CHAPTER-I

INTRODUCTION

1.1 Background

The source of finance is the most essential element for the establishment and operation of any profit and not profits making institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issued shares, and through the financial institutions such as banks, in the form of credit, overdrafts and other related services (Vaidhya, 1999: 4).

Nepal is a developing country. Developing countries face a lot of problems for their economical development. Financial market is very important for the economic growth of the country (Economic Survey, 2004/05: 2). The pace of development of the country largely depends upon the economic activities. Economic activities are guided by finance, financial institution provide societies, insurance companies, and stock exchange and helps in the economic development of the country (Economic Survey, 2004/05: 2).

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

Banking is one of the most heavily regulated business in the world (Vaidhya, 1999: 5). Banks are among the most important financial institutions in the economy. They are the principal source of credit (loan-able funds) for millions of individuals and families and for many units of government. Moreover, bank often act as a major source of credit to small local business ranging from grocery stores to automobile dealers for their stock. Banks are among the most important sources of short term working capital for business and have become increasingly active in recent years in making long-term business loans for new plant and equipment (Shekhar & Shekhar, 1999: 6).

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

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

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

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and customer needs to price that credit reasonably in line with competitively determined interest rates. Bank loan support the growth of new business and jobs within the banks trade territory and promote economic vitality. Banks make a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles, and buying new furniture, taking dream vacation or purchasing college education, to constructing home and office buildings.

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

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

In 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 with 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.

Origin of the Banks in Nepal

As in other countries, goldsmiths and landlords were the ancient bankers of Nepal. Banking on modern timer developed in Nepal recently. But this does not mean that there was a complete absence banking activities. From times immemorial, money lender existed before the establishment of modern bank. There is plenty of evidence to show that loan was borrowed in those days.

The history of banking in Nepal in the form of money lending can traced back in the reigning in period of Gunakama Dev, the King of Kathmandu (Nepal Bank Limited, Nepal Bank Limited Patrika, 2037: 31)

During the Prime Ministerial period of Ranodeep Singh, one financial institution was established to give loan facilities to the Government Staffs and loan facilities to the public in general in the terms of 5% interest but “Tejarath" did not except money from public. (Nepal Bank Limited, Nepal Bank Limited Patrika, 2037: 40)

The first bank in Nepal was established in 1937 A.D. (1994 B.S.) as Nepal Bank Limited under Nepal Bank Act to provide modern and organized facilities. Having felt the need of development of banking sector to the help the Government formulate monetary policies, Nepal Rastra Bank as a Central Bank was set up in 1956 A.D. (2013 B.S.). Since then, it has been functioning as Government's bank and contributed to the growth of financial sectors. Through the Nepal Rasta Bank has adopted a deregulatory approach at present. It requires continues modification in view of fast changing world. Being the Central Bank, Nepal Rastra Bank has its own limitations and reluctance to go on profitable sectors. To cope with these difficulties, government set up Rastriya Banijya Bank in 1966 A.D. (2022 B.S.) as a fully government owned commercial bank. Similarly, Agriculture Development Bank was established in 1968 A.D. (2024 B.S.). After then, Nepal Arab Bank Limited was established as a first joint venture commercial bank in 1984 A.D. (2041 B.S.). Having observed the success of NABIL Bank based on marketing concept, NRB adopted liberal economic policy to promote the financial institution. So many commercial banks, development banks and other financial institution are emerging day by day.

Introduction to Nepal Bank Limited

Nepal Bank Limited (NBL), the first Bank of Nepal, was established in 30th Kartik 1994 B.S. NBL is the pioneer financial institution of Nepal. From the very conception and its creation, Nepal Bank Ltd. is a joint venture between the government and the public sector. Out of 2500 equity shares of Rs. 100 face value, 40% was subscribed by the government and the balance i.e. 60% was offered for the sale to public sector.

At Present, there is 41% share owned by the government and the rest by the public sector. Nepal Bank Ltd. was established under company law, Nepal Bank Law 1994 in Judda Sadak paying of rent Rs. 100 per month. The bank stands its operation with the authorized capital of Rs. 10 million with only 10 shareholders when the bank first started. In that era, very few understood or had confidence in this new concept of formal banking in Nepal. Rising equity shares were not easy and mobilization of deposits even more difficult. At present, it has authorized capital of Rs.1000 million and paid up capital of Rs 380.4 million. One of the admirable efforts of the bank was that it helped initially in removing the dual currency system and circulating the Nepalese currency throughout the country.

The first branch of NBL was Kathmandu Banking Office and its first borrower was Biratnagar Jute Mill which borrowed Rs. 0.1 million at 5 % interest rate in 12th chaitra 1994 B.S. Initially, it was operated by only 12 staffs under the leadership of General Manager Thakur Singh Kathait.

During the past seven decades, the bank experienced many ups and downs, but it has remained the leading financial institution in Nepal. In early stage bank has provided its services to customers and government with limited resources manually. Now, it has been using advanced technology to provide banking facilities. Most of the branches have been computerized with modern Banking software and rests of the branches are in the process of computerization. To cope with the development of modern banking technology, it has been providing Any Branch Banking facilities, Web Remit service, SMS Banking etc.

Nepal Bank Limited has helped vastly in developing the country by accumulating the scattered money in small amount in each and every nook and corners of the country and granting loan and advances in various ways. The bank has been tendering modern banking services to the different sectors of the economy like manufacturing and service industries, hydropower projects , traders, small entrepreneurs and the weaker sections of the society through more than 100 Branches which spread all over the five development regions of the country.

Every country has to give an emphasis on upliftment of the stable and sustainable economy. Until and unless a nation mobilize its own domestic resources, the nation cannot achieve economic growth. Financial institutions are currently viewed as catalyst in the process of economic growth of country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries, the financial institutions help the process of resources mobilization. The importance of financial institutions in the economy has of late grown to an enormous extent. As main financial institution, banks are expected to support local community with an adequate supply of credit for all legitimate business and consumer needs to price that credit reasonably in line with competitively determined interest rates. Bank loan support the growth of new business and jobs within the banks trade territory and promote economic vitality.

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 loan, corporate bonds and credit derivatives. (Clemen;1963:42)

Lending money is nowadays becoming main resources of revenue to the bank and also involves high risk too. Bank will not provide loan unless it has sufficient sources to the borrower that will be needed in case of future recovery. So, credit management strongly recommends analyzing and managing the credit risk. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposures within acceptable parameters.

Since, exposure of to credit risk continues to be on the leading source of problem in banks worldwide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. The Basel Committee is issuing this document in order to encourage banking supervisors globally to promote sound practices for applicable to the business of lending, they should be applied to all activities where credit risk is present. (Vaidya;1999:182)

Proper financial decision making is more important in banking transaction for its efficiency and profitability. For this proper credit policy is very essential. 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. (Cheney&Moses;1988:169)

For most banks, loans are the largest and most obvious source of credit risk, however other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk in various financial instruments other than loans, including acceptances, inter bank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees and the settlement of transactions.

1.2 Statement of the Problem

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

Most of the 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. Thus risks that are adequately compensated for risks incurred. So, to establish creditability position is a major issue in commercial banking during these days.

Nepalese commercial banks are lacking scientific and imperial research that could identify the issues of credit management. Banks and financial institutions are investing in house loan, hire purchase loan for safe purpose, Due to lack of good lending opportunities, banks appear to be facing problem of excess liquidity. Due to unhealthy competition among the banks, the interest rate for the loan is in decreasing trend and the recovery of the banks credit is going towards negative trends. 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 to know the problems faced by Nepalese commercial banks related to the investment, Nepal Bank Limited is selected for study and the specific research questions regarding credit management in Nepal Bank Limited are identified as follows:

a) Are the credit practices adopted by Nepal Bank Limited in good position?
b) Is bank in the right level of liquidity?
c) Is bank investing in good and profitable sectors?
d) Has bank been able to earn profits?
e) What is the credit efficiency of NBL?
f) What is the impact of growth in deposit on liquidity and lending practices?
g) What is the position of non performing credit in NBL?
h) How far NBL is able to use its resources in credit and advances?

1.3 Objectives of the Study

The main objective of this study is to have true insight of the credit management of Nepal Bank Ltd. It is also aimed to find credit practice efficiency and profitability situation. Moreover the study has specified the following objectives.

a) To see the investment and loan & advance system of the Nepal Bank Limited.
b) To see the relationship of liquidity and lending with deposit increases
c) To explore the relationship with loan and advances and net profit of the Nepal Bank Limited
d) To provide suggestions and recommendations for the improvement based on the major findings of this study

1.4 Significance of the Study

In this changing pace of time, most of the commercial banks are gaining a wide popularity through their efficient management and professional services and playing a great role in the economy. The main purpose of the commercial bank is to have effective credit management so that stakeholders get satisfactory. This study adds new idea and findings about the concerned bank.

This study is helpful for all the concerned parties which add new idea and findings about the Nepal Bank Ltd. The studies that will have importance to various groups but in particular is directed to a certain groups of people/organizations are:

a) Important to the management of Nepal Bank Limited for self assessment of what they have done in the past and guide them in their future plans and program.
b) Important to the shareholders.
c) Important to the financial agencies, stock exchanges and stock traders, who are interested in the performance of the bank as well as the customer, depositors and debtors who can identify the better bank to deal with in terms of profitability, safety and liquidity.
d) Important to the interested outsides parties like investors, competitors, personnel of the banks, dealers and market makers.
e) Important to the macro level policy makers like government and NRB for the formulation of further policies in regard to economic development.

1.5 Limitations of the Study

This study has been carried out with certain limitations. The major limitations are as follows:

a) The study is concerned only with credit related financial performances of Nepal Bank Limited.
b) The scope of the study is to analyze Credit management aspects.
c) In this study only selected statistical tools and techniques are used.
d) This research study largely depends on published documents such as Balance Sheet, Profit and Loss Account, which are circulated at the close of the financial year.
e) Research is done for the partial fulfillment of the Master of Business Studies (MBS) of the management faculty, Tribhuvan University and no comprehensive study.
f) This study is conducted only for suggestion not for directing.
g) This study is based on the latest seven years data.
h) Time and financial constraints are also the major limitations of the study. The report has to be submitted within the time period.

1.6 Organization of the Study

The study credit management of Nepal Bank Limited is presented in organized form. The whole study is divided into five different chapters and they are given as follows:

Chapter-I: Introduction: This chapter describes the 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, significance of the study, limitations of the study and organization of the study.

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 contains conceptual framework of the credit, review of articles , past related thesis and research gap.

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. This chapter includes research design, data collection, data analysis technique and research variables.

Chapter- IV: Data Presentation and Analysis: This chapter analyzes the data related with study and presents the findings of the study and also commend briefly on them. Data processing, data analysis and interpretation are given in this chapter and there is use of techniques relating to analysis such as ratio, descriptive expression, diagrams and so forth.

Chapter-V: Summary, Conclusion and Recommendations: On the basis of the result from data analysis, the researcher concludes about the performance of the concerned organization in terms of credit management. This chapter is devoted to the summary of the research, conclusion derived on the basis of data analyzed and the recommendations for improvement to the concerned organization.

CHAPTER-II
REVIEW OF LITERATURE

2.1 Introduction

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researches can be conducted or done. It is an integral mandatory process in research works. It is a crucial part of all dissertations. In other words it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

- Conceptual framework
- Review of related studies

2.2 Conceptual Framework

2.2.1 Meaning of Commercial Banks

Banks play an important role in the economic growth of a country. In general, a bank is referred to as an institution that deals with money, currency and bullion. It collects the deposits in the form of currency and gold from the savers and supplies to the people in demand of money with different terms and conditions as to the money received and charges different levies in the form of processing fees, commissions, interests etc., from the people who have taken loan from it. In modern economy, banks are considered not as a dealer in money but as the leaders of development. Banks are not just the storehouses of the country's wealth but are the reservoirs of necessary for economic development. Now a day the function of banks are changing which has induced their principle competitors to change. The principle competitors such as other financial institutions including security dealers, brokerage firms and insurance companies are trying to be similar to bank in the services they offer.

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

"Commercial banks deal with other people's money. They have to find ways of keeping their liquid assets so that they could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock their funds in assets, which are not easily releasable. The depositors must be made to understand the bank is fully solvent. The depositors' confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such a way that can have adequate profits without sacrificing liquidity (Radhaswamy, 1979: 42).

"A bank is one who in the ordinary course of his business receives money which he repays by honoring cheques of persons from which of one whose account is receives it"(Bradford, 1974: 453).

"A commercial bank is one which exchanges money, deposit money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meat for cooperative, agriculture, industries or for such specific purpose."(Commercial Bank Act, 2031 BS).

Commercial banks play the important role in the modern economic organization. Their business mainly consists of receiving deposits, giving loans and financing the trade of a country. They provide short-term i.e., lend money for short period.

According to the American Institute of Banking, Commercial Bank is a corporation that accepts demand deposits subjects to check and makes short-term loans to business enterprise regarding of the scope of its other services.

2.2.2 Functions of Commercial Banks

Banks are financial institutions which perform its activities as an objective of profit maximization. To achieve this, the bank carries out functional activities, principally, commercial banks accepts deposits, provide loan, primarily to business firms thereby vacillating the transfer of funds in the economy. The business of commercial bank is primarily to hold deposits and make credits and investments with the object of securing profits for its shareholders. Although, in the yester years banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. Due to the increment in the banking habit of people, competitive environment of banking business all over the world has made this sector very challenging. To meet its major objective, it performs various functions under the mandatory rules and regulations and directives of NRB and the Commercial Act 1974 A.D. The functions of commercial banks are categorized mainly as follows.

2.2.3 Primary Functions

i) Accepting Deposits

Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as: fixed deposit account, current deposit account, saving account.

ii) Advancing of Loans

Commercial banks provide the required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures in different form such as: overdraft, cash credit, direct loan with collateral, discounting of bills of exchange, loans of money at call and short notice

iii) General Utility Functions

Commercial banks also perform general utility functions such as:

- Issuing of letter of credit to its customers

- Issuing of bank drafts and traveler's cheque etc., for transfer of funds from one place to another.
- Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange.
- Serving as referred to the financial standing and credit worthiness of its customers.
- Under writing loans to be raised by public bodies and corporations
- Providing safety vaults of lockers for the safe custody of valuables and securities of the customers
- Acting as a trustee and executing the will of the decease.
- Remittance of money

iv.) Agency Function

Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as: collection of customer's money other banks, receipt and payment of dividend, interest, security brokerage service, financial advisory service, to understand the government and private securities.

2.2.4 Role of Commercial Banks in Changing Context

1. Role on economic development
2. Role on development of financial market (National/Global)
3. Modern products and services: satisfying costumers needs
4. Human relations: customers, stakeholders, government employees
5. Tax payer to the government
6. Social responsibilities
7. Research and development
8. Technology adoption
9. Continuous development and managing the change

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

i.) Credit Risk

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

ii.) Liquidity Risk

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

iii.) Yield Risk

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

iv.) Market Risk

The risk of loss resulting from movements in the market price of financial instruments in which the bank has a position is the market risk. Such instruments include bonds, equities, and foreign exchange and associated derivatives products.

v.) Operational Risk

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

vi.) Management Risk

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

2.2.5 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 same sense that; it occupies large volume of transaction; it covers the main part of the investment activities based in 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 economy. In today's context, it also affects on national economy to some extent. 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 the backbone in commercial backs. Thus, effective management of credit should seriously be considered.

