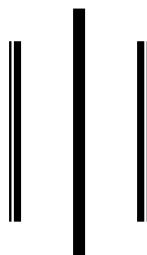


**A COMPARATIVE STUDY ON CREDIT
MANAGEMENT OF COMMERCIAL BANKS
(With Reference to NABIL and SCBNL)**

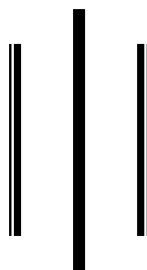


Submitted By:

Narendra Bhandari

Mahendra Multiple Campus

T.U. Regd. No.: 7-1-58-140-99



A

Thesis

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

Kirtipur

In Partial Fulfillment of the Requirements for the degree of

Master in Business Studies (M.B.S.)

Nepalgunj

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**A Comparative Study on Credit Management of Commercial Banks
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(With Reference to NABIL and SCBNL)**

and found the thesis to be the original work of the student written according to the prescribed format. We recommended this thesis to be accepted in partial fulfillment of the requirements for the degree of

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**A Comparative Study on Credit Management of Commercial Banks (With Reference to NABIL and SCBNL)**" submitted to Office of the Dean, faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirement for the Master of Business Studies (M.B.S.) under the supervision and guidance of Mr. Shrivasa Adhikari (Lecturer of Mahendra Multiple Campus Nepalgunj). Hence, the sole responsibility would be remained on me regarding this thesis for any positive or negative implication if emerged in future.

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ABBREVIATION USED

A.D.	:	Anno Dominee
ADB	:	Agriculture Development Bank
AGM	:	Annual General Meeting
ANOVA	:	Analysis of Variance
B.S.	:	Bikram Sambat
BOK	:	Bank of Kathmandu
CD	:	Credit Deposit
CEO	:	Chief Executive Officer
C/B	:	Credit Information Bureau
EBL	:	Everest Bank Limited
F/Y	:	Fiscal Year
F/S	:	Financial Institutions
IFRS	:	International Financial Reporting Standards
ISA	:	International Standards on Auditing
JVBs	:	Joint Venture Banks
LLP	:	Loan Loss Provision
Ltd.	:	Limited
NABIL	:	Nepal Arab Bank Limited
NBBL	:	Nepal Bangladesh Bank Limited
NBL	:	Nepal Bank Limited
NCCB	:	Nepal Credit and Commerce Bank
NGBL	:	Nepal Grindlays Bank Limited
NIBL	:	Nepal Investment Bank Limited
NICB	:	Nepal Indosuez Bank Limited
NIDC	:	Nepal Industrial Development Bank Limited
NIDC	:	Nepal Industrial Development Corporation
NPA	:	Non Performing Assets
NPL	:	Non Performing Loan
NRB	:	Nepal Rastra Bank
RBB	:	Rastriya Banijaya Bank
SBI	:	State Bank of India
SCBL	:	Standard Chartered Bank Limited
SPSS	:	Statistical Package of Social Science
WTO	:	World Trade Organization

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least development countries in the world. It is basically an agricultural, mountainous and landlocked kingdom surrounding by two large, fast developing nations, China and India. About 80% of the total population is engaged on subsistence farming. Despite its large share in labor market, it paradoxically, contributes 40% of the total GDP. As most of the labor forces are unemployed it is necessary to transform the huge labor force into industrialization sector. The economic development of Nepal is still in initial stage. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade & transit policy.

Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. Especially after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principle and state policies. This liberalization has helped in establishing many companies, banks, finance companies and manufacturing industries. Thus these establishments help the country for its development.

The growth of banking is not so long. In comparison with other developing or developed country, the institutional development in banking system of Nepal is far behind. Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Mandev the coin “Manak” and “Gunak” during the reign of the king Gunakamdev were in use. After the unification of Nepal. Prithvi Narayan Shaha, the great king had used

coin “Mohar” in his name. An institution called “Taksar” was established in 1989 and it started to issue the coin scientifically. During the reign of Ranodip Singh an office named “Tejarat” was established in Kathmandu in 1993 B.S. It used to provide loans to the government officials and the people against deposit of gold and silver. It had also extended its branches outside the Kathmandu valley for providing loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks.(Bhandari, D.R., 2004: 6-9)

After the establishment of Nepal Bank limited on 30th Kartik, 1994 B.S., modern banking system started in Nepal. Under the Nepal Rastra Bank Act 2012, Nepal Rastra Bank was established on 14th Baisakh, 2013 in Nepal. Rastriya Banijya Bank was established in government sector in 2022 and Agricultural Development Bank on 7th Magh, 2024. Nepal Arab Bank Limited is the first joint venture bank established in 2041 under the Commercial Bank Act 2031 and Companies Act 2021. Now there are 32 commercial banks in Nepal that include 2 local commercial banks. There are 87 development banks. Then, in the chain, financial system covers 79 finance companies, 21 micro credit development banks, 47 NGO’s licensed to perform limited banking functions under the supervision of NRB.

The credit policy cannot be sound unless it is based on a clear knowledge of the cost of credit. This is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge and by the interaction with the rest of the pricing mix.

Table 1.1: Growth of Financial Institutions in Nepal

Types of Financial Institutions	Mid -July											
	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012
Commercial Banks	3	5	10	13	17	18	20	25	26	27	31	32
Development Banks	2	2	3	7	26	28	38	58	63	79	87	88
Finance Companies			21	45	60	70	74	78	77	79	79	69
Micro-finance Development Banks			4	7	11	11	12	12	15	18	21	24
Saving & Credit Co-operatives Limited Banking Activities)			6	19	20	19	17	16	16	15	16	16
NGOs (Financial Intermediaries)				7	47	47	47	46	45	45	38	36
Total	5	7	44	98	181	193	208	235	242	263	272	265

Source: Banking and Financial Statistics--No 57 July 2012

as per the list of Nepal Rastra Bank.

1.2 Meaning of Commercial Bank

Commercial Banks are those banks, which perform all kinds of banking function as accepting deposits, advancing credits, credits creation and agency functions etc. They provide short-term credit, medium-term credits and long-term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as they are considered as the main source of finance.

Without the development of sound commercial banking, underdeveloped countries cannot hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital

equipment will not be possible without the existence of banks to provide the necessary capital. Industrial development will be impossible without the existence of markets of the goods produced. On the other hand, the services of the commercial banks will help to extend the market. The commercial banks play an important role as follows:

- a. Help in business expansion
- b. Encouragement for the right type of industries
- c. Necessary for trade and industry
- d. Transfer of surplus funds to needy regions

1.3 Brief History of the Evolution of Banking in Nepal

The invention of money was a milestone in the history of economy and developing the banking as a habit people. It has made economic and business activity more precise and efficient. This gave the emergence of non-institutional banking activities. Merchants, Moneylenders and Goldsmith were the leader of such unorganized economic and financial transactions. Thus, the Merchants, Moneylender and Goldsmith were the ancestors of modern bankers. During the early periods although the banking business was mostly done by private individuals, many countries established public banks either for the purpose of facilitating commerce or to serve the government. The Bank of Venice established in 1157 A.D., is supposed to be the most ancient bank. Originally, it was not a bank in modern sense being simply an office for the transfer of public the public debt.

During 1401, a public bank was established in Barcelona. It used to exchange money, receive deposits and discount bill on exchange, both for the citizen and foreigners. During 1407, The Bank of Geneva was established. In 1609, The Bank of Amsterdam was established. It was established to meet the needs of merchants of the city. The bank also adopted a plan by which depositors receive a kind of certificate entitling

them to withdraw his deposit within six months. The most of the European banks now in existence were found on the model of the Bank of Amsterdam.

The evolution of the original banking system in Nepal has a more recent history than in other countries of the world. Before the establishment of “Tejarath Addha” during the period of the premier of Ranoddip Singh, the unorganized sector i.e; Moneylenders, Goldsmiths, Landlords have their universal domination on the financial matter. They used to charge very high interest rates. The Addha was initiated to provide credit at a cheap rate against gold and silver. The area of its functioning was limited to Kathmandu valley and some urban areas of the Terai. “Tejarath Addha” may be regarded as the father of the modern banking institutions and for a long time it rendered a good service to government servants as well as to general public by mobilizing scattered saving in the country and provide credit to the people at a cheaper rates.

The establishment of banking institutions depends upon the level of economic activities and monetary transactions. As a result of growing banking and business activities within the nation and the institutional progress in the neighboring countries, had forced Nepal to think of a new establishment of banking institutions. Consequently, Nepal Bank Limited was established in 1937 under the Nepal Bank Act 1936, having elementary function of a commercial bank. Later, in 1956, the first central bank, named as the “Nepal Rastra Bank” was set up under the Nepal Rastra Bank Act.1955, with and objective of supervising, protecting and directing functions of commercial banking activities. Another commercial bank fully owned by the government, named as the “Rastriya Banijya Bank” was establishes in 1966 A.D. to spread banking services to both the rural and urban areas. The subsequent tendency toward liberalization and need of revolutionary change in the financial sector allows the foreign banks to enter into the economy as “Joint Venture”. This entry of

foreign bank was expected to develop the banking with pace of change and to attract the foreign investment and technology. The establishment of Nabil Bank Limited in the name of Nepal Arab Bank Limited in 1984 A.D. under the company act 1984 was stride in the history of modern banking in Nepal. This was the first joint venture commercial bank established in collaboration with Emirates Bank International (Dubai). Following this, in 2042 B.S. Nepal Indo-Suez Bank Limited (name has been changed to Nepal Investment Bank Ltd.), in 2043 B.S. Nepal Grindlays Bank Limited (name has been changed to Standard Chartered Bank Ltd.), in 2049 B.S. Himalayan Bank Limited and in 2050 Nepal Bangladesh Bank Limited were established. Now there are more than a dozen commercial banks performing their operation.

This way, Nepalese banking has stepped a great stride in its development. However, Nepalese banking has not been succeeded in bringing change in the economy in society and in people. The large portion of national economy is still behind the touch of present banking system. The unorganized moneylender has been playing a monopoly role in granting the loan to public of remote economy and this monopoly results in excessively higher interest rate than that of institutional banker. Thus, the moneylenders are still exploiting the public of rural sector in the absence of easy access to banking activities. Increasing the number of financial institutions has not proportionately increased the total banking behavior of people. This is because most of the financial institutions are situated in the urban area and rural economy has not been touched by this change in financial sector. Hence, in conclusion it can be summarized that the technical and quantitative development of the financial sector is found satisfactory but its qualitative impact on overall economy cannot be considered utmost.

NRB is an apex institution in money and capital market in Nepal. It works as a central bank of the country. Banks and other financial

institutions are supervised, directed, regulated and controlled by NRB. Following is the list of the licensed Commercial Bank as on Mid- July 2012.

Table 1.2: List of Class A Licensed Commercial Banks (Mid-July 2012)

Names	Operation Date (B.S.)	Head Office
1. Nepal Bank Limited	1994/7/30	Dharmapath, Ktm.
2. Rastriya Banijya Bank	2022/10/10	Singhdarbarplaza, Ktm
3. NABIL Bank Limited	2041/3/29	Kantipath, Kathmandu
4. Nepal Investment Bank Ltd.	2042/11/26	Darbar Marg, Ktm.
5. Standard Chartered Bank Nepal Ltd.	2043/10/16	Naya Baneshwor, Ktm
6. Himalayan Bank Limited	2039/10/5	Thamel, Kathmandu
7. Nepal SBI Bank Limited	2050/3/23	Hattisar, Kathmandu
8. Nepal Bangladesh Bank Limited	2050/2/23	Naya Baneshwor, Ktm
9. Everest Bank Limited	2051/7/1	Lazimpat, Kathmandu
10. Bank of Kathmandu Limited	2051/11/28	Kamaladi, Ktm
11. Nepal Credit & Commerce Bank Ltd.	2053/6/28	Siddharthenagar, Rupandehi
12. Lumbini Bank Limited	2055/4/1	Narayanghat, Chitawan
13. Nepal Industrial & Commercial Bank Ltd.	2055/4/5	Biratnagar, Morang
14. Machhapuchhre Bank Limited	2057/6/17	PrithiviChowke, Pokhara
15. Kumari Bank Limited	2057/12/21	Putalisadak, Ktm
16. Laxmi Bank Limited	2058/12/21	Adarshanagar, Birgunj
17. Siddhartha Bank Limited	2059/9/9	Kamaladi, Ktm.
18. Agricultural Development Bank Ltd.	2024/11/7	Ramshahapath, Ktm
19. Global Bank Limited	2063/09/18	Birgunj, Parsa
20. Citizens Bank International Ltd.	2064/1/7	Kamaladi Ktm
21. Prime Commercial Bank Ltd.	2064/6/7	Nayasadak ktm
22. Bank of Asia Nepal Ltd.	2064/6/25	Tripuresor Ktm
23 Sunrise Bank Ltd.	2064/6/25	Gauridhara Ktm
24 Grand Bank Nepal Ltd.	2065/2/12	Kamaladi ktm
25. NMB Bank Ltd.	2065/2/20	Babarmahal Ktm

26. KIST Bank Ltd.	2066/1/24	Anamnagar Ktm
27. Janata Bank Nepal Limited 28.Mega Bank Nepal Ltd.	2067/1/15	Nayabaneshor Ktm
28.Mega Bank Nepal Ltd.	2067/6/1	Kantipath Ktm
29.Commerz& Trust Bank Nepal Ltd.	2067/6/4	Kamaladi Ktm
30.Civil Bank Ltd	2067/8/29	Kamaladi Ktm
31.Century Commercial Bank Ltd	2067	Putalisadak Ktm
32. Sanima Bank Ltd	2068	Naghpokhari Ktm

Source: Banking and Financial Statistics-48, a journal of Bank & Financial Institutions Regulation Department, NRB, Mid-July 2012

1.4 Credit Management

Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of the investment; the most of the investment activities based on credit; it is the main factor for creating profitability; it is the main source of creating profitability; it determines the profitability. It affects the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer status. Similarly, it provides to trader and industry, the government will get tax from them and help to increase national economy. It is the security against depositors. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Management is the system, which helps to complete the every job effectively. Credit management is also the system, which helps to manage credit effectively. In other words, credit management refers management

of credit exposures arising from loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

Credit management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and inter-bank explores. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loan are the largest and most obvious sources of credit risk, however, other sources of credit risk exist through out the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlement of transactions.

The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit and methods of credit analysis.

1.5 Introduction of Sample Organization under study

Nabil Bank Limited (NABIL)

Nabil Bank Limited was incorporated in collaboration with Emirates Bank International (Dubai) in 1984 in name of Nepal Arab Bank Limited. Nabil Bank Ltd. is the first joint venture bank in Nepal, established in

1984 A.D. under the company act. Dubai Bank Ltd. was the initial foreign joint venture partner with 50% equity investment. The shares owned by DBL were transferred to Emirates Bank International Ltd.(EBIL), Dubai. Later on EBIL sold its entire holding to National Bank Ltd. Bangladesh (NBLB). Nabil bank limited had the official name Nepal Arab Bank Ltd. till 31st December, 2001. Hence 50% equity share of Nabil Bank Ltd. are held by NBLB and out of another 50%, financial institutions has taken 20% and remaining 30% were issued to general public of Nepal. At present 50 branches are operated in different parts of the country.

Share Subscription and Capital Structure of Nabil

<u>Subscription</u>	<u>% Holding</u>
NB International	50.00%
NIDC	10.00%
Rastriya Beema Sansthan	9.66%
Nepal Stock Exchange	0.34%
Nepalese Public Shareholder	30.00%
Total	100.00%

<u>Share Structure</u>	<u>NRs.</u>
Authorized Capital	2,10,00,00,000.00
Issued Capital	20,29,769,400.00
Paid up Capital	20,29,769,400.00

Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 (2043B.S.) as Nepal grind kays bank in collaboration with Grindlands bank London. After Standard Chartered group acquire worldwide operation of Grindlands, it change its name on July 16th 2001. The bank is an integral part of Standard chartered group having an

ownership of 75% and the balance owned by the Nepalese Public. The Bank is the largest international bank currently operating in Nepal . This bank is second foreigner venture bank under the company act 1964, the head office of Standard Chartered bank is situated at New Baneshwor Kathmandu.

