

# **Credit Management Practices of Selected Commercial Banks**

[With reference to Nepal Investment Bank, Bank of Kathmandu & Nabil Bank  
Limited]

**A Thesis**

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# VIVA-VOCE SHEET

We have conducted the viva-voce examination of thesis Presented by

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**Credit Management Practices of Selected Commercial Banks**

and we found the thesis to be the original work of the student written according to the prescribed format. We recommended this thesis to be accepted as partial fulfillment of the requirements for Master of Business Studies (MBS).

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled **Credit Management Practices of Selected Commercial Bank** have submitted to Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment for the Master of Business Studies (MBS) under the supervision of Prof. Dr Sushil Bhakta Mathema and Dipesh Bhatta, Nepal Commerce Campus.

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# TABLE OF CONTENTS

<b>Contents</b>	<b>Page No.</b>
Recommendation	
Viva-voce sheet	
Declaration	
Acknowledgements	
Table of contents	
List of tables	
List of figures	
Abbreviation	

## CHAPTER – I

<b>INTRODUCTION</b>	<b>1-8</b>
1.1 Background of the Study	1
1.2 Profile of Sample Banks	3
1.2.1 Nepal Investment Bank Limited	3
1.2.2 Bank of Kathmandu	4
1.2.3 Nabil Bank Limited	4
1.3 Statement of Problem	5
1.4 Objectives of Study	6
1.5 Scope of Study	6
1.6 Limitation of the Study	7
1.7 Organization of Study	8

## CHAPTER – II

<b>REVIEW OF LITERATURE</b>	<b>9-29</b>
2.1 Conceptual Review	9
2.2 Conceptual Framework	9
1.2.1 Commercial Banks	9
2.2.2 Meaning of credit	11
2.2.3 Credit Analysis	12
2.2.4 Types of Credit	12
2.2.5 Credit Appraisal	13

2.2.6 Credit Administration/Credit Review	14
2.2.7 Loan Disbursement Process	14
2.2.8 Security	14
2.2.9 Security Analysis	15
2.2.10 Introduction of Credit Appraisal	15
2.2.11 Different Aspect of Credit Appraisal	17
2.3 Credit Strategy, Policies, Procedures and Limits According to NRB	17
2.3.1 Credit Strategy	17
2.3.2 Credit Policies	18
2.3.3 Credit Procedures	19
2.3.4 Credit Limits	19
2.4 Approving New Credits and Extension of Existing Credits	19
2.5 Credit Administration	20
2.6 Internal Credit Risk Rating System	21
2.7 Credit Risk Monitoring and Control	22
2.8. Financial Position and Business Conditions	22
2.8.1. Conduct of Accounts	23
2.8.2. Loan Covenants	23
2.8.3. Collateral valuation	23
2.9 Credit Risk Review & Stress Testing	23
2.10 Managing Problem Credits	24
2.11 Review of Master's Degree Thesis	26

## **CHAPTER – III**

<b>RESEARCH METHODOLOGY</b>	<b>30-36</b>
3. Introduction	30
3.1 Research Design	30
3.2 Nature and Sources of Data	30
3.3 Population and Sampling	31
3.4 Tools and Techniques Employed	31
3.4.1 Credit Practice Ratios	32
3.4.2 Credit Efficiency Ratio	34

3.4.3 Trend Analysis	35
3.4.4 Co-efficient of Correlation	36

## **CHAPTER – IV**

<b>PRESENTATION AND ANALYSIS OF DATA</b>	<b>37-67</b>
4.1 Introduction	37
4.2 Comparative Credit Practice in NIBL, BOK and Nabil bank	37
4.2.1 Total Loan to Total Deposit Ratio	37
4.2.2 Interest Income to Loan and Advances	39
4.2.3 Interest Income to Loan and Advances	41
4.2.4 Loan and Advances to Total Assets Ratio	42
4.2.5 Non-Performing Loans to Total Loans and Advances	44
4.2.6 Loan and Advances to Total Current Assets	46
4.3 Comparative Credit efficiency in Nepal Investment bank, Bank of Katmandu and Nabil bank	48
4.3.1. Total Assets to Total Liability Ratio	48
4.3.2. Interest Expenses to total Deposit ratio	50
4.3.3 Interest Expenses to total expenses ratio	51
4.3.4 Non-interest bearing deposit to total deposit ratio	53
4.3.5 Interest income to total income ratio	54
4.3.6 Interest from loan, advances and overdraft to total interest income ratio	56
4.4 Trend analysis	58
4.4.1 Trend value of total deposit	58
4.4.2 Trend value of total loan	60
4.4.3 Trend Analysis of Net Profit	61
4.5 Coefficient of correlation analysis	63
4.5.1 Coefficient of correlation analysis between loan & advances and net profit	63
4.5.2 Coefficient of correlation analysis between Total loan & advances and Interest income	64
4.5.3 Coefficient of correlation analysis between loan & advances and loan loss provision	65

4.6 Major Findings of the study	65
4.7 Comparative analysis of different ratios of three selected commercial banks is also presented in following tables	66

## **CHAPTER – V**

<b>SUMMARY, CONCLUSIONS &amp; RECOMMENDATIONS</b>	<b>68-75</b>
5.1. Summary	68
5.2 Conclusions	69
5.3 Recommendations	74

## **BIBLIOGRAPHY**

## **APPENDICES**

## **LIST OF TABLES**

<b>Table No:</b>		<b>Page No:</b>
Table No: - 4.2.1	Total Loan to Total Deposit Ratio	38
Table No: - 4.2.2	Interest Income to Loan and Advances Ratio	40
Table No: - 4.2.3	Loan and Advances to Total Assets Ratio	41
Table No: - 4.2.4	Non Performing Loans to Total loans and Advances	43
Table No: - 4.2.5	Loan and advances to current assets ratio	45
Table No: - 4.2.6	Loan loss provision to total loan and advances	47
Table No: - 4.3.1	Total assets to total liability ratio	49
Table No: - 4.3.2	Interest Expenses to total deposit ratio	50
Table No: - 4.3.3	Interest Expenses to total expenses ratio	52
Table No: - 4.3.4	Non Interest bearing deposit to total deposit ratio	53
Table No: - 4.3.5	Interest income to total income ratio	57
Table No: - 4.3.6	Interest from loan and advances and overdra to total interest income ratio	57
Table No: - 4.4.1	Trend value of total deposit of 60 three commercial Banks	59
Table No: - 4.4.2	Trend value of total loan of three commercial Banks	60
Table No: - 4.4.3	Trend value of Net Profit of three commercial Banks	62
Table No: - 4.5.1	Co-efficient of correlation between total loan & advances and net profit	63
Table No: - 4.5.2	Co-efficient of correlation between total loan and advances and interest income	64
Table No: - 4.5.3	Co-efficient of correlation between loan loss provision and loan & advances	65

## LIST OF FIGURES

<b>Figure No:</b>		<b>Page No:</b>
Figure No: - 4.2.1	Total Loan to Total Deposit Ratio	38
Figure No: - 4.2.2	Interest Income to Loan and Advances Ratio	40
Figure No: - 4.2.3	Loan and Advances to Total Assets Ratio	42
Figure No: - 4.2.4	Non Performing Loans to Total loans and Advances	43
Figure No: - 4.2.5	Loan and advances to current assets ratio	45
Figure No: - 4.2.6	Loan loss provision to total loan and advances	47
Figure No: - 4.3.1	Total assets to total liability ratio	49
Figure No: - 4.3.2	Interest Expenses to total deposit ratio	51
Figure No: - 4.3.3	Interest Expenses to total expenses ratio	52
Figure No: - 4.3.4	Non Interest bearing deposit to total deposit ratio	54
Figure No: - 4.3.5	Interest income to total income ratio	57
Table No: - 4.3.6	Interest from loan & advances & overdraft to total int. income ratio	58
Figure No: - 4.3.7	Interest from loan and adv. & overdraft to total int. income ratio	58
Figure No: - 4.4.1	Trend value of total deposit of three commercial Banks	59
Figure No: - 4.4.2	Trend value of total loan of three commercial Banks	61
Figure No: - 4.4.3	Trend value of Net Profit of three commercial Banks	62

## ABBREVIATIONS

Bet <sup>n</sup>	:	Between
ed	:	Edition
Ltd	:	Limited
i.e	:	That is
No	:	Number
Pvt	:	Private
SCBNL	:	Standard Chartered Bank Nepal Limited
BOK	:	Bank of Kathmandu
NIBL	:	Nepal Investment Bank Limited
Mgmt	:	Management
NRB	:	Nepal Rastra Bank
SEBON	:	Security Board of Nepal
CV	:	Coefficient of Variation
F/Y	:	Fiscal Year
CO	:	Company
Vol	:	Volume
Kath	:	Kathmandu
T.U.	:	Tribhuvan University

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

The economic development of any nation is highly dependent on the various industrial sectors. These industrial sectors comprise public sectors, manufacturing enterprise, tourism, transportation, construction, consulting services, trade, and service. The smooth operations of this sector certainly have positive results over the economic growth and development of the nation. The failure of only one sector may also retard the economic growth. The level of contribution of these sectors on Gross Domestic Product (GDP) should be increased year by year. The contribution of financial and consultancy service in overall GDP cannot be overlooked. Agriculture sector has dominated other sector as almost 80% of the people rely on agriculture for their existence (Kafle: 51). The service sector especially financial sector has occurred significant position in comparison to others. The sector has vital role in smooth running of the economic activated. It is the fact that the existence of financial sector in the development of the capital market as well as money market is remarkable. Moreover, the sector has been able to lure a large community to invest in equity shares through primary state that it is one of the major catalysts in removal of backwardness and poverty from the nation. The financial and consultancy services, one of the important industrial sectors comprise; commercial banks, finance companies, co-operative with limited banking transaction.

“Financial institutions (FIs) are very important in any economy. Their role is similar to that of blood arteries in the human body, because (FIs) pump financial resources for economic growth from the depositories to where they are required. Commercial banks and (FIs) are key providers of financial information to the economy. They play even a most critical role to emergent economies where borrowers have no access to capital markets. There is evidence that well functioning commercial banks accelerate economic growth, while poorly functioning commercial banks impede economic progress and exacerbate poverty”(Richard, et al.:2008:323)

Integrated and speedy development of the country and its financial position of the people are possible only when competitive banking service with its effective credit management reaches nooks and corners of the country. In the developing country like

Nepal, there is always a lack of financial resources not only because of its real absence but because of the available resources not properly mobilized and not fully utilized for the productive purpose; in this course the commercial banks play a vital role. In modern time, commercial banks, which are facilitated, regulated and supervised by the central bank, confine them and concentrate in their activities of fulfilling the financial needs of their customers. In the present scenario, the Nepalese banking system is evolving itself as a powerful instrument of planning and economic growth of all the developed and underdeveloped sectors. The scope and scale of banking too have undergone substantial change in response to the saving and credit needs of people. Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society that they are serving.

While talking about financial institutions in Nepal, as an organized sector for capital mobilization, war started after the advent of Nepal Bank Limited in 1994 B.S. as a joint venture between government and private sector under Nepal Bank Act 1994. It was the pioneer institution of modern banking system. Before that “TejarathAdda” was fulfilling the banking need of the people, to some extent, by providing loan on security, Nepal Rastra Bank was established on 14<sup>th</sup> Baisakh 2013 B.S. under Nepal Rastra Bank Act 2012 to monetize the economy and to avoid the dual monetary system. Nepal Rastra Bank is the central bank, which formulates monetary policy to strengthen and develop the financial system. A fully government owned bank Rastriya Banijya Bank was established in 2022 B.S. under commercial bank act 2021. Similarly Agriculture Development Bank was established in 2024 B.S. under its respective act. After the restoration of democracy in 2046 B.S. and liberalization policy adopted by government, some commercial banks, development banks and financial companies emerged to provide banking facilities to the people. These different institutions collect money from public in different forms and invest in different sectors in different forms. These organizations survive by making profit.

Banks are among the most important financial institutions in the economy of the country. Bank is a business establishment that safeguards people's money and uses it to make loans and investments. A bank is an organization concerned with the

accumulation of the idle money of the general public for the purpose of advancing to others for expenditure or investment.

Banks are the institutions that provide the funding required starting the business to those with skills and desire to operate the business, by collecting from those with the money but no skill or time to operate.

Banking plays significant role in the economic development of country. Bank is a resource for economic development which maintains the self-confidences of various segments of society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade. Commerce, Industry and agriculture that seek regular financial and other helps from them growing and flourishing the objectives of commercial banks is to mobilized idle resources into the most profitable sector after collecting them form scattered source commercial bank contributes is significantly and the formation and mobilization of internal capital and development effort.

A bank is an institution, which deals with money, receiving it as deposit from customer, honoring customer's drawing against such deposits on demand. Collection of cheque of customers, lending or investing surplus deposits, until they are required for payment. Now a day, there are many types of bank. Such as industrial bank, commercial bank, agriculture bank, joint stock bank, co-operative bank and development bank etc. Because of the growth in population, changes occurred in the people's ideology, due to the development on each other and the beginning of the competitive age. The first modern commercial bank was established in England in 1694 A.D. by the name of "The Bank of England".

## **1.2. Profile of Sample Banks**

### **1.2.1 Nepal Investment Bank Limited**

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General

Meeting, Nepal Rastra Bank and Company Registrar's office. The shareholding structure comprises of:

- A group of companies holding 50% of the capital.
- RastriyaBanijya Bank holding 15% of the capital.
- RastriyaBeemaSansthan holding 15% of the capital.
- The general public holding 20% of the capital.

### **1.2.2 Bank of Kathmandu**

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. The corporate slogan of Bank of Kathmandu is "We make your life easier".

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. The bank of the year 2011 is BOK. BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning.

- To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas
- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost
- To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies
- To contribute to the overall social development of Nepal

### **1.2.3 Nabil Bank Limited**

Nabil Bank limited, the first joint venture commercial banks, was incorporated in 1984. Dubai Bank ltd was the initial foreign joint venture partner with 50% equity investment. The shares owned by Dubai Bank ltd, were transferred to emirates Bank international Ltd. Dubai sold its entire 50% equity holding to national Bank ltd, Bangladesh national Bank ltd, Bangladesh is managing the bank in accordance with

the technical services agreement signed between it and the bank on June 1995. Nabil Bank's initial name was Nepal Arab Bank Ltd at starting. Its head office is located in the kantipath, Kathmandu

Equity participation is national Bank limited 50% other licensed institution 10% other institution 10% and general people 30% . The bank is providing more service and facilitates. There are consortium finance, working capital loan, term loan, demand loan, hire purchase loan, trade finance, letter of credit, bank guarantee, bills purchase, any time money, remittance services all over the world, bearer certificate of deposit and underwriting of shares.

### **1.3 Statement of Problem**

Commercial banks are great monetary institutions which are playing important role to general welfare of the economy. To get higher return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lend to needy people. But commercial banks always face the problem for utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increases the cash balance on bank, which require paying its large amount of idle cash balance also decrease profitability of banks.

Most Major banking problems have been caused by weakness in credit management. Banks should now have a keen awareness of the need to identity measure monitor and control credit as well as to determine that they hold adequate capital against it. These risks are adequately compensated for risks incurred. So, to establish creditability position is a major issue in commercial banking sector during these days. It is no debate that high profitable or successful organization can easily fulfill the every need of the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary the higher creditability position of the bank. Thus the creditability is the major source and building better credibility position is the major strategy of every commercial bank.

Credit is 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

credit management is considered as the heart issues in Nepalese commercial banking sector.

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

1. Whether the bank have follow the NRB directive or not?
2. Whether these commercial banks imposes any restriction while extending credit to their customers or not. Is there any relationship between credit position and profitability situation?
3. Whether these commercial banks have any credit policy or not. How far banks have been able to convert the mobilized resources into investment?
4. Whether these commercial banks manage the credit policy with efficiency or not?

Non-performing credit of the banks are increasing year by year . To control such type of state, the regulatory body of the bank and financial institution Nepal Rastra Bank (NRB) has renewed its directives of the credit loss provision.

