CREDIT MANAGEMENT
OF
NEPAL BANK LIMITED

A Thesis

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Ref…………… **Date……………**

RECOMMENDATION

This is to certify that the Thesis

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CREDIT MANAGEMENT

OF

NEPAL BANK LIMITED

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

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

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

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DECLERATION

I hereby declare that the thesis titled **“Credit Management of Nepal Bank Limited”** submitted to the Office of the Dean Faculty of Management, Tribhuvan University, is entirely my own work in the form of partial fulfillment of the requirement of Master’s Degree in Business Studies under supervision of my thesis guide **Dr. Shilu Bajracharya** of Shanker Dev Campus, Kathmandu.

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Nirmal Krishna Pandey
Dated:

TABLE OF CONTENTS

CHAPTER-IV: SUMMARY, CONCLUSION AND RECOMMENDATIONS

LIST OF TABLES

LIST OF CHARTS

ABBREVIATIONS

NBL	-	Nepal Bank Limited
NRB	-	Nepal Rastra Bank
NPA	-	Non Performing Assets
F/Y	-	Fiscal Year
P.E	-	Probable Error
S.E	-	Standard Error
&	-	And
AD	-	Anno Domini
BS	-	Bikram Sambat
AM	-	Arithmetic Mean
C.V.	-	Coefficient of Variation
Co.	-	Company
i.e.	-	That is
Ltd	-	Limited
M	-	Million
MBS	-	Master of Business Studies
ROE	-	Return on Equity
Rs	-	Rupees
T.U.	-	Tribhuvan University
%	-	Percentage
+	-	Plus
EPS	-	Earning Per Share
Viz.	-	That is to say
r	-	Coefficient of Correlation
No.	-	Number
G.M	-	General Manager
Pvt.	-	Private
Ktm.	-	Kath

CHAPTER-I

INTRODUCTION

1.1 Background of the study:

Nepal is a developing landlocked country surrounded by two large, fast developing nations, China and India. It is located between the latitude 26˙22’ N to 30˙27’ North and longitude 30˙4’ E to 88˙12’ East and elevation ranges from 90 to 8848 m. The average length being 885 km east to west and average breadth is about 193 km. Nepal is also called country of Himalayas as it is rich in natural scenes and Himalayas. It has been facing lots of problems related to foreign trade due to its far seaport which is located at Bay of Bengal, Calcutta in India 1126 km to the south east of the country.

Most of the Nepalese are engaged in agriculture. It means that it has agro based economy. The main cause behind this is its geographical situations and low literacy rate, which has restricted the people to primitive and traditional forms of occupation.

The prosperity of every developing country can be insured by its economic growth. Different profit and non-profit institutions are to be established for economic growth, for which the source of finance is very essential. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issues of shares and through financial institutions such as banks, in the form of credits, overdrafts etc.

Financial market is very essential for economic growth of the country. Bank, Finance Companies, Co-operative Societies, Insurance Co., Stock exchange are the key elements for the economic development, Among these, bank is major part of financing which deals with monetary transactions by accepting various types of deposits, distributing various types of loans

and rendering other financial development by investing in industrial sector, commercial sector, production sector, and trade and commerce by initiating a mediator on import and export.
Banks are those financial institutions that offer the widest range of financial services especially credit, savings, payment services and perform the widest range of financial functions of any business firm in economy. The most important functions are lending and investing money, making payments on behalf of customers for their purchase of goods and services, managing financial assets and real property for customers and assisting customers in investing and raising funds.

The well organized financial system of the country playes a great role in economic growth. As a part of the financial institutions system, commercial banks occupy quite an important place in the framework of the every economy, trade and business and other resources deficit sectors contribute to the economic growth of the nation, Besides this, commercial banks render numerous services to their customers in view of facilitating their economic and social life.

Banking is emerging as a wonder of the modern world when we talk about the wonderful scientific inventions, its service with a smile, no queues and a consumer's paradise in the world of banking, with the number of private sector banks now in the business, the traditional concept of banking is being revolutionized. Today the world has become modernized. The standard of living of every country has changed drastically, as the economic prospectus of any country shows its financial position of the country which is very essential in the world of modern economy. The economic portfolio has to be adjusted according to the need and demand of the life standard of citizen with respect to time.

Now days, there is a lot of competition in banking market but less opportunity to investment. In this condition, bank can take initiation in search of new opportunities, so that they can survive in the competitive market and earn profit. But investment is very risky job. For a purposeful, safe, profitable investment, bank must follow sound investment policy. The sound investment policy help commercial bank maximized quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. The banking sectors needs to play a vital role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth. So obviously, investment of collected fund is the most important theme for the development of the country.

1.2 Origin of the Banks in Nepal

As in other countries, goldsmiths and landlords were the ancient bankers of Nepal. Banking on modern timer developed in Nepal recently. But this does not mean that there was a complete absence banking activities. From times immemorial, money lender existed before the establishment of modern bank. There is plenty of evidence to show that loan was borrowed in those days.

The history of banking in Nepal in the form of money lending can traced back in the reigning in period of Gunakama Dev, "The King of Kathmandu" (Nepal Bank Limited, Nepal Bank Limited Patrika, 2037: 31)

During the Prime Ministerial period of Ranodeep Singh, one financial institution was established to give loan facilities to the Government Staffs and loan facilities to the public in general in the terms of 5% interest but “Tejarath" did not except money from public. (Nepal Bank Limited, Nepal Bank Limited Patrika, 2037: 40)

The first bank in Nepal was established in 1937 A.D. (1994 B.S.) as Nepal Bank Limited under Nepal Bank Act to provide modern and organized facilities. Having felt the need of development of banking sector to the help the Government formulate monetary policies, Nepal Rastra Bank as a Central Bank was set up in 1956 A.D. (2013 B.S.). Since then, it has been functioning as Government's bank and contributed to the growth of financial sectors. Through the Nepal Rasta Bank has adopted a deregulatory approach at present. It requires continues modification in view of fast changing world. Being the Central Bank, Nepal Rastra Bank has its own limitations and reluctance to go on profitable sectors. To cope with these difficulties, government set up Rastriya Banijya Bank in 1966 A.D. (2022 B.S.) as a fully government owned commercial bank.

Similarly, Agriculture Development Bank was established in 1968 A.D. (2024 B.S.). After then, Nepal Arab Bank Limited was established as a first joint venture commercial bank in 1984 A.D. (2041 B.S.). Having observed the success of NABIL Bank based on marketing concept, NRB adopted liberal economic policy to promote the financial institution. So many commercial banks, development banks and other financial institution are emerging day by day.

1.3 Commercial Banks in Nepal

Commercial banks are the heart of financial system which performs all kinds of banking functions as accepting deposits, advancing credits, credits creation and agency functions etc. They make funds available through their lending their lending and investing activities to borrowing: individuals, business firms and government establishment. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They also operate off- balance sheet functions such as issuing guarantee, bonds, letter of credit etc.

Generally, bank refers to a commercial bank at present. Without the development of sound commercial banking, underdeveloped countries cannot hope to join the ranks of advanced countries. The economic development of the every country depends upon the development of industrial and technological sectors and the development of industrial and technological sectors highly depend upon the growth of commercial banks. If industrial development requires the use of capital, the use of capital equipment will not be possible without the existence of banks to provide the necessary capital. Industrial development will be impossible without the existence of markets of the goods produced; On the other hand, the services of the commercial banks will help to extend the market. These facts show that commercial banking system of nation is important to the functioning of the economy.

The role of commercial banks in the economic growth can be fairy estimated to be very prominent. By mobilizing the scattered idle resources from the fund requirement of productive sectors of the economy. To remain as the major contributing factors to the growth of the nation's economy, they themselves have to have sustainable and growth of themselves for which they have to play an important role as follows.

a. Managing cash properly
b. Help in business expansion
c. Encouraging for the right type of industries
d. Promoting trade and industry
e. Transferring of surplus funds to needy regions
f. Planning financing and investing

List of Class A Licensed Commercial Banks in Nepal (Mid of July, 2008)

Rs.in million

S.No.	Names	Head Office	Operation Date (B.S.)	Paid up Capital
1	Nepal Bank Ltd.	Dharmapath, Kathmandu	1994/7/30	380.4
2	Rastriya Banijya Bank	Singhdurbar, Kathmandu	2022/10/10	1172.3
3	Agriculture Development Bank	Ransahapath, Kathmandu	2024/10/7	1077.8
4	Nabil Bank Ltd.	Kantipath, Kathmandu	2041/3/29	689.2
5	Nepal Investment Bank Ltd.	Darbarmarga, Kathmandu	2042/11/26	1203.9
6	Standard Chartered Bank Nepal Ltd.	NewBaneshwor,Kathmandu	2043/10/16	620.08
7	Himalayan Bank Ltd.	Thamel, Kathmandu	2049/10/5	1013.5
8	Nepal S.B.I. Bank Ltd.	Hattisar, Kathmandu	2050/3/23	874.5
9	Nepal Bangladesh Bank Ltd.	NewBaneshwor,Kathmandu	2050/2/23	744.1
10	Everest Bank Ltd.	Lazimpat, Kathmandu	2051/7/1	831.4
11	Bank of Kathmandu Ltd.	Kamaladi, Kathmandu	2051/11/28	603.1
12	Nepal Credit and Commerce Bank Ltd.	Suddharthanagar,Rupandehi	2053/6/28	1399.5
13	Lumbini Bank Ltd.	Narayangath, Chitawan	2055/4/1	995.7
14	Nepal ndustrial &Commercial Bank Ltd.	Biratnagar, Morang	2055/4/5	943.9
15	Machhapuchhre Bank Ltd.	Pokhara, Kaski	2057/6/17	901.3
16	Kumari Bank Ltd.	Putalisadak, Kathmandu	2057/12/21	1070
17	Laxmi Bank Ltd.	Birgunj, Parsa	2058/12/21	913.2

18	Siddhartha Bank Ltd.	Kamaladi, Kathmandu	2059/9/9	828
19	Global Bank Ltd.	Birgunj, Parsa	2063/9/18	700
20	Citizens Bank International Ltd.	Kamaladi, Kathmandu	2064/1/7	560
21	Prime Bank Ltd.	Newroad, Kathmandu	2064/6/7	700
22	Sunrise Bank Ltd.	Gairadhara, Kathmandu	2064/6/25	700
23	Bank of Asia Nepal Ltd.	Tripureshwor, Kathmandu	2064/6/25	700
24	Development Credit Bank Ltd.	Kamaladi, Kathmandu	2057/10/10	1107.5
25	NMB Bank Ltd.	Babarmahal, Kathmandu	2053/9/11	1000

Source: NRB

1.4 Focus of the study

Every country has to give an emphasis on upliftment of the stable and sustainable economy. Until and unless a nation mobilize its own domestic resources, the nation cannot achieve economic growth. Financial institutions are currently viewed as catalyst in the process of economic growth of country. A key factor in the development of an economy is the mobilization of the domestic resources. As intermediaries, the financial institutions help the process of resources mobilization. The importance of financial institutions in the economy has of late grown to an enormous extent. As main financial institution, banks are expected to support local community with an adequate supply of credit for all legimate business and consumer needs to price that credit reasonably in line with competitively determined interest rates. Bank loan support the growth of new business and jobs within the banks trade territory and promote economic vitality.

Management is the system, which helps to complete the every job effectively. Credit management is also the system, which helps to manage credit effectively. In other words, credit management refers management of credit exposures arising from loan, corporate bonds and credit derivatives.

Lending money in nowadays becoming main resources of revenue to the bank and also involves high risk too. Bank will not provide loan unless it has sufficient sources to the borrower that will be needed in case of future recovery. So, credit management strongly recommends analyzing and managing the credit risk. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposures within acceptable parameters.

Since, exposure of to credit risk continues to be on the leading source of problem 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 applicable to the business of lending, they should be applied to all activities where credit risk is present.

Proper financial decision making is more important in banking transaction for its efficiency and profitability. For this proper credit policy is very essential. The credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit and methods of credit analysis.

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 in various financial instruments other than loans, including acceptances, inter bank 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.

1.5 Introduction to Nepal Bank Limited

Nepal Bank Limited (NBL), the first Bank of Nepal, was established in 30th Kartik 1994 B.S. NBL is the pioneer financial institution of Nepal. From the very conception and its creation, Nepal Bank Ltd. is a joint venture between the government and the public sector. Out of 2500 equity shares of Rs. 100 face value, 40% was subscribed by the government and the balance i.e. 60% was offered for the sale to public sector. At Present, there is 41% share owned by the government and the rest by the public sector.

Nepal Bank Ltd. was established under company law, Nepal Bank Law 1994 in Judda Sadak paying of rent Rs. 100 per month. The bank stands its operation with the authorized capital of Rs. 10 million with only 10 shareholders when the bank first started. In that era, very few understood or had confidence in this new concept of formal banking in Nepal. Rising equity shares were not easy and mobilization of deposits even more difficult. At present, it has authorized capital of Rs.1000 million and paid up capital of Rs 380.4 million. One of the admirable efforts of the bank was that it helped initially in removing the dual currency system and circulating the Nepalese currency throughout the country.

The first branch of NBL was Kathmandu Banking Office and its first borrower was Biratnagar Jute Mill, which borrowed Rs. 0.1 million at 5% interest rate in 12^{th} chaitra 1994 B.S. Initially, it was operated by only 12 staffs under the leadership of General Manager Thakur Singh Kathait.

During the past 7 decades, the bank experienced many ups and downs, but it has remained the leading financial institution in Nepal. In early stage bank has provided its services to customers and government with limited resources manually. Now, it has been using advanced technology to provide banking facilities. Most of the branches have been computerized with modern Banking software and rests of the branches are in the process of computerization. To cope with the development of modern banking technology, it has been providing Any Branch Banking facilities, Web Remit service, SMS Banking etc.

Nepal Bank Ltd. has helped vastly in developing the country by accumulating the scattered money in small amount in each and every nook and corners of the country and granting loan and advances in various ways. The bank has been tendering modern banking services to the different sectors of the economy like manufacturing and service industries, hydropower projects , traders, small entrepreneurs and the weaker sections of the society through more than 100 Branches which spread all over the five development regions of the country.

1.6 Statement of the problem

Establishment of banks has contributed in the response to the economic liberalization policies of the government. The tendency to concentrate commercial banks only in the urban areas like Kathmandu, Biratnagar, Pokhara, Nepalgunj etc. has raised the certain questions. This state of affairs cannot contribute much to the socio economic development of the country where 90% of the population lives in rural area and 81% of the population depends in agriculture. There are a lot of problems related to investment due to which most of the commercial banks in Nepal are urban oriented.

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

Despite the circular of NRB, the central bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, these banks are inclined to pay fines rather than investing these resources to such less profitable sectors. There is no debate that high profitable or successful organization can easily fulfill the 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 credibility position is the major strategy of every commercial bank.

Nepalese commercial banks are lacking scientific and imperial research that could identify the issues of credit management. Banks and financial institutions are investing in house loan, hire purchase loan for safe purpose, Due to lack of good lending opportunities, banks appear to be facing problem of excess liquidity. Due to competition among banks, the interest rate for loan is in a decreasing trend. Due to unhealthy competition among the banks, the interest rate for the loan is in decreasing trend and the recovery of the banks credit is going towards negative trends. In this regard, the performance of Nepalese commercial banks is to be analyzed in terms of their credit. Some research questions regarding to the credit practices, credit efficiencies, liquidity position, industrial environment, management quality, organization climate are considered as a clear evident in present situation. Thus to know the problems faced by Nepalese commercial banks related to the investment, Nepal Bank Limited is selected as a sample and the specific research questions regarding credit management in Nepal Bank Limited are identified as follows:

a) Are the credit practices adopted by Nepal Bank Limited in good position?
b) Is bank in the right level of liquidity?
c) Is bank investing in good and profitable sectors?
d) Has bank been able to earn profits?
e) What is the credit efficiency of NBL?
f) What is the impact of growth in deposit on liquidity and lending practices?
g) What is the position of non performing credit in NBL?
h) How far NBL is able to use its resources in credit and advances?

1.7 Objectives of the study

There is no doubt that commercial banks are the heart of the nation who mobilize and utilize scattered resources. Basic objective of this study is to have true insight of the credit management of Nepal Bank Ltd. It is also aimed to find credit practice efficiency and profitability situation. Moreover the study has specified the following objectives.

a) To analyze the lending system of the bank.
b) To examine the impact of growth in deposit on liquidity and lending practices.
c) To assess credit practice of the bank
d) To explore the relationship with loan and advances and net profit of the bank.
e) To provide suggestions and recommendations for the improvement based on the findings of this study.

1.8 Significance of the study

In this changing pace of time, most of the commercial banks are gaining a wide popularity through their efficient management and professional services and playing a great role in the economy. The main purpose of the commercial bank is to have effective credit management so that stakeholders get satisfactory. This study adds new idea and findings about the concerned bank.