With 19 points of representation 23 ATM and more than 425 local staffs , Standard Chartered Bank Nepal listed is in a position to served its customers through extensive domestic network. In addition the global network of Standard Chartered group gives the bank a unique opportunity to provide truly international banking services in Nepal. Standard Chartered, Nepal limited offers a full range of banking products and services in whole sale and customers banking. The bank has been the pioneer in introducing customers focused product and services and aspires to continue to be a lender in introducing new products delivering superior services along with Nepal. The bank has its operational in a 70 countries including Nepal. It is considered best international and commercial Bank in the world. The main headquarters of this bank in England . The bank has a history of 150 years. The bank employs almost 87000 people representing over 115 nationalities, worldwide including trying to increase its branches in other countries around the world slowly And gradually.

Share Subscription and Capital Structure of SCBNL

<u>Subscription</u>	<u>% Holding</u>
Standard Chartered Grindlays Banks Ltd.	50.00%
Nepal Bank Ltd.	35.00%
Nepalese Public Shareholder	15.00%
Total	100.00%

Share Structure

NRs.

Authorized Capital	2,000,000,000.00
Issued Capital	1,610,168,000.00
Paid up Capital	1,610,168,000.00

1.6 Statement of the Problem

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

There is no debate that high profitable or successful organization can easily fulfill the need of the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Thus, the creditability position is the major strategy of every commercial bank.

Credit is a very important tool of commercial banks. It is regarded as the heart of every commercial bank. But credit management is not sound in banking sector. Thus, credit management is considered as the major issue in Nepalese commercial banking sector.

Credit management concept has appeared as a major research gap in Nepalese commercial banking sector. There is lack of such scientific and empirical research that could identify the issues of credit management in Nepalese commercial banks. In this regard, the performance of Nepalese commercial banks is to be analyzed in terms of their credit. Some research questions regarding to the credit practices, credit efficiencies, liquidity position, industrial environment, management quality, organization climate are considered as a clear evident in present situation.

Thus, the specific research questions regarding credit management in Nepalese commercial banking sector are identified as follows:-

1. Are the credit practices adopted by commercial bank in good position ?
2. What is the credit efficiency of the Nepalese commercial banks?
3. Is the quality of management good in commercial banks?
4. Is there any relationship between credit position and profitability situation?
5. How does the commercial bank manage better creditability position?

1.7 Objectives of the study

Basic objective of the present study is to explore the credit efficiency or inefficiency and its management in commercial banks. It is also aimed to find out the relationship between credit practices and profitability situation. Moreover, the study has specified the following objective.

1. To assess credit practice of selected commercial banks.
2. To explore the credit efficiency of selected commercial banks.
3. To explore the relationship with loan and advances, non-performing loan and net profit of selected commercial banks.
4. To examine the relative financial performance of SCBNL and NABIL bank.

1.8 Significance of the Study

Commercial banking sector is considered as successful area in financial sector of Nepal. In today's context, commercial banks have to be more organic and sincere to establish better creditability position due to vast competition among them. The present concept deals with how commercial banks managed credit position and how do it affect to the organizational effectiveness.

Present study is very important from the point of view of bank management. The main strategy of every commercial bank is to establish the better creditability position, which has directly impacted the financial performance of an organization. Besides, it helps to build positive attitude and perception on customer that helps to make the organizational success in terms of better transaction, better turnover and better profitability most of the earlier researches were focused on financial performance of bank but few researches were focused on creditability position of bank. From view point of bank credit is the most important in and sincere area. Thus the present study is very important in viewing an organizational performance or position in terms of creditability.

1.9 Limitation of the Study

The scope of the study is limited only in commercial banks because of time and resource constraints. Most of the analyses are descriptive in present study. This study is very basic attempt to address the research issues; therefore, it might not be able to show casual linkage or effect. Instrument used for data collection is not standardized questionnaire.

Present study could not address all the aspects of credit position. The study is based on employees; self repeated response about their perception on primary analysis. It is, therefore, the response collected from the employees might not be valid measure.

Secondary analysis is based on published financial data on collected from stock exchange center and share department of the concerned banks. The secondary analysis covers time span of current five years. Various financial tools are used to know financial condition of the bank. However, the study tries to find out credit position and its importance in selected commercial banks.

1.10 Organization Structure of the Study

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

Chapter-I Introduction

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

Chapter-II Review of Literature

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

Chapter-III Research Methodology

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

Chapter-IV Presentation and Analysis of Data

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

Chapter-V Summary, Conclusion and Recommendation

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

CHAPTER - II

REVIEW OF LITERATURE

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of the 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.

It is divided into two headings:

- Conceptual Review
- Review of different Studies

2.1 CONCEPTUAL REVIEW

“Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker’s business is then to taken the debt of other people to offer his own in exchange and thereby to create money. He may be a dealer in debts, but in distress is only the observe of wealth and it would be equally permissible to describe the banker as a liquefies of wealth” (Crowther, 2011: 81).

A frequently neglected but in important role is the provision of credit. Credit policy is sometimes, omitted entirely from an analysis of marketing mix by academics. This is despite empirical findings that although the credit package is unlikely to be the primary factor in determining overall patronage success. It may serve to clinch a contract when suppliers’ offerings are otherwise equally attractive.

The credit policy cannot be sound unless it is based on clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. While a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

A commercial bank is a business organization that receives and holds deposits of fund from others makes loans or extends credits and transfers funds by written order of deposits.

Commercial bank is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money and substitute for money such as cheques or bill of exchange. He also provides a variety of financial services.

Commercial bank Act 2031 B.S. of Nepal has defined that “A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank mean for cooperative, agriculture, industries for such specific purpose.”

But, recently, the Bank and Financial Institutions Ordinance, 2060 has merged the five banking Acts including the commercial bank Act, 2031, which defines the bank with respect to their transactions. This Act is trying to categorize the banking institutions in two ways based on their

transactions. According to this Act, “Bank is the institution which performs its transactions under the section 47 of this Act.”

This Act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills of exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers, provided that they are paid for their services.

Financial activities are necessary for the economic development of the country and commercial banking in this context is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the commercial bank and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institutions, they must mobilize (i.e; investment in different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested, these information include as financial background, nature of business as well as its ability to pay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies is always taken in mind that “the greater the credit created by

the bank, the higher will be the profitability.” A sound lending and investment policy is not only prerequisite for bank’s profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and there by, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the force of economic growth.

Commercial banks as financial institutions perform a number of internal functions. Among them, providing credit is considered as most important one. “Commercial banks brings into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investment.”

2.1.1 Financial Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz. owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “The indicated quotient of two mathematical expressions” and “as the relationship between two things” (Adhikari, “Evaluating the financial performance of NBL”, p.40).

Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures.

Webster's new collegiate dictionary defines a ratio as "The indicated quotient of two mathematical expression and as the relationship between or more things." In financial analysis a ratio is used as benchmark for evaluating the financial position and performance of a firm. ("websters, New Collegiate Dictionary" 8th Edition Supering Field Mass.)

Standard of Comparison

The ratio analysis involves comparison for a useful interpretation of financial statements. A single ratio in itself doesn't indicate favorable or unfavorable condition. It should be compared with some standard. Standard of comparison may consist of:

- Past ratios – ratio calculated from the past financial statement of the same firm.
- Projected ratio – ratio developed using the projected or financial statement of the same firm.
- Competitor's ratio – ratio of some selected firms, especially the most progressive and successful competitor, at the same point in time.
- Industry ratio – ratios of the industry to which the firm belongs.

Types of ratios

Several ratios calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. Long-term creditors or the other are more interested in the long-term solvency and profitability of the firm. Similarly owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of firm's performance. They have to protect the interests of all parties and see that the firm grows profitability. In view of the requirement of various ratios they may classify into following groups.

Credit Practices Ratio

- **Total Loan to total deposit ratio**

The main source of bank's lending depends on its deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposits on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits.

- **Loan and advances to total assets ratio**

Loan and advance is the major part of total assets for the bank. This ratio indicates the volume of loans and advance out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

- **Loan and advances to current assets**

Loan and advances is the major component in total assets, which indicates the ability of banks to canalize its deposits in the form of loan and advances to earn high return. If sufficient loan and advances cannot be granted it should be pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

- **Interest income to loan and advances**

Interest income to loan and advances is one of the major sources of income for a commercial bank. The high volume of interest income is indicator of good performance of lending activities.

- **Loan loss provision to total loan and advances ratio**

It describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loan and advances into the category of pass, standard, doubtful and loss and to make the provision of 1, 25, 50 and 100 percent respectively. NRB has classified the pass and substandard loan as performing loans and other two types of loans non-performing loans. The provision created against the pass and substandard loan is called the general loan loss provision and provision created against the doubtful and loss loan is called specific loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But Its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits.

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

- **Non-performing loan to total loan and advances ratio**

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But our concerned banks have not provided data on non-performing loan in Balance Sheet and Profit & Loss A/C. To measure the volume of non-performing loan to total loan and advances the main indicator of NABIL and SCBNL has been used. This ratio shows the percentage of non-recovery loans in total loans and advances.

Credit Efficiency Ratio

- **Interest expenses to total deposit ratio**

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has moved the profitability of generating loans and advances and vice versa.

- **Total loan to liabilities ratio**

Banks create credit through loans and advances and multiply their assets much more times than their liability permits. This ratio measures the ability of a bank to multiply its liability into assets. The higher ratio of total assets to total liability ratio is favorable as it increases overall capacity of the organization.

- **Interest expenses to total expenses ratio**

- This ratio measures the percentage of interest paid against total
vice versa. The ratio indicates the costly sources of funds.

- **Non-interest bearing deposit to total deposit ratio**

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits were managed affectively in the total volume of expenses. The banks need to manage the portfolio of the deposits i.e; it has to maintain certain proportion between interest bearing deposits and non-interest bearing deposits by administering the interest rate structure. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix deposit liability.

- **Interest income to total income ratio**

Income is one of the most important factors of each and every organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measures the bank's performance on other fee based activities too. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending and investment and high contribution by other fee based activities in total income.

- **Interest from loan, advances and overdraft to total interest income ratio**

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence this ratio measures how efficiently the banks have employed their fund and loan & advances and overdraft.

- **Interest suspense to total interest income from loan & advances ratio**

Interest suspense means the interest due but not collected. NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in liability side of Balance Sheet under the heading “other liability”. This ratio, interest suspense to total interest income from loan & advances, measures the composition of due but uncollected interest in the total interest income from loans & advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loan and advances.

2.1.2 Factors Affecting Credit Policy

Generally, the following factors are to be considered to make effective loan management. It is also called the factors of credit policy. It helps to get effective credit worthiness.

- **Industry environment**

It determines the nature of the industry structure, its attractiveness and the company’s position within the industry, structural weakness of a company, which is disadvantaged, theaters first way out and security value.

- **Financial Condition**

It determines the borrower’s capacity to repay through cash flow as the “First way-out”. The strength of “second way-out” i.e; through collateral liquidation is also assessed. Further the possibility to fall back on income of sister concerns in case of financial crunch of the company condition theaters repayment capacity.

- **Management Quality**

It determines the integrity, competence and nature of alliances of borrower's management team. Weakness in replacements needs to be evaluated.

- **Technical strength**

It determines the strength and quality of the technical support required for sustainable operation of the company in terms of manpower and technology used. Appropriate technical competencies of the manpower, the viability of the technology uses, availability of after sales service, cost of maintenance and replacement need to be evaluated.

- **Security Realization**

It determines the control over various securities obtained by bank to secure the loan provided excitability of the security documents and present value of the properties mortgaged with the bank. Weakness in security threatens the bank's second way out.

2.2 Review of Related Studies

Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field. The effort has been made in this present section to examine and review some related articles published in different economic journals, bulletins, magazines and newspapers.

Nepal Rastra Bank has issued directives to all commercial banks and financial institutions ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of 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 or clear 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 mission the loans among others, the creditor can be blacklisted ("Central bank tightens blacklisting procedure", p. 9).

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, bank start 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, 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, 2012: 15).

The investor or whether banks, financial institutions, individuals, private government sector, most not took the proposal by making decision without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as well as through investment decisions to make its macro and micro level viability effective (Lamichhane, 2012:17).

The current volume of the total banking deposits is 919.71 billion . Total banking deposit increased by 10% then the previous years. The current

volume of the total banking deposits is over 2850-folds higher than what used to be some 46 years ago whereas the Gross Domestic Product (GDP) of the country during the same period price, increased just by 69-folds. Central bank static's shows that the total banking deposit in 1965 used to be just Rs. 129.8 million, but swelled to Rs. 919.17 billion by mid – Jan 2011. Similarly, the total loan and advances of the entire banking system in 1960 stood at Rs. 107 million, which was over 82 percent of them total deposit. However, total loans and advances went up to Rs.719.4 billion, comparing almost 83 percent of the total deposit, during the period. As a result both deposit and lending of the banking system witnessed and increase of over 6-folds and 5-folds to Rs. 21 million respectively by 1990s. As a result of economic expansion and private sector development, the nineties witnessed a quantum jump in both deposit mobilization and lending. The deposit of banking system, by the end of 2010, touched Rs. 654.5 billion, which is 7-folds more than the deposit of the nineties. Loans and advances from the banking system touched Rs. 418 million by June-end 2009 and the amount was double than what it used to be in 1985 (The Kathmandu Post, (2009), “Central bank tightens blacklisting procedures”, p. 9).

In the post report titled “Loan loss provision rises Notably” published in the Kathmandu Post, the reporter had made an endeavor to highlight some facts and figures regarding loan loss provision of commercial banks. “The banking sector is witnessing a huge surge in loan loss provisioning reserve lately. The increment is primarily a result of a directive issued by Nepal Rastra Bank (NRB) in 2011 that introduced stringent loan provisioning criteria for commercial banks. As per data recently released by the central bank, the total loan loss provision in the country's banking sector increased from around Rs.9.73 billion in mid-April 2009 to Rs.16.18 billion mid-April 2011. The increment is over 55 percent. As per the latest NRB figures, a remarkable surge has seen in

loan provision of Nepal Bank Ltd.(NBL). Against the provision of Rs. 3.7 million in mid-April 2010, the loan provision amount surged to whopping Rs. 8.33 billion in a year.

The reporter further states that apart from the two technically insolvent government invested banks, loan provision of other joint venture private banks has also risen significantly and the notable increments seen in the loan loss provisioning amounts is due to the eight-point prudential directives that the central bank issued to all commercial banks.

The reporter concludes, “The directives laid down stringent guidelines relating to loan loss provisioning to ensure a good health of the overall banking system. The directives requires loans to be provisioned to the extend of cent percent if payment is defaulted for one year. Likewise, the directives require loans to be provisioned to the extent of 25 percent if payment is defaulted for over three months and 50 percent if the period of default extends beyond six months. The earlier directives required progressive provisioning of loans, but allowed maximum of three years, unlike the present system of just year, for loans to be provisioned to the extent of cent percent.

Mr. Binam Ghimire (2011) in his 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 problems or crisis in many Nepali banks differ in many respects, what is common area most of the banks is the increased size of non-performing assets (NPAs). To resolve the problem of the losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years” (Ghimire, 1999: 47-49).

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 we also must remember that the old system remained in force from 2006 to 2011, 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 12, 2010 is 5.2% but as April 13, 2011, it has jumped to 18.39. If only private banks are considered, it is 2.12% of April 2010 whereas it is 6.30% as of April 13, 2011. The total increment in LPP is Rs. 13,328.11 million and the total increment in credit is only Rs. 9,976.70. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns.

In the conclusion 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 2010. To adopt 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 options of bankers for a change in regulation/policy taking place in the future.”

In the article of Mr. Dependra Bdr. Chhetri (2012), titled “Non-performing Assets: A need for Rationalization”, has attempted to provide connotation of the term NPA and its potential source, 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 principle 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 assets. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to remain loan performing” (Chhetri, 2012: 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. Loan thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPAs 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 none obliged by the loan. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. “As per Mr. 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 the factors leading to accumulated of NPAs.

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPA but extend to extra amount that required for provisioning depends upon the level of NPAs and their quality. As per his view, rising level of NPAs create a psyche of worse environment especially in 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 NPAs can be reduced.

Finally, he concluded that financial institutions are beset with the burden of mounting level of NPAs in developing countries. “Such assets debar income flow of the financial institution while claiming additional resources in the form of provisioning thereby hindering gainful investment. Rising level of NPAs 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.”

This article of Patrick F. Reidy (2012) provides an overview of the credit portfolio management function, structural alternatives, the skill necessary for its effective implementation, and a final word on training and compensation. The focus is on corporate credit portfolios, as these often present the largest concentration challenges through they can be easily modified.

Modern portfolio management of bank assets has fundamentally changed the requirements for individuals using this technique: their backgrounds, their training, and their skills in using available resources. While traditional credit training remains necessary, today’s portfolio manager arguments this background with knowledge of early-warning systems, alternative structures to better set risk/return parameters, and more.

