deposits and total loan & advances of Lumbini Bank Ltd. That means, if the total deposit is increased absolutely the total loan & advances is also increased and vice versa. The coefficient of correlation between total deposits and total loan & advances is 1 and probable error is 0. Comparing the value of 'r' and 6 times of P.E., we can say that there is significantly positive relationship between total deposits and total loan & advances of HBL because 'r' is higher than 6 times P.E., i.e. 1 > 0.

From the above analysis, we can conclude that Lumbini Bank Ltd has positive and significant relationship between total deposits and total loan & advances. The

relationship is significant, i.e. loan & advances is increase as the portion increase in deposits in relation to 1 and vice-versa.

4.1.6.2 Coefficient of Correlation between Total Loan & Advances and Net Profits

Total loan & advances is independent variable and net profit is dependent variable. The main objectives of computing 'r' between these two variables are to justify whether total loan & advances are significantly used to earn profit in a proper away or not. The value of 'r' explains whether a percentage change in total loan & advances contribute to change the same percentage of net profit or not.

Table 4.32: Correlation between Total Loan & Advances and Net Profits of Everest Bank Ltd.

Year	X	Y	X ²	Y ²	XY
2001/02	4.04	0.09	16.32	0.0081	0.36
2002/03	5.05	0.09	25.50	0.0081	0.45
2003/04	6.10	0.14	37.21	0.0196	0.85
2004/05	7.90	0.17	62.41	0.0289	1.34
2005/06	10.14	0.24	102.82	0.0576	2.43
N = 5	∑X = 33.23	∑Y = 0.73	∑X² = 244.26	∑Y² = 0.1223	∑XY = 5.43

Where,

X = Total loan & advances of Everest Bank Ltd.

Y = Net profit of Everest Bank Ltd.

Now,

$$\text{Correlation coefficient (r)} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \{n \sum Y^2 - (\sum Y)^2\}}}$$

$$r = +0.95$$

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

$$P.E. = 0.03$$

The above calculation shows that there is positive relationship between total loan & advances and net profit of Everest Bank Ltd. That means, if the total loan & advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan & advances and net profit is 0.95 and probable error is 0.03. Comparing the value of 'r' and 6 times P.E., we can say that there is significantly positive relationship between total loan & advances and net profit of Everest Bank Ltd. because 'r' is higher than 6 times P.E., i.e. $0.95 > 0.03$.

From the above analysis, we can conclude that Everest Bank Ltd. has positive and significant relationship between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to 0.95 and vice-versa.

Table 4.33: Correlation between Total Loan & Advances and Net Profits of Lumbini Bank Ltd.

Year	X	Y	X ²	Y ²	XY
2001/02	2.29	(0.036)	5.24	0.001296	(0.08244)
2002/03	2.26	(0.097)	5.11	0.009409	(0.2192)
2003/04	3.22	0.089	10.37	0.0079	0.287
2004/05	3.69	0.019	13.62	0.000361	0.070
2005/06	4.32	(0.196)	18.66	0.0384	(0.847)
N = 5	∑X = 15.78	∑Y = (0.088)	∑X² = 53	∑Y² = 0.057366	∑XY = (0.49)

Where,

X = Total loan & advances of Lumbini Bank Ltd.

Y = Net profit of Lumbini Bank Ltd.

Now,

$$\text{Correlation Coefficient (r)} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \{n \sum Y^2 - (\sum Y)^2\}}}$$

$$r = -0.50$$

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

$$P.E. = 0.23$$

The above calculation shows that there is negative relationship between total loan & advances and net profits of HBL. That means, if the total loan & advances is increased the net profit will decrease and vice versa. The coefficient of correlation between total loan & advances and net profit is -0.50 and probable error is 0.23. Comparing the value of 'r' and 6 times P.E., we can say that there is negative relationship but not significant at all time between total loan & advances and net profit of Lumbini Bank Ltd. because 'r' is less than 6 times P.E., i.e. $-0.51 < 0.23$.

From the above analysis, we can conclude that Lumbini Bank Ltd. has negative relationship and not significant at all time between total loan & advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan & advances in relation to -0.50 and vice-versa but not significant at all.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In this chapter, summary, conclusion and recommendation are included. We have done credit management of Everest Bank Ltd. and Lumbini Bank Ltd. by using financial as well as statistical tools. After completing the basic analysis required for the study, little recommendations have made which would be beneficial for the management of the both banks and concerned persons.