This study is helpful for all the concerned parties which add new idea and findings about the Nepal Bank Ltd. The studies that will have importance to various groups but in particular is directed to a certain groups of people/organizations are:

a) Important to the management of Nepal Bank Ltd. for self assessment of what they have done in the past and guide them in their future plans and program.
b) Important to the shareholders.
c) Important to the financial agencies, stock exchanges and stock traders, who are interested in the performance of the bank as well as the customer, depositors and debtors who can identify the better bank to deal with in terms of profitability, safety and liquidity.
d) Important to the interested outsides parties like investors, competitors, personnel of the banks, dealers and market makers.
e) Important to the macro level policy makers like government and NRB for the formulation of further policies in regard to economic development.

1.9 Limitations of the study

This study has been carried out with certain limitations. The major limitations are as follows:

a) The study is concerned only with credit related financial performances of Nepal Bank Limited.

b) The scope of the study is to analyze Credit management aspects.
c) In this study only selected statistical tools and techniques are used.
d) This research study largely depends on published documents such as Balance Sheet, Profit and Loss Account, which are circulated at the close of the financial year.
e) Research is done for the partial fulfillment of the Master of Business Studies (MBS) of the management faculty, Tribhuvan University and no comprehensive study.
f) This study is conducted only for suggestion not for directing.
g) This study is based on the latest seven years data.
h) Time and financial constraints are also the major limitations of the study. The report has to be submitted within the time period.

1.10 Organization of the study

The whole study is divided into five different chapters.
The study credit management of Nepal Bank Ltd. is presented in organized form. The whole study is divided into five different chapters and they are given as follows:

Chapter-II: Introduction

This chapter describes the 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, significance of the study, and limitations of the study and chapter plan of the study.

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 contains conceptual framework of the credit, review of articles and past related thesis.

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. This chapter includes research design, data collection, and data analysis technique and research variables.

Chapter- IV: Data Presentation and Analysis

This chapter analyzes the data related with study and presents the findings of the study and also commend briefly on them. Data processing, data analysis and interpretation are given in this chapter and there is use of techniques relating to analysis such as ratio, descriptive expression, diagrams and so forth.

Chapter-V: Summary, Conclusion and Recommendations

On the basis of the result from data analysis, the researcher concludes about the performance of the concerned organization in terms of credit management. This chapter is devoted to the summary of the research, conclusion derived on the basis of data analyzed and the recommendations for improvement to the concerned organization.

CHAPTER-II

REVIEW OF THE LITERATURE

Every study is very much based on past knowledge; the past knowledge provides foundation to the present study. So in this present chapter, the reviews are done relating to credit management of Nepal Bank Ltd. This chapter helps to take adequate feedback to broaden the information based and inputs to this study, therefore this chapter has its own important in this study. For this several journals, reports and articles published in different journals and newspapers are being reviews and are categorized in two headings.

a) Conceptual framework

b) Review of related studies

2.1 Conceptual framework

2.1.1 Meaning of Commercial Banks

Banks play an important role in the economic growth of a country. In general, a bank is referred to as an institution that deals with money, currency and bullion. It collects the deposits in the form of currency and gold from the savers and supplies to the people in demand of money with different terms and conditions as to the money received and charges different levies in the form of processing fees, commissions, interests etc., from the people who have taken loan from it. In modern economy, banks are considered not as a dealer in money but as the leaders of development. Banks are not just the storehouses of the country's wealth but are the reservoirs of necessary for economic development.

Now a day the function of banks are changing which has induced their principle competitors to change. The principle competitors such as other financial institutions including security dealers, brokerage firms and insurance companies are trying to be similar to bank in the services they offer.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. No function is more important to the economy and its constitute than financing. "Bank assists both the flow of goods and service from the products to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and is in important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy" (American Institute of Banking, 1972: 162).

Commercial banks are the heart of the financial system. They hold deposits of many persons, government establishments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government units in doing so they assist both the flow of goods and services from the producers to consumers. They dispense the large portion of medium through which monetary policy is affected. This shows the consequential role in the smooth functioning of the country.

Commercial banks act as an intermediately; accepting deposit and providing credits to the needy area. The main source of the commercial bank is current deposit, so they give more importance to the liquidity of investment and as such they specialize in satisfying the short-term credit needs of business other than the long-term. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc to their customers (Vaidhya, 1999:24).

"Commercial banks deal with other people's money. They have to find ways of keeping their liquid assets so that they could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock their funds in assets, which are not easily releasable. The depositors must be made to understand the bank is fully solvent. The depositors' confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such a way that can have adequate profits without sacrificing liquidity (Radhaswamy, 1979:42).

According to F. A. Braddford, "A bank is one who in the ordinary course of his business receives money which he repays by honoring cheques of persons from which of one whose account is receives it."(Bradford, 1974:453).

Commercial Bank Act 2031 B.S. of Nepal has defined that "A commercial bank is one which exchanges money, deposit money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meat for cooperative, agriculture, industries or for such specific purpose."(Commercial bank Act, 2031 BS)

Financial activities are necessary for the economic development of the country and commercial banking in his 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 institution the sound knowledge of investment is the must because this subject is relevant for all the mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institution, they must mobilized (i.e.; investment in different sectors) their collections (deposits) ad other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks ad 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 depends this lending procedure applied by the bank. And lending policy and investment in different securities also affected the income ad profit. I the investment procedures and policies are 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.

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

Commercial banks play the important role in the modern economic organization. Their business mainly consists of receiving deposits, giving loans and financing the trade of a country. They provide short-term i.e., lend money for short period. According to the American Institute of Banking," Commercial Bank is a corporation that accepts demand deposits subjects to check and makes short-term loans to business enterprise regarding of the scope of its other services"

2.1.2 Functions of Commercial Banks

Banks are financial institutions which perform its activities as a objective of profit maximization. To achieve this, the bank carries out functional activities, "Principally, commercial banks accepts deposits, provide loan, primarily to business firms thereby vacillating the transfer of funds in the economy". The business of commercial bank is primarily to hold deposits and make credits and investments with the object of securing profits for its shareholders. Although, in the yester years banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. Due to the increment in the banking habit of people, competitive environment of banking business all over the world has made this sector very challenging.

Even though commercial banks are operating with the primitive function at receiving deposit, making loan and advances, money creation, agency services and other general utility services. To meet its major objective, it performs various functions under the mandatory rules and regulations and directives of NRB and the Commercial Act 1974 A.D. The functions of commercial banks are categorized mainly as follows.

Primary Functions

Accepting Deposits

Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as:

- Fixed deposit Account
- Current deposit Account
- Saving Account

Advancing of loans

Commercial banks provide the required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures in different form such as:

- Overdraft
- Cash credit
- Direct loan with collateral
- Discounting of bills of exchange
- Loans of money at call and short notice

General Utility Functions

Commercial banks also perform general utility functions such as :

- Issuing of letter of credit to its customers.
- Issuing of bank drafts and traveler's cheque etc., for transfer of funds from one place to another.
- Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange.

- Serving as referred to the financial standing and credit worthiness of it's costumers.
- Under writing loans to be raised by public bodies and corporations.
- Providing safety vaults of lockers for the safe custody of valuables and securities of the customers.
- Acting as a trustee and executing the will of the decease.
- Remittance of money

Agency Function

Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as:

- Collection of customer's money other banks.
- Receipt and payment of dividend, interest.
- Security brokerage service.
- Financial advisory service.
- To understand the government and private securities.

2.1.3 Role of commercial banks in changing content

1. Role on economic development.
2. Role on development of financial market:(National/Global)
3. Modern products and services: satisfying costumers needs.
4. Human relations: customers, stakeholders, government employees.
5. Tax payer to the government.
6. Social responsibilities.
7. Research and development.
8. Technology adoption
9. Continuous development and managing the change.

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

Credit Risk

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

Liquidity Risk

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

Yield Risk

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

Market Risk

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

Operational Risks

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

Management Risk

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

2.1.4 Credit Management

Credit is regarded as the most income generating assets especially in commercial banks. Credit is regarded as the heart of the commercial banks in the same sense that; it occupies large volume of transaction; it covers the main part of the investment activities based in credit; it is the main factor for creating profitability; it is the main source of creating profitability, it determines the profitability. It affects the overall economy of the economy. In today's context, it also affects on national economy to some extent. It is proved from very beginning that credit is the shareholder's wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is most challenging job because it is the backbone in commercial backs. Thus, effective management of credit should seriously be considered.

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified date on demand. There is always risk and return in investment. Higher the risk higher will be the return and lower the risk lower will be return, but it is not always true. Generally credit means to flow cash in different sector with profit motive/. But in the board sense, credit means to sacrifice current rupee in the present and certain for the future rupees, which comes later and is uncertain. According to F. Ambling, "Investment may be defined as the purchase by an individual or the institutional investor of a financial or real asset that products a return proportional to the risk assumed over some future investment period." Similarly according

Credit promotes economies growth and contributes the nation’s wealth. People deposit their surplus money in the bank and may lend those collected funds to the various business and companies. These firms in return may invest in new factories and equipment to increase their production. As a result investment raises the nation's living standard. Now a day, most companies issues stocks and bands to raise the capital needed for business expansion instead of borrowing from the banks. Similarly government also issue bonds to obtain fund to invest in the projects like construction of damps, roads, Bridges and schools etc. All such investment by individual business as well as government involves a sacrifice of present value to get an except future benefits and income which is probably uncertain.

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 maximize a bank’s risk adjusted rate of return by maintaining credit risk exposures 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.

For effective credit management, there is major role of sound credit policies and the practices of those policies. The sound practices address the following area:

a. Establishing an appropriate credit risk environment.
b. Operating under a sound credit granting process.
c. Maintaining an appropriate credit administration, measurement and monitoring process.
d. Ensuring adequate controls over credit risk.

Although specific credit risk management practices may differ among banks depending upon the mature and complexity of their credit activities, a comprehensive credit risk management program will address these four areas. Those practices should also be applied in conjunction with sound practices related to the assessment of assets quality, the adequacy of provisions and resources and the disclosure of credit risk all of which have been addressed in other recent Basel Committee document.

The income and profit of the bank depend upon the lending procedure applied by the bank. And the lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies, it is always taken in mind that "The greater the credit created by the bank, the higher will be the profitability". A sound lending investment policy is not only pre-requisite for banks profitability but also crucially significant for the promotion of commercial saving of developing countries like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and there by achieving the objective of profit maximization and social welfare. Formulation of sound investment policies and co-coordinated and planned efforts pushes forward the forceps of economic growth.

2.1.5 Credit Risk Appraisal

Although specific credit risk management practices may differ among banks depending upon the mature and complexity of their credit advances, credit appraisal is art through which every practical banker master from out of experience and can never be reduced to an absolute science. In spite of several technical aids, such as ratio analysis of financial statements, cash flow and fund flow statements, Profit and Loss account, Balance Sheet available to the modern banker, the ability to make a correct loan decision very much depends on the critical judgment, common sense perceptive intelligence and discriminating sense of the lending banker. However, the usual steps involved in the appraisal of credit risks are:

- The character, capacity, collateral and integrity of the borrower.
- Repayment capacity of the borrower including a consideration of the source of income.
- Prospects of the proposal- whether it will succeed.
- The purpose of the loan which is being requested is whether productive or unproductive.
- The collateral that is being offered as security must be investigated as to the following:
    - Whether it is easily marketable
    - Value of security at present
    - Whether the value is likely to be stable or it is the security such that its value fluctuates Considerably and
    - In case of default in payment, if it is easily transferable.

2.1.6 Credit policy of bank

The commercial bank is inspired with the goal of earning profit. How to scattering the loan is one of the most important things. There are many reasons after the goal of gaining profit. A bank is legal person. It ca do nothing aloe. A bank established without the aim of graining the profit is central bank. Other banks are inspired with the object of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goal. It is essential to carryout the business of lending consistency. For effective credit management, following credit policy are very essential for every bank.

1. Principle of Liquidity

Liquidity means the whole money stock in the economy. The liquid property means cash stock of the commercial banks the amount of short term, current account and short term government and business security and the Treasury bill. A bank should not forget the principle of liquidity while it is following its investment policy. A bank should to able to returns the deposit when demanded by the depositors. A banker has to ensure that money will come as in demand or as per agreed terms of repayment. For this purpose bank need liquid cash.

2. Principle of Profitability

The objective of commercial bank is to earn profit. The bank should focus from which sectors it can earn much profit. The bank can earn more profit from safe and long term investment . If bank pays its attention only on profit, liquidity will be less and if it pays attention on the liquidity, it can't be a long-term investment and the bank doesn't earn profit. So it should maintain equality in it.

3. Principle of Safety

A bank should pay special emphasis on safety. If the investment area is unsafe it is not a good omen for the bank. There will be no doubt of loss whether it is great or little, if the bank has not invested in a safe sector. The bank should think it with much sensibility. Before making any investment, the bank should seriously study whether it is safe to invest or not.

4. Principle of Diversification

The principle of diversification means, to invest the money in the various sectors. The bank by studying and analyzing the different sectors where it is possible to earn more from little investment should extend its environment. If bank invest in various sectors, it become successful to keep it in balance. As the statement, the bank should not keep all its eggs in the same basket, and should invest in various fields.

5. Principle of marketability

A bank should adopt the principle of marketability. The bank should invest by taking the security of high quality as far as possible. Bank should study the market evaluate the goods, which are taken as a security. There should not be investment by taking the securities of such goods, which are not saleable in the market.

6. Principle of National Interest

The objective of bank should not go against the national interest. The banks should follow the rules and regulations as well as policy, directions given time to time by the Nepal Rastra Bank. The bank should make its investment, which is suitable to the national interest and carries benefit to the society.

7. Principle of Tangibility

Though it may be considered that tangible property does not yield on income apart from direct satisfaction of possession of property, many intangible securities may lost their value due to price level inflation. A commercial bank should prefer tangible security rather than in tangible one.

8. Principle of Legality

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of finance, and Ministry of law and other while mobilizing its funds.

2.1.7 Factors Affecting Credit Policy of Banks

There are so many internal and external factors related to and internal external environment which affect the credit policy of banks. Generally, the following factors are to be considered to make effective credit management. It helps to get effective credit worthiness.

1. Industry Environment

It determines the nature of the industry, its attractiveness and the Company's position within the industry. Structural weakness of a Co. does affect to its credit policy.

2. Financial Conditions

It depends upon 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 of fall back on income of sister organization in case of financial crunch of the Company.

3. Management Quality

It determines the integrity, competences and nature of alliances of the borrower's management team weaknesses in replacements needs to be evaluated.

4. Technical Strength

It determines the strength and quality of the technical support required for sustainable operation of the Co. 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 replacements need to be evaluated.

5. Security Realization

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

2.2 Review of Related Studies

Banks are such types of institutions that deal on money and substitute for money. They deal with credit and credit instruments. The most important think for the bank is good circulation of credit. Fluctuate flow of credit and weak decisions harms the whole economy and the banks as well. Thus to collect fund effectively and its well utilization is the very challenging task for the bank. The decision of an investment of fund may be the question of life and death for the bank. Being credit management a part of investment, it is very necessary to know the concept regarding investment.

In the world of V. K. Billa and S.K. Tutesa define, “There are basically three concept of investment.

i) “Economic investment that is one on the economics definition of investment."
ii) "Investment in a more general or extended sense, which is used by the man on the street "
iii) "The sense in which we are going to very much interested namely financial investment "(Bhalla, 1983: 2).

John M. Cheney and Edward A define “the word investments beings forth vision of profits, risk, speculation and wealth”

In the words of S. P. Singh, “The Credit) policies of banks we conditioned to great extent, by the national policy frame work, every banker has to apply his own judgment for arriving at a credit decision, keeping of course his banker's credit policy also in mind."(Singh, 1983)

According to Cheney & Moses, “The investment objective is to increase systematically the individual’s wealth, defined as assets minus liabilities. The higher the level of the desired wealth the higher must be received. An investor seeking higher return must be willing to face higher level of risk" (Cheney & Moses, 1988:23).

Investment is made in present, which is certain, and gain profit in future, which is uncertain, involves a present sacrifice of income to get an expected future benefit. So, it is a kind of speculation to increase the wealth and the living slandered of oneself as well as that of the nation. Most of the people invest their excess fund to different sectors for future financial gain and to protect the purchasing power of their saving against raising price of goods, due to inflation.

According to William F., Sharpe, Gorden. T. Alexander and Jeffery V. Barly, " Investment in its broaden sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and its magnitude as generally uncertain" (Sharpe & Alexander and Barly, 1998:1).

Dr. Sunity Shrestha, in her book “Portfolio behavior of commercial bank in Nepal ’said, “The commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximizing of the institution as well as the economic enhancement of the country"(Dr. Shrestha, 2001:51-52).