#### **1.4. Objectives of Study**

There is no doubt that the role of commercial banks is significant in the development of the country. Banks help the development of the country by providing credit to the necessary sectors. The breakdown of the objectives of the study is as follows:

1. To see credit management practices of selected commercial banks.
2. To explore the credit efficiency of selected commercial banks
3. To provide appropriate suggestion on the basis of above analysis

#### **1.5. Scope of Study**

There are few researchers in commercial banking and especially on the lending practice insufficient books for the study. Lending is one the essential and main

functions where the whole banking business is rested upon. Thus a study on the commercial banks and especially in their lending and investment practices carry a great significant to various groups but in particular is directed to certain groups of people organization.

There are thirty one commercial banks functioning in our country at present but there are only few researches in credit practices of commercial banks. Credit practices are one of the main functions of commercial banks where whole banking business is rested upon. Thus the study on three commercial banks and especially in their credit practices and policies carry a great significance to the shareholders of the banks. To the banking professionals, to the students who want to know about credit practice of commercial banks. This study has proposed to measure the efficiency of banks to the banking professionals, to the students who want to know about credit practice of commercial banks. This study has proposed to measure the efficiency of proposed banks in their credit practices. This study adds new idea and finding about concerned commercial banks. So, the study is expected to fill the research gap and adds to the input to financial literature relating to credit practice.

#### **1.6. Limitation of the Study**

Main source of the data collection is the bank publications, which may not be always reliable because they may publish the reports according their profit policy and market situation. Availability of data is another limitation of the study. There are some difficult to get sufficient information as banks hesitate to provide data easily. Another limitation is the time limitation. Thus every study has its own limitation and the pointed limitations of this study are as follows:

1. This study is concentrate only on their factors that are related with credit practices.
2. This study has focused on the credit behavior only between three banks.
3. Whole study is based on data of five years of period (F.Y. 2064/065 to 2069/070)
4. Some of the statistical as well as financial tools of comparison and analysis shall be used in this study. Hence the drawback and weakness of those tools may adversely affect the outcomes of the study.

## 1.7. Organization of Study

The whole study has been divided into five chapters. **First** is introduction chapter, which includes general background, statement of the problem, focus & signification of the study, objectives of the study and limitations of the study and chapter plan.

**Second chapter** deals with the review of available literatures in the field of the study being conducted. This includes review of the theories of the concerned topic, review of supportive text, review of books, review of bulletins and annual reports published by bank, review of related articles and review of previous thesis.

**Third chapter** explains the research methodology employed to conduct the study and tools and techniques used in analysis of the data as well. This chapter includes, research design, sources of data, population and samples, method of data analysis, various financial and statistical tools.

**Fourth chapter** is devoted to the presentation and analysis of data through definite course of research methodology. The main working of this chapter is to analyze different financial ratios related to the credit management of NIBL, BOK and Nabil. Major findings of the study are also included in this chapter.

**Fifth** is the last chapter of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks.

Besides these, bibliography and appendices will also present at the end of the thesis. Similarly, acknowledgements, table of contents, list of tables, list of figures, abbreviations are included in the front part of the thesis report.

# **CHAPTER-II**

## **REVIEW OF LITERATURES**

### **2.1 Conceptual Review**

Review of literature means the study of relevant topics in the related field of research or reviewing related research studies and findings such that all part of studies and their conclusions and deficiencies may be known and further research can be done.

This chapter is basically concerned with review of literature relevant to the topic “A study on credit analysis of commercial banks” every study is very much based on the past research knowledge. The previous study can't be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies. This chapter describes the conceptual framework and highlights the literature that is available in concerned subject as to my knowledge.

### **2.2 Conceptual Framework**

Basically, conceptual framework describes the following terms, which are closely related to the research work.

Banks mobilize deposits by lending them to businesses. Banks usually lend up to 70 – 80% of their deposits. As banks generate about 60 – 70% of their earning as interest earning from loans, credit management is very important function in the banks. There is involved in credit or lending business. Sound risk management is keys to successful banking. (Luitel, 2068:23)

#### **1.2.1 Commercial Banks**

Resources mobilization is a key factor for uplifting financial and economic status of the banking industry. Banking industry has acquired a key in mobilizing resources for finance and social economic development of the country. “Bank assists both the follow of goods and services from the products to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and it is important part of the financial system, which makes loans to

maintain and increase the level of consumption and production in the economy” (American Institute of Banking 1972: 162).

“Commercial banks deal with other people’s money. They have to find ways of keeping their liquid assets so that they could demands of their customers. In this anxiety to make profit, the bank can’t afford to lock up their assets, which are not easily releasable. The depositors must be made to understand the bank is fully solvent. The depositors’ confidence could be secured only if the bank is able to meet demand for cash promptly and fully. The banker has to keep adequate cash for his purchase. Cash is an idle asset and bankers can’t afford to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the bank has to distribute his assets in such a way that he can have adequate profit without sacrificing liquidity” (Radheswamy and Vasudev, 1979:199)

“A bank is one who in the ordinary courses of this business receives money which he repays by honoring cheques of persons for which of one whose account it receives it.” (Bardford, 453-454)

“Commercial bank is one of which Exchange money, deposit money, accepts deposits grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or such specific purchase.” (Commercial Bank Act 2031 B.S.)

As it is concerned to the commercial banks and financial institution, they must mobilize (i.e. investment on different sectors) their collections (Deposits) and other funds towards the profitable, secured and marketable sectors so the 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. This information includes as financial background, nature of business as well as its ability to repay 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 produce applied by the bank as well as lending policy and investment in different securities also affect the income and profit,,. In the investment procedure and policies it is always taken in mind that “the greater the credit created by the bank’ higher will be the profitability,”

A sound lending and investment policy is not only pre-requisite for bank's profitability but also crucially significant for the promotion of commercial saving of a development country like Nepal.

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

Commercial bank and financial institutions perform number of internal functions among them, providing credit considered as most important one. In other words, "Commercial banks are bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the loan and investment" (Crosse, 1963:232)

An investment operation of commercial bank is very risky one. For this, commercial banks have to play due consideration while formulating investment policy regarding loan investment. Investment policy is one fact of the overall spectrum of policies that guide bank's investment operation. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy can attract both borrowers and lenders, which helps to increase the volume and quantity of deposits, loan and investments. The loan provided by commercial bank is guide by several principles such as length of time, their purpose, profitability and safety etc. These fundamental principles of commercial banks investment are fully considered while making investment policy. Emphasizing upon this, the investment policy should be carefully analyzed. "Commercial bank should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximum profit from lending" (Crosse, 1963:233)

### **2.2.2 Meaning of credit:**

Credit can be defined as:

A contractual agreement in which a borrower receives something of a value with the explicit agreement repays the lender at some date in future. The borrower pays interest as compensation (to the lender) for allowing the use of fund.

### 2.2.3 Credit Analysis

Credit analysis is the method by which one calculates the credit worthiness of the business or organization. The audited financial statement of a large company might be analyzed when it is issued. A bank may analysis the financial statement of a small business before making or renewing a commercial loan. The term refers to case, whether the business is big or small. Credit analysis includes the variety of analysis as well as the creation of projection and details of cash flow. Credit analysis also includes an examination of collateral and other sources of repayment as well as credit history and management ability. Before approving a commercial loan a bank will look at all of the factors with a primary emphasis being a cash flow of a borrower. A typical measurement of repayment ability is debt services coverage ratio. A credit analyst at a bank will measure the cash generated by a business.

Credits can be defined as the channelization of the fund from the entities that have excess fund to the people entities that have deficit of fund.

Technically, credit can be defined as, a contractual agreement in which a borrower receives something of a value with the explicit agreement to repay to the lender certain date in future. The borrower pays interest as compensation (to the lender) for allowing the use of fund.

### 2.2.4 Types of Credit

Banks lend credit in to two forms:

- 1) Fund based credit and 2) Non fund based credit

#### **Funds based Credit**

**Overdraft/cash:** - Credit under this system, a bank specific a limit, called overdraft/cash credit limit up to which the customer is permitted to borrow by drawing a cheque in his current account any time as per the need.

**Demand loans:** -Under this system a bank disburses loans as and when demanded by the borrower by debiting demand loan account of the borrower and crediting current account of the borrower.

Short Term loans: -Under this system a bank disburses full limit at once by debiting time loan account and by crediting current account of the borrower. This loan is given a period of less than 1 year.

**Long term loans:** -Under this system a bank disburses the loan as per fixed schedule by crediting current account of the borrower. This loan is given for a period of more than 1 year.

**Consumer loans:** - These loans are provided by bank for general people for buying consumer goods like vehicle, equipments, housing, etc. This loan so extended based on the earning level of the consumer.

**Importers' loans (Trust Receipt loans):-** This type of loan is provided by a bank to importers, so that they can sell their imported goods and pay back the loan by making profit on the sale of the imported goods. This loan is extended against letter of credit and is giving for a period of 60 days to 120 days

**Bills purchase/discount:** -Banks purchase/discount the bills drawn on other banks and credit the proceeds to the borrower's account less commission.

**Consortium loans:** -When one or more banks jointly lend loan to borrower the loan is called consortium loan

### **Non fund based Credit**

Letter of credit & Guarantee: - This is facility given by a bank where there is no fund directly given as loan but the bank states that if importer/applicant does not pay, the bank will pay the money to the exporter/the creditor. Hence this is a non-funded type of credit extended by bank.

### **2.2.5 Credit Appraisal**

Credit analysis is essentially default risk analysis in which a loan officer attempts to evaluate a borrower's ability and willingness to pay, traditionally; key risk factors are classified according to 5 Cs of credit. These are character, capital, capacity, conditions and collateral.

- Characters refers to the borrower's honesty & trustworthiness

- Capital refers to the borrower's wealth position measured by financial soundness and market standing.
- Capacity involves both the borrower's legal and management expertise.
- Conditions refer to the economic environment of industry specific environment.
- Collateral is the security in case of default.

#### **2.2.6 Credit Administration/Credit Review**

- When an approval is granted for a credit proposal the documentation is done with a view of securing the interest of the bank and extending the credit to the customer in line with the approved terms and conditions. Hence the documentation is done by credit administration department and the credit extended by the loan department.
- Credit review consists of basically two functions, first monitoring the performance of existing loan and second handling problems loans.

#### **2.2.7 Loan Disbursement Process**

- Check approval to ensure policy and procedure adherence.
- Issue offer letters based on approval.
- Checked documents received as per approval.
- Monitoring and follow up.
- Disbursement as per the advice.
- Prepare checklist and advice for disbursement.

#### **2.2.8 Security**

- Any immovable property. (Acceptable to Bank)
- Any movable property. (Acceptable to Bank)

It may be;

- Land and building
- Vehicles
- Shares/bonds/Fix deposit etc
- Plant and machinery
- Receivable

### **2.2.9 Security Analysis**

The account officer in conjunction with the legal officer should conduct preliminary appraisal of collateral to be mortgaged to the bank,. This preliminary appraisal includes:

Location of collateral, types of collateral, legal documents, owner of the collateral, estimated value, liquidity status etc.

### **2.2.10 Introduction of Credit Appraisal**

Credit appraisal is the process whereby the risk relating to the repayment of a loan by a particular borrowers are evaluated. Human nature institutively seeks rules and formulates with which to solve problems and although there are rules & guideless in credit analysis there are no automatic procedures, formats or structures to follow in analyzing the creditworthiness of the borrowers. Each company and each lending situation is different although a complete credit appraisal has generally standardized presentation the leading up to its conclusions is in effect tailored to company and the particular lending situation.

Before making credit appraisal it is most important to analysis and understands the situation of macro environment and the industry a firm operates in.

#### **General Analysis:**

The macro environment

Industry

#### **Firm Specific Analysis:**

Non-financial risk (business risk) it is expressed by demand, supply, management, production etc.

Financial risk consists of analysis of balance sheet, profit and loss account, cash flow statement, ratio analysis tool etc.

Generally while appraising the credit proposal bankers are focus on analyzing the financial statements.

### **Non-financial risk (business risk)**

Non-financial risk consists of analyzing: the macro Environment risk, industry risk analysis, borrower specific business risk,

Financial risk analysis covers the analysis of balance sheet, profit and loss account, cash flow statement, ratio analysis.

### **The macro Environment**

An understanding of the business begins with an understanding of the opportunities and threats that the company's environment provides. A business defines its environment as the collection of influences that are beyond its control. This does not mean that management is allowed to ignore the environment but it needs to be able to read and anticipate changes. The types and magnitude of influences of economic environment will obviously be very different for each industry.

Major components of micro environment are: economic environment (Recession, interest rate fluctuation), demographics (Changes in birth rate, migration), social culture, technology, government, labour markets.

Each business environment is different and there is no simple. A simply and stable environment is one which can easily predict with the changes of few environmental factors. Hence analyst can form opinion and make predictions based on past experiences. (If changes occur, it's more predictable)

In dynamic environment rate of change may be unpredictable. Analysts' focuses on future projections, business with short sighted management and inflexible organization may represent unacceptable risks in these conditions.

As the environment is the source of all scarce resources required by firm the importance of understanding then company's environment becomes apparent.

### **Industry analysis**

Performance of companies always relative to performance of the industries it belongs to.

Industries differ widely in their economic features (market size & growth rate, scope of competitive rivalry, no of rivals, buyer's needs and requirements, economies of scales, competitive character and profit outlook.

It is important in identifying which industries a company operated in.

To measure the attractiveness of the industries. It is better to understand the kinds of competitive forces members are facing.

Backing successful business within an industry is largely about spotting competitive threats.

### **2.2.11 Different Aspect of Credit Appraisal**

- Technically aspect
- Marketing aspect

Management & organization: character, capacity, capital, collateral, condition and compliance.

- Legal aspect
- Financial aspect

## **2.3 Credit Strategy, Policies, Procedures and Limits According to NRB**

### **2.3.1 Credit Strategy**

The primary purpose of bank's credit strategy is to determine the risk appetite. Risk appetite, at the organizational level, is the amount of risk exposure, or potential adverse impact from an event, that the bank is willing to accept. Once it is determined, the bank shall develop a plan to optimize return while keeping credit risk within predetermined limits. The credit risk strategy thus should cover:

The bank's plan to grant credit based on various client segments and products, economic sectors, geographical location, currency and maturity, the target market within each lending segment and level of diversification/concentration and pricing strategy.

Credit risk strategy should be developed on the basis of bank's target market and its internal strength. The strategy should provide continuity in approach and take into account cyclic aspect of country's economy and the resulting shifts in composition and quality of overall credit portfolio. The credit procedures should aim to obtain a deep understanding of the bank's clients, their credentials and their businesses in

order to fully know their customers. These strategies should be reviewed periodically and amended, as deemed necessary; it should be viable in the long run.

### **2.3.2 Credit Policies**

Every bank has to develop Credit Policies Guidelines (CPG) that clearly outline the bank's view of business development priorities and the terms and conditions that should be adhered to for loans to be approved. The CPG should be updated at a regular interval to reflect changes in the economic outlook and the evolution of the bank's loan portfolio. To make it effective, policies should be communicated timely and should be implemented by all levels of the bank through appropriate procedures. It should be distributed to all lending authorities and credit officers. Credit policies establish framework for making investment and lending decisions and reflect bank's tolerance for credit risk. Any significant deviation to these policies must be communicated to the Senior Management/Board and corrective measures should be taken. At a minimum, credit policies should include:

An area of credit in which the bank plans to lend and does not lend (acceptable and unacceptable lines of credit). These areas can be on the basis of credit facilities, type of collateral security, types of borrowers, or geographic sectors on which the bank may focus, Bank's formal credit approval process, detailed and formalized credit evaluation/ appraisal process, administration and documentation, Credit approval authority at various levels, Clear guidelines for each of the various types of credits, such as loans, overdrafts, mortgages, leases, etc. Concentration limits on single counter party and group of connected counter parties, particular industries or economic sectors, geographic regions and specific products. Banks can set their own stringent internal exposure limits comply with any prudential limits or restrictions set by the Nepal Rastra Bank,

Authority for approval of allowance for probable losses and write-offs,

Credit Pricing, Roles and responsibilities of units/staff involved in credit, Guidelines on regular monitoring and reporting system, Guidelines on management of problem loans and Internal rating (Risk grading) systems including definition of each risk grade and clear demarcation for each risk grade.