Credit promotes economy's growth and contributes the nation's wealth. People deposit their surplus money in the bank and may lend those collected funds to the various business and companies. These firms in return may invest in new factories and equipment to increase their production. As a result investment raises the nation's living standard. Now a day, most companies issues stocks and bands to raise the capital needed for business expansion instead of borrowing from the banks. Similarly government also issue bonds to obtain fund to invest in the projects like construction of damps, roads, Bridges and schools etc. All such investment by individual business as well as government involves a sacrifice of present value to get except future benefits and income which is probably uncertain.

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposures within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long term success of any banking organization.

For effective credit management, there is major role of sound credit policies and the practices of those policies. The sound practices address the following area:

a. Establishing an appropriate credit risk environment.
b. Operating under a sound credit granting process.
c. Maintaining an appropriate credit administration, measurement and monitoring process.
d. Ensuring adequate controls over credit risk.

Although specific credit risk management practices may differ among banks depending upon the mature and complexity of their credit activities, a comprehensive credit risk management program will address these four areas. Those practices should also be applied in conjunction with sound practices related to the assessment of assets quality, the adequacy of provisions and resources and the disclosure of credit risk all of which have been addressed in other recent Basel Committee document. (Van Horne, 1999: 432)

The income and profit of the bank depend upon the lending procedure applied by the bank. And the lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies, it is always taken in mind that the greater the credit created by the bank, the higher will be the profitability. A sound lending investment policy is not only pre-requisite for banks profitability but also crucially significant for the promotion of commercial saving of developing countries like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and there by achieving the objective of profit maximization and social welfare. Formulation of sound investment policies and co-coordinated and planned efforts pushes forward the forceps of economic growth.

2.2.6 Credit Risk Appraisal

Although specific credit risk management practices may differ among banks depending upon the mature and complexity of their credit advances, credit appraisal is art through which every practical banker master from out of experience and can never be reduced to an absolute science. In spite of several technical aids, such as ratio analysis of financial statements, cash flow and fund flow statements, Profit and Loss account, Balance Sheet available to the modern banker, the ability to make a correct loan decision very much depends on the critical judgment, common sense perceptive intelligence and discriminating sense of the lending banker. However, the usual steps involved in the appraisal of credit risks are:

- The character, capacity, collateral and integrity of the borrower
- Repayment capacity of the borrower including a consideration of the source of income.
- Prospects of the proposal- whether it will succeed.
- The purpose of the loan which is being requested is whether productive or unproductive.
- The collateral that is being offered as security must be investigated as to the following:
  - Whether it is easily marketable
  - Value of security at present
  - Whether the value is likely to be stable or it is the security such that its value fluctuates considerably
  - In case of default in payment, if it is easily transferable.

2.2.7 Credit Policy of Bank

The commercial bank is inspired with the goal of earning profit. How to scattering the loan is one of the most important things. There are many reasons after the goal of gaining profit. A bank is legal person. It can do nothing alone. A bank established without the aim of graining the profit is central bank. Other banks are inspired with the object of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goal. It is essential to carryout the business of lending consistency. For effective credit management, following credit policy are very essential for every bank.

1. Principle of Liquidity

Liquidity means the whole money stock in the economy. The liquid property means cash stock of the commercial banks the amount of short term, current account and short term government and business security and the Treasury bill. A bank should not forget the principle of liquidity while it is following its investment policy. A bank should to able to returns the deposit when demanded by the depositors. A banker has to ensure that money will come as in demand or as per agreed terms of repayment. For this purpose bank need liquid cash.

2. Principle of Profitability

The objective of commercial bank is to earn profit. The bank should focus from which sectors it can earn much profit. The bank can earn more profit from safe and long term investment. If bank pays its attention only on profit, liquidity will be less and if it pays attention on the liquidity, it can't be a long-term investment and the bank doesn't earn profit. So it should maintain equality in it.

3. Principle of Safety

A bank should pay special emphasis on safety. If the investment area is unsafe it is not a good omen for the bank. There will be no doubt of loss whether it is greater or little, if the bank has not invested in a safe sector. The bank should think it with much sensibility. Before making any investment, the bank should seriously study whether it is safe to invest or not.

4. Principle of Diversification

The principle of diversification means, to invest the money in the various sectors. The bank by studying and analyzing the different sectors where it is possible to earn more from little investment should extend its environment. If bank invest in various sectors, it become successful to keep it in balance. As the statement, the bank should not keep all its eggs in the same basket and should invest in various fields.

5. Principle of Marketability

A bank should adopt the principle of marketability. The bank should invest by taking the security of high quality as far as possible. Bank should study the market evaluate the goods, which are taken as a security. There should not be investment by taking the securities of such goods which are not saleable in the market.

6. Principle of National Interest

The objective of bank should not go against the national interest. The banks should follow the rules and regulations as well as policy and directions given time to time by the Nepal Rastra Bank. The bank should make its investment, which is suitable to the national interest and provides benefit to the society.

7. Principle of Tangibility

Though it may be considered that tangible property does not yield on income apart from direct satisfaction of possession of property, many intangible securities may lost their value due to price level inflation. A commercial bank should prefer tangible security rather than intangible one.

8. Principle of Legality

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, and Ministry of Law and other while mobilizing its funds.

2.2.8 Factors Affecting Credit Policy of Banks

There are so many internal and external factors related to an internal external environment which affect the credit policy of banks. Generally, the following factors are to be considered to make effective credit management. It helps to get effective credit worthiness.

1. Industry Environment

It determines the nature of the industry, its attractiveness and the Company’s position within the industry. Structural weakness of a Company does affect to its credit policy.

2. Financial Conditions

It depends upon 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 of fall back on income of sister organization in case of financial crunch of the Company.

3. Management Quality

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

4. Technical Strength

It determines the strength and quality of the technical support required for sustainable operation of the Company in terms of manpower and the technology used.

Appropriate technical competence of the manpower, the viability of the technology uses. Availability of after sales service cost of maintenance and replacements need to be evaluated.

5. Security Realization

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

2.3 Review of Nepal Rastra Bank Directives

Central Bank NRB has established a legal framework by formulating various rules and regulations to mobilize or invest the deposit of the bank in different sectors of the different parts of the nation, to prevent them from the financial problems. These directives must have direct of indirect impact while making decisions. Those rules and regulations are discuss which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CCR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment etc. Commercial bank is directly related to the fact that how much fund must be collected as paid up capital while establishing the bank at certain place of the nation, how much fund is needed to expand the branch and counters. But we discuss only those which are related to credit management of the commercial bank. The directives given by NRB for effective credit management are as follows:

1) Directives on Loan Classification and Loss Provision

With a view to improve the quality of assets of commercial bank, NRB has directed commercial bank to classify their outstanding loan and advances, investment and other assets into four categories. The loans of more than one hundred thousands are to be classified as per debt services ratio, repayment situation and financial condition of borrower, management efficiency and quality of collateral. The loans of less than one hundred thousands have to be classified as per maturity period.

According to the circulars, the loans are classified based on weakness and dependence on collateral securities into four categories and prescribed the provisioning rate as follows:

Loan Classification	Criteria for Provisioning	Provision Rate
Pass	Not past due and past due for a period up to 3 months.	1%
Substandard	Past due for a period of 3 months to 6 months.	25%
Doubtful	Past due for a period of 6 month to 1 year.	50%
Loss	Past due for a period of more than 1 year or advances which have least possibility of recovery.	100%

Source: NRB, Directives for Commercial Banks, 2011.

2) Directives for Investment in Productive Sector

Being a developing country, Nepal needs to develop its infrastructure and other primary productive sectors like agriculture, industrial etc. NRB has directed commercial banks to extend at least forty percent of its credit to productive sector.

3) Directives for the Single Borrower Credit Limit

I. Fund based credit and advances can be issued up to 25% (upper limit) of core capital to a single customer, firm, company and a group of related customers.

II. Non-fund based (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and group of related customer.

2.4 Review of Previous Studies

2.4.1 Review of Journals and Articles

Agrawal and Nagearojan (2001), provided the evidence that all equity firms have a greater family improvement firms have a greater family improvement in corporate corporation than in levered firms. And managers of all equity firms have greater control of corporate voting right. This finding implies that human capital involved in the firm affects the capital structure through the agency problems.

Pradhan (2003), studied of consensus approach to financial ratios for the prediction of financial distress in Nepal provides behavioral evidence from 63 General manager and financial managers of Nepalese industries on the appropriateness of the choice of variables for sickness prediction. The 15 financial ratios selected for the purpose of the study. The respondents were requested to rank these ratios in ascending order of their perceived importance. A value of one was to be assigned to the ratios that are considered most important in sickness prediction context and a value of 15 to the ratios that is considered least considered least important. The major findings of the study were the most important ratios for industrial sickness or financial distress may be seen as net income to sales followed by current ratio, quick ratio, total debt to total assets, sales to average inventory, net income to net worth, EBIT to fixed interest charges and so on and the short-term liquidity ratios as the important indicators of financial distress.

Prashai (2004), emphasised to analyze the interrelationship and trends among some of the component parts of capital and assets structure tools, such as ratio percentage, index, average and coefficient of correlation.

From the study it is known that the bank is composed of its capital with the major portion of deposit. The total assets of the bank are the composition of loan and advance, cash investment and other assets. Among these all component loan and advance are the major portion. During the study, total assets and capitals are increasing trend. But increasing rate of components is different. So the interrelationship of the components is fluctuating. The average growth rates of net profit, and higher then the growth rate of total expenses. The total income and total expenses are not under control of the bank. And net profit is only 40.64% of the total income. He has recommended that the bank showed total as well as expenditure and suggested that total deposit and investment must also be controlled by the bank. The bank needs to reduce its expenses and control fluctuation in the earnings per share to improve its market price per share.

Pradhan (2004) surveyed mainly dealt with financial function, sources and types of financing, financing decisions involving debt effect of change in taxes on capital structure, financial distress dealing with banks and dividend policy. The major findings of study connected with financial management are given as:

1. Banks and retained earnings are the two most widely used financing sources.
2. Generally, there is no definite time to borrow the issues stocks. That is majorities of respondents are unable to predict when interest rate will low or go up are unable to predict when the stock will go down or up.

3. The enterprises have a definite performance for bank loans at a lower level of debts.
4. Most enterprises do not borrow from one bank only and they do switch between banks which ever offer best interest rates.

Most enterprises find that banks are flexible in interest rate and convenience. To sum up it can be said that out of numerous studies on the capital market of Nepal. This study is established itself as a milestone and an outstanding one.

Adhikari (2006), tried to highlight the NPL refers to those loans and advances which are not able to serve the interest and the installment within the given period of time. And the internationally acceptable level of NPA is said to be less than %% on total loans and advance. But out of 26 commercials Bank,11 Banks have less than 5% NPL and one have marginally above 5% NPL.NPL level of other Five Banks is quit high and above the standard as well as industry average. Similar situation is the agriculture development Bank and some other non-Bank financial institution. He said that the private sectors Banks have grown up with the different and improved Banking culture. The culture is applied in the credit operation and it enables to manage their credit with possible stringent manner in most of the private sectors Bank. However, all private sectors Bank are not at par. Even private sector Banks are also carrying their NPA up to almost 40% of their credit portfolio. The average NPA level of the private sector Bank is 6.58%, which is higher than the standard but far below the industry's average. Public sector Banks are still exposed to high risks on credit and holds huge amount of NPA. The recent attempt to write off of dead account would minimize the level of NPA substantially. However, other risks of one time writes off is still high to the individually entity.

He concludes, the process of credit risk management starts from the formation of appropriate credit policy guidelines rules and also comprises of credit appraisal, mitigation of the credit, credit documentation, processing, credit control, monitoring, follow ups, counseling, board over sight and timely recovery actions. When any of these steps is compromised, the loan may convert into the NPL. Once the loan is converted into the NPA, it must be resolved on time with appropriate NPL management strategy and methodology.

2.4.2 Review of Thesis

Khadka (1998) has compared investment policy of NABIL with Nepal Grindlays Bank Ltd.(NGBL) and Nepal Indosuez Bank Ltd. (NIBL). Mr. Khadka has pointed out that the liquidity position of NABIL is comparatively worst than that of NGBL and 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 ration, he has concluded that of other joint venture banks, NABIL is more successful in deposit utilization but fails to maintain high growth rate of profit in comparison with NGBL and NIBL.

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

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

Sharma (2002) has conducted his study highlighting the priority sector investment and repayment states of commercial banks in through intensive banking program and to show the repayment position of the sector. All the three commercial banks covered in his study have contributed the credit to priority sector. But efforts made by different banks are not in the same proportion. Nabil has contributed highest amount of credit to agriculture and cottage industry and NBL has contributed highest amount to services sectors. His major findings were loss repayment overdue loan have been observed more in agriculture, loan repayment from priority sector of Nabil is satisfactory than that from agriculture sector of NBL, reinvestment is the available sources to increase in paying capacity of the borrower, reinvestment and right utilization of bank loan are the cost of commercial banks.

Shrestha (2002) has submitted a thesis highlighting determination the impact of deposit collection and its effect on lending practices, analyze the profitability of banks in respectiveness of liquidity assets and management efficiency, comparative analysis on total investment, deposit and loan and advance and net profit and outside assets and analyze the deposit utilization trend and its projection for next five years of NIBL and EBL. From this study he has find out profitability position of NIBL is comparatively better than RBL. It indicates that NIBL has maintained its high profit margin regarding profitability position, the liquidity ratio of NIBL is greater in every year than EBL. It means NIBL has greater success to meet its current obligation, NIBL has lower risk than EBL regarding various aspects of banking functions, NBIL has successfully managed its assets towards different income generation activities whereas EBL has made low portion of total working fund in investment on government securities and share and debentures of other companies and NIBL trend value of total deposit and loan and advances are increasing but trend values of EBL are increasing. The trend value in all cases of NIBL has lower in comparison to EBL.

Aryal (2003) has done a case study of ADB/N. His research statement of problem was as; because of high interest rate of non-institutional sources, people are unable to pay their credit at fixed time. These institutions compel them to transfer their property to the moneylender resulting himself or herself as a landless person. ADB/N is one of the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and cooperative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However, ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. So Mr. Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB/N.
From the study he has find out actual credit disbursement, collection and outstanding are increasing in decreasing rate, yearly increase in credit disbursement is higher than that of collection, positive relation between credit disbursement and collection that is 0.996, targeted credit collection and disbursement fixed by planning and project

department is not significantly different then actual and most of the customers are unaware of the policy of the bank.

Ghimire (2005) has tried to evaluate the impact of NPA on profitability of Commercial Banks. He also studied about internal and external factors that contributed to increase the level of NPA through loan and advances. The objective of his study is also to find out the relationship between the non- banking assets and non-performing assets, in which he was able to find out the internal responsible factors that contribute turning good loans to bad loans, bad intentions, and weak management, are the most responsible factors. Similarly weak legal provisions and credit concentration are also found least preferred factors in turning good loans into bad loans. Some factors such as lack of portfolio analysis, not having effective credit policy and shortfall on securities were identified as having average effect in NPA growth. In connection to the external factors, it has been that recession, political and legal issues are more relevant factors in turning good loans into bad one. Likewise legal provisions for recovery as a reason for increment of NPA in Nepalese Banks have been found the factors having less impact. Supervision and monitoring system have been identified as average factors. It is therefore, can be generalized that economic and industrial recession and not having strong legal provisions for loan recovery are the major external factors that have major contribution for increment of NPA.

