

CREDIT POLICY OF STANDARD CHARTERED BANK NEPAL LIMITED

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RECOMMENDATION

This is to certify that the thesis:

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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 here by declare that the work reported in this thesis entitled “CREDIT POLICY OF STANDARD CHARTERED BANK NEPAL LIMITED.” submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under the guidance and supervision of **Joginder Goet** of Shanker Dev Campus.

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ABBREVIATION

ADB	Agricultural Development Bank
AGM	Annual General Meeting
BOK	Bank of Kathmandu Limited
BPS	Book-value Per Share
BS	Bikram Sambat (Abbreviation of Bikram Era)
CEO	Chief Executives Officer
CV	Coefficient of Variation
DPS	Dividend per Share
EBL	Everest Bank Limited
EMLV	Estimate market level value
EPS	Earning Per Share
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
G/N	Government of Nepal
IMC	International Money Conference
IMF	International Monetary Fund
MPS	Market Price of Share
NABIL	Nabil Bank Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NIBL	Nepal Investment Bank Limited
NICB	Nepal Industrial & Commercial Bank Limited
NPV	Net Present Value
NRB	Nepal Rastra Bank
PE	Price Earnings
RBB	Rastra Banijya Bank
SBI	Nepal State Bank of India Limited
SCBNL	Standard Chartered Bank Nepal Limited
SEBO/N	Security Board of Nepal

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a small landlocked under developing country situated 26° 22" to 30° 27" northern latitude and 80°04" to 88°12" eastern longitude between two giant country India and China. Total area of Nepal is 147181 km which is 0.3 percent of Asia and 0.03 percent of the world. Average length of eastern Mechi to western Mahakali is 885 kms and average gap between Northern sides to southern side is 193 kms. Nepal is one of the countries in the world in terms of rich and unique in natural resources and attributes like it's bio-diversity, socio-cultural, cultural heritage, manifested in its architecture, temples, sculptures, monuments etc. Beside from this, it is also richly gifted with natural resources like world's toppest mountain Everest, green forests, many perennial rivers and source of minerals. Actually slow pace of developing of Nepal is due to illiteracy, lack, of finance, landlocked position, poor resources mobilization and its utilization, weak infrastructure development, institutional weaknesses, poor economic policy and unstable eco-political environment. For this to overcome, the process of capital accumulation among other perquisites should be enhanced. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector.

Bank and financial institution is the backbone of economic development. Bank and financial institution play vital role of developing economic condition under develop country like Nepal. Economic activities are guided by finance. Financial institutions provide capital to develop trade, industry and business. Bank, development banks, finance companies, co-operative societies, insurance companies, stock exchanges helps in the economic development of the country. Capital and financial instrument plays an important role in accelerating the economic growth of a nation, which in turn is determined among other, by saving and investment propensities. Liberalization, globalization as well as privatization are most common and essential part of investment and other activities in financial sector of Nepal. The liberalization policy attracts foreign investor as well as national investor to invest financial sector & commercial sector, as

well as Joint Venture Company. Which help to rises the life standard of people and boost up national prosperity.

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the upliftment and prosperity of its economy. The financial institutes act as intermediaries or catalyst to transferring the required financial resources and other services. A new organized financial institution including financial companies, commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. They are indispensable part of the development process. Therefore, a competitive and reliable banking is essential to the nation for the development.

Government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development and overcome the current pitiable economic situation. Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets. Financial institution, in this economy plays a role of catalyst in the process of economic growth of the country. In this country, a bank is a financial institution, which plays a significance role in the development of a country. It facilitates the growth of trade and industry of national economy. However, bank is a resource for economic development, which maintains the self-confidence of various segments of society and extends credit to the people. Banking sector plays a vital role for the country's economic development opportunities to people. Such economy of the country secures proper growth. In this way, it is crystal clear that a sound banking system is must for the industrial development and creates employment and investment opportunities to people as well as overall economic development of the country.

1.1.1. Meaning of Commercial Bank

A commercial bank is known as organize corporate business house that receives and holds deposits or fund from other and makes loans or extends credit and transfer funds by written orders of depositors or customer. A bank is an institution for keeping, lending and exchanging

etc money. Generally Bank is known as Central bank, Commercial bank, Development bank, Exchange bank, Saving bank, Cooperative bank, Merchant bank, Housing bank, Equipment bank, Infrastructure bank and Mutual fund. As a whole Bank refers to Commercial Bank at present. A bank is a major player among of financial institutions. A bank involves in a process of collecting scattered money and to help its mobilization in different sectors according to need of customers. Bank helps to develop saving habit of people, which in-turns help to make other people to invest for their business. Banking loan helps to invest in industrial sector, commercial sector, production sector, trade & commerce and agriculture sector as well. Bank also helps to develop international business by initiating as a mediator to exporter & importer. This way banks help to strengthen the national development.

A commercial bank refers to such a type of bank which primarily established to perform the functions of accepting deposits and providing loans to customers. Deposits accepted by commercial banks are in the form of saving, current and fixed deposits. Advancing credit in the form of short term credit as well as long-term credit. Bank also perform other subsidiary function like safety vault, bank overdraft, documentary credit, traveler's cheques, payment of bills, purchase of government bond and security, make guarantee hire purchasing, issue of draft and letter of credit(L.C), exchange of foreign currency, home banking etc. They also render or provide innumerable number of subsidiary services.

Banking plays significant role in the economic development of a country. 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 for growing and flourishing. The objectives of commercial banks are to mobilize idle resources into the most profitable sector after collecting them from scattered sources. Bank accepts deposits from the public, which are repayable on demand or on short notice. They cannot afford to invest their funds in long-term securities or loans. They provide the working capital required by trade and industry in their day-to-day transactions. They grant loans in the form of cash, credits and overdrafts. They need to keep appropriate liquidity so that they can provide cash at the same time if needed.

The source of finance is most essential element for the establishment and operation of financial institute. Profit oriented institutions usually obtain these sources through ownership capital, public capital through issue of shares and debentures, borrowing through banking institution as credit or loan. Now days, the essential sources of the organization for financial supporting is the credit, overdrafts and others provided by banking institution. Now a day inter banking loan is maim source of every bank and financial institution. Its helps to fulfill short term demand of cash any bank must maintain adequate cash and bank balance to meet its day-to-day management of cash resources for remote contingencies. All the commercial banks are operates under rules, regulations and direct supervision of Central Bank.

The bank is an indispensable part for the upliftmen of a country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange & foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country. Banking industry has acquired a key position in mobilizing resources for finance and social economic development of a country. Bank assists both the flow of goods and services from the producers to the consumer and the financial activities of the government. Commercial banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post shipment finance to exporters.

Nowadays banking field is being very tough competition. So every bank launches verity of services and new technology. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. In recent times, many commercial banks are providing consumer-financing facilities also. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances hire purchase etc. in this way the bank provide

advance technology and quick service to cope and sustain competitive global banking environment.

1.1.2. Origin of Bank in Nepal

The words BANK was initiate form Latin words Bancus, French words Banque and Italian words Banca, which means refer that a Bench where sitting over there invest, exchange and keep record of money and cash. History tells us that initiation of bank in eastern side of world was mentioned in economics of Kautilya and Manusmirti. Likely in west banking system was started from 'Bank of Venice, 1157 Bank of Barcelona. Actually banking system was inaugurated after established of Bank of England.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuable treasures under such arrangement the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuable treasures after paying a small amount as fee for safekeeping and saving.

The Banking system in Nepal was developed gradually from the past. The history states that King Gunakamadev had received loans from the public in the 8th century to renovate "Kathmandu City". The foundation of banking system in Nepal was established by a businessperson named Shankhadhar Shakha in 10th century. He had paid back all the loans taken from the public and since then Nepal Sambat had stated in our country. This tells us that the system of lending money and paying back started long time back in our country. Later on in the 14th century, King Jayasthiti Malla divided the people into 64 castes according to their occupation, amongst them 'Tankadhari' one is that dealt with the lending of money to the public. Main objective of the 'TANKADHARI' was to earn profit by providing money as a loan to people and taking certain interest rate. Prime Minister Ranadeep Singh established 'Tejarath Adda' in the 1933th B.S In order to protect people from higher interest rate, The Tejarath Adda has proved loans to the people working in the government offices based on the security and the public based on the collateral they deposited. It charged its creditors with a low interest rate of 5% per annum. It was only subjected to lend but did not accept deposits, hence it cloud not be

counted as a bank. However, it can be said that 'Tejarath Adda' was the main financial institution that led to the development of modern banking system into the country.

The actual banking system of Nepal starts from the establishment of Nepal Bank Limited (NBL) as the first modern bank in our country Nepal in B.S. 1994 Kartik 30th according to the Nepal Bank Act 1993. NBL was the first bank to be established in Nepal and prior to this, there was no such organized banking system in the country. Therefore year B.S. 1994 is said to be the Golden year for modern banking system in Nepal.

After two decade Nepal Rastra Bank established in 14th Baisakh, 2013 BS as a being central bank of Nepal under “Nepal Rastra Bank Act 2012” to perform the function of the central banking in Nepal. It established to promote, control, direct, supervision and manages banking activities and to in the country under the provision of Brussels International monetary conference (IMC). Main objective of Nepal Rastra Bank was to make economic assistance, issue and exchange of Nepalese note and currency, good govern of banking system etc. and use of own Nepalese note in whole country Nepal.

Nepal Industrial Development Corporation (NIDC) was established In 2016 BS under NIDC act 2016.it established for promote industrialization in Nepal. Main objective of NIDC was to provide technical and financial assistant for industry and commerce. Subsequently another fully state owned commercial bank “Rastriya Banijya Bank” was established on 10th Magh, 2022 BS under Rastriya Banijya Bank act 2021 which was the second commercial bank of Nepal. With the establishment of RBB, a noticeable progress could be seen in banking industry of Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries. Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by the government. In 2024 magh 7th BS Agriculture Development Bank (ADB) was established under Agricultural Development Bank act 2024. ADB was established combined merge of cooperative bank and bhumisudhar Bachat Corporation.

Nepal adopted the free economic policy privatization, liberalization and globalization. Liberal free economic policy allowed establishing Joint venture bank under collaboration with foreign bank as well as on private sector. In 2041 Ashad 29 Nepal Arab Bank limited was first joint venture bank established in Nepal which is known as NABIL Bank in today. After that investment bank (Nepal Indoswis bank), standard charter bank (Greenland bank), Himalayan bank, SBI bank etc instigate accordingly. As the time passed, a need for the more commercial banks arose. At the present time various commercial bank established and some are in process for operation. Today there are altogether 25 commercial banks, 36 Development Banks, 72 Finance Companies, 11 Micro Credit Development Banks and various cooperative firm are functioning in the our country in Nepal. Still many other commercial banks are in the process of opening in the market. Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry. In this way we know origin and development of commercial bank in Nepal.

1.1.3. Introduction of Standard Chartered Bank Limited (SCBNL)

The bank was originally established as a joint venture of Grindlays Bank PLC and Nepal Bank Limited in 2043 B.S. with the shareholding ratio of ANZ Grindlays Bank Limited 50 percent, Nepal Bank Limited 33.34 percent and general public 16.66 percent along with the change of ownership to Standard Chartered, the banking are of SCBNL saw the rise of a new dawn changing the general image of the bank. With this acquisition, Standard Chartered Bank now owns 50 percent share of Nepal Grindlays Bank Limited (NGBL) previously owned by ANZ Grindlays. With the mission statement “To be the leading international bank in our principal markets”, the bank operates through 11 offices, spread throughout Nepal and focuses mainly one corporate, consumer and commercial banking, providing services for international firms as well. The bank contributed to a large extent in the development of the country by the way of loans to industrial projects, the priority and deprived sectors.

Standard Chartered Bank Nepal Limited, offers a full range of banking products and services in wholesale and consumer banking, catering to a wide range of customers from individuals, to

mid-market local corporate to multinationals and large public sector companies as well as embassies, aid agencies, airlines, hotels and government corporations.

The bank has been the pioneer in introducing ‘customer focused’ products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first bank in Nepal that has implemented the Anti-Money Laundering Policy and applied the ‘Know Your Customer’ procedure on all the customer accounts.

To improve the skills and knowledge of the staff the bank continues to provide development programs in-house training programs, including on-the-job training and job rotation. With the current slow down in the economy due to domestic and international factors and recently introduced changes in the NRB directives; the bank has taken the following strategies to achieve the targets:

-) To have the largest deposit base among the private sector banks.
-) Follow the Standard banking practices and Dominate cards acquiring market.
-) Expand delivery channels to stimulate additional fee revenue.
-) Increase consumer bank contribution-ATM, consumer loans mortgages, and personal loans etc.
-) To become bigger, more profitable and complete with biggest competitors.
-) To provide best customer services.

Equity Capital of Standard chartered Bank (SCBNL)

Capital as at 2009/10	Amount in Rs.
Authorized Capital	2000,000,000
Issued Capital	1,608,256,140
Paid up Capital	1,608,256,140

1.2. Statement of the Problem

Commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to poor economic condition of the country, some of them arising due to confused policy of government and many of them arising due of default borrowers. The problem of the study will ultimately find out the reasons about the credit management. A study on the credit policy of the commercial banks would be highly beneficial for pointing out their strength and

weakness. Focus of the present study is on the credit policy and management of the joint-venture banks SCBNL Ltd. The bank have been facing a very tough competition against various things like interest rates, deposits, investment, lending, deposit mobilization, trade and commercial activities etc. which have affected on the return and shareholders wealth position. Since the banks have been established gradually because of the liberal and market –oriented economic policy of Nepal. Bank have been facing though competition from other commercial banks and of course each other. Financial companies have been emerging rapidly and the bank has to compete with them. Since, finance companies are making investment in the same sectors where commercial banks typically invest. Commercial banks are more interested in providing loans on short-term projects due to safety and security of their loans. Thus, they are following conservative loan policy based on strong security. Similarly, these banks do not have a well-organized credit management. They rely much on the instructions and guidelines of Nepal Rastrya Bank.

After liberalization of economy, banking sector has various opportunities. Lending in industries and production sectors are very risky projects. Banks are investing in house loan, hire purchase loan, for safety purpose. Nowadays banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays due to competition among banks, the interest rate change for loan is in decreasing trend. Non-performing assets have become a large problem in the commercial banks. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Lack of good lending opportunities, banks is facing problems of over liquidity. It has been able to control and capture a remarkable leadership of Nepalese banking sector. Project appraisal method followed by commercial banks is not scientific and appropriate. Granting loan against insufficient deposits overvaluation of goods pledged, land and building mortgaged, risk–averting decision regarding loan recovery and negligence in recovery of overdue loans are some of the drawbacks of unsound investment policy. Due to unhealthy competition among the banks, the recovery of the banks credit is going towards negative trends. Non-performing Credits of the banks are increasing. To control such type of state, the regulatory body of the banks and financial institutions, Nepal Ratra Bank has make certain criterion of loss provision of commercial bank.

-) Is bank applying credit policy according to direction of NRB?
-) What is the situation of total loans and advances with total deposit and its net profit?
-) What is the impact of deposit and loan advance in liquidity?
-) What is the position of Non-performing Asset of the bank?
-) Is the bank mobilizations and credit policy effective and efficient?

1.3. Objectives of the Study

Each and every of the research study posses a certain objective. Research with out any specific objectives will be worthless. This research study on Credit policy of Standard charter Bank limited” highlights to attempt the following objectives.

-) To analyze the credit policy of selected sector of banks.
-) To evaluate various financial ratio of the SCBNL Bank.
-) To examine the relative relation and trend of SCBNL in terms of different kinds of ratios.
-) To provide suggestions and recommendations base on finding of the study.

1.4. Significance of the Study

Lending is one of the main functions of commercial bank where the whole banking business is rested upon. Study on joint venture commercial bank and especially their lending practices carry a great significance, to shareholders of the banks, to the professionals, to the students who wants to know about lending practices of commercial bank. SCBNL play significant role in lending procedures. This study has proposed to measure the efficiency of both banks in their lending procedures. This study adds new idea and findings about the concerned joint venture banks. This study no doubt will have importance to various groups but in particular is directed to a certain groups of people/organizations, which are:

-) This study will provide importance information to those who are planning to invest in the study will give a clear picture of financial position of the company under study.
-) Importance to shareholders.
-) Importance to the management bodies of the bank for the evaluation of the performance of bank.

-) Importance to "outsiders" which are mainly the customers, financing agencies, stock exchanges etc.
-) Importance to the government bodies or the policy makers such as the central bank
-) Interested outside parties such as- investors, customers (depositors as well as credit takers), and competitors, personnel of the banks, stockbrokers, dealers, and market makers.
-) The study will help general public to know about the overall financial position of the SCBNL.

So, this study helps to identify its hidden strength and weakness bank as well as regarding financial and credit condition of bank. Likely after the completion, this report will be kept in the library, which plays the role of reference to the students making the similar study in future.

1.5. Limitation of the Study

This study is done for the partial fulfillment of the requirement for the Master of Business Study MBS Degree of management faculty of T.U. So, this study has certain limitations and constraints and they are as follows.

-) The study mainly concentrates on those factors related with credit and lending activities.
-) This study is based on joint venture commercial bank.
-) This study is based on secondary data.
-) Study is based on data of five years period fiscal year 2005/06 to 2009/10.
-) Some of the statistical as well as financial tools of comparison & analysis shall be used in the study.

Being a student, lack of the sufficient time resources are the major limitations. Therefore the study has been conducted.

1.6. Organization of the Study

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

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

Chapter – I: Introduction

This chapter describes the basic concept and background of the study, introduction commercial bank origin of bank in Nepal, statement of the problems, objectives of the study, significance of the study and limitations of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter – II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. This chapter includes conceptual review, review of related study, different thesis, and review of journals, articles and research studies published by various authors.

Chapter – III: Research Methodology

Research methodology refers to the various sequential steps to adopt by researcher in studying a problem with certain objectives in view. It describes various source of data related with the study and various tools techniques such as statistical and financial employed for presenting the data. This chapter includes research design, data collection, methods and analysis and research variables.

Chapter – IV: Presentation and Analysis of Data

This chapter is the main part of the research. This chapter analyses the data related with study and presents the finding of the study. Data processing, data analysis and interpretation are given in this chapter.

Chapter – V: Summary, Conclusions and Recommendations

The last chapter contains the findings of whole study after which major conclusions and recommendations are provided. It also gives important suggestions to the concerned organization for the better improvement.

CHAPTER - II

REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review specially focuses on credit policy and management of commercial bank. This review of literature had been classified into two subgroups as follow.

Conceptual Review

Review of related Studies

2.1 Theoretical /Conceptual Review

2.1.1 Concept of Commercial Bank

Simply, Bank is financial institutions that accepts deposits and invest the amount in the leading activities and also commercial service provide. In ancient, the words Bank was emerge form Latin words Bancus, French words Banque and Italian words Banca, which means a Bench where sitting over there invest exchange and keep record of money and cash. These all functional activity are formed as current banking activities.

A banker or bank is a person or company carrying on the business of receiving money collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent to the amount available on their customer (Shekher & Shekher, 1999:38).

commercial bank is a corporate business venture which have certain paid up capital and provide loan, accept deposit, exchange money and other consultancy, agency, guarantee etc services are perform. Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits,

credit creation and agency functions. They provide short-term credit, medium term credits and long terms credit as well as issuing guarantee, bonds, letter of credit, etc to trade and industry.

“A commercial bank is the bank which exchanges money, accepts deposit transfers loans and performs banking functions ” (Commercial Bank Act, 2031 B.S.).

Principally commercial bank accepts deposits and provides loans, primarily to business firms there by facilitating the transfer of fund in economy (Rose, 1989: 9).

The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confluence of various segments and extends credit to people (Ronald, 1999: 87).

“A Bank is a business organization that’s receives and holds deposits and funds from others, makes loans and extend credits and transfer funds by written order of depositors” (Grolier incorporation, 2000:126).

Commercial Banks function as an intermediary; accepting deposits and providing credits to the needy area. The primary source of funds for commercial bank are capital (shareholder equity) reserve (retain earning) and other main source of the commercial bank is current deposit issue of commercial paper bond etc. Commercial banks are restricted to invest their funds in corporate securities. They invest their funds in long term as well as short-term needs of any trade and industry. They grant credits in the form of cash credits and overdraft. Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial Banks Apart from financing, they also render a variety of service like collection of bills and cheques, safekeeping of valuables, financial advising, agencies functions, keeping of guarantee etc to their value customers.

2.1.2 Functions of Commercial Banks

The business of commercial bank is primarily to hold deposits and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit; other considerations are secondary. The major functions of commercial banks are as follows:

Accepting Deposit, Advancing credits, Agency Services, Credit Creation, Financing of Foreign Trade, Safekeeping of valuables, Making Venture Capital Credits, Financial Advising and Offers Security Brokerage Services. They also function as issue of commercial paper, bond and debenture, invest in government security as well as underwriting function under rules and regulation of their Central Bank.

Assist in foreign Trade:

The bank assist the traders engaged in foreign trade of the country. He discounts the bills of exchange drawn by exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly, he also accepts the bills drawn by foreign exports.

Offers Investment Banking and Merchant Banking Services:

Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategies marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rate. In this way they support the overall economic development of the country by various modes of financing.

2.1.3 Concept of Credit

Credit is the sum amount of money lent by the creditor (Bank) to the borrower (Customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary, 1992). Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely (Varshney and Swaroop, 1994: 42).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified on demand. Banks generally grants credit on four ways.

Overdraft

Cash Credit

Direct Credit

Discounting of Bills

2.1.4 Types of Credit

Overdrafts:

It denotes the excess amount withdrawn over their deposits. In other words bank provide sum limit of money to their value customer according to their believe ness and level of transaction.

Cash Credit:

The credit is not given directly in cash but deposit account is being opened on the name of credit taker and the amount credited to that account. In this way, every credit creates deposit.

Term Credit:

It refers to money lent in lump sum to the borrowers. It is principle form of medium term debt financing having maturities of 1 to 8 years.

Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard, 1996:89).

Working Capital Credit:

Working capital denotes the difference between current liabilities. It is granted to the customers to meet their working capital gap for supporting production process. A natural process develops in funds moving through the cycle are generated to repay a working capital credit.

Priority or Deprived sector Credit:

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

Advances to poor/downtrodden/weak/deprived people up to Rs 30,000 for generating income or employment.

Institutional Credit to Rural Development Bank. Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs.30, 000.

Hire Purchase Financing (Installment Credit):

Hire-Purchase credits are characterized by periodic repayment of principle and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principle as well as interest with an option to purchase.

A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

Housing Credit (Real Estate Credit):

Financial institutions also extend credit to their customers. It is different types, such as residential building, commercial complex, construction of warehouse etc. It is given to those who have regular income or can earn revenue from housing project itself.

Project Credit:

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on developers for completing proposed projects. Maturities on

construction credits range from 12 months to as long as 4 to 5 years, depending on the construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project . The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it (Johnson, 1940:83).

Consortium Credit:

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

Credit Cards and Revolving Lines of Credit:

Banks are increasingly utilizing cards and revolving lines of credit to make unsecured consumer credit. Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administration cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the fund to the customer at lower cost.

Off-Balance Sheet Transaction:

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

It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

Bank Guarantee:

It is used for the sake of the customers in favor of the other party (beneficiary) up to the approved limit. Generally, a certain percent amount is taken as margin from the customer and the customer's margin account is credited.