The credit policy should spell out the process to ensure appropriate reporting and approval of credit extension beyond prescribed limits. The policy should also spell out approvals of disbursements of excess over limits, and other exceptions to credit policy. In order to be effective, credit policies must be communicated throughout the bank, implemented through appropriate procedures, and periodically revised to take into account changing internal and external circumstances.

### **2.3.3 Credit Procedures**

The credit procedures should aim to obtain a deep understanding of the bank's clients and their businesses in order to fully know their customers. Banks should develop procedures that adequately capture salient issues regarding the borrower's industry; macro-economic factors; the purpose of credit; source of repayment; track record and repayment history of the borrower; repayment capacity of the borrower; the proposed terms and conditions and covenants; adequacy and enforceability of collaterals; and appropriate authorization for the loan.

### **2.3.4 Credit Limits**

An important element of credit risk management is to establish exposure limits covering on balance sheet and off-balance sheet credit exposures for single counter party and group of connected counter parties. The objective of setting credit limit is to prevent banks from relying excessively on a large borrower or group of borrowers. Banks are expected to develop their own stringent limit structure while remaining within the exposure limits set by the Nepal Rastra Bank. The size of the limits should be based on the credit strength of the counterparty, purpose of credit, economic conditions and the bank's risk appetite. Limits should also be set for respective products, activities, specific industry, economic sectors and/or geographic regions to avoid concentration risk. Credit limits should be reviewed regularly at least annually or more frequently if counter party's credit quality deteriorates. All requests of increase in credit limits should be substantiated.

## **2.4 Approving New Credits and Extension of Existing Credits**

In case of new relationships consideration should be given to the integrity and reputation of the borrowers or counter party as well as its legal capacity to assume the liabilities. Prior to entering into any new credit relationship the banks must become

familiar with the borrower or counter party and be confident that they are dealing with individual or organization of sound reputation and credit worthiness. However, a bank must not grant credit simply on the basis of the fact that the borrower is perceived to be highly reputable i.e. name lending should be discouraged.

## **2.5 Credit Administration**

Credit administration is a critical function in maintaining the safety and soundness of a bank. The credit administration function is basically a back office activity that supports and controls extension and maintenance of credit. A typical credit administration unit should perform the functions of credit documentation, disbursement and monitoring, loan repayment, and maintenance of credit files, collateral and security documents. Once a credit is granted, it is the responsibility of Credit administration to ensure that the credit is properly maintained. It is the responsibility of credit administration to ensure completeness of documentation (loan agreements, guarantees, transfer of title of collaterals etc) in accordance with approved terms and conditions. This includes keeping the credit file up to date, obtaining current financial information, sending out renewal notices and preparing various documents such as loan agreements. While developing credit administration areas, banks should ensure:

- The efficiency and effectiveness of credit administration operations, including monitoring documentation, contractual requirements, legal covenants, collateral, etc.;
- The accuracy and timeliness of information provided to management information systems;
- The adequacy of control over all “back office” procedures; and
- Compliance with prescribed management policies and procedures as well as applicable laws and regulations.

For the various components of credit administration to function appropriately, senior management must understand and demonstrate that it recognizes the importance of this element of monitoring and controlling credit risk. (J. M. &et.al. 2012:63)

## 2.6 Internal Credit Risk Rating System

Banks should develop an internal credit risk rating system for its loans and advances. The risk rating should categorize all credits into various classes on the basis of underlying credit quality. Risk rating is a key measurement of a bank's asset quality, and as such, it is essential that rating is a robust process. All facilities should be assigned a risk grade. In case of deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. NRB does not advocate any particular credit risk rating system; it should be bank's own choice. But the rating system should be consistent with the nature, size and complexity of a bank's activities and should have at least the following parameters:

- covers a broad range of the bank's credit exposure, including off-balance sheet exposures;
- covers both performing and non-performing assets;
- has several grades covering exposures, with the lowest rating accorded to those where losses are expected;
- has risk ratings for "performing" credits with several grades (including the grades like "watch list" or "special mention");
- has regulatory classifications (performing, substandard, doubtful & bad) should be incorporated within the risk rating systems; and
- has the credit risk rating system detailed in the credit policy and procedures developed for the determination and periodic review of the credit grades;

The rating system, which has been endorsed by the board, has to be submitted to Nepal Rastra Bank. For banks, which have yet to implement the rating system, a plan, endorsed by the board, must be submitted to Nepal Rastra Bank specifying the timeframe, persons responsible and steps taken for the implementation of a credit grading system. Such plans must be submitted to Nepal Rastra Bank not later than end of December 2010. Banks should regularly monitor and evaluate the actual default or loss experience of credits in each risk grade as one means to assess the consistency and reliability of the ratings being used.(Nepal Rastra Bank 2011:225)

## **2.7 Credit Risk Monitoring and Control**

Credit risk monitoring refers to the continuous monitoring of individual credits inclusive of off-balance sheet exposures to obligors as well as overall credit portfolio of the bank. Banks need to develop and implement comprehensive procedures and information systems to monitor the condition of individual credits and single borrowers across the bank's various portfolios. Banks need to enunciate a system that enables them to monitor quality of the credit portfolio on day-to-day basis and take remedial measures as and when any deterioration occurs. These procedures need to define criteria for identifying and reporting potential problem credits and other transactions to ensure that they are subject to more frequent monitoring as well as possible corrective action, classification and/or provisioning. Establishing an efficient and effective credit monitoring system would help senior management to monitor the overall quality of the total credit portfolio and its trends. As a result the management could reassess its credit strategy /policy accordingly before encountering any major setback. The banks credit policy should explicitly provide procedural guideline relating to credit risk monitoring. At the minimum it should lay down procedure relating to(V. R.2012:33)

The roles and responsibilities of individuals responsible for credit risk monitoring

The assessment procedures and analysis techniques (for individual loans & overall portfolio)

The frequency of monitoring

The periodic examination of collaterals and loan covenants

The frequency of site visits(M. &Zakaria, 2012:22)

## **2.8. Financial Position and Business Conditions**

The most important aspect about an obligor is its financial health, as it would determine its repayment capacity. Business/industry risk, borrower's position within the industry and external factors such as economic condition, government policies, and regulations should be taken into consideration. The Key financial performance indicators on profitability, equity, leverage and liquidity should be analyzed on a regular basis.

### **2.8.1. Conduct of Accounts**

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

### **2.8.2. Loan Covenants**

Bank should regularly review the credit in terms of the obligor's ability to adhere to financial covenants stated in the loan agreement, and any breach detected should be addressed promptly.

### **2.8.3. Collateral valuation**

Banks need to reassess value of collaterals on periodic basis. The frequency of such valuation depends upon nature of collaterals. Appropriate inspection should be conducted to verify the existence and valuation of the collateral.

## **2.9 Credit Risk Review & Stress Testing**

The bank must establish a mechanism of independent, ongoing assessment of credit risk management process. All facilities except those managed on a portfolio basis should be subjected to individual risk review at least once in a year. The results of such review should be properly documented and reported directly to the board. The purpose of such reviews is to assess the credit administration process, the accuracy of credit rating and overall quality of loan portfolio independent of relationship with the obligor. Banks should conduct credit review with updated information on the counter party's financial and business conditions, as well as conduct of account. An important element of sound credit risk management is analyzing what could potentially go wrong with individual credits and the overall credit portfolio if conditions/environment, in which borrowers operate, change significantly. The results of this analysis should then be factored into the assessment of the adequacy of provisioning and capital of the bank. Such stress analysis can reveal previously undetected areas of potential credit risk exposure that could arise in times of crisis. A possible scenario that banks should consider in carrying out stress testing includes:

significant economic or industry sector downturns, adverse market-risk events; and unfavorable liquidity conditions.

Banks should have industry profiles in respect of all industries where they have significant exposures. Such profiles must be reviewed /updated on a regular basis. Each stress test should be followed by a contingency plan as regards recommended corrective actions. Senior management must regularly review the results of stress tests and contingency plans. The results must serve as an important input into a review of credit risk management framework and setting limits and provisioning levels.( J. M. &et.al. 2012:161))

## **2.10 Managing Problem Credits**

Bank should establish a system that helps identify problem loan ahead of time when there may be more options available for remedial measures. Banks should clearly set out how they will manage their problem credits. Once the loan is identified as problem, it should be managed under a dedicated remedial process. Responsibility for such credits may be assigned to the originating business function, a specialized workout section, or a combination of both, depending upon the size and nature of the credit and the reason for its problems. When a bank has significant credit-related problems, it is important to segregate the workout function from the credit origination function. The additional resources, expertise and more concentrated focus of a specialized workout section normally improve collection results. In such case, the Recovery Unit (RU), as a separate unit, shall manage accounts with sustained deterioration (a risk rating of sub Standard or worse). The RU's primary functions can be to:

- Determine Account Action Plan/Recovery Strategy
- Pursue all options to maximize recovery, including placing customers into legal proceedings or liquidation as appropriate.
- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- Regular review of substandard or worse accounts.

A problem loan management process encompasses the following basic elements. ( Michaelas,2013:362)

### **(i) Negotiation and follow-up**

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

### **(ii) Remedial strategies**

Sometimes appropriate remedial strategies such as restructuring of loan facility, enhancement in credit limits or reduction in interest rates help improve obligor's repayment capacity. However it depends upon business condition, the nature of problems being faced and most importantly borrower's commitment and willingness to repay the loan. If timely action is not taken to address problem loans, opportunities to strengthen or collect on these poor-quality assets may be missed and losses may accumulate to a point where they threaten a bank's solvency. An assessment of workout procedures should consider the organization of this function, including departments and responsible staff, and assess what the performance of the workout units has been by reviewing attempted and successful recoveries (in terms of both number and volume) and the average time for recovery. The work out methods utilized and the involvement of senior management should also be evaluated.

### **(iii) Collateral and security document**

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

### **(iv) Reporting and Reviewing**

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

## 2.11 Review of Master's Degree Thesis

On the topic “Credit Analysis” has published by many researchers in their research article. The mentioned theses were reviewed as they are relevant to the present research.

**Shrestha (2010)** in her study “*A comparative study on Credit analysis of joint venture banks*” has studied primarily of four commercial banks i.e. Himalayan Bank Ltd., Nepal SBI Bank Ltd., and Everest Bank Ltd. & Bank of Kathmandu Ltd. **The main objectives of her studies are as follows:**

- To compare, analysis & evaluate the investment policy of these four commercial banks.
- To evaluate, liquidity, activity & portfolio ratios of these banks.
- To find out the deposit collection & the effectiveness of fund mobilization.

**The Conclusion of the research study is as follows:**

- HBL is more successful in mobilizing the fund in proper way in comparison to other three commercial banks.
- All these banks should have to increase the deposit collection, investment in securities shares & debentures.
- All banks should be in rural areas & have to take effective marketing strategy for their promotion.
- New technologies have to be introducing so to develop new banking system.

**Shrestha (2011)** conducted a study on “*Nepal Rastra Bank Guidelines on Credit policy of commercial banks in Nepal (A case study of Nepal Investment Bank)*”. **The main findings of the study are:**

- Bank is in good position to meet the daily cash requirement as bank has maintained the average cash & bank balance in respect to total deposit.
- The performance of NIBL regarding deposit collection granting loan & advance & investment is quite satisfactory but doesn't seem to follow definite policy.
- NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of lack of sound investment policy for mobilization of its equity capital.
- Interest earned to total operating income of NIBL is high. However bank failed to maintain net profit on the study.

- From the analysis of coefficient of correlation. There is positive & significant relation between total deposit & loan and advances and current assets and current liabilities and loan and advances but there is negative and no significant relationship between outside assets & her profit.

**Joshi (2012)** conducted a study on “*Credit analysis of commercial banks in Nepal: A comparative study of Everest Bank Limited, Nabil Bank Limited & Bank of Kathmandu*” **has presented research finding of the study are:**

- The liquidity position of the EBL is comparatively better than NABIL & BOK. EBL has the highest cash & bank balance to total deposit, cash & bank balance to current assets ratio. Nabil has lowest liquidity position than that of other two banks. EBL has good deposit collection & has made enough investment on government securities but it is maintained moderate investment policy on loan & advances.
- From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to Nabil & BOK. The total investment of EBL is in between in compared to other two banks.
- In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. But overall analysis of profitability ratios. EBL is average profitability ratios. EBL is average profitable in comparison to other compared banks i.e. Nabil & BOK. From the view point of risk ratio, EBL has higher capital risk but average of credit risk ratio in compared to Nabil & BOK.

**Amatya, (2013)** in his research study entitled, “*A comparative study on Credit analysis of commercial bank & finance companies of Nepal*” **has pointed out the following objectives:**

- To find out the relationship between profitability & assets structure of the banks & finance i.e., Standard Chartered Bank Ltd. & BOK Ltd. & finance companies i.e. international leasing & finance company, standard finance company & universal finance company.
- To project the deposit utilization & investment of the banks in companion to finance companies.
- To comment the policies adopted by sample banks & finance based by sample banks & finance based on financial analysis for its future development.

**The conclusions of the study are as follows:**

- Finance company has successfully invested their deposit collection as loan & advance in comparison to commercial bank as they have higher loan & advance to total deposit ratio.
- Profitability position of the commercial banks except BOK Ltd. is better than that of finance companies.
- Trend value of net profit is increasing trend & commercial banks have comparatively higher value than finance companies.

**He has made the following recommendation:**

- The sampled firms haven't properly analyzed the causes & effects of the variables so they are recommended to prepare future investment policies & plan after detail analysis of causes & effect of the variables.
- Evaluate the investment opportunities & alternatives using statistical, capital budgeting & other financial tools to avoid the large amount of doubtful & risks as they have main trends a large amount of loan loss provision.

Commercial banks & finance companies need to add extra amount or investment on government securities as they are less risk investment & are considered as liquid assets.

**Khadka (2014)** in his thesis "*A study on the Investment Policy of Nepal Arab Bank Ltd. in comparison to other joint venture banks of Nepal*" has compared investment policy of NABIL with NGBL and NIBL. Khadka has found out that the liquidity position of NABIL is comparatively worse than that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosuez Bank Ltd (NIBL). It is also comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of NGBL and NIBL. In case of profitability ratio he has concluded that 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 policy however has not explained regarding liberal lending and invest more and more percentage amount of total deposits in loans and advances. However while adopting liberal policy on lending he has not explained the consequences like bad debt, default loan, which may arise due to very flexible and liberal lending policy. He has also not explained the regarding what is good liberal lending policy.

# **CHAPTER-III**

## **RESEARCH METHODOLOGY**

### **3.0 Introduction**

This chapter describes the methodology employed by the researcher. Research methodology is a way to systematically solve the research problem. In other words, research methodology describes the methods and process applied by the researcher. This chapter describes research design, population, sampling procedures and sources of data and analysis of data.

Research methodology is a way to systematically solve the 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 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 particular method or technique and why we are not using a particular method or technique. And why we are not using other so that research results are capable of being evaluated either by the researcher him/herself or by others. The study of research methodology gives the student the necessary training in gathering material and arranging them, participating in the field work which is required, and also training in techniques for collection of data appropriate to particular problems, in the use of statistical questionnaires and controlled experimentation and in recording evidence, sorting out and interpreting it. (Kothari, 2003:13)

### **3.1 Research Design**

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

### **3.2 Nature and Sources of Data**

The research is based on secondary data. For research purpose, published financial statements (i.e. Annual Reports) of commercial banks were collected. Similarly,

financial statements of selected commercial banks and various markets related information was gathered and tabulate in spreadsheet. Such secondary information was gathered from the share department of the concerned banks.

### **3.4 Tools and Techniques Employed**

To meet the objective the study, the sources of the secondary data of commercial bank are analyzed by using financial tools. The statistical tools such as analysis of variance ANOVA was also used to know the difference among selected commercial banks. The ratio analysis involves comparison for a useful interpretation of financial statements. The qualities judgment regarding Credit Managements of a firm can be done with help of ratio analysis. The following ratios are calculated for the study purpose.

#### **Financial Tools**

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, loaners, 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, 1993:731)

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.

