

CHAPTER -1

INTRODUCTION

1.1 Background of the Study

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

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

The development of economy basically depends upon the development of financial sectors. Banking sector is also known as backbone of economy, because it help to formulate capital by collecting scattered amount among people and invest in development in which private sector does not want to invest. That is why resources can be transferred from the idle sector into productive sectors. This ultimately helps to uplift the economic development of the country. So Nepal needs to emphasize banking among its people in this modern era. Further in this modern century, banking business transaction and personal life have become advanced in Nepal too, So nowadays to make easy business transaction, various types of equipments and new techniques are introduced. As a result of this banking sectors and financial institution provide non banking service beside instructed banking service to move towards modernization.

The growth of banking is not so long. In comparison with other developing or developed country, the institutional development in banking system of Nepal is far behind. Even through the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the region of Gunakamadev were in use. After the unification of Nepal, Prithivi Narayan Shah, the great king had used coin 'Mohar' in his name. An institution called "Taksar" was established in 1989 and it started to issue the coin scientifically During the reign of Ranodip singh an office named "Tejart" was established officials and general people against deposit of gold and silver. It had also office had no right to accept deposit of public and it had no characteristics of modern banks. (Bhandari, 2004: 6-9).

After the establishment of Nepal Bank limited on 30 th kartik, 1994 (B.s), modern banking system started in Nepal. Under the Nepal Rastra Bnk Act 2012, Nepal Rastra Bank was established in 2013, Baishakh 14 ht in Nepal. Rastriya Baniija Bank was established in Government Sector in 2022 and Agricultural Development Bank in 2041 under the commercial bank limited is the 1st joint venture bank established in 2041 under the commercial Bank Act 2031 and companies Act 2021. Till the date, there are 26 commercial banks in Nepal that includes 10 local commercial banks and 13 joint venture banks. There are 58 development banks. Then, in the chain, financial system covers 78 finance companies, 23 insurance companies, 34 NGO's licensed to perform limited banking functions under the supervision of NRB.

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

1.2 Risk Assets Management

Risk assets are regarded as the most income generating assets especially in commercial banks. Risk assets are regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of investment; the most of the investment activities based on credit; it is the main source of creating profitability; it determines the profitability. It on national economy to some extent. If the bank provides credit to retailer, it will make the customer status. Similarly, it provides to trader & industry, the security against depositors. It proved from very beginning that credit is the shareholder's wealth maximization but the most effective factor is regarded as risk Assets Management. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of risk assets should seriously be considered.

Management is the system, which helps to complete the every job effectively. Risk assets management is also the system, which helps to manage credit effectively. In other world, risk assets management refers management of credit exposures arising from loans, corporate bonds and credit derivatives. Risk assets exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

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

The risk assets policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The risk assets 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 information and methods of credit analysis.

1.3 Introduction of Sample Organizations

NABIL Bank Ltd. (NABIL)

The first commercial joint venture bank of Nepal, Nepal Arab Limited, was established on July 12th 1984 under a technical service agreement with Dubai Bank Limited with 50% equity investment and was renamed as NABIL Bank Limited on 1st January 2002. Nabil bank limited had the official name Nepal Arab Bank Ltd till Dec 31st 2001. In the beginning the authorized capital of this bank was Rs.100 million and paid up capital was Rs.28 million 400 thousand. The 50% share of NABIL owned by Dubai Bank Limited was transferred to Emirates Bank international Limited, Dubai by virtue of its annexation with the later. Later on, Emirates Bank International Limited sold its entire 50% share to National Bank Ltd, Bangladesh. Now National Bank limited is managing the bank in accordance with the technical services Agreement signed between it and the bank on June 1995. The bank introduced an Automatic teller machine (ATM) first time in Nepal, in three places in the valley at Kantipath, New road and Lalitpur. The bank has its corporate head office at kamladi, kathmandu. Nabil is the pioneer in introducing credit cards in Nepal. 50% equity shares of Nabil Bank Ltd are held by Nb (international) and out of another 50%, financial institutions has taken 20% an remaining 30% were issued to general public of Nepal. At present 31 Branches are operated in different parts of the country.

Its present shareholding pattern is as follows:

Nb (International)	50%
Nepal Industrial Development corporation	6.15%
Rastriya Beema sansthan	9.67%
Nepal stock exchange	0.33%
Promoters other	3.85%
General Public	30%

Everest Bank Ltd. (EBL)

Everest Bank Ltd is a joint venture bank with Panjab National Bank of India established in 1993 A.D. It started its operation from 18th October 1994 under the technical service agreement signed between two banks Punjab National Bank has

been providing top management services and banking expertise to Everest Bank Ltd. The bank operates with the objective of extending professionalized banking services to various section of the society in the kingdom of Nepal and there by contributes to the economic development of the country. Its head office is in Lazimpat, Kathmandu.

Everest Bank Ltd. was registered under the company Act 1964 in 19th November 1993 (2049/09/03) and started banking transaction in 16th October 1994 (2051/07/01). The promoted of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 A.D. with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking expedience and known for its strong system and procedure. Now, the bank has 26 branches in Nepal.

On equity holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintain by Nepali investor. Nepalese promoter holding 50% and rest 30% held by General public. The main purpose of EBL is to extend professional banking services to various sectors of the society in the kingdom of Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers:

The Ownership Of EBL is composed as :

Subscriber	% Holding
Promoter Share Holders	50%
Punjab National Bank	20%
General Public	30%
Total	100%

1.4 Statement of the Problem

Most major banking problems have been caused by weakness in risk assets management. Banks should now have a keen awareness of the need to identify measure, monitor and control risk assets as well as to determine that they hold

adequate capital against it. So, to establish creditability position if a major issue in commercial banking sector during these days.

Risk assets are the most effective and sincere area in commercial bank. It is regarded as the heart of every commercial bank. But the banking sector is far from this fact. Thus, risk assets management is considered as the heart issues in Nepalese commercial banking sector.

Risk assets management concept has appeared as a major research gap in Nepalese commercial banking sector. There is lack of such scientific and empirical research that could identify the issues of risk assets management in Nepalese commercial banks. In this regard, the performance of Nepalese commercial banks is to be analyzed in terms of their investment in risk assets. Thus, the specific research questions regarding risk assets management in Nepalese commercial banking sector are identified as follows:

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

1.5 Objectives of the Study

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

1. To assess practices on risk assets of selected Nepalese commercial banks
2. To explore the credit efficiency of selected Nepalese commercial banks
3. To analyze the industry environment of selected Nepalese commercial banks in terms of practices on risk assets.

4. To evaluate the performance of the management team of selected Nepalese commercial banks in terms of practices on risk assets.
5. To explore the relationship with loan and advances, non-performing loan and net profit of selected Nepalese commercial banks.
6. To recommend for the improvement on the basis of findings of the study after analyzing the risk assets management.

1.6 Significance of the Study

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

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

1.7 Limitations of the Study

The scope of the study is limited only in commercial banks because of time and resource constraints. Most of the analyses are descriptive in present study. This study is very basic attempt to address the research issues; therefore, it might not be able to

show casual linkage or effect. Instrument used for data collection is not standardized questionnaire.

Preset study could not address all the aspects of risk assets position. The Study is based in employees; self repeated response about their perception on primary analysis. it is, therefore, the response collected from the employees might not valid measure. Some of the limitation of this study can be listed as follows:

-) Secondary analysis is based on published financial data on collected from stock exchange center and administration department of the concerned banks.
-) The secondary analysis covers time span of current five years. Various financial tools are used to know financial condition of the bank. However, the study tries to find out position of risk assets and its importance in selected commercial banks.
-) Due to limitation of time and resources, only two commercial banks are taken as sample. Nevertheless, this study has tried to show the true picture and situation of risk assets management in banking industry.
-) The evaluation is made through the analysis of financial statement published and presented by the banks. Therefore generalization of the whole baking industry cannot be made.
-) The study is also based on primary data especially through personal interview and questionnaire. Any changes in the general view, concepts and behavior of the people before and after the period are not included in the study.
-) Inaccessibility of sufficient information has also limited the conclusion drawn from study.

1.8 Organization of the Study

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way.

The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

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

Chapter-II: Review of Literature

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

Chapter-III: Research Methodology

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

Chapter -IV: Presentation and Analysis of data

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

Chapter-V: Summary, Conclusion and Recommendations

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

CHAPTER -II

REVIEW OF LITERATURE

This chapter deals with the literature, relevant to this study, this part of thesis is essential to know about the findings of other researchers which are appropriate to the study. The first part consists of conceptual framework and the remaining parts consists the review of reports, articles, journals and dissertation.

2.1 Theoretical Review of Risk Assets Management

"Banking is the business of collection and safeguarding money as deposits and lending of same. The banker's business is then to take the debt of other people to offer his own in exchange and there by to create money. He may be a dealer in debts, but in distress is only observing of wealth and it would be equally permissible to describe the banker as liquefies of wealth." (Crowther, "an outline of money", p. 81)

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

The study seeks first and like some other to examine the relative importance of credit policy in marketing decisions and, seconds, to assess the case for differentiating credit packages. It is also presented the result of an empirical survey into the credit policies pursued. In concept, the empirical study is similar to earlier studies.

The risk assets policy cannot be sound unless it is based on a clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of

capital, a discounting approach should be used. a credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

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

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

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

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

But, recently, the Bank and Financial Development Institutions ordinance, 2060 has accumulated the five banking acts including commercial bank Act 2031, which defines the bank with respect to their transactions. This Act is trying to categories the banking institutions in two ways that I based on their transactions. According to this Act, "Bank is the institution which performs its transaction under the provisions mentioned in section 47 of this Act."

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

Financial activities are necessary for the economic development of the country and commercial banking in this context is the heart of financial system. Optimal investment

decision plays a vital role in each and every organization. But especially for the commercial bank and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

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

The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies is always taken in mind that "the greater the credit created by the bank, the higher will be the profitability". A sound lending and investment policy is not only prerequisite for bank's profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

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

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

2.1.1 Financial Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expressions" and "as the relationship between two things" (**Adhikari, 2006: 40**)

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

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

Standard of Comparison

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

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

Types of Ratios

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

Credit Practices Ratio

1. Total Loan to Total Deposit Ratio

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

2. Loan and Advances to Total Assets Ratio

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

3. Loan and Advances to Current Assets

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

4. Interest Income to Loan and Advances

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

5. Loan Loss Provision to Total Loan and Advances Ratio

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

6. Non-performing Loan to Total Loan and Advances Ratio

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

Credit Efficiency Ratio

1. Interest Expenses to Total Deposit Ratio

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

2. Total Loan to Liabilities Ratio

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

3. 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.

4. Non-interest Bearing Deposit to Total Deposit Ratio

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

5. Interest Income to Total Income Ratio

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

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

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

7. Interest Suspense to Total Interest Income from Loan and Advances Ratio

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

2.1.2 Statistical Tools

Statistical is a body of methods of obtaining and analyzing data in order to base decision on them. It is a branch of scientific method used in dealing with phenomena that can be described numerically either by counts or by measurement. Thus the word statistics refer it a method of dealing with quantities information. Thus the word statistics refer it a method of dealing with quantities information. Webster defined statistics as 'the classified facts represented by the condition of the people in state especially those facts which can be stated in numbers or in tables of number or in any tabular or classified arrangement'.

