CHAPTER I

INTRODUCTION

1.1 Background of the Study

The poor structure of Nepalese economy slow paced industrial sector, low rate of employment, majority on non-organized financial sector, lack of organized capital market etc. have always industries been demanding an efficient, competent and liberalized banking. The existence of an ideal commercial banking system regularizes the scattered fund from public. Lending it to productive sector, if reduces the idle saving a country. Commercial Banks, It succeeded in increasing the banking habit of people. Would have great power in multiplying the deposits by way of credit creation and this would multiply the investment more than the limit granted by the national saving. The role of commercial banks in the economy like Nepal can be Judged from its contribution to a farmer to purchase a buffalo, to a big industry to established it industrial foundation, to an exporter to produce the exporting goods and to link the economy, trade and commerce in front of the opportunities goods and to link the economy, trade and commerce in front of the opportunities and challenges created by the globalization. Nepalese banking, If worked efficiently in pursuit of its ideology, it would be the people's hope towards the banking system is dependent upon it efficiency to implement its lending and investment function. The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits. Then it provides this money to those who are in need of it’s by grating overdrafts to fixed loan or by discoursing bills of exchange or promissory notes. Thus, the primary function of a commercial bank is that of a broken and dealer in money. As financial institution, commercial bank is one of the major media in the frameworks of every economy because they collect scattered savings provides loan to the various sector according to the need of client. When bank provides loan new business and industries is established which infrastructure of national development, direction of economy rate of progress is strengthen by banking system. The primary issue of development is to increase investment. In productive sector of economy such as industrial and commercial, production, trade and commerce, international businesses generation of individual income and expenditure, government revenue etc.

Banks grants loan and advances to industries. People and companies that result in the increase in the productivity of nation. For example: the against to agricultural sector enhances the agricultural product on. The loan amount can be used by the farmers as per their need to produce their product that has promote the agriculture product on. Similarly the loan and advances to different people and corporate bodies help to increase their income and profits. They can use the amount as per their need at right place at the right time. Bank is a business organization where monetary transaction occurs, it creates fund from its clients saving and lends the same to needy person or business companies in term loans, advances and investment. So proper financial decision making is more important in banking transactions for its efficiency and profitability. Most of the financial decision making loan management it plays the vital role in the business succession, so efficient management of lending policy is needed.

Banking plays a significant role in the economic development of a country. Nepal bank limited (NIBL) is the first commercial bank of the country. Commercial banks are the heart of the financial institutions. They hold the deposits of many persons, government establishments and business units. They made funds available through their lending and investing activities to borrowers, individuals, business firms and government establishments. So, they assist both the flow of goods and services from the procedures to consumers and financial activities of the government. They provide large proportion of the medium of exchange they are the media through which monetary policy is affected. These facts show that the commercial banking system of the nation is important to the functioning of the economy. Bank is a resource for the economic development. This maintains the self-confidence of carious segments of society and extends credit to the people.

1.1.1 Profile of Selected Banks

a. Nepal Investment Bank Ltd. (NIBL)

Nepal investment Bank Ltd. (NIBL), previously Nepal Indosuez Ban Ltd. was established in 1986 as a joint venture between Nepalese and, French partners. The French partner (holding 50 percent of the capital of NIBL) was credit Agricola Indosuez. A subsidiary of one often largest banking group in the world.

With decision of credit Agricola Indosuez to divert, a group of companies comprising of bankers, professionals, industrialists and businessmen, ahs acquired on April 2002 the 50 percent shareholding of credit Agricola Indosuez in Nepal Indosuez in Nepal Indosuez ban Ltd.

The name of the bank has been change to Nepal Investment Bank Ltd. upon approval of bank's annual General meeting. Nepal Rastra Bank and company Register's office with the following shareholding structure.

i A group of companies holding 50 percent of the capital.

ii Rashtriya Banijya bank Holding 15 percent of the capital.

iii Rashtriya Beema Sansthan Holding the 15 percent percentage.

The remaining 20 percent being held by the general public (which means the NIBL is a company listed on the Nepal Stock Exchange.)

b. Bank of Kathmandu (BOK)

Bank of Kathmandu Ltd. was incorporated in 1993 and came into operation in March 1995 as a joint venture bank with Siam commercial Bank of Thailand. The head office of the bank is situated at Kamal Pokhari, Kathmandu. Nepal. Its authorized capital is 1,00,00,00,000.00, issued capital is 50,00,00,000.00 and paid up capital is 46,35,80,9000.00 At the beginning, this bank was managed by Siam commercial bank of Thailand and later on Siam commercial bank divests their share holding and now its is fully owned and managed by Nepali professional the majority the majority of the shares are owned by general public which is 57.73 percent Annual report BOK, 2004:13.

Bank of Kathmandu, since it s inception, has been using information technology for its mainstream banking. All its branches including rural areas are interconnected to the bank's internet system provide online real time any Branch banking system to its valued customers. Continuous updates. Upgrades and replacement of its equipment and software have become one often major focuses of the bank to stand up to the challenges passed by the fast changing environment.

1.2 Statement of the Problem

To improve the profitability situation of the bank, It is necessary to stability is the major source and building better creditability position is the major strategy of every commercial bank. Credit is the most effective and sincere area in commercial bank. Most major banking problems have been awareness of the need to identify measure, monitor and control credit as well as to determine that they hold adequate capital against it. These risks are adequately compensated for risks incurred. So, to establish creditability position is a major issue in commercial banking sector during these days.

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

i Is the liquidity position with respect to credit quality by selected commercial banks in effective position?

ii What is the credit efficiency of the selected commercial banks?

iii Is there any relationship between credit position and profitability situation?

1.3 Objectives of the Study

It is no doubt that the role of the commercial banks is significant in the development of the country. Banks help in the development of the country by providing credit to the necessary sectors. Therefore the main objectives of the study have found out the credit management position of the 'NIBL' and 'BOK'.

i To analyze the liquidity position with respect credit quality by selected commercial banks in effective position.

ii To find out the credit efficiency of the selected commercial banks.

iii To analyze the relationship between credit position and profitability situation

1.4 Significant of the Study

At present the joint venture banks are gaining a wide popularity though their efficient management and professional services and playing eminent role in the economy. This study has importance to various gropes but in particular is directed to a certain groups of people organizations, which are:

i Importance to Shareholders.

ii Importance to management of these banks for the evaluation of the performance of their banks, and in comparison with other banks.

iii Importance of "outsiders" which are mainly the customers, findings agencies.

iv Importance to government bodies or the policy makers such as the central bank.

v Interested outside parties such as investors, customers (depositors as well as credit takers) : competitors personnel of the banks, stock brokers, dealers, market makers and students who wants to know about credit practice of commercial bank.

1.5 Limitation of the Study

Although this study has been trying its utmost care to cover most of the important sectors it is still subject to the following limitations, which are as follows:

i This research study is concentrates only on those factors that are related with credit practices.

ii This study largely depends on published documents as balance sheet, profit and loss account statements, which are circulated at the close of the financial year.

iii This study is associated only to the financial performance of 'NIBL' and 'BOK'.

iv In this study only selected financial and statistical tools and techniques are used.

v The study has base on only the past five years period.

vi The study deals with mainly secondary data.

1.6 Organization of the Study

The Study is comprised of following chapters.

In chapter-I (Introduction), this chapter has include background of the study introduction of 'NIBL' and 'BOK', statement of the problem, objectives, significance, focus, limitation, organization of the study it self. In chapter - II (Review of Literature), this chapter has included research design data collection, method of analysis and research variables. In chapter - III (Research Methodology), this chapter has included research design data collection, method of analysis and research variables. In chapter - IV (Presentation and Analysis of Data), this chapter has include data processing, data analysis and interpretation. In Chapter - V (Summary, Conclusion & Recommendation), this last chapter has contain the findings of whole study after which major conclusion and recommendations are specified.

CHAPTER II

REVIEW OF LITERATURE

This chapter is mainly divided into two parts i.e. conceptual review and review of the related studies; for that various relevant books, journal and articles as well as few past dissertations have been reviewed for the purpose of the study.

2.1 Conceptual Review

The review of textbook and other reference materials such as: newspaper, magazines, research articles, journals and past thesis have been included in this topic. Credit administration involves the creation and management of risk assets. The process of lending takes in to consideration about the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weakness are important in setting objectives and goals for lending activates and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios

Bajracharya (1991), in his article "Monetary policy and deposit mobilization in Nepal" has concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal, And commercial banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy.

Book named "Banking Management" say that in banking sector or transaction, an unavoidable of loan management and its methodology is regarded very important. Under this management, many subject matters like the policy of loan flow, the documents of loan administration, audit of loan, the condition of loan flow the provision of security, this management plays a great role in healthy competitive activates (Bhandari, 2003: 170).

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advance. Hence, risk of non-payment of loan is known as credit risk default risk (Dahal, 2002: 114). Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. This method of managing credit risk is guided by the saying do not put all the eggs in a single basket (Bhandari, 2004: 300).

a. Functions of Commercial Banks

The business of commercial bank is primarily to hold deposit and make credits and investments with the object of securing profits for its shareholders. Its primary motive is profit: other consideration is secondary (Sudharsanam, 1976: 123). The major functions of commercial banks are as follows.

- Accepting Deposit
- Advancing Credit
- Agency Services
- Credit Creation
- Financing of foreign Trade
- Safekeeping of Valuable
- Making Venture Capital Credits
- Financial Advising, Security Brokerage Services.

i. Assist in Foreign Trade

The bank assist the traders engaged in foreign trade of the country. It discounts the bills of exchange drown by exports to receive money in the home currency. Similarly, he also accepts the bills drown by foreign exports

ii. Offers Investment Banking and Merchant Banking Services

Banks today are following in the footsteps of leading of financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services included identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates, (Vaidhya, 1999: 29). Further, they support the overall economic development of the country by various modes of financing.

2.1.1 Concept of Credit

Credit is the 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 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 ban debts but also affect profitability adversely

Credit is a present right to a future payment. It is the power to obtained goods or services by giving a promise to pay money (or goods) one demand or at a specified date in the futures. It may be defined as the power to sewer commodities or services at the present time in returned for some equal tent or services at a future date. A credit in Low, commence and economics is the right which one person, the creditor has to compel another person, the debtor to pay or do something. It may be called a "short sale" Of money, it means "sale on trust". 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 reply on specified date on demand. Banks generally grants credit on four ways.

- Overdraft
- Cash Credit
- Direct Credit
- Discounting of Bills

2.1.2 Types of Credit

a. Overdraft

It denotes the excess amount withdraw over their deposits.

b. 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 the account. in this way, every credit creates deposit.

c. Term Credit

It refers to money lent in lump sum to ther borrowers. It is principal 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 onthe bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet the firm's special needs (Richard, 1996; 80).

d. Working Capital Credit

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

e. Priority or Deprived Sector Credit

Commercial banks are required to extend advances to the priority and deprived sector 12 percent of the total Credit must be towards priority sector including deprived sector. Rs. 2 million for agriculture cum service sector and Rs. 2.5 million for single borrows 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/week/derived people up to Rs. 30,000 for generating income or employment.
- Institutional Credit to Rural Development Bank.
- Credit to NGOs those are permitted to carryout banking transaction for lending up to Rs. 30,000.

f. Hire-purchase Financing (Installment Credit)

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

g. Housing Credit (Real Estate Credit)

Financial institutions also extend housing 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.

h. 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 has financed as project credit. Construction credit is hort-term credits made to develops for the purpose of completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project (Johnson, 1940:242). The basic guiding principal involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit has disbursed at which stage of completion must be spelled in disbursement policy? Term of credit needed for project fall under it.

i. Consortium Credit

No single financial institution grant credit to the project due to single borrower limit or other reasons and two or more such institution may consent to grant credit facility to the project among them. Financiers bank equal (or Likely) charge on the project's assets.

j. Credit Card and Revolving Lines of Credit

Banks are increasingly utilizing change 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 administrative cost. Continued borrowing arrangement enhances cost advantages. Once the credit line it established, the customer can borrow and repay according to his needs and the bank can provided the fund to the customer at lower cost.

Charge cards and credit lines tied to demand deposit accounts are the two most common reveling credit agreements. It can be further divided into credit card, automatic overdrafts lines and large credit lines.

k. 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 reference to them instead of recording in the books of accounts. It is non funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

l. Bank Guarantee

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

m. Letter of Credit (L/C)

It is issued on behalf of the customer (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 as 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 sum commodities.

2.1.2.1 Objectives of the Sound Credit Policy

The purposes of a written credit policy are

- To assume compliance by lending personnel with the bank's policies and objectives regarding the portfolio of credits and
- To provide personnel with a framework of standards within which they can operate.

2.1.2.2 Lending Criteria

While screening a credit application, 5-Cs to be first considered supported by documents. They are:

i. Character
ii. Capacity
iii. Capital
iv. Collateral
v. Conditions

2.1.2.3 Principles of Sound Lending Policy

Lending constitutes the main business of a banking company a major chunk of the profits of a bank comes out of this function. But no lending can take place without some inherent risks. As bankers are trustees of the depositor's money, they cannot take undue risks. A banker has to follow a cautions policy and conduct the business of lending on the basis of certain sound principles. Here are some of the important principles of sound lending.

i. Safety

The main business of banking consists in borrowing various types of deposits such as current, saving and fixed deposits and lending such deposits to needy borrowers in the form of advances and discounting of bills. This obviously implies that safety of such funds should be ensured. Otherwise the banker will not be in position to repay his deposits and once the confidence of the depositors is shaken, he cannot carry on the banking business.

If the banker has to ensure safe lending to look to the three C's if the borrower namely character, capacity and capital., character of the borrower is important because that determines his willingness to repay the loan, his capital and capacity to run the business successfully determine his capacity to pay the safety of the loan depends on both his capacity to repay and willingness to repay.

Banks have to keep a portions of the deposits received for honoring the demands made by the customers. Only the balance can be safely. The banks endeavor is of the course to lend as much of the deposits as possible without which he has not be in a position to meet his interest, obligations and the maintenance of establishment. Therefore, he has to lend with a view to earn interest but lend it safe.

ii. Liquidity

By liquidity is meant the readiness with which the bank can convert the assets into cash. Liquidity means short-term solvency of the borrower. A banker is essentially the lender of short-term funds because he knows that the bulk of his deposits are repayable on demand or at short notice. As the banker's deposits are subject to the legal obligation of being repayable on demand and at short notice, he must ensure liquidity also while lending, so that in times of need, he has able to convert the assets into cash.