Traditional training focused on the individual loan. Traditional credit training focused on the analysis of a firm’s management, operations, and financial structure as the basis for determining a borrower’s credit worthiness; now training program incorporate not only these techniques, but also that elusive element called a bank’s credit culture.

In essence, a bank's credit culture was a series of written and unwritten rules about which types of customers, industries and credit profiles were acceptable. This culture ultimately dictated the structure and composition of the bank's total portfolio.

Protection measures against portfolio losses focused on loan loss reserves based on moving-average formulas. Concentration risk was to be avoided, but there were always those special customers for whom exceptions could be made. If the formulas were correct, then overall expected losses in the portfolio would be covered by reserves. But those formulas and expectations were not always so accommodative. As a result, certain concentrations would invariably lead to extraordinary, or unexpected, losses that were charged to income in the year of their incurrence.

Portfolio management looks at the impact of loans individually, collectively, and comparatively. Modern portfolio management techniques have supplemented these unwritten rules with portfolio analysis and policies that establish limits on exposure by country, by obligor, by industry, and so on. These limits are derived from a specific focus on the technical aspects of this asset class, a segmentation of the credit product and an analysis of the effect of combining credits into portfolios. Credit portfolios can now be evaluated on the basis of fundamental as well as quantitative portfolio analysis. (This is now being further institutionalized in terms of required capital as defined in the updated Basel Capital Accords.)

Functionally, Credit is now segmented into four parts.

1. Origination and determination of the required level of customer commitment. The sales/relationship function in credit portfolio management is often separate from the analysis/underwriting function. This allows for an efficient use of resources for client

development as well as analytical discipline and consistency. The relationship manager determines the commitment level that will maximize relationship income.

2. Fundamental analysis of the individual credit. The underwriting function in credit portfolio management is charged with the more traditional responsibility of individual credit analysis and monitoring. But this function is being driven more and more toward a specialization based on industry, so that the full benefits of analyzing alternative borrowers within an industry can be achieved. The more specialized structure enables CPM to provide key value-added analysis to relationship and product managers in complex customer support for example, merger and acquisition analysis. It also provides for a centralized, efficient use of analytical resources.
3. Portfolio monitoring. Many more tools and information resources exist today than were available in the past for portfolio monitoring. For example;
 - Institutions now set various portfolio limits to shape the structure of the desired portfolio.
 - Early-warning processes to measure portfolio deterioration have become an integral part of credit risk management.
 - For large corporate portfolios, Merton-based models relate information inherent in the equity markets to a firm's debt levels.
 - Bond spreads and credit derivative premiums provide a forward looking credit view from the market that can be compared with a bank's own credit view.

4. The role of credit approval authorities. The credit approval function determines the desired exposure level for the institution's books within the context of pre-established limits by obligor and industry. As a result, credit approval manages expected loss and allocates capital to desirable transactions. CPM, as separate from credit approval, optimizes the use of capital through alterations to the portfolio's profile.

Alternative Structure for Credit Portfolio Management (CPM)

The establishment of credit portfolio management is typically an evolutionary process for each banking institution. At start-up, CPM usually takes a defensive role eliminating concentration risk and culling under performing relationships from the risk/return point of view. As CPM develops, optimization of the selected portfolio is added to its role, adjusting exposure to take into account the best risk/return structure. The adjustments often use the credit derivatives markets in order to disturb the primary relationship with the customer. In its advanced form, CPM adds the bank's credit view to its role, with the intention of improving the portfolio's relative value performance among different asset classes.

The state of CPM along this development curve often dictates whether it is located inside the wall (subject to the possibility of receiving non public information) or outside the wall (not subject to non public information and freer to adjust positions).

Functions of Credit Portfolio Management

CPM achieves two principle goals:

- i. To match required hold levels with desired hold levels
- ii. To optimize the portfolio of assets ultimately held by the bank.

To do this effectively, CPM must perform all or some of the following key functions, depending on the state of the developmental curve discussed above:

- Serve as an analytical and advisory group to the line and to the approval authorities, plus serve as an integral part of critical deal teams.
- Prepare the credit approval package and advocate the transaction to the credit approval authorities.
- Closely monitor obligor risks, returns, and concentrations.
- Evaluate, establish, and effectively use advanced modeling techniques to help determine the potential risk inherent in the portfolio and its assets correlations.
- Manage those same risks through the judicious use of loan sales and synthetic instrument such as credit default swaps and CDOs. (Reidy, RMA Journal, (2011) “Corporate credit portfolio management: changing skills requirements.”)

In an article published in New Business Age, Mr. Kamal Subedi (2012) titled “growth in Major Commercial Banks” has compared between the first six month of the fiscal year 2009-10 and 2010-11, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd. (NBL) and Rastriya Banijya Bank (RBB) (the government owned banks). There has been increase 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 on recovery of the huge Non Performing Assets (NPA). However, Mr. Subedi 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, 20 12: 47-48).

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 of 18.47% in CD ratio over the last year. Similarly, NABIL, Everest Bank Ltd. (EBL) and Nepal SBI Bank Ltd (SBI) have recorded growth rates of 6.28%, 11.83%, and 7.45% respectively in their CD ratio. However, this ratio of 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 (NCCB) were 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 principle. In case of Nepal Investment Bank (NIBL), growth in loan loss provision (which in fact decreased by 6.73%) was much less than the growth of the total credit (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% & 0%) and credit (increased by 3.70% and 26.078%), 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 it maintains. NABIL's reserve growth is very good i.e 14% retained earning and 67.86% on other reserves. Similarly, all other banks have except NCCB and BOK made noticeable increment in it. The major yardstick to measures 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 18.25% in profit as compared to the previous year. Similarly Standard Chartered

Bank (SCBNL), NABIL, HBL, NIB, NICB and NCCB have the growth percentage of 7.72%, 6.33%, 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 institution like Commercial Bank Act 2031, Finance Act etc 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 Ka category mention 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 theses changes, the customer will benefit due to the competition among these banks and financial institutions.

In an article published in *New Business Age* written by Sudir Khatri (2012), has analyzed the ordinance pros and cons, in general speaking termed as Umbrella Act. He has expressed his disagreement in the ordinance regarding the qualification of the Board of Director's composition. The qualification set is out of the total number of directors, two thirds have to be graduates in specified disciplines-management, commerce, economics, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background as the in the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) were engineers. He further writes that activities like project financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specific fields only. CEO of the "Ka" category qualification required is Master Degree in the chosen few subject and the term would be four year. The act however does not mention the renewal of the CEOs term. The Board or AGM of the institution should be decided the CEO's tenure. (Khatri, 2012: 18-20)

Similarly, he points out argument in the requirement of five years work experience. The performance of the public limited companies is so poor that the efficiency of the staff is questionable. In such situation how can one hire someone with the experience in public limited companies? As per the act, it is mandatory to appoint a professional director in the Board chosen from the list of professional experts entitled by NRB. Such director will not have voting right; it is questionable that can be contribute significantly towards the development of a bank or financial institution without the voting right?

For the existing banks and other financial institution a two-year period has been granted to apply for the license. Entirely new Memorandum of Association and Articles of Association have to be prepared and a special general meeting of shareholder has to be called. If any institution fails to obtain the license on the said period, there license will be seized. However, there is no clear information on whether the institutions can prepare Memorandum of Articles in their own format or are there any prescribed format available or will be made available by the central bank- Nepal Rastra Bank for this purpose.

This ordinance has given the full authority to NRB for monitoring, inspection, supervision etc. NRB is vested with the power to fix interest rates in lending and deposits and the act also states that NRB can also delegate this authority to the individual banks themselves. However, such delegated authority can be taken bank. This makes banking more risky; it indicate that NRB is interest to take control in fixation of interest rates as when required.

In an article published written by Mr. Atma Shrestha (2012) in 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. (Shrestha, 2012: 33-34)

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 lucrative and attractive it would be enter into 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 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 from 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 factor 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 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 and get easy access to capital.

The ordinance relating to banks and financial institutions has been promulgated that has been brought into existence effective from 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 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 existing time should be enacted? The ordinance, popularly called as Umbrella Act.

In an article "Comments on Umbrella Ordinance 2012" Mr. Tirtha Upadhyay, former president of ICAN has expressed clearly described the ordinance along with his views. The ordinance is comprehensive and prescribes in detail the provisions for licensing, incorporation, governance and merger and dissolution procedures for banks and

financial institutions. This is a significant improvement over the existing acts but apprehension is expressed about the discretionary power that the ordinance has vested on Nepal Rastra bank. (Upadhyay, “Comments on Umbrella Ordinance 2012”. P 16-17)

The ordinance is divided into 12 chapters and contains altogether 93 sections. The first chapter defines the various terms used in the ordinance but has conspicuously omitted to define “Security” and “Collateral” among some important terms. These words have been frequently used in relation to lending activity but in the absence of university acceptable definition the ongoing anomalies owing to the ambiguity are expected to continue though it has been clarified that the financial institutions henceforth can lend against personal or corporate guarantees.

Second chapter specifies the procedures for establishing a bank or financial institution and has brought transparency in licensing procedure. The authority has to either issue the license within 120 days of application or notify the reason of refusal within the said period. Further, a foreign bank’s presence in Nepal either through a joint venture or branch banking is legally mandated. This provision will probably meet the long outstanding demand of the donors and conforms to Nepal’s entry to WTO. Buying back of its share by a financial institution, a unique provision is legal slated by this ordinance, and that could be considered progressive. But it has failed to explain the objective of such provision and at the same time appears to be too restrictive to implement. The ordinance has failed to prescribe condition for enhancing the stake of joint venture partner, fresh issue of shares to strategic partner, issue under employees’ stock option plan and preferential issue that is vital from the investor’s perspective.

Chapter three deals with the constitution and board of directors and appointment of CEO. Henceforth, in addition to directors appointed by

the shareholders, meeting, the financial institutions (FIs) must have one independent director in its board appointed from amongst the names in a roster maintained by NRB. Also, the academic qualification of remaining directors has been prescribed that requires that two-third of all directors must possess required academic qualification and experience but it has failed to ensure that people requisite qualification are elected by the general meeting. Similarly, academic qualification for a position of CEO is also prescribed and his/her tenure is limited to four years. But the intention for limiting the tenure of such paid executive remains unexplained. It might prevent young and dynamic person from taking his leadership position. Further, the authority and responsibility specified are not commensurate to the position of a CEO. As the law does not guarantee vesting of executive authority on CEO, it may be played down at the hands of unscrupulous directors and might be inconsistent with the principle of divesting management from investor to professional managers.

Chapter four places restriction on using bank of financial institutions name or carrying out financial transactions by institutions other than those licensed by NRB as per the ordinance.

Chapter five deals with capital adequacy, reserve and provisioning for NPA's. But the more it has tried to be transparent, the more it has vested discretionary powers with NRB. To protect the interest of depositors, the prime concern of legislatures in drafting the law should be continued maintenance of adequate capital and such an important matter should not be left to the discretion of NRB. The lesson should be learnt from the past experience where NRB's leniency sent two largest banks technically bankrupt. In this regard, it may be pertinent to remind why the Basel Committee recommendation on capital adequacy (that is universally acceptable) is not being made mandatory obligation on the part of the promoters is not created to meet the capital gap within specified time. Such an obligation is vital for protecting the depositor's interest. As it has

been the cases with the two largest banks (i.e; Nepal Bank Ltd. and Rastriya Banijya Bank) and a few other private sector banks in Nepal, continued flouting with NPA's has eaten away not only their equity but the depositor's money as well.

Chapter six prescribes the financial transactions that banks and financial institutions are empowered to undertake. It has attempted to include all types of traditional financial transactions hitherto undertaken by a bank or financial institutions but has failed to visualize the requirement of a modern banking like debt securitization swap and hedge transactions and dealing in other financial derivatives. The finance company will be benefited with this ordinance as they are now authorized to accept interest free deposit.

Regulatory, inspection and supervision responsibility with regard to financial institutions continue to remain with NRB. The new provision has enlarged the scope of NRB's regulatory role. Banks set up with foreign shareholding will now be required to submit to NRB the inspection reports prepared by their headquarters. Severe penalty including suspension of board or taking over the management of financial institutions has been prescribed if the result of NRB inspection indicates non-compliance with its directives or if the financial institutions are found to be guilty of engaging in activities that are detrimental to the interest of the shareholders or the depositors.

The deregulated interest rate regime appears to be drifting away as the ordinance has empowered NRB to intervene in rate fixation but it does not specify the conditions that would oblige NRB to do so. Looking at the current rate of interest offered on deposit on financial institutions that has gone below the inflation rate. NRB intervention could bring relief to thousands of small depositors especially old, disabled and pensioners whose lifetime saving is at stake.

Loan disbursement and its recovery procedures are covered under chapter eight that re-establishes the NRB's authority to regulate lending and minimize the chances of loan going to an unscrupulous borrower or diversion of the funds. The ordinance has specially provided for the compulsory registration of all charges on assets pledged as collateral but the agency responsible for such registration (other than real estate) is not identified. The authority of financial institutions in loan recovery has been extended and it may now reach to other assets of the borrower in case the security for loan falls short or becomes inadequate. The hitherto requirement of disposal of non-banking assets within seven years has been done away with. It may result in accumulation of significant unproductive assets in F's balance sheet. The role of Loan Recovery Tribunal has been undermined and no role is envisaged for Asset Management Company that is in the offing.

The role of the auditor of financial institutions has been extended and it goes beyond the scope of expertise of accounting profession. Auditors shall require among others, to certify whether financial institutions have acted (or failed to act) to protect the interest of depositors or investor and whether the business of financial institutions has been conducted satisfactorily. Basis of such option is not outlined and accordingly it will serve to purpose other than becoming a ritual.

Chapter ten deals with merger that permits financial institutions only. This is a new provision but does not prescribe the circumstances when such merger will be permitted. The missing part on merger is the safeguard of interest of minority shareholders. It does not entitle shareholders opposed to the merger to ask for compulsory acquisition that is vital for promoting foreign investment.

Chapter eleven prescribes penalty for various offensive that could be both various offences that could be both civil and criminal. Chapter twelve has

laid down procedures for voluntary winding up of financial institutions, arbitration and miscellaneous administrative and operational procedures. The client confidentiality is guaranteed but with so many restrictive sub-clauses it is doubtful if the objective would ever be met. Similarly depositor's right is clearly protected by reiterating that there would be no other claimant on deposit kept with financial institutions other than depositor himself or his nominee but with such right. The state may interfere in one or other pretext defeating the intension of law and lessening the confidence in the banking system.

For the first time, the law has taken cognizance of international terrorism and NRB is empowered to suspend operation of account related to organization or individual associated with such activity. But it has omitted any anti-money laundering provision. Probably, a separate act is being envisaged to deal with such transaction.

In conclusion, it could be said that the ordinance is comprehensive and deals with significant aspect of operation of financial institutions. However, attempts should be made to limit NRB's discretionary power by farming transparent, prudent and unambiguous policies and regulations. Further work would be necessary to integrate the country's financial sector with international financial sector with international financial market and effort should be directed to encourage adoption of international bet practices like International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA). Bassel Committee Recommendation etc.

Raja Ram Khadka (1998) "A study on the Investment Policy of Nepal Arab Bank Ltd. in comparison to other joint venture banks of Nepal" has compared investment policy of NABIL with NGBL and NIBL. Mr. Khadka has found out that the liquidity position of NABIL is comparatively worse than that of Nepal Grindlays Bank Ltd. (NGBL) and

Nepal Indosuez Bank Ltd. (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. In case of profitability ratio he has concluded that of other joint venture banks (JVBs). NABIL is more successful in deposit utilization but fails to maintain high growth rate of profit in comparison with NGBL and NIBL.

He has recommended that NABIL bank should increase cash and bank balance to meet loan demand. NABIL's loan and advances to total deposits ratios are lower than that of other JVBs to overcome this situation, NABIL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loans and advances.

He has focused his study on the investment policy of NABIL bank and has taken NGBL and NIBL average ratios as banking average. Mr.

Khadka has recommended to adopt liberal lending policy however has not explained regarding liberal lending and invest more and more percentage amount of total deposits in loans and advances. 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 (Khadka, 2011).

