CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The modern complex economic system cannot function without bank. The banking system has facilitated the personal transactions such as deposit and remittance of money, and lending and borrowing of money. It has made easier to develop agriculture, industry and trade. At the same time, it has helped to accelerate the pace of economic development. The bank helps in mobilization and allocation of scarce resources, which are essential for economic development.

Banks receive savings primarily from households and transform them into loans to business firms and others in order to make investment in building factories, plants and equipment. The bank collects idle money from people. This money is canalized by banks to the individuals, business and government for productive investments. This increases capital formation by increasing productive investment. This in turn, raises the level of employment, income and standard of living.

The banks can contribute substantially in economic development. The rapid industrialization in America, Japan Germany and France was made possible by banks. The banks make available loans of different periods to agriculture, industry and trade. They make direct investments in industrial sectors.

Likewise, since the bank earns profit by utilizing the deposits it is said," It is banker's brain and other people's money". Lending 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 based on lending; it is the main factor of the creating profitability; it is the main sources of creating profitability; it determines the profitability.

Traditionally, commercial banks can grant only short-term credit. But in present time, it also provides loan of medium and long-term nature to some extent to even industry and agriculture. The bank charges interest on loans, which are usually higher than those, offered on the deposits. Since the banks in Nepal are now free to fix interest rates, the rate of interest on both deposits and loans varies from bank to bank. The lending function is considered by the banking industry as the most important function for the utilization of funds. Since, banks earn their highest gross profits from loans; the administration of loan portfolios seriously affects the profitability. Indeed, the large number of non-performing loans is the main cause of bank failure. With respect to performance, banks now use various measures to assess bank efficiency and related functions in the bank lending process.

Without commercial banks, the international finance and import-export industry would not exist. Commercial banks make possible the reliable transfer of funds and translation of business practices between different countries and different customs all over the world. The global nature of commercial banking also makes possible the distribution of valuable economic and business information among customers and the capital markets of all countries. Commercial banking also serves as a worldwide barometer of economic health and business trends.

1.1.1 Commercial Banking Scenario in Nepal

Nepal has not long history of modern banking. Nepal Bank Limited, a commercial bank started with major private share participation, is a pioneer financial institution in Nepal. Initially, Nepal Bank Limited started the banking business with authorized capital Rs. 1 crore and Rs. 8.42 lacs as its paid-up capital. In 1952 A.D., His Majesty's Government increased its share ownership to the extent of 51 per cent of the total share capital.

Realizing the growing needs of Central Bank, Nepal Rastra Bank was established in 14 Baishak, 2013 under Nepal Rastra Bank act 2012. Nepal Rastra Bank act 2012 is abolished and Nepal Rastra Bank act 2058 is enacted. After the introduction of commercial Bank act 1907, the government established another commercial bank, Rastriya Banijya Bank in Public sector on 23 January, 1909 with the authorized capital of Rs. 10 million and paid-up capital of Rs. 3 million. The purpose of the bank has also been as mentioned in the preamble of the act is to provide facilities and help economic welfare of the general public.

In 2031 B.S., Banijya Bank act 2020 and Rastriya Banijya Bank act 2021 is abolished and Banijya Bank (Commercial Bank) act 2031 is enacted. In 2041 B.S., observing the requirement of foreign investment in banking sector, HMG/N has amended commercial bank act 2031, then establishment of joint venture bank is allowed. Those open the door for foreign investment banks in Nepal. When legal provision permitted the establishment of foreign joint venture banks, in early 1980's three joint venture banks (i.e. Arab Bank Ltd. (NABIL), Nepal Indo-Suez Bank Ltd. (Now Nepal Investment Bank Ltd.), and Nepal Grindlays Bank Ltd. (Now Standard chartered Bank Nepal), establishment by the end the first half of the 1980's. After restoration of democracy, elected government adopted the liberalization and market-oriented policy. As a result, numbers of joint venture bank are increased dramatically viz., Himalayan Bank Ltd., Everest Bank Ltd, Nepal Bangladesh Bank Ltd., etc. List of the licensed commercial banks in Nepal has been presented in table no. 1.1 as follows.

Table 1: List of Class 'A' Licensed Commercial Banks in Nepal

S. N.	Name of Banks	Operation Date (In A.D)	Head Office
1	Nepal Bank Ltd.	1937/11/15	Dharmapath, Kathmandu
2	Rastriya Banijya Bank Ltd.	1966/01/23	Singhadurbar, Kathmandu
3	Nabil Bank Ltd.	1984/07/12	Kantipath, Kathmandu
4	Nepal Investment Bank Ltd.	1986/03/09	Durbarmarg, Kathmandu
5	Standard Chartered Bank Nepal Ltd.	1987/02/28	Newbaneshwor, Kathmandu
6	Himalayan Bank Ltd.	1993/01/18	Thamel, Kathmandu
7	Nepal SBI Bank Ltd.	1993/07/07	Hattisar, Kathmandu
8	Nepal Bangladesh Bank Ltd.	1994/06/06	Newbaneshwor, Kathmandu
9	Everest Bank Ltd.	1994/10/18	Lazimpat, Kathmandu
10	Bank of Kathmandu Ltd.	1995/03/12	Kamaldi, Kathmandu
11	Nepal Credit & Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi

12	Lumbini Bank Ltd.	1998/07/17	Narayangadh,Chitawan
13	NIC Asia Bank Limited	2013/06/30	Biaratnagar, Morang
14	Machhapuchhre Bank Ltd**.**	2000/10/03	Pokhara, Kaski
15	Kumari Bank Ltd.	2001/04/03	Durbarmarg, Kathmandu
16	Laxmi Bank Ltd.	2002/04/03	Adarsanagar, Birgunj, Parsa
17	Siddhartha Bank Ltd.	2002/12/24	Kamaladi, Kathmandu
18	Agriculture Development Bank Ltd.	1968/01/21	Ramshahpath, Kathmandu
19	Global IME Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/04/20	Kamaladi, Kathmandu
21	Prime Commercial Bank Ltd	2007/09/24	Newroad, Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Gairidhara, Kathmandu
23	Grand Bank Nepal Ltd.	2008/05/25	Kamaladi, Kathmandu
24	NMB Bank Ltd.	2008/06/02	Babarmahal, Kathmandu
25	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu
26	Janata Bank Nepal Ltd.	2010/04/05	Newbaneshwor, Kathmandu
27	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu
28	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu
29	Civil Bank Ltd.	2012/13/26	Kamaladi, Kathmandu
30	Century Commercial Bank Ltd.	2011/03/10	Putalisadak, Kathmandu
31	Sanima Bank Ltd.	2012/02/15	Nagpokhari, Kathmandu

(Source: NRB Monthly Statistics, Mid-August 2013)

At present, there are 31 commercial banks, 87 development banks including microfinance (Licensed by NRB), 79 finance companies, 21 saving and credit cooperatives and 38 non-government organizations operating in Nepal.

Above list clearly indicates that the increasing number of banks in Nepal can play an effective role in mobilizing scattered household saving and putting them in to productive channels. Many empirical analyses indicate that banks have been involving in overall economic advancement of the country but the percentage covers in lending loans from formal sector is only 30 per cent in total lending and commercial banks are mainly focusing on short term financing in the city.

1.2 Introduction of Nabil Bank Limited

Nabil Bank Limited (Nabil) commenced its operation on 12 Jul, I984 as the first joint venture bank in Nepal, Dubai Bank Limited. Dubai (Later acquired by Emirates Bank International limited, Dubai) was the first joint venture partner of Nabil. Currently NB (international) limited. Ireland is the foreign partner. Nabil Bank limited had the official name Nepal Arab Bank Limited till 3lst December 2001. Nabil is the pioneer in introducing maims innovative products and marketing concept in banking sector of Nepal with 15 venture and private banks operating in Nepal. Success of Nabil is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. Nabil provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. Moreover, Nabil has a good name in the market for its highly personalized services to the customers. Now, the Authorized capital of the bank is Rs. 160 million while the issued and paid up capital is Rs. 1449,124000.

1.3 Statement of the Problem

Competition between banks and banks and non-bank financial institutions, such as finance companies, insurance companies, and cooperative societies has increased in terms of the services they offer. Customers of today can choose between different financial institutions for financial services. However, this competitive pressure has also encouraged banks to make further innovation in their services.

Now days due to competition among the banks, the interest rate charge for loan is in decreasing trend. Due to unhealthy competition among the banks, the recovery of the bank credit is going towards negative trends. On-performing credits of the banks are increasing year by year. To control such type of problem, the regulatory body of the banks and financial institutions, NRB renewed its directives of the credit loss provision.

The problem of the study lies on analyzing the strength and weakness of Nabil Bank Limited. It also aimed in answering the following questions:

1. What is the impact of deposit and loan and advance in liquidity?
2. Is credit efficiency of Nabil Bank influences the profitability of it?
3. Is NABIL maintaining lending efficiency?
4. Is the bank loan, fund mobilizations and credit Management effective and efficient?

1.4 Objectives of the Study

The primary objectives of the research entitled **"A Study on Credit Management of Nabil Bank Ltd."**, are:

1. To study the impact of deposit in liquidity position of Nabil bank
2. To examine and evaluate the various stages occurred in loan management procedure of Nabil bank
3. To analyze the lending efficiency of the bank
4. To evaluate various financial ratios of the bank.

1.5 Research Questions

The research study entitled **"A Study on Credit Management of Nabil Bank Ltd."**, has attempted to find out the answer of following questions:

- Does credit efficiency of Nabil Bank influences the profitability?
- What is the impact of deposit and loan advance in liquidity position?
- What is the proportion of Non-performing Asset on Total Loans and Advances of the bank?
- Is NABIL maintaining lending efficiency?
- Is bank's fund mobilization and credit Management effective and efficient?
- What is the situation of Total Loans and Advances with Total Deposit and its Net Profit?

1.6 Significance of the Study

The needs of the study are:

1. The study will give a clear picture of existing credit management position of the bank under study.
2. This study will provide information to those who are planning to invest in Nabil Bank Limited.
3. Importance to "outsiders" which are mainly the customers, financing agencies, stock exchanges etc.
4. This study will provide strengths and weakness regarding credit management.
5. After the completion, this report will be kept in the library, which plays the role of reference to the students making the similar study in future.

1.7 Limitations of the study

This study is conducted for the partial fulfillment for the requirement of Masters of Business Studies (MBS), so it possess some limitations of its own kind. The limitations of the study are follows:

1. The study mainly concentrates on those factors related with credit and lending activities
2. The study is based only on secondary data so it may contain reporting errors
3. The study is made within limited timeframe, limited data and with lack of research experiment
4. Study is based on data of five years period from 2008 to 2012 AD only, and hence, the conclusion drawn from this research confines only to the above period only.
5. The study covers only credit management aspects of Nabil Bank Limited so conclusion drawn from the study may or may not applicable to other areas of operation of Nabil Bank Ltd., and other commercial banks in Nepal.
6. This research used only the selective tools for analysis and interpretation of data.

1.8 Organization of the Study

The study has been divided into following five chapters:

Chapter – I: Introduction

This chapter explains background of the study, introduction of Nabil bank, statement of the problems, objectives of the study, significance of the study and limitations of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter – II: Review of Literature

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

Chapter-III: Research Methodology

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

Chapter – IV: Presentation and Analysis of Data

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

Chapter – V: Summary, Conclusions and Recommendations

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

CHAPTER – II

REVIEW OF LITERATURE

The purpose of reviewing the literature is to find out what research studies have been conducted in one chooser field of study and what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. The literature survey also minimizes the risk of pursuing the dead ends in research. The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research.

According to Shekher & Shekher, the primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. In order to conduct this study various relevant sources of literature have been considered such as books, journals, annual report, unpublished dissertations.