Bank can ensure high liquidity by keeping all deposits in the form of cash only. In such a case, he has not be in position to meet the interest obligations and expenditure of the establishment. From experience, he has learnt that he can safely lend out a substantial portion of the funds. But while lending he should try to ensure liquidity, i.e. in times of need, he must be able to obtain repayment of the money within a reasonably short time. Liquidity also implies that the assets can be sold without any loss. Thus the concept of liquidity has twin aspects namely quick sale ability or convert ability of the assets and the absence of risk of loss in such conversion.

iii. Profitability

Commercial banks obtain funds from shareholders and naturally if dividend is to be paid on such shares it can only be paid by earning Profits. Even in the case of public sector banks although they are service motivated they has to justify their existence by earning profits. This is not possible unless the funds are employed profitably. From out of the revenue earned, the banker has to pay interest on deposits, salary to the staff, meet other establishment expenses, build-up reserves and the balance must permit the payment of dividend to shareholders. So for the bank to sustain on a long run, it has to seek many profitable sectors where it can mobilize its collected fund. Before lending, a banker has to see that the advance and credit is on the whole profitable. Lending rates are affected by banks' internal policy like credit rating of the borrower, bank rate of NRB, inter-bank competition and NRB's guidelines on lending rates.

iv. Purpose of Loan

Nowadays, the purpose for which loans are granted has acquired precedence over the principle of security. If a loan in required for a non-productive or speculative purpose, a banker has be reluctant to entertain the proposal. Loans for social functions, ceremonies, pleasure trips or for repayment of prior loans are not favored by a banker, as they are unproductive in nature. But it is very difficult for the bank to ensure the advance has been used for the purpose for which it was taken. A person may take a loan obviously for a productive use, but may spend it on speculation. The central bank through its directives, also determines the policy to be followed by the banks with regard to the purpose for which advances may not be granted. So a banker should enquire the purpose for which it is taken for safe lending.

v. Security

Traditionally, bankers have been security oriented. The security offered against a loan can be of various types. It may vary from a piece of land or a building to a commercial paper or bullion. Whatever may be the security, a banker has to realize that it only cushion to all back upon in case of need and its adequacy alone should not form the sole consideration for advance. It must be ensured that the security when accepted must be adequate, readily marketable, easy to handle and free from encumbrances.

vi. Diversification of Loans

There is a very familiar saying that "Do not put all the eggs in the same basket". Banker should try to diversify loans as far as possible, so that he may minimize his risks in lending. If the banker lends only to one industry or only to few big firms or concentrates in a certain geographical area, the risk is great. They should diversify lending, so that he may not affected by the failure of one industry or of a few big borrowers. A banker who puts all his eggs in one basket is not prudent banker.

vii. National Interest and Suitability

Bankers must ascertain on what type of business the customer is involved whether it saves the national interest or not, whether the firm is acting responsibly towards the society that it is operating in like brick industry or the cement industry and the precautions taken by it against environment pollution. Central bank issues directives, prohibiting banks to invest in various sectors such as the import of arms and ammunitions etc. Also bankers must remain vigilant of the law and order situation where borrower carries its business.

2.1.2.4 Some Important Banking Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

A. Deposits

Deposit is the most important source of liquidity for a commercial bank. It is also the main source of fund that a bank usually uses for the generation of profit. Therefore, the efficiency depends on its ability to attract deposits. Banks collects the scattered savings of the public through various accounts type like saving, current, fixed etc. Deposit being the borrowed amount from the depositors or from general public and institutions, it constitutes the liability of a bank. The management of a bank is always influencing it through deliberate policy action; the deposits of a bank are affected by various factors. They are as follows.

- Types of customers
- Physical facilities of bank
- Management accessibility of customers
- Types and range of service offered by the bank.
- Interest rate paid on deposits.
- Goodwill and financial position of the bank

In addition to the above, the prevailing economic conditions exert a decisive influence on the amount of deposit the bank receives.

B. Loan and Advances

"Loan, advance and overdraft are the main sources of income for a bank. Bank deposit can cross beyond a desired level but level of loans, advances and overdraft has never cross it.

The facilities of granting loan, advances and overdrafts are the main services in which customer of the bank can enjoy.

Fund borrowed from bank are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activity always increases the demand for the fund. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary trouble to the general customers.

In addition to this, some portion of loan advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others. In mobilization of commercial banks fund, loan advance and overdrafts have occupied a large portion.

C. Investment on Government Securities, Share and Debenture

"Though a commercial bank can earn some interest and dividend from the investment of government securities, share and debenture, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by treating it as a second source of banking business." A commercial bank may extend credit by purchasing government securities bonds and shares for several reasons. Some of them are given as:

- It may want to space it maturates so that the inflow of cash coincide with expect withdrawals by depositors or large loan demands of its customers.

- It may wish to have high grade marketable securities to liquidate if its primary reserve becomes inadequate.
- It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks. Liabilities that are since depositors may demand fund in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

D. Investment on Other Company's Share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess fund but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB directives, the commercial banks purchase shares and debenture of regional development bank, NIDC and other development banks.

E. Liquidity

Liquidity is the ability of bank to meet its obligations on time, especially in relation to repayment of inter-bank borrowings and customer deposits. Liquidity management is a very crucial job of commercial bank and the bank should maintain adequate amount of cash in its vault and NRB for its daily operation and administrative purpose. As per the arrangement of NRB effective from fiscal year 2004/05, the commercial banks are required to maintain cash reserve of 5 percent with NRB of its total deposit liability with NRB. The previous provisions of cash in vault maintenance have been withdrawn now.

F. Capital Adequacy

Capital is the blood of any business without which business cannot be run or established. In financial term, capital is the excess of assets over liabilities and can be defined as the wealth, which is employed for the production. Capital is required by a bank as a cushion to absorb losses, which should be borne by shareholders rather than depositors and to finance the infrastructure of the business. Capital adequacy is to maintain adequate amount of capital or fund to safeguard the money of the depositors against any possible loss. NRB require banks to maintain a certain capital adequacy ratio based on the total risk weighted assets and the banks are supposed to meet the minimum requirement of CAR.

G. Off-Balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some examples of these items are letter of credit, letter of guarantee, bills of collection etc. These activities are very important; as they are the good source of profit of bank through they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities.

H. Banking Risks

Normally, banks confront different kinds of risks, which are categorized as follows:

I. Credit Risks

Credit risk arises whenever another party enters into an obligation to make payment or deliver value to the bank. This risk is mostly associated with the lending.

J. Liquidity Risk

Liquidity risk arises when bank itself fail to meet its obligation. The bank required to make payments to the different parties at different times, when they fall due to other parties, it’s the liquidity risk.

K. Yield Risk

It is the risk that bank's assets may generate less income than expense generated by its liabilities.

L. Market risk

The risk of loss resulting from Movements in the market price of financial instruments in which the bank has a position is the market risk. Such instruments include bonds, equities, foreign exchange and associated derivative products.

M. Operational Risk

The risk of failure in the banks procedures or controls, whether from external or internal causes or as a result of error or fraud with is the institution is the operational risk.

N. Ownership / Management Risk

The risk that shareholders directors or senior management be unfit for their respective positions or dishonest.

2.1.2.5 Project Appraisal

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. It has help the bank to see whether project is really suitable to invest. The purpose of 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 economy?

Generally, the project appraisal involves the investigation from the following aspects.

- Financial aspect
- Economic aspect
- management / Organizational aspect
- legal aspect

2.1.3 Provisions of NRB for Extending Advances and Investment in Productive, Priority and Deprived Sector

a. Productive Sector

Productive Sector include advances to Priority Sector and Other productive Sector which includes advance and investment in shares and debentures of small, medium and large industries as defined in industrial enterprises act; pre-shipment credit like purchase of merchandise, processing, assembling, packaging etc.; export bill financing, advances for purchase of public transport like truck, bus, tempo etc, and agricultural/farm equipment; investments on shares and debentures of government/semi-government or private sector agricultural insurance, godown, banking or like companies etc.

As per NRB regulation, commercial banks are required to extend 40 percent of the total advances to productive sector.

b. Priority Sector Credit Program

"Priority sector" is defined to include micro and small enterprises which help increases production, employment and income as prioritized under the national development plans with an objective to uplift the living standard of general public particularly the deprived and low income people by progressively reducing the prevalent unemployment, poverty, economic inequality and backwardness. Micro and small enterprises are classified into agricultural enterprises, cottage and small industries and service; In addition, other businesses as specified by NRB from time to time are also included under Micro and small enterprises. All credits extended to priority sector up to the limit specified by NRB are termed as "Priority Sector Credit."

NRB has provided the requisite proportion of Priority Sector lending as follows:

Table No.1

NRB Requirement of Priority Sector Investment

Fiscal year	Minimum Percent of Total Credit to be invested in Priority Sector
2002/03	7%
2003/04	6%
2004/05	4%
2005/06	2%
2006/07	2%
2007/08	Not compulsory
2008/09	3%
2009/10	3%
2010/11	3.5%
2011/12	4%

Source: NRB Directives

c. Deprived Sector Lending

"Deprived Sector" includes low income and particularly socially backward women, tribes, lower caste, blind, hearing impaired and physically handicapped persons and squatters (Sukumbasi) family. All credits extended for the operation of self-employment oriented micro-enterprises for the upliftment of economic and social status of deprived sector up to the limit specified by NRB is termed as "Deprived sector Credit". "Deprived Sector Credit" is considered as integral part of priority sector credit and this credit comprise micro-credit programs and projects also.

The businesses under the Priority Sector Credit Program have been classified under the following four major heads:

- Agriculture and Agro-bases business
- Cottage and small industries
- Services

- Other business

Lending in Deprived Sector has be included in Priority Sector for the purpose of compliance test for 12 percent credit to Priority sector.

Deprived sector credit is advances up to Rs. 30,000 per borrower family meant for weak, poor and deprived people extended in the following manner by the commercial banks shall qualify to be included under deprived sector credit:

- Direct investment made by the commercial banks themselves in income generating employment oriented programs.
- Investments made by commercial banks in share capital Rural Development banks, Rural Micro Finance Development Center and other Development Banks established with an objective to extend credit to deprived sector.
- Advances to the Rural Development Banks and other Development Banks engaged in the similar poverty alleviation programs.
- Advances to Cooperatives, Non-governmental Organization and Small Farmers Cooperatives approved by NRB for carrying out banking transactions.
- Advances to Micro-Finance Institutions (Rural Development Banks and other financial institutions, cooperatives and non-governmental organizations approved by NRB for intermediation) stipulating the condition to disburse such credit to deprived sector only.
- Loans extended by commercial banks to development banks engaged in micro credit activities with stipulated condition to disburse the credit only to the deprived sector up to Rs. 30,000 a family shall be eligible for the purpose of inclusion under Deprived Sector Credit.

d. Regulation Relating to Loan Classification and Loan Loss Provisioning

With an objective to minimize the possible loss of credits extended by commercial banks as provided under section 32(1) of Nepal Rastra Bank Act 2012 (with amendment) relating to development and regulation and banking system. This directive in respect of loan classification and provisioning has been issued in exercised of authority under section 56 of bank and financial institutions act 2063.

e. Classification of Outstanding Loan and Advances on the Basis of Aging

Banks shall classify outstanding principal amount of loan and advances on the basis of aging.

f. Classification of Loans and Advances'

Loan and advance shall be classified into the following 4 categories:

Pass Loan

Loans and Advance whose principal amount are not past due for a period up to 3(three) months shall be included in this category. Thesis are classified and defined as performing Loans,

Sub-Standard

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

Doubtful

All loans and advance which are past due for a period of 6 month to 1(one) year shall be included in this category.

Bad Loan

All loans and advances which are past due for a period for more than 1 (one) year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Loans and advances failing in the category of Sub-standard doubtful and loss are classified and defined as Non-Performing Loan.

Note:

- If it is appropriate in the views of the Bank management there is not restriction in classifying the loan and advances from low risk category. For instance, Loan falling under sub-standard may be classified into doubtful or loss and loans falling under doubtful may be classified into loss category.
- The term loan and advances also includes Bills purchased and Discounted.

g. Submission of Return Relating to Classification of Loan and Advances

Bank Shall, As of Mid of October, January, April and July, prepare the statement of outstanding loans and advances classified on the basis of aging and submit the particulars as per the enclosed Directives form No. 3 to the Banking Operation Department and Inspection and Supervision Department of Nepal Rasta Bank within 1(one) month from the end of each quarter. Classified loans and advances under the currently existing arrangement are required to be classified as per the NRB directives.

h. Relating to Collateral

All collateral used back loan and advance shall be adequate to cover up the principal and interest and shall also be legally secured. In the event of non-realization of principal and interest of loan, there must be no difficulty in acquiring the title of the collateral asset.

i. Additional Arrangement in Respect of Pass Loan

Loans and advances fully secured by gold, silver, fixed deposit receipts and NG securities shall be included under "Pass" category.

However, where collateral of fixed deposit receipt or NG securities or NRB Bonds is placed a security against loan for other purposes, such loans has to be classified on the basis of aging per clause 2.

j. Additional Arrangement in Respect of "Loss Loan"

Even if the loan is not past due, loans giving any or all of the following discrepancies shall be classified as "Loss".

- No security at all or security that is not in accordance with the borrower's agreement with the bank,
- The borrower has been declared bankrupt,
- The borrower is absconding or cannot be found,
- Purchased or discounted bills are not realized within 90 days from the due date.
- The credit has not been used for the purpose originally intended.
- Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.
- Loans provided to the borrowers included in the black list and where the Credit Information Bureau blacklists the borrower.
- Additional Arrangement in Respect of Term Loan,

In respect of term loans, the classification shall be made against the entire outstanding loan on the basis of the past due period of overdue installment In the even of conversion of continent liabilities of the bank e.g. letters of credit, un-matured guarantees, in to the liability of the bank, such amount becomes recoverable from the customers. Hence, such amount shall also be classified as per the classification norms applicable to loans and advances and accordingly be provided with requisite provisioning.

Prohibition to Recover Principal and Interest by Overdrawing the Current Account and Exceeding the Overdraft Limit Principal and interest on loans and advances shall not be recovered by overdrawing the borrower's current account or where overdraft facility has been extended, by overdrawing such limit, However, this arrangement shall not be construed as prohibitive for recovering the principal and interest by debiting the customer's account and recovery is made as such resulting in overdraft, which is not settled within one month, such overdrawn, principal amount shall also be liable to be included under the outstanding loans and such loans shall be liable to be included under the outstanding loan and such loan shall be downgraded by one step from its current Classification. In respect of recognition of interest, the same shall be as per the clause relating to income recognition mentioned in Directives No.4.

k. Loan Loss Provisioning

The Loan loss provisioning, on the basis of the outstanding loans and advances and purchase classified as per this Directives, shall be provided as follows:

Classification of Loan	**Loan Loss Provision**
Pass Loan	1Percent
Substandard	25 Percent
Doubtful	50 Percent
Bad Loan	100Percent

Note: Loss loan provision set aside for performing loan is defined as "general loan loss provision" and loan loss provisions set aside for Non-performing loan is defined as "Specific Loan Loss Provisions".

Additional Provisioning in the Case of Personal Guarantee Loans

Where the loan is extended only against personal guarantee, a statement of the assets equivalent to the personal guarantee amount not claimable by any other shall be obtained, Such loans shall be classified as per above and where the loans fall under the category of Pass, Substandard and Doubtful, in additional to the normal loan loss provision applicable for the category, an additional provision by 25 percent point shall also be provided. Classification of such loans and advances shall be prepared separately.

Rescheduling and Restructuring of Loan

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

- The internal and external causes contributing to determination of the quantity of loan.
- The reduced degree of risk inherent to the borrower/enterprise, determined by analyzing its balance sheet and profit and loss account in order to estimate recent cash flows and to project future ones, in addition to assessing market condition.
- Evidence of existing of adequate loan documentation.
- An evaluation of the borrower/enterprises' management with particular emphasis on efficiency, commitment and high standards of business ethics.

