CHPATER-I

INTRODUCTION

1.1 General Background

Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. Especially after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principal and state policies. This liberalization has helped in establishing many companies, banks, finance companies and manufacturing industries. Thus these establishments help the country for its development.

The growth of banking is not so long. In comparison with other developing or developed country, the institutional development in banking system of Nepal is far behind. Even through the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king mandev the coin “Manank” and “Gunank” during the reign of the king Gunakamadev are in use. After the unification of Nepal, Prithvi Narayan Shah, the great king had used coin ‘Mohar’ in his name. An institution called “Taksar” is established in 1932 AD and it started to issue the coin scientifically. During the reign of Ranodip Singh an office named “Tejarat” is established in Kathmandu in 1879 AD It used to provide loans to the government officials and the people against deposit of gold and silver. It had also extended its branches outside Kathmandu valley for providing loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks. (Bhandari, Dilli Raj (2004), “Banking and Insurance”, Aayush Publication, Kathmandu, P.6-9) After the establishment of Nepal Bank limited on 30th Kartik, 1937 (AD), modern banking system started in Nepal. Under the Nepal Rastra Bank Act 1955 AD, Nepal Rastra Bank is established in 1956 AD, Baishakh 14th in Nepal. Rastriya Banijya Bank is established in Government sector in 1965 AD and Agricultural Development Bank in 1967 AD. Nepal Arab Bank limited is the 1st joint venture bank established in 1984 under the Commercial Bank Act 1974 and Companies Act 1964. Now there are 32 Commercial banks in Nepal to perform banking functions under the supervision of NRB. (Shrestha, M.K. (1950) “Financial Institutions & Markets”, Asmita Books Publishers and Distributors, Kathmandu P2).

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

1.2 Risk Assets Management

Risk assets are regarded as the most income generating assets especially in commercial banks. Risk assets are regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of investment; the most of the investment activities based on credit; it is the main factor for crating profitability; it is the main source of creating profitability; it determines the profitability. It affects the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer status. Similarly, it provides to trader & industry, the government will get tax from them and help to increase national economy. It is the security against depositors. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as Risk Assets Management. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of risk assets should seriously be considered.

Management is the system, which helps to complete the every job effectively. Risk assets management is also the system, which helps to manage credit effectively. In other words, risk assets management refers management of credit exposures arising form loans, corporate bonds and credit derivatives. Risk assets exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

Risk Assets management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions. Credit risk is not restricted to lending activities only but includes off balance sheet and inter - bank explores. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loan are the largest and most obvious sources of credit risk, however, other sources of credit risk exist through out the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlement of transactions.

The risk assets policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The risk assets policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit information and methods of credit analysis.

1.3 Introduction of Sample Organizations under Study

Nabil Bank Ltd. (NABIL)

Nabil Bank Ltd is the 1st joint venture bank in Nepal, established in 1984 A.D. under the company Act. Dubai Bank Ltd is the initial foreign joint venture partner with 50% equity investment. The shares owned by DBL are transferred to Emirates Bank International Ltd (EBIL), Dubai. Later on EBIL sold its entire holding to National Bank Ltd, Bangladesh (NBLB). Nabil bank limited had the official name Nepal Arab Bank Ltd till Dec31st 2001. Hence 50% equity shares of Nabil Bank Ltd are held by NBLB and out of another 50%, financial institutions has taken 20% and remaining 30% are issued to general public of Nepal. Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil is incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Telebanking system. (Source: www.nabilbank.com)

Everest Bank Ltd. (EBL)

Everest Bank Ltd is a joint venture bank with Punjab National Bank of India established in 1993 A.D. It started its operation from 18th October 1994. Under the technical service agreement signed between two banks Punjab National Bank has been providing top management services and banking expertise to Everest Bank Ltd. The bank operates with the objective of extending professionalized banking services to various section of the society in the kingdom of Nepal and there by contributes to the economic development of the country. Its head office is in Lazimpat, Kathmandu. The major branches connected through anywhere branch banking System (ABBS) through which the clients can withdraw and deposit money from ABBS.

Everest Bank Limited (EBL) is a professionalized and efficient banking services provider in Nepal. Founded in 1994, the bank has been one of the leading banks of the country and has been catering its services to various segments of the society since then. With clients from all walks of life, the bank has helped develop the nation corporately, agriculturally and industrially. So one can say with all earnestly that Everest Bank Limited is truly a Nepalese bank.

Punjab National Bank (PNB), is the joint venture partner (holding 20% equity in the bank) of Everest Bank Ltd. which is the largest nationalized bank in India. With its presence virtually in all the important centers at India and over 5600 ATM counters, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. For its excellence in banking services, it is recently awarded the "Best Bank Award 2011"amongst all banks in India by the leading corporate magazine, Business India.

Everest Bank Limited (EBL) provides customer-friendly services through its Branch Network and all it's the branches are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. The bank has 45 Branches, 55 ATM Counters and 21 Revenue Collection Counters across the country making it a very efficient and accessible bank for its customers, anytime, anywhere. (Source: www.everestbankltd.com)

1.4 Statement of the problem

Most major banking problems have been caused by weakness in risk assets management. Banks should now have a keen awareness of the need to identify measure, monitor and control risk assets as well as to determine that they hold adequate capital against it. These risk that they are adequately compensated for risks incurred. So, to establish creditability position is a major issue in commercial banking sector during these days.

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

Risk assets are the most effective and sincere area in commercial bank. It is regarded as the heart of every commercial bank. But the banking sector is far from this fact. Thus, risk assets management is considered as the heart issues in Nepalese commercial banking sector.

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

1 Is the practice on risk assets adopted by commercial bank in good position?
2 What is the credit efficiency of the Nepalese commercial banks?
3 Is the quality of management good in commercial banks?
4 Is there any relationship between risk asset position and profitability situation?
5 How does the commercial bank manage better creditability position?

1.5 Objectives of the study

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

1. To explore the relationship with loan and advances, non-performing loan and net profit of selected Nepalese Commercial banks.
2. To explore the credit efficiency of selected Nepalese commercial banks
3. To analyze the banking industry environment of selected Nepalese commercial banks in terms of practices on risk assets through primary data analysis.

1.6 Significance of the study

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

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

1.7 Limitations of the study

- The scope of the study is limited only in commercial banks because of time and resource constraints.
- Most of the analyses are descriptive in present study. This study is very basic attempt to address the research issues; therefore, it might not be able to show casual linkage or effect.
- Present study could not address all the aspects of risk assets position. The study is based on employees; self repeated response about their perception on primary analysis. It is, therefore, the response collected from the employees might not be valid measure.
- Secondary analysis is based on published financial data on collected from annual reports of the concerned banks.
- The secondary analysis covers time span of current five years i.e. FY 2007/08 to 2011/12.
- Various financial tools are used to know financial condition of the bank. However, the study tries to find out position of risk assets and its importance in selected commercial banks.

1.8 Organization Structure of the study

The present study is organized in such a 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 analyses 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 in terms of risk assets management. It also gives important suggestions to the concerned organization for better improvement.

Bibliography and appendixes are included at the last part of the research.

CHAPTER- II

REVIEW OF LITERATURE

This chapter deals with the literature, relevant to this study, this part of thesis is essential to know about the findings of other researchers which are appropriate to the study. The first part consists of conceptual framework and the remaining parts consists the review of reports, articles, journals and dissertation.

2.1 Conceptual Framework

"Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker's business is then to take the debt of other people to offer his own in exchange and thereby to create money. He may be a dealer in debts, but in distress is only to observer of wealth and it would be equally permissible to describe the banker as creator of wealth." (*Crowther, "An Outline of Money, p. 81)*

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

The study seeks first and like some other to examine the relative importance of credit policy in marketing decisions and, seconds, to assess the case for differentiating credit packages. It is also presented the result of an empirical survey into the credit policies pursued. In concept, the empirical study is similar to earlier studies.

The risk assets policy cannot be sound unless it is based on a clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used.

A credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

A commercial Bank is business organization that receives and holds deposits of fund from others makes loans or extends credits and transfers funds by written order of deposits. Commercial Bank is a corporation, which accepts demand deposits subject to check and makes shorts-term loans to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money and substitute for money such as cheques or bill of exchange. He also provides a variety of financial services. Commercial bank Act 1974. of Nepal has defined that "A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank mean for cooperative, agriculture, industries for such specific purpose."

But, recently, the Bank and Financial Development Institutions Ordinance, 2003 has accumulated the five banking acts including commercial bank Act 1974, which defines the bank with respect to their transactions. This Act is trying to categories the banking institutions in two ways that I based on their transactions. According to this Act, "Bank is the institution which performs its transaction under the provisions mentioned on section 47 of this Act."

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

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

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

The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies is always taken in mind that “the greater the credit created by the bank, the higher will be the profitability". A sound lending and investment policy is not only prerequisite for bank’s profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal. The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

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

2.1.1 Risk

The chance that an investment's actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. Different versions of risk are usually measured by calculating the standard deviation of the historical returns or average returns of a specific investment. A high standard deviations indicates a high degree of risk.
Many companies now allocate large amounts of money and time in developing risk management strategies to help manage risks associated with their business and investment

dealings. A key component of the risk management process is risk assessment, which involves the determination of the risks surrounding a business or investment.

2.1.2 Credit Risk

The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation.

Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

2.1.3 Principles of Management of Credit Risk

1. While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties. This experience is common in both G-10 and non-G-10 countries.

2. Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

3. For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange

transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions.

4. Since exposure to credit risk continues to be the leading source of problems in banks world-wide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. The Basel Committee is issuing this document in order to encourage banking supervisors globally to promote sound practices for managing credit risk. Although the principles contained in this paper are most clearly applicable to the business of lending, they should be applied to all activities where credit risk is present.

5. The sound practices set out in this document specifically address the following areas: (i) establishing an appropriate credit risk environment; (ii) operating under a sound credit-granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk. Although specific credit risk management practices may differ among banks depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program will address these four areas. These practices should also be applied in conjunction with sound practices related to the assessment of asset quality, the adequacy of provisions and reserves, and the disclosure of credit risk, all of which have been addressed in other recent Basel Committee documents.

6. While the exact approach chosen by individual supervisors will depend on a host of factors, including their on-site and off-site supervisory techniques and the degree to which external auditors are also used in the supervisory function, all members of the Basel Committee agree that the principles set out in this paper should be used in evaluating a bank's credit risk management system. Supervisory expectations for the credit risk management approach used by individual banks should be commensurate with the scope and sophistication of the bank's activities. For smaller or less sophisticated banks, supervisors need to determine that the credit risk management approach used is sufficient for their activities and that they have instilled sufficient risk-return discipline in their credit risk management processes.

7. The Committee stipulates in Sections II through VI of the paper, principles for banking supervisory authorities to apply in assessing bank's credit risk management systems. In addition, the appendix provides an overview of credit problems commonly seen by supervisors.

8. A further particular instance of credit risk relates to the process of settling financial transactions. If one side of a transaction is settled but the other fails, a loss may be incurred that is equal to the principal amount of the transaction. Even if one party is simply late in settling, then the other party may incur a loss relating to missed investment opportunities. Settlement risk (i.e. the risk that the completion or settlement of a financial transaction will fail to take place as expected) thus includes elements of liquidity, market, operational and reputational risk as well as credit risk. The level of risk is determined by the particular arrangements for settlement. Factors in such arrangements that have a bearing on credit risk include: the timing of the exchange of value; payment/settlement finality; and the role of intermediaries and clearing houses. (Source: Reily; 2003:46)

2.2 Factors Affecting Credit Policy

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

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

Financial Condition: - It determines the borrower's capacity to repay through cash flow as the “First way –out". The strength of 'second way-out' i.e. through collateral liquidation is also assessed. Further the possibility to fall back on income of sister concerns in case of financial crunch of the company condition theaters repayment capacity.

Management Quality: - It determines the integrity, competence and nature of alliances of the borrower's management team. Weakness in replacements needs to be evaluated.

Technical strength: - It determines the strength and quality of the technical support required for sustainable operation of the company in terms of manpower and the technology used. Appropriate technical competence of the manpower, the viability of the technology uses, availability of after sales service, cost of maintenance and replacement need to be evaluated.

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

2.3 Alternative Structures for CPM

The establishment of credit portfolio management is typically an evolutionary process for each banking institution. At start-up, CPM usually takes a defensive role eliminating concentration risk and culling underperforming relationships from the risk/return point of view. As CPM develops, optimization of the selected portfolio is added to its role, adjusting exposures to take into account the best risk/return structure. The adjustments often use the credit derivatives markets in order not to disturb the primary relationship with the customer. In its advanced form, CPM adds the bank's credit view to its role, with the intention of improving the portfolio's relative value performance among different asset classes.

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

Functions of CPM

CPM achieves two principal goals:

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

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

- Serve as an analytical and advisory group to the line and to the approval authorities, plus serve as an integral part of critical deal teams.
- Prepare the credit approval package and advocate the transaction to the credit approval authorities.
- Closely monitor obligor risks, returns, and concentrations.

- Evaluate, establish, and effectively use advanced modeling techniques to help determine the potential risk inherent in the portfolio and its asset correlations.
- Manage those same risks through the judicious use of loan sales and synthetic instruments such as credit default swaps and CDOs. (Reidy, RMA Journal, (2005) “Corporate credit portfolio management: changing skills requirements”.)

2.4 Review of related Studies

Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

2.4.1 Review of Articles & Journals

Shrestha (2007) in his article, “*Portfolio management plays the vital role in individual as well as institutional”* mentioned that due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, bank start sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore portfolio management becomes very important both for an individual's as well as institutional investors. Large investors would like to select the best mix of investment assets.

Lamichhane (2008) in his article, *“Forty-six years of NRB”* mentioned that the investor or whether banks, financial institutions, individuals, private or government sector, most not took the proposal by making decision without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as well as through investment decisions to make its macro and micro level viability effective.

Chhetri (2009) in his article titled "*Non Performing Assets: A need for Rationalization*", attempted to provide connation of the term NPA and its potential sources, implication of NPA in financial sector in the South East Asian region. He had also given possible measures to contain NPA. "Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of Loan settlement. Since the date becomes past dues, the loan becomes non-performing asset. The book of the account with lending institution should be effectively operative by means of real transaction effected on the part of the debtor in order to remain loan performing.

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months, in India. Loans thus defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPAs are classified according to international practice into 3 categories namely Substandard, Doubtful and Loss depending upon the temporal position of loan default. "Thus the degree of NPA assets depends solely on the length of time the asset has been in the form of none obliged by the loanee. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. "As per Mr. Chhetri's view, failure of business for which loan is used, defective and below standard credit appraisal system credit program sponsored by Government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPAs. He said that there is serious implication of NPAs, on financial institution. He further added that the liability of credit institution does not limit to the amount declared as NPA but extend to extra amount that required for provisioning depends upon the level of NPAs and their quality. As per his view, rising level of NPAs create a psyche of worse environment especially in the financial sector. He mentioned that by reviving the activities of the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc NPAs can be reduced.

