

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a small landlocked country situated between two giant countries China and India. However, with the high Himalayan mountain ranges to the north acting as natural physical barriers, Nepal is all practical purposes “India locked” in the sense that it has to depend almost exclusively on India not only for trade and transit but also for much essential daily consumption. To fulfill the growing credit requirement and also to collect more deposit for the development projects, Nepal Rastra bank adopted liberal policies and provided many facilities to probable bankers of Nepal and abroad through new commercial bank act 1974 A.D.

Bank is an establishment for depositing, withdrawing money (Oxford English Dictionary). Banks are institutions who pool to gather the scattered saving of the people and arrange for its productive use. In other words, they accept the surplus fund of people as deposit and supply it to meet the financial needs of the people and modern business by various means.

Bank plays an important role in the economic development of the country. Banking sector is very competitive these days. Besides the existing number of banks, some other banks are in the process of opening an operation. So, the competition in the banking sector is going to be higher than ever before. To exist in the competitive market, banks are trying to introduce different schemes and advantages to the customer so that bank can hold greater benefits and facilities.

Kathmandu valley has the highest per capita income of US \$ 446. Her annual per capita income is US \$ 220. The more than double the rural income, reflecting wide intra country disparity in per capita income. However, her

poverty level decreased by 11 % within the period of 8 years and reached to 31 %. The poverty level of rural areas and Kathmandu valley has been decreased by 8 % and 12 % respectively. The decline in poverty level is due to increase in Nepalese working abroad.

Agriculture plays a dominant role. More than 70 % of the people are engaged in the agriculture. It contributes about 40 % to the total GDP. Realizing the importance of industrial development, government initiated the economic reforms during last decade. The extent of development of any country is reflected by the development of financial sector of that country. The financial sector is a vast field, which comprises of banks, co-operative societies, insurance companies, financial companies, stock exchange, foreign exchange market, and mutual fund etc. or in other word: financial institutions. Financial institutions refer to organizations that act as agents, brokers, and intermediaries in financial transactions. These institutions facilitate and improve the distribution of funds, money, and capital by providing services like payment mechanism, security trading, transmutations, risk diversification and portfolio management. Further, these institutions mobilize saving and make investment in different enterprises of the national economy that consequently help in reducing poverty, raising employment opportunities and thereby developing the society and country as a whole.

In spite of the growing role and importance of financial institutions, the development and growth of financial institutions in Nepal were not encouraging till mid eighties. Only two commercial banks and six special purpose financial institutions represented the whole institutional base of financial sector in Nepal. The situation was not expected in that period when the government had a policy of absolute prohibitions of free banking and financial institutions.

The situation however changed since mid eighties when the government embarked on financial liberalization program with liberal attitude towards free entry of financial institutions in Nepal. In a period of about decade, a number of commercial banks, finance companies, insurance companies have come into existence.

After the establishment of Nepal Bank limited on 30th Kartik, 1994 B.S, and modern banking system started in Nepal. Under the Nepal Rastra Bank Act 2012, Nepal Rastra Bank was established on 14th Baisakh, 2013 in Nepal. Rastriya Banijaya Bank was established in Government sector in 2022 and Agricultural Development Bank in 2024, 7th Magh. There are 23 A Class commercial banks. There are 58 development banks, which lies in B Class. Then, in the chain, financial system covers 79 finance companies which lie in C Class, 18 insurance companies, 47 NGO's licensed to perform limited banking functions under the supervision of NRB.

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

1.2 Credit Management

Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks in the sense that, it occupies large volume of transactions, it covers the main part of investment, the most of the investment activities are based on credit, it is the main factor for crating profitability, it determines the profitability. It affects the overall economy of country. It is the security against depositors. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. Credit has proved to be backbone in commercial banks. Thus, effective management of credit should seriously be considered. Credit management refers management of credit exposures arising from loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

Credit management strongly recommends analyzing and managing the credit risks. Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the bank. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loans are the largest and most obvious sources of credit risk, however, other sources of credit risk exist through out the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and settlement of transactions.

The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a

bank has two broad dimensions, credit standards and credit decision, develop appropriate sources of credit information and methods of credit analysis.

1.3 Introduction of Sample Organizations under Study

a) Nepal Arab Bank Limited (NABIL)

Nepal was the Nepal's first and major Joint Venture bank, which commenced operations on 2nd July 1984 [29th Ashar 2041] with a paid up capital of Rs.30 million. Earlier it was called Nepal Arab Bank Ltd. It has all around 410 staffs all over the country. Operations of the bank including day to day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, internet banking system and Tele banking system. The main slogan of the bank is "YOUR BANK AT YOUR SERVICE". The head office is located in Kamaladi; Kathmandu. NABIL Bank has encouraged foreign investment and joint venture operation with Nepalese investors or in certain circumstances as fully owned subsidiary. NABIL Bank has worldwide correspondent network, which enables it to conduct International Trade Business with high level of accuracy and efficiency. Nabil was incorporated with the objective of extending international standards modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Today Nabil bank is in a unique position in the banking industry in Nepal, as the nation's first joint-venture bank it has an unmatched 22 years of operational experience giving it unparalleled insight into the market, risks, opportunities and customer needs. In conclusion to this, the bank today surges ahead in meeting its mission to be the "Bank of 1st Choice" for all its stakeholders, customers, shareholders, regulators.

It is the only bank having its presence Tribhuvan International Airport. The success of the NABIL Bank Ltd is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions.

The entire Nabil team embraces a set of values that acronym is referred to as C.R.I.S.P representing the fact we consistently strive to be Customer oriented, Result oriented, Innovative, Synergetic and Professional (C.R.I.S.P). By living these values, individually as professional and collectively as a team, Nabil bank is committed to surge ahead to be the Bank of 1st Choice in Nepal.

Capital Structure of NABIL Bank Ltd.

Share Distribution Pattern of (NABIL)

N.B (International) Limited, Ireland	50%
Nepalese Public	30%
Nepal Industrial Development Corporation	10%
Rastriya Beema Sansthan	9.67%
Nepal Stock Exchange Limited	0.33%

Share Capital of NABIL Bank Ltd.

Particular	Amount
1.Share capital	
Authorised capital	
(a) 5,000,000 Ordinary Shares of Rs.100 each	5,00,000,000
Issued capital	
(a) 4,916,544 Ordinary Share of Rs.100 each	4,91,654,400
Paid up capital	
(a) 4,916,544 Ordinary Share of Rs100 each	4,91,654,400

b) Nepal Investment Bank Limited (INBL):

Nepal Investment Bank Limited (INBL, is one of the leading bank of Nepal. It was established in 1986 as a joint venture between Nepalese and French partners and was previously known as Nepal Indosuez Bank Ltd. INBL was

established with the vision to be the most preferred provider of financial services in Nepal. INBL focuses on serving the customers and communities with a belief that success can only be achieved by living our core values and ethical principles. INBL provides a complete range of commercial banking services with 18 points of representations in different parts of the country. It also has a widespread reach across the globe with the tie up with various corresponding banks.

Shareholders of INBL

The Shareholders Structures are as follows:

Shareholders and Promoters	Ratio
Nepal Government	50%
Rastriya Banijya Bank	15%
Rastriya Beema Sansthan	15%
General Public	20%

Share Capital and Ownership of INBL Bank:

Shares	Amounts(current Year)
Authorized Capital (10,000,000 ordinary shares @Rs. 100)	Rs. 1,000,000,000
Issued Capital (5,905,860 ordinary shares @Rs.100)	Rs. 590,586,000
Paid-up Capital (5,877,385 Shares @Rs.100)	Rs. 587,738,500

1.4 Statement of the Problem

For the economic growth of a nation, proper utilization of available resources in efficient manner is highly necessary. The major problem of developing country like Nepal is the problem of economic growth with stability. Due to various factors, the economic activities have been highly fluctuating. In present situation of distortion bank has higher threats to run into credit risk. Major banking problems have been caused by weakness in credit management. Banks should now have a keen awareness of his need to identify measure, monitor and control credit as well as to determine that they hold adequate capital against it.

These risks that they are adequately compensated for risks incurred. So to establish creditability position is a major issue in commercial banking sector during these days.

There may be no debate that high profitable or successful organization can easily fulfil all the needs of the organization, customers and can serve the society. To improve the profitability situation of the bank, it is necessary to establish the higher creditability position of the bank. Thus, the creditability is the major source and building better creditability position is major strategy of every commercial bank.

Credit is the most effective part of investment for the banks. It is regarded as the heart of every commercial bank. But the banking sector is far from this fact. Thus, credit management is considered as the heart issues in Nepalese commercial banking sector.

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

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

1.5 Objectives of the Study

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

1. To assess credit practices of selected Nepalese commercial banks
2. To explore the credit efficiency of selected Nepalese commercial banks.
3. To explore the relationship with loan and advances, non-performing loan and net profit of selected Nepalese commercial banks.
4. To recommend for the improvement on the basis of findings of the study after analysing the Credit Management.

1.6 Significance of the Study

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

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

1.7 Limitations of the Study

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

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

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

1.8 Organization of the Study

This section deals on how the whole thesis has been structured. This consists of

Chapter - I: Introduction

This chapter contains the background of the study, statement of the problems, objectives of the study, significance of the study and limitation of the study.

Chapter - II: Review of Literature

This chapter presented review of literature where some past related research works, articles, discussion papers are reviewed.

Chapter - III: Research Methodology

This chapter explains the research methodology used in this research to find the result for meeting the objectives set in the chapter one.

Chapter – IV: Data Presentation and Analysis

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

Chapter - V: Summary, Conclusion and Recommendations

Finally, in chapter five, whole study is summarized and the findings and conclusions are drawn. Recommendations based on analysis of data are made to solve the research problem.

CHAPTER - II

REVIEW OF LITERATURE

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed. It is divided into two headings:

-) **Conceptual Review**
-) **Review of Related Studies**

2.1 Conceptual Review

“Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker’s business is then to take the debt of other people to offer his own in exchange and there by to create money. He may be a dealer in debts, but in distress is only the observe of wealth and it would be equally permissible to describe the banker as a liquefies of wealth” (Crowther, 2008:81).

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

The study seeks first and like some other to examine the relative importance of credit policy in marketing decisions and, second, to assess the case for

differentiating credit packages. It is also presented the result of an empirical survey into the credit policies pursued. In concept, the empirical study is similar to earlier studies.

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

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

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

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

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

But, recently, the bank and financial development institutions Ordinance, 2060 has accumulated the five banking acts including commercial bank Act 2031, which defines the bank with respect to their transactions. This Act is trying to categorize the banking institutions in two ways that is based on their transactions. According to this Act, “Bank is the institution which performs its transition under the provisions mentioned on section 47 of this Act.

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

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

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

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

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

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

2.1.1 Financial Analysis

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz. owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “The indicated quotient of two mathematical expressions” and “as the relationship between two things” (Adhikari, 2000).

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

Webster's new collegiate Dictionary defines a ratio as "The indicated quotient of two mathematical expressions and as the relationship between or more things." In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

Standard of Comparison

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

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

Types of Ratios

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

Credit Practices Ratio

) Total Loan to Total Deposit Ratio

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

) Loan and Advances to Total Assets Ratio

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

) Loan and Advances to Current Assets

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

) Interest Income to Loan and Advances

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

) Loan Loss Provision to Total Loan and Advances Ratio

It describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loan and advances into the category of pass,

standard, doubtful and loss and to wake the provision of 1, 25, 50, and 100 percent respectively. NRB has classified the pass and substandard loan as performing loans and others two types of loan as non-performing loans. The provision created against the pass and substandard loan is called the general loan loss provision and provision created against the doubtful and loss loan is called specific loan loss provision. The amount of loan loss provision in B/S refers to general loan loss provision. The provision for loan loss reflects the increasing profitability of non performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits.

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

) Non-Performing Loan to Total Loan and Advances Ratio

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

Credit Efficiency Ratio

) Interest Expenses to Total Deposit Ratio

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

) **Total Loan to Liabilities Ratio**

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

) **Interest Expenses to Total Expense Ratio**

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

) **Non-Interest Bearing Deposit to Total Deposit Ratio**

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

) **Interest Income to Total Income Ratio**

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

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

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

) Interest Suspense to Total Interest Income from Loan and Advances Ratio

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

2.1.2 Statistical Tools

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

Correlation

Correlation Analysis is the techniques of studying how the variations in one series are related to the variation in another series. Measurement of degree of relationship between two or more variables is called correlation analysis. Thus, correlation measures the degree of relationship between the variables.

2.2 Factors Affecting Credit policy

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

Industry Environment

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

Financial Condition

It determine the borrower's capacity to repay through cash flows as the "First way – out". The strength of "Second way – out" i.e. through collateral liquidation is also assessed. Further the possibility to fall back on income of sister concerns in case of financial crunch of the company condition theaters repayment capacity.

Management Quality

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

Technical Strength

It determines the strength and quality of technical support required for sustainable operation of the company in terms of manpower and the technology used. Appropriate technical competence of the manpower, the viability of the

technology uses, availability of after sales service, cost of maintenance and replacement need to be evaluated.

Security Realization

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

NPL in Nepal and Other Countries

Non- performing loan was the serious problem not only in national banking but also in the international banking. Non-performing loan differs in the various countries such as in 2003; the non-performing loan was 2.3% in U.K., 8.8% in India, 22% in China, 15.5% in Thailand and 2% in Japan (NRB Samachar, 2063:27).