Regression and Correlation

Regression and correlation Analysis are the techniques of studying how the variations in one series are related to the variation in another series. Measurement of degree of relationship between two or more variables is called correlation analysis and using the relationship between a known variable and an unknown variable to estimate the unknown one is termed as regression analysis. Thus, correlation measures the degree of relationship between the variables while regression analysis shows how the variables are related. Regression and correlation analysis thus determines the nature and strength of the relationship between two variables. **(Sharma and chaudhary, 2005: 405)**

2.2 Factors Affecting Credit Policy

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

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

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

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

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

Security realization: - It determines the control over various securities obtained by bank to secure the loan provided excitability of the security documents and present value of the properties mortgaged with the bank. Weakness in security threatens the banks second way cut.

2.3 Review of Related Studies

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

2.3.1 Review of Articles

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

Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institution ensuring transparency during loan disbursement. As per provision, all

commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (CIB) can blacklist the firm, company or clear the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs. 1 million. If the creditor fails to clear the amount within time, or is found misusing the loans among others, the creditor can be blacklisted. **(Central bank tightens blacklisting procedures, 2007: 9)**

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, banks start sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore portfolio management becomes very important both for individuals as well as institutional investors. Large investors would like to select the best mix of investment assets. **(Shrestha, 2006: 15)**

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

The current volume of the total banking deposits is over 1550-folds higher than what used to be some 38 years ago whereas the Gross Domestic Product (GDP) of the country during the same period has increased just by 62-folds. Central bank statistics shows that the total banking deposit in 1965 used to be just Rs. 129.8 million, but swelled to Rs. 202.13 billion by mid-Jan 2003. Similarly the total loan and advances of the entire banking system in 1960 stood at Rs. 107 million, which was over 82 percent

of them total deposit. However, total loans and advances went up to Rs. 127 billion, comparing almost 63 percent of the total deposit, during the period. As a result both deposit and lending of the banking system witnessed an increase of over 6-folds and 5 folds to Rs.21 billion respectively by 1990s. As a result of economic expansion and private sector development, the nineties witnessed a quantum jump in both deposit mobilization and lending. The deposit of banking system, by the end of 2002, touched Rs.154.5 billion, which is 7-folds more than the deposit of the nineties. Loans and advances from the banking system touched Rs. 118 billion by June-end 2000 and the amount was double than what it used to be in 1985. **(The Kathmandu Post, 2003: 9)**

In the post report titled 'Loan Loss provision rises notably' Published in the Kathmandu Post, the reporter had made an endeavor to highlight some facts and figures regarding loan loss provision of commercial banks. "The banking sector is witnessing a huge surge in loan provisioning reserve lately. The increment is primarily a result of a directive issued by Nepal Rastra Bank (NRB) in 2001 that introduced stringent loan provisioning criteria for commercial banks. As per data recently released by the central bank, the total loan loss provision in the country's banking sector increased from around Rs. 8.73 billion in mid-April 2001 to Rs. 13.18 billion in mid-April 2003. The increment is over 51 percent. As per the latest NRB figures, a remarkable surge has been seen in loan provision of Nepal Bank Ltd (NBL). Against the provision of Rs. 1.7 million in mid-April 2002, the loan provision amount surged to whopping Rs. 7.33 billion in a year".

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

The reporter concludes, "The directives laid down stringent guidelines relating to loan loss provisioning to ensure a good health of the overall banking system. The directive requires loans to be provisioned to the extent of 100 percent if payment is defaulted for one year. Likewise, the directives require loans to be provisioned to the extent of 25 percent if payment is defaulted for over three months and 50 percent if the period of default extends beyond six months. The earlier directive required progressive

provisioning of loans, but allowed maximum of three years, unlike the present system of just, for loans to be provisioned to the extent of cent percent'.

Mr. Binam Ghimire in his article titled "credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what is common across most of the banks is the increased size of non performing assets (NPAs), to resolve the losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years. "(Ghimire, 2005: 47-49)

As opined by him, since majority of the loans of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lenient as they help to strengthen banks financially. He added that we also must remember that old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that Loan loss provisioning as a percentage of total credit of April 12, 2001 is 5.2% but as April 13, 2003, it has jumped to 18.39. If only private banks are considered, it is 2.12% of April 2001 where as it is 6.30% as of April 13, 2003. The total increment in LLP is Rs 11,328.11 million and the total increment in credit is only Rs 7,976.70. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns.

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

In the article by Mr. Dependra B Chhetri, Title "Non Performing Assets: A need for Rationalization", the writer has attempted to provide connotation of the term NPA and its potential sources, implication of NPA in financial sector in the south East Asian region. He had also given possible measures to contain NPA. "Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulate time as agreed by the parties at the time of Loan settlement. Since the date becomes past dues, the loan becomes non-performing asset. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to remain loan performing. "(Chhetri, "Non-performing Assets: A need for Rationalization".P.1.)

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months, in India. Loans thus defaulted are classified into different categories having their differing that NPAs are classified according to international practice into 3 categories namely substandard, Doubtful and Loss depending upon the temporal position of loan default. "Thus the degree of NPA assets depends solely on the length of time the asset has been on the form of none obliged by the lone. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. "As per Mr. Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system credit program sponsored by government, slow down in economy/recession, diversion of fund is some of the factors leading to accumulation of NPAs.

He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPAs but extend to extra amount that required for provisioning depends upon the level of NPAs and their quality. As per his view, rising level of NPAs create a psyche of worse environment especially in the financial sector. He mentioned that by reviving the activities of the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc NPAs can be reduced.

Finally he concluded that financial institutions are beset with the burden of mounting level of NPAs in developing countries. "Such assets debt income flow of the financial institution while claiming additional resources in the form of provisioning there by hindering gainful investment. Rising level of NPAs cannot be taken as stimulus but the vigilance demanded to solve the problem like this, eventually will generate vigor to gear up the banking and financial activities in more active way contributing to energizing growth."

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

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

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

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

Protection measures against portfolio losses focused on loan loss reserves based on moving-average formulas. Concentration risk was to be avoided, but there were always those special customers for whom exceptions could be made. If the formulas were correct, then Overall expected losses in the portfolio would be covered by reserves. But those formulas and expectations were not always so accommodative. As

result, certain concentrations would invariably lead to extraordinary, or unexpected, losses that were charged to income in the year of their incurrence.

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

Functionally, Risk Assets are now Segmented into Four Parts.

1. Origination and determination of the required level of customer commitment the sales/relationship function in risk assets portfolio management is often separate from the analysis/underwriting function. This allows for an efficient use of resources for client development as well as analytical discipline and consistency. The relationship manager determines the commitment level that will maximize relationship income.
2. Fundamental analysis of the individual risk asset. The underwriting function in risk assets portfolio management is charge with the more traditional responsibility of individual credit analysis and monitoring. But this function is being driven more and more toward a specialization based on industry, so that the full benefits of analyzing alternative borrowers within an industry can be achieved. The more specialized structure enables CPM to provide key value- added analyses to relationship and product managers in complex Customer Support - for example, merger and acquisition analysis. It also provides for a centralized, efficient use of analytical resources.
3. Portfolio monitoring. Many more tools and information resources exist today than were available in the past for portfolio monitoring. For example:

- Institutions now set various portfolio limits to shape the structure of the desired portfolio.
 - Early-warning processes to measure portfolio deterioration have become an integral part of risk assets management.
 - For large corporate portfolios, Merton-based models relate information inherent in the equity markets to a firm's debt levels.
 - Bond spreads and credit derivative premiums provide a forward-looking credit view from the market that can be compared with a bank's own credit view.
4. The role of credit approval authorities. The credit approval function determines the desired exposure level for the institution's books within the context of pre-established limits by obligor and industry. As a result, credit approval manages expected loss and allocates capital to desirable transactions. CPM, as separate from credit approval, optimizes the use of capital through alterations to the portfolio's profile.

Alternative Structures for CPM

The establishment of credit portfolio management is typically an evolutionary process for each banking institution. At start-Up, CPM usually takes a defensive role-eliminating concentration risk and culling underperforming relationships from the risk/return point of view. As CPM develops, optimization of the selected portfolio is added to its role, adjusting exposures to take into account the best risk/return structure. The adjustments often use the credit derivatives markets in order not to disturb the primary relationship with the customer. In its advanced form, CPM adds the bank's credit view to its role, with the intention of improving the portfolio's relative value performance among different asset classes.

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

Functions of CPM

CPM achieves two principal goals:

1. To match required hold levels with desired hold levels.
2. To optimize the portfolio of assets ultimately held by the bank.

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

- Serve as an analytical and advisory group to the line and to the approval authorities, plus serve as an integral part of critical deal teams.
- Prepare the credit approval package and advocate the transaction to the credit approval authorities.
- Closely monitor obligor risks, returns, and concentrations.
- Evaluate, establish, and effectively use advanced modeling techniques to help determine the potential risk inherent in the portfolio and its asset correlations.
- Manage those same risks through the judicious use of loan sales and synthetic instruments such as credit default swaps and CDOs. (Reidy, RMA journal, (2005) "corporate credit portfolio management changing skills requirements.

2.3.2 Review of Journals

In an article published in New Business Age, Mr. Kamal Subedi titled "Growth in Major commercial Banks" has compared between the first six months of the fiscal year 2002-03 and 2003-04, which shows that there has been a noticeable increase in credit outflow by the commercial banks except for Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB) (the government-owned banks). There has been an increase in credit-deposit (CD) ratios of all commercial banks except for NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was

only on recovery of the huge Non performing Assets (NPA). However, Mr. Subedi pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB all banks have increment in deposit collection. (Subedi, 2003: 47-48)

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

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

A bank's stability depends on the reserve it maintains. NABIL's reserve growth is very good i.e. 1400% on retained earning and 67.86% on other reserves. Similarly, all other banks have except NCCB and BOK made noticeable increment in it. The major yardstick to measure the status of the bank (which is the prime concern of shareholders) is the profitability of the banks-the spread between what the banks has earned and expensed. In this regard, KBL has made the significant growth of 181.25% in profits compared to the previous year. Similarly standard chartered Bank (SCBL), NABIL, HBL, BOK, EBL, NIB, NSBI, NICB and NCCB have the growth percentage of

7.72%, 6.33%, 43.73%, 29.83%, 61.8%, 62.72%, 29.76%, 37.89% and 4.03% respectively.

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

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

In an article published in New Business Age written by sudir Khatri, has analyzed the ordinance pros and cons, in general speaking termed as umbrella Act. He has expressed his disagreement in the ordinance regarding the qualification of the board of director's composition. The qualification set is out of the total number of directors, two thirds have to be graduates in specified disciplines-management, commerce, economic, accounting, finance, law banking and statistics. Another requirement is five year work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with

engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background as the in the past some successful General Manager and Directors in Nepal Industrial Development corporation (NIDC) were engineers. He further writes that activities like project financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specified fields only. CEO of the "ka" category qualification required is Masters Degree in the chosen few subject and the term would be four year. The act however does not mention the renewal of the CEOs term. The Board of AGM of the institution should be decided the CEO, s tenure. (khatri," one umbrella Act's pros and cons".pp, 18-20.)

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

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

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

In an article published written by Mr. Atma shrestha in Business Age entitled "Entrepreneur-friendly credit policy" has reviewed the present credit policy with main focus of the credit decision being based on the collateral. He argues that only collateral neither should nor be considered as the basis of the credit decision. **(Shrestha, "Entrepreneur-friendly credit policy" 2004: 33-34.)**

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

At the time when Nepalese banking industry is confronting with the increasing NPA, it might seem unwise and untimely to suggest that commercial banks extend loan to the potential entrepreneurs without collateral. It is not that they must ignore the collateral altogether while making credit decision. But this should not be a precondition for any credit decision. Lesson should be learned from the past experience of this credit policy that collateral alone does not ensure quality of credit decision. The fluctuation and stagnancy in the real state business has further reinforced this view. More important, Nepalese bankers must themselves have to have entrepreneurship spirit while making credit decision. The ability of lending is identifying and investing a distinct competitive advantage in the crowded market. However it's essential that any government rules and regulations that inhibit the promotion of entrepreneurship in the country must be abolished.

