CREDIT MANAGEMENT OF NEPAL

INVESTMENT BANK LIMITED

A Thesis

Submitted By:
SHOBHA DEVI POKHAREL
Nepal Commerce Campus
T.U. Reg. No: 7-2-2-1238-2004
Campus Roll No: 525/064
Exam Roll No: 251640/067

Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the Requirement for the Degree of
Master of Business Studies (M.B.S)

New Baneshwor, Kathmandu
September, 2012

VIVA – VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:
Shobha Devi Pokharel
Entitled:

"CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK"

And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for

Master's Degree in Business Studies (M.B.S.)

Viva- Voce Committee

Head of Research Department: ……………………………

Member (Thesis Supervisor): ……………………………

Member (Thesis Supervisor): …………………………….

Member (External Expert): …………………………….

RECOMMENDATION

This is to certify that the thesis:

Submitted by:
Shobha Devi Pokharel

Entitled:
“CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK”

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

……..………………………..	…..………………..
Dr. Sushil Bhakta Mathema	**Madhav Prasad Neupane**
(Head,Research Department)	**(Campus Chief)**
………………………..	……………………
Balan Kumar Rajbanshi	**Mahendra Aryal**
(Thesis Supervisor)	**(Thesis Supervisor)**

DECLARATION

I hereby declare that the work done in thesis entitled**"CREDIT MANAGEMENT OF NEPAL INVESTMENT BANK"** has been submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my own created work reported in the form of partial fulfillment of the requirement of Master's of Business studies (M.B.S.) course under the guidance and supervision of Mahendra Aryal and Balan Kumar Rajbanshi of Nepal Commerce Campus, Tribhuvan University.

Shobha Devi Pokharel
Researcher

ACKNOWLEDGEMENT

This entitled thesis "Credit Management of Nepal Investment Bank Limited" has been prepared for the partial fulfillment of the requirement of Master s Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University, is based on research models involving the use of quantitative as well as qualitative aspect of Credit Management.

I express my sincere gratitude to all the authors and learned personalities, whose writings have been cited in this study. I extend my deep sense of indebtedness to my respected supervisor Mahendra Aryal and Balan Kumar Rajbanshi, Associate professor of Nepal Commerce Campus. I am extremely indebted by his efforts despite of his busy schedule.

I am very much grateful to the Relationship Manager and Officers of Investment Bank Limited, for their kind co-operation in the research work. It was great opportunity for me to learn things from them where I could have valuable experience.

I am also indebted to my teacher of Nepal Commerce Campus for their encouragement and suggestions. I am thankful to the staffs of Nepal Commerce Campus, Shanker Dev campus,and Central Library(TU).

Shobha Devi Pokharel
Nepal Commerce Campus

TABLE OF CONTENTS

LIST OF TABLE

LIST OF FIGURE

ABBREVIATION

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

CHAPTER-I
INTRODUCTION

1.1 Background of the study:

Nepal lies in between two large and popular countries China in the North and India in the south. It is a landlocked and mountainous country. The Nepalese economy is predominantly an agricultural economy. About 80percent of the population is engaged in the agriculture sector whereas about 86 percent of the population lives in the rural sector of the country. Agricultural sector contributes 40 percent to Gross Domestic Product (GDP) of the country. As most of the labor forces are unemployed, it is necessary to transform the huge labor forces in to industrial sector. Only few percentage of total population is involved in industrial sector and services sector. Here 38% 0f the population was found to be living below poverty line.

For the development of any country, the financial sector of that country is responsible and must be strong. Financial sector comprises of bank, co-operatives, insurance companies, financial companies, stock exchange markets, mutual funds etc. Financial institutions play a major role in the proper functioning of an economy.These institutions collect idle & scattered money from the general public & finally invest in different enterprises of the national economy that consequently help in increasing employment opportunities, increasing in life style of people, reducing poverty and thereby developing the society and the nation as a whole.

Nepal has been facing the problem of accelerating the pace of economic development. Economic development of a country depends upon the upliftment of the rural people through increasing their productivity thereby raising their incomes, which ultimately help them to cross the poverty line. The commercial banking system in Nepal is still in its infant stage as compared to other developed countries. However, their important role in the economic development of the country has been fully realized and these banks are being oriented in their activities best suited for the overall economic development of a country.

For the upliftment of the rural people and economic development of a country as a whole, the government has initiated different priority sector lending programs focusing for poverty alleviation. the priority sector lending programs were area based or target group oriented, need based and complementary, timely and consistent with the national goals and suited to the specific needs of Nepal's rural economy.

Banks play a significant role in the development of a country. Bank is a financial institution, which maintains the self-confidence of various segments of society and extends credit to the people. The financial institution is an indispensable part for the upliftment of a country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange and foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country.

1.2 Origin of Bank in Nepal

The history of modern financial system of Nepal was begun in 1994 B.S, with the establishment of the Nepal Bank Ltd. (NBL) as the first commercial bank of Nepal with the joint ownership of government and general public. It was established under "special banking act 1993" having elementary function of commercial banks. Later, Nepal Rastra Bank (NRB) was established after 19 years since the establishment of the first commercial bank i.e. Nepal Bank Limited in 2013 B.S under "Nepal Rastra Bank act 2012" with an objective of supervising, protecting and directing the function of commercial bank activities. After the establishment of NRB, Nepal witnessed a systematic development of the financial system. After the restoration of democracy in 1991, Nepal has clearly been following a liberalized economic policy and witnessing diversification in financial system. As a result, various banking and non-banking financial institutions have come into existence. Then after in 2016 Nepal Industrial Development Corporation, in 2022 Rastriya Banijya Bank (RBB) under "Rastriya Banijya Bank act 2021" and in 2024 Agriculture Development Bank was established in Nepalese financial sector. Nepal Bank Limited and Rastriya Banijya Bank are the two major commercial banks in Nepal that are providing credit under different

Priority Sector Credit Programs in rural areas from their initial stage. They have contributed a lot in the upliftment of rural people and socio- economic development of a country. As both banks are established as public enterprises in the development of a country, they have main objectives to maximum social benefit rather than profit maximization as profit making motive is their secondary objectives. The financial scenario has changed to a new horizon with the established of joint venture bank in the year 2041 B.S. The efficient operating practice and policy adopted by these joint venture banks helps Nepal to take a step in this banking field.

With the opening of Nabil bank in 1985 the door of opening commercial banks was opened to the private sector then whole lot of commercial banks was opened in Nepal. Today all the banks except Nepal Bank except Nepal bank Ltd and Rastriya Banijya bank are making profit. The efficiency of these two public sector banks has led to the success of other private banks.

Financial liberation took place in Nepal in the mid 1980 s then after bank innovates to remain in forefront. Better use of funds, easily availability of funds to the entrepreneurs, better returns to the depositors, professional approach towards customer s satisfaction. As the mid-Jan 2011, altogether there are 31 Commercial Banks, 87 Development Banks, 80 Finance Companies, and 21 Micro Credit Development Banks, 10558 saving and Credit Cooperatives and 47 NGOs functioning in the country. These financial institutions are under the regulation and supervision of the NRB. Besides these institutions, there are more than 1500 registered saving and credit cooperatives operating in the different part of the country and there are many NGOs involves in this sector.

1.3 Nepal Investment Bank Limited (NIB)

Nepal Investment Bank Ltd. (NIB), previously known as Nepal Indosuez Bank Ltd.) Was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIB) was credit Agricole Indosuez, a subsidiary of one largest banking group in the world.

With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank s Annual General Meeting, Nepal Rastra Bank and Company Registrar s office with the following shareholding structure. Rastriya Banijya Bank holds 15%, Rastriya Beema Sansthan holds 15%, General Public holds 20%, and the Nepalese promoters hold 50%.

We believe that NIB, which is managed by a team of experienced bankers and professionals having proven track record, can offer you what youre looking for.Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has seventin branches in Kathmandu Valley at the following locations:Putalisadak, NewRoad,Pulchowk(Lalitpur),Thamel,Kalimati,Dhumbarahi,Botahity,Laitpur,Tripureshwor,Battisputali,Gangabu,Lazimpat.Boudha,NewBaneshwor, Maharajgunj,Lagankhel, and Seepadol (Bhaktapur). In addition, the bank also has twentyfour other branches outside Kathmandu Valley in Banepa, Narayangarh, Birgunj, Janakpur, Jeetpur, Bhairawa, Biratnagar, Pokhara,Nepaljung,Butwal,ulsipur,damauli,Dhangadi,Krishnagar,Gaighat,surkhet,jumla,parsa,hetauda,Lalbandi,Palpa,Lukla,walingandBirtamod.Bank will be aggressively opening new branches at different parts of the Kingdom to serve its customers better. Recently bank has opened its new branch outside the valley in the Birtamod. Investment Bank Limited has always been committed to providing a quality service to its valued customers, being truly a Nepali Bank. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Investment Bank Limited has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The Bank already offers unique services such as the pre-paid mobile recharging system through its ATM, SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future. Recently it has brought a new scheme that every one can open its own savingAccount in Re. 1.00.

Table No 1.1

Capital Structure of Investment Bank Limited

Capital as at 2011	Amount in Rs '000'
Authorized Capital	4,000,000
Issued Capital	2409097.7
Paid up Capital	2409097.7

1.4. Focus of the Study

Although joint venture banks have managed credit than other local commercial banks within short span of time, they have been facing a neck –to-neck competition against one another. Among this joint venture banks, this research is based on mainly joint venture banks, namely

Everest Bank Limited Joint venture commercial banks play a tremendous role in a developed or developing nation also helps to improve the economic sector of the country. Typically, commercial banks main motive is to make profit by providing quality services to them customers. In Nepal, there exist 31 commercial banks realizing their services. The study focusn on evaluating the deposits utilization of the bank in terms of loans and advances and investments and its Commercial banks are the heart of financial system. They hold the deposit of money persons, government establishment and business. The study focuses on evaluating the deposits utilization of the bank in terms of loans and advances and investments and its contribution in the profitability of the bank. It also focuses on the contribution in the profitability of the bank. Commercial banks are the hear t of financial system. They hold the deposit of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowing individual s business firms and government establishment. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that commercial banking system of nation is important to the functioning of the economy.

Financial institution is currently viewed as catalyst in the process of economic growth of country. A key factor in the development of an economy is the mobilization of the domestic resources and intermediaries, the financial institution helps the process of resources mobilization. The importance of financial institutions in the economy has of late grown to an enormous extent. The government in turn is required to regulate their activities. So, the financial policies are implemented as per the requirement of the country.

Therefore, this researcher has focused this resource mainly to highlight and examine the credit management of the selected bank ignoring other aspects of bank transaction. To highlight the credit management of the bank, the research is based on the certain statistical tools i.e. mean with a view to find out the true picture of the bank. The main objective of this research is to analyze the credit management through the use of appropriate financial tool.

1.5. Statement of the problem:

Commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to the economic condition of the country, some of them arising due to confused policy of government and many of them arising due of default borrowers. After liberalization of economy, banking sector has various opportunities. Lending in industries and production sectors are very risky projects. Banks are investing in house loan, hire purchase loan, for safety purpose. Lack of lending opportunities, banks are facing problem of over liquidity. Nowadays banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays due to competition among banks, the interest rate change for loan is in decreasing trend. Non-performing assets have become a large problem in the commercial banks. Liquidity is maximum with the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Lack of good lending opportunities, banks is facing problems of over liquidity. Due to unhealthy competition among the banks, the recovery of the bank’s credit is going towards negative trends. Non-performing Credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, NRB has renewed its directives of the credit loss provision. In order to analyze the Credit Management of commercial bank following research problems are formulated.

- Is the bank mobilizations and credit Management effective and efficient?
- Is credit efficiency of NIB influences the profitability?
- What is the impact of deposit and loan advance in liquidity?
- What is the proportion of Non-performing Asset on total loans and advances of the bank?
- Is NIB maintaining lending efficiency?
- What is the situation of total loans and advances with total deposit and its net profit?

1.6. Objective of the Study

Undoubtedly, the role of commercial bank in mobilizing and utilizing scattered resources of nation is praiseworthy one-.The basis objectives of the study are to have true insight into the credit management aspects of Nepal investment Bank. This aims to examine its efficient in effectiveness, systematization and sincerity in disbursing and recover y loan as well within the directives of NRB, Financial institution act and its own policy.

The main objective of this study is to evaluate the credit management of Nepal Investment Bank Limited. Besides, there may be other objectives as well.

1. To examine the impact of deposit in liquidity.
2. To examine and evaluate the various stages occurred in loan management procedure.
3. To analyze the lending efficiency of the Nepal Investment Bank Limited.
4. To examine the assets management efficiency and portfolio ratios of Nepal Investment Bank Limited.

1.7. Need of the Study

The needs of the study are:

1. The study will give a clear picture of financial position of the company under study.
2. This study will provide information to those who are planning to invest in Nepal Investment Bank Limited.
3. With the help of the report of this study, the management may

applycorrective measures for the improvement of the bank's performance

4. The policy formulates of the bank may gain something with the help of the result of this study.
5. The study will help general public to know about the overall financial position of The Nepal Investment Bank Limited.
6. After the completion, this report will be kept in the library, which plays the role of reference to the students making the similar study in future.

1.8. Limitations of the Study

The studies being the partial fulfillment of master degree in business studies has the following: Being a student, lack of the sufficient time resources are the major limitations. Proper information and data are not available. Therefore the study has been conducted as partial fulfillment of the requirement for the "Master of Business Study" of management faculty of T.U.

1.9. Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of literature

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

Chapter-III: Research Methodology

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

Chapter-IV: Presentation and Analysis of data

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

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

CHAPTER - II
REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted or done. In other words it s just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one s chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

We study the review of literature in dividing two headings:

Conceptual Review

Review of related Studies

2.1 Theoretical /Conceptual Review

2.1.1 Concept of Bank

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

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

Paget state that no one can be a banker who does not take deposit accounts, take current accounts, issues and pay cheques of crossed and uncrossed, for his customers. He further adds that if the banking business carried on by any person is subsidiary to some other business he cannot be regarded as a banker (Paget, 1987).

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

2.1.2 Concept of Commercial Bank

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

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

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

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

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

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

2.1.3 Functions of Commercial Banks

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

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

i) Assist in foreign Trade:

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

ii) Offers Investment Banking and Merchant Banking Services:

Banks today are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing

in security underwriting, providing strategies marketing advice and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rate. In this way they support the overall economic development of the country by various modes of financing.

2.1.4 Concept of Credit

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

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified on demand. Banks generally grants credit on four ways (Chhabra and Taneja, 1991).