Lila Prasad Ojha (2012) on "Lending Practices: A study on Nabil Bank Ltd, Standard Chartered Bank Nepal Ltd and Himalayan Bank Ltd." has found out that the measurement of lending strength in relative term has revealed that the total liability to total assets of SCBNL has the highest ratio. However, the performance of other two banks has not deviated far from the mean ratio of SCBNL and the combined average. SCBNL tendency to investment in government securities have resulted with the lowest ratio of loans and advances to total assets ratio. The steady and

high volume of loans and advances throughout the years has resulted Nabil ratio to be the highest. The ratio of loans and advances and investment to deposits ratio has measured the proportion of total deposits that is used to increase the income of the banks irrespective of the portfolios of its application. Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratio of other two banks. The combine ratio is highly deviated from the mean ratio of Nabil and SCBNL. This is the indicative of that in fund mobilizing activities Nabil is significantly better than SCBNL.

He has further concluded that the overall liquidity strength of SCBNL can be considered the best among the banks. However the liquidity risk arising from interest rate in SCBNL is the most likely. Since the market is highly sensitive toward the interest rate and SCBNL has generally been offering low interest rate as compare to other banks. The analysis of lending strength of HBL in loan and advances is the best. However loan and advances, investment to deposit ratio have upgraded the performance of Nabil. If HBL succeeded in collecting the less cheaper sources of fund infuture, the lending strength of HBL would push the performance of Nabil and SCBNL far behind in the coming future. Also the contribution made by HBL in the productive sector of economy is highly appreciable and the best among these three commercial banks. The highest growth rate, proportionately high volume of loans and advances and the best contribution in agriculture and priority sector and the high level of deposits mobilization of HBL has put this bank in the top position in the lending function as demand by national priority, national development. However the better activity ratio of SCBNL has proved this bank is the best in managing the lending portfolio according to the demand of profit oriented business. The high volume of lending activities and high volume of productive sector loan of Nabil has put this bank in the top position in absolute term.

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

He has used different tools like standard deviation, correlation, trend analysis and financial tools for the data analysis and presentation. In this study he has also taken sector wise loan priority, productive sector etc. The different sector wise loan classification are presented and analyzed. Only secondary data has been used for the study, the overview of the theoretical aspect of lending practices of the bank has not been analyzed. He has taken five years data from 2007 to 2012 for study of lending practices of Nabil, SCBNL and HBL. (Ojha, 2012)

Gautam (2012) "Lending Practices and Procedures of Nepal Bangladesh Bank Limited" has outlined his major findings as follows.

Not concentrating only in big cities and large groups he has suggested NB Bank to expand branches in rural areas. Banks should invest in productive

sector, develop the concept of micro financing and group financing make should maintain the balance in its loan portfolio and current requirement of the customers. Banks should give preference to the short term lending. Banks should provide the consortium loan for those projects under government guarantee and security thereby uplifting the economic condition of the country (Gautam, 2012).

Subi Joshi (2012) on “ Financial Analysis of NIBL” has found out that the analysis of the banks shows that the deposit have been increasing gradually during the study period i.e/58.; (2064/65 – 2068). However the rate of increase was comparatively low in the year 2010/11 than in the. Total loans and advances have been also increasing. The total investment of bank has been increasing over the years, which is mainly due to bank strategy of safe lending. As a result of increase in customer deposits and limited opportunities for prudent lending. As the loan and advances from the bank is increasing provision for loan loss has also been increasing. The bank has been holding adequate provision for losses over the years and the general loan loss provision was 4% in average of the total risk assets.

In her study, she has recommended that the bank should focus more on non-risky lending opportunities such as mortgages, housing loans and personal loans. It should carefully examine safety of principle as well as sources of repayment, capital structure, requirement and credit worthiness of a borrower for providing credits. In other words, credit manager should evaluate credit risk by considering well-known 5C’s of credit viz. character, capacity, capital, collateral and conditions.

The financial analysis of NIBL has been analyzed and interpreted in this thesis. Analysis on terms of loan and advances is simply presented with comparison with the previous year data only. On the loans and advances part, it has only simple comparison been done. Whether the loan

classification and provisioning of loans, investment in priority and deprived sector loan investment regulation of NRB's directives has been followed or not has not been explained.

A study conducted by Niva Shrestha (2010) on the topic "A study on on-performing loans and loan loss provisioning of commercial banks" revealed that SCBNL had risk averse attitude of the management or they have policy of investing low in the risky assets i.e; loan and advances as compared to NBL and Nabil because the loan and advances to total asset ratio of NBL, Nabil and SCBNL during the study period was appeared to be 52.3%, 47%, and 29.34% respectively. The SCBNL has higher proportion of the investment in risk free or nominally risky asset like treasury bills, National saving bonds. Similarly, the loans and advances to total deposit ratio of NBL, Nabil and SCBNL during the study period was found to be 57.63%, 56.35%, and 35.94% respectively. It indicates that SCBNL has the most consistent and variability during the study period where as the NBL has the higher consistent and variability as comparison to other two banks. Nabil has the moderate level of consistent and variability.

In the same way, the proportion of non-performing loan with regard to total loans of NBL, Nabil and SCBNL was found to be 48.37%, 10.67%, And 4.38% respectively. That means 51.63%, 89.33% and 95.62% of total loan of NBL, Nabil and SCBNL was found to be performing loan. Not only the public sector bank, even private sector bank like Nabil has higher proportion of non-performing loan. However, in recent years Nabil has shown significant decrement in non-performing asset, which are the result of effective bank credit management and its efforts of recovering bad debts through the recovery of establishment of recovery cell.

In the same way, proportion loan loss provision of NBL was found to be significantly higher (i.e; 40.17%) as compared to other two commercial

banks. The proportion of Nabil and SCBNL was found to be 5.69% and 4.49% respectively.

The average ratio of provision held to non-performing loan of NBL, Nabil and SCBNL was found to be 80.03%, 57.85% and 122.32% respectively shows that the SCBNL has maintained adequate level of provision against non-performing loan whereas Nabil was found to be comparatively lower. The NBL was found to be an average position. (Shrestha, 2012).

The review of above relevant literature has contributed to enhance fundamental understanding and knowledge, which is required to make this study meaningful and purposive. There has been lots of article published related to investment policy, loan and advances of commercial banks. There are various researches conducted on investment analysis and policy of commercial banks, impact and implementation of NRB guidelines in commercial banks but there are a few research conducted on credit practices of commercial banks. However, no one has done on “A comparative study on credit management of commercial banks in Nepal”. Therefore, the researcher attempts to study in this area with a comparative study of credit management of selected commercial banks will be the first study between the banks in the subject matter.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research in common sense refers to a search for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation. The Advance Learner's Dictionary of current English lays down the meaning of research as "a careful investigation or inquiry specially through search for new facts in any branch of knowledge". Redman and Money define research as a "Systematized effort to gain new knowledge". Some people consider research as a movement, a movement from the known to the unknown. It is actually a voyage of discovery, we all possess the vital instinct of inquisitiveness makes us probe and attain full and fuller understanding of the unknown. This inquisitiveness is the mother of all knowledge and the method, which man employs for obtaining the knowledge of whatever the unknown, can be termed as research.

In this chapter, research methodology adopted for achieving the predetermined objectives are specified. The various statistical and financial instruments will be used for the purpose. It counts on the resources and techniques available and to the extent of their reliability and validity in this chapter. The research methodology primarily seeks to evaluate the credit practices of the targeted commercial banks i.e; Nabil Bank Limited and Standard Chartered Bank Nepal Limited. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research.

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."

This research study attempts to examine and compare the financial performance of two commercial banks operating in Nepal. While financial tools have been employed to examine their financial strengths and weaknesses, statistical tools have been used to compare the relative performance of the two banks under the research design followed is analytical cum descriptive approach to evaluate and compare the credit management of the banks under study. Evaluation and comparison has been done on the basis of secondary data, i.e. the financial statements of these banks for the last 5 years.

3.3 Sources of Data

Necessary data are collected from both sources primary and secondary survey. Secondary sources of data are the information collected from books, journal, newspaper, reports, Ministry of Finance, NABIL, SCBNL and dissertations etc. The major sources of secondary data are as follows:

- Economy survey of Nepal Government, Ministry of Finance.
- NRB Directives.
- Banking and Financial Statistic.
- Central Bureau of Statistic.
- Annual General Report of NABIL.
- Annual General Report of SCBNL.
- National Newspaper, Journals and Magazine.
- Internet.

3.4 Population and Sample

A 32 commercial banks currently operating in Nepal is the population. On the basis of researcher's judgment, the study will cover only 2 samples out of all the commercial banks Standard Chartered Bank Nepal Ltd (SCBNL) and NABIL Bank.

3.5 Method of data Analysis Technique

The study basically uses secondary data which were firstly collected and tabulated into a separate form systematically. These are presented and analyzed in a descriptive way. Graphs, tables are presented where necessary.

In order to make a clear presentation, calculation of the figures have been done separately and the resulting figures are then presented in tables. Simple statistical analysis such as percentage ratio and arithmetical mean is used to represent the resultant figures.

3.5.1 Sampling method

- Samples are taking as a probability approach to evaluate and compare the credit management of the commercial banks.
- The published financial statements of these banks for the year from 2007 – 2008 to 2011-2012 (5 years) have been taken as sample data.

3.5.2 Financial Tools

“Financial Analysis is the starting point for making plans before using any sophisticated forecasting and budgeting procedures.”

Hence ratio analysis is used under financial analysis to attain the result after tabulating the data.

A ratio is a quotient of the mathematical expression, establishment of

quantitative relation of data furnished by the financial statement is called ratio analysis. In other words, a financial ratio is the mathematical expression of relationship of two accounting figures. It helps in taking decision science it helps to establish relationship among various ratios and interpretation there on, inter firm comparison and comparison between past and present ratios for the same firm gives enormous and fruitful results to test the financial performance.

3.5.2.1 Credit Practices Ratios

- **Total Loan to total deposit ratio**

$$\text{Total loan to deposit ratio} = \frac{\text{Total Loan}}{\text{Deposits}}$$

- **Interest income to loans & advances ratio**

$$\text{Interest income to loans \& advances} = \frac{\text{Interest Income}}{\text{Loan \& Advances}}$$

- **Non-performing loans to total loan & advances ratio**

$$\text{Non-performing loans to total loan \& advances ratio} = \frac{\text{Non-performing loan}}{\text{Total loan \& advances}}$$

- **Loans and advances to total assets ratio**

$$\text{Loans and advances to total assets ratio} = \frac{\text{Loan and advances}}{\text{Total assets}}$$

- **Loan and advances to current assets ratio**

$$\text{Loan and advances to current assets ratio} = \frac{\text{Loan and advances}}{\text{Current assets}}$$

- **Loan loss provision to total loan & advances ratio**

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

3.5.2.2 Credit Efficiency Ratios

- **Total assets to liabilities ratio**

$$\text{Total assets to liabilities ratio} = \frac{\text{Total assets}}{\text{Liabilities}}$$

- **Interest expense to total deposit ratio**

$$\text{Interest expenses to total deposit ratio} = \frac{\text{Interest Expenses}}{\text{Total Deposits}}$$

- **Interest expenses to total expenses ratio**

$$\text{Interest expenses to total expenses ratio} = \frac{\text{Interest expenses}}{\text{Total expenses}}$$

- **Non-interest bearing deposits to total deposit ratio**

$$\text{Non-interest bearing deposits to total deposit ratio} = \frac{\text{Non-Interest bearing deposit}}{\text{Total Deposits}}$$

- **Interest income to total income ratio**

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

- **Interest from loan, advances and overdraft to total interest income ratio**

$$= \frac{\text{Interest from loan advances and overdraft}}{\text{Total interest income}}$$

- Interest suspense to interest income from loans & advances ratio

Interest suspense to interest income from loan & advances ratio

$$= \frac{\text{Interest suspense}}{\text{Interest income from loan \& advances}}$$

3.5.2.3 Statistical Method

For supporting the study, statistical tools such as mean, standard deviation, correlation, regression analysis and ANOVA tools have been used under this.

3.5.2.4 Arithmetic mean (Average)

Arithmetic mean also called “the mean” or as the most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the birds eye view of the huge mass of un widely numerical data. It is calculated as:-

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

Where,

X = Mean value of arithmetic mean

$\sum x$ = Sum of the observation

N = Number of observation

3.5.2.5 Correlation

Correlation may be defined as the degree of liner relationship existing between two or more variables. There variable are said to be

correlated when the change in the value of one results change in another variable. Correlation may be:-

- Simple or partial or multiple correlation
- Positive or negative or zero correlation
- Linear or non-linear correlation
- Perfect or non-perfect correlation

It is calculated as:-

$$r_{xy} = \frac{N\sum xy - \sum x \cdot \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum y^2 - (\sum y)^2}}$$

Formula of correlation

Where,

r_{xy} = correlation between x & y

$N\sum xy$ = product of no. of observation and sum of product of x & y

$\sum x \sum y$ = product of sum of X and sum of Y

3.5.2.6 Co-efficient of Determination

It explains the variation percent derived in dependent variable due to the any one specified variable is good predictor of the behavior of the dependent variable. It is square of correlation co-efficient.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Present study seems very successful to meet the stated objectives designed for study. The present study has been designed to overcome the issues relating to credit management in commercial banks. It was aimed to find out comparative credit management in NABIL Bank and Standard Chartered Bank. The prime components of credit management is the

financial condition in terms of lending practices, industrial environment of that bank and the management quality in terms of credit management, designed for study to meet the objectives. Present study successfully explored the financial condition in terms of credit management of selected banks, industry environment of these banks and management quality to support credit management. It is clear evident that the bank having good financial position or condition has good industrial environment and high quality of management.

5.1 Summary

Financial information is required for financial planning, analysis and decision making. The financial statements Balance Sheet and Profit and Loss a/c are the basic instrument of an accounting system to communicate financial information to users.. The researcher highlights or introduces the meaning and importance of research paper and meets the objectives followed by various sequential steps.

Basically it highlights the concept and importance or significance of the study. It also presents research issues, research problems, basic objectives of the study, rationality of the study, limitation of the study, process of the study and introduction of the study. Lastly, it discusses about the organizational structure of the study.

It helps to know the research work undertaken by them. It also tried to know some concept used in this study. Moreover, it summarized the finding of the previous findings of the study to provide knowledge about the background of the work done by them and to step the duplicate of previous work. Lastly, earlier international research related to concept is also attempted to review the finding of the study.

Basically, research methodology here signifies the research design, sources of data, population and sample of data, data collection procedure,

data collection techniques, data collection methods and tools and techniques employed etc.

Data presentation and analysis, It first presented the generated data in tabular form and analyzed it in systematically as per the objectives mentioned above. The researcher tried to analyze the comparative financial condition or position of bank in terms of credit practices, credit efficiencies, comparative industrial environment of bank with respect to credit and comparative management quality in terms of credit. Detail of the findings can be presented as below.

The cursory observation of these selected banks in terms of credit practices reveals that except that for interest income to loan and advances ratio (which is observed to be better for NABIL Bank), all other ratios proves the SCBNL seems to have the best lending performance. It does not mean that NABIL Bank have bad performance in credit practice but in overall evaluation the results shows that the lending practice of SCBNL was found relatively better position than NABIL Banks.

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial results towards the NABIL Bank and Standard Chartered Bank. The ratio of interest expenses to total deposits, interest income to total income, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to be better for Standard Chartered Bank whereas total assets to liability , interest from loan and advances to total income and interest suspense to total interest income from loan and advances ratios are more favourable to the NABIL Bank. It can be concluded that the efficiency of both NABIL and SCBNL was found better. However, credit efficiency measurement variables adopted by the banks may differ from bank to bank.

The correlation coefficient between loan and net profit of NABIL Bank was found 0.508 indicates that the moderate relationship between loan & net profit whereas SCBNL has 0.938 & it shows the high relationship

between loan & net profit. In the same way, coefficient of determination of NABIL Bank and SCBNL of total change in net profit has been explained by total loan as 25.81% & 87.98% respectively. The profit is highly determined by loan in SCBNL in compared to NABIL Bank. In the same way, correlation coefficient of loan and non-performing loan was found to be and -0.862 & -0.275 in NABIL & SCBNL respectively. It means the trend of increasing volume of loan decreases the non-performing loan at high level in NABIL & SCBNL during study period. Similarly, coefficient of determination was stood as 0.7430 and 0.0756 indicates that 74.30% of total change in loan has been negatively explained by non-performing loan in NABIL whereas 7.56% of total change in loan has been negatively determine by non-performing loan.