#### **3.4.1 Credit Practice Ratios**

- **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.

$$\frac{\text{total loan}}{\text{total deposit}} \times 100$$

- **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.

$$\frac{\text{loan} \wedge \text{assests}}{\text{total assets}} \times 100$$

- **Loan 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 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.

$$\frac{\text{loan} \wedge \text{assests}}{\text{current assets}} \times 100$$

- **Interest income to loan and advances ratio**

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.

$$\frac{\text{interest incom}}{\text{loan} \wedge \text{assets}} \times 100$$

- **Provision for Possible Losses 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 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 general 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 loan 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.

$$\frac{\text{provisin for possible losses}}{\text{total loan} \wedge \text{advance}} \times 100$$

- **Non-performing loan to total loan and advantage 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 KBL and LBL has been used. This ratio shows the percentage of non-recovery loans in total loans & advances

$$\frac{\text{non-performing loadn}}{\text{total loan} \wedge \text{advantage}} \times 10$$

### 3.4.2 Credit Efficiency Ratio

- **Interest Expenses to total deposit ratio**

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

$$\frac{\text{interest expenses}}{\text{total deposit}} \times 100$$

- **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.

$$\frac{\text{interest expenses}}{\text{total expenses}} \times 100$$

- **Noninterest bearing deposit to total deposit ratio**

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

$$\frac{\text{noninterest bearing deposit}}{\text{total deposit}} \times 100$$

- **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 based 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.

$$\frac{\text{interest income}}{\text{total income}} \times 100$$

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

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

$$\frac{\text{interest advance} \wedge \text{overdraft}}{\text{interest income}} \times 100$$

## **Statistical Tools**

Statistics 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. 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’.

### **3.4.3 Trend Analysis**

- Trend Value of Total Deposit
- Trend Value of Total Loan
- Trend Value of Net Profit

### **3.4.4 Co-efficient of 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 analysis shows how the variables are related. Regression and Correlation analysis thus determines the nature and strength of the relationship between two variables.(Sharma, 2058:405)

- Co-efficient of Correlation Analysis between Loan and Net Profit
- Co-efficient of Correlation Analysis between Total Loan and advances and Interest Income
- Co-efficient of Correlation Analysis between Loan and Advances and Provision for Possible Losses

# CHAPTER-IV

## PRESENTATION AND ANALYSIS OF DATA

### 4.1 Introduction

Presentation and analysis of data is very important stage of research study. Its main objective 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.

Credit management is one of the most important factors that have developed to facilitate effective performance of bank management. Credit management is the formal expression of the commercial banks goals and objectives stated in financial terms for specific period of time. Credit is the very basic indicator for determining profit. The main purpose of the objective is to access the credit management in selected banks. Present chapter will discussed the various aspects of credit management and their actual accomplishment. Actually, credit 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 objective of the study.

### 4.2 Comparative Credit Practice in Nepal Investment, Bank of Katmandu and Nabil bank

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

#### 4.2.1 Total Loan to Total Deposit Ratio

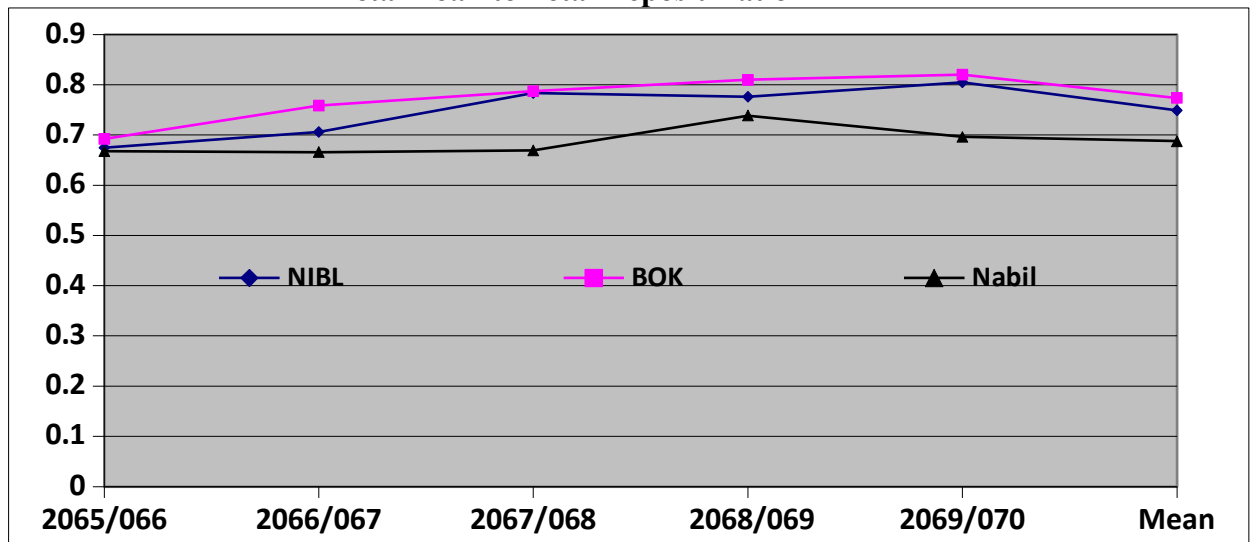
The main source of bank's lending depends on its deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposit on loan and advances for profit generating activities. Greater ratio indicates the better utilization of deposit. The ratios are presenting in the following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

**Table No: - 4.2.1**  
**Total Loan to Total Deposit Ratio**

(Rs.in millions)

Bank F/Y	Particulars	2065/066	2066/067	2067/068	2068/069	2069/070	Mean
<b>NIBL</b>	Total Loan	17286.43	26996.65	36241.21	40318.31	41095.51	
	Total Deposit	24488.86	34451.73	46698.10	50094.73	50138.12	
	Ratio in (%)	70.59	78.36	77.61	80.48	81.96	77.80
<b>BOK</b>	Total Loan	9399.33	12462.64	14647.30	16664.93	17468.19	
	Total Deposit	12388.93	15833.74	18083.98	20315.83	21018.42	
	Ratio in (%)	75.87	78.71	80.99	82.03	83.11	80.14
<b>Nabil</b>	Total Loan	15545.78	21365.05	27589.93	32268.87	38034.10	
	Total Deposit	23342.29	31915.05	37348.26	46340.70	49608.38	
	Ratio in (%)	66.60	66.94	73.87	69.63	76.69	70.75

**Figure No: - 4.2.1**  
**Total Loan to Total Deposit Ratio**



Above table and figure shows that the ratio of total loan to total deposit in NIBL was 0.7059, 0.7836, 0.7761, 0.8048 and 0.8196 respectively. Similarly the ratio of BOK was 0.7587, 0.7871, 0.8099, 0.8203 and 0.8311 whereas the ratio of Nabil was 0.6660, 0.6694, 0.7387, 0.6963 and 0.7669 respectively. In overall comparison, BOK has the highest ratio in F/Y 2067/068 i.e. 0.8311 and the Nabil has observed the lowest ratio in F/Y 2066/067 i.e. 0.6660. From the mean point of view, BOK has maintained higher loan and advances to total deposit ratio than NIBL and Nabil bank. In this it shows that BOK seems to be strong to mobilize its total deposit as loan and advances. It can be concluded that NIBL and Nabil bank has lower position to mobilize its deposit as compare to BOK. However, higher ratio does not mean it is always better from the point of liquidity. From the above analysis BOK seems to be best performer in utilizing its collected resources in the form of loan and advances very efficiently, which may definitely increase income and profit. From the above analysis it can be said that BOK is taking high risk than other two banks. High risk leads to high return.

#### **4.2.2 Interest Income to Loan and Advances**

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

**Table No: - 4.2.2**

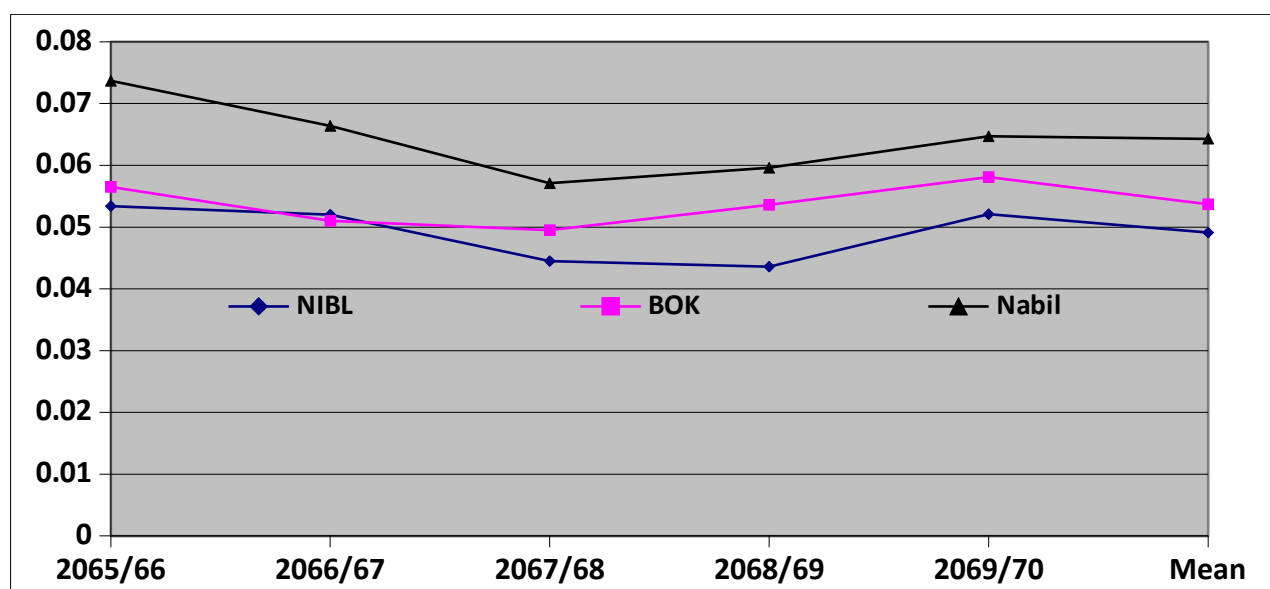
**Interest Income to Loan and Advances Ratio**

(Rs.in millions)

Bank F/Y	Particulars	2065/066	2066/067	2067/068	2068/069	2069/070	Mean
NIBL	Total Int. Income	1584.99	2194.28	3267.94	4653.52	5803.44	
	Total Loan & Adv.	17286.43	26996.65	36241.21	40318.31	41095.51	
	Ratio in (%)	0.0917	0.0813	0.0902	0.1154	0.1412	0.1040
BOK	Total Int. Income	819.00	1034.16	1347.76	1870.85	2386.78	
	Total Loan & Adv.	9399.33	12462.64	1464.30	16664.93	17468.19	
	Ratio in (%)	0.0871	0.0830	0.0920	0.1123	0.1366	0.1022
Nabil	Total Int. Income	1587.76	1978.70	2798.49	4047.73	5254.03	
	Total Loan & Adv.	15545.78	21365.05	27589.93	32268.87	38034.10	
	Ratio in (%)	0.1021	0.0926	0.1014	0.1254	0.1381	0.1119

**Figure No: - 4.2.2**

**Interest Income to Loan and Advances Ratio**



Above table and figure shows that the ratio of interest income to loan and advances in NIBL was 0.0917, 0.0813, 0.0902, 0.1154 and 0.1412 respectively. Likewise, the ratio of BOK was 0.0871, 0.0830, 0.0920, 0.1123 and 0.1366 and the ratio of Nabil was 0.1021, 0.0926, 0.1014, 0.1254 and 0.1381 respectively. But, NIBL has the highest ratio in F/Y 2069/070 i.e. 0.1412 and lowest ratio in 2067/068 i.e. 0.0813.

Calculated mean value of NIBL is highest with 0.1040 as compare to BOK and Nabil bank, which are 0.1022 and 0.1119 respectively. From this point of view NIBL has the best performance in earning interest income. BOK seems to be poor in generating interest income.

#### 4.2.3 Loan and Advances to Total Assets Ratio

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

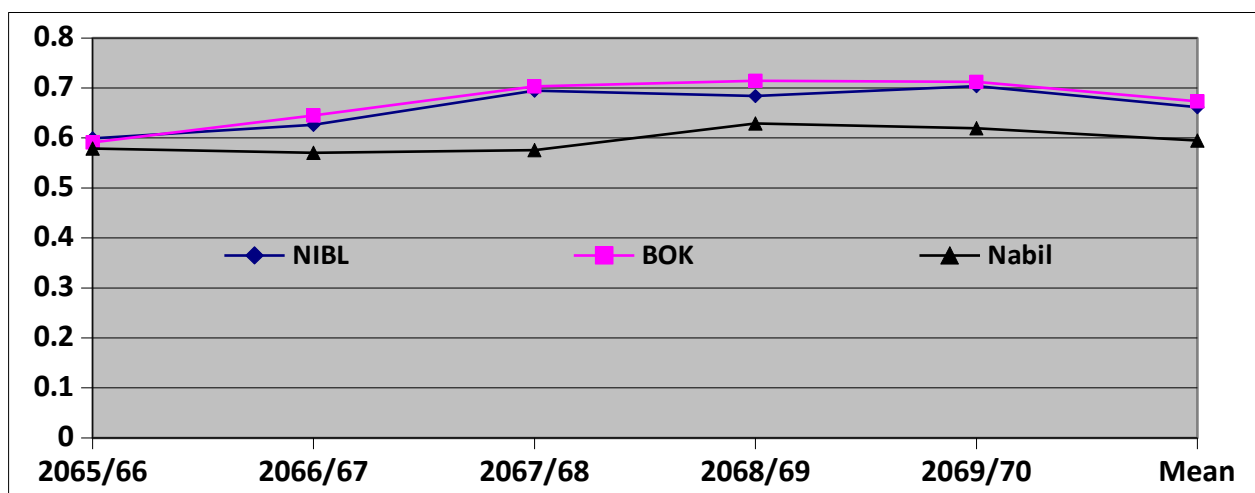
**Table No: - 4.2.3**

#### **Loan and Advances to Total Assets Ratio**

		(Rs.in millions)					
Bank F/Y	Particulars	2065/066	2066/067	2067/068	2068/069	2069/070	Mean
NIBL	Loan & Adv.	17286.43	26996.65	36241.21	40318.31	41095.51	
	Total Assets	27590.84	38873.31	53010.80	57305.41	58356.83	
	Ratio in (%)	0.6265	0.6945	0.6837	0.7036	0.7042	0.6825
BOK	Loan & Adv.	9399.33	12462.64	1464.30	16664.93	17468.19	
	Total Assets	14571.00	17721.93	20496.00	23396.19	24757.75	
	Ratio in (%)	0.6451	0.7032	0.7146	0.7123	0.7056	0.6962
Nabil	Loan & Adv.	15545.78	21365.05	27589.93	32268.87	38034.10	

Total Assets	27253.39	37132.76	43867.40	52079.73	58099.62	
Ratio in (%)	0.5704	0.5754	0.6289	0.6196	0.6546	0.6098

Figure No: - 4.2.3



Loan and Advances to Total Assets Ratio

Above table and figure shows that the ratio of loan and advances to total assets in five years for NIBL was 0.6265, 0.6945, 0.6837, 0.7036 and 0.7042 respectively. Similarly, the ratio of BOK was 0.6451, 0.7032, 0.7146, 0.7123 and 0.7056 respectively. Whereas, the ratio of Nabil was 0.5704, 0.5754, 0.6289, 0.6196 and 0.6546 respectively.

From the mean point of view, it can be said that the mean ratio of BOK has the highest than NIBL and Nabil bank. It can be concluded that the higher mean ratio

indicates the good lending performance. So BOK has good lending performance than NIBL and Nabil bank. High portion of BOK obviously generate higher interest income and lower liquidity with this bank whereas lower portion of loan and advances of NIBL and Nabil bank indicates comparatively high liquidity available with these banks but lower portion of assets is generating low income.

#### 4.2.4 Non-Performing Loans to Total Loans and Advances

NRB has directed all the commercial banks create loan loss provision against the doubt full and bad debts. To measure the volume of nonperforming loan to total loan and advances the main indicators of NIBL, BOK and Nabil bank have been used. The ratio shows the percentage of non-recovery loan in total loans and advances.