In addition to written Plan of Action for rescheduling or restructuring of loan per Clauses (13.1) above, payment of interest according to the loan contract as originally specified should have been collected. The loan loss provision, in respect of rescheduled restructured and swap loans, shall be provide at minimum 12.5 percent Separate statement shall be pared for loans classified and provision made as per Clause 13.3 above.

Provisioning against Priority Sector Credit

Full provisioning as per clause (11) shall be made against the uninsured priority and deprived sector loans. However, in respect of insured loans; the requested provisioning shall be 25 percent of the percentage state under clause (11).

a. Adjustment in Provisioning

Expect in the following cases, banks are prohibited from making any adjustments in their loan loss provision amount.

- The loan has been completely written off

- The principal amount of loan and interest has been fully settled by the borrower.
- Loan has been classified or reclassified and vision for loan loss is made.

However, no such adjustments shall be made in the case of reclassified loan by way of rescheduling of restructuring.

b. Action to be taken in Cases of Noncompliance

In cases where a bank has been found not complying the regulations in respect of loan classification and provisioning. Nepal Rastra Bank may ask for classification. If the bank's response is not satisfactory, Nepal Rastra Bank shall initiate following action in exercises of its authority under section 23 (1) of Nepal Rastra Bank Act. 2012.

Require reclassification of loan and advances and accordingly adjust the loan loss provisioning within 3 months. If the banks do not comply to the directive issued as per sub-clause 16.1 above, the following additional action shall be initiated in exercise of the authority under section 32 of Nepal Rastra Bank Act 2012 with amendment.

- Suspend declaration and distribution of dividends (including bonus shares).
- Suspend extension of loan.
- Suspend acceptance of deposits.

All earlier circulars issued by Nepal Rastra Bank relating to loan classification and loan loss provisioning have been related.

2.2 Review of Related Studies

2.2.1 Review of Articles

Shrestha, (1998) in her article "Lending operations of commercial banks of Nepal and its impact on GDP" presented the objectives of make an analysis of contribution of commercial bank's lending to the Gross Domestic Product (GDP) of Nepal. She has set a hypothesis that there has been a positive impact of lending of commercial banks to the GDP in research methodology. She has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service, general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analysis have shown that all the variable expect service sector lending have positive impact on GDP. Thus in conclusion, she has accepted the hypothesis, i.e. there has been positive impact on GDP by the lending of commercial banks in various sectors of economy, except service sector investment."

Kahane, (2007) "The bank's internal control structure is essential to a sound capital assessment process. Effective control of the capital assessment process includes an independent review and, where appropriate, the involvement of internal or external audits. The bank's board of directors has a responsibility to ensure that management establishes a system for assessing the various risks, develops a system to relate risk to the bank's capital level, and establishes a method for monitoring compliance with internal policies. The board should regularly verify whether its system of internal controls is adequate to ensure well-ordered and prudent conduct of business."

Tai, (2004) has written article on *Can Bank be a Source of Contagion during the 1997 Asian Crisis?* This paper test whether bank can be a source of contagion during the 1997 Asian crisis using asset return data from a crisis country – Thailand. In particular, the writer has examined whether Thai banking sector can produce contagion effects in both conditional means and volatilities of its foreign exchange and stock markets during the crisis after controlling economic fundamentals. The test result show that contagion-in-mean effect appear to be multidirectional since return shocks emanating from any of the three markets sweep across all markets, but contagion-in-volatility effect are mainly driven by the negative return shocks originating in the banking sector. overall the empirical evidence indicates that the past return shocks originating from banking sector have significant impact not only on the volatilities of foreign exchange and aggregate stock markets, but also on their prices, suggesting that bank can be a major source of contagion during the crisis.

Bauer and Ryser, (2004) has written article on *Risk Management Strategies for Bank.* They analyze optimal risk management strategies of a bank financed with deposits and equity in a one period model. The bank motivation for risk management comes from the deposits which can lead to bank runs. In the events of such a run, liquidation costs arise. The hedging strategy that maximizes the value of equity is derived. They identify conditions under which well known result such as complete hedging, maximal speculation or irrelevance of the hedging decision are obtained. The initial debt ratio, the size of the liquidation costs, regulatory restrictions, the volatility of the risky asset and the spread between the risk less interest rate and the deposit rate are shown to be the important parameters that drive the bank's hedging decision.

Kathmandu Post, (2003) "Central bank tightens blacklisting procedures". NRB has issued directives to all commercial banks and financial institution ensuring-greater transparency during loan disbursement. As per new provisions, all commercial the financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The credit information Bureau (CIB) can blacklist the firm, company or clear the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs. 1 million. If the creditor fails to clear the amount within time, or is found missing the loans among others, the creditor can be blacklisted."

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, bank starts sneezing. From this perspective, the banking industry as a whole is not robust.

In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore portfolio management becomes very important both for an individual's as well as institutional investors. Large investors would like to select a best mix of investment assets.

A study of deposits and credits of commercial bank in Nepal" the credit deposit ratio would be 51.30 percent, other things remaining the same, in 2004 AD, which was the lowest under the period of review. So the commercial bank should try to give more credit entering new field as far as possible. Otherwise they might not able to absorb even its total expenses.

Investment Planning of Commercial Banks in Nepal Portfolio (loan and investment) of commercial banks has been influenced by the variable securities rates. Investments' planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central Bank (NRB) so; the investments are not made in professional manners. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in term of profitability. To overcome this problem she has suggested, commercial bank should take their investment function with proper business attitude and should perform lending and investment operation efficiently with the proper analyze of the project.

2.2.2 Review of Thesis

Luitel, (2009) has conducted a study on "Analysis of non-performing Assets and Loan Loss Provision of Commercial Banks; with special reference to SCBNL, BOK and EBL" with the main objectives of examining and studying the level of non-performing assets and loan loss provision of selected commercial banks, the loan loss provision maintained, and to measure the relationship between NPA with total deposit.

The major findings of the study were the non-performing assets covered 0.79 percent of the total assets of SCBNL. 2.40 percent of the total assets of BOK and 80 percent of the total assets of EBL, likewise, the non-performing assets to total deposit of SCBNL are .89 percent and that of BOK is 2.80 percent, and EBL is 0.93 percent. In average, SCBNL has kept 2.98 percent of total loans as loan loss provision and BOK has kept 3.71 percent of the total loans as loan loss provision and EBL has kept 3.19 percent as loan loss provision.

Aryal, (2003) has submitted a thesis entitled to, "A Evaluation of credit investment and Recovery of Financial Public Enterprises in Nepal" a case of ADB/N. His research statement of problem was as; because of high interest rate of non institutional sources, people are unable to pay their credit at fixed time. These institutions compel them to transfer their property to the moneylender resulting himself or herself as a landless person.

ADB/N is one of the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N. provides the credit for individual and cooperative sector to all collection amounts is not good. However, ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. His major findings are actual credit disbursement, collection and outstanding are increasing in decreasing rate. Yearly increase in credit disbursement is higher than that of collection. Positive relation between credit disbursement and collection that is 0.996 Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual. Most of the customs are unaware of the policy of the bank. He recommends the borrowers should be about the credit, its use and its payment procedures and schedule; Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it. To accelerate the collection, credit should be followed continuously in a regular interval of time. The behavioral of the personal should be strictly supervised in granting credit in proper investment proposal because of most of the bad credit disbursement is due to weak decision of the personal.

Gautam, (2000) has submitted thesis entitled to, "Investment Analysis of Finance Company of Nepal" her research major objectives relevant to my research are to analyze the interest rate. Structure of credit to analyze the repayment of the credits her findings are use of funds towards the hire purchase credit is decreasing rapidly.

Direct data of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled. The loss provision of some company is more alarming on individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy.

Acharya (2001) has studied on "Deposit mobilization of commercial bank in Nepal". The main objective is to impact of interest rate on deposit mobilization as well as credit ratio increase or decrease as the change in interest rate. Besides this, the objective is to know the efficient utilization of the accumulated deposits. She has found out that the commercial bank have not been successful in the mobilization of the deposits collected by the commercial banks. It is because of the fact, the commercial banks have not able to motivate and facilitate to their cents except at change in the rate of interest. The problems are to attracting the savings to the maximum possible extent to channeling these savings into those sectors of the economy where there are most needed and to extending banking facilities in the country to unbaked areas. The changes of interest rates in loan are also recommended. Commercial banks should extend long term and medium term credit in addition to short term credit.

Joshi, (2005) on her thesis, "Investment Policy of Commercial Banks of Nepal", has made an attempt to know and understand fund mobilization and investment policy of EBL, NABIL and BOKL. The thesis work was performed with an objective of analyzing the trend of deposit utilization towards total investment and loan and advances and also to evaluate the growth ratios with other financial variables. From the study, she has concluded the following findings.

The liquidity position of EBL is comparatively better than NABIL and BOK. The total investment of EBL is in between in compared to other two banks. Total interest earned to total outside assets of EBL is lowest of all. The total investment of EBL is in between in compared to other two banks. EBL has higher capital risk ratio but average credit risk ratio compared to NABIL and BOKL.

Adhikari (2011) conducted a study "Comparative Financial Analysis of Commercial Banks in the Framework of Basel II : with Reference to Nepal Investment Bank and Everest Bank Limited" has figured out the findings, he concluded that the NIBL has sound capital management than EBL does, since the core capital adequacy ratio of NIBL is greater than that of EBL. However, the core capital adequacy ratios of both of the banks are above the minimum requirement of NRB's standard. And the supplementary capital adequacy ratio of NIBL is greater than that of EBL. Though, both the banks won't able to comply with the capital adequacy ratios directed by NRB in most of the year, NIBL's capital base is slightly stronger than that of EBL in meeting the risk and securing the depositor and creditors. In addition, the assets of NIBL is most confronting to the credit risk than that of EBL, since the non-performing loan to total loan and advance of NIBL is higher than that of EBL, he concluded that the two banks have satisfactorily decreased the non-performing assets ratio indicating the fact that they have sound loan management policy. However, the role of both the banks increasing the industry's credit risk is significantly low. Further, the loan loss provision to total loan and advances indicates that EBL has higher risk than NIBL. He concluded that the NIBL require to provision low loan loss against total loan more than EBL. Since the credit risk of NIBL is lower than that of EBL and the average loan loss provision to total loan of NIBL is lower than that of EBL.

2.3 Research Gap

Since the above mentioned studies offer limited findings, more extensive testing, and adjustment of necessary variables are needed in ordered to be more conclusive about the credit management. Previous studies were directed to find the effect of the credit management of different commercial bank. This study aims to attempt to study about credit management of Nepalese commercial banks and joint venture commercial bank in Nepal. The previous relevant literature related to banking business has just reviewed to support the study.

Credit management has very big role to sustain any banking business. It is equally important to identify the relation of performance of the banking business. So, it tries to assess the credit management of banking sector and by providing the proper atmosphere for the banking market in our country. The present study is based on five years data of commercial banks, which tries to achieve its objectives by analyzing secondary source of data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese banking sector. The current study is a supplement to over come the weakness and limitation of previous studies.

CHAPTER III

RESEARCH METHODOLOGY

A research is systematic and in depth study or search of any particular topic by formulating hypothesis, collecting information, analyzing and interpreting them through the valid result. It is also called a creative inquiry and investigation to search new insight to the phenomena. However, research methodology is a technique used for conducting research. It provides various methods for the collection, presentation, interpretation and analyzing the data. For this various methods and statistical tools are used to analyze the data and conclude the findings.

3.1 Research Design

By research design, both descriptive and analytical research design has been used particular research design has been used to test hypothesis as necessary. Descriptive research design is a fact finding operation searching for adequate information. It helps investigators to collect, classify and correlate data describe what exists, but they do no fully analyze and explain why phenomena behave as they do. Analytic research on the other hand refers to the process of collecting, evaluating, verifying, and synthesizing past evidence systematically to reach a conclusion. The researcher through the analysis can interpret the data impartially.

3.2 Nature and Source of Data

The study is based on historical or secondary data. Mostly data is collected from the Balance Sheet, Income Statement and Profit and Loss account of commercial banks. Some other necessary data in this study have also been supplemented from websites, various related journal in management and other publication to some extent necessary some data are also collected by interviewing related commercial banks manager and other personal.

3.3 Population

Population refers to the entire group of people, events of things of interests that the researcher wishers to investigate. A sample is a portion from the population. Sampling refers to the process followed while selecting samples from population. A population in most studies usually consists of large group because of its large size it is fairly difficult to collect detailed information from each member of population. Rather than collecting information from each member, a sub group is chosen which is believed to be representative of population. This sub-group is called a sample and the method of choosing is done by sampling. The sampling allows the researcher more time to make an intensive study of a research problem. So, among the various commercial banks under the banking industry 'NIBL' and 'BOK' has be taken sample for the study.

3.4 Sampling

Sample shows the size of unit of the study which is selected. The researcher has selected only two commercial banks out of 32 banks. These banks are selected on the basis of purposive sampling

List of Licensed Commercial Banks

<table>
<tr><th>No.</th><th>Population Banks</th><th>Operation Date (A.D.)</th><th>Samples Banks</th></tr>
<tr><td>1</td><td>Nepal Bank Limited</td><td>1956/04/25</td><td rowspan="8">Neapl Investment Bank Limited (Established as Nepal Indo-suez Bank Ltd.)</td></tr>
<tr><td>2</td><td>Rastra Banijya Bank</td><td>1966/01/23</td></tr>
<tr><td>3</td><td>Nabil Bank Limited
(Established as Nepal Arab Bank Limited)</td><td>1984/07/12</td></tr>
<tr><td>4</td><td>Neapl Investment Bank Limited
(Established as Nepal Indo-suez Bank Ltd.)</td><td>1986/03/09</td></tr>
<tr><td>5</td><td>Standard Chartered Bank Limited
(Established as Nepal Grindlays Bank Ltd.)</td><td>1987/07/28</td></tr>
<tr><td>6</td><td>Himalayan Bank Limited</td><td>1993/01/18</td></tr>
<tr><td>7</td><td>Nepal Bangladesh Bank Limited</td><td>1993/06/06</td></tr>
<tr><td>8</td><td>Nepal SBI Bank Limited</td><td>1993/07/07</td></tr>
<tr><td>9</td><td>Everest Bank Limited</td><td>1994/10/18</td><td rowspan="18">Bank of Kathmandu Limited</td></tr>
<tr><td>10</td><td>Bank of Kathmandu Limited</td><td>1995/03/12</td></tr>
<tr><td>11</td><td>Nepal Credit and Commerce Bank Limited
(Established as Bank of Cylon)</td><td>1996/10/14</td></tr>
<tr><td>12</td><td>Lumbani Bank Limited</td><td>1998/07/17</td></tr>
<tr><td>13</td><td>Nepal Industrial and Commerce Bank Limited</td><td>1998/07/21</td></tr>
<tr><td>14</td><td>Machhapuchhre Bank Limited</td><td>2000/10/03</td></tr>
<tr><td>15</td><td>Kumari Bank Limited</td><td>2001/04/03</td></tr>
<tr><td>16</td><td>Laxmi Bank Limited</td><td>2002/04/03</td></tr>
<tr><td>17</td><td>Siddhartha Bank Limited</td><td>2002/12/24</td></tr>
<tr><td>18</td><td>Agriculture Development Bank Limited</td><td>1968/01/21</td></tr>
<tr><td>19</td><td>Global Bank Limited</td><td>2007/01/02</td></tr>
<tr><td>20</td><td>Citizen Bank International Limited</td><td>2007/04/20</td></tr>
<tr><td>21</td><td>Prime Commercial Bank Limited</td><td>2007/09/24</td></tr>
<tr><td>22</td><td>Sunrise Bank Limited</td><td>2007/10/12</td></tr>
<tr><td>23</td><td>Bank of Asia Nepal Limited</td><td>2007/10/12</td></tr>
<tr><td>24</td><td>Grand Bank Nepal Limited</td><td>2008/05/25</td></tr>
<tr><td>25</td><td>NMB Bank Limited</td><td>2008/06/02</td></tr>
<tr><td>26</td><td>Kist Bank Limited</td><td>2009/05/07</td></tr>
<tr><td>27</td><td>Janata Bank Nepal Ltd.</td><td>2010/04/05</td><td></td></tr>
<tr><td>28</td><td>Mega Bank Nepal Ltd</td><td>2010/07/23</td><td></td></tr>
<tr><td>29</td><td>Cummerz and Trust Bank</td><td>2010/09/20</td><td></td></tr>
<tr><td>30</td><td>Civil Bank Ltd</td><td>2010/11/26</td><td></td></tr>
<tr><td>31</td><td>Century Commercial Bank Ltd</td><td>2011/03/10</td><td></td></tr>
<tr><td>32</td><td>Sanima Bank Ltd</td><td>2012/02/15</td><td></td></tr>
</table>

(Source:- www.nrb.org.np)

The study considers two commercial banks as sample for the research purpose. The sample banks selected for the study are as below:

- Nepal Investment Bank Ltd.
- Bank of Kathmandu.