We study the review of literature in two headings:

- Conceptual Review
- Review of related Studies

2.1 Conceptual Review

A review that aims to synthesize areas of conceptual knowledge that can contribute to a better understanding of these issues. The objectives of these syntheses are to provide an overview of the literature in a given field, including the main ideas, models and debates. The purpose of the conceptual review is to place your research question in the context of the existing scientific literature. The conceptual review will help to develop an overall conceptual framework to allow to sort through the mass of published material in a focused way. The conceptual review differs from the individual article review in that it is guided by understanding of the basic issues rather than by knowledge of research methodology. The conceptual review of the study has been further classified into following headings:

2.1.1 NRB Rules, Directives Regarding Fund Mobilization of Commercial Bank

To mobilize bank's deposit in different sectors of the different parts of the nation to prevent them from the financial problems, central bank (NRB) any establish a legal framework by formulating various rules and regulations (prudential norms). The directives must have direct or indirect impact while making decision to discuss those rules and regulation, which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment. A commercial bank is directly related to the fact how much fund must be collected as paid up capital, while being established at a certain place of the nation? How much fund is needed to expand the branch and counters? How much flexible and helpful the NRB rules are also important? But we discuss only those, which are related to investment function of commercial banks. The main provisions, established by NRB in the form of prudential norms in above relevant area are briefly discussed here under.

2.1.2 Concept of Bank

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

According to S. and S.'s definition of bank, a banker or bank is a person or company carrying on the business of receiving money collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent to the amount available on their customer (Shekher & Shekher, 2001).

Paget state that no one can be a banker who does not take deposit accounts, take current accounts, issues and pay cheques of crossed and uncrossed, for his customers.

He further adds that if the banking business carried on by any person is subsidiary to some other business he cannot be regarded as a banker (Paget, 2001).

The words Bank refer as Central bank, Commercial bank, Development bank, Exchange bank, Saving bank, Cooperative bank, Merchant bank, Housing bank, Equipment bank, Infrastructure bank and Mutual fund etc. they provide financial as well as non-financial services. It is a financial intermediary between depositors or lender and withdrawal or loaner. Bank plays a great role that it helps investors to invest in different sector by giving a loan and providing other consultancy and agency services. Thus the words bank its self-provided huge sense of banking activity.

2.1.2.1 Concept of Commercial Bank

Commercial bank is a corporate business venture which have certain paid up capital and provide loan, accept deposit, exchange money and other consultancy, agency, guarantee etc. services are perform. Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creation and agency functions. They provide short-term credit, medium term credits and long terms credit as well as issuing guarantee, bonds, letter of credit, etc. to trade and industry.

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

"Principally commercial bank accepts deposits and provides loans, primarily to business firms there by facilitating the transfer of fund in economy" (Rose, 2001).

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confluence of various segments and extends credit to people" (Ronald, 2001)

"A Bank is a business organization that's receives and holds deposits and funds from others, makes loans and extend credits and transfer funds by written order of depositors" (Grolier incorporation, 2001).

Commercial Banks function as an intermediary; accepting deposits and providing credits to the needy area. The primary source of funds for commercial bank are capital (shareholder equity) reserve (retain earning) and other main source of the commercial bank is current deposit issue of commercial paper bond etc. Commercial banks are restricted to invest their funds in corporate securities. They invest their funds in long term as well as short-term needs of any trade and industry. They grant credits in the form of cash credits and overdraft**.**

Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial Banks Apart from financing, they also render a variety of service like collection of bills and cheques, safe keeping of valuables, financial advising, agencies functions, keeping of guarantee etc. to their value customers**.**

2.1.2.2 Joint Venture Banks in Nepal

Join stock venture means two or more than two enterpriser, persons or countries mutually performing some specific venture in any area for common objective. . When two or more independent firm mutually decides to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture. When two commercial bank from different countries join hand to form an independent enterprise it is said as joint venture commercial bank. Joint venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing competitive advantages by performing joint investment schemes between Nepalese investors, financial and non- financial institution as well as private investors and their parents banks each supplying certain percent of investment.

Liberalization and globalization started after 70s. Many countries applied this policy. The government of Nepal also realized and starts to apply the policy with greater responsibility in fulfilling national goal and objectives. With this realization, the government mushroomed into a number of establishments like agriculture, industry, commerce, public works, transport etc. In this context, banking was seen as a major industry to uplift the economic condition of public and country as well. There for the government was forced to adopt a liberal economic policy regarding operations of banks. About the financial liberalization process it was said that "the interest rate deregulation, curtailment or elimination of directed credits, lifting entry and exit barriers for financial intermediaries, restructuring of banking system and institution for regulatory and supervisory mechanism is some of the key components of such liberalization" (Shrestha, 2001).

Liberal economic policy and Restoration of democracy and policy of the government led the opening of various joint ventures in Nepal. Nepal Arab Bank Limited (Nabil) was the first joint venture bank which was established in 2041 B.S. Its joint venture partner was Emirates Bank international Limited, (Dubai Bank). Similarly Nepal Indo Swiss bank ltd, Nepal Greenland bank ltd, Himalayan bank, Nepal Bangladesh bank ltd, SBI bank ltd etc. accordingly. Establishing the join stock commercial bank makes tough competition to domestic bank and compels improvement in their services and technology. All the Nepalese joint venture banks established and operated under the rules and regulation and guidance under Nepal Rastra Bank (NRB).

2.1.3 Functions of Commercial Banks

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

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

i) Assist in foreign Trade:

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

ii) Offers Investment Banking and Merchant Banking Services:

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

2.1.4 Concept of Credit

Credit is the sum amount of money lent by the creditor (Bank) to the borrower (Customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary, 2001)[3]. Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely (Varshney and Swaroop, 2001).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified on demand. Banks generally grants credit on four ways (Chhabra and Taneja, 2001).

1. Overdraft
2. Cash Credit
3. Direct Credit
4. Discounting of Bills

2.1.4.1 Types of Credit

Overdrafts:

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

Cash Credit:

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

Term Credit:

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

Barely and Myers urge that bank credits with maturities exceeding 1 years are called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principle in the regular installments. Special patterns of principle payments over time can be negotiated to meet the firm's special needs (Richard, 2001).

Discounting of Bills:

Banks provide loans by discounting bills such as the bill of exchange. In modern days, transactions are made with help of credit. The seller draws bill of exchange making borrower to pay after some fixed date.

2.1.4.2 Priority or Deprived sector Credit

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

- Advances to poor/downtrodden/weak/deprived people up to Rs 30,000 for generating income or employment.
- Institutional Credit to Rural Development Bank.
- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs.30, 000.

2.1.4.3 Hire Purchase Financing (Installment Credit)

Hire-Purchase credits are characterized by periodic repayment of principle and interest over the maturity of the credit. Hirer agrees to take the goods on hire at a stated rental including their repayment of principle as well as interest with an option to purchase. A recent survey of commercial banks indicates those banks are planning to offer installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credits on a variable rate basis. It can be secured and unsecured as well as direct and indirect installment credit.

2.1.4.4 Housing Credit (Real Estate Credit)

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

2.1.4.5 Project Credit

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credit is short-term credits made to developers for the purpose of completing proposed projects. Maturities on developers for completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project . The basic guideline principle involved in disbursement policy is to advance funds corresponding to the completion policy is to advance funds corresponding to the completion stage of the project. Term of credit needed for project fall under it (Johnson, 1940:83).

2.1.4.6 Consortium Credit

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

2.1.4.7 Credit Cards and Revolving Lines of Credit

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

2.1.4.8 Off-Balance Sheet Transaction

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as references to them instead of recording in the books of accounts. It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Let's its two varieties be described separately.

1. Bank Guarantee

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

2. Letter of Credit (L/C)

It is issued on behalf of the customer (buyer/importer) in favor of the exporter (seller) for the import of goods and services stating to pay certain sum of money on the submission of certain documents complying the stipulated terms and conditions as per the agreement of L/C. It is also known as importers letter of credit since the bank of importer do not open separate L/C for the trade of same commodities (Jhonson, 2001).

2.1.4.9 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

1. To assure compliance by lending personnel with the bank's polices and objectives regarding the portfolio of credits
2. To provide personnel with a framework of standards within which they can operate.

2.1.5 Lending Criteria

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

i) Character

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

- Memorandum and Article of Association
- Registration certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank.
- Reference of other lenders with whom the applicant has dealt in the past of bank A/C statement of the customer.

ii) Capacity

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

- Certified balance sheet and profit and loss account for at least past 3 years.
- References or other lenders with whom the applicant has dealt in the past or bank A/C.

iii) Capital

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

iv) Collateral

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

v) Conditions

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

2.1.6 Principle of Credit Policy

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

i) Principle of Safety Fund

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

ii) Principle of Liquidity

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

iii) Principle of Security

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

iv) Principle of Credit Purpose

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

v) Principle of Profitability

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

vi) Principle of Spread

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

vii) Principle of National Interest

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

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

2.1.7 Lending / Credit Process

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

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

- Loan application
- Citizenship certificate of applicant
- Firm/ company registration certificate (if self-employed)
- Income tax registration certificate (if self-employed)
- Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company
- Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named.
- Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.
- Feasibility report/scheme (for new project)

2.1.8 Lending Appraisal and Possessing

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

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

The bank tries to ascertain the following during loan processing:

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

2.1.9 Project Appraisal

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

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

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

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

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

Credit classification and provisioning

Classification	Provision
1. Pass Credit	1%
2. Sub Standard Credit	25%

3. Doubtful Credit 50%
4. Bad Credit 100%

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

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

2.1.10 Limit of Credit and Advances in a Particular Sector

Following are the credit limit:

- Fund based credit and advances can be issued up to 25% (upper limit) of core capital to a single customer, firm, company and a group of related customer.
- Non-fund based (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and group of related customer.

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

Group of related customer:

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholders with others in a single house, even if husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother, brothers and sisters whom be should look after..
- Firm, company and members as a related group.

- Members of board of directors, shareholders and other relatives as stated in serial number ‘b’ takes less than 25% of board of directors of the company solely or combined but have control on the other company by the following ways:
- Being president of board of directors of the company.
- Being executive directors of the company.
- Nominating more than 25% of members of board of directors of the company.
- If cross guarantee is given by one company to another company.

2.2 Review of Related Studies

2.2.1 Review of Related Articles

Mr. Ramesh Lal Shrestha in his article "A study on Deposits and Credits of Commercial Banks in Nepal" concluded that the credit deposits ratio would be 51.3%, other things remaining the same in 04 A.D. which was the lowest under the period of review. So he had strongly recommended that the commercial should try to give more credit entering new field as far as possible otherwise they might not be able to absorb even its total expenses. (Shrestha, 2001)

The article by Mr. Sunil Chopra concluded that Joint venture banks are already playing an increasing dynamic and vital role in the economic development of the country. This will undoubtedly increase with time. (Chopra, 2001)

Likewise another article of Mr. Gilles Serra concluded that the five commercial banks were improving their services, due to the pressure of competition for the public benefit.

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

The Nepalese banking system is riddled with a significant amount of non-performing assets (NPA). It is clearly evident from the following picture that the volume of non-performing assets is on the decline while total loans are continuously increasing thus resulting in a favorable proportion of Non-performing assets. The NPA ratio, however is still a long way from being at satisfactory level with regard to quality of the loan portfolio of the individual banks, RBB was the worst closely followed by Nepal Bangladesh Bank, Lumbini Bank and NCC Bank Ltd. Along the private banks, it was Nepal Bangladesh bank, Lumbini Bank and NCC who had the largest proportion of NPA in their portfolio, while the lowest and the best NPA ratio belonged to Machhapuchhre Bank Ltd. RBB has 60% of Bad debts and according to FY 2063/064 NPA of RBB has 26%. In FY 2063/064 Bad debt principle is Rs 40 million. The large volume NPA has traditionally been a problem in public banks and three private banks. After a reform program was initiated in the public banks, the volume of NPA, both gross as well as net has come down, significantly. The fact is also reflected in the following chart, where a wide gap between NPA and provision can be observed.