It has been concluded in the study that Nepalese Commercial Banks gave must priority to trade sectors for lending its resources, at the same time it is found that service sectors are not being given much emphasis. He has recommended to the sample banks, Nepal Bangladesh Bank Ltd., Nepal SBI Bank Ltd. and Bank of Kathmandu as on different headings, subject matter such as financial strength, personal integrity and security, monitoring and control system, avoidance of credit concentration , strong legal system, assets management company, avoidance of undue pressure etc.

Shrestha (2009) has tried to evaluate the status of the loan portfolio of the bank, liquidity position of the banks, asset management and profitability position of the banks. The overall aspect of liquidity position of NIB is comparatively better than

Nabil bank. An asset management aspect of Nabil is better than NIB justified by its loan and advances to total deposit ratio.

From the study he has find out the mean current ratio of Nabil is 1.89 and NIB is 1.99. The current ratio of NIB is little higher than Nabil. It indicate the better liquidity position of NIB, investment on government securities to current assets of Nabil has higher than NIB, the asset management of NIB has more efficient than Nabil. On the other hand, Nabil bank has invested more money in risk free assets than that of NIB, Nabil bank has utilized the loan and advances for the profit generation purpose in proper way and the credit risk ratio indicate the more efficient operating of credit management of both banks according to NRB directives.

Ghimire (2010) has focused on credit management of joint venture commercial bank with reference to NIBL and BOKL. The major objectives and findings of the thesis are to see the credit practices of the sample banks, to examine the efficiency of the bank and to find out the strength and weakness in the credit administration of the two banks.

From the study he has find out cash and bank balance to total deposits ratio of NIBL and BOK is 11.9% and 9.4% respectively, BOK has maintained higher credit and advances to total deposit. It shows that BOK seems to be strong to mobilize its total deposit as credit and advances. The correlation coefficient of total deposits with total credit and advance is found highest degree of positive correlation for both banks. NIBL and BOK both banks have position of decreasing the utilization of loan and going toward utilization of its own equity and minimizing the risk. P/E ratio of both banks is in increasing-up rate. The average P/E ratio of NIBL is higher than BOK.

Dhakal (2011) has conducted a study on credit risk management of Standard Chartered Bank Nepal Limited and Rastriya Banijya Bank. The main objectives of this research is to find the status and growth of nonperforming loan, total loan and loan loss provision of the respective bank. The NPL to total loan and advances of both banks are in decreasing trend which is the good sign of the credit management.

From the study he has find out that industrial development in Nepal is not good due to load shedding at this time. So, it has directly affected the lending policy of commercial banks. For effective credit management and consumer's service, both banks have been making great effort for the development and empowerment of employees by conducting various training related to credit management and customer service. SCBNL has maintained higher credit and advances to total deposit. It shows that the bank seems to be strong to mobilize its total deposit as credit and advance.

2.5 Research Gap

The previous study can’t be ignored because they provide the foundation to the present study. In other words, there has to continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. Credit Management of Nepal Bank Limited. Therefore, to fulfill this gap, this research is selected. To complete this research work, many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of credit management, which is considered only on Nepal Bank Limited. Our main research problem is to analyze whether the NBL is able to utilize the resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Similarly, trend analysis of investment and profit are reviewed to make this research complete. Therefore, this study is useful to concerned banks as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to solving research problem systematically. It helps to understood as a science of studying how research is done scientifically.

Research methodology helps to find out accuracy, validity and suitability of research. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of the study, the applied methodology has been used.

3.2 Research Design

Research design is a plan of structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances' (Kerlinger, F.N., 1986: 275).

Research design is that outline which configures the collection and of this research concerns with descriptive and analytical type of research design.

'Descriptive research is process of accumulating facts. It does not necessarily seek to explain relationship and test hypotheses make predictions or get at analysis style of the data and information. Whereas analytical type of research design is used to clear the situations by the help of various tools. According to the subject matter this research also clarified by using various tools.

The topic of the problem has been selected as "Credit Management of NBL". The sole objective of this study is to make analysis of credit management of NBL with respect to the directives imposed by Nepal Rastra Bank. In order to reach and accomplish the objectives of the study, different activities are carried out and different stages are crossed during the study period. For this purpose, the chapter aims to present and reflect the method and techniques those are carried out and followed during the study period. The research methodology adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulation, procedures and methodology.

The research is to be based on the providing information of the Nepal Bank Limited i.e. secondary information from relevant sources of information and that information tries to analyze all the facts, which have been collected for the aim of the study. Hence, the researcher has mainly used analytical type of research design.

3.3 Population and Sampling

A population is a complete enumeration of each and every unit of the universe as a whole. It is related to the total study of the material in detail. There are 31 'A' class licensed banks in Nepal but this study considers only Nepal Bank Limited.

3.4 Nature and Sources of Data

Data is a collection of related raw materials on which decision is based. There are mainly two sources of data-primary data and secondary data. This study will be conducted mainly based on secondary data like financial/annual statements of the bank, bulletins, bank articles and literature, economic survey reports etc. of the fiscal year with negligent amount of primary data like personal interview with the concerned authorities and departments, questionnaire etc. The major sources of secondary data for this study are as follows:

a) Annual reports of the bank.
b) Previous studies and reports.
c) Unpublished official records.
d) Published and unpublished bulletins and reports of the bank.
e) Reports published by Nepal Stock Exchange.
f) Reports of Nepal Rastra Bank Samachar and Banking and Financial Statistics Published by Nepal Rastra Bank
g) Journal and other publish and unpublished related document and reports for Central Library of T.U., American Library, Library of Shanker Dev Campus, Library of Nepal Rastra Bank and Library of Nepal Commerce Campus.
h) Various Internet Websites related to banking and finance.
i) Other materials published in daily, weekly, monthly newspaper and magazines.

3.5 Reliability of Data

There exists a kind of skepticism regarding the bank personnel's interviews as the study does not make them compulsory to provide any sort of authentic data. However, data received through central bank's statistics and research departments, bank publications can be considered valid as they have already been audited. Similarly, analytical data and texts from the freelance sector can also be considered as valid and reliable because their analysis is independent and free of business purpose.

3.6 Data Analysis Tools

Presentation and Analysis of the collection data is the core part of the research work. The collected raw data are first presented in systematic manner in tabular form and are then analyzed by applying different financial and statistical tools to achieve the research objectives. To make the study more specific and reliable, following tools are used for analysis:

- Financial Tools
- Statistical Tools

3.6.1 Financial Tools

For the sake of analysis, various financial tools are used. The basic tools used are ratio analysis. Ratio analysis is used to compare firm's financial performance and status to that of other firm's overtime.

1. Ratio Analysis

Ratio Analysis is the calculation and interpretation of financial ratio to assess the firm's performance and status. It is the relationship between two accounting figures expressed mathematically.

From the help of ratio analysis, the quantitative judgment can be done regarding financial performance of a firm. In this study, different ratio are calculated and analyzed, which are given below:

i. Capital adequacy Ratio:

Risk weighted assets and capital level (including Tier 1 or core capital and Tire 2 or supplementary capital) are used to calculate the capital adequacy ratios. Due the constraints of the data, we have taken the capital adequacy ratio directly from the annual supervision report for easiness of our research. Although capital adequacy ratio is calculated by using the following formula:

$$\text{CAR}=\frac{\text{Tire1 + Tire 2 capital}}{\text{Risk weighted assets}}$$

ii.) Performing Assets to Non-performing Assets Ratio

Performing assets are the main contributing assets of the bank. If the level of performing assets is high it results high profitability of bank where as if the level of nonperforming assets is high, it reduces its profitability. This ratio shows the percentage of performing assets to non performing assets of the bank. Mathematically it can be expressed as follows:

$$\text{Performing Assets to Non-performing Assets Ratio} = \frac{\text{Performing Assets}}{\text{Non Performing Assets}}$$

iii.) Non Performing Assets to Total Assets Ratio

It tells the percentage of non performing assets on total assets. It is useful to know that whether the bad credit is increasing or not. If bad credit is found increasing, it should be correctly analyzed. High level of non performing assets highly affects the profitability of the bank. This ratio is calculated as follows:

$$\text{Non performing assets to total assets ratio} = \frac{\text{Non Performing Assets}}{\text{Total Assets}}$$

iv.) Loan Loss Provision to Total Loan and Advance Ratio

This ratio shows the possibility of loan default of a bank. It indicates how efficiency it manages its loan and advances and makes effort for loan recovery. Higher ratio implies higher portion of non- performing loan portfolio. It is computed by dividing loan loss provision from total loan and advance derives this ratio.

This can be stated as:

$$\text{Loan Loss Provision to Total Loan and Advance Ratio} = \frac{\text{Total Loss Provision}}{\text{Total Loan and Advance}}$$

v.) Non performing Loan to Total loan and Advances Ratio

To measure the volume of non-performing loan to total loan and advances, this ratio has been used. This ratio shows the percentage of non-recovery loans in total loans and advances. This is calculated as follows:

$$\text{Non Performing Loan to Total Loan and Advances Ratio} = \frac{\text{Non Performing Assets}}{\text{Total Loan and Advance}}$$

vi.) Provision for Pass Loan to Total Pass Loan Ratio

This ratio measures the percentage of provision for pass loan to total pass loan. As per the Nepal Rastra Bank directives the provision for pass loan should be 1% of total pass loan. Excess provision for pass loan provision could tie up the capital which could other wise used for the investment purpose. Mathematically it is expressed as:

$$\text{Provision for Pass Loan to Total Pass Loan Ratio} = \frac{\text{Provison for Pass Loan}}{\text{Total Pass Loan}}$$

vii.) Provision for Doubtful Debt to Total Doubtful Debt Ratio

This ratio measures the percentage of provision for doubtful debt to total doubtful debt. The high amount of doubtful debt and its provision is not good for the banks performance. However the bank should make a provision for doubtful debt as per the NRB standard. Nepal Rastra Bank has set the standard for the provision for doubtful debt at 50%. This ratio is calculated as follows:

$$\text{Provision for Doubtful Debt to Total Doubtful Debt Ratio} = \frac{\text{Provision for Doubtful Debt}}{\text{Total Doubtful Debt}}$$

viii.) Provision for Bad Debt (Loss) to Total Bad Debt Ratio

It is the percentage of provision for bad debt and total bad debt. Increasing bad debt means not the indication of good business. Bad debt should try to reduce as much as possible. There should be made provision for bad debt by each bank. As per the directive of Nepal Rastra Bank, the provision for bad debt should be 100% of the total debt. It is calculated by using the following formula:

$$\text{Provision for Bad Debt (Loss) to Total Bad Debt Ratio} = \frac{\text{Provision for Bad Debts}}{\text{Total Bad Debt}}$$

ix.) Loan and Advances to Total Deposit Ratio

This ratio shows how successfully the bank in utilizing its total deposits to loan and advance for generating profit. The ratio can be obtained by dividing loan and advances by total deposits. Higher ratio implies the better utilization of total deposits. This can be stated as:

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

x.) Loan Advances and Investment to Total Deposit Ratio

This ratio shows the utilization of firm's deposit to loan and advance for generating profit and in government securities and bonds, shares and debentures of other companies and bank. Share is subsidiary companies & other investments.

Mathematically it is expressed as:

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

xi.) Interest Income to Loan and Advance and Investment Ratio

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

Interest Income to Total Loan and Advances and Investment Ratio

$$= \frac{\text{Interest Income}}{\text{Total Loan, Advance and Investment}}$$

xii) 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. It is calculated by using following formula.

$$\text{Interest Expenses to Total Expenses Ratio} = \frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

xiii) Interest Expenses to Interest Income Ratio

This ratio shows the relationship between interest expenses and interest income. The percentage of interest expenses that is subject to interest income is measured by this ratio. Interest expenses mean the cost of bank where as interest income means incomes that is derived from loan and investment. Mathematically, it is derived by using the following formula.

$$\text{Interest Expenses to Interest Income Ratio} = \frac{\text{Interest Expenses}}{\text{Interest Income}}$$

xiv) Return on Total Assets Ratio

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

In this study, net profit/loss assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

xv.) Return on Equity Ratio

It indicates the generation of net profit after tax for the contribution towards net worth (without deducting intangible asset).An increasing ratio may indicate better control of production and other costs. It may also be the result of higher prices due to inflation. A decreasing ratio may indicate problems with cost control or production efficiency. It is calculated by using following formula:

$$\text{Return on Equity Ratio} = \frac{\text{Net Profit After Tax}}{\text{Net Worth}}$$

xvi.) Return on Net Loan and Advances

It indicates the generation of profit by utilizing loan and advances. Higher the ratio indicates the higher efficiency in the utilization of loan and advances and vice-versa. Loan and advances generate the major portion of profit. Hence this ratio measures how efficiently the banks have employed their loan and advances. This ratio is calculated as follows.

$$\text{Return on Loan and Advances} = \frac{\text{Net Profit After Tax}}{\text{Net Loan and Advance}}$$

xvii) Earning per Shares

Earning per Share is one of the most widely quoted statistics when there is discussion of a company's performance or share value. The profits available to the ordinary shareholders are represented by net profit after taxes and preferences dividend. Symbolic expression of EPS is given below.

$$\text{Earning per Share} = \frac{\text{Net Profit After Tax}}{\text{Number of Common Stock Outstanding}}$$

xviii) Current Ratio

Generally, it shows relationship between current assets and current liabilities. The ratio is calculated by dividing current assets by current liabilities.

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

xix) Cash and Bank Balance to Total Deposit Ratio

It is ability of to meet their daily requirements. Hence, cash and bank balance includes cash in hand, foreign cash on hand, cheques and other cash items, balance held in foreign banks.

It is stated as:

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

3.6.2 Statistical Tools

Some of the statistical tools which show the highlight of Nepal Bank Limited are used to achieve objective of the study. The main statistical tools used in this research are as follows:

i.) Arithmetic Mean

Arithmetic means of given set of observation is their sum divided by the number of observation. It represents the entire data by a single value. Out of the various central tendencies a mean is one of the useful tools to find out the average of the given data. It is calculated in the following way.

$$\overline{X} = \frac{\Sigma X}{N}$$

Where,

$\overline{X}$ = Arithmetic Mean

N = Number of Observation

ΣX = Sum of Observation

ii.) Correlation Co-efficient (r)

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the changes in the value of one results change in another variable. It is calculated as follows:

$$\text{Correlation Co-efficient(r)} = \frac{N\Sigma X_1X_2 - \Sigma X_1\Sigma X_2}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\ \sqrt{[N\Sigma X_2^2 - \Sigma X_2^2]}}$$

Where,

r = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = Product of sum of N and product of observation X_1 and X_2

ΣX_1X_2 = Sum of product X_1 and Sum of product X_2

iii.) Probable Error

With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is defined.

$$\text{Probable Error (P.E.)} = 0.6745x\ \frac{1 - r^2}{\sqrt{N}}$$

Where,

r = Correlation coefficient

N = Number of pairs of observations

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

CHAPTER-IV

ANALYSIS AND PRESENTATION OF DATA

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data of Nepal Bank Limited in order to fulfill the objectives of this study. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. Calculated financial ratios are analyzed and evaluated after their interpretation is made. The calculated secondary data have analyzed and presented in table form. For this purpose, analysis and interpretation are categorized into two headings. They are analysis of financial and statistical tools.