Letter of Credit (L/C):

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities (Jhonson, 1940:85).

2.1.5 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

To assure compliance by lending personnel with the bank's policies and objectives regarding the portfolio of credits

To provide personnel with a framework of standards within which they can operate.

2.1.6 Lending Criteria

While screening a credit application, 5-cs to be first considered supported by documents.

Character

Character is the analysis of the applicant as to his ability to meet the obligations put forth by the lending institution. For this analysis, generally the following documents are needed.

Memorandum and Article of Association

Registration certification

Tax registration certificate (Renewed)

Resolution to borrow

Authorization-person authorizing to deal with the bank.

Reference of other lenders with whom the applicant has dealt in the past of bank A/C statement of the customer.

Capacity

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

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

References or other lenders with whom the applicant has dealt in the past or bank A/C.

Capital

This indicates applicant's capacity to inject his own money. By capacity analysis, it can be concluded that whether borrower is truing to play with lender's money only or is also injecting his own fund to the project. For capital analysis, financial statements, like certified balance sheet, profit and loss account is the only tools.

Collateral

Collateral is the security proposed by the borrower. Collateral may be of either nature moveable or immovable. Moveable collateral comprises right from stock, inventories to playing vehicles. In case of immovable it may be land with or without building or fixture, plant machineries attached to it.

Conditions

Once the funding company is satisfied with the character, capacity, capital and collateral then a credit agreement (sanction letter) is issued in favor of the borrower stating conditions of the credit to which borrower's acceptance is accepted.

2.1.7 Features of Sound lending Policy

The income and profit of the commercial banks depend upon its lending procedure. The greater the credit created by bank, the higher wills the profitability. A sound lending policy is not only pre-requisite for commercial banks profitability, but also crucially significant for the promotion of commercial saving of backward country like Nepal. Some features of Sound lending policy are considered as under:

Safety

Safety is the most important principle of good lending. When a banker lends, he must feel certain that the advance is safe; that is, the money will definitely come back. For example, if borrower invests the money in an unproductive or speculative venture, or if the borrower himself is dishonest, the advance would be in jeopardy. Similarly, if the borrower suffers losses in his business due to his incompetence, the recovery of the money may become difficult. The banker ensure that the money advanced by him goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout, and after serving a useful purpose in the trade or industries where it is employed, is repaid with interest.

Liquidity

It is not enough that the money will come back: it is also necessary that it must come back on demand or in accordance with agreed terms of repayment. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by borrower for short-term requirements and not locked up in acquiring fixed assets or in schemes, which take a long time to pay their way. The source of repayment must also be definite. The reason why bankers attach as much importance to “liquidity” as to “safety” of their funds is that a bulk of their deposits is repayable on demand or at short notice.

Purpose

The purpose should be productive so that the money not only remains safe but also provide a definite source of repayment. The banker must closely scrutinize the purpose for which the money is required, and ensure, as far as he can, that the borrower applies the money borrowed for a particular purpose accordingly.

Profitability

Equally important is the principle of ‘profitability’ in bank advances. Like other commercial institutions, banks must make profit. They have to pay interest on deposits received by them. They have to incur expenses on establishment, rent, stationery, salary and other operating expenses so on. They have to make provision for depreciation of their fixed assets, and also for

possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; otherwise, it will not be possible to carry anything to the reserve of pay dividend to shareholders. It is after considering all factors that a bank decides upon its lending rate.

Collateral/Security

It has been the practice of banks not to lend as far as possible except against security. Security can be considered as insurance. Security may be generally classified as personal and tangible, as well as primary and collateral. The banker carefully scrutinizes all the different aspects of an advance before granting it. At the same time, he provides for an unexpected change in circumstance, which may affect the safety or liquidity of advance.

Legality

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

Spread

Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance, however secure it might appear to be. In fact, the entire banking business is one of taking calculated risks and successful banker is an expert in assessing such risks. He is keen on spreading the risks involved in lending, over a large number of borrowers, over a large number of industries and areas, and over different type of securities.

National Interest

Even when an advance satisfies all the aforesaid principles, it may still not be suitable. The advance may run counter to national interest. It is in the changing concept of banking factors such as purpose of the advance, viability of the proposal and national interest are assuming greater importance than security, small borrowers and export-oriented industries

2.1.8 Principle of Credit Policy

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

Principle of Safety Fund

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

Principle of Liquidity

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

Principle of Security

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

Principle of Purpose of Credit

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

Principle of Profitability

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

Principle of Spread

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

Principle of National Interest

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

Every Bank should always follow the rule “Do not put your all eggs in the same basket”. So every bank makes appropriate portfolio in their investment the credit management would be excellent.

2.1.9 Lending / Credit process

Commercial bank follows several steps to disburse loan to the borrowers. The lending policies might be different form one bank to another. In general, these steps can be pointed out of follows.

Application: the needy are required to submit an application to the bank along with required documents. The documents required for credit proposal appraisal and processing by banks are as follows:

-) Loan application
-) Citizenship certificate of applicant
-) Firm/ company registration certificate (if self employed)
-) Income tax registration certificate (if self employed)
-) Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company

-) Attested copy of board resolution in case of company resolved to avail loan and banking facilities from bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named.
-) Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.
-) Feasibility report/scheme (for new project).

Lending appraisal and possessing

Basically, appraisal of loan proposal is processing for the analysis of the variability of the scheme proposed. It also helps to assess the actual financial assistance needed to operate the scheme.

Commercial bank carries out loan appraisal on the basis of past performance, future forecast and information available from the documents submitted by aspirant borrowers.

The bank tries to ascertain the following during loan processing:

-) The cost of estimate is examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.
-) Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.
-) The return rates should be adequate like return on investment (ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).
-) The capacity, competency, integrity and commitment of promoters, partners, proprietors, directors and personnel should be intact.
-) SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

2.1.10 Right of Commercial Banks against Breach of Lending Agreement

A commercial bank reaches a decision as to whether it should provide loan and advances or not. After many discussions between the person or the businessmen who comes with a proposal of

loan to the commercial bank and bank while carrying out any banking transaction, the bank and customer should follow the law, policy and instructions. The concerning law means, the Nepal Rastra Bank Act 2058 (2002) Commercial Bank Act 2031(1974) so on. Under section 47.A of the Commercial Bank Act 2031 (1974) the bank has been following rights and power to recover the loan: -

-) The bank may write to the appropriate office for registration or transfer, in accordance with prevailing law, of the assets auctioned by it pursuant to this section in the name of the person whose bid has been approved.
-) The concerned office shall do the registration or transfer if it receives such written request from any commercial bank for registration or transfer of assets pursuant to subsection (5) of section 47 A. of the Commercial Bank Act 2031(1974).
-) In case no one offers a bid in an auction held by a bank pursuant to this action, the bank may take over the ownership of such assets, and in such situation, government offices must register or transfer those assets in their records as notified by the bank.
-) If any person, institution or industry fails to comply with the terms of agreement or any terms regarding loans and advances, with the bank, or fails to repay loans to the commercial bank within the time limit stipulated in the documents, or in case the bank finds through investigation that any person, institution or industries concerned has not invested the amount of the loan and advance for the concerned purpose, or has misappropriated in the documents or notwithstanding anything mentioned in prevailing law the bank may auction or otherwise dispose of any property pledged to it, or the security deposited with it, and thus recover the principal and interest.
-) If the borrowing person, institution, or industry concern relinquishes in any manner title to the property pledge to the commercial bank as collateral, or in case the value of such collateral declines due to any other reason, the commercial bank may, not with outstanding anything mentioned in prevailing law, ask the concern to furnish additional collateral within a period specified by it. In case the concerned person, institution or industry concern fails to furnish additional collateral within the specified time limit, the commercial bank may recover its principal and interest by auctioning or otherwise disposing of the collateral pledged to it.

-) If principal and interest can't be recovered through the auction sale of the collateral pledge to the bank pursuant to subsection (1) and (2) section 47.A of the Commercial Bank Act 2031(1974), the bank may recover the balance by auctioning the other assets of the concerned person, institution or industries concern.
-) The amount of principal and interest, and expenses incurred in auction, or in other kind of disposal shall be deducted from the amount raised through the auction or disposal otherwise of assets pursuant to this section and the balance shall be refunded to the concerned person, institution, or industry concern.
-) In case a complaint is field to the effect that the person who is required to relinquish the assets after their transfer under sub-section (6) and (7) of section 47.A of the Commercial Bank Act 2031 (1974) of the has created any obstacle or used force while the concerned person or the commercial Bank Act 2031 (1974) bank itself seeks to utilized such assets, action shall be taken according to prevailing law to have possession in the assets.

2.1.11 Project Appraisal

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

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

Generally, the project appraisal involves the investigation from the following aspects (Gautam, 2004).

1. Financial aspect
2. Economic aspect
3. Management /organizational aspect
4. Legal aspect

Directives issued by NRB for the commercial Bank: (related to credit aspect only):

1. Credit classification and provisioning

<u>Classification</u>	<u>Provision</u>
1. Pass Credit	1%
2. Sub Standard Credit	25%
3. Doubtful Credit	50%
4. Bad Credit	100%

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

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

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

2. Limit of Credit and Advances in a Particular Sector.

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

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

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

Group of related customer:

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholders with others in a single house, even if husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother, brothers and sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.
- Firm, company and members as a related group.
- Members of board of directors, shareholders and other relatives as stated in serial number 'b' takes less than 25% of board of directors of the company solely or combined but have control on the other company by the following ways:
 - Being president of board of directors of the company.
 - Being executive directors of the company.
 - Nominating more than 25% of members of board of directors of the company.
 - If cross guarantee is given by one company to another company.

2.2 Review of NRB Directives

NRB is the apex institution in the money and capital market. Being the nation central bank, it directs, supervises and controls the functions of the commercial Banks and other financial institutions. Nepal Rastra Bank has issued directives to all commercial banks and financial institution ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The credit information Bureau (CIB) can blacklist the firm, company or clear the debt within the stipulated period. As per the set criteria

for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs. one million. If the creditor fails to clear the amount within time or is found mission the loans among others, the creditor can be blacklisted.

NRB has issued various directives in order to develop a healthy, competitive and secured banking and economic system to ensure national development. The new, updated and comprehensive set of directive has been issued on 2062-03-29 and is effective from 2062-04-01. While some of them are collections of existing directives, some other is new additions. It can be safely assumed that with the updated and comprehensive set of directive, the functioning of commercial banks would be more transparent and systematic. The new and updated directive which is related with lending are briefly discussed below:

Capital Structure of Banks:

The current regulation of NRB prescribes that all the new commercial banks are to be established in Kathmandu at national level should have minimum paid up capital Rs.2000 million; the existing banks in operation are required to enhance the capital level to Rs.2000 million by the end of FY 2065/66 BS. For this purpose and objective all the commercial banks have furnished their plans to enhance the level of capital accordingly. With effect from fiscal year 2062/63, the commercial banks need to have minimum of capital adequacy as below:

Table: 2.1

Maintenance Minimum Capital Fund

Time Table	Required Capital on the basis of Risk weighted assets	
	Core Capital	Capital Fund
For FY 2061/62	5.5 %	11 %
For FY 2063/64	5%	11%
For FY 2066/67	5.5%	11%
For FY 2067/68	5%	11%

It is to be noted that capital fund comprises of both primary capital and supplementary capital. Similarly the risk-weighted assets will include both on-balance sheet items and off-balance sheet

items. Standard format and weighted percentage is given in the directive itself and commercial bank need just to fill the columns to see whether required percentage is maintained or not.

General Loan Loss Provision

Under this head provision made only against the pass loan should be included. The amount should be limited up to 1.25 % of the total risk weighted assets. However, loan loss provision on sub standard and doubtful loans should be available for inclusion under the supplementary capital during the period as follows.

Table: 2.2

General Loan Loss Provision

Time Period	Loan Loss Provision available for Supplementary Capital
For FY 2058/59	Pass, Sub-Standard and Doubtful
For FY 2059/60	Pass, Sub-Standard
For FY 2060/61	Pass (Up to 1.25% of total risk weighted assets)
For FY 2061/62	Pass (Up to 1.25% of total risk weighted assets)
For FY 2062/63	Pass (Up to 1.25% of total risk weighted assets) and so on

Classification of outstanding loan and advances on the basis of aging

From the effective Fiscal year 2058/59, banks should classify outstanding amount of Loans and Advances on the basis of aging. Loan and advantages should be classified into the following four categories:

1. Pass Loans

Loans and advance whose principle amount not due and past due for a period up to 3 month shall be included in this category. These are classified as Performing Loans.

2. Sub-Standard Loans

All loans and advances that are past due for a period of 3 month to 6 month shall be included in this category.

3. Doubtful Loans

All loans and advances, which are past due for a period of 6 month to one year, shall be included in this category.

4. Loss Loans

All loans and advances which are past due for a period of more than one year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be include in this category.

Provision for good loan

Loan and advances fully secured by gold, silver, fixed deposits receipts and Nepal Government securities should be included under “pass” category. Where collateral of fixed deposit receipt or Nepal Government securities or NRB bonds is placed as securities against loan for other purposes, such loan is classified on the basis of aging.

Additional arrangement for “Loss” Loan Provision

Even if the loan is not due, loans having any or all of the following discrepancies shall be classified as “Loss”

-) The borrower has been declared bankrupt
-) The credit has not been used for the purpose originally intend.
-) The borrower is absconding or cannot be found
-) Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.
-) Loans provided to the borrowers included in the blacklist and where the credit information bureau blacklists the borrower
-) Non-security at all or security that is not in accordance with the borrower’s agreement with the bank
-) Purchased or discounted bills are not realized within 90 days from the due date

Additional arrangement in respect of term loan

In respect of term loans, the classification shall be made against the entire outstanding loan on the basis of the past due period of overdue installment.

Loan Loss Provision Policy

NRB has issued the directives which commercial banks should make provision against the loan disbursed them. The loan loss provision on the basis of the outstanding loans and advances classified as per NRB Directives should be provides as follows:

Table: 2.3

Loan Loss Provision Policy

S.N	Classification of Loans	Define as	Age	Loans Loss Provision
01	Pass or Good	Performing Loan	Principle not overdue up to 3 months	1%
02	Sub-Standard	Non-Performing Loan	Principle overdue by more than 3 month to 6 months	25%
03	Doubtful	Non-Performing Loan	Principle overdue by more 6 month to 12 months	50%
04	Loss or Bad	Non-Performing Loan	Principle overdue by more than 12 months	100%

Additional Provisioning for Personal Guarantee Loans

Where the loan is extended only against personal guarantee, a statement of the assets, equivalent to the personal guarantee amount not claimable by any other shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of Pass, Substandard and Doubtful in addition to the normal loan loss provision applicable for the category, an additional provision by 20 % point shall be provided. Classification of such loans and advances shall be prepared separately. Hence the loan loss provision required against the personal guarantee loan will be 21%, 45% and 70% for Pass, Standard and Doubtful category respectively.

Rescheduling and restructuring of Loan

In respect of loans and advances falling under the category of Substandard, Doubtful or Loss, banks may reschedule or restructure such loans only receipt of a written plan of action from the borrower citing the following reasons:

-) Evidence of existing of adequate loan documentation

-) The internal and external cause contribution to deterioration of the quality of loan.
-) The reduced or risk inherent to borrower/enterprise determined by analyzing its balance sheet and profit and loss account in order to estimate recent cash flows and to project future ones, in addition to assessing market conditions.
-) An evaluation of the borrower/enterprise's management with particular emphasis on efficiency, commitment and high standards of business ethics

Loan Loss Provision in respect of rescheduled, restructured or swapped loan

-) Expect for priority sector, in respect of all types of rescheduling or restructured or swapped loan, if such credit falls under Pass category according to Nepal Rastra Bank directives, loan loss provision shall be provided at minimum 12.50%
-) In case of rescheduling or restructuring or swapping or insured of insured or guaranteed priority sector credit, the loan loss provisioning shall be provided at one fourth of the percentage.
-) In respect of swapped loans, the bank accepting the loans in swapping has to provide loan loss provision classifying the loan is swapping shall obtain certification from the concerned bank of financial institution as to the existing classification.

Loss Loan Provision for Priority Sector Lending

Full provision as per normal loan loss provisioning shall be made against the uninsured priority and deprived sector loans. However in respect of insured loans the requisite provisioning shall be 25% of the percentage normal loan loss provisioning. The required provisioning in the case of insured priority/deprived sector credit is as follows:

Table: 2.4

Loss Loan Provision for Priority Sector Lending

Classification of Loans	Loans Loss Provision for priority/deprived sector lending
Pass or Good	0.25%
Sub-Standard	5.00%
Doubtful	12.50%
Loss or Bad	25.00%

2.3 Review of Related Studies

In this section, efforts have been made to examine and review of some related articles in different economics journals, discussion papers, magazines, newspapers and other related books. Some of articles are as follows.

Baidhya (1996) has given his view on sound credit policy. He has said that, a sound credit policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to depositors and bank on the other hand, moreover risk in banking sector trends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn. Therefore the banks credit policy must be such that it is sound and prudent in order to protect public funds.

The article published in Annual Bank supervision Report NRB (2006/07), Bank supervision Department; conclude that the loan and advances extended by banking industry. The loans and advances of the public banks (excluding ADB) have remained more or less the same for the last three years, while the private banks have enhanced their portfolio by more them Rs 20.50 billion resulting in the dilution of the concentration of public banks. However, the three public banks are still the three largest individual banks in Nepal, in respect of the size of their loans portfolio.

The Nepalese banking system is riddled with a significant amount of non-performing assets (NPA). It is clearly evident from the following picture that the volume of non- performing assets is on the decline while total loans are continuously increasing thus resulting in a favorable proportion of Non-performing assets. The NPA ratio, however is still a long way from being at satisfactory level with regard to quality of the loan portfolio of the individual banks, RBB was the worst closely followed by Nepal Bangladesh Bank, Lumbini Bank and NCC Bank Ltd. Along the private banks, it was Nepal Bangladesh bank, Lumbini Bank and NCC who had the largest proportion of NPA in their portfolio, while the lowest and the best NPA ratio belonged to Machha Puchhre Bank Ltd. RBB has 60% of Bad debts and according to FY 2063/064 NPA of RBB has 26%. In FY 2063/064 Bad debt principle is Rs 40 million. The large volume NPA has

traditionally been a problem in public banks and three private banks. After a reform program was initiated in the public banks, the volume of NPA, both gross as well as net has come down, significantly. The fact is also reflected in the following chart, where a wide gap between NPA and provision can be observed.

Crosby, French and Oughton (2007) in their article “Banking lending valuations on commercial property” elaborates that the banking community are trying to identify the value on which they can apply a loan value ratio and thus protect their loan in the future should the borrower default. A simplistic understanding the value therefore suggest that figure provided should be the figure which has a life for the length of the loan. However the very concept is economically impossible in any market with volatility. Values can only be snapshots in time. They do not have a shelf life.

For this reason EMLV is conceptually and practically redundant in real estate markets. It appears on the surface to be a solution to the banks’ requirement for the reduced risk property lending. In reality, it may indeed transfer that risk by demanding a level of protection to the bank that the valuation cannot give. But if values agree to it, it could open the way to successful negligence claims in the aftermath of poor lending decisions. This is because the concepts appears the determinants of the virtually certain level of value below which the value will not fall for an indeterminate time into the future. Values are vulnerable to claims that their valuation was too high, should values fall below that level at any time during the loan. Sustainable value is predicated on having a shelf life but the application believes this fundamental requirement. Values must have a time point. The concept is redundant, the target unidentifiable and the definition ambiguous. It is little wonder that the application appears mechanistic. Market value is an obtainable and useful piece of information to the lender. Worth in the market sets this in context and gives the lender a view of whether market prices are at current sustainable levels. In obtaining worth, the value is obliged to carry out both quantitative and qualitative investigation into the future and this generates other analyses at different time points during the course of the loan.

EMLV appears to be another blind alley which will divert the appraisal profession from its more important task of improving pricing estimates, and thereby influencing market prices, and providing all clients, whatever the valuation purpose, with the information in reports which puts the limitations of valuation figure into perspective.

Mundul (2008), Understanding of credit derivative Business Age September” emphasizes Credit derivative enable financial institution and companies to transfer credit risk to a third party and thymus reduce their exposure to the risk of an obligor’s default. Credit enhancement technique, which helps reduce the credit risk of an obligation, play a key role in encouraging loans and investment in debts. In legal term credit derivative are privately negotiated bilateral contract to transfer credit risk from one party to another. Some credit enhancement methodologies have existed for the in debts. Some credit enhancement methodologies have existed for a longtime with the support of guarantee, letter of credit or insurance product. However such mechanism works best during economic upturns. As an alternative to commercial risk mechanism, various financial mechanisms have been developed over the past few decades. Such credit risks instruments are normally refer to as credit derivatives. Credit derivative helps to transfer credit risk away from the lender to some other party. Now credit derivative grew popular both as tools for hedging credit risk exposure as well as method of investing in certain types of credit risk.

Credit derivative not only helps corporation and financial institution to manage to their credit risk but also enabled a new set of individual retail client to invest in bonds and stocks previously unaffordable. Through credit derivative individual investor ca invest indirectly in foreign bonds at a lower price. Credit derivative helps investor isolated credit, and transfer it to other investor who are better suited to managing it or who finds the investment opportunity more interesting. There are many credit instruments in the market they are

- Total return swap (TRS)
- Credit default swaps (CDS)
- Credit linked notes (CLN)
- Credit spread option (CSO)

According to the behavior of the asset or deal above credit instrument can be used and minimizing the risk. In this way credit derivative provide protection against credit peril and risk.

2.4 Review of Previous Research Works

This dissertation has been written after studying various books, journals, article and previous thesis. I here comprise the some previous thesis review, which are mainly concerned about credit policy, lending practices and investment policy, credit management and loan management of commercial bank.

Shrestha (2003) has conducted a research topic on “*Impact and Implementation of Nepal Rastra Bank (NRB)’s Guidelines (Directives) on commercial banks. A study of Nabil Bank Ltd. and Nepal SBI Bank Ltd.*” has tried to find out the following things:

Her main objective:

-) Impact of NRB directives on commercial banks.
-) Whether the directives are actually implemented and are being monitored by NRB or not.
-) To offer suitable suggestions based on findings of this study.

Her major finding and recommendation are as follows:

She has stated that both NABIL and Nepal SBI are implementing the NRB directives.

She concludes that all the changes in NRB Directives made both positive and negative impacts on the commercial banks. Even though this study is limited to only two sample (i.e. Nabil Bank and Nepal SBI Bank, among the entire population, it clears the new directives issued by NRB make good impact to more than bad impact on the various aspect of the banks. It can be seen that the provision has been changed and the increased provisioning amount has decreased the profitability of commercial banks. Apart from, loan exposure has been cut down to customers due to the borrower limits have been brought down by NRB. Therefore reductions in loan amount result to decrease the interest incomer from loans, which will decrease the profits of the banks in coming years. Decreasing profitability push towards lesser dividends to the shareholders and less bonus to employees. Not only are the negatives sides but also there positive sides of new directives. Recently the problems of banks are increasing operating cost and decreasing loan amount resulting decrease in profits of the banks but it shows it is only for short time there because the directives are more effective to protect the banks from bad loans, which protect the banks from bankruptcy as well as protection of deposits of depositors. Increase in capital adequacy ration strengthen the banks financial position, loan related provision will made

safety of loans except the risk reducing provision would protect the bank from liquidation. Above all it can be concluded that newly issued directives are more effective than previous one although it has brought some problems towards banks. To increase the decreasing profits of the banks, they should research the alternatives like more investment in other business, bank should adopt new technology according to the demand of time and must not depend on only interest income for profit.