3.5 Period Covered

The study covers only five years fiscal years period i.e. from the fiscal year 2007/08 to 2011/12.

3.6 Data Collection Procedures

Data are collected from the secondary sources. Researcher collects the necessary data from the field of inquiry. Secondary data is the information which has already been collected by some individual or agency and statistically treated to draw certain conclusions and also to extract some other information. Some other data and information have been collected from the authoritative sources like library of collage, Nepal Rastra Bank, different articles, reports, magazines, websites etc. the articles published by the banks are also the source of information.

3.7 Data Analysis Tools

The collected data has not any meaning unless these data are analyzed finally, so to make the study more specific and reliable, the researcher uses two types of tool for analysis,

Financial Tools

Financial tools are used to examine the financial strength and weakness of the Bank. In this study, following financial tools are used.

a. Ratio Analysis

Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with other. Ratio is a tools of financial management which can be expressed in percentage, fraction or in a stated comparison between numbers. “The technique of ratio analysis is a part of the whole process of analysis of financial statements of any business of industrial concern especially to take output and credit decisions. Through this technique, a comparative study can be made between different statistics concerning varied facts of a business unit. Just as the blood pressure, pulse and temperatures are the measures of health of an individual, so does ratio analysis measure the economic of financial health of a business concern.

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ration defined as “The indicated quotient of two mathematical expression” and as “The relationship between two or more things. A ratio is a figure or a percentage representing the comparison of one dollar amount with some other dollar amount as a base. Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluation the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm’s financial performance (Panday, 1995).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

b. Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short term obligations and form them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined.

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate cost, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance.

To find out the ability of banks to meet their short term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

i. Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing cash and bank balance by deposits. This ratio can be calculated using the following formula.

$$X \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

ii. Cash and Bank Balance to Current Deposits Ratio

This ratio computed to disclose the soundness of the finance company to pay total calls made of current deposits. It can be expressed as:

$$X \frac{\text{Cash and Bank Balance}}{\text{Current Deposits}}$$

c. Activity/ Efficiency Ratio

It is also known as turn over or efficiency ratio or assets management ratio measures how efficiently the firm employs the assets. Turn over means the number of times and assets flow through a firm's operations and into sales. Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets being other things equal. Various ratios are examined under this heading.

i. Credits and Advance to Total Deposits Ratio

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

$$\text{Credits and advances to total deposits ratio} = \frac{\text{Credits and Advances}}{\text{Total Deposits}}$$

ii. Credits and Advances to Fixed Deposit Ratio

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

$$\text{Credits and advances to fixed deposit ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

iii. Credits and Advances to Total Assets Ratios

It measures the ability in mobilizing total assets into credit and advances for generating income. A higher ratio is considered as and adequate symbol for effective utilization of total assets of bank to credit and advances of 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. Performing Assets to Total Assets Ratio

It tells the percent of performing assets on total assets. It is useful to know the fact that whether the good credit is increasing or not. We can generate more earning by increasing good credit and reducing bad and inferior credit. It teaches us to invest sources of final only on good credit (i.e. profitable venture). It is computed as:

$$\text{Performing Assets Ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

v. Credit Loss Provision to Credit 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. It is computed as:

$$\text{Credit Loss Provision Ratio} = \frac{\text{Total Credit Loss Provision}}{\text{Total Credit Due}}$$

vi. Overdue Credit to Total Credit Ratio

It shows the percentage of non performing credits to total credits. Banks performance is good if the percentage is low and vice versa. It also shows the credit recovery efficiency of the bank. Credit loss provision should be provisioned on the basis of overdue credit classification. It computed as:

$$\text{Overdue Credit to total credit} = \frac{\text{Overdue Credit}}{\text{Total Credit}}$$

d. Leverage Ratio

The use of finance is refers by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which create financial leverage. These ratios are also called solvency ratios or capital structure ratio. These ratios indicate mix of funds provided by owner and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long term financial position of the firm leverage ratios are calculated. This ratio highlights the long term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i) Total Assets to Equity (net worth) Ratio:

The ratio is calculated to find out the proportion of the total assets and owner's fund to finance for the total assets. It examines the relationship between total assets and equity. It shows the relative extent to which the firms have total assets to equity.

Total assets to equity (net worth) ratio $= \frac{\text{Total Assets}}{\text{Net Worth}}$

e. Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and to grow over a long period of time. So profits and essential but profit earning is not the ultimate aim of company and it should never be earned at the cost of employees, customer and society.

"Profitability ratios are the indicators of degree of managerial success in achieving firm's overall goal". It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratio:

i) Net Profit to Credit and Advances Ratio

It analyze the contribute of credit and advances to net profit. This ratio expresses the relationship between net profit and credit and advances. The formula for ascertainment of this ratio is as follows:

Net profit to credit and advances = $\frac{\text{Net Profit / Loss}}{\text{Total credit and advances}}$

ii. Net Profit/Loss to Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa.

In this study, Net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank assets and is calculated by applying the following formula:

Net Profit/Loss to Total Assets Ratio= $\frac{\text{Net Profit / Loss}}{\text{Total Assets}}$

iii. Interest Income to Total Credit and Advances

It tells the income as interest from total credit and advances. It is useful to know the fact that whether the credit has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy. It calculated by using the following formula:

Interest Income to total credit and advances = $\frac{\text{Interest Income}}{\text{Total Credit and Advances}}$

f. Other Ratios

i. Earning Per Share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company’s performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held have earned. A company can decide whether to increase or reduce the number of shares on issue. This decision has automatically alter the earning per share. The profits available to ordinary shareholders are represented by net profit after taxes and performance dividend. Symbolic expression of EPS is given below.

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Income after Taxes}}{\text{Number of Common Stocks Outstanding}}$$

ii. Price Earnings Ratio (P/E Ratio)

The P/E ratio is widely used by the security analysis to value the firm's perfomance as expected by investors. It shows the price currently paid by the market for each rupee of currently reported earning per share. It is also called multiplier. Here, the expression takes place as follows:

$$\text{Price earnings Ratio (P/E Ratio)} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

(B) Statistical Tools

For supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, correlation, trend analysis, hypothesis and diagrammatic cum pictorial tools have been used under it.

a. Arithmetic Mean (Average)

"Average are statistical constants which enables us to comprehend in a single effort the significance of the whole. It represents the entire data by a single vale. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overset{z}{x} \quad \mathrm{X} \frac{X}{N}$$

where,

$\bar{x}$	=	Arithmetic mean
N	=	Number of observations
φX	=	Sum of observations

b. Standard Deviation (S.D.)

"The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or ∃". It is used as absolute measure of dispersion or variability. It is calculated:

$$\text{S.D. } (\exists) = \frac{(X - \bar{X})^2}{n}$$

Where,

S.D. (∃)	=	Standard deviation
X	=	Value of each of the n observation
$\bar{x}$	=	Mean of the sample
n	=	Number of observations in the sample

c. Coefficient of Variation (C.V.)

The co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percent. It is independent of units. Hence it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the other and vice versa. It is calculated as:

$$\text{C.V} = \frac{\pm}{\bar{X}}$$

Where,

$\bar{x}$	=	Mean
∃	=	Standard Deviation
C.V.	=	Coefficient of Variation

CHAPTER IV
PRESENTATION AND ANALYSIS OF DATA

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

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

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

4.1 Financial Conditions of Selected Nepalese Commercial Banks

Financial analysis assists in identifying the major strength and weakness firm. It indicates whether a company has enough cash to meet its obligations ability to utilize properly their available resources.

Financial analysis can also used to assess the company’s liability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risks return. The necessary to find out the comparative financial condition of the banks in terms of credit practices necessary to find out the comparative credit practices in those banks, for research purpose, financial condition of both the banks in terms of credit practices. Credit efficiency has analyzed the comparative credit position selected commercial banks.

4.2 Financial and Statistical Tools Analysis

Here we study and analyzed the data by using financial and statistical tools.

Ratio Analysis

Calculation of different ratios of 'NIBL' and 'BOK' and analyze and interpret them.

a. Liquidity Ratio

i. Analysis of Cash and Bank Balance to Total Deposits Ratio

This ratio shows the ability of bank immediate funds to cover their deposit. Higher the ratio show higher liquidity position and ability to cover the deposit and vice verse

Table 4.1

Cash and bank balance to total deposits ratio

Fiscal year	NIBL			BOK		
	Cash & bank balance (Rs)	Total deposits (Rs)	Ratio (%)	Cash & bank balance (Rs)	Total deposits (Rs)	Ratio (%)
2007/08	3,754,941,568	34,451,726,191.00	10.90	1,513,146,779.00	15,833,737,799.00	9.56
2008/09	7,918,003,890	46,698,100,065.00	16.96	2,425,463,336.00	18,083,980,266.00	13.41
2009/10	6,815,889,833	50,094,725,497.00	13.61	2,730,356,130.00	20,315,834,405.00	13.44
2010/11	8,290,370,632	50,138,122,242.00	16.54	2,158,851,447.00	21,018,417,209.00	10.27
2011/12	12,009,113,819	57,010,603,789.00	21.06	3,901,332,824.00	24,991,448,841.00	15.61
Mean($\overline{x}$)			15.81			12.46
S.D.(∃)			3.42			2.23
C.V.			0.22			0.18

Source:- Annual Report of NIBL and BOK.

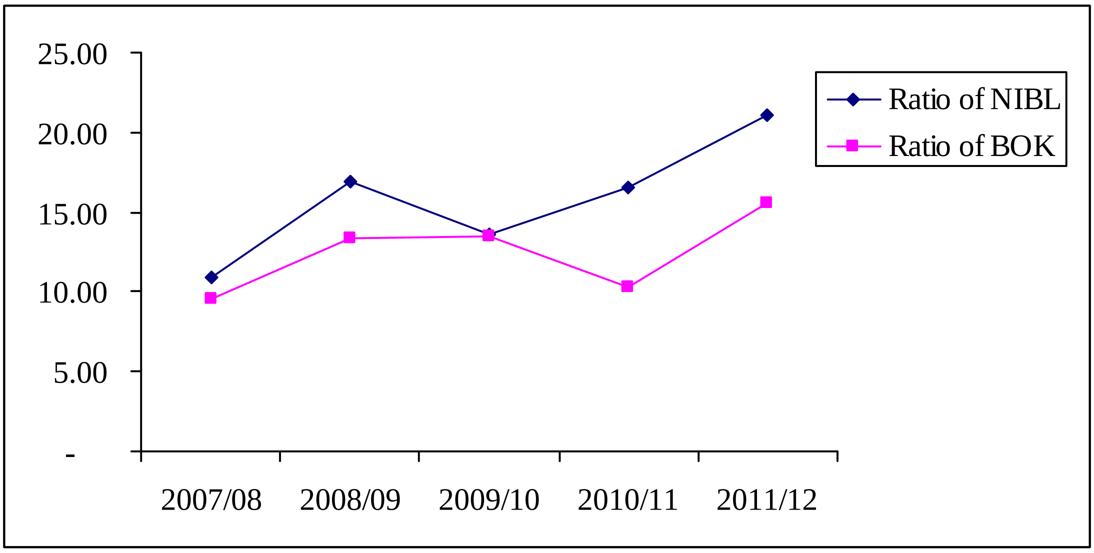
Cash and bank balance to total deposit of 'NIBL' has been observed as 10.90 percent, 16.96 percent, 13.61 percent,16.54 percent and 21.06 percent in the duration of the study period .from the table no.1,it is clear that 'NIBL' has fluctuating trend. Liquidity position in terms of cash and bank balance to total deposit ratio of 'NIBL' is found 15.81 percent as average in the 5 years. Study period. From this, 'NIBL' has enough cash and bank balance to cover its deposit demand. Standard deviation and coefficient variance 3.42 percent and 0.22 percent respectively.

The ratio of 'BOK' is also in fluctuation trend. The lowest ratio is 9.56 percent in F/Y 2007/08 and highest ratio is 15.61 percent in F/Y 2011/012. The average ratio in the study period is 12.46 percent. This bank has satisfied cash and bank balance to meet the depositors demand. Standard deviation is 2.23 and C.V. is 018 percent.

It is very difficult to say what percentage would be sufficient to meet the demand of depositors but on the basis of banking experience and directives given by the NRB as a 6 percent required keeping as cash reserve ratio, the two banks' calculated average percentage may be called sufficient.

Figure 4.1

Cash and Bank Balance to Total Deposits Ratio



From figure No 4.1 show that the cash and bank balance to total deposit of NIBl and BOK. It show that NIBL is best than BOK

ii. Analysis of Cash and Bank Balance to Current Deposit Ratio

This Ratio computed to disclose the soundness of finance company to pay total call made of current deposit.

Table 4.2

Cash and Bank Balance to Current Deposits Ratio

Fiscal year	NIBL			BOK		
	Cash & bank balance (Rs)	current deposits (Rs)	Ratio (%)	Cash & bank balance (Rs)	current deposits (Rs)	Ratio (%)
2007/08	3,754,941,568	3,138,669,428.00	119.63	1,513,146,779.00	2,092,338,375	72.32
2008/09	7,918,003,890	3,756,570,350.00	210.78	2,425,463,336.00	2,294,426,008	105.71
2009/10	6,815,889,833	4,025,820,180.00	169.30	2,730,356,130.00	2,747,402,336	99.38
2010/11	8,290,370,632	4,042,693,205.00	205.07	2,158,851,447.00	2,428,244,819	88.91
2011/12	12,009,113,819	6,611,306,170.00	181.65	3,901,332,824.00	2,789,038,591	139.88
Mean($\bar{x}$)			177.29			101.24
S.D.($\exists$)			32.56			22.38
C.V.			0.18			0.22

Source:- Annual Report of NIBL and BOK.