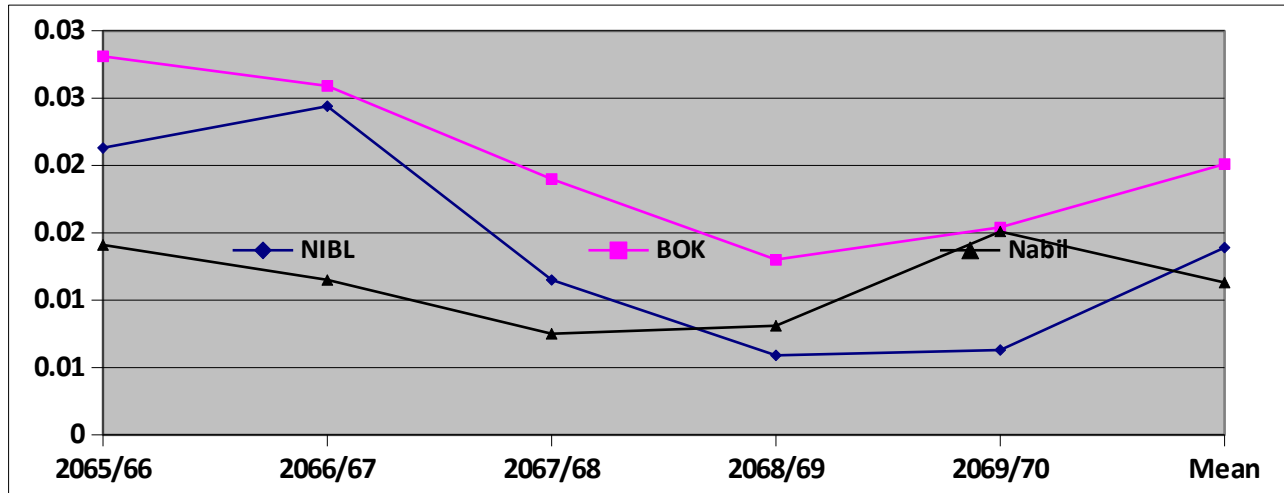
**Table No: - 4.2.4**

#### **Non-Performing Loans to Total loans and Advances**

		(Rs.in millions)					
<b>Bank F/Y</b>	<b>Particulars</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>	<b>2068/069</b>	<b>2069/070</b>	<b>Mean</b>
NIBL	Non-Performing Loans	421.97	309.47	213.91	274.33	395.28	
	Total loans & Advances	17286.43	26996.65	36241.21	40318.31	41095.51	
	Ratio in (%)	0.0244	0.0115	0.0059	0.0063	0.0096	0.0115
BOK	Non-Performing Loans	243.30	236.90	190.32	257.22	326.33	
	Total loans & Advances	9399.33	12462.64	1464.30	16664.93	17468.19	
	Ratio in (%)	0.0259	0.0190	0.0130	0.0154	0.0187	0.0187
Nabil	Non-Performing Loans	178.29	161.09	224.82	487.54	689.85	
	Total loans & Advances	15545.78	21365.05	27589.93	32268.87	38034.10	

	Ratio in (%)	0.0115	0.0075	0.0081	0.0151	0.0181	0.0121
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Figure No: - 4.2.4



Non Performing Loans to Total loans and Advances

Above table and figure shows that from the NIBL point of view, the ratios in five years are 0.0244, 0.0115, 0.0059, 0.0063 and 0.0096 respectively. Likewise, the ratios of BOK are 0.0259, 0.0190, 0.0130, 0.0154 and 0.0187 respectively whereas the ratios of Nabil are 0.0115, 0.0075, 0.0081, 0.0151 and 0.0181 respectively. In overall NIBL has lowest nonperforming loan to total loan and advances ratio (i.e. 0.0059) in F/Y 2068/69 and BOK has highest ratio (0.0259) in F/Y 2066/067.

From the mean point of view, it can be said that NIBL has lowest ratio than BOK and Nabil bank. Banking sector is seriously affected by nonperforming loan. If nonperforming loan increases the overall banking sector will be affected. So provision amount will increase and profit will decrease. So it is suggested that both

banks (BOK and Nabil bank) to be very careful while granting loan and to do effective follow up recovery of nonperforming loan.

#### **4.2.5 Loan and Advances to Total Current Assets**

Loan and advances is the major component in total assets, which indicates the ability of banks to channelize its deposit in the form of loan and advances to earn high return. If sufficient loan and advances cannot grant, bank may lose their interest earnings. So commercial banks provide loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

**Table No: - 4.2.5**

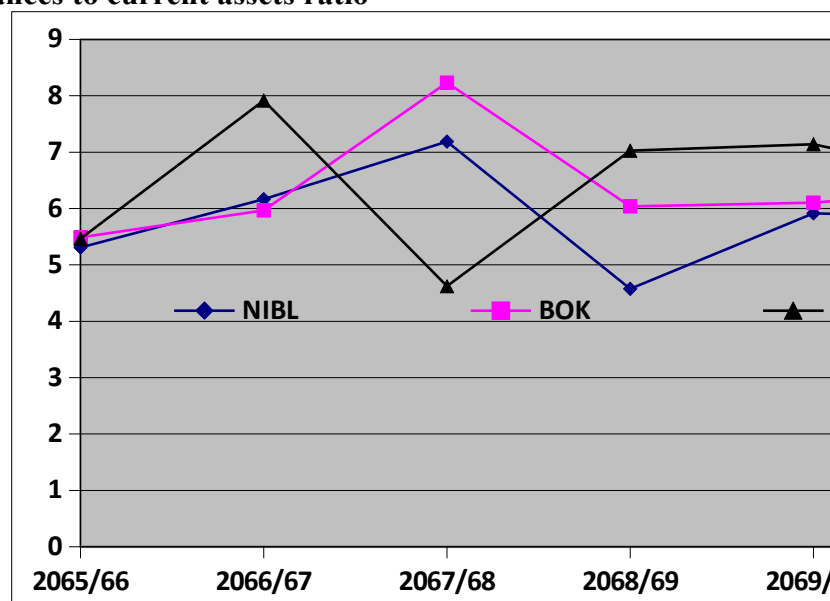
**Loan and advances to current assets ratio**

(Rs.in millions)

Bank F/Y	Particulars	2065/066	2066/067	2067/068	2068/069	2069/070	Mean
NIBL	Loan and Adv.	17286.43	26996.65	36241.21	40318.31	41095.51	
	Total Current Assets	2804.48	3754.94	7918.00	6815.89	8290.37	
	Ratio in (%)	6.16 39	7.18 96	4.577 1	5.91 53	4.9570	5.7606
BOK	Loan and Adv.	9399.33	12462.64	1464.30	16664.93	17468.19	
	Total Current Assets	1575.18	1513.15	2425.46	2730.36	2158.85	
	Ratio in (%)	5.96 71	8.23 62	6.039 0	6.10 36	8.0914	6.8875
Nabil	Loan and Adv.	15545.78	21365.05	27589.93	32268.87	38034.10	
	Total Current Assets	1963.36	4623.50	3925.40	4518.24	4911.06	
	Ratio in (%)	7.91 80	4.62 10	7.028 6	7.14 19	7.7446	6.8908

**Figure No: - 4.2.5**

**Loan and advances to current assets ratio**



The above table and figure shows that from the NIBL point of view, the ratios of five years were 6.1639, 7.1896, 4.5771, 5.9153 and 4.9570 respectively. Similarly, the ratio of BOK was 5.9671, 8.2362, 6.0390, 6.1036 and 8.0914 respectively whereas, the ratios of Nabil bank was 7.9180, 4.6210, 7.0286, 7.1419 and 7.7446 respectively. In mean point of view Nabil bank has the highest average loan and advances to current assets ratio than other banks.

#### **4.2.6 Loan Loss Provision to Total Loan and Advances**

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

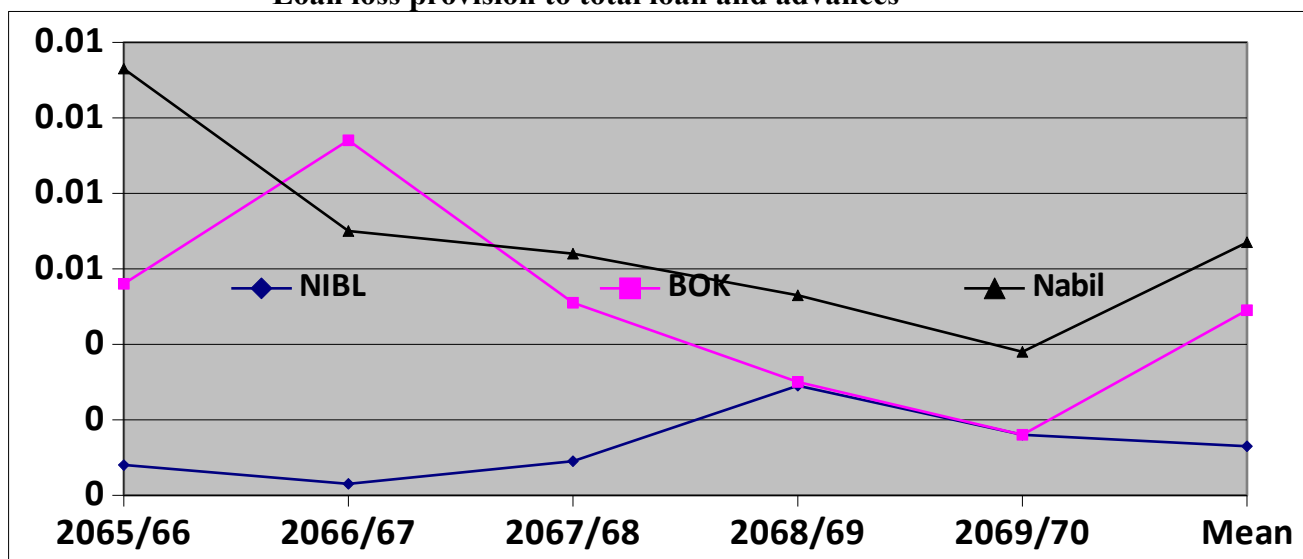
The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan and advances.

**Table No: - 4.2.6**  
**Loan loss provision to total loan and advances**

(Rs.in millions)

Bank F/Y	Particulars	2065/066	2066/067	2067/068	2068/069	2069/070	Mean
NIBL	Loan Loss Provision	471.59	526.73	580.94	630.13	792.18	
	Total Loan & Advances	17286.43	26996.65	36241.21	40318.31	41095.51	
	Ratio in (%)	0.0279	0.0197	0.0162	0.0156	0.0193	0.0197
BOK	Loan Loss Provision	294.46	284.54	297.91	379.37	488.76	
	Total Loan & Advances	9399.33	12462.64	1464.30	16664.93	17468.19	
	Ratio in (%)	0.0314	0.0229	0.0204	0.0228	0.0278	0.0251
Nabil	Loan Loss Provision	354.05	389.83	406.44	762.09	871.39	
	Total Loan & Advances	15545.78	21365.05	27589.93	32268.87	38034.10	
	Ratio in (%)	0.0230	0.0185	0.0148	0.0236	0.0229	0.0206

**Figure No: - 4.2.6**  
**Loan loss provision to total loan and advances**



Above table and figure shows that from the NIBL points of view, the ratios of loan loss provision to total loan & advances in five years are 0.0279, 0.0197, 0.0162, 0.0156 and 0.0193 respectively. Likewise, for the ratio for BOK are 0.0314, 0.0229, 0.0204, 0.0228 and 0.0278 respectively whereas the ratio of Nabil bank is 0.0230, 0.0185, 0.0148, 0.0236 and 0.0229 respectively.

BOK has the highest loan loss provision to total loan and advances ratio (i.e. 0.0314) in F/Y 2066/067 and Nabil has the lowest loan loss provision to total loan and advances ratio (i.e. 0.0148) in F/Y 2067/68.

The Nabil have comparatively lower ratio of loan loss provision to total loan and advances than other two banks. It means Nabil reduces the loan loss provision amount with respect to loan and advances than other two banks. Higher level of loan loss provision reduces the risk of bad and non-performing loans.

### **4.3 Comparative Credit efficiency in Nepal Investment bank, Bank of Katmandu and Nabil bank**

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

#### **4.3.1. Total Assets to Total Liability Ratio**

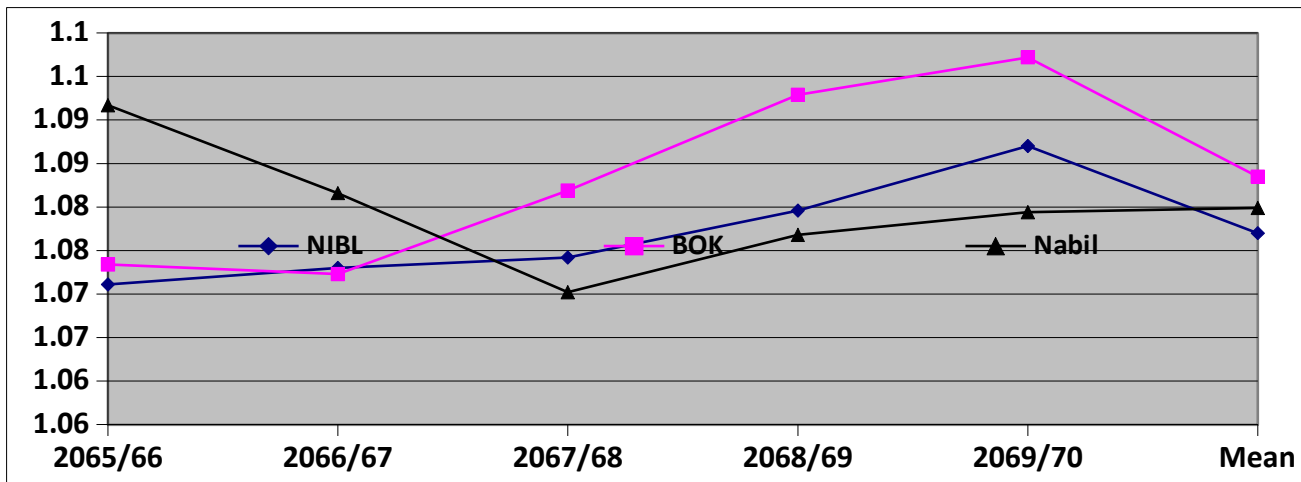
Banks create credit through loan and advances and multiply their assets many times than their liability permits. This ratio measures the ability of a bank to multiply its liability in to assets. The higher ratio of total assets to total liability ratio is favorable as it increases overall capacity of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

**Table No: - 4.3.1****Total assets to total liability ratio**

(Rs.in millions)

<b>Bank F/Y</b>	<b>Particulars</b>	<b>2065/06 6</b>	<b>2066/06 7</b>	<b>2067/06 8</b>	<b>2068/06 9</b>	<b>2069/070</b>	<b>Mean</b>
NIBL	Total Assets	27590.84	38873.31	53010.80	57305.41	58356.83	
	Total Liabilities	25712.72	36186.52	49102.96	52720.02	53197.07	
	Ratio in (%)	1.0730	1.0742	1.0796	1.0870	1.0970	1.0822
BOK	Total Assets	14571.00	17721.93	20496.00	23396.19	24757.75	
	Total Liabilities	13588.12	16379.85	18754.42	21322.66	22322.56	
	Ratio in (%)	1.0723	1.0819	1.0929	1.0972	1.1091	1.0907
Nabil	Total Assets	27253.39	37132.76	43867.40	52079.73	58099.62	
	Total Liabilities	25196.34	34695.56	40737.16	48245.50	53527.56	
	Ratio in (%)	1.0816	1.0702	1.0768	1.0794	1.0854	1.0787

**Figure No: - 4.3.1****Total assets to total liability ratio**



Above table and figure shows that the ratios of different commercial banks. In the NIBL point of view, the ratio of total assets to total liability is in increasing trend. From the view point of BOK it is in increasing trend and the ratio of Nabil is also in increasing trend. BOK has the higher mean ratio than NIBL and Nabil bank. The combine mean ratio of BOK is 1.0907 which is greater than the ratio of NIBL and Nabil bank (i.e. 1.0822 and 1.0787). From the above analysis it can be said that BOK has been able to utilize the fund more efficiently and effectively than other two banks.