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

Subedi (2009) in an article published in New Business Age titled "*Growth in Major Commercial Banks"* has compared between the first six month of the fiscal year 2002-03 and 2003-04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB) (the government owned banks). There has been increase in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration is only on recovery of the huge Non Performing Assets (NPA). However, Mr. Subedi pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB all banks have increment in deposit collection.

A decrease in CD ratio (the percentage of the deposit mobilization over the credit) signifies the presence of high liquidity and comparatively lower fund mobilization and vice versa. High liquidity and idle funds will result in lower profits.

As per the NRB directives, all commercial banks have to maintain Loan Loss provision according to the size of overdue loans.

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

However this ordinance has lots of unclear issues, which has created confusion to the existing banks and financial institutions. The ordinance has classified the financial institutions into categories replacing the present terms as commercial, development of finance companies. The act has classified the category, as "Ka" category ca mention itself as a Bank, the rest of the category should name itself only as a financial institution. The ordinance has created confusion to the existing development banks and finance companies as what category they belong to? The positive aspect of this ordinance is that the financial institutions which fall under the "Kha" category will also be allowed to carry out several financial activities that are previously allowed to only commercial banks, such as opening current accounts, issuing drafts and traveler's cheques, dealing in foreign exchange and issuing Letter of Credits. Even the financial institutions, which falls under the category "Ga" are permitted to handle current account, saving account and to some extent, foreign currency transactions. Due to these changes, the consumer will benefit due to the competition among these banks and financial institutions.

Khatri (2010), in an article *"One umbrella Act's pros and cons"* published in New Business Age titled has analyzed the ordinance Pros and Cons, in general speaking termed as Umbrella Act. He has expressed his disagreement in the ordinance regarding the qualification of the Board of director's composition. The qualification set is out of the total number of directors, two thirds have to be graduates in specified disciplines-management, commerce, economic, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background as the in the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) are engineers. He further writes that activities like project financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specified fields only. CEO of the "Ka" category qualification required is Masters Degree in the chosen few subject and the term would be four year. The act however does not mention the renewal of the CEOs term. The Board or AGM of the institution should be decided the CEO's tenure.

Similarly, he points out argument in the requirement of five years work experience. The performance of the public limited companies is so poor that the efficiency of the staff is questionable. In such situation how can one hire some one with the experience in public limited companies? As per the act, it is mandatory to appoint a professional director in the Board chosen from the list of professional experts enlisted by NRB. Such director will not have voting right; it is questionable that can be contribute significantly towards the development of a bank or financial institution without the voting right?

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

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

Shrestha (2011) in an article *"Entrepreneur-Friendly credit policy"* published in Business Age entitled "Entrepreneur-Friendly Credit Policy" has reviewed the present credit policy with main focus of the credit decision being based on the collateral. He argues that only collateral should not be considered as the basis of the credit decision.

Access to finance is vital element for entrepreneurship development in the country. Without it one cannot think of starting business of any sort. It's mainly due to this reason; most of the students after completing there single-mindedly look for employment opportunity. No other options, mo matter how lucrative and attractive it would be entering into their mind. It has created huge pressure in the labor market. In the absence of entrepreneurial activities in the country, employment opportunity will be very limited and even qualified and competent people do not get job. The established very limited and even qualified and competent people do not get job. The established very limited and even qualified and competent people do not get job. The established notion of the Nepalese bankers that money lent to the wealthy people based on collateral is safe. But is not actually a safe assumption in the face of greater difficulty in loan recovery from these people. Also, this particular segment of market is already over-banked. With the worsening business performance of the Nepalese corporate sector mostly due to the poor management compounded by other factors like sluggish economic conditions and political instability, banks must now explore newer market segment for their sustained growth and success.

Under this backdrop, Nepalese commercial banks must change their policy and must understand that event the people living in the low and middle level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid is very intense and has already saturated. In this context, potential entrepreneurs armed with skills, knowledge and readiness to take plunge in the business world can form a formidable market opportunity for the Nepalese banking industry-only if it can come out of the cocoon of traditional collateral-driven lending approach.

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

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

2.4.2 Review of Unpublished Thesis

Gautam (2004) "*Lending Practices and Procurers of Nepal Bangladesh Bank Limited*" has outlined his major objectives in the research as follows.

- To assess the lending practice of sample bank
- To assess the quality of lending
- To study the lending procedures of sample banks

The major findings of the research are as follows:

- The bank is not concentrating only in big cities and large groups
- NB Bank should expand branches in rural areas.
- Bank should invest in productive sector, develop the concept of micro financing and group financing
- The bank should maintain the balance in its loan portfolio and current requirement of the customers.
- Bank should give preferences to the short term lending.
- Banks should provide the consortium loan for those for those projects under government guarantee and security thereby uplifting the economic condition of the country.

Ojha (2005) on "*Lending Practices": A study on Nabil Bank Limited, Standard Chartered Nepal Limited and Himalayan Bank Limited*" has found out that the measurement of lending strength in relative term has revealed that the total liability to total assets of SCBNL has the highest ratio. The main objectives of his research are as follows:

- To find out the tendency of investment in government securities
- To study the liquidity strength of the sample banks
- To study the lending portfolio of the sample banks

The major finding of the research is as follows:

- SCBNL tendency to invest in government securities have resulted with the lowest ratio of loans and advances to total assets ratio.
- The steady and high volume of loans and advances throughout the years has resulted Nabil ratio to be the highest.
- The ratio of loans and advances and investment to deposits ratio has measured the portion of total deposits that is used to increase the income of the banks irrespective of the portfolios of its application.

- Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratio of other two banks.
- The analysis of lending strength of HBL in Loans and Advances is the best. However Loans and advances, investments to deposits ratio have upgraded the performance of Nabil.

Joshi (2008) on "*A study on financial Analysis of NIBL*" has found out that the analysis of the banks shows that the deposits have been increasing gradually during the study period. The main objectives of her research are as follows:

- To assess the total investment trend of the sample banks
- To study the loan loss provision of the sample banks
- To assess the priority and deprived sector lending of the sample banks

The major findings of her research are as follows:

- Total loans and advances have been increasing.
- The total investment of the bank has been increasing over the years, which is mainly due to bank strategy of safe lending and also a as a result of increase in customer deposits and limited opportunities for prudent lending.
- As the loan and advances from the bank is increasing provision for loan loss has also been increasing.
- The bank has been holding adequate provision for losses over the years and the general loan loss provision is 4% in average of the total risk assets.

In her study she has recommended that the bank should focus more on non –risky lending opportunities such as mortgages, housing loans and personal loans. It should carefully examine safety of principal as well as sources of repayment, capital structure, requirement and credit worthiness of a borrower for providing credits. In other words, credit manager should evaluate credit risk by considering well-known five C's of credit viz character, capacity, capital, collateral and conditions.

The financial analysis of NIBL has been analyzed and interpreted in this thesis. Analysis on terms of loan and advances is simply presented with comparison with the previous year data only. On the loans and advances part, it has only simple comparison been done. Whether the loan classifications and provisioning of loans, investment in priority and deprived sector loan investment regulation of NRB's directives has been followed or not has not been explained.

Adhikari (2010), in her Master's degree thesis titled, '*Credit Management of Nepalese commercial banks*' expressed the major objective of the research as:

- To analyze the credit efficiency of NIB and NIC banks.
- To analyze the loan and advances of the sampled banks.
- To analyze their credit efficiency and the relationship between different variables.

Her research concluded that NIC seems to be strong to mobilize its total deposit as loan and advances than NIB since it has maintained higher loan and advances to total deposits. However, in terms of average interest income to loans and advances, NIB is the best performer than NIC because of its lowest non performing loan to total loan and advances. Therefore, he suggested that NIB should focus to increase loan and advances to total asset ratio to increase lending performance. The researcher recommended that both of the banks should try to increase the loan and advances to deposit as high ratio shows the capability of bank on mobilizing its total deposit and advances. He further recommended that banks should do a lot more exercise to create more credit creation, and reducing rate for increasing loan and advances which helps them to be more competitive. And, provision of doubtful loans should be maintained as per the directives of Nepal Rastra Bank.

Shrestha (2010) on the topic '*A study on Non-performing Loans and Loan Loss Provisioning of Commercial Banks*' has mentioned the following objectives:

- To assess the trend of loan and advances of sample banks
- To find out the trend of nonperforming loan of sample banks
- To find out the relationship between NPL and profitability of the sample banks

The major findings of his study are as follows:

- SCBNL had risk averse attitude of the management or they have policy of investing low in the risky assets.
- The loans and advances to total deposit ratio of NBL, NABIL and SCBNL during the study period is found to be decreasing annually.
- In the same way, the proportion of non-performing loan with regard to total loans of NBL, NABIL & SCBNL is found to be decreasing annually which are the result of effective bank credit management and its efforts of recovering bad debts through the recovery of establishment of recovery cell.
- In the same way, proportion loan loss provision of NBL is found to be significantly higher as compared to other two commercial banks.

Manandhar, (2011) has conduct research on *"Credit Risk and Profitability of Commercial Banks"*. He analyzed the data of six commercial banks and has set the following objectives:

- To evaluate the impact of credit risk on the profitability of the commercial banks.
- To evaluate internal and external factor those influence the performing assets to non performing assets.

And the major findings of his study are as:

- The NPA of NIB and NB Bank is increasing during the study period.
- The NPA of EBL and NABIL is decreasing during the study period.
- The NPA of HBL and SBI Bank is fluctuating during the study period.
- In overall performance Nabil Bank is found to be satisfactory where as NB Bank performance is the worst.

2.5 Research Gap

The main focus of this study is to understand and compare the credit Risk management practices of two commercial banks, as well as show its relation with their liquidity position. Taking NABIL and EBL as sampled banks, this study tends to highlight the major trends in maintaining the liquid assets and also to analyze the credit and advances provided by them. The above review of articles, journals and unpublished thesis have dealt only with either one of the topic, credit management or liquidity management, and have failed to recognize that the most successful bank is the one that demonstrates excellent performance in both topics. Besides, the data taken for analysis are up to date and range from FY 2007/08 to FY2011/12, thus incorporating the current financial troubles seen in the market.

A modern bank thrives on its capability to provide credit, and earn through its mechanisms earn huge sum of profits. However, the hassles and the uncertainties of the day have brought along some strict regulations that must be heeded for the bank to survive. Therefore, it seems every bank is walking on a tight rope to maintain the balance between providing more credit and maintaining enough liquidity. The banks that are able to maintain this balance are the ones that are enjoying huge returns. Hence, this research is conducted to understand whether the sampled banks have been successful on maintaining this balance or not.

Previous researchers analyzed the risk assets (credit) management by using secondary source of information in terms of credit practices or lending practices. But actually speaking, risk assets management can be determined by various factors. Among of them, banking environment and management quality in terms of credit may be the strong determinant for risk assets management in banks. In present context, these are the heart issue in Nepalese commercial banks. The previous scholars could not submit the present facts. Present study tries to define risk assets management by applying those various facts. It can be very useful or important in this area. Thus, present study may be valuable piece of research work.

CHAPTER-III

RESEARCH METHODOLOGY

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

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

3.1 Research Design

Present study follows the descriptive as well as analytical statistics of the analysis to meet the stated objectives of the study. 'Descriptive studies are primarily concerned to find out 'What is'. The secondary data are analyzed from the data collected from the share department of the related banks. Few financial statements of selected commercial banks are tabulated using spreadsheet.

3.2 Sources of Data

The research is based on primary as well as secondary source of data. For research purpose, published financial statements (i.e. Annual report) of concerned banks are collected. Similarly, financial statement of selected commercial banks and various markets related information are collected and tabulated in spreadsheet. Such secondary information is gathered from the share department of the concerned banks.

Carefully designed research instrument (questionnaire) used for primary data analysis. The researcher has carefully designed questionnaire by considering various influencing factor of industry environment, management quality. The factors derived from previous research findings on related area are to support risk assets management. Basic sources of primary information are employees of concerned banks. In addition, an answer on certain queries made to staffs of concerned organization personal requires and discussions are also being conducted for clarification and verification of collected data and for recommendation.

3.3 Population and Sample of Survey Design

A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. 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 of part of the population on the basis of which a judgment or inference about the universe is made. (Sharma and Chaudhary(2058), "Statistical Methods", pp 171-173)

Here only 2 sample commercial banks are taken out of 32 commercial banks. For selecting the samples, non-random sampling method is used here among different methods. The samples are taken only from commercial banks. Organization under study is as follows, whose general introduction and major objectives are presented in chapter one. The sample organizations are as follows:

- NABIL Bank Ltd.
- Everest Bank Ltd.

3.4 Primary Data Collection Techniques

Individual data sheet is used to gather information about selected characteristics of the respondents. Selection of the items for individual data sheet are primarily based on earlier international researches concept on the related subject and the previous research findings. The instrument has sixteen items relating to industrial environment and rewiring seven items are related to management quality. Few demographic variables such as gender position, age, major profession and experience in work in an organization are also designed and included in the instrument. The demographic variables are designed in nominal scale. All variables are designed in six-point likert type scale “-strongly disagree” and “6- strongly agree” and average in between.

3.5 Primary Data Collection Procedure

Convenient sampling technique is followed to gather the opinion or characteristics of employees of the concerned bank. Questionnaire are administered and returned in four-five days. In many situations, the researcher asked the respondents to give opinions of the questions and ticked on replied answers to administer the questionnaire. Researcher personally visited head office of the related banks. The last hour of the 5 day is used to request the respondents to fill up the questionnaire. In most of the cases, meaning of the items and instruments are described to the respondents, which helped them to give fair opinion.

3.6 Tools and Techniques Employed

To meet the objectives of the study, the sources of secondary data of commercial bank are analyzed by using financial tools such as Ratio analysis. Similarly all the scores of individual data sheet (represented by primary data) are entered into SPSS version 11.5 database for tabulation & analysis simple descriptive analysis tools such as frequency, mean, standard deviation are used. Often source inferential tools such as analysis of variance ANOVA is also used to know the differences among selected commercial banks.