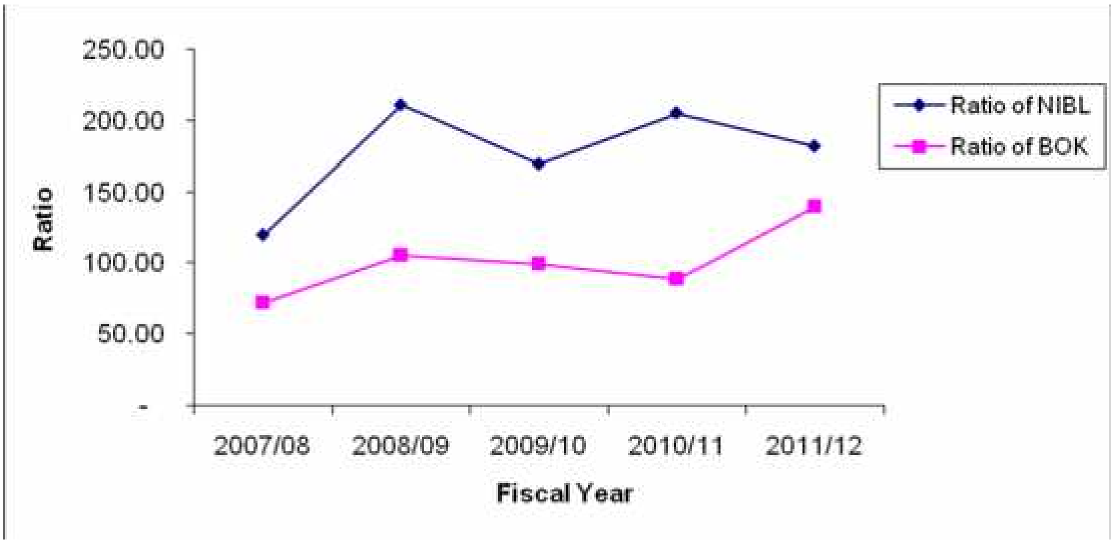
Cash and bank balance to current deposit of 'NIBL' has been observed as 119.63 percent, 210.78 percent, 169.308 percent, 205.07 percent, and 181.65 percent in the duration of the study period .from the table no.1,it is clear that 'NIBL' has fluctuating trend. Liquidity position in terms of cash and bank balance to total deposit ratio of 'NIBL' is found 177.29 percent as average in the 5 years. Study period. From this, 'NIBL' has enough cash and bank balance to cover its deposit demand. Standard deviation and coefficient variance 32.56 percent and 0.18 percent respectively.

The ratio of 'BOK' is also in fluctuation trend. The lowest ratio is 72.32 percent in F/Y 2007/08 and highest ratio is 139.88 percent in F/Y 2011/012. The average ratio in the study period is 101.24 percent. This bank has satisfied cash and bank balance to meet the depositors demand. Standard deviation is 22.38 percent and C.V. is 0.22 percent.

The average ratio of NIBl is higher than BOK it mean that NIBL has good position.

Figure 4.2

Cash and Bank Balance to Current deposits Ratio



From Figure no 4.2 show the ratio between cash and bank balance of NIBL and BOK it show that NIBL has satisfied cash and bank balance to meet the depositors demand.

b. Activity / Efficiency Ratio

i. Credit and Advances to Total Deposit Ratio

Credit and advance to total deposit ratio show whether the bank are successful to utilize the outside funds for the profit generating purpose on the credit and advance or not.

Table 4.3

Credit and Advances to Total Deposits Ratio

Fiscal year	NIBL			BOK		
	Total credit & advances	Total deposit	Ratio (%)	Total credit & advances	Total deposit	Ratio (%)
2007/08	26,996,652,258	34,451,726,191.00	78.36	12,462,637,541.00	15,833,737,799.00	78.71
2008/09	36,241,206,558	46,698,100,065.00	77.61	14,647,296,987.00	18,083,980,266.00	81.00
2009/10	40,318,308,062	50,094,725,497.00	80.48	16,664,930,855.00	20,315,834,405.00	82.03
2010/11	41,095,514,519	50,138,122,242.00	81.96	17,468,193,645.00	21,018,417,209.00	83.11
2011/12	41,636,998,817	57,010,603,789.00	73.03	18,813,937,339.00	24,991,448,841.00	75.28
Mean($\bar{x}$)			78.29			80.03
S.D.(∃)			3.04			2.78
c.v			0.04			0.03

Source:- Annual Report of NIBL and BOK.

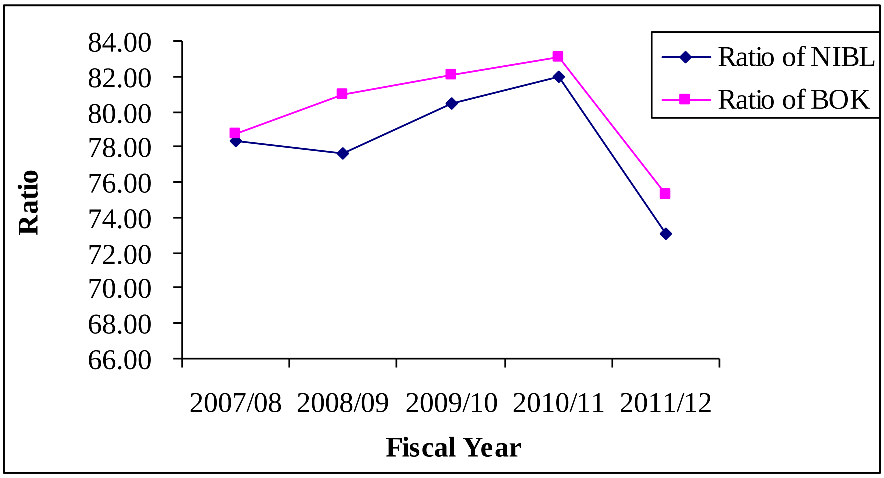
From the table 4.3, the average ratio of credit and advances to total deposits of 'NIBL' is 78.29 percent. The ratios are increasing except F/Y 2008/09 and 2011/012. The highest ratio is 81.96 percent in F/Y 2010/011. The average ratio is 78.29 percent. Similarly, the standard deviation and coefficient of variance are 3.04 percent and 0.04 percent respectively.

The average ratio of 'BOK' is 80.03 percent .the highest ratio is 83.11 percent in the F/Y 2010/011 and the lowest ratio is 75.28 percent in F/Y 2011/012. The standard deviation of ratio is 2.78 percent and coefficient of variance is 0.03 percent

It clears from the above table that the ratio for the commercial banks is around 80 percent. Total deposits are the main sources of bank to provide credit and advances. Large percentage almost 80 percent of total deposits goes as credit and advances t customers. Therefore it is seemed, banks are heavily dependent on credit and advances to make profit from their investment. From the analysis it show that BOK has good position.

Figure 4.3

Credit and Advances to Total Deposits Ratio



The figure no 4.3 show that the credit and advance to total deposit ratio of NIBL and BOK in some of study period where BOK is more successful to utilized the outside funds for the profit generating purpose.

ii. **Analysis of Credit and Advances to Fixed Deposits Ratio**

The ratio measure how many times the amount is used in credit and advance in compulsion to fixed deposit for the income generating propose.

Table 4.4

Credit and Advances to Fixed Deposits Ratio

Fiscal year	NIBL			BOK		
	Total credit & advances	Fixed deposits	Ratio (%)	Total credit & advances	Fixed deposit	Ratio (%)
2007/08	26,996,652,258	7,944,232,558.00	339.83	12,462,637,541.00	3,703,175,532.00	336.54
2008/09	36,241,206,558	11,633,380,218.00	311.53	14,647,296,987.00	4,474,617,501.00	327.34
2009/10	40,318,308,062	16,825,148,284.00	239.63	16,664,930,855.00	6,383,581,164.00	261.06
2010/11	41,095,514,519	18,378,300,034.00	223.61	17,468,193,645.00	7,850,250,484.00	222.52
2011/12	41,636,998,817	20,057,476,644.00	207.59	18,813,937,339.00	7,646,315,724.00	246.05
Mean($\bar{x}$)			264.44			278.70
S.D.(∃)			51.79			45.27
C.V.			0.2			0.16

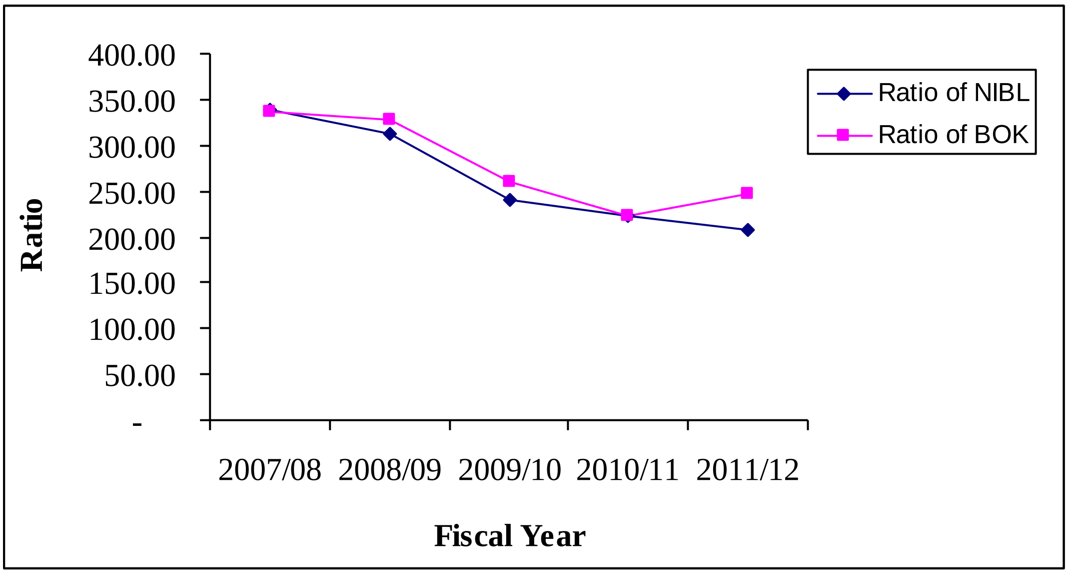
Source:- Annual Report of NIBL and BOK.

From the table 4.4, it is visualized that credit and advances to fixed deposit ratio of 'NIBL' decreasing in overall. The ratio of 'NIBL' is decreasing year by year as 339.83 percent, 311.53 percent, 239.63 percent, 223.61 percent, and 207.59 percent are F/Y 2007/08, 2008/09, 2009/010, 2010/011 and 2011/012 respectively. The average ratio is 264.44 percent, S.D. is 51.79 percent and consistency (100-cv) in utilizing fixed deposits into credit and advances is 0.02

And the ratio 'credit and advances to fixed deposits' BOK is decreasing trend except F/Y 2011/012. Research period. The ratios are 336.54 percent, 327.34 percent, 261.06 percent, 222.52 percent and 246.05 percent are F/Y 2007/08, 2008/09, 2009/010. 2010/011 and 2011/012 respectively. The average ratio is 278.70 percent the standard deviation is 46.27 percent and the C.V. is 0.16 percent. It shows that according to analysis BOK has good position.

Figure 4.4

Credit and Advances to Fixed Deposits Ratio



From figure no 4.4 show that credit and advance to fixed deposit ratio of both banks where ratio of BOK is higher than NIBL

iii. Credit and Advances to Total Assets Ratio

Credit and advances is the major part of total assets for the bank. This ratio indicates the volume of credit & advances out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function however lending always carries a certain risk of default.

Table 4.5

Credit and Advances to Total Assets Ratio

Fiscal Year	NIBL			BOK		
	Total credit & advances	Total Assets	Ratio (%)	Total credit & advances	Total Assets	Ratio (%)
2007/08	26,996,652,258	38,873,306,084.00	69.45	12,462,637,541.00	17,721,925,187	70.32
2008/09	36,241,206,558	53,010,803,126.00	68.37	14,647,296,987.00	20,496,005,483	71.46
2009/10	40,318,308,062	57,305,413,482.00	70.36	16,664,930,855.00	23,396,191,791	71.23
2010/11	41,095,514,519	58,356,827,501.00	70.42	17,468,193,645.00	24,757,750,426	70.56
2011/12	41,636,998,817	65,756,231,954.00	63.32	18,813,937,339.00	28,881,996,852	65.14
Mean($\overline{X}$)			68.38			69.74
S.D.(∃)			5.86			5.22
C.V.			0.09			0.07

Source:- Annual Report of NIBL and BOK.

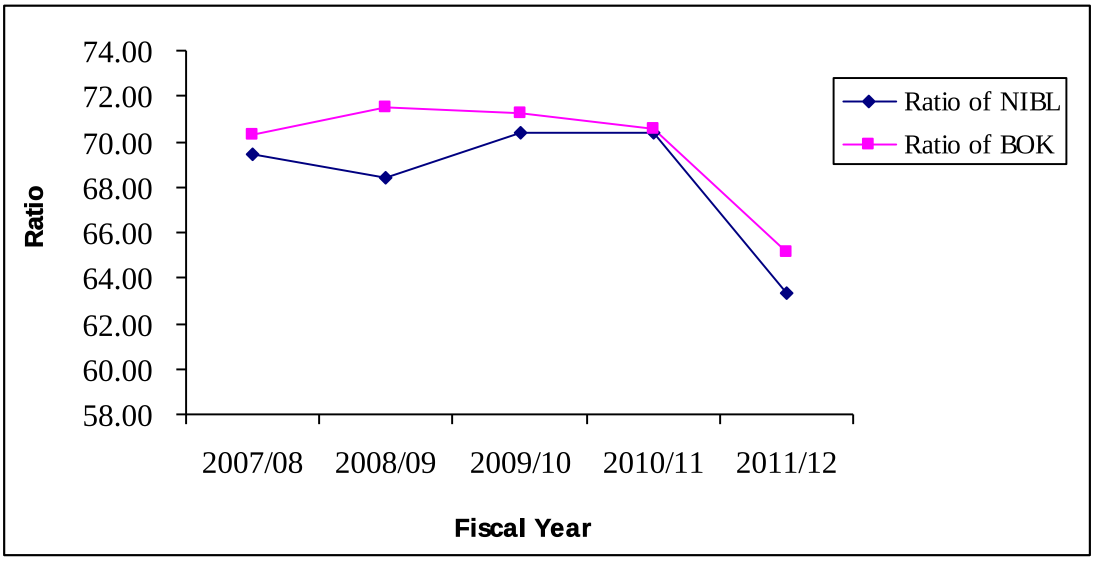
From table 4.5 show that the ratio of credit and advances to total assets in five years for the selected companies. Credit and advances to total assets ratio 'NIBL' ranges the highest of 70.42 percent in the F/Y 2010/011. Ratio of 'BOK' is highest in the F/Y 2008/09 with 71.46 percent and lowest 65.14 percent in F/Y 2011/012.