According to Mr. Shakespeare Baidhya “A sound investment policy of a bank is such that its funds are distributed on different types of asset with good profitability on the one hand and provide maximum safety and security to the deposits and banks on the other hand. Moreover, risk in banking sectors tends to be concentrated in the loans portfolio. A bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become un-collectable due to mismanagement, illegal manipulation of loan, misguided lending policy or economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds."

Further in details he deals with what types of loan do bank made and how much of loans in each loan to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile construction of homes and making trade with foreign countries. There are no uniform rules that can be laid down to determine the portfolio of a bank. The environment in which the bank operates it’s influenced its investment policy. The nature and availability of funds are also assets differ widely from country to country and also from operating in Jumla will be different from the scope of the bank operating in Katmandu. The investment policy to applicable to the consumer of Jumla because the demand for loan is less in rural areas where as it is higher in city in urban areas (Baidhya, 1997: 46-47).

According to I. M. Pandey, “In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important then accounting profit. It may also be pointed out that investment decision affects the firm’s value. The firm’s value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder’s fund maximization. An investment will all to the shareholder's wealth, if it yields benefit in excess of the minimum benefits as per the opportunity cost of capital" (Pandey, 1999: 407).

The decision of lending is very important because it influences the firm's growth in the long run effects. The risk of the firm requires the large amount of founds, which is difficult to make. A commercial bank must invest its deposits and other funds to secured, profitable, reliable and marketable sector, so that it can earn a reasonable profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan . Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

Under the heading of credit management different articles can be viewed from various newspaper economic journals, bulletins and magazines. "A study of deposits and credits of commercial bank in Nepal", the credit deposit ratio could be 51.30 percent, other things remaining the same, in 2005 AD, which was the lowest under the period of review. So, the commercial bank should try to give more credit entering new fields as far as possible. Other wise they might not be able to absorb even its total expenses (Shrestha, 2045:12).

Mr. Shrestha, Ramesh Lal (2045 B.S.) in his articles, "A study on deposit and credits of commercial banks in Nepal" has concluded that the credit deposit ratio would be 51.30%, other thing remaining the same, in 2004 AD, which was the lowest under the period of review. So, he had strongly recommended that the commercial bank should try to give more emphasis in new field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

"Investment planning of commercial banks in Nepal", portfolio (Loan and investment) of commercial banks has been influenced by the variable securities rates .Investment's planning of commercial banks in Nepal is directly tracked to fiscal policy of government and heavy regulatory procedure of the central bank (NRB). So the investments are not made in professional manners. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability. To overcome this problem, she has suggested, commercial banks should perform leading and Investment operation efficiently with the proper analyze of the project (Shrestha, 1993:26).

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

Dr. Pradhan, Radhe Shyam (1994) had made research, "Financial management practices in Nepal." This research is mainly concerned with financial functions, sources and types of financing, financial decisions. The study reveals that most enterprises do not borrow from one bank only and they do switch between banks to whichever offers best interest rates. They find that banks are flexible in interest rates and convenience. The enterprises have a definite performance for bank loans at a lower level of debt. Similarly, he concluded that among the bank loans, bank loans of less that one year are more popular in public sector where as bank loans of 1-5 years are more popular in private sectors.

"project financing apart of business" " The investor or whether banks, financial institutions, individuals, private or government sector must not took the proposal by making design without having adequate judgment because sometimes they performs 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" (Lamichhane, 2002:145).

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, banks starts sneezing. From this prospective, the banking industry as a whole is not robust.

"In case of investors having lower 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 of the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select best mix of investment assets"(Shrestha, 2055:13).

"Why does the loan become defaulter?" This study fixed out the causes that makes loan default. "When the due date is over, then the loan becomes default." But when do the dye dates are over? Generally, increase in interest rates, decrease in economic activities cause decrease in the capacity of debtors and some times the debtors knowingly do not pay back the loan. Other then these reasons in the context of Nepal lack of credit policy, lack of information about the loan holder (three C's = capacity, character and capital). Unhealthy competition and small market area, the cause's loan defaults, Default loans increase the resources mobilization cost and reduces the profit earning capacity of a bank. Therefore, increase in default loans are the indicator of problematic situation to the banks (Neupane, 2002:142).

Mr. Bajrachrya Bodhi (2047 B.S.) in his article entitled "Monetary Policy & Deposit mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. Commercial banks and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

2.2.1 Review of thesis (Dissertations)

Mr. Sharma, Ram Prasad (2002) has conducted his study entitled “Priority Sector Investment of Commercial Banks in Nepal". The main objective of his research is to highlight the priority sector investment and repayment states of commercial banks in through intensive banking program and to show the repayment position of the sector. All the three commercial banks covered in his study have contributed the credit to priority sector. But efforts made by different banks are not in the same proportion. Nabil has contributed highest amount of credit to agriculture and cottage industry and NBL has contributed highest amount to services sectors.

Major Findings:

1. Loss repayment overdue loan have been observed more in agriculture.
2. Loan repayment from priority sector of Nabil is satisfactory than that from agriculture sector of NBL.
3. Reinvestment is the available sources to increase in paying capacity of the borrower.
4. Reinvestment and right utilization of bank loan are the cost of commercial banks.

Recommendations

1. Commercial banks should improve the repayment loan by generating the income of rural farmers.
2. There is need to increase in assets by better arrangement of institution and organization.
3. The manager and loan staff of the branches should be provided with adequate training so that they could identify right borrowers, right project and ensure correct project appraisal."

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

ADB/N is one of the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and cooperative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However, ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. So Mr. Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB/N.

Major findings:

1. Actual credit disbursement, collection and outstanding are increasing in decreasing rate.
2. Yearly increase in credit disbursement is higher then that of collection.
3. Positive relation between credit disbursement and collection that is 0.996.
4. Targeted credit collection and disbursement fixed by planning and project department is not significantly different then actual.
5. Most of the customers are unaware of the policy of the bank.

Recommendations:

1. The borrowers should be informed about the credit, its use and its payment procedures and schedule.
2. Greater attention should be given to increase the credit collection and to collect old outstanding amount of credit and renewal of it.
3. To accelerate the collection, credit should be followed continuously in a regular interval of the time.
4. The behavioral of the personal should be strictly supervised in granting credit in proper investment proposal because of most of the bad credit disbursement is due to weak decision of the personnel (Mr. Khimananda Aryal, 2003).

Shrestha (2002) has submitted a thesis named “A Comparative Study on Investment Policy of Indosuez Bank Ltd. and Everest Bank Ltd."

Major Objectives:

1. To determine the impact of deposit collection and its effect on lending practices.
2. To compare investment policy of concerned banks and discusses the fund mobilization of the sample banks.
3. To analyze the profitability of banks in respective ness of liquidity assets and management efficiency.
4. To have comparative analysis on total investment, deposit and loan and advance and net profit and outside assets.
5. To analyze the deposit utilization trend and its projection for next five years of NIBL and EBL.

Major Findings:

1. Profitability position of NIBL is comparatively better than RBL. It indicates that NIBL has maintained its high profit margin regarding profitability position.
2. The liquidity ratio of NIBL is greater in every year than EBL. It means NIBL has greater success to meet its current obligation.
3. NIBL has lower risk than EBL regarding various aspects of banking functions.
4. NBIL has successfully managed its assets towards different income generation activities whereas EBL has made low portion of total working fund in investment on government securities and share and debentures of other companies.
5. NIBL trend value of total deposit and loan and advances are increasing but trend values of EBL are increasing. The trend value in all cases of NIBL has lower in comparison to EBL.

Mr. Chand, Ganesh Bahadur (1988) has submitted his thesis on "Credit Disbursement and Repayment of Agriculture Development Bank Nepal". The statements of problems on his research are:

1. The bank doesn't benefit small farmers (i.e. problem of balance development).
2. The collection of credit is slow, so it hinders the flow of capital required to develop economic growth.

Major Objectives:

1. To see the repayment situation.
2. To find out the growth rate of investment.
3. To explain possible causes of none and delay repayment.

Major findings:

1. Repayment situation is satisfactory on production and agro-based industry warehouses and farm mechanization, irrigation, tea horticulture, livestock, poultry and fisheries is less satisfactory.
2. There is systematic relationship between credit disbursement and repayment. The coefficient of correlation value as calculated is 0.94 which shows significance relationship.
3. Bank has not made great effort to recover the credit through borrower channel groups.

Poudel, Kedar Prasad (1999), has made research on "Investment in Priority Sectors with Reference to Nepal Bank Limited". The main objectives of his research are as follows:

1. To analyze the achievement on priority sectors investment of Nepal Bank Limited.
2. To analyze the repayment position of priority sectors.
3. To examine the impact of loan on priority sectors.

Major Findings:

1. Short term credit was important for the rural people.
2. The procedure of loan sanctioning is rather slow and clumsy.
3. Loan in the priority sectors significantly generates the employment opportunity.
4. There is need of simplicity in legal and banking procedures.
5. Banking procedures are so complicated that most of the people are not able to understand the banking procedures.
6. Loan repayment problem was due to miss-utilization of the loan; other important causes are linked with high social expenses like marriage ceremony, medical treatment, cremation etc.
7. Proper inspection and supervision of loan is necessary to avoid miss- utilization of loan.

Ghimire, Govinda (2005) in his thesis “Non-performing Assets of Commercial Banks" has tried to evaluate the impact of NPA on profitability of Commercial Banks. He also studied about internal and external factors that contributed to increase the level of NPA through loan and advances. The objective of his study is also to find out the relationship between the non- banking assets and non- performing assets, in which he was able to find out the internal responsible factors that contribute turning good loans to bad loans, bad intentions, and weak management, are the most responsible factors. Similarly weak legal provisions and credit concentration are also found least preferred factors in turning good loans into bad loans. Some factors such as lack of portfolio analysis, not having effective credit policy and shortfall on securities were identified as having average effect in NPA growth. In connection to the external factors, it has been that recession, political and legal issues are more relevant factors in turning good loans into bad one. Likewise legal provisions for recovery as a reason for increment of NPA in Nepalese Banks have been found the factors having less impact. Supervision and monitoring system have been identified as average factors. It is therefore, can be generalized that economic and industrial recession and not having strong legal provisions for loan recovery are the major external factors that have major contribution for increment of NPA.

It has been concluded in the study that Nepalese Commercial Banks gave must priority to trade sectors for lending its resources, at the same time it is found that service sectors are not being given much emphasis. He has recommended to the sample banks, Nepal Bangladesh Bank Ltd , Nepal SBI Bank Ltd. and Bank of Kathmandu as on different headings, subject matter such as financial strength, personal integrity and security, monitoring and control system, avoidance of credit concentration , strong legal system, assets management company, avoidance of undue pressure etc.

Khadka, Raja Ram (1998) "A Study on Investment Policy of Nepal Arab Bank Ltd in comparison to other joint ventures of Nepal” has compared investment policy of NABIL with Nepal Grindlays Bank Ltd.(NGBL) and Nepal Indosuez Bank Ltd. (NIBL). Mr Khadka has pointed out that the liquidity position of NABIL is comparatively worst than that of NGBL and NIBL. It is also comparatively less successful in on - balance sheet utilization as well as off-balance sheet operation than that of NGBL and NIBL. In case of profitability ration, he has concluded that of other joint venture banks, NABIL is more successful in deposit utilization but fails to maintain high growth rate of profit in comparison with NGBL and NIBL.

He has concluded that NABIL should increase bank and cash balance to meet loan demand. NABIL's loan and advance ratio to deposit ratios are lower than other joint venture banks and to overcome this situation, NABIL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.

He has focused his study on investment policy of NABIL bank and taken NGBL and NIBL average ratios as banking average. He has recommended to adopt liberal lending policy however has not explained regarding liberal lending and invest more and more percentage amount of total deposits in loan and advances. However, while adopting liberal policy in lending, he has not explained the consequences like bad debts, default loan, which may arise due to very flexible and liberal lending policy.

2.2.2 Review of Nepal Rastra Bank Directives

Central Bank NRB has established a legal framework by formulating various rules and regulations to mobilize or invest the deposit of the bank in different sectors of the different parts of the nation, to prevent them from the financial problems. These directives must have direct of indirect impact while making decisions. Those rules and regulations are discuss which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CCR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment etc. Commercial bank is directly related to the fact that how much fund must be collected as paid up capital while establishing the bank at certain place of the nation, how much fund is needed to expand the branch and counters. But we discuss only those which are related to credit management of the commercial bank. The directives given by NRB for effective credit management are as follows:

1. Directives on Loan classification and loss provision

With a view to improve the quality of assets of commercial bank, NRB has directed commercial bank to classify their outstanding loan and advances, investment and other assets into four categories. The classification is done in two ways. The loans of more than one hundred thousands are to be classified as per debt services ratio, repayment situation and financial condition of borrower, management efficiency and quality of collateral. The loans of less than one hundred thousands have to be classified as per maturity period.

According to the circulars, the loans are classified based on weakness and dependence on collateral securities into four categories and prescribed the provisioning rate as follows:

Loan classification	Criteria for Provisioning	Provision Rate
Pass	Not past due and past due for a period up to 3 months. (Performing loans)	1%
Substandard	Past due for a period of 3 months to 6 months.	25%
Doubtful	Past due for a period of 6 month to 1 year.	50%
Loss	Past due for a period of more than 1 year or advances which have least possibility of recovery.	100%

Source: NRB, Directives for Commercial Banks.

2. Directives for investment in productive sector

Being a developing country, Nepal needs to develop its infrastructure and other primary productive sectors like agriculture, industrial etc. NRB has directed commercial banks to extend at least forty percent of its credit to productive sector.

3. Directives for the single borrower credit limit

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

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

2.3 Research Gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of Nepal Bank Limited. Thus, the previous study can't be ignored because they provide the foundation to the present study. In other words, there has to continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. Credit Management of Nepal Bank Limited. Therefore, to fulfill this gap, this research is selected. To complete this research work, many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of credit management, which is considered only on Nepal Bank Limited. Our main research problem is to analyze whether the NBL is able to utilize the resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Similarly, trend analysis of investment and profit are reviewed to make this research complete. Therefore, this study is useful to concerned banks as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology helps to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of the study, the applied methodology will be used.

This topic presents the short outline of the methods applied in the process of analyzing the credit management of the selected joint venture bank. Research is a systematic method of finding out the solution to a problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view.

3.2 Research Design

The topic of the problem has been selected as "Credit Management of NBL". The sole objective of this study is to make analysis of credit management of NBL with respect to the directives imposed by Nepal Rastra Bank. In order to reach and accomplish the objectives of the study, different activities are carried out and different stages are crossed during the study period. For this purpose, the chapter aims to present and reflect the method and techniques those are carried out and followed during the study period. The research methodology adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulation, procedures and methodology.

3.3 Population and Sampling

A population is a complete enumeration of each and every unit of the universe as a whole. It is related to the total study of the material in detail. There are 25 A class licensed banks in Nepal but this study considers only Nepal Bank Ltd. as a sample.

Sample is a small separated part showing the quality of the whole. In sample, only a part of the universe is considered and conclusions about the entire universe are drawn on that basis. Here, for the proposed study, I have taken Nepal Bank Ltd. as a sample.

3.4 Data Analysis procedure

Data analysis is the separation of the collected information into parts for study and interpretation. It is concerned with the detailed examination of the topic for easy reference. For appropriate data analysis, different tools and techniques will be used to establish the quantities/numerical relationship between variables. The tools used will be:

Accounting Tools

Statistical Tools

3.5 Nature and Sources of Data

Data is a collection of related raw materials on which decision is based. There are mainly two sources of data-primary data and secondary data. This study will be conducted mainly based on secondary data like financial/annual statements of the bank, bulletins, bank articles and literature, economic survey reports etc. of the fiscal year with negligent amount of primary data like personal interview with the concerned authorities and departments, questionnaire etc.The major sources of secondary data for this study are as follows:

a) Annual reports of the bank.
b) Previous studies and reports.
c) Unpublished official records.
d) Published and unpublished bulletins and reports of the bank.
e) Reports published by Nepal Stock Exchange.
f) Reports of "Nepal Rastra Bank Samachar" and "Banking and Financial Statistics" published by Nepal Rastra Bank.

g) Journal and other publish and unpublished related document and reports for Central Library of T.U., American Library, Library of Shanker Dev Campus, Library of Nepal Rastra Bank.
h) Various Internet Websites related to banking and finance.
i) Other materials published in daily, weekly, monthly newspaper and magazines.

3.6 Reliability of Data

There exists a kind of skepticism regarding the bank personnel's interviews as the study does not make them compulsory to provide any sort of authentic data. However, data received through central bank's statistics and research departments, bank publications can be considered valid as they have already been audited. Similarly, analytical data and texts from the freelance sector can also be considered as valid and reliable because their analysis is independent and free of business purpose.