N. Crosby, N. French and M. Oughton (2007:66-83), in their article "Banking lending valuations on commercial property" elaborates that the banking community are trying to identify the value on which they can apply a loan value ratio and thus protect their loan in the future should the borrower default loan.

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

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

Sujit Mundul, (2008:36), Understanding of credit derivative Business Age September" emphases Credit derivative enable financial institution and companies to transfer credit risk to a third party and thymus reduce their exposure to the risk of an obligor's default. Credit enhancement technique, which helps reduce the credit risk of an obligation, play a key role in encouraging loans and investment in debts. In legal term credit derivative are privately negotiated bilateral contract to transfer credit risk from one party to another guarantee, letter of credit or insurance product. However such mechanism works best during economic upturns. As an alternative to commercial risk mechanism, various financial mechanisms have been developed over the past few decades. Such credit risks instruments are normally refer to as credit derivatives. Credit derivative helps to transfer credit risk away from the lender to some other party.

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

- Total return swap (TRS)

Credit default swaps (CDS)

- Credit linked notes (CLN)
- Credit spread option (CSO)

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

2.2.2 Review of Thesis

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

Regmi, P. (2004) submitted thesis entitled “Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Kathmandu” states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advance.

On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an assets guarantee. The assets guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421.3millions (76.1% of total credit) and in the last period it is 3347.99millions (58.2%of total credit).

The main statement of the problem of his research is the Nepal is a small country with small market. Economic condition of the country is degrading. Nepal being an agriculture country needs more investment in this sector. Nevertheless, commercial banks are rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NRB's, regulation of 12% investment of their total loans to priority sectors like agriculture, cottage and small industries and services. Similarly, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of invest able funds to reduce risks. Hence, the principle "do not put all the eggs in basket" really does not apply in context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that now come to the brick of extinction. The objectives of this research are to analyze the functions, objectives, activities, credits and advances procedure and recovery status of the NB bank and BOK.

Karki, B. R. (2004) submitted thesis entitled "A Comparative Study on Financial Performance of NABIL Bank and Standard Chartered Bank Limited" dissertation found that the development of any country largely depend upon its economic development capital formation is the prerequisite in setting the overall pace of the economic development of a country. Well-organized financial system contributes to the process of capital formation by converting scattered saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of the nation. The financial institution play dominant role in the process of economic development. Banks are indispensable elements in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bank of the money supply as well as the primary means of facilitating the flow of credit.

The main statement of the problem of his research is various financial institutions have been established to assist the process of economic development of Nepal. Delivering efficient services to the common people by enhancing efficiency of the commercial banks and improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and financial institutions needs to be reduced through an appropriate investment policies. Equally important is the challenge to minimizing their intermediation cost. In order to help realize the goal of poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low-income people through micro and medium sizes loan needs serious attention in the days to come. It is also necessary to identify the activities that ensure quick return of investment. Thus, the present study seems to explore the efficiency and weakness of NABIL and SCBNL.

The main objectives of his research are to compare analyze the liquidity, profitability, operating efficiency, capital structure, capital adequacy leverage and operation, overall performance, analyze the relationship between DPS and EPS of NABIL and SCBNL bank. Here various financial accounting and statistical tools have been used to achieve the objective of the study.

Shrestha, S. (2005) in his dissertation "Credit management with special reference to Nepal SBI Bank ltd" illustrates that lending is one of the most important parts of function of a commercial bank and composition of loan and advances directly affects the performance and profitability of the bank. There is intense competition in banking business with limited market and less investment opportunities available. Every bank is facing the problem of default loan and there is always possibility of a certain portion of the loan and advances, profitability deposits position of Nepal SBI Bank Limited is analyzed and its contribution in total profitability has been measured.

The main statement of the problem of his study is the credit management is the essence of commercial banking. Consequently, the formulation and implementation of sound Credit policies are among the most important responsibilities of bank directors and management. Well-conceived credit policies and credit careful credit practice are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit-credit management effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks. Measuring the credit performance in quality, efficiency and contribution of profitability, liquidity position and its effect on credit performance and measure the growth rate and propensity of growth based on trend analysis are the main objective of his dissertation.

Subedi, K.P. (2005) conducted a research entitled "Financial Performance of NABIL Bank Limited" states that deposit is the part of balance sheet which always remains the biggest in amount. It is the sensitive liability among all items. As like total liabilities and capital deposit also increase until 2057/58 and starts to fall down. The increment rate is satisfactory in first and second changing years, and then it has changed by negative digits therefore in two subsequent year's. The business in peak where the value was Rs.15839.0077millions. The proportion of debt over the total liabilities and capital is 83.35% in average. Fixed deposit is taken as a long-term debt in the banking business; it is key department factor to capital structure. The bank could collect the deposit is Rs.7667.8459millions. In two subsequent years, it decreases and becomes Rs. 2252.5464millions in the final study years. This items changes by in highly decreasing trend. The average change rate is 5.89%. The proportion over total liabilities and capital is 26.32% in average. The composition of paid up capital, reserve and surplus other reserves and undistributed profit is known as shareholders equity. Unlike other items mentioned above, shareholders equity is regularly increasing. The yearly change rate is in fluctuating trend varied from 8.97% to 24.63%.

The main statement of his research is the banking industry is one of the fast growing businesses in Nepal. After the liberalization policy was adopted by government this sector has been dramatically. Now, more than one and half dozen banks are in operation. Now too, new banks are being set up. Due to security, problem and political instability government could not be able to pay sufficient attention to business and industry sector. Regulation and monitoring by government has been weekend in the banking sector as like others free and fair competition is decreasing. Customers and stakeholders are too much sad to hear the news that banks have tried to cartel in taking treasury bills before some months other type non-business practices might have been occurred in this industry. Surely such types of practices will hamper the whole sector. Ultimately, the capital structure will be affected. We have been watching the type scenario where the capital structure is not so stagnant and continues progress. The main objectives of his research are to be familiar and analyze the composition of the capital, examine the existing financial position, profitability and overall trend analysis of NABIL bank. It's also provide the recommendation, suggestion for the development of an appropriate capital structure concern NABIL Bank limited.

Gurung, A. K. (2006) explored in his research entitled "Lending policy and recovery management of Standard Chartered Bank Nepal ltd and NABIL Bank Limited" has found out that the deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. Thus this ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at the future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

Paudel, H. (2006) in his dissertation entitled “A Comparative Study on Nepal Siddhartha Bank Limited and Himalayan Bank Limited” states that interest income from loan and advances are the main sources of income, which will increases profit of commercial bank. The main ratio of interest income to total income of SBL is higher than that HBI. NRB has restricted the gap between the interest taken in loan and advances and interest offered in deposit. HBL have higher mean ratio of interest income to interest expenses and total income to expenses ratio than that of SBL. HBL has maintained high return in every-reflect than that of SBL. Among the various measurement of profitability ratios return to equity and earning per share, reflects the relative measure of profitability. The performance of NBL is higher than that of SBL. Coefficient of correlation between deposit and loan and advances total income and loan and advances of both bank have positive value there is significant relationship between deposit and loan and advances total income and loan and advances. Coefficient of correlation between net profit and loan and advances of both bank have positive relationship. But the number of HBI is greater than number of SBL. There is no significant relationship between net profit and loan and advances of both banks. They are greater than number of both banks.

The main statement of the problem of his research is the present banking system is the result of liberalization of economy requirement and globalization in 1990s. The development of banking in both quality and quantity was satisfactory. However, subsequent development of commercial banks in quality has not been satisfactory; commercial bank in Nepal has been facing several challengers. The main objectives of the study are to know contribution made by both banks in lending determine the impact of deposit in liquidity and in effect on lending policy, analysis the portfolio lending, ratio and volume of loans and advances made in different sector and documentation, legal procedure and practice loan of SBL and HBL.

Sedai, P. (2007) in his dissertation entitled “An analysis on lending policy and strength of Nepal Investment Bank Ltd” highlighted that aggregate performance of

NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder‘s equity indicate a good performance of NIBL in its lending activities.

Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio indicate that bank is good enough to judgment in their value customer. The better activity ratio of this bank been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

The recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision, required proper market analysis, diversify the investment sector etc. finally however, performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, pe5rsonal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business news and attractive lending scheme would be launched to the customer.

The main objective and target of this study is to observe the loan disbursement of Nepal Investment Bank Ltd. its shows the actual lending position, strength and weakness. The specific purpose are study of loan and advances provided to customer, amount loan investing in industrial sector, trend of loan disbursement , process are according to NRB rules & regulation and position of bank and its profitability.

Misra, S. (2008) submitted the dissertation entitled “Credit management of Everest Bank Limited” illustrate that liquidity position, cash reserve ratio shows the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain good financial condition. Cash and bank balance to current assets ratio shows that the bank’s sound ability to meet the daily cash requirement of their customers deposit. That is why liquidity position of the bank is the better.

In the aspect of profitability position, interest income to interest expenses ratio shows the more profitable salivation. In addition, total income to total expenses ratio shows the overall predominance of the bank is satisfactory operating income. Return on loan advances are showing position that is more profitable on of the EBL. Analysis of the assets management ratio, loan advances to total assets ratio shows the better performance but loan and advances to total deposit position in minimum than the averages. Whereas investment in loan and advances is safely and not taking more risk. That’s why assets management position of the bank shows better performance in the latest year.

After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank. EBL bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money.

This is to recommend that Cash and bank balance of EBL bank is high. Banks efficiency should be increased to satisfy the demand of depositor at low level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sectors. Bank should open their branches in the remote area with the objective to provide the banking services and minimum deposit amounts should be reduced. The main objective of this study is to evaluate the credit management of Everest Bank Limited. Besides, there may be other objectives as well like to examine the impact of deposit in liquidity, loan management procedure, assets management and lending efficiency of the Everest Bank Limited.

Paudel, P. (2009) submitted the thesis entitled “A study on lending practices of joint venture commercial banks with reference to Nepal Bangladesh Bank Ltd (NBBL) and Himalayan Bank Ltd. (HBL)” has made comparative study of these two banks in different lending aspects and strategies.

As per the findings, the liquidity position of NBBL is comparatively better than HBL. The liquidity ratio of HBL is more stable and consistent than NBBL that indicates the stable policy of HBL. NBBL is found slightly better to be maintaining between assets and liabilities. NBBL has high loan and advances to total assets ratio, loan and advances to total deposit ratio, but HBL has high investment to total loans and advances and investment and total investment to total deposit ratio. He has concluded that NBBL is able to manage its assets to complete in this competitive banking business than HBL. As per his findings the liquidity position of NBBL is better and hence HBL is recommended to increase its liquidity position. He has suggested both banks to strictly follow the NRB directives, which will help them to reduce credit risk arising from borrower’s defaulter, lake of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Loan loss provision of both banks is in fluctuating trend.

Main objective of his Thesis lending practices of joint venture commercial banks with reference to NBBL and HBL is investment criteria and sector, loan distribution and advance practice of joint venture bank. The limitation of the thesis was based on secondary data given by responded, five year’s data and non-ending year’s data.