Entrepreneurship development is one of the important conditions for the economic growth of a country for rapid economic growth and progress of a country. However it does not happen automatically. We must create necessary conditions and environment where people with skills, knowledge and hunger to make money by starting their own business can get easy access to capital.

The ordinance relating to banks and financial institutions has been promulgated that has been brought into existence effective February 4, 2004.

The banks and financial institutions ordinance, 2004 has replaced the existing Agriculture Bank Act, 2024. Commercial Bank Act, Development Bank Act, and Nepal Industrial Development Corporation Act and Finance companies Acts and has brought all such institutions under the preview of a single Act. Though this ordinance came as an achievement in the financial sector reform program, it's being a matter of debate among the various finance experts that the ordinance having six months existence time should be enacted? It is obvious that the financial sector must go through uncertainty in the future. The ordinance, popularly called as umbrella Act.

In an article "comments on umbrella Ordinance 2004" Mr. Tirth Upadhyay, president of ICAN has expressed clearly described the ordinance along with his views. The ordinance is comprehensive and prescribes in detail the provisions for licensing, incorporation, governance and merger and dissolution procedures for banks and

financial institutions (FLs). This is a significant improvement over the existing Acts but apprehension is expressed about the discretionary power that the ordinance has vested on Nepal Rastra Bank (NRB). **(Upadhyaya, 2004: 16-17)**

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

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

Chapter 3 deals with constitution and Board of directors and appointment of CEO. Henceforth, in addition to directors appointed by the shareholders, meeting the Fls must have one independent director in its Board appointed from amongst the names in a roster maintained by NRB. Also, the academic qualification of remaining directors has been prescribed that requires that $2/3^{\text{rd}}$ of all directors must possess required qualification and experience but it has failed to ensure that people of requisite qualification are elected by the general meeting. Similarly, academic qualification for a position of CEO is also prescribed and his/her tenure is limited to four years. But the intention of limiting the tenure of such paid executive remains unexplained. It might prevent young and dynamic person from taking this leadership position. Further, the

authority and responsibility specified are not commensurate to the position of a CEO. As the law does not guarantee vesting of executive authority on CEO, it may be played down at the hands of unscrupulous directors and might be inconsistent with the principle of divesting management from investor to professional managers.

Chapter 4 places restriction on using bank of FI's name or carrying out financial transactions by institutions other than those licensed by NRB as per the ordinance.

Chapter 5 deals with capital adequacy, reserves and provisioning for NPA's. But the more it has tried to be transparent, the more it has vested discretionary powers with NRB. To protect the interest of depositors, the prime concern of legislatures in drafting the law should be continued maintenance of adequate capital and such an important matter should not be left to the discretion of NRB. The lesson should be learnt from the past experiences where NRB's leniency sent two largest banks technically bankrupt. In this regard, it may be pertinent to remind why the Basel committee recommendation on capital adequacy (that is universally acceptable) is not being made mandatory obligation on the part of the promoters is not created to meet the capital gap within specified time. Such an obligation is vital for protecting the depositor's interest. As has been the case with the two largest banks (i.e. Nepal Bank Ltd. and Rastriya Banijya Bank) and a few other private sector banks in Nepal, continued flouting with NPA's has eaten away not only their equity but the depositor's money as well.

Chapter 6 prescribes the financial transactions that banks and FIs are empowered to undertake. It has attempted to include all types of traditional financial transactions hitherto undertaken by a bank or FI but has failed to visualize the requirement of a modern banking like debt securitization swap and hedge transactions and dealing in other financial derivatives. The finance company will be benefited with this ordinance as they are now authorized to accept interest free deposit.

Regulatory, inspection and supervision responsibility with regard to FIs continue to remain with NRB. The new provision has enlarged the scope of NRB's regulatory role. Banks set up with foreign shareholding will now be required to submit to NRB the inspection reports prepared by their headquarters. Severe penalty including suspension of Board or taking over the management of FIs has been prescribed for

result of NRB inspection indicates non-compliance with its directives or if the FIs are found to be guilty of engaging in activities that are detrimental to the interest of the interest of the shareholders or the depositors.

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

Loan disbursement and its recovery procedures are covered under chapter 8 that re-establishes the NRB's authority to regulate lending and minimize the chances of loan going to an unscrupulous borrower or diversion of the funds. The ordinance has specifically provided for the compulsory registration of all charges on assets pledged as collateral but the agency responsible for such registration (other than real estate) is not identified. The authority of FIs in loan recovery has been extended and it may now reach to other assets of the borrower in case the security for loan falls short or becomes inadequate. The hitherto requirement of disposal of non-banking assets within seven years has hitherto requirement of disposal of non-banking assets within seven years has been done away with. It may result in accumulation of significant unproductive assets in FIs balance sheet. The role of Loan recovery tribunal has been undermined and no role is envisaged for Asset Management Company that is in the offing.

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

Chapter 10 deals with merger that permits FIs to merge with other FIs only. This is a new provision but does not prescribe the circumstances when such merger, will be permitted. The missing part on merger is the safeguard of interest of minority

shareholders. It does not entitle shareholders opposed to the merger to ask for compulsory acquisition that is vital for promoting foreign investment.

Chapter 11 prescribes penalty for various offences that could be both various offences that could be both civil and criminal. Chapter 12 has laid down procedures for voluntary winding up of Fls, arbitration and miscellaneous administrative and operational procedures. The client confidentiality is guaranteed but with so many restrictive sub-clauses it is doubtful of the objective would ever be met. Similarly depositor's right is clearly protected by reiterating that there would be no other claimant on deposit kept with Fls other than the depositor himself or his nominee but with such right. The state may interfere in one or other pretext defeating the intension of law and lessening the confidence in the banking system.

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

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

2.3.3 Review of Previous Research Work

Raja Ram khadaka (1998) "A study on the Investment policy of Nepal Arab Bank Ltd. in comparison to other joint venture banks of Nepal" 1 has compared investment policy of NABIL with NGBL is comparatively worse than that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosuez Bank Ltd (NIBL). It is also comparatively less successful in on-balance sheet utilization as well as off balance sheet operation

than that of NGBL and NIBL. In case of profitability ratio he has concluded that the profitability position of NABIL is comparatively not better than that of other joint venture banks (JVBs). NABIL is more successful in deposit utilization but fails to maintain high growth rate of profit in comparison with NGBL and NIBL.

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

He has focused his study on the investment policy of Nabil bank and has taken NGBL and NIBL average ratios as banking average. Mr. khadka has recommended to adopt liberal lending and invest more and more percentage amount of total deposits in loans and advances. However while adopting liberal policy on lending he has not explained the consequences like bad debt, default loan, which may arise due to very flexible and liberal lending policy, He has also not explained the regarding what is good liberal lending policy. (Khadla, "A Study on investment policy of Nepal Arab Bank limited in comparison to other joint venture Banks in Nepal".)

Gautam (2002) "lending practices and procurers of Nepal Bangladesh Bank limited" has outlined his major findings as follows.

Not concentrating only in big cities and large groups he has suggested NB Bank to expand branches in rural areas. Banks should invest in productive sector, develop the concept of micro financing and group financing Make should maintain the balance in its loan portfolio and current requirement of the customers. Banks should give preferences to the short term lending. Banks should provide the consortium loan for those for those projects under government guarantee and security thereby uplifting the economic condition of the country. (Gautam, "Lending practices and procedures of Nepal Bangladesh Bank limited".)

Lila Prasad Ojha (2002) on "lending practices". A study on Nabil Bank Limited, standard chartered Nepal Limited and Himalayan Bank Limited" has found out that the measurement of lending strength in relative term has revealed that the total liability to total assets of SCBNL has the highest ratio. However, the performance of

other two banks has not deviated far from the mean ratio of SCBNL and the combined average. SCBNL tendency to invest in government securities have resulted with the lowest ratio of loans and advances to total assets ratio. The steady and high volume of loans and advances throughout the years has resulted Nabil ratio to be the highest. The ratio of loans and advances and investment to deposits ratio has measured the portion of total deposits that is used to increase the income of the banks irrespective of the port folios of its application. Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratio of other two banks. The combined ratio is highly deviated from the mean ratio of Nabil and SCBNL. This is the indicative of that in fund mobilizing activities Nabil is significantly better than SCBNL.

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

On basis of the findings and conclusions he has recommended for the banks as the liquidity position of all these three banks is found to be height. He has recommended the banks to look upon new area of leaving and investment the rural economy has

always been realizing the credit needs prevailing. The compromises between the liquidity and credit need of rural economy these banks are highly recommended to expand their in this has low degree of variation and low growth rate as compare to Nabil and HBL. SCBNL is recommended to given extra priority on productive and priority sector loan. The increasing prevision on loss and high volume of non-performing assets in Nabil and HBL certainly attract the high attraction of any person interested with these banks. The high volume of HBL. Non-performing assets may have caused due to the failure of industrial and agricultural sector. Nabil's increased non- performing, assets may have caused due to the accumulated bad debts that is kept behind the curtain to show the efficiency of management.

He has used different statistical tools like standard deviation, correlation, trend analysis and financial tools for the data analysis and presentation. In his study he has also taken sector wise loan priority sector, productive sector etc. The different sector wise loan classification are presented and analyzed. Only different sector wise loan classification are presented and analyzed. Only secondary data has been used for the study, the overview of the theoretical aspect of the lending practices of the banks has not been analyzed. He has taken five years data from 1997 to 2001 for study of lending practices of Nabil, SCBNL and HBL. (Ojha, " lending practices: A study if NABIL, SCBNL and HBL".)

Subi Joshi (2003) on "A Study on financial Analysis of NIBL" has found out that the analysis of the banks shows that the deposits have been increasing gradually during the study period i.e. (2053/054-2057/058). However the rate of increase was comparatively low in the year 1997/98 than in the year 2000/01. Total loans and advances have been also increasing. The total investment of the bank has been increasing over the years, which is mainly due to bank strategy of safe lending and also a as a result of increase in customer deposits and limited opportunities for prudent lending. As the loan and advances from the bank is increasing provision for loan loss has also been increasing. The bank is increasing provision for loan loss has also been increasing. The bank has bee holding adequate provision for losses over the years and the general loan loss provision was 4% in average of the total risk assets.

In her study she has recommended that the bank should focus more on non- risky lending opportunities such as mortgages, housing loans and personal loans. It should

carefully examine safety of principal as well as sources of repayment, capital structure, requirement and credit worthiness of a borrower for providing credits. In other words, credit manager should evaluate credit risk by considering well-known five C's of credit viz character, capacity, capital, collateral and conditions.

The financial analysis of NIBL has been analyzed and interpreted in this thesis. Analysis on terms of loan and advances is simply presented with comparison with the previous year data only. On the loans and advances part, it has only simple comparison been done. Whether the loan classifications it has only simple comparison been done. Whether the loan classifications and provisioning of loans, investment in priority and deprived sector loan investment regulation of NRB's directives has been followed or not has not been explained.

The review of above relevant literature has contributed to enhance fundamental understanding and knowledge. Which is required to make this study meaningful and purposive. There has been lots of article published related to investment policy published related to investment policy, loan and advances of commercial banks. There are various researches conducted on investment analysis and policy of commercial banks, Impact and Implementation of NRB guidelines in commercial banks but there are a few research conducted on lending aspect of commercial banks. There was a thesis done by Lila Prasad Ojha on "Lending practices: A Study on Nabil Bank Limited, standard chartered Bank Nepal Limited and Himalayan Bank Limited" on Year 2002. However, no one has done a study on " A comparative study on Lending performance of Nabil, SCBNL and NIBL". Therefore the researcher attempts to study in this area with a comparative study of lending performances of these banks will probably be the first study between the banks in the subject matter. (Joshi, "A study on financial Analysis of NIBL".)