Overdraft

Cash Credit

Direct Credit

Discounting of Bills

2.1.5 Types of Credit

Overdrafts:

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

Cash Credit:

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

Term Credit:

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

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

Working Capital Credit:

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

Priority or Deprived sector Credit:

Commercial banks are required to extend advances to the priority and deprived sector 12% of the total Credit must be toward priority sector including deprived sector. Rs.2 million for agriculture cum service sector and Rs.2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to “Agriculture Development bank” and “Rural Development Bank are also considered under this category. Deprived sector lending includes:Advancesto poor/downtrodden/weak/deprived people up to Rs 30,000 for generating income or employment.

Institutional Credit to Rural Development Bank.

Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs.30, 000.

Hire Purchase Financing (Installment Credit):

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

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

Housing Credit (Real Estate Credit):

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

Project Credit:

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

Consortium Credit:

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

Credit Cards and Revolving Lines of Credit:

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

Off-Balance Sheet Transaction:

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

Bank Guarantee:

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

Letter of Credit (L/C):

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

2.1.6 Objectives of the Sound Credit Policy

The purposes of a written credit policy are:

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

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

2.1.7 Lending Criteria

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

i. Character

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

Memorandum and Article of Association

Registration certification

Tax registration certificate (Renewed)

Resolution to borrow

Authorization-person authorizing to deal with the bank.

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

ii. Capacity

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

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

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

iii. Capital

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

iv. Collateral

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

v). Conditions

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

2.1.8 Features of Sound lending Policy

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

(A) Safety

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

(B) Liquidity

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

(C) Purpose

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

(D) Profitability

Equally important is the principle of profitability in bank advances. Like other commercial institutions, banks must make profit. They have to pay interest on deposits received by them. They have to incur expenses on establishment, rent, stationery, salary and other operating expenses so on. They have to make provision for depreciation of their fixed assets, and also for possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made; otherwise, it will not be possible to carry anything to the reserve of pay dividend to shareholders. It is after considering all factors that a bank decides upon its lending rate.

(E) Collateral/Security

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

(F) Legality

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

(G) Spread

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

(H) National Interest

Even when an advance satisfies all the aforesaid principles, it may still no be suitable. The advance may run counter to national interest. It in the changing concept of banking factors such as purpose of the advance, viability of the proposal and national interest are assuming greater importance than security, small borrowers and export-oriented industries

2.1.9 Principle of Credit Policy

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

i. Principle of Safety Fund

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

ii. Principle of Liquidity

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

iii. Principle of Security

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

iv. Principle of Purpose of Credit

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

v. Principle of Profitability

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

vi. Principle of Spread

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

vii. Principle of National Interest

In lending and granting advances, interest of nation should not be distorted (if undermined).Priority and deprived sector of economy and other alarming sector should be given proper emphasis while extending advances. Every Bank should always follow the rule “Do not put your all eggs in the same basket”. So every bank makes appropriate portfolio in their investment the credit management would be excellent.

2.1.10 Lending / credit process

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

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

Loan application

Citizenship certificate of applicant

Firm/ company registration certificate (if self employed)

Income tax registration certificate (if self employed)

Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company

Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named.

Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.

Feasibility report/scheme (for new project)

Lending appraisal and possessing

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

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

The bank tries to ascertain the following during loan processing:

- The cost of estimate us examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.

- Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.

- The return rates should be adequate like return on investment

(ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).

- The capacity, competency, integrity and commitment of promoters/partners/proprietors/directors/personnel should be intact.

- SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

2.1.11 Right of Commercial Banks against Breach of Lending Agreement

A commercial bank reaches a decision as to whether it should provide loan and advances or not. After many discussions between the person or the businessmen who comes with a proposal of loan to the commercial bank and bank while carrying out any banking transaction, the bank and customer should follow the law, policy and instructions. The concerning law means, the Nepal Rastra Bank Act 2058 (2002) Commer cial Bank Act 2031(1974) so on. Under section 47.A of the Commercial Bank Act 2031 (1974) the bank has been following rights and power to recover the loan: -

- The bank may write to the appropriate office for registration or transfer, in accordance with prevailing law, of the assets auctioned by it pursuant to this section in the name of the person whose bid has been approved.

- The concerned office shall do the registration or transfer if it receives such written request from any commercial bank for registration or transfer of assets pursuant to sub-section (5) of section 47 A. of the Commercial Bank Act 2031(1974).

- In case no one offers a bid in an auction held by a bank pursuant to this action, the bank may take over the ownership of such assets, and in such situation, government offices must register or transf er those assets in their records as notified by the bank.

- If any person, institution or industr y fails to comply with the terms of agreement or any terms regarding loans and advances, with the bank, or fails to repay loans to the commercial bank within the time limit stipulated in the documents, or incase the bank finds through investigation that any person, institution or industries concerned has not invested the amount of the loan and advance for the concerned purpose, or has misappropriated in the documents or notwithstanding anything mentioned in prevailing law the bank may auction or otherwise dispose of any property pledged to it, or the security deposited with it, and thus recover the principal and interest.

- If the borrowing person, institution, or industry concern relinquishes in any manner title to the property pledge to the commercial bank as collateral, or in case the value of such collateral declines due to any other reason, the commercial bank may, not with outstanding anything mentioned in prevailing law, ask the concern to furnish additional collateral within a period specified by it. In case the concerned person, institution or industry concern fails to furnish additional collateral within the specified time limit, the commercial bank may recover its principal and interest by auctioning or otherwise disposing of the collateral pledged to it.

- If principal and interest can t be recover ed through the auction sale of the collateral pledge to the bank pursuant to subsection (1) and (2) section 47.A of the Commercial Bank Act 2031(1974), the bank may recover the balance by auctioning the other assets of the concerned person, institution or industries concern.

- The amount of principal and interest, and expenses incurred in auction, or in other kind of disposal shall be deducted from the amount raised through the auction or disposal otherwise of assets pursuant to this section and the balance shall be refunded to the concerned person, institution, or industry concern.

- In case a complaint is field to the effect that the person who is required to relinquish the assets after their transfer under sub-section (6) and (7) of section 47.A of the Commercial Bank Act 2031 (1974) of the has created any obstacle or used force while the concerned person or the commer cial Bank Act 2031 (1974) bank itself seeks to utilized such assets, action shall be taken according to prevailing law to have possession in the assets.

2.1.11 Project Appraisal

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

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

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

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

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

1. Credit classification and provisioning

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

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

Sub standard credit are those credit which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months from the time to be recovered are classified as doubtful credit. Those cr edits, which are not recovered yet after 1 year from maturity date, are known as bad credit. All the above 3 types of credits are classified

as non-performing credit also. The credit loss provision for performing credit is termed as general credit loss provision whereas the credit loss provision for non- performing credit is termed as specific credit loss provision.

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

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

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

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

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

Group of related customer:

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholders with others in a single house, even if husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried

daughter, father, mother, stepmother, brothers and sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.

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

2.2 Review of NRB Directives

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

NRB has issued various directives in order to develop a healthy, competitive and secured banking and economic system to ensure national development. The new, updated and comprehensive set of directive has been issued on 2067-03-29 and is effective from 2067-04-01. While some of them are collections of existing directives, some other is new additions.

It can be safely assumed that with the updated and comprehensive set of directive, the functioning of commercial banks would be more transparent and systematic. The new and updated directive which is related with lending are briefly discussed below:

Capital Structure of Banks:

The current regulation of NRB prescribes that all the new commer cial banks are to beestablished in Kathmandu at national level should have minimum paid up capital Rs.2000 million; the existing banks in operation are required to enhance the capital level to Rs.2000 million by theend of FY 2067/68 BS. For this purpose and objective all the commercial banks have furnished their plans to enhance the level of capital accordingly. With effect from fiscal year 2064/65, the commercial banks need to have minimum of capital adequacy as below:

Table No 2.1
Maintenance Minimum Capital Fund

Time Table	Required Capital on the basic of Risk Weight assets	
	Core capital	Capital Fund
For FY 2064/65	5.5%	11%
For FY 2065/66	6.o%	12%
For FY 2066/67	5%	11%

It is to be noted that capital fund comprises of both primary capital and supplementary capital. Similarly the risk-weighted assets will include both on-balance sheet items and off –balance sheet items. Standard format and weighted percentage is given in the directive itself and commercial bank need just to fill the columns to see whether required percentage is maintained or not.

General Loan Loss Provision

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

Table No 2.2
General Loan Loss Provision

Time Period	Loan Loss Provision available for Supplementary Capital
For FY2061/62	Pass, Sub-Standard and Doubtful
For FY 2062/63	Pass, Sub-Standard
For FY 2063/64	Pass (Up to 1.25% of total risk weighted assets)
For FY 2065/66	Pass (Up to 1.25% of total risk weighted assets)
For FY 2066/67	Pass (Up to 1.25% of total risk weighted assets) and so on

Classification of outstanding loan and advances on the basis of aging

From the effective Fiscal year 2061/62, banks should classify outstanding amount of Loans and Advances on the basis of aging. Loan and advantages should be classified into the following
Four categories:

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

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

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

4. Loss Loans
All loans and advances which are past due for a period of more than one

year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be include in this category.

Provision for good loan

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

Additional arrangement for "Loss" Loan Provision

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

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

Additional arrangement in respect of term loan

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

Loan Loss Provision Policy

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

Table No 2.3

Loan Loss Provision Policy

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

Additional Provisioning for Personal Guarantee Loans

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

Rescheduling and restructuring of Loan

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

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

of business ethics

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

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

Loss Loan Provision for Priority Sector Lending

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

Table No 2.4
Loss Loan Provision for Priority Sector Lending

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

2.3 Review of Related Studies

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

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

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

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

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

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

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

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

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

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

2.4 Review of Thesis

This dissertation has been written after studying various books journals article website and previous thesis. I here comprise the some previous thesis review, which are mainly concerned about financial performance and fund mobilization policy, lending practices and investment policy, credit management and loan management of commercial bank. Paudel, P. (2001) in his Thesis “A study on lending practices of joint venture commercial banks with reference to Nepal Bangladesh Bank Ltd (NBBL) and Himalayan Bank Ltd. (HBL)" has made comparative study of these two banks in different lending aspects and strategies.

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

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

Ojha, L. P. (2002) in his dissertation about "Lending Practices" has written that the commercial banks have to expand their credit in the area if rural economy so as to compromise between the liquidity and credit need such economy. This helps in minimizing the idle find in business and at the same time contribute to the national economy. The banks should also increase the volume of credit in the sector of agriculture as the ratio of contribution made by the banks in this priority sector is decreasing.

Researcher has found out that following the normal guidance of Nepal Rastra Bank and acting upon reduces many on the credit risk arising from borrower s defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers, and professional defaulter. The over confidence of commercial banks regarding credit appraisal efficiency and negligence taking information from Credit Information Bureau has caused many of the bad debts in these banks. He thinks that these banks have to follow the directives of NRB strictly and be more cautious and realistic while granting loans and advances.

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

Joshi, S. (2003) In "A Comparative Study on Financial Performance of Standard Chartered Bank Nepal Limited and Everest Bank Ltd" states that the mean current ratio of EBL is slightly higher than that of the SCBNL and the variability of ratio of EBL is more consistence than SCBNL in comparison. The mean ratio of cash and bank balance to total deposit of SCBNL is lower in comparison to EBL. SCBNL has better liquidity position than EBL because of the high volume of liquidity indicated the inability of the bank to mobilize its current assets. Moreover SCBNL s ratios are homogeneous than EBL. The mean ratio of cash and bank balance to current assets of SCBNL is lower in comparison to EBL. Similarly, SCBNL s ratios of the study period are more consistent than EBL. The mean ratio of loan and advances to total deposit of EBL is higher than SCBNL. It can be said that EBL used to provide greater loan and advance in comparison to its total deposit than SCBNL. Likewise, SCBNL s ratio seems to be variable them EBL. The mean ratio of investment on government securities to total working fund of SCBNL is higher than EBL. Consequently, it has consistency in maintaining the ratio than EBL. The mean ratio of return on loan and advances of SCBNL has found to be significantly grater than EBL with more consistency than that of EBL. The mean ratio of credit risk of SCBNL is lower than that of EBL s ratios are more consistent than that of SCBNL. Growth ratio of deposit are more consistent than that of SCBNL is lower i.e. 19.28% in comparison to EBL i.e. 76.46%.

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

Regmi, P. (2004) in the study Entitled “Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Kathmandu” states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks and spreading over the risks to various portfolios. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an assets guarantee. The assets guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421.3millions (76.1% of total credit) and in the last period it is 3347.99millions (58.2%of total credit).

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

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

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

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

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

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

Misra, S. (2007) entitled her Thesis “Credit management of Everest Bank

Limited" illustrate that liquidity position, cash reserve ratio shows the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain good financial condition.
Cash and bank balance to current assets ratio shows that the bank s sound ability to meet the daily cash requirement of their customer's deposit. That is why liquidity position of the bank is the better.

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

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

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

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

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The main objectives of the research study are to evaluate various financial ration of the Nabil Bank, To analyze the portfolio of lending of selected sector of banks, To determine the impact of deposit in liquidity and its effect on lending practices and To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

2.5 Research Gap

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

In this study of credit management of Nepal Investment Bank Limited is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of Sunita Misara, (2007) "Credit management of Everest Bank Limited" has not use correlation, probable error and trend analysis. Ram Limbu (2008) "Credit management of NABIL Bank Limited" has done using all financial as well as statistical tools. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit management of Bank and financial institutions.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

A research design is a plan for the collection and analysis of data. If presents a series of guide posts of enable the resear cher to progress in the right direction in order to achieve the goal. The Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The r esearch design then focuses on the data-collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying

3.3 Sources of Data

The research is based on primary as well as secondary source of data. Even though adequate data are collected from secondary sources.

a) Primary Source:

The way of data collection is by making questionnaire and distributed to the credit department of the concerned banks and also to the clients of the bank.

b) Secondary Source

Secondary data are mostly used for this research purpose. The major sources of secondary data are as follows

Annual Report of Nepal Investment bank
NRB directives.
Economy survey of Government of Nepal and Ministry of finance.
Newspaper, journals, articles and various magazines.
Dissertation of Central Library of T. U. and Library of Shanker Dev Campus.

3.4 Population and Sample

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. A small portion chosen form the population for studying its properties is called sample. The researcher cannot normally survey everyone in the population so a small part of the total population is taken to represent the total population. Hence, a sample is a collection of items or elements from a population or universe. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection on part of the population on the basis of which a judgment or inference about the universe is made (Sharma
and Chaudhary, 2058:171-173).

Here, the total 31 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here Nepal Investment Bank Limited has been selected as sample for the present study. Likewise, financial statements of five years (beginning from 2006/7 to 2010/11) are selected as samples for the purpose of it.