In this thesis as well, researcher has studied the impact of NRB directive, especially related to loan loss provisioning, on selected banks. There exists a gap regarding the study of management teams formed by the commercial banks to manage the credit risk besides those NRB directives. Similarly, commercial banks compliance in regard to those directives as well as banks policy and procedure to manage credit risks can be studied further.

Regmi (2004) conducted a thesis topic on “*A study on credit practices of joint venture commercial banks with reference to Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd.*” This study is mainly focused on the lending practices and the volume of credit in comparison to the deposits. Therefore, the major gap in this research is study of the risk involved in the lending practices or the study of credit risk. Therefore, further study on the risk involved in creating credit can be made.

The basic objectives of this thesis are:

-) To determine impact of deposit in liquidity and its effect on lending practices.
-) To know the volume of contribution made by both bank in lending.
-) To examine lending efficiency and its contribution in profit.
-) To analyze trend of deposit utilization towards loan and advances and net profit and their projection for next five years.

The major findings and recommendation of this study are:

In terms of liquidity ratio, current ratio of NSBL is higher than that of NBBL. The ratio of liquid fund to current liability of NSBL is higher than NBBL. This shows that NBBL has less consistency than NSBL. The ratio of cash and bank balance to deposit of NSBL is higher than

that of NBBL. Cash and bank balance to interest-sensitive deposit measures the liquidity risk arising from fluctuation of interest rate in the market. The ratio of cash and bank balance to interest sensitive deposit of NSBL is higher than NSBL. NSBL has poor position due to high volume of interest sensitive liability in deposit mix.

The ratio of loans and advances to total assets of NBBL is higher than NSBL. Likewise mean ratio of loans and advances to total deposit of NBBL is higher than NSBL. The mean ratio of investment to loans and advances and investment of NSBL is higher than that of NBBL. Likewise the ratio of total investment to total deposit of NSBL is higher than that of NBBL.

The ratio of credit to government enterprises to total credit of NBBL is higher than that of NSBL. The mean ratio of credit tot bills paid and discount to total credit ratio o NBBL is higher than that of NSBL. NSBL has contributed 95.91% in private sector loan, 2.51% in government sector loan and 1.56% in bills paid and discounts. Likewise NBBL has contributed 90.83% in private sector loan, 4.29% in government sector loan and 4.84% in bills paid and discounts.

Among the various measurement of profitability ratio return on equity (ROE) and earning per share (EPS) reflects the relative measure of profitability. The performance of NBBL is better than NSBL. Return 0on equity and earning per share of NBBL are higher than that of NSBL in all years.

The correlations between deposit and loans & advances of both banks have positive value. Also co-efficient of correlation between total income and loans & advances of both bank have positive relation. Coefficient of correlation between net profit and loans & advances of NSBL is negative as other variables like increase in interest suspense and loan loss provision affects net profit. Coefficient of correlation between net profit and loans & advances of NBBL is positive.

Shrestha (2005) has conducted research topic on “*A study of Non performing Loan & loan loss provision of Commercial Bank, A case study of NABIL, SCB and NBL*” has made study about a part of credit risk associated with those banks.

The main objectives of her study were:

-) To find out the proportion of non-performing loan in the selected commercial banks.
-) To find out the factors leading to accumulation of non performing loan in commercial banks.

-) To study and analyze the guidelines and provisions pertaining to loan classification and loan loss provisioning.
-) To find out the relationship between loan and loan loss provision in the selected commercial bank.
-) To study and the impact of loan loss provision on the profitability of the commercial banks.

The major finding and recommendation of the study are as follows

The NBL has the highest portion of the loan in total asset followed by NABIL and SCBNL. She concludes that the SCBL shows the risk-averse attitude. Likewise the non-performing loan to total loan is found highest in NBL, NABIL and SCBNL. Likewise the Loan Loss Provision is also highest in NBL where as the SCBL has the least Loan Loss Provision.

Likewise, the NBL has the highest portion of Loss loan followed by NABIL and SCBL. This study is more concentrated on non-performing loans; however, there exist lots of areas in credit risk management where further research is called for. In context of credit risk, collateral risk, concentration risk, organization risk management system can be studied.

Subba (2006) has carried out in his research topic on “*Study to Credit Management of commercial banks (i.e. Machchhapuchhre Bank Ltd. and Kumari Bank Ltd.)*”. The objective to analyze how the selected commercial banks have managed different types of risk in this competitive Nepalese banking Industry.

The major objective of this thesis was:

-) To analyze the risk of selected commercial banks in Nepal they are, Credit Risk, Market Risk and Operation Risk.
-) To examine credit management and its efficiency.
-) To offer suitable suggestions based on findings of this study.

The major finding and recommendation of his study were:

-) In commercial banks, minimizing the risk is the major challenge. For combating the risk, both the banks have taken several measures. One of the major measures is capital

adequacy ratio. The capital adequacy ratio depicts that both KBL and MBL has higher CAR than statutory requirement. He concludes that:

-) For credit risk management, both banks have Credit Policies Guidelines (CPG). Similarly, NPL is regularly monitored by both the banks on regular basis and provisioning is done on quarterly basis by categorizing the loan as per NRB guidelines. Similarly, sector wise and security wise lending is being analyzed by these banks on monthly basis.
-) Gap analysis is the major tool for managing the liquidity risk. The top management analyzes the gap between asset and liabilities and makes decision to make adjustment for it. Further, the top management decides how much liquid asset is needed to be kept in the bank. Treasury and finance department of these banks continuously manage the CRR in NRB to ensure that statutory requirement is met.
-) Gap analysis of both types of asset and liabilities (i.e. Rate Sensitive and Fixed Rate) is required for the interest rate risk management. Besides, analysis of cost of fund, yield on loan & spread is made continuously in these banks to ensure that banks have competitive interest rate, which is profitable for the banks.
-) In regard to operational risk, the major steps banks are taking to reduce it are preparing and implementing the different operational guidelines and policies & frequently monitoring their compliance. Most of these polices are prepared as per NRB guidelines. Similarly, employees' training is also the major tools for minimizing the operation risk in these banks.

For minimizing the loss arising due to occurrence of the above risks, capital and reserve have been maintained by these banks within the standard prescribed by NRB. However, the trend of Capital Adequacy ratio of these banks suggests that both the banks need to increase their capital fund, which is possible mainly by issuing shares, debentures or preference share. The major gap in this study is the focus on the credit risk. This research has been made on the study on different types of risk including market risk and operational risk. However, the credit risk covers the major portion of the total risk i.e. almost 60% of the total risk. Therefore, additional research can be made for the detailed study of credit risk and the organizational structure of the commercial banks to manage the credit risk.

Shrestha (2007) has conducted research on “*A study of Credit risk management of Nepalese commercial banks comparative study between Kumari bank ltd. and Machhapuchchhre bank Ltd.*” has made study about a part of credit risk associated with those banks. The study aims to examine and analyze how the selected commercial Banks have managed mainly credit risk in this competitive Nepalese banking industry.

The specific objectives of this study are:

-) To examine the credit risk position of the selected commercial banks in Nepal (KBL and MBL).
-) To analyze the credit risk management system and practices of KBL and MBL.
-) To evaluate the organizational structure of KBL and MBL to manage the credit risk.

The major findings and recommendation are as follows:

The major problems in credit risk are related to the broad areas of concentrations, credit processing, and market- and liquidity-sensitive credit exposures. From the analysis of primary data, it is found that the majority of the respondents of both banks have favored with the bank's single sector, which is up to 10 % of total loan. However, the sector wise lending analysis portrays that KBL and MBL have extended up to 19.88 % and 30.12% of loan in a single sector respectively in FY 2005/06. Similarly, the exposure on the single sector of KBL and MBL exceeds 10 % of total loan in 3 and 5 sectors respectively. The single sector loan to core capital shows that the ratio crossed 100% in 2 sectors of both KBL and MBL. In regard to concentration risk, KBL has more risk in manufacturing and others sector where as MBL has more risk on manufacturing and Whole seller and sectors as the single sector credit to core capital ratio in these sectors is more than 100 %. MBL has very high loan concentration on manufacturing sector of 199.35% of the core capital. From the personal interview of the key respondents it was found that both banks have been extending credit in those highly concentrated sectors after getting approval from the board of director. This clarifies that concentration risk is the main source of credit risk for KBL and MBL.

-) Similarly, lack of systematic and thorough credit processing is also the major source of credit risk in these banks. The problems in credit processing include lack of thorough credit assessment, absence of testing and validation of new lending techniques, subjective decision-

making by senior management, lack of effective credit review process, failure to monitor borrowers or collateral values, and failure of banks to take sufficient account of business cycle effects etc. Likewise the market-sensitive and Liquidity-sensitive exposures also increase the credit risk of these banks. Similarly, it is found that both banks have their own rating system of the credit client and the sectors. Both banks have ranked 1st to the manufacturing sector where as the Agriculture sector has been ranked the last on the basis of priority. KBL has chosen others sector and real estate business in 2nd and 3rd position respectively, where as the MBL has just opposite preference in these sectors.

-) Likewise, KBL has ranked Character, Collateral and Capacity of borrower first, second and third criterion for granting credit where as MBL ranked Character, Capacity and Capital first, second and third priority respectively. The hypothesis test on the preference of the bank's staff also proves that there is no significant difference between observed and expected frequency of ranking.
-) From the analysis of lending against various collaterals, it has been found that both the banks have lent highest amount of loan against the movable/ immovable property. The average lending over 5 years period of KBL and MBL against movable/ immovable property is Rs. 2,987 million and 2,673 million respectively. Similarly, the lending against others securities (i.e. other than prescribed by NRB) is second position for both banks, whereas the lending against guarantee of local banks and finance companies is in third position. However, MBL has also granted loan without any collateral. The average amount of loan without collateral is Rs. 3 million annually, which is in the 6th place on ranking. On the contrary, KBL has not granted any loan without backing any collateral any loan without backing any collateral.

Limbu (2008) has conducted thesis topic on “*Credit Management of NABIL Bank Limited*” highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

The main objectives of the research are as follow.

-) To evaluate various financial ration of the Nabil Bank.

-) To analyze the portfolio of lending of selected sector of banks
-) To determine the impact of deposit in liquidity and its effect on lending practices.
-) To offer suitable suggestions based on findings of this study.

The major finding and recommendation of the research are:

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non-performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio poses higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Thus, credit management is in a good position. The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

Shrestha (2009) has conducted research topic on “*Credit risk management of Nabil Bank Limited and Nepal Investment Bank Limited in Nepal*” The main objective of the study is to evaluate the credit risk management. In order to achieve this, the specific objectives have been formulated.

The main objectives of the research are as follows

-) To evaluate the status of the loan portfolio of the banks,
-) To evaluate problems and weakness in credit risk management.
-) To review the prevailing laws rules and regulation enforced by Nepal Rastra Bank and assess its impact on profitability and liquidity of bank.
-) To offer suitable suggestions based on findings of this study.

The major finding and recommendation of the research are:

The liquidity position of NIB is comparatively better than NABIL. Commercial banks have to maintain more liquid assets but the current ratios of some banks are below the standard of 1:1. The mean current ratio of NABIL is 1.89 and NIB is 1.99 the current ratio of NIB is little higher than NABIL. Cash and bank balance to total deposit ratio of NIB has higher than NABIL.

The loan & advances to total deposit ratio of NABIL is lower than NIB. The total investment to total deposit of NABIL is higher than NIB i.e. 34.40% > 27.45%. It shows the NABIL is mobilizing its funds on investment in various securities efficiently. The loan & advances to total assets ratio of NIB is greater than NABIL. Investment on government securities to total assets ratio of NABIL is higher than NIB. This indicates that NABIL has invested more portions of total assets on government securities. So an asset management aspect of NABIL is better than NIB.

The profitability position of NABIL and NIB are Return on loan & advances ratio of NABIL is higher than that of NIB i.e. 4.64% > 2.46%. Return on total assets ratio of NABIL is slightly higher than NIB i.e. 2.61% > 1.79%. However, NABIL seems successful in managing and utilizing the available assets in order to generate revenue.

The credit risk ratio shows the proportion of no-performing loan in total Loan & Advances. Average credit risk ratio of NIB is higher than NABIL. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of NIB is greater than that of NABIL. The analysis shows that both banks have the Asset Risk Ratio in fluctuating trend.

Khanal (2010) has conducted research topic on “*An analysis of Credit risk Management of Himalayan Bank and Nabil Bank Limited*” The objective of the study is to evaluate the credit risk and lending management of HBL and NABIL bank.

The main objective of the research

-) To evaluate the status of the loan portfolio management of the stated banks viz HBL and NABIL.
-) To evaluate problems and weakness in credit risk management of HBL and NABIL bank.

-) To examine relationship between total investments, deposits, loans and advances net profit and asset and compare them

The major finding and recommendation of the research are:

The overall aspect of liquidity position of NABIL is comparatively better than HBL. But the cash and bank balance to total deposit in the preceding years and investment to govt. securities to current assets in the succeeding years of HBL is better. Assets management aspect of NABIL is better than HBL which is justified by higher Mean loan & advances to total deposit ratio, loan & advances to total assets, lower interest earned to operating ratio, higher interest earned to total assets ratio, investment in share and debentures to total assets for NABIL whereas investment to total deposit ratio and investment on govt. securities to total assets of HBL is higher. All these ratios show that NABIL has emphasis on loan and advances out of its total assets rather than investment (i.e. investment in other sector and investment in risk free assets). It shows that NABIL has taken more risk than that of HBL. HBL has comparatively more investment in govt. securities and other investment which is less productive however it is low risky.

Overall profitability ratios show that NABIL has earned higher profit in relation to every aspects of the bank than HBL which is justified by higher mean return on loan and advances, return on total assets, return on equity, total interest earned to total working fund, lower interest earned to total operating ratio, lower interest paid to total assets of NABIL. NABIL has better management of loan & advances because of having lower average non performing loan & advances to total loan ratio. Both banks have decreasing trend of ratio which is the good indication of credit management. Liquidity risk of HBL is lower from the mean point of view. In the latest years NABIL has lower liquidity risk. While observing mean ratio and individual ratio NABIL has lower credit risk However HBL has also decreasing trend of ratios.

HBL and NABIL banks have positive correlation between deposit and loan & advances, total assets and net profit, but there negative correlation between deposit and total investment & total investment and net profit of HBL. Comparatively NABIL has strong relationship between these variables. It is also found that there is positive correlation between total deposit, loan & advances, net profits, total investment of two banks. Total deposit, loan & advances, net profit of

HBL and NABIL are in increasing trend. From the entire research study, overall all financial performance of NABIL is better than HBL. But HBL is also operating smoothly in many aspects. Investment policy ensures maximum amount of credit to all sectors with proper utilization.

Sapkota (2011) has conducted a research topic on “*Credit policy of Nepal Investment Bank Limited*” has done research analyzing various financial as well as statistical tools. The study also have its importance to the financial agencies, stock exchanges and stock traders are also interested in the performance of the banks as well as the customers, depositors, and debtors, who can objectively identify the better bank to deal in terms of profitability, safety, and liquidity.

The main objectives of the research are

-) To examine the current investment policy of NIBL.
-) To analyze the liquidity position, risk structure and performance of NIBL.
-) To analyze the impact of investment policy on Profitability.

The major finding and recommendation of study are as follows:

NIB has been maintaining a steady growth rate over this period. In the aspect of liquidity position, cash reserve ratio shows the more liquidity position. Cash & bank balance to interest sensitive ratio shows that the bank is able to maintain good financial condition. The average ratio is 0.1275 times and hence the bank has enough cash & bank balance to cover its deposit demand. Debt to equity ratio is in decreasing trend and the average ratio for debt to equity ratio is 13.2274 times. Total debt to total assets ratio is 0.9402 times, which means 94% of the bank’s assets are financed with debt, and only the remaining 6% of the financing comes from shareholder’s equity. High total debt to total assets ratio posses’ higher financial risk and vice-versa.

In the aspect of profitability ratio, the ratio of net profit to total operating income is in increasing trend which indicates the higher efficiency of the bank. The total interest income to total operating income ratio of NIB is in increasing trend. The operating profit to loan and advances ratio of NIB is in fluctuating trend. The average mean return on loan and advances ratio is 2.71%. These show the little high earning capacity of NIBL through loan and advances. The Net profit to total assets ratio of NIB is in fluctuating trend and EPS also fluctuating trend but the

aggregate profit is in increasing trend. The average mean Price earning ratio is 28.34 times in the study period. After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank. Non-performing loan to loan and advance ratio is also in decreasing trend. This ratio indicates the more efficient operating of credit policy. Bank overall performance represents high expectation in the market and high demand of share. These mean that the better profitability in the coming in the coming years.

2.5 Research Gap:

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. Various researchers conduct on liquidity management, credit management, credit risk management, financial performance and financial analysis of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring financial analysis of bank have been focused on the limited ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. The ratios are categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this research credit policy of standard chartered bank Nepal limited is done by measuring various ratios analysis, trend analysis and various financial tools as well statistical tools. In this research data are used only five fiscal year but all the data are current and fact. This study tries to show financial analysis by applying and analyzing various financial tools like liquidity ratio, asset management ratio, profitability ratio, lending efficiency ratio and other ratio as well as different statistical tools like average mean, standard deviation, coefficient of variation coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit policy of Bank and finance.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

The topic of the study has been selected as *Credit policy of Standard Chartered Bank Nepal Limited*. In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2 Research Design

Research is a theory building activity. Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances.

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combined relevance to the research purpose with economic in procedure (Kothari, 1999:59).

Since the main objectives of this study is to analysis financial performance of the banks, all the indicators that shows the financial performance of the banks were calculated using data obtained from the five year end internally generated accounting records maintained by sampled Banks. The study depends on the secondary data. Various financial parameters and effective research techniques are employed to evaluate the financial performance of the banks. Furthermore, various descriptive as well as analytical techniques are used. The study is designed as to give a clear picture of the Bank's financial circumstances with the help of available data with useful suggestions and recommendation.

3.3 Population and Sample

At present thirty one Commercial banks are operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible the study all the data

related with all JVBs because of the limited time period and showed also taken in to consideration of the partial fulfillment of the Master's Degree. Currently aggregate 31 commercial banks are running in Nepal. They all 31 Commercial bank are taken as population. Standard Chartered Bank Nepal Limited has been selected as sample for the present study.

3.4 Nature and Sources of data

The study is mainly conducted on secondary data relating to the study of financial analysis of samples Banks, as they are they are available at concerned Banks. For the purpose of the study, various related books, booklets, magazine, journals, newspaper and thesis made in this field have been referred. Besides necessary suggestions are taken from various experts both inside and outside the bank whenever required.

3.5 Data Collecting Procedures

Especially the annual report of Standard Chartered Bank Nepal Limited and the website of concern Bank are taken as main source of data collection for purpose of study. The annual reports of the concerned banks were obtained from their head office and their websites. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc .has been collected from the personal visit of concerned department of NRB at Baluwatar. Besides, a details review materials are collected from the library of Shanker Dev Campus and central library of T.U.

3.6 Method of Data Analysis Technique:

For the purpose of the study all collected primary as well as secondary data are arranged, tabulated under various heads and them after disunities and statistical analysis have been carried out to enlighten the study. Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. To make the study more specific and reliable, the researcher uses two types of tool for analysis,

- 1 Financial Analysis.
- 2 Statistical Analysis.

3.6.1 Financial Tools:

Stakeholders of a business firm perform several types of analyses on a bank's financial statements. All of these analyses rely on comparisons or relationships of data that enhance the utility or practical value of accounting information.

3.6.1.1 Ratio Analysis:

A ratio is simply one number expressed in terms of another and as such it expresses the quantitative relationship between any two numbers. Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with the other. A ratio can be expressed in terms of percentage, proportion, and as a coefficient. A ratio is a figure or a percentage representing the comparison of two variables or any substance.

The relationship between two accounting figures, expressed mathematically, is known as a financial ratio. The technique of ratio analysis is part of the whole process of analysis of financial statements of any business and industrial company, especially to make output and credit decisions. It is defined as the systematic use of ratios to interpret the financial statements so that the strengths and weaknesses of a firm, as well as its historical performance and current financial condition, can be determined. Thus, ratio analysis is useful for evaluation, judgment, and taking appropriate decisions.

A. Liquidity Ratio:

Liquidity means the ability of a firm to meet its short-term or current obligations. Liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and the present cash solvency, as well as its ability to remain in debt. It's not good to have excess liquidity and low liquidity in any organization. Inadequate liquidity can lead to unexpected cash shortfalls and reduce profitability, as well as inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance. To find out the ability of a bank or financial institution, the following ratios are analyzed and liquidity ratios are used to identify the liquidity position.

i. Current Ratio:

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick to judge the soundness of the short term financial position of the business unit or industry. Standard of current ratio is 2:1 for the manufacturing concern and 1:1 for financial and other service sectors.

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

Where, current assets = cash in hand, cash at bank, bills receivable, sundry debtors or account receivable, short term loan & advances, inventories, prepaid expenses etc.

Current Liabilities = Bills Payable, Sundry Creditor, Accrued expenses, Bank overdraft, short term loan, provision for taxation, etc.

ii. Cash Reserve Ratio:

It's also known as Cash and Bank Balance to Total Deposit Ratio. This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. Total deposit includes current deposit saving, fixed deposit, call short deposit, and other types of deposit. This ratio can be calculated using the following formula.

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

iii. Cash & Bank Balance to Current Deposit Ratio:

This ratio shows the relations between cash & bank balance to current deposit. Cash and bank balance is aggregate outcome of deposit of customers plus other income and reserves of the bank. Bank is responsible to customer to pay out upon demand of customers any time so it is very important factor.

$$\text{Cash and bank balance to Current assets ratio} = \frac{\text{cash and bank balance}}{\text{current assets}}$$

iv. Investment of Government Securities to Current Assets Ratio:

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on

Government securities to current assets ratio visualize the proportion of investment on government securities to current assets.