The ratio analysis involves comparison for a useful interpretation of financial statements. The quantities judgment regarding risk assets Management of a firm can be done with the help of ratio analysis. The following ratios are calculated for the study purpose:

3.6.1 Credit Practices Ratios

- Total Loan to total deposit ratio

$$\frac{TotalLoan \,\&\, Advances}{TotalDeposit}$$

- Loan and advances to total assets ratio

$$\frac{TotalLoan \,\&\, Advances}{TotalAssets}$$

- Loan and advances to current assets

$$\frac{TotalLoan\ \&\ Advances}{TotalCurrentAssets}$$

- Interest income to loan and advances

$$\frac{InterestIncome}{TotalLoan\ \&\ Advances}$$

- Loan loss provision to total loan and advances ratio

$$\frac{TotalLoanLoss\,\mathrm{Pr}\,ovision}{TotalLoan\ \&\ Advances}$$

- Non-performing loan to total loan and advances ratio

$$\frac{NonPerfor\,\mathrm{min}\,gLoan}{TotalLoan\ \&\ Advances}$$

3.6.2 Credit Efficiency Ratios

- Interest expenses to total deposit ratio

$$\frac{InterestExpenses}{TotalDeposit}$$

- Interest expenses to total expenses ratio

$$\frac{InterestExpenses}{TotalExpenses}$$

- Non-interest bearing deposit to total deposit ratio

$$\frac{NonInterestbearingDeposit}{TotalDeposit}$$

- Interest income to total income ratio

$$\frac{InterestIncome}{TotalIncome}$$

- Interest from loan, advances and overdraft to total interest income ratio

$$\frac{InterestincomefromLoan\ \&\ Advances}{TotalInterestIncome}$$

- Interest suspense to total interest income from loan and advances ratio

$$\frac{InterestSuspense}{TotalInterestIncomefromLoan\ \&\ Advances}$$

3.1.2 Statistical Tools

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

3.1.2.1 Regression and Correlation

Regression and Correlation Analysis are the techniques of studying how the variations in one series are related to the variation in another series. Measurement of degree of relationship between two or more variables is called correlation analysis and using the relationship between a known variable and an unknown variable to estimate the unknown one is termed as regression analysis. Thus, correlation measures the degree of relationship between the variables while regression analysis shows how the variables are related. Regression and Correlation analysis thus determines the nature and strength of the relationship between two variables. *(Sharma and Chaudhary*, “Statistical Methods”, Pg 405.)

$$r = \frac{N\sum xy - \sum x.\sum y}{\sqrt{\left(N\sum x^2 - \left(\sum x\right)^2\right)\left(N\sum y^2 - \left(\sum y\right)^2\right)}}$$

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

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

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

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

4.1 Comparative Financial Condition of Selected Nepalese Commercial Banks

Financial analysis assists in identifying the major strengths and weaknesses of a firm. It indicates whether a company has enough cash to meet its obligations and ability to utilize properly their available resources. Financial analysis can also be used to assess the company's liability as and ongoing enterprise and determine whether a satisfactory return is being earned for the risks return. Thus, comparative financial condition of the banks in terms of credit practices is necessary to find out the comparative credit practices in those banks. For research purpose, financial conditions of both the banks in terms of credit practices, credit efficiency has analyzed the comparative credit position in selected commercial banks.

4.1.1 Comparative Credit Practices in Nabil Bank and Everest Bank Ltd.

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

i) Total Loans to Deposit Ratio

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

Table 4.1

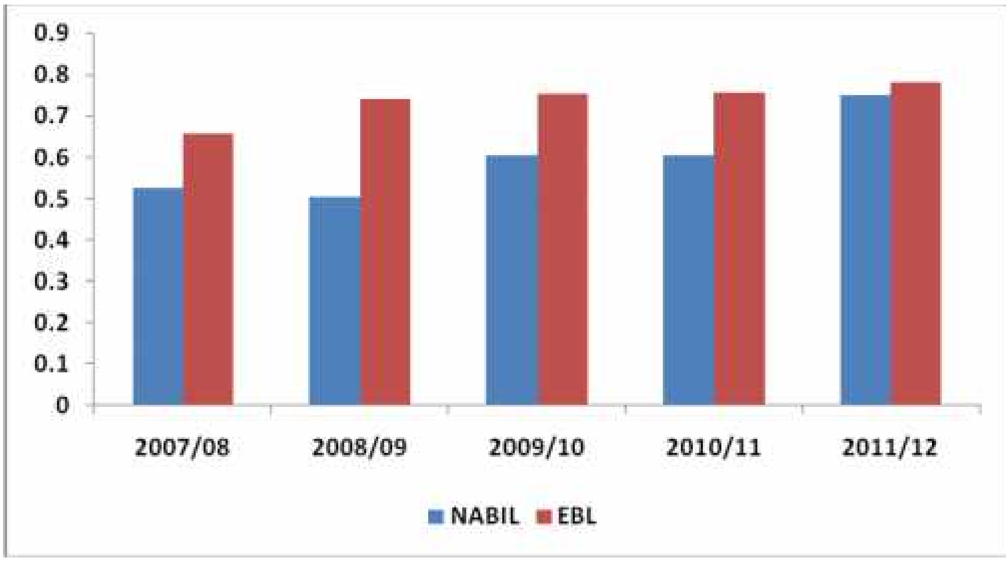
Total Loans to Deposit Ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.5256	0.5031	0.6034	0.6055	0.7505	0.5976
EBL	0.6570	0.7400	0.7540	0.7560	0.7820	0.7378

Source: Appendix -II

Figure 4.1

Total Loans to Deposit Ratio



Source: Appendix -II

Table No. 4.1 shows that the ratio of credit to deposit ratio in NABIL and EBL respectively. The credit to deposit ratio of both the banks under study is found to be in fluctuating trend throughout the study period. Comparatively the credit to deposit ratio of EBL is higher than the ratio of NABIL. From mean point of view, EBL has maintained higher loan & advances to total deposit ratio than NABIL. In this way, it shows that EBL seems to be strong to mobilize its total deposit as loan & advances. It can be concluded that NABIL has lower position to mobilize its deposits as compare to EBL. However higher ratio does not mean it is always better from the point of liquidity. From the analysis EBL seems to be the best performer in utilizing its collected resources in the form of deposits much efficiently, which may definitely increase in income and profit for EBL.

ii) Interest Income to Loans & Advances

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

Table 4.2

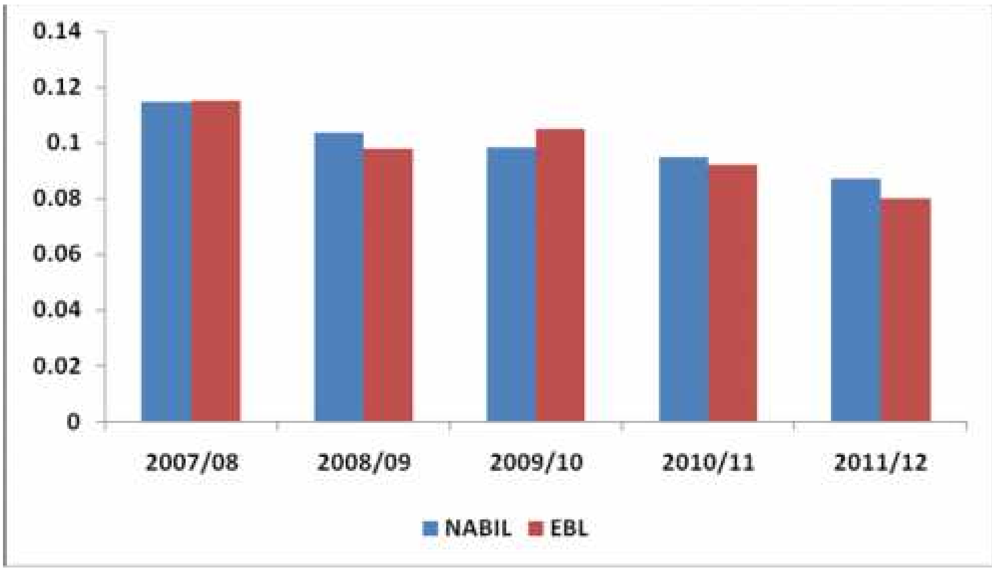
Interest income to Loan & Advances

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.1146	0.1034	0.0983	0.0945	0.0870	0.0996
EBL	0.1150	0.0980	0.1050	0.0920	0.0800	0.098

Source: Appendix -1I

Figure 4.2

Interest income to Loan & Advances



Source: Appendix -II

Table No. 4.2 shows the ratio of interest income to loan and advances ratio of both the banks under study. The ratio of EBL is found to be in fluctuating trend but the same of NABIL is found to be in decreasing trend. It depicts that the interest income earning level of EBL is not steady. Whereas the interest income earning trend of NABIL is continuously decreasing throughout the study period. Calculated mean value of NABIL is highest with 0.0996 as compare to EBL, which is 0.098 respectively. From this point of view NABIL has the best performance in earning interest income.

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

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

Table 4.3

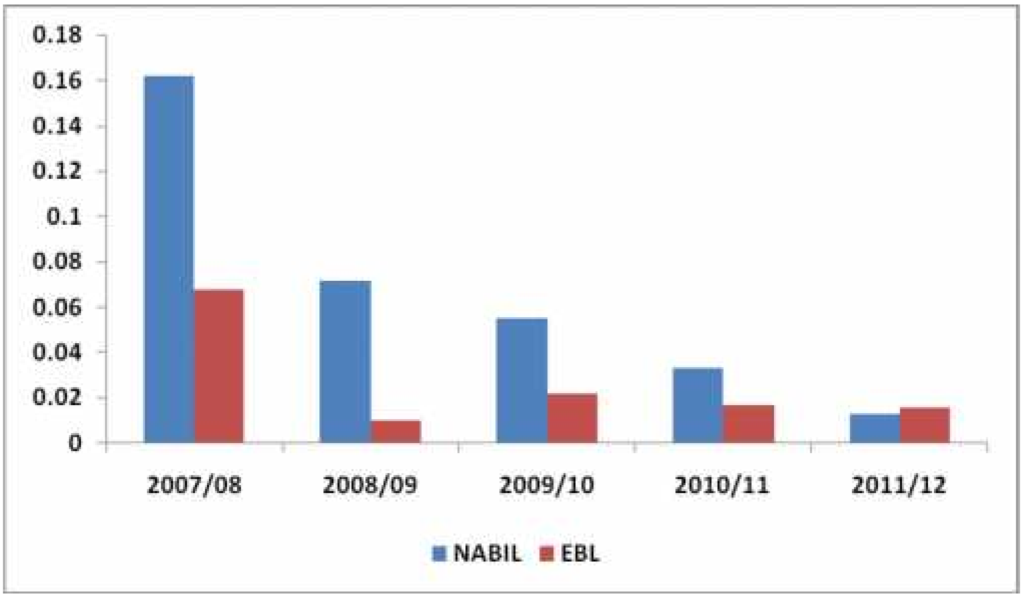
Non-performing Loan to Total Loan and Advances (in %)

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.1620	0.0714	0.0554	0.0335	0.0132	0.0671
EBL	0.0679	0.0104	0.0220	0.0170	0.016	0.0267

Source: Appendix -1I

Figure 4.3

Non-performing Loan to Total Loan and Advances (in %)



Source: Appendix -II

Table No. 4.3 shows the non performing loans to total loan and advances ratio of both the banks under study. The above table depicts that the ratio of NABIL is continuously decreasing throughout the study period. But the same ratio in case of HBL is found to be in fluctuating trend. It’s a good sign for NABIL that its being able to maintain the NPL in minimum. From the mean point of view, it can be said that EBL has the lowest ratio than NABIL. Banking sector is seriously affected by the non-performing loan. Both banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that NABIL Banks to be very careful while granting loan and to do effective follow up for recovery of non -performing loan.

iv) Loans and Advances to Total Assets Ratio

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

Table 4.4

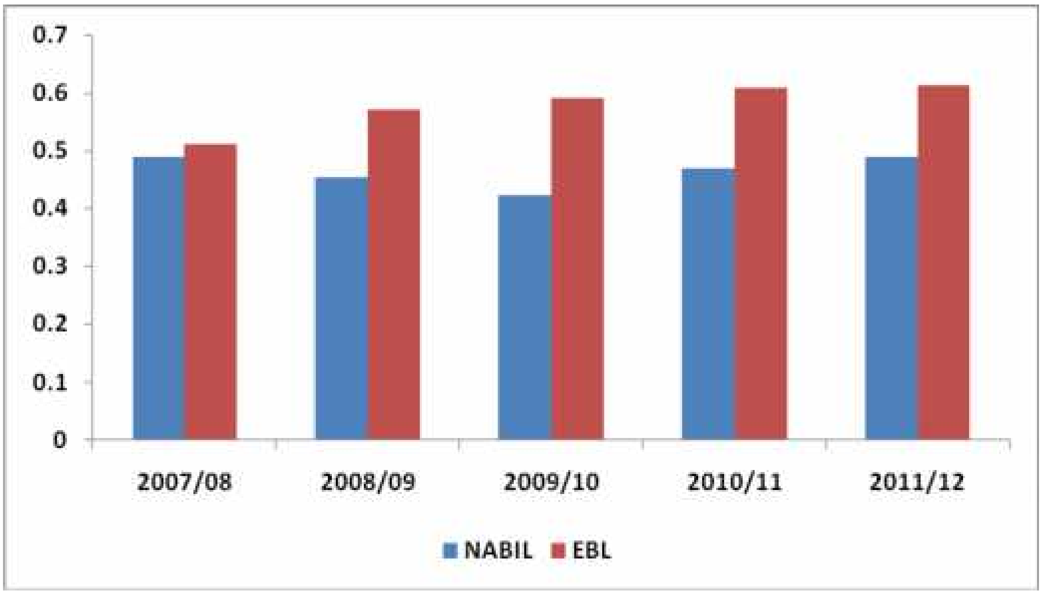
Loans & Advances to Total Assets Ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.4882	0.4532	0.4219	0.4683	0.4891	0.4601
EBL	0.5120	0.5713	0.5912	0.6095	0.6123	0.5793

Source: Appendix -1I

Figure 4.4

Loans & Advances to Total Assets Ratio



Source: Appendix -II

Table No. 4.4 shows that the ratio of loans & advance to total assets throughout the study period for the sample banks. From the above table it can be concluded that the ratio in case of NABIL is gradually decreasing throughout the entire study period. But the same in case of EBL is found to be in fluctuating trend. From the mean point of view, it can be said that the mean ratio of EBL has the highest than NABIL Bank. It can be concluded that the higher mean ratio indicates the good lending performance. So EBL Bank has good lending performance than NABIL Bank.