In September 30, 2001 of the Latin American countries, among the 8 corer dollar share capital 7.51 corer dollar was non-performing loans and it was 8 percent of the total loan. The non-performing loan was very high because the two public banks (Nepal Bank limited and Rastriya Banijya Bank) have very huge amount of non-performing loans. Few years ago, the published sources showed that the Nepal bank Limited has 62% of the non-performing and Rastriya Banijya bank has 52 percent of nonperforming loan and these two banks have around 35 Arab rupee non performing loans and responsibility of nonperforming loans per Nepali has one thousand six hundred and fifteen rupees and it occupies 8% more than the per capital income of the year (NRB Samachar, 2063:32).

Sources of Major Problems in Credit Management

Effective credit management allows a bank to reduce risks and potential NPLs. It also offers other benefits. Once banks understand their risk and their costs,

they will be able to determine their most profitable business and thus, credit-risk strategy supported by organizational changes, risk measurement technique and fresh credit process and systems. In the context of Nepal, the sources of major problems in credit risk management are as follows (Ramamurthy, 2004: 3-5).

Financial statement (including audited) do not reflect a “true and fair view” of the business entity due to creative accounting. The audited financial statement as submitted by the customers do not reflect details relating to

-) Encumbrances changes on the company’s current/fixed assets plus to whom they are changed.
-) Details of group company lending/ borrowings
-) Status of income assessment etc.
-) Contingent liabilities.
-) Accounting policies.
-) Delegation of finding authority is based on seriously and not an complexes of the concerned officials
-) No exchange of credit information/ lack of transparency among the competition banks giving rise to multiple banking (some customers having facilities with different base) complicating to excessive financing, double financing, division of funds, flight of capital coverage shortfall etc.
-) Absence of:
 - Risk Based Pricing Methodologies
 - Customer Risk Rating Methods
 - Facility Risk Rating Models
-) Pronounced Name Lending
-) Collateral Based Lending Instead of Need Based/ Cash Flow Base Lending.
-) Over Banked Center Contributing for Severe Competition and Price-Cutting.

-) Lack of Corporate Governance
-) Permissive Banking Practice Including Names, Lending, Multiple Banking etc.
-) Macro Level Scenario of Political Stability, Slow Growing Economy, Small Domestic Market.
-) Ineffective Judiciary
-) Cross Border Risk Disappearance of Promoters
-) Inadequacy of law to deal with crime like cheating, misfeasance.

2.3 Review of Related Studies

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

Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institutions ensuring transparency during loan disbursement as per provision. All commercial banks as well as all financial institution 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 defaulters' name. The new directives have also barred the financial institution from lending any amount to the blacklisted defaulter and their family members. The credit information bureau (CIB) can black list the firm, company or clear the debt within the stipulated period, as per day set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loan of above Rs. one million. If the creditor fails to clear the amount within time, or is found mission the loan among other, the creditor can be blacklisted.

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, bank start sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore portfolio management becomes very important both for an individual's as well as institutional investors. Large investors would like to select the best mix of investment assets (Shrestha, 2003:15).

The investors (all financial institutions, individuals, and private or government sector) most not took the proposal by making decision without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as was through investment decisions to make its macro and micro level viability effective" (Lamichhane, 2007:17).

The current volume of the total banking deposits is over 1550-fold higher than what used to be some 38 years ago whereas the Gross Domestic Product (GDP) of the country during the same period, price increased just by 62-folds. Central bank static's shows that the total banking deposit in 1965 used to be just Rs. 129.8 million, but swelled to Rs. 202.13 billion by mid-Jan 2003. similarly, the total loan and advances of the entire banking system in 1960 stood at Rs. 107 million, which was over 82 percent of them total deposit. However, total loans and advances went up to Rs. 127 billion, comparing almost 63 percent of the total deposit, during the period. As a result both deposit and lending of the banking system witnessed increase of over 6-folds and 5 folds to Rs.21 billion respectively by 1990s. As a result of economic expansion and private sector development, the nineties witnessed a quantum jump in both deposit mobilization and lending. The deposit of banking system, by the end of 2002,

touched Rs. 154.5 billion, which are 7-folds more than the deposit of the nineties. Loans and advances from the banking system touched Rs. 118 billion by June-end 2000 and the amount was double than what it used to be in 1985 (The Kathmandu Post, 2003).

In the past report titled 'loan loss provision rises Notably' published in the Kathmandu Post, the reporter has made an endeavor to highlight some facts and figures regarding loan loss provision of commercial banks. 'The banking sector is witnessing a huge surge in loan loss provisioning reserve lately. The increment is primarily a result of a directive issue by Nepal Rastra Bank (NRB) in 2001 that introduced stringent loan provisioning criteria for commercial banks. As per data recently released by the central bank, the total loan loss provision in the country's banking sector increased from amount Rs. 8.73 billion in mid-April 2001 to Rs. 13.18 billion in mid-April 2003. The increment is over 51 percent. As per the latest NRB figures, a remarkable surge has been seen in loan provision of Nepal Bank Ltd (NBL). Against the provision of Rs. 1.7 million in mid-April 2007, the loan provision amount surged to whopping Rs. 7.33 billion in a year".

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

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

earlier directive required progressive provisioning of loans, but allowed maximum of three years, unlike the present system of just two year, for loans to be provisioned to the extent of cent percent'.

Binam Ghimire (1999) in his article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. "Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what is common among most of the banks is the increased size of nonperforming assets (NPAs), to resolve the problem of the losses or likely losses of this nature facing the industry. NRB, as the central bank, has amended several old directives and issued many new circulars in the recent years".

As opinioned by him, since majority of the loans of most of the commercial banks of the country at present fall under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are much lent able as they help to strengthen banks financially. He added that we also must remember that the old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that loan loss provisioning as a percentage of total credit of April 12, 2001 is 5.2% but as April 13, 2003, it has jumped to 18.39. If only private banks are considered, it is 2.12% of April 2001 where as it is 6.30% as of April 13, 2003. The total increment in LLP is Rs 11,328.11, million and the total increment in credit is only Rs 7976.70. He has also stated that tightening provisioning requirements on NPL is to ensure that banks remain liquid even during economic downturns.

In the conclusion he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more

seriously and NRB has adopted reforms aimed not just at dealing with problems but also at strengthening banking supervision to reduce the likelihood of future crisis, "All prudential directives of NRB in connection of credit sector reform have been made revised after April 2001. To adapt to such changes there can be some difficulties and for a better and harmonized reform NRB should continue to be supportive, proactive and also participative to take opinions of bankers for a change in regulation/policy taking place in the future".

Dependra B. Chhetri (1998), titled "Non Performing Assets: A need for Rationalization", the writer has attempted to provide connotation of the term NPA and its potential sources, implication of NPA in financial sector in the South East Asian region. He has also given possible measures to contain NPA. "Loan and advance of financial intuitions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of Loan settlement. Since the date becomes past dues, the loan becomes non-performing asset. The book of the account with lending institution should be effectively operative by means of real transaction affected on the part of the debtor in order to remain loan performing".

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months, in India. Loans thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPAs are classified according to international practice into 3 categories namely substandard, Doubtful and Loss depending upon the temporal position of loan default. "Thus the degree of NPA assets depends solely on the length of time the asset has been in the form of non-obliged by the loaner. The more time it has elapsed the worse condition of asset is being perceived and such assets are

treated accordingly. "As per Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system credit program sponsored by Government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPAs.

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

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

Patrick F. Reidy (1995), provides an overview of the credit portfolio management function, structural alternatives, the skill necessary for its effective implementation, and a final word on training and compensation. The focus is on corporate credit portfolios, as these often present the largest concentration challenges though they can be easily modified.

Modern portfolio management of bank assets has fundamentally changed the requirements for individuals using this technique: their backgrounds, their

training, and their skills in using available resources. While traditional credit training remains necessary, today's portfolio manager arguments this background with knowledge of early-warning systems, alternative structures to better set risk/return parameters, and more.

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

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

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

Portfolio management looks at the impact of loans individually, collectively, and comparatively. Modern portfolio management techniques have supplemented these unwritten rules with portfolio analysis and policies that establish limits on exposure by country, by obligor, by industry, and so on. These limits are derived from a specific focus on the technical aspects of this asset classes a segmentation of the credit product and an analysis of the effect

of combining credits into portfolios. Credit portfolios can now be evaluated on the basis of fundamental as well as quantitative portfolio analysis. This is now being further institutionalized in terms of required capital as defined in the updated Basel Capital Accords.

"A bank is a government regulated, profit making business that operates in competition with other banks and financial institutions to serve the saving and credit needs of its customers. The primary business of banks is accepting deposit and lending money. Banks accepts deposit for customers who want the safety and convenience of deposit service and the opportunity to earn interest on their excess funds" (Sapkota, 2001:54).

Bhattacharya in his book "Banking Strategy", credit appraisal and lending decision has put the recommendation to Tandon committee. He has prepared this report in 1975, however these recommendations still deserve great significance in the sector of credit appraisal, the system proposed by the committee enjoying upon the banker are as follow:

- a. To assess the need based credit of the borrower on a rational basis.
- b. To ensure proper and use of bank credit by keeping a closer watch on the borrower business and thus ensure safety of the banks funds.
- c. To improve the financial discipline of the borrower and
- d. To develop healthy banker-borrower relationship

The committee examined the existing system of lending and recommended the following broad changes in lending system.

- a. The credit needs of borrowers are assessed on the basis of their business plans.
- b. Bank credit only be supplementary to the borrowers resources and not in replacement of them, i.e. banks not to finance one hundred percent of borrowers' requirement,

- c. Borrowers are required to old inventory and receivables according to norms prescribed by the Reserve Bank of India from time to time.
- d. Credit be made available in different components only, depending upon the nature of holding of various current assets.
- e. In order to facilitate a close watch on the operations of borrowers, they are required to submit, at regular intervals, data regarding their business and financial operations, both for the past and future period.

The committee including stores and other items uses in the manufacturing process are:

- a. Raw material including stores and other items uses in the manufacturing process.
- b. Stock in process
- c. Finished goods
- d. Receivable
- e. Spares

“Bank growth and profitability are the result of carefully forecasting funding needs, competitively attracting funds, efficiently borrowing funds and effectively investing, funds in safe but profitable earning assets. Depending on a bank’s size and location and on local and national economic conditions, a bank may have adequate, relatively stable sources of low cost funds, or it may have to compete regularly and aggressively for funds at high market prices for an increasing number of banks, the second situation is becoming the norm as more and more banks face increasing pressure to attract adequate funds at reasonable costs (Bhattacharya, 1998: 309).

In the word of S.P. Singh and S. Singh, credit policies of banks are condition to great extent by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course, bankers and credit policy also in mind (Singh and Singh, 1983:34).

H.D. Gross stated lending is the essence of commercial banking; consequently the formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management. Dell conceived lending policies are essential in a bank to perform its credit creating function effectively and minimize the risk interest in any intention of credit (Gross, 1963:45).

Shrestha (1995) said that the commercial banks should not concentrated on the specific sector but should fulfill the credit need of various sector of the economy including agriculture, industry, commercial and social sector of the economy service sector. The commercial banks should very effective while providing loans. While providing loans, the banks should think on the maximizing the economic growth of the country as well as the profit from providing the loan for the operation of the country.

Functionally, Credit is now segmented into Four Parts

1. Origination and Determination of the Required Level of Customer Commitment

The sales/ relationship function in credit portfolio management is often separate from the analysis/underwriting function. This allows for an efficient use of resources for client development as well as analytical discipline and consistency. The relationship manager determines the commitment level that will maximize relationship income.

2. Fundamental Analysis of the Individual Credit

The underwriting function in credit portfolio management is charged with the more traditional responsibility of individual credit analysis and monitoring. But this function is being driven more and more toward a specialization based on industry, so that the full benefits of analyzing alternative borrowers within an industry can be achieved. The more specialized structure enables CPM to provide key value-added analyses to relationship and product managers in

complex customer support for example, merger and acquisition analysis. It also provides for a centralized, efficient use of analytical resources.

3. Portfolio Monitoring

Many more tools and information resources exist today than were available in the past for portfolio monitoring. For example:

-) Institutions now set various portfolio limits to shape the structure of the desired portfolio.
-) Early - warning processes to measure portfolio deterioration have become an integral part of credit risk management.
-) For large corporate portfolios, Merton- based models relate information inherent in the equity markets to a firm's debt levels.
-) Bond spreads and credit derivative premiums provide a forward-looking credit view for the market that can be compared with a bank's own credit view.

4. The Role of Credit Approval Authorities

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

Alternative Structures for Credit Portfolio Management (CPM):

The establishment of Credit Portfolio Management is typically an evolutionary process for each banking institution. At start-up, CPM usually takes a defensive role eliminating concentration risk and culling underperforming relationships from the risk/ return point of view. As CPM develops, optimization of the selected portfolio is added to its role, adjusting exposures to take into account the best risk/return structure. The adjustments often use the credit derivatives markets in order not to disturb the primary relationship with the customer. In its

advanced form, CPM adds the bank's credit view to its role, with the intention of improving the portfolio's relative value performance among different asset classes.

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

Functions of CPM

CPM achieves two principal goals:

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

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

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

In an article published in New Business Age, Kamal Subedi,"2002 titled "Growth in Major Commercial Banks" has compared between the first six

month of the fiscal year 2002-2003 and 2003-04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd(NBL) and Rastriya Banijya Bank(RBB) (the government owned banks) There has been increase in credit –deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only on recovery of the huge Nonperforming Assets (NPA). However, Subedi pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB all banks have increment in deposit collection (Subedi, 2002:47-48).

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

As per the NRB directives, all commercial banks have to maintain loan loss provision according to the size of overdue loans. Nepal Credit and Commerce Bank (NCC) were able to decrease its loan loss provision by 27.63% as compared to the previous year indicating a good recovery of interest as well as principal. In case of Nepal Investment Bank(INBL), growth in loan loss provision(which in fact decreased by 6.73%) was much less than the growth of the total credit(which in fact decrease by 6.73%) was much less than the growth of the total credit(which increased by 53%). Similarly, NBL and HBL were able to maintain a healthy composition of loan loss provision (decreased by 9.49% & 0%) and credit (increased by 3.70% and 26.78%), again signifying good results from their loan recovery efforts. In case of remaining banks, the

situation is not satisfactory as the growth of loan loss provisions higher than the growth of credit.