3.7 Data Analysis Tools

Presentation and Analysis of the collection data is the core part of the research work. The collected raw data are first presented in systematic manner in tabular form and are then analyzed by applying different financial and statistical tools to achieve the research objectives. To make the study more specific and reliable, following tools are used for analysis:

i) Financial Tools and
ii) Statistical Tools.

3.7.1 Financial Tools

For the sake of analysis, various financial tools are used. The basic tools used are ratio analysis. Ratio analysis is used to compare firm's financial performance and status to that of other firms' overtime.

3.7.1.1 Ratio Analysis

Ratio analysis is the calculation and interpretation of financial ratio to assess the firms ' performance and status. It is the relationship between two accounting figures expressed mathematically.

“Ratio analyses are the main tool of financial statement analysis. Ratio means the numerical or quantitative relationship between two items or variables. It can be expressed as percentage, fraction or stated or comparison between numbers.”

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is used to compare a firm's financial performance and status to that other firm of to it overtime." From the help of ratio analysis, the quantitative judgment can be done regarding financial performance of a firm.

In this study, different ratio are calculated and analyzed, which are given below:

A. Liquidity Ratios

Liquidity ratios measure the ability of the firm to meet its current obligation. The failure of a company to meet its obligation , due to lack of sufficient liquidity , will result bad credit image , loss of creditor's confidence , or even in lawsuits resulting in the closure of the company . A very high degree of liquidity is also bad, as idle assets earn nothing. The firm's funds will unnecessarily tie up in current assets. Thus it is the measurement of speed with which bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. There are various ratios under liquidity ratio, which are calculated as follows.

i. Current Ratio

The current ratio is a measure of the firm's short-term solvency. It indicates the extent to which the claims of short-term creditors are covered by assets that could expect to be converted into

cash in a period roughly corresponding to maturity of claims. Generally, it shows relationship between current assets and current liabilities. Current assets include cash, bank balance, money at called and those assets which can be converted into cash within the year such as investment in government securities, receivables, overdraft, loans, advance, purchased, discounted and miscellaneous current assets. Current liabilities include deposits and other short-term loan, bills payable, staff bonus, dividend payables and miscellaneous current liabilities.
The ratio is calculated by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

As a conventional rule, a current ratio of 2:1 or more is considered satisfactory. The higher the ratio, the greater will be the ability of the bank to pay its current obligations. The current ratio represents a margin of safety, i.e. a "Cushion" of protection for creditors. However, an arbitrary standard of 2-to-1 should not be blindly allowed because current ratio is a test of quantity, not quality. Firms with less then 2-to-1 current may be doing well, while firms with 2-to-1 or even higher current ratios may be finding great difficulties in paying their bills.

ii. Cash and bank balance to total deposit ratio

It is ability of to meet their daily requirements. Hence, cash and bank balance includes cash in hand, foreign cash on hand, cheques and other cash items, balance held in foreign banks. The deposit represents current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits. Dividing cash & bank balance calculate the ratio by total deposits.
It is stated as:

$$\text{Cash and bank balance ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposits}}$$

B. Assets management ratio of activity ratios

Activities ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. The ratio are also called turn over ratios because they indicate the speed with which assets are being converted or turnover. Thus ratios are used to measure the banks ability to utilize. These are following ratios, which falls in this category.

i. Loan and advances to total deposit ratio

This ratio shows how successfully the bank in utilizing its total deposits to loan and advance for generating profit. The ratio can be obtained by dividing loan and advances by total deposits. Higher ratio implies the better utilization of total deposits.

This can be stated as:

$$\text{Loan \& Advances to total deposit ratio} = \frac{\text{Loan and advance}}{\text{Total deposits}}$$

ii. Loan advances and Investment to total deposit ratio

This ratio shows the utilization of firm's deposit to loan and advance for generating profit and in government securities and bonds, shares and debentures of other companies and bank. Share is subsidiary companies & other investments.

Mathematically it is expressed as:

$$\text{Loan advances and Investment to total deposit ratio} = \frac{\text{Loan advances and Investment}}{\text{Total deposit}}$$

iii. Performing Assets to Non-performing assets ratio

Performing assets are the main contributing assets of the bank. If the level of performing assets is high it results high profitability of bank where as if the level of non performing assets is high, it reduces its profitability. This ratio shows the percentage of performing assets to non performing assets of the bank. Mathematically it can be expressed as follows:

$$\text{Performing Assets to Non-performing assets ratio} = \frac{\text{Performing Assets}}{\text{Non-performing assets}}$$

iv. Non performing assets to total assets ratio

It tells the percentage of non performing assets on total assets. It is useful to know that whether the bad credit is increasing or not. If bad credit is found increasing, it should be correctly analyzed. High level of non performing assets highly affects the profitability of the bank. This ratio is calculated as follows:

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

v. Loan loss provision to total loan and advance ratio

This ratio shows the possibility of loan default of a bank. It indicates how efficiency it manages its loan and advances and makes effort for loan recovery. Higher ratio implies higher portion of non- performing loan portfolio. It is computed by dividing loan loss provision from total loan and advance derives this ratio.

This can be stated as:

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

v. Non performing Loan to Total loan and Advances ratio

To measure the volume of non-performing loan to total loan and advances, this ratio has been used. This ratio shows the percentage of non-recovery loans in total loans and advances. This is calculated as follows:

$$\text{Non performing Loan to Total loan and Advances ratio} = \frac{\text{Non performing Loan}}{\text{Total loan and Advances ratio}}$$

vi. Provision for Pass Loan to Total Pass loan ratio

This ratio measures the percentage of provision for pass loan to total pass loan. As per the Nepal Rastra Bank directives the provision for pass loan should be 1% of total pass loan. Excess provision for pass loan provision could tie up the capital which could other wise used for the investment purpose. Mathematically it is expressed as:

$$\text{Provision for Pass Loan to Total Pass loan ratio} = \frac{\text{Provision for Pass Loan}}{\text{Total Pass loan}}$$

vii. Provision for doubtful debt to total doubtful debt ratio

This ratio measures the percentage of provision for doubtful debt to total doubtful debt. The high amount of doubtful debt and its provision is not good for the banks performance. However the bank should make a provision for doubtful debt as per the NRB standard. Nepal Rastra Bank has set the standard for the provision for doubtful debt at 50%. This ratio is calculated as follows:

$$\text{Provision for doubtful debt to total doubtful debt ratio} = \frac{\text{Provision for doubtful debt}}{\text{Total doubtful debt}}$$

viii. Provision for bad debt (Loss) to total bad debt ratio

It is the percentage of provision for bad debt and total bad debt. Increasing bad debt means not the indication of good business. Bad debt should try to reduce as much as possible. There should be made provision for bad debt by each bank. As per the directive of Nepal Rastra Bank, the provision for bad debt should be 100% of the total debt. It is calculated by using the following formula:

$$\text{Provision for bad debt (Loss) to total bad debt ratio} = \frac{\text{Provision for bad debt}}{\text{Total bad debt}}$$

C. Profitability Ratios

Any organization should earn profit to survive and grow over a long period of time. Profit is ultimate output of any organization, and it will have no future if it fails to make sufficient profits. Thus, the financial manager should continuously evaluate the efficiency of its organization in terms of profit. Profitability ratios are the best indicator to measure overall efficiency of operation any organization. As the management of organization, creditors & owners are also interested in the profitability of firm. Creditors want to get interested and repayment of principal regularly. Owners want to get a reasonable return on their investment. This is possible only when the organization earns enough profit. Profitability ratio implies that higher the profitability ratio, better the financial performance of the bank. Profitability position of the bank can be evaluated in terms of the relationship between net profit and assets.

The following ratios are taken into account under this heading.

i. Interest Income to Loan and advance and Investment ratio

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

$$\text{Interest Income to Total Credit and Advances} = \frac{\text{Interest Income}}{\text{Total credit and Advance and Investment}}$$

ii. 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. It is calculated by using following formula.

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

iii. Interest Expenses to Interest Income Ratio

This ratio shows the relationship between interest expenses and interest income. The percentage of interest expenses that is subject to interest income is measured by this ratio. Interest expenses mean the cost of bank where as interest income means incomes that is derived from loan and investment. Mathematically, it is derived by using the following formula.

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

iv. Return on Total assets Ratio

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

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

$$\text{Return on Total assets Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

v. Return on equity ratio

It indicates the generation of net profit after tax for the contribution towards net worth (without deducting intangible asset).An increasing ratio may indicate better control of production and other costs. It may also be the result of higher prices due to inflation. A decreasing ratio may indicate problems with cost control or production efficiency. It is calculated by using following formula:

$$ROE = \frac{\text{Net Profit after Tax}}{\text{Net Worth}}$$

vi. Return on Net Loan and Advances

It indicates the generation of profit by utilizing loan and advances. Higher the ratio indicates the higher efficiency in the utilization of loan and advances and vice-versa. Loan and advances generate the major portion of profit. Hence this ratio measures how efficiently the banks have employed their loan and advances. This ratio is calculated as follows.

$$\text{Return on Loan and Advances} = \frac{\text{Net income after taxes}}{\text{Net Loan and Advances}}$$

vii. Earning per Shares

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

$$\text{EPS (Earning per share)} = \frac{\text{Net income after taxes}}{\text{Number of common stock outstanding}}$$

3.7.2 Statistical Tools

Some of the statistical tools which show the highlight of Nepal Bank Limited are used to achieve objective of the study. The main statistical tools used in this research are as follows:

i. Arithmetic Mean

Arithmetic mean of given set of observation is their sum divided by the number of observation. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. Out of the various central tendencies a mean is one of the useful tools to find out the average of the given data. It is calculated in the following way.

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

Where,

X = Arithmetic Mean

N = Number of Observation

$\sum X$ = Sum of Observation

ii. Correlation Coefficient (r)

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the changes in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and multiple correlations. Here, we study simple correlation. Two variables are said to have correlation when the value of one variable is accompanied by the change in the value of the other. It is calculated as follows:

$$r = \frac{N\sum X_1X_2-(\sum X_1)(\sum X_2)}{\sqrt{[N\sum X_1^2-(\sum X_1)^2]}\sqrt{[N\sum X_2^2-(\sum X_2)^2]}}$$

Where,

r = Correlation between X1 and X2

$N\sum X_1X_2$ = Product of sum of N and product of observation X_1 and X_2

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

iii. Probable Error

It is the measure of testing the reliability of the calculated value of correlation. The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is defined.

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

Where,

R = Correlation coefficient

N= Number of pairs of observations

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

CHAPTER-IV

ANAYSIS AND PRESENTATIO OF DATA

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data of NBL in order to fulfill the objectives of this study. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. Calculated financial ratios are analyzed and evaluated after their interpretation is made. The calculated secondary data have analyzed and presented in table form. For this purpose, analysis and interpretation are categorized into two headings. They are:

I. Analysis of Financial Tools
II. Statistical Tools

4.2 Analysis of Financial Tools

Under this topic various financial ratios are calculated to evaluate and analyze the performance of NBL. Study of all types of ratios is not done. Only those ratios that are important from the point of view of the fund mobilization and investment are calculated. The important ratios that are studied for this purpose are given below.

4.2.1 Ratio Analysis

Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar business in the same industry. To do this compare own ratios with the average of business similar to owns and compare own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all important early warning indications that allow us to solve business problems before our business is destroyed by them

A. Liquidity Ratios

These ratios indicate the ease of turning assets into cash. Liquidity refers to the ability of a firm to meet its short term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short term obligations. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. To find out the ability of the bank, to meet their short term obligations which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

i. Current Ratio

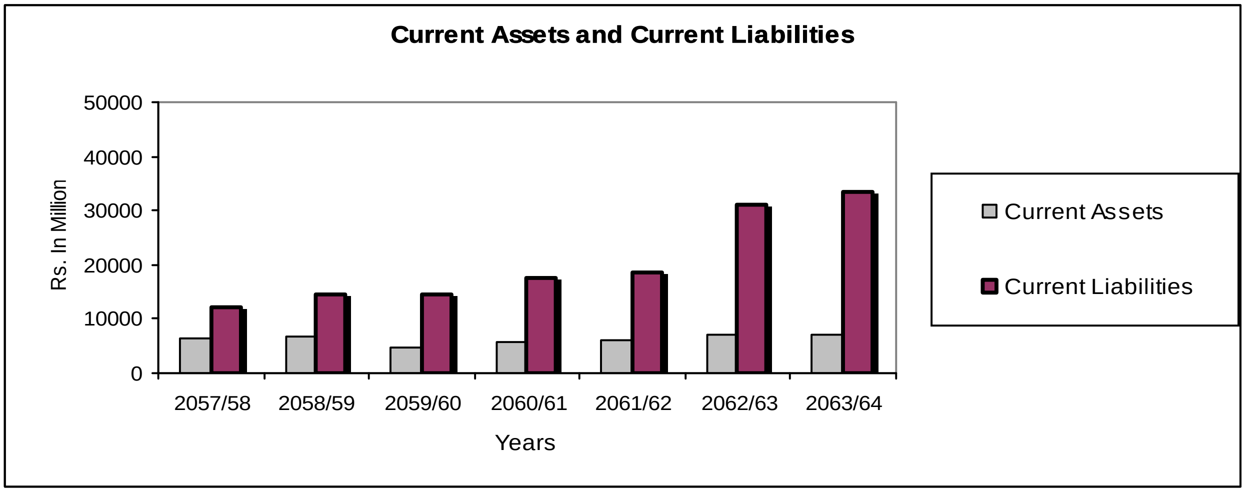
Table-1

Rs. in million

Year	Current Assets	Current Liabilities	Ratio
2057/58	6266.79	12327.66	0.51
2058/59	6627.11	14682.45	0.45
2059/60	4595.17	14633.62	0.31
2060/61	5861.07	17441.36	0.34
2061/62	6159.33	18536.53	0.33
2062/63	7174.06	31168.96	0.23
2063/64	7117.29	33486.24	0.21
Mean			0.34

Source: NBL Annual Reports

Chart-1



The main question current ratio addresses is "Does your business have enough current assets to meet the payment schedule of current debts with a margin of safety for possible losses in current assets, such as inventory shrinkage or collectable accounts?"

Above table and diagram exhibit the current ratio of Nepal Bank Limited for the study period of 2057/058 to 2063/064. The mean ratio of seven year period is 0.34. The ratios were 0.51, 0.45, 0.31, 0.34, 0.33, 0.23 and 0.21 respectively. Comparing to seven years mean, only in the fiscal year 2057/058 and 2058/059, the ratio is more than the average i.e. 0.51 &0.45 and in the fiscal year 2060/061, the ratio is same as the mean ratio. The trend of current liabilities is increasing one where as current assets is in fluctuating trend. The standard value for the current ratio is 2 to 1 but in case of Nepal Rastra Bank, it is not meeting the standard, all ratios are less than the standard.

ii. Cash and Bank balance to total deposit Ratio

Table-2

Rs. in million

Year	**Cash and Bank balance**	**Total Deposit**	**Ratio**
2057/58	6266.79	35618.59	0.176
2058/59	6627.11	34264.84	0.193
2059/60	4595.17	35014.00	0.131

2060/61	5861.07	35735.04	0.164
2061/62	6159.33	35934.16	0.171
2062/63	7174.06	35829.76	0.200
2063/64	7117.29	39014.2	0.182
Mean			0.174

Source: NBL Annual Reports

Chart-2

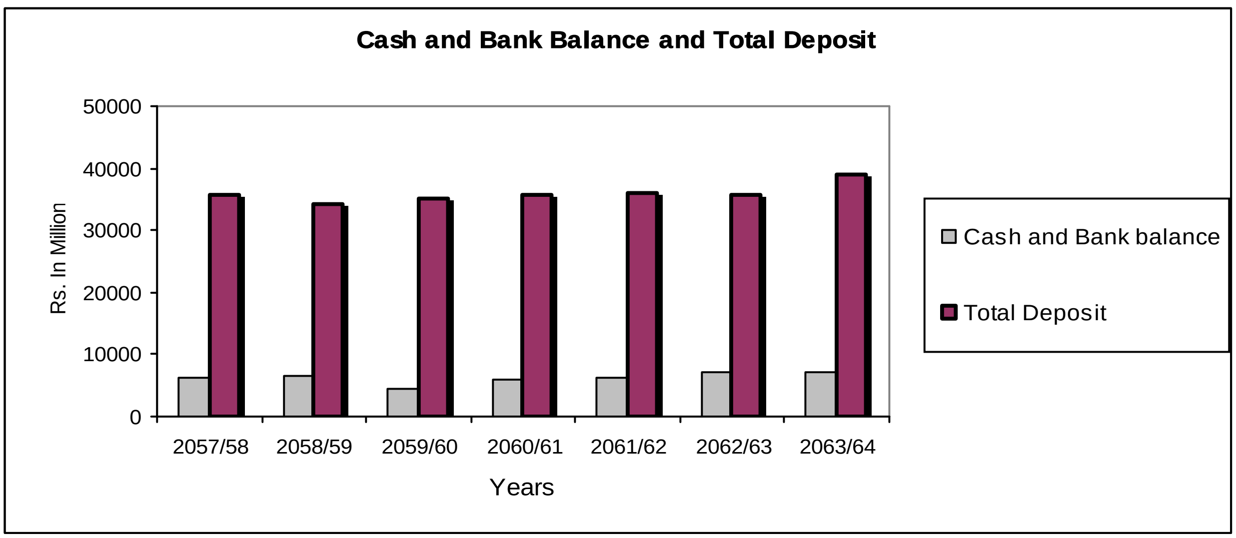


Table no.2 and chart no.2 present the cash and bank balance to total deposit ratio of Nepal Bank Ltd for the study period 2057/058 to 2063/064. Cash and bank balance to total deposit ratio of this bank has been observed as 0.176, 0.193, 0.131, 0.164, 1.171, 0.200, and 0.182 respectively throughout the study period. The mean ratio for the study period is 0.174. That means the bank has 17.4% of cash and bank balance of the total deposit. Adequate cash and bank balance is necessary to maintain the liquidity position. Too much of it can make the excess money useless and too less will reduce the capacity of a bank to pay its customers principal and interest. In each year of the study period, the ratio of cash and bank balance is will above the standard i.e. 5 to 10 percentage of liquidity. From this, it is obvious that the bank has enough cash and bank balance to cover its deposit demand.