4.2 Analysis of Financial Tools

Under this topic various financial ratios are calculated to evaluate and analyze the performance of Nepal Bank Limited. Study of all types of ratios is not done. Only those ratios that are important from the point of view of the fund mobilization and investment are calculated. CAMEL analysis has been made below:

a. Capital Adequacy Ratio

Total capital adequacy ratio comprise of Tire 1 (core capital) and Tire 2 (supplementary capital to the risk weighted asset. According the NRB's supervision framework 2013, capital is measured to the standard level i.e. minimum 12.5%. Table 1 represents the historical data of capital adequacy ratio and its analysis on the capital adequacy chart which is presented below:

Table 4.1: Capital Adequacy Ratios

(In percent)

Bank	2007	2008	2009	2010	2011	2012	2013	Average
NBL	29.13	20.72	14.18	12.43	11.16	11.49	14.16	11.18

Source: NRB's Banking and Financial Statistics mid-Jan 2013 (Part I)

This table includes the various years' data of Capital adequacy ratio of selected banks. Average capital adequacy ratio is 11.18 which is below the minimum capital adequacy ratio i.e. 12.5%.

b. Assets Quality

The prime reason behind measuring the asset quality is of ascertains the component of non-performing assets as percentage of total asset/ loan and advances. In addition, I have analyzed the ratio of loan loss provision to non performing loan. The logical reason behind the loan loss provision is to reduce the riskiness of banking assets. Thus loan loss provision is a non-cash expense for banks to account for future losses on loan defaults. Banks assume that a certain percentage of loans will default or become slow-paying. Banks enter a percentage as an expense when calculating their pre-tax incomes. This guarantees a bank's solvency and capitalization if and when the defaults occur. The loan loss provision allocated each year increases with the riskiness of the loans a given bank makes. A bank making a small number of risky loans will have a low loan loss provision compared to a bank taking higher risks. It reflects the safety margin for the bank against NPL. Higher the ratio better for the bank.

i. Performing Assets (Loan) to Non-performing Assets Ratio

Table: 4.2

Performing Assets and Non-Performing Assets

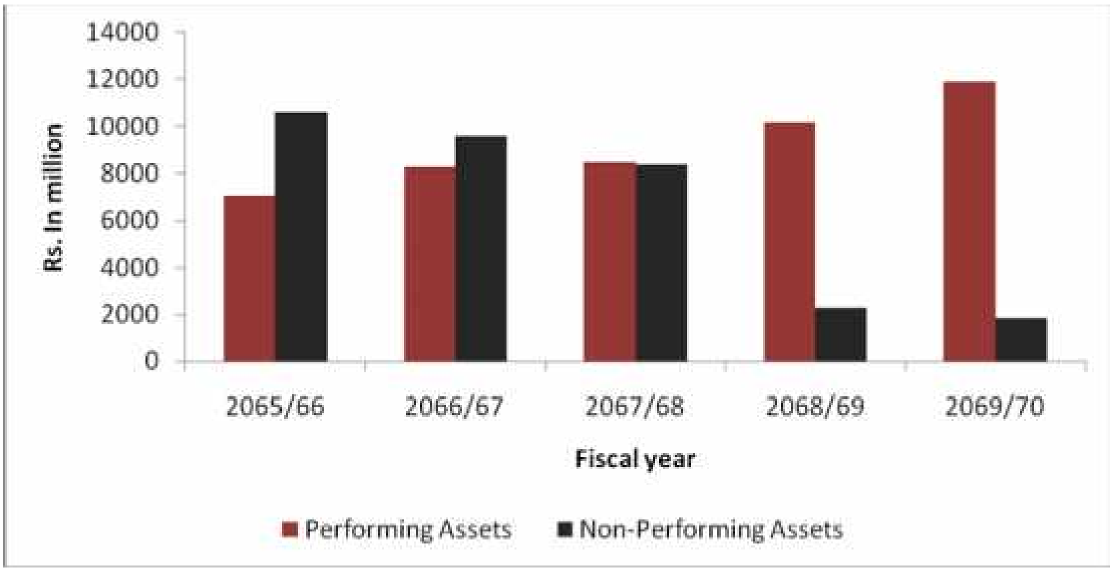
(Rs. in million)

Fiscal Year	Performing Assets	Non-Performing Assets	Ratio
2065/66	7061	10602	0.67
2066/67	8298	9572	0.87
2067/68	8494	8372	1.02
2068/69	10179	2262	4.50
2069/70	11900	1856	6.41
Average			2.694

Source: NBL Annual Reports

Figure: 4.1

Performing Assets and Non-performing Assets



Higher ratio between the performing assets to non performing assets better the banks efficiency would be. The ratio of performing to non-performing assets of Nepal Bank Limited is 0.67, 0.87, 1.02, 4.50 and 6.41 in the financial year 2065/66 to 2069/70 respectively. The average ratio is 2.694 times more than the non-performing assets in the study period. The ratio in the fiscal year 2068/69 and 2069/70 is much larger than the average ratio. This shows that the bad loan is slowly being recovered and in the fiscal year 2069/70, it has been recovered more. This is the very positive indication. The management of NBL is focusing on recovery of loan so non-performing assets is decreasing much to the relief.

ii) Non-Performing Assets to Total Assets Ratio

Table: 4.3

Non-Performing Assets and Total Assets

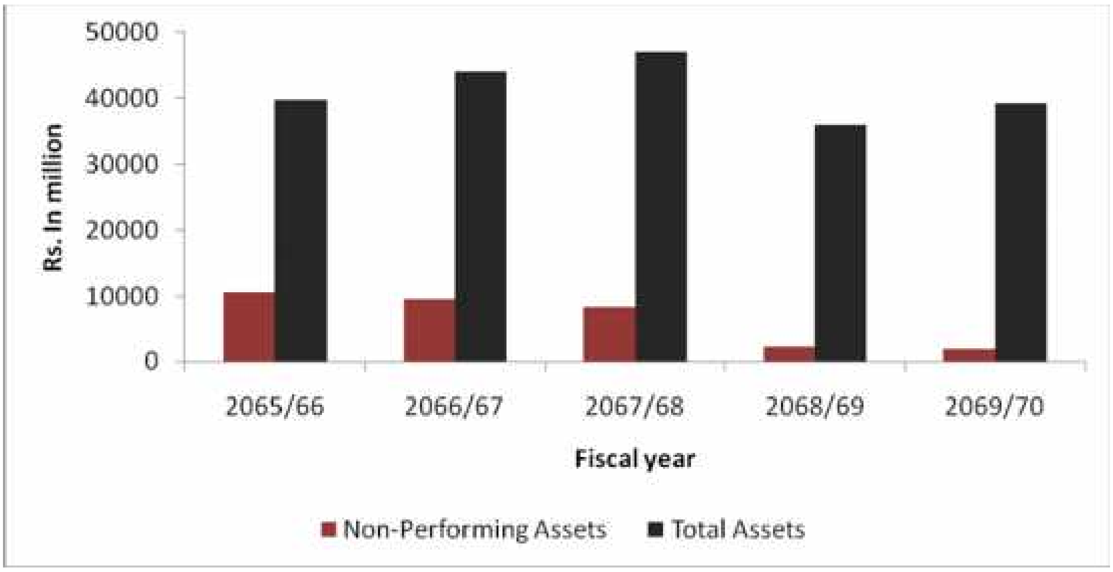
(Rs. in million)

Fiscal Year	Non-Performing Assets	Total Assets	Ratio
2065/66	10602	39816	0.27
2066/67	9572	44162	0.22
2067/68	8372	47045	0.18
2068/69	2262	35919	0.06
2069/70	1856	39258	0.05
Average			0.156

Source: NBL Annual Reports

Figure: 4.2

Non-performing Assets and Total Assets



The non-performing assets to total assets ratio of NBL for five years were 0.27, 0.22, 0.18, 0.06 and 0.05 respectively throughout the study period. The average ratio is 0.156 meaning that the non-performing assets are 15.6% of total assets. Analyzing this ratio, Nepal Bank Limited was not able to maintain the non- performing assets to total deposit ratio in initial stage of research period because Nepal Rastra Bank has directed all the commercial banks to have non- performing assets not to exceed 10% of total assets. Higher non-performing assets to total assets show the low performance of bank. Up to fiscal year 2067/68 of study period, the ratio is higher than the average ratio. In 2068/69 and 2069/70, it seems to be good position because the ratios are 0.06 and 0.05 respectively which are under the standard of NRB directives. It is because of recovery of some of the non-performing loan through new rules and regulations.

c. Management Quality

It involves a subjective analysis for measuring the efficiency of the management. Management quality is generally greater weighting in the assessment of the CAMEL framework. It is the primarily a qualitative factor applicable to individual institution, so this component is difficult to measure. To measure the efficiency of the management in an objective way, I have used only tow parameters: operating expenses ratio and Earning per Employee. Other parameters are not used due to information constraint.

i.) Interest Income to Loan and Advances and Investment Ratio

Table: 4.4

Interest Income on Loan and Loan, Advance & Investment

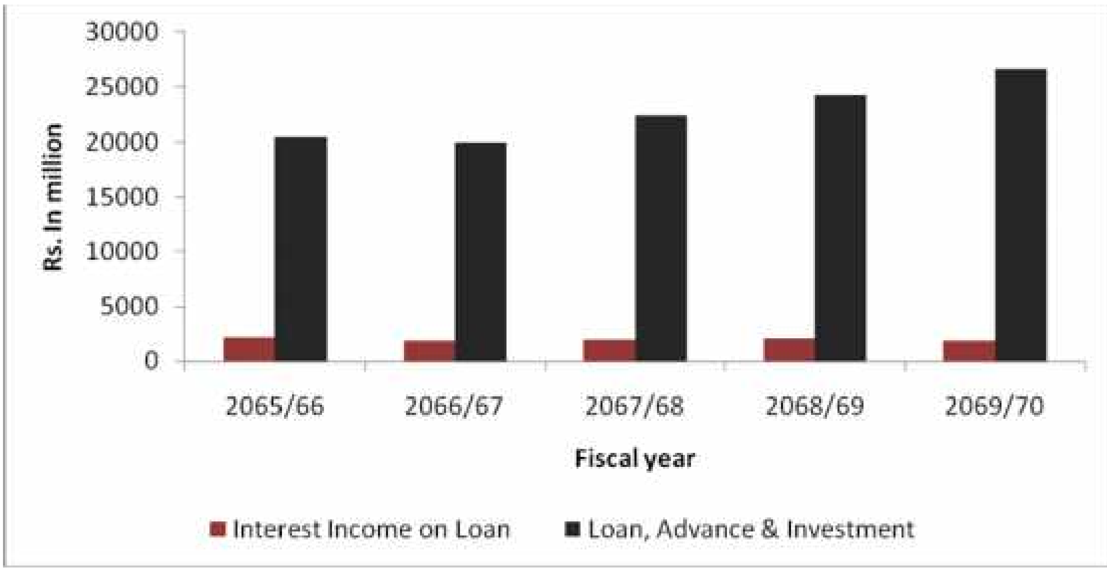
(Rs. in million)

Fiscal Year	Interest Income on Loan	Loan, Advance & Investment	Ratio
2065/66	2200	20419	0.11
2066/67	1825	19887	0.09
2067/68	1987	22418	0.09
2068/69	2049	24246	0.08
2069/70	1849	26657	0.07
Average			0.088

Source: NBL Annual Reports

Figure: 4.3

Interest Income on Loan and Loan, Advance & Investment



The average ratio of interest income on loan in subject to loan and advance and investment of NBL is 8.8%. It means that the bank is earning the interest in credit and investment on average of 8.8% in five years period. The year wise income for the study period of 2065/66 to 2069/70 is 0.11, 0.09, 0.09 0.08 and 0.07 respectively. Viewing above ratios, the earning ratio is higher in the initial years of study period than in the following years. From fiscal year 2067/68, it is in decreasing trend. To have the high profitability position of bank, there should be high interest income ratio. Bank should balance between risky loan and safety loan and investment.

ii.) Interest Expenses to Total Expenses Ratio

Table: 4.5

Interest Expenses and Total Expenses

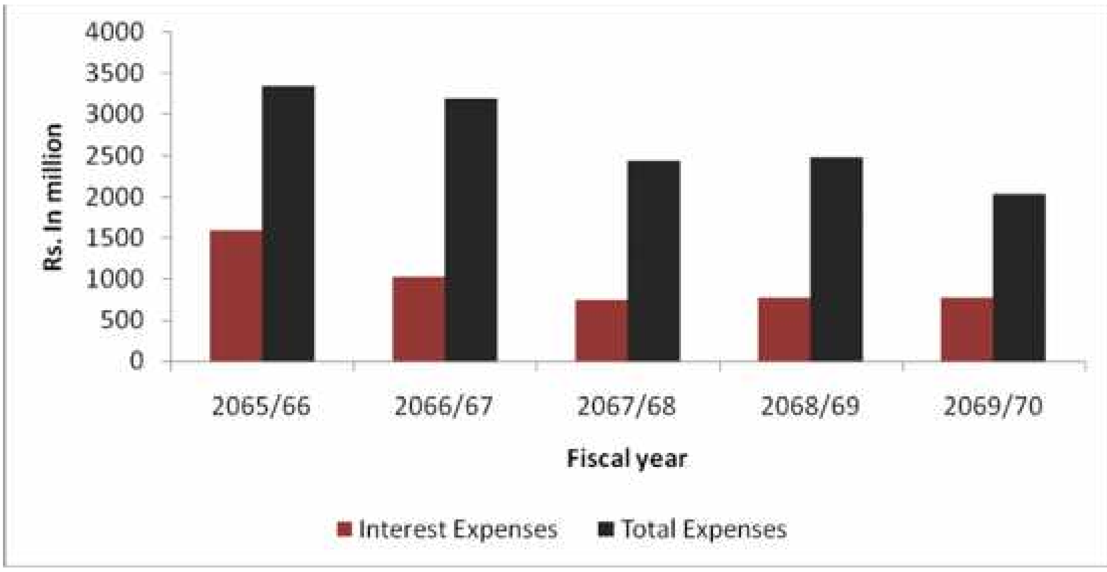
(Rs. in million)

Fiscal Year	Interest Expenses	Total Expenses	Ratio
2065/66	1586	3353	0.47
2066/67	1026	3192	0.32
2067/68	749	2437	0.31
2068/69	774	2480	0.31
2069/70	773	2029	0.31
Average			0.34

Source: NBL Annual Reports

Figure: 4.4

Interest Expenses and Total Expenses



Higher the ratio of interest expenses to total expenses, the more interest bearing deposit that the bank has. Reviewing interest expenses to total expenses ratio table of Nepal Bank Limited for the study period of 2065/66 to 2069/70, average ratio for five years is 0.34 which means on an average NBL is maintaining the level of interest expenses to 34%. The ratios of NBL are in decreasing order in the study period. From fiscal year 2067/68, the ratio is in constant and position. The ratios are substantially lower than the average in the last three years. This clearly means that the efforts by the bank are towards reducing the interest bearing deposit. And also that given the liquidity in the market, banks are paying only very nominal interest. This has saved bank from interest expenses.