3.5 Data collection procedure:

Especially the annual report of Nepal Investment bank limited and the website of concern Bank limited are taken as main source of data collection for purpose of study. NRB publication such as economic report and bulletin, banking and financial statistics, annual report of NRB etc. other main source is website of NRB and web site of Nepal share market. Most of the data and substance are obtain from above source.

3.6 Method of Data Analysis Technique

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

1. Financial Analysis.
2. Statistical Analysis.

3.6.1 Financial Tools

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

3.6.1.1 Ratio Analysis:

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

The relationship between two accounting figure, expressed mathematically is known as financial ratio. The technique of ratio analysis is part of the whole process of analysis of financial statement of any business and industrial company especially to tame output and credit decision. 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. Thus ratio analysis is useful to evaluate, judgment and taking appropriate decision.

A. Liquidity Ratio:

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

i. Cash Reserve Ratio

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

Cash Reserve Ratio=Cash and bank balance/Total deposit

ii. Cash and Bank Balance to current Assets Ratio

Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the current assets. Higher ratio indicates the banks sound ability to meet the daily cash requirement of their customer's deposit. So bank has to maintain cash and bank balance to current assets ratio properly.

Cash and bank balance to current assets ratio=Cash and bank balance/ Current assets

iii. Cash and Bank Balance to Interest Sensitive Deposit Ratio

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

Cash and bank balance to interest sensitive deposit ratio=Cash and bank balance/sensitive deposit

B. Activity Ratio:

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

i. Credits 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. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former on includes all the deposits.

Credit and Advances to Fixed Deposit Ratio=Credits and Advances/ Fixed Deposit

ii. Credits Advances to Total Deposits Ratio:

It is also known as loan advance to total deposit 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.

iii. Credit and Advances to Total Assets Ratios:

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

iv. Non-Performing Assets to Total Assets Ratio:

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

Non-performing assets to total assets ratio= Non-performing assets/ Total Assets

C. Leverage Ratio:

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

i. Total Debt to Equity Ratio:

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

Total Debt = long term Debt + current liability

Total Debt to Equity Ratio = Total Debt/
Equity ×100%

ii. Total Debt to Total Assets Ratio:

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

Total Debt to Total Assets Ratio = Total Debt
Total Assets × 100%

iii. Total Assets to Net worth Ratio:

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

Total Assets to Net Worth Ratio = Total Assets/
Net Worth × 100%

E. Profitability Ratio

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

i. Net Profit to Gross Income Ratio

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

Net Profit to Gross income ratio= Net profit/ Gross income

ii. Interest Income to Total Income Ratio

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

Interest income to total income ratio = Interest income/Total income

iii. Operating Profit to Loan and Advances Ratio

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

iv. Return on Loan and Advances Ratio

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

v. Net Profit to Total Assets

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

vi**. Earning per Share (EPS)**

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

Earning per share = Profit after tax/ No. of common share

vii. Price Earning Ratio

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

D. Lending Efficiency Ratio

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

i. Loan Loss Provision to Total Loan and Advances ratio

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

Loan loss provision to total loan and advances = Loan loss provision/Total loan and advances

ii. Non-Performing Loan to Total Loan and Advances

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

Non-performing loan to total loan and advances = Non-performing loan/ Total Loan and advances

iii. Interest Expenses to Total Deposit Ratio

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

Interest Expenses to Total Deposit Ratio= Interest Expenses/Total Deposit Ratio

3.6.2. Statistical Tools:

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation and diagrammatic cum pictorial tools have been used under it.

Arithmetic Means (average):

Arithmetic mean also called „the mean or „ average as most popular and widely used measure of central tendency. Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the birds'eye view of the huge mass of a widely numerical data. It is calculated as:

$$X = \frac{1}{n}\sum_{i=1}^{n} X1$$

Where:

X = mean value or arithmetic mean

$\sum_{i=1}^{n} X1$= sum of the observation

N = number of observation

Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no

serious effect on the dependent.
Formula

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

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\sum X_1X_2$ = No. of Product observation and Sum of product X and X

$\sum X_1X_2$ = Sum of Product X_1 and sum of Product X_2

i. Coefficient of variation (c.v.):

The coefficient of variation is measures the relative measures of dispersion, hence capable to compare two variables independently in term of variability.

$$c.v = \frac{\pm}{x} * 1oo$$

± = Standard deviation

x = sum of the observation

ii. Probable Error:

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

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

Here,

r = Correlation coefficient

N = Number of pairs of observations

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

Times series Analysis

Time series is used to measure the change of financial, economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a series of data is represented by the following formula.

$Y = a + bx$

Here,

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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

4.2 Financial Statement Analysis

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

4.2.1. Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short- term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations.

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

(i) Cash and Bank Balance to Total Deposit Ratio

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

$$\textit{Cash and Bank balance} = \frac{\textit{Cash and Bank balance to Total Deposit}}{\textit{Total Deposit}}$$

Table No 4.1

Cash and Bank Balance to Total Deposit ratio

(Amount in million)

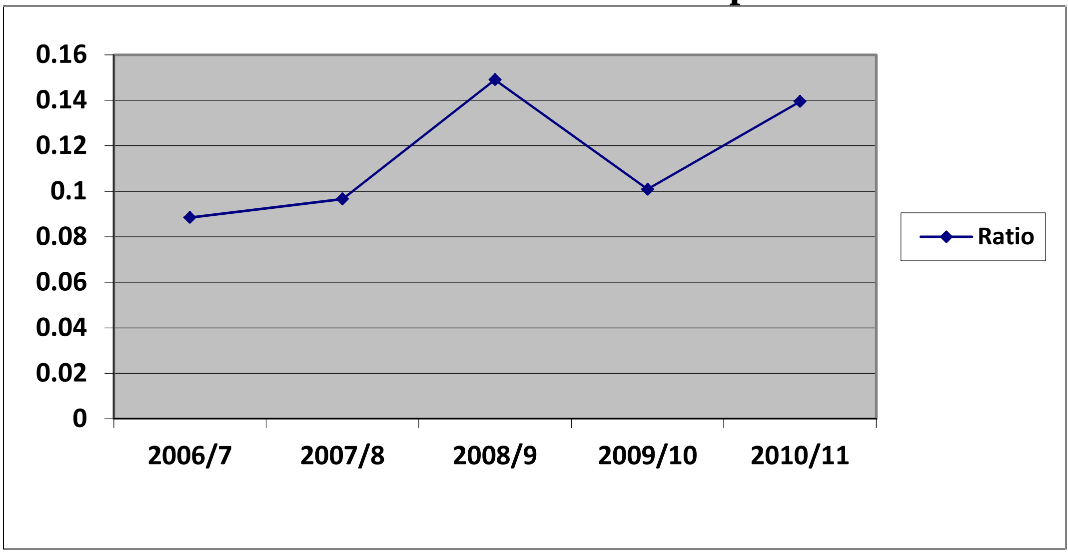
Year	Cash and Bank Balance	Total Deposit	Ratio(Times)
2006/7	2441.514	27590.84	0.0885
2007/8	3754.94	38873	0.0966
2008/9	7918.004	53010	0.149
2009/10	5779.745	57305	0.1009
2010/11	8140.371	58357	0.1395
Mean			0.1149

Source: Annual Report of Nepal Investment Bank

In above table shows that the cash and bank balance to total deposit ratio of NIB is in fluctuating trend. The ratios are 0.0885, 0.0966, 0.149, 0.1009 and 0.1395 respectively. The average mean ratio is 0.1149 times in the study period. The highest ratio is 0.149 times in year 2008/9 and the lowest ratio 0.0885 times in year 2006/7. These all ratio shows that the bank is maintain the good liquidity position of the bank. These ratios show low liquidity position of the bank. Therefore, it shows that the bank much utilization of resource. Cash reserve ratio in year 2008/9 is 14.9% and only 8.85% in 2006/7. It's show the optimum utilization of resource by NIB bank. Cash & bank balance to total deposit ratio is shown in the following graph.

Figure No. 4.1

Cash and Bank Balance to Total Deposit Ratio



i) Cash and Bank Balance to Current Deposit Ratio:

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

Cash and Bank balance to Current Deposit= Cash and Bank balance/Current Deposit

Table No 4.2

Cash and Bank Balance to Current Deposit Ratio

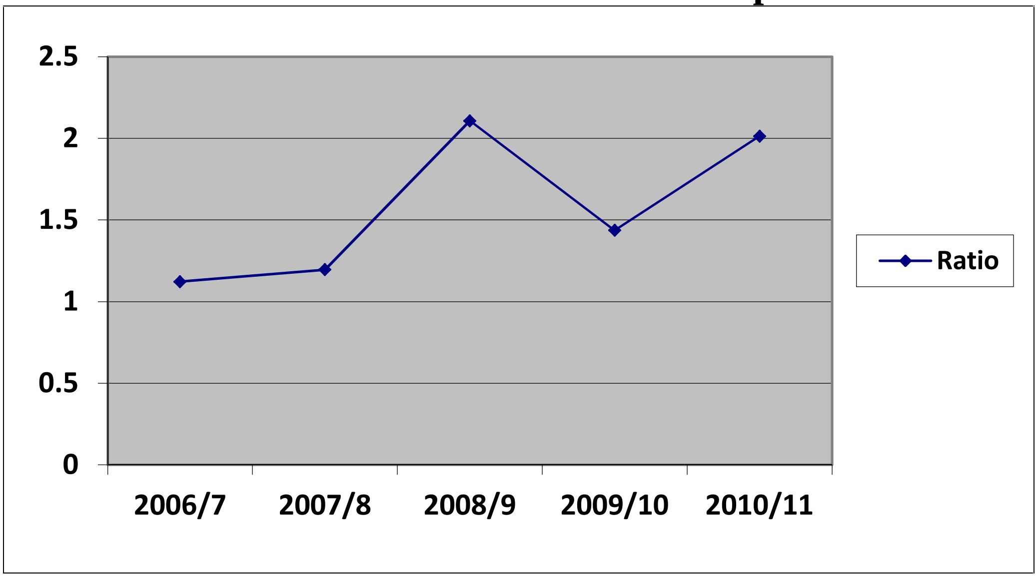
(Amount in Million)

Year	Cash and Bank Balance	Current Deposit	Ratio(Times)
2006/7	2441.514	2175	1.122
2007/8	3754.94	3139	1.196
2008/9	7918.004	3757	2.107
2009/10	5779.745	4026	1.436
2010/11	8140.371	4043	2.013
Mean			1.575

Source: Annual Report of Nepal Investment Bank

Above Table shows the calculation of Cash and bank balance to current deposit of NIB. The ratios are 1.122, 1.196, 2.107, 1.436 and 2.013 times respectively from the first year to last year of the research period. The mean average calculation is 1.575 times, which means consistency in this ratio during the research period. Cash and bank balance would sufficient to meet the demand of current depositors. Therefore, here seems to be making more cash and bank balance to meet the current deposit. Otherwise, the bank would lose its image from the viewpoints of customers if all current depositors demand their deposit. Here mean ratio is only 1.575 so more cash and bank balance is required to maintain the current depositor required

Figure No 4.2
Cash and Bank Balance to Current Deposit Ratio



iii) Cash and Bank Balance to Interest Sensitive Deposit Ratio

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

Table No 4.3
Cash and Bank balance to interest sensitive deposit Ratio
(Amount in million)

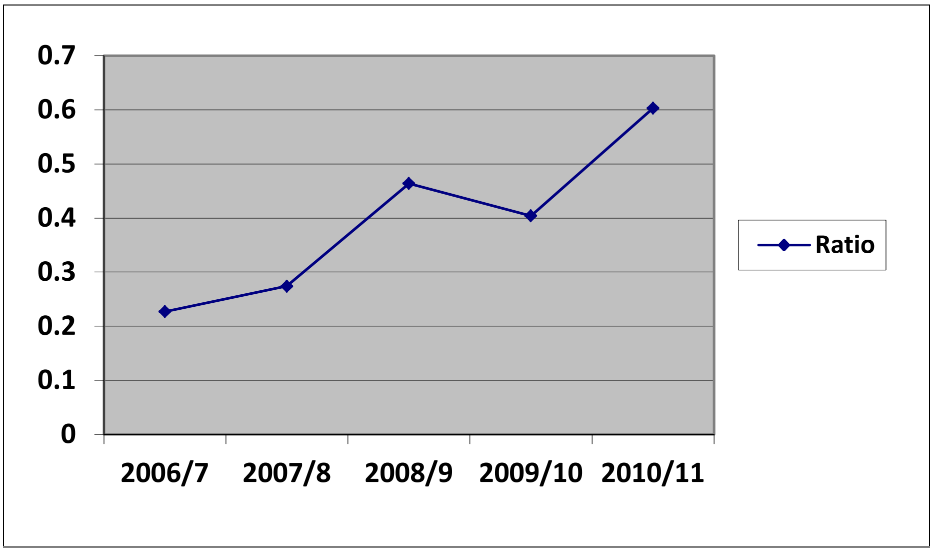
Year	Cash and Bank Balance	Sensitive Deposit	Ratio(Times)
2006/7	2441.514	10742	0.227
2007/8	3754.94	13689	0.274
2008/9	7918.004	17066	0.464
2009/10	5779.745	14324	0.404

2010/11	8140.371	13490	0.603
Mean			0.394

Source: Annual Report of Nepal Investment Bank

Table 4.3 shows that the cash and bank balance to interest sensitive ratio of NIB is in fluctuating trend. The ratios are 0.251, 0.274, 0.464, 0.404 and 0.603 respectively according to consecutive year. The mean ratio is 0.394 times. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 0.603times in the year 2010/11 and lowest ratio of 0.251 times in the year 2006/7. In year, 2010/11 this bank mobilized deposits 0.603 times and it maintained good financial condition. The sensitive deposit ratio is volatiles so the condition of sensitive of bank also fluctuating. Therefore, credit management neither good nor bad position of the NIB. Cash, bank balance and interest sensitive deposit are presented following diagram

Figure No 4.3
Cash and Bank balance to Interest Sensitive Deposit Ratio



4.2.2 Assets Management Ratio:

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

i) Credit and Advances to Fixed Deposit Ratio:

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

Credit & advances to fixed deposit = Credit and Advances/Fixed Deposit

Table No 4.4

Credit and Advances to Fixed Deposit Ratio

(Amount in million)

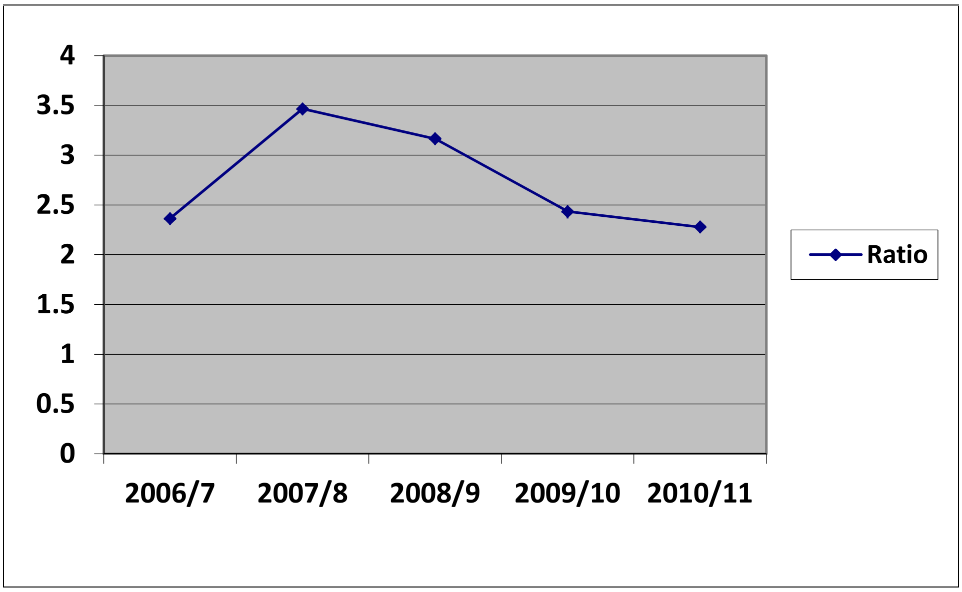
Year	Credit and Advances	Fixed Deposit	Ratio(Times)
2006/7	17769	7517	2.364
2007/8	27529	7944	3.465
2008/9	36827	11633.38	3.165
2009/10	40948	16825.15	2.434
20010/11	41887	18378.30	2.279
Mean			2.741

Source: Annual Report of Nepal Investment Bank

From the above table it is visualized that Loan and advances to fixed deposits ratio are increasing and decreasing trend in overall. The ratio of NIB Bank in 2006/7 was 2.364 and increased to 2010 year up to 2.279 times in the following years respectively. The mean average of NIB is 2.741 times at research period. Credit and advance to fixed deposit ratio is represented in figure as follow.