v) Loan and Advances to Current Assets Ratio

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

Table 4.5

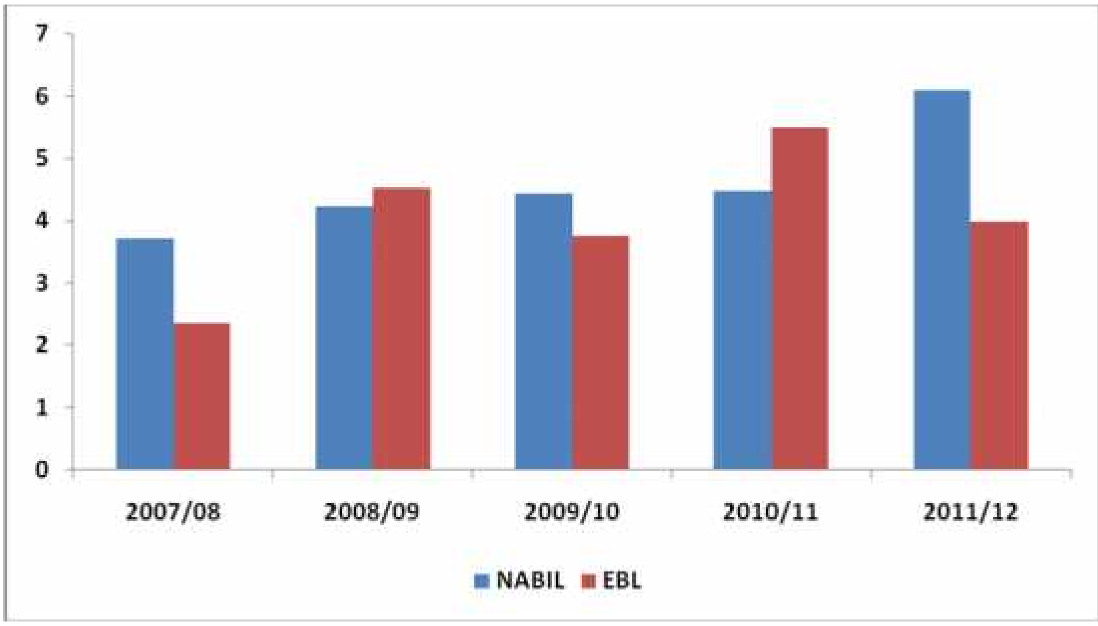
Loan and Advances to Current Assets Ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	3.7100	4.2420	4.4357	4.4778	6.0836	4.5898
EBL	2.3560	4.5270	3.7520	5.4980	3.9880	4.0242

Source: Appendix -1I

Figure 4.5

Loan and Advances to Current Assets Ratio



Source: Appendix -II

Table No. 4.5 shows the loan and advances to current assets ratio of both the sample banks under study. The ratio of both the banks throughout the study period is not found in steady position and is in a fluctuating trend. From the mean point of view, NABIL has the higher mean ratio in comparison with EBL. It indicates that NABIL Bank has relatively better short term lending practices than EBL.

vi) Loan Loss Provision to Total Loan and Advances Ratio

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

Table 4.6

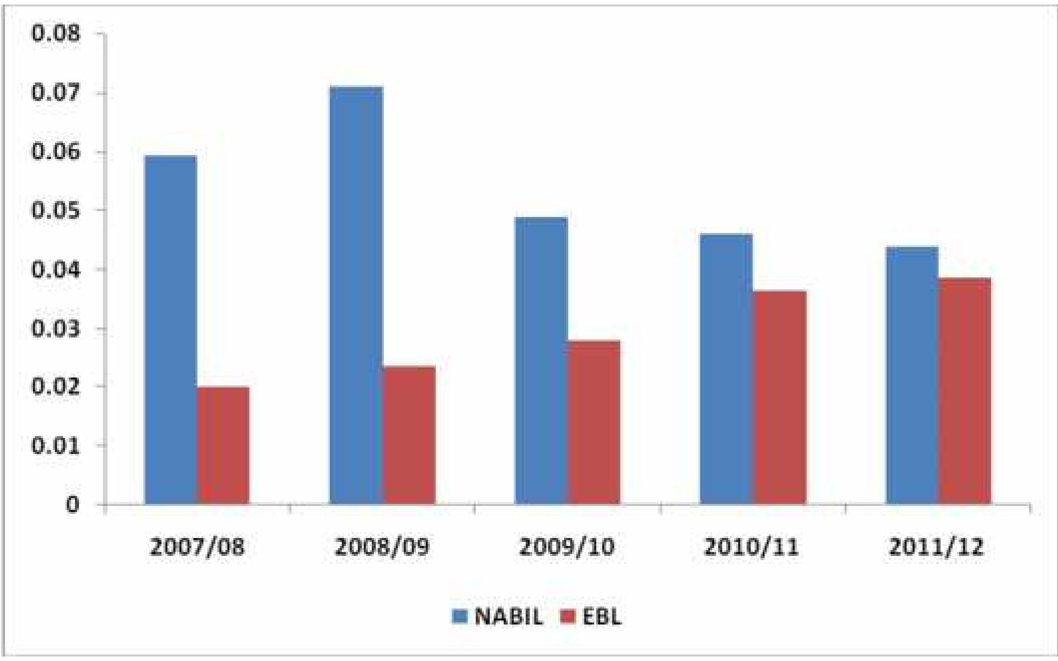
Loan loss Provision to Total Loan & Advances

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.0592	0.07111	0.0489	0.0461	0.0438	0.0451
EBL	0.0201	0.0236	0.0279	0.0363	0.0386	0.0293

Source: Appendix -1I

Figure 4.6

Loan loss Provision to Total Loan & Advances



Source: Appendix -II

Table No. 4.6 shows that from the NABIL point of view, the ratio of loan loss provision to total loans & advances in five yrs study period. As like other ratio, this ratio too is found to be in fluctuating trend for the entire study period. This states that the loan loss provision and loan and advances of both the banks are in fluctuating trend.

From the mean point of view, it can be said that NABIL Bank has high loan loss provision in comparison with EBL. From the above calculation, it can be said that the increase ratio indicates the increased volume of non-performing loans. The increasing loan loss ratio indicates the poor and ineffective credit policy and poor performance of the economy.

4.1.2 Comparative Credit Efficiency in NABIL Bank and Everest Bank

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

i) Total Assets to Liability Ratio

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

Table 4.7

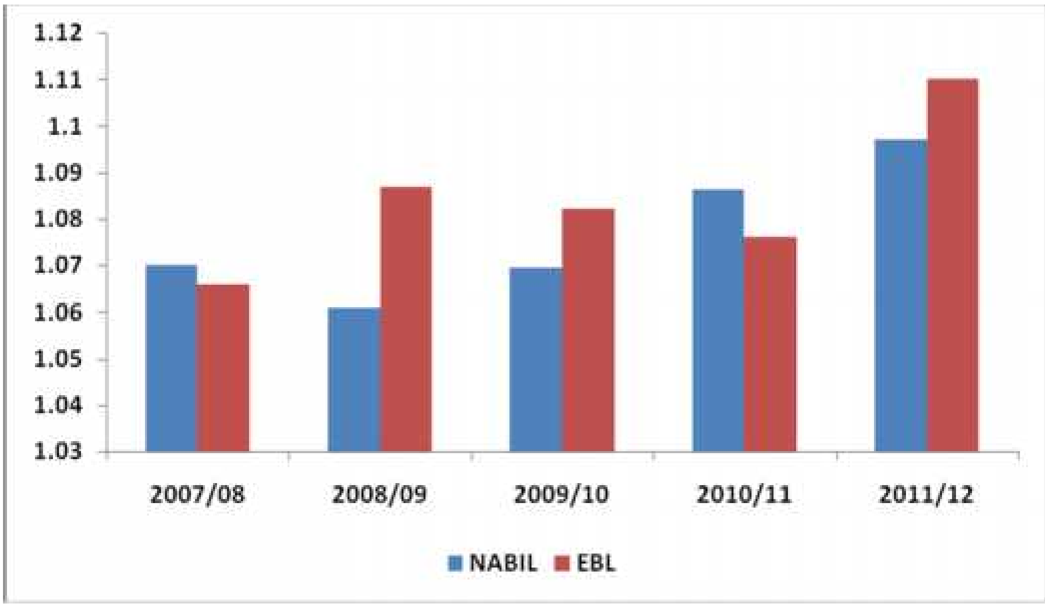
Total Asset to total liabilities ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	1.0700	1.061	1.0695	1.0862	1.0971	1.077
EBL	1.066	1.087	1.0823	1.0762	1.11	1.0843

Source: Appendix -1I

Figure 4.7

Total Asset to total liabilities ratio



Source: Appendix -II

Table No. 4.7 shows the ratios of the banks have been in increasing trend. EBL has the higher mean ratio than NABIL Bank. The combined mean ratio is 1.08065 and EBL has higher ratio than that of the combined mean. EBL has been able to utilize the fund more efficiently and effectively to the extent in comparison with the NABIL Bank. However still this position could not be sufficient balance for a developing country the ratio should not be below.

ii) Interest Expenses to Total Deposit Ratio

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

Table 4.8

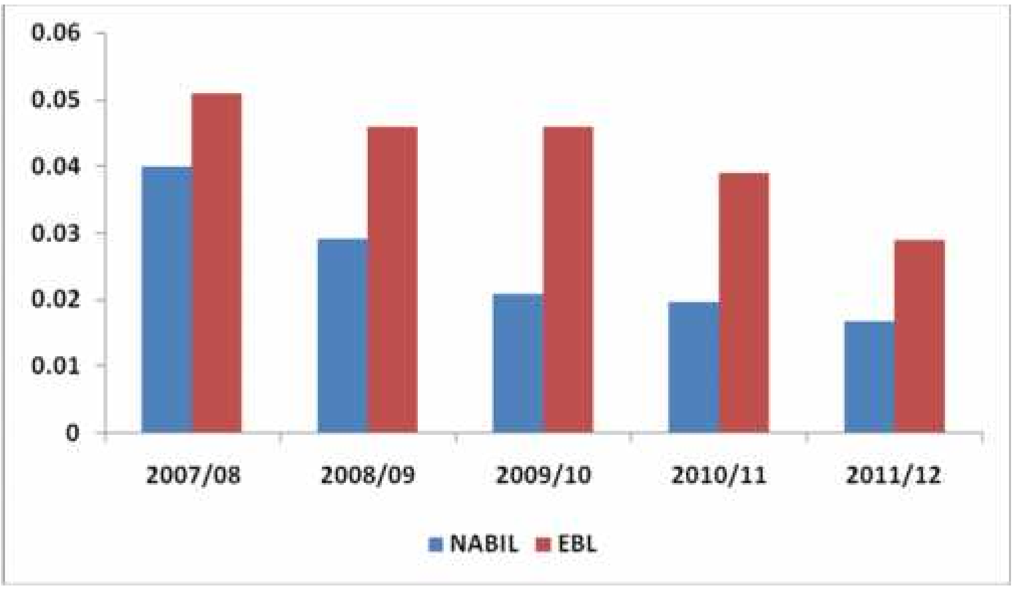
Interest Expenses to Total Deposit Ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.0400	0.0291	0.0209	0.0197	0.0168	0.0253
EBL	0.0510	0.0460	0.0460	0.0390	0.029	0.0422

Source: Appendix -1I

Figure 4.8

Interest Expenses to Total Deposit Ratio



Source: Appendix -II

Table No. 4.8 shows that the cost of the deposit of NABIL is found in decreasing trend except F/Y 2007/08. In case of EBL the ratio is found to be in decreasing trend too. Low interest expenses to total deposit ratio is good for banks & FI's.

Low cost of deposit is better for a bank from profitability point of view. From mean point of view, it can be said that NABIL Bank has low interest expenses to total deposit ratio than EBL. Thus, it can be said that NABIL is successful to collect cheaper deposit than EBL.

iii) Interest Expenses to Total Expenses Ratio

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

Table 4.9

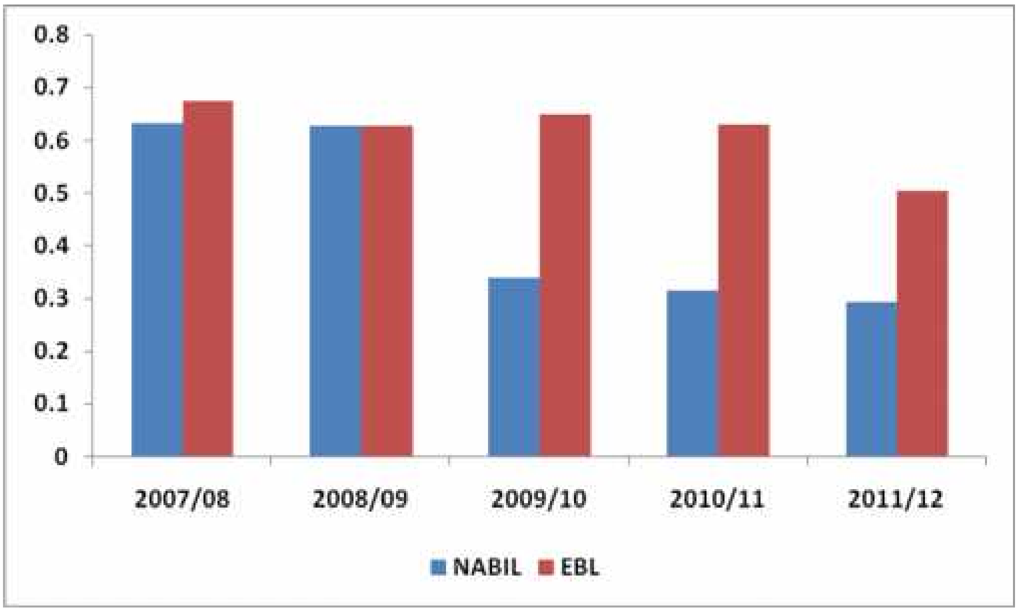
Interest Expenses to Total Expenses Ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.6331	0.6268	0.3379	0.3138	0.2914	0.4406
EBL	0.6728	0.6275	0.6503	0.6291	0.5038	0.6167

Source: Appendix -1I

Figure 4.9

Interest Expenses to Total Expenses Ratio



Source: Appendix -II

Table No. 4.9 show that the interest expenses to total expenses of NABIL Bank is higher in starting two years. But the same in case of EBL is found to be in decreasing trend except in FY 2008/09. Comparatively the ratio is lower in case of NABIL than EBL. From mean point of view, it can be said that NABIL Bank has low interest expenses to total expenses ratio than EBL. Thus, it shows that decrease in cost of the deposits, the volume of interest expenses ratio has been decreasing.

iv) Non-Interest Bearing Deposits to Total Deposit Ratio

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

Table 4.10

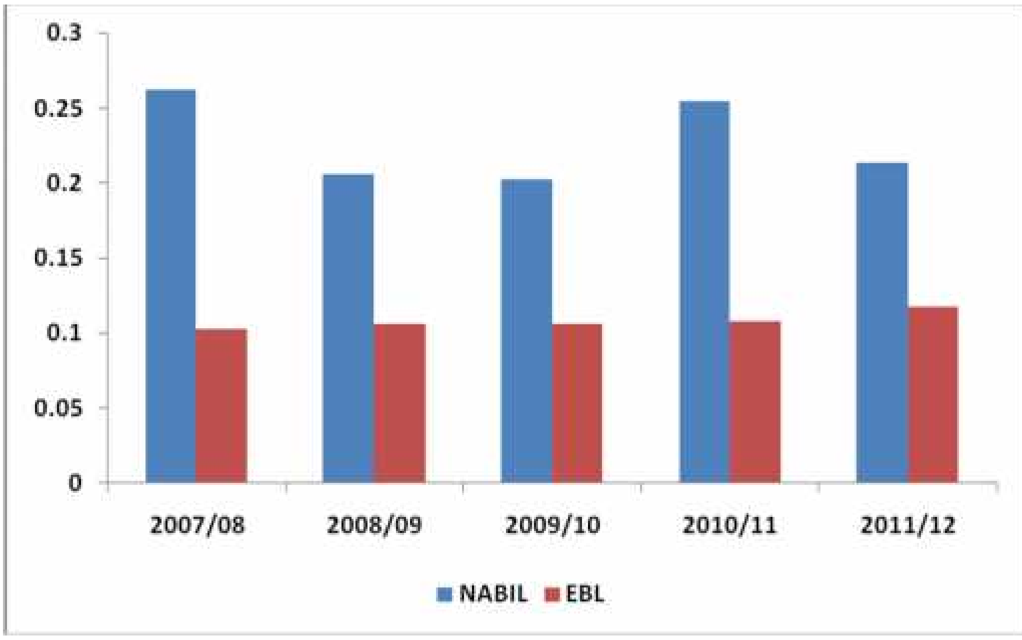
Non-Interest Bearing Deposits to Total Deposit Ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.2622	0.2055	0.2027	0.2547	0.2134	0.2277
EBL	0.1027	0.1062	0.1067	0.1079	0.1171	0.1081

Source: Appendix -1I

Figure 4.10

Non-Interest Bearing Deposits to Total Deposit Ratio



Source: Appendix -II

Table No. 4.10 shows that non-interest bearing deposits to total deposit of NABIL Bank are in fluctuating trend. But the same of EBL is found to be in increasing trend. Comparatively the ratio of NABIL is found to be better than that of EBL.