iii.) Interest Expenses to Interest Income Ratio

Table: 4.6

Interest Expenses and Interest Income

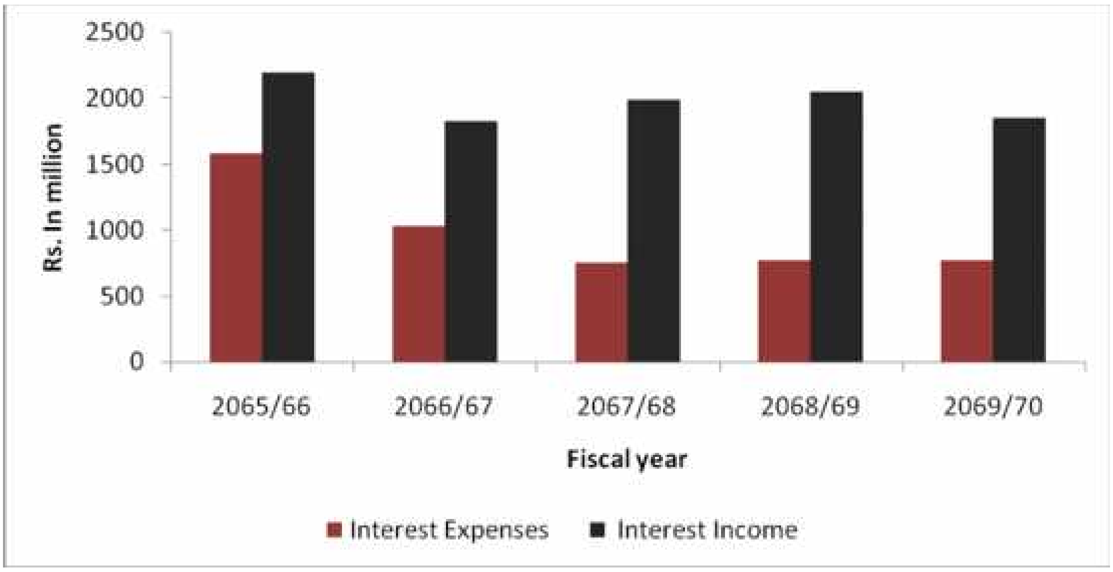
(Rs. in millions)

Fiscal Year	Interest Expenses	Interest Income	Ratio
2065/66	1586	2200	0.70
2066/67	1026	1825	0.60
2067/68	749	1987	0.40
2068/69	774	2049	0.40
2069/70	773	1849	0.40
Average			0.50

Source: NBL Annual Reports

Figure: 4.5

Interest Expenses and Interest Income



Analyzing the above table and figure, the ratio of interest expenses to interest income of Nepal Bank Limited are 0.70, 0.60, 0.40, 0.40 and 0.40 respectively for the study period of 2065/66 to 2069/70. The average ratio is 0.50 meaning that out of total interest income, 50% is taken by interest expenses. High level of this ratio shows that bank has to bear high interest expenses out of interest income. In the first two years of study period, the bank has bared high amount of interest expenses. In the fiscal year 2065/66 interest expenses is more than interest income whose ratio is 170%. But after fiscal year 2065/66, it is in decreasing trend and remained constant from the year 2067/68.

d. Earning Quality Analysis

Earning performance also allows the bank to remain competitive by providing the resources. The main objectives of bank are to earn profit and their level of earning is measured by different profitability ratios. The calculated ratios measure the efficiency of banks. Higher the ratio indicates the higher efficiency of banks in terms of earning quality and vice versa. Return on Equity, Return on asset and Earning per share are the major indicators, among various profitability ratios, for evaluating the earning quality of banks.

iv.) Return of Equity Ratio

Table: 4.7

Net Profit after Tax and Net Worth

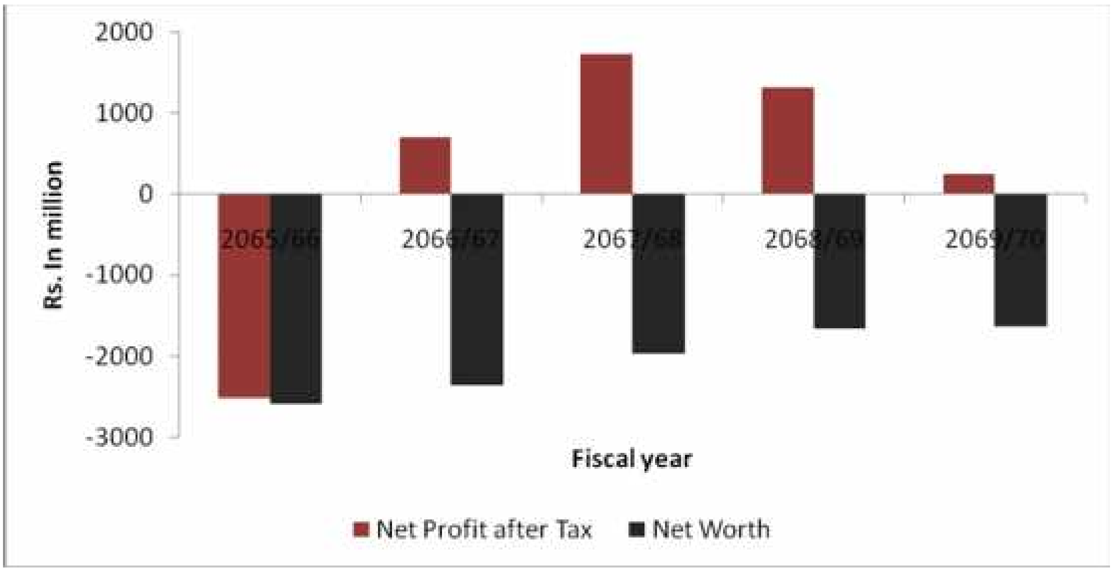
(Rs. in million)

Fiscal Year	Net Profit after Tax	Net Worth	Ratio
2065/66	(2517)	(2585)	+0.97
2066/67	710	(2370)	-0.30
2067/68	1730	(1970)	-0.88
2068/69	1328	(1660)	-0.80
2069/70	250	(1640)	-0.15
Average			-0.23

Source: NBL Annual Reports

Figure: 4.6

Net Profit after Tax and Net Worth (ROE)



In the above table and figure, the ratio of net profit after tax and net worth as return on equity of Nepal Bank Limited, for the financial year 2065/66 to 2069/70 shows that the situation of return on equity is poorer. The ratio was positive in first years of study period. But both net profit after tax amount and Net worth amount are in negative value. The amount of net profit after tax has been reduced hugely in the year 2069/70 which has made its ratio -0.15. The average ratio is -0.23 that means loss is higher in the fiscal year 2067/68 and 2068/69.

v.) Return on Total Assets Ratio

Table: 4.8

Net Profit after Tax and Total Assets

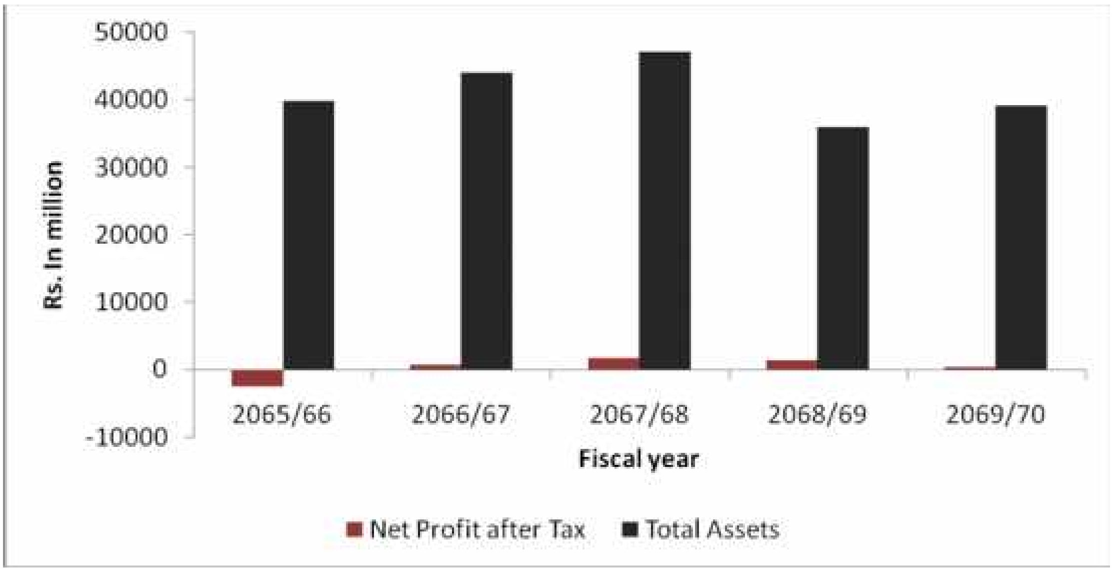
(Rs. in million)

Fiscal Year	Net Profit after Tax	Total Assets	Ratio
2065/66	(2517)	39816	(0.063)
2066/67	710	44162	0.016
2067/68	1730	47045	0.036
2068/69	1328	35919	0.037
2069/70	250	39258	0.006
Average			0.006

Source: NBL Annual Reports

Figure: 4.7

Net Profit after Tax and Total Assets



Nepal Bank has very poor performance in terms of profitability viewing the return on total assets ratios for the study period 20623/063 to 2069/70. Return on total assets ratio is negative in first years. That means loss is higher in the fiscal year 2065/66. But during the later of the study period, the bank is able to earn some little profit through and so that the ratio is in positive trend. The average ratio of return on total assets for the study period is 0.006 meaning that the bank is in profit of 0.6% on average. This indicates that the bank is not being able to manage the assets in efficient way. The reduction of total assets in 2068/69 has risen in the fiscal year 2069/70.

vi.) Return on Net Loan and Advance

Table: 4.9

Net Profit after Tax and Net Loan and Advance

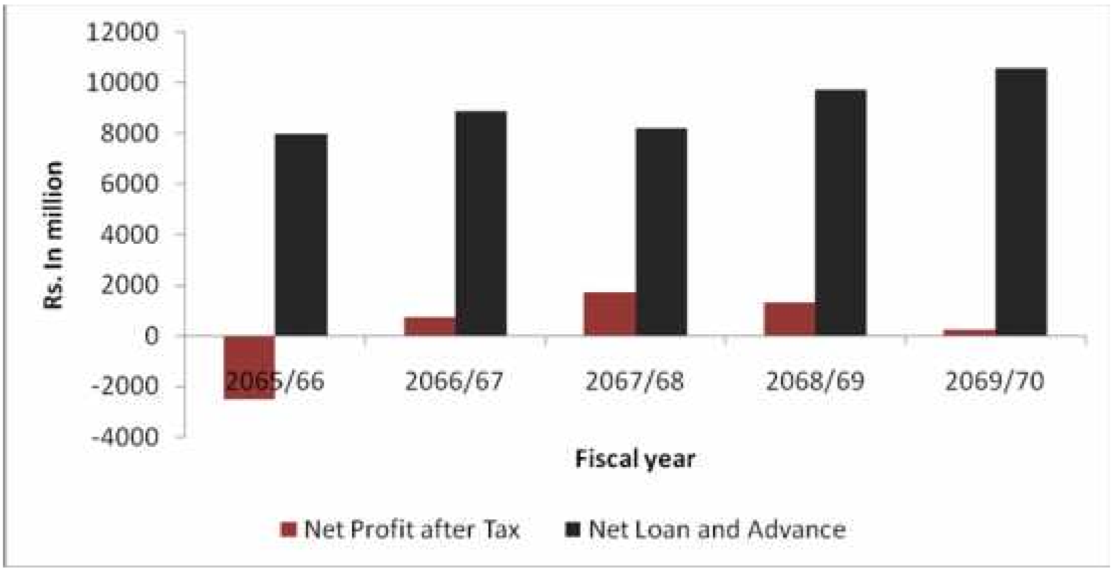
(Rs. in million)

Fiscal Year	Net Profit after Tax	Net Loan and Advance	Ratio
2065/66	(2517)	7971	-0.32
2066/67	710	8882	0.08
2067/68	1730	8219	0.21
2068/69	1328	9756	0.14
2069/70	250	10585	0.02
Average			0.03

Source: NBL Annual Reports

Figure: 4.8

Net Profit after Tax and Net Loan and Advance



Return on Net Loan and Advance of Nepal Bank Limited are -0.32, 0.08, 0.21, 0.14 and 0.02 respectively for the study period of 2065/66 to 2069/70. The average ratio for the study period is 0.03. That means the bank's return on net loan and advance is positive with 3% in the five years period. The trend of net loan and advance is decreasing in the 2067/68 but increasing remaining year. The higher the positive ratio, the better bank's profitability is. After analyzing this table, we can conclude that NBL has low performance in terms of return on loan and advance except fiscal year 2065/66 and 2069/70.

vii.) Earning per Share

Table: 4.10

Net Profit after Tax and Number of Shares

Fiscal Year	Net Profit after Tax	Number of Shares	Earnings Per Share
2065/66	(251630672)	3803826	0
2066/67	710391389	3803826	187
2067/68	1730391389	3803826	455
2068/69	1327991346	3803826	349
2069/70	249624202	3803826	66
Average			211.4

Source: NBL Annual Reports

Figure: 4.9

Earning Per Shares

The average ratio of earning per share of Nepal Bank Limited for the study period is Rs. 211.4. EPS in the first year of study period is zero. The ratio is higher than the average in fiscal year 2067/68 and 2068/69. But in fiscal years 2069/70, the net profit has declined so much so the earning per share has also reduced highly. This indicates that the bank is not being able to raise capital through the issuance of equity shares. At present, the shares of Nepal Bank Limited are not listed in stock exchange. NRB has restricted the listing of shares in stock market as it has negative net worth presently. Despite all these drawbacks, the positive earnings per share can be regarded as an indication of good performance.