Figure No 4.4

Credit and Advances to Fixed Deposit Ratio



ii) Credit and Advances to Total Deposit Ratio:

Credit and advances is the investing activities of the bank and total deposit is the deposit amount of the bank collected from its customers or depositor. So, we are trying to find out the ratio between credit & advances to total deposit. This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

Credit & advances to total deposit ratio = Credit & advances Total deposit

Table No 4.5

Credit and Advances to Total Deposit Ratio

(Amount in million)

Year	Credit and Advances	Total Deposit	Ratio(Time)
2006/7	17769	24489	0.725
2007/8	27529	34452	0.799
2008/9	36827	46698	0.788
2009/10	40948	50094	0.817
2010/11	41887	50138	0.835
Mean			0.7928

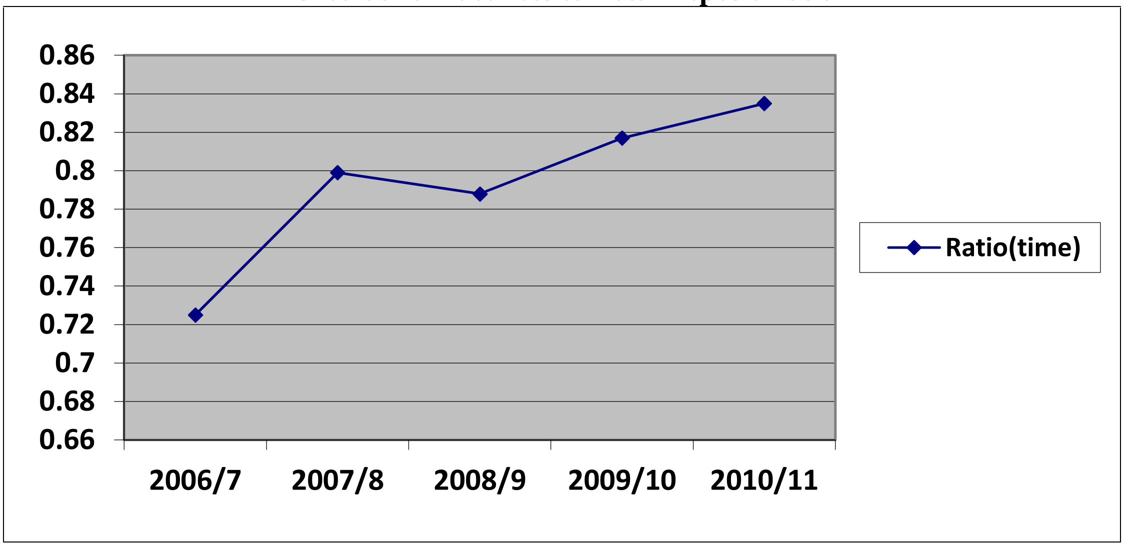
Source: Annual Report of Nepal Investment Bank

Above Table shows that the total loan advances to total deposit ratio of NIB is in increasing trend. The highest ratio is 0.835 times in year

2010/11 and lowest ratio 0.725 times in year 2006/7. The average mean ratio of NIB is 0.7928 times in the study period. This means the bank is able to proper mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has tries to meet the NRB requirement or it has utilized its deposit to provide loan. This means that credit management is in good position of the bank. Loan advances and total deposit are presented in the line diagram.

Figure No 4.5

Credit and Advances to Total Deposit Ratio



iii. Credit and Advances to Total Assets Ratio:

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

Credit & advances to total assets = Credit & advances

Total assets × 100%

Table No 4.6

Credit and Advances to Total Assets

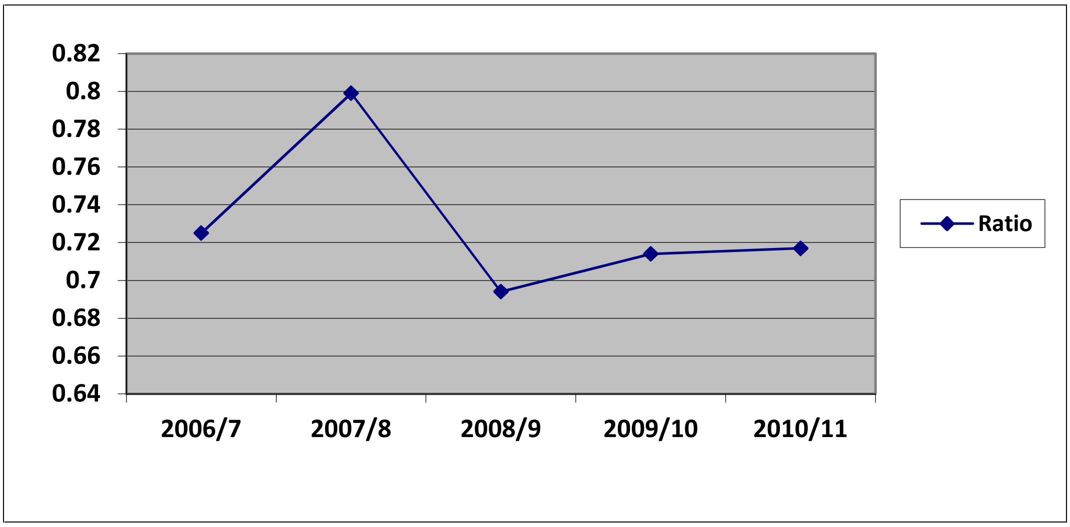
Year	Credit and Advances	Total Assets	Ratio(Times)

2006/7	17769	27591	0.725
2007/8	27529	38873	0.799
2008/9	36827	53010	0.694
2009/10	40948	57305	0.714
2010/11	41887	58357	0.717
Mean			0.7298

Source: Annual Report of Nepal Investment Bank

From the above table shows the NIB bank has generally mixed or fluctuating increasing trends of Credit and Advances to Total Assets ratio under the study period. The ratios are 0.725, 0.799, 0.694, 0.714 and 0.717 in their respective year. The highest ratio is 79% in the year 2007/8 and the lowest ratio is 69% year 2008/9. The average mean ratio is 72.98%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the fluctuation of the ratio is minimum. Loan and advances to total assets ratio is represented in figure as follow.

Figure No 4.6
Credit and Advances to Total Assets



iv) Non-Performing Assets to Total Assets Ratio

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

Table No 4.7
Non-performing assets to Total Assets ratio
(Amount in million)

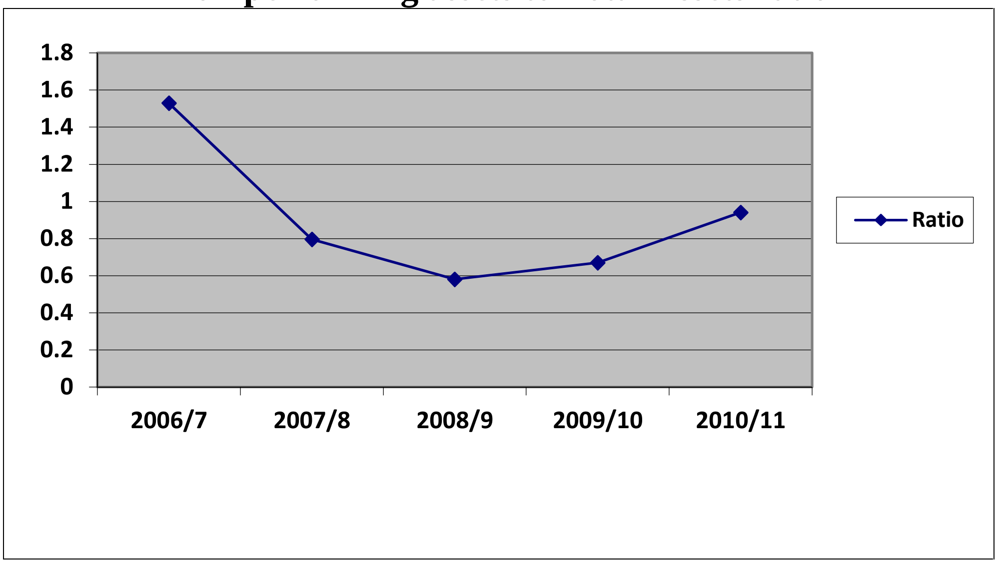
Year	Non-performing Assets	Total Assets	Ratio (%)
2006/7	421.97	27591	1.529
2007/8	309.47	38873	0.796
2008/9	307.74	53010	0.58
2009/10	538.67	57305	0.67
2010/11	548.55	58357	0.94
Mean			0.903

Source: Annual report of Nepal Investment Bank

Table no 4.7 shows that the total non-performing assets to total assets ratio of NIB is in decreasing trend. The highest ratio is 1.529% in year 2006/7 and lowest ratio 0.58% in year 2008/9. The mean ratio is 0.903%. The bank is able to obtain higher lending opportunity. The fluctuating trends of Ratios are 1.529%,0.796%,0.58%,0.67% and 0.94% in year 2006/7, 2007/8, 2008/9, 2009/10 and 2010/11 respectively. These are able to obtain higher lending opportunity. Therefore, credit management is in good position of the bank. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be about 5%. However, referring to this table, NIB is able to keep the level of non-performing assets at a satisfactory level, which is on an average 1.333%. Non-performing assets to total assets ratio is represented clearly in the figure.

Figure No 4.7

Non-performing assets to Total Assets ratio



4.2.3. Leverage Ratio:

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

i) Total Debt to Equity Ratio:

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

Total debt = Debentures & Bonds + Borrowings + Deposits + Bills Payable + Proposed &
Undistributed Dividends + Income Tax Liabilities
Total Equity = share capital + Reserve and surplus
Total debt to equity = Total Debt Equity

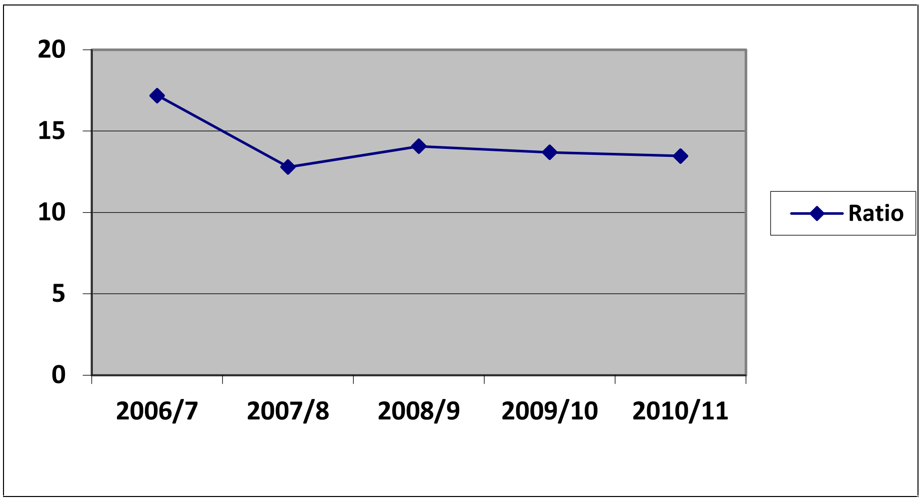
Table No 4.8
Total Debt to Equity Ratio:
(Amount in million)

Year	Total Debt	Total Equity	Ratio (Times)
2006/7	12526	729	17.18
2007/8	15094	1180	12.79
2008/9	19915	1415	14.07
2009/10	25713	1878	13.69
2010/11	36187	2687	13.47
Mean			14.24

Source: Annual report of Nepal Investment Bank

Above table shows, Debt to total equity ratio is decrease in 2006/7 and continuously decreasing trend till research period. The ratio is 17.18 times in the first year 2006/7, 12.79 times in the second year2007/8, 14.07 times in the third year 2008/9, 13.69 times in the fourth year 2009/10 and 13.47times in the fifth year 2010/11 of the research period. The average mean ratio is 14.24 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit. Ratio is represented in figure as follow.