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

v) Interest Income to Total Income Ratio

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

Table 4.11

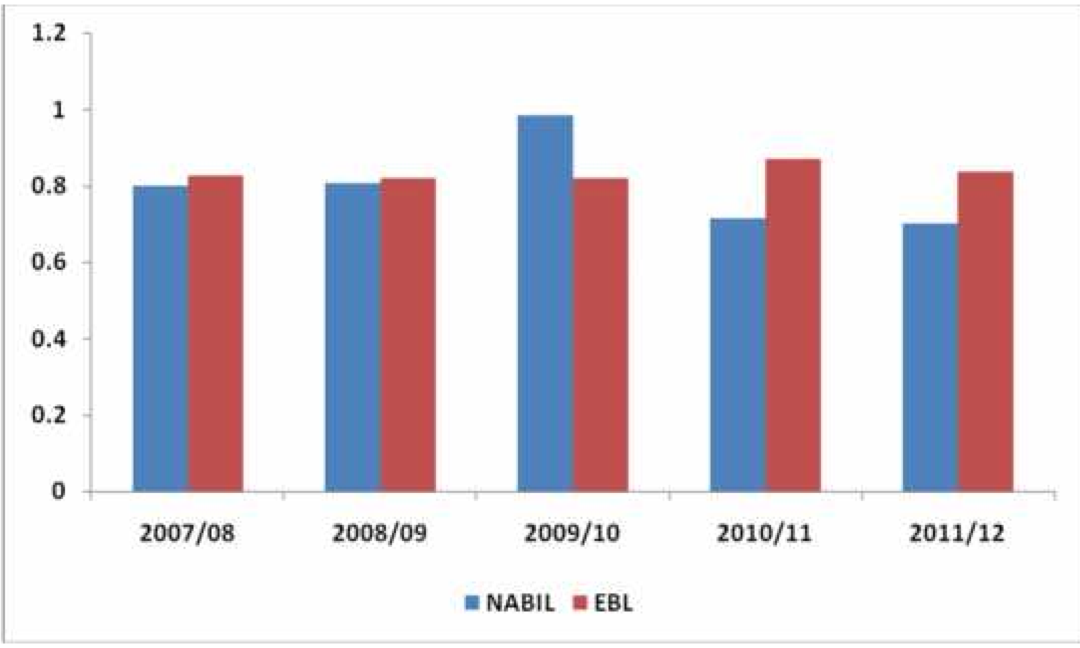
Interest Income to Total Income Ratio

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.7996	0.8043	0.9834	0.7131	0.7022	0.7405
EBL	0.8270	0.8200	0.8180	0.8700	0.8370	0.8344

Source: Appendix -1I

Figure 4.11

Interest Income to Total Income Ratio



Source: Appendix -II

Table No. 4.11 shows the ratio of interest income to total income of the sample banks under study throughout the study period. The ratio of both the sample banks is found to be in fluctuating trend. This clearly depicts that the total income is not based on the interest income only. The ratio is almost 100% in FY 2008/09 for NABIL Bank.

From mean point of view, it can be said that EBL has high interest income to total income ratio than NABIL Bank. This shows that in total income of NABIL Bank and EBL, interest income contributes 74.05% and 83.44% respectively. The lowest ratio of NABIL Bank indicates its low dependency in fund-based activity. The highest ratio of EBL indicates greater dependency on fund-based activities.

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

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

Table 4.12

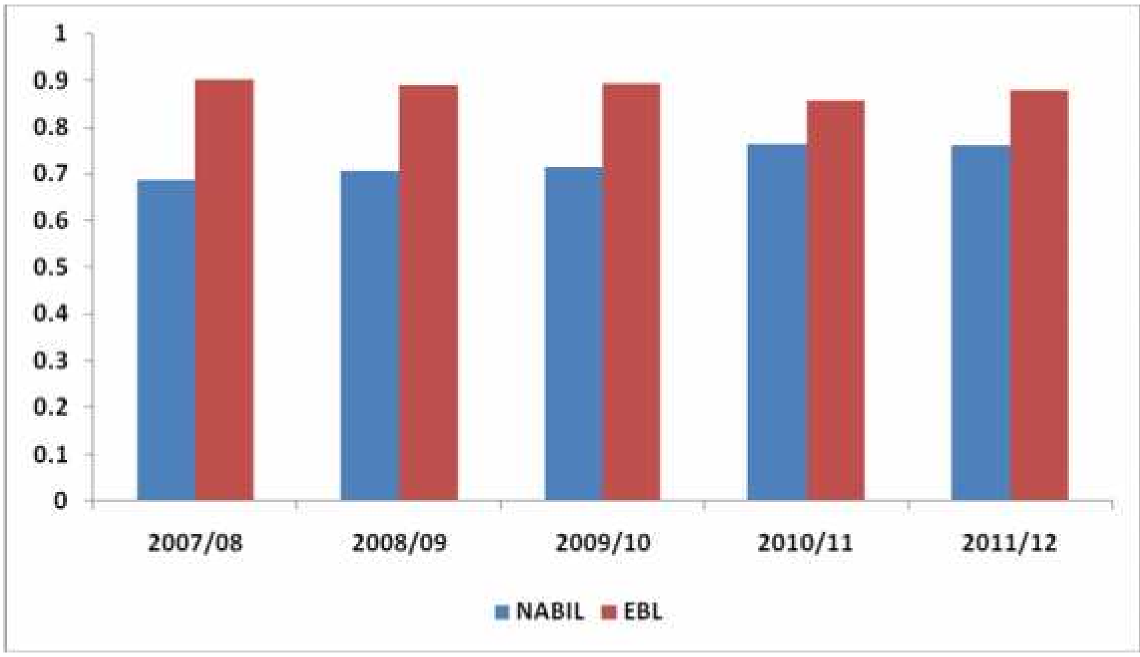
Interest from loan and advances & overdraft to total interest income

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.6870	0.7061	0.7151	0.7627	0.7604	0.7263
EBL	0.9000	0.8900	0.8920	0.8560	0.8800	0.8836

Source: Appendix -1I

Figure 4.12

Interest from loan and advances & overdraft to total interest income



Source: Appendix -II

Table No. 4.12 shows the ratio of loan and advances & overdraft to total income of the banks under study. This ratio is found to be in increasing trend in case of NABIL but the same is found to be in decreasing trend in case of EBL. Comparatively EBL is doing better than NABIL. From the mean point of view EBL has highest ratio in comparison with NABIL Bank. It shows that EBL is strong to mobilize the loan and advances & overdraft to earn interest than NABIL Bank. Also EBL is able to earn high interest on its total interest income in comparison to NABIL Bank.

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

Interest suspense means the interest due but not collected. This ratio measures the composition of due but uncollected interest in the total interest income from loans & advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loans & advances.

Table 4.13

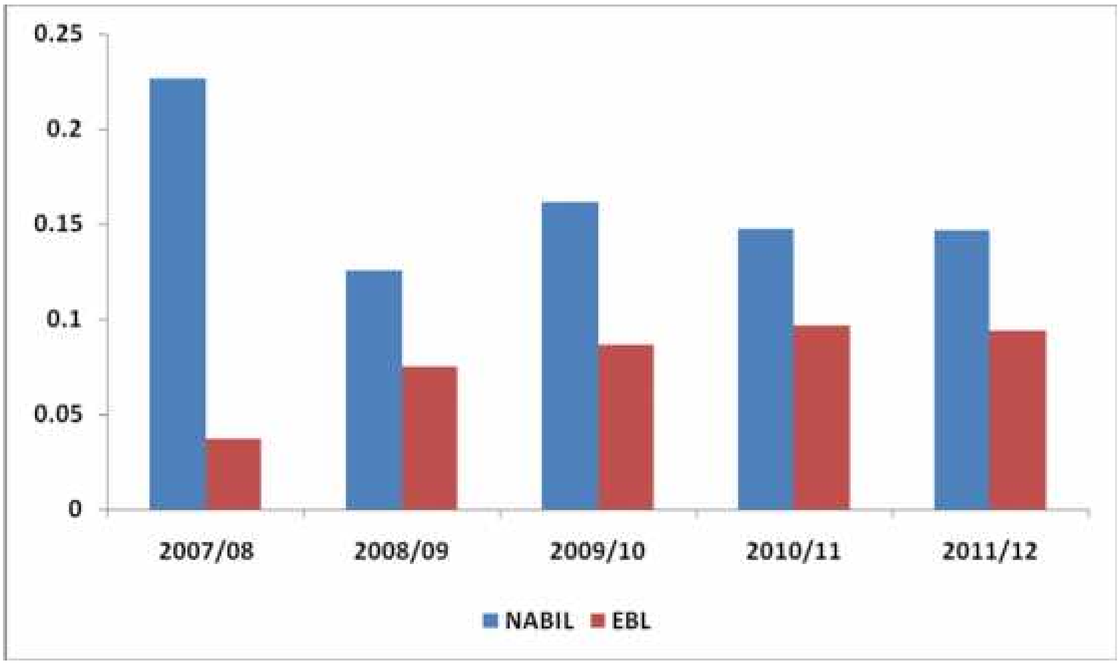
Interest suspense to interest income from loans & advances ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.2262	0.1257	0.1616	0.1476	0.1468	0.1615
EBL	0.0372	0.0752	0.0867	0.0963	0.0941	0.0779

Source: Appendix -1I

Figure 4.13

Interest suspense to interest income from loans & advances ratio



Source: Appendix -II

Table No. 4.13 shows ratio of interest suspense to interest income from loan and advances in case of both the sample banks under study throughout the study period. This ratio is found to be in fluctuating trend throughout the study period. Comparatively EBL is doing better than NABIL in case of interest suspense amount.

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

4.2 Relationship of Loans and Net Profit

Effective loans directly affect net profit volume of the organization. It is regarded as the most important profit indicator. It helps to increase the net profit volume of the company whereas weak level of loans is the signal of lower level of profit. Thus, it is logical to review the relation of loans and net profit. For the research proposes, net profit and loans during study period (5yrs) are averaged to get profit and loans variable. After getting profit and loans variable, then data are analyzed using person's correlation coefficient. The following table presents the correlation coefficient of the profit and loans during study period.

Table 4.14

Relation of loans and net profit in NABIL: - Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	.508
	N	5	5
Net Profit	Pearson Correlation	.508	1
	N	5	5

Source: SPSS Program

Table No. 4.14 presents the correlation coefficient between loans and Net profit during study period. The calculated Pearson's correlation coefficient is found 0.508, which shows moderate degree of correlation. It indicates that loans and net profit are found moderate related with each other. That means, increasing loans helps to increase the net profit whereas increase in loans decreases the net profit. Similarly, coefficient of determination is found to be 0.2581 which indicates that 25.81% of total change in profit has been determined by loans. Loans have moderate influence on net profit of the NABIL Bank. Effective loans management directly affects the net profit of the NABIL Bank. Effective loans management helps to increase and stable the net profit of the NABIL Bank. No exception is found in case of NABIL Bank. Thus, it is logical to review the impact of various components of working on net profit.

Table 4.15

Relation of loans and net profit in EBL: - Correlation Matrix

		Loans	Net Profit
Loans	Pearson Correlation	1	0.938
	N	5	5
Net Profit	Pearson Correlation	0.938	1
	N	5	5

Source: SPSS Program

Table No. 4.15 presents the correlation coefficient between loans and Net profit during study period. The calculated Pearson's correlation coefficient is found 0.938, which shows high degree of correlation. It indicates that loans and net profit are found highly related with each other. That means, increasing loans helps to increase the net profit. Similarly, coefficient of determination is found to be 0.8798 which indicates that 87.98% of total change in profit has been determined by loans. Loans have high influence on net profit of the EBL. Effective loans management directly affects the net profit of the EBL. Effective loans management helps to increase and stable the net profit of the EBL. Thus, it is logical to review the impact of various components of working on net profit.

4.3 Relationship of Loans and Non-Performing Loans

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

Table 4.16

Relationship between Loans and NPL in NABIL: Correlation Matrix

		Loans	Non Performing Loan
Loans	Pearson Correlation	1	-.862
	N	5	5
Non Performing Loan	Pearson Correlation	-.862	1
	N	5	5

Source: SPSS Program

Table No. 4.16 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson's correlation coefficient is found –0.862, which shows highly, negative correlation. It indicates that non-performing loans and loans are highly negatively related with each other. That means, decreasing non-performance in loans management. Coefficient of determination is found 0.7430 which indicates that 74.30% of total change in loans management has been negatively determined by non-performing loans.