#### 4.3.2. 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 of 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.

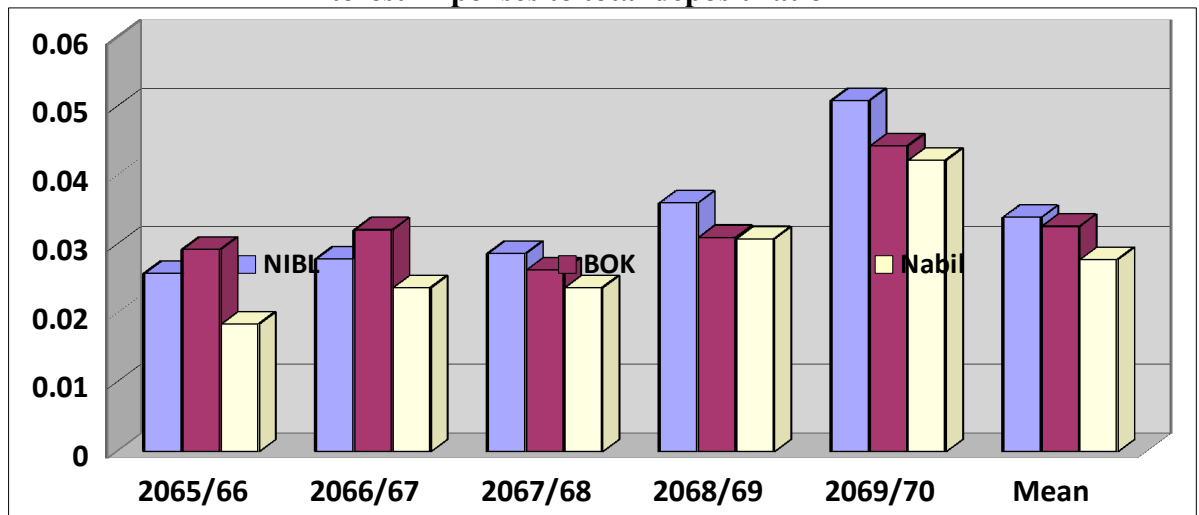
Table No: - 4.3.2

#### Interest Expenses to total deposit ratio

(Rs.in millions)

Bank F/Y	Particulars	2065/066	2066/067	2067/068	2068/069	2069/070	Mean
NIBL	Interest Expenses	685.53	992.16	1686.97	2553.85	3620.34	
	Total Deposit	24488.86	34451.73	46698.10	50094.73	50138.12	
	Ratio in (%)	0.0280	0.0288	0.0361	0.0510	0.0722	0.0432
BOK	Interest Expenses	399.18	417.54	563.11	902.93	1218.79	
	Total Deposit	12388.93	15833.74	18083.98	20315.83	21018.42	
	Ratio in (%)	0.0322	0.0264	0.0311	0.0444	0.0580	0.0384
Nabil	Interest Expenses	555.17	758.44	1153.28	1960.11	2946.69	
	Total Deposit	23342.29	31915.05	37348.26	46340.70	49608.38	
	Ratio in (%)	0.0238	0.0238	0.0309	0.0423	0.0594	0.0360

Figure No: - 4.3.2  
Interest Expenses to total deposit ratio



Above table and figure shows that the costs of deposit of all the three banks are in increasing trends. NIBL bank has the highest ratio in F/Y 2067/68 i.e. 0.0722 and lowest ratio in F/Y 2066/067 i.e. 0.0280. BOK bank has highest ratio in F/Y 2069/070 i.e. 0.0580 and lowest ratio in F/Y 2067/68 i.e. 0.0264. Nabil bank has highest ratio in F/Y 2069/070 i.e. 0.0594 and lowest ratio in F/Y 2066/067 and 2067/068 i.e. 0.0238. From the mean point of view Nabil has the lowest mean ratio i.e. 0.0360 and NIBL has highest ratio i.e. 0.0432. It can be said that Nabil bank is able to minimize the interest expenses and able to collect the cheapest fund than other two banks.

#### **4.3.3 Interest Expenses to total expenses ratio**

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

**Table No: - 4.3.3**

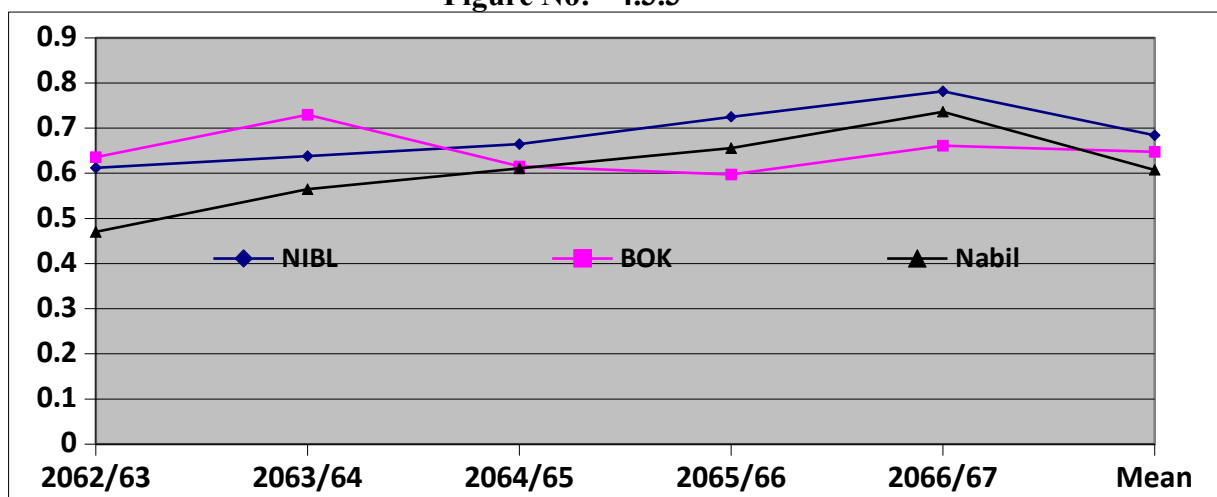
#### **Interest Expenses to total expenses ratio**

(Rs.in millions)

<b>Bank F/Y</b>	<b>Particulars</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>	<b>2068/069</b>	<b>2069/070</b>	<b>Mean</b>
NIBL	Interest Expenses	685.53	992.16	1686.97	2553.85	3620.34	

	Total Expenses	1074.33	1492.46	2326.58	3267.30	4402.94	
	Ratio in (%)	0.63	0.66	0.725	0.78	0.8223	0.7264
		81	48	1	16		
BOK	Interest Expenses	399.18	417.54	563.11	902.93	1218.79	
	Total Expenses	547.35	678.63	943.28	1365.90	1700.95	
	Ratio in (%)	0.72	0.61	0.597	0.66	0.7165	0.6638
		93	53	0	11		
Nabil	Interest Expenses	555.71	758.44	1153.28	1960.11	2946.69	
	Total Expenses	984.05	1242.09	1758.34	2661.94	3806.30	
	Ratio in (%)	0.56	0.61	0.655	0.73	0.7742	0.6683
		47	06	9	63		

Figure No: - 4.3.3



Interest Expenses to total expenses ratio

Above table and figure shows that the ratios of interest expenses to total expenses ratio of selected banks. The ratio of NIBL and Nabil bank is in increasing trend. The ratio of BOK is in fluctuating trend. From the NIBL point of view, it has highest ratio in F/Y 2069/070 i.e. 0.8223 and lowest ratio in F/Y 2066/067 i.e. 0.6381. BOK has highest ratio in F/Y 2065/66 i.e. 0.7293 and lowest ratio in F/Y 2067/68 i.e. 0.5970. Nabil bank has highest ratio in F/Y 2069/070 i.e. 0.7742 and lowest ratio in F/Y 2065/066 i.e. 0.5647. Highest ratio indicates high level of interest expenses. So NIBL seems to be unable to attract interest free deposits.

BOK bank has lowest mean ratio. Lower ratio leads to lower interest expenses of total expenses. So it can be said that BOK bank is able to collect cheapest fund than other two banks

#### 4.3.4 Non-interest bearing deposit to total deposit ratio

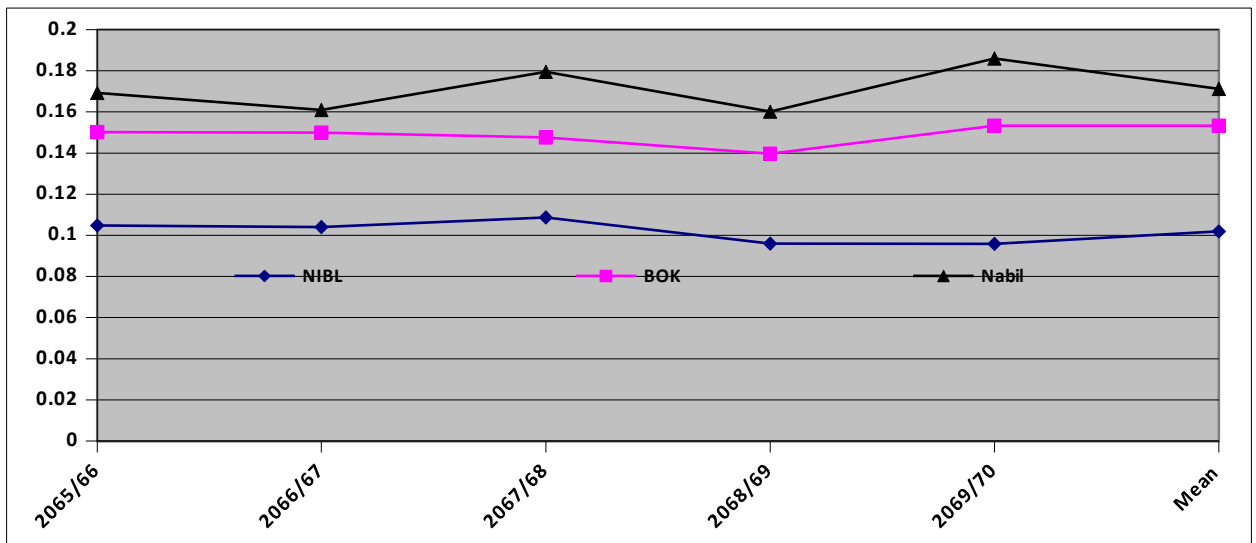
The ratio measures the portion of non-interest bearing deposit to total deposit. Higher ratio leads to lower interest expenses and lower ratio leads to higher interest expenses.

**Table No: - 4.3.4**  
**Non-Interest bearing deposit to total deposit ratio**

		(Rs.in millions)					
<b>Bank F/Y</b>	<b>Particulars</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>	<b>2068/069</b>	<b>2069/070</b>	<b>Mean</b>
NIBL	Non-Interest bearing deposit	2546.69	3745.73	4484.56	4805.29	4701.50	
	Total Deposit	24488.86	34451.73	46698.10	50094.73	50138.12	
	Ratio in (%)	0.1040	0.1087	0.0960	0.0959	0.0938	0.9968
BOK	Non-Interest bearing deposit	1857.99	2336.34	2525.66	3115.18	2653.28	
	Total Deposit	12388.93	15833.74	18083.98	20315.83	21018.42	
	Ratio in (%)	0.1500	0.1476	0.1397	0.1533	0.1262	0.14336
Nabil	Non-Interest bearing deposit	3758.11	5727.55	5978.87	8620.90	6456.72	
	Total Deposit	23342.29	31915.05	37348.26	46340.70	49608.38	
	Ratio in (%)	0.1610	0.1795	0.1601	0.1860	0.1302	0.16336

**Figure No: - 4.3.4**

### Non-Interest bearing deposit to total deposit ratio



Above table and figure shows that the ratio of non-interest bearing deposits to total deposit. The ratios are in fluctuating trend. NIBL has highest ratio in the F/Y 2067/68 i.e. 0.1087 and lowest ratio in F/Y 2069/070 i.e. 0.0938. BOK has the highest ratio in F/Y 2068/69 i.e. 0.1533 and lowest ratio in F/Y 2069/070 i.e. 0.1262. Nabil bank has highest ratio in F/Y 2068/69 i.e. 0.1860 and lowest ratio in F/Y 2069/070 i.e. 0.1302.

From the mean point of view, it can be said that Nabil bank has highest mean ratio than NIBL and BOK. It means that Nabil bank is able to collect interest free deposit successfully than NIBL and BOK. The major portion of non-interest bearing deposit consists of current deposit and this deposit is particularly maintained by business enterprises.

#### 4.3.5 Interest income to total income ratio.

Interest income is major source of income of all commercial banks. Interest income will be higher than the any other income. The ratio measures the portion of interest income in total income. The high ratio indicates the high contribution of lending and investment whereas low ratio indicates the low contribution of lending and investment and high contribution made by other fee based activities in total income.

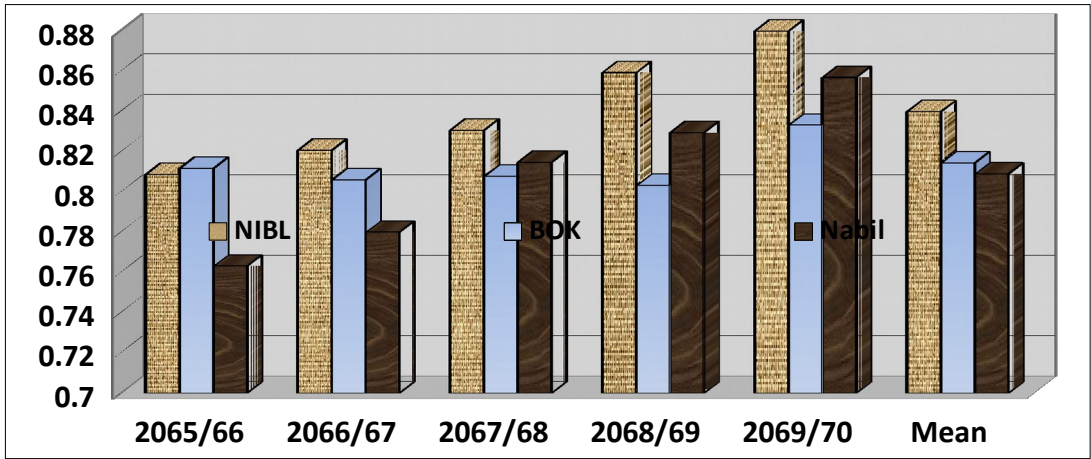
**Table No: - 4.3.5**

**Interest income to total income ratio**

(Rs.in millions)

Bank F/Y	Particulars	2065/066	2066/067	2067/068	2068/069	2069/070	Mean
NIBL	Interest Income	1584.99	2194.28	3267.94	4653.52	5803.44	
	Total Income	1931.56	2641.78	3803.63	5288.78	6453.93	
	Ratio in (%)	0.8206	0.8306	0.8592	0.8799	0.8992	0.8579
BOK	Interest Income	819.00	1034.16	1347.76	1870.85	2386.78	
	Total Income	1016.26	1280.51	1677.93	2245.62	2757.11	
	Ratio in (%)	0.8059	0.8076	0.8032	0.8331	0.8657	0.8231
Nabil	Interest Income	1587.76	1978.70	2798.49	4047.73	5254.03	
	Total Income	2034.87	2428.86	3374.26	4726.18	6008.67	
	Ratio in (%)	0.7799	0.8147	0.8294	0.8569	0.8751	0.8312

**Figure No: - 4.3.5**



I

nterest income to total income ratio

Above table and figure shows that the interest income to total income ratio of NIBL, BOK and Nabil bank. The ratios are in fluctuating trend. The ratios of NIBL are 0.8206, 0.8306, 0.8592, 0.8799 and 0.8992 respectively. NIBL has highest ratio in F/Y 2069/070 i.e. 0.8992 and lowest ratio in F/Y 2065/066 i.e. 0.8206. The ratios of BOK are 0.8059, 0.8076, 0.8032, 0.8331 and 0.8657 respectively. BOK has highest ratio in F/Y 2069/070 i.e. 0.8657 and lowest ratio in F/Y 2067/68 i.e. 0.8032. Likewise, the ratios of Nabil bank are 0.7799, 0.8147, 0.8294, 0.8569 and 0.8751 respectively. Nabil bank has highest ratio in F/Y 2069/070 i.e. 0.8751 and lowest ratio in F/Y 2065/66 i.e. 0.7799

From the mean point of view, it can be said that NIBL has highest mean ratio than BOK and Nabil bank. The table shows that total income of NIBL, BOK and Nabil bank, interest income contributes 85.79%, 82.31% and 83.12% respectively. The lowest ratio of BOK bank indicates its low dependency in fund based activity and highest ratio of NIBL indicates greater dependency on fund based activities.