B. Activity / Efficiency Ratios

It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means, how many numbers of times the assets flow through a firm's operations and into sales (Kulkarni: 1994: 26). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i. Credit and Advance to total deposit ratio

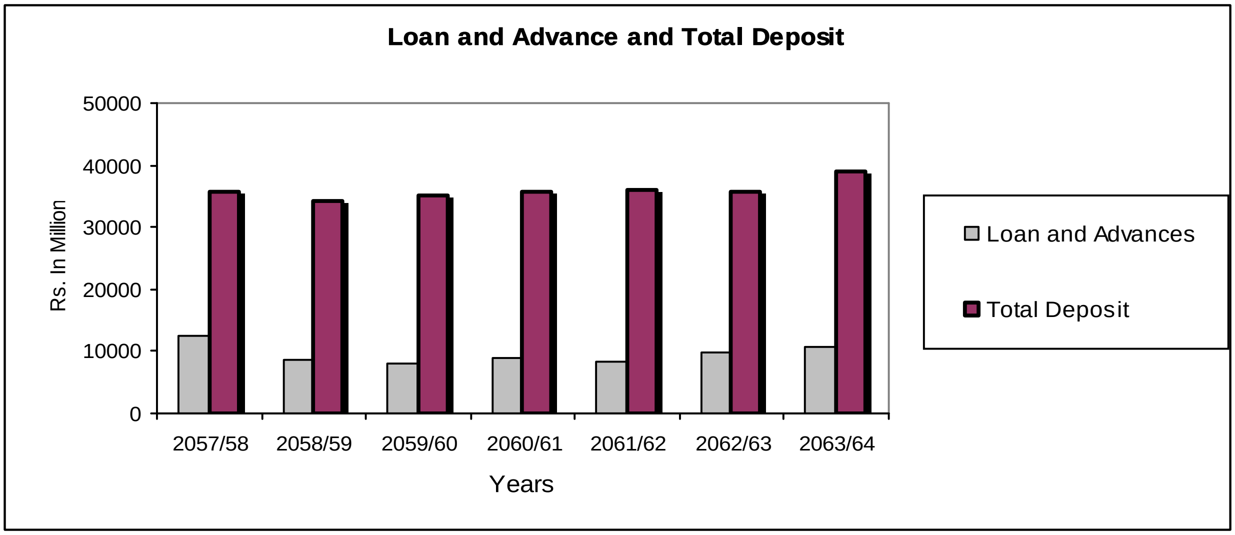
Table-3

Rs. in million

Year	Loan and Advances	Total Deposit	Ratio
2057/58	12554.08	35618.6	0.35
2058/59	8638.44	34264.85	0.25
2059/60	7971.10	35014.00	0.23
2060/61	8881.82	35735.04	0.25
2061/62	8218.91	35934.16	0.23
2062/63	9756.16	35829.76	0.27
2063/64	10584.78	39014.2	0.27
Mean			0.26

Source: NBL Annual Reports

Chart-3



From the above table no.3 and diagram, the average ratio of credit and advances to total deposit is 0.26. The fluctuation in the ratio is not too high. Under the study period, starting from 2057/058 to 2063/064, the ratio goes from 0.35, 0.25, 0.23, 0.25, 0.23, 0.27, 0.27, and 0.27 respectively. The mobilization of total deposit is decreasing and the main reason behind this decreasing trend could be the tight control on credit by the management. The bank seems to be in the recovery phase of the bad loans for many years. Total deposits are the main sources of bank to provide credit and advances. Only small portion of deposit goes as credit and advances.

ii. Loan, Advances and Investment to total deposit ratio

Table-4

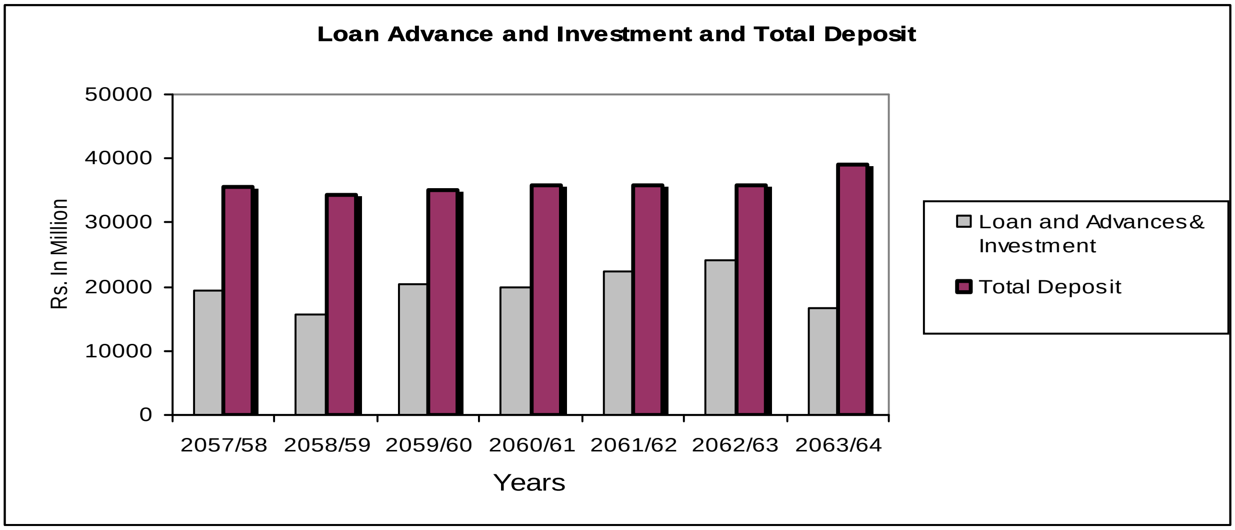
Rs. in million

Year	Loan and Advances& Investment	Total Deposit	Ratio
2057/58	19330.41	35618.6	0.54
2058/59	15789.82	34264.85	0.46
2059/60	20418.8	35014.00	0.58
2060/61	19886.64	35735.04	0.56
2061/62	22418.13	35934.16	0.62

2062/63	24246.41	35829.77	0.68
2063/64	16656.96	39014.2	0.68
Mean			0.59

Source: NBL Annual Reports

<u>Chart-4</u>



From the above table no.4, it is visualized that the credit and investment to total deposit ratio of Nepal Bank Limited for study period 2057/058 to 2063/064 do not vary much. The mean ratio is 0.59 meaning about 59% of the total deposit is mobilized in the credit and investment. The trend of total deposit is more or less stable. The figure is around 39 billion rupees and the trend of loan and advances can be said as increasing one. The increase in the loan and advance can be attributed to the margin loan in case of Nepal bank. Nepal bank has hugely invested in the loan that's against the shares of banks.

iii. Performing Assets (Loan) to Non-performing Assets ratio

<u>Table-5</u>

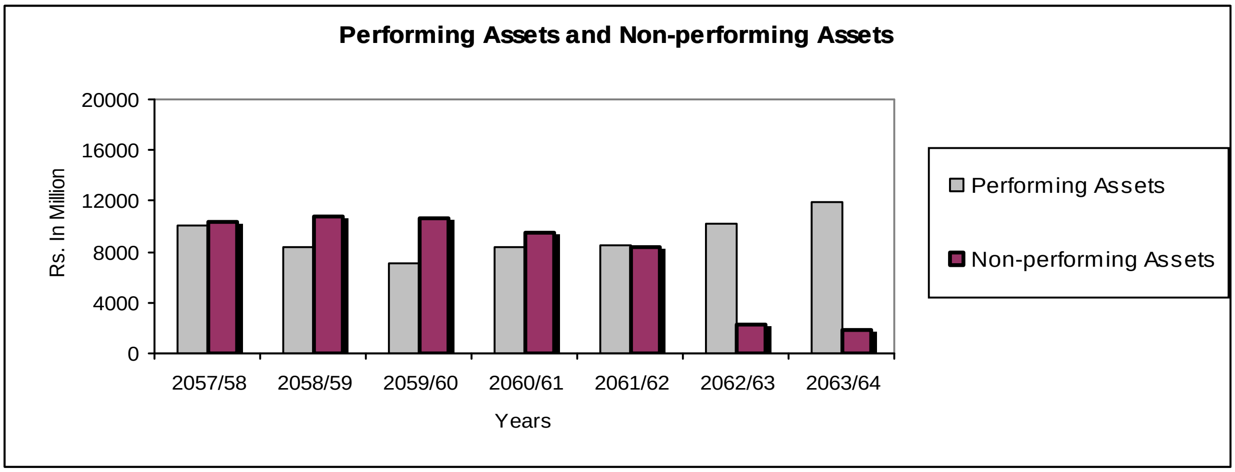
Rs. in million

Year	Performing Assets	Non-performing Assets	Ratio
2057/58	10046	10373	0.97
2058/59	8418	10746	0.78
2059/60	7061	10602	0.67

2060/61	8298	9572	0.87
2061/62	8494	8372	1.02
2062/63	10179	2262	4.50
2063/64	11900	1856	6.41
Mean			2.17

Source: NBL Annual Reports

Chart-5



The higher the ratio between the performing assets to non performing assets better the banks efficiency would be. The ratio of performing to non-performing assets of Nepal Bank Limited is 0.97, 0.78, 0.67, 0.87, 1.02, 4.50 and 6.41 in the financial year 2057/058 to 2063/064 respectively. The mean ratio is 2.17 times more than the non-performing assets in the study period. The ratio in the fiscal year 2062/063 and 2063/064 is much larger than the mean ratio. This shows that the bad loan is slowly being recovered and in the fiscal year 2063/064, it has been recovered more. This is the very positive indication. The management of NBL is focusing on recovery of loan so non-performing assets is decreasing much to the relief.

iv. Non-Performing assets to total assets ratio

Table-6

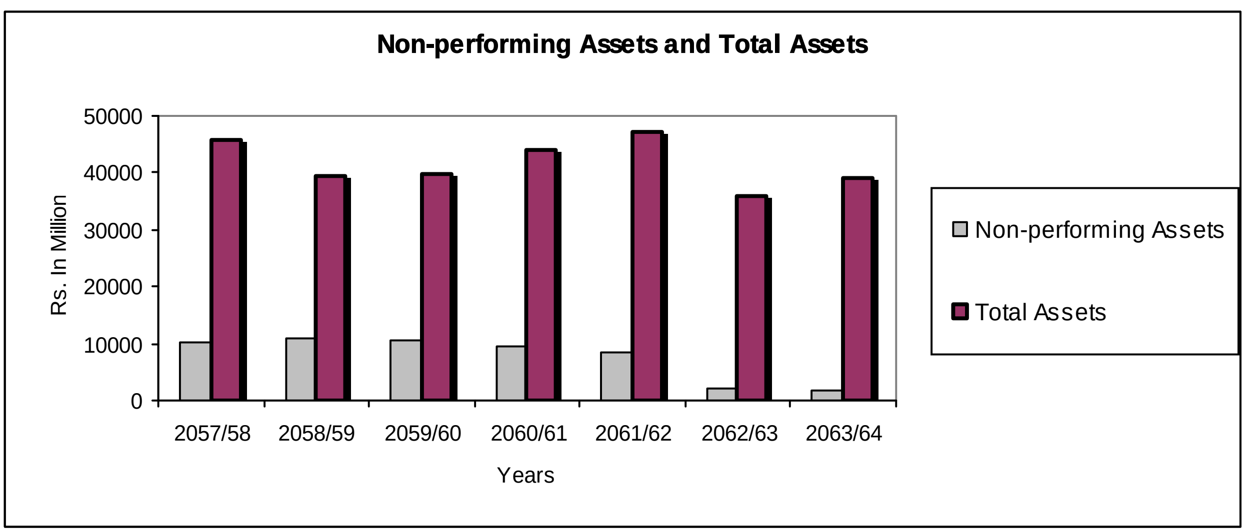
Rs. in million

Year	Non-performing Assets	Total Assets	Ratio
2057/58	10373	45599	0.23

2058/59	10746	39560	0.27
2059/60	10602	39816	0.27
2060/61	9572	44162	0.22
2061/62	8372	47045	0.18
2062/63	2262	35919	0.06
2063/64	1856	39258	0.05
Mean			0.18

Source: NBL Annual Reports

Chart-6



The non-performing assets to total assets ratio of NBL for seven years were 0.23, 0.24, 0.27, 0.22, 0.18, 0.06 and 0.05 respectively through out the study period. The mean ratio is 0.18

meaning that the non-performing assets are 189% of total assets. Analyzing this ratio, Nepal Bank Limited was not able to maintain the non- performing assets to total deposit ratio in initial stage of research period because Nepal Rastra Bank has directed all the commercial banks to have non- performing assets not to exceed 10% of total assets. Higher non-performing assets to total assets show the low performance of bank. Up to fiscal year 2061/062 of study period, the ratio is higher than the mean ratio. But in the fiscal year 2061/062 it is same as mean ratio. In 2062/063 and 2063/064, it seems to be good position because the ratios are 0.06 and 0.05 respectively which are under the standard of NRB directives. It is because of recovery of some of the non-performing loan through new rules and regulations.

v. Loan loss provision to total loan and advances ratio

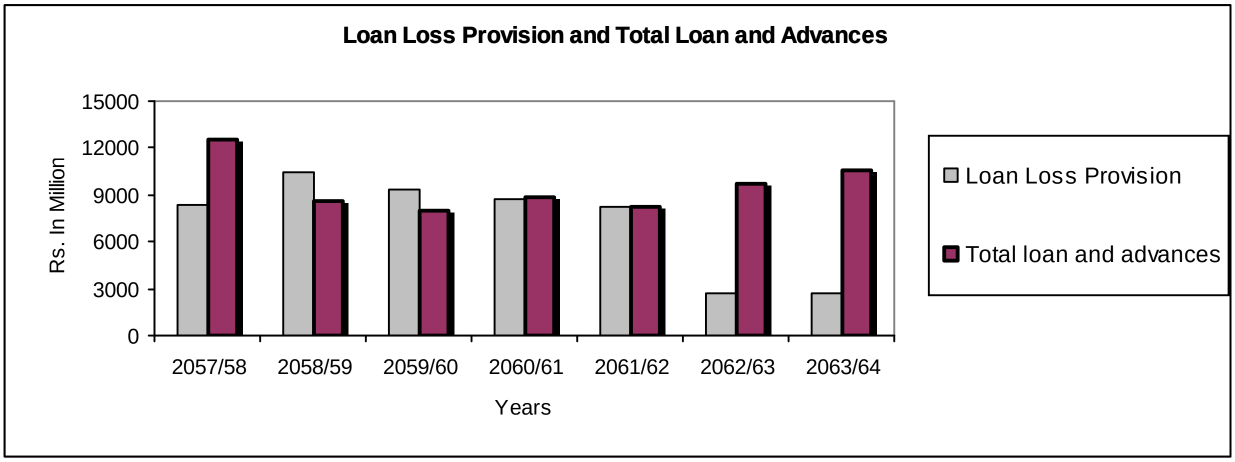
Table-7

Rs. in million

Year	Loan Loss Provision	Total loan and advances	Ratio
2057/58	8405	12554	0.67
2058/59	10438	8638	1.21
2059/60	9348	7971	1.17
2060/61	8780	8882	0.99
2061/62	8259	8219	1.00
2062/63	2685	9756	0.28
2063/64	2698	10585	0.25
Mean			0.80

Source: NBL Annual Reports

Chart-7



Loan loss provision to total loan and advance ratio of Nepal Bank Limited for the study period of 2057/58 to 2063/064 is 0.67, 1.21, 1.17, 0.99, 1.00, 0.28 and 0.25 respectively. The trend of the total loan and advances is of decreasing one and the trend of loan loss provision to total loan indicates that the bank has increasing trend of non-performing loans. The mean ratio shows that in an average 80% of the total loan amount are provisioned against it. The ratio in the study period is raised from 67% to 100%. From the fiscal year 2058/059 to 2061/062, the ratio is higher than the average ratio and in fiscal year 2062/063 and 2063/064, the ratios are too much lower than average ratio i.e. 0.28 and 0.25 respectively. According to the general standards, the banks should make higher percentage of provision for the non-performing loan so that the unnecessary burden of non- performing assets in the future is overcome. Even though the total loan has decreased, the loan loss provision has increased in the fiscal year 2058/059. Now in the years, the bank has been very careful in sanctioning in the loan and advances with new rules and regulations, so it may be the reasons behind decreasing the loan loss provision.