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

Table 4.17

Relationship between Loans and NPL in EBL: Correlation Matrix

		Loans	Non-Performing Loan
Loans	Pearson Correlation	1	-.275
	N	5	5
Non-Performing Loan	Pearson Correlation	-.275	1
	N	5	5

Source: SPSS Program

Table No.4.17 presents the correlation coefficient between non-performing loan and loans during study period. The calculated Pearson's correlation coefficient is found –0.275, which shows negative correlation. It indicates that non-performing loans and loans are negatively related with each other. That means, decreasing non-performance in loans management. Coefficient of determination is found 0.0756 which indicates that 7.56% of total change in loans management has been negatively determined by non-performing loans.

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

4.4 Impact of Loan and Advances on Net Profit

Loans have high implication for determining net profit. Effective loans directly affect the net profit of the Banks. It means that the net profit of the Banks are largely depended by the loans management. Thus, it is more significance to know the impact of loans in net profit.

To find out the result the five yes data (study period) of net profit, loans are averaged to get a variable of net profit & loans. Thereafter, simple regression analysis is used for computation. The following table presents the regression analysis of the independent variables loans on dependent variables net profit of the NABIL Bank.

Table 4.18

Impact of Loan and Advance on Net Profit in NABIL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.508	.258	.011	166891506.54138

a. Predictors: (Constant), Loans

Table No. 4.18 shows the dependency of Net profit on loans. The calculated R is found 0.508 indicates that there is moderate relationship dependent variable profit on independent variable loans.

After considering the error term, the adjusted R square value is found 0.011, which indicates that 1.1% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management of loans should seriously be taken to achieve the goal of the NABIL Bank.

Table 4.19

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29098846883752690.000	1	29098846883752690.000	1.045	.382
	Residual	83558324866953600.000	3	27852774955651220.000		
	Total	112657171750706300.000	4			

a. Predictors: (Constant), Loans and advance

b. Dependent Variable: Net Profit

Source: SPSS Program

ANOVA table shows that the result presented above is not significant at 0.01 levels. The result of net profit volume and volume of loans resulted relatively higher level of 'F' statistics. The lower level of 'F' statistic resulted relatively higher level of significance. Although, it is significantly at overall evaluation, beta coefficient shows that the result of loans is not found significant.

Table 4.20

Impact of Loan and Advance on Net Profit in EBL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.938	0.8798	.019	106821516.84637

a Predictors: (Constant), Loans

Table No. 4.20 shows the dependency of Net profit on loans. The calculated R is found 0.938 indicates that there is highly relationship dependent variable profit on independent variable loans. After considering the error term, the adjusted R square value is found 0.019, which indicates that 1.9% of the total variation in the dependent variable net profit has been explained by the independent variable loans. Thus, it can be concluded that loans is a strong determinant of net profit. Therefore management of loans should seriously be taken to achieve the goal of the EBL.

Table 4.21

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8653928297232620.000	1	8653928297232620.000	1.849	0.211
	Residual	1407250607106575.000	3	469083535702191.000		
	Total	10061178904339190.000	4			

a. Predictors: (Constant), Loans and advance

b. Dependent Variable: Net Profit

Source: SPSS Program

Similarly, ANOVA table shows that the result presented above is not significant at 0.01 levels. The result of net profit volume and volume of loans resulted relatively higher level of 'F' statistics. The lower level of 'F' statistic resulted relatively higher level of significance. Although, it is significantly at overall evaluation, beta coefficient shows that the result of loans is not found significant.

4.5 Impact of Non-Performing Loan and Performing Loan on Net Profit

Performing loan and non-performing loan have high implication for determining net profit. Effective performing loan and non-performing loan directly affects the net profit of the organization. It means that the net profit of the organization is largely depended by the performing loan and non-performing loan of the organization. Thus, it is more significance to know the impact of performing loan and non-performing loan in net profit.

To find out the result the five years data (study period) of net profit, performing loan and non-performing loan are average to get a variable of net profit, performing loan & non-performing loan respectively. Thereafter, linear regression analysis is used for computation .The following table presents the regression analysis of the independent variables performing loans and non-performing loans on dependent variable net profit of NABIL Bank.

Table 4.22

Impact of Non-Performing Loan and Performing Loan on Net Profit in NABIL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.719	.517	.033	164999289.58986

a. Predictors: (Constant), N.P.LOAN, P.LOAN

Table No. 4.22 shows the dependency of net profit on performing loan and non-performing loan. The calculated R is found 0.719 indicates that there is high positive relationship dependent variable profit on two independent variables performing loans and non-performing loans. After considering the error term, the adjusted R square value is found 0.033 which indicates that 3.3% of the total variation in the dependent variable net profit has been explained by the two independent variables performing loans and non-performing loans. Thus, it can be concluded that performing loans and non-performing loans is strong determinant of net profit. Therefore, management of performing loans and non-performing loans should seriously be taken to achieve the foal of the NABIL Bank.

Table 4.23

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	58207640620387600.000	2	29103820310193810.000	1.069	.483
	Residual	54449531130318700.000	2	27224765565159360.000		
	Total	112657171750706300.000	4			

a. Predictors: (Constant), Loans and Non Performing Loan

b. Dependent Variable: Net Profit

Source: SPSS Program

Similarly, ANOVA table shows that the result presented above is hot significant at 0.01 levels. The result loans and volume of non-performing loans resulted relatively higher level of ‘F’ statistic. The lower level of ‘F’ statistic resulted relatively higher time of significance. Although, it is significantly at overall evaluation beta coefficient shows that the result of performance loans and non-performing loans is not found significant individually.

Table 4.24

Impact of Non-Performing Loan and Performing Loan on Net Profit in EBL: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.986	.972	.0887	16833281.65705

a Predictors: (Constant), Non-Performing Loan,, Outstanding loan

Table (i.e.4.24), the adjusted R square is found to be 0.0887 considering independent variables outstanding loan, non-performing loan and dependent variable net profit. It means that 8.87 percent total variation in dependent variable net profit has been explained by independent variables outstanding loan and non-performing loan. Thus, it can be concluded that outstanding loan and non-performing loan has high influence on net profit volume during the study period. Outstanding loan and non-performing loan can be described as strong determinant for determining of profit.

Table 4.25

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9777819532993660.000	3	3259273177664556.000	11.502	.213
	Residual	283359371345527.300	1	283359371345527.300		
	Total	10061178904339190.000	4			

a Predictors: (Constant), Non-Performing Loan, Outstanding loan

b Dependent Variable: Net Profit

Source: SPSS Program

Similarly, ANOVA table show that the result presented above is not significant at 0.01 levels. The result of net profit volume, volume of performing loan and volume of non-performing loan resulted relatively higher level of “F” statistic resulted relatively higher level of significance. Although, it is significantly at overall evaluation, beta coefficient shows that the result of performing loan and non-performing loan is not found significant individually.

4.6 General Status of Industry Environment in the Selected Banks

General status of industry environment in Selected Nepalese commercial banks Analysis of industry environment in credit management view point indicates the position of bank within the industry with respect to credit management. It is important from credit management view point to find out in which environment bank operates while competitors for the same set of customers by offering more or less identical products and services. It shows that the bank is in a better position to identify its strength and weaknesses or not. Six point Like rt type scale is used to gather the information, thus, mean score 4-6 shows voting into positive side while mean score 1-3 shows voting into negative side in certain item. In the same way, standard deviation is also used to know the fluctuation in responses. The high variation of responses indicates that some of the respondents are strongly agree while many others are strongly disagreed. In such situation, it becomes very difficult to make a generalization.

For research purpose, fifteen variables are designed to know the industry environment in respective banks. The following table presents the descriptive results of industry environment in selected banks.

Table 4.27

Descriptive Results of Industry Environment in Selected Nepalese Commercial Banks

Variables	N	Mean	Std. Deviation
Banking sector has high discretionary power in providing loans	51	4.8824	.47527
Limited number of banks are the source of banking loans	51	4.6667	.55377
There is lack of free and fair competition among bankers	51	4.3137	.46862
Customers have much bargaining power for banking loan interest	51	4.3137	.50952
Promoters can not grant loan from their own bank in Nepal	51	5.2745	.49309
It is very hard to find attractive customer's project in Nepal	51	5.0980	.64047
Customers have interest groups that can make pressure to loans	51	4.1569	.46358
Very similar schemes of commercial banks created competition	51	4.3137	.50952
There are many substitute of banking loan in today's context	51	4.1569	.54305
Alternative services are available in banking loans	51	4.3333	.68313
One scheme can substitute another scheme in bank lending sector	51	4.3725	.66214
It is very hard to start open new banks due to heavy investment	51	5.0392	.63121
Registration is also very complex to enter in banking business	51	4.8824	.76543
Nepalese banks utilized high capacity that is barrier for newcomer	51	3.4118	1.18620
Most of the banks have their unique business that no others have	51	3.3333	1.01325
Valid N (list wise)	51	4.4366	

Source: Field Survey 2012, (Appendix-1)

Table No. 4.27 shows the clear picture of descriptive result of all the variables of industry environment. The table presents that the most of the items scored above average. Only the item ‘Nepalese commercial banks utilized high capacity that is barrier for newcomer’ and ‘Most of the banks have their unique business that no other have’ scored below the average (i.e. 3.4118 and 3.3333). It indicates the respondents are found relatively disagreed with statement. In the same way, the items ‘Promoters can not get loan from their loan from their own bank in Nepal’, ‘it is very hard to find attractive customer’s project in Nepal’ and ‘it is hard to start open new banks due to heavy investment’ scored the average above 5. It means that the most of the respondents are highly agreed with these statements. It is found that there are no practices to be got loan by the promoters in Nepalese commercial banks, it is very hard to find attractive customer’s project in Nepal and it is hard to start up new banks due to heavy investment. And remaining other variables scored above the average indicates that the respondents are found agreement with this statement. Instantly, average mean score of overall result stood as 4.4366, which indicates that general status of industry environment in selected Nepalese commercial banks are found relatively positive.

Likewise, standard deviation of the variables ‘Nepalese banks utilized high capacity that is barrier for newcomer’ and ‘Most of the banks have their unique business that no others have’ just above average indicates that the respondents are found relatively high fluctuation in responses in these cases. And the remaining other variables scored below average indicates that the respondents are relatively low level of fluctuation in remaining other cases.

4.7 General Status of Management Quality in Selected Nepalese Commercial Banks

Management quality is also the major and important component of credit management. It is being another major statistic to measure the credit management of the banks. High integrity, high competence and high nature of alliance of management directly help to make effective credit management. Thus, it is also logical to review the management quality to know the credit management. For research purpose, seven variables are designed to assess the management quality in selected Nepalese commercial banks. The following table presents the descriptive statistics of management quality in selected commercial banks

Table 4.28

Descriptive Statistics of Management Quality in selected Nepalese Commercial Banks

Variables	N	Mean	Std. Deviation
Top level management is skilled or experienced	51	4.8235	.55519
Top level management encourages employee participation	51	4.9020	.50020
Management is successful to understand customers	51	4.5882	.57189
Bank management have good relationship with supplier	51	4.4902	.67446
Management is successful in credit management	51	4.3333	.47610
Top level management is satisfied with credit administration	51	4.6863	.46862
Bank management is able to success to improve credit worthiness	51	4.7451	.48345
Valid N (list wise)	51	4.6527	

Source: Field Survey 2012, (Appendix-1)

Table No. 4.28 presenst the clear picture of result of management quality. The table shows that all the variables designed for study scored above the average, which indicates that the most of the respondents are found agreement with the statements. But in comparison, the respondents are found the highest level of agreement with the statement ‘Top level management encourages employee participation’ (i.e. 4.9020) and found the lowest level of agreement with the statement ‘Management is successful in credit management’ (i.e. 4.3333). The remaining other variables appeared in between two. Similarly, the mean score of overall result is found to be 4.6527, which indicates the quality of management in selected Nepalese commercial banks is found to be good. It is also concluded that the result seen above is not found in so satisfactory level. Thus, management should improve their quality for the effective management of credit. In the same way, the result also shows that the standard deviation of all the variables stood below the average. It indicates that the responses are not found high fluctuation in responses in above cases.

4.8 Analysis of Variance between the Selected Nepalese Commercial Banks

The differences between the selected commercial banks in variety of variables are to be statistically identified. One-way analysis of variance (ANOVA) is an appropriate tool to find such differences among the group. Present study comprised two group of primary information selected from two different commercial banks. Differences observed among the group are discussed in the above section. It is to be analyzed whether the differences observed in the mean is statistically different or not. The following Table presents ‘F’ statistics and level of significance. Higher the ‘F’ statistics and lower the level of significance more chances will be the differences among the groups in case of each variable.

The major and the most important component for credit management are the industry environment and the management quality by which any organization can easily meet its goal. For research purpose, many questionnaires are built to find out the level of industry environment and management quality. It is also found some meaning differences between the respondents of these banks. Therefore, the researcher tries here to find out the significance of the different between the banks among various items.

Differences observed among the groups and detail analysis is discussed in the above section. It is to be analyzed whether the differences observed in the mean is statistically different or not. ‘F’ statistics and level of significance presents that higher of ‘F’ statistics and lower level of significance less than 0.01 prove the significant differences between the selected Nepalese commercial banks. The table presents the ‘F’ statistics and level of significance between the selected commercial banks.

Table 4.29

Analysis of Variance of the Variables between the Selected Banks

Items	F	Sig.
Banking sector has high discretionary power in providing loans	9.482	.003
Limited number of banks are the source of banking loans	4.384	.041
There is lack of free and fair competition among bankers	2.242	.141
Customers have much bargaining power for banking loan interest	1.883	.176
Promoters can not gent loan from their own bank in Nepal	7.065	.011
It is very hard to find attractive customer’s project in Nepal	2.636	.111
Customers have interest groups that can make pressure to loans	1.861	.179
Very similar schemes of commercial banks created competition	.066	.799
There are many substitute of banking loan in today’s context	.402	.529
Alternative services are available in banking loans	4.512	.039
One scheme can substitute another scheme in bank lending sector	.198	.658
It is very hard to start open new banks due to heavy investment	3.411	.071
Registration is also very complex to enter in banking business	.089	.766
Nepalese banks utilized high capacity that is barrier for newcomer	16.831	.000
Most of the banks have their unique business that no others have	17.137	.000
Top level management is skilled or experienced	.014	.907
Top level management encourages employee participation	1.768	.190
Management is successful to understand customers	.296	.589
Bank management have good relationship with supplier	5.134	.028
Management is successful in credit management	.000	1.000
Top level management is satisfied with credit administration	.836	.365
Bank management is able to success to improve credit worthiness	1.526	.223

Source: Field Survey 2012, (Appendix-1)& SPSS Program

The above table 4.29 clearly presents the ‘F’ statistics and level of significance of the selected items. It shows the significant (High ‘F’ statistics and less than 0.01 and 0.05 level of significance) differences between the selected commercial banks. The result is not found significant in most of the cases in present data set. Industry environment level is observed by using fifteen items. Among the selected items, three items (i.e. ‘Banking sector has high discretionary power in providing loans’, ‘Nepalese banks utilized high capacity that is barrier for newcomer' and 'Most of the banks have their unique business that no others have') are found significant in 0.01 levels. Similarly, two items (i.e. Limited number of banks are the source of banking loans and Alternative services are available in banking loans) are found in 0.05 levels of significance. And remaining other variables are not found significant different. Therefore, in general, employees from three commercial banks are not found significantly different in terms of industry environment level. In the same way, the management quality is observed by using seven variables. Out of seven variables, only one variable (i.e. Bank management have good relationship with supplier) is found the 0.05 levels of significance. Therefore, in general, the difference observed in mean from two commercial banks in variety of variables in terms of management quality is not found significant different.