Ojha, L. P. (2010) in his dissertation entitled “Lending Practices” has written that the commercial banks have to expand their credit in the area if rural economy so as to compromise between the liquidity and credit need such economy. This helps in minimizing the idle find in business and at the same time contribute to the national economy. The banks should also increase the volume of credit in the sector of agriculture as the ratio of contribution made by the banks in this priority sector is decreasing. He has found out that following the normal guidance of Nepal Rastra Bank and acting upon reduces many on the credit risk arising from borrower's defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers, and professional defaulter. The over confidence of commercial banks regarding credit appraisal efficiency and negligence taking information from Credit Information Bureau has caused many of the bad debts in these banks. He thinks that these banks have to follow the directives of NRB strictly and be more cautious and realistic while granting loans and advances.

Ojha has found that the high volume of liquidity reveals that a degree of lending strength has been prevailing in all of the commercial banks. The lack of reliable lending opportunities and fear of losing the principal in rural sector has been keeping these banks less oriented towards the lending function. Hence, the government should take appropriate action to initiate these banks to attract to flow credit in rural economy. Posing the compulsions by directives does not create long-term healthy lending practices unless the commercial banks are not self-motivated to flow credit in this sector.

Joshi, S. (2012) submitted the thesis entitled "A Comparative Study on Financial Performance of Standard Chartered Bank Nepal Limited and Everest Bank Ltd" states that the mean current ratio of EBL is slightly higher than that of the SCBNL and the variability of ratio of EBL is more consistence than SCBNL in comparison. The mean ratio of cash and bank balance to total deposit of SCBNL is lower in comparison to EBL. SCBNL has better liquidity position than EBL because of the high volume of liquidity indicated the inability of the bank to mobilize its current assets. Moreover SCBNL's ratios are homogeneous than EBL. The mean ratio of cash and bank balance to current assets of SCBNL is lower in comparison to EBL. Similarly, SCBNL's ratios of the study period are more consistent than EBL. The mean ratio of loan and advances to total deposit of EBL is higher than SCBNL. It can be said that EBL used to provide greater loan and advance in comparison to its total deposit than SCBNL. Likewise, SCBNL's ratio seems to be variable them EBL. The mean ratio of investment on government securities to total working fund of SCBNL is higher than

EBL. Consequently, it has consistency in maintaining the ratio than EBL. The mean ratio of return on loan and advances of SCBNL has found to be significantly greater than EBL with more consistency than that of EBL. The mean ratio of credit risk of SCBNL is lower than that of EBL's ratios are more consistent than that of SCBNL. Growth ratio of deposit are more consistent than that of SCBNL is lower i.e. 19.28% in comparison to EBL i.e. 76.46%.

The main statement of the problem of his research is the investment decision is the major tool of financial institution. There are many finance companies and commercial banks operating in Nepal. The fast growth of such organizations has made pro-rata increment of in collecting deposits and their investment. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilizes their fund on the changing context of Nepal. Many banks or companies succumbed to liquidation although they had sustainable investment capacity. The increasing rate of liquidity has caused a downward trend in investment sectors. It has ensured bad impact on interest rate to the depositors, lower market value of shares etc. for the assessment of such adverse impact, this study has shown to contrast and analyses the investment policy of joint venture banks. Joint venture banks viz. standard chartered bank Nepal Ltd and Everest bank limited. The main objectives are compare investment policy of concern banks, find out the empirical relationship among total investment, deposit, deposit utilization loan and advance, net profit and outside asset and compare of SCBNL and EBL.

Parajuli, S. (2012) in his dissertation entitled "Credit management of joint venture banks" states that concept of financial reform emerged with economic liberalization. Nepal Government and NRB published the economic and monitory policy to support such reform. As the result of these policies various jointed venture bank established in the private sector.

Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monitory control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July 1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which it's on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by NG in year such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non-banking deposit institutions.

The main statement of the problem of the study is government owned banks are in critical condition they are unable to recover the credit. Financial sector reform programs are not being able to achieve the expected target. Performance on the credit is poor in the government banks. Amount of non - performing assets is increasing. Generally, it is accepted If bank maintain low ratio, bank may not able to make the payment of against cheque that disadvantage sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words such sectors in the economy are not receiving the financial supports as commercial banks hesitate to be involved in these sectors where they do not see adequate profit. The main objectives of his research are: procedures of granting loans, examine the level of non-performing loan, relevancy of the financial sectors reform program, measure the comparative output of credit management in joint venture bank and government.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance and credit management of various commercial banks. Some of the researchers have done the financial performance, credit policy between two or three different commercial bank. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring credit management of bank have focused on the limit ratios which are incapable of solving the problems. Actually credit management is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about lending and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this study, the credit management of Nabil bank is measured by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of Sunita Misara, (2007) “Credit management of Everest Bank Limited” and Pradip Sadai, (2007) “An analysis on lending policy and strength of Nepal Investment Bank Ltd” has not use correlation, probable error and trend analysis. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit management of Bank and financial institutions.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

The research methodology is the process of arriving to the solution of the problems through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. In other word, Research is a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws This research methodology has primary sought the evaluation of the credit practices of the targeted joint venture bank i.e. Nabil bank Ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research. Research methodology refer to the various sequential steps (along with a rationale of each such steps) to be adopted by researcher in studying a problem with certain objective in view.

3.2 Research Design

A well-set research design is necessary for every research work. Research design refers to the conceptual structure, which constitutes the blue print of collection, measurement and analysis of data. It is a plan, structure and strategy of investigation conceived to obtain answer to research questions and to control variables. Thus, a research design is a blueprint (or detailed) plan for how a research study is to be completed (Bhandari 2004; 39). There are many methods of research design and this study is based on recent historical data. Only secondary data and information are collected, evaluated, verified and synthesized to reach a valid conclusion. The study aims to analyse and interpret for the purpose of credit management of Nabil Bank Limited. So, for attaining the goal of the study descriptive data and analytical research design are used. The descriptive research design has been adopted for fact-finding and searching adequate information about factors affecting credit management of Nabil Bank Ltd., during fiscal year 2008 to 2012 AD.

3.3 Population and Sample

Thirty one commercial banks are currently operating in Nepal out of which seven are joint venture commercial banks. Nepal Rastra Bank being the central bank of Nepal recommends, directs, and controls the establishment, operations and dissolutions of all the commercial banks in Nepal. The population for this study comprises all the joint venture banks. All seven joint venture banks perform the banking function of commercial banks under rules, regulating and directives of Nepal Rastra Bank. In this study, among seven joint venture banks under the banking industry Nabil Bank Limited is selected for the study.

3.4 Sources of Data

This research is only based on secondary sources.

Secondary Source:

This refers to data that are already used and gathered by others. So the major sources of secondary data are as follows

- Annual Reports of NABIL Bank Ltd.
- Website, Internet and E-mails
- Previous studies and reports
- Newspaper, journals, books, booklets, periodicals, articles, magazines and newspaper and various other published and unpublished documents
- Annual reports and various reports published by Nepal Rastra Bank

3.5 Method of Data Analysis Technique

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

1. Financial tools.
2. Statistical tools

3.5.1 Financial Tool

Financial tools are used to examine the strength and weakness of banks. In this study financial tools like ratio analysis and financial statement analysis have been used.

a) Ratio Analysis

Financial ratio analysis is used as a technique to quantify the relationship between two accounting figures. It provides the information about strengths and weakness of a financial data in relation to other. A ratio is calculated by dividing one item of relationship with the other. A ratio can be expressed in term of percentage, proportion, and as a coefficient.

1. Activity Ratio (Assets management ratio):

Activity ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources. Following are the various assets management ratio, which measures the lending strength and effective use of assets.

i. Credits Advances to Fixed Deposit Ratio:

Credits and advances are the major sources of investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The following formula is used to obtain this ratio.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

ii. Credits Advances to Total Deposits Ratio:

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collections/deposits on credit and advances for the purpose of earning profit.

$$\text{Credits and Advances to Total Deposits Ratio:} = \frac{\text{Credit and Advances}}{\text{Total Deposits}}$$

iii. Credit and Advances to Total Assets Ratios:

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

$$\text{Credit and Advances to Total Assets Ratio} = \frac{\text{Credits and Advances}}{\text{Total Assets}}$$

iv. Non-Performing Assets to Total Assets Ratio:

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

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

2. Debt Ratio

i. Total Debt to Equity Ratio:

Debt equity ratio measures the relative claims of creditors and owners against the assets of the bank. This ratios indicates the relationship between debt and equity i.e. outsiders funds and shareholders' funds which are sometimes called as external and internal equities. It is calculated to measure the extent of debt financing used in the business.

The formula used to determine the ratio is:

Total Debt = long term Debt + current liability

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

ii. Total Debt to Total Assets Ratio:

Total debt to total assets ratio shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation.

It is computed as:

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

iii. Total Assets to Net worth Ratio:

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

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

3. Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. Profitability ratios are used to measure the management ability regarding how well they have utilized their funds. Management of the business, creditors and owners are interested in the profitability of the firm. Profitability ratios are designed to highlight the end-result of business activities which in the imperfect world of ours, is the sole creation of overall efficiency of business unit. Following ratios are computed to find the probability ratios of NBL

i. Interest Income to Total Income Ratio

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

$$\text{Interest income to total income ratio} = \frac{\text{Interest income}}{\text{Total income}}$$

ii. Operating Profit to Loan and Advances Ratio

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

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

iii. Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiency of the Banks and finance companies have utilized their resources to earn good return from provided loan and advances. This ratio is computed to divide net profit/loss by the total amount of loan and advances. It can be mentioned as;

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loan \& Advances}}$$

4. Lending Efficiency Ratio

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

i) Loan Loss Provision to Total Loan and Advances ratio

It measures the percentage of credit loss provision on credit and advances. Credit loss provision on credit is given to reduce risk of non-payment of released credit. Increase in loan loss provision decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits.

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

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

ii. Non-performing loan to total loan and advances

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

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total Loan and advances}}$$

iii. Interest Expenses to Total Deposit Ratio

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

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

3.5.2 Statistical Tools

Following are the statistical tools used in the study:

1. Arithmetic Means (Average):

Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole. 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 a widely numerical data. It is calculated as:

$$\bar{X} = \frac{1}{n}\sum_{i=1}^{n} X_i$$

Where:

$\bar{X}$ = mean value or arithmetic mean

$\sum_{i=1}^{n} X_i$ = sum of the observation

N = number of observation

2. Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Its values lie somewhere ranging between - 1 to +1. If the both variables are constantly changing in the similar direction, the value of coefficient will be –1, two variables take place in opposite defection. The correlation is said to be perfect negative.

Formula

$$r_{x1x2} = \frac{N\Sigma X_1X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2 - (\Sigma X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

X_1 = values of credit and advances.

X_2 = values of total assets.

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product $X_1$and X_2

$\Sigma X_1\Sigma X_2$ = Sum of Product $X_1$and sum of Product X_2

3. Probable Error:

Probable error of correlation coefficient tests the reliability of an observed value of correlation coefficient. It shows the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Here, r = Correlation coefficient

N = Number of pairs of observations

P.E. is used in interpretation whether the calculated value of r is significant or not.

i) If r < P. E. it is insignificant, i.e. there is no evidence of correlation.

ii) If r > 6P.E. it is significant.

iii) If PE < r < 6P.E nothing can be concluded.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter data collected are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. During analysis data gathered from various sources have been inserted in tabular form. Using financial and statistical tools the various related data have been analyzed.

4.2 Financial Statement Analysis

Financial analysis means the process of extracting and studying information in financial statements for use in management decision making. So, financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. The ratios are designed and calculated to highlight the relationship between financial items and figures.

4.2.1 Assets Management Ratio

This ratio measures the efficiency of commercial bank generate sales in the fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of the bank.