Liquidity Management Ratio

The banks capacity to honor the demand for payment by its depositors and other commitments on stipulated time is known as liquidity of the bank. In order to be prompt in such payments, banks maintain certain volume of liquid assets based on the size and volume of their business operation and the probability of withdrawals (NRB supervision report 2010). Various liquidity ratios are used to analyze / measure the banks to meet its depositor demand of cash (current obligation). The most liquid asset is cash, which the financial institutions can use directly to meet liability holder demands to withdraw funds. When financial institutions face a liquidity crisis due to either a lack of confidence on the FI problem or some unexpected need for cash, the depositors' holder may demand higher cash. To mitigate such problem, bank invests in short term asset which easily converted in cash like as government t bills etc. Rather than keeping huge amount of cash, better to invest in short term asset due to various kind of risk. FI are more specialized in such activities.

i.) Current Ratio

Table: 4.11

Current Assets and Current Liabilities

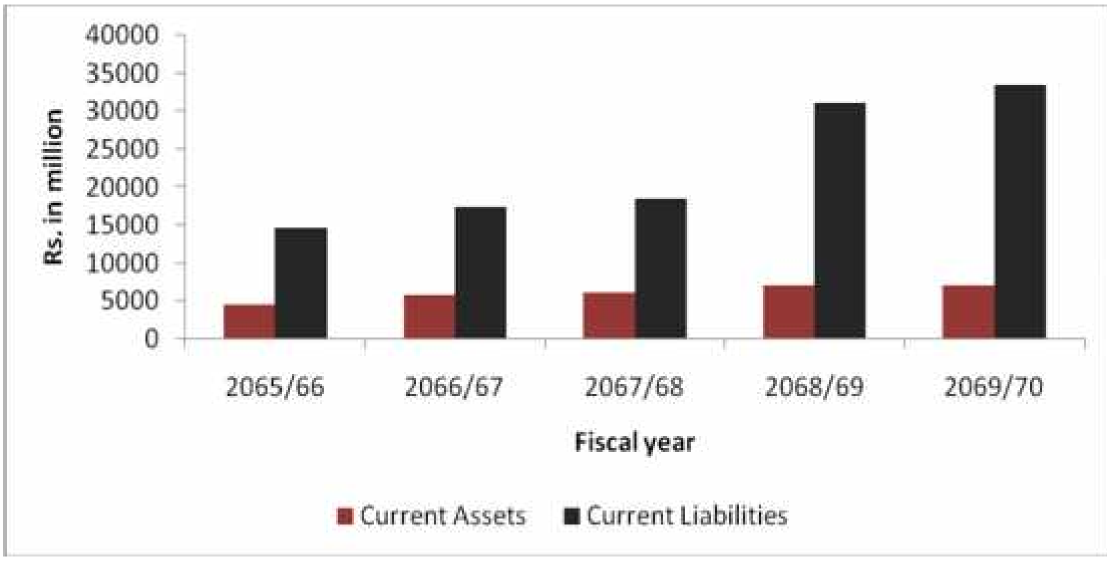
(Rs. in million)

Fiscal Year	Current Assets	Current Liabilities	Ratio
2065/66	4595.17	14633.62	0.31
2066/67	5861.07	17441.36	0.34
2067/68	6159.33	18536.53	0.33
2068/69	7174.06	31168.96	0.23
2069/70	7117.29	33486.24	0.21
Average			0.284

Source: NBL Annual Reports

Figure: 4.10

Current Assets and Current Liabilities



The main question of current ratio addresses "Does your business have enough current assets to meet the payment schedule of current debts with a margin of safety for possible losses in current assets, such as inventory shrinkage or collectable accounts?"

Above table and diagram exhibit the current ratio of Nepal Bank Limited for the study period of 2065/66 to 2069/70. The average ratio of five year period is 0.284. The ratios were 0.31, 0.34, 0.33, 0.23 and 0.21 respectively. Comparing to five years average, only in the fiscal year 2065/66, 2066/67 and 2067/68, the ratio is more than the average i.e. 0.31, 0.34 & 0.33 and less than average 0.23 & 0.21 in the year 2068/69 and 2069/70. The trend of current liabilities is increasing one where as current assets is in fluctuating trend. The standard value for the current ratio is 2 to 1 but in case of Nepal Rastra Bank, it is not meeting the standard, all ratios are less than the standard.

ii.) Cash and Bank Balance to Total Deposit Ratio

Table: 4.12

Cash & Bank Balance and Total Deposit

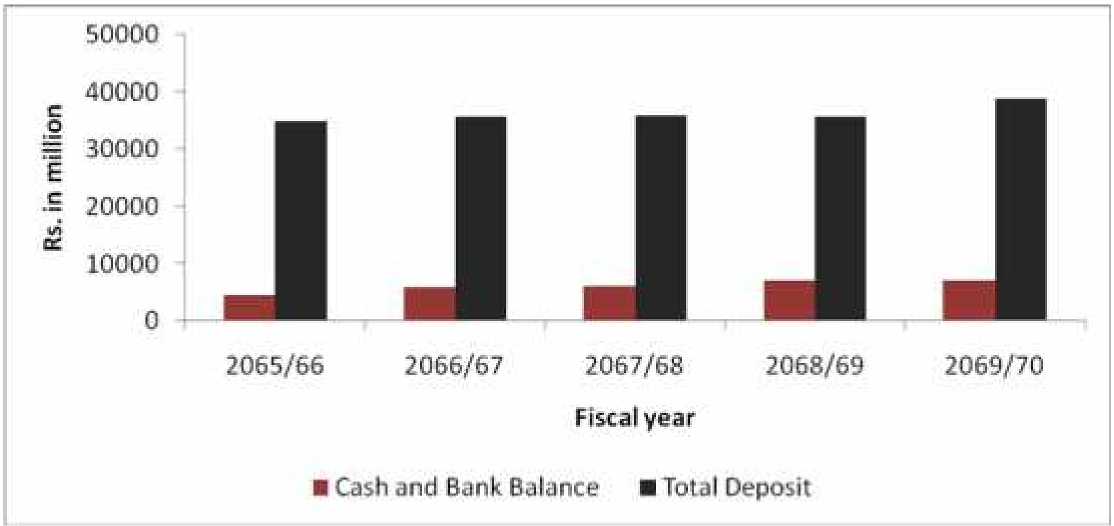
(Rs. in million**)**

Fiscal Year	Cash and Bank Balance	Total Deposit	Ratio
2065/66	4595.17	35014.00	0.131
2066/67	5861.07	35735.04	0.164
2067/68	6159.33	35934.16	0.171
2068/69	7174.06	35829.76	0.200
2069/70	7117.29	39014.20	0.182
Average			0.170

Source: NBL Annual Reports

Figure: 4.11

Cash & Bank Balance and Total Deposit



The table and figure presents the cash and bank balance to total deposit ratio of Nepal Bank Limited for the study period 2065/66 to 2069/70. Cash & Bank Balance to Total Deposit Ratio of this bank has been observed as 0.131, 0.164, 1.171, 0.200, and 0.182

respectively throughout the study period. The average ratio for the study period is 0.170. That means the bank has 17.0% of cash and bank balance of the total deposit. Adequate cash and bank balance is necessary to maintain the liquidity position. Too much of it can make the excess money useless and too less will reduce the capacity of a bank to pay its customers principal and interest. In each year of the study period, the ratio of cash and bank balance is will above the standard i.e. 5 to 10 percentage of liquidity. From this, it is obvious that the bank has enough cash and bank balance to cover its deposit demand.

B. Activity / Efficiency Ratios

It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means, how many numbers of times the assets flow through a firm's operations and into sales (Kulkarni: 1994: 26).

Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i.) Credit and Advance to Total Deposit Ratio

Table: 4.13

Credit & Advance and Total Deposit

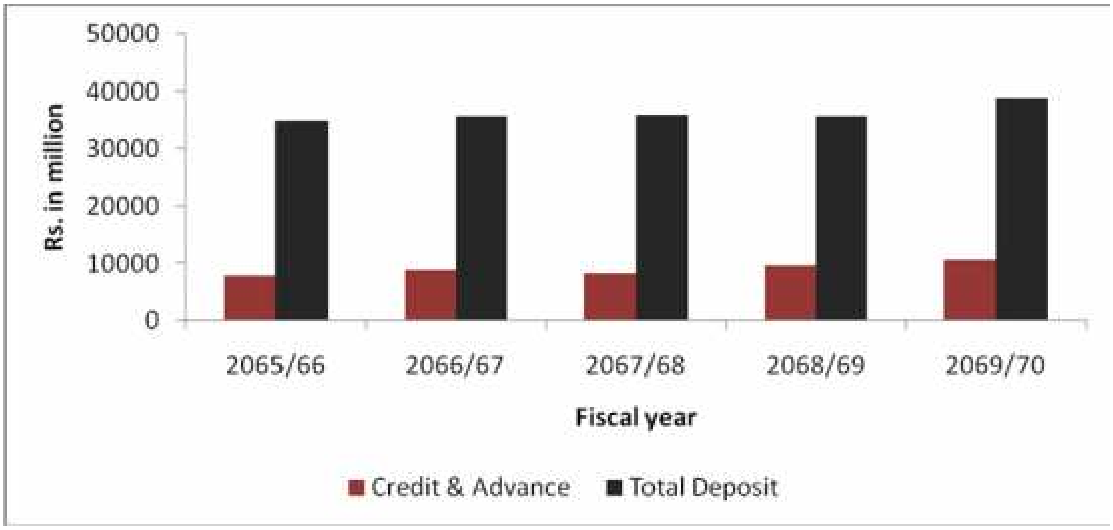
(Rs. in million)

Fiscal Year	Credit & Advance	Total Deposit	Ratio
2065/66	7971.10	35014.00	0.23
2066/67	8881.82	35735.04	0.25
2067/68	8218.91	35934.16	0.23
2068/69	9756.16	35829.76	0.27
2069/70	10584.78	39014.20	0.27
Average			0.25

Source: NBL Annual Reports

Figure: 4.12

Credit & Advance and Total Deposit



From the above table and diagram, the average ratio of credit and advances to total deposit is 0.25. The fluctuation in the ratio is not too high. Under the study period, starting from 2065/66 to 2069/70, the ratio goes from 0.23, 0.25, 0.23, 0.27, and 0.27 respectively. The mobilization of total deposit is decreasing and the main reason behind this decreasing trend could be the tight control on credit by the management. The bank seems to be in the recovery phase of the bad loans for many years. Total deposits are the main sources of bank to provide credit and advances. Only small portion of deposit goes as credit and advances.

ii.) Loan, Advances and Investment to Total Deposit Ratio

Table: 4.14

Loan, Advance & Investment and Total Deposit

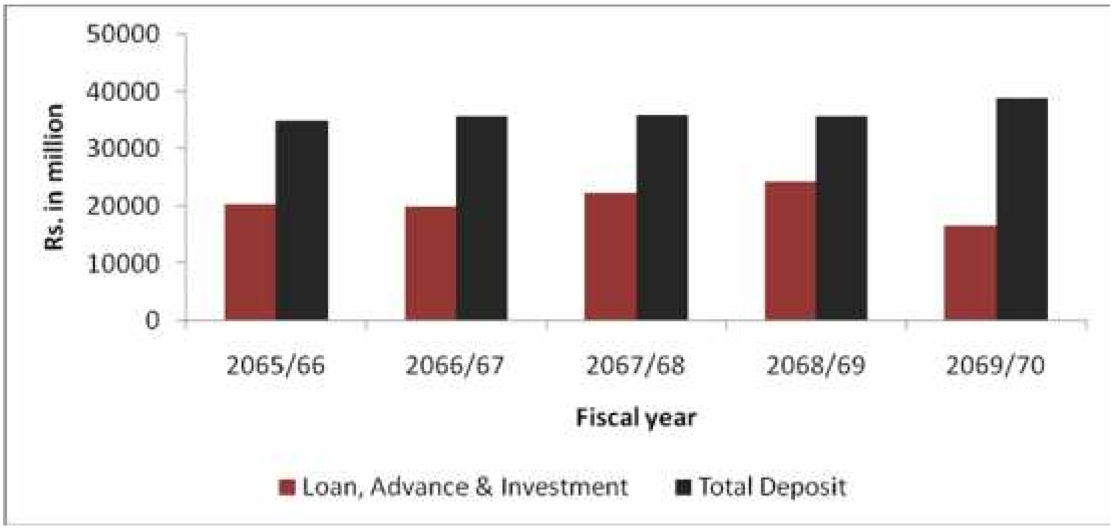
(Rs. in million)

Fiscal Year	Loan, Advance & Investment	Total Deposit	Ratio
2065/66	20418.8	35014.00	0.58
2066/67	19886.64	35735.04	0.56
2067/68	22418.13	35934.16	0.62
2068/69	24246.41	35829.76	0.68
2069/70	16656.96	39014.20	0.68
Average			0.624

Source: NBL Annual Reports

Figure: 4.13

Loan, Advance & Investment and Total Deposit



From the above table, it is visualized that the loan, advance & investment to total deposit ratio of Nepal Bank Limited for study period 2065/66 to 2069/70 do not vary much. The average ratio is 0.624 meaning about 62.4% of the total deposit is mobilized in the loan, advance and investment. The trend of total deposit is more or less stable. The figure is around 39 billion rupees and the trend of loan and advances can be said as increasing one. The increase in the loan and advance can be attributed to the margin loan in case of Nepal Bank Limited. Nepal Bank Limited has hugely invested in the loan that's against the shares of banks.

v.) Loan Loss Provision to Total Loan and Advances Ratio

Table: 4.15

Loan Loss Provision and Total Loan & Advances

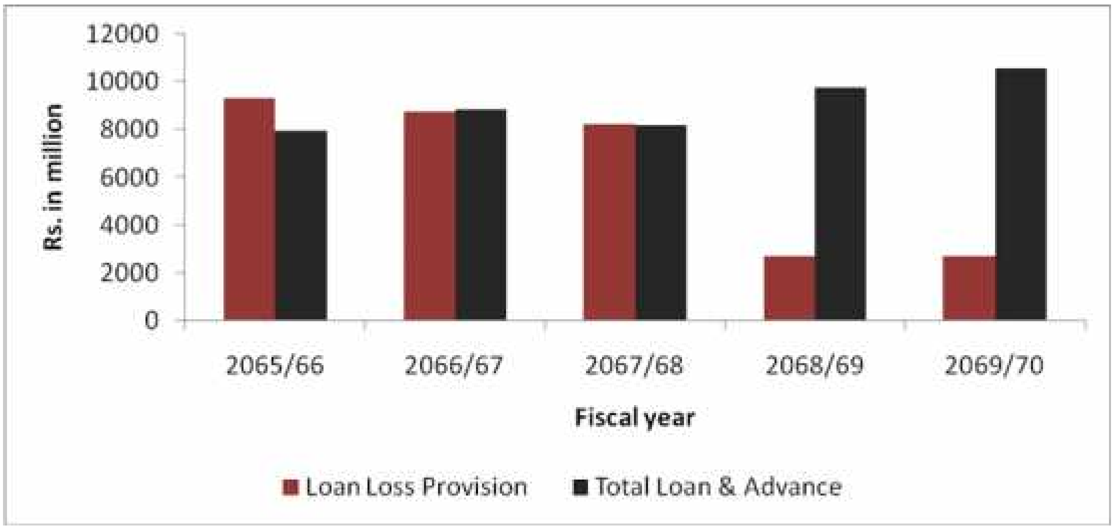
(Rs. in million)

Fiscal Year	Loan Loss Provision	Total Loan & Advance	Ratio
2065/66	9348	7971	1.17
2066/67	8780	8882	0.99
2067/68	8259	8219	1.00
2068/69	2685	9756	0.28
2066/66	2698	10585	0.25
Average			0.738

Source: NBL Annual Reports

Figure: 4.14

Loan Loss Provision and Total Loan & Advances



Loan loss provision to total loan and advance ratio of Nepal Bank Limited for the study period of 2065/66 to 2069/70 is 1.17, 0.99, 1.00, 0.28 and 0.25 respectively. The loan loss provision is greater than total loan and advance in fiscal year 2065/66 and 2067/68 which indicates that the loan and advance created by NRB is highly risky in these two years. Remaining years have low and gradually decreasing loan loss provision than total loan and advance created by NRB is less risky and in decreasing trend in the riskiness of loan and advance. The ratio is higher than the average ratio in fiscal year 2065/66 to 2067/68 and in fiscal year 2068/69 and 2069/70, the ratios are too much lower than average ratio i.e. 0.28 and 0.25 respectively. According to the general standards, the banks should make higher percentage of provision for the non-performing loan so that the unnecessary burden of non-performing assets in the future is overcome. Even though the total loan has decreased, the loan loss provision has increased in the fiscal year 2065/66. Now in the recent years, the bank has been very careful in sanctioning in the loan and advances with new rules and regulations, so it may be the reasons behind decreasing the loan loss provision.