The value of adjusted R square was found to be 0.011 & 0.019 in NABIL & SCBNL considering independent variable loan and dependent variable net profit. It was found that 1.11% total change in dependent variable in net profit has been explained by independent variable loan in NABIL whereas 1.19% variation has been explained by independent variable loan. The findings also showed that both the result was not found significant at 0.01 levels of significance. The value of adjusted R square was found to be 0.033 & 0.0887 in NABIL & SCBNL respectively considering dependent variable net profit and two independent variables performing loan and non-performing loan. It indicates that 3.3% total change in dependent variable net profit has been explained by two independent variables performing loan and non-performing loan in NABIL whereas 8.87% total change in dependent variable net profit has been explained by two independent variables performing loan and non-performing loan in SCBNL. The finding showed that profit is highly estimated by two independent variables in SCBNL than that of NABIL. The main reason behind this is the higher level of non-performing loan in SCBNL than that of NABIL.

Finally, conclusion and summary and various suggestions were described in fifth chapter. It drew the conclusion from the findings of the study and explained the summary of the research paper. Besides, it also provides various suggestions to give further improvement.

5.2 Conclusion

The following conclusions are derived from the study. The finding of the study have been summarized and presented below.

The result showed that a credit practice of SCBNL was found relatively better in comparison to NABIL Bank because the most of the ratio of credit practices scored the better position in SCBNL whereas, credit efficiency measurement provides controversial result towards the NABIL and SCBNL, however it was fund better in NABIL because most of the ratio designed for the study supported the NABIL. The correlation between loan and advance to net profit was found in moderate level in NABIL (i.e. 0.508), and high degree in SCBNL (i.e. 0.938). Likewise, the correlation between loan and non-performing loan was found high negative degree in NABIL (i.e. -0.862) and low negative degree in SCBNL (i.e. -0.275). The impact of loan and advances to net profit and impact of non performing loan and performing loan to net profit was found higher in NABIL and SCBNL during the study period.

5.3 Recommendations

The present study can be a valuable piece of research works in credit management topic. It explored the existing situation and identified the various components for further improvement in credit management. Secondary sources of information are used for fulfilling the objectives. It may be useful for academicians, parishioners, especially to bank management and/or any others who are directly or indirectly involved in banking activities. Based on the findings of the study, the researcher recommended highlighting the guidelines to put forward for further improvement.

1. The credit practice of SCBNL was found relatively better than NABIL Bank during the study period. It is suggested to NABIL Banks management for better improvement. Similarly, interest income from loan and advances was found greater in NABIL Bank.

The main source of income is based on loan and advances. Thus, proper level of portfolio should be maintained so that profitability position will be maximized.

2. The credit efficiency measurement provides controversial results towards the NABIL and SCBNL, however it was found better in NABIL because most of the ratio designed for the study supported the NABIL. The analysis shows that the both bank used its funds in diversified sectors, is successful to collect cheaper deposit as well as successful to manage loan and advance. Thus, it is suggested to maintain proper level of balance for both banks.
3. The relationship between loan and advances to non-performing loan was found negative in NABIL and SCBNL. But the NABIL has high negative figure of 0.862. It indicates that NABIL and SCBNL have effectively managed its loan and advances. This is also supported by regression analysis because impact of loan and advances to net profit was found positive in NABIL & SCBNL. The impact of performing loan and non-performing loan on net profit was found positive values for all selected banks. But the regression value for SCBNL is observed high as compared to NABIL Bank. Thus, SCBNL needs to be managed its loan effectively so as to reduce the non-performing loan amount.
4. The NABIL Bank and Standard Chartered Bank are concentrating their operation in urban areas. Most of the people who live in rural areas are not benefited from these two most successful and giant commercial banks. Thus, they should think about expanding their operation to rural areas too. This will provide financial support to rural households and raise their standard of living.
5. Although there is major political instability in the recent economic scenario of the country, the government has to encourage the

coming up new entrepreneurs, encourage the small-scale industries, give priority to export business, encourage foreign investors. The bank in return should extend support from their side in every possible way.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable form by using various tables, figures and sources.

Credit management is one of the most important factors that have been developed to facilitate effective performance of bank management. Credit management is the formal expression of the commercial banks' goals and objectives stated in financial term for specific future period of time. Credit is the very basic indicator for determining profit.

The main purpose of the objective is to assess the comparative credit management in selected commercial banks. Present chapter will discuss the various aspects of credit management and their actual accomplishment. Actually, credit management is a fundamental material tool, which is applied in commercial banks. For this respect, it will analyze the data by using various financial and statistical tools to meet the stated objectives of the study. It also compares the data between selected banks. Besides, it also presents the various funding generated from data analysis.

4.1 Comparative Financial Condition of Selected Commercial Banks

Financial analysis assists in identifying the major strengths and weaknesses of a firm. It indicates whether a company has enough cash to meet its obligations and ability to utilize properly their available resources. Financial analysis can also be used to assess the company's

liability as and ongoing enterprise and determine whether a satisfactory return is being earned for the risks return. Thus, comparative condition of the banks in terms of credit practices is necessary to find out the comparative credit practices in those banks.

For research purpose, financial conditions of both the banks in terms of credit practices, credit efficiency has analyzed the comparative credit position in selected commercial banks.

4.1.1 Comparative Credit Practices in Nabil Bank and Standard Chartered Bank

Comparative credit practices show the comparative lending policies and practices adopted by the selected commercial banks during the study period. It measures the ability of the organization in terms of credit practices by using historical data.

i. Total Loans to Deposit Ratio

The main source of bank's lending depends on its deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposits on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits. The ratios are presented in the following table.

Table 4.1
Total Loans to Deposit Ratio

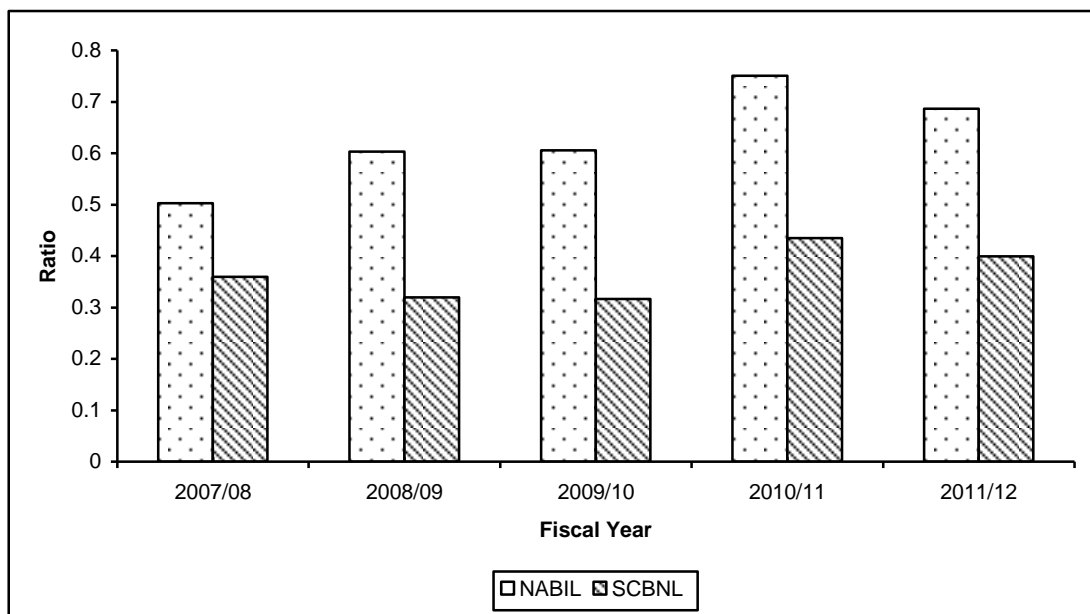
Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.5031	0.6034	0.6055	0.7505	0.6863	0.6298
SCBNL	0.3597	0.3199	0.3163	0.4349	0.3992	0.3660

Table 4.1 shows that the ratio of credit to deposit ratio in NABIL is 0.5031, 0.6034, 0.6055, 0.7505 and 0.6863 respectively. Whereas the ratio of SCBNL is 0.3597, 0.3199, 0.3163, 0.4349 and 0.3992

respectively. In overall comparison, NABIL has the highest ratio is FY 2010/11 i.e. 0.7505 and SCBNL has observed the lowest ratio in FY 2009/10 with 0.3163.

From mean point of view, NABIL has maintained higher loan and advances to total deposit ratio than SCBNL. In this way, it shows that NABIL seems to be strong to mobilize its total deposit as loan and advances. It can be concluded that SCBNL has lower position to mobilize its deposits as compare to NABIL. However higher ratio does not mean it is always better from the point of liquidity. From the analysis NABIL seems to be the best performer in utilizing its collected resources in the form of deposits much efficiently, which may definitely increase in income and profit for NABIL.

Figure 4.1
Total Loans to Deposit Ratio



ii. Interest Income to Loans and Advances

Interest income to loan and advances is one of the major sources of income for a commercial Bank. The high volume of interest income is indicator of good performance of lending activities.

Table 4.2

Interest Income to Loans and Advances

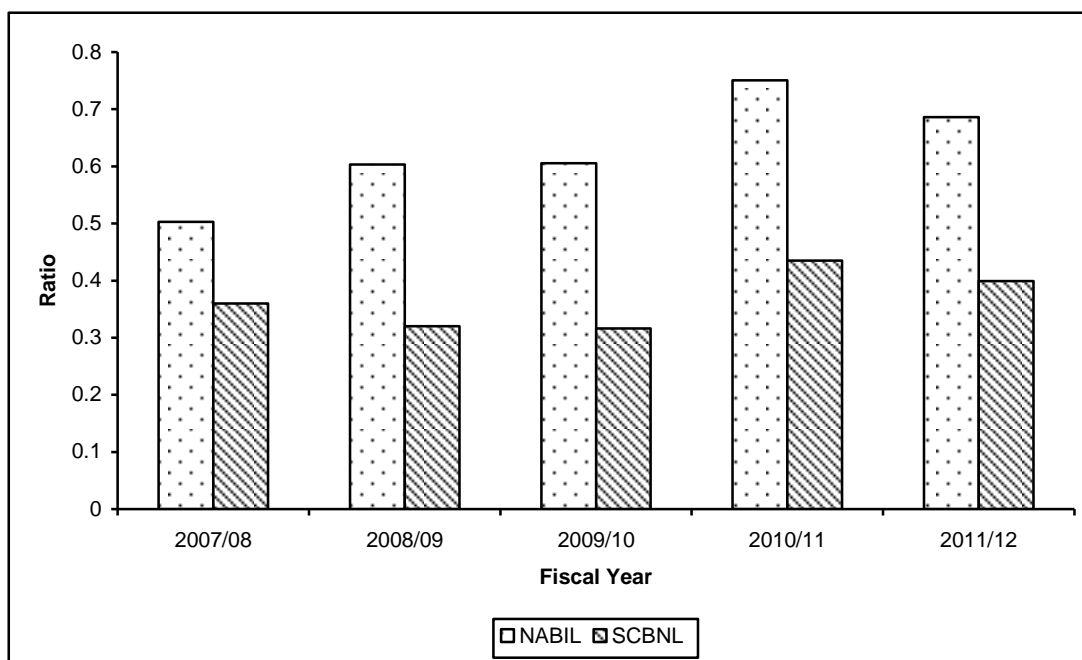
<i>Bank/F.Y.</i>	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.1034	0.0983	0.0945	0.0870	0.0829	0.0932
SCBNL	0.1031	0.1011	0.0883	0.0743	0.0623	0.0858

Table 4.2 shows that the ratio of interest income to loan and advances ratio in NABIL is 0.1034, 0.0983, 0.0945, 0.0870 and 0.0829 respectively. Likewise, the ratio of SCBNL is 0.1031, 0.1011, 0.0883, 0.0743 and 0.0623 respectively. But NABIL has the highest ratio in FY 2007/08 i.e. 0.1034 and SCBNL has the lowest ratio in FY 2011/12 i.e. 0.0623 respectively.

Calculated mean value of NABIL is highest with 0.0932 as compare to SCBNL, which is 0.0858 respectively. From this point of view NABIL has the best performance in earning interest income.

Figure 4.2

Interest Income to Loans and Advances



iii. Non-Performing Loans to Total Loan and Advances Ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But our concerned banks have not provided data on non-performing loan in balance sheet and profit & loss A/C. To measure the volume of non-performing loan to total loan & advances the main indicator of NABIL and SCBNL has been used. This ratio shows the percentage of non-recovery loans in total loans & advances.

Table 4.3

Non-Performing Loan to Total and Advances

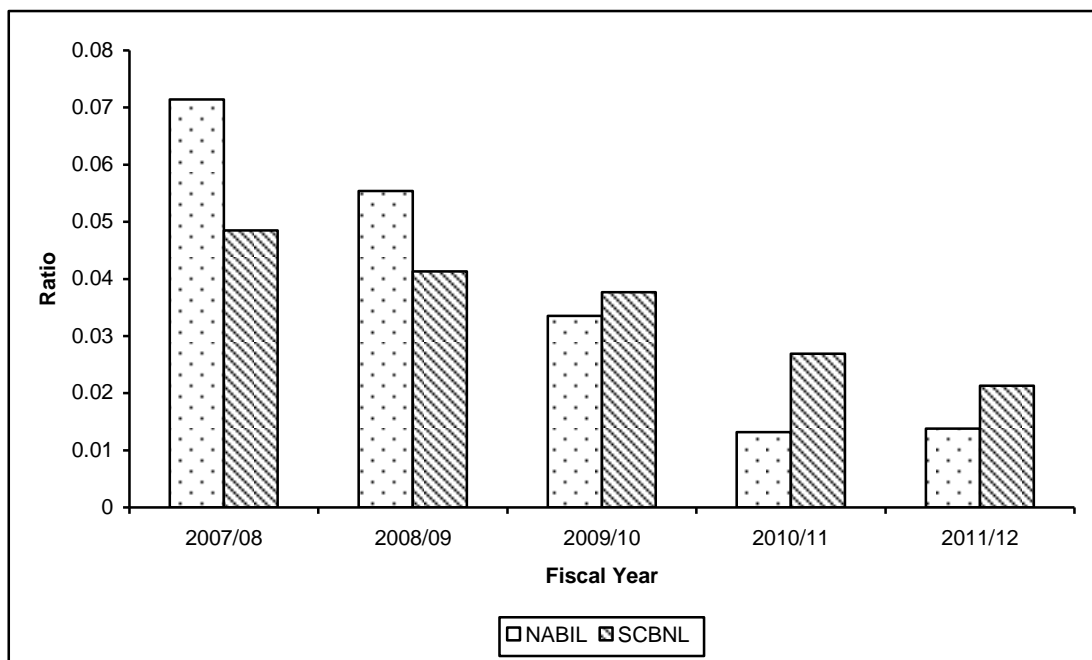
Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.0714	0.0554	0.0335	0.0132	0.0138	0.0375
SCBNL	0.0485	0.0413	0.0377	0.0269	0.0213	0.0351

Table 4.3 shows that from the NABIL point of view, the ratio in five year are 0.0714, 0.0554, 0.0335, 0.0132 and 0.0138 respectively. Likewise the ratios of SCBNL are 0.0485, 0.0413, 0.0377, 0.0269 & 0.0213 respectively. In overall comparison, NABIL has both the highest ratio in

F/Y 2007/08 i.e. 0.0714 and the lowest non-performing loan to total loan and advances ratio in F/Y 2010/11 i.e. 0.0132 respectively.

From the mean point of view, it can be said that SCBNL has the lowest ratio than NABIL. Banking sector is seriously affected by the non-performing loan. Both banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested the NABIL Banks to be very careful while granting loan and to do effective follow up for recovery of non-performing loan.

Figure 4.3
Non-Performing Loan to Total and Advances



iv. Loans and Advances to Total Assets Ratio

Loan & advance is the major part of total assets for the bank. The ratio indicates the volume of loans & advance out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represent low liquidity and low ratio represents to productivity with high degree for safety in terms of liquidity.