By the help of the following ratios, asset management of Nabil bank limited has been analyzed.

i) Credit and Advances to Fixed Deposit Ratio

This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The following formula is used to obtain this ratio.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

Table No. 4.1: Credit and Advances to Fixed Deposit Ratio

(Amount in million)

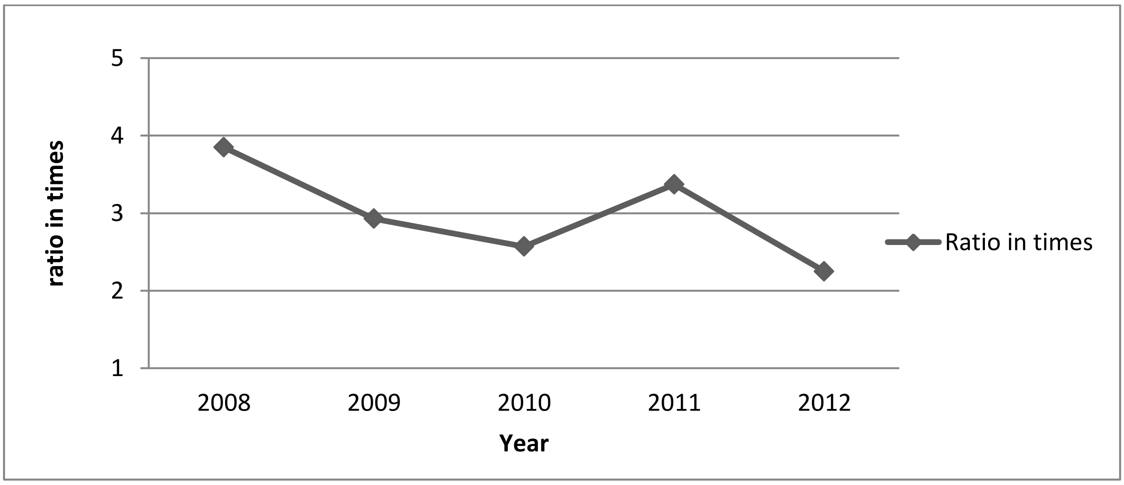
Year	Credit and advances	Fixed deposit	Ratio(Times)
2008	13279	3449	3.85
2009	15903	5435	2.93
2010	21759	8464	2.57
2011	27999	8310	3.37
2012	33030	14711	2.25
Mean			2.994

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above Table shows that Loan and advances to fixed deposits ratio are in increasing and decreasing trend in overall. The ratio of Nabil bank in 2008 was 3.85 and ratios are decreasing i.e. 2.93 and 2.57 and increase in year 2011 up to 3.37 times. The mean average of Nabil is 2.994 times at research period.

The Credit and advance to fixed deposit ratio is presented in figure as below:

Figure No. 4.1: Credit and Advances to Fixed Deposit Ratio



ii) Credit and Advances to Total Deposit Ratio:

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collections/deposits on credit and advances for the purpose of earning profit. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

Credits and Advances to Total Deposits Ratio: $= \frac{\text{Credit and Advances}}{\text{Total Deposits}}$

Table No. 4.2: Credit and Advances to Total Deposit Ratio

(Amount in million)

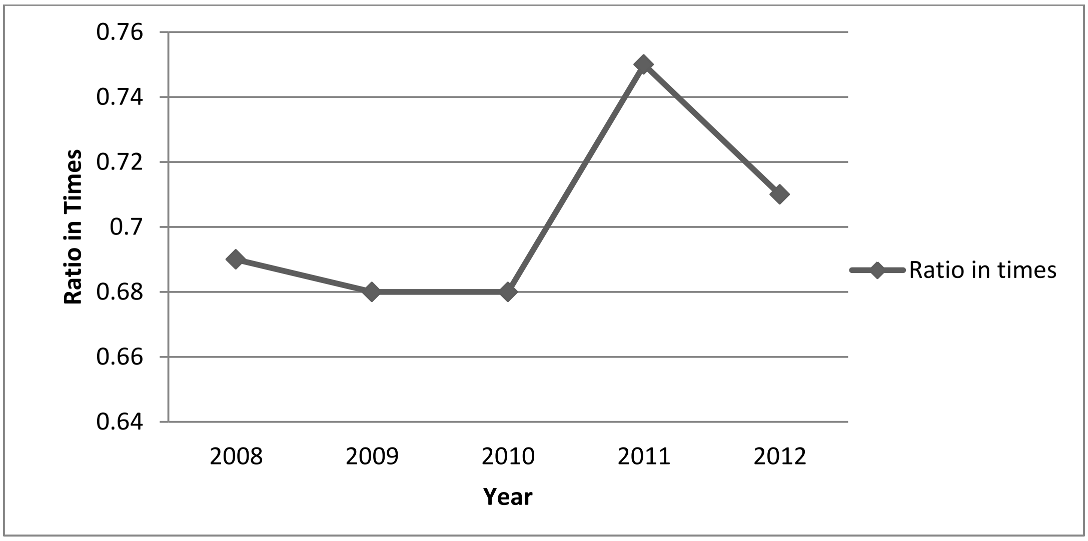
Year	Credit and advances	Total deposit	Ratio(Times)
2008	13279	19347	0.69
2009	15903	23342	0.68
2010	21759	31915	0.68
2011	27999	37348	0.75
2012	33030	46410	0.71
Mean			0.702

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above Table shows that the total loan advances to total deposit ratio of NABIL is in fluctuating trend. The ratio indicated the proportion of total deposits invested in loans and advances. The highest ratio is 0.75 times in year 2011 and lowest ratio 0.68 times in year 2009 and 2010. The average mean ratio of NABIL is 0.702 times in the study period. This means the bank is able to proper mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has tries to meet the NRB requirement or it has utilized its deposit to provide loan. In the year 2011, the bank has the good ratio of 75% which shows that the bank is successful in utilizing its deposit on loan and advances. This means that credit management is in good position of the bank.

The Credit and advance to total deposit ratio is presented in figure as below:

Figure No. 4.2: Credit and Advances to Fixed Deposit Ratio



iii. Credit and Advances to Total Assets Ratio

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

$$\text{Credit and Advances to Total Assets Ratio} = \frac{\text{Credits and Advances}}{\text{Total Assets}}$$

Table No. 4.3: Credit and Advances to Total Assets

(Amount in million)

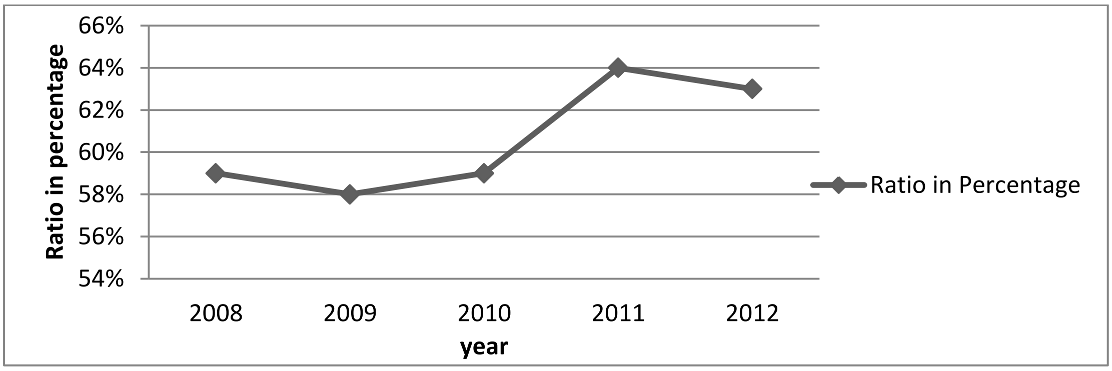
Year	Credit and advances	Total assets	Ratio(Times)	Ratio (%)
2008	13279	22330	0.59	59%
2009	15903	27253	0.58	58%
2010	21759	37133	0.59	59%
2011	27999	43867	0.64	64%
2012	33030	52079	0.63	63%
Mean			0.61	61%

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above table shows the Nabil bank has generally mixed or fluctuating trends of Credit and Advances to Total Assets ratio under the study period. The ratios are 59%, 58%, 59%, 64% and 63% in their respective year. The highest ratio is 64% in the year 2011 and the lowest ratio is 58 % year 2009. The average mean ratio is 61%. It shows that bank has capability in utilizing total assets in the form of credit and advances and advance is satisfactory because the fluctuation of the ratio is minimum.

The Loan and advances to total assets ratio is represented in figure as below.

Figure No. 4.3: Credit and Advances to Total Assets



iv) Non-Performing Assets to Total Assets Ratio

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

Table No. 4. 4: Non-Performing Assets to Total Assets Ratio

(Amount in million)

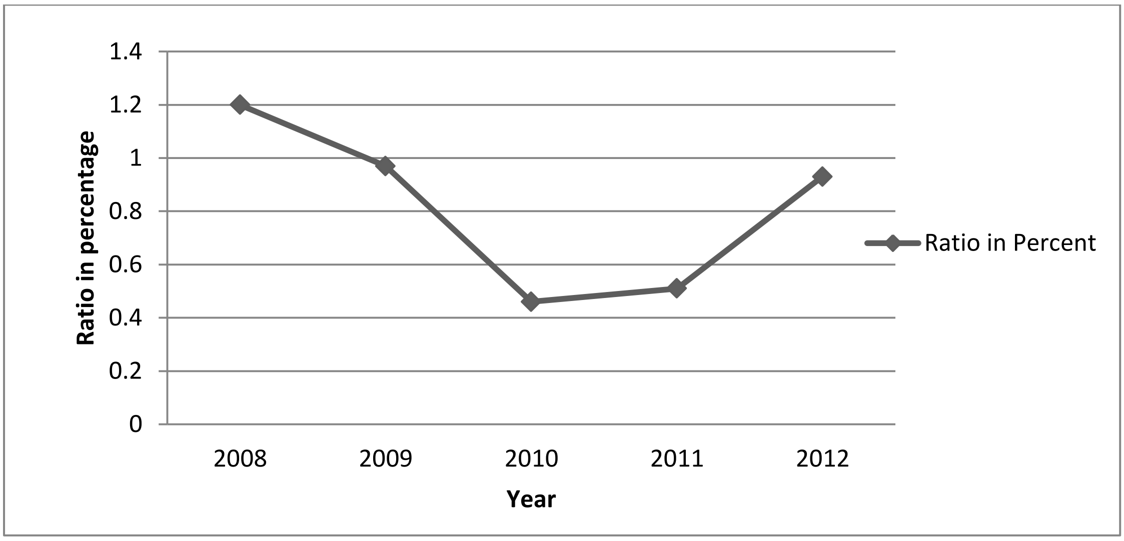
Year	Non-performing Assets	Total Assets	Ratio (%)
2008	268	22330	1.20
2009	265	27253	0.97
2010	172	37133	0.46
2011	224	43867	0.51
2012	486	52079	0.93
Mean			0.81

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above table no. 4.4 shows that the total non-performing assets to total assets ratio of NABIL is in fluctuating trend. The highest ratio is 1.20 % in year 2008 and lowest ratio 0.46% in year 2010. The mean ratio is 0.81%. The bank is able to obtain higher lending opportunity. The decreasing trends of Ratios are 1.20%, 0.97% 0.46%, 0.51% and 0.93% in year 2008, 2009, 2010, 2011 and 2012, which indicates more efficient operating of the credit management. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be about 5%. However, referring to this table, Nabil bank is able to keep the level of non-performing assets at an average level.