vi.) Non-Performing Assets to Total Loan & Advances Ratio

Table: 4.16

Non-Performing Assets and Total Loan & Advances

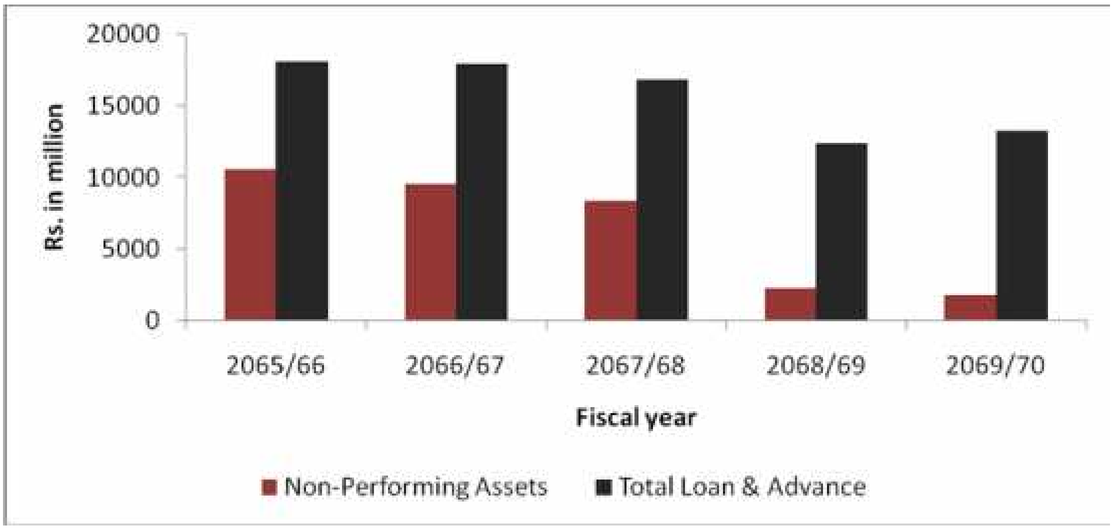
(Rs. in million)

Fiscal Year	Non-Performing Assets	Total Loan & Advance	Ratio
2065/66	10602	18132	0.58
2066/67	9572	17938	0.53
2067/68	8372	16867	0.50
2068/69	2262	12442	0.18
2069/70	1856	13283	0.14
Average			0.386

Source: NBL Annual Reports

Figure: 4.15

Non-Performing Assets and Total Loan & Advance



Analyzing the non performing assets to total loan and advances ratio of Nepal Bank Limited in the above table, the ratios are 0.58, 0.53, 0.50, 0.18 and 0.14 for fiscal year 2065/66 to 2069/70 respectively. The bank has 38.6% bad loan in average out of total loan and advances as its mean ratio is 0.386. For all years of the study period except fiscal years 2065/66 to 2067/68, the ratio is higher than the average. The performance and efficiency of the bank is better if this ratio is low. One to four or five percent non performing assets are fined but when it exceeds that limit, it's really worrisome. NRB has directed to all commercial banks that the ratio of non- performing assets to total loan and advance should be about 5%. But the ratio maintained by NBL seems to be very much higher than the standard directed by Nepal Rastra Bank. But the ratio has gone down in the later the study period in contrast with the beginning which is a sign of progress in term of total loan and advance.

vii.) Provision for Pass Loan to Total Pass Loan Ratio

Table: 4.17

Provision for Pass Loan and Total Pass Loan

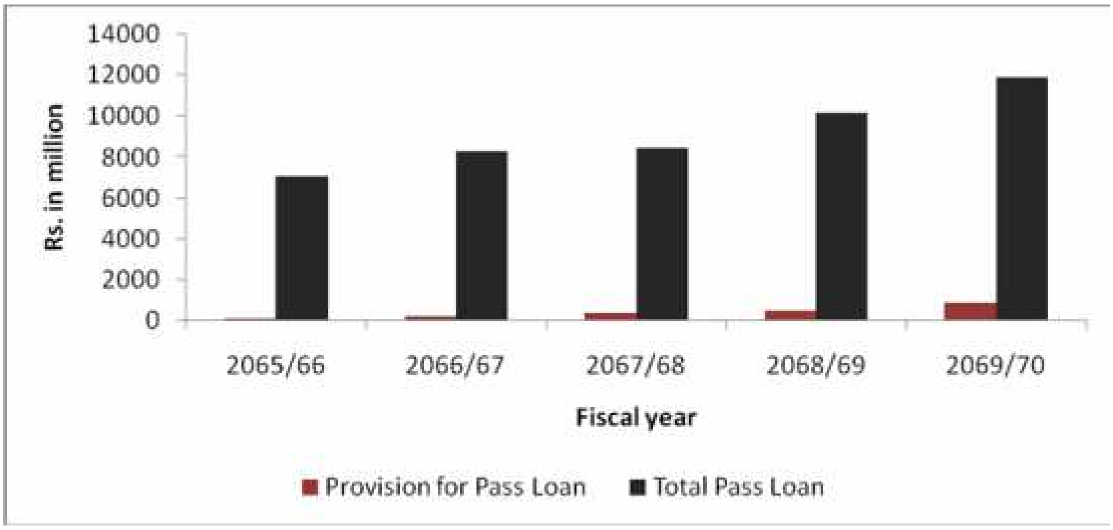
(Rs. in million)

Fiscal Year	Provision for Pass Loan	Total Pass Loan	Ratio
2065/66	84	7061	0.01
2066/67	208	8298	0.03
2067/68	382	8494	0.04
2068/69	484	10179	0.05
2069/70	868	11901	0.07
Average			0.04

Source: NBL Annual Reports

Figure: 4.16

Provision for Pass Loan and Total Pass Loan



The above table and figure show the comparative analysis of the provision for pass loan to total pass loan of Nepal Bank Limited for the study period 2065/66 to 2069/70. The average ratio for the five year is 0.04 that means the bank has maintained a provision for pass loan at 4% of total pass loan in the study period. As per the Nepal Rastra Bank directives, the provision for pass loan should be 1% of total pass loan. For the first three years, the bank has maintained it quite strictly as per the directives. But the ratio has been increasing almost by one percent in the 2067/68 and 2068/69 and then two percent in 2066/67 and 2069/70.

viii.) Provision for Doubtful Debt to Total Doubtful Debt Ratio

Table: 4.18

Provision for Doubtful Debt and Total Doubtful Debt

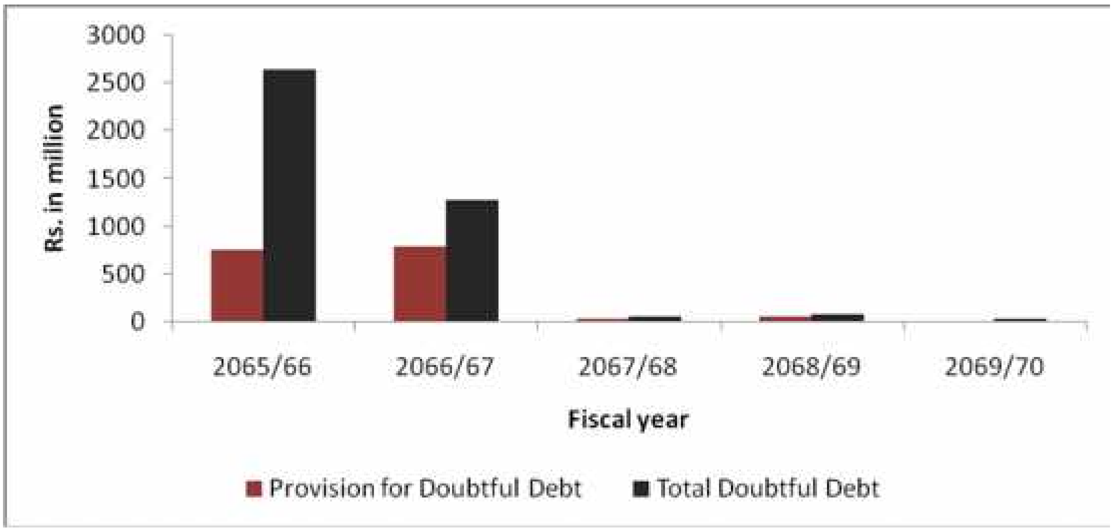
(Rs. in million)

Fiscal Year	Provision for Doubtful Debt	Total Doubtful Debt	Ratio
2065/66	760	2644	0.29
2066/67	791	1280	0.62
2067/68	41	64	0.64
2068/69	61	88	0.70
2069/70	15	30	0.50
Average			0.55

Source: NBL Annual Reports

Figure: 4.17

Provision for Doubtful Debt and Total Doubtful Debt



The above table shows the provision for doubtful debt to total doubtful debt of Nepal Bank Limited for the study period of 2065/66 to 2069/70. By observing the above table, it can be concluded that the bank has failed to maintain the given standard in 2065/66 but above the standard in 2066/67, 2067/68 & 2068/69. The standard for the provision for doubtful debt to total debt by NRB is at about 50%. The high amount of doubtful debt and its provision is not good for the bank's performance. The bank has maintained a provision for doubtful debt at 55% on an average over the study period.

And the trend of both the doubtful debt and doubtful debt provision are clearly of decreasing. In the fiscal year 2069/70 the bank has minimum doubtful debt and doubtful debt provision whose ratio is exact 50%, which is under NRB standard.

ix.) Provision for Bad Debt (Loss) to Total Bad Debt Ratio

Table: 4.19

Provision for Bad Debt and Total Bad Debt

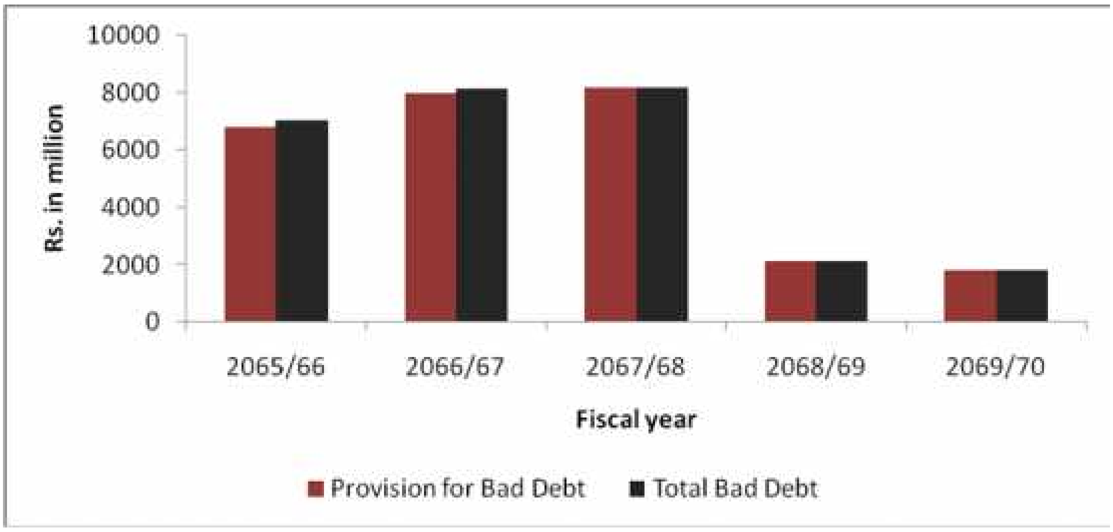
(Rs. in million**)**

Fiscal Year	Provision for Bad Debt	Total Bad Debt	Ratio
2065/66	6794	7030	0.97
2066/67	7982	8127	0.98
2067/68	8168	8178	1
2068/69	2122	2127	1
2069/70	1803	1809	1
Average			0.99

Source: NBL Annual Reports

Figure: 4.18

Provision for Bad Debt and Total Bad Debt



The ratio of provision for bad debt to total bad debt ratio of Nepal Bank Limited for the study period of 2065/66 to 2069/70 are 0.97, 0.98, 1, 1 and 1 respectively. The average ratio for the study period is 0.99. It means that only 99% of total debt has been kept for its provision on average. As per the NRB directives, the provision for bad debt should be 100% of total bad debt. The bank is not able to maintain the ratio of 100% in the first two years. But from the fiscal year 2067/68, it has been able to maintain the ratio as per NRB directives. Increase in the bad debt can be subjected to the new classification of loan according to the NRB directives and increase in provision can be subjected to the compliance of standard by making additional provision in the succeeding years.

4.3 Statistical Analysis

4.3.1 Coefficient of Correlation Analysis

The statistical tool, coefficient of correlation has been studied to find out whether the two available variables are inter- correlated or not. If the result falls with in the correlated point, the two variables are inter-correlated otherwise not. Now to find out the correlation coefficient between total lending and total assets, the widely used method of Karl Pearson's Coefficient of Correlation has been adopted.

$$\text{Coefficient of Correlation (r)} = \frac{N\Sigma X_1 X_2-(\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1{}^2-(\Sigma X_1)^2]}\sqrt{[N\Sigma X_2{}^2-(\Sigma X_2)^2]}}$$

Where,

N = Number of pairs of X and Y observed

X = Values of first type of variable

Y = Value of second type of variable

r = Karl Pearson's Coefficient of Correlation

i.) Computation of Correlation Coefficient of Non Performing Assets and Total Loan

Here,

Non Performing Assets = X_1

Total Loan = X_2

Table 4.20

Correlation Coefficient of Non Performing Assets and Total Loan

(Rs. in Billion)

Fiscal Year	NPA(X_1)	TL(X_2)	X_1^2	X_2^2	X_1X_2
2065/66	10.60	18.13	112.36	328.69	192.17
2066/67	9.57	17.93	91.58	321.48	171.59
2067/68	8.37	16.87	69.88	284.60	141.20
2068/69	2.26	12.44	5.11	154.75	28.11
2069/70	1.85	13.28	3.42	176.36	24.57
N = 5	$\sum X_1 = 32.65$	$\sum X_2 = 78.65$	$\sum X_1^2 = 282.35$	$\sum X_2^2 = 1265.88$	$\sum X_1X_2 = 557.64$

Coefficient of Correlation (r) = $\dfrac{N\Sigma X_1X_2-(\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2-(\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2-(\Sigma X_2)^2]}}$

$$= \frac{5 \times 557.64 - 32.65 \times 78.65}{\sqrt{5 \times 282.35 - 32.65^2}\ \sqrt{5 \times 1265.88 - 78.65^2}}$$

= 0.99

Computation of Probable Error (P.E.) = $0.6745 \times \dfrac{1 - r^2}{\sqrt{N}}$

$$= 0.6745 \times \frac{1 - 0.99^2}{\sqrt{5}}$$

= 0.006

The correlation coefficient and probable error between non-performing assets and total loan in NBL remained 0.99 and 0.006 respectively. Since r is more than +0.5 and also more than 6 times of probable error i.e. 0.99 > 6 x 0.006. It indicates that there was positive correlation between non performing assets and total loan. This means there is decreasing of non-performing assets with respect to the decrease in the total loan. In other words, there is significant correlation between non performing assets and total loans.

ii.) Computation of Correlation Coefficient of Total Loan and Total Assets

Here,

Total Loan = X_1

Total Assets = X_2

Table: 4.21

Correlation Coefficient of Total Loan and Total Assets

(Rs. in Billion)

Fiscal Year	TL(X_1)	TA(X_2)	X_1^2	X_2^2	X_1X_2
2065/66	18.13	39.81	328.70	1584.84	721.76
2066/67	17.93	44.16	321.48	1950.11	791.79
2067/68	16.87	47.04	284.60	2212.76	793.56
2068/69	12.44	35.92	154.75	1290.25	446.84
2069/70	13.28	39.26	176.36	1540.35	521.37
N = 5	$\sum X_1$ = 78.65	$\sum X_2$ = 206.19	$\sum X_1^2$ = 1265.89	$\sum X_2^2$ = 8578.31	$\sum X_1X_2$ = 3275.32

Coefficient of Correlation (r) = $\dfrac{N\Sigma X_1X_2-(\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2-(\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2-(\Sigma X_2)^2]}}$

$$= \frac{5 \times 3275.32 - 78.65 \times 206.19}{\sqrt{5 \times 1265.89 - 78.65^2}\sqrt{5 \times 8578.31 - 206.19^2}}$$

= 0.69

Computation of Probable Error (P.E.) = $0.6745 \times \dfrac{1-r^2}{\sqrt{N}}$

$$= 0.6745 \times \frac{1 - 0.69^2}{\sqrt{5}}$$

= 0.16

The correlation coefficient and probable error between total loan and total assets in Nepal Bank Limited remained 0.69 and 0.16 respectively. Since r is more than +0.5, and less than 6 times of probable error i.e. 0.69 < 6 x 0.16. It indicates that there was insignificant correlation between total loan and total assets. In other words, the total loan and total assets of Nepal Bank Limited in the study period of 2065/66 to 2069/70 are insignificantly correlated.