Table 4.4

Loan Advances to Total Assets Ratio

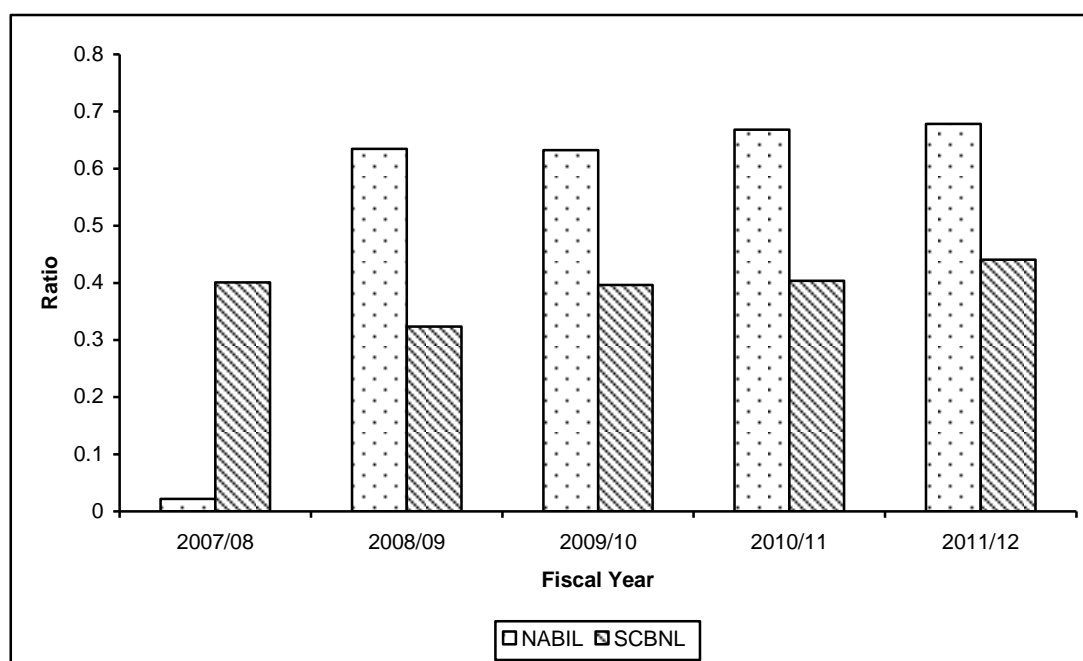
<i>Bank/F.Y.</i>	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.0200	0.6345	0.6325	0.6680	0.6782	0.5267
SCBNL	0.4006	0.3232	0.3961	0.4039	0.4409	0.3929

Table 4.4 shows that the ratio of loans & advance to total assets in five year for NABIL 0.0200, 0.6345, 0.6325, 0.6680 and 0.6782 respectively. Similarly, the ratio of SCBNL is 0.4006, 0.3232, 0.3961, 0.4039 and 0.4409 respectively.

From the mean point of view, it can be said that the mean ratio of NABIL has the highest than SCBNL. It can be concluded that the higher mean ratio indicates the good lending performances. So NABIL bank has good lending performance than SCBNL.

Figure 4.4

Loan Advances to Total Assets Ratio



v. Loan and Advances to Current Assets Ratio

Loan & advances is the major component in total assets, which indicates the ability of banks to canalize its deposit in the form of loan & advances to earn high return. If sufficient loan and advances cannot be granted, it should pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan & advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

Table 4.5

Loan to Advances to Current Assets Ratio

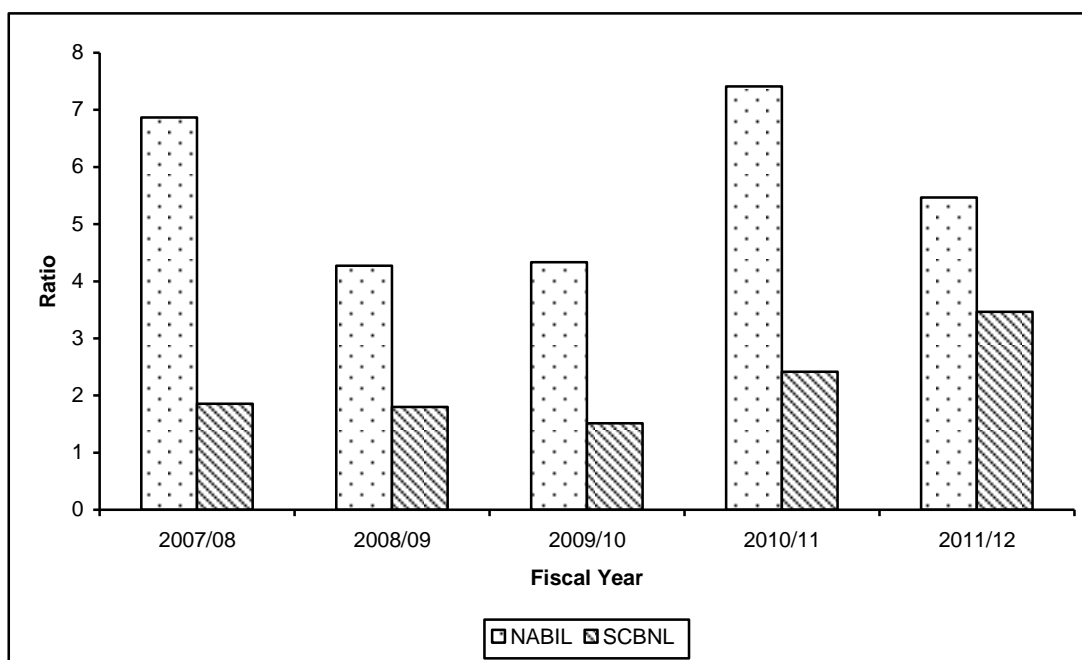
<i>Bank/F.Y.</i>	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.2781	0.6473	0.6447	0.6827	0.6954	0.5896
SCBNL	0.4175	0.3342	0.4031	0.4111	0.4471	0.4026

Table 4.5 shows that, from the NABIL point of view, the ratio for five years are 6.867, 4.273, 4.335, 7.414 and 5.464 respectively. Similarly, the ratio of SCBNL are 1.858, 1.797, 1.511, 2.416 and 3.465 respectively. In overall comparison NABIL Bank has the highest loan and advances to

current assets ratio (i.e. 0.6954) in FY 2011/12 and SCBNL has the lowest ratio (i.e. 0.3342) in FY 2008/09.

From the mean point of view, NABIL has the higher mean ratio in comparison with SCBNL. It indicates that NABIL Bank has relatively better short term lending practices than SCBNL.

Figure 4.5
Loan to Advances to Current Assets Ratio



vi. Loan Loss Provision to Total Loan and Advances Ratio

The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks of controlling the credit risk and reduced the risks related to deposits.

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

Table 4.6

Loan Loss Provision to Total Loan & Advances

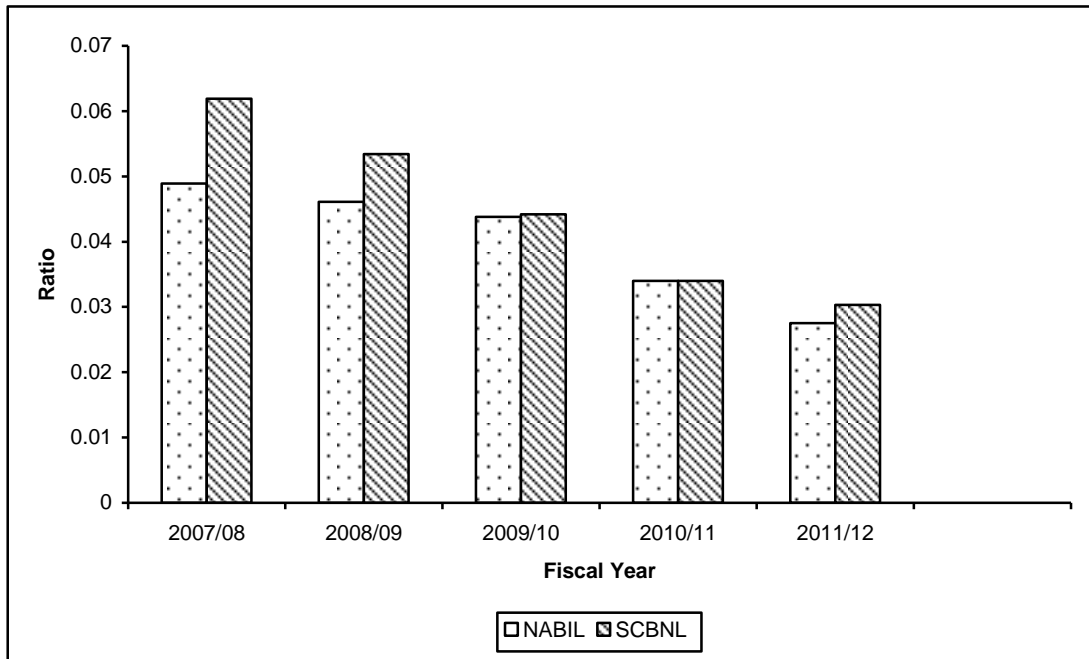
Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.0489	0.0008	0.0107	0.0028	0.695	0.1517
SCBNL	0.0183	0.0153	0.0137	0.0132	0.0135	0.0149

Table 4.6 shows that, from the NABIL point of view, the ratio of loan loss provision to total loans & advances in five year are 0.0489, 0.0008, 0.0107, 0.0028 and 0.695 respectively. Whereas the ratio of SCBNL are 0.0183, 0.0153, 0.0137, 0.0132 and 0.0135 respectively. But NABIL has the highest loan loss provision to loan and advances ratio (i.e. 0.695) in FY 2011/12 and SCBNL has the lowest ratio (i.e. 0.0132) in FY 2010/11.

From the mean point of view, it can be said that NABIL has high loan loss provision in comparison with SCBNL. From the above calculation, it can be said that the increase ratio indicates the increased volume of non-performing loans. The increasing loan loss ratio indicates the poor and ineffective credit policy and poor performance of the economy.

Figure 4.6

Loan Loss Provision to Total Loan & Advances



4.1.2 Comparative Credit Efficiency of NABIL Bank and Standard Chartered Bank

It measures the effectiveness of activity of the company through establishing the relationship between the various assets and credit of that respective organization.

i. Total Assets to Liabilities Ratio

Banks create credit through loans and advances and multiply their assets much more time than their liability permits. The ratio measures the ability of a bank to multiple its liability into assets. The higher ratio of total assets to total liability ratio is favourable as it increases overall capacity of the organization. The following table shows the ratio of total assets to total liability of selected commercial banks during study period.

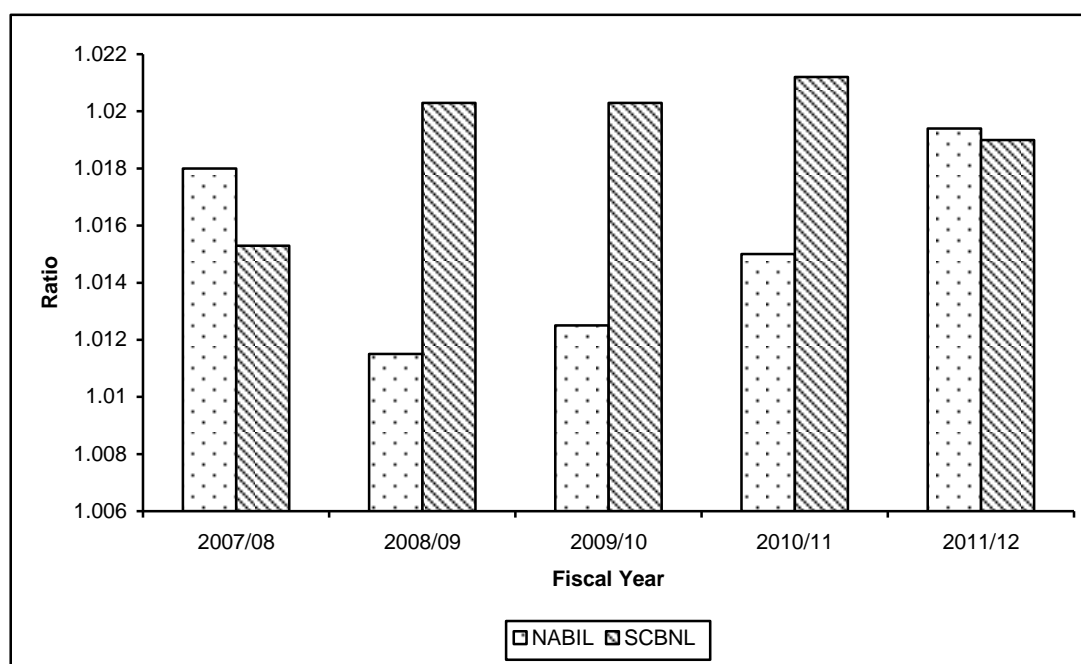
Table 4.7
Total Assets to Liabilities Ratio

<i>Bank/F.Y.</i>	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	1.0180	1.0115	1.0125	1.0150	1.0194	5.0766
SCBNL	1.0153	1.0203	1.0203	1.0212	1.0190	5.0963

Table 4.7 shows that ratios of the banks' total assets to liabilities. SCBNL has the higher mean ratio than NABIL. The combined mean ratio is 1.0212 and SCBNL has higher ratio than that of the combined mean. SCBNL has been able to utilize the fund more efficiently and effectively to the extend in comparison with the NABIL, however still this position could not be sufficient balance for a developing country the ratio should not be below.

Figure 4.7

Total Assets to Liabilities Ratio



ii. Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial Banks are dependent upon its ability to generate cheaper fund. The chapter fund has moved the probability of generating loans and advances and vice versa.

Table 4.8

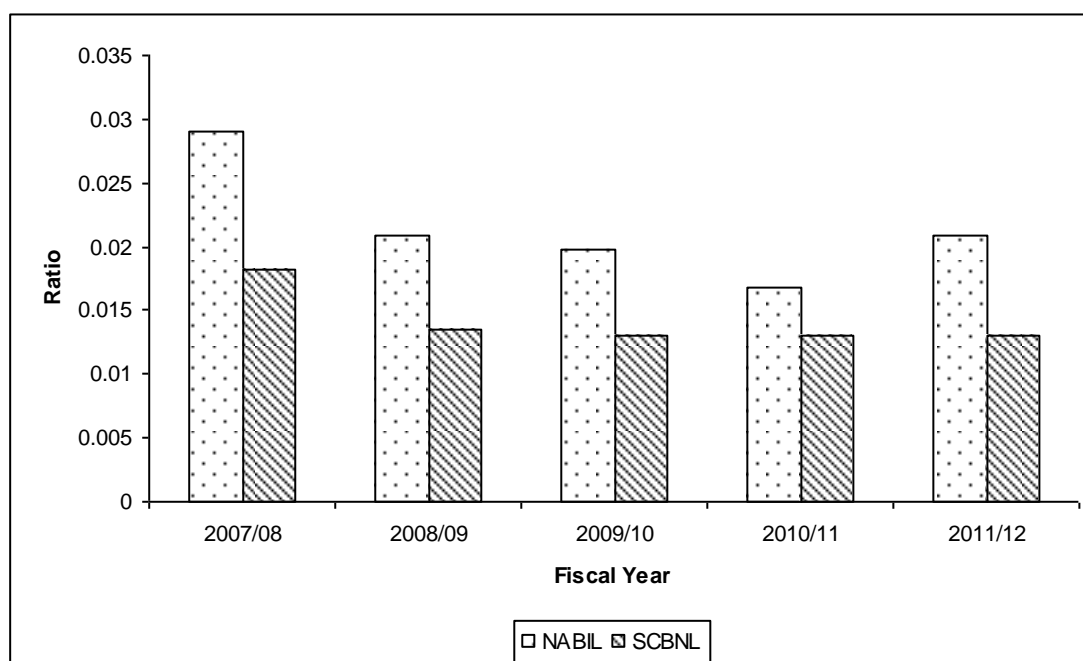
Interest Expenses to Total Deposit Ratio

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.0291	0.0209	0.0197	0.0168	0.0209	0.0215
SCBNL	0.0182	0.0135	0.0130	0.0131	0.0131	0.0142

Table 4.8 shows that the cost of the deposit of NABIL is found in decreasing trend till FY 2010/11. It has highest ratio in FY 2007/08 i.e. 0.0291 and lowest ratio is FY 2010/11 i.e. 0.0168. Similarly, SCBNL has the highest ratio in FY 2007/08 i.e. 0.0182 and lowest ratio in FY 2009/10 i.e. 0.0130. The ratios are found in decreasing and increasing trend.

From mean point of view, it can be said that SCBNL has low interest expenses to total deposit ratio than NABIL. Thus, it can be said that SCBNL is successful to collect cheaper deposit than NABIL.

Figure 4.8
Interest Expenses to Total Deposit Ratio



iii. Interest Expenses to Total Expenses Ratio

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly sources of funds.