Investment of Government Securities to Current Assets Ratio

$$X \frac{\text{Investment on Government Security}}{\text{Current Asset}}$$

v. Cash and Bank Balance to Interest Sensitive Deposit Ratio:

Saving deposit is deposited by public in a bank with objectives of increasing their wealth. Interest rate plays important role in the follow of interest sensitive deposit. Fixed and current deposits are not interest sensitive. Fixed deposits have a fixed term to maturity and Current deposits are not sensitive toward interest rate. The ratio of cash and bank balance to interest sensitive deposits measure the bank ability to meets its sudden out flow of interest sensitive deposits to the change interest rate.

$$\text{Cash and bank balance to interest sensitive deposit ratio} = \frac{\text{Cash and bank balance}}{\text{sensitive deposit}}$$

B. Activity Ratio (Assets Management Ratio):

It is also known as efficiency turnover ratio or Assets Management ratio. It measures how efficiently the firm utilizes its assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales. Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are as follows.

i. Loans & Advances to Fixed Deposit Ratio:

Fixed deposits are the long-term interest bearing obligations and loan & advances is the major sources of investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in loan & advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former on includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Loan \& Advances to Fixed Deposit Ratio } X \frac{\text{Loan \& Advances}}{\text{Fixed Deposit}}$$

ii. Loan & Advances to Total Deposits Ratio:

Commercial banks utilize the outsider's fund for profit generation purpose. Loan & advances to deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose on the loan & advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

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

iii. Total Investment to Total Deposit Ratio:

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

iv. Loan and Advances to Total Assets Ratios:

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

$$\text{Loan \& Advances to Total Assets Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

v. Non-Performing Assets to Total Assets Ratio:

This ratio shows the relationship of Non-Performing assets and total assets. This ratio represents the proportion between the non-performing assets and total assets of bank. It shows the how much assets is non – performing or idle in the total assets of bank. Higher NPA to total assets ratio indicates the worst performance, which reduces the profitability of bank. Higher ratio shows the low efficient operating of the credit policy and lower ratio shows the more efficient operating of credit policy.

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

C. Leverage Ratio:

It is also known as capital structure ratio. Leverage ratio helps to test long term solvency position of the firm. It informs us the relationship of long-term debt with total capital or shareholder fund. The use of finance is referred by financial leverage.. These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i. Total Debt to Equity Ratio:

It shows the relationship between debt and equity. Total debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, total debt includes total deposits, bills payable and other liabilities of the bank and equity includes paid up capital, retained earnings and reserves. The formula used to determine the ratio is:

Total Debt = long term Debt + current liability

$$\text{Total Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

ii. Total Debt to Total Assets Ratio:

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation. Stockholders on the other hand may want more leverage because it magnifies expected earnings. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

iii. Total Assets to Net worth Ratio:

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the share capital plus reserves and retained of the bank. It is calculated to see the amount of assets financed by net worth.

$$\text{Total Assets to Net Worth Ratio} = \frac{\text{Total Assets}}{\text{Net Worth}} \times 100\%$$

E. Profitability Ratio:

This ratio shows the profitability conditions of the bank. Profit is essential for the survival of bank so it is regarded as the engine that drives the banking business and indicates economic progress. Profitability ratios are calculating to measure the management ability regarding how well they have utilized their funds. Lending is one of the major functions of commercial bank so following are the various types of ratio, which should the contribution of loan & advances in profit and help to be investor whether to invest in particular firm or not.

i. Net Profit to Total Operating Income Ratio:

The ratio measures the position of profitability of the company to total operating income. This shows the sound and weakness of the company to utilize its resources. Higher ratio shows the higher efficiency of management and lower ratio shows the lower efficiency of the management. The formula of net Profit to Gross income ratio is-

$$\text{Net Profit to Total Operating Income} \times \frac{\text{Net Profit}}{\text{Total Operating Income}}$$

ii. Interest Income to Total Operating Income Ratio:

The ratio measures the volume of interest income to total income. The high ratio indicated the banks performance on other fee-based activities. The high ratio indicates the high contribution made by lending and investing activities.

$$\text{Interest Income to Total Operating Income} \times \frac{\text{Interest Income}}{\text{Total Operating Income}}$$

iii. Operating Profit to Loan & Advances Ratio:

Operating profit to loan and advances ratio measure the earning capacity of commercial bank. Operating profit to loan & advances ratio is calculated by dividing operating profit by loan & advances.

$$\text{Operating profit to loan and advances ratio} = \frac{\text{Operating profit}}{\text{Loan and advances}}$$

iv. Return on Loan & Advances Ratio:

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

$$\text{Return on loan and advances} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

v. Net Profit to Total Assets:

This ratio shows the relationship of Net profit and total assets and is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets. It also evaluates the present return on the total assets as a guide for return expected on future purchase of assets. Higher the ratio shows the more efficient operating of management and lower the ratio shows the low efficient operating of management. This ratio is computed by –

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

vi. Earning per Share (EPS):

Earning per share measures the profit available to the cash equity holders. It only measures the overall operational efficiency bank. It is the profit tax figure EPS tells us what profit the common share holder get for every share.

$$\text{Earning per share} = \frac{\text{Profit after tax}}{\text{No. of common share}}$$

vii. Price Earning Ratio:

This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. Higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the management. The ratio is computed by-

D. Lending Efficiency Ratio:

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

i. Loan Loss Provision to Loan and Advances Ratio:

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

$$\text{Loan Loss Provision to Loan \& Advances} \times \frac{\text{Loan Loss Provision}}{\text{Loan \& Advances}}$$

ii. Non-Performing Loan to Loan and Advances:

This ratio shows the relationship of Non-Performing loan and total loan and advances and is to determine how efficiently management has used the total loan and advances. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of management.

$$\text{Non - Performing Loan to Loan \& Advances} \times \frac{\text{Non - Performing Loan}}{\text{Loan \& Advances}}$$

iii. 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 more the probability of generating loans, advances, and vice versa.

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

3.6.2 Statistical Tools

Under this heading some statistical tool such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

A. Average Mean

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum X}{n}$$

Where, \bar{X} = Arithmetic mean

$\sum X$ = Sum of all the values of the variable X

n = Number of observations

B. Standard deviation:

The standard deviation measures the absolute dispersion. It is said that higher value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 A. D. and this is denoted by the small Greek letter (pronounced sigma) the formula to calculate the standard deviation is given below:

$$\sigma = \sqrt{\frac{\sum x^2}{N}}$$

Where, $\bar{x} = \frac{\sum XZ}{N}$

C. Coefficient of variation

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; the CV is defined as,

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

Greater the CV, the more variable or conversely less consistent, less uniform, less stable and homogenous than the consistent more uniform, more stable and homogenous. This nature of CV uses that actual size of working capital.

D. Coefficient of correlation (r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its values lie somewhere ranging between -1 to +1. If the both variables are constantly changing in the similar direction, the value of coefficient will be +1, two variables take place in opposite direction. The correlation is said to be perfect negative. In this study, simple correlation is used to examine the relationship of different factors with working capital and other variables.

$$\text{Coefficient of correlation (r)} = \frac{\text{Covariance of X \& Y}}{\sigma_x \sigma_y}$$

Deposit have played a very important role in performance of commercial banks and similarly loan & advances are important to mobilize the collected deposits. Coefficient of Correlation between deposit and loan & advances measures the degree of relationship between the two variables. In this analysis, deposit is independent variable (X) and loan & advances is dependent variable (Y). The main objectives of computing 'r' between these two variables are to justify whether deposits are significantly used on loan & advances in a proper way or not.

The following table shows the value of 'r', 'r²' probable Error (P. Er) and P. Er between deposit and loan & advances for the study period 2002/03 to 2006/07.

E. Probable Error:

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

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

Here, r = Correlation coefficient

N = Number of pairs of observations

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

F. Trend Analysis:

Trend Analysis is the statistical tools for the analyzing the data of selected banks in suitable manners. It helps to forecast the future value of bank expectation. It is used to measure the change of financial, economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Here,

Y is the dependent variable

a is y intercept or value of y when x = 0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the analysis, presentation, interpretation and major finding of relevant data in order to fulfill the objectives of research study. The data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight credit management of Standard Charter Bank Nepal Ltd. as well as other cases or problems also. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used. This chapter deals with the various aspects of credit management such as financial ratios, impact, correlation and trend analysis.

4.2 Financial Statement Analysis

Financial analysis is done by applying various financial tools in order to clear picture on the viability of the project. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. The concept of financial statement analysis has been already discussed in previous chapter. Here, we study and analyze the data by using accounting tools.

4.2.1. Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short- term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations. Inadequate liquidity can lead to unexpected cash short falls that must be covered at excessive costs reducing profitability. In the worst case, inadequate liquidity can lead to liquidity insolvency of the institution. To find -out the ability of the bank to meet their short-term obligations, which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

i). Current Ratio:

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick to judge the soundness of the short term financial position of the business unit or industry. High ratio indicates sound liquidity position of the bank and vice-versa. But too high ratio is not good for bank since it reveals the under utilization of fund. Standard of current ratio is 2:1. In the following table, we can see the data relating to Current Ratio of SCBNL.

Table: 4.1
Current Assets to Current Liability Ratio

(Amount in millions)

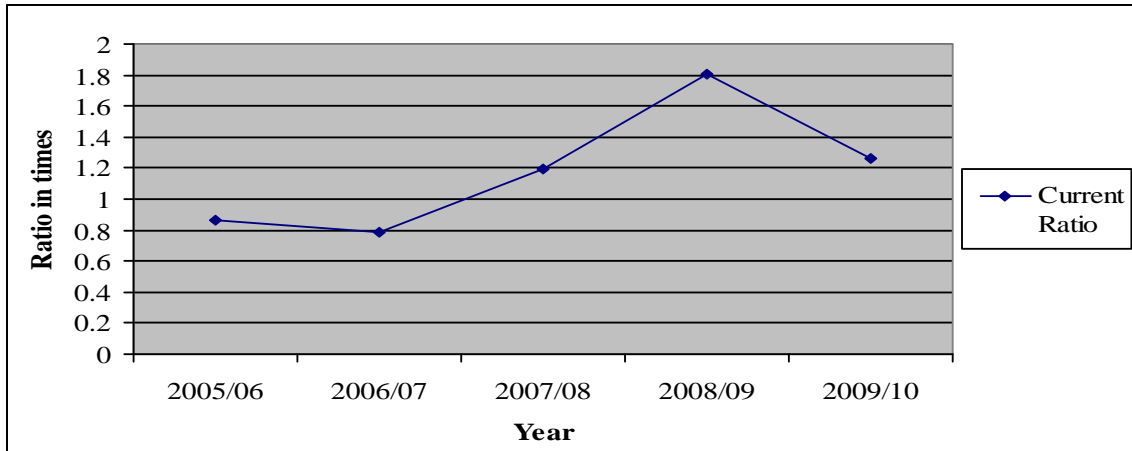
Year	Current Asset	Current Liability	Ratio(Times)
2005/06	20624	23873	0.86
2006/07	21393.47	27038.81	0.79
2007/08	26104	21834.04	1.19
2008/09	31444	17419	1.81
2009/10	28632	22746	1.26
Mean			1.182

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

The table 4.1 shows the current assets to current liabilities ratio of SCBNL. The highest ratio is 1.81 times in year 2008/09 and lowest ratio 0.79 times in year 2006/07. The current mean ratio is 1.182 times. The current ratios of first two year are lower than average ratio and last three year is higher than mean ratio. In the beginning of study year the current ratio are lower than standard ratio but at end of study period SCBNL has maintain the standard current ratio. While observing the average current ratio it is notice that the banks have met the standard ratio, which is able to meet its short term obligation. Current Ratio of SCBNL is represented in following figure.

Figure: 4.1

Current Assets to Current Liability Ratio



ii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio shows that percentage relation between cash and bank to total deposit. It means the liquid balance available in respect to total deposit of the bank whereas the difference between the cash & bank balance to total deposit is said as the investment of the bank. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively. The ratio calculations are as follows

Table: 4.2

Cash and Bank Balance to Total Deposit ratio

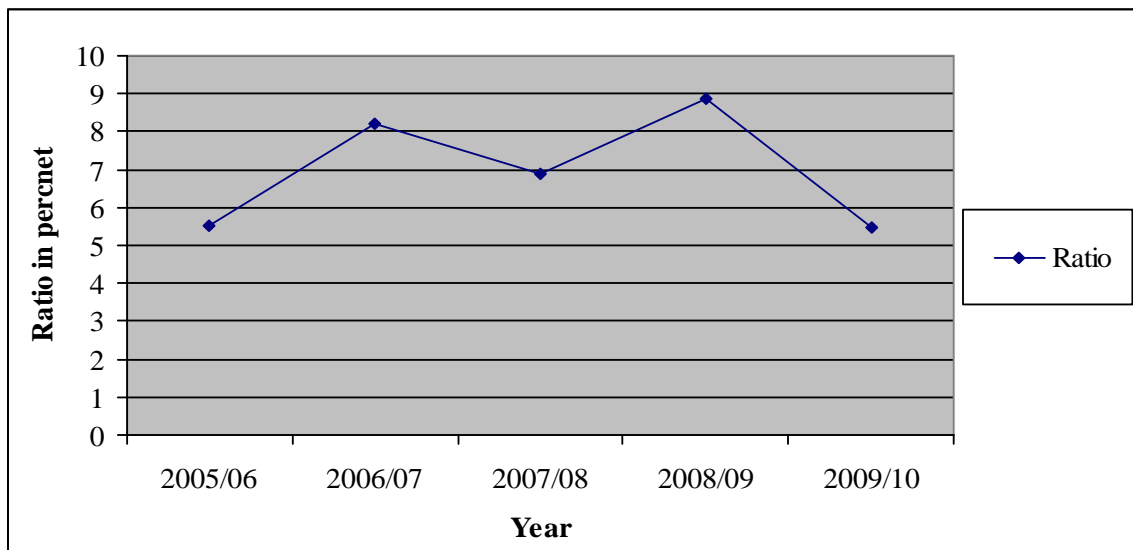
(Amount in million)

Year	Cash and Bank Balance	Total Deposit	Ratio (in %)
2005/06	1276.24	23061	5.53
2006/07	2021.02	24647	8.20
2007/08	2050.24	29744	6.89
2008/09	3137.16	35350.8	8.87
2009/10	1929.3	35182.7	5.48
Mean			6.994

Source: Annual Report of Standard Charter Bank Nepal Ltd.

In above table shows that the cash and bank balance to total deposit ratio of SCBNL is in fluctuating condition. The highest ratio is 8.87 percent in F/Y 2008/09 and lowest ratio is 5.48 percent in fiscal year 2009/10. The average mean ratio is 6.994 percent. The ratios which lower than average are F/Y 2005/06, 2007/08 and 2009/10 and higher than average are F/Y 2006/07 and 2008/09 respectively. Anyway these all ratio shows that the bank is maintain the average liquidity position of the bank. These ratios show low liquidity position of the bank. Therefore, it shows that the bank much utilization of resource. Ist also known as average cash reserve ratio of SCBNL is 6.994 percent. It's show the optimum utilization of resource by SCBNL bank. Cash & bank balance to total deposit ratio is shown in the following graph.

Figure: 4.2
Cash and Bank Balance to Total Deposit ratio



iii) Cash and Bank Balance to Current Deposit Ratio:

This ratio shows the relations between cash & bank balance to current deposit. Cash and bank balance is aggregate outcome of deposit of customers plus other income and reserves of the bank. Bank is responsible to customer to pay out upon demand of customers any time so it is very important factor. The ratio between cash and bank to current deposit are as follows.

Table: 4.3
Cash and Bank Balance to Current Deposit Ratio

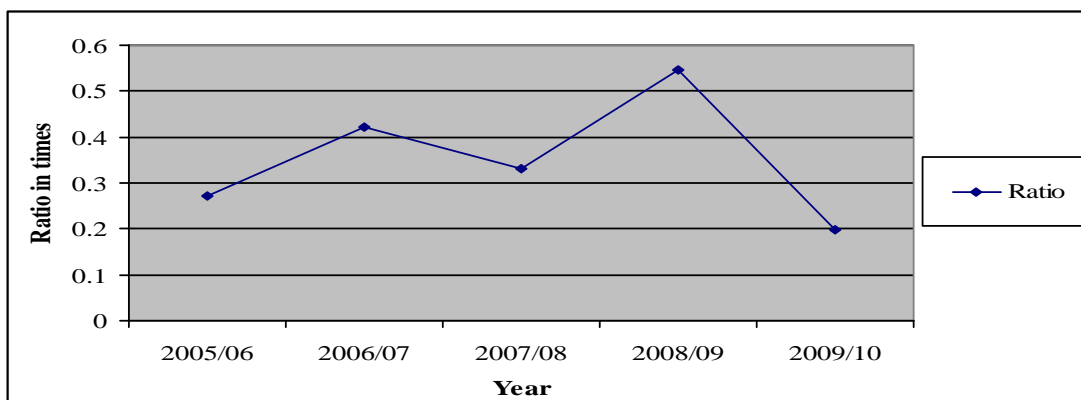
(Amount in Million)

Year	Cash and Bank Balance	Current Deposit	Ratio(Times)
2005/06	1276.24	4681.94	0.273
2006/07	2021.02	4794.53	0.421
2007/08	2050.24	6174.56	0.332
2008/09	3137.16	5752.1	0.545
2009/10	1929.3	9763.15	0.198
Mean			0.354

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows the Cash and bank balance to current deposit of SCBNL. The ratios are 0.273, 0.421, 0.332, 0.545 and 0.198 times respectively from the first year to last year of the research period. The highest ratio is in 2008/09 and lowest in 2009/10. The mean average calculation is 0.354 times, which means consistency in this ratio during the research period. Bank utilizes its fund assuming demand of all deposit will not demand same day. Cash and bank balance would satisfactory to meet the demand of current depositors. Therefore, here seems to be making more cash and bank balance to meet the current deposit. Otherwise, the bank would lose its image from the viewpoints of customers if all current depositors demand their deposit same day.

Figure: 4.3
Cash and Bank Balance to Current Deposit Ratio



iv) Cash and Bank Balance to Interest Sensitive Deposit Ratio

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

Table: 4.4
Cash and Bank balance to interest sensitive deposit Ratio

(Amount in million)

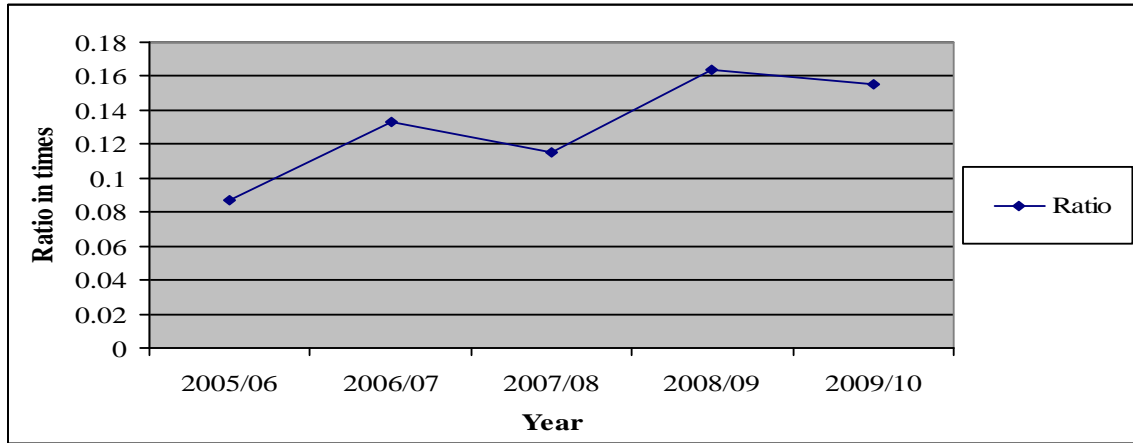
Year	Cash and Bank Balance	Sensitive Deposit	Ratio(Times)
2005/06	1276.24	14597.67	0.087
2006/07	2021.02	15244.38	0.133
2007/08	2050.24	17856.13	0.115
2008/09	3137.16	19146	0.164
2009/10	1929.3	12430.01	0.155
Mean			0.1308

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Table 4.4 shows that the cash and bank balance to interest sensitive ratio of SCBNL is in fluctuating trend. The cash and bank balance to saving deposit ratios are 0.087, 0.133, 0.115, 0.164 and 0.155 respectively during the study period. The average mean ratio is 0.1308 times. Bank utilizes its interest sensitive fund assuming demand of all deposit will not demand same time. So this means that the bank is able to maintain this ratio in the fine financial condition. The highest ratio is 0.164 times in the year 2008/09 and lowest ratio of 0.087 times in the year 2005/06. Lower this ratio indicates higher lending and investment by bank and vice versa. The sensitive deposit ratio is volatiles so the condition of sensitive of bank also fluctuating. Therefore, credit management moderate position of the SCBNL. Cash, bank balance and interest sensitive deposit of SCBNL are presented in following diagram.

Figure: 4.4

Cash and Bank balance to interest sensitive deposit Ratio



v) Investment of Government Securities to Current Assets Ratio

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on Government securities to current assets ratio visualize the proportion of investment on government securities to current assets.

Table: 4.5

Investment on Gov. Security to Current Assets Ratio

(Amount in Millions)

Year	Investment on Gov. Security	Current asset	Ratio (in %)
2005/06	8644.86	20624	41.92
2006/07	7107.94	21393.47	33.22
2007/08	8137.67	26103.99	31.17
2008/09	9998.75	31444	31.80
2009/10	8531.52	28632	29.80
Mean			33.582

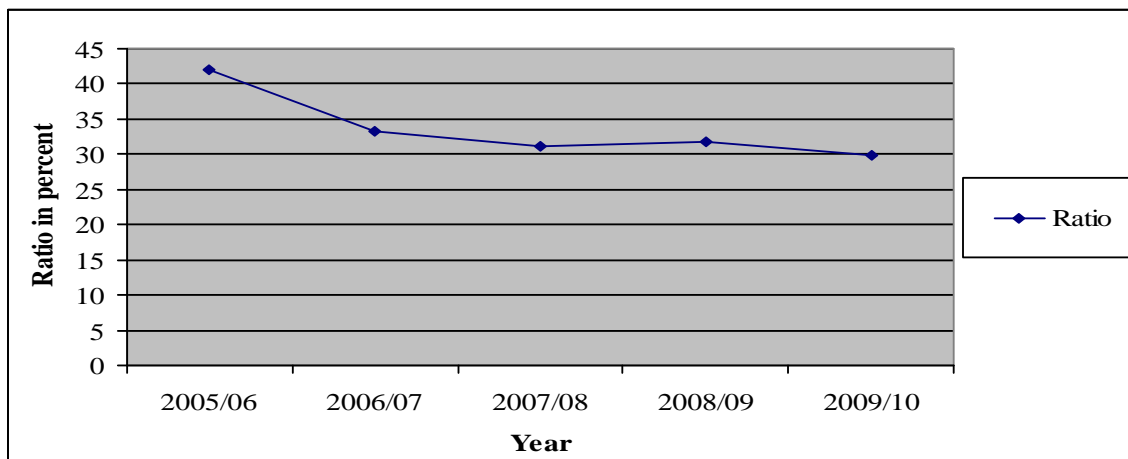
Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

The table 4.5 shows the ratio of investment on Govt. Security to current assets which is in fluctuating decreasing trend. The highest ratio is 41.92 percent in year 2005/06 and lowest is

29.80 percent in fiscal year 2009/10. The mean ratio is 33.582%. This ratio indicates that the bank has invested more its current asset in risk free and highly liquid asset govt. securities. So the bank is in good and safe condition. The bank focus on invest in risk free asset rather than risky investment. The following figure shows of investment on Govt. Security to current assets ratio of SCBNL.

Figure: 4.5

Investment on Gov. Security to Current Assets Ratio



4.2.2 Assets Management Ratio:

Asset management means manage or utilization of all about of asset. It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. There are some ratios are examined under.

i) Credit and Advances to Fixed Deposit Ratio:

Credit and advances clearly state that it is the assets of the bank and fixed deposit is the liability. It's also known as loan and advance ratio. So, this is the ratio between assets and liability. This helps to show the ratio of Loan & advances to fixed deposit. We can also conclude that what part of the credit and advances is initiated against fixed deposit.