A study conducted by Niva Shrestha (2004) on the topic "A study on non-Performing loans and loan loss provisioning of commercial banks' revealed that SCBNL had risk averse attitude o the management or they have policy of investing low in the risky assets i.e. loans and advances as compared to NBL AND NABIL because the loans and advance to total ratio of NBL, NABIL & SCBNL during the study period was appeared to be 52.3%. 47.0% and 29.34% respectively. The SCBNL has higher proportion of the investment in risk free or nominally risky asset like treasury bills, National saving bonds etc.

Similarly, the loans and advances to total deposit ratio of NBL, NABIL and SCBNL during the study period was found to be 57.63%, 56.35% and 35.94% respectively. It indicates that SCBNL has the most consistent and variability during the study period where as the NBL has the higher consistent and variability as comparison to other two banks. NABIL has the moderate level of consistent and variability.

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

In the same way, proportion loan loss provision of NBL was found to be significantly higher (i.e.40.17%) as compared to other two commercial banks. The proportion of NABIL and SCBNL was found to be 5.69% and 4.49%.

The average ratio of provision held to non- performing loan of NBL, NABIL & SCBNL was found to be 80.03%, 57.85% and 122.32% respectively shows that the SCBNL has maintained adequate level of provision against non-performing loan where as NABIL was found to be comparatively lower. The NBL was found to be an average position. (Shrestha, "A study on non performing loans and loan loss provisioning of commercial banks").

2.4 Research Gap

Previous researchers analyzed the risk assets (credit) management by using secondary source of information in terms of credit practices or lending practices. But actually speaking, risk assets management can be determined by various factors. Among them, banking environment and management quality in terms of credit may be the strong determinant for risk assets management in banks. At present context, these are the heart issue in Nepalese commercial banks. The previous scholars could not submit the present facts. Present study tries to define risk assets management by applying those various facts. It can be very useful or important in this area. Thus, present study may be valuable piece of research work.

CHAPTER -III

RESEATCH METHODOLOGY

Research methodology is a way systematically solves the research problem. It may be understood as a science of studying how research is done scientifically. It is necessary for the researcher to know not only the research methods but also the methodology. When we talk about the research methodology we not only talk of research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a we use in the context of our research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others. The study of research methodology gives the student the necessary training in gathering materials and arranging them, participating in the field work which required, and also training in techniques for collection of data appropriate to particular problems, in the use of statistics, questionnaires and controlled experimentation and in recording evidence, sorting it out and interpreting it. (Kothari, 2005: 10-13)

This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words research methodology describes the methods processes applied in the entire aspect of the study. This chapter describes research design, population, sampling procedure, and sources of data and analysis of data.

3.1 Research Design

Present study follows the descriptive as well as analytical statistics of the analysis to meet the stated objectives of the study. 'Descriptive studies are primarily convened to find out 'What is. The secondary data were analyzed from the data collected from the administration department of the related banks. Few financial statements of selected commercial banks were tabulated using spreadsheet.

3.2 Sources of Data

The research is based on primary as well as secondary source of data. For research purpose, published financial statements (i.e. Annual reports) of concerned banks were collected. Similarly, financial statement of selected commercial banks and various markets related information were collected and tabulated in spread sheet. Such Secondary information was gathered from the administration department of the concerned banks.

Informal interview technique was used for primary data analysis. The interview was carefully designed by considering various influencing factor of industry environment, management quality. The factors derived from previous research findings on related area are to support risk assets management. Basic sources of primary information were employees of concerned banks. In addition, an answer on certain queries made to staffs of concerned organization personal requires and discussions were also being conducted for clarification and verification of collected data and for recommendation.

3.3 Population and Sample of Survey Design

A Small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made. **(Sharma and Chaudhary, 2001: 171-173)**

Here only 2 sample commercial banks are taken out of 26 commercial banks. For selecting the samples, non-random sampling method is used here among different methods. The samples are taken only from commercial banks. Organization under study is as follows:

1. NABIL Bank Limited
2. Everest Bank Limited

The general introduction and major objectives of the sample organization are presented in chapter one. Likewise, financial statements of five 5 years (beginning from 2003/04 to 2007/08) are selected as samples for the purpose of it.

3.4 Primary Data Collection Techniques

Individual data sheet and structured personal interview technique was used to gather information about selected characteristics of the respondents. Selection of the items for individual data sheet was primarily based on earlier international researches concept on the related subject and the previous research findings. The instrument has sixteen items are related to management quality. Few demographic variables such as gender position, age, major profession and experience in work in an organization were also designed and included in the instrument. The demographic variables were designed in nominal scale. All variables were designed in six-point like rt type scale" 6-strongly disagree" and "6-strongly agree" and average in between.

3.5 Primary Data Collection Procedure

Convenient sampling technique was followed to gather the opinion or characteristics of employees of the concerned bank. Questionnaire were administered and returned in four-five days. In many situations, the researcher asked the respondents to give opinions of the questions and ticked on replied answers to administer the questionnaire. Researcher personally visited head office of the related banks taking appointment in advance to interview the employee of the concerned department. In most of the cases, meaning of the items and instruments were described to the respondents, which helped them to give fair opinion.

3.6 Tools and Techniques Employed

To meet the objectives of the study, the sources of secondary data of commercial bank are analyzed by using financial tools such as Ratio analysis. Similarly all the scores of

individual data sheet (represented by primary data) were entered into SPSS version 11.5 database for tabulation & analysis simple descriptive analysis tools such as frequency, mean, standard deviation were used. Often source inferential tools such as analysis of variance ANOVA was also used to know the differences among selected commercial banks.

The ratio analysis involves comparison for a useful interpretation of financial statements. The quantities judgment regarding risk assets Management of a firm can be done with the help of ratio analysis. The following ratios are calculated for the study purpose:

3.6.1 Credit Practices Ratios

-) Total Loan to total deposit ratio
-) Loan and advances to total assets ratio
-) Loan and advances to current assets
-) Interest income to loan and advances
-) Loan loss provision to total loan and advances ratio
-) Non-performing loan to total loan and advances ratio

3.6.2 Credit Efficiency Ratios

-) Interest expenses to total deposit ratio
-) Interest expenses to total expenses ratio
-) Non-interest bearing deposit to total deposit ratio
-) Interest income to total income ratio
-) Interest from loan, advances and overdraft to total interest income ratio
-) Interest suspense to total interest income from loan and advances ratio

3.7 Nature of Respondents

This section deals the nature of respondents of present research. Nature of respondents can be discussed so many demographic variables such as gender, age, designation, department, experience.

The table presents the frequency of respondents of selecting banks and its valid percent.

Table 3.1
Gender of respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	24	64.86	64.86	64.86
Female	13	35.14	35.14	100.0
Total	37	100.0	100.0	

The table 3.1 presents the frequency of male and female and its valid percent. Out of total 37 respondents, 24 respondents were male i.e. 64.86% and 13 respondents were female i.e. 35.14%.

Table 3.2
Age of respondents

Age	Frequency	Percent	Valid Percent	Cumulative Percent
20-28 year	10	27.02	27.02	27.02
29-38 year	25	67.57	67.57	94.59
39 & above year	2	5.41	5.41	100.0
Total	37	100.0	100.0	

The above table 3.2 presents the picture of frequency of respondents of different age group and its valid percent. The table presents the highest number of respondents, of the age 29-38. The number of respondents of the age 29-38 is 25 (i.e. 67.57%). The lowest number of respondents, of the age 39 & above is 2 (i.e. 5.41%). Similarly, age group of 20-28 is 10 (i.e. 27.02%).

Table 3.3
Designation of respondents

Designation	Frequency	Percent	Valid Percent	Cumulative Percent
Assistant level	6	16.22	16.22	16.22
Officer level	15	40.54	40.54	56.76
Manager level	16	43.24	43.24	100.0
Total	37	100.0	100.0	

The above table 3.3 presents frequency of respondents in different categorized designation and its valid percent. The designation was categorized into three parts. Out of total 37 valid respondents, the respondents of the manager level were the highest, 16 (i.e. 43.24%) and the respondents of the Assistant Level was the lowest level, 6 (i.e. 16.22%). Similarly, the designation of the office level was 15, (i.e. 40.54%).

Table 3.4
Department of respondents

Designation	Frequency	Percent	Valid Percent	Cumulative Percent
Customer Service	6	16.22	16.22	16.22
Credit	7	18.92	18.92	35.14
Trade, Finance and Planning	10	27.03	27.03	62.17
Marketing	1	2.70	2.70	64.87
HRM	8	21.62	21.62	86.49
Treasury	5	13.51	13.51	100.0
Total	37	100.0	100.0	

The table 3.4 presents the frequency of the respondents in different departments and its valid percent. The table shows that the number of respondents of trade, finance and planning department was found the highest, 10 (27.03%) and the number of respondents of the marketing department was found the lowest, 1 (i.e. 2.70%). Similarly, the number of the customer service, Credit, HRM and Treasury were found 6(16.22%), 7 (18.92%), 8 (21.62%) and 5 (13.51%) respectively.

Table 3.5
Experience of the respondents

Designation	Frequency	Percent	Valid Percent	Cumulative Percent
1-8 year	30	81.08	81.08	81.08
9-18 year	7	18.92	18.92	100.0
Total	37	100.0	100.0	

The table 3.5 presents the frequency distribution of respondents in terms of their experience in the organization in categorized form. The number respondents of (1-8) year of work experience were found the 30, (i.e. 81.08%) where as the respondents of (9-18) year of work experience was found the 7, (i.e. 18.92%).

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

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

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

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

4.1 Secondary Data Analysis of Selected Nepalese Commercial Banks

Financial analysis assists in identifying the major strengths and weaknesses of a firm. It indicates whether a company has enough cash to meet its obligations and ability to utilize properly their available resources. Financial analysis can also be used to assess the company's liability as and ongoing enterprise and determine whether a satisfactory return is being earned for the risks return. Thus, comparative financial condition of the banks in terms of credit practices is necessary to find out the comparative credit practices in those banks.

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

4.1.1 Comparative Credit Practices in Nabil Bank and Everest Bank

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

i) Total Loans to Deposit Ratio

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

Table 4.1
Total Loans to deposit ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.6055	0.7505	0.6863	0.6813	0.6818	0.6811
EBL	0.7560	0.7820	0.7340	0.7740	0.7860	0.7664

Source: annual report of nabil & everest bank

Table 4.1 shows that the ratio of credit deposit ratio in NABIL was 0.6055, 0.7505, 0.6863 & 0.6818, 0.7560, 0.7820, 0.7340, 0.7740 & 0.7860 respectively. In overall comparison, EBL has the highest ratio in F/Y 2007/08 i.e. 0.7860 and NBL has observed the lowest ratio in F/Y 2003/04 with 0.6055.

From mean point of view, EBL has maintained higher loan & advances to total deposit ratio than NABIL. In this way, it shows that EBL seems to be strong to mobilize its total deposit as loan & advances. It can be concluded that NABIL has lower position to mobilize its deposits as compare to EBL. However higher ratio does

not mean it is always better from the point of liquidity. From the analysis EBL seems to be the best performer in utilizing its collected resources in the form of deposits much efficiently, which may definitely increase in income and profit for EBL.

ii) Interest Income to Loans & Advances

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

Table 4.2
Interest income to loan & advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.0945	0.0870	0.0829	0.0814	0.0804	0.0852
EBL	0.0920	0.0800	0.0760	0.0690	0.0710	0.0776

Source: annual report of nabil & everest bank

Table 4.2 shows that the ratio of interest income to loan and advances ratio in NABIL was 0.0945, 0.0870, 0.0829, 0.0814 & 0.0804 respectively. Likewise, the ratio of EBL was 0.0920, 0.0800, 0.0760, 0.0690 & 0.0710 respectively. But NABIL has the highest ratio in F/Y 2003/04 i.e. 0.0945 and EBL has the lowest ratio in F/Y 2006/07 i.e. 0.0690 respectively.