4.9 Major findings of the study

The present section deals about some meaningful results on credit management in selected commercial banks resulted from analysis of data. Primary objectives of the study are designed to assess the financial conditions of the selected banks in terms of their creditability. Similarly, it is also specified to explore the position of the banks at their environment. Both secondary as well as primary sources of information are used to meet the stated objectives of the study. Details of the findings are presented as below.

1. From the stand point of credit practice
   - The credit practices of EBL in terms of total loans to deposit ratio is found the highest mean scores than NABIL Bank (i.e.0.7378>0.5976). It indicates that EBL has been strong to mobilize its total deposit as loan. In terms of interest income to loan and advances ratio NABIL and EBL both has a very close ration which are 0.0996 and 0.098 respectively. From this point of view NABIL Bank has the best performance in earning interest income.
   - Lending policy of EBL with regard to non-performing loans to total loans & advances is found lowest mean value with 0.0267 as compare to NABIL Bank. The result indicates that if non-performing loan increases, the overall banking business will be affected negatively.
   - The ratio of loans and advances to total assets is found greater in EBL in comparison with NABIL Bank Which shows the good lending performance of EBL, whereas in terms of loan and advances to current assets ratio NABIL has highest mean than that of EBL this means that NABIL has relatively better practice in short term lending .

- Lending policy of EBL in terms of loan loss provision to total loans & advances is found relatively better than that of NABIL Bank. The mean score of EBL is found lower than NABIL Bank, i.e. 0.0293<0.0451. The result indicates that the low degree of the ratio shows not only the strong and effective credit policy but also healthy performance of the economy.
- The cursory looking for these selected banks in terms of credit practices reveals that all other ratios proves the EBL seems to have the best lending performance.

2. From the stand point of Credit Efficiency
    - Efficiency measurement of selected banks in terms of total assets to liability is found better for EBL and NABIL. The Mean score value for these two banks are found to be approximately equal. The result indicates that the EBL and NABIL are able to utilize its fund most successfully.
    - Efficiency measurement reveals that the ratio for NABIL Bank with regard to interest expenses to total deposit is found relatively lower in comparison to EBL (i.e0.0253<0.0422). This implies that NABIL Bank is successful to collect cheaper deposit than EBL. But the interest expenses to total expenses ratio of NABIL Bank has observed lowest than ratio of EBL. This decreased ratio, here, can mean that cost of deposit is also decreasing.
    - The ratio of non-interest bearing deposits to total deposits is found highest i.e. 0.2277 in NABIL Bank in compared with EBL. From this analysis NABIL Bank can be viewed as the most successful in collecting cheapest fund in the form of current deposit that creates from the deposit acceptance from business enterprises. However, high current amount deposit may adversely affect the bank at the time of adverse situation.
    - The result of interest income to total income ratio for EBL is found higher than NABIL (i.e. 0.8344 > 0.7405). It indicates that the higher ratio of EBL shows its high dependency on fund-based activities. The ratio of interest from loan and advances to total interest income of EBL is also found higher than NABIL Bank, indicating that EBL is strong to mobilize the loan and advances to earn interest and also make more impact on total income.
    - EBL has low degree of ratio of interest suspense to interest income from loans and advances. The low degree of ratio of 0.0779 shows that it has high interest turnover. The decreasing ratio is also the symbol of effectiveness.

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial results towards the NABIL Bank and EBL. The ratio of interest expenses to total deposits, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to be better for NABIL Bank whereas other ratios are more favorable to the EBL. It can be concluded that the efficiency of both NABIL Bank and EBL is found better. Furthermore, which ratio is better to measure credit efficiency depends upon the banks own policies.

3. From the stand point of Correlation analysis

- The correlation coefficient between loan and net profit of NABIL Bank is found 0.508 it means moderate relationship between loan & net profit whereas EBL has 0.938 & it shows the high relationship between loan & net profit. In the same way, coefficient of determination of NABIL Bank and EBL are 25.81% & 87.98% of total change in net profit by total loan in NABIL Bank & EBL respectively. The profit is highly determined by loan in EBL in compared to NABIL Bank.
- In the same way, correlation coefficient of loan and non-performing loan is found to be –0.862& -0.275 in NABIL Bank & EBL respectively. That means the trend of increasing volume of loan decreases the non-performing loan at high level in NABIL Bank & EBL during study period. Similarly, coefficient of determination is stood as 0.7430 and 0.0756 indicates that 74.30% of total change in loan has been negatively explained by non performing loan in NABIL Bank whereas 7.56% of total change in loan has been negatively determine by non performing loan in EBL.

4. From the stand point of Regression analysis

- The value of adjusted R Square is found to be 0.011 & 0.019 in NABIL & EBL considering independent variable loan and dependent variable net profit. It is found that 1.11% total change in dependent variable in net profit has been explained by independent variable loan in NABIL whereas 1.19% variation has been explained by independent variable loan The findings also showed that both the result is not found significant at 0.01 levels of significance.
- The value of adjusted R square is found to be 0.033& 0.0887 in NABIL & EBL respectively considering dependent variable net profit and two independent variables performing loan and non performing loan. It indicates that 3.3% total change in

dependent variable net profit has been explained by two independent variables performing loan and non performing loan in NABIL whereas 8.87% total change in dependent variable net profit has been explained by two independent variables performing loan and non-performing loan in EBL. The finding showed that profit is highly estimated by two independent variables in EBL than that of NABIL. The main reason behind this is the higher level of non-performing loan in EBL than that of NABIL.

5. From the stand point of Industry environment and Management Quality

- The finding also showed that the industry environment perceived by the employees of selected banks is relatively positive (i.e.4.4366), which indicates the relatively good industrial environment in selected banks. The finding also showed that the result is not found significant different at 0.01 levels of significance Similarly the quality of management in selected banks is found to be good because the means score of the component management quality scored above the average (i.e. 4.6527). Because all the items designed for study scored above the average and that resulted relatively high level of management quality. The finding also showed that result is not significant at 0.01 levels of significance.

6.From Primary Data Analysis

- Only the item ‘Nepalese commercial banks utilized high capacity that is barrier for newcomer’ and ‘Most of the banks have their unique business that no other have’ scored below the average (i.e. 3.4118 and 3.3333). It indicates the respondents are found relatively disagreed with statement.

- In the same way, the items ‘Promoters can not get loan from their loan from their own bank in Nepal’, ‘it is very hard to find attractive customer’s project in Nepal’ and ‘it is hard to start open new banks due to heavy investment’ scored the average above 5. It means that the most of the respondents are highly agreed with these statements.

- It is found that there are no practices to be got loan by the promoters in Nepalese commercial banks, it is very hard to find attractive customer’s project in Nepal and it is hard to start up new banks due to heavy investment.

- Remaining other variables scored above the average indicates that the respondents are found agreement with this statement. Instantly, average mean score of overall result stood as 4.4366, which indicates that general status of industry environment in selected Nepalese commercial banks are found relatively positive.

- Standard deviation of the variable 'Nepalese banks utilized high capacity that is barrier for newcomer' and 'Most of the banks have their unique business that no others have' just above average indicates that the respondents are found relatively high fluctuation in responses in these cases. And the remaining other variables scored below average indicates that the respondents are relatively low level of fluctuation in remaining other cases.

- The Table No. 4.23 present the clear picture of result of management quality. The table shows that all the variables designed for study scored above the average, which indicates that the most of the respondents are found agreement with the statements. But in comparison, the respondents are found the highest level of agreement with the statement 'Top level management encourages employee participation' (i.e. 4.9020) and found the lowest level of agreement with the statement 'Management is successful in credit management' (i.e. 4.3333). The remaining other variables appeared in between two. Similarly, the mean score of overall result is found to be 4.6527, which indicates the quality of management in selected Nepalese commercial banks is found to be good. It is also concluded that the result seen above is not found in so satisfactory level. Thus, management should improve their quality for the effective management of credit. In the same way, the result also shows that the standard deviation of all the variables stood below the average. It indicates that the responses are not found high fluctuation in responses in above cases.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

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

5.1 Summary

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

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

Second chapter helped the researcher to provide knowledge about the development and progress made by the earlier researcher on the concerned field or topic of the study. It helped to know the research work undertaken by them. It also tried to know some concept used in this study. Moreover, it summarized the finding of the previous findings of the study to provide knowledge about the background of the work done by them and to step the duplicate of previous work. Lastly, earlier international research related to concept is also attempted to review the finding of the study.

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

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

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

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial results towards the NABIL and EBL. The ratio of interest expenses to total deposits, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to be better for NABIL whereas total assets to liability, interest income to total income, interest from loan and advances to total income and interest suspense to total interest income from loan and advances ratios are more favorable to the EBL. It can be concluded that the efficiency of both EBL is found better than that of NABIL Bank. However, credit efficiency measurement variables adopted by the banks may differ from bank to bank.

The analysis showed that most of the items used in survey design for primary data analysis is not found significant different at 0.01 levels. Only the items ‘Banking sector has high discretionary power in providing loans’, ‘Nepalese bank utilized high capacity that is barrier for newcomer’, and ‘Most of the banks have their unique business that no others have’ are found significant different at 0.01 levels of significance. It indicates that the difference observed in mean in above stated items is significant different. In the same way, the four variables ‘Limited number of banks are the source of banking loans’, ‘Promoters can not get loan from their own bank in Nepal’, ‘Alternative services are available in banking loans’ and ‘Bank management have good relationship with supplier’ is found significant. It means that the difference observed in mean is found significantly different. And remaining other variables designed for study is not found significantly different. The finding showed that the difference observed in mean in remaining other variables are not found significantly different.

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

5.2 Conclusion

Present study successfully explored the result to meet the stated objectives of the study and found meaningful. The result showed that a credit practice of EBL is found relatively better in comparison to NABIL Bank because the most of the ratio of credit practices scored the better position in EBL whereas, credit efficiency measurement provides controversial result towards the NABIL and EBL, however it is found better in EBL because most of the ratio designed for the study supported the EBL.

Efficiency measurement of selected banks in terms of total assets to liability is found better for EBL and NABIL. The mean score values for these two banks are found to be approximately equal. The result indicates that the EBL and NABIL are able to utilize its fund most successfully.

The major and the most important component for credit management are the industry environment and the management quality by which any organization can easily meet its goal. For research purpose, many questionnaires are built to find out the level of industry environment and management quality. It is also found some meaning differences between the respondents of these banks. Therefore, the researcher tries here to find out the significance of the different between the banks among various items.

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

The correlation between loan and advance to net profit is found in moderate level in NABIL (i.e. 0.508), and high degree in EBL (i.e.0.938). Likewise, the correlation between loan and non-performing loan is found high negative degree in NABIL (i.e. –0.862) and low negative degree in EBL (i.e. -0.275). The impact of loan and advances to net profit and impact of non performing loan and performing loan to net profit is found higher in NABIL and EBL during the study period.

Primary information indicated that the industry environment is found positive in selected banks. Likewise management quality is also good in the selected banks. In the same way, Analysis of variance indicated that most of the items designed for the study are not found significant difference at 0.01 levels of significance. The primary analysis showed meaningful results in selected banks that the industry environment perceived by the employees of selected banks is relatively positive which indicates the relatively good industrial environment in selected banks. The analysis also showed that the result is not found significant. Similarly, the quality of management in selected banks is found to be good because the means score of the component management quality scored above the average. Because all the items designed for study scored above the average and that resulted relatively high level of management quality.

The analysis showed that most of the items used in survey design for primary data analysis is not found significant different at 0.01 levels. Only the items ‘Banking sector has high discretionary power in providing loans’, ‘Nepalese bank utilized high capacity that is barrier for newcomer’, and ‘Most of the banks have their unique business that no others have’ are found significant different at 0.01 levels of significance. It indicates that the difference observed in mean in above stated items is significant different. In the same way, the four variables ‘Limited number of banks are the source of banking loans’, ‘Promoters can not get loan from their own bank in Nepal’, ‘Alternative services are available in banking loans’ and ‘Bank management have good relationship with supplier’ is found significant. It means that the difference observed in mean is found significantly different.

And remaining other variables designed for study is not found significantly different. The finding showed that the difference observed in mean in remaining other variables are not found significantly different.

5.3 Recommendations

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

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

2 Both the sample banks under study are recommended to maintain their total loan and advances amount in comparison with their deposits. Fluctuating trend of loan and advances to deposits may cause severe liquidity problem in near future.

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

4 Low interest expenses to total deposit ratio is good for banks & FI's. Low cost of deposit is better for a bank from profitability point of view. From mean point of view, it can be said that NABIL Bank has low interest expenses to total deposit ratio than EBL. Thus, it can be said that NABIL is successful to collect cheaper deposit than EBL. So EBL is recommended to lower down the interest rate on saving deposits.

5 The deposit mixture of NABIL Bank carries the highest level of non interest bearing deposits in its deposit mixture. This indicates that NABIL Bank is the most successful in collecting cheapest fund. The major portion of non-interest bearing deposit consists

of current deposits and this deposit is particularly maintained by business enterprises. EBL is also recommended to increase its portion of non interest bearing deposits.

6 The credit efficiency measurement provides controversial result towards the NABIL and EBL, however it is found better in EBL because most of the ratio designed for the study supported the EBL. The analysis shows that the both bank used its funds in diversified sectors, is successful to collect cheaper deposit as well as successful to manage loan and advance. Thus, it is suggested to maintain proper level of balance for both Banks.

7 The relationship between loan and advances to non-performing loan is found negative in NABIL and EBL. But the NABIL has high negative figure of 0.862. It indicates that NABIL and EBL have effectively managed its loan and advances. This is also supported by regression analysis because impact of loan and advances to net profit is found positive in NABIL& EBL. The impact of performing loan and non performing loan on net profit is found positive values for all selected banks. But the regression value for EBL is observed high as compared to NABIL Bank. Thus, EBL needs to be managed its loan effectively so as to reduce the non-performing loan amount.

8 In spite of having positive industrial environment and management quality for all selected banks, it is suggested to maintain its level in high in terms of credit management so that the banks credit management would be further more effective in future.