A bank's stability depends on the reserve it maintains. NABIL's reserve growth is very good i.e. 1400% on retained earnings and 67.86% on other reserves. Similarly, all other banks have except NCC and BOK made noticeable increment in it. The major yardstick to measure the status of the bank (which is the prime concern of shareholders) is the profitability of the banks- the spread between what the banks has earned and expensed. In this regard, KBL has made the significant growth of 81.25% in profit as compared to the precious year. Similarly Standard Chartered Bank (SCBNL), NABIL, HBL, BOK, EBL, NIBL, NSBI, NIC and NCC have the growth of 7.72%, 6.333%, 43.73%, 29.83%, 61.8%, 62.76%, 29.76%, 37.89% and 4.03% respectively.

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

However this ordinance has lots of unclear issues, which has created confusion to the existing banks and financial institutions. The ordinance has classified the financial institution into categories replacing the present terms as commercial, development of finance companies. The act has classified the commercial banks' category, as "ka" category .The positive aspect of this ordinance is that the financial institution which fall under the "Kha" category will also be allowed to carry out several financial activities that were previously allowed to only commercial banks, such as opening current accounts, issuing drafts and traveler's cheque, dealing in foreign exchange and issuing letter of credits.

Even the financial institutional, which falls under the category “Ga” are permitted to handle current account, saving account and to some extent, foreign currency transaction. Due to these changes, the consumer will be benefited due to the competition among these banks and financial institutions.

In an article published in *New Business Age* written by Sudhir Khattri,(2005) has analyzed the ordinance pros and cons, in general speaking termed as Umbrella Act. He has expressed his disagreement in the ordinance regarding the qualification of the Board of Directors' composition. The qualification set is out of the total number of directors, two thirds have to be graduates in law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background i.e. in the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) were engineers. He further writes that activities like project financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specified fields only. For CEO of the “Ka” category, qualification required is masters Degree in the chosen few subject and the term would be of four years. The act however does not mention the renewal of the CEO's term. The Board or AGM of the institution should decide the CEO’s tenure (Khatri, 2005:18-20).

Similarly, he points out argument in the requirement of five year work experience. The performance of the public limited companies is so poor that the efficiency of the staff is questionable. In such situation how can one hire someone with the experience in public limited companies? As per the act, it is mandatory to appoint a professional director in the Board chosen from the list of professional experts enlisted by NRB. Such director will not have voting

right. It is questionable that can be contribute significantly towards the development of a bank or financial institution without the voting right?

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

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

In an article published written by Atma Shrestha (2004) in Business Age entitled “Entrepreneur –Friendly Credit Policy” has reviewed the present credit policy with main focus of the credit decision being based on the collateral. He argues that only collateral should not be considered as the basis of the credit decision (Shrestha, 2004:33-34).

Access to finance is vital element for entrepreneurship development in the country. Without it one cannot think of starting business of any sort. It’s mainly due to this reason; most of the students after completing their single mindedly look for employment opportunity. No other option, no matter how lucrative and attractive it would be enter into their mind. It has created huge pressure in the labor market. In the absence of entrepreneurial activities in the country,

employment opportunity will be very limited and even qualified and competent people do not get job. The established notion of the Nepalese bankers that money lent to the wealthy people based on collateral is safe. But is not actually a safe assumption in the face of greater difficulty in loan recovery from these people. Also, this particular segment of market is already over-banked. With the worsening business performance of the Nepalese corporate sector mostly due to the poor management compounded by other factors sluggish economic conditions and political instability, banks must now explore newer market segment for their sustained growth and success. Under this backdrop, Nepalese commercial banks must change their policy and must understand that even the people living in the low and middle level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid is very intense and had already saturated. In this context, potential entrepreneurs armed with skills, knowledge and readiness to take plunge in the business world can form a formidable market opportunity for the Nepalese banking industry –only if it can come out of the cocoon of traditional collateral-driven lending approach.

At the time when Nepalese banking industry is confronting with the increasing NPA, it might seem unwise and untimely to suggest that commercial banks extend loan to the potential entrepreneurs without collateral. It is not that they must ignore the collateral altogether while making credit decision. Collateral may be one of the important elements of the credit decisions. But this should not be a pre-condition for any credit decision. Lesson should be learned from the past experience of this credit policy that collateral alone does not ensure quality of credit decision. The fluctuation and stagnancy in the real estate business has further reinforced this view. More important, Nepalese bankers themselves must have to have entrepreneurship spirit which means, they should not hesitate to take educated risk by giving more weight to the entrepreneurship dimension of the credit proposals while making credit decision. The ability of

lending is identifying and investing a distinct competitive advantage in the crowded market. However it's essential that any government rules and regulations that inhibit the promotion of entrepreneurship in the country must be abolished.

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

The ordinance relating to banks and financial institutions has been promulgated that has been brought into existence effective February 4, 2004. The Banks and Financial Institutions Ordinance, 2004 has replaced the existing Agricultural Bank Act, 2024, Commercial Bank Act, Development Bank Act, and Nepal Industrial Development Corporation Act and Finance Companies Acts and have brought all such institutions under the preview of a single Act. Though this ordinance came as an achievement in the financial sector reform program, its being a matter of debate among the various finance experts that the ordinance having six months existence time should be enacted? At this time since there is no parliament in the country and the parliament is authorized to enact permanent law. It is obvious that the financial sector must go through uncertainty in the future. The ordinance, popularly called as Umbrella Act.

In an article "Comments on Umbrella Ordinance 2004" Tirtha Upadhyaya, (2004) president of ICAN has clearly described the ordinance along with his views. The ordinance is comprehensive and prescribes in detail the provision for licensing, incorporation, governance and merger and dissolution procedure for banks and financial institutions (FIs). This is a significant improvement over

the existing Acts but apprehension is expressed about the discretionary power that the ordinance has vested on Nepal Rastra Bank (Upadhaya'2004).

The ordinance is divided into 12 chapters and contains altogether 93 sections.

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

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

Chapter three deals with the constitution and Board of Directors and appointment of CEO. Henceforth, in addition to directors appointed by the shareholders, meetings, the FIs must have one independent director in its Board appointed from amongst the names in a roster maintained by NRB. Also, the

academic qualification of remaining directors has been prescribed that requires that 2/3 rd of all directors must possess required academic qualification and experience but it has failed to ensure that people of requisite qualification are elected by the general meeting. Similarly, academic qualification for a position of CEO is also prescribed and his/her tenure is limited to four years. But the intention for limiting the tenure paid executive remains unexplained. It might prevent young and dynamic person from taking this leadership position. Further, the authority and responsibility specified are not commensurate to the position of a CEO. As the law does not guarantee vesting of executive authority on CEO, it might inconsistent with the principle of divesting management from investor to professional managers.

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

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

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

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

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

Loan disbursement and its recovery procedures are covered under Chapter 8 that re-established the NRB's authority to regulate lending and minimize the chances of loan going to and unscrupulous borrower or diversion of the funds. The ordinance has specifically provided for the compulsory registration of all charges on assets pledge as collateral but the agency responsible for such registration (other than real estate) is not identified. The authority of FIs in loan

recovery has been extended and it may now reach to other assets of the borrower in case the security of loan falls short or becomes inadequate. The hitherto requirement of disposal of non-banking assets within seven year has been done away with. It may result in accumulation of significant unproductive assets in FIs balance sheet. The role of loan Recovery Tribunal has been undermined and no role is envisaged for Asset Management Company that is in the offing.

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

Chapter 10 deals with merger that permits FIs merge with other FIs only. This is a new provision but does not prescribe the circumstances when such merger will be permitted. The missing part on merger is the safeguard of interest of minority shareholders. It does not entitle shareholder opposed to the merger to ask for compulsory acquisition that is vital for promoting foreign investment.

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

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

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

Dr. Champak Prasad Pokharel in the article entitled "Financial sector Reform and New Challenges", Agricultural Credit Publication stresses that highest liquidity makes financial institution un-bankable by creating unnecessary burden of bearing the cost of capital. Dr. Pokharel expresses that most of the financial institutions are lying on uneconomic situation due to ineffectiveness of portfolio management on the one hand and deficiencies of efficient modern management on the other as far for the betterment of financial possibility in portfolio projects, like health , residential buildings, communication, tea gardening etc.

Dr. Pokharel further suggests that commercial banks need to make strong strategy urgently with shifting the money from fixed deposit to saving reducing the interest between deposit and interest spread in both sectors. He highlights that fixed deposit has been increasing in the ratio of 0.44 to 0.95 from 1990 - 1999.

2.3.1 Review of Thesis

The financial institutions especially CBs have to identify new area of investment to increase loans and advances in reducing the liquidity position. With the rapid growth in the number of banks and financial institution, deposit insurance scheme is a must. The principle reasons for introducing such deposit insurance should be one of the social justice rather than economic justification in order to protect the interest of the small depositors. In this condition, this scheme should be expedited to implement (Karki, 2000: 26-30).

Rewat Bahadur Karki (2004) has summarizes some of the challenge through his article ,“The financial sector is facing major challenges of high NPL of the banking sector, which comes around 18% of the total loan but it the loan classification is made according to least international practice, it is assumed to exceed 30% credit demand is being met largely by non-institutional source i.e. private money lender, merchant trade, individual and land lord at very high rate of interest, which is 2-3 times higher then of institutional source, this shows that the unorganized financial sector is playing a major role in Nepalese economy. The liquidity has a major role in Nepalese economy. The liquidity position of the banking sector is rated as high as 24%, but the productive sector of the economy is starved by credit crunch. This has created a paradoxical situation in banking sector. He has given some suggestions to improve the Nepalese financial sector:

Kafle (2005) in his study entitled “Non-performing loans of Nepalese commercial banks.” The researchers mean objective of the study was to know the problems of the non-performing loans and its effect in the ROA and ROE of the Nepalese commercial banks and to find out whether the Nepalese commercial banks are following the NRB directives regarding loan loss provision for non-performing loan or hot.

Through the research he has found that the no banks have been following NRB's directives regarding the loan loss provision. He also conclude that the return on assets (ROA) and return on equity (ROE) of the bank deposed upon the NPLs. The high degree of negative correlation between NPL and ROA and the NPL and ROE clearly indicates that there is inverse relation between them. He has recommended that for the smooth operation of the commercial banks, the NPLs should be controlled for this bank should provide necessary training regarding loan management to the manpower's. In order to remove, the NPLs, banks should take enough collateral so that banks can recover its loan amount. For the loan loss provision as per the NRB directive and to reduce the NPL, the bank management should be effective and the NRB's monitoring and regulation is necessary.

Pradhan (1996) in his study entitled "Deposit mobilization, its problem and prospects". He has presented a short glimpse on investment in different sector, its problem and prospects through his article. On his article, he said that, "Deposit is the life blood of any financial institution, be it commercial bank, finance company, co-operative or non government organization". He has added, In consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strong feeling that a serious review must be of problem and prospects of deposit sector. Besides few joint venture banks, other organizations rely heavily on the business deposits receiving and credit disbursement.

In the light of this Mr. Pradhan has pointed out following problems of deposits mobilization in Nepalese perspective:

- a. Due to lack of education, most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornament or kind. Their reluctance to deal with institutions system are governed by their lower level of understanding

about financial organization, process requirement, office hour withdrawals system availability of depositing facilities and so on.

- b. Due to the lesser office hour of banking system people prefers for holding the cash in the personal possession.
- c. Unavailability of the institutional services in the rural areas.
- d. No more mobilization and improvement of the employment of deposits in the loan sectors.

Pradhan has not only pointed out the problems but also suggested for the prosperity of deposit mobilization. They are given as:

- a. By cultivating the habit of using the formal sector for transactions must be a priority and continuous educational programmers.
- b. By adding service hour system will definitely be an appropriate step.
- c. By providing sufficient institutional service in due rural areas. If deposit mobilization, materialize, that should be taken as major achievement as this generated fund can be used somewhere by the bank. NRB could endorse this deposit collection by continuing to subsidize overhead cost far little longer period. A full scale of field office system could be taken back and modes manpower strength deputed to cut down overhead cost.
- d. NRB could also organize training program to develop skilled manpower.
- e. By spreading co-operative to the rural areas mini banking services are to be launched.
- f. The scheme of mobilizing the deposit in the form of free personal accident insurance, deposit insurance may be fruitful. Not only waiting far potential customer it is better to reach to the potential depositors.

Pradhan mentioned deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal

sectors. That is why higher priority to deposit mobilization has all the relevance.

Competition between joint venture banks made them to collect large amount as deposit. In the same way, Nepal's two joint venture banks NABIL and HBL are positioned among 500 biggest bank of Asia region. This evaluation is based on the total assets, loan investment, net income and profit and investment on shares (Kantipur, 2001).

Bhattarai, (2004) in her study “Implementation of Directives Issued by Nepal Rastra Bank: A comparative Study of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd”, has made an attempt to analyze various aspects of NRB directives with respect to Capital Adequacy and Loan Classification and Provisioning.. As per her view the process of continual review and classification of loans and advances enables banks to monitor the quality of their loan portfolios and to take remedial action to counter deterioration in the credit quality of their portfolios.

She concluded that with the new provisions, the banks will have its provision amount increasing in coming years and subsequently profitability of the banks will also come down. However, the true picture of the quality of the asset will be painted in the coming years to come. She recommends, “the banks should be very careful while analyzing the repayment source & capacity of its credit clients”. With longer period of past due, the bank will end up increasing its provisions which will keep the bottom line low if the bank is not careful.