Calculated mean value of NABIL is highest with 0.0852 as compare to EBL, which is 0.0776 respectively. From this point of view NABIL has the best performance in earning interest income.

iii) Non-performing Loans to Total Loan and Advances Ratio

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

Table 4.3**Non-performing loan to total loan and advances (in %)**

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.0335	0.0132	0.0138	0.0112	0.0074	0.0158
EBL	0.0170	0.0163	0.0127	0.0080	0.0068	0.0122

Source: annual report of nabil & everest bank

Table 4.3 shows that from the NABIL point of view, the ratio in five yrs. is 0.0335, 0.0132, 0.0138, 0.0112 & 0.0074 respectively. Likewise the ratio of EBL was 0.0170, 0.0163, 0.0127, 0.0080 & 0.0068 respectively. In overall comparison, EBL has the lowest non- performing loan to total loan and advances (i.e. 0.0068) and NABIL has the highest ratio (i.e. 0.0335).

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

iv) Loans and Advances to Total Assets Ratio

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

Table 4.4**Loans & advances to total assets ratio**

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.4828	0.5157	0.6452	0.5831	0.5704	0.5594
EBL	0.6096	0.6124	0.6461	0.6141	0.6375	0.6239

Source: annual report of nabil & everest bank

Table 4.4 shows that the ratio of loans & advance to total assets in five yrs for NABIL was 0.4828, 0.5157, 0.6452, 0.5831 & 0.5704 respectively. Similarly, the ratio of EBL was 0.6096, 0.6124, 0.6461, 0.6141 & 0.6375 respectively.

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

v) Loans and Advances to Current Assets Ratio

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

Table 4.5

Loans & advances to current assets ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	3.7100	4.2420	4.4357	4.4778	6.0836	4.5898
EBL	2.3560	4.5270	3.7520	5.4980	3.9880	4.0242

Source: annual report of nabil & everest bank

Table 4.5 shows that, from the NABIL point of view, the ratio for five yrs. was 3.7100, 4.2420, 4.4357, 4.4778 & 6.0836 respectively. Similarly, the ratio of EBL was 2.3560, 4.5270, 3.7520, 5.4980 & 3.9880 respectively. In overall comparison NABIL Bank has the highest loan and advances to current assets ratio (i.e. 6.0836) in F/Y 2006/07 and EBL has the lowest ratio (i.e. 2.3560) in F/Y 2002/03. From the mean point of view, NABIL has the higher mean ratio in comparison with EBL. It indicates that NABIL Bank has relatively better short term lending practices than EBL.

vi) Loans Loss Provision to Total Loan and Advances Ratio

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

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

Table 4.6

Loan loss provision to total loan & advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.07111	0.0489	0.0461	0.0438	0.0185	0.0457
EBL	0.0201	0.0236	0.0279	0.0363	0.0386	0.0293

Source: annual report of nabil & everest bank

Table 4.6 shows that from the NABIL point of view, the ratio of loan loss provision to total loans & advances in five yrs. is 0.07111, 0.0489, 0.0461, 0.0438 & 0.0185 respectively, whereas the ratio of EBL was 0.0201, 0.0236, 0.0279, 0.0363 & 0.0386 respectively. But NABIL Bank has the highest loan loss provision to loan and advances ratio (i.e. 0.07111) in F/Y 2003/04 and EBL has the lowest ratio (i.e. 0.0201) in F/Y 2003/04.

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

4.1.2 Comparative Credit Efficiency in NABIL Bank and Everest Bank

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

i) Total Assets to Liability Ratio

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

Table 4.7

Total Asset to total liabilities ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	1.0971	1.1076	1.0917	1.0816	1.0777	1.0911
EBL	1.0762	1.1069	1.0860	1.0753	1.0891	1.0867

Source: annual report of nabil & everest bank

Table 4.7 shows the ratios of the banks have been in Fluctuating trend. NABIL has the higher mean ratio than EBL Bank. The combined mean ratio is 1.0889 and NABIL has higher ratio than that of the combined mean NABIL has been able to utilize the fund more efficiently and effectively to the extend in comparison with the EBL Bank. However still this position could not be sufficient balance for a developing country the ratio should not be below.

ii) Interest Expenses to Total Deposit Ratio

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

Table 4.8

Interest expenses to total deposit ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.0197	0.0168	0.0209	0.0254	0.0264	0.0218
EBL	0.0390	0.0290	0.0280	0.0270	0.0260	0.0298

Source: annual report of nabil & everest bank

Table 4.8 shows that the cost of the deposit of NABIL was found in increasing trend except F/Y 2004/05. It has highest ratio in F/Y 2007/08 i.e. 0.0264 and lowest ratio in F/Y 2004/05 i.e. 0.0168. Similarly, EBL has the highest ratio in F/Y 2003/04 i.e. 0.0390 and lowest ratio in F/Y 2007/08 i.e. 0.0260. The ratios are found in decreasing trend.

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

iii) Interest Expenses to Total Expenses Ratio

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

Table 4.9
Interest expenses to total expenses ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.4579	0.3826	0.5814	0.5136	0.5291	0.4929
EBL	0.5488	0.6228	0.6449	0.6703	0.6298	0.6233

Source: annual report of nabil & everest bank

A table 4.9 shows that the interest expenses to total expenses of NABIL Bank has fluctuating trend. It has highest ratio in F/Y 2005/06 i.e 0.5814 and lowest ratio in F/Y 2004/05 i.e. 0.3826 2003/04 i.e. 0.5488. It has increasing trend except F/Y 2007/08.

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

iv) Non-interest Bearing Deposits to Total Deposit Ratio

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

Table 4.10

Non-interest bearing deposits to total deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.2055	0.2027	0.2547	0.1610	0.1795	0.2007
EBL	0.1062	0.1067	0.1079	0.1076	0.1195	0.1096

Source: annual report of nabil & everest bank

Table 4.10 shows that non-interest bearing deposits to total deposit of NABIL Bank were in fluctuating trend. NABIL has highest ratio in F/Y 2005/06 i.e. 0.2547 and lowest ratio in F/Y 2006/07 i.e. 0.1610, whereas EBL has highest ratio in F/Y 2007/08 i.e. 0.1195 and lowest ratio in F/Y 2003/04 i.e. 0.1062. It has ratios in increasing trend except F/Y 2006/07.

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

v) Interest Income to Total Income Ratio

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

Table 4.11

Interest income to total income ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.8043	0.6834	0.7131	0.7576	0.7788	0.8074
EBL	0.8200	0.8180	0.8700	0.8340	0.8306	0.8345

Source: annual report of nabil & everest bank

Table 4.11 shows that from the NABIL Banks point of view, the ratio of Interest Income to Total income in five yrs. were 0.8043, 0.6834, 0.7131, 0.7576 & 0.7788 respectively whereas the highest ratio in F/Y 2003/04 i.e. 0.8043 and the lowest ratio in F/Y 2004/05 i.e. 0.6834. Likewise, the ratio of EBL in five yrs. were 0.8200, 0.8180, 0.8700, 0.8340 and 0.8306 respectively whereas the highest ratio in F/Y 2005/06 and lowest ratio in F/Y 2004/05.

From mean point of view, it can be said that EBL has high interest income to total income ratio than NABIL Bank. This shows that in total income of NABIL Bank and EBL, interest income contributes 80.74% and 83.74% and 83.45% respectively. The lowest ratio of NABIL Bank indicates its low dependency in fund-based activity. The highest ratio of EBL indicates greater dependency on fund-based activities.

vi) Interest from Loan, Advanced and Overdraft to Total Interest Income Ratio

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

Table 4.12

Interest from loan and advances & overdraft to total interest income

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.7061	0.7151	0.7627	0.7352	0.7562	0.7351
EBL	0.8900	0.8920	0.8560	0.8451	0.8586	0.8683

Source: annual report of nabil & everest bank

Table 4.12 shows that from the NABIL Banks point of view, the ratio in five yrs. were 0.7061, 0.7151, 0.7627, 0.7352 & 0.7562 respectively. Whereas the highest ratio in F/Y 2005/06 i.e. 0.7627 and the lowest ratio in F/Y 2003/04 i.e. 0.7061. Similarly, the ratios of EBL were 0.8900, 0.8920, 0.8560, 0.8451 & 0.8586 respectively whereas the highest ratio in F/Y 2004/05 i.e. 0.8920 and lowest in 2006/07 i.e. 0.8451.

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

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

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

Table 4.13

Interest suspense to interest income from loans & advances ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.1257	0.1616	0.1476	0.1421	0.1294	0.1413
EBL	0.0372	0.0752	0.0867	0.0963	0.0941	0.0779

Source: annual report of nabil & everest bank

Table 4.13 shows that, from the NABIL Banks point of view. The ratio in five yrs. were 0.1257, 0.1616, 0.1476, 0.1421 & 0.1294 respectively where the highest ratio in F/Y 2004/05 i.e. 0.1616 and the lowest ratio in F/Y 2003/04 i.e. 0.1257, whereas the ratio of EBL were 0.0372, 0.0752, 0.0867, 0.0963 & 0.0941 respectively. The highest ratio was in F/Y 2006/07 i.e. 0.0963 and lowest ratio in F/Y 2003/04 i.e. 0.0372.

From the mean point of view, NABIL Bank has the highest ratio in comparison with EBL. If there is increasing trend of this ratio the volume of non-performing loans will

increase resulting bad interest turnover, which will ultimately lead to failure of the banks. From the above analysis, EBL has the best performance than NABIL Bank.

4.2 Relationship of Loans and Net Profit

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

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

Table 4.14
Relation of loans and net profit in NABIL: Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	508
	N	5	5
Net Profit	Pearson Correlation	508	1
	N	5	5

Source: annual report of nabil bank

The table 4.14 presents the correlation coefficient between loans and Net profit during study period. The calculated Pearson's correlation coefficient was found 0.508, which shows moderate degree of correlation. It indicates that loans and net profit were found moderate related with each other. That means, increasing loans helps to increase the net profit whereas decrease in loans decreases the net profit. Similarly, coefficient of determination was found to be 0.2581 which indicates that 25.81% of total change in profit has been determined by loans. Loans have moderate influence on net profit of the NABIL Bank. Effective loans management directly affects the net profit of the NABIL Bank. Effective loans management helps to increase and stable the net profit of the NABIL Bank. No exception is found in case of NABIL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table 4.15

Relation of loans and net profit in EBL: Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.938
	N	5	5
Net Profit	Pearson Correlation	0.938	1
	N	5	5

Source: annual report of everest bank

The table 4.15 presents the correlation coefficient between loans and Net profit during study period. The calculated Pearson's correlation coefficient was found 0.938, which shows high degree of correlation. It indicates that loans and net profit were found highly related with each other. That means, increasing loans helps to increase the net profit. Similarly, coefficient of determination was found to be 0.8798 which indicates that 87.98% of total change in profit of the EBL. Effective loans management directly affects the net profit of the EBL. Effective loans management helps to increase and stable the net profit of the EBL. Thus, it is logical to review the impact of various components of working on net profit.