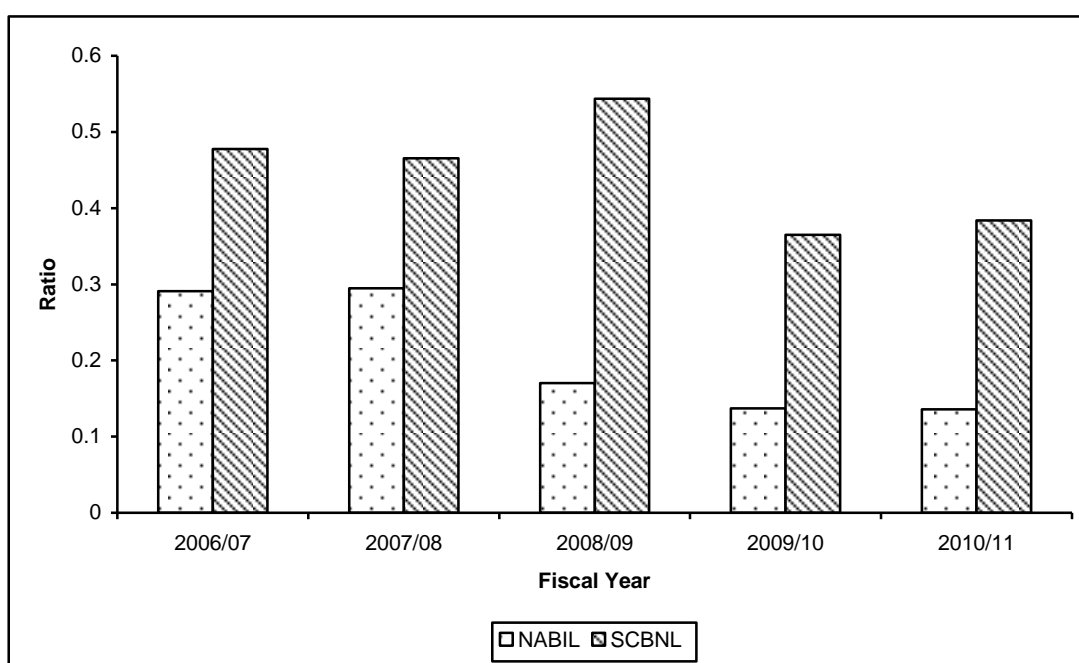
Table 4.9
Interest Expenses to Total Expenses Ratio

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.2910	0.2947	0.1704	0.1371	0.1358	0.2058
SCBNL	0.4775	0.4653	0.5435	0.3648	0.3840	0.4470

A table 4.9 show that the interest expenses to total expenses of SCBNL Bank has higher than NABIL in five years. NABIL Bank has decreasing trend up to FY 2010/11. It has highest ratio in FY 2007/08 i.e. 0.2947 and lowest ratio in FY 2010/11 i.e. 0.1358. Likewise, SCBNL has highest ratio in FY 2008/09 i.e. 0.5435 and lowest in FY 2009/10 i.e. 0.3648. It has fluctuating trend.

From mean point of view, it can be said that SCBNL has higher interest expenses to total expenses ratio than NABIL. Thus, it shows that decrease in cost of the deposits, the volume of interest expenses ratio has been decreasing.

Figure 4.9
Interest Expenses to Total Expenses Ratio



iv. **Non-Interest bearing Deposits to Total Deposits Ratio**

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits were managed affectively in the total volume of expenses. The higher ratio is favourable but in practices, interest bearing deposits always plays a significant role in the mix of deposit liability.

Table 4.10

Non-Interest bearing Deposits to Total Deposits Ratio

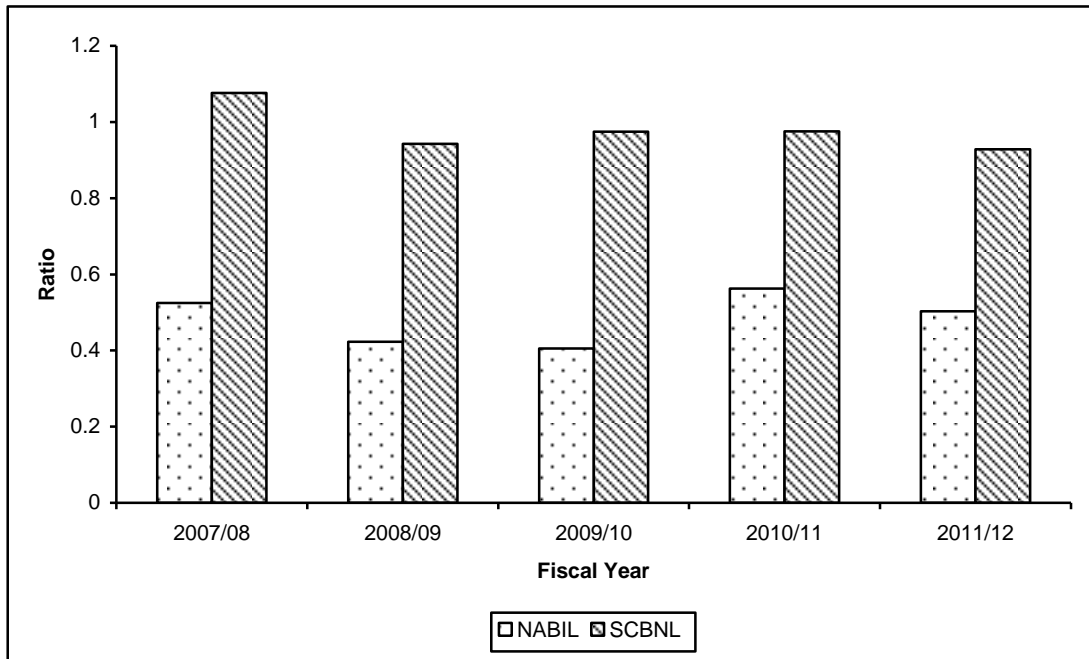
Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.5251	0.4227	0.4057	0.5627	0.5031	0.4839
SCBNL	1.0767	0.9425	0.9749	0.9753	0.9288	0.9796

Table 4.10 shows that non-interest bearing deposits to total deposit of NABIL Bank are in fluctuating trend. NABIL has highest ratio in FY 2010/11 i.e. 0.5627 and lowest ratio in FY 2009/10 i.e. 0.40575. Whereas SCBNL has highest ratio in FY 2007/08 i.e.1.0767 and lowest ratio in FY 2011/12 i.e. 0.9288. It has ratios in fluctuating trend also.

From the mean point of view, it can be said that Standard Chartered Bank has highest mean ratio than NABIL Bank. In this way, the deposit mixture of Standard Chartered Bank carries the highest level of interest bearing deposits in its deposit mixture. This indicates that Standard Chartered Bank is the most successful in collecting cheapest fund. The major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises.

Figure 4.10

Non-Interest bearing Deposits to Total Deposits Ratio



v. Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending and investment and high contribution by other fee based activities in total income.

**Table 4.11
Interest Income to Total Income Ratio**

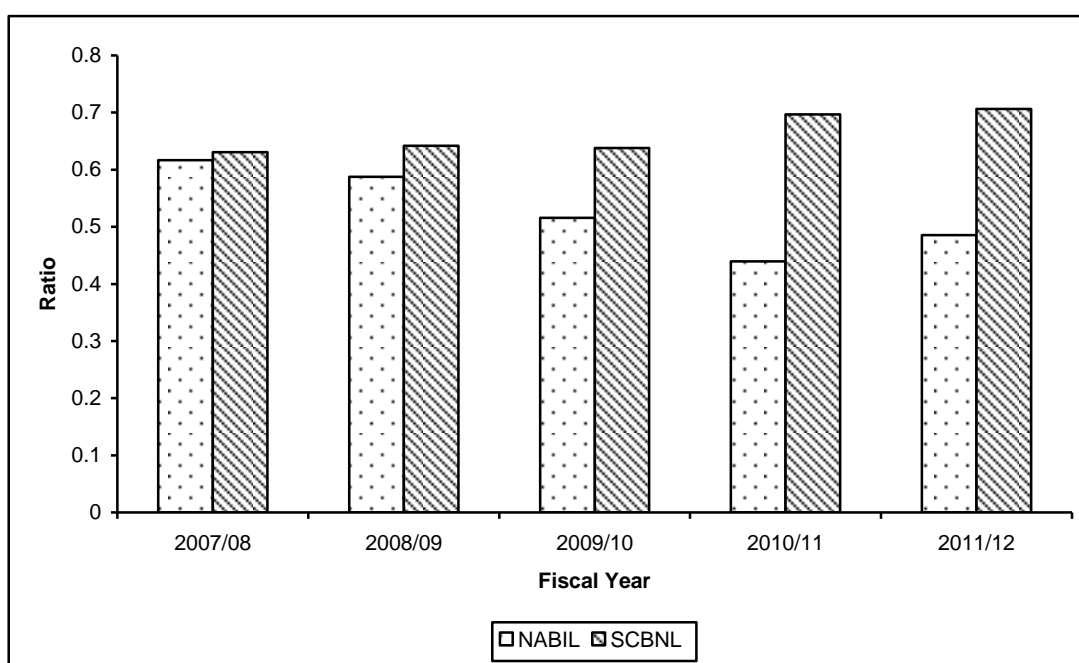
Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.6166	0.5878	0.5157	0.4396	0.4855	0.5291
SCBNL	0.6309	0.6421	0.6381	0.6970	0.7063	0.6629

Table 4.11 shows that from the NABIL Banks point of view, the ratio of interest income total income in five years are 0.6166, 0.5878, 0.5157, 0.4396 and 0.4855 respectively whereas the highest ratio in FY 2007/08 i.e. 0.6166 and the lowest ratio in FY 2010/11 i.e. 0.4396 Likewise, the ratio of SCBNL in five years are 0.6309, 0.6421, 0.6381, 0.6970 and 0.7063 respectively whereas the highest ratio in FY 2011/12 i.e. 0.7063 and lowest ratio in FY 2007/08 i.e. 0.6309.

From mean point of view, it can be said that SCBNL has high interest income to total income ratio than NABIL. This shows that, in total income of NABIL Bank and Standard Chartered Bank, interest income contributes 52.91% and 66.29% respectively. The lowest ratio of NABIL Bank indicates its greater dependency in fund-based activity. The highest ratio of Standard Chartered Bank indicates low dependency on fund-based activities.

Figure 4.11

Interest Income to Total Income Ratio



vi. Interest from Loan, Advances and Overdraft to Total Interest Income Ratio

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence his ratio measures how efficiently the banks have employed their fund and loan and advances & overdraft.

Table 4.12

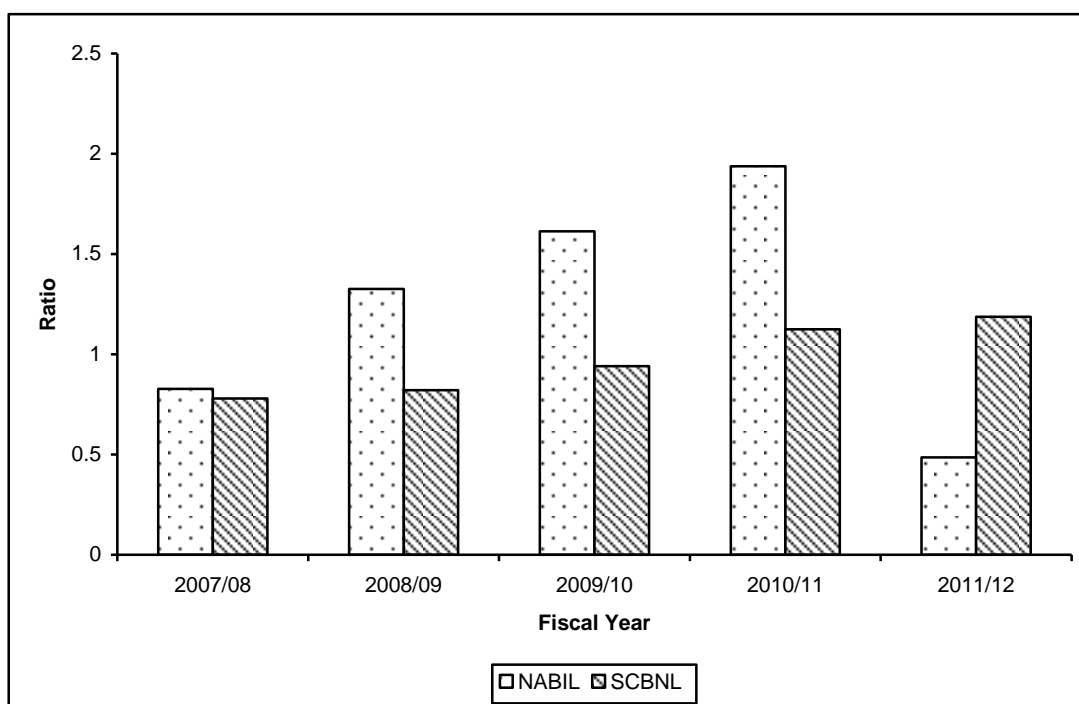
Interest from Loan, Advances and Overdraft to Total Interest Income Ratio

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.8280	1.3266	1.6136	1.9376	0.4855	1.2383
SCBNL	0.7795	0.8218	0.94061	1.1251	1.1871	0.9708

Table 4.12 shows that from the NABIL Banks point of view, the ratios in five years 0.8280, 1.3266, 1.6136, 1.9376 & 0.4855 respectively. Whereas the highest ratio in FY 2010/11 i.e. 1.9376 and the lowest ratio in FY 2011/12 i.e. 0.4855. Similarly, the ratios of SCBNL are 0.7795, 0.8218, 0.94061, 1.1251 & 1.1871 respectively whereas the highest ratio in FY 2011/12 i.e. 1.1817 and lowest in 2007/08 i.e. 0.7795.

From the mean point of view NABIL Bank has highest ratio in comparison with Standard Chartered Bank. It shows that NABIL Bank is strong to mobilize the loan and advances and overdraft to earn interest than Standard Chartered Bank. Also NABIL Bank is able to earn high interest on its total interest income in comparison to Standard Chartered Bank.

Figure 4.12
Interest from Loan, Advances and Overdraft to Total Interest
Income Ratio



vii. Interest Suspense to Interest Income from Loans & Advances Ratio

Interest suspense means the interest due but not collected. This ratio measures the composition of due but uncollected interest in the total interest income from loans & advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loans & advances.

Table 4.13

Interest Suspense to Interest Income from Loans & Advances Ratio

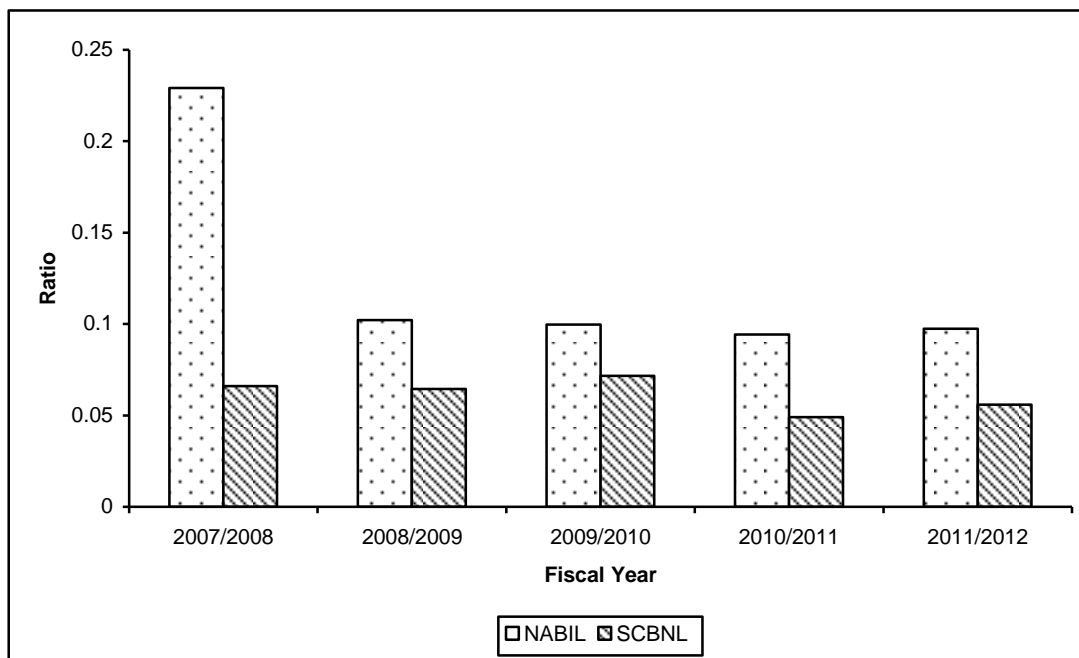
Bank/FY	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.2291	0.1022	0.0996	0.0943	0.0974	0.1245
SCBNL	0.0661	0.0644	0.0717	0.0490	0.0559	0.0614

Table 4.13 shows that from the NABIL Banks point of view. The ratios in five years are 0.2291, 0.1022, 0.0996, 0.0943 & 0.0974 respectively whereas the highest ratio in FY 2007/08 i.e. 0.2291 and the lowest ratio in FY 2010/11 i.e. 0.0943 whereas, the ratio of SCBNL are 0.0661, 0.0644, 0.0717, 0.0490 & 0.0559 respectively. The highest ratio is in FY 2009/10 i.e. 0.0717 and lowest ratio in FY 2010/11 i.e. 0.0490.