Table: 4.6
Credit and Advances to Fixed Deposit Ratio

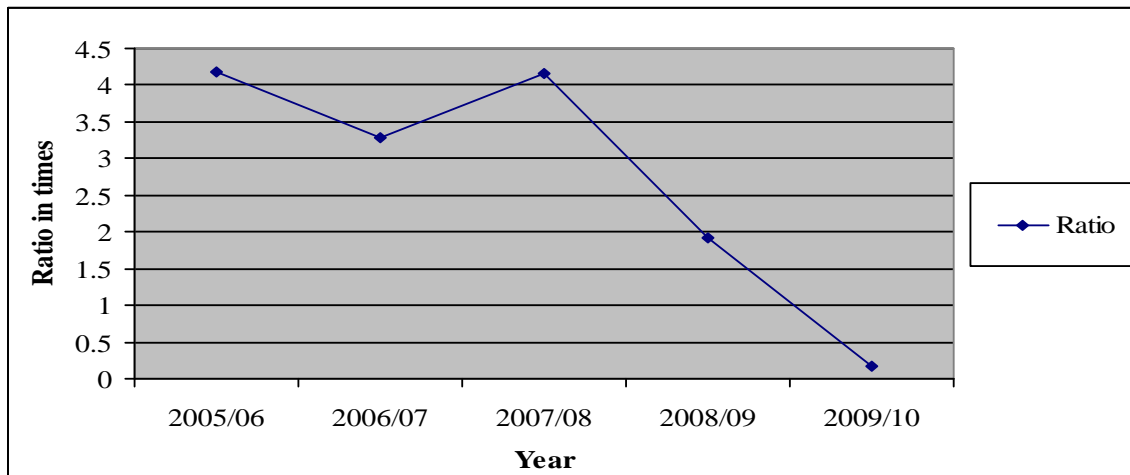
(Amount in million)

Year	Credit and Advances	Fixed Deposit	Ratio(Times)
2005/06	8935.42	2136.31	4.18
2006/07	10502.64	3196.49	3.28
2007/08	13718.6	3301.01	4.15
2008/09	13679.76	7101.69	1.93
2009/10	15956.95	91750.07	0.17
Mean			2.742

Source: Annual Report of Standard Charter Bank Nepal Ltd.

The table shows loan and advances to fixed deposits ratio of SCBNL are decreasing trend in study period. The ratios are continuously decreasing beside F/Y 2007/08. The highest ratio is 4.18 in fiscal year 2005/06 and lowest ratio is 0.17 in fiscal year 2009/10 respectively. The loan and advances to fixed deposits ratio of first three year is higher than average ratio and last two year of study period is lower than average ratio. The mean average of SCBNL is 2.742 times at research period. The analysis shows that lending from fixed deposit is decrease by SCBNL. But it's recommended to focus increase in lending from fixed deposit rather than saving and current deposit. Credit and advance to fixed deposit ratio is represented in figure as follow.

Figure: 4.6
Credit and Advances to Fixed Deposit Ratio



ii) Credit and Advances to Total Deposit Ratio:

Credit and advances is the investing activities of the bank and total deposit is the deposit amount of the bank collected from its customers or depositor. So, we are trying to find out the ratio between credit & advances to total deposit. This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa

Table: 4.7

Credit and Advances to Total Deposit Ratio

(Amount in million)

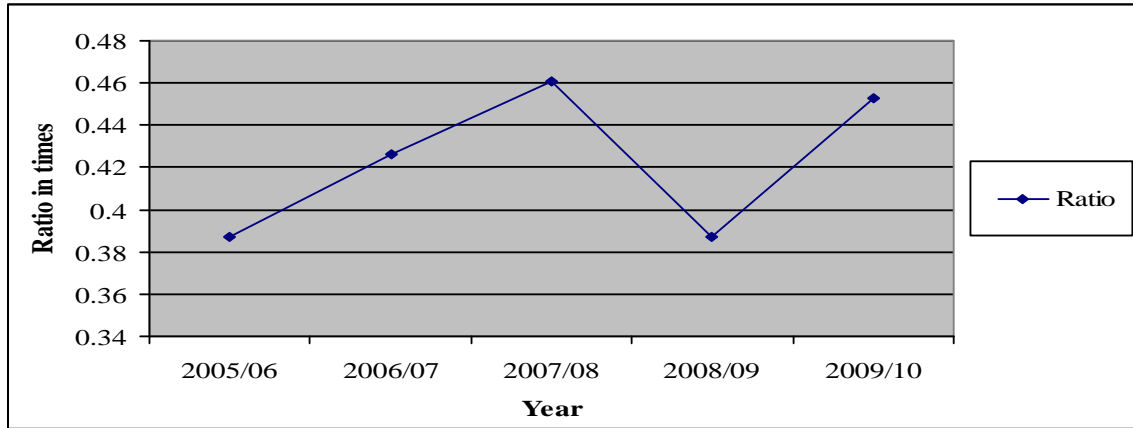
Year	Credit and Advances	Total Deposit	Ratio(Times)
2005/06	8935.42	23061	0.386
2006/07	10502.64	24647	0.426
2007/08	13718.6	29744	0.461
2008/09	13679.76	35350.8	0.387
2009/10	15956.95	35182.7	0.453
Mean			0.4228

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows that the total loan advances to total deposit ratio of SCBNL is in fluctuating trend. The highest ratio is 0.461 times in year 2007/8 and lowest ratio 0.386 times in year 2005/06. The average mean ratio of SCBNL is 0.4228 times in the study period. This means the bank mobilization low level of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has mobilization lower deposit than the NRB requirement or it has utilized its deposit to low loan. This means that credit management is in not enough good position of the bank. The bank should increases in lending from total deposit. However, it should be noted that too high ratio might not be better from liquidity point of view Loan advances and total deposit are presented in the line diagram.

Figure: 4.7

Credit and Advances to Total Deposit Ratio



iii) Total Investment to Total Deposit Ratio:

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

The following table exhibits the ratio of Total Investment to Total Deposit.

Table: 4.8

Total Investment to Total Deposit Ratio

(Amount in millions)

Year	Total Investment	Total deposit	Ratio (in %)
2005/06	12838.55	23061	55.67
2006/07	13553.23	24647	54.99
2007/08	13902.82	29744	46.74
2008/09	20236.12	35350.8	57.24
2009/10	19847.51	35182.7	56.41
Mean			54.21

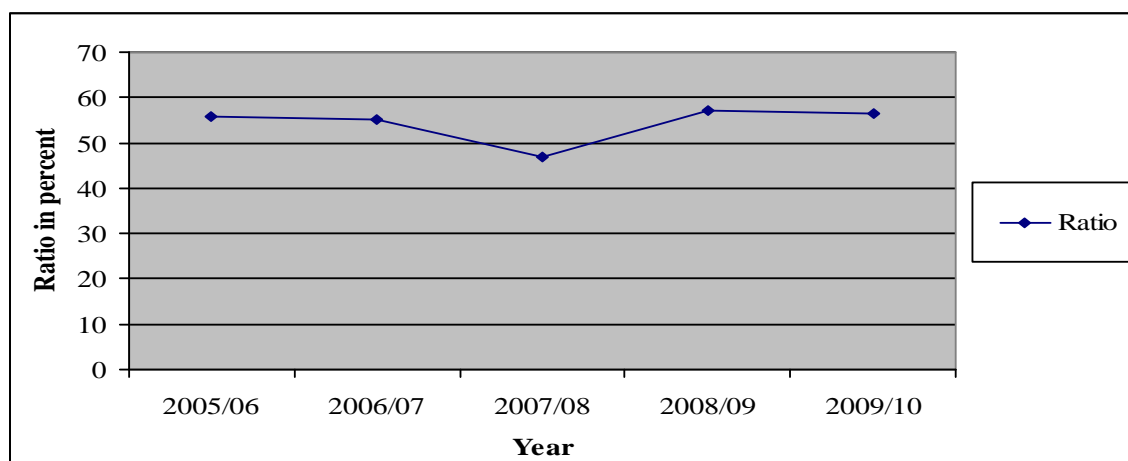
Source: Annual Report of Standard Charter Bank Nepal Ltd.

Table 4.8 shows the total investment to total deposit ratio of SCBNL. The total investment to total deposit ratio of SCBNL is fluctuating during the five year study period. The highest ratio is 57.24 percent in F/Y 2008/09 and lowest ratio is 46.74 in F/Y 2007/08. The mean ratio is 54.21

% over the study period. This indicates that the bank has invested more than providing as loan & advances. Total Investment to Total Deposit ratio is presented in figure as follows:

Figure: 4.8

Total Investment to Total Deposit Ratio



iv) Credit and Advances to Total Assets Ratio:

Credit and Advances to Total Assets Ratio is determined to find out the relationship between credit & advances to total assets. Credit and advances is the part of total assets. This ratio helps to find out that how much proportion of credit & advances to total assets.

Table: 4.9

Credit and Advances to Total Assets

(Amount in million)

Year	Credit and Advances	Total Assets	Ratio (in %)
2005/06	8935.42	25767.35	34.68
2006/07	10502.64	28596.69	36.73
2007/08	13718.6	33335.79	41.15
2008/09	13679.76	40066.57	34.14
2009/10	15956.95	40213.32	39.68
Mean			37.276

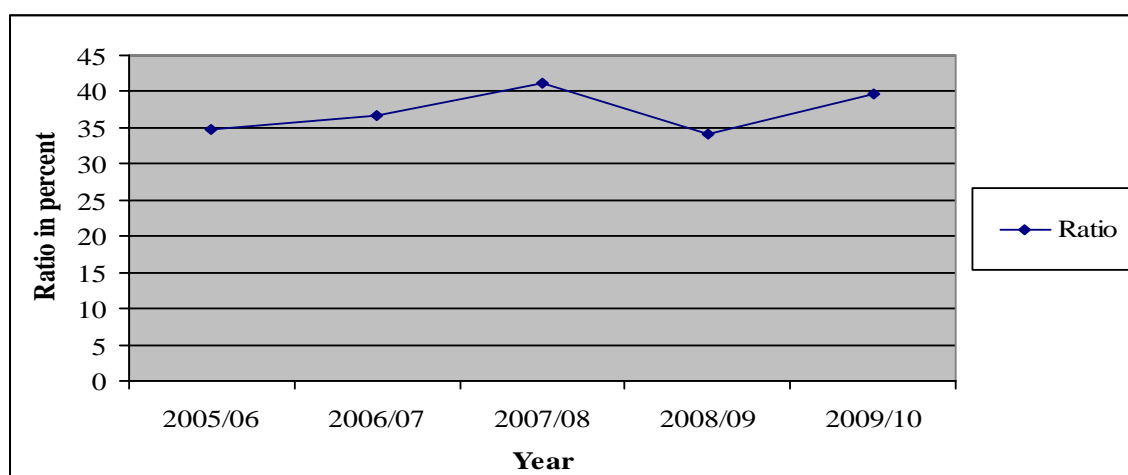
Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows the credit and advance to total asset SCBNL. The bank has generally mixed or fluctuating trends of credit and advances to total assets ratio under the study period. The ratios

are 34.68%, 36.73%, 41.15%, 34.14% and 39.68% in their respective year. The highest ratio is 41.14% in the year 2007/08 and the lowest ratio is 34.14 % year 2008/09. The average mean ratio is 37.276%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the fluctuation of the ratio is minimum. Loan and advances to total assets ratio is represented in figure as follow.

Figure: 4.9

Credit and Advances to Total Assets



v) Non-Performing Assets to Total Assets Ratio

Lower the non-performing assets ratio is good and higher the ratio is bad. This ratio measures lending opportunity of the bank.

Table: 4.10

Non-performing assets to Total Assets ratio

(Amount in million)

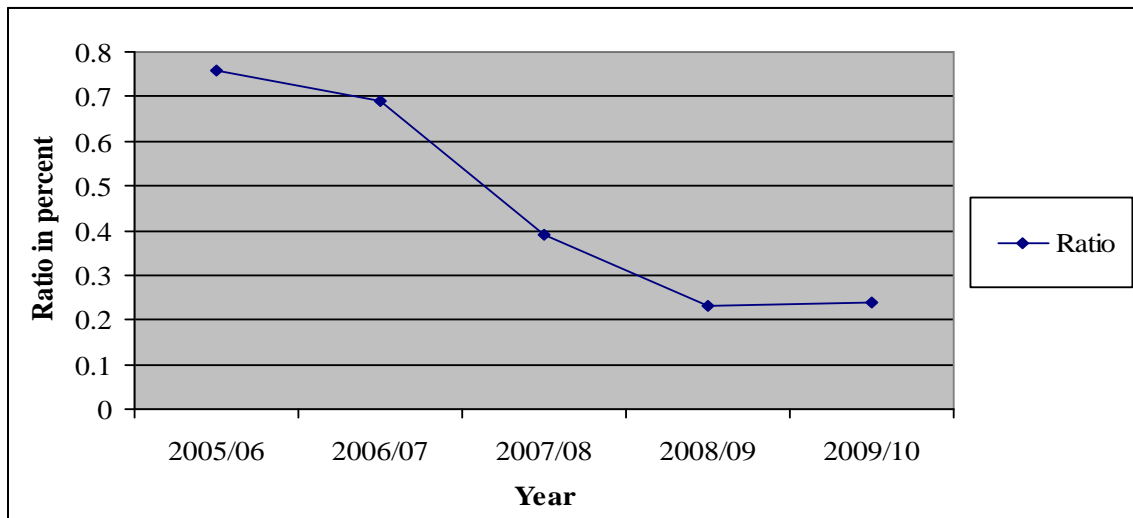
Year	Non-performing Assets	Total Assets	Ratio (%)
2005/06	195.93	25767.35	0.76
2006/07	197.02	28596.69	0.69
2007/08	128.72	33335.79	0.39
2008/09	91.041	40066.57	0.23
2009/10	98.135	40213.32	0.24
Mean			0.462

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows the non-performing assets to total assets ratio of SCBNL. The non-performing assets to total assets ratio of SCBNL is decreasing trend. The highest ratio is 0.76% in year 2005/06 and lowest ratio 0.23% in year 2008/09. The average mean ratio is 0.462% over the study period. The nonperforming asset from its total asset of SCBNL has very low so bank is able to obtain higher lending opportunity in secure sector. The fluctuating trends of ratios are minimum and it is lower than one percent. Therefore, credit management is in good position of the bank. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be lower than 5%. However, referring to this table, SCBNL is able to keep the level of non-performing assets at a good level, which is only an average 0.462% that is very low percent. Non-performing assets to total assets ratio is represented clearly in the figure.

Figure: 4.10

Non-performing assets to Total Assets ratio



4.2.3. Leverage Ratio

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

i) Total Debt to Equity Ratio:

Total debt is the liability of the firm and it is payable toward its creditors. Debt includes the value of deposits from customers, loan & advances payable, Bills payable and other liabilities. Equity is the share capital and reserves of the firm. This ratio shows the comparison in between total debt and equity.

Total debt = Debentures & Bonds + Borrowings + Deposits + Bills Payable + Proposed & Undistributed Dividends + Income Tax Liabilities

Total Equity = share capital + Reserve and surplus

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

Table: 4.11
Total Debt to Equity Ratio:

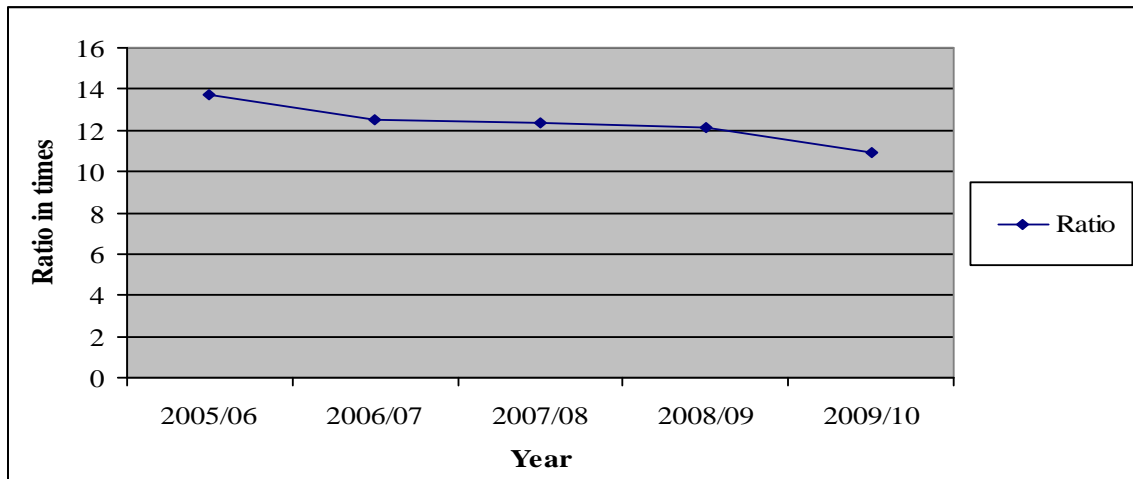
(Amount in million)

Year	Total Debt	Total Equity	Ratio (Times)
2005/06	24022.19	1754.14	13.69
2006/07	26480.34	2116.35	12.51
2007/08	30843.24	2492.55	12.37
2008/09	37014.1	3052.47	12.13
2009/10	36843.61	3369.71	10.93
Mean			12.326

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows the total debt to total equity ratio of SCBNL is continuously decreasing trend over the research period. The highest ratio is 13.69 times in the first year 2005/06, 12.51 times in the second year 2006/07, 12.37 times in the third year 2007/08, 112.13 times in the fourth year 2008/09 and last 10.93 times in the last fifth year 2009/10 of the research period. The average mean ratio is 12.326 times. Excess amount of debt capital structure results heavy burden in payment of interest. NRB assign 10 times of CD ratio. So SCBNL meet the requirement of NRB at last. Total debt to total equity ratio of SCBNL are presented in following figure.

Figure: 4.11
Total Debt to Equity Ratio



ii) Total Debt to Total Assets:

A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. Calculated by adding short term and long-term debt and then dividing by the company's total assets. In general creditors prefer a low debt ratio & owner prefer a high debt ratio in order to magnify their earning on one hand and to maintain their concerned control over the firm on the other hand.

Table: 4.12
Total Debt to Total Assets

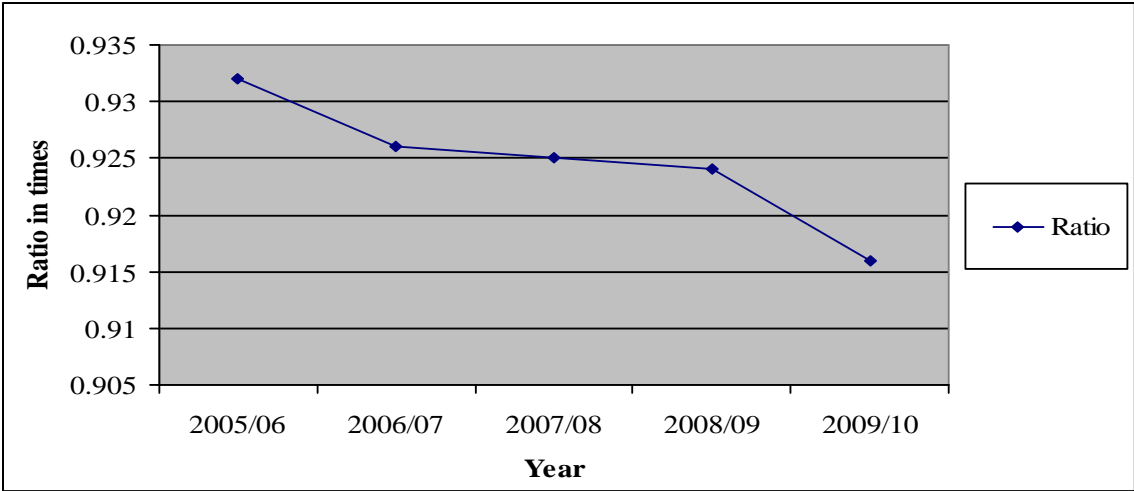
(Amount in million)

Year	Total Debt	Total assets	Ratio (Times)
2005/06	24022.19	25767.35	0.932
2006/07	26480.34	28596.69	0.926
2007/08	30843.24	33335.79	0.925
2008/09	37014.1	40066.57	0.924
2009/10	36843.61	40213.32	0.916
Mean			0.925

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows the total debt to total asset ratio of SCBNL. the total debt to total asset ratio are found as 0.932 times, 0.926 times, 0.925 times, 0.924 times and 0.916 from the study period 2005/06 to 2009/10 respectively. The ratio is continuously decreasing trends. The highest ratio is 0.932 times in F/Y 2005/06 and lowest ratio is 0.916 times in F/Y 2009/10. The average mean ratio is 0.925 times of study period. It means almost 92.5 of total assets is financed by the outsider's' funds. It is seen that there is not much deviation in the ratio for the five years study period. It means no change in the policy on this ratio for the five years study period. Ratio is represented in figure as follow.

Figure: 4.12
Total Debt to Total Assets



iii) Total Assets to Total Book Net worth Ratio:

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the paid-up capital plus reverses and retained of the bank. It is calculated to see the amount of assets financed by net worth

Table: 4.13
Total Assets to Net Worth

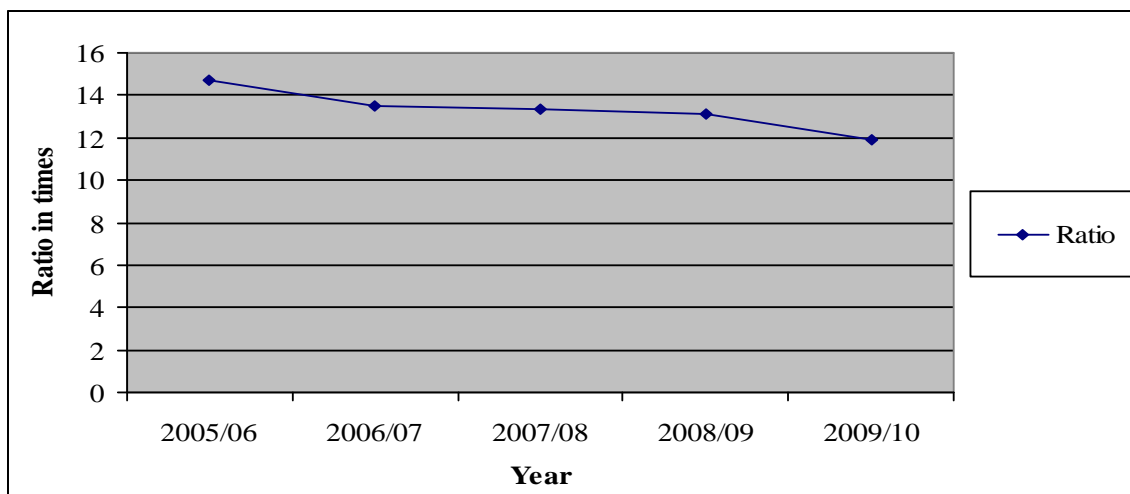
(Amount in million)

Year	Total assets	Net Worth	Ratio(Times)
2005/06	25767.35	1754.14	14.69
2006/07	28596.69	2116.35	13.51
2007/08	33335.79	2492.55	13.37
2008/09	40066.57	3052.47	13.13
2009/10	40213.32	3369.71	11.93
Mean			13.326

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows the total assets to net worth ratio of SCBNL are decreasing trend. The highest ratio 14.69 times in year 2005/06 and lowest ratio is 11.93 times in year 2009/10. In over all the study period the average ratio at that time is 13.326 times. The ratios of first three year are higher than average and last two year is lower than average ratio. It represents good condition of Total assets to net worth ratio. In above table we see that total assets to net worth are decreasing year by year on the study period. The figure show the clearly Total assets to net worth ratio of the bank

Figure: 4.13
Total Assets to Net Worth



4.2.4 Profitability Ratio

Profit is major objective of any business organization. Profit is engine that drives the business enterprises. Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Profitability ratio is calculated based on sales and investment. In the context of banks, no bank can survive without profit. Profit is one the major indicators of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are calculated:

i) Net Profit to Total Operating Income Ratio

The ratio measures the volume of gross income or operating income. The high ratio measure the higher efficiency of the bank and lower ratio indicates the lower efficiency of the bank.