VI. Non performing Loan to total loan and advances ratio

Table-8

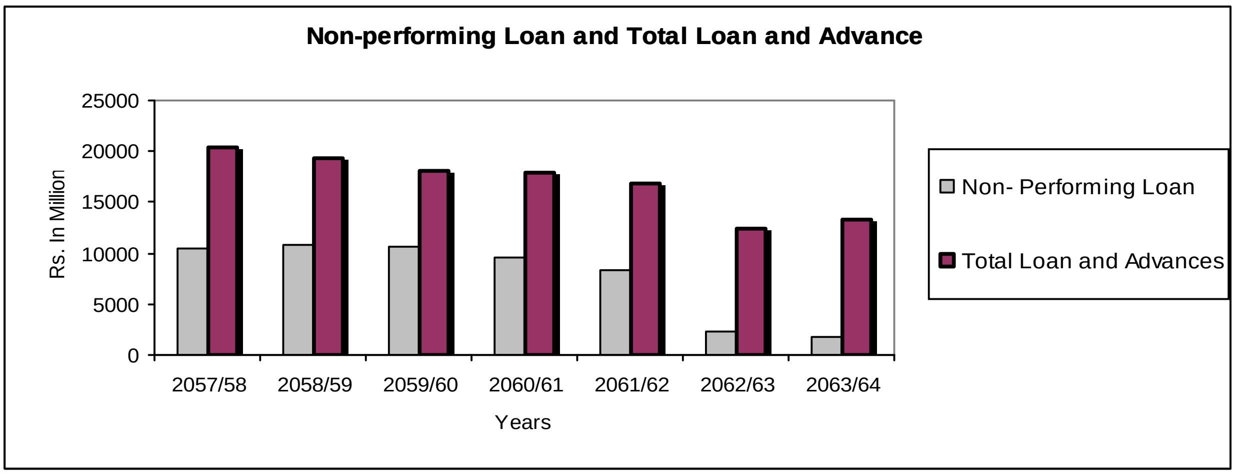
Rs. in million

Year	Non- Performing Loan	Total Loan and Advances	Ratio
2057/58	10373	20419	0.51
2058/59	10746	19253	0.56
2059/60	10602	18132	0.58

2060/61	9572	17938	0.53
2061/62	8372	16867	0.50
2062/63	2262	12442	0.18
2063/64	1856	13283	0.14
Mean			0.43

Source: NBL Annual Reports

Chart-8



Analyzing the non performing loan to total loan and advances ratio of Nepal Bank Limited through above table, the ratios are 0.51, 0.56, 0.58, 0.53, 0.50, 0.18 and 0.14 from year 2057/058 to 2063/064 respectively. The bank has 43% bad loan in average out of total loan and advances as its mean ratio is 0.43. For all years of the study period except fiscal years 2062/063 and 2063/064, the ratio is higher than the average. The performance and efficiency of the bank is better if this ratio is low. One to four or five percent non performing assets are fine but when it exceeds that limit, it's really worrisome. NRB has directed to all commercial banks that the ratio of non- performing assets to total loan and advance should be about 5%. But the ratio maintained by NBL seems to be very much higher than the standard directed by Nepal Rastra Bank. But the ratio has gone down in the later half of the study period in contrast with the beginning half which is a sign of progress in term of total loan and advance.

vii. Provision for Pass loan to total pass loan ratio

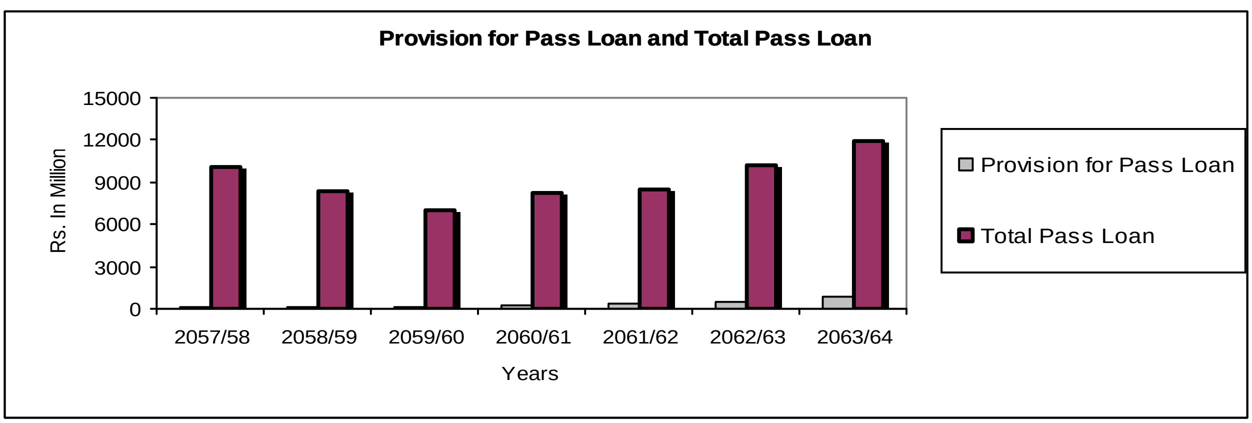
Table-9

Rs. in million

Year	Provision for Pass Loan	Total Pass Loan	Ratio
2057/58	95	10046	0.01
2058/59	92	8418	0.01
2059/60	84	7061	0.01
2060/61	208	8298	0.03
2061/62	382	8494	0.04
2062/63	484	10179	0.05
2063/64	868	11901	0.07
Mean			0.03

Source: NBL Annual Reports

Chart-9



The table no.9 and chart no.9 show the comparative analysis of the provision for pass loan to total pass loan of Nepal Bank Limited for the study period 2057/058 to 2063/064. The average ratio for the seven year is 0.03 that means the bank has maintained a provision for pass loan at 3% of total pass loan in the study period. As per the Nepal Rastra Bank directives, the provision for pass loan should be 1% of total pass loan. For the first three years, the bank has maintained it quite strictly as per the directives. But the ratio has been increasing almost by one percent point in the later three years and then two percent in next year.

viii. Provision for Doubtful debt to total doubtful debt ratio

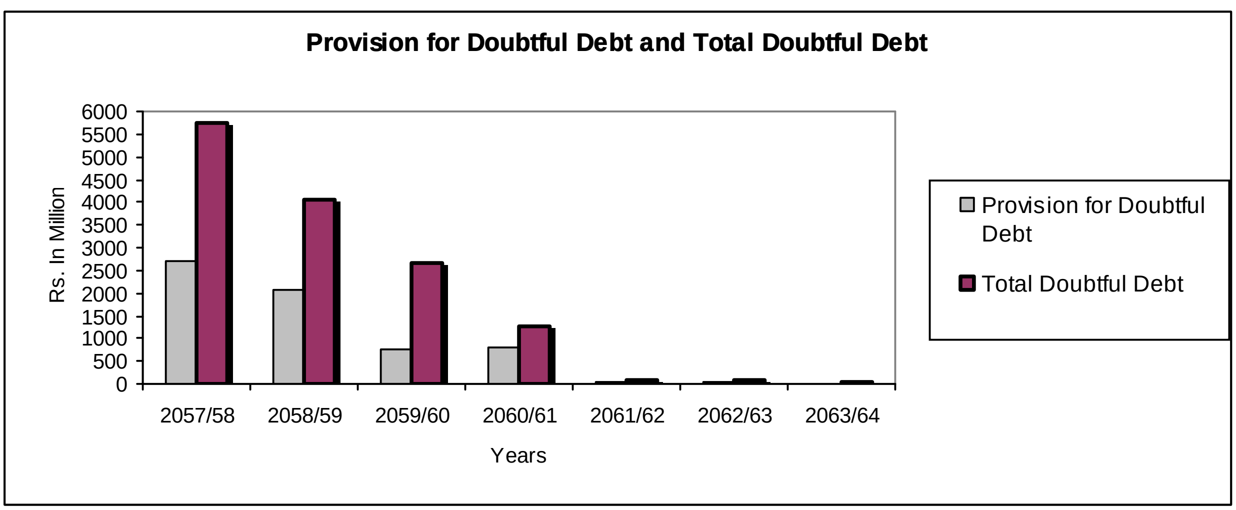
Table-10

Rs. in million

Year	Provision for Doubtful Debt	Total Doubtful Debt	Ratio
2057/58	2720	5732	0.47
2058/59	2066	4038	0.51
2059/60	760	2644	0.29
2060/61	791	1280	0.62
2061/62	41	64	0.64
2062/63	61	88	0.70
2063/64	15	30	0.50
Mean			0.53

Source: NBL Annual Reports

Chart-10



The table no.10 shows the provision for doubtful debt to total doubtful debt of Nepal Bank Limited for the study period of 2057/058 to 2063/064. By observing the above table, it can be concluded that the bank has failed to maintain the given standard in each of the first three fiscal years of the study period and has met the standard for the later half. The standard for the provision for doubtful debt to total debt by NRB is at about 50%. The high amount of doubtful debt and its provision is not good for the banks' performance. The bank has maintained a provision for doubtful debt at 53% on an average over the study period. And the trend of both the doubtful debt and doubtful debt provision are clearly of decreasing one. In the fiscal year 2063/064 the bank has minimum doubtful debt and doubtful debt provision whose ratio is exact 50%, which is under NRB standard.

ix. Provision for Bad debt (Loss) to total bad debt ratio

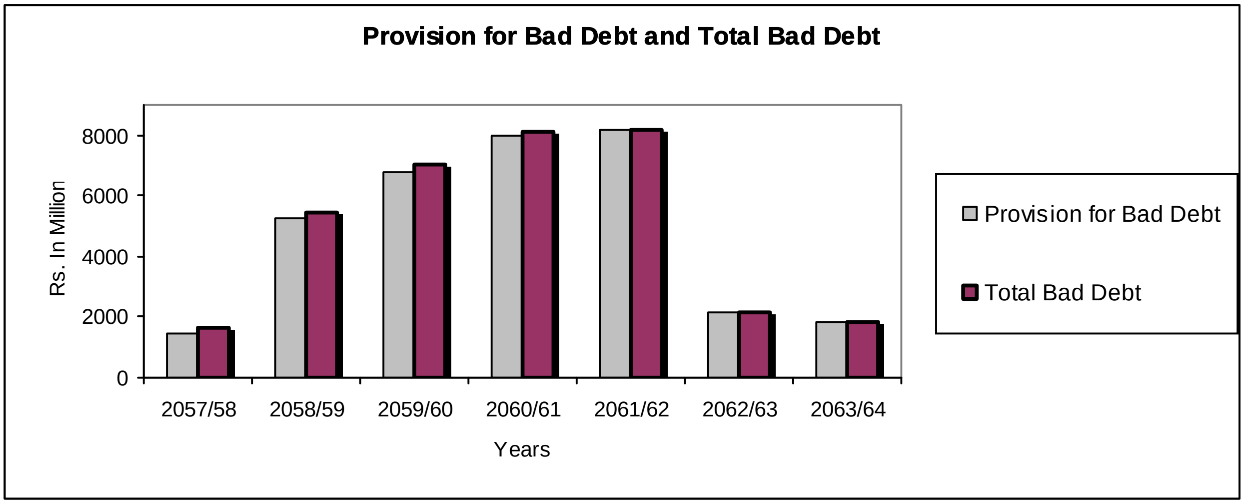
Table-11

Rs. in million

Year	Provision for Bad Debt	Total Bad Debt	Ratio
2057/58	1438	1674	0.86
2058/59	5256	5478	0.96
2059/60	6794	7030	0.97
2060/61	7982	8127	0.98
2061/62	8178	8178	1
2062/63	2127	2127	1
2063/64	1809	1809	1
Mean			0.97

Source: NBL Annual Reports

Chart-11



The ratio of provision for bad debt to total bad debt ratio of Nepal Bank Limited for the study period of 2057/058 to 2063/064 are 0.86, 0.96, 0.97, 0.98, 1, 1 and 1 respectively. The mean ratio of this ratio for the study period is 0.96. It means that only 97% of total debt has been kept for its provision on average. As per the NRB directives, the provision for bad debt should be 100% of total bad debt. The bank is not able to maintain the ratio of 100% in the first four years. But from the fiscal year 2061/062, it has been able to maintain the ratio as per NRB directives. Increase in the bad debt can be subjected to the new classification of loan according to the NRB directives and increase in provision can be subjected to the compliance of standard by making additional provision in the succeeding years.

3. Profitability Ratios

A company should earn profit to survive and to grow over a long period of time. It is the difference between revenues and expenses over a period of time. It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

i. Interest Income to Loan and advances and Investment Ratio

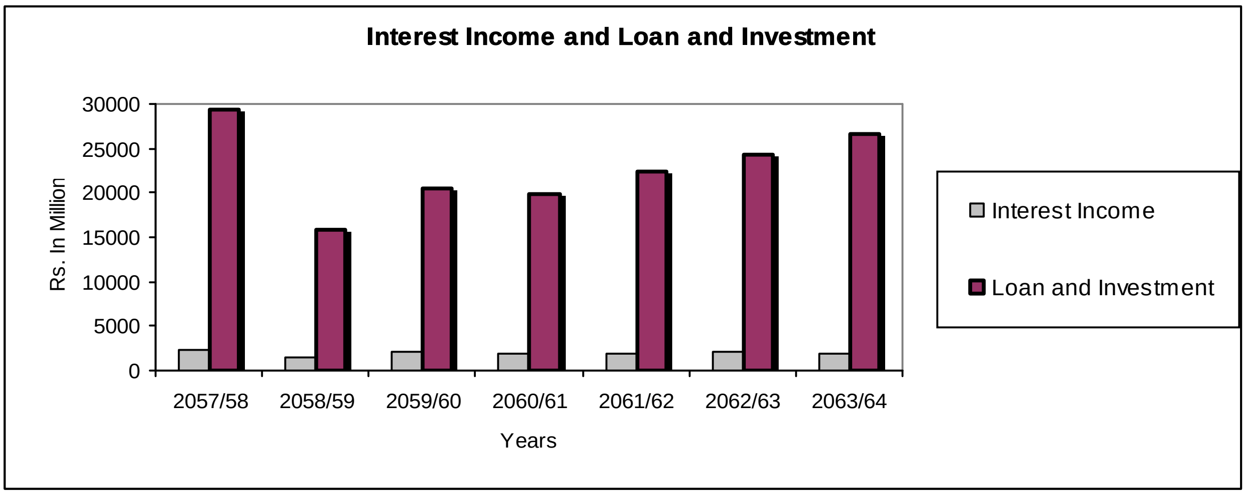
Table-12

Rs. in million

Year	Interest Income	Loan and Investment	Ratio
2057/58	2387	29330	0.12
2058/59	1527	15790	0.10
2059/60	2200	20419	0.11
2060/61	1825	19887	0.09
2061/62	1987	22418	0.09
2062/63	2049	24246	0.08
2063/64	1849	26657	0.07
Mean			0.09

Source: NBL Annual Reports

Chart-12



The average ratio of interest income to loan in subject to loan and advance and investment of NBL is 9%. It means that the bank is earning the interest in credit and investment on average of 9% in seven years period. The year wise income for the study period of 2057/058 to 2063/064 is 0.12, 0.10, 0.11, 0.09, 0.08 and 0.07 respectively. Viewing above ratios, the earning ratio is higher in the initial years of study period than in the following years. From fiscal year 2061/062, it is in decreasing trend. To have the high profitability position of bank, there should be high interest income ratio. Bank should balance between risky loan and safety loan and investment.