The major research gap found in her study is she has limited her study in Capital Adequacy and loan classification and provisioning. The research is mainly aimed to identify the NRB provision related to loan loss provision and Capital Adequacy Measures. There exists a gap to study the detail credit risk analysis of the banks.

More research can be made on the whole credit risk such as concentration risk, collateral risk, exposure risk, organization's credit risk management system etc. Similarly, capital adequacy can also be studied as measure against the credit risk of commercial banks.

Regmi (2004) conducted a thesis "A study on credit practices of joint venture commercial banks with reference to Nepal SBI Bank Ltd. And Nepal Bangladesh Bank Ltd."

The basic objectives of this thesis are:

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

The major findings of this study are:

1. 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.
2. 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.

3. The ratio of credit to government enterprises to total credit of NBBL is higher than that of NSBL. The mean ratio of credit to bills paid and discount to total credit ratio of 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.
4. 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 on equity and earning per share of NBBL are higher than that of NSBL in all years.
5. Co-efficient of correlation between deposit and loans & advances of both banks has 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.
6. Trend analysis of total deposit of NSBL and NBBL are found in increasing trend. The increment ratio on deposit of NSBL is lower in comparison to NBBL.

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.

Shrestha (2005) 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 in her study was that 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.

As it is difficult is to get the thesis of this title of finance companies so thesis of bank in this is followed.

Surit Sharma (2006) took following objective in his study of "Loan management of Joint Venture Banks".

-) To analyze the effectiveness of lending policy of the selected sample banks.
-) To measure the performance in quality, efficiency

To meet the above objective, the sources of data of commercial bank are analyzed by using financial tools such as ratio analysis, frequency, mean, standard deviation are used. Among many joint venture banks the researcher took two banks EBL and NBBL with five years data.

In findings, the current ratios of these banks are considerable and considerable but mean liquid fund to total deposit ratios are fewer consistencies and are not above 1 which shows the minimum deposit mobilization. Likewise, assets to total liabilities ratios are also fluctuating.

Similarly, loan and advances to total deposit ratio, mean ratio of loan and advance and investment to total deposit ratio shows the deposit mobilization in income generating sector are being nearly equal to 1. Loan and advances to shareholders equity ratio shows how well the investment made by investor. These ratios of both banks are above 10 and are fewer consistencies.

In conclusion, the overall performance of Nepal Bangladesh Bank Limited is satisfactory then Everest Bank Limited. The liquidity position of NBBL is better than that of EBL. As loans and advances of NBBL is increasing trend deposit is also increasing trend during the study period. There is increasing trend in profit of NBBL shows that improvement in performance and success of the firm. Purpose wise loan classification show that the NBBL and EBL banks have given priority to industrial and commercial sector lending, as well as priority and deprived sector lending. NBBL has higher lending portion in

these sectors than EBL. From the selected bank NBBL has performed well in increasing growth ratio of deposit, loans and advances, investment and profit. NBBL has good lending procedure, preliminary screening is done of all the loan application, credit appraisal and financial position of the business and cash flows of the proposal is given high importance, which is essential criterion for loan approval. There is proper control mechanism like delegation of authority, follow up visits and books of accounts inspection of the client, which results in good performance of the bank. The banks follow NRB guidelines of loans classification and provisioning which makes strong financial position of the bank instead of holding high volume of non-performing assets. After comparatively study of NBL and EBL banking performance, it can be concluded that NBL has better performance than that of EBL.

Bishal (2006) took following objective in his study of "Lending policy of Joint Venture Banks". The main objective of his study is to analyze the fund mobilizing policy adopted by NABIL and Himalayan Bank Limited. The specific objectives of the study are as follows:

- a. To measure the relationship of total deposits with total investment, loan and advances and net profit.
- b. To evaluate the comparative growth ratio on total investment, loans and advances, total deposits and net profit of HBL and NABIL Bank Limited.
- c. To evaluate financial and investment efficiency, profitability and liquidity position of HBL and NABIL Bank Limited.
- d. To analyze the sources and uses of funds of HBL and NABIL Bank Limited.

To achieve the objectives of the study, descriptive and analytical research design has been used for secondary data. Some statistical and financial tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate funds mobilizing performance of HBL and compare to NABIL Bank Limited.

In findings, the mean ratio of cash and bank balance to total deposits and investment on government securities of HBL is more consistent and that of NABIL. The average study of cash and bank balance to current assets ratio, investment on government securities, the mean ratio of loan and advances to total deposits, the mean ratio of investment on government securities to total working fund, return on loan and advances and return on working funds HBL is more consistent than that of NABIL. The mean ratio of total interest paid to total working fund, liquid funds, correlation coefficient between deposit and total investment, between deposit and loan and advances, growth rate of loan and advances and liquidity risk ratio of HBL is higher than NABIL. But the capital fund, yearly growth rate of net profit of NABIL is better in comparison to HBL. The total deposits to total investment ratio of HBL and NABIL are in increasing trend. There is significant difference between mean ratios of loan and advances to total deposits and total investment to total deposit of HBL and NABIL.

From the above analysis, it can be concluded that the liquidity position of NABIL was not satisfactory whereas HBL is comparatively better than that of NABIL. NABIL has made enough investment in government securities than HBL but weak position in mobilizing the collected deposits as loan and advances and NABIL.

NABIL seems stronger in earning interest from working fund than HBL and it has also been successful to collect its working fund from less expensive sources. Growth rate of NABIL on loan and advances and total investment are too weak in comparison to HBL. HBL borrowing is an indication that the internal fund management than NABIL. Deposits and total investment, deposits and loan and advances of HBL and NABIL indicate high degree of positive correlation. In most of the cases it has been found that loan and advances and investment decision depends upon other variables. So the calculation of probable error also supports significant relationship. By considering the trend

values also, HBL seems to be more successful than NABIL to utilize its total collected deposits in investment, deposit utilization trend in relation to loan and advances. In case of testing of hypothesis it can be concluded that there is significant difference between mean ratio of loan and advances to total deposits of HBL and NABIL and there is no difference between mean ratios of total investment to their total deposits.

Sarina Shrestha on her research "A study on the credit risk management of Nepalese Commercial Banks" aims following objective taking Kumari Bank and Machhapuchre Bank.

-) To examine the credit risk position of the selected commercial banks in Nepal
-) 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.

From the analyses of credit risks, following major findings have been obtained:

1. 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.

2. 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.
3. 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.
4. Lending analysis 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 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.

In conclusion, the major banking risks include credit risk, market risk (i.e. liquidity risk, interest risk, operation risk etc). Among these risks, credit risk has the major impact on banking (i.e. more than 60 %). Because of the credit risk, the Non Performing Loan (NPL) of bank will increase. With the increase in NPL, the loan loss provisioning will also increase simultaneously leading to decrease in profit. The decrease in profit results in low dividend to shareholder and bonus to employees.

To remain alert and prepare plans and policies to tackle unpredictable factors such as violence riots, natural disaster, technology and employees, fault and fraud of customers and outsiders are the challenges for these commercial banks.

For proper management of the credit risk, both banks have their own set of policies and practices, which is in consistence with NRB guidelines. 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. Organizational structure of these banks is frequently restructured for proper credit risk management as per requirement.

For minimizing the loss arising due to occurrence of the credit risks, capital adequacy 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.

Though both the banks have their own set of procedures for assessing various risks and their management, problems are still prevalent in these banks. In credit risk, single sector loan concentration is the main problem in both the banks. In MBL, the major problem is a high amount of lending in manufacturing sector, lending without collateral, non-performing loan & organizational structure for handling credit risk. In KBL, with the increase in total loan, NPL is also increasing. So, proper adjustment is needed for managing the NPL.

2.4 Research Gap

The purpose of this research is to development some expertise in one's area, to see new contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of selected commercial banks (i.e. NABIL Bank & Investment Bank Ltd). Thus, the previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research h is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic. i.e Credit Management in Nepalese Commercial Banks. Therefore, to fulfill this gap, this research is selected. To complete this research work, many books, journals, articles and various published and unpublished dissertation are followed as guideline to make there research easier and smooth. In this regard, here we are going to analyze the different procedure of credit management, which is considered only on NABIL Bank Limited and Investment Bank Limited. Our main research problem is to analyze whether these two commercial banks shave appropriate level of credit efficiency as well as are able to manage its credit effectively or not. To achieve this main objective, various financial and statistical tools are used. Similarly, trend analysis of investment and profit are

reviewed to make this research complete. Therefore, this study useful to the concern bank as well as different persons such as shareholders, investors, policy makers, stockholders, state of government etc.

CHAPTER –III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It may be understood as a studying how research is done scientifically. It is necessary for the researcher to know and not only the research methods but also the methodology. When we talk about the research methodology we not only talk of research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by the others. The study of research methodology gives the students the necessary training in gathering materials and arranging them, participating in the field work which required, and also training in techniques for collection of data appropriate to particular problems, in the use of static's, questionnaires and controlled experimentation and in recording evidence, sorting it out and interpreting it (Kothari, 2000: 10-13).

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

3.2 Research Design

The crux of this chapter is to analyze the credit practice and credit efficiency of NABIL Bank Limited and Investment Bank Limited. Decision regarding what, when, how, by what means concerning an enquiry of a research study constitute a research design. "A research design is the arrangement of

conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure”. In fact, the research constitutes the blueprint of the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the analysis of data.

3.3 Sources of Data

Necessary data are collected from both sources primary and secondary survey. Secondary sources of data are the information collected from books, journals, newspaper, reports and dissertations etc. the major sources of secondary data are as follows:

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

3.4 Population and Sample

A population refers to the total size of any object. Rather than collecting information from each member, a sub-group is chosen which believed to be representatives of population is. This sub-group is called a sample and the method of choosing this sub-group is done by sampling. The sampling allows the researchers more time to make an intensive study of research problem. The total commercial banks shall constitute the population of the data and the two banks under the study constitute the sample under the study. So among the various commercial banks in the Banking Industry, NABIL and INBL are taken sample for the study.

3.5 Method of Data Analysis Technique

For the purpose of the study, all collected primary as well as secondary data are arranged, scanned, tabulated under various heads and then after disunities and statistical analysis have been carried out to enlighten the study.

3.5.1 Financial Method

“Financial Analysis is the starting point for making plans before using any sophisticated forecasting and budgeting procedures.” Hence ratio analysis is used under financial analysis to attain the result after tabulating the data (Pandey, 1999:108). A ratio is a quotient of the mathematical expression, establishment of quantitative relation of data furnished by the financial statement is called ratio analysis. In other words, a financial ratio is the mathematical expression of relationship of two accounting figures. It helps in taking decision science it helps to establish relationship among various ratios and interpretation there on, inter firm comparison and comparison between past and present ratios for the same firm gives enormous and fruitful results to test the financial performance. One author has said that to evaluate the financial condition and performance of firm, the financial analyst needs certain yardstick frequently used is a ratio or index relating two pieces of financial data of each other. Analysis and interpretation of various ratios should give experienced, skilled analysis better understandings of financial condition and performance of the firm then they would obtain from analysis of financial data alone (Van Horne, 1997:759).

3.5.1.1 Credit Practices Ratios

Total Loan to Total Deposit Ratio

This ratio is calculated to find out how successfully the banks are utilizing their deposits on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits. It is calculated as:

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

Interest Income to Loans & Advances Ratio

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

$$\text{Interest Income to Loan and Advances} = \frac{\text{Interest Income}}{\text{Loan and Advances}}$$

Non-Performing Loans to Total Loan and Advances Ratio

NRB has directed all the commercial banks create loan loss provision against doubtful and bad debts. But for concerned banks have not provided data on non performance loan in Balance sheet and profit and loss A/C. to measure the volume of non-performing loan to loan and advances the main indicator of NABIL and EBL has been used. The ratio shows s the percentage of non recovery loans in total loans and advances. This ratio is calculated as follow:

$$\begin{aligned} &\text{Non Performing Loan to Total Loan and Advances Ratio} \\ &= \frac{\text{Non Performing Loan}}{\text{Total Loan and Advances}} \end{aligned}$$

Loans and Advances to Total Assets Ratio

Loans and advances is the major part of total assets for the bank. This ratio indicates the volume of loans out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. It is calculated as follow:

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

Loan and Advances to Current Assets Ratio

Loan and advances is the major components in the total assets, which indicates the ability of banks to canalize its deposit in the form of loan and advances to

earn high return. If sufficient loan and advances can be granted, it should pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan & advances in appropriate level to find out portion of current assets, which is granted as loan & advances. Loan and advances includes short-term loan and advances, overdraft, cash, credit local and foreign bills purchased and discounted. It is calculated as:

$$\text{Loan and Advance to Current Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

Loans Loss Provision to Total Loan and Advances Ratio

This ratio describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits. The low ratio indicates the good quality of assets in total volume of loan & advances. High ratio indicates move risky assets in total volume of loan & advances .It is calculated as:

$$\begin{aligned} \text{Loan Loss Provision to Total Loans and Advances Ratio} &= \\ &= \frac{\text{Loan Loss Provision}}{\text{Loan and Advances}} \end{aligned}$$

3.5.1.2 Credit Efficiency Ratios

Total Assets to Liability Ratio

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

$$\text{Total Assets to Liabilities Ratio} = \frac{\text{Total Assets}}{\text{Liabilities}}$$

Interest Expenses to Total Deposit Ratio

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

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

Interest Expenses to Total Expenses Ratio

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly source of funds. It is calculated as:

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

Non-Interest bearing Deposits to Total Deposit Ratio

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

$$\begin{aligned} &\text{Non-interest bearing Deposits to Total Deposit Ratio} \\ &= \frac{\text{Non-Interest Bearing Deposit}}{\text{Total Deposits}} \end{aligned}$$

Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income. The high ratio indicates the high contribution made by lending and investment low ratio indicates low contribution made by lending and investment and high contribution by other free based activities in total income. It is calculated as:

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

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

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

$$\text{Interest from Loan, Advances and Overdraft to Total Interest Income Ratio} = \frac{\text{Interest from Loan, Advances and Overdraft}}{\text{Total Interest Income}}$$

Interest Suspense to Interest Income from Loans and Advances Ratio

This ratio, interest suspense to total interest income from loan and advances, measures the composition of due but uncollected interest in the total interest income from loan and advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates the high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loan and advances. It is calculated as:

$$\text{Interest Suspense to Interest Income from Loan and Advances Ratio} = \frac{\text{Interest Suspense}}{\text{Interest Income from Loan and Advances}}$$

3.5.2 Statistical Method

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

3.5.2.1 Arithmetic Mean (Average)

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

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

Where,

\bar{X} = Mean value of arithmetic mean

$\sum X$ = Sum of the observation

N = Number of observation

3.5.2.2 Correlation

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

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

It is calculated as:

$$r_{xy} = \frac{N\sum XY - \sum X \cdot \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Formula of Correlation,

Where,

r_{xy} = correlation between x & y

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

$\sum X\sum Y$ = product of sum of X & sum of y

3.5.2.3 Co-efficient of Determination

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

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

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

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

4.1 Comparative Financial Condition of Selected Nepalese Commercial Banks

Financial analysis assists in identifying the major strengths and weaknesses of the firm. It indicates whether a company has enough cash to meet its obligations and ability to utilize their available resources. Financial analysis can also be used to assess the company's liability as an ongoing enterprise and determine whether a satisfactory return. Thus comparative financial condition

of the banks in terms of credit practices is necessary to find out the comparative credit practices in those banks.