The Non-Performing Assets to Total Assets Ratio is presented in the following figure as below:

Figure No. 4. 4: Non-Performing Assets to Total Assets Ratio



4.2.2 Leverage Ratio

These ratios indicate mix of funds provided by owners and lenders. To judge the long-term financial position of the firm, leverage ratios are calculated. Following ratios are included under leverage ratios

i) Total Debt to Equity Ratio:

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

Total Debt = long term Debt + current liability

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

Table No. 4. 5: Total Debt to Equity Ratio

(Amount in million)

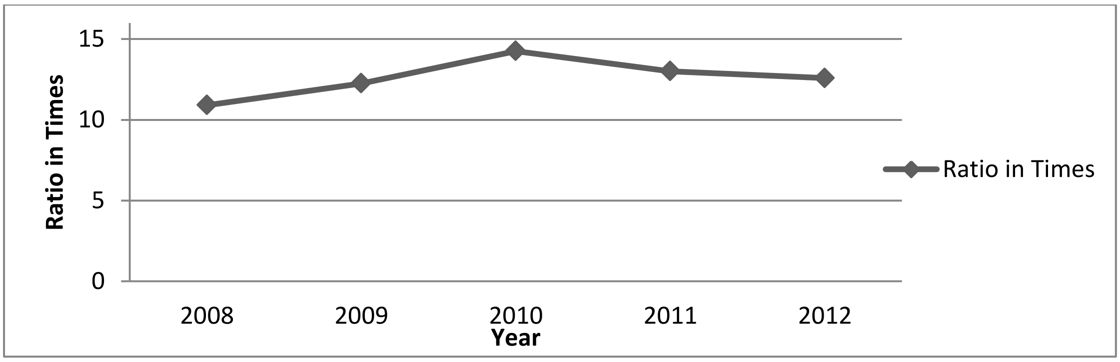
Year	Total Debt	Total Equity	Ratio (Times)
2008	20455	1875	10.91
2009	25196	2057	12.25
2010	34696	2437	14.25
2011	40736	3130	13.01
2012	48244	3834	12.58
Mean			12.6

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above table 4.5 shows Debt to total equity ratio is in fluctuating trend. The ratio is 10.91 times in the first year 2008, 12.25 times in the second year2009, 14.25 times in the third year 2010, 13.01 times in the fourth year 2011 and 12.58 times in the fifth year 2012 of the research period. The average mean ratio is 12.6 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the time.

The trend line of ratio of total debt to equity is presented in figure as follow.

Figure No. 4. 5: Total Debt to Equity Ratio



ii) Total Debt to Total Assets

Total debt to total assets ratio shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets.

$$\text{Total debt to Total Asset} = \frac{TotalDebt}{\text{Total Asset}}$$

Table No. 4. 6: Total Debt to Total Assets

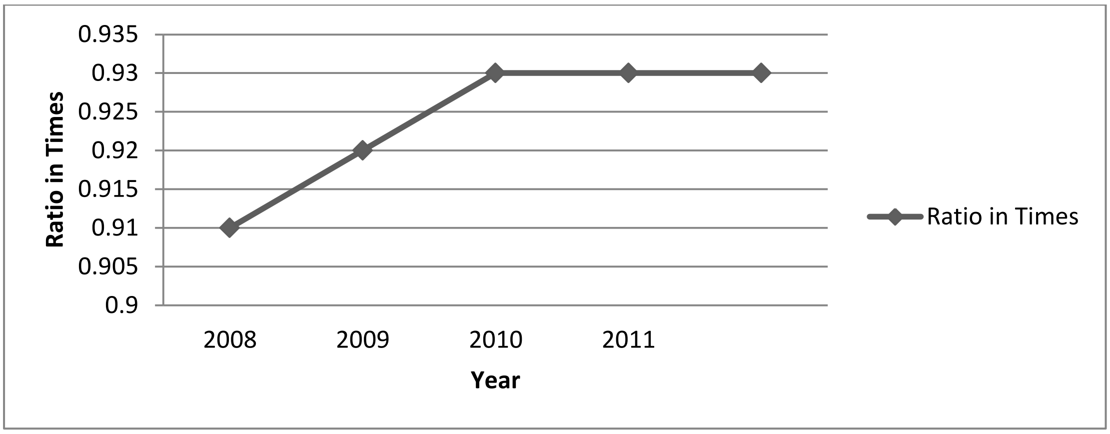
(Amount in million)

Year	Total Debt	Total assets	Ratio (Times)
2008	20455	22330	0.91
2009	25196	27253	0.92
2010	34696	37133	0.93
2011	40736	43867	0.93
2012	48244	52079	0.93
Mean			0.92

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above table 4.6 shows that total debt to total assets ratio of Nabil bank is in fluctuating trend. The ratios are 0.91, 0.92, 0.93, 0.93, 0.93 times in 2008, 2009, 2010, 2011, and 2012 respectively. The average mean ratio in 5 years research period is 92 times. It means almost 92% of total assets is financed by the outsider's' funds. It is seen that there is not much deviation in the ratio for the five years study period. It means no change in the policy on this ratio for the five years. The below figure is the graphical presentation of Total debt to total assets ratio:

Figure No. 4. 6: Total Debt to Total Assets Ratio



iii. Total Assets to total Book Net worth Ratio:

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

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

Table No. 4. 7: Total Assets to Net Worth

(Amount in million)

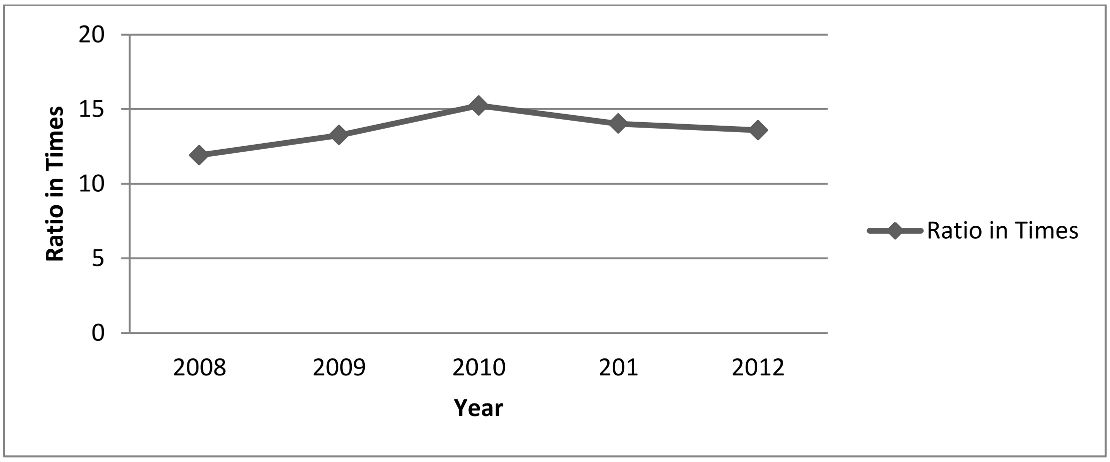
Year	Total assets	Net Worth	Ratio(Times)
2008	22330	1875	11.91
2009	27253	2057	13.25
2010	37133	2437	15.24
2011	43867	3130	14.02
2012	52079	3834	13.58
Mean			13.60

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above table 4.7 shows Total assets to net worth ratio of the bank is in fluctuating trend. It is lowest 11.91 times in the year 2008 and highest in 15.24 times in year 2010. In over all the study period the average ratio is 13.60 times. The ratios are 11.91, 13.25, 15.24, 14.02 and 13.58 in consecutive year 2008, 2009, 2010, 2011 and 2012 respectively. It represents good condition of Total assets to net worth ratio. Here above table we see that total assets and net worth are increasing year by year on the study period.

The below trend line clearly shows the Total assets to net worth ratio of the bank.

Figure No. 4. 7: Total Assets to Net Worth



4.2.3 Profitability Ratio

Profitability ratios are used to measure the management ability regarding how well they have utilized their funds. Management of the business, creditors and owners are interested in the profitability of the firm. Profitability ratios are designed to highlight the end-result of business activities which in the imperfect world of ours, is the sole creation of overall efficiency of business unit. The following ratios are calculated:

i) Interest Income to Total Income Ratio

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

Table No. 4. 8: Interest Income to Total Income Ratio

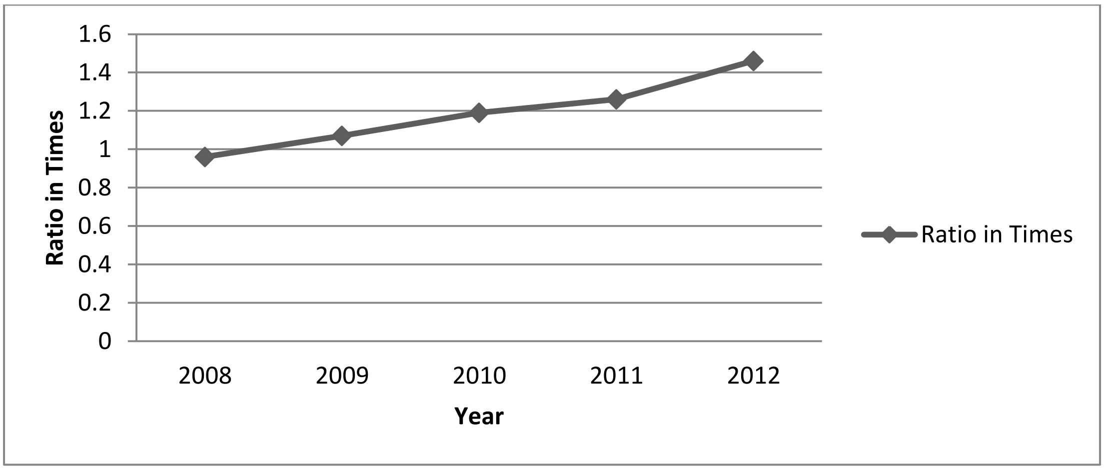
(Amount in million)

Years	Interest income	Total income	Ratio(Times)
2008	1310	1360	0.96
2009	1588	1480	1.07
2010	1979	1670	1.19
2011	2798	2220	1.26
2012	4047	2764	1.46
Mean			1.19

(Source: Annual report of Nabil Bank, FY 2008-2012)

Table no 4.8 shows that the total interest income to total income ratio of NABIL is in increasing trend. The ratios are 0.96 times, 1.07 times, 1.19 times, 1.26 times and 1.46 times in fiscal year 2008, 2009, 2010, 2011 and 2012 respectively. The highest ratio is 1.46 times in year 2012 and lowest ratio 0.96 times in year 2008. The mean ratio is 1.19 times in the study period. The ratio indicates the high contribution made by lending and investing activities. The total interest income to total income is continuously increasing trend. Therefore, credit management is in a good position of the bank. Interest income and total income are presented in figure as below:

Figure No. 4. 8: Interest Income to Total Income Ratio



ii) Operating Profit to Loan and Advances Ratio

Operating profit to loan advances ratio measures the earning capacity of commercial bank.