ii. Interest Expenses to Total expenses Ratio

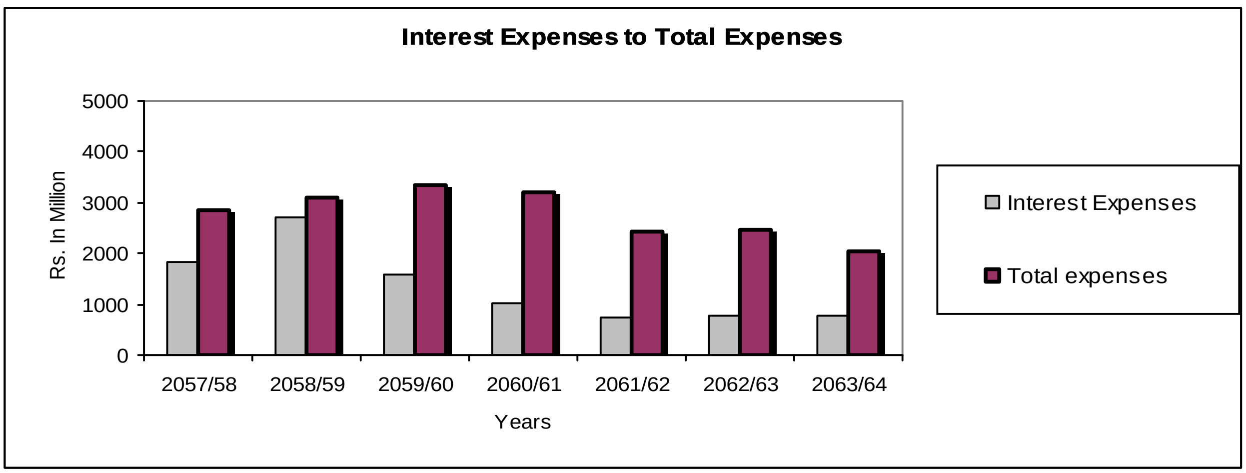
Table-13

Rs. in million

Year	Interest Expenses	Total expenses	Ratio
2057/58	1835	2865	0.64
2058/59	2713	3100	0.55
2059/60	1586	3353	0.47
2060/61	1026	3192	0.32
2061/62	749	2437	0.31
2062/63	774	2480	0.31
2063/64	773	2029	0.31
Mean			0.42

Source: NBL Annual Reports

Chart-13



The higher the ratio of interest expenses to total expenses, the more interest bearing deposit that the bank has. Reviewing interest expenses to total expenses ratio table of Nepal Bank Limited for the study period of 2057/058 to 2063/064, average ratio for seven years is 0.42 which means on an average NBL is maintaining the level of interest expenses to 42%. The ratios of NBL are in decreasing order in the study period. From fiscal year 2061/062, the ratio is in constant and position. The ratios are substantially lower than the average in the last four years. This clearly means that the efforts by the bank are towards reducing the interest bearing deposit. And also that given the liquidity in the market, banks are paying only very nominal interest. This has saved bank from interest expenses.

iii. Interest Expenses to Interest Income Ratio

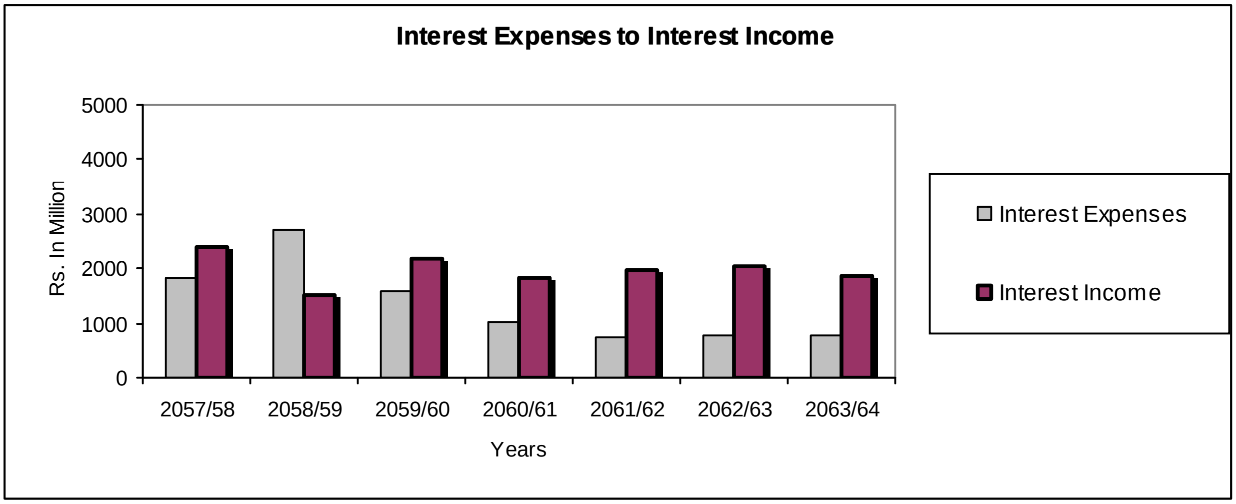
Table-14

Rs. in million

Year	Interest Expenses	Interest Income	Ratio
2057/58	1835	2383	0.80
2058/59	2713	1527	1.70
2059/60	1586	2200	0.70
2060/61	1026	1825	0.60
2061/62	749	1987	0.40
2062/63	774	2049	0.40
2063/64	773	1849	0.40
Mean			0.70

Source: NBL Annual Reports

Chart-14



Analyzing the above table no.14 and chart no.14, the ratio of interest expenses to interest income of Nepal Bank Limited are 0.80, 1.70, 0.70, 0.60, 0.40, 0.40 and 0.40 respectively for the study period of 2057/058 to 2063/064. The average ratio is 0.70 meaning that out of total interest income, 70% is taken by interest expenses. High level of this ratio shows that bank has to bear high interest expenses out of interest income. In the first two years of study period, the bank has bared high amount of interest expenses. In the fiscal year 2058/059 interest expenses is more than interest income whose ratio is 170%. But after fiscal year 2059/060, it is in decreasing trend and remained constant from the year 2061/062.

iv. Return of Equity Ratio

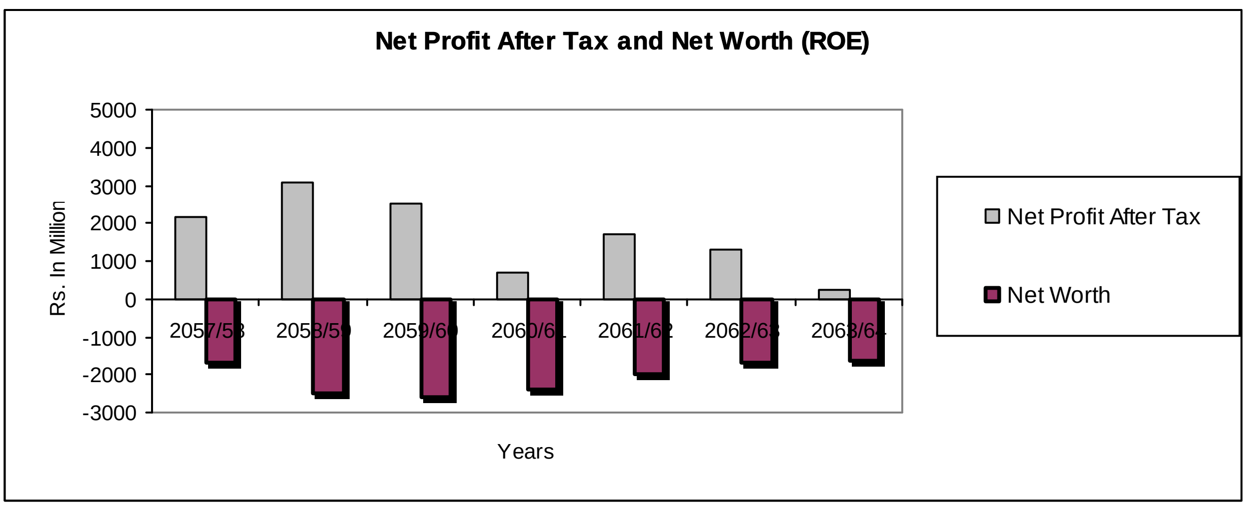
Table-15

Rs. in million

Year	Net Profit After Tax	Net Worth	Ratio
2057/58	2178	(1670)	1.30
2058/59	3071	(2512)	1.22
2059/60	2517	(2585)	0.97
2060/61	710	(2370)	-0.30
2061/62	1730	(1970)	-0.88
2062/63	1328	(1660)	-0.80
2063/64	250	(1640)	-0.15
Mean			0.19

Source: NBL Annual Reports

<u>Chart-15</u>



The above table no.15 and chart of ratio of net profit after tax and net worth as return on equity of Nepal Bank Limited, for the financial year 2057/058 to 2063/064 shows that the situation of return on equity is poorer. The ratios were positive in first three years of study period. But both net profit after tax amount and Net worth amount are in negative value. From year 2060/061, the bank has positive net profit after tax. The amount of net profit after tax has been reduced hugely in the year 2063/064 which has made its ratio -0.15. The mean ratio is 0.19 that means loss is higher in the fiscal year 060/61 to 2063/64.

v. Return on Total assets Ratio

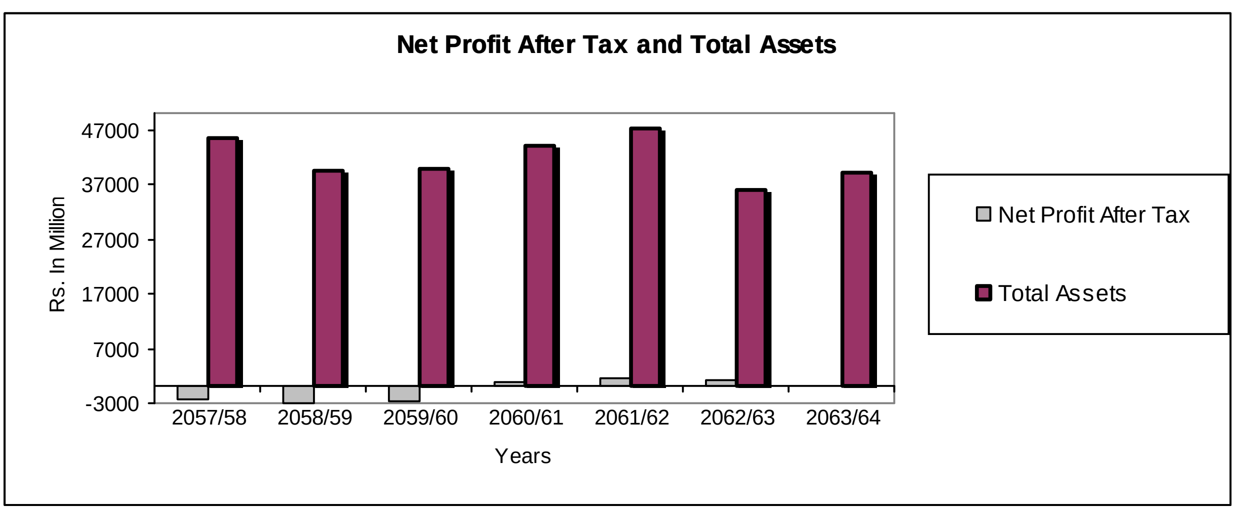
Table-16

Rs. in million

Year	Net Profit After Tax	Total Assets	Ratio
2057/58	(2178)	45599	(0.048)
2058/59	(3071)	39560	(0.178)
2059/60	(2517)	39816	(0.063)
2060/61	710	44162	0.016
2061/62	1730	47045	0.036
2062/63	1328	35919	0.037
2063/64	250	39258	0.006
Mean			0.013

Source: NBL Annual Reports

Chart-16



Nepal bank has very poor performance in terms of profitability viewing the return on total assets ratios for the study period 2057/058 to 2063/064. Return on total assets ratio is negative in first three years. That means loss is higher in the fiscal year 2057/058 to 2059/060. But during the later half of the study period, the bank is able to earn some little profit through and so that the ratio is in positive trend. The average ratio of return on total assets for the study period is -0.013 meaning that the bank is in loss of 13% on average. This indicates that the bank is not being able to manage the assets in efficient way. The reduction of total assets in 2062/063 has risen in the fiscal year 2063/064.

vi. Return on Net Loan and Advance

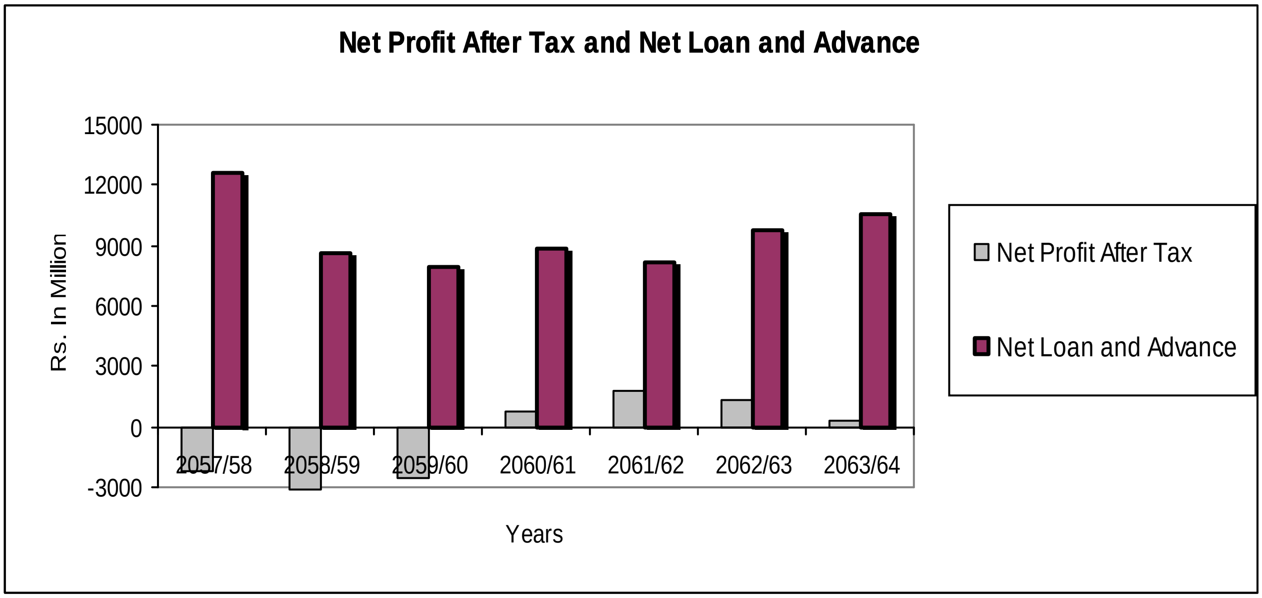
Table-17

Rs. in million

Year	Net Profit After Tax	Net Loan and Advance	Ratio
2057/58	(2178)	12554	-0.17
2058/59	(3071)	8638	-0.36
2059/60	(2517)	7971	-0.32
2060/61	710	8882	0.08
2061/62	1730	8219	0.21
2062/63	1328	9756	0.14
2063/64	250	10585	0.02
Mean			(0.06)

Source: NBL Annual Reports

Chart-17



The return on Net Loan and advance of Nepal Bank Limited are -0.17, -0.36, -0.32, 0.08, 0.21, 0.14 and 0.02 respectively for the study period of 2057/058 to 2063/064. The average ratio for the study period is -0.06. That means the bank's return on net loan and advance is negative with 6% in the seven years period. The trend of net loan and advance is decreasing in the first three years, on the forth year it rose slightly and the following it plunged and rose again in the fiscal year 2062/063 and 2063/064. The higher the positive ratio, the better banks' profitability is. After analyzing this table, we can conclude that NBL has low performance in terms of return on loan and advance except fiscal year 2060/061, 2061/062 and 2062/063.