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

4.1.1 Comparative Credit Practices in NABIL Bank and Investment Bank Limited

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

i) Total Loans to Deposit Ratio

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

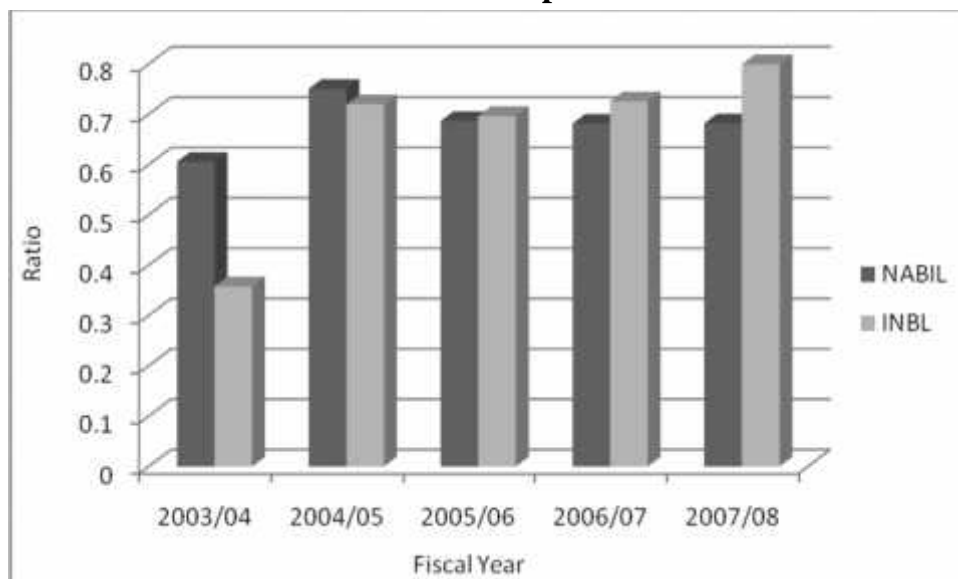
Table 4.1

Total Loans to Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.6055	0.7505	0.6863	0.6813	0.6818	0.0988
INBL	0.3578	0.7196	0.6963	0.7256	0.7991	0.1185

Source: Annex

Figure 4.1
Total Loans to Deposit Ratio



The above table and figure shows that the ratio of credit deposit ratio in NABIL was 0.6055, 0.7505, 0.6863, and 0.6818 respectively. Whereas the ratio of INBL was 0.3578, 0.7196, 0.6963, 0.7256, 0.7991 respectively. In overall comparison, INBL has the highest ratio in F/Y 2007/08 i.e. 0.7991 and NABIL has observed the lowest ratio in F/Y 2007/08 with 0.6818.

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

ii) Interest Income to Loans and Advances

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

Table 4.2

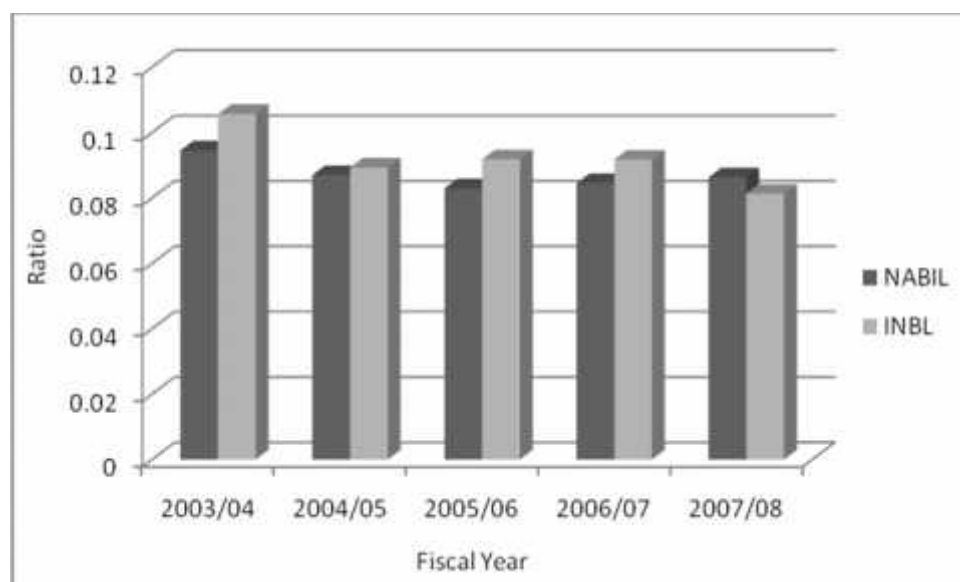
Interest Income to Loan and Advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.0945	0.0870	0.0829	0.0845	0.0863	0.0228
INBL	0.1057	0.0893	0.0918	0.0917	0.0813	0.0274

Source: Annex

Figure 4.2

Interest Income to Loan and Advances



The above table and figure shows that the ratio of interest income to loan and advances ratio in NABIL was 0.0945, 0.0870, 0.0829, 0.0845, 0.0863 respectively. Likewise, the ratio of INBL was 0.1057, 0.0893, 0.0918, 0.0917, and 0.0813 respectively. But INBL has both the highest ratio in F/Y 2003/4 i.e. 0.1057 and the lowest ratio in F/Y 2007/08 i.e. 0.0813 respectively.

Calculated mean value of INBL is highest with 0.0274 as compare to NABIL Bank which is 0.0228 respectively. From this point of view INBL has the best performance in earning interest income.

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

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

Table 4.3

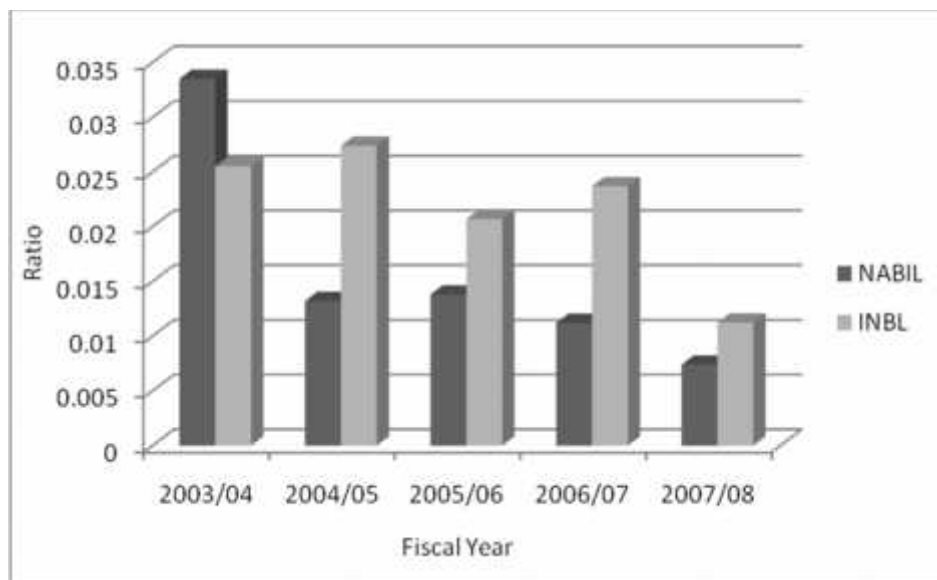
Non-Performing Loan to Total Loan and Advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.0335	0.0132	0.0138	0.0112	0.0074	0.0043
INBL	0.0255	0.0274	0.0207	0.0237	0.01124	0.0051

Source: Annex

Figure 4.3

Non-Performing Loan to Total Loan and Advances



The above table and figure shows that from the NABIL point of view, the ratio in five Yrs is 0.0335, 0.0132, 0.0138, 0.0112, and 0.0074 respectively. Likewise the ratios of INBL were 0.0255, 0.0274, 0.0207, 0.0237, and 0.01124

respectively. In overall comparison, INBL has the lowest non-performing loan to total loan and advances (i.e.0.01124) and NABIL has the highest ratio (i.e. 0.0335).

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

iv) Loans and Advances to Total Assets Ratio

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

Table 4.4

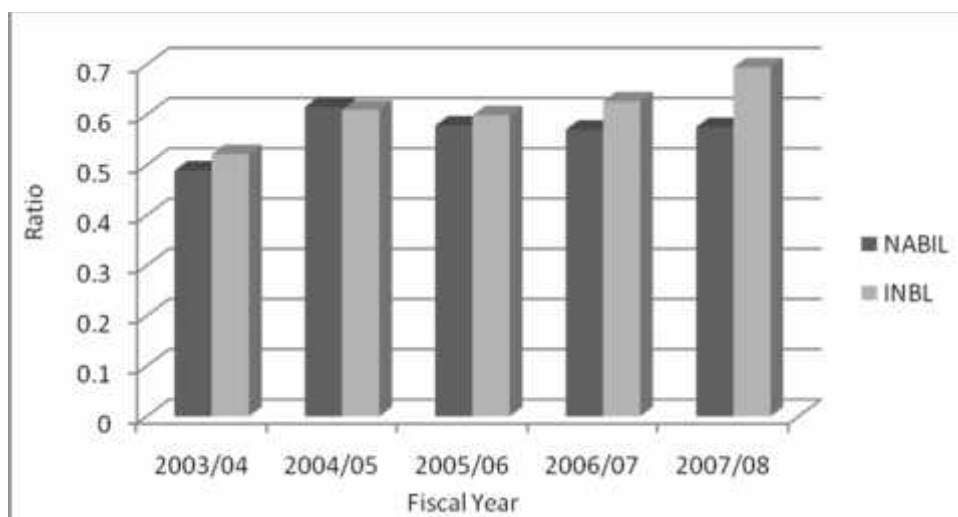
Loans and Advances to Total Assets Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.4891	0.6160	0.5787	0.5704	0.5754	0.125
INBL	0.5219	0.6104	0.5991	0.6265	0.6947	0.15

Source: Annex

Figure 4.4

Loans and Advances to Total Assets Ratio



The above table and figure shows that the ratio of loans and advances to total assets in five yrs for NABIL was 0.4683, 0.4891, 0.5787, 0.5704, and 0.5754 respectively. Similarly, the ratio of NIBL was 0.5219, 0.6104, 0.5991, 0.6265, and 0.6947 respectively.

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

iii) Loan and Advances to Current Assets Ratio

Loan and advances is the major components in the total assets, which indicates the ability of banks to canalize its deposit in the form of loan and advances to earn high return. If sufficient loan and advances can be granted, it should pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan & advances in appropriate level to find out portion of current assets, which is granted as loan & advances.

Table 4.5

Loan and Advances to Current Assets Ratio

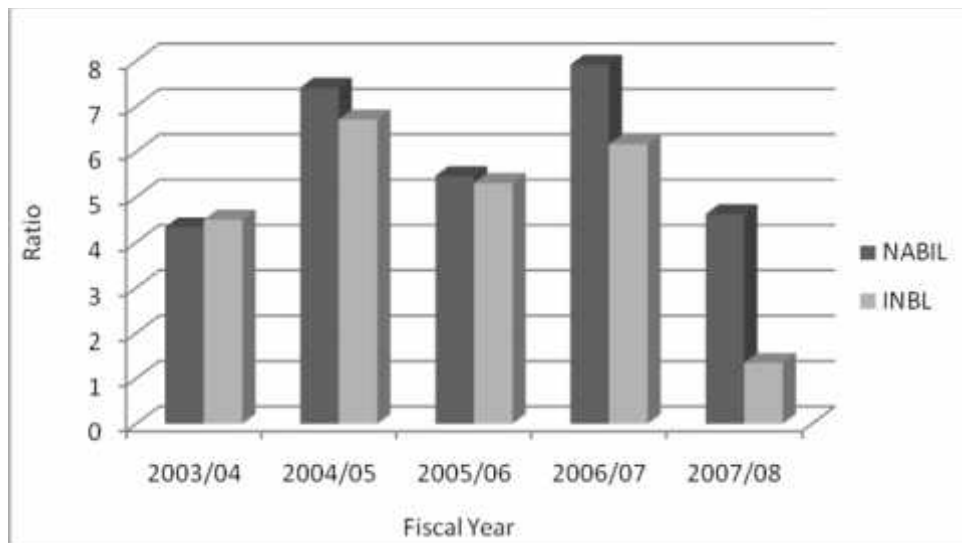
Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	4.335	7.414	5.464	7.918	4.621	1.002

INBL	4.501	6.709	5.309	6.164	1.340	1.202
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Source: Annex

Figure 4.5

Loan and Advances to Current Assets Ratio



The above table and figure shows that, from the NABIL point of view, the ratio for five yrs was 4.335, 7.414, 5.464, 7.918, and 4.621 respectively. Similarly, the ratio of INBL was 4.5011, 6.709, 5.309, 6.164, and 1.340 respectively. In overall comparison NABLI Bank has the highest loan and advances to current assets ratio (i.e.7.918) in F/Y 2006/07 and INBL has the lowest ratio (i.e. 1.340) in F/Y 2007/08.