Figure No 4.8
Total Debt to Equity Ratio



ii) Total Debt to Total Assets:

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

Table No 4.9
Total Debt to Total Assets
(Amount in million)

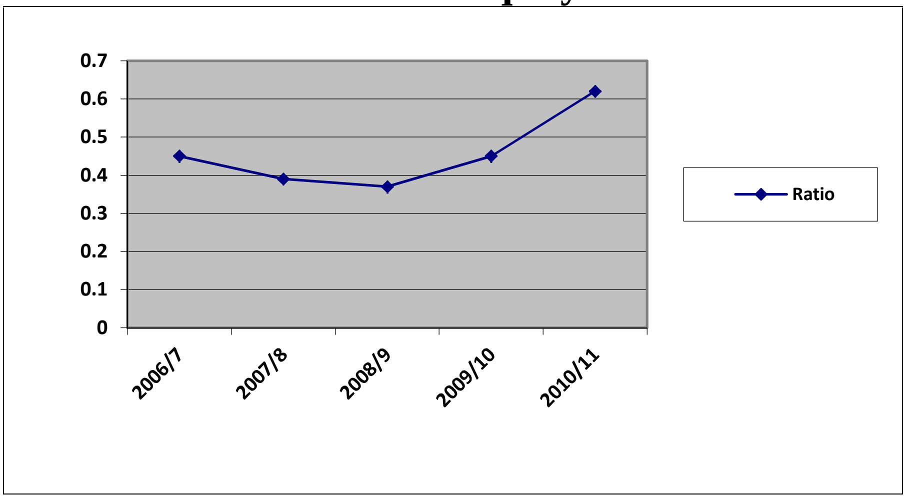
Year	Total Debt	Total assets	Ratio (Times)
2006/7	12526	27591	0.45
2007/8	15094	38873	0.39
2008/9	19915	53010	0.37
2009/10	25713	57305	0.45
2010/11	36187	58357	0.62
Mean			0.46

Source: Annual report of Nepal Investment Bank

In above table the ratio is found as 0.45 times, 0.39 times, 0.37 times, 0.45 times and 0.62 from 1st to 5th year of the study period 2006/7 to 2010/11 respectively. The average mean ratio in 5 years research period is 0.46

times. It means almost 46% of total assets is financed by the outsider's' funds. It is seen that there is not much deviation in the ratio for the five years study period. It means no change in the policy on this ratio for the five years. Ratio is represented in figure as follow.

Figure No 4.9
Total Debt to Equity Ratio



iii. Total Assets to Total Book Net worth Ratio:

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

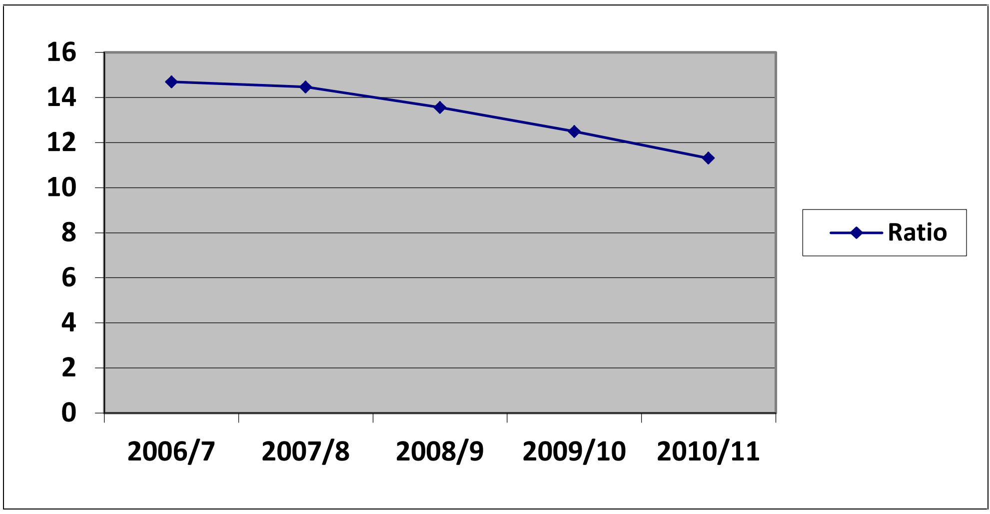
Table No 4.10
Total Assets to Net Worth
(Amount in million)

Year	Total assets	Net Worth	Ratio(Times)
2006/7	27591	1878	14.692
2007/8	38873	2687	14.467
2008/9	53010	3908	13.56
2009/10	57305	4585	12.49
2010/11	58357	5159	11.31
Mean			10.904

Source: Annual report of Nepal Investment Bank

Above table shows, Total assets to net worth ratio of the bank are decreasing and fluctuating trend thereafter. It is lowest 11.31times in the second year 2010/11 and 14.692 times in 1st year 2006/7. In over all the study period the average ratio at that time is 10.904 times. The computed ratios are 14.467, 13.56, and 12.49 in consecutive year 2007/8, 2008/9 and 2009/10 respectively. It represents good condition of Total assets to net worth ratio. Here above table we see that total assets and net worth are increasing year by year on the study period. The figure show the clearly Total assets to net worth ratio of the bank

Figure No 4.10
Total Assets to Net Worth



4.2.4 Profitability Ratio

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

i) Net Profit to Gross Income Ratio

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

Table No 4.11
Net Prof it to Gross Income Ratio

(Amount in million)

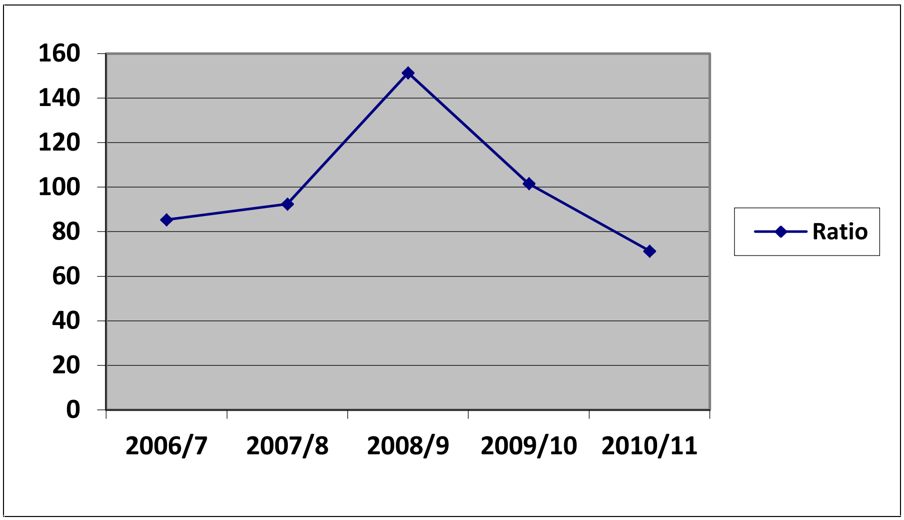
Year	Net profit	Gross Income	Ratio(%)
2006/7	501.4	587	85.35
2007/8	696.73	753.89	92.42
2008/9	901	595.49	151.3
2009/10	1265	1246.03	101.52
2010/11	1176	1649.62	71.29
Mean			100.3

Source: Annual report of Nepal Investment Bank

Table No 4.11 shows that the total net profit to gross income ratio of NIB is in increasing and decreasing trend. The highest ratio is 151.3% in year 2008/9 and lowest ratio 71.29% in year 2010/11. The mean ratio is 100.3%. The Ratios are 85.35%,92.42%,151.3%,101.52%and 71.29% in year 2006/7,2007/8,2008/9,2009/10 and 2010/11 respectively. These are able to obtain higher efficiency of the bank.

Therefore, credit management is in good position of the bank. Net profit to gross income ratio is represented in figure.

Figure No. 4.11
Net Profit to Gross Income Ratio



ii) Interest Income to Total Income Ratio

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

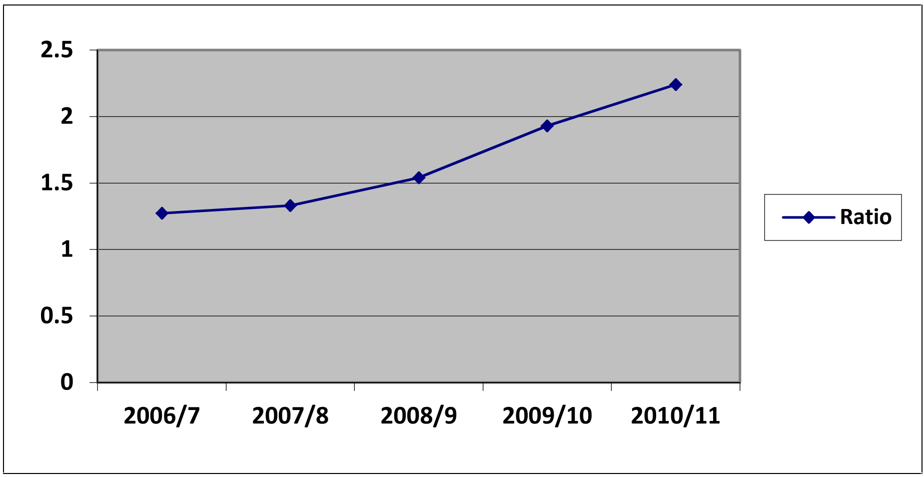
Table No 4.12
Interest Income to Total Income Ratio
(Amount in million)

Year	Interest income	Total income	Ratio(Time)
2006/7	1585	1246.03	1.272
2007/8	2194	1649.62	1.33
2008/9	3267	2116.66	1.54
2009/10	5288	2734.93	1.93
2010/11	6351	2833.59	2.24
Mean			1.66

Source: Annual report of Nepal Investment Bank

Table no 4.12 shows that the total interest income to total income ratio of NIB is in fluctuating trend. The ratios are 1.272 times,1.33 times, 1.54 times, 1.93 times and 2.24 times in fiscal year 2006/7, 2007/8, 2008/9, 2009/10 and 2010/11 respectively. The highest ratio is 2.24 times in year 2010/11 and lowest ratio 1.272 times in year 2006/7. The mean ratio is 1.66 times in the study period. The ratio indicates the high contribution made by lending and investing activities. The total interest income to total income is continuously increasing trend. Therefore, credit management is in a good position of the bank. Interest income and total income are presented in bar diagram as follows:

Figure No. 4.12
Interest Income t o Total Income Ratio



iii) Operating Profit to Loan and Advances Ratio

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

Operating profit to loan and advance ratio = *Operating* Pr*ofit/ Loan and Advance*

Table No 4.13

Operating profit to Loan and advances Ratio

(Amount in million)

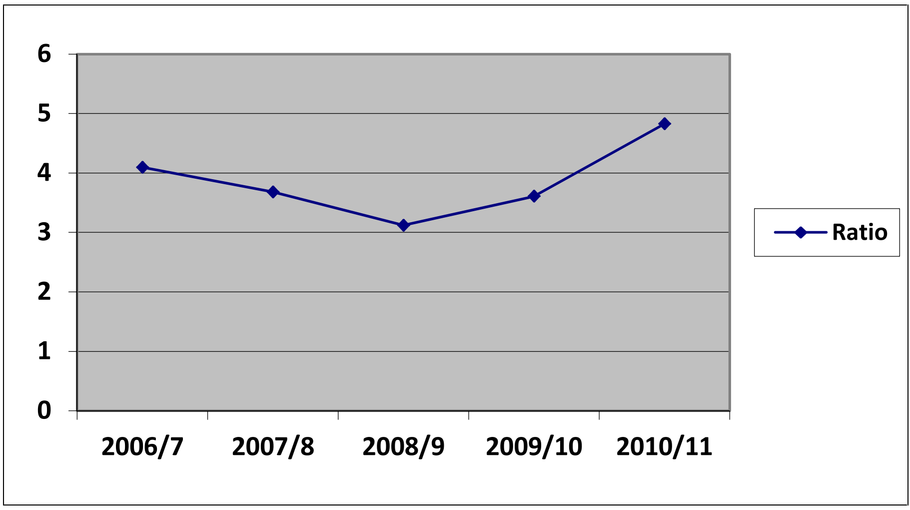
Years	Operating profit	credit and advances	Ratio(%)
2006/7	727.51	17769	4.0943
2007/8	1013.33	27529	3.6809
2008/9	1149	36827	3.1199
2009/10	1477	40948	3.6070
2010/11	2021	41887	4.8248
Mean			3.865

Source: Annual report of Nepal Investment Bank

Table no 4.13 shows that the operating profit to loan and advances ratio of NIB is in fluctuating trend. The highest ratio is 4.8248% in the year 2010/11 and lowest ratio 3.1199% in the year 2008/9.The average mean ratio over the period is 3.865%. This shows the high profitability in 2010/11 and low profitability in 2008/9 through loan and advance of the bank. The Ratios are 4.0943%, 3.6809%, 3.1199%, 3.6070% and 4.8248% in respectively. These show the fine profitability position of commercial bank, but there is a fluctuation operating profit to loan and advance ratio. Anyway, credit management is in good position of the bank. Operating profit and loan advances are presented in the bar diagram as follows

Figure No. 4.13

Operating profit to Loan and advances Ratio



iv) Return on Loan and Advances Ratio

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

Table No 4.14

Return on Loan and Advances Ratio

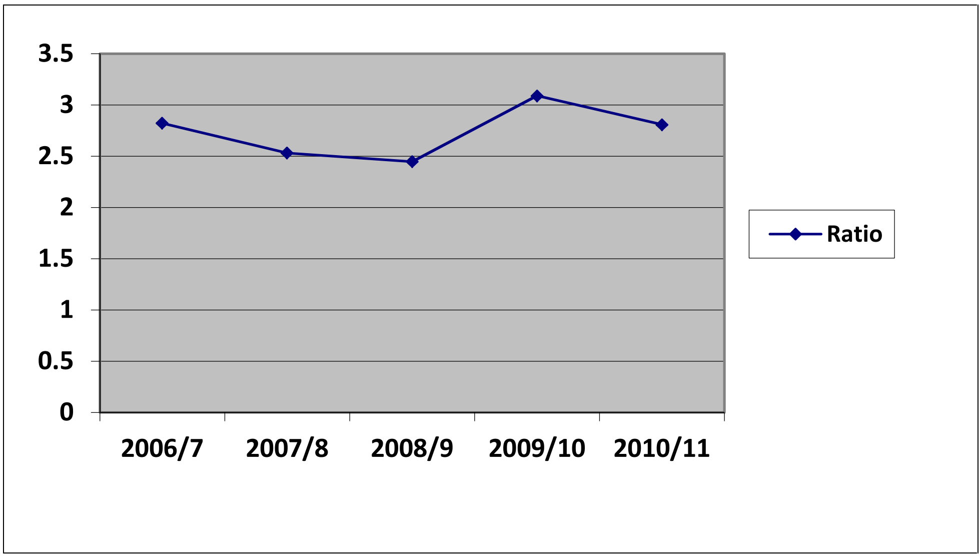
(Amount in million)

Year	Net profit	Credit and advances	Ratio(%)
2006/7	501.4	17769	2.8217
2007/8	696.73	27526	2.5309
2008/9	901	36827	2.4465
2009/10	1265	40948	3.0892
2010/11	1176	41887	2.8075
			2.739

Source: Annual report of Nepal Investment Bank

Table no 4.14 shows that return on loan and advances ratio of NIB is in increasing trend. The highest ratio is 3.0892% in the year 2009/10 and lowest ratio 2.4465% in the year 2008/9. The average mean ratio is 2.739%. The Ratios are 2.8217%, 2.5309%, and 2.8075% in years 2006/7, 2007/8 and 2010/11 respectively. These show the highest earning in 2009/10 and lowest earning capacity in 2008/9 from loan and advances. These show the little high earning capacity of NIB Bank through loan and advances. Thus, credit management is in good position. Net profit and loan advances are represented in the bar diagram as follows.