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

The ratio measures the contribution made by interest from loan and 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 and overdraft.

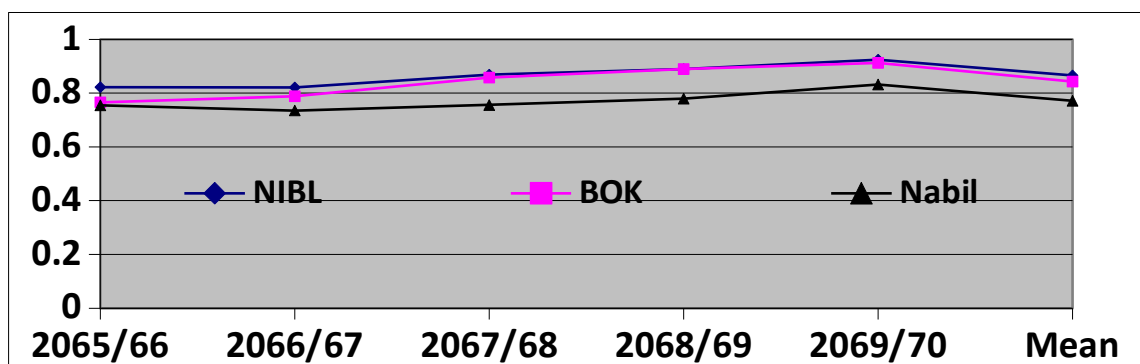
**Table No: - 4.3.6**

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

		(Rs.in millions)					
<b>Bank F/Y</b>	<b>Particulars</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>	<b>2068/069</b>	<b>2069/070</b>	<b>Mean</b>
NIBL	Interest from loan and advances	1302.12	1907.26	2906.05	4303.31	5435.84	
	Total Interest Income	1584.99	2194.28	3267.94	4653.52	5803.44	
	Ratio in (%)	0.82 15	0.86 92	0.889 3	0.92 47	0.9367	0.8883
BOK	Interest from loan and advances	645.65	887.30	1199.08	1707.54	2169.22	
	Total Interest Income	819.00	1034.16	1347.76	1870.85	2386.78	
	Ratio in (%)	0.78 83	0.85 80	0.889 7	0.91 27	0.9088	0.8715
Nabil	Interest from loan and advances	1167.26	1496.24	2182.65	3368.73	4479.06	
	Total Interest Income	1587.76	1978.70	2798.49	4047.73	5454.03	
	Ratio in (%)	0.73 52	0.75 62	0.779 9	0.83 18	0.8518	0.7910

Figure No: - 4.3.6

Interest from loan and advances and overdraft to total interest income ratio



Above table shows the interest from loan and advances and overdraft to total interest income ratio of NIBL, BOK and Nabil bank of five years. The ratios of NIBL are 0.8215, 0.8692, 0.8893, 0.9247 and 0.9367 respectively for the five years period. NIBL has highest ratio in F/Y 2069/070 i.e. 0.9367 and lowest ratio in F/Y 2065/66 i.e. 0.8215. Likewise the ratios of BOK for the five years period are 0.7883, 0.8580, 0.8897, 0.9127 and 0.9088 respectively whereas the ratios of Nabil bank for the periods are 0.7352, 0.7562, 0.7799, 0.8318 and 0.8518 respectively. The highest ratio of BOK in F/Y 2068/69 i.e. 0.9127 and lowest ratio is in F/Y 2065/066 i.e. 0.7883. Similarly the highest ratio of Nabil bank is in F/Y 2069/070 i.e. 0.8518 and lowest ratio in F/Y 2065/66 i.e. 0.7352.

From the mean point of view, NIBL has highest ratio in comparison with BOK and Nabil bank. It shows that NIBL is strong to mobilize the loan and advances and overdraft to earn interest than BOK and Nabil bank. NIBL is also able to earn high interest on its total interest income in comparison to BOK and Nabil bank.

#### 4.4 Trend analysis

##### 4.4.1 Trend value of total deposit

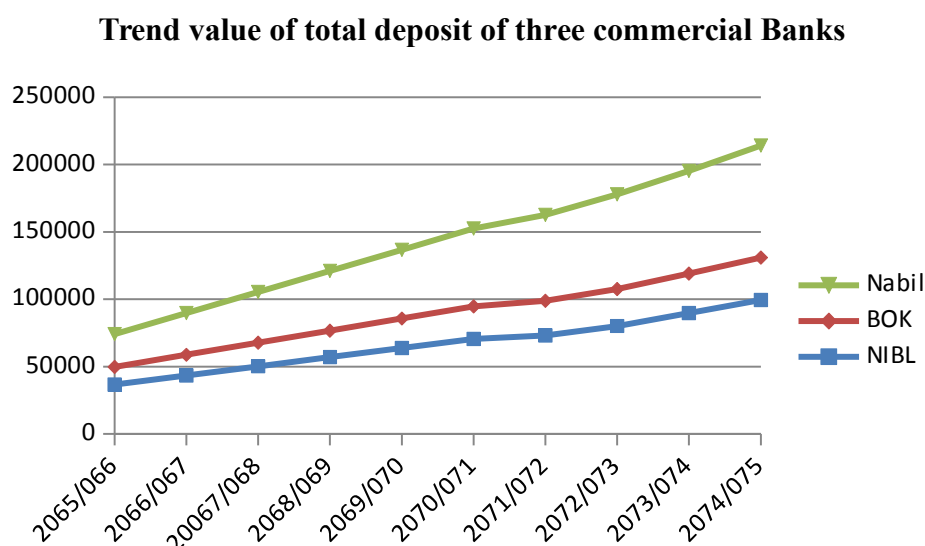
In this topic, an effort has been made to calculate the trend value of deposit of three selected banks for five years from F/Y 2070/071 to 2074/75. The following table shows the trend value of total deposit of sample banks for coming five years from F/Y 2070/071 to 2074/75.

**Table No: - 4.4.1**

**Trend value of total deposit of three commercial Banks**  
(Rs. in millions)

S.N.	Fiscal Year	NIBL	BOK	Nabil
1	2065/066	36562.61	13169.96	24319.38
2	2066/067	43368.46	15344.07	31,015.16
3	20067/068	50174.31	17518.18	37710.94
4	2068/069	56980.16	19692.29	44406.72
5	2069/070	63786.01	21866.4	51102.50
6	2070/071	70591.86	24040.51	57798.28
7	2071/072	73111.00	25662.90	63810.11
8	2072/073	80123.63	27489.08	70295.54
9	2073/074	89721.01	29402.65	76204.02
10	2074/075	99346.40	31587.81	83249.82
	<b>Total</b>	<b>663765.45</b>	<b>225773.85</b>	<b>539912.47</b>
	<b>Average</b>	<b>66376.545</b>	<b>22577.385</b>	<b>53991.247</b>

**Figure No: - 4.4.1**



The above table and figure shows that the trend values of total deposit of three selected commercial banks. All the three banks have increasing trend of deposit. The

trend of total deposit of NIBL banks is very high than that of other two banks. If other things remaining the same, in the F/Y 2074/075 the total deposit of NIBL, BOK and Nabil bank will be Rs.99,346.40, Rs. 31,587.81 and Rs. 83249.82 million respectively, which are the highest amount of deposit of respective banks under the study period.

#### 4.4.2 Trend value of total loan

Lending is one of the major functions of commercial banks. Its trend is determined by various factors. Under this topic an effort has been made to represent the loan and advances of sample banks for coming five years from F/Y 2070/071 to 2074/75.

**Table No: - 4.4.2**

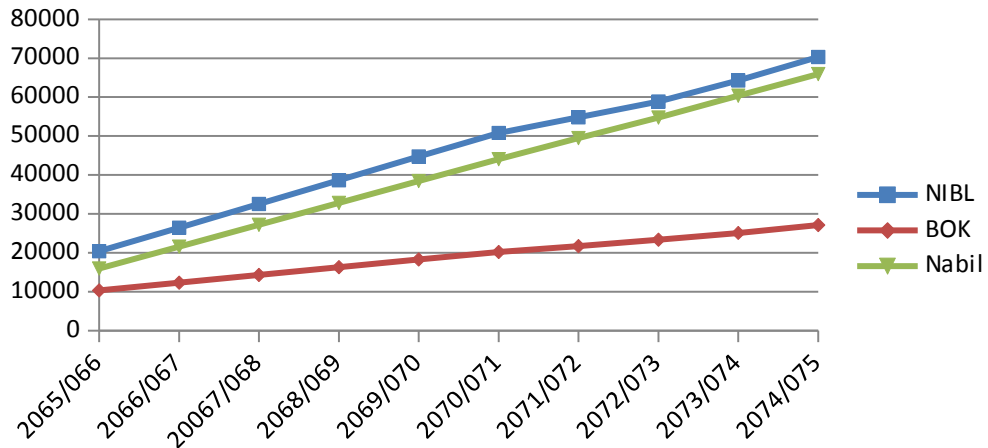
#### **Trend value of total loan of three commercial Banks**

(Rs. in millions)

<b>S.N.</b>	<b>Fiscal Year</b>	<b>NIBL</b>	<b>BOK</b>	<b>Nabil</b>
1	2065/066	20393.61	10360.27	15976.67
2	2066/067	26476.14	12336.72	21595.45
3	20067/068	32558.67	14313.17	27214.23
4	2068/069	38641.2	16289.62	32833.01
5	2069/070	44723.73	18266.07	38451.79
<b>6</b>	2070/071	50806.26	20242.52	44070.57
7	2071/072	54850.70	21730.91	49467.66
<b>8</b>	2072/073	58897.83	23357.05	54782.04
<b>9</b>	2073/074	64297.79	25113.93	60347.50
<b>10</b>	2074/075	70338.45	27104.20	65941.86
	<b>Total</b>	<b>461984.38</b>	<b>189114.46</b>	<b>410680.78</b>
	<b>Average</b>	<b>46198.438</b>	<b>18911.446</b>	<b>41068.078</b>

(Source: - Appendix 3)

**Figure No: - 4.4.2**  
**Trend value of total loan of three commercial Banks**



The above table and figure shows that all three banks have increasing trend of loan and advances. Other things remaining constant, the trend value of loan and advances of NIBL, BOK and Nabil banks in F/Y 2074/075 are Rs. 70,338.45, Rs. 27,104.20 and 65,941.86 million respectively. The above calculated trend value of loan and advances of samples banks are fitted in trend lines are given below.

#### 4.4.3 Trend Analysis of Net Profit

Profit measures the success of a firm in every aspect of its operation and strategy. Its trend is determined by various factors. Under this topic trend value of net profit of three sample banks for coming 5 years is calculated. The following table shows the trend value of net profit of selected sample banks.

**Table No: - 4.4.3**

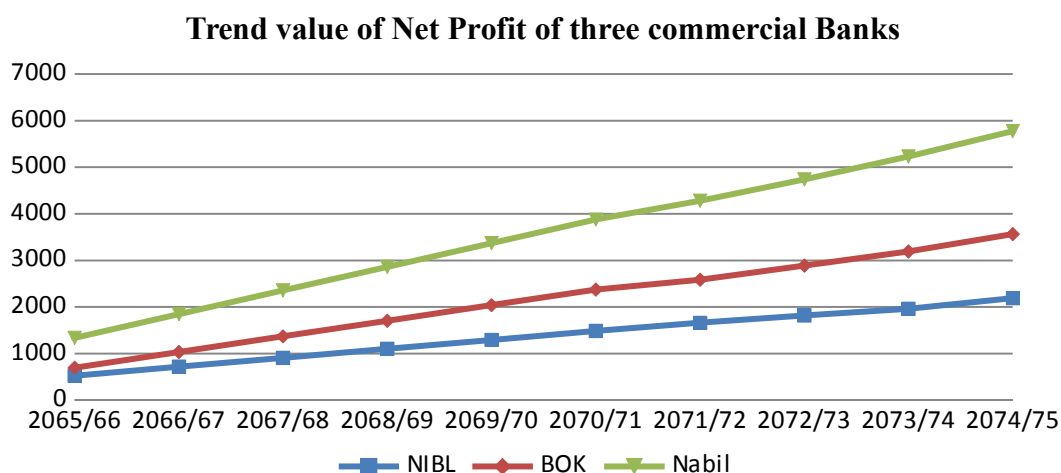
**Trend value of Net Profit of three commercial Banks**

(Rs.in millions)

S.N.	Fiscal Year	NIBL	BOK	Nabil
1	2065/66	524.33	173.31	641.62
2	2066/67	716.3	316.64	813.84
3	2067/68	908.27	459.97	986.06
4	2068/69	1100.24	603.3	1158.28
5	2069/70	1292.21	746.63	1330.5
6	2070/71	1484.18	889.96	1502.72
7	2071/72	1660.30	925.61	1697.57
8	2072/73	1818.82	1070.89	1850.44
9	2073/74	1958.00	1233.28	2039.49
10	2074/75	2188.81	1376.14	2210.95
	<b>Total</b>	<b>13651.46</b>	<b>7795.73</b>	<b>14231.5</b>
	<b>Average</b>	<b>1365.146</b>	<b>779.573</b>	<b>1423.15</b>

(Source: - Appendix 4)

**Figure No: - 4.4.3**



Above table and figure shows that the net profit of all selected sample banks are in increasing trend. If other things remaining constant the net profit of F/Y 2074/075 of NIBL, BOK and Nabil bank will be Rs.2188.81, Rs.1376.14 and Rs.2210.95 million respectively. It is found that net profit of Nabil bank is increasing higher than that of others, because the predicted net profit of Nabil bank for F/Y 2074/075 is higher than that of others i.e. Rs 2210.95 million. The above calculate trend value of net profit of selected banks are fitted in the trend line are as given below

**4.5 Coefficient of correlation analysis**

Under this topic, Karl Pearson's coefficient of correlation measures the relationship between variables and denoted by "r". Coefficient of correlation analysis is that tools which can be use to describe the degree to which one variable is linearly related to another. It is commonly use to measure the linear association of two variables. The result of coefficient of correlation is always between +1 to -1, where  $r = +1$  it means perfect relationship between two variables and vice-versa. Where  $r = 0$ , it means there is no relationship between the variables. Under this topic it is tried to find out the relationship between total loan and net profit, between interest income and loan and advances and between loan loss provision and loan and advances of selected banks.

#### 4.5.1 Coefficient of correlation analysis between loan & advances and net profit

Interest from loan is a major contributor of a bank. Effective loan positively affects the volume of net profit. Effective loan increases net profit volume of the organization whereas weak level of loans leads to lower net profit. Thus to increase the profit volume it is very important to know the relationship between loans and net profit.

Researcher had used the Person's correlation coefficient to show the relationship between loans & advances and net profit. Researcher had used the 5 years periods of data of net profit and total loan figures to show the relations of loans & advances and net profit. Total loan is independent variable and net profit is dependent variable. The following table shows the correlation coefficient of the profit and loan during study period of the selected commercial banks.