From the mean point of view, it can be said that mean ratio of 'BOK' is highest than 'NIBL'. It can be concluded that higher the mean ratio it indicates good lending performance. Here, 'NIBL' should focus to increase lending performance. From the standard deviation point of view 'NIBL' has more risky than 'BOK'. The S.D. of 'NIBL' is 5.86 percent and the S.D. of 'BOK' is only 5.22 percent.

Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity. It measure the ability in mobilizing total assets in credit and advance for generating income.

Figure 4.5

Credit and Advance to Total Assets Ratio



From figure no 4.5 show the ratio between credit and advance to total assets in study period where BOK has been able to mobilize its fund through lending function

v. Performing Assets to Total Assets Ratio

It is useful to know the fact that whether the good credit is increasing or not**.**

Table 4.6

Performing Assets to Total Assets Ratio

Fiscal year	NIBL			BOK		
	Performing assets loan	Total Assets	Ratio (%)	Performing assets	Total Assets	Ratio (%)
2007/08	27,219,833,753	38,873,306,084.00	70.02	12,510,822,753.00	17,721,925,187	70.60
2008/09	36,613,250,015	53,010,803,126.00	69.07	14,755,404,107.00	20,496,005,483	71.99
2009/10	40,694,405,581	57,305,413,482.00	71.01	16,787,082,048.00	23,396,191,791	71.75
2010/11	41,492,411,058	58,356,827,501.00	71.10	17,630,621,859.00	24,757,750,426	71.21
2011/12	41,481,296,984	65,756,231,954.00	63.08	18,875,744,757.00	28,881,996,852	65.35
Mean($\bar{x}$)			68.86			70.18
S.D.(∃)			6.67			5.5
C.V.			0.1			0.08

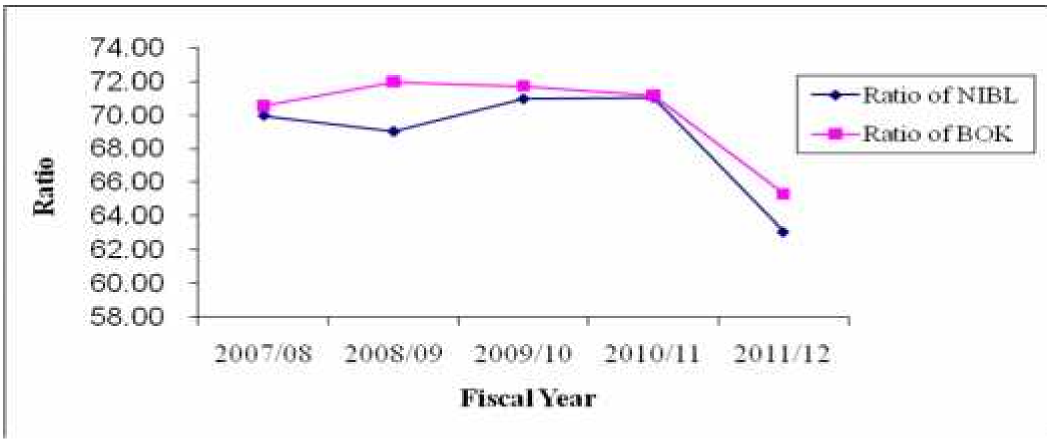
Source:- Annual Report of NIBL and BOK.

From table no 6, it is Visualizes that performing assets to total assets of NIBL is flutings. The average ratio is found 68.86 percent in five year. S.D and C.V is 6.67 percent and 0.1 percent

And the ratio of performing assets to total assets in BOK is decreasing in overall. Expect in 2008/09 the ratio of BOK is decreasing year by year F/Y 2008/09, 2009/010, 2010/011, 2011/012 respectability. The average ratio is 70.18 percent S.D and C.V id 505 percent and 0.08 percent

Figure 4.6

Performing Assets to Total Assets Ratio



From figure no 4.6 show the ratio between performing assets to total assets ratio of NIBL and BOK according to that ratio BOK has good credit increasing.

v. Overdue Non-Performing Credit to Total Credit Ratio

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

Table 4.7

Non-performing (over-due) Credit to Total Credit and Advances Ratio

Fiscal year	NIBL			BOK		
	overdue (non-performing) credit	Total credit & advances	Ratio (%)	overdue (non-performing) credit	Total credit & advances	Ratio (%)
2007/08	309,470,983	26,996,652,258	1.15	236,898,850.00	12,462,637,541.00	1.90
2008/09	213,907,394	36,241,206,558	0.59	190,315,657.00	14,647,296,987.00	1.30
2009/10	254,034,452	40,318,308,062	0.63	257,217,350.00	16,664,930,855.00	1.54
2010/11	395,282,853	41,095,514,519	0.96	326,329,327.00	17,468,193,645.00	1.87
2011/12	1,425,394,070	41,636,998,817	3.42	443,392,481.00	18,813,937,339.00	2.36
Mean ($\bar{x}$)			1.35			1.79
S.D.(∃)			2.36			0.8
C.V.			1.75			0.45

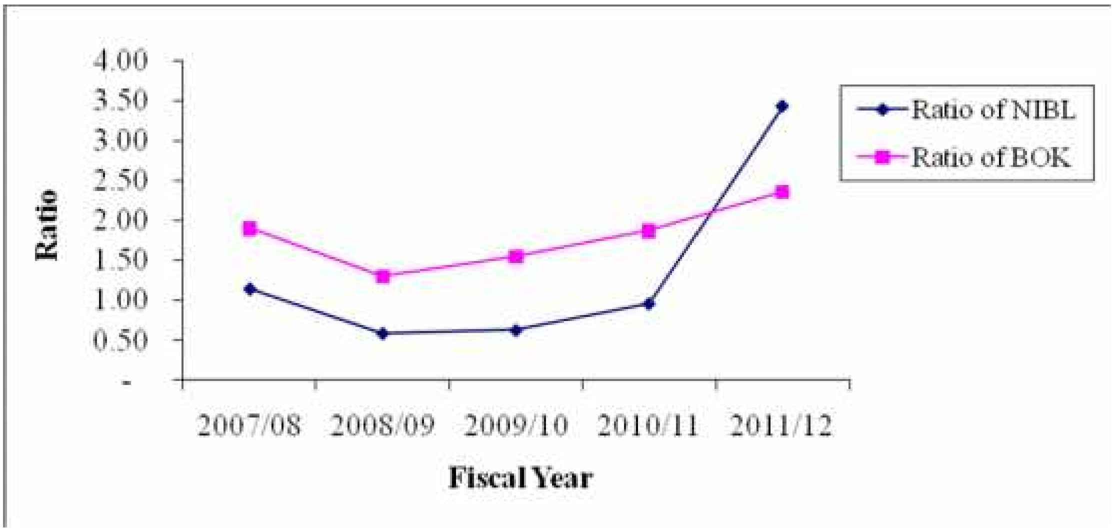
Source:- Annual Report of NIBL and BOK.

Table no.7 shows the non-performing credit to total credit and advances over the study period. Ratio of 'NIBL' ranges highest of 3.42 percent, and lowest 1.15 percent, it shows decreasing trend in subsequent year expect year 2011/012. Likewise the ratio of 'BOK' ranges the higher of 2.36 percent and lowest 1.30 percent. It is the decreasing in much more increasing rate expect year 2011/012. The mean of 'NIBL' and 'BOK' are 1.35 percent and 1.79 percent respectively. The ratio of 'NIBL' in last year is above the average and F/Y 2007/08, 2008/09, 2009/010, and 2010/011 are the below the average rate. And the ratio of 'BOK' in the first year and last year are above the average rate and below the average in the F/Y 2008/09 and 2009/010. And in comparison between two banks, the average ratio of 'NIBL' has the lowest non-performing credit to total credit and advances. This 'NIBL' is best performer than the 'BOK'.

Banking sector is seriously affected by the non-performing credit. Both banks are not far from this above fact. If non-performing credit increases, the overall banking business will be affected. So provisioned amount will increase and profit will decrease. So, it is suggested that both banks ('NIBL' & 'BOK') to be sincere while granting credit and to do effective follow-up for recovery of non-performing credit.

Figure 4.7

Non-performing (over-due) Credit to Total Credit and Advances Ratio



From figure no 4.7 show the ratio between non-performing credit to total credit and advances of NIBL and BOK **in study period**

vi. Credit Loss Provision to Credit and Advances Ratio

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

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

Table 4.8

Credit Loss Provision to Total Credit and Advances Ratio

Fiscal Year	NIBL			BOK		
	Provision for credit loss	Total credit & advances	Ratio (%)	Provision for credit loss	Total credit & advances	Ratio (%)
2007/08	532,652,478	26,996,652,258	1.97	285,084,062.00	12,462,637,541.00	2.29
2008/09	585,950,852	36,241,206,558	1.62	298,422,777.00	14,647,296,987.00	2.04
2009/10	630,131,971	40,318,308,062	1.56	379,368,543.00	16,664,930,855.00	2.28
2010/11	792,179,392	41,095,514,519	1.93	488,757,541.00	17,468,193,645.00	2.80
2011/12	1,269,692,237	41,636,998,817	3.05	505,199,899.00	18,813,937,339.00	2.69
Mean($\bar{x}$)			2.03			2.42
S.D.(∃)			1.2			0.63
C.V.			0.59			0.26

Source:- Annual Report of NIBL and BOK.

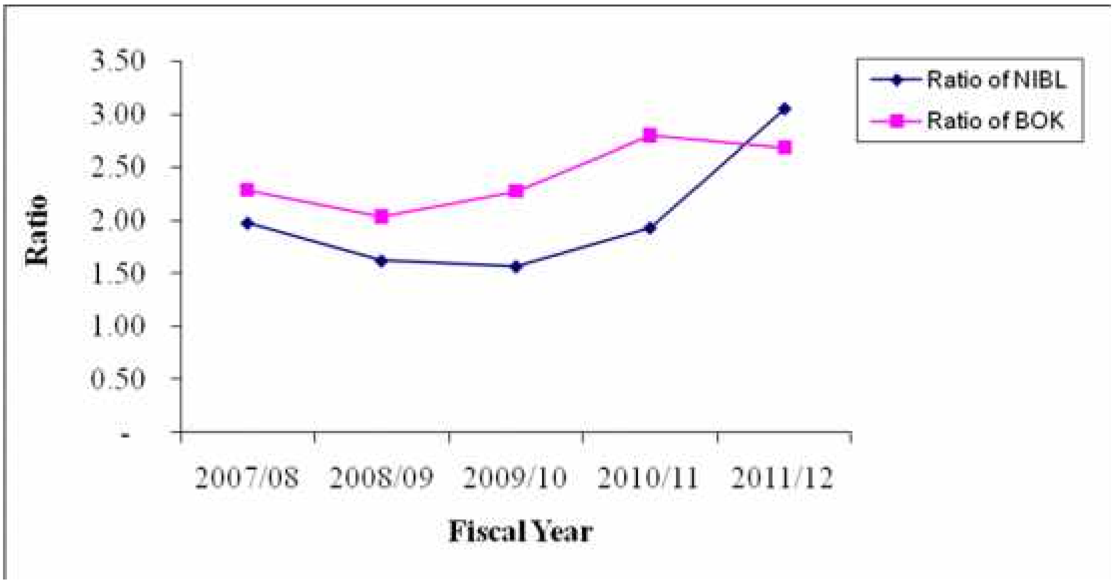
Above table no.6 shows the credit loss provision to total credit and advances of selected over the study period. Ratio of ‘NIBL’ ranges highest 3.05 percent in the f/y 2011/012 and lowest 1.56 percent in the f/y 2009/010. Average ratio of ‘NIBL’ is 2.03 percent f/y 2007/08 and 2008/09, 2009/010 and 2010/011 are above the average and ratio in f/y 2011/012, is below the average. The ratios are in decreasing trend except f/y 2010/011, 2011/012.

Ratio of ‘BOK’ ranges highest 2.80 percent in f/y 2010/011 and lowest 2.04 in the f/y 2008/09. And the ratio are also decreasing trend except f/y 2009/010 and 2010/011.

Here average credit loss provision to total credit and advances ratio of ‘BOK’ is higher than the ‘NIBL’ higher ratio indicates the increased volume of non-performing credit and vice versa. In overall ‘NIBL’ and ‘BOK’ both are in a decreasing trend. So, the decreasing credit loss ratio indicates efficient credit policy and gradual increment on the performance of company. This shows the satisfactory for the both banks.

Figure 4.8

Credit Loss Provision to total Credit and Advances Ratio



From figure no 4.8 show the ratio between credit loss provision to total credit and advances ratio of NIBL and BOK in study period

c. Leverage Ratio

i. Total Assets to equity (net worth) Ratio

It analyzed the ratio of total assets and net worth. This ratio expresses the relationship between net worth and total assets.

Table 4.9

Total Assets to Equity (net worth) Ratio

Fiscal Year	NIBL			BOK		
	Total Asset	Equity (net worth)	Ratio (times)	Total Asset	Equity (net worth)	Ratio (times)
2007/08	38,873,306,084.00	2,658,915,000.00	14.62	17,721,925,187	1,310,851,552	13.52
2008/09	53,010,803,126.00	3,879,969,000.00	13.66	20,496,005,483	1,683,588,123	12.17
2009/10	57,305,413,482.00	4,554,094,000.00	12.58	23,396,191,791	2,021,092,627	11.58
2010/11	58,356,827,501.00	5,083,617,000.00	11.48	24,757,750,426	2,377,729,027	10.41
2011/12	65,756,231,954.00	5,858,857,000.00	11.22	28,881,996,852	2,639,371,152	10.94
Mean($\overline{x}$)			12.71			11.72
S.D. (∃)			2.8			2.4
C.V.			0.23			0.2

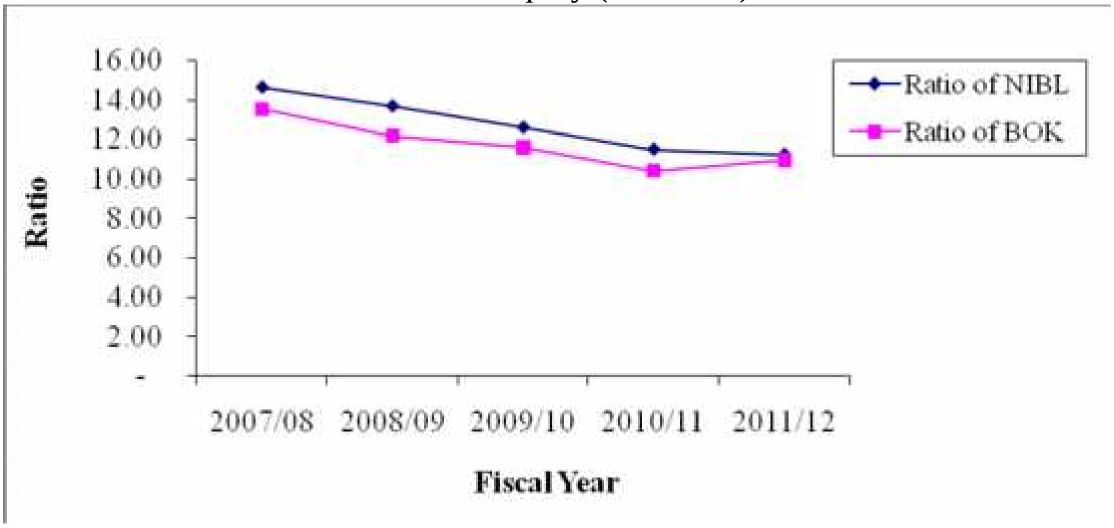
Source:- Annual Report of NIBL and BOK.