Based on the presentation, interpretation and analysis of data, the major findings are summarized as follows:

i. Liquidity Ratio

Lumbini Bank Ltd. has kept higher mean of current assets to current liabilities ratio than Everest bank Ltd. But, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Lumbini Bank Ltd. because of high standard deviation and coefficient of variation. Though the optimal standard of current ratio should be 2:1 for convention measure of liquidity, it is not appraisable on banking business. So analyzing over the study period, it indicates the satisfactory liquidity position with both banks.

The ratios of Lumbini Bank Ltd. have more variation and less consistency than HBL. The mean ratio of cash and bank balance to total deposit ratio of Lumbini Bank Ltd. is greater than Everest Bank Ltd. It indicates that Lumbini Bank Ltd. has relatively sound and better liquidity position. Commercial banks have to maintain their cash & bank balance in terms of total deposit as directed by NRB time to time. Otherwise they are imposed penalty.

There is higher mean of cash & bank balance to current assets ratio of Lumbini Bank Ltd. than that of Everest Bank Ltd. over the study period. But the ratios of Lumbini Bank Ltd. have more variation and more consistency than Everest Bank

Ltd. It can be said that Lumbini Bank Ltd. has high liquid assets in terms of cash & bank balance to current assets ratio than Everest Bank Ltd. but it does not mean that Everest Bank Ltd. has mobilized its more funds in profitable sectors than Lumbini Bank Ltd.

Lumbini Bank Ltd. has higher mean of cash & bank balance to saving deposit ratio than Everest Bank Ltd. Similarly, ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. From the analysis of overall liquidity ratios of Everest Bank Ltd. and Lumbini Bank Ltd., we can say that Lumbini Bank Ltd. has high degree of liquid assets, i.e. high liquidity position than Everest Bank Ltd. High liquidity position is not so better because of interest expenses and it caused inverse impact in overall performance.

ii. Assets Management Ratio

Lumbini Bank Ltd. has higher mean of loan & advances to total deposit ratio than that of Everest Bank Ltd. during the study period. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. From the analysis, we can say that Lumbini Bank Ltd. is in good form according to deposit mobilization point of view than Everest Bank Ltd. But it does not mean that Lumbini Bank Ltd. is investing more of its collected fund in high return but with low risk sector than Everest Bank Ltd. Lumbini Bank Ltd. has higher mean of loan & advances to total assets ratio than that of Everest Bank Ltd. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. From the analysis, we can say that Lumbini Bank Ltd. has sound lending policy so that it is able to mobilize its resources as loan & advances than Everest Bank Ltd. But assets management in terms of loan & advances of both banks are not so good because of below the fifty percent of total assets.

Everest Bank Ltd. has higher mean of total investment to total deposit ratio than that of Lumbini Bank Ltd. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. During the study period, movements of ratios are first increasing, then decreasing and again increasing. It may be due to slack in the different sectors of economy due to which bank is unable to

mobilize its fund in loan & advances and share/debenture of other companies properly.

iii. Leverage Ratio

Everest Bank Ltd has the higher mean of total debt to total equity ratio than that of Lumbini Bank Ltd. during the study period. Similarly, the ratios of Lumbini Bank Ltd. have more variation but more consistency than Everest Bank Ltd. From the analysis, we can say that Everest Bank Ltd is more levered firm than Lumbini Bank Ltd. during the five years of study period. Levered firm must bear more fixed expenses than non-levered. It may results bad impact on overall performance of the bank in the long-term.

Everest Bank Ltd. has the higher mean of total debt to total assets ratio than that of Lumbini Bank Ltd. But the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. According to the above analysis, we can say that Everest Bank Ltd used outsider's fund more than owner's fund during the formation of capital structure.

iv. Profitability Ratio

Everest Bank Ltd. has the higher mean of interest income to interest expenses ratio than that of Lumbini Bank Ltd. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. From the analysis, we can say that Everest Bank Ltd has high degree of gap between interest offered and interest charged than Lumbini Bank Ltd. This shows that Everest Bank Ltd. has charged high interest rate to borrowers and offering low interest rate to depositors.

Everest Bank Ltd. has the higher mean of net profit to loan & advances ratio than that of Lumbini Bank Ltd. Similarly, the ratios of Lumbini Bank Ltd. have more variation but less consistency than Everest Bank Ltd. From the analysis, we can say that return on loan & advances ratio of Everest Bank Ltd and Lumbini Bank Ltd. is very low and in fluctuating trend also. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactory in the present economic situation.