Table: 4.14

Net Profit to Gross Income Ratio

(Amount in million)

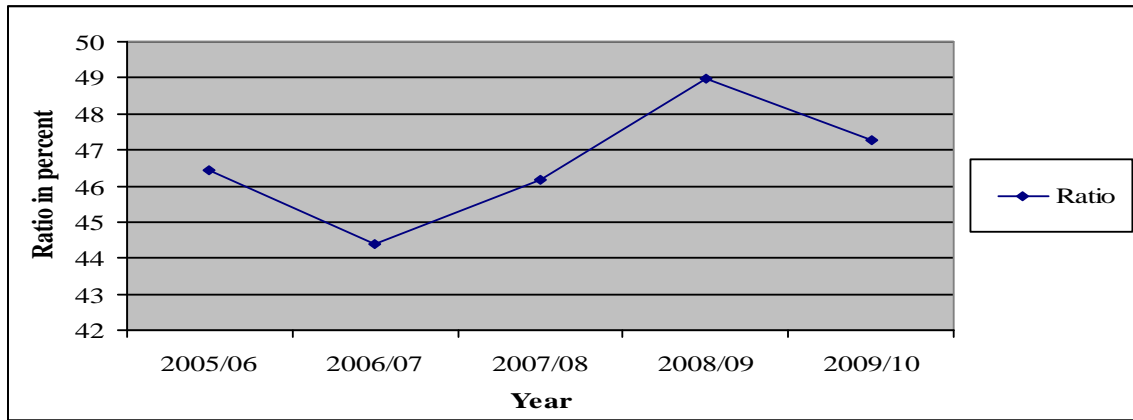
Year	Net profit	Gross Income	Ratio (in %)
2005/06	658.76	1418.25	46.45
2006/07	691.67	1558.01	44.39
2007/08	818.92	1774.15	46.16
2008/09	1025.11	2092.12	48.99
2009/10	1085.87	2297.71	47.26
Mean			46.65

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows that the total net profit to gross income ratio of SCBNL is in fluctuating trend. The highest ratio is 48.99% in year 2008/09 and lowest ratio 44.39% in year 2006/07. The mean ratio of SCBNL is 46.65% over the study period. These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. Net profit to gross income ratio is represented in figure.

Figure: 4.14

Net Profit to Gross Income Ratio



ii) Interest Income to Total Income Ratio

This ratio measures the volume of interest income to total income. The high ratio indicates the banks performance on other free base activities. The high ratio indicates the high contribution made by lending and investing activities.

Table: 4.15

Interest Income to Total Income Ratio

(Amount in million)

Year	Interest income	Total income	Ratio (in %)
2005/06	1189.6	1418.25	83.88
2006/07	1411.98	1558.01	90.63
2007/08	1591.2	1774.15	89.69
2008/09	1887.22	2092.12	90.21
2009/10	2042.11	2297.71	88.88
Mean			88.66

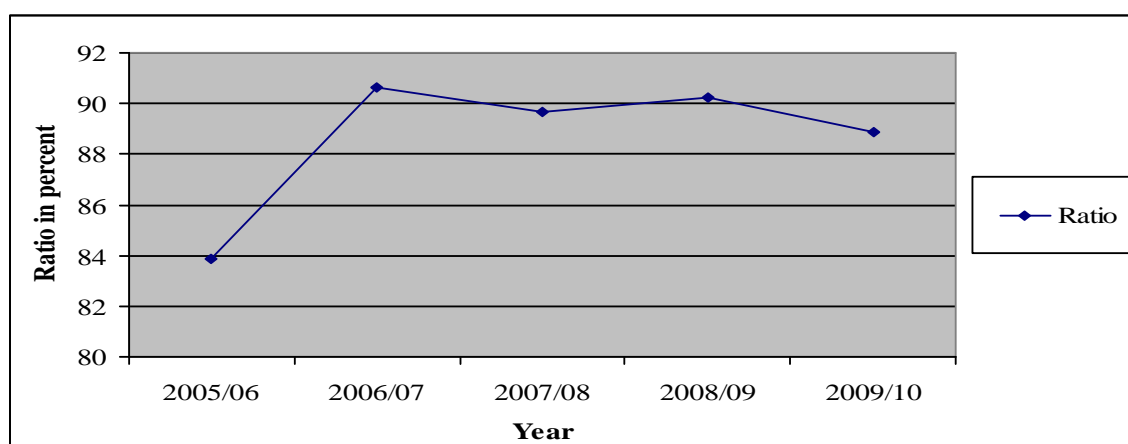
Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Table 4.15 shows that the total interest income to total income ratio of SCBNL. The total interest income to total income ratio of SCBNL is in fluctuating trend. The highest interest income ratio is 90.63 percent in year 2006/07 and lowest ratio 83.88 percent in fiscal year 2005/06. The

average mean ratio is 88.66 percent over the study period. The ratio indicates the high contribution made by lending and investing activities. The average total interest income to total income is 88.66 percent which means only 11.44 percent contribute by other factor. Therefore, credit management is in a good position of the bank. Interest income and total income are presented in bar diagram as follows:

Figure: 4.15

Interest Income to Total Income Ratio



iii) Operating Profit to Loan and Advances Ratio

Operating profit to loan advances ratio measures the earning capacity of commercial bank. Operating profit to loan and advance ratio is calculated by dividing operating profit by loan and advance.

Table: 4.16

Operating profit to Loan and advances Ratio

(Amount in million)

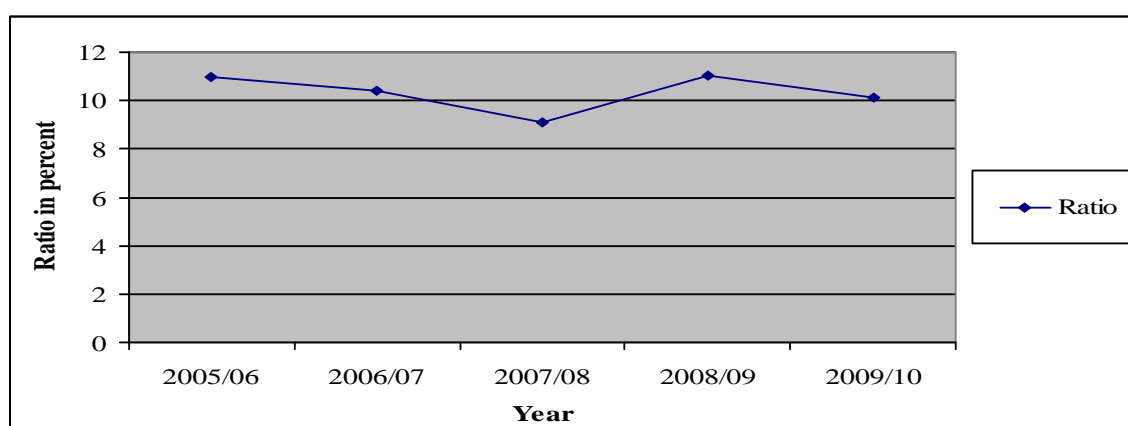
Years	Operating profit	credit and advances	Ratio (%)
2005/06	981.2	8935.42	10.98
2006/07	1092.97	10502.64	10.41
2007/08	1248.43	13718.6	9.10
2008/09	1506.11	13679.76	11.01
2009/10	1612.47	15956.95	10.11
Mean			10.322

Source: Annual Report of Standard Charter Bank Nepal Ltd.

Table 4.16 shows that the operating profit to loan and advances ratio of SCBNL is in fluctuating trend. The highest ratio is 11.01% in the year 2008/09 and lowest ratio is 9.10% in the year 2007/08. The average mean ratio over the period is 10.322%. This shows the high operating profitability in 2008/09 and low profitability in 2007/08 through loan and advance of the bank. These show the fine profitability position of SCBNL bank, but there is a fluctuation operating profit to loan and advance ratio. Anyway, credit management is in good position of the bank. Operating profit and loan advances are presented in the bar diagram as follows

Figure: 4.16

Operating profit to Loan and advances Ratio



iv) Return on Loan and Advances Ratio

This ratio measures the earning capacity of commercial banks through its fund mobilization as loan advances and vice-versa.

Table: 4.17

Return on Loan and Advances Ratio

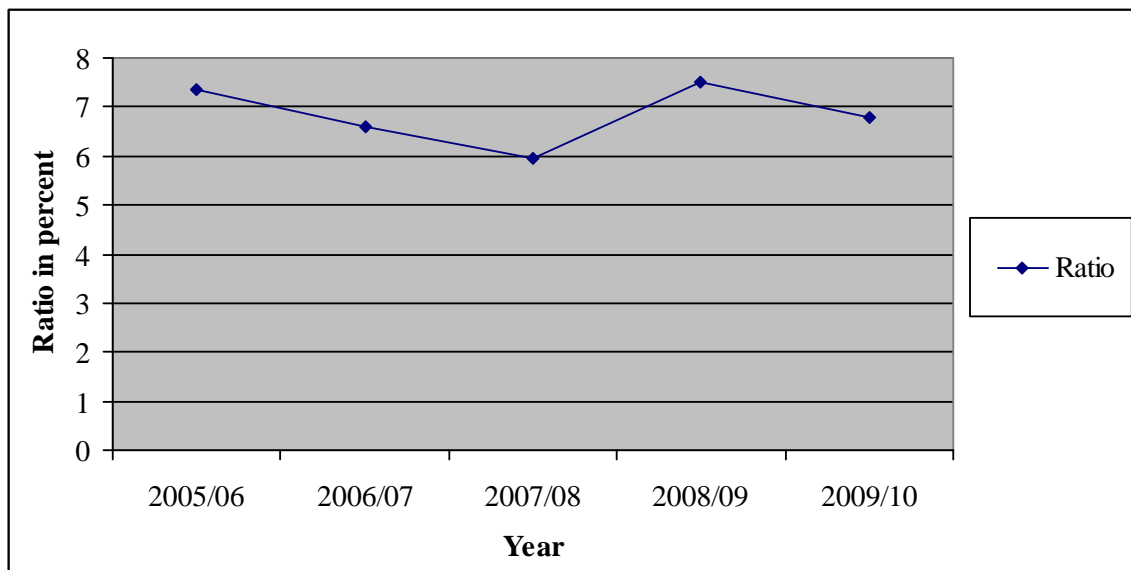
(Amount in million)

Year	Net profit	Credit and advances	Ratio (%)
2005/06	658.76	8935.42	7.37
2006/07	691.67	10502.64	6.59
2007/08	818.92	13718.6	5.97
2008/09	1025.11	13679.76	7.49
2009/10	1085.87	15956.95	6.80
Mean			6.844

Source: Annual Report of Standard Charter Bank Nepal Ltd.

Above table shows the return on loan and advances ratio of SCBNL. The return on loan and advances ratio of SCBNL is in fluctuating trend. The highest return on loan and advances ratio is 7.49% in the year 2008/09 and lowest ratio 5.97% in the year 2007/08. The average mean ratio is 6.844% over the study period. It means 6.844 percent of net profit is contributed by credit and advance. The Ratios are 7.37%, 6.59%, 5.97%, 7.49% and 6.80% in years 2005/6 to 2009/10 respectively. These show the highest earning in 2008/09 and lowest earning capacity in 2007/08 from loan and advances. These show the high earning capacity of SCBNL Bank through loan and advances. Thus, credit management is in good position of SCBNL. Net profit and loan advances are represented in the diagram as follows.

Figure: 4.17
Return on Loan and Advances Ratio



v) Net profit to Total assets

This ratio shows the relationship of Net Profit and total assets is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets.

Table: 4.18
Net profit to Total Assets

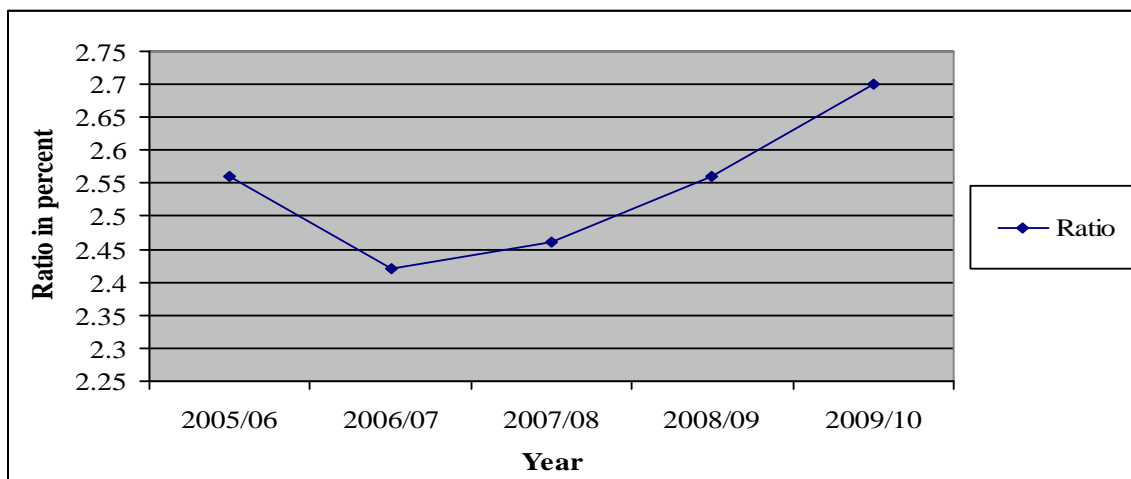
(Amount in million)

Year	Net profit	Total assets	Ratio (%)
2005/06	658.76	25767.35	2.56
2006/07	691.67	28596.69	2.42
2007/08	818.92	33335.79	2.46
2008/09	1025.11	40066.57	2.56
2009/10	1085.87	40213.32	2.70
Mean			2.54

Source: Annual Report of Standard Charter Bank Nepal Ltd.

Above table shows the Net profit to total assets ratio of SCBNL. The Net profit to total assets ratio of SCBNL is in increasing trend. The ratios are 2.56%, 2.42%, 2.46%, 2.56% and 2.70% in fiscal year 2005/6 to 2009/10 respectively. The highest ratio is 2.70 in 2009/10 and lowest ratio is 2.42% in the year 2006/07. The mean ratio is 2.54% over the study period. It means average 2.54 percent earning from utilizing its total asset. This shows the normal earning capacity through asset utilization. In above the five-year research period net profit and total assets both are increasing trend. The net profit to total asset of SCBNL is presented in following figure.

Figure: 4.18
Net profit to Total Assets



vi) Earning per Share

It measures the profit available to equity shareholders on per share basis i.e. the amount they can get each share held. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio is commutated by dividing the net profit after preference dividend by the number of equity.

Table: 4.19
Earning Per Share

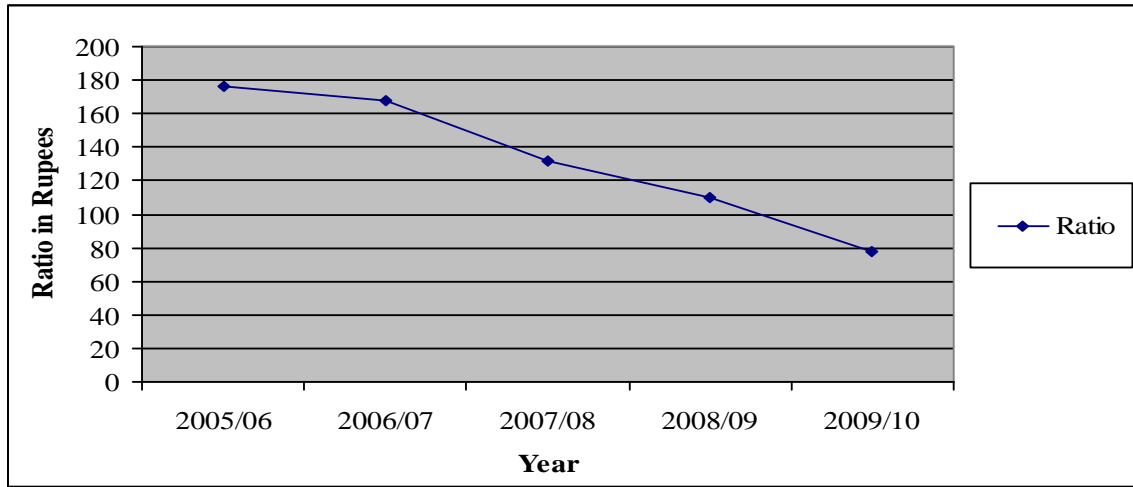
(Amount in million)

Year	Net profit	No. of equity shares	Earning per share (Rs.)
2005/06	658.76	41325500	175.84
2006/07	691.67	62078400	167.37
2007/08	818.92	931966	131.92
2008/09	1025.11	1398484	109.99
2009/10	1085.87	1608256	77.65
Mean			132.554

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows, that Earning per share of SCBNL is in decreasing trend. The highest EPS is RS 175.84 in year 2005/06 and lowest EPS is Rs. 77.65 in year 2009/10. The average means EPS of SCBNL Bank is Rs. 132.554 in the study period. This shows the earning per share of SCBNL is declining in the coming last years. The reason behind declining EPS is highly increase of capital than profit. The net profit of SCBNL is continuously increasing over the study period. End of year EPS is lower due to increased number of shareholder equity. Aggregate profit is in increasing trends. Therefore, credit management and overall performance of company is in good position. Earning per shares is represented in the following diagram.

Figure: 19
Earning Per Share



vii) Price Earning Ratio

Price earning ratio measures the profitability of the firm. Higher ratio measures the higher profitability of the firm lower ratio measures lower profitability of the firm. This ratio shows the relation ship between earning per share and market value per share.

Price earning ratio (PE ratio) = Market value per share / Earning per share

Table: 4.20

Price Earning Ratio

Year	Market price per share	Earning per Share	Ratio(Times)
2005/06	3775	175.84	21.47
2006/07	5900	167.37	35.25
2007/08	6830	131.92	51.77
2008/09	6010	109.99	54.64
2009/10	3279	77.65	42.23
Mean			41.072

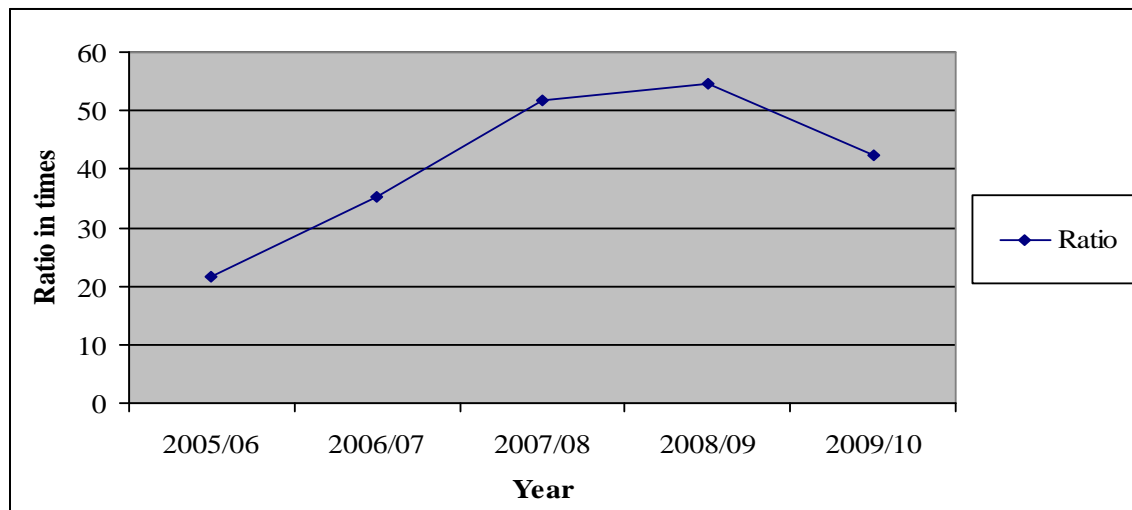
Source: Annual Report of Standard Charter Bank Nepal Ltd.

Above table shows the price-earning ratio of SCBNL. The price-earning ratio of SCBNL is in fluctuating trend. The highest price-earning ratio is 54.64 times in year 2008/09 and lowest ratio is 21.47 times in year 2005/06. The average mean ratio of the SCBNL is 41.072 times in the

study period. The PE ratios of first two year are lower than average ratio and last three year is higher than average ratio. These mean that the better profitability in the coming last years. In high PE ratio its better to sale share and at low PE ratio purchase the share. High PE ratio represents high expectation of company in market and high demand of share. But it is recommended to risk in invest in market price. Anyway, creditability seems to be good position. Price earning ratios are represented in the diagram as follow:

Figure: 4.20

Price Earning Ratio



4.2.5 Lending Efficiency Ratio

Lending Efficiency indicate the how properly or efficiently use the asset and funds. The efficiency of firm depends largely on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratio:

i) Total Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of the banks will come down by such amount. Increase in loan loss provisions decreases in profit result to decrease in dividends but its positive impact is that

strength financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. Therefore, it can be said that banks suffer it only for short-term loan while the good financial conditions and safety of loans will make bank's prosperity resulting increasing profit for long term. Loan loss provision is not more than 1.25% of risk bearing assets.