4.3 Relationship of Loans and Non-Performing Loans

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

Table 4.16

Relationship between loans and non-performing loans in NABIL: Correlation Matrix

		Loans	Non-Performing Loan
Loans	Pearson Correlation	1	-0.862
	N	5	5

Non-Performing Loan	Pearson Correlation	-0.862	1
	N	5	5

Source: annual report of nabil bank

The table 4.16 presents the correlation coefficient between non-performing Loan and loans during study period. The calculated Pearson's correlation coefficient was found - 0.862, which shows highly, negative correlation. It indicates that non-performing loans and loans were highly negatively related with each other. That means, decreasing non-performance in loans management. Coefficient of determination was found 0.7430 which indicates that 74.30% of total change in loans management has been negatively determined by non-performing loans.

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

Table 4.17

Relationship between loans and non-performing loans in EBL: Correlation Matrix

		Loans	Non-Performing Loan
Loans	Pearson Correlation	1	-0.275
	N	5	5
Non-Performing Loan	Pearson Correlation	-0.275	1
	N	5	5

Source: annual report of everest bank

The table 4.17 presents the correlation coefficient between non performing loan and loans during study period. The calculated Pearson's correlation coefficient was found - 0.275, which shows negative correlation. It indicates that non-performing loans and loans were negatively related with each other. That means, decreasing non-performance in loans management. Coefficient of determination was found 0.0756 which indicates that 7.56% of total change in loans management has been negatively determined by non-performing loans.

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

4.4 Impact of Loan and Advances on Net Profit

Loans have high implication for determining net profit. Effective loans directly affect the net profit of the Banks. It means that the net profit of the Banks is largely depended by the loans management. Thus, it is more significance to know the impact of loans in net profit.

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

Table 4.18

Impact of loan and advance on net profit in NABIL: Regression Analysis

Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	0.508	0.258	0.011	0.16-9

a. Predictors: (Constant), Loans

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1.	Regression	0.29-17	1	0.29-14	1.045	.382
	Residual	0.83-17	3	0.7-17		
	Total	0.11-19	4			

a. Predictors: (Constant), Loans and advance

b. Dependent Variable: Net Profit

Table 4.18 shows the dependency of Net profit on loans. The calculated Ra was found 0.508 indicates that there is moderate relationship dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value was found 0.011, which indicates that 1.1% of the total variation in the dependent variable net profit has been explained by the independent variable loans.

Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management of loans should seriously be taken to achieve the goal of the NABIL Bank.

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

Table 4.19

Impact of loan and advance on net profit in EBL: Regression Analysis

Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	0.938	0.8798	.019	0.108-9

a. Predictors: (Constant), Loans

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1.	Regression	0.86-16	1	0.86-16	1.849	0.211
	Residual	0.140-16	3	0.469-15		
	Total	0.160-17	4			

a. Predictors: (Constant), Loans and advance

b. Dependent Variable: Net Profit

Table 4.19 shows the dependency of Net profit on loans. The calculated R was found 0.938 indicates that there is highly relationship dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value was found 0.019, which indicates that 1.9% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management of loans should seriously be taken to achieve the goal of the EBL.

Similarly, ANOVA table shows that the result presented above was not significant at 0.01 levels. The result of net profit volume and volume of loans resulted relatively higher level of 'F' statistics. The lower level of 'F' statistic resulted relatively higher

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

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

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

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

Table 4.20

**Impact of non-performing loan and performing loan on net profit in NABIL:
Regression Analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.719	0.517	0.033	0.16-9

a. Predictors: (Constant), N.P. LOAN, P.LOAN

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1.	Regression	0.582-17	2	0.291-17	1.069	0.483
	Residual	0.544-18	2	0.272-17		
	Total	0.112-18	4			

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

b. Dependent Variable: Net Profit

Above table 4.20 shows the dependency of net profit on performing loan and non-performing loan. The calculated R was found 0.719 indicates that there is high positive relationship dependent variable profit on two independent variables performing loans and non-performing loans. After considering the error term, the adjusted R square value was found 0.033 which indicates that 3.3% of the total variation in the dependent variable net profit has been explained by the two independent variables performing loans and non-performing loans. Thus, it can be concluded that performing loans and non-performing loans is strong determinant of net profit. Therefore, management of performing loans and non-performing loans should seriously be taken to achieve the foal of the NABIL Bank.

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

Table 4.21

Impact of non-performing loan and performing loan on net profit in EBL:

Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.986	0.972	0.0887	0.168-8

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

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1.	Regression	0.9778-16	3	0.32516	11.502	0.213
	Residual	0.283-15	1	0.283-15		
	Total	0.1006-17	4			

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

b. Dependent Variable: Net Profit

In the table 4.21, the adjusted R square was found to be 0.0887 considering independent variables outstanding loan, non-performing loan and dependent variable net profit. It means that 8.87 percent total variation in dependent variable net profit has been explained by independent variables outstanding loan and non-performing loan. Thus, it can be concluded that outstanding loan and non-performing loan has high influence on net profit volume during the study period. Outstanding loan and non-performing loan can be described as strong determinant of determining of profit.

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

4.6 Relationship between Private Sector Investment and Use of Fund

Compare between Everest Bank Ltd. and NABIL in Private sector Lending

Table 4.22

Everest Bank Ltd.

(In million)

Sector/Year	2003/04	2004/05	2005/06	2006/07	2007/08
Private sector	2963.7	3969.6	4970.90	6047.40	7914
Use of Fun	5197.3	6761.1	8241.50	9952.70	15069.00
Percentage	57.02	58.71	60.32	60.76	52.52

Sector/Relation	Mean	Standard deviation	Coefficient of variation	Coefficient of correlation
Private sector	5173.12	1710.54	33.06	0.98%
Use of Fund	9044.32	3394	37.58	

NABIL Bank Ltd.

(In million)

Sector/Year	2003/04	2004/05	2005/06	2006/07	2007/08
Private sector	7807.30	6751.10	7719.20	8497.30	11018.00
Use of Fun	19454.40	19645.70	18275.90	18234.30	18614.90
Percentage	40.13	34.36	42.23	46.60	59.19

Sector/Relation	Mean	Standard deviation	Coefficient of variation	Coefficient of correlation
Private sector	8358.58	3288.19	39.34	-1.00
Use of Fund	18845.64	9662.07	51.27	

Above table 4.22 compares the lending in private sector between Everest bank and Nabil Bank. The standard deviation of Everest bank for 5 year was 1710.54 for private sector funding where as is compare with Nabil bank standard deviation is higher i.e. 3288.19. Everest Bank has higher uniformity with compare to Nabil bank. Similarly, coefficient of variation is 33.06 and 39.34 respectively of Everest bank and Nabil bank. The calculation of coefficient of variation is greater in Nabil which describe it is less homogeneous. Similarly, high positive coefficient of correlation between private sector and use fund describe that 98% of private sector fund are increased as increase in use fund and vise versa where as Nabil bank shows completely opposite to Everest Bank. Although rise in use of fund, there is occurrences of decrease in investments in private sector an fall in use of fund define path of increase in investment in private sector.

We can conclude according to above table that Everest Bank was highly uniform with private sector funding where as Nabil were fewer consistencies towards its investment.

4.7 General Status of Industry Environment in the Selected Banks

General status of industry environment in Selected Nepalese commercial banks. Analysis of industry environment in credit management view point indicates the

position of bank within the industry with respect to credit management. It is important from credit management view point to find out in which environment bank operates while competitors for the same set of customers by offering more or less identical products and services. It shows that the bank is in a better position to identify its strength and weaknesses or not. Six point Likert type scale was used to gather the information, thus, mean score 4-6 shows voting into positive side while mean score 1-3 shows voting into negative side in certain item. In the same way, standard deviation was also used to know the fluctuation in responses. The high variation of responses indicates that some of the respondents are strongly agree while many others are strongly disagreed. In such situation, it becomes very difficult to make a generalization.

For research purpose, fifteen variables were designed to know that industry environment in respective banks. The following table presents the descriptive results of industry environment in selected banks.

Table 4.23
Descriptive results of industry environment in selected Nepalese
Commercial banks

Variables	N	Mean	Std. Deviation
Banking sector has high discretionary power in providing loans	37	4.8824	0.47527
Limited number of banks are the source of banking loans	37	4.6667	0.55377
There is lack of free and fair competition among bankers	37	4.3137	0.46862
Customers have much bargaining power for banking loan interest	37	4.3137	0.50952
Promotes can not get loan from their own bank in Nepal	37	5.2745	0.49309
It is very hard to find attractive customer's project in Nepal	37	5.0980	0.64047
Customers have interest groups that can make pressure to loans	37	4.1569	0.46358
Very similar schemes of commercial banks created	37	4.3137	0.50952

competition			
There are many substitute of banking loan in today's context	37	4.1569	0.54305
Alternative services are available in banking loans	37	4.3333	0.68313
One scheme can substitute another scheme in bank lending sector	37	4.3725	0.66214
It is very hard to start open new banks due to heavy investment	37	5.0392	0.63121
Registration is also very complex to enter in banking business	37	4.8824	0.76543
Nepalese banks utilized high capacity that is barrier for newcomer	37	3.4118	1.18620
Most of the banks have their unique business that no others have	37	3.3333	1.01325
Valid N (list wise)	37	4.4366	

Above table 4.23 shows the clear picture of descriptive result of all the variables of industry environment. The table presents that the most of the items scored above average. Only the item 'Nepalese commercial banks utilized high capacity that is barrier for new corner' and 'Most of the banks have their unique business that no other have scored below the average (i.e. 3.4118 and 3.3333). It indicates the respondents were found relatively disagreed with statement. In the same way, the items 'Promoters can not get loan from their loan form their own bank in Nepal', 'it is very hard to find attractive customer's project in Nepal' and 'it is hard to start open new banks due to heavy investment' scored the average above 5. It means that the most of the respondents were highly agreed with these statements. It was found that there are no practices to be got loan by the promoters in Nepalese commercial banks, it is very hared to find attractive customer's project in Nepal and it is hared to start up new banks due to heavy investment. And remaining other variables scored above the average indicates that the respondents were found agreement with this statement. Instantly, average mean score of overall result stood as 4.4366, which indicates that general status of industry environment in selected Nepalese commercial banks were found relatively positive.

Likewise, standard deviation of the variables 'Nepalese banks utilized high capacity that is barrier for newcomer' and 'Most of the banks have their unique business that no others have' just above average indicates that the respondents were found relatively high fluctuation in responses in these cases. And the remaining other variables scored below average indicates that the respondents were relatively low level of fluctuation in remaining other cases.

4.8 General Status of Management Quality in Selected Nepalese Commercial Banks

Management quality is also the major and important component of credit management. It is being another major statistic to measure the credit management of the banks. High integrity, high competence and high nature of alliance of management directly help to make effective credit management. Thus, it is also logical to review the management quality to know the credit management.

For research purpose seven variables were designed to assess the management quality in selected Nepalese commercial banks. The following table presents the descriptive statistics of management quality in selected commercial banks.

Table 4.24
Descriptive statistics of management quality in selected Nepalese Commercial banks

Variables	N	Mean	Std. Deviation
Top level management is skilled or experienced	37	4.8235	0.55519
Top level management encourages employee participation	37	4.9020	0.50020
Management is successful to understand customers	37	4.5882	0.57189
Bank management have good relationship with supplier	37	4.4902	0.67446
Management is successful in credit management	37	4.3333	0.47610
Top level management is satisfied with credit administration	37	4.6863	0.46862
Bank management is able to success to improve credit worthiness	37	4.7451	0.48345

Valid N (list wise)	37	4.6527	
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The table no. 4.24 presents the clear picture of result of management quality. The table shows that all the variables designed for study scored above the average, which indicates that the most of the respondents were found agreement with the statements. But in comparison he respondents were found the highest level of agreement with the statement. 'Top level management encourages employee participation' (i.e. 4.9020) and found the lowest level of agreement with the statement 'Management is successful in credit management' (i.e. 4.3333). The remaining other variables appeared in between two. Similarly, the mean score of overall result was found to be 4.6527, which indicates the quality of management in selected Nepalese commercial banks was found to be good. It is also concluded that the result seen above was not found in so satisfactory level. Thus, management should improve their quality for the effective management of credit. In the same way, the result also shows that the standard deviation of all the variables stood below the average. It indicates that the responses were not found high fluctuation in responses in above cases.