Everest Bank Ltd has the higher mean of net profit to total assets ratio than that of Lumbini Bank Ltd. during the study period. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency nature than Lumbini Bank Ltd. From the analysis, we can say that Everest Bank Ltd. has better earning capacity than Lumbini Bank Ltd. Everest Bank Ltd. has the higher mean of interest income to loan & advances ratio than that of Lumbini Bank Ltd. Likewise, the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. From the analysis, we can say that Everest Bank Ltd. has highest interest income ratio than Lumbini Bank Ltd. That means Everest Bank Ltd. is able to grant its credit (loan & advances) in high interest earning area.

v. Lending Efficiency Ratio

Lumbini Bank Ltd. has higher mean of loan loss provision to loan & advances ratio than that of Everest Bank Ltd. over the study period. But the ratios of Lumbini Bank Ltd. have more variation and less consistency than Everest Bank Ltd. From the analysis, we can say that Everest Bank Ltd. has very low degree of provision over total lending than HBL. It indicates that Everest Bank Ltd. has decreasing volume of non-performing loans during the study period than Lumbini Bank Ltd.

Lumbini Bank Ltd. has the higher mean of non-performing loan to loan & advances ratio than that of Everest Bank Ltd. It shows that lending policy of Everest Bank Ltd. is sound and effective than Lumbini Bank Ltd. Loan recovery process, efficient management and depth study are the main causes of low NPA level of Everest Bank Ltd.

vi. Co-efficient of correlation Analysis

Everest Bank Ltd has positive and significant relationship at all time between total deposits and total loan & advances. The relationship is significant, i.e. loan & advances is increased as the portion increases in deposits in relation to 0.90 and vice-versa.

Lumbini Bank Ltd. has positive with significant relationship between total deposits and total loan & advances. The relationship is significant, i.e. loan &

advances is increased as the portion increases in deposits in relation to 1 and vice-versa.

Everest Bank Ltd. has positive with significant relationship between total loan & advances and net profit. The relationship is significant, i.e. profit is increased as the portion increases in loan & advances in relation to 0.95 and vice-versa.

Lumbini Bank Ltd. has negative but not significant relationship at all time between total loan & advances and net profit. The relationship is significant, i.e. profit is increased as the portion increases in loan & advances in relation to (0.51) and vice-versa but not significant at all.

5.2 Conclusion

Present study is successful to explore the findings of the results designed for the study. Various financial as well as statistical tools were used as per requirement of nature of data. Primary as well as secondary source of information were used for analysis of data. Based on the data analysis and finding of the result, the conclusion can be drawn as follows:

- Lumbini Bank Ltd. has more current ratio than that of Everest Bank Ltd.
- Lumbini Bank Ltd. has more cash & bank balance to total deposit ratio as well as cash & bank balance to current deposit ratio and cash & bank balance to saving deposit ratio than of Everest Bank Ltd.
- From the analysis of overall liquidity ratios of Everest Bank Ltd. and Lumbini Bank Ltd., we can say that Lumbini Bank Ltd. has high degree of liquid assets, i.e. high liquidity position than Everest Bank Ltd.
- Lumbini Bank Ltd. is able to mobilize its resources in lending as loan & advances than Everest Bank Ltd.
 - Everest Bank Ltd. is able to invest its resources more in other companies' shares, debentures, bonds as well as government treasury bill than Lumbini Bank Ltd.
- From the analysis of overall efficiency ratio of Lumbini Bank Ltd. and Everest Bank Ltd., we can say that Everest Bank Ltd. has sound lending policy so that it is able to mobilize its resources more than Lumbini Bank Ltd.
- From the analysis of overall leverage ratio of Lumbini Bank Ltd. and Everest Bank Ltd., we can say that Everest Bank Ltd. is more levered firm than Lumbini Bank Ltd.

during the five years of study period. It means Everest Bank Ltd. is using outsider's fund more than owner's fund during the formation of capital structure.

- Everest Bank Ltd. is able to earn more interest from total credit granting than that of Lumbini Bank Ltd.
- Everest Bank Ltd. has high return on loan & advances ratio as well as return on total assets ratio than that of Lumbini Bank Ltd.
- From the analysis of overall profitability ratio of Everest Bank Ltd. and Lumbini Bank Ltd., we can say that Everest Bank Ltd. can earn more profit from its lending and investment activities than Lumbini Bank Ltd. during the five years period.
- Lumbini Bank Ltd. has kept high loan loss provision than Everest Bank Ltd. because of high non-performing to total lending ratio.
- Everest Bank Ltd. has positive and significant relationship between total deposit collection and total lending. Similarly, Lumbini Bank Ltd. has positive with significant relationship between these two variables.
- Everest Bank Ltd. has positive with significant relationship between total loan & advances and net profits. Where as Lumbini Bank Ltd. has negative but significant relationship between these two variables.