Operating profit to loan and advance ratio = $\frac{Operasting\ \Pr ofit}{Loan\ and\ Advance}$

Table No. 4. 9: Operating Profit to Loan and Advances Ratio

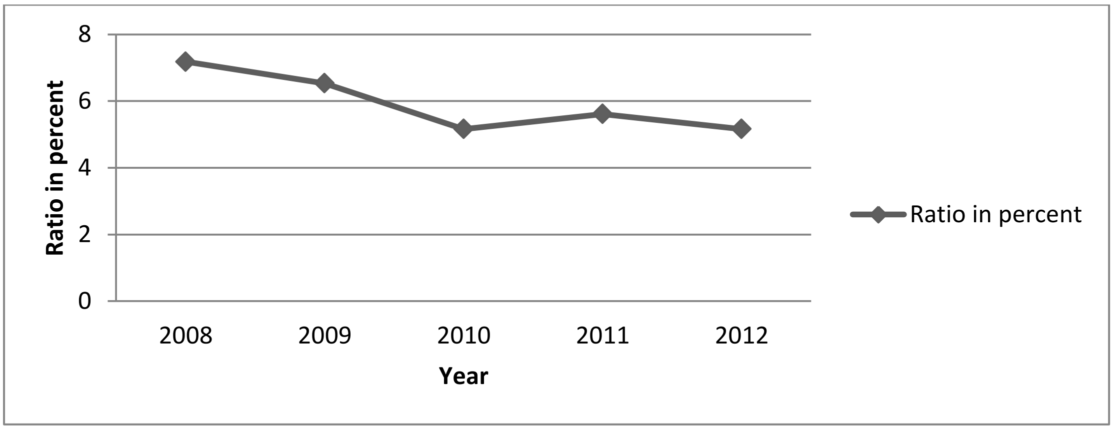
(Amount in million)

Years	Operating profit	Credit and advances	Ratio (%)
2008	953	13279	7.18
2009	1038	15903	6.53
2010	1123	21759	5.16
2011	1570	27999	5.61
2012	1706	33030	5.16
Mean			5.93

(Source: Annual report of Nabil Bank, FY 2008-2012)

Table no 4.9 shows that the operating profit to loan and advances ratio of NABIL is in decreasing trend till the third year and again increasing in fourth year and decreasing. The highest ratio is 7.18% in the year 2008 and lowest ratio 5.16% in the year 2010 and 2012.The average mean ratio over the period is 5.93%. This shows the high profitability in 2008 and low profitability in 2009 and 2010 through loan and advance of the bank. Ratios are 7.18%, 6.53%, 5.16%, 5.61% and 5.16% in year 2008, 2009, 2010, 2011 and 2012 respectively. These show the fine profitability position of commercial bank, But there is a declining in operating profit to loan and advance ratio. Anyway credit management is in good position of the bank. The ratio of Operating profit to loan and advances are presented in the figure 4.9 as below:

Figure No. 4. 9: Operating Profit to Loan and Advances Ratio



iii) Return on Loan and Advances Ratio

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

Table No. 4. 10: Return on Loan and Advances

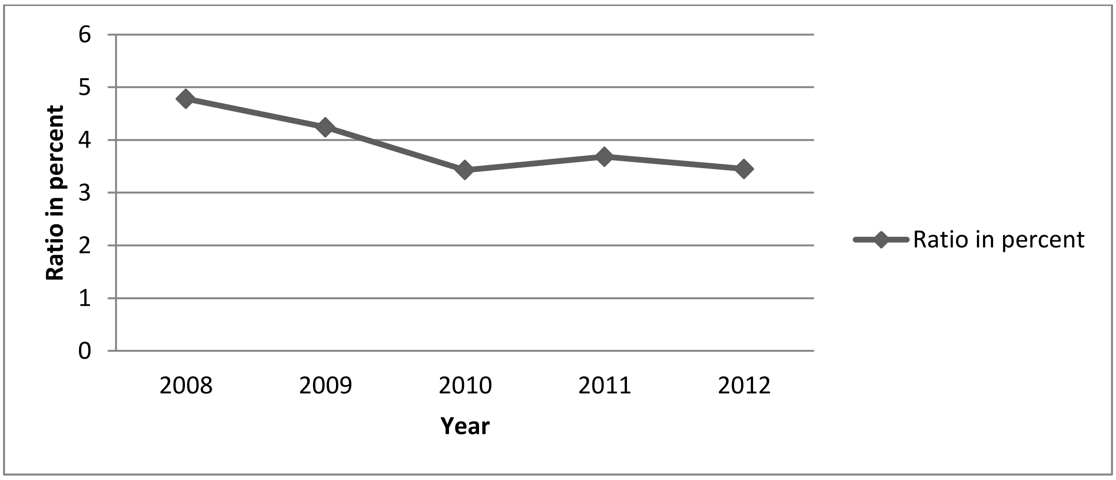
(Amount in million)

Years	Net profit	Credit and advances	Ratio (%)
2008	635	13279	4.78
2009	674	15903	4.24
2010	747	21759	3.43
2011	1031	27999	3.68
2012	1138	33030	3.45
Mean			3.92

(Source: Annual report of Nabil Bank, FY 2008-2012)

Table no 4.10 shows that return on loan and advances ratio of NABIL is in fluctuating trend. The highest ratio is 4.78% in the year 2008 and lowest ratio 3.43% in the year 2010. The average mean ratio is 3.92%. The Ratios are 4.78%, 4.24%, 3.43%, 3.68% and 3.45% in years 2008, 2009, 2010, 2011 and 2012 respectively. These show the highest earning in 2008 and lowest earning capacity in 2010 from loan and advances. These show the little high earning capacity of Nabil Bank through loan and advances. Thus, credit management is in good position. Net profit and loan advances are represented in the figure as below.

Figure No. 4. 10: Return on Loan and Advance



4.2.4 Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratio:

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

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

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

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

Table No. 4. 11: Loan Loss Provision to Total Loan and Advances

(Amount in million)

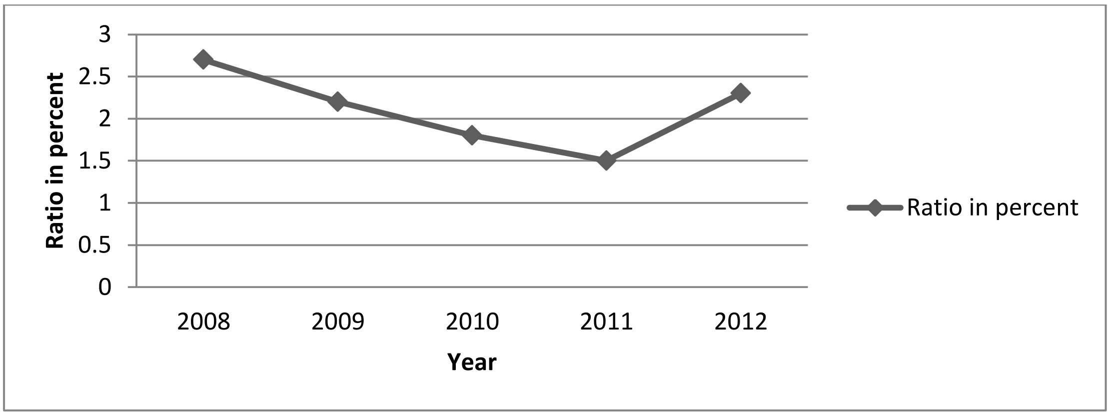
Years	Loan loss provision	credit and advances	Ratio (%)
2008	356	13279	2.7
2009	357	15903	2.2
2010	394	21759	1.8
2011	409	27999	1.5
2012	762	33030	2.3
Mean			2.1

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above table 4.11 shows that loan loss provision to total loan and advances ratio of NABIL is in fluctuating trend. The highest ratio is 2.7% in year 2008 and lowest ratio 1.5% in year 2010. The mean ratio of the study period is 2.1%. This shows that good quality of assets in total volume of loan and advances. Ratios are 2.7% 2.2%, 1.8%, 1.5% and 2.3% in the year2008, 2009, 2010, 2011 and 2012 respectively. These indicate the good quality of advances. Thus, credit management is in a satisfactory position.

Loan loss provision and total loan and advances are represented in the following diagram clearly.

Figure No. 4. 11: Loan Loss Provision to Total Loan and Advances



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

This ratio shows the relationship of Non-performing loan and total loan and advance. It is determine how efficiently the total loan and advance have been used by the management.

Table No. 4. 12: Non-Performing Loan to Total Credit and Advances

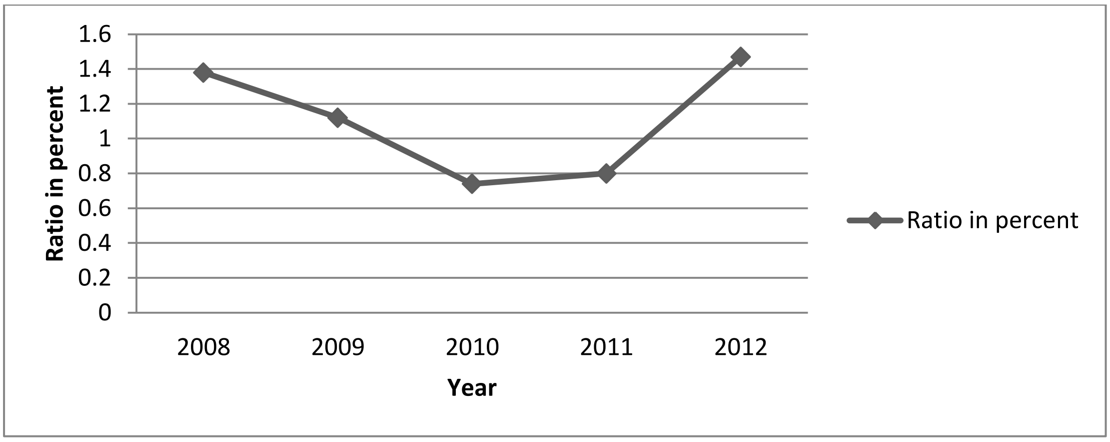
(Amounts in million)

Years	Non-performing loan	Credit and advances	Ratio (%)
2008	183	13279	1.38
2009	178	15903	1.12
2010	161	21759	0.74
2011	224	27999	0.8
2012	486	33030	1.47
Mean			1.102

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above table 4.12 shows that Non-performing loan to total loan and advance of NABIL is in fluctuating trend. The ratios are 1.38%, 1.12%, 0.74%, 0.8% and 1.47 in consecutive year 2008, 09, 10, 11 and 12 respectively. The highest ratio is 1.47 % in the year 2010 and lowest ratio is 0.74% in the year 2008. The average non-performing loan to total loan and advances ratio of NABIL is 1.102% during the study period. The ratios are decreasing but except in 2012, which indicates low efficient operating of the management. Ratios are decreasing trends it indicate the bank is increasing the non-performing loan from total loan. Therefore, credit management is in a good position recently. Non-performing loan to total credit and advances ratio presented clearly in following figure.

Figure No. 4. 12: Non-Performing Loan to Total Credit and Advances



iii) Interest Expenses to Total Deposit Ratio

The ratio measures the percentage of total interest against total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. A high ratio indicates higher interest expenses on total deposit.

Table No. 4. 13: Interest Expense to Total Deposit Ratio

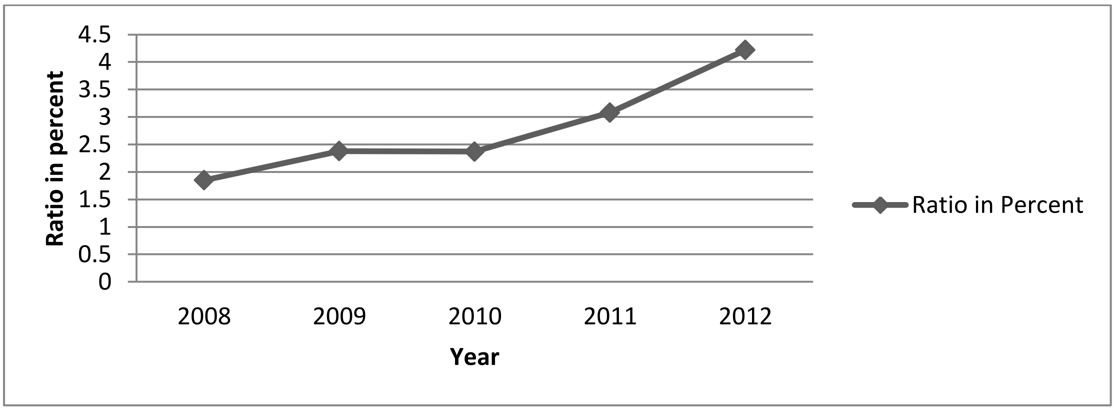
(Amounts in million)

Years	Interest expenses	Total deposit	Ratio (%)
2008	357	19347	1.85
2009	556	23342	2.38
2010	758	31915	2.37
2011	1153	37348	3.08
2012	1960	46410	4.22
Mean			2.78

(Source: Annual report of Nabil Bank, FY 2008-2012)

Above table no. 4.13 shows that interest expenses to total deposit ratio of NABIL is in fluctuating trend. The highest ratio is 4.22% in the year 2010 and lowest ratio is 1.85% in the year 2008. The average mean point of interest expenses to total deposit ratio is 2.78% during the study period. Ratios are 1.85%, 2.38%, 2.37%, 3.08%, and 4.22% in respective year 2008, 2009, 2010, 2011 and 2012. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. Interest expenses to total deposit ratio is represented in figure as below.