Figure No. 4.14
Return on Loan and Advances Ratio



V) Net profit to Total assets

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

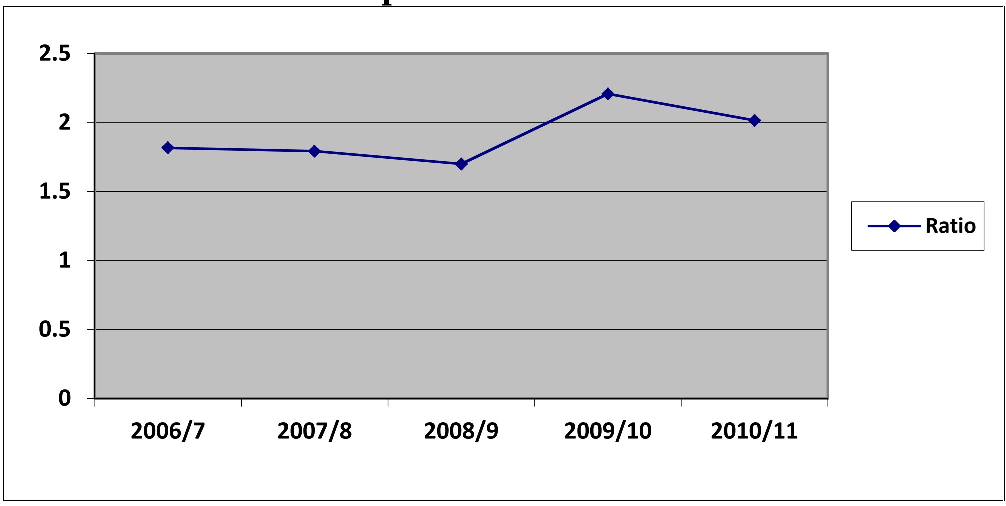
Table No 4.15
Net profit to Total Assets
(Amount in million)

Year	Net profit	Total assets	Ratio (%)
2006/7	501.4	27591	1.8172
2007/8	696.73	38873	1.7923
2008/9	901	53010	1.699
2009/10	1265	57305	2.207
2010/11	1176	58357	2.015
Mean			1.9061

Source: Annual report of Nepal Investment Bank

In above table shows that the Net profit to total assets ratio of NIB is in increasing trend. The ratio is 1.8172% 1.7923%, 1.699%, 2.207% and 2.015% in years 2006/7, 2007/8, 2008/9, 2009/10 and 2010/11 respectively. The highest ratio is 2.207% in 2009/10 and lowest ratio is 1.699% in the year 2008/9. The mean ratio is 1.9061%. This shows the normal earning capacity through asset utilization. In above the five-year research period net profit and total assets both are increasing trend.

Figure No 4.15
Net profit to Total Asset



vi) Earning per Share

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

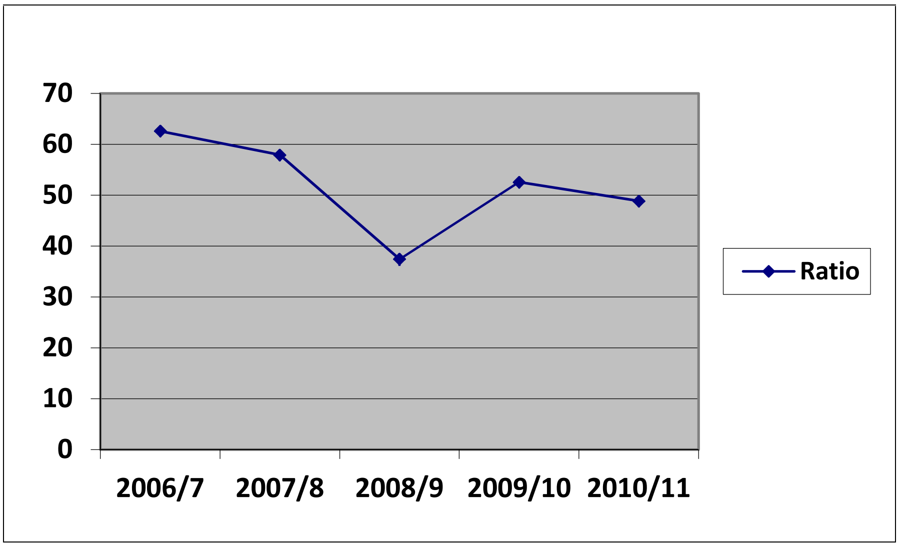
Table No 4.16
Earning Per Share
(Amount in million)

Year	Net profit	No. of equity shares	Earning per share (Rs.)
2006/7	501.4	8013526	62.569
2007/8	696.73	12039154	57.872
2008/9	901	24078033	37.42
2009/10	1265	24072312	52.55
2010/11	1176	24078624	48.84
			51.85

Source: Annual report of Nepal Investment Bank

Above table shows, that Earning per share of NIB is in fluctuating trend. The highest EPS is RS 62.569 in year 2006/7 and lowest EPS Rs. 37.42 in year 2008/9. The average means EPS of NIB Bank is Rs. 51.85 in the study period. This shows the better profitability in the coming last years. Earning per shares are Rs. 57.872, 52.55 and Rs. 48.84 in year 2007/8, 2009/10and 2010/11 respectively. Earning per shares is represented in the following diagram.

Figure No. 16
Earning Per Share of NIB



vii) Price Earning Ratio

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

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

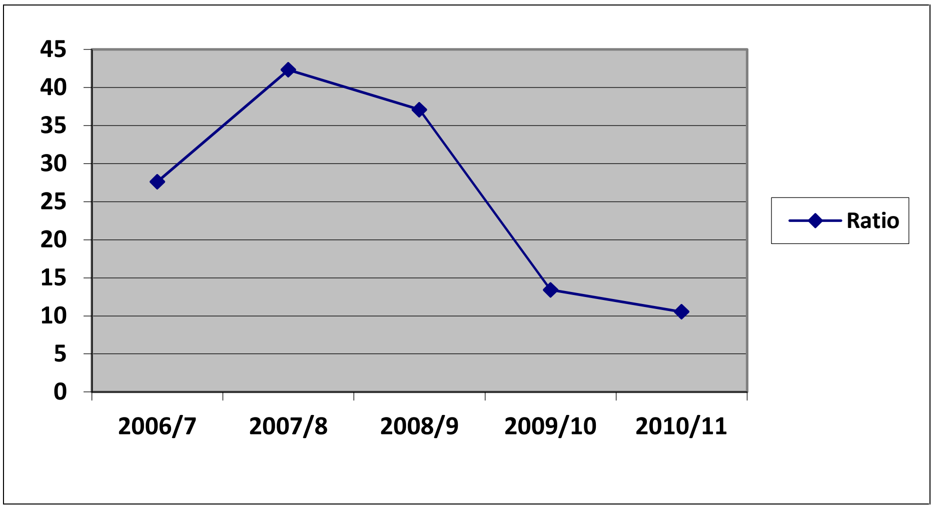
Table No 4.17
Price Earning Ratio

Year	Market price per share	Earning per Share	Ratio(Times)
2006/7	1729	62.57	27.633
2007/8	2450	57.87	42.336
2008/9	1388	37.42	37.09
2009/10	705	52.55	13.42
2010/11	515	48.84	10.54
Mean			26.203

Source: Annual report of Nepal Investment Bank

Above table shows, that price-earning ratio earning of NIB is in increasing trend. The highest price-earning ratio is 42.336s in year 2007/8 and lowest ratio 10.54 times in year 2010/11. The average mean ratio of the NIB is 26.203 times in the study period. Ratios are 27.633 times, 37.09 and 13.42 times in year 2006/7, 2008/9, and 2009/10 respectively. Price earning ratios are represented in the diagram as follow:

Figure No 4.17
Price Earning Ratio of NIB



4.2.5 Lending Efficiency Ratio

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

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

Loan loss provision to total loan and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of the banks will come down by such amount. Increase in loan loss provisions decreases in profit result to decrease in dividends but its positive impact is that strength financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. Therefore, it can be said that banks suffer it only for short-term loan while the good financial conditions and safely of loans will make bank s prosperity resulting increasing profit for long term. Loan loss provision is not more than 1.25% of risk bearing assets.

Table No 4.18
Loan Loss Provision to Total Loan and Advances Ratio
(Amount in million)

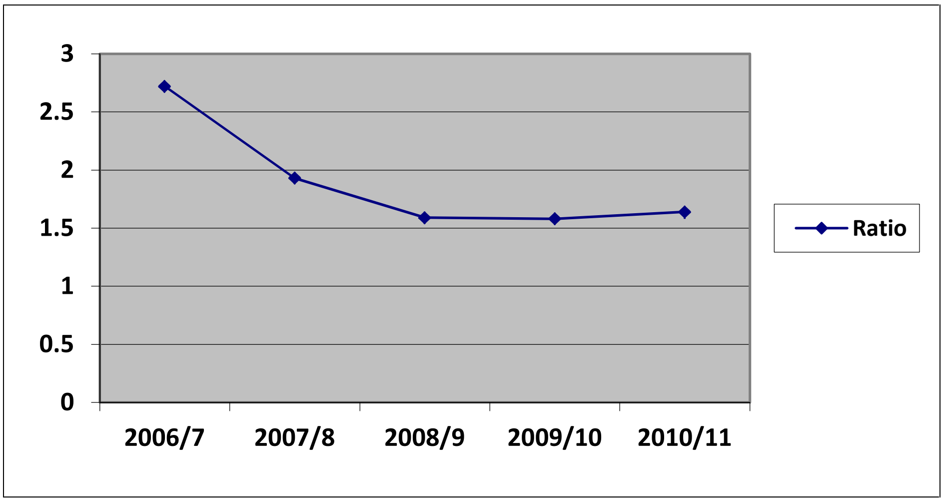
Year	Loan loss provision	credit and advances	Ratio (%)
2006/7	482.67	17769	2.72
2007/8	532.65	27529	1.93
2008/9	585.95	36827	1.59
2009/10	645.75	40948	1.58
2010/11	687.37	41887	1.64
Mean			1.89

Source: Annual report of Nepal Investment Bank

Above table shows, that loan loss provision to total loan and advances ratio of NIB is in decreasing trend. The highest ratio is 2.72% in year 2006/7 and lowest ratio 1.58% in year 2009/10. The mean ratio of the study period is 1.89%. This shows that good quality of assets in total volume of loan and advances. Ratios are 1.93%, 1.59% and 1.64% in the year 2007/8, 2008/9 and 2010/11 respectively. These indicate the good quality of assets in total volume of loan and advances. The ratio is continuously decreasing this indicates that bank decreasing and increasing performance. Thus, credit management is in a good position. So all of the year, the bank has met the NRB requirement. Loan loss provision and total loan and advances are represented in the following diagram clearly.

Figure No 4.18

Loan Loss Provision to Total Loan and Advances Ratio



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

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

Table No 4.19

Non-Performing Loan to Total credit and Advances

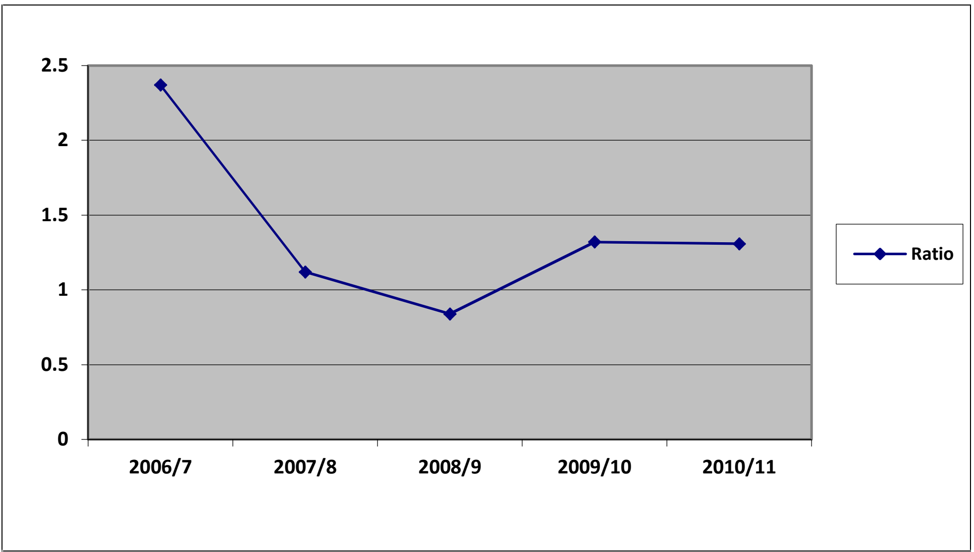
(Amounts in million)

Year	Non-performing loan	credit and advances	Ratio (%)
2006/7	421.97	17769	2.37
2007/8	309.47	27529	1.12
2008/9	307.74	36827	0.84
2009/10	538.67	40948	1.32
2010/11	548.55	41887	1.309
Mean			1.392

Source: Annual report of Nepal Investment Bank

Above table shows that None per forming loan to total loan and advance of NIB is in decreasing trend. The ratios are 2.37%, 1.12%, 0.84%, 1.32% and 1.309% in consecutive year 2006/7, 2007/8, 2008/9,2009/10 and 2010/11 respectively. The highest ratio is 2.37 % in the year 2006/7 and lowest ratio is 0.84% in the year 2008/9. The average non-performing loan to total loan and advances ratio of NIB is 1.392% during the study period. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicate the bank is decreasing the non-performing loan from total loan. Therefore, credit management is in a good position recently. Non- performing loan to loan and advances ratio present clearly in following figure.