From the mean point of view, NABIL Bank has the highest ratio in comparison with Standard Chartered Bank. If there is increasing trend of this ratio, the volume of non-performing loans will increase resulting bad interest turnover, which will ultimately lead to failure of the banks. From the above analysis, Standard Chartered Bank has the best performance than NABIL Bank

Figure 4.13

Interest Suspense to Interest Income from Loans & Advances Ratio



4.2 Relationship of Loans and Net Profit

Effective loans directly affect net profit volume of the organization. It is regarded as the most important profit indicator. It helps to increase the net profit volume of the company whereas weak level of loans is the signal of lower level of profit. Thus, it is logical to review the relation of loans and net profit.

For the research proposes, net profit and loans during study period (5 years) are averaged to get profit and loans variable. After getting profit and loans variable, then data are analyzed using person's correlation coefficient. The following table presents the correlation coefficient of the profit and loans during study period.

Table 4.14

Relation of Loans and Net Profit in NABIL: Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.907
	N	5	5
Net Profit	Pearson Correlation	0.907	1
	N	5	5

The Table 4.14 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson's correlation coefficient was found 0.907, which shows high degree of correlation. It indicates that loans and net profit were found highly Correlated with each other. That means, increasing loans helps to increase the net profit whereas decrease in loans decreases the net profit. Similarly, coefficient of determination was found to be 0.8226 with indicates that 82.26% of total change in profit has been determined by loan. Loans have high influence on the net profit of the NABIL Bank. Effective loans management directly affects the net profit of the NABIL Bank. Effective loans management helps to increase and stable the net profit of the NABIL Bank. No exception is found in case of NABIL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table 4.15

Relation of Loans and Net Profit in SCBNL: Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.876
	N	5	5
Net Profit	Pearson Correlation	0.876	1
	N	5	5

The Table 4.15 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson's correlation coefficient was found 0.876, which shows high degree of correlation. It indicates that loans and net profit were found highly correlated with each other. That means, increasing loans helps to increase the net profit. Similarly, coefficient of determination was found to be 0.7674 which indicates that 76.74% of total change in profit has been determined by loans. Loans have high influence on net profit of the SCBNL. Effective loans management directly affects the net profit of the SCBNL. Effective loans management helps to increase and stable the net profit of the

SCBNL. Thus, it is logical to review the impact of various components of working on net profit.

4.3 Relationship of Loans and Non-Performing Loans

Effective non-performing loans directly affect the volume of the loan of the NABIL Bank. It is regarded as the most important indicator. It helps to increase the risky in loans management of the NABIL Bank whereas weak level of non-performing loans is signal of the better performance of the loans management. Thus, it is logical to review the valuation of non-performing loans & loans management.

Table 4.16

**Relationship between Loans and Non-Performing Loan in NABIL:
Correlation Matrix**

		Loans	Non Performing Loan
Loans	Pearson Correlation	1	-0.806
	N	5	5
Non Performing Loan	Pearson Correlation	-0.806	1
	N	5	5

The Table 4.16 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson's correlation coefficient was found -0.806, which shows highly negative correlation. It indicates that non-performing loans and loans were highly negatively correlated with each other. That means, decreasing non-performing loan results increasing loans and vice versa in loans management. Coefficient of determination was found 0.6496 which indicates that 64.96% of total change in loans management has been negatively determined by non-performing loans.

Loan management has been negatively influenced by non-performing loans. Effectively loans management helps to decrease the non-performing loans. No exception is found in case of NABIL Banks. Thus it

is logical to review the impact of various components of working in loans management.

Table 4.17
Relationship between Loans and Non-Performing Loan in SCBNL:
Correlation Matrix

		Loans	Non Performing Loan
Loans	Pearson Correlation	1	-0.931
	N	5	5
Non Performing Loan	Pearson Correlation	-0.931	1
	N	5	5

The Table 4.17 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson's correlation coefficient was found -0.931, which shows high degree of negative correlation. It indicates that non-performing loans and loans were negatively correlated with each other. That means, decreasing non-performance in loans management. Coefficient of determination was found 0.8668 which indicates that 86.68% of total change in loans management has been negatively determined by non-performing loans.

Loan management has been negatively influenced by non-performing loans. Effectively loans management helps to decrease the non-performing loans. No exception is found in case of SCBNL. Thus it is logical to review the impact of various components of working in loans management.

4.4 Impact of Loan and Advances on Net Profit

Loans have high implication for determining net profit. Effective loans directly affect the net profit of the Banks. It means that the net profit of

the Banks is largely dependent by the loans management. Thus, it is more significance to know the impact of loans in net profit.

To find out the result the five years data (study period) of net profit, loans are average to get a variable of net profit and loans. Therefore, simple regression analysis is used for computation. The following table presents the regression analysis of the independent variables loans on dependent variables net profit of the NABIL Bank.

Table 4.18
Impact of Loan and Advance on Net Profit in NABIL:
Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.907	0.823	0.764	64950135.49

a. Predictors: (Constant), Loans & Advances.

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	58915082194952300.000	1	58915082194952300.000	13.966	.033(a)
	Residual	12655560299106000.000	3	4218520099702002.000		
	Total	71570642494058300.000	4			

a Predictors: (Constant), Loan & Advance

b Dependent Variable: Net Prfoit

Table 4.18 shows that dependency of Net profit on loans. The calculated R was found 0.907 indicates that there is high degree of relationship with dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value was found 0.823, which indicates that 7.64% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management of loans should seriously be taken to achieve the goal of the NABIL Bank.

Similarly, ANOVA table shows that the result presented above was not significant at 0.764 levels. The results of net profit volume and volume of

loans resulted relatively higher level of 'F' statistics. The lower level of 'F' statistic resulted relatively higher level of significance. Although, it was significantly at overall evaluation, beta coefficient shows that the result of loans was not found significant.

Table 4.19
Impact of Loan and Advance on Net Profit in SCBNL:
Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.876	0.767	0.690	38192358.52

a. Predictors: (Constant), Loans & advances.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14425882616188490.000	1	14425882616188490.000	9.890	.051(a)
	Residual	4375968748247481.000	3	1458656249415827.000		
	Total	18801851364435970.000	4			

a Predictors: (Constant), Loan & Advance

b Dependent Variable: Net Profit

Table 4.19 shows the dependency of Net profit on loans. The calculated R was found 0.876 indicates that there is high relationship with dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value was found 0.767, which indicates that 6.9% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management of loans should seriously be taken to achieve the goal of the SCBNL.

Similarly, ANOVA table shows that the result presented above was not significant at 0.69 levels. The results of net profit volume and volume of loans resulted relatively higher level of 'F' statistics. The lower level of 'F' statistic resulted relatively higher level of significance. Although, it was

significantly at overall evaluation, beta coefficient shows that the result of loans was not found significant.

4.5 Impact of Non-Performing Loan and Performance Loan on Net Profit

Performing loan and non-performing loan have high implication for determining net profit. Effective performing loan and non-performing loan directly affect the net profit of the organization. It means that the net profit of the organization is largely dependent by the performing loan and non-performing loan of the organization. Thus, it is more significance to know the impact of performing loan and non-performing loan in net profit.

To find out the result the five yes data (study period) of net profit, performing loan and non-performing loan are average to get a variable of net profit, performing loan and non-performing loan respectively. Therefore, linear regression analysis is used for computation. The following table presents the regression analysis of the independent variables performing loan and non-performing loans on dependent variables net profit of the NABIL Bank.

Table 4.20
Impact of Non-Performing Loan and Performing Loan on Net Profit in NABIL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.929	0.862	0.725	35975573.41

a. Predictors: (Constant), Performing loan, Non-performing loan

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16213367599958550.000	2	8106683799979270.000	6.264	.138(a)
	Residual	2588483764477418.000	2	1294241882238709.000		

	Total	18801851364435970.000	4			
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a Predictors: (Constant), Performing Loan, Non-Performing Loan

b Dependent Variable: Net Profit

Table 4.20 shows that dependency of Net profit on performing loan and non-performing loan. The calculated R was found 0.929 indicates that there is high positive relationship dependent variable profit on two independent variables performing loans and non-performing loan. After considering the error term, the adjusted R square value was found 0.725, which indicates that 72.5% of the total variation in the dependent variable net profit has been explained by the two independent variables performing loans and non-performing loans. Thus, it can be concluded that performing loan and non-performing loans is a strong determinant of net profit. Therefore management of performing loans and non-performing loans should seriously be taken to achieve the goal of the NABIL Bank.

Similarly, ANOVA table shows that the result presented above was not significant at 0.01 levels. The results loans and volume of non-performing loans resulted relatively higher level of 'F' statistics. The lower level of 'F' statistic resulted relatively higher time of significance. Although, it was significantly at overall evaluation, beta coefficient shows that the result of performing loans and non-performing loans was not found significant individually.

Table 4.21

**Impact of Non-Performing Loan and Performing Loan on Net Profit
in SCBNL : Regression Analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.932	0.869	0.739	35056041.67

a. Predictors: (Constant), Non-performing Loan, Performing Loan

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16343999249437960.000	2	8171999624718980.000	6.650	.131(a)
	Residual	2457852114998011.000	2	1228926057499005.000		
	Total	18801851364435970.000	4			

a Predictors: (Constant), Performing Loan, Non-Performing Loan

b Dependent Variable: Net Prfoit

In the Table 4.21, the adjusted R square was found to be 0.739 considering independent variables performing loan, non-performing loan and dependent variable net profit. It means that 7.39% percent total variation in dependent variable net profit has been explained by independent variables performing loan and non-performing loan. Thus, it can be concluded that performing loan and non-performing loan has high influence on net profit volume during the study period. Performing loan and non-performing loan can be described as strong determinant for determining of profit.

Similarly, ANOVA table shows that the result presented above was not significant at 0.01 levels. The results of net profit volume, volume of performing loans and volume of non-performing loan resulted relatively higher level of 'F' statistics resulted relatively higher time of significance. Although, it was significantly at overall evaluation, beta coefficient shows that the result of performing loans and non-performing loans was not found significant individually.

4.6 Major Findings of the Study

The present section deals about some meaningful results on credit management in selected commercial banks resulted from analysis of data. Primary objectives of the study were designed to assess the financial conditions of the selected banks in terms of their creditability. Similarly, it was also specified to compare the position of the banks. Secondary sources of information were used to meet the stated objectives of the study. Details of the findings are presented as below.

1. From the Stand Point of Credit Practice

- The credit practices of NABIL in terms of total loans to deposit ratio is found to be the highest more than SCBNL (i.e. $0.6298 > 0.3660$). It indicates the NABIL has been strong to mobilize its total deposit as loan. In terms of interest income to loan and advances ratio NABIL has the highest mean scores of 0.0932 and SCBNL has the mean scores of 0.0858 or ($0.0932 > 0.0858$). From this point of view NABIL Bank has the best performance in earning interest income.
- Leading policy of SCBNL with regard to non-performing loans to total loans & advances was found to be the lowest with the mean value with 0.0351 as compare to NABIL Bank. The result indicates that if non-performing loan increases, the overall banking business will be affected negatively.
- The ratio of loans and advances to total assets was found greater in NABIL in comparison with SCBNL which shows the good lending performance of NABIL, whereas in terms of loan and advances to current assets ratio NABIL has highest mean than that of SCBNL this means that NABIL has relatively better practice in short term lending.
- Lending policy of SCBNL in terms of loan loss provision to total loans & advances was found relatively better than that of NABIL Bank. The mean score of SCBNL was found lower than NABIL Bank, i.e. $0.0149 < 0.1517$. The result indicates that the low degree of the ratio shows not only the strong and effective credit policy but also healthy performance of the economy.

The cursory looking for these selected banks in terms of credit practices reveals that all other ratios proves the SCBNL seems to have the best lending performance.

2. From the Stand Point of Credit Efficiency

- Efficiency measurement of selected banks in terms of total assets to liability was found better for NABIL and SCBNL. The mean score value for these two banks are found 5.0766 and 5.0963 respectively. The result indicates that the NABIL Bank is able to utilize its fund most successfully.
- Efficiency measurement reveals that the ratio for SCBNL with regard to interest expenses to total deposit is found relatively lower in comparison to NABIL (i.e. $0.2058 < 0.4470$). This implies that Standard Chartered Bank is successful to collect cheaper deposit than NABIL Bank. But the interest expenses to total expenses ratio of Standard Chartered Bank has observed lowest than ratio of NABIL Bank (i.e. $0.2695 < 0.3017$). This decreased ratio, here, can mean that cost of deposit is also decreasing.
- The ratio of non-interest bearing deposits to total deposits is found highest i.e. 0.6629 in Standard Chartered Bank in compared with NABIL Bank. From this analysis Standard Chartered Bank can be viewed as the most successful in collecting cheapest fund in the form of current deposit that creates from the deposit acceptance from business enterprises. However, high current amount deposit may adversely affect the bank at the time of adverse situation.
- The result of interest income to total income ratio for Standard Chartered Bank is found higher than NABIL Bank (i.e. $0.6609 > 0.5291$). It indicates that the higher ratio of Standard Chartered

Bank shows its high dependency on fund-based activities. The ratio of interest from loan and advances to total interest income of NABIL Bank is found higher than Standard Chartered Bank (i.e $0.0932 > 0.0858$). It indicates that NABIL Bank is strong to mobilize the loan and advances to earn interest and also make more impact on total income.

- Standard Chartered Bank has low degree of ratio of interest suspense to interest income from loans and advances. The low degree of ratio of 0.06148 shows that it has high interest turnover. The decreasing ratio is also the symbol of effectiveness.

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial results towards the NABIL Bank and Standard Chartered. The ratio of interest expenses to total deposits, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to be better for Standard Chartered Bank whereas other ratios are more favourable to the NABIL Bank. It can be concluded that the efficiency of both NABIL Bank and Standard Chartered Bank is found better. Furthermore, which ratio is better to measure credit efficiency depends upon the banks own policies.

3. From the Stand Point of Correlation Analysis

- The correlation coefficient between loan and net profit of NABIL Bank was found 0.508 it means moderate relationship between loan & net profit whereas SCBNL has 0.938 & it shows the high relationship between loan & net profit. In the same way, coefficient of determination of NABIL Bank and SCBNL are 25.81% & 87.96% of total change in net profit by total loan in NABIL Bank & SCBNL respectively. The profit is highly determined by loan in SCBNL in compared to NABIL Bank.

- In the same way, correlation coefficient of loan and non-performing loan was found to be -0.862 & -0.275 in NABIL Bank & SCBNL respectively. That means the trend of increasing volume of loan decreases the non-performing loan at high level in NABIL Bank & SCBNL during study period. Similarly, coefficient of determination was stood as 0.7430 and 0.0756 indicates that 74.30% of total change in loan has been negatively explained by non performing loan in NABIL Bank whereas 7.56% of total

change in loan has been negatively determine by non-performing loan in SCBNL.

4. From the Stand Point of Regression Analysis

- The value of adjusted R square was found to be 0.011 & 0.019 in NABIL & SCBNL considering impendent variable loan and dependent variable net profit. It was found that 1.11% total change in dependent variable in net profit has been explained by independent variable loan in NABIL whereas 1.19% variation has been explained by independent variable loan the findings also showed that both the result was not found significant at 0.01 levels of significance.
- The value of adjusted R square was found to be 0.033 & 0.0887 in NABIL & SCBNL respectively considering dependent variable net profit and tow independent variables performing loan and non-performing loan. It indicates that 3.3% total change in dependent variable net profit has been explained by two independent variables

performing loan and non-performing loan in NABIL where 8.87% total change in dependent variable net profit has been explained by two independent variables performing loan and non-performing loan in SCBNL. The finding showed that profit is highly estimated by two independent variables in SCBNL than that of NABIL. The main reason behind this is the higher level of non-performing loan in SCBNL than that of NABIL.

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