The ratio of 'NIBL' is highest in the f/y 2007/08 is 14.62 percent. After that it is decreased in F/Y 2008/09, 2009/010, 20101/011, 2011/012, 13.66 percent, 12.58 percent, 11.48 percent and 11.22 percent respectively. Although the amount of total assets is increasing, the assets to net worth (equity) ratio are decreasing because of high rate of increase in net worth. The average ratio is 12.71percent.

Similarly, the ratio of 'BOK' is also decreasing in average ratio is 11.72 percent. The Highest ratio is 13.52 percent in F/Y 2007/08, Lowest Ratio is 10.94 percent in 2011/012 of study analyses one based of mean NIBL is better condition and based on CV BOK is low risky than NIBL.

Figure 4.9

Total Assets to Equity (net worth) Ratio



From figure no 4.9 show the total assets to equity ratio of NIBL and BOK in study period where NIBL has good relationship between total assets to net worth**.**

Profitability Ratio

i. Net Profit to Credit and Advances Ratio:

It analyze the contribute of credit and advances to net profit. This ratio expresses the relationship between net profit and credit and advances.

Table 4.10

Net Profit to Credit and Advances Ratio

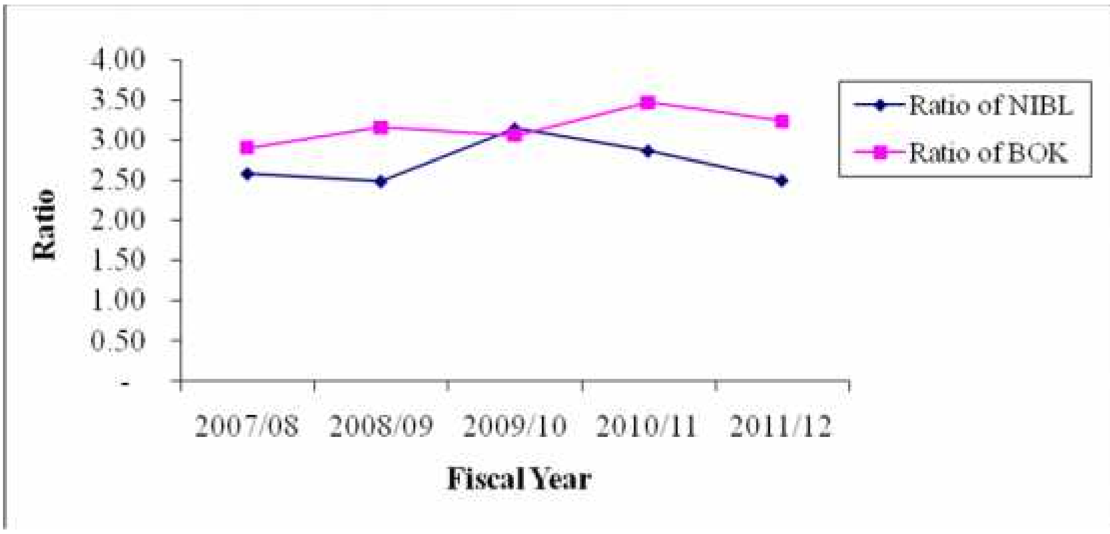
Fiscal Year	NIBL			BOK		
	Net Profit	Total credit & advances	Ratio (%)	Net Profit	Total credit & advances	Ratio (%)
2007/08	696,731,516.00	26,996,652,258.00	2.58	361,496,879.00	12,462,637,541.00	2.90
2008/09	900,619,072.00	36,241,206,558.00	2.49	461,734,911.00	14,647,296,987.00	3.15
2009/10	1,265,949,588.00	40,318,308,062.00	3.14	509,263,141.00	16,664,930,855.00	3.06
2010/11	1,176,641,031.00	41,095,514,519.00	2.86	605,152,423.00	17,468,193,645.00	3.46
2011/12	1,039,275,613.00	41,636,998,817.00	2.50	607,662,263.00	18,813,937,339.00	3.23
Mean($\bar{x}$)			2.71			3.16
S.D. (∃)			0.56			0.41
C.V.			0.21			0.13

Source:- Annual Report of NIBL and BOK.

The table no.10 shows that the ratio of net profit to credit and advances in ‘NIBL’ was 2.58 percent, 2.49 percent, 3.14 percent, 2.86 percent, and 2.50 percent respectively. Similarly, the ratio of ‘BOK’ was 2.90 percent, 3.15 percent, 3.06 percent, 3.46 percent, and 3.23 percent respectively. For mean point of view. 'BOK’ has higher net profit to credit and advance ratio. It shows that ‘BOK’ earns more profit rather than ‘NIBL’. In the terms of providing credit and advances.

Figure 4.10

Net Profit to Credit and Advances Ratio



From figure no 4.10 show the net profit and credit and advances ratio of NIBL and BOK in study period.

ii. Net Profit/Loss to Total assets Ratio

The ratio is useful to measure how well management uses all assets in the business to generate an operating surplus.

Table 4.11

Net Profit/Loss to Total assets Ratio

Fiscal year	NIBL			BOK		
	Net Profit	Total Asset	Ratio (%)	Net Profit	Total Asset	Ratio (%)
2007/08	696,731,516.00	38,873,306,084.00	1.79	361,496,879.00	17,721,925,187	2.04
2008/09	900,619,072.00	53,010,803,126.00	1.70	461,734,911.00	20,496,005,483	2.25
2009/10	1,265,949,588.00	57,305,413,482.00	2.21	509,263,141.00	23,396,191,791	2.18
2010/11	1,176,641,031.00	58,356,827,501.00	2.02	605,152,423.00	24,757,750,426	2.44
2011/12	1,039,275,613.00	65,756,231,954.00	1.58	607,662,263.00	28,881,996,852	2.10
Mean ($\bar{x}$)			1.86			2.20
S.D. (∃)			0.51			0.32
C.V.			0.27			0.15

Source:- Annual Report of NIBL and BOK.

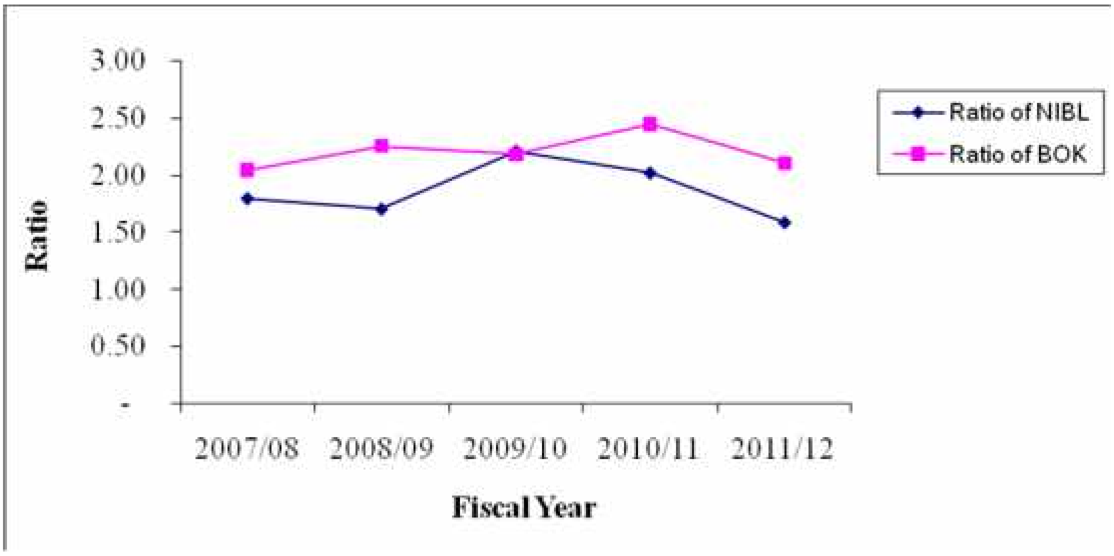
From table no 11 show the net profit to total assets ratio of selected bank over the study period. The ratio of NIBL ranges highest 2.21 percent in the F/y 2009/010 and lowest 1.58 percent in f/y 2011/012. Average ratio of NIBL is 1.86 percent f/y 2007/08, 2008/09, 2011/012 is below the average and ratio in f/y 2009, 2010/011 is above the average. The ratio is dressing trend expect the 2009/010, 2010/011.

Ratio of BOK ranges highest 2.44 percent in 2010/011 and lowest 2.04 percent in 2007/08. And ratio also decreasing expect F/Y 2008/09, 2010/011.

Hence average ratio of BOK is higher than NIBL. Higher ratio indicates the increasing volume of net profit and total assets vice verse. According to CV BOK is best than NIBL.

Figure 4.11

Net Profit/Loss and Total Assets Ratio



From figure no 4.11 show the net profit and total assets ratio of NIBL and BOK in study period according to this ratio indicate BOK has well management to use all management in the business to generate an operating surplus.

iii. Analysis of Interest Income to Total Credit and Advances Ratio:

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

Table 4.12

Interest Income to Total Credit and Advances Ratio

Fiscal year	NIBL			BOK		
	Interest Income	Total credit & advances	Ratio (%)	Interest Income	Total credit & advances	Ratio (%)
2007/08	2,194,275,722.00	26,996,652,258.00	8.13	1,034,157,874.00	12,462,637,541.00	8.30
2008/09	3,267,941,142.00	36,241,206,558.00	9.02	1,347,755,382.00	14,647,296,987.00	9.20
2009/10	4,653,521,338.00	40,318,308,062.00	11.54	1,870,846,758.00	16,664,930,855.00	11.23
2010/11	5,803,440,174.00	41,095,514,519.00	14.12	2,386,780,043.00	17,468,193,645.00	13.66
2011/12	5,982,641,242.00	41,636,998,817.00	14.37	2,620,894,861.00	18,813,937,339.00	13.93
Mean($\bar{x}$)			11.44			11.26
S.D.(∃)			5.7			5.08
C.V.			0.5			0.45

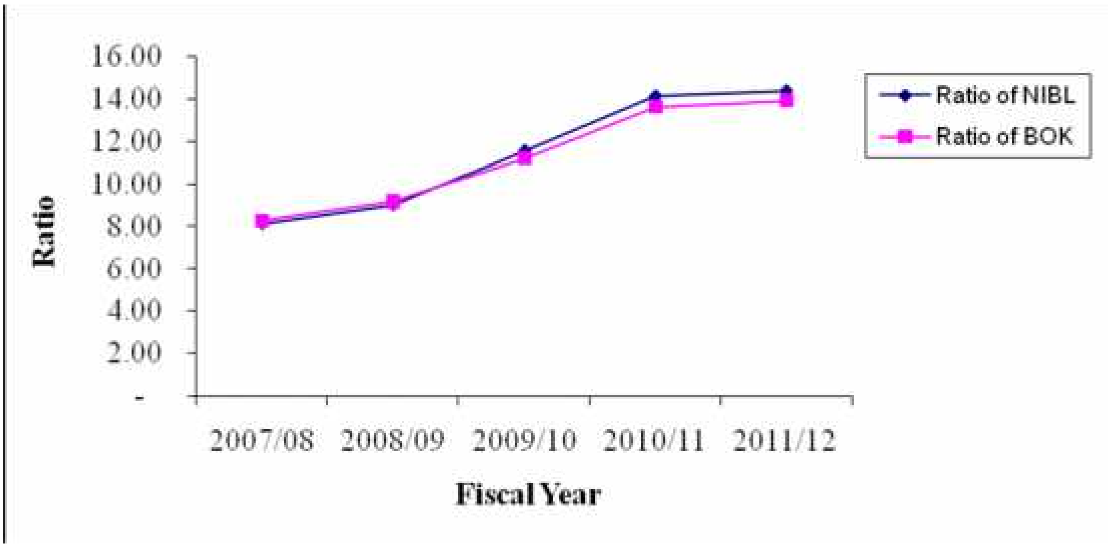
Source:- Annual Report of NIBL and BOK.

Table no. 12 shows the ratios of interest income to credit and advances of the selected companies over the study period. Interest income to credit and advances ratio of ‘NIBL’ range from the highest of f/y 2011/012, of 14.37 percent and to the lowest of 8.13 percent in the f/y 2007/08. The mean ratio is 11.44 percent. And the standard deviation is 5.7 percent and the coefficient of variance is 0.5 percent. Similarly, the mean interest income to credit and advances of the ‘BOK’ is 11.26 percent. Highest ratio is in the f/y 2010/011 of 13.66 percent and the lowest ratio is in the f/y 2007/08 of 8.30. And the standard deviation is 5.08 percent and coefficient of variance is 0.45 percent from this, the mean ratio and standard deviation of interest to credit and advances of NIBL’ is higher than the BOK’. But the coefficient of variance of ‘BOK’ is less than the ‘NIBL’.

From the point view of average ratio, NIBL’ has higher than the ‘BOK’. So, ‘NIBL’ has best performance.

Figure 4.12

Interest Income to Total Credit and Advances Ratio



From figure no 4.12 show the interest income total to credit and advances ratio of NIBL and BOK in study period

e. Others Ratios

i. Earnings Per Share (EPS)

Table 4.13

Net Income After Tax to Number of Common Stocks

Fiscal Year	NIBL			BOK		
	Net Income After Tax	Number of Common Stock	EPS	Net Income After Tax	Number of Common Stock	EPS
2007/08	696,731,516.00	12,039,154.00	57.87	361,496,879.00	6,031,413	59.94
2008/09	900,619,072.00	24,070,689.00	37.42	461,734,911.00	8,443,979	54.68
2009/10	1,265,949,588.00	24,090,977.00	52.55	509,263,141.00	11,821,571	43.08
2010/11	1,176,641,031.00	30,113,721.00	39.07	605,152,423.00	13,594,807	44.51
2011/12	1,039,275,613.00	37,661,553.00	27.60	607,662,263.00	16,041,873	37.88
Mean ($\bar{x}$)			42.90			48.02
S.D. (∃)			24.41			18.05
C.V.			0.57			0.38

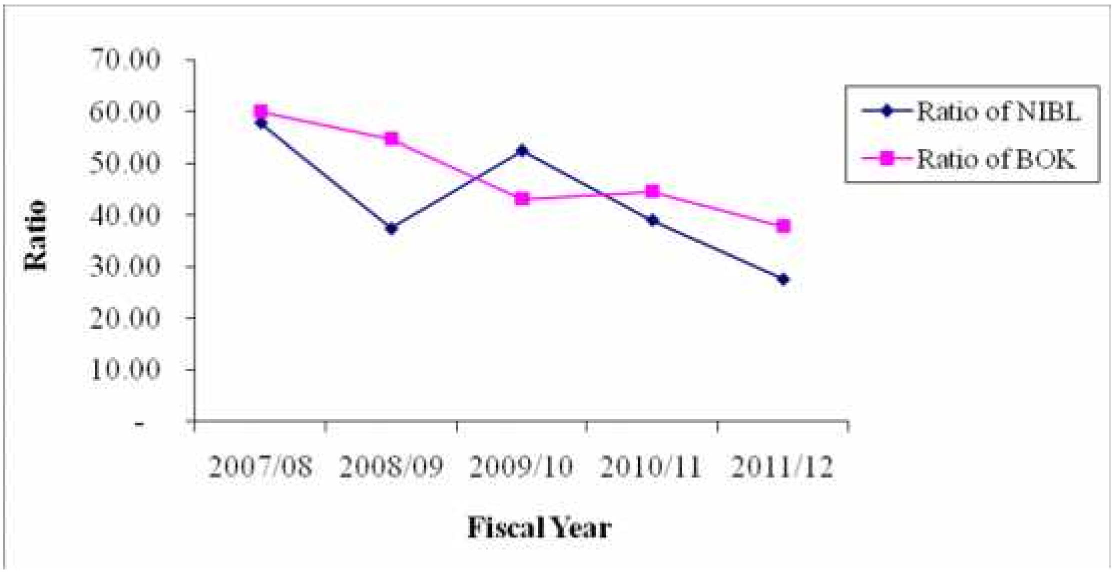
Source:- Annual Report of NIBL and BOK.