Figure No 4.19
Non-Performing Loan to Total credit and Advances



iii) Interest Expenses to Total Deposit Ratio

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

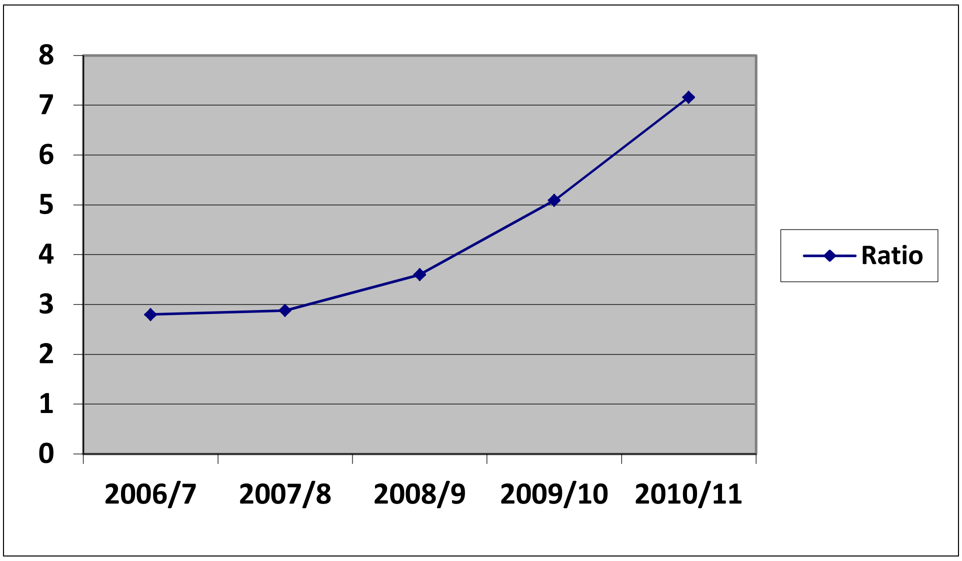
Table No 4.20
Interest Expenses to Total Deposit Ratio
(Amounts in million)

Year	Interest expenses	Total Deposit	Ratio (%)
2006/7	685.53	24489	2.799
2007/8	992.158	34452	2.879
2008/9	1686.973	46698	3.6
2009/10	2553.847	50094	5.09
2010/11	3591.630	50138	7.16
Mean			4.31

Source: Annual report of Nepal Investment Bank

Above table shows that interest expenses to total deposit ratio of NIB is in fluctuating trend. The highest ratio is 7.16% in the year 2010/11 and lowest ratio is 2.799% in the year 2006/7. The average mean point of interest expenses to total deposit ratio is 4.31% during the study period. Ratios are 2.879%, 3.6% and 5.09% in respective year 2007/8, 2008/9 and 2009/10. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. Interest expenses to total deposit ratio is represented in figure as follow

Figure No 4.20
Interest Expenses to Total Deposit Ratio



4.3 Statistical Analysis:

i) Correlation Coefficient:

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

Coefficient of Correlation (r) $= \dfrac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{\left[N\sum X^2 - (\sum X)^2\right]}\sqrt{\left[N\sum y^2 - (\sum Y)^2\right]}}$

Here,
N = Number of pairs of x and y observed.
x = values of credit and advances.
y = values of total assets.
r = Karl Pearson's Coefficient of Correlation.

ii) Probable Error

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

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

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

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

Where,
r = coefficient of correlation
n = no of observations

The probable error is used to test whether the calculated value of correlation significant or not.
If r < 6 × P.E(r), then the value of r is not significant
If r > 6 × P.E(r), then the value of r is significant
In this course of study, correlation coefficient and probable error is used to measure sample the relationship between.

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

A) Correlation Coefficient between Deposit & Loan & Advances

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

Table 4.21

Correlation between Deposit & Loan & Advances

(P.Er.)

Correlation Coefficient (r)	Coefficient of determination(r^2)	Probable error	6 p.Er.
0.997	0.994	0.00181	0.011

Source: Through SPSS

The above table shows that the correlation coefficient between deposit and loan and advances is 0.997. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.994, which depicts that 99.4% of loan has been explained by the deposit collection. It shows that increase in deposit highly lead to increase loan and advances. In accordance to increase in deposit NIB s loan and advances is increasing in trend.

Probable error (P.E.) is calculated to be 0.00181 and 6 P.E. is 0.011. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, ‘r’ is greater than 6 P.E. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and deposit.

B) Coefficient of Correlation between Total Deposits and Total Asset

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

The table 4.10 shows represent the correlation coefficient between Total Deposits and Total assets

Table 4.22
Correlation between Total Deposits and Total Asset

Correlation Coefficient of	Coefficient determination$(r)^2$	Probable error (P.Er.)	6 P.Er.
0.999	0.998	0.00062137	0.0036

Source: Through SPSS

The above table shows that the coefficient of correlation between total deposit and total assets of NIB is 0.999. It shows the highly positive correlation. In addition, coefficient of determination of NIB is 0.998. It means there is 99.8 percent of total assets is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total Asset. From the above analysis, the conclusion can be drawn that NIB has high degree positive correlation between total deposit and total Assets

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

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NIB during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the 'r', R^2, P.Er. and 6 P. Er. between those variables of Nepal Investment Bank limited for the study period.

Table No. 4.23
Correlation between Loan and advance and Net profit

Correlation Coefficient (r)	Coefficient of Determination(r)2	Probable error	6 P.Er.
0.989	0.978	0.00663	0.04

Source: Through SPSS Data Editor

The above table shows that the correlation coefficient between Total profit and loan and advances. The correlation coefficient between Total profit and loan and advances. is 0.989. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.978, which depicts that 97.8% of profit is explained by the loan and advance. Probable error (P.E.) is calculated to be 0.00663 and 6 P.E. is 0.04. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6 P.E. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and total profit.

D) Coefficient of Correlation between Total Debt and Total asset

Coefficient of correlation between total debt and total assets measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2006/7 to 2010/11.

Table No. 4.24
Correlation between Total Debt and Total Assets

Correlation Coefficient (r)	Coefficient of determination$(r)^2$	Probable error (P.Er.)	6 P.Er.
0.999	0.996	0.00121	0.0072

Source: Through SPSS Data Editor

Above table shows correlation coefficient between total Debt net profits of NIB is 0.999, which implies there is highly positive correlation between total Debt and Total assets. In addition, coefficient of determination is 0.996. It means 99.6 percent of Assets is contributed by Debt. Obviously, this correlation is significant at all due to coefficient of determination is higher than P.Error. Thus, it can be concluded that the degree of relationship between total debt and total assets of NIB has highly positive correlation.

E) Correlation coefficient between loan and advances and non-performing assets NIB

Table No. 4.25
Correlation between Loan and advance and Net profit

Correlation Coefficient (r)	Coefficient of determination$(r)^2$	Probable error (P.Er.)	6 P.Er.
0.555	0.308	0.2087	1.25

Source: Through SPSS Data Editor

The above table shows that the correlation coefficient between loan and advances and non-performing asset of NIB. The correlation coefficient between sector wise lending and loan and advances of NIB is 0.555. There is moderate positive correlation between loan and advances and nonperforming assets. The coefficient of determination is 0.308, which depicts that 30.8% of NPL has been explained by the loan and advances. Probable error (P.E.) is calculated to be 0.2087 and 6 P.E. is 1.25. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, ‘r’ is smaller than 6 P.E. then there is evidence of insignificant correlation between Loan and advance and PSL ratio. This further reveals there is insignificant relationship between loan and advances and deposit

iii. Trend Analysis:

Here, trend analysis of total deposits and loan and advances is projected for the five years. The measure of trend analysis shows the behavior of given variables in series of time. This trend analysis is carried out to see average performance of the banks for next five years.

Trend analysis is based on some assumptions;

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

4.4 Major Findings of the Study

A. Liquidity Ratio

The cash and bank balance to total deposit of the NIB bank shows the fluctuating trend during the study period. The mean ratio is 0.1149 times in the study period. Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. The mean average calculation is 1.575 times in the study period This means that the bank is able to be maintained in the good liquidity position of the bank the cash and bank balance to interest sensitive ratio of NIB is in fluctuating trend. The mean ratio is 0.394 times. This means that the bank is able to maintain this ratio in the good financial condition Therefore that liquidity management is in good position of the NIB. This means that the bank is able to maintain in the good financial condition.

B. Assets Management Ratio

Loan and advances to fixed deposits ratio are fluctating trend in overall. The mean ratio is 2.741 times at research period. The total loan advances to total deposit ratio of NIB is in increasing trend. The average mean ratio of NIB is 0.79 times in the study period. Similarly credit and advance to total asset is not so fluctuating tends. The average mean ratio is 72.98%. It shows that bank has capability in utilizing total assets in the form of credit and advances.

The total non-performing assets to total assets ratio of NIB is in fluctuating trend. The mean ratio is 0.903%. The bank is able to obtain higher lending opportunity. The ratio indicates the high contribution made by lending and investing activities. Thus, credit management is in a good position.

C. Leverage ratio

The Debt to equity ratio of NIB is in fluctuating trend during the study period. The average mean ratio is 14.24 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the time. The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets.

The Debt to assets ratio of NIB is high or in other words, they have excessively geared capital structure. The average mean ratio in 5 years research period is 0.46 times. It means almost 46% of total assets is financed by the outsider's' funds. It is seen that there is not much deviation in the ratio for the five years study period.

Total assets to net worth ratio of the bank are decreasing and fluctuating trend thereafter. In over all the study period the average ratio at that time is 10.904 times. It represents good condition of Total assets to net worth ratio.

D. Profitability Ratios

Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. The total net profit to gross income ratio of NIB is in increasing and fluctating trend. The mean ratio is 100.3. These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. The bank is able to obtain higher efficiency. This means that credit management is in good position the total interest income to total income ratio of NIB is in fluctuating trend. The highest ratio is 1.01 times in year 2009/10 and lowest ratio 0.71 times in year 2006/7. The mean ratio is 1.003 times in the study period. The ratio indicates the high contribution made by lending and investing activities.

The operating profit to loan and advances ratio of NIB is in fluctuating trend. The highest ratio is 4.82% in the year 2010/11 and lowest ratio 3.119% in the year 2008/9.The average mean ratio over the period is 3.9%. This shows the high profitability in 2010/11 and low profitability in 2008/9 through loan and advance of the bank. This shows the better profitability position of the bank.

That return on loan and advances ratio of NIB is in fluctating trend. These show the highest earning in 2009/10 and lowest earning capacity in 2008/9from loan and advances. These show the little high earning capacity of NIB Bank through loan and advances. Thus, credit management is in good position.

The Net profit to total assets ratio of NIB is in increasing trend. The highest ratio is 2.207% in 2009/10 and lowest ratio is 1.699% in the year 2008/9. The mean ratio is 1.906%. This shows the normal earning capacity through asset utilization.

The Earning per share of NIB is in fluctuating trend. The highest EPS is RS 62.569 in year 2006/7 and lowest EPS Rs. 37.42 in year 2008/9. The average means EPS of NIB Bank is Rs. 51.85 in the study period. This shows the better profitability in the study years.

That price-earning ratio earning of NIB is in fluctating trend. The highest price-earning ratio is 42.336s in year 2007/8 and lowest ratio 10.54 times in year 2010/11. The average mean ratio of the NIB is 26.203 times in the study period. This shows the better profitability in the last years. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. However, it is recommended to risk in invest in market price.

E. Lending Efficiency Ratio

The loan loss provision to total loan and advances ratio of NIB is in fluctating trend. The highest ratio is 2.72% in year 2006/7 and lowest ratio 1.58% in year 2009/10. The mean ratio of the study period is 1.89%. These indicate the good quality of assets in total volume of loan and advances. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position

The Non-performing loan to total loan and advance of NIB is in decreasing trend. The highest ratio is 2.37% in the year 2006/7 and lowest ratio is 0.84% in the year 2008/9. The average non-performing loan to total loan and advances ratio of NIB is 1.309% during the study period. This ratio indicates the more efficient operating of credit management.

The interest expenses to total deposit ratio of NIB is in fluctuating trend. The highest ratio is 7.16% in the year 2010/11 and lowest ratio is 2.799% in the year 2006/7. The average mean point of interest expenses to total deposit ratio is 4.31% during the study period. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund.

F. Statistical tools

i) Correlation Coefficient:

The correlation coefficient between deposit and loan and advances is 0.997. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.994, which depicts that 99.4% of loan has been explained by the deposit collection. It shows that increase in deposit highly lead to increase loan and advances. ‘r’ is greater than 6 P.E. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and deposit. The coefficient of correlation between total deposit and total assets of NIB is 0.999. It shows the highly positive correlation. In addition, coefficient of determination of NIB is 0.998. It means there is 99.8 percent of total assets is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er.

The correlation coefficient between Total profit and loan and advances. The correlation coefficient between Total profit and loan and advances is 0.989. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.978, which depicts that 97.8% of profit is explained by the loan and advance. ‘r’ is greater than 6 P.E. then there is evidence of significant correlation between loan and deposit. The correlation coefficient between total Debt net profits of NIB is 0.999, which implies there is highly positive correlation between total Debt and Total assets. In addition, coefficient of determination is 0.996. It means 99.6 percent of Assets is contributed by Debt. Obviously, this correlation is significant at all due to coefficient of determination is higher than P.Error. Thus,
it can be concluded that the degree of relationship between total debt and total assets of NIB has highly positive correlation.

The correlation coefficient between loan and advances and non-performing asset of NIB. The correlation coefficient between sector wise lending and loan and advances of NIB is 0.555. There is moderate positive correlation between loan and advances and nonperforming assets.
The coefficient of determination is 0.308, which depicts that 30.8% of NPL has been explained by the loan and advances. ‘r’ is smaller than 6 P.E. then there is evidence of insignificant correlation between Loan and

advance and PSL ratio.

ii. Trend analysis

The trend of total deposit of NIB is in increasing trend. The rate of increment of total deposit for NIB seems to be smoothly increasing trend. The trend of trend values of loan & advances of NLB is increasing trend. it is suggest to increase in loan and advance in same way to make better profit.

The trend of Total Assets of NIB is in increasing trend. The rate of increment of Total Assets for NIB seems to be moderately increasing trend. It is better for company. This type of increment should maintain regularly.

The trend of Total Profit of NIB is in increasing trend. The rate of increment of Total Profit for NIB seems to be aggressively increasing trend. It is better for company but this type of increment should maintain regularly.

CHAPTER - V
SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

The research is about the credit Management of Nepal Investment bank. In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for the management of the bank and other stakeholder.