Table: 4.21

Loan Loss Provision to Total Loan and Advances Ratio

(Amount in million)

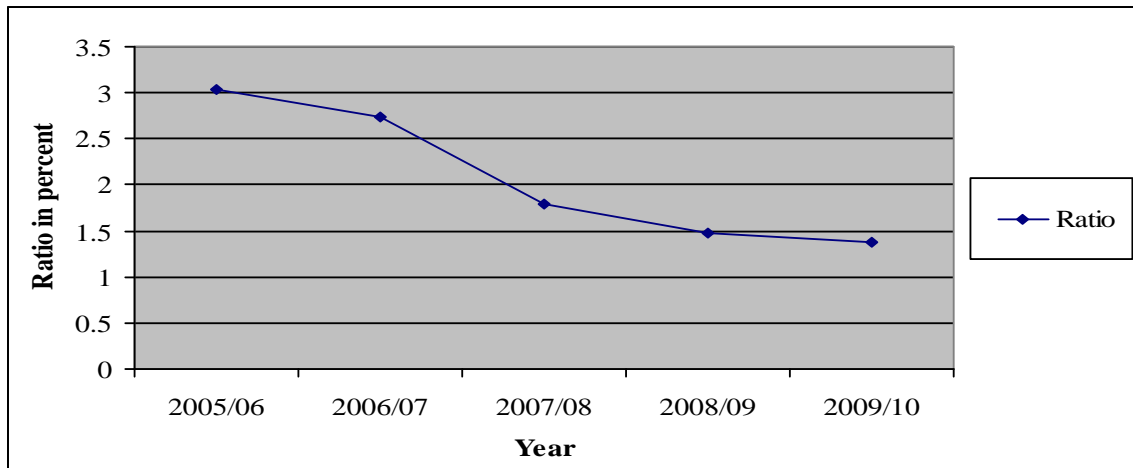
Year	Loan loss provision	credit and advances	Ratio (%)
2005/06	270.86	8935.42	3.03
2006/07	287.51	10502.64	2.74
2007/08	245.39	13718.6	1.79
2008/09	200.95	13679.76	1.47
2009/10	219.63	15956.95	1.38
Mean			2.082

Source: *Annual Report of Standard Charter Bank Nepal Ltd.*

Above table shows the loan loss provision to total loan and advances ratio of SCBNL is in decreasing trend. The highest ratio is 3.03% in fiscal year 2005/06 and lowest ratio 1.38% in year 2009/10. The mean ratio of the study period is 2.082%. This shows that good quality of assets in total volume of loan and advances. The provision of bank is continuously decreasing these indicate the good quality of assets in total volume of loan and advances. In other words the ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position. So, the bank has met the NRB requirement. Loan loss provision and total loan and advances are represented in the following diagram clearly.

Figure: 4.21

Loan Loss Provision to Total Loan and Advances Ratio



ii) Non-Performing Loan to Total Loan and Advances Ratio

This ratio shows the relationship of Non-performing loan and total loan and advance. It is determine how efficiently the total loan and advance have been used by the management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

Table: 4.22

Non-Performing Loan to Total credit and Advances

(Amounts in million)

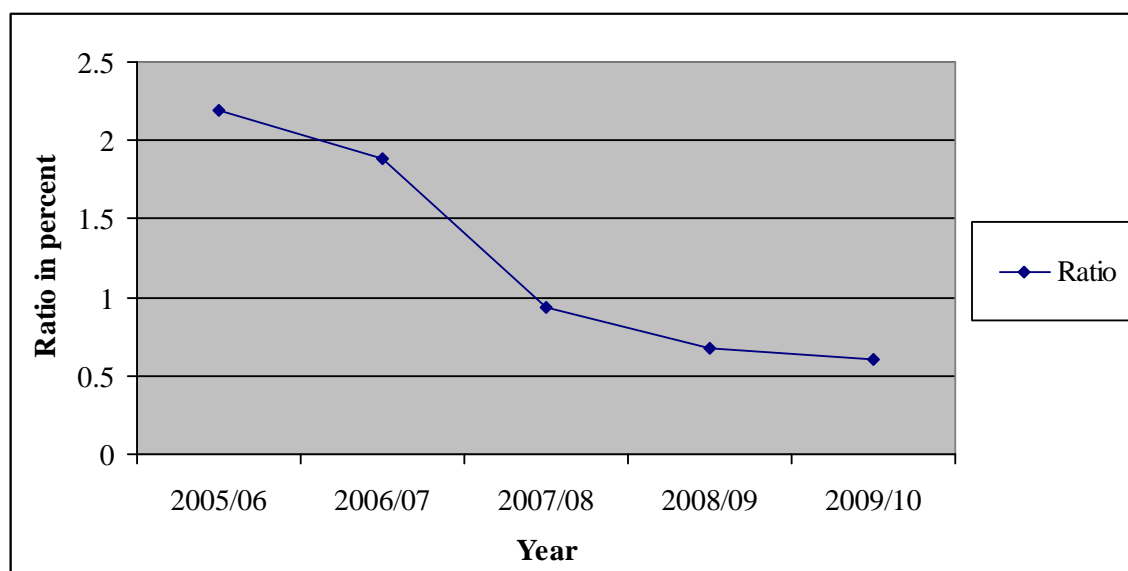
Year	Non performing Loan	Credit and advance	Ratio (%)
2005/06	195.93	8935.42	2.19
2006/07	197.02	10502.64	1.88
2007/08	128.72	13718.6	0.94
2008/09	91.041	13679.76	0.67
2009/10	98.135	15956.95	0.61
Mean			1.258

Source: Annual Report of Standard Charter Bank Nepal Ltd.

Above table shows the Non performing loan to total loan and advance of SCBNL. The non performing loan to total loan and advance of SCBNL is in decreasing trend. The ratios are 2.19%, 1.88%, 0.94%, 0.67% and 0.61% in consecutive year 2005/06 to 2009/10 respectively. The highest non performing loan to total loan and advance ratio is 2.19 % in the fiscal year 2005/06 and lowest ratio is 0.61% in the fiscal year 2009/10. The average non-performing loan to total loan and advances ratio of SCBNL is 1.258% during the study period. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicate the bank is decreasing the non-performing loan from total loan. It means loan and advance of SCBNL is good quality. Therefore, credit management is in a good position recently. Non-performing loan to loan and advances ratio presented in following figure.

Figure: 4.22

Non-Performing Loan to Total credit and Advances



iii) Interest Expenses to Total Deposit Ratio

The ratio measures the percentage of total interest against total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans and advances and vice-versa. It measures the interest expense towards the deposit.

Table: 4.23

Interest Expenses to Total Deposit Ratio

(Amounts in million)

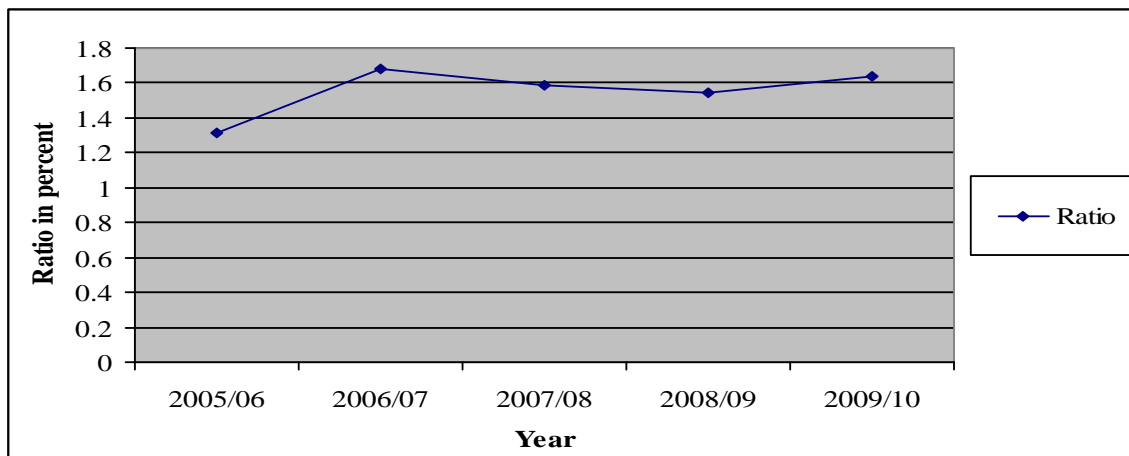
Year	Interest expenses	Total Deposit	Ratio (%)
2005/06	303.2	23061	1.31
2006/07	413.06	24647	1.68
2007/08	471.73	29744	1.59
2008/09	543.79	35350.8	1.54
2009/10	575.74	35182.7	1.64
Mean			1.552

Source: Annual Report of Standard Charter Bank Nepal Ltd.

Above table shows the interest expenses to total deposit ratio of SCBNL. The interest expenses to total deposit ratio of SCBNL is in fluctuating trend. The highest ratio is 1.68% in the year 2006/07 and lowest ratio is 1.317% in the year 2005/06. this indicate high interest expenses in fiscal year 2006/07 and lowest interest expenses to total deposit in F/Y 2005/06. The average mean point of interest expenses to total deposit ratio is 1.552% during the study period. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So credit policy and management is good of SCBNL. Interest expenses to total deposit ratio is represented in following figure.

Figure: 4.23

Interest Expenses to Total Deposit Ratio



4.3 Statistical Analysis

4.3.1 Correlation Coefficient

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

$$\text{Coefficient of Correlation (r)} = \frac{N \sum xy - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Here,

N = Number of pairs of x and y observed.

x = values of credit and advances.

y = values of total assets.

r = Karl Pearson's Coefficient of Correlation.

Probable Error

It is a method to determine the reliability of the value of Pearson's coefficient of correlation. It helps in interpreting the value of coefficient of correlation. If r is the calculated correlation coefficient in a sample of n pairs of observation, then its standard error, usually denoted by S.E. & is given by

$$\text{S.E. (r)} = \frac{1 - r^2}{\sqrt{n}}$$

Probable error of the coefficient of correlation can also be calculated from S.E. of the coefficient of correlation by the following formula:

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

Where r = coefficient of correlation

n = no of observations

The probable error is used to test whether the calculated value of correlation significant or not.

If $r < 6 \times P.E(r)$, then the value of r is not significant

If $r > 6 \times P.E(r)$, then the value of r is significant

In this course of study, correlation coefficient and probable error is used to measure sample the relation ship between.

- Total credit and Total assets
- Loan and advance and Total deposit

A) Correlation Coefficient between Deposit & Loan & Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. The main objectives of computing ‘ r ’ between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not. Coefficient of correlation determination between deposit and loan and advances of SCBNL

Table: 4.24

Correlation between Deposit and Loan and Advances

Name of Banks	Evaluation Criteria				
	Correlation Coefficient (r)	Coefficient of determination (r^2)	P Err.	6 P Err.	Remarks
SCBNL	0.924	0.8538	0.0441	0.2646	Significant

Source: *Through SPSS Data Editor*

The above table shows that the correlation coefficient between deposit and loan and advances of SCBNL. The correlation between deposit and loan and advances of SCBNL is 0.924. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.8538, which depicts that 85.38% of loan has been explained by the deposit collection and least is determined by other factor. It shows that increase in deposit highly lead to increase loan and advances. In accordance to increase in deposit SCBNL’s loan and advances is increasing in trend.

Probable error (P.E.) is 0.0441 and 6 P Err. is 0.2646. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r . Here, ' r ' is greater than 6 P Err. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and total deposit of SCBNL.

B) Coefficient of Correlation between loan and advance and total Asset

The coefficient of correlation between deposit and asset measures the degree of relationship between these two variables. The following Table No. 4.30 shows the coefficient correlation between loan and advance and total assets i.e. r , P. Er., 6 P. Er. and coefficient of determination (R^2) of SCBNL during the study period. The table 4.10 shows represent the correlation coefficient between loan and advance and total assets.

Table: 4.25
Correlation between loan and advance and total Asset

Name of Banks	Evaluation Criteria				
	Correlation Coefficient (r)	Coefficient of determination (r^2)	P Err.	6 P Err.	Remarks
SCBNL	0.925	0.8556	0.04355	0.2613	Significant

Source: *Through SPSS Data Editor*

The above table shows that the coefficient of correlation between loan and advance and total assets of SCBNL is 0.925. It shows the highly positive correlation between this two variable. So both lending and total asset move same direction. In addition, coefficient of determination of SCBNL is 0.9556. It means there is 85.56 percent of loan and advance is explained by total asset. The correlation coefficient is significant because the correlation coefficient is more than 6 P Err. It refers that there is significant relationship between lending and total asset. From the above analysis, the conclusion can be drawn that SCBNL has high degree positive correlation between loan and advance deposit and total assets.

C) Coefficient of correlation between deposit and investment

Coefficient of correlation between deposit and investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and investment is dependent variable(Y). The main objective of computing “r” between these two variables is to justify whether deposits are significantly used as investment in a proper way or not.

Table: 4.26

Coefficient of correlation between deposit and Investment

Name of Banks	Evaluation Criteria				
	Correlation Coefficient (r)	Coefficient of determination (r^2)	P Err.	6 P Err.	Remarks
SCBNL	0.937	0.8779	0.0368	0.22087	Significant

Source: *Through SPSS Data Editor*

Above table shows that coefficient of correlation between total deposits and investments of SCBNL. The coefficient of correlation between total deposits and investments of SCBNL is 0.937. There is positive relationship between these two variables. It refers that deposit and investment of all banks move together very closely but not proportionately. Moreover, the coefficient of determination of is 0.8779. It means 87.79 percent of variation in investment has been explained by total deposit. The correlation SCBNL is significant because the correlation coefficient is greater than the value of 6 P Err. In other words, there is significant relationship between deposits and investment of SCBNL.

D) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between lending and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of SCBNL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). This ratio determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination.

Table: 4.27
Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criteria				
	Correlation Coefficient (r)	Coefficient of determination (r^2)	P Err.	6 P Err.	Remarks
SCBNL	0.915	0.8372	0.0491	0.2946	Significant

Source: *Through SPSS Data Editor*

The above table shows the correlation coefficient between net profit and loan and advances of SCBNL. The correlation coefficient between net profit and loan and advances is 0.915. There is highly positive correlation between loan and advances and net profit. The coefficient of determination is 0.8372, which depicts that 83.72% of profit is explained by the loan and advance. Probable error (P.E.) is 0.0491 and 6 P Err. is 0.2946. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6 P.E. then there is evidence of significant correlation between profit and lending. That further reveals there is significant relationship between loan and advances and net profit of SCBNL.

4.3.2 Time Series Analysis (Trend Analysis)

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

Trend analysis is based on some assumptions;

- All the other things will remain unchanged.
- The bank will run in present condition.
- The economy will remain in present stage.
- N.R.B. will not change its guidelines to commercial banks.

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of SCBNL for further five year 2014/15.

Where,

$$Y = a + b x \dots\dots\dots (I)$$

Where $x = X - \text{Middle year}$

$$Y_c = 29575.48 + 3494.72X \text{ of SCBNL}$$

Table: 4.28

Trend Analysis of Total Deposit

(Amount in million)

Year(x)	Total Deposit
2005/06	23061
2006/07	24647
2007/08	29744
2008/09	35350.8
2009/10	35182.7
2010/11	40081.26
2011/12	43575.98
2012/13	47070.7
2013/14	50565.42
2014/15	54060.1

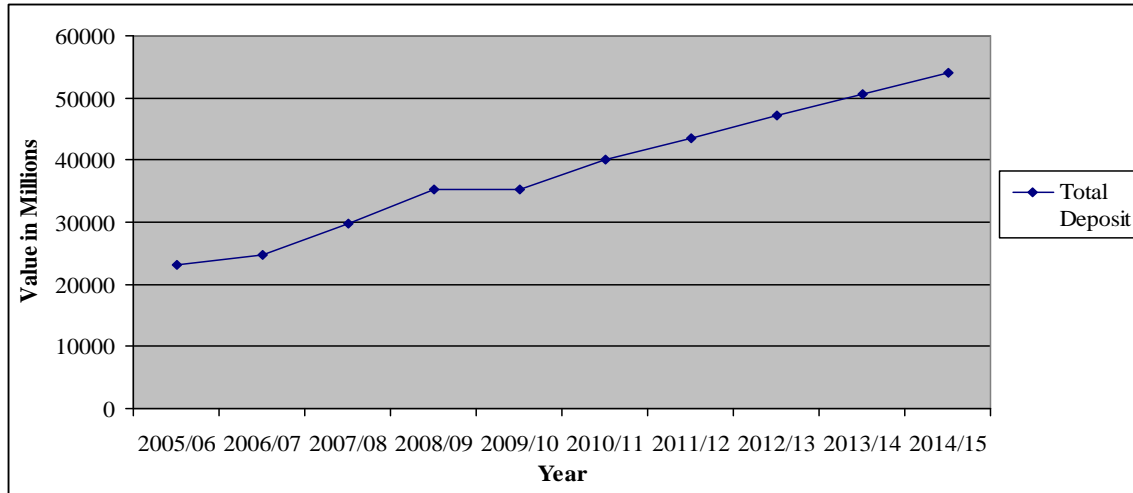
Source: *Annul Report of SCBNL*

Appendix 1

Above table shows that total deposit of SCBNL. The trend of total deposit of SCBNL is in increasing trend. The rate of increment of total deposit for SCBNL seems to be smoothly increasing trend. The trend analysis has projected deposit amount in fiscal year FY 2009/10 to FY 2014/15. The trend of total deposit of SCBNL is presented in following figure.

Figure: 4.24

Trend line of Total Deposit



b) Trend Analysis of total Loan and Advance:

Here, the trend values of loan and advances of SCBNL have been calculated for further five year.

The following Table shows the actual and forecasted trend values of SCBNL.

$$Y_c = 12558.67 + 1722.018 X \text{ of SCBNL}$$

Table: 4.29

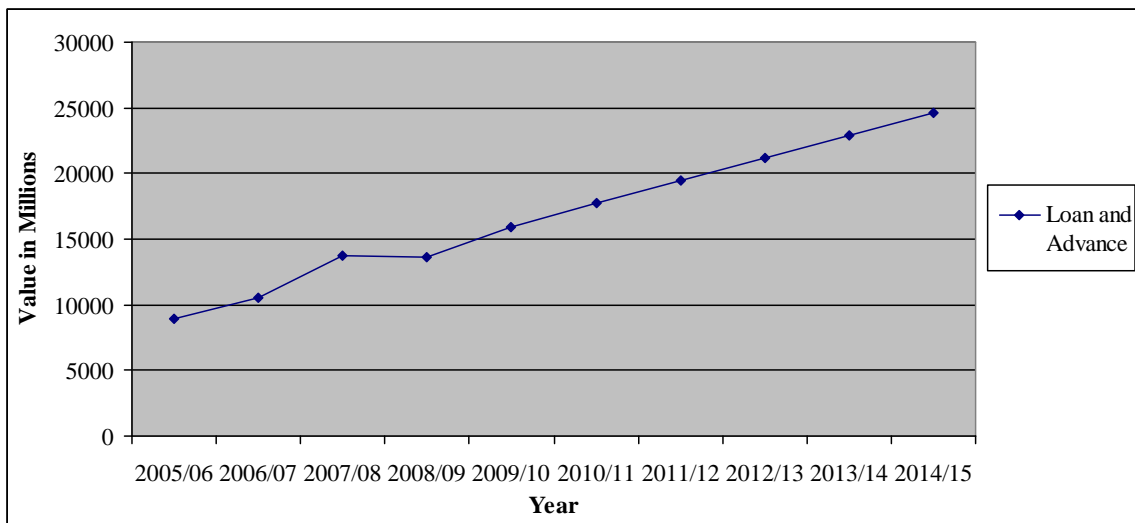
Trend Analysis of Loan and Advance

Year(x)	Loan and Advance
2005/06	8935.42
2006/07	10502.64
2007/08	13718.6
2008/09	13679.76
2009/10	15956.95
2010/11	17724.72
2011/12	19446.74
2012/13	21168.76
2013/14	22890.78
2014/15	24612.8

Source: *Annul Report of SCBNL*

Above table shows trend values of loan & advances of SCBNL. The trend values of loan & an advance of SCBNL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend projected for father five year FY 2010/11 to FY 2014/15. From the above analysis, it is clear that SCBNL is mobilizing its collected deposits and other funds in the form of loan and advances. The trend analysis has done amount in fiscal year FY 2005/06 to FY 2014/15. The trend of loan and advance of SCBNL are presented in following figure.

Figure: 4.25
Trend line of Loan and Advance



c) Trend Analysis of Total Asset:

Under this topic, an attempt has been made to analyze trend analysis total asset of SCBNL of F/Y 2005/06 to 2009/10 for further five years 2014/15.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where $x = X - \text{Middle year}$

Where as

$$Y_c = 23529.8 + 6201.80 X \text{ of SCBNL}$$

Table: 4.30
Trend Analysis of Total Asset

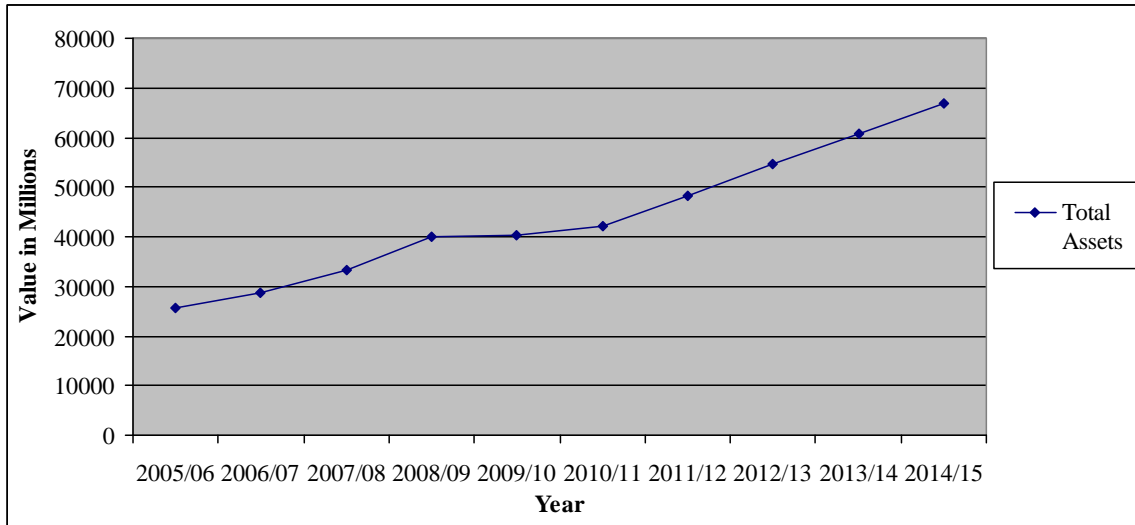
Year(x)	Total Assets
2005/06	25767.35
2006/07	28596.69
2007/08	33335.79
2008/09	40066.57
2009/10	40213.32
2010/11	42135.2
2011/12	48337
2012/13	54538.8
2013/14	60740.6
2014/15	66942.4

Source: *Annul Report of SCBNL*

Appendix 3

Above table and figure shows that trends of total Assets of SCBNL. The trend of Total Assets of SCBNL is in increasing trend. The rate of increment of Total Assets for SCBNL seems to be moderately increasing trend. It is better for company. This type of increment should maintain regularly. The trend analysis has projected deposit amount for further fiscal year FY 2010/11 to FY 2014/15. The following graph helps to show the trend lines of Total Asset for the projected five years.