4.9 Analysis of Variance between the Selected Commercial Banks

The differences between the selected commercial banks in variety of variables are to be statistically identified. One-way analysis of variance (ANOVA) is an appropriate tool to find such differences among the group. Present study comprised two groups of primary information selected from three different commercial banks. Differences observed among the group were discussed in the above section. It is to be analyzed whether the differences observed in the mean is statistically different or not. The following Table presents 'F' statistics and level of significance. Higher the 'F' statistics and lower the level of significance more chances will be the differences among the groups in case of each variable.

The major and the most important component for credit management are the industry environment and the management quality by which any organization can easily meet its goal. For research purpose, many questionnaires were built to find out the level of industry environment and management quality. It was also found some meaningful differences between the respondents of these banks. Therefore, the researcher tries

here to find out the significance of the different between the banks among various items.

Differences observed among the groups and detail analysis was discussed in the above section. It is to be analyzed whether the differences observed in the mean is statistically different or not. 'F' statistics and level of significance presents that higher of 'F' statistics and lower level of significance less than 0.01 prove the significant differences between the selected Nepalese commercial banks. The table presents the 'F' statistics and level of significance between the selected commercial banks.

Table 4.25
Analysis of variance of the variables between the selected banks

Variables	F	Sig.
Banking sector has high discretionary power in providing loans	9.482	0.003
Limited number of banks are the source of banking loans	4.384	0.041
There is lack of free and fair competition among bankers	2.242	0.141
Customers have much bargaining power for banking loan interest	1.883	0.176
Promotes can not get loan from their own bank in Nepal	7.065	0.011
It is very hard to find attractive customer's project in Nepal	2.636	0.111
Customers have interest groups that can make pressure to loans	1.861	0.179
Very similar schemes of commercial banks created competition	0.066	0.799
There are many substitute of banking loan in today's context	0.402	0.529
Alternative services are available in banking loans	4.512	0.039
One scheme can substitute another scheme in bank lending sector	0.198	0.658
It is very hard to start open new banks due to heavy investment	3.411	0.071
Registration is also very complex to enter in banking business	0.089	0.766
Nepalese banks utilized high capacity that is barrier for newcomer	16.831	000
Most of the banks have their unique business that no others have	17.137	000
Top level management is skilled or experienced	0.014	0.907
Top level management encourages employee participation	1.768	0.190
Management is successful to understand customers	0.296	0.589
Bank management have good relationship with supplier	5.134	0.028
Management is successful in credit management	000	1.000

Top level management is satisfied with credit administration	0.836	0.365
Bank management is able to success to improve credit worthiness	1.526	0.223

The above table 4.25 clearly presents the 'F' statistics and level of significance of the selected items. It show the significant (High 'F' statistics and less then 0.01 and 0.05 level of significance) differences between the selected commercial banks. The result was not found significant in most of the cases in present data set. Industry environment level was observed by using fifteen items. Among the selected items, three items (i.e. 'Banking sector has high discretionary power in providing loans', 'Nepalese banks utilized high capacity that is barrier for newcomer' and 'Most of the banks have their unique business that no others have') were found significant in 0.01 levels. Similarly, two items (i.e. Limited number of banks are the source of banking loans and Alternative services are available in banking loans) were found in 0.05 levels of significance. And remaining other variables were not found significant different. Therefore, in general, employees form three commercial banks were not found significantly different in terms of industry environment level. In the same way, the management quality was observed by using seven variables. Out of seven variables, only one variable (i.e. Bank management have good relationship with supplier) was found the 0.05 levels of significance. Therefore, in general, the difference observed in mean form three commercial banks in variety of variables in terms of management quality was not found significant different.

4.10 Major Findings of the Study

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

1. From the Stand Point of Credit Practice

-) The credit practices of EBL in terms of total loans to deposit ratio was found the highest mean scores than NABIL Bank (i.e. $0.7664 > 0.6811$). IT indicates that EBL has been strong to mobilize its total deposit as loan. In terms of interest income to loan and advances ratio NABIL and EBL both has a nearly close ration which are 0.0852 and 0.0776 respectively. From this point of view NABIL Bank has the best performance in earning interest income.
-) Lending policy of EBL with regard to non-performing loans to total loans & advances was found lowest mean value with 0.0122 as compare to NABIL Bank. The result indicates that if non-performing loan increases, the overall banking business will be affected negatively.
-) The ratio of loans advances to total assets was found greater in EBL in comparison with NABIL Bank which shows the good lending performance of EBL, whereas in terms of loan and advances to current assets ratio NABIL has highest mean than that of EBL this means that NABIL has relatively better practice in short term lending.
-) Lending policy of EBL in terms of loan loss provision to total loans & advances was found relatively better than that of NABIL Bank. The mean score of EBL was found lower than NABIL Bank, i.e. $0.0293 < 0.0457$. The result indicates that the low degree of the ratio shows not only the strong and effective credit policy but also healthy performance of the economy.
-) The cursory looking for these selected banks in terms of credit practices reveals that all other ratios proves the EBL seems to have the best lending performance.

2. From the Stand Point of Credit Efficiency

-) Efficiency measurement of selected banks in terms of total assets to liability was found better for EBL and NABIL. The Mean score value for these two banks care found to be approximately equal. The result indicates that the EBL and NABIL were able to utilize its fund most successfully.

-) Efficiency measurement reveals that the ratio for NABIL Bank with regard to interest expenses to total deposit was found relatively lower in comparison to EBL ($0.0218 < 0.0298$). This implies that NABIL Bank is successful to collect cheaper deposit than EBL. But the interest expense to total expenses ratio of NABIL Bank has observed lowest than ratio of EBL. This decreased ratio, here, can mean that cost of deposit is also decreasing.
-) The ratio of non-interest bearing deposits to total deposits was found highest i.e.0.2007 in NABIL Bank in compared with EBL. From this analysis NABIL Bank can be viewed as the most successful in collecting cheapest fund in the form of current deposit that creates from the deposit acceptance from business enterprises. However, high current amount deposit may adversely affect the bank at the time of adverse situation.
-) The result of interest income to total income ratio for EBL was found higher than NABIL (i.e. $0.8345 > 0.8074$). It indicates that the higher ratio of EBL shows its high dependency on fund-based activities. The ratio of interest from loan and advances to total interest income of EBL was also found higher than NABIL Bank, indicating that EBL is strong to mobilize the loan and advances to earn interest and also make more impact on total income.
-) EBL has low degree of ratio of interest suspense to interest income from loans and advances. The low degree of ratio of 0.0779 shows that it has high interest turnover. The decreasing ratio is also the symbol of effectiveness.

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

3. From the Stand Point of Correlation Analysis

-) The correlation coefficient between loan and net profit of NABIL Bank was found 0.508 it means moderate relationship between loan & net profit. In the same way, coefficient of determination of NABIL Bank and EBL are 25.81% & 87.98% of total change in net profit by total loan in NABIL Bank & EBL respectively. The profit is highly determined by loan in EBL in compared to NABIL Bank.
-) IN the same way, correlation coefficient of loan and non-performing loan was found to be -0.862 & -0.275 in NABIL Bank & EBL respectively. That means the trend of increasing volume of loan decreases the non-performing loan at high level in NABIL Bank & EBL during study period. Similarly, coefficient of determination was stood as 0.7430 and 0.0756 indicates that 74.30% of total change in loan has been negatively explained by non performing loan in NABIL Bank whereas 7.56% of total change in loan has been negatively determine by non performing loan in EBL.

4. From the Stand Point of Regression Analysis

-) The value of adjusted R square was found to be 0.011 & 0.019 in NABIL & EBL considering independent variable loan and dependent variable not profit. It was found that 1.11% total change in dependent variable in net profit has been explained by independent variable loan in NABIL whereas 1.19% variation has been explained by independent variable loan The findings also showed that both the result was not found significant at 0.01 levels of significance.
-) The value of adjusted r square was found to be 0.033 & 0.887 in NABIL & EBL respectively considering dependent variable not profit and two independent variables performing loan and non performing loan. It indicates that 3.3% total change in dependent variable net profit has been explained by two independent variables performing loan and non performing loan in NABIL whereas 8.87% total change in dependent variable net profit has been explained by two independent variables performing loan and non-performing loan in EBL. The finding showed that profit is highly estimated by two

independent variable in EBL than that of NABIL. The main reason behind this is the higher level of non-performing loan in EBL than that of NABIL.

5. From the Stand Point of Industry Environment and Management Quality

-) The finding also showed that the industry environment perceived by the employees of selected banks was relatively positive (i.e.4.4366). Which indicates the relatively good industrial environment in selected banks? The finding also showed that the result was not found significant different at 0.01 levels of significance similarly the quality of management in selected banks was found to be good because the means score of the component management quality scored above the average (i.e.4.6527). Because all the items designed for study scored above the average and that resulted relatively high level of management quality. The finding also showed that result was not significant at 0.01 levels of significance.
-) The finding also showed that most of the items used in survey design for primary data analysis was not found significant different at 0.01 levels. Only the items 'Banking sector has high discretionary power in providing loans', 'Nepalese bank utilized high capacity that is barrier for newcomer', and 'Most of the banks have their unique business that no others have' were found significant different at 0.01 levels of significance. It indicates that the difference observed in mean in above stated items was significant different. In the some way, the four variables 'Limited number of banks are the source of banking loans', promoters can not get loan from their own bank in Nepal' Alternative services are available in banking loans' and 'Bank management have good relationship with supplier' was found significant different at 0.05 levels of significance. It means that the difference observed in mean was found significantly different at 0.05 levels of significance.
-) It can be analyzed with reference of past five year data regarding private sector and use of fund, NABIL had used high investment comparison than EBL but EBL private sector's investment is positively proportionate and vice-versa in NABIL.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Present study seems very successful to meet the stated objectives designed for study. The present study has been designed to overcome the issues relating to risk assets management in commercial banks. It was aimed to find out comparative risk assets management in NABIL Bank and Everest Bank. The prime components of risk assets management is the financial condition in terms of lending practices, industrial environment of that bank and the management quality in terms of lending practices, designed for study to meet the objectives. Present study successfully explored the financial condition in terms of lending practices of selected banks, Industry environment of these banks and management quality to support risk assets management. It is clear evident that the bank having good financial position or condition has its good industrial environment and high quality of management.

5.1 Summary

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

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

Second chapter helped the researcher to provide knowledge about the development and progress made by the earlier researcher on the concerned field or topic of the study. it helped to know the research work undertaken by them. It also tried to know some concept used in this study. Moreover, it summarized the finding of the previous

findings of the study to provide knowledge about the background of the work done by them and to step the duplicate of previous work. Lastly, earlier international research related to concept is also attempted to review the finding of the study.

Third chapter of the study discussed about various research methodologies used for the study. Basically, research methodology here signifies the research design, sources of data, population and sample of data, data collection procedure, data collection techniques, data collection methods and tools and techniques employed etc.