In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. The average mean ratio is 0.1149 times in the study period. These all ratio shows that the bank is maintain the good liquidity position of the bank. Cash and bank balance to current deposit is also fluctuating. The mean average calculation is 1.575 times. Cash and bank balance would sufficient to meet the demand of current depositors. The average mean of Cash and bank balance to interest sensitive ratio is 0.394 times. It shows the bank is able to maintain good financial condition

In the assets management ratio, credit advances to fixed deposit ratio is fluctuating trends. The mean average of NIB is 2.741 times at research period. In aggregate is shows the better performance but credit and advances to total deposit position in minimum than the averages. NIB bank has generally mixed or fluctuating increasing trends of Credit and Advances to Total Assets ratio. The average mean ratio is 72.98%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Whereas investment in credit and advances is done safely and not taking more risk. That s why assets management position of the bank shows better performance in the recent years. A Non–performing asset to total assets ratio is fluctuating trend the average mean ratio is 0.903%. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank

In leverage ratio Debt to equity ratio is in constants trend and the average mean ratio for total debt to equity ratio is 14.24 times Total debt to total assets ratio is 0.46 times, which means 93% of the bank s assets are financed with debt, and only the remaining 7% of the financing comes from shareholder s equity. High total debt to total assets ratio posses higher financial risk and vice-versa. Total assets to net worth ratio of the bank are decreasing and fluctuating trend there after. In over all the study period the average ratio at that time is 10.904 times, it represents good condition of Total assets to net worth ratio

In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of NIB is in increasing and decreasing trend. The mean ratio is 100.3% in the study period. The ratio indicates the high contribution made by lending and investing activities. The total interest income to total income ratio of NIB is in increasing trend. The mean ratio is 1.66 times in the study period. The operating profit to loan and advances ratio of NIB is in fluctuating trend. the return on loan and advances ratio of NIB is in increasing trend. The average mean ratio is 2.739%. These show the little high earning capacity of NIB Bank through loan and advances. he Net profit to total assets ratio of NIB is in increasing trend the mean ratio is 1.9061%. This shows the normal earning capacity through asset utilization. Earning per share of NIB is in fluctuating trend trend. The Price earning ratio of NIB Bank is in increasing trend. The average mean ratio is 51.85 times in the study period. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.

After analyzing the lending efficiency of the bank, that loan loss provision to total loan and advances ratio of NIB is in decreasing trend. The mean ratio of the study period is 1.89%. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position. The Non-performing loan to total loan and advance ratio is also fluctating trend. This ratio indicates the more efficient operating of credit management. the interest expenses to total deposit ratio of NIB is in fluctuating trend. The average mean point of interest expenses to total deposit ratio is 4.31% during the study period. That this ratio does not indicate higher interest expenses on total deposit.

In statistical analysis, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets is 0.999, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.997. It is concluded that increasing total deposit will have positive impact towards loan & advances. The correlation coefficient between Total profit and loan and advances. is

0.989. There is highly positive correlation between loan and advances and deposit collection. Similarly, correlation coefficient between total Debt net profit of NIB is 0.999 which implies there is highly positive correlation between total Debt and Total assets. The correlation coefficient between sector wise lending and loan and advances of NIB is 0.555. There is moderate positive correlation between loan and advances and nonperforming assets.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. The trend of total deposit of NIB is in increasing trend. The trend of trend values of loan & advances of NLB is increasing trend similarly The trend of Total Assets of NIB is also increasing trend. The trend of Total Profit of NIB is in increasing trend. The rate of increment of Total Profit for NIB seems to be aggressively increasing trend.

5.2 Conclusion

The study is conducted on credit management of Nepal Investment Bank, which is one of the leading banks in Nepal. NIB has been maintaining a steady growth rate over this period. NIB has earned a net profit of Rs 796 million for the fiscal year 2010/11 and this comes to be 39.12% more as compared to the same period in the previous fiscal year. NIB earned operating profit of Rs 1149 million for the fiscal year 2010/11 and this comes to be 34.07% more as compared to the same period in the previous fiscal year. Similarly, total deposit is Rs 34452 million for the fiscal year 2010/11 and this comes to be 40.89% more as compared to the same period in the previous fiscal year. Similarly, total loan is Rs 27529 million which is increase by 54.93% compare as previous fiscal year.

Nepal Investment bank has adequate liquidity position. It shows that banks investment is appropriate. NIB bank shows the fluctuating trend during the study period. Now in Nepal, many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investigable sectors. Remittance has also help to increase the amount of deposit in bank. On the other hand, due to political crisis economic sectors have been damaged. Most of the projects have been withdrawn due to security problem. So, banks are utilizing their fund in home loan, auto loan and share loan etc in consumer banking.

Loan and advances to fixed deposits ratio and the total loan advances to total deposit ratio of NIB are fluctating trend in overall. The mean ratio is 2.741 times and 0.792 times in the study period. Similarly credit and advance to total asset is not so fluctuating tends. The average mean ratio is 72.98%. The total non-performing assets to total assets ratio of NIB is in fluctating trend. The mean ratio is 0.903%. The bank is able to obtain higher lending opportunity. The ratio indicates the high contribution made by lending and investing activities. Thus, credit management is in a good position.

The Debt to equity ratio of NIB is in increasing trend during the study period. The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets. The Debt to assets ratio of NIB is high or in other words, they have excessively geared capital structure. 93% of total assets of NIB is financed by the outsider's' funds. Total assets to net worth ratio of the bank are decreasing and fluctuating trend thereafter.

Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. The total net profit to gross income ratio of NIB is in increasing and decreasing trend. The mean ratio is 100.3 These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. The bank is able to obtain higher efficiency. This means that credit management is in good position

Loan loss provision to total loan and advances ratio of NIB is in decreasing trend. This shows that good quality of assets in total volume of loan and advances. Total non-performing assets to total assets ratio is also in decreasing trend. It indicates proper mange of total asset. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicates the bank is decreasing the non-performing loan from total loan. Interest expenses to total deposit ratio of NIB is increased in fiscal year 2010/11. That this ratio does not indicate higher interest expenses on total deposit.

The trend of Total Deposit, Total Asset, Loan and Advance and Total Profit of NIB is in increasing trend.

Equity portion of the bank is slightly increasing in the recent years due to issue of directives by Nepal Rastra Bank (NRB) the entire bank to increases it s paid up capital. Every commercial has to meet 2000 million paid up capitals till 2070 B.S. NIB has currently Ordinary Shares of 12039154 Rs. 100 each 1203915400 paid up capital. NRB has issued that direction to provide more safety to the customers. Therefore, bank has continuously increasing their capital every year.

5.3 Recommendation

These findings may be useful for them who are concerned directly or indirectly with the credit management of the bank especially reference to Nepal Investment Bank. On the basis of above analysis and findings of the study, following suggestions and recommendation can be drawn out.

- Generally banks have to maintained liquid assets. The current ratio of the NIB is considerable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to NIB.

- Cash and bank balance of NIB is moderate. Banks efficiency should be increased to satisfy the demand of depositor at low level of cash and bank balance does not provide return to the bank. Therefore, some percentage of the cash and bank balance should be invested in profitable sectors.
- Bank is suggested to make policy to ensure rapid identification of delinquent loans. Bank should make immediate follow-up of loan until it is recovered. The recovery of loan is very challenging as well as important part of the bank. Therefore, bank must be careful to strengthen credit collection policy.

- Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that the BOK has made some amount of fund in Government securities. But it is recommended to invest more funds in Government securities instead of keeping them idle.

- NIB should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records should be obtained for proper assessment of the proposal.

- NRB recommended following the NRB directives which will helps to reduce credit risk arising from defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So NIB is suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.

- NIB bank should be fulfilling some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantages group. In order do so; they should open their branches in the remote area with the objective to provide the banking services. The minimum deposit amounts should be reduced.

- The economic liberalization policy adopted by Nepal Government has created an environment of cutthroat competition in the banking sectors. In this context NIB bank is suggested to formulate and implement sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

- International relations of the NIB is satisfactory in comparison to others banks. Due to tough competition the bank should make negotiation with the international banks to increase its transactions in the international areas.

- According to NRB directives, all the commercial bank should increase the capital up to Rs 2000 million by 2070 B.S. NIB is increasing the paid up capita to meet NRB directive. Either capitalization of profit, declaration of Bonus share or right share issuecan make the increment in capital.

BIBLIOGRAPHY

Books and Articles

Brealy,R. & Myers, S. (1991).*Principle of corporate finance*. New Delhi:Mc-Graw Hill.

Gupta, S.C. (2000).*Fundamental of statistics. New Delhi*: Himalayan Publishing HousePrivate Limited.

Johnson, E. (1940).*Commercial bank management*. New York: The Dr yden Press Private Limited.

Kothari, C.R. (1990).*Research methodology: method and techniques*.New Delhi: Tata Mc-Graw Hill Publishing Company Limited.

Kulkarni, P. V. (1994).*Financial Management: Theory & Practice*. New Delhi; Tata MC-Graw Hill Publishing Co. Ltd.

N. Crosby, N. French and M. Oughton (2007) .*Banking lending valuations on commercialproperty*.Journal of Property Investment & Finance U.S.A. Vol. No. 5
Nepal Rastra Bank (2006/07).*Economic Report*,NRB, Kathmandu:

Oxford Advanced Learners Dictionar y. (2006). Calcutta: Oxford University Press PrivateLimited.

Pandey, I. M. (1979).*Financial Management*. New Delhi: Vikas Publishing House PrivateLimited.

Richard, A.B. (1996).*Principles of corporate finance*.New Delhi: Tata Mc-Graw HillPublishing Company Private Limited.

Ronald, G. (1999).*The new function of banking*. Harvard: Harvard business review

Roy, A. F. (1974).*Financial Statement Analysis*. New Delhi: Tata MC-Graw Hill PublishingCo. Ltd.

Scott, D. (1992).*Banking Institutions in Development Markets Volume*.Washington D. C.:World Bank.
Shekher & Shekher, (1999). B*anking theory and practice*.New Delhi: Vikas PublishingHouse.

Shrestha, K.N. and Manandhar, K.D. (2051).*Statistics and Quantitative Techniques forManagement.*Kathmandu:Valley Publishers.

Shrestha, M. S. (2006).*Fundamentals of banking*.Kathmandu: Buddha Academic EnterprisesPrivate Limited.

Mundul, S. (2008). *"Understanding of credit derivative"*New Business Age September,Kathmandu. Vol. No. 7

Van Horne, J. C. (1999).*Financial Management and Policy*. New Delhi: Prentice Hall ofIndia.

Varsahney, N.P. and Swaroop, G. (1994).*Banking law and practice for C.A.I.I.B.* New Delhi:Sultan Chand and Sons Private Limited.

Wolf, H.K. and Pant P. R. (1996).*Social science research and thesis writing*.Kathmandu:Buddha Academic Enterprises Private Limited.

Thesis and Journal

Bista, G.B. (2002). A Comparative Study on Financial Performance of Nepal SBI Bank Ltdand Everest Bank Ltd: An Unpublished Master Degree Thesis, Central Department ofManagement, T.U.

Gurung, A. K. (2006) "Lending policy and recovery management of Standard Chartered BankNepal ltd and NABIL Bank Limited" An Unpublished Master Degree Thesis, CentralDepartment of Management, T.U

Joshi, S. (2003). A Comparative Study on Financial Performance of Standard Chartered BankNepal Limited and Everest Bank Ltd: An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Karki, B.R. (2004). A Comparative Study on Financial Performance of Nepal Arab BankLimited and Standard Chartered Bank Limited: An Unpublished Master Degree Thesis,Central Department of Management, T.U.

Limbu Ram(2008). Credit Management of NABIL Bank Limited. An Unpublished MBS Thesis, submitted to Shanker Dev Campus.

Misra, S. (2007) "Credit management of Everest bank ltd" An Unpublished Master DegreeThesis, Central Department of Management, T.U.

Ojha, L. P. (2002) "Lending Practices" An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Parajuli, S. (2003). Credit Management of Joint Venture Banks: An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Paudel, H. (2006). A Comparative Study on Nepal Siddhartha Bank

Limited and Himalayan Bank Limited: An Unpublished Master Degree Thesis Central Department of Management, T.U.

Paudel, P. (2001) “A study on lending practices of joint venture commercial banks with reference to Nepal Bangladesh Bank Ltd (NBBL) and Himalayan Bank Ltd.(HBL)” An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Regmi, P. (2004). Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Kathmandu: An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Sedai, P. (2007) “an analysis of lending policy and strength of Nepal investment bank ltd” An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Shrestha, S. (2005). Credit Management with Special Reference to Nepal SBI Bank Limited: An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Subedi, K.P. (2005). Financial Performance of NABIL Bank Limited. An Unpublished Master Degree Thesis, Central Department of Management, T.U.

Websites:
www.nibl.com.np
www.nrb.org
www.sebon.com
www.Nepalstock.com

Appendix - I

A)Trend Analysis of Total Deposit:

Year(x)	Total deposit(Y)	X = x-2008/09	X^2	XY
2006/7	27590	-2	4	-55180
2007/8	38873	-1	1	-38873
2008/9	53010	0	0	0
2009/10	57305	1	1	57305
2010/11	58357	2	4	233428
Total n=5	$\sum Y$=235135	$\sum X$=0	$\sum X^2$=10	$\sum XY$=196680

Source: Annul report of Nepal Investment Bank Limited

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

NIB
a=47027
b=19668

Where as

Yc = 47027+ 19668Xof NIB

Appendix - II

(A) Trend Analysis of Loan and Advance

Year(x)	Loan and advances (Y)	X = x-2008/09	X^2	XY
2006/7	17769	-2	4	-35538
2007/8	27529	-1	1	-27529
2008/9	36827	0	0	0
2009/10	40948	1	1	40948
2010/11	41887	2	4	83774
Tot n= 5	$\sum Y=164960$	$\sum X=0$	$\sum X^2=10$	$\sum XY=63655$

Source: Annul report of Nepal Investment Bank Limited

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

a $= \frac{SY}{N}$

N

b $\frac{SXY}{SX^2}$

NIB
a = 32992
b =6365.5

Where as,

Yc = 32992+6365.5X of NIB

Appendix - III

(A) Trend Analysis of Total Assets

Year(x)	Total assets (A)	X = x-2008/09 X	X^2	XY
2006/7	27591	-2	4	-55182
2007/8	38873	-1	1	-38873
2008/9	53010	0	0	0
2009/10	57305	1	1	57305
2010/11	58357	2	4	116714
Tot n= 5	$\sum Y=$	$\sum X=o$	$\sum X^2=10$	$\sum XY=79964$

Source: Annul report of Nepal Investment Bank Limited

Let trend line be

Y = a + b x……………………. (I)

Where,

x = X - Middle year

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX^2}$

NIB

a = 15992.8

b = 7996.4

Where as,

Yc = 15992.8+7996.4Xof NIB

Appendix – IV

(A) Trend Analysis of Net Profit

Year(x)	Net profit (Y)	X = x-2008/09	X^2	XY
2006/7	501.4	-2	4	-1002.4
2007/8	696.73	-1	1	-696.73
2008/9	901	0	0	0
2009/10	1265	1	1	1265
2010/11	1176	2	4	2352
Tot n= 5	$\sum Y$=4540.13	$\sum X$=0	$\sum X^2$=10	$\sum XY$=1917.87

Source: Annul report of Nepal Investment Bank Limited

Let trend line be

Y = a + b x……………………. (I)

Where,
x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

NIB
a=908.026
b=191.787

Where as,

Yc = 908.026 +191.787 X of NIB