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

VI) Loans Loss Provision Total Loan and Advances Ratio

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

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

Table 4.6

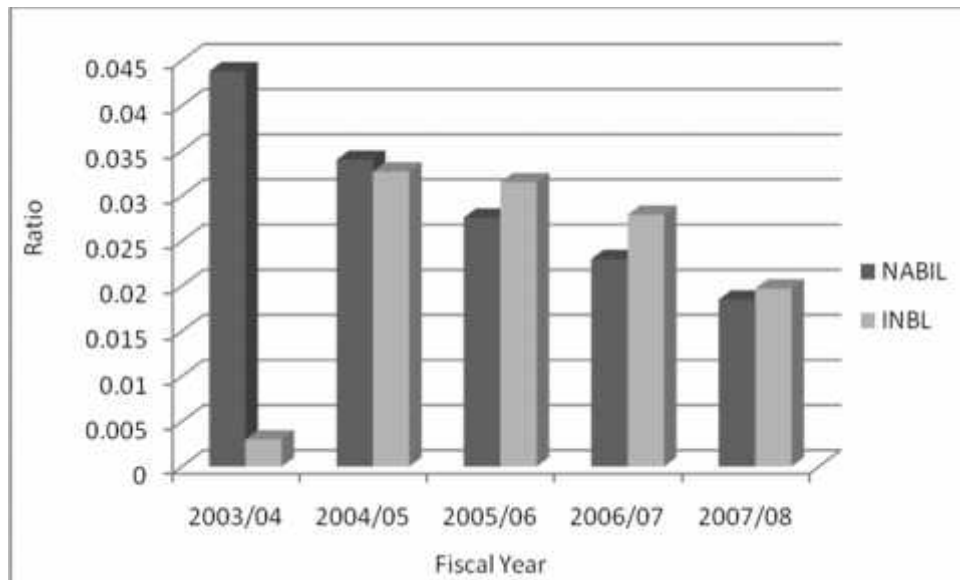
Loan Loss Provision to Total Loan & Advances

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.0438	0.0340	0.0276	0.0230	0.0185	0.0244
INBL	0.0030	0.0327	0.0315	0.0279	0.01973	0.0217

Source: Annex

Figure 4.6

Loan Loss Provision to Total Loan & Advances



The above table and figure shows that the mean point of view, it can be said that NABIL Bank has high loan loss provision in comparison with INBL Bank. From the above calculation, it can be said that the increase ratio indicates the increased volume of non-performing loans.

The increasing loan loss ratio indicates the poor and ineffective credit policy and poor performance of the economy.

4.1.2 Comparative Credit Efficiency in NABIL Bank and Investment Bank

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

i) Total Assets to Liability Ratio

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

Table 4.7

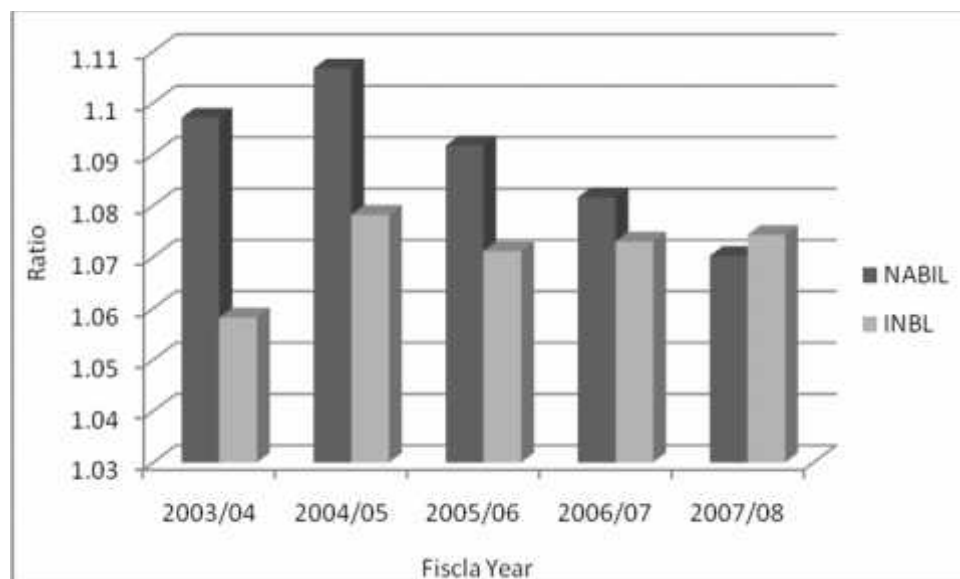
Total Asset to Total Liabilities Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	1.0971	1.1067	1.0917	1.0816	1.0702	0.2582
INBL	1.0582	1.0782	1.0711	1.0730	1.0743	0.3099

Source: Annex

Figure 4.7

Total Asset to Total Liabilities Ratio



The above table and figure shows the ratios of the banks have been in increasing trend. INBL has the higher mean ratio than NABIL Bank. The combined ratio is 0.3099 and INBL has higher ratio than that of the combined mean. INBL has been able to utilize the fund more efficiently and effectively to the extend in comparison with the NABIL Bank however still this position could not be sufficient balance for a developing country the ratio should not be below.

ii) Interest Expenses to Total Deposit Ratio

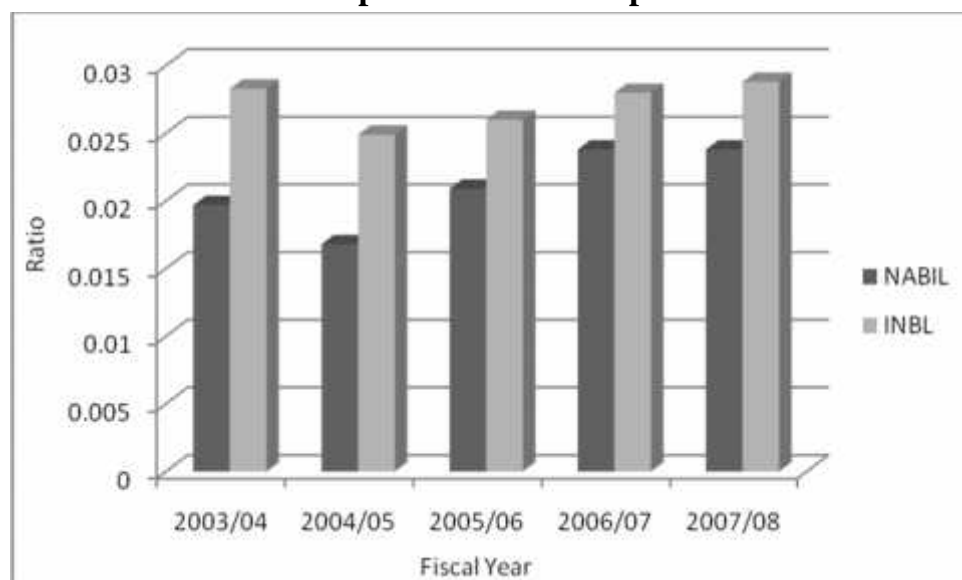
This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial Banks are dependent upon its ability to generate cheaper fund. The cheaper fund has moved the probability of generating loans and advances and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

Table 4.8
Interest Expenses to Total Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.0197	0.0168	0.0209	0.0238	0.0238	0.0028
INBL	0.0283	0.0249	0.0260	0.0280	0.0288	0.0033

Source: Annex

Figure 4.8
Interest Expenses to Total Deposit Ratio



The above table and figure shows that, from the NABIL point of view, the ratio for five yrs was 0.0197, 0.0168, 0.0209, 0.0238, and 0.0238 respectively. Similarly, the ratio of INBL was 0.0283, 0.0249, 0.0260, 0.0280, and 0.0288 respectively. In overall comparison INBL has the highest Interest expenses to total deposit ratio (i.e. 0.0288) in F/Y 2007/08 .Whereas NABIL has lowest ratio (i.e. 0.0168) in F/Y 2004/05.

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

iii) Interest Expenses to Total Expenses Ratio

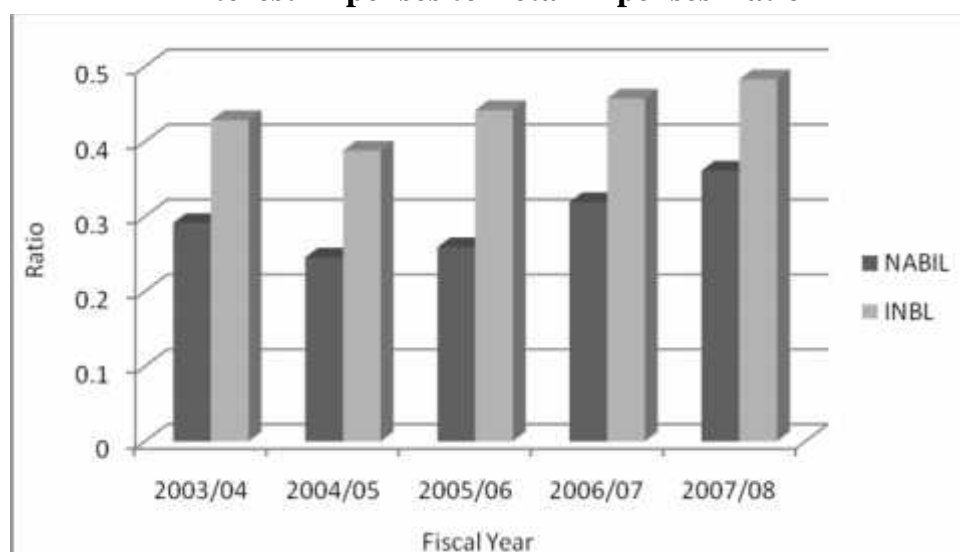
This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly source of funds.

Table 4.9
Interest Expenses to Total Expenses Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.2914	0.2455	0.2591	0.3194	0.3611	0.2953
INBL	0.4286	0.3881	0.4419	0.4575	0.4831	0.4398

Source: Annex

Figure 4.9
Interest Expenses to Total Expenses Ratio



The above table and figure shows that Interest Expenses to total expenses of NABIL has fluctuating trend it has highest ratio in F/Y 2007/08 i.e. 0.3611 and lowest ratio in F/Y 2005/06 i.e. 0.2591. Likewise, INBL has highest ratio in F/Y 2007/08 i.e. 0.4831 and lowest ratio in F/Y 2004/05 i.e. 0.3881.

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

iv) Non-Interest Bearing Deposits to Total Deposit Ratio

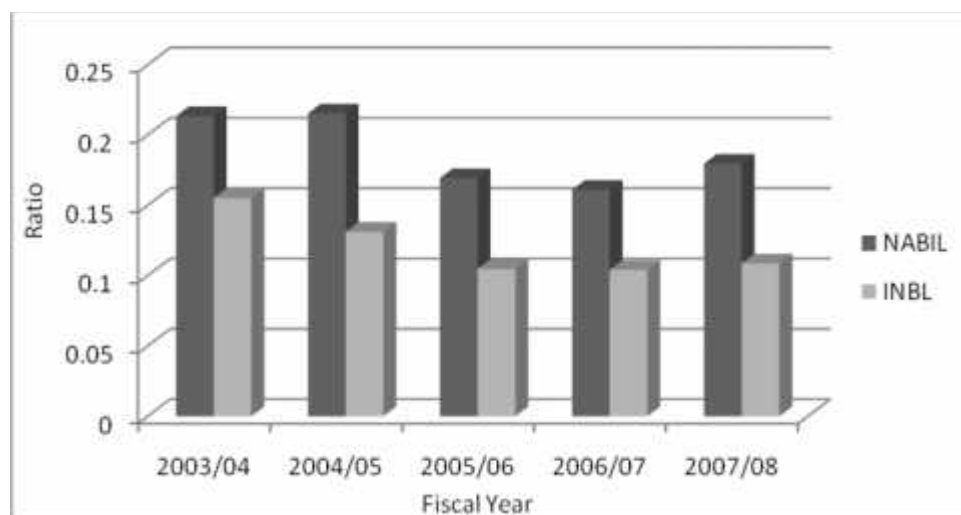
This ratio measures the volume of non-interest bearing deposit to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposit was managed affectively in the total volume of expenses. The higher ratio is favorable but in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

Table 4.10
Non-Interest Bearing Deposits to Total Deposit Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.2134	0.2153	0.1693	0.1609	0.1795	0.062
INBL	0.1551	0.1311	0.1048	0.1040	0.1086	0.1207

Source: Annex

Figure 4.10
Non-Interest Bearing Deposits to Total Deposit Ratio



The above table and figure shows Non-interest bearing deposits to total deposit of NABIL has decreasing trend it has highest ratio in F/Y 2004/05 i.e. 0.2153 and lowest ratio in F/Y 2006/07 i.e. 0.1609. Likewise, INBL has highest ratio in F/Y 2003/04 i.e. 0.1551 and lowest ratio in F/Y 2006/07 i.e. 0.1040.