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

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

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

The correlation coefficient between loan and profit of NABIL Bank was found 0.508 indicates that the moderate relationship between loan & net profit whereas EBL has 0.938 & it shows the high relationship between loan & net profit. In the same way, coefficient of determination of NABIL Bank & EBL of total change in net profit has

been explained by total loan as 25.81% & 87.98% respectively. The profit is highly determined by loan in EBL compared to NABIL Bank. In the same way, correlation coefficient of loan and non-performing loan was found to be and -0.862 & -0.275 in NABIL & EBL respectively. It means the trend of increasing volume of loan decreases the non-performing loan at high level NABIL & EBL during study period. Similarly, coefficient of determination was stood as 0.7430 and 0.0756 indicates that 74,30% of total change in loan has been negatively explained by non performing loan in NABIL whereas 7.56% of total change in loan has been negatively determine by non performing loan.

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

The primary analysis showed meaningful results in selected banks that the industry environment perceived by the employees of selected banks was relatively positive (i.e.4.4366), which indicates the relatively good industrial environment in selected banks. The analysis also showed that the result was not found significant different at 0.01 levels of significance similarly, the quality of management in selected banks was found to be good because the means score of the component management quality scored above the average (i.e. 4.6527). Because all the items designed for study scored above the average and that resulted relatively high level of management

quality. The finding also showed that result was not significant at 0.01 levels of significance.

The analysis showed that most of the items used in survey design for primary data analysis was not found significant different at 0.01 levels. Only the items 'Banking sector has high discretionary power in providing loans', 'Nepalese bank utilized high capacity that is barrier for newcomer', and 'Most of the banks have their unique business that no others have' were found significant different at 0.01 levels of significance. It indicates that the difference observed in mean in above stated items was significant different. In the same way, the four variables 'Limited number of banks are the source of banking loans', promoters can not get loan from their own bank in Nepal', 'Alternative services are available in banking loans' and 'Bank management have good relationship with supplier' was found significant different at 0.05 levels of significance. It means that the difference observed in mean was found significantly different at 0.05 levels of significance. And remaining other variables designed for study was not found significantly different. The finding showed that the difference observed in mean in remaining other variables were not found significantly different.

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

5.2 Conclusion

Present study successfully explored the result to meet the stated objectives of the study and found meaningful. The result showed that a credit practice of EBL was found relatively better in comparison to NABIL Bank because the most of the ratio of credit practices scored the better position in EBL whereas, credit efficiency measurement provides controversial result towards the NABIL and EBL, however it was found better in EBL because most of the ratio designed for the study supported the EBL. The correlation between loan and advance to net profit was found in moderate level in NABIL (i.e.0.508), and high degree in EBL (i.e.0.938). Likewise,

the correlation between loan and non-performing loan was found high negative degree in NABIL (i.e.-0.862) and low negative degree in EBL (i.e.-0.275). The impact of loan and advances to net profit and impact of non performing loan and performing loan to net profit was found higher in NABIL and EBL during the study period.

Primary information indicated that the industry environment was found positive in selected banks. Likewise management quality was also good in the selected banks. In the same way, Analysis of variance indicated that most of the items designed for the study were not found significant difference at 0.01 levels of significance.

5.3 Recommendations

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

1. A credit practice of EBL was found relatively better than NABIL Bank during the study period. It is suggested to NABIL banks management for better improvement. Similarly, interest income from loan and advances was found greater in NABIL Bank. The main source of income is based on loan and advances. Thus, proper level of portfolio should be maintained so that profitability position will be maximized.
2. The credit efficiency measurement provides controversial result towards the NABIL and EBL, however it was found better in EBL because most of the ratio designed for the study supported the EBL. The analysis shows that the both bank used its funds in diversified sectors, is successful to collect cheaper deposit as well as successful to manage load and advance. Thus, it is suggested to maintain proper level of balance for both Banks.

3. The relationship between loan and advances to non- performing loan was found negative in NABIL and EBL. But the NABIL has high negative figure of 0.862. It indicates that NABIL and EBL have effectively managed its loan and advances. This is also supported by regression analysis because impact of loan and advances to net profit was found positive in NABIL & EBL. The impact of performing loan and non performing loan on net profit was found positive values for all selected banks. But the regression value for EBL is observed high as compared to NABIL Bank. Thu, EBL needs to be managed its loan effectively so as to reduce the non-performing loan amount.
4. In spite of having positive industrial environment and management quality for all selected banks, it is suggested to maintain its level in high in terms of credit management so that the banks credit management would be further more effective in future.
5. Future researchers are recommended to focus into non financial performance indicators such as job satisfaction, service quality performance, customers' satisfaction, stakeholders support, government rating, supervisor's teamwork, human resource development, human resource planning, human resource management, job designation etc.
6. The researcher felt to improve internal system more effectively and introducing of new strategies and major functions for effective existing credit management for all selected banks.

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ANNEXURE - 1

Relationship between private sector investment and use of fund.

Compare between Everest Bank Ltd. and NABIL in private sector lending

Everest Bank Ltd.

Year	P	F	$(P-\bar{P})^2$	$(F-\bar{F})^2$
2003/04	2963.7	5197.3	4881536.74	14799562.88
2004/05	3969.6	6761.1	1448460.39	5213093.57
2005/06	4970.90	8241.50	40892.93	644519.95
2006/07	6047.40	9952.70	764365.52	825154.22
2007/08	7914	15069.00	7512423.17	36296769.10
	dP = 25865.6	dF = 45221.6	d(P-\bar{P})² = 14647678	d(F-\bar{F})² = 57779099

i) Calculation of Mean

$$\dots (\bar{P}) = \frac{\sum P}{n} = \frac{25865.6}{5} = 5173.12$$

$$\dots (\bar{F}) = \frac{\sum F}{n} = \frac{45221.6}{5} = 9044.32$$

ii) Calculation of standard deviation

$$\dots \exists_P = \sqrt{\frac{\sum (P-\bar{P})^2}{n}} = \sqrt{\frac{14647678}{5}} = 1710.54$$

$$\dots \exists_F = \sqrt{\frac{\sum (F-\bar{F})^2}{n}} = \sqrt{\frac{57779099}{5}} = 3394$$

iii) Calculation of coefficient of variation

$$\dots \text{Private sector (P)} = \frac{\text{standard deviation}}{\text{mean}} = \frac{1710.54}{5173.12} \times 100 = 33.06\%$$

$$\dots \text{Use of fund (F)} = \frac{\text{standard deviation}}{\text{mean}} = \frac{3394}{9044.32} \times 100 = 37.53\%$$

iv) Calculation of coefficient of correlation

Year	(P- \bar{P})	(F- \bar{F})	(P- \bar{P})(F- \bar{F})
2003/04	-2209.42	-3847.02	8499682.93
2004/05	-1203.52	-2283.22	2747900.93
2005/06	-202.22	-802.82	162346.26
2006/07	874.28	908.38	794178.47
2007/08	2740.88	6024.68	16512924.92
	d(P-\bar{P}) = 0	d(F-\bar{F}) = 0	d((P-\bar{P})(F-\bar{F})) = 28717033.508

Here,

$$\text{Cov}_{PF} = \frac{\sum (P-\bar{P})(F-\bar{F})}{n} = \frac{28717033.508}{5} = 5743406.70$$

Now,

$$\dots \text{Coefficient of correlation} = \frac{\text{Cov}_{PF}}{\sqrt{\sum P \cdot \sum F}} = \frac{5743406.70}{\sqrt{1710.54 \times 3394}} = 0.98\%$$

NABIL Bank Ltd.

Year	P	F	(P- \bar{P}) ²	(F- \bar{F}) ²
2003/04	7807.30	19454.40	303909.64	3705880.74
2004/05	6751.10	19645.70	2583991.95	6400096.00
2005/06	7719.20	18275.90	408806.78	3246030.67
2006/07	8497.30	18234.30	192430.24	3737360.60
2007/08	11018	18614.40	7072514.74	532400.95
	dP = 41792.90	dF = 94225.2	d(P-\bar{P})² = 54060967.41	d(F-\bar{F})² = 466777983.42

i) Calculation of Mean

$$\dots (\bar{P}) = \frac{\sum P}{n} = \frac{41792.90}{5} = 8358.58$$

$$\dots (\bar{F}) = \frac{\sum F}{n} = \frac{94225.2}{5} = 18845.04$$

ii) Calculation of standard deviation

$$\dots \exists_p = \sqrt{\frac{\phi(P-\bar{P})^2}{n}} = \sqrt{\frac{54060967.41}{5}} = 328819$$

$$\dots \exists_F = \sqrt{\frac{\phi(F-\bar{F})^2}{n}} = \sqrt{\frac{466777983.42}{5}} = 9662.07$$

iii) Calculation of coefficient of variation

$$\dots \text{Private sector (P)} = \frac{\text{standard deviation}}{\text{mean}} = \frac{3288.19}{8358.58} \times 100 = 39.34\%$$

$$\dots \text{Use of fund (F)} = \frac{\text{standard deviation}}{\text{mean}} = \frac{9662.07}{18845.64} \times 100 = 51.27\%$$

iv) Calculation of coefficient of correlation

Year	(P-P)(F-F)
2003/04	-335597.2128
2004/05	-1286080.0448
2005/06	364286.0580
2006/07	-84805.0846
2007/08	-613634.5708
	d((P-P)(F-F)) = -1588536.0975

Here,

$$\text{COV}_{PF} = \frac{\phi(P-\bar{P})(F-\bar{F})}{n} = \frac{1588536.0975}{5} = 317707.2195$$

Now,

$$\dots \text{Coefficient of correlation} = \frac{\text{COV}_{PF}}{\exists_p \cdot \exists_F} = \frac{-317707.2195}{3288.19 \times 9662.07} = -1\%$$

ANNEXURE - 2

Questionnaire used for Primary Data Analysis

- i) Name of Respondent
- ii) Position
- iii) Department

iv) Age

v) Experience

Please help the researcher by giving correct information of the following statements and Tick () for correct answer and give the rank of options.

S.N.	Statement	Agree	Slightly Agree	Strongly Agree	Disagree	Slightly disagree	Strongly disagree
1.	Banking sector has high discretionary power in providing loans.	1	2	3	4	5	6
2.	Limited numbers of banks are the source of banking loans.	1	2	3	4	5	6
3.	There is lack of free and fair competition among bankers.	1	2	3	4	5	6
4.	Customers have much bargaining power for banking loan interest.	1	2	3	4	5	6
5.	Promotes can not get loan from their own banking in Nepal.	1	2	3	4	5	6
6.	It is very hard to find attractive customer's project in Nepal.	1	2	3	4	5	6
7.	Customers have interest groups that can make pressure to loans.	1	2	3	4	5	6
8.	Very similar schemes of commercial banks created competition.	1	2	3	4	5	6
9.	There are many substitute of banking loan in to day's context.	1	2	3	4	5	6
10.	Alternative cervices are available in banking loans.	1	2	3	4	5	6
11.	One scheme can substitute another scheme in bank lending sector.	1	2	3	4	5	6
12.	It is very hard to start open new banks due to heavy investment.	1	2	3	4	5	6
13.	Registration is also very complex to enter in banking business.	1	2	3	4	5	6
14.	Nepalese banks Utilized high	1	2	3	4	5	6

	capacity that is barrier for new comer.						
15.	Most of the banks have their unique business that no others have.	1	2	3	4	5	6
16.	Top level management is skilled or experienced.	1	2	3	4	5	6
17.	Top level management encourages employee participation.	1	2	3	4	5	6
18.	Management is successful to understand customers.	1	2	3	4	5	6
19.	Bank management have good relationship with supplier.	1	2	3	4	5	6
20.	Management is successful in credit management.	1	2	3	4	5	6
21.	Top level management is satisfied with credit administration.	1	2	3	4	5	6
22.	Bank management is able to success to improve credit worthiness.	1	2	3	4	5	6