Figure: 4.26
Trend line of Total Asset



C) Trend Analysis of Net Profit

Here, the trend values of net profit of SCBNL have been calculated for five years FY 2005/06 to FY 2009/10 and forecasting for further next five year till F/Y 2014/15

Where,

Y= dependent variable,

a=Y-intercept,

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Where as

$$Y_c = 856.066 + 118.766 X \text{ of SCBNL}$$

Table: 4.31
Trend Analysis of Net profit

Amount in million

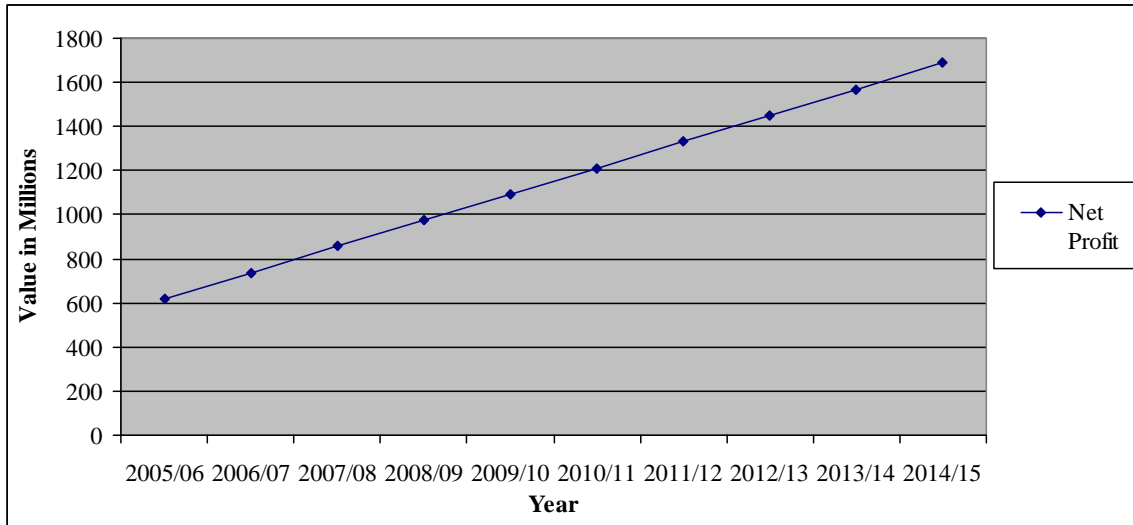
Year(x)	Net Profit
2005/06	618.534
2006/07	737.3
2007/08	856.066
2008/09	974.832
2009/10	1093.6
2010/11	1212.36
2011/12	1331.13
2012/13	1449.9
2013/14	1568.66
2014/15	1687.43

Source: *Annul Report of SCBNL*

Appendix 4

Above table shows that net profit of SCBNL. The trend of net Profit of SCBNL is in increasing trend. The rate of increment of net profit for SCBNL seems to be aggressively increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected deposit amount for fiscal year FY 2010/11 to FY 2015/16. The following figure helps to show the trend lines of Net profit for the projected five years of SCBNL.

Figure: 4.27
Trend line of Net profit



4.4 Major Finding of the Study

-) In the analysis of current ratio of ratio of SCBNL, The highest ratio is 1.81 times in year 2008/09 and lowest ratio 0.79 times in year 2006/07. The current mean ratio is 1.182 times. It is known that SCBNL has better liquidity position because the standard ratio is more than 1:1. The average current ratio it is notice that the banks have met the standard ratio, which able to meet its short term obligation.
-) The cash and bank balance to total deposit ratio of SCBNL is in fluctuating condition. The average mean ratio is 6.994 percent. This ratios show low liquidity position of the bank. Therefore, it shows that the bank much utilization of resource. It's show the optimum utilization of resource by SCBNL bank.
-) The average cash and bank balance to current deposit of SCBNL is 0.354 times during the study period. Bank utilizes its fund assuming demand of all deposit will not demand same day. Cash and bank balance would satisfactory to meet the demand of current depositors.
-) The cash and bank balance to interest sensitive ratio of SCBNL is in fluctuating trend. The average mean ratio is 0.1308 times. Bank utilizes its interest sensitive fund for income generation. Anyway bank is able to maintain this ratio in the fine financial condition. The sensitive deposit ratio is volatiles so the condition of sensitive of bank also

fluctuating. Therefore, credit management moderate position of the SCBNL.

- J The ratio of investment on Govt. Security to current assets which is in fluctuating decreasing trend. It indicates that bank has minimizing its investment to govt. treasury bills. The mean ratio is 33.582%. This ratio indicates that the bank has invested more its current asset in risk free and highly liquid asset.
- J For the aspect of asset management ratio loan and advances to fixed deposits ratio of SCBNL are decreasing trend. The mean average ratio of SCBNL is 2.742 times at research period. The analysis shows that lending from fixed deposit is decrease by SCBNL. But it's recommended to focus increase in lending from fixed deposit rather than saving and current deposit.
- J The total loan advances to total deposit ratio of SCBNL is in fluctuating trend. The average mean ratio of SCBNL is 0.4228 times. This means the bank mobilization low level of collected deposit. According to NRB directives above 70% to 90% of loan and advances is better mobilization of collected deposit. So all of the year the bank has mobilization lower deposit than the NRB requirement. This means that credit management is in not enough good position of the bank.
- J The total investment to total deposit ratio of SCBNL is fluctuating during the study period. The highest ratio is 57.24 percent and lowest ratio is 15.85. The mean ratio is 19.11 % over the study period which indicates that the bank has invested more than providing as loan & advances.
- J The bank has generally mixed or fluctuating trends of credit and advances to total assets ratio under the study period. The average mean ratio is 37.276%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the fluctuation of the ratio is minimum.
- J The non-performing assets to total assets ratio of SCBNL is decreasing trend. The mean ratio is 0.462%. The nonperforming asset from its total asset of SCBNL has very low so bank is able to obtain higher lending opportunity in secure sector. The credit management is in good position of the bank. According to the direction of NRB the non-performing assets to total assets should be lower than 5%. SCBNL is able to keep the level of non-performing assets at a good level.

-) The total debt to total equity ratio of SCBNL is continuously decreasing. The highest ratio is 13.69 times and lowest 10.93 times. The average mean ratio is 12.326 times. Excess amount of debt capital structure results heavy burden in payment of interest. NRB assign 10 times of CD ratio. So SCBNL meet the requirement of NRB at last.
-) The total debt to total asset ratio are found continuously decreasing trends. The highest ratio is 0.932 times and lowest ratio is 0.916 times. The average mean ratio is 0.925 times of study period. It means almost 92.5 of total assets is financed by the outsider's' funds. It is seen that there is not much deviation in the ratio for the five years study period. It means no change in the policy of SCBNL.
-) The total assets to net worth ratio of SCBNL are decreasing trend. The average ratio of SCBNL is 13.326 times. The ratios of first three year are higher than average and last two year is lower than average ratio. It represents good condition of assets to net worth ratio.
-) The total net profit to gross income ratio of SCBNL is fluctuating trend. The mean ratio of SCBNL is 46.65% over the study period. These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank.
-) The total interest income to total income ratio of SCBNL is in fluctuating trend. The highest interest income ratio is 90.63 percent and lowest ratio 83.88 percent. The average mean ratio is 88.66 percent over the study period. The ratio indicates the high contribution made by lending and investing activities. Therefore, credit management is in a good position of the bank.
-) The highest operating profit to loan and advances ratio is 11.01% and lowest ratio is 9.10%. The average mean ratio over the period is 10.322%. The ratio of SCBNL is in fluctuating trend. These show the fine profitability position of SCBNL bank, but there is a fluctuation operating profit to loan and advance ratio.
-) The return on loan and advances ratio of SCBNL is in fluctuating trend. The average mean ratio is 6.844% over the study period. It means 6.844 percent of net profit is contributed by credit and advance. These show the high earning capacity of SCBNL Bank through loan and advances.
-) Net profit to total assets ratio of SCBNL is in increasing trend. The highest ratio is 2.70 and lowest ratio is 2.42%. The mean ratio is 2.54% over the study period. It means average 2.54 percent earning from utilizing its total asset. This shows the normal earning

capacity through asset utilization.

- J Earning per share of SCBNL is in decreasing trend. The highest EPS is RS 175.84 and lowest EPS is Rs. 77.65 in year 2009/10. The average means EPS of SCBNL Bank is Rs. 132.554 in the study period. This shows the earning per share of SCBNL is declining. The reason behind declining EPS is highly increase of share capital. The net profit of SCBNL is continuously increasing over the study period. End of year EPS is lower due to increased number of shareholder equity.
- J The price-earning ratio of SCBNL is in fluctuating trend. The highest price-earning ratio is 54.64 times and lowest ratio is 21.47 times. The average mean ratio of the SCBNL is 41.072 times in the study period. These mean that the better profitability in the coming last years. In high PE ratio its better to sale share and at low PE ratio purchase the share. High PE ratio represents high expectation of company in market and high demand of share. But it is recommended to risk in invest in market price.
- J The loan loss provision to total loan and advances ratio of SCBNL is in decreasing trend. The mean ratio is 2.082%. This shows that good quality of assets in total volume of loan and advances. The provision of bank is continuously decreasing indicate the good quality of assets in total volume of loan and advances.
- J The non performing loan to total loan and advance of SCBNL is in decreasing trend. The average non-performing loan to total loan and advances ratio of SCBNL is 1.258%. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicate the bank is decreasing the non-performing loan from total loan. It means loan and advance of SCBNL is good quality.
- J The interest expenses to total deposit ratio of SCBNL is in fluctuating trend. The highest ratio is 1.68% and lowest ratio is 1.317%. The average mean point of interest expenses to total deposit ratio is 1.552%. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So credit policy and management is good of SCBNL.
- J The correlation between deposit and loan and advances of SCBNL is 0.924. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.8538, which depicts that 85.38% of loan has been explained by the deposit collection and least is determined by other factor. There is

significant relationship between loan and advances and total deposit of SCBNL.

- J The coefficient of correlation between loan and advance and total assets of SCBNL is 0.925. It shows the highly positive correlation between these two variables. So both lending and total asset move same direction. There is 85.56 percent of loan and advance is explained by total asset. Significant relationship between lending and total asset.
- J The correlation between total deposits and investments of SCBNL is positive. The coefficient of correlation between total deposits and investments of SCBNL is 0.937. The coefficient of determination of is 0.8779. It means 87.79 percent of variation in investment has been explained by total deposit and least is determined by other factor. There is significant relationship between deposits and investment of SCBNL.
- J The correlation coefficient between net profit and loan and advances is 0.915. There is positive correlation between loan and advances and net profit. The coefficient of determination is 0.8372, which depicts that 83.72% of profit is explained by the loan and advance. P.E. measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6 P.E. So there is significant relationship between loan and advances and net profit of SCBNL.
- J The trend of total deposit of SCBNL is in increasing trend. The rate of increment of total deposit for SCBNL seems to be smoothly increasing trend. The trend analysis has projected deposit amount in fiscal five year.
- J The trend of loan & advances of SCBNL is increasing trend. It is suggest to increase in loan and advance in same way to make better profit. The trend projected for further five year FY 2010/11 to FY 2014/15. It is clear that SCBNL is mobilizing its collected deposits and other funds in the form of loan and advances.
- J The trend of total assets of SCBNL is also increasing trend. The rate of increment of total assets for SCBNL seems to be moderately increasing trend. It is better for company. This type of increment should maintain regularly.
- J The trend of net Profit of SCBNL is in increasing trend. The rate of increment of net profit for SCBNL seems to be aggressively increasing trend. It is better for company but this type of increment should maintain regularly. The trend analysis has projected deposit amount in fiscal year FY 2009/10 to FY 2014/15.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In this chapter summary, conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for all concerned person, management of the bank and other stakeholder. This research has been undertaken to evaluate the credit policy of commercial banks. The standard charter bank Nepal limited banks have been selected as sample of the study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation.

This research is concerned about the analysis of credit policy and management of joint venture bank in Nepal with special reference to Standard charter bank Nepal Limited. The researcher has identified that research problem and set objectives to solve research problems about credit policy and management of SCBNL banks as described in introduction chapter. The main objective of the study is to analyze the credit policy of bank, various financial analysis, credit management, condition and position of liquidity, asset and profitability ratio and examine the relative relation and trend of SCBNL in terms of different kinds of ratios as well as offer suitable suggestions based on findings of this study. The research is based on secondary source of data. There include in first part background of study, introduction of SCBNL, focus of the study, statement of problem, objective, significant and limitation and organization of the study. To make this study more effective, related literatures have been reviewed. This section includes conceptual review and review of related studies. In conceptual review includes concept and function of commercial banks, concept of credit, types of credit, feature and objective of sound credit policy, principle of credit policy and lending process. In the review of related studies includes review of books, journal and articles, NRB directives and review of previous thesis as well.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools there analyzed various component of credit and lending, profile of liquidity, assets and debt management ratio as well as profitability and lending efficiency ratios. Various statistical tools such as arithmetic mean, coefficient of correlation, trend analysis have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter.

In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for all concerned person, management of the bank and other stakeholder. This research is concerned about the analysis of credit policy of commercial bank.

5.2 Conclusions

Thus this research is conducted with the major objective of highlighting credit policy of standard charter bank Nepal limited. The observation and conclusion is derived by analyzing feature and objective of sound credit policy including liquidity ratio, asset, debt management, profitability and lending efficiency ratio as we as relevant financial and statistical ratios. This has helped to reach conclusion and provide workable solution for the credit policy and management of selected sample banks.

In the financial analysis, average current ratio of ratio of SCBNL is 1.182 times. SCBNL has better liquidity position because the standard ratio is more than 1:1. The banks have met the standard ratio, which able to meet its short term obligation. The cash and bank balance to total deposit ratio of SCBNL is in fluctuating condition. The average mean ratio is 6.994 percent. The average cash and bank balance to current deposit of SCBNL is 0.354 times. The cash and bank balance to interest sensitive ratio of SCBNL is in fluctuating of SCBNL. The average mean ratio is 0.1308 times. Bank utilizes its interest sensitive fund for income generation. The investment on Govt. Security to current assets of SCBNL is fluctuating and decreasing. The mean ratio is 33.582%. This ratio indicates that the bank has invested more its current asset in risk free and highly liquid asset govt. securities.

For the aspect of asset management ratio loan and advances to fixed deposits ratio of SCBNL are decreasing. The total loan advances to total deposit ratio of SCBNL is in fluctuating trend. The average mean total loan advances to total deposit ratio of SCBNL is 0.4228 times. This means the bank mobilization low level of collected deposit. The total investment to total deposit ratio of SCBNL is fluctuating. The mean ratio is 19.11%. The bank has mixed or fluctuating trends of credit and advances to total assets. The average mean ratio is 37.276%. It shows that bank has capability in utilizing total assets in the form of credit and advances. The non-performing assets to total assets ratio of SCBNL is decreasing trend. The average mean ratio is 0.462% over the study period. The total debt to total equity ratio of SCBNL is continuously decreasing. The average mean ratio is 12.326 times. Excess amount of debt capital structure results heavy burden in payment of interest. The total debt to total asset ratio are also found continuously decreasing trends. The average mean ratio is 0.925 times. The total assets to net worth ratio of SCBNL are decreasing trend. The average ratio of SCBNL is 13.326 times. It represents good condition of total assets to net worth ratio.

In the aspect of profitability ratio, the total net profit to gross income ratio of SCBNL is fluctuating. Similarly the total interest income to total income is ratio also fluctuating trend. The average mean ratio is 88.66 percent over the study period. The ratio indicates the high contribution made by lending and investing activities. The averages mean operating profit to loan and advances ratio over the period is 10.322%. These show the fine profitability position of

SCBNL bank. The return on loan and advances ratio of SCBNL is in fluctuating. 6.844 percent of net profit is contributed by credit and advance. Net profit to total assets ratio of SCBNL is in increasing. It indicates good utilization of its asset. It means average 2.54 percent earning from utilizing its total asset. Earning per share of SCBNL is decreasing. The highest EPS is RS 175.84 and lowest EPS is Rs. 77.65. The average means EPS of SCBNL Bank is Rs. 132.554 in the study period. This shows the earning per share of SCBNL is declining. The reason behind declining EPS is highly increase of share capital. The price-earning ratio of SCBNL is in fluctuating. The average mean ratio of the SCBNL is 41.072 times in the study period. These mean that the better profitability in the coming last years. In high PE ratio its better to sale share and at low PE ratio purchase the share. The loan loss provision to total loan and advances ratio of SCBNL is in decreasing trend. The mean ratio is 2.082%. This shows that good quality of assets in total volume of loan and advances. The provision of bank is continuously decreasing indicate the good quality of assets in total volume of loan and advances. This also indicates that bank increasing performance. The non performing loan to total loan and advance of SCBNL is in decreasing trend. The average non-performing loan to total loan and advances ratio of SCBNL is 1.258%. This ratio indicates the more efficient operating of credit management. The average mean of interest expenses to total deposit ratio is 1.552%. The ratios are fluctuating during the study period. That this ratio does not indicate higher interest expenses on total deposit. Banks are dependent upon its ability to generate cheaper fund. So credit policy and management is good of SCBNL.

In the aspect of Statistical Analysis, the correlation between deposit and loan and advances of SCBNL is 0.924. There is positive correlation. 85.38% of loan has been explained by the deposit collection and least is determined by other factor. There is significant relationship between loan and advances and total deposit of SCBNL. The correlation between loan and advance and total assets of SCBNL is positive 0.925. So both lending and total asset move same direction. There is 85.56 percent of loan and advance is explained by total asset. The correlation coefficient is significant because the correlation coefficient is more than 6 P Err. The correlation between total deposits and investments of SCBNL is positive. The correlation of SCBNL is 0.937. The coefficient of determination of is 0.8779. It means 87.79 percent of variation in investment has been explained by total deposit and least is determined by other factor. There is significant

relationship between deposits and investment of SCBNL. The correlation between net profit and loan and advances is positive by 0.915. The coefficient of determination is 0.8372, which depicts that 83.72% of profit is explained by the loan and advance. Correlation is greater than 6 P.E. So there is significant relationship between loan and advances and net profit of SCBNL. The trend of total deposit of SCBNL is in increasing trend. The rate of increment of total deposit for SCBNL seems to be smoothly increasing trend. The trend of loan & advances of SCBNL is in increasing. It is suggest to increase in loan and advance in same way to make better profit. The trend projected for further five year FY 2010/11 to FY 2014/15. The trend of total assets of SCBNL is also increasing trend. The rate of increment of total assets for SCBNL seems to be moderately increasing. It is better for company. This type of increment should maintain regularly. The trend of net Profit of SCBNL is in increasing. The rate of increment of net profit for SCBNL seems to be aggressively increasing trend. It is better for company but this type of increment should maintain regularly.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the credit policy and management of SCBNL effective and efficient way. This would help to draw some outline and make reforms in the respective banks

-) Generally, banks have to maintained standard liquid assets. The current ratio of SCBNL is considerable. Because the bank have more than 1:1 ratio. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on.
-) Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to SCBNL.
-) Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. SCBNL has invest more amount in

Government securities but it is decreasing so its recommend to make constant investment.

-) To get success in competitive banking environment, deposit must be utilized as loan and advances. The average mean ratio of SCBNL is 42.31%. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. It means SCBNL recommended to increase loan and advances from its collected deposit.
-) The non-performing assets to total assets ratio of SCBNL is decreasing trend. The average mean ratio is 0.462% over the study period. The nonperforming asset from its total asset of SCBNL has low so bank is able to obtain higher lending opportunity in secure sector. Therefore, credit management is in good position of the bank. According to the direction of NRB the non-performing assets to total assets should be lower than 5%. So SCBNL is able to keep the level of non-performing assets at a good level, which is only an average 0.462% that is very low percent so SCBNL recommend maintain always that standard.
-) EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks. It is recommended to increase EPS and DPS for high demand for stock.
-) EPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS indicate higher return of the banks that would help them satisfy their shareholders. EPS of SCBNL is decreasing trend. The highest EPS is RS 175.84 and lowest EPS is Rs. 77.65. The average means EPS of SCBNL Bank is Rs. 132.554 in the study period. This shows the earning per share of SCBNL is declining. The reason behind declining EPS is highly increase of share capital because net profit of SCBNL is increasing. Anyway it is recommended to increase its EPS. Which will emphasis to increase in market price of share in stock market.
-) Provision reduces the profit. The provision to total loan and advances ratio of SCBNL is in decreasing trend. The mean ratio is 2.082%. This shows that good quality of assets in total volume of loan and advances. The provision of bank is continuously decreasing

indicate the good quality of assets in total volume of loan and advances. This also indicates that bank increasing performance. So its recommended to be more conscious in this regards.

-) Cash reserve ratio (CRR) describes whether the commercial banks have met the liquidity requirement as prescribed by NRB. Presently commercial banks have to maintain 5.5% of their total deposit in NRB and own in hand. So SCBNL recommend to maintain accurate CRR.
-) SCBNL banks recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan and advances in proper way, so that that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
-) Political instability directly affected the economic sector such as hotel and tourism, manufacturing and trading sector. Bank loan and advances are decreasing in this sector. So banks should give priority to these sectors as well as create new investing sector to mobilize deposit.
-) Any way SCBNL bank has been showing significant improvement, it should keep up with its growth trend to give strong competition to all the banks in the industry. In the light of growing competition in the banking sector, SCBNL should be customer oriented. It should strengthen and activate its marketing.
-) For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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Appendix - 1

Trend Analysis of Standard Chartered Bank Limited

Year(x)	Total deposit(Y)	X = x-2007/08	X ²	XY
2005/06	23061	-2	4	-46122
2006/07	24647	-1	1	-24647
2007/08	29744	0	0	0
2008/09	35350.8	1	1	35350.8
2009/10	35182.7	2	4	70365.4
Tot n= 5	Y = 147986	X = 0	X ² =10	XY= 34947.2

Source: Annul report of standard chartered Bank Limited

Where,

Y= dependent variable

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

SCBNL

$$a = 29597.1$$

$$b = 3494.72$$

Where as

$$Y = 29597.1 + 3494.72 * X \text{ of SCBNL}$$

Appendix - 2

Trend Analysis of Standard Chartered Bank Limited

Year(x)	Loan and advances (Y)	X = x-2007/08	X ²	XY
2005/06	8935.42	-2	4	-17871
2006/07	10502.6	-1	1	-10503
2007/08	13718.6	0	0	0
2008/09	13679.8	1	1	13679.8
2009/10	15957	2	4	31913.9
Tot n= 5	Y = 62793.4	X = 0	X ² =10	XY = 17220.2

Source: Annul report of standard chartered Bank Limited

Where,

Y= dependent variable

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

SCBNL

$$a = 12558.7$$

$$b = 1722.02$$

Where as

$$Y = 12558.67+1722.018*X \text{ of SCBNL}$$

Appendix -3

Trend Analysis of Standard Chartered Bank Limited

Year(x)	Total Asset (Y)	X=x-2007/08	X²	XY
2005/06	25767.4	-2	4	-51535
2006/07	28596.7	-1	1	-28597
2007/08	33335.8	0	0	0
2008/09	40066.6	1	1	40066.6
2009/10	40213.3	2	4	80426.6
Tot n= 5	Y = 167980	X = 0	X ² =10	XY = 40361.8

Source: Annul report of standard chartered Bank Limited

$Y = a + bx$

Where,

Y= dependent variable

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots\dots\dots (I)$

Where $x = X - \text{Middle year}$

Here,

$a = \frac{\sum Y}{N}$

$b = \frac{\sum XY}{\sum X^2}$

SCBNL

$a = 33595.9$

$b = 4036.18$

$Y_c = 33595.9 + 4036.18 X \text{ of SCBNL}$

Appendix - 4

Trend Analysis of Standard Chartered Bank Limited

Year(x)	Net profit (Y)	X = x-2007/08	X ²	XY
2005/06	350.53	-2	4	-701.06
2006/07	501.4	-1	1	-501.4
2007/08	697	0	0	0
2008/09	900.62	1	1	900.62
2009/10	1265.95	2	4	2531.9
Tot n= 5	Y = 3715.5	X = 0	X ² =10	XY = 2230.06

Source: Annul report of standard chartered Bank Limited

Where,

Y= dependent variable

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

SCBNL

$$a = 856.066$$

$$b = 118.766$$

Where as

$$y = 856.066 + 118.766 * X \text{ of SCBNL}$$