4.4 Major Findings of the Study

(1) At the time of financial reengineering process of Nepal Bank Limited, New policy of lending focuses on cash flow lending by passing out collateral based lending.

(2) The Credit Information Bureau was established in 1989 AD. Nepal Rastra Bank started to control the financial institutions with strengthening the supervision and monitoring system.

(3) Liquidity position of Nepal Bank Limited seems strong. It is obvious that in the present situation of the country, investment potential is not favorable, so the liquidity is sufficient in the bank.

(4) Under the structural Adjustment Programmed, of the IMF, the financial sector was further liberalized in 1987. The focus of Nepal Rasra Bank was placed on indirect monetary control.

(5) Most of the banks of Nepal now days are focusing on consumer lending. Nepal Bank Limited is also falls on the same category. This is because of load shading. Industrial development in Nepal is not good due to load shading at this time. So it has directly affected the lending policy of commercial banks.

(6) Nepal Bank Limited has invested money in growing credit and advances but the recovery process of the bank is slow. Efficiency in the management is not satisfactory.

(7) Most of the credit customers of Nepal Bank Limited are satisfied with the banks. Customers said that the main strength of Nepal Bank Limited is its lending interest rate. In the comparison of other banks, the lending rate of Nepal Bank Limited is found low. Due to which customers are interested to borrow loan from Nepal Bank Limited.

(8) The non performing assets with respect to total assets of Nepal Bank Limited is found with high volume i.e. 0.156.

(9) The EPS of Nepal Bank Limited was negative as it has huge loss in fiscal year 2065/66. From fiscal year 2066/67, the EPS is positive which is on the average of Rs. 211.

(10) At the time of re-engineering process, the bank was able to make large amount of profit as management got focus on recovery of bad loans. The bank incurred loss for the first three fiscal years of the study period. From fiscal year 2066/67, it has started to make profit and made high profit in 2066/67 and 2067/68 with Rs.8127 m. and Rs.8178 m. But in 2069/70, the profit was limited to Rs.1809 m. only.

(11) The trend of deposit utilization of Nepal Bank Limited is found very poor. During the study period, loan, advance & investment to total deposit ratios of Nepal Bank Limited was 62.4%.

(12) Nepal Bank Limited operates as full fledged commercial bank. The bank is providing services to clients such as credit and advances, consortium finance, working capital credit, term credit, demand credit, trade finance, hire purchase credit, letter of credit, bills purchase, bank guarantee and others.

(13) The bank is in the phase of computerization. About 50% of branches have been already computerized and rest branches are in the process of computerization. The bank has already started Web Remit, Any Branch Banking etc. and is preparing for the installation of Automatic Teller Machine.

(14) By analyzing the market demand and trend, Nepal Bank Limited has brought retail banking facilities like Home Loan, Margin Lending whose market performance at present seems satisfactory.

(15) For effective credit management and customer's service, Nepal Bank Limited has been making great effort for the development and empowerment of employees by conducting various training related to credit management and customer service so that they could provide the best services to the customers as well as credit risk could be reduce

CHAPTER-V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A Commercial Bank means the bank which deals with exchanging currency, accepting deposit, giving loans doing other various commercial transactions. Therefore, the major function of Commercial Bank is to accept deposits and provide loans.

There is not so long history of Commercial Bank in Nepal. Nepal Bank Limited established in 1994 B.S. was the first Commercial Bank of the Nepal. But now there are twenty five Commercial Banks all over the country and they have been expanding their services by establishing branches in every corner of the country.

The assets of Commercial Bank indicate the manner in which the funds entrusted to the bank are employed. The successful working of the bank depends on ability of the management to distribute the fund among the various kinds of investment known as assets outstanding loan advance of the bank. These assets constitute primary source of income to the bank. As being a business unit a bank aims at making huge profit since loan and advances are more profitable than any other assets of the bank, it is willing to lend as much as its fund as possible. But the bank has to be careful about the repayment of loan and interest giving loan. If the bank is too timid, it may fail to obtain the adequate return on the fund, which is confined to it for use. Similarly, if the bank is too liberal, it may easily impair its profits by bad debts. Therefore, bank should not forget the reality that most of the bank failures in the world are due to shrinkage in the value of the loan and advances.

Despite of being loan and advances, more profitable than other assets, it creates risk of non repayment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets, the loan and advances are classified into performing and non performing assets on the basis of overdue aging schedule. If the dues in the form of principal and the interest are not paid, by borrower within a maturity period, that amount of principal and interest is called non performing loan or assets. Performing assets have multiple benefits to the company as well as to the society while non performing assets erode even existing capital of the bank. So, the proper management of credit in commercial bank is a key for the success.

Credit administration involves the creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. Bank earns interest on credits and advances, which is one of the major sources of income for bank.

5.2 Conclusion

NBL has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal, many banks and other financial institutions are functioning to collect deposits and invest money somewhere in invest able sectors. Therefore, monetarization have been increased since liberalization policy taken by the government. Heavy remittance has also help to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged. Most of the projects have been withdrawn due to security problem. Therefore, bank has maximum liquidity due to lack of safety investment sectors.

Due to economic crisis in the country, credit takers are not getting good return from their investment sectors. On that situation, credit customers do not return money of the bank in the stipulated time period, therefore, the non-performing credit of the bank increases. As the non-performing credit increases, bank should increase its provision for credit loss.

Credit related financial indicators demonstrate the quite poor situation in Nepal Bank Limited. Therefore, Financial Sector Reform Program is below the level and still much needs to be done. It can also be concluded that there has been almost similar procedures and policies while granting the loan, not much change from its conventional methods.

5.3 Recommendations

The present study can be a valuable piece of research works in credit management. 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. Based in the findings of the study, the researcher recommended highlighting the guidelines to put forward for further improvement.

Corporate structure of bank plays key role in the effective loan management. Being loan a risky asset, efforts should be made to have proper control in every steps of loan management. The banks should establish separate department for credit appraisal, documentation, disbursement, inspection and recovery of loan which have possibility of finding mistakes of one department by the others so that the effectiveness can be achieved.

(1) Loan must be given if the banker is satisfied that the borrower ca repay money from the cash flow generated from operating activities. However, the banks want to ensure that their loan is repaired even in case of failure of business. To prevent banks from such happenings, the bank take collateral is disposed for the recovery of loan. Therefore, the bank should take proper valuation of collateral so that the bank at least will be able to recover its principle and interest amount in case of failure of the borrower to repay the loan.

(2) Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks. Therefore, proper financial analysis should be performed before giving loan to the borrower.

(3) Competition is increasing day by day in banking industry. Again complete foreign bank can be established after 2010 BS. So the bank should adopt efficient and modern management concept to make their activities quick and moving there by fulfilling the growing demand of current financial services.

(4) Nepal Rastra Bank should regulate all the deposit accepting financial institution under the supervision and regulatory activity so that general people can feel the security of their deposits.

(5) The customers are seeking different innovative products with quality. So, banks should modify their products. The banks should come out with new products in retail banking. Hence to retain the customers’ banks have to come out with competitive products satisfying the desire of the customer at the click of a button.

(6) Banks may go for detail market research, which will help them in knowing what their competitors are offering to their clients. This will enable them to have an edge over their competitors and increase their credit management pie by offering better products and services.

(7) Credit related financial indicators in Nepal Bank Limited seem irrelevant in comparison with the specified standard of Nepal Rasra Bank. Therefore more focus should be given to improve the credit management of Nepal Bank Limited such as credit granting procedures, updating the credit files, value of collateral and maintaining the loan loss provisions adequately.

(8) New commercial banks are arising day by day with modern banking systems. Lending procedures have been made surprisingly short. And customers can get the loan within a maximum of a week days. So Nepal bank should also compete with them in lending procedures and other banking systems.

(9) Cash and bank balance of Nepal Bank Limited is high. Bank's efficiency should be increased to satisfy the depositors at low level of cash and bank balance. Unused cash and bank balance do not provide return to the bank. Therefore, some percentage of the cash and bank balance should be invested somewhere in profitable sectors.

(10) Bank should regularly follow the credit customer to confirm that whether the customers have utilized their credit for same purpose or not, committed at the time of taking credit from the bank.

(11) Bank should strictly band the policy of nepotism and favoritism. On the basis of capability and efficiency, recruitment, placement and promotion should be executed.

(12) Bank should carefully examine the principle of safety as well as sources of repayment, capital structure and credit worthiness of a borrower before providing loans. In other word, credit and risk must be evaluated by considering well-known five C’s of credit viz. character, capacity, capital, collateral and condition so that the bank is able to mobilize and utilize the resources.

(13) The economic Liberalization policy adopted by Government of Nepal has created environment of cutthroat competition even in the banking sector. In this context, Nepal Bank Limited bank is suggested to formulate and

implement some sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

(14) Nepal Rastra Bank should tighten the supervision and inspection activity towards the commercial banks and financial institution so that the accounting manipulation can be avoided. It is because; there are huge decreases in the net profit in Nepal Bank Limited for the lack of quality credit.

(15) The loss incurred by Nepal Bank Limited has decreased significantly after the implementation of financial sector reform programmed but at the same time the volume of non- performing assets is increasing. This indicates that credit management is not sufficient. So the Nepal Bank Limited management should generate the real profit through credit disbursement.

(16) Nepal Bank Limited has one more advantage of getting income from government transaction which other private and joint ventures bank do not have. It receives huge amount of commission from the government in return of doing government transaction. So, bank is suggested to handle government transaction properly so that no other banks except Nepal Bank Limited and Rastriya Banijya Bank get this chance continually in future.

(17) Due to poor credit administration, the credit recovery process is slow as well as legal process in the recovery of credit is lengthy and ineffective. Clear-cut objective and policy of the credit management is lacking so that non-performing credit is going upward. To get better result in the coming future, bank should reduce the volume of non-performing credit.

(18) The banks should adopt efficient and modern management concept to make their activities quick and moving there by fulfilling the growing demand of current financial services.

(19) Total deposit is not correlated with the loan and advances. This is very serious matter and the main reason is the case of over liquidity that the bank has maintained so far. Thus, the bank should mobilize the deposit and try to bring the correlation between total deposit and loan and advance in an appropriate level.

(20) To meet customer's requirement the bank should focus on value added tasks like making front line decisions, making actions plans, improving process reviewing progress, analyzing successes and failures, providing feedback to suppliers, reducing costs etc.

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Appendix-I

Nepal Bank Limited

Balance Sheet

As on end of Ashadh 2070

Capital and Liabilities	**Amount**
1. Share Capital	380382600
2. Reserve and Fund	(6627898343)
3. Debentures and Bonds	-
4. Borrowings	1604868196
5. Deposits	39014204359
6. Bills Payables	60726059
7. Proposed and Dividend Payables	2083097
8. Income Tax Liabilities	-
9. Other Liabilities	4824427537
Total Capital and Liabilities	**39258793505**
1. Cash Balance	1086066645
2. Cash Balance with NRB	5224859643
3. Balance with Banks/Financial Institutions	806366796
4. Money at Call and Short Notices	200000000
5. Investment	16072179882
6. Loan Advances and Bills Purchase	11058477657
7. Fixed Assets	205768262
8. Non Banking Assets	-
9. Other Assets	4605074620
Total Assets	**39258793505**

Appendix-II

Nepal Bank Limited

Profit and Loss Account

For the period from 1st Shrwan 2069 to 32nd Ashad 2070

Particulars	**Amount**
1. Interest Income	1848611557
2. Interest Expenses	(772644038)
Net Interest Income	**1075967519**
3. Commission and Discount	181019733
4. Other Operating Income	287647712
5. Exchange Fluctuation Income	-
Total Operating Income	**1544634964**
6. Staff Expenses	1125224496
7. Other Overhead Expenses	329490763
8. Exchange Fluctuation Losses	43279340
Operating Profit Before Provision for Possible Loss	**43540365**
9. Provision for possible Loss	80376445
Operating Profit	**36836080**
10. Non Operating Income / Losses	50389326
11. Loan Loss Provision Written Back	-
Profit from Regular Operations	**13553246**
12. Profit / Loss from Extra Ordinary Activities	236094956
Net Profit after Considering all Activities	**249648202**
13. Staff Bonus Provision	22695291
14. Tax Provision	-
Net Profit / Loss	**226952911**

Appendix-III

Nepal Bank Limited

Profit and Loss Appropriation Account

For the period from 1st Shrwan 2069 to 32nd Ashad 2070

Particulars	Amount
Current Year Net Profit / Loss	**226952911**
Less: Expenses	
1. Accumulated Loss up to Last Year	8122002960
2. Current Year Losses	-
3. General Reserve	45390582
4. Contingent Reserve	-
5. Institutional Development Fund	-
6. Dividend Equalization Fund	-
7. Staff Related Reserve Fund	-
8. Proposed Dividend	-
9. Proposed Issue of Bonus Shares	-
10. Special Reserve Fund	-
11. Exchange Equalization Fund	-
12.Capital Redemption Reserve	-
13. Capital Adjustment Fund	38038260
14. Staff Bonus	173012970
Total	8378444772
Accumulated Profit / Loss	**(8151491861)**