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

v) Interest Income to Total Income Ratio

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

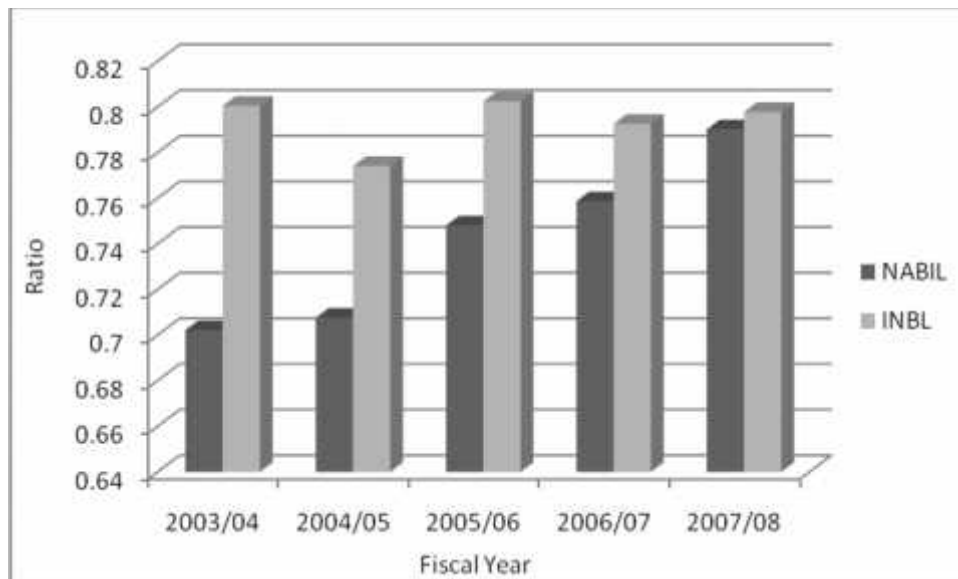
Table 4.11
Interest Income to Total Income Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.7022	0.7076	0.7481	0.7587	0.7902	0.1676
INBL	0.8005	0.7741	0.8025	0.7926	0.7978	0.7935

Source: Annex

Figure 4.11

Interest Income to Total Income Ratio



The above table and figure shows that, from the NABIL point of view, the ratio for five yrs was 0.7022, 0.7076, 0.7481, 0.7587, 0.7902 respectively whereas the highest ratio in F/Y 2007/08 and lowest ratio in F/Y 2003/04. Similarly, the ratio of INBL was 0.8005, 0.7741, 0.8025, 0.7926, 0.7978 respectively whereas the highest ratio in F/Y 2005/06 and lowest ratio in F/Y 2006/07.

From the mean point of view, it can be said that INBL has high interest income to total income ratio than NABIL Bank. This shows that in total income of NABIL Bank and INBL, interest income contributes 16.76% and 79.35% respectively. The lowest ratio of NABIL Bank indicates its low dependency in fund-based activity. The highest ratio of INBL indicates greater dependency on fund-based activities.

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

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income.

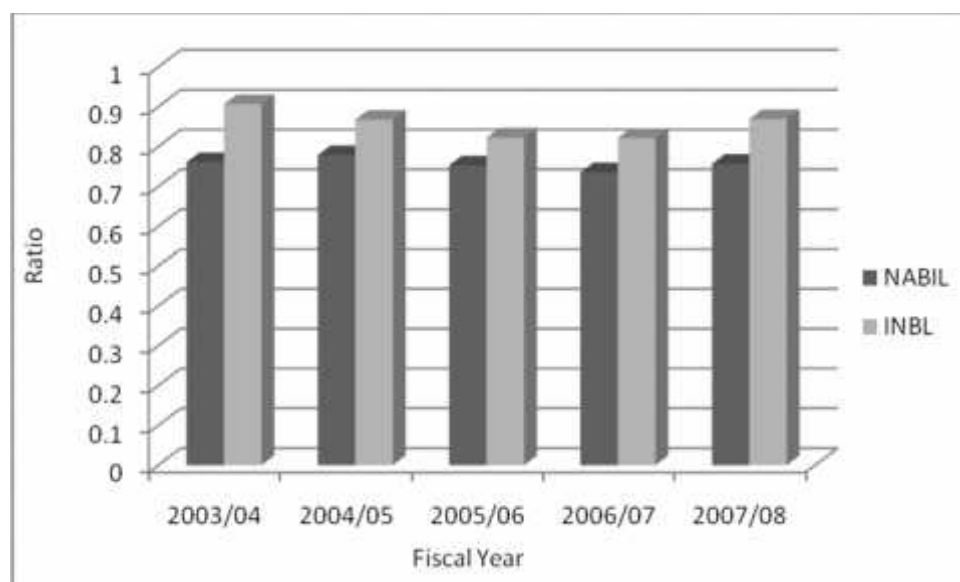
Hence, this ratio measures how efficiently the banks have employed their fund and loan and advances and overdraft.

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

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.7604	0.7783	0.7528	0.7352	0.7562	0.1733
INBL	0.9065	0.8674	0.8226	0.8215	0.8692	0.8574

Source: Annex

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



The above table and figure shows that, from the NABIL point of view, the ratio for five yrs was 0.7604, 0.7783, 0.7528, 0.7352, 0.7562 respectively whereas the highest ratio in F/Y 2004/05 and lowest ratio in F/Y 2006/07. Similarly, the ratio of INBL was 0.9065, 0.8674, 0.8226, 0.8215, 0.8692 respectively whereas the highest ratio in F/Y 2003/04 and lowest ratio in F/Y 2006/07.

From mean point of view, it can be said that NABIL Bank has high interest from loan, advances and overdraft to total interest income than INBL. Thus, it

can be said that NABIL has employed their fund and loan and advances and overdraft successfully than INBL.

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

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

Table 4.13

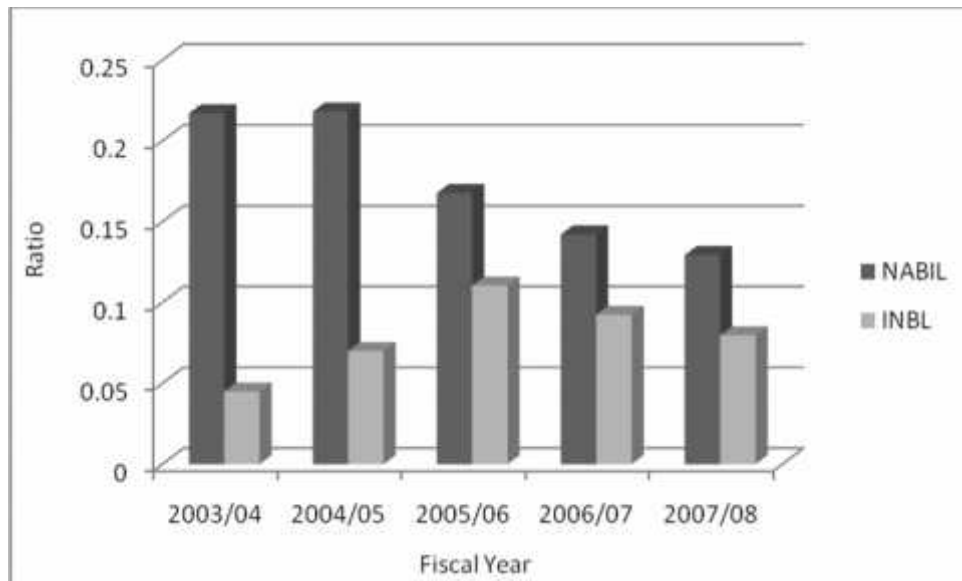
Interest Suspense to Interest Income from Loans and Advances Ratio

Bank/F.Y	2003/04	2004/05	2005/06	2006/07	2007/08	Mean
NABIL	0.2171	0.2182	0.1677	0.1421	0.1294	0.0214
INBL	0.0449	0.0700	0.1105	0.0924	0.0797	0.0795

Source: Annex

Figure 4.13

Interest Suspense to Interest Income from Loans and Advances Ratio



The above table and figure shows that, from the NABIL point of view, the ratio for five yrs was 0.2171, 0.2182, 0.1677, 0.1421, 0.1294 respectively whereas the highest ratio in F/Y 2004/05 and lowest ratio in F/Y 2007/08. Similarly, the ratio of INBL was 0.0449, 0.0700, 0.1105, 0.0924, 0.0797 respectively whereas the highest ratio in F/Y 2005/06 and lowest ratio in F/Y 2003/04.

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

4.2 Relationship of Loans and Net Profit

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

For the research purposes, net profit and loans during study period (5yrs) are averaged to get profit and loans variable. After getting profit and loans

variable, then data are analyzed using person's correlation coefficient. The following table presents the correlation coefficient of the profit and loans during study period.

Table 4.14

Relationship of Loans and Net Profit IN NABIL: Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.9543
	N	5	5
Net Profit	Pearson Correlation	0.9543	1
	N	5	5

Source: Annex

The table 4.14 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson's correlation coefficient was found 0.9543, which shows high degree of relationship of correlation. It indicates that loans and net profit were found highly related with each other. That means, increasing loans helps to increase the net profit whereas increase in loans decreases the net profit. Similarly, coefficient of determination was found to be 0.9107 which indicates that 91.07% of total change in profit has been determined by loans. Loans have moderate influence on net profit of NABIL Bank. Effective loans management directly affects the net profit of the NABIL Bank. Effective loans management helps to increase and stable the net profit of the NABIL Bank. No exception is found in case of NABIL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table 4.15

Relation of Loans and Net Profit in INBL:-Correlation Matrix

			Net Profit
Loans	Pearson's Correlation	Loans	Net Profit
	N	1	0.9898
Net Profit	Pearson's Correlation	5	5
	N	0.9898	1
		5	5

The table 4.15 presents the correlation coefficient between loans and net profit during study period. The calculated Pearson's correlation coefficient was found 0.9898, which shows high degree of relationship of correlation. It indicates that loans and net profit were found highly related with each other. That means, increasing loans helps to increase the net profit whereas increase in loans decreases the net profit. Similarly, coefficient of determination was found to be 0.9797 which indicates that 97.97% of total change in profit has been determined by loans. Loans have moderate influence on net profit of INBL Bank. Effective loans management directly affects the net profit of the INBL Bank. Effective loans management helps to increase and stable the net profit of the INBL Bank. No exception is found in case of INBL Bank. Thus, it is logical to review the impact of various components of working on net profit.

4.3 Relationship of Loans and Non-Performing Loans

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

Table 4.16
Relationship between Loans and Non- Performing Loan in NABIL: -
Correlation Matrix

		Loans	Non- Performing Loan
Loans	Pearson Correlation	1	0.5216
	N	5	5
Non- Performing Loan	Pearson Correlation	0.5216	1
	N	5	5

The table 4.16 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson's correlation coefficient was found to be 0.5216, which shows positive correlation. It

indicates that non-performing loans and loans were positively related with each other. It means increasing non-performance in loans management. Coefficient of determination was found to be 0.2721 which indicates that 27.21% of total change in loans management has been positively determined by non-performing loans.

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

Table 4.17
Relationship between Loans & Non- Performing Loan in NIBL:-
Correlation Matrix

		Loans	Non- Performing Loan
Loans	Pearson Correlation	1	0.5557
	N	5	5
Non- Performing Loan	Pearson Correlation	0.5557	1
	N	5	5

The table 4.17 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson’s correlation coefficient was found 0.5557, which shows positive correlation. It indicates that non-performing loans and loans were positively related with each other. It means increasing non-performance in loans management. Coefficient of determination was found 0.3088 which indicates that 30.88% of total change in loans management has been positively determined by non-performing loans.

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

4.4 Major Findings of the Study

1. Credit Practice

-) The credit practice of INBL in terms of total loans to deposit ratio was found the highest mean scores than NABIL Bank (i.e. $0.1185 > 0.0988$). It indicates that the INBL has been strong to mobilize its total deposit as loan. In terms of interest income to loan and advances ratio NABIL and INBL both has a very close ratio which are 0.0228 & 0.0274 respectively. From this point of view INBL has the best performance in earning interest income.
-) Lending policy of NABIL Bank with regard to non-performing loans to total loans and advances was found lowest mean value with 0.0043 as compare to INBL. The result indicates that if non-performing loan increases, the overall banking business will be affected negatively.
-) The ratio of loans and advances to total assets was found greater in INBL in comparison with NABIL Bank which shows the good lending performance of INBL, also in terms of loan and advances to current assets ratio INBL has highest mean than that of NABIL Bank this means that INBL has relatively better practice in short term lending.
-) Lending policy of NABIL Bank in terms of loan loss provision to total loans and advances was found relatively better than that of INBL. The mean score of NABIL Bank was found lower than INBL, i.e. $0.0244 < 0.0293$. The result indicates that the low degree of the ratio shows not only the strong and effective credit policy but also healthy performance of the economy.

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

2. Credit Efficiency

-) Efficiency measurements of selected banks in terms of total assets to liability were found better for INBL & NABIL Bank. The mean score value for these two banks were found to be approximately equal, the

result indicates that the INBL & NABIL were able to utilize its fund most successfully.