So the main findings of this study shows that though Everest Bank Ltd. has less liquid assets, it is able to maintain daily cash requirement, high lending ratio, low leverage ratio, low non-performing assets level, low loan loss provision ratio, high profit ratio than that of Lumbini Bank Ltd. Therefore, the management of Lumbini Bank Ltd. must revise the lending policy and invest in profitable as well as productive sectors rather than only to increase lending ratio.

5.3 Recommendations

Findings of the study provide important information for those who are concerned directly or indirectly with the credit policy of joint venture commercial banks (with respect to Everest Bank Ltd. and Lumbini Bank Ltd.). On the basis of analysis and findings of the study, following suggestions and recommendations can be outlined:

1. The liquidity position of Lumbini Bank Ltd. is more positive than Everest Bank Ltd. So the management of Lumbini Bank Ltd. should search for new

area of investments as well as bank should strictly follow the NRB directives to reduce its surplus cash balance. Following of NRB directives will help to reduce credit risk arising from borrower's defaulter leak of proper credit appraisal, defaulter by black listed borrowers and professional defaulter. Government has established credit inebriation bureau, which will guide commercial banks. So the bank is suggested to follow project-oriented approach and avoid more risky area of lending.

2. Lumbini Bank Ltd. should adopt the sound credit collection policy. It helps to decrease loan loss provision and non-performing loan of the bank. Thus, the credit management of Lumbini Bank Ltd. must follow the policy as rapid identification of delinquent loans, immediate contact with borrower and continual follow-up until a loan is recovered to decrease its non-performing loan and loan loss provision.
3. Lumbini Bank Ltd. must concentrate on decreasing ratio of return on total assets as well as return on loan & advances and invest in productive as well as profitable areas only, which give high return with low risk.
4. Banks should regularly follow the credit customers to confirm that whether the customers have utilized their credit for the same purpose or not, committed at the time of taking credit from the banks.
5. Looking a current trend of business, both banks, i.e. Everest Bank Ltd. as well as Lumbini Bank Ltd. must be very careful on formulating marketing strategies to serve its customers. The marketing strategies should be innovative that would attract and retain the customers. Both the banks are recommended to develop an innovative approach of bank marketing for its well-being and sustainability in the market.
6. Banks should strictly band the policy of nepotism and favoritism. On the basis of capability and efficiency, recruitment, placement and promotion should be executed.
7. The new standards should be designed to make the bank management more accountable for credit policy. Besides, it should investigate what are the reasons of credit efficiency or inefficiency.
8. LBL should increase debt financing portion which will help to increase net profit of bank. The analysis indicates that the bank didn't use debt like debenture and bond etc; it debt refers only outstanding loans and bills payable.

9. The banks should try to increase non interest bearing deposits.
10. The banks are recommended to diversify the portfolio of loans and advances rather than concentrating only on few sectors of the business.
11. This is the age of competition banks should be able to survive in the competitive market. Therefore for attraction of the deposits, they should bring different attractive programmed, facilities, technology etc. like ATM, VISA card, attractive schemes, 365 days banking services, prompt services, advertisements etc.
12. Shareholders are the owners of the banks. They should be satisfied. So, a responsibility of the banks is to maximize the owners' welfare. During the study period, it can be seen that LBL has been yielding lower and negative return on shareholders' equity or net worth than EBL. Thus, LBL should utilize the shareholders' equity more efficiently.
13. The banks should reduce its service time and cost through effective information technology for providing the modern service increase and service provide.
14. In the wake of growing competition in the field of banking business, the bank should formulate new strategies of serving of client oriented. The banks should strengthen and activate its marketing function, as it is an effective tool of reaching at and retaining customers. The procedures of the delivery of service should be simplified and to be convenient.
15. The banks not only focus on profit maximization but also focus on stability of transaction and profit position. This policy will help to increase return on shareholders equity.
16. The banks should decrease average interest rate through increasing base of customers.
17. The banks should make effective internal control system and strong internal working system. The banks should develop friendly and business relation will its all related parties. Like this relation will help to promote the business of the bank.
18. Profit is a key of success of any business. The any company cannot survive without the profit. Therefore they should keep in the mind for profit maximization. But for long term business bank also should consider about shareholder's wealth maximization and customers satisfaction. LBL is not

successful as EBL to earn net profit. LBL should invest its deposits in different portfolio management basically means of allocation of funds into different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk. So, portfolio condition of each bank should be made to maintain equilibrium in the portfolio condition as ear as possible keeping the statement in mind all eggs should not be kept in the same basket.

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