9 Future researchers are recommended to focus into non financial performance indicators such as job satisfaction, service quality performance, customers' satisfaction, stakeholders support, government rating, supervisor's teamwork, human resource development, human resource planning, human resource management, job designation etc.

10 The researcher felt to improve internal system more effectively and introducing of new strategies and major functions for effective existing credit management for all selected banks.

BIBLIOGRAPHY

Books:

Alexander, G.J., Sharpe, W.F. & Bailey, J.V. (2003); *Fundamentals of Investments*.N Prentice Hall of India Pvt. Ltd.2003

Asch,Daid and K C Roland, (1989); *Financial Planning Modelling Methods and Techniq page Ltd*,London.

Bierman,H and S Smidt, (1992); *The capital Budgeting Decisions, Macmillan,* New York.

Bhalla V. K. Invest Management, (2004); *Security Analysis & Portfolio Management,* Nev Chand & Co.

Bhattarai, Rabindra and Manandhar Shilu; (2005); *Corporate Financial Management*, Kathmandu; Buddha Academic Enterprises 2005

Bodie, Zvi et al, *Investments*,(2002); Tata McGraw-Hill publishing Co Ltd, New Delhi.

Bolten,S E and R L Conn, (1981); *Essentials of Management Finance*, Houghton miffin Co,

Brealey, R A and S C Myers, (1997); *Principals of corporate finance*, Tata McGraw-Hill, New Delhi.

Brealey,R A et al., (1995); *Fundamentals of corporate finance*, McGraw-Hill, New York.

Brigham E F and J F Houston, (2001); *Fundamentals of financial management*, Harcourt As Singapore.

Brittain,J A, (1986); *Corporate Dividend policy*, The Brooking Institutions,Washington,Dc

Cissel,R and H Cissel, (1978); *Mathematics of finance*, Houghton Miffia,Boston.

Clayton,G E and C B Spivey, (1998); *The time Value of Money*,W B saunders co Philadelphia.

Copeland,Tom,et. al, (2000); *Valuation-Measuring and Managing the Value of Companie* Wiley and sons, New York,2000.

Damodaran Aswath,(1996); *Investment Valuation*, John Wiley and Sons,New York,1996Department of Public enterprise survey, Government of India, New Delhi.

Donaldson,G, (1961); *Corporate Debt capacity*, Harward University,Boston.

Jones, Charles P. (2003); *Investments: Analysis & Management*. John Wiley & Sons, New York.2003

Joshi,P.R. *Research Methodology* (2003); Kathmandu, Buddha Academic Enterprises.

Khan, M.Y. & Jain, P.K. (2004); *Financial Management: Text, Problems & Cases*. New Delhi, Tata McGraw-Hill Publishing Co. Ltd.

Pant, P.R. (2004); *Fieldwork Assignment and Report Writing*; Kathmandu, Buddha Academic Enterprises.

Pokhrel, Yojana (2004); *Financial Performance of NB Bank Ltd.*; Kathmandu, Faculty of Management, Tribhuvan University.

Reilly, Frank K. & Brown, Keith C. (2003); *Investment Analysis & Portfolio Management*. Singapore; Thompson Asia Pte. Ltd.

Vaidya, Shakespeare, (2008); *Banking and Insurance Management*, Kathmandu; Taleju Prakashan.

Van Horne, J.C. & Wachowicz Jr., J.M., (2004); *Fundamentals of Financial Management*. New Delhi; Pearson Education Inc. 2001

Wehmeier, Sally (2005); *Oxford Advanced Learners Dictionary*, New Delhi; Oxford University Press.2005

Wolff, H.K. and Pant P.R., (2008), *Social Science Research and Thesis Writing*; Kathmandu, Buddha Academic Enterprises.

Journals & Articles:

Canadian Institute of Chartered Accountants, (1987); *Study on Accounting and Financial Reporting by Venture capital organizations*, Toronto,1987.

Chhetri D.B. (2010) *Non-performing Assets: A need for Rationalization*; The Kathmandu Post, Kathmandu, Nepal

Everest Bank Limited. (2011); *Annual Report and Accounts 2007-2011;* Kathmandu

Ghimire B. (2009) *Credit Sector Reform & NRB*; New Business Age P. 47-49; Kathmandu

Lamichhane, D. *Forty Six Years of NRB, NRB Smarika*; Nepal Rastra Bank; Baluwatar Kathmandu

Nabil Bank Limited. (2011); *Annual Report and Accounts 2007-2011*; Kathmandu

The Kathmandu Post. (2008) *Central Bank Tightens Blacklisting Procedures*; Kathmandu

Unpublished Thesis:

Adhikari (2010), ‘*Credit Management of Nepalese commercial banks*’ An unpublished thesis submitted to Faculty of Management, Tribhuban University, Kathmandu, Nepal

Gautam C. (2004) *“Lending Practices and Procurers of Nepal Bangladesh Bank Limited”*; An unpublished thesis submitted to Faculty of Management, Tribhuban University, Kathmandu, Nepal

Joshi M. (2008) *“A study on financial analysis of NIBL”*; An unpublished thesis submitted to Faculty of Management, Tribhuban University, Kathmandu, Nepal

Manandhar S. (2011) *“Credit Risk & Profitablity of Commercial Banks”*; An unpublished thesis submitted to Faculty of Management, Tribhuban University, Kathmandu, Nepal

Ojha R. (2005) *“Lending Practices; A study on NABIL, SCBNL & HBL*”; An unpublished thesis submitted to Faculty of Management, Tribhuban University, Kathmandu, Nepal

Shrestha B. (2010) “*A study on non-performing loans and loan loss provisioning of commercial banks*”; An unpublished thesis submitted to Faculty of Management, Tribhuban University, Kathmandu, Nepal

Websites:

www.investopedia.com

www.swlearning.com

www.bloomberg.com

www.sebonp.com

www.nepalstock.com

www.nrb.org.com.np

www.nabilbank.com

www.ebl.com

Appendix - I

RESEARCH QUESTIONNAIRE

I hereby request you to fill up the questionnaire designed for proposed survey of the surveyor. The precious views and opinions from your side will be helpful for facilitating the research entitled ***"CREDIT RISK MITIGATION IN NEPALE COMMERCIAL BANKS".*** The views expressed by you here in the questionnaire will be used for the research purpose only and kept confidential.

Name (Optional) :

Address :

Qualification :

Occupation :

1. Banking sector has high discretionary power in providing loans

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

2. Limited number of banks is the source of banking loans

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

3. There is lack of free and fair competition among bankers

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

4. Customers have much bargaining power for banking loan interest

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

5. Promoters can not get loan from their own bank in Nepal

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

6. It is very hard to find attractive customer's project in Nepal

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

7. Customers have interest groups that can make pressure to loans

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

8. Very similar schemes of commercial banks created competition

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

9. There are many substitute of banking loan in today's context

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

10. Alternative services are available in banking loans

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

11. One scheme can substitute another scheme in bank lending sector

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

12. It is very hard to start open new banks due to heavy investment

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

13. Registration is also very complex to enter in banking business

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

14. Nepalese banks utilized high capacity that is barrier for newcomer

1) Strongly disagreed   2) Disagreed   3) Neutral
4) Somewhat agreed   5) Mostly agreed   6) Completely agreed

15. Most of the banks have their unique business that no others have

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

16. Top level management is skilled or experienced

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

17. Top level management encourages employee participation

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

18. Management is successful to understand customers

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

19. Bank management has good relationship with supplier

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

20. Management is successful in credit management

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

21. Top level management is satisfied with credit administration

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

22. Bank management is able to success to improve credit worthiness

1) Strongly disagreed 2) Disagreed 3) Neutral

4) Somewhat agreed 5) Mostly agreed 6) Completely agreed

Thank You

Appendix-II

4.1Total Loan on deposit ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.5256	0.5031	0.6034	0.6055	0.7505	0.5976
EBL	0.657	0.74	0.754	0.756	0.782	0.7378

4.2 Interest income to loss and advance

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.1146	0.1034	0.0983	0.0945	0.087	0.0996
EBL	0.115	0.098	0.105	0.092	0.08	0.098

4.3 Nonperforming loan to total loan and advance

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.162	0.0714	0.0554	0.0335	0.0132	0.0671
EBL	0.0679	0.0104	0.022	0.017	0.016	0.0267

4.4 Loan and advance to total assets ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.4882	0.4532	0.4219	0.4683	0.4891	0.4601
EBL	0.512	0.5713	0.5912	0.6095	0.6123	0.5793

4.5 Loan advances to current assets ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	3.71	4.242	4.4357	4.4778	6.0836	4.5898
EBL	2.356	4.527	3.752	5.498	3.988	4.0242

4.6 Loan loss provision to total loan & advances

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.0592	0.07111	0.0489	0.0461	0.0438	0.0451
EBL	0.0201	0.0236	0.0279	0.0363	0.0386	0.0293

4.7 Total Assets to total liabilities ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	1.07	1.061	1.0695	1.0862	1.0971	1.077
EBL	1.066	1.087	1.0823	1.0762	1.11	1.0843

4.8 Interest expenses to total deposit ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.04	0.0291	0.0209	0.0197	0.0168	0.0253
EBL	0.051	0.046	0.046	0.039	0.029	0.0422

4.9 Interest expenses to total expenses ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.6331	0.6268	0.3379	0.3138	0.2914	0.4406
EBL	0.6728	0.6275	0.6503	0.6291	0.5038	0.6167

4.1 Noninterest bearing deposits to total deposits ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.2622	0.2055	0.2027	0.2547	0.2134	0.2277
EBL	0.1027	0.1062	0.1067	0.1079	0.1171	0.1081

4.11 Interest income to total income ratio

Bank/F.Y.	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.7996	0.8043	0.9834	0.7131	0.7022	0.7405
EBL	0.827	0.82	0.818	0.87	0.837	0.8344

4.12 Interest from loan and advances and overdraft to total interest income

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.687	0.7061	0.7151	0.7627	0.7604	0.7263
EBL	0.9	0.89	0.892	0.856	0.88	0.8836

4.13 Interest suspense to interest income from loans & advances ratio

Bank/F.Y	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
NABIL	0.2262	0.1257	0.1616	0.1476	0.1468	0.1615
EBL	0.0372	0.0752	0.0867	0.0963	0.0941	0.0779

Appendix - III

Major Indicators of Nabil Bank Ltd.

S. No	Particulars	Indicators	Financial Year				
			2007/08	2008/09	2009/10	2010/11	2011/12
1	Net Profit/ Gross Income	%	32.16	29.68	30.56	24.11	22.29
2	Earnings Per Share	Rs.	137.08	115.86	113.44	83.81	70.67
3	Market Value per share	Rs.	5050	5275	4899	2384	1252
4	Price Earning Ratio	Times	36.84	45.53	43.19	28.45	17.72
5	Dividend (Including Bonus) On Shares Capital	%	140	100	85	70	30
6	Cash Dividend on Share Capital	%	100	60	35	30	30
7	Interest Income/Loan & Advances	%	8.14	8.04	8.82	10.41	12.5
8	Employee Expense/ Total Operating Expense	%	24.41	21.17	23.96	13.79	11.91
9	Interest Expense on Total Deposit and Borrowing	%	2.54	2.64	3.22	4.43	6.15
10	Exchange Gain/ Total income	%	10.02	7.81	7.47	6.17	4.6
11	Staff Bonus/ Total Employee Expense	%	41.43	41.42	43.5	44.29	42.05
12	Net profit/Loans & Advances	%	4.62	3.96	4.02	3.47	3.73
13	Net profit/ Total Assets	%	2.72	2.32	2.55	2.37	2.43
14	Total Credit/ Deposit	%	68.13	68.18	73.87	71.17	78.29
15	Total Operating Expenses/ Total Assets	%	3.97	3.86	4.34	5.54	6.91
16	Capital Adequacy						
	a. Core Capital	%	10.4	8.75	8.74	8.77	8.83
	b. Supplementary Capital	%	1.64	2.35	1.96	1.73	1.75
	c. Total Capital Fund	%	12.04	11.1	10.7	10.5	10.58
17	Liquidity (CRR)	%	6	8.37	9.03	3.02	4.9
18	Nonperforming Loans/Total Loans	%	1.12	0.74	0.8	1.48	1.77
19	Weighted Average interest Rate Spread	%	4.15	3.94	4.16	4.4	4.37
20	Book Net worth per share	NRs.	418	354	324	265	225
21	Total Shares	Number	4916544	6892160	9657470	14491240	20297694
22	Total Permanent Employee	Number	427	416	505	557	657

Appendix-IV

Major Indicators of Everest Bank Ltd.

S. No	Particulars	Indicators	Financial Year				
			2007/08	2008/09	2009/10	2010/11	2011/12
1	Net Profit/ Gross Income	%	21.62	24.17	24.92	16.49	14.27
2	Earnings Per Share	Rs.	78.42	91.82	99.99	100.16	83.18
3	Market Value per share	Rs.	2430	3132	2455	1630	1094
4	Price Earnings Ratio	Ratio	30.99	34.11	24.55	16.27	13.15
5	Dividend (Including Bonus) on Shares Capital	%	30	30	30	30	10
6	Cash Dividend on Share Capital	%	10	20	30	30	50
7	Interest Income/Loan & Advances	%	6.87	7.06	7.57	9.95	12.22
8	Employee Expense/ Total Operating Expense	%	11.03	15.42	12.53	10.52	9.13
9	Interest Expense on Total Deposit and Borrowing	%	2.7	2.61	2.98	4.18	6.05
10	Exchange Gain/ Total income	%	2.07	3.45	2.44		0.05
11	Staff Bonus/ Total Employee Expense	%	52.8	41.7	47.68	52.48	45.41
12	Net profit/Loans & Advances	%	2.1	2.4	2.61	2.95	2.94
13	Net profit/ Total Assets	%	1.38	1.65	1.73	2.09	2.1
14	Total Credit/ Deposit	%	77.44	78.56	73.43	76.24	76.98
15	Total Operating Expenses/ Total Assets	%	3.64	3.65	4.04	5.2	6.95
16	Capital Adequacy						
	a. Core Capital	%	7.82	9.04	8.52	8.39	8.46
	b. Supplementary Capital	%	3.38	2.4	2.82	2.38	1.96
	c. Total Capital Fund	%	11.2	11.44	11.34	10.77	10.43
17	Liquidity (CRR)	%	2.94	4.56	14.26	15.53	9.55
18	Nonperforming Loans/Total Loans	%	0.8	0.68	0.48	0.16	0.34
19	Weighted Average interest Rate Spread	%	3.91	4.34	4.4	4.78	4.6
20	Book Net worth per share	NRs.	10615	15812	22054	27571	36772
21	Total Shares	Number	3780000	4914000	6388210	8304673	11196095
22	Total Permanent Employee	Number	393	449	534	568	586