Figure No. 4. 13: Interest Expense to Total Deposit Ratio



4.3 Statistical Analysis:

Correlation Coefficient:

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 change in another variable. Its values lie somewhere ranging between - 1 to +1. Coefficient of correlation has been studied to find out whether the two available variables are inter-correlated or not. If the result falls within the correlated point, the two variables are inter-correlated otherwise not. Now to find out the correlation coefficient between total lending and total assets, the widely used method of Karl Pearson's Coefficient of Correlation has been adopted.

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

Here,

N = Number of pairs of x and y observed.

x = values of credit and advances.

y = values of total assets.

r = Karl Pearson's Coefficient of Correlation.

Probable Error

The probable error of the coefficient of correlations helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E (r). The probable error of the coefficient of correlation is obtained as follows:

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

Here, r = Correlation coefficient

N = Number of pairs of observations

P.E. is used in interpretation whether the calculated value of r is significant or not.

i) If r < P> E., it is insignificant, i.e. .there is no evidence of correlation.

ii) If r > 6P.E, it is significant.

iii) If PE < r <6PE nothing can be concluded.

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

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

4.3.1 Correlation between Total Credit and total assets

Table No. 4. 14: Correlation coefficient between Total Credit and Total Assets

Particulars	NABIL
r (Coefficient correlation)	0.997
P.E $= 0.6745 \times \dfrac{1-r^2}{\sqrt{n}}$	0.0018
6.P.E	0.0108

(In Appendix-I)

From the table No. 4.13 coefficient of correlation between total credit and total assets is 99.7%, which shows the much more high positive correlation between total credit and total assets. Since 'r' is more than 6x P.E the coefficient of correlation is considered as significant. In other words, the total credit and advances are significantly correlated to the total assets of Nabil Bank Limited in the study period of 2008 to 2012.

4.3.2 Correlation between Loan and advance (Total credit) to Total Deposit

Table No. 4. 15: Correlation coefficient between Loan & Advances to Total Deposits

Particulars	**NABIL**
r (Coefficient correlation)	*0.995*
P.E $= 0.6745 \times \frac{1-r^2}{\sqrt{n}}$	*0.003*
6.P.E	*0.018*

(In Appendix- II)

From the table No. 4.15 the correlation coefficient between loan and advance to total deposit is 99.5%. Since, 'r' is more than 6× P.E. the coefficient of correlation is considered as significant. There is high degree of positive correlation between loan & advances to total deposits. It seems increasing amount in deposit will helps to increase loan and advances and vice-versa.

4.4 Major Finding of the Study

4.4.1 Assets Management Ratio

- Average loan and advances to fixed deposits ratio is 2.994 times in the study period. Similarly mean ratio of credit and advances to total deposit ratio of Nabil is 0.702 times in the study period. The ratio indicates that it has used its deposit in loan and advance in proper way. In the year 2011, the bank has the good ratio of 0.75% which shows that the bank is successful in utilizing its deposit on loan and advances.

- Non-performing assets to total assets ratio of Nabil is in decreasing trend, which indicates more efficient operating of the credit management. The mean ratio is 0.84 %. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be less than 5%. So the Nabil is successful to keep the level of non-performing assets as an adequate position. The bank is able to obtain higher lending opportunity.

4.4.2 Leverage ratio

- The Debt to equity ratio of NABIL is in fluctuating trend during the study period but it has decreasing trend in 2012 .This indicate that the bank is decreasing the utilization of loan and going toward utilization of its own utility. The average mean ratio is 12.6 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repaid in time. The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets.

- The average total debt to total assets ratio of Nabil bank is 0.92 times. It means almost 92% of total assets is financed by the outsider's' funds. It is seen that there is not much deviation in the ratio for the five years study period. The average mean ratio of total asset to net worth is 13.60 times at the study period. It shows good financial position of the company.

4.4.3 Profitability Ratios

- Total interest income to total income ratio of NABIL is in increasing trend. The highest ratio is 1.46 times in year 2012. The mean ratio is 1.19 times in the study. The ratio indicates the high contribution made by lending and investing activities. Therefore, credit management is in a good position of the bank

- The average operating profit to loan and advances ratio of NABIL is 5.93%. This shows the better profitability position of the bank. The highest ratio is 7.18% in the year 2008 which indicate high profitability through loan and advance of the bank.

- Return on loan advances ratio of NABIL is also in fluctuating trend and stepping downward in ending study period. It indicates contribution in return is decreasing by loan and advance. The mean ratio is 3.92 times. This shows the normal earning capacity of NABIL in loan and advances.

4.4.4 Lending Efficiency Ratio

- Loan loss provision to total loan advances ratio of NABIL is in decreasing trend but stepping upward in ending period. The mean ratio of the study period is 2.1%. This shows that good quality of assets in total volume of loan and advances. It indicates aggregate loan of bank are safe. Thus, credit management is in good position. So, the bank has met and maintained the NRB requirement in all year.

- Non-performing loan to total loan advances ratio is also in decreasing trend but except in 2012, which indicates low efficient operating of the management. From mean point of view, the highest ratio is 1.47 % in the year 2012 and lowest ratio is 0.74% in the year 2010. Non-performing loan to total loan advances ratio of Nabil is during the study period is 1.102%. Decreasing ratio indicates the bank is decreasing the non-performing loan from total loan

- Interest expenses to total deposit ratio of NABIL is in fluctuating trend. The highest ratio is 4.22% in the year 2012 and lowest ratio is 1.85% in the year 2008. The average mean point of interest expenses to total deposit ratio is 2.78% during the study period. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund.

4.4.5 Statistical tools

- In statistical analysis, correlation analysis has been calculated. Correlation coefficient between total credit and total assets is 0.997, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact to total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.995. It is concluded that increasing total deposit will have positive impact on loan & advances.

CHAPTER - V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A bank is an institution which deals in money. Making loan is the principal economic function of banks. The majority of banks, loans represent fifty percent or more of their total assets and about half to two thirds of their revenues. It draws surplus money from the people who save and lend them to the people who want to use it for productive purpose. In this process the bank earns commission. The rate of interest paid to the depositors is generally lower than the rate charged to the borrowers. The difference between these two rates of interest is the profit of the bank.

In bank, lending is the most risky business among all. There is no risk in collection of deposits. But only small careless or mistake in the loan portfolio and procedure can shock the bank profitability and survival, when bank is unable to recover the loans with interest. So there should be well managed regulations lending aspects of a bank. Such regulations should be strictly followed while evaluating the loan proposal and providing loans.

The present study has been undertaken to examine and evaluate the Credit management of NABIL. The study is based on secondary data from the fiscal year 2008 to 2012. The study has resorted mainly to secondary data that has been first processed and analyzed comparatively.

For the fulfillments of the objectives of the study many analyses have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Under financial tools, various financial ratios related to the investment function of commercial banks i.e. assets management ratio, profitability ratio, leverage ratio, and lending efficiency ratio have been studied and interpreted. Under statistical analysis, some relevant statistical tools, i.e. correlation co-efficient have been studied. This analysis gives clear picture of the credit management of the bank. Financial & statistical tools are used and secondary data were compiled, processed, tabulated and graphed for better presentation.

NABIL was established in 12th July 1984, which was the first joint venture bank in Nepal. Among many joint venture banks, it is a leading one, which is always running in profit due to its proper management and good policies. Data presented is all from the secondary sources, which are in the annual reports or other printed matters.

5.2 Conclusion

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. Success of Nabil is milestone in the banking history of Nepal as it has been successful in maintaining a steady growth rate over this period. A notable strength of the bank's achievement is Nabil registered Operating profit NPR 1706 million. This is 8.66% growth compared to last year the highest in the banking industry% to reach NPR 33030 million in the year. This shows there has been improvement in yield on loan. Deposit growth record 24.26% reaching NPR 46410 million this compared to growth of 11.94% in the market. Likewise loans and advance grew by 17.97%.

NABIL has earned a net profit of Rs 1138 million for the fiscal year 2011/12 and this comes to be 10.38% more as compared to the same period in the previous fiscal year. The bank is successful in credit management in last five year due to its proper management and good policies.

5.3 Recommendations

- There is highly positive correlation between credit and advances to total deposit of Nabil bank. So it is recommended to increase their deposit to make more credit and advances.

- Interest income to total income ratio of NABIL is higher which is good from view point of bank in short run but in long run it is not good. Bank should generate its income from extra sources (like exchange gain, commission and discount, remittance service) other than interest for the survival in long run.

- Bank should also pay attention towards the priority sector and industrial sector for lending loans to develop the economic condition of the country.

- Banking has become more and more competitive in the present days. Nabil needs to find sources of income apart from the traditional interest income to stay competitive providing many other services to its customer.

- The majority of Nepalese people living in villages are highly exploited by manipulating principle amount. The overall economic development of the country is almost impossible until and unless the programs are matched with those people requirement. Therefore it is suggested to NABIL to expand its branches in rural areas for economic up-liftmen of poor people who lives in village.

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APPENDIX –I

Correlation coefficient between Total Credit and Advances and Total Assets

Total assets (X)	Credit and advances (Y)	X^2	Y^2	XY
22330	13279	498628900	176331841	296520070
27253	15903	742726009	252905409	433404459
37133	21759	1378859689	473454081	807976947
43867	27999	1924313689	783944001	1228232133
52079	33030	2712222241	1090980900	1720169370
$\sum x = 182662$	$\sum y = 111970$	$\sum x^2 = 7256750528$	$\sum y^2 = 2777616232$	$\sum xy = 4486302979$

We know,

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

$$= \frac{5 \times 4486302979 - (182662 \times 111970)}{\sqrt{5 \times 7256750528 - (182662)^2}\sqrt{5 \times 2777616232 - (111970)^2}}$$

$$= \frac{22431514895 - 20452664140}{54021.72 \times 36753.23}$$

$$= \frac{1978850755}{1985472700}$$

= 0.997

APPENDIX –II

Correlation coefficient between Loan & Advances to Total Deposits

Total Deposit (X)	**Loan and Advances (Y)**	**X^2**	**Y^2**	**XY**
19347	13279	374306409	176331841	256908813
23342	15903	544848964	252905409	371207826
31915	21759	1018567225	473454081	694438485
37348	27999	1394873104	783944001	1045706652
46410	33030	2153888100	1090980900	1532922300
$\sum x = 158362$	$\sum y = 111970$	$\sum x^2 = 5486483802$	$\sum y^2 = 2777616232$	$\sum xy = 3901184076$

We know,

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

$$= \frac{5 \times 3901184076 - (158362 \times 111970)}{\sqrt{5 \times 5486483802 - (158362)^2}\sqrt{5 \times 2777616232 - (111970)^2}}$$

$$= \frac{19505920380 - 17731793140}{48516.96 \times 36753.23}$$

$$= \frac{1774127240}{1783154990}$$

= 0.995