-) Efficiency measurement reveals that the ratio for NABIL Bank with regard to interest expenses to total deposit was found relatively lower in comparison to INBL(0.0028<0.0033). This implies that NABIL Bank is successful to collect cheaper deposit than INBL. But the interest to total expenses ratio of NABIL Bank has observed lowest than ratio of INBL. This decreased ratio here, can mean that cost of deposit is also decreasing.-
-) The ratio of non-interest bearing deposits to total deposits was found higher (i.e.0.1207) in INBL with NABIL Bank from this analysis INBL can be viewed as the most successful in collecting cheapest fund in the form of current deposit that creates from the deposit acceptance from business enterprises. However, high current amount deposit may adversely affect the bank at the time of adverse situation.
-) The result of interest income to total income ratio for INBL was found highest than NABIL Bank. It indicates that the higher ratio of INBL shows its high dependency on fund-based activities. The ratio of interest from loan and advances to total interest income of INBL was also found higher than NABIL Bank, indicating that INBL is strong to mobilize the loan and advances to earn interest and also make more impact on total income.
-) NABIL Bank has low degree of ratio of interest suspense to interest income from loans and advances. The low degree of ratio of 0.0214 shows that it had high interest turnover. The decreasing ratio is also the symbol of effectiveness.

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial results towards the NABIL Bank and INBL. The ratio of interest expenses to total deposits, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to

be better for INBL whereas other ratios are more favorable to the NABIL Bank. It can be concluded that the efficiency of both NABIL Bank and INBL was found better. Furthermore, which ratio is better to measure credit efficiency depends upon the banks own policies.

3. Correlation Analysis

-) The correlation coefficient between loan and net profit of NABIL Bank was found 0.9543 it means high degree of relationship between loan and net profit also INBL has 0.9898 and it shows the high relationship between loan and net profit. In the same way, coefficient of determination of NABIL Bank and INBL are 91.07% & 97.97% of total change in net profit by total loan in NABIL Bank & INBL respectively. The net profit is highly determined by loan in INBL compared to NABIL Bank.
-) In the same way, correlation coefficient of loan and non-performing loan was found to be 0.5216& 0.5557in NABIL Bank & INBL respectively. That means the trend of increasing volume of loan decreases the non-performing loan at high level in NABIL Bank & INBL during study period. Similarly, coefficient of determination was stood as 0.2721 & 0.3088 indicates that 27.21% of total change in loan has been explained by non performing loan in NABIL Bank whereas 30.88% of total change in loan has been negatively determine by non performing loan in INBL.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

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

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

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

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

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

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

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

The overall evaluation of selected banks on the basis of credit efficiency measurement's provides the controversial results towards the NABIL an INBL. Interest expenses to total deposit ratio, interest expenses to total expenses ratio and interest fro loan advances and overdraft to total income ratio seems to be

better for NABIL whereas total assets to liability ratio, interest income to total income ratio, Non interest bearing deposits to total deposit ratio/and interest suspense to total interest income from loan and advances ratios are more favorable to the INBL it can be concluded that the efficiency of both INBL was found better than that of

NABIL Bank. However, credit efficiency measurement variables adopted by the banks may differ from bank to bank.

The correlation coefficient between loan and net profit of NABIL Bank was found 0.9543 indicates that the moderate relationship between loan and net profit whereas INBL has 0.9898 & it shows the high relationship between loan and net profit. In the same way, coefficient of determination of NABIL Bank & INBL of total change in net profit has been explained by total loan as 91.07% & 97.97% respectively. The profit is highly determined by loan in INBL in compared to NABIL Bank. In the same way, correlation coefficient of loan and non-performing loan was found to be 0.5216 & 0.5557 in NABIL and INBL respectively. It means the trend of increasing volume of loan decreases the non-performing loan at high level in NABIL& INBL during study period. Similarly, coefficient of determination was stood as 0.2721 and 0.3088 indicates that 27.21% of total change in loan has been explained by non performing loan in NABIL whereas 30.88% was total change in loan has been determine by non-performing loan in INBL.

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

5.2 Conclusion

Present study successfully explored the result to meet the stated objectives of the study and found meaningful. The result showed that a credit practice of INBL was found relatively better in comparison to NABIL Bank because the most of the ratio of credit practices scored the better position in INBL whereas, credit efficiency measurement provides controversial results towards the NABIL and INBL, however it was found better in INBL because most of the ratio designed for the study supported the INBL. The correlation between loan and advances to net profit was found in moderate level in NABIL (i.e. 0.9543), and high degree in INBL (i.e. 0.9898). Likewise, the correlation between loan and non-performing loan was 0.5216 in NABIL and 0.5557 in INBL. The impact of loan and advances to net profit and impact of non-performing loan and performing loan and performing loan to net profit was found higher in NABIL and INBL during the study period.

5.3 Recommendations

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

1. A credit practice of INBL was found relatively better than NABIL Bank during the study period. It is suggested to NABIL banks management for better improvement. Similarly, loans loss provision to total loan and advances ratio was found greater in NABIL Bank. The main source of income is based on loan and advances. Thus, proper level of portfolio should be maintained so that profitability position will be maximized.

2. The credit efficiency management provides controversial result towards the NABIL & INBL, however it was found better in INBL because most of the ratio designed for the study supported the INBL Bank except the: interest expenses to total deposit ratio, interest expenses to total expenses ratio and interest from loan, advances & overdraft to total interest income ratio. The analysis shows that the both bank used its funds in diversified sectors, is successful to collect cheaper deposit as well as successful to manage loan and advance. Thus, it is suggested to maintain proper level of balance for both Banks.
3. The relationship between loan and advances to non-performing loan was found positive in NABIL & INBL. NABIL & INBL has positive figure of 0.5216. & 0.5557 respectively. It indicates that NABIL & INBL had not effectively managed its loan and advances. . Thus, NABIL & INBL needs to be managed loan effectively.
4. The NABIL Bank & INBL Bank is concentrating their operation in urban areas. Most of the people who live in rural areas are not benefited from these two most successful and giant commercial banks. Thus, they should think about expanding their operation to rural areas too. This will provide financial support to rural household and raise their standard of living.
5. Future researchers are recommended to focus into non financial performance indicators such as job satisfaction, service quality performance, customer's satisfaction, stakeholders support, government rating, supervisor's teamwork, human resource development, human resource planning, human resource management, job designation etc.
6. The researcher felt to improve internal system more effectively and introducing of new strategies and major functions for effective existing credit management for all selected banks.
7. Although there is major political instability in the recent economic scenario of the country, the government has to encourage the coming up new entrepreneurs, encourages the small-scale industries, gives priority to

export business, and encourages foreign investors. The bank in return should extend support from their side in every possible way.

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ANNEXURE

Annex - 1

Loan & Advances to Total Assets Ratio

NABIL

F/Y	Loan & Advances	Total Assets	Ratios
2003/04	8189992851	16745486638	0.489086584
2004/05	10586170002	17186330816	0.615964519
2005/06	12922543153	22329971078	0.578708459
2006/07	15545778730	27253393008	0.570416268
2007/08	21365053318	37132759149	0.575369399

INBL

F/Y	Loan & Advances	Total Assets	Ratios
2003/04	6917796616	13255496016	0.521881385
2004/05	9933084423	16274063706	0.610362882
2005/06	12776208037	21330137542	0.598974480
2006/07	17286427389	27590844761	0.626527659
2007/08	26996652258	38863306084	0.6944656605

Annex - 2

Total Assets to Liabilities Ratio

NABIL

F/Y	Total Assets	Liabilities	Ratios
2003/04	16745486638	15263804335	1.097071626
2004/05	17186330816	15528692508	1.106746805
2005/06	22329971078	20454976661	1.091664461
2006/07	27253393008	25196343293	1.081640804
2007/08	37132759149	34695560160	1.070245270

INBL

F/Y	Total Assets	Liabilities	Ratios
2003/04	13255496016	12526482990	1.058197742
2004/05	16274063706	15093960704	1.078183787
2005/06	21330137542	19914697827	1.071075129
2006/07	27590844761	25712721223	1.073042582
2007/08	38873306084	36186520036	1.074248257

Annex - 3

Loan & Advances to Current Assets Ratio

NABIL

F/Y	Loan & Advances	Current Assets	Ratios
2003/04	8189992851	1889219943	4.335118778
2004/05	10586170002	1427808921	7.414276411
2005/06	12922543153	2365140526	5.463752781
2006/07	15545778730	1963358483	7.917952256
2007/08	21365053318	4623501754	4.620967928

INBL

F/Y	Loan & Advances	Current Assets	Ratios
2003/04	6917796616	1536922910	4.501069358
2004/05	9933084423	1480480845	6.709363689
2005/06	12776208037	2406521396	5.308994416
2006/07	17286427389	2804484200	6.163852657
2007/08	26996652258	20144941568	1.340120653

Annex - 4

Loan Loss Provision to Total Loan & Advances Ratio

NABIL

F/Y	Loan Loss Provision	Total Loan & Advances	Ratios
2003/04	358664187	8189992851	0.043792979
2004/05	360566575	10586170002	0.034060153
2005/06	356239106	12922543153	0.027567260
2006/07	357245035	15545778730	0.022980196
2007/08	394407016	21365053318	0.018460381

INBL

F/Y	Loan Loss Provision	Total Loan & Advances	Ratios
2003/04	206296249	6911796616	0.029846979
2004/05	325159170	9933084423	0.032734965
2005/06	410943787	12776208037	0.032164770
2006/07	482672514	17286427389	0.027922051
2007/08	532652478	26996652258	0.019730316

Annex - 5

Interest Expenses to Total Expenses Ratio

NABIL

F/Y	Interest Expenses	Total Expenses	Ratios
2003/04	282947633	971123979	0.291360979
2004/05	243544611	992048481	0.245496683
2005/06	357161304	1378691378	0.259058198
2006/07	555710109	1739938201	0.319384969
2007/08	758436212	2100091764	0.361144320

INBL

F/Y	Interest Expenses	Total Expenses	Ratios
2003/04	326202325	761042883	0.428625420
2004/05	354549207	913481355	0.388129659
2005/06	490946961	1110892449	0.441939237
2006/07	685530264	1498364594	0.457518996
2007/08	992158398	2053676312	0.483113328

Annex - 6

Non- Interest Bearing Deposit to Total Deposit Ratio

NABIL

F/Y	Non-Interest Bearing Deposits	Total Deposits	Ratios
2003/04	3012933088	14119032115	0.213395158
2004/05	3140410593	14586608707	0.215294086
2005/06	3276385918	19347399440	0.169345029
2006/07	3758107748	23342285327	0.160999992
2007/08	5727554250	31915047467	0.179462501

INBL

F/Y	Non-Interest Bearing Deposits	Total Deposits	Ratios
2003/04	1787088357	11524679645	0.155066207
2004/05	1869059344	14254573663	0.131119975
2005/06	1984144317	18927305974	0.104829727
2006/07	2546691757	24488855696	0.103993906
2007/08	3741630135	34451726191	0.108605012

Annex - 7

Interest Income to Total Income Ratio

NABIL

F/Y	Interest Income	Total Income	Ratios
2003/04	1001616901	1426330907	0.702233189
2004/05	1068746769	1510448268	0.707569264
2005/06	1309998500	1751212283	0.748052371
2006/07	1587758714	2092811636	0.758672537
2007/08	1978696727	2504038548	0.790202183

INBL

F/Y	Interest Income	Total Income	Ratios
2003/04	731402930	913713859	0.800472624
2004/05	886799959	1145628453	0.774072918
2005/06	1172742193	1461428862	0.802462729
2006/07	1584987354	1999763447	0.792587421
2007/08	2194275722	2750307828	0.797829137

Annex - 8

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

NABIL

F/Y	Interest from Loan, Advances & Overdraft	Total Interest Income	Ratio
2003/04	761616605	1001616901	0.760387134
2004/05	831829635	1068746769	0.778322479
2005/06	986231566	1309998500	0.752849386
2006/07	1167255366	1587758714	0.735159162
2007/08	1496243925	1978696727	0.756176479

INBL

F/Y	Interest from Loan, Advances & Overdraft	Total Interest Income	Ratio
2003/04	663016258	731402930	0.906499319
2004/05	769195061	886799959	0.867382833
2005/06	964689365	1172742193	0.822592869
2006/07	1302121998	1584987354	0.821534629
2007/08	1907261454	2194275722	0.861986310

Annex - 9

Interest Suspense to Total Interest Income from Loan & Advances Ratio

NABIL

F/Y	Interest Suspense	Total Interest Income from Loan & Advances	Ratio
2003/04	112447523	517962940	0.217095692
2004/05	122307801	560469027	0.218224014
2005/06	109673450	653811235	0.167744823
2006/07	112186850	789386811	0.142118982
2007/08	128043421	989764860	0.129367516

INBL

F/Y	Interest Suspense	Total Interest Income from Loan & Advances	Ratio
2003/04	21984375	489716862	0.044892011
2004/05	38384472	548404945	0.069992936
2005/06	77940920	705556139	0.110467354
2006/07	90440382	979284933	0.092353491
2007/08	99520485	1249470914	0.079650101

Annex - 10

Calculation for Correlation Coefficient between Loans and Net Profit

NABIL

(In Rs. Million)

F/Y	Loans & Advances(X)	Net profit(Y)
2003/04	8549	455
2004/05	10947	520
2005/06	13279	635
2006/07	15903	674
2007/08	21759	746

INBL

(In Rs. Million)

F/Y	Loans & Advances (X)	Net Profit(Y)
2003/04	7338	152
2004/05	10258	232
2005/06	13178	350
2006/07	17769	501
2007/08	27529	696

Annex - 11
Calculation for Correlation Coefficient between Loans &
Advances & Non- Performing Loan

NABIL

(In Rs. Million)

F/Y	Loans & Advances (X)	Non-Performing (Y)
2003/04	8549	132
2004/05	10947	144
2005/06	13279	182
2006/07	15903	178
2007/08	21759	161

INBL

(In Rs. Million)

F/Y	Loans & Advances (X)	Non-Performing (Y)
2003/04	7338	181
2004/05	10258	280
2005/06	13178	272
2006/07	17769	421
2007/08	27529	309