The shareholder's income per share of 'NIBL' is fluctuate in different year. The highest amount is Rs.57.87 in f/y 2007/08 and lowest amount is Rs.27.60 in f/y

2011/012. The average income is Rs.42.90 and the same average amount of 'BOK' is Rs.48.02. thus, both are in satisfaction level. The income amount of 'BOK' is in increasing rate.

Figure 4.13

Net Income After tax to Number of Common Stocks



From figure no 4.13 show net income after tax to number of common stocks ratio of NIBL and BOK in study period.

ii. **Price Earnings Ratio (P/E Ratio)**

Table 4.14

Price Earnings Ratio

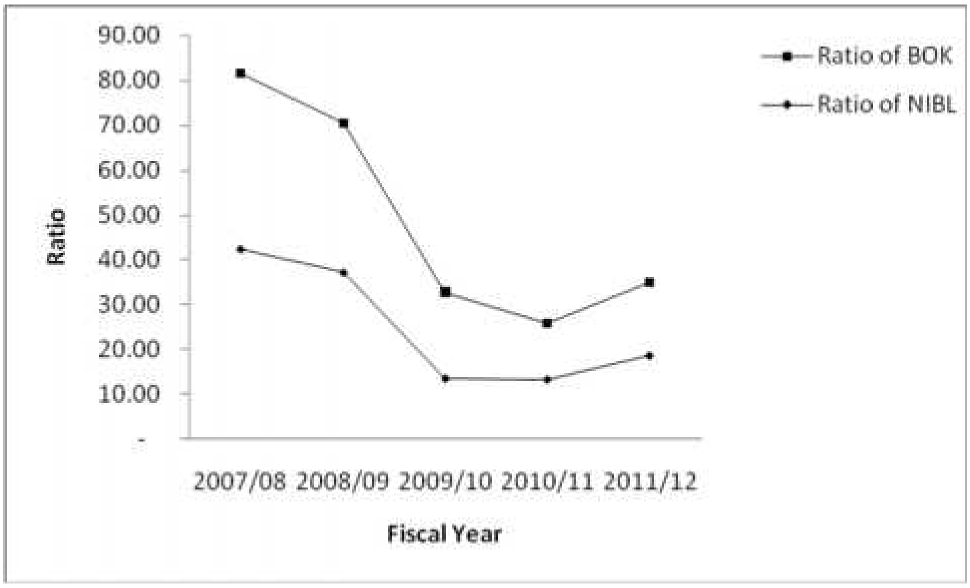
Fiscal year	NIBL			BOK		
	Market Price Per Share	Earning Per Share	P/E Ratio	Market Price Per Share	Earning Per Share	P/E Ratio
2007/08	2,450.00	57.87	42.33	2,350.00	59.94	39.21
2008/09	1,388.00	37.42	37.10	1,825.00	54.68	33.37
2009/10	705.00	52.55	13.42	840.00	43.08	19.50
2010/11	515.00	39.07	13.18	570.00	44.51	12.81
2011/12	511.00	27.60	18.52	628.00	37.88	16.58
Mean ($\bar{x}$)			24.91			24.29
S.D.(∃)			27.61			22.78
C.V.			1.11			0.94

Source:- Annual Report of NIBL and BOK.

P/E ratio of the 'NIBL' is increasing-up each year. The P/E ratio the 'BOK' is also increasing-up each year. The year P/E ratio of 'NIBL' is higher than 'BOK'.

Figure 4.14

Price Earnings Ratio



From figure no 4.14 show price earnings ratio of NIBL and BOK in study period

4.3 Major Findings

- On average of 5 years of research period, cash and bank balance to total deposits ratio of 'NIBL' and 'BOK' is 15.81 percent and 12.46 percent respectively.
- Average cash and bank balance to current deposit of NIBL' and 'BOK' are 177.29 percent and 101.24 percent respectively. 'NIBL' has maintained higher cash and bank balance to current deposit. In this way, it shows that 'NIBL' seems to be strong to mobilize its cash and bank balance as Current deposit. However higher ratio does not mean it is always better from the point of liquidity. The average ratio of NIBL is higher than BOK it means that NIBL has good position.
- Average credit and advances to total deposit ratio of 'NIBL' &'BOK' are 78.29 percent and 80.03 percent respectively. 'BOK' has maintained higher credit and advances to total deposit. In this way, it shows that 'BOK' seems to be strong to mobilize its total deposit as credit & advances. However higher ratio does not mean it is always better from the point of liquidity. Both banks are capable to use

around 70 percent of deposit on credit and advances. If maintained this, it help make consistency on the profitability of the banks.

- Fixed deposits are the main sources of granting credit. Credit and advances of ‘NIBL’ is almost 264.44 percent of fixed deposits and the same for ‘BOK’ is almost 278.70 percent of fixed deposits have positive correlation impact on credit and advances.
- Average credit and advances to total assets of ‘NIBL’ and ‘BOK’ are 68.38 percent and 69.74 percent. It can be concluded that the higher mean ratio indicates the good lending performance. Here, ‘BOK’ has slightly good lending performance than ‘NIBL’. And ‘NIBL’ should focus to increase credit and advances to total assets ratio to increase lending performance.
- Performing assets to total assets of NIBL is fluting trend. And the ratio of BOK is decreasing trend expect F/Y 2008/09.average performing assets to total assets of NIBL and BOK is 68.86 percent and 7.018 percent. It mean that BOK is good Performers.
- Credit loss provision to total credit and advance of ‘NIBL’ is decreasing trend expect in the f\y 2010/011 and 2011/012. So the decreasing loan loss ratio indicates efficient credit policy and gradual increment on the performance of the company. Here credit loss provision to total credit and advances of ‘BOK’ also in decreasing trend expect 2009/010 and 2010/011. This shows the satisfactory for both banks.
- Average overdue credit to total credit and advances of ‘NIBL’ and ‘BOK’ are 1.35 percent and 1.79 percent. The average ratio of ‘NIBL’ has the lowest non-performing credit to total credit and advances. This ‘NIBL’ is best performer than the ‘BOK’. Banking sector is seriously affected by the non-performing credit. Both banks are not far from this above fact. If non-performing credit increases, the overall banking business will be affected. So provisioned amount will increase and profit will decrease. So, it is suggested that both banks (‘NIBL’ & ‘BOK’) to be sincere while granting credit and to do effective follow-up for recovery of non-performing credit.
- Average total assets to equity of ‘NIBL’ and ‘BOK’ are 12.71 percent and 11.72 percent. Analyses one based of mean NIBL is better condition and based on CV BOK is low risky than NIBL

- The net profit to credit and advances ratio of ‘NIBL’ is in increasing trend up to f/y 2009/010 and f/y 2011/012 it is slightly decreasing but overall it is in increasing trend. The average ratio is 2.71 percent. But the ratio of ‘BOK’ is in fluctuating trend for the study period. The average ratio is 3.16 percent. In comparison in the point of average ratio, ‘BOK’ has earned more profit than ‘NIBL’ in the term of providing credit and advances.
- The net profit to total assets ratio of ‘NIBL’ is in decreasing trend expect 2009/010. The average ratio is 1086 percent. But the ratio of ‘BOK’ is in fluctuating trend for the study period. The average ratio is 2.20 percent. In comparison in the point of average ratio, ‘BOK’ has earned more profit than ‘NIBL’ in the term of providing total assets.
- The average interest income to credit and advances of the ‘NIBL’ is 11.44 percent. Ratio of ‘NIBL’ in increasing trend. Average interest income to credit and advances ratio of ‘BOK’ is 11.26 percent, in terms of the average ratio ‘NIBL’ has best performance.
- The average shareholder’s income per share (EPS) of ‘NIBL’ is Rs. 42.90 percent and ’BOK’ is Rs. 48.02 percent. Average EPS of ‘BOK’ is higher than ‘NIBL’. Thus, BOK is in good level.
- P\E ratio of ‘NIBL’ is in decreasing trend expect 2011/012. The average ratio is 24.91 percent. The ratio of ‘BOK’ is also in decreasing trend expect 2011/012 for the study period. The average ratio is 24.29 percent. In comparison in the point of average ratio, the average P\E ratio of ‘NIBL’ is higher than ‘BOK’.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

As the final chapter of the study, this chapter briefly explains the summary of the study, tries to fetch out findings and conclusions and attempts to offer suggestions and recommendations for strengthen the financial position of the sample banks.

5.1 Summary

Development of any nation depends on capital invested and mobilized in productive sectors like industries, trade and business of every corners of the country .in fact, the development of economy of the world is this result of substantial investment in such productive sectors in order to boost up the economy and the social life of any country. It is extremely essential to have a mechanism through which small amount of saving can be collected and transferred into efficient uses. Hence, finance plays a vital role and thus contributes in the economic development of nation and the banks provide such financial services.

The basis of business is borrowing from individuals, firms and occasionally government i.e. receiving deposit from them with these resources and bank’s own capital, banks disburse loan or extend credit and also invest in securities. Bank is an institution, which deals with the transaction of money. They perform several financial monetary and economic growth of the country.

At present, 32 commercial banks have been operating in Nepal. After the adaptation of liberal policy by the government in 1990 number of the banks and financial institutions are increasing day by day. They have been providing high quality banking services to the people. There is highly competition between banks and financial institutions.

This research has been under taken to evaluate the credit management of commercial banks. Two banks ‘NIBL’ and ‘BOK’ are under the study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introductions review of literature, research methodology, presentation and analysis of data, summary, conclusion and recommendation. This study based in secondary data, which include published annual report and other publication of banks, other related information was gathered for from the concerned banks. The data have been analyzed by using financial and statistical tools.

5.2 Conclusion

- The study shows that over the period, NIBL has higher liquidity position and ability to cover the deposit.
- The Average cash and bank balance to current deposit of NIBL is higher than BOK. Therefore NIBL has in a cash and bank balance to cover its deposit demand.
- According to the average credit and advances to total deposit ratio of ‘BOK’ and ‘BOK’ is successful to utilize the outside funds for profit generating purpose on credit and advance.
- The Average credit and advances to fixed deposits ratio of ‘NIBL’ is 264.44 percent, standard deviation is 51.79 percent and coefficient of variance is 0.2 percent and the credit and advances to fixed deposits ratio of ‘BOK’ is 278.70 percent, standard deviation is 45.27 percent and coefficient of variance is 0.16 percent.
- The Average credit and advances to total assets of ‘BOK’ is higher. Therefore BOK has been able to mobilize its fund through landing function.
- The Average performing assets to total assets ratio of ‘BOK’ has good is increasing.
- The average non-performing credit to total credit and advances of ‘BOK’ is in stronger position than NIBL because NIBL has lesser than BOK.

- Credit loss provision to credit and advances ratio ‘NIBL’ and ‘BOK’ both are in decreasing trend. So the decreasing credit loss ratio indicates efficient credit policy and gradual increment on the performance of the company. According from that NIBL has good quality of asset in total volume of loan and advance.
- The average total asset to net worth (equity) ratio of ‘NIBL’ is 12.71 times and ‘BOK’ is 11.72 times. Therefore we can conclude one the based of mean NIBL is better conditions and based on CV BOK is low risky than NIBL.
- The average net profit to credit and advances ratio of ‘BOK’ is higher than 'NIBL it indicates that BOK has good relationship between net profit to credit and advance ratio.
- The average net profit to total assets ratio of ‘BOK’ has well management to uses all assets in the business to generate an operating surplus.
- The average interest income to total credit and advances ratio of ‘NIBL’ has higher average ratio than BOK therefore we can conclude that NIBL has best performance. Banking sector is seriously affected by the non-performing loan increasing; the overall banking business will be affected so provision amount will increases and profit will decreases. So, it is suggested that both banks (‘NIBL’ and ‘BOK’) to be sincere while granting credit and to do effective follow-up for recovery of non-performing loan.
- The average shareholder’s income per share (EPS) of ‘NIBL’ is Rs.42.90 and ‘BOK’ is Rs.48.02. It show that both bank has satisfaction level.
- The average price earning (P/E) ratio of ‘NIBL’ is 24.91 times and ‘BOK’ is 24.29 times.

5.3 Recommendation

On the basis of the major findings drawn and the conclusion arrived, the following recommendations can be provided to the banks for having sound credit management.

- Cash and bank balance of the both banks (‘NIBL’ & ’BOK’) are enough. Bank’s efficiency should be increased to satisfy the demand of depositors at low level of cash and bank balance. Unused cash and bank balance don’t provide return to the bank therefore some percentage of the cash and bank balance should be invested somewhere in profitable sectors.
- As there is nearly same level of Total credit and advance of both bank. So both banks are recommended to increase their total deposit to make more credit and advances.
- There is also slightly high level of average ratio of interest income and credit and advances of ‘NIBL’ than ‘BOK’. So, both banks should increase their credit and advances to earn more interest.
- Both of the banks need to have sound credit management policies to minimize the credit risk.
- Both NIBL and EBL should try to reduce the impact of non-performing loan on the financial health by having quick recovery policy, and monitoring the activities of the borrower.
- Both bank should adopt the strong credit policy while granting credit to effective follow-up for recovery of non-performing credit.
- Banks should do lot exercise in more credit creation banks should regularly follow the credit customer to confirm that whether the customers have utilized their credit for the same purpose committed at the time of taking credit from the bank. Bank should strictly bank the policy of nepotism and favoritism. On the basis of capability and efficiency, employee’s recruitment, placement and promotion should be executed.

- Banks should reduce the interest rate for credit and advances. This will help them to maintain more competitive. Bank could do better by offering modern banking facilities and new product for the development of naming industry.

Other recommendation for the achievement of target goals and objective of commercial banks. From above study, analysis and observation with facts we must conclude with a reasonable realistic solution. Some of important and valuable suggestion for strength of commercial bank establishment, sustainable growth. Commercial banks have to canalize fund by gradually for capital formation in the country. Commercials banks from urban areas to rural areas, where they can collect.

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