**Table No: - 4.5.1**

**Co-efficient of correlation between total loan & advances and net profit**

<b>Bank</b>	<b>Correlation</b>	<b>Coefficient of determination(r<sup>2</sup>)</b>	<b>P.E. Ratio</b>	<b>6* P.E. ratio</b>
NIBL	0.9605	0.9226	0.0233	0.1398
BOK	0.9799	0.9602	0.0120	0.0720
Nabil	0.9873	0.9748	0.0076	0.0456

*(Source: - Appendix 5)*

Above table shows the correlation coefficient between total loans & advances and net profit during the study period. The calculated person's correlation coefficient of NIBL, BOK and Nabil bank was found 0.9605, 0.9799 and 0.9873 respectively, which shows high degree of positive correlation. The values of (r) of these banks are higher than 6\*P.E. ratio, and it value of (r) of these banks are significant. That means increase loan leads to increase in net profit and decrease in loans leads to decrease in net profit also. Coefficient of determination of NIBL, BOK and Nabil bank was found 0.9226,

0.9602 and 0.9748 respectively, which implies that respective percentage of variation net profit due to the variation in the total loan.

#### **4.5.2 Coefficient of correlation analysis between Total loan & advances and Interest income**

The coefficient of correlation between total loan and advances and interest income measures the degree of relationship between these two variables. The purpose of computing (r) between these two variables is to find out whether the loan and advances is significant in contributing in total interest income or not.

**Table No: - 4.5.2**

#### **Co-efficient of correlation between total loan and advances and interest income**

<b>Bank</b>	<b>Correlation</b>	<b>Coefficient of determination(r<sup>2</sup>)</b>	<b>P.E. Ratio</b>	<b>6* P.E. ratio</b>
NIBL	0.9090	0.8243	0.0524	0.3144
BOK	0.9404	0.8844	0.0349	0.2094
Nabil	0.9681	0.9372	0.0189	0.1134

*(Source: - Appendix 6)*

Above table shows the correlation coefficient between total loan and advances and interest income during the study period. The calculated person's correlation coefficient was found 0.9090, 0.9404 and 0.9681 respectively, which shows high degree of positive correlation. The values of (r) of these banks are higher than 6\*P.E. ratio, and it value of (r) of these banks are significant. That means increase loan and advances leads to increase in interest income and decrease in loan and advances leads to decrease in interest income also. Coefficient of determination of NIBL, BOK and Nabil bank was found was found 0.8263, 0.8844 and 0.9372 respectively, which implies that respective percentage of variation net interest income due to the variation in the total loan and advances.

#### **4.5.3 Coefficient of correlation analysis between loan & advances and loan loss provision**

The coefficient of correlation between total loan and advances and loan loss provision measures the degree of relationship between these two variables. Total loan and advances is independent variable and loan loss provision is dependent variable.

**Table No: - 4.5.3**

**Co-efficient of correlation between loan loss provision and loan & advances**

<b>Bank</b>	<b>Correlation</b>	<b>Coefficient of determination(r<sup>2</sup>)</b>	<b>P.E. Ratio</b>	<b>6* P.E. ratio</b>
NIBL	0.8396	0.7049	0.0890	0.5340
BOK	0.7643	0.5842	0.1254	0.7524
Nabil	0.9012	0.8122	0.0566	0.3396

*(Source: - Appendix 7)*

Above table shows the correlation coefficient between loans and advances and loan loss provision during the study period. The calculated person's correlation coefficient of three banks was found 0.8396, 0.7643 and 0.9012 respectively. This shows positive correlation. The values of (r) of these banks are higher than 6\*P.E. ratio, and it value of (r) of these banks are significant. That means increase loan and advances leads to increase in loan loss provision and decrease in loan and advances leads to decrease in loan loss provision. Coefficient of determination of NIBL, BOK and Nabil bank was found 0.7049, 0.5842 and 0.8122 respectively.

## **CHAPTER-V**

### **SUMMARY, CONCLUSIONS & RECOMMENDATIONS**

The summary is spectrum of the whole thesis, which is developed from the background, information of the stated problem studied, its significance and objectives, the design of the study, the tools applied for the research and some promising highlights of the activities .It is a brief representation of research work carried out during the whole study period.

The conclusion is that part of thesis, which tells what actually done and what achieved from the study. It includes the concrete findings regarding with the problem, strength and weakness of the study and limitation related with the research. It may also include some assumption about the positive and negative impact of the research in the future.

Recommendation is a very short and direct statement of the study, which indicates the direction of the study, real achievement, guideline for the future research works, actual steps to be carried out in the future for the improvement of the firm or bank and solutions of existing problem that should be followed immediately to uplift the status of the bank. It may also create awareness about the obstacles and constraints of the bank and may suggest for enhancing its economic development.

#### **5.1 Summary**

Poor mobilization an utilization of resources ,weak infrastructure development an unstable eco political environment are the major constraints of Nepalese economy .The mobilization of domestic resources is one of the key factor in the economic development of the country .The financial institution are viewed as catalyst in the economic in the process of the economic growth. The under developing country including Nepal are suffering from the problem of improper mobilization of the financial, physical and human resources. One of the efforts applied to mobilize both internal and external financial resources to set up banking organization are institutionalizes them. Commercial banks and other financial institutions collect money from the surplus sector and invest money in deficit sector. Now there are 32 commercial banks are running getting approval from Nepal Rastra Bank.

Development of a country always depends upon the economic development of that country. Financial institutions play a vital role for economic development. It works as a financial intermediary by taking deposits and lending that money to deficit groups of society. Both private and public sectors have been contributing to our nation. Integrated and speedy development of a country is possible when competitive banking services reach all corners of the country. Commercial banks occupy an important place in the framework of any economy because they provide capital for industry, trade and other resource-deficient sectors. All the economic activities of each and every country are greatly influenced by commercial banking business of the country.

Loans and advances are reflected on the assets side of the balance sheet of a commercial bank. Loans and advances are a direct contributor to a bank's income. Loans can be divided into two categories, namely performing loans and non-performing loans. Total assets of a bank can be divided into two parts, performing assets and non-performing assets. Performing assets are those assets which directly generate cash or they facilitate better productivity. Loans and advances are a direct contributor to a bank's income, whereas cash in vault, balances in other banks, fixed assets and others are the facilitators which help the daily operation of a bank. Performing assets add positive value to a bank as well as to the nation.

Performing loans are those loans which serve the bank on time, which means the loan which pays its installment and interest within the time is known as a performing loan.

Non-performing loans are such loans which fail to pay their interest to the bank within the stated time. Non-performing loans are a concern of management because non-performing loans need to make provisions and they hamper the profitability of the bank.

This study mainly focuses on analyzing the credit practices of selected banks. Required data have been collected from annual reports of the concerned banks. To come to the conclusion, various financial and statistical tools and techniques are used.

## **5.2 Conclusions**

After economic liberalization, our country Nepal has been facing a glorious era in the financial sector. Dozens of foreign banks have been investing in Nepalese commercial banks and assisting by capital supplement as well as technical collaboration. Likewise

various finance company and co-operatives are also playing their inevitable role to mobilize the fund from unproductive sector to productive sector.

Financial institution basically plays the intermediate role by accepting deposit and granting loan. This is also known as core banking function. Granting loan and advances is the crucial function of commercial banks because it grants the long term sustainability of the banks. Granting loan and advances carries risk of non-payment of principle and interest therefore management always bother about the repayment capacity of borrower. Bad loans are the negative contributors to the bank.

- Loans and advances are the major determinant of earning of commercial banks and major portions of their earning assets. The study of loan and advances to total deposit has sighted that most of banks have maintain more than sixty percent of their total deposit in the form of loan and advances which obviously indicate high attention of management towards of loan and advances. It is found that BOK has been able to mobilize it deposit into loans and advances as compared to other two banks. But it also indicates that there is a high level of risk. It is also found that Nabil bank is not able to mobilize its deposit into loan and advances to generate revenue and more profit from it. The total loan and advances to total deposit ratio is also not consistent in Nabil bank. It means this ratio is fluctuating over the study period, which shows that it is riskier than other two banks.
- Interest is the major source of income of banking sectors. The portion of interest income occupies larger volume in banking income structure. The mean ratio of interest income to loan and advances of NIBL, BOK and Nabil bank is 0.1039, 0.1022 and 0.1119 respectively, which shows that NIBL and Nabil bank has been able to generate more interest revenue than BOK from loan and advances.
- Loans and advances are the major determinant of earning of commercial banks and major portions of their earning assets. The mean ratio of loan and advances to total assets ratio of NIBL, BOK and Nabil bank is 0.6825, 0.6962 and 0.6098 respectively. That means the ratio of BOK is higher than other two banks. So it can be said that BOK has good lending performance with respect to other two banks. Since Nabil bank has lowest ratio it has not good lending performance.

- NRB has directed to divide the total loan into two parts, Performing Loan and Non-performing Loan. Nonperforming loan refers to those loans which fail to pay interest and principle in time. Therefore we have analyzed the portion of non-performing loan in total loan and advances which reveal that non-performing loan of commercial bank have been decreasing. Due to strict NRB regulation regarding loan loss provision all banks has been focusing on quality loan which has resultant lower non-performing loan. The mean ratio of non-performing loan to total loan and advances of NIBL, BOK and Nabil bank is 0.0115, 0.0184, and 0.0121. The non performing loan of NIBL bank is less than other two banks. That means it has been able recover its loan and advances, which the sign of good in lending performance. But the mean ratio of BOK is higher than that of other two banks i.e. 0.0184, which indicate that it has not been able to recover its loan and advances properly which is regarded as the sign of bad lending performance. So BOK should reduce its non-performing loan and tries to recover it.
- The mean ratio of loan and advances to current assets ratio of NIBL BOK and Nabil bank is 5.7606, 6.8875, and 6.8908 respectively. In overall comparison Nabil bank has highest average ratio of loan and advances to current assets ratio than other two banks.
- Loan loss provision is a safeguard against future contingencies. Loan loss Provision to total loan and advances of NIBL, BOK and Nabil bank is 0.0197, 0.0251 and 0.0206 respectively. Loan loss Provision to total loan and advances of BOK is higher than two other banks, which indicates high level of non-performing loan and NIBL bank is lower which indicate low level of non-performing loan.
- The mean ratio of total assets to total liability ratio of NIBL, BOK and Nabil bank is 1.0822, 1.0907 and 1.0787 respectively. BOK bank has highest ratio i.e. 1.0907 which shows that BOK bank has been able to utilize the fund more efficiently than other two banks.
- Interest expenses largely depend on amount of deposit. Interest expenses to total deposit ratio shows that interest expenses made on total deposit. Higher the

ratio indicates higher interest expenses and lower the ratio indicate the lower the interest expenses. So the mean ratio of NIBL, BOK and Nabil bank is 0.0432, 0.0384 and 0.0360 respectively. Which shows that NIBL has higher interest expenses on total deposit ratio than other two banks and Nabil bank has lower ratio refer to low interest expenses. It is preferable to decrease interest expenses to increase profitability of the firm at reasonable cost.

- Interest expenses to total expenses ratio shows the proportion of interest expenses on the total expenses made by the firm. Higher the ratios indicate higher expenses and vice versa. The mean ratio of NIBL, BOK and Nabil bank is 0.7264, 0.6638 and 0.6683 respectively .NIBL has higher ratio of 0.7264 which shows that NIBL has collected fund from costly sources and BOK bank has lower ratio that says it has been able to collect the fund from cheap sources. It is better to collect fund from cheap sources.
- Non-interest bears deposit to total deposit ratio shows proportion of non- interest bearing deposit on the total deposit. Higher ratios indicate higher non-interest bearing deposit and vice versa. The mean ratios of NIBL, BOK and Nabil bank are 0.0997, 0.1434 and 0.1634 respectively. Nabil bank has higher ratio i.e. 0.1634. It indicates higher proportion of non –interest bearing deposit. NIBL has lower ratio i.e. 0.0997. It indicates lower proportion of non-interest bearing deposit. Higher proportion of non-interest bearing deposit leads to lower interest expenses.
- Interest income is one of the major determinants of total income of any commercial bank. Interest income to total income ratio shows the proportion of interest income on the total income. Higher ratios indicate higher income and vice versa. The mean ratios of NIBL, BOK and Nabil banks are 0.8579, 0.8231 and 0.8312 respectively. NIBL has highest interest income on total income of the firm .BOK bank has lower interest income. It is preferable to have high interest income to generate more revenue.
- The deposit trend of three banks is in increasing trend, but the ratio of increase in deposit of NIBL has higher than other two banks which shows that NIBL service has been able to collect deposits from its customers. Higher the deposit

higher the credit, the bank can provide to its borrower, which is the main source of income for the banks. Other two banks should bring and provide various services to attract customers' to make deposit into their banks. The trend of loan and advances of three banks are in increasing. In total loan and advances of NIBL is higher which indicate that NIBL has been able to mobilize its deposit into loan and advances to generate revenue and profit. So other two banks also try to mobilize its deposit into loan and advance.

- The trend value of net profit of three commercial banks also increasing but the ratio of increase in net profit of NIBL is higher than other two banks. So we can conclude that NIBL bank is more profitable than other two banks. Profit is regarded as the main sign of success of any banks.
- Correlation coefficient between total loans and advances and net profit is positive which indicate that there is positive relation between total loans and advances and net profit. When loan an advances increases net profit also increases and vice versa. Correlation coefficient between total loan and advances and interest income is positive, which show that with the increase in loan an advances interest income also increases and vice versa. Correlation coefficient between loan and advances and loan loss provision is positive. Which indicate that there is positive relation between loan and advances and loan loss provision. When loan and advances increases loan loss provision also increases.
- All the commercial banks have their own credit policy. Most of the banks lend more than 60% of their deposit in loan and advances. Observing the present condition of most of the banks, it could be concluded that banks are not following the NRB directives properly.
- The credit efficiency of the banks under the study is not satisfactory. These banks are not able to collect provided loan in time. Major portion of loan and advances have been lending in land and housing (real states) companies. This situation has been brought crisis in the bank performance. They are unable to utilize their resources effectively and efficiently. Their efficiency is very poor.

### 5.3 Recommendations

This study is basically done to analyze the loan disbursement and recovery system of commercial banks. Therefore various aspects of commercial banks have been scrutinized to into conclusion. All banks have their own resources structure and in the basis of that resources management try to get optimal result. Various managerial as well as others set ups obviously the banking progress therefore it is essential to analysis the performance of banks by bringing the common variables of all banks in similar respects and draw conclusion. Based on the above summary and conclusion following recommendation have been provided.

1. An unutilized deposit brings additional cost to the bank therefore management always seek to invest deposit in such project which maximize the return. In the race of achieving high return, management should not forget the drawback of bad loan. Obviously they have to provide loan to achieve long run sustainability but quality of loan should be primal focus of the management.
2. It depends on amount of loan granted and quality of loan. So management should minimize bad loan to increase interest income.
3. As “one bad loan can wipe out the profit from hundred good loans”. Before providing loan viability of business as well as financial status of borrower and their repayment capacity should be closely analyzed.
4. There are some reasons for non-payment of the dues in time therefore management should always analyze the future possible reverse situation and impact of that in their business before providing loan
5. All banks have positive correlation between loan and advances to loan loss provision which indicates that if these banks will to decrease the level of their loan loss provision they have to focus to increase quality loan portfolio and reduce the level of non-performing loan. Therefore banks should flow quality loan if they want to reduce their loan loss provision.
6. Non-performing loan directly reduces the profitability of the banks by creating provision from operating profit and in the other hand it deprive of

banks to expand their business by opening new branches. Therefore, bank should focus on long run profitability by discarding lower quality loan.

7. Banks should strictly follow the directives. In addition to this loan loss provision provides safeguard against the future contingencies which may be created due to non- payment of loan in future. Management should provide adequate loan loss provision as per NRB directives to safeguard the bank from possible losses.
8. Long term credit helps to change the life standard of rural life. Short term credit must be distributed to utilized small and local resources. If customers are provided technical facility along with the loan, it helps them to use loan effectively and rapid change may be possible in economic development.
9. Management should always adopt such policies which sure the customer to pay loan back before due date. Supervision and inspection system must be strict, unbiased, effective and efficient. It helps them to understand the importance of loan.
10. The business of land and housing (real states) companies is going down. Banks are not able to collect their dues in stated time. Due to this liquidity crisis is overcome. To avoid such types of problem in the future, they must make a good combination of investment portfolios.
11. Major portion of loan and advances have been lending in land and housing (real state) companies. It's not the good combination of portfolio. They should invest their deposit in agriculture and other backward sectors. By doing this they can help the overall development of the nation.

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