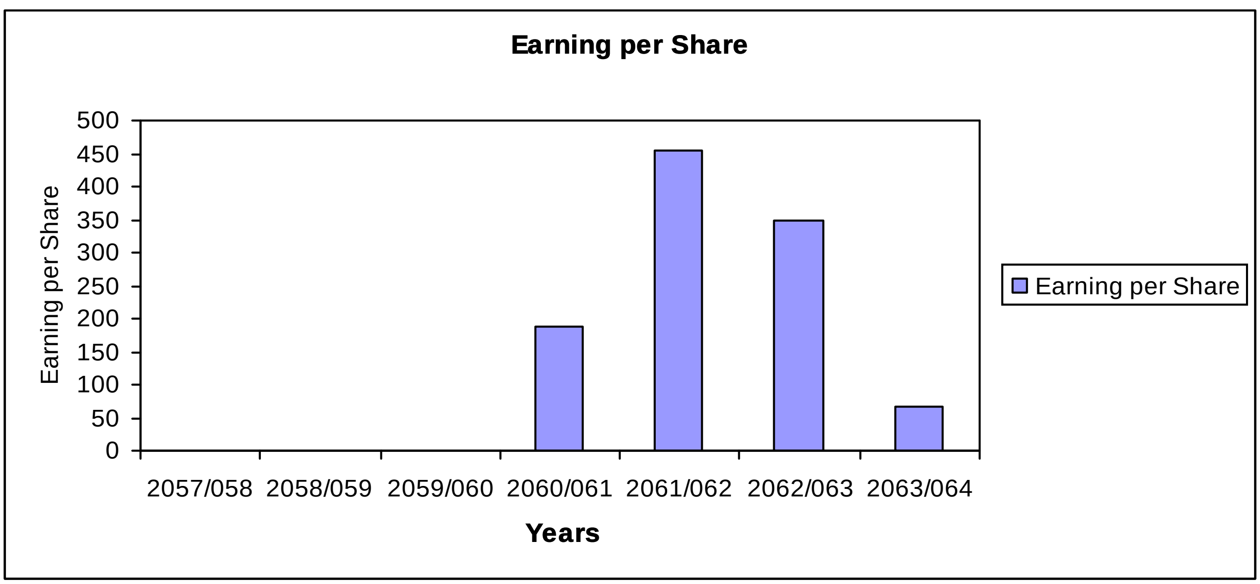
vii. Earning per Share

Table-18

Year	Net Profit	Number of Shares	Earning per Share
2057/58	(2177908360)	3803826	0
2058/59	(3071296048)	3803826	0
2059/60	(251630672)	3803826	0
2060/61	710391389	3803826	187
2061/62	1730391389	3803826	455
2062/63	1327991346	3803826	349
2063/64	249648202	3803826	66
Mean			151

Source: NBL Annual Reports

Chart-18



The average ratio of earning per share of Nepal Bank Limited for the study period is Rs. 151. EPS in the first three years of study period is zero. The ratio is higher than the average for fiscal year 2060/062, 2061/062, 2062/063. But in fiscal years 2063/064, the net profit has declined so much so the earning per share has also reduced highly. This indicates that the bank is not being able to raise capital through the issuance of equity shares. At present, the shares of Nepal Bank Limited are not listed in stock exchange. NRB has restricted the listing of shares in stock market as it has negative net worth presently. Despite all these drawbacks, the positive earning per share can be regarded as an indication of good performance.

4.3 Statistical Analysis

4.3.1 Coefficient of Correlation Analysis

The statistical tool, coefficient of correlation has been studied to find out whether the two available variables are inter- correlated or not. If the result falls with in the correlated point, the two variables are inter-correlated otherwise not. Now to find out the correlation coefficient between total lending and total assets, the widely used method of Karl Pearson's Coefficient of Correlation has been adopted.

$$\text{Coefficient of Correlation (r)} = \frac{N\sum X_1X_2-(\sum X_1)(\sum X_2)}{\sqrt{[N\sum X_1^2-(\sum X_1)^2]}\sqrt{[N\sum X_2^2-(\sum X_2)^2]}}$$

Where,

N = Number of pairs of x and y observed

X = Values of first type of variable

Y = Value of second type of variable

R= Karl Person's Coefficient of Correlation

i. Computation of Correlation Coefficient of Non Performing Assets and Total Loan

Table-19

Rs. in Billion

Year	NPA (X_1)	Total Loan (X_2)	X_1^2	X_2^2	X_1X_2
2057/58	10.37	20.41	107.53	416.56	211.65
2058/59	10.74	19.25	115.34	370.56	206.74
2059/60	10.60	18.13	112.36	328.69	192.17
2060/61	9.57	17.93	91.58	321.48	171.59
2061/62	8.37	16.87	69.88	284.60	141.20
2062/63	2.26	12.44	5.11	154.75	28.11
2063/64	1.85	13.28	3.42	176.36	24.57
	$\sum X_1$=53.76	$\sum X_2$=118.31	$\sum X_1^2$=505.22	$\sum X_2^2$=2053	$\sum X_1X_2$=976.03

Here,

N=7, $\sum X_1$ =53.76, $\sum X_2$ = 118.31, $(\sum X_1)^2$ =505.22, $(\sum X_2)^2$ = 2053, $\sum X_1X_2$ = 976.03

$$\text{Coefficient of Correlation (r)} = \frac{N\sum X_1X_2-(\sum X_1)\ c)}{\sqrt{[N\sum X_1^2 - (\sum X_1)^2]}\ \sqrt{[N\sum X_2^2 - (\sum X_2)^2]}}$$

$$= \frac{7x976.03-53.76x118.31}{\sqrt{7x505.22-(53.76)^2}\sqrt{7x2053-(118.31)^2}}$$

$$= 0.96$$

Computation of Probable Error (P.E.)

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

We have,

r = 0.96, N = 7

Then,

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

$$= 0.6745 \frac{1 - 0.96^{2}}{\sqrt{7}}$$

$$= 0.02$$

Also,

$$\frac{r}{\text{P.E}}$$

$$= 48 \text{ times}$$

The correlation coefficient and probable error between non-performing assets and total loan in NBL remained 0.96 and 0.02 respectively. Since 'r' is more than +0.5, but less than 6 times of probable error i.e. 0.96 <6x0.02. It indicates that there was negative correlation between non performing assets and total loan. This means there is not much decreasing of non-performing assets with respect to the decrease in the total loan.

i. Computation of Correlation Coefficient of Total Loan and Total Assets

Table-20

Rs. in Billion

Year	**Total Loan(X_1)**	**Total Assets (X_2)**	X_1^2	X_2^2	X_1X_2
2057/58	20.41	45.60	416.57	2079.36	930.70
2058/59	19.25	39.56	370.56	1564.99	761.53
2059/60	18.13	39.81	328.70	1584.84	721.76
2060/61	17.93	44.16	321.48	1950.11	791.79
2061/62	16.87	47.04	284.60	2212.76	793.56
2062/63	12.44	35.92	154.75	1290.25	446.84
2063/64	13.28	39.26	176.36	1540.35	521.37
	$\sum X_1$=118.31	$\sum X_2$=291.31	$\sum X_1^2$=2053.02	$\sum X_2^2$=12223.65	$\sum X_1X_2$=4967.55

Here,

N=7, $\sum X_1$ =118.31, $\sum X_2$ = 291.31, $\sum X_1^2$ =2053.02, $\sum X_2^2$ = 12223.65, $\sum X_1X_2$ = 4967.55

Now,

$$\text{Coefficient of Correlation (r)} = \frac{N\sum X_1X_2-(\sum X_1)(\sum X_2)}{\sqrt{[N\sum X_1^2-(\sum X_1)^2]}\sqrt{[N\sum X_2^2-(\sum X_2)^2]}}$$

$$= \frac{7x4967.55-118x291.35}{\sqrt{7x2053.02-(118.31)^2}\sqrt{7x12223.65-(291.35)^2}}$$

$$= 0.78$$

ii. Computation of Prabable Error (P.E.)

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

We have,

r = 0.78, N = 7

Then,

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

$$= 0.6745 \frac{1 - 0.78^{2}}{\sqrt{7}}$$

$$= 0.10$$

And

$$\frac{r}{P.E}$$

$$= 7.8 \text{ times}$$

The correlation coefficient and probable error between total loan and total assets in NBL remained 0.78 and 0.10 respectively. Since ‘r’ is more than +0.5, and more than 6 times of probable error i.e. 0.78<6x0.10. It indicates that there was significant correlation between total loan and total assets. In other words, the total loan and total assets of Nepal Bank Limited in the study period of 2057/58 to 2063/64 are significantly correlated.

4.4 Major Findings of the study

(1) At the time of financial reengineering process of Nepal Bank Limited, Loan investment policy has been brought. New policy of lending focuses on cash flow lending by passing out collateral based lending.

(2) The Credit Information Bureau was established in 1989 AD. NRB started to control the financial institutions with strengthening the supervision and monitoring system.

(3) Liquidity position of NBL seems strong. It is obvious that in the present situation of the country, investment potential is not favorable, so the liquidity is sufficient in the bank.

(4) Under the structural Adjustment Programmed, of the IMF, the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monetary control.

(5) Most of the banks of Nepal now days are focusing on consumer lending. Nepal Bank Limited is also falls on the same category. This is because of load shading. Industrial development in Nepal is not good due to load shading at this time. So it has directly affected the lending policy of commercial banks.

(6) NBL has invested money in growing credit and advances but the recovery process of the bank is slow. Efficiency in the management is not satisfactory.

(7) Most of the credit customers of NBL are satisfied with the banks. Customers said that the main strength of Nepal Bank Limited is its lending interest rate. In the comparison of other banks, the lending rate of NBL is found low. Due to which customers are interested to borrow loan from NBL.

(8) The non performing assets with respect to total assets of NBL is found with high volume i.e. 0.18.

(9) The EPS of NBL was negative as it has huge loss up to fiscal year 2059/60. From fiscal year 2060/61, the EPS is positive which is on the average of Rs. 151.

(10) At the time of reengineering process, the bank was able to make large amount of profit as management got focus on recovery of bad loans. The bank incurred loss for the first three fiscal years of the study period. From fiscal year 2060/61, it has started to make profit and made high profit in 2061/62 and 2062/63 with Rs.1730 m. and Rs.1328 m. But in 2063/64m, the profit was limited to Rs.210 m. only.

(11) The trend of deposit utilization of Nepal Bank Limited is found very poor. During the study period, credit and investment to total deposit ratios of NBL was 59%. Similarly, correlation between deposit and loan and advance was negative.

(12) Nepal Bank Ltd. Operates as full fledged commercial bank. The bank is providing services to clients such as credit and advances, consortium finance, working capital credit, term credit, demand credit, trade finance, hire purchase credit, letter of credit, bills purchase, bank guarantee and others.

(13) The bank is in the phase of computerization. About 50% of branches have been already computerized and rest branches are in the process of computerization. The bank has already started Web Remit, Any Branch Banking etc. and is preparing for the installation of Automatic Teller Machine.

(14) By analyzing the market demand and trend, NBL has brought retail banking facilities like Home Loan, Margin Lending whose market performance at present seems satisfactory.

(15) For effective credit management and customers' service, NBL has been making great effort for the development and empowerment of employees by conducting various training related to credit management and customer service so that they could provide the best services to the customers as well as credit risk could be reduce.

CHAPTER-V

SUMMARY, CONSLUSION AND RECOMMENDATIONS

5.1 Summary

A commercial bank means the bank, which deals with exchanging currency, accepting deposit, giving loans doing other various commercial transactions. Therefore, the major function of commercial bank is to accept deposits and provide loans.

There is not so long history of commercial bank in Nepal. Nepal Bank Limited established in 1994 B.S. was the first commercial bank of the Nepal. But now there are twenty five commercial banks all over the country and they have been expanding their services by establishing branches in every corner of the country.

The assets of commercial bank indicate the manner in which the funds entrusted to the bank are employed. The successful working of the bank depends on ability of the management to distribute the fund among the various kinds of investment known as assets outstanding loan advance of the bank. These assets constitute primary source of income to the bank. As being a business unit a bank aims at making huge profit since loan and advances are more profitable than any other assets of the bank, it is willing to lend as much as its fund as possible. But the bank has to be careful about the repayment of loan and interest giving loan. If the bank is too timid, it may fail to obtain the adequate return on the fund, which is confined to it for use. Similarly, if the bank is too liberal, it may easily impair its profits by bad debts. Therefore, bank should not forget the reality that most of the bank failures in the world are due to shrinkage in the value of the loan and advances.

Despite of being loan and advances, more profitable than other assets, it creates risk of non repayment for the bank. Such risk is known as credit risk or default risk. Therefore, like other assets, the loan and advances are classified into performing and non performing assets on the basis of overdue aging schedule. If the dues in the form of principal and the interest are not paid, by borrower within a maturity period, that amount of principal and interest is called non performing loan or assets. Performing assets have multiple benefits to the company as well as to the society while non performing assets erode even existing capital of the bank. So, the proper management of credit in commercial bank has been key for the success.

Credit administration involves the creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. Bank earns interest on credits and advances, which is one of the major sources of income for bank.

5.2 Conclusions

(1) NBL has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal, many banks and other financial institutions are functioning to collect deposits and invest money somewhere in invest able sectors. Therefore, monetarization have been increased since liberalization policy taken by the government. Heavy remittance has also help to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged. Most of the projects have been withdrawn due to security problem. Therefore, bank has maximum liquidity due to lack of safety investment sectors.

(2) Due to economic crisis in the country, credit takers are not getting good return from their investment sectors. On that situation, credit customers do not return money of the bank in the stipulated time period, therefore, the non-performing credit of the bank increases. As the non-performing credit increases, bank should increase its provision for credit loss.

(3) Credit related financial indicators demonstrate the quite poor situation in Nepal Bank Limited. Therefore, Financial Sector Reform Program is below the level and still much needs to be done. It can also be concluded that there has been almost similar procedures and policies while granting the loan, not much change from its conventional methods.

5.3 Recommendations

The present study can be a valuable piece of research works in credit management. It explored the existing situation and identified the various components for further improvement in credit management. Secondary sources of information are used for fulfilling the objectives. Based in the findings of the study, the researcher recommended highlighting the guidelines to put forward for further improvement.

Corporate structure of bank plays key role in the effective loan management. Being loan a risky asset, efforts should be made to have proper control in every steps of loan management. The banks should establish separate department for credit appraisal, documentation, disbursement, inspection and recovery of loan which have possibility of finding mistakes of one department by the others, so that the effectiveness can be achieved.

(1) Loan must be given if the banker is satisfied that the borrower ca repay money from the cash flow generated from operating activities. However, the banks want to ensure that their loan is repaired even in case of failure of business. To prevent banks from such happenings, the bank take collateral is disposed for the recovery of loan. Therefore, the bank should take proper valuation of collateral so that the bank at least will be able to recover its principle and interest amount in case of failure of the borrower to repay the loan.

(2) Lack of proper financial analysis of the borrower by the banks, is one of the major cause behind increasing NPA of Nepalese commercial banks. Therefore, proper financial analysis should be performed before giving loan to the borrower.

(3) Competition is increasing day by day in banking industry. Again complete foreign bank can be established after 2010 BS. So the bank should adopt efficient and modern management concept to make their activities quick and moving there by fulfilling the growing demand of current financial services.

(4) Nepal Rastra Bank should regulate all the deposit accepting financial institution under the supervision and regulatory activity so that general people can feel the security of their deposits.

(5) The customers are seeking different innovative products with quality. So, banks should modify their products. The banks should come out with new products in retail banking. Hence to retain the customers' banks have to come out with competitive products satisfying the desire of the customer at the click of a button.

(6) Banks may go for detail market research, which will help them in knowing what their competitors are offering to their clients. This will enable them to have an edge over their competitors and increase their credit management pie by offering better products and services.

(7) Credit related financial indicators in Nepal Bank Limited seem irrelevant in comparison with the specified standard of NRB. Therefore more focus should be given to improve the credit management of NBL such as credit granting procedures, updating the credit files, value of collateral and maintaining the loan loss provisions adequately.

(8) New commercial banks are arising day by day with modern banking systems. Lending procedures have been made surprisingly short. And customers can get the loan within a maximum of a week days. So Nepal bank should also compete with them in lending procedures and other banking systems.

(9) Cash and bank balance of NBL is high. Bank's efficiency should be increased to satisfy the depositors at low level of cash and bank balance. Unused cash and bank balance do not provide return to the bank. Therefore, some percentage of the cash and bank balance should be invested somewhere in profitable sectors.

(10) Bank should regularly follow the credit customer to confirm that whether the customers have utilized their credit for same purpose or not, committed at the time of taking credit from the bank.

(11) Bank should strictly band the policy of nepotism and favoritism. On the basis of capability and efficiency, recruitment, placement and promotion should be executed.

(12) Bank should carefully examine the principle of safety as well as sources of repayment, capital structure and credit worthiness of a borrower before providing loans. In other word, credit and risk must be evaluated by considering well-known five C's of credit viz. character, capacity, capital, collateral and condition so that the bank is able ot mobilize and utilize the resources.

(13) The economic Liberalization policy adopted by Government of Nepal has created environment of cutthroat competition even in the banking sector. In this context, NBL bank is suggested to formulate and implement some sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

(14) NRB should tighten the supervision and inspection activity towards the commercial banks and financial institution so that the accounting manipulation can be avoided. It is because; there are huge decreases in the net profit in NBL for the lack of quality credit.

(15) The loss incurred by Nepal Bank Limited has decreased significantly after the implementation of financial sector reform programmed but at the same time the volume of non- performing assets is increasing. This indicates that credit management is not sufficient. So the NBL management should generate the real profit through credit disbursement.

(16) Nepal Bank Limited has one more advantage of getting income from government transaction which other private and joint ventures bank do not have. It receives huge

amount of commission from the government in return of doing government transaction. So, bank is suggested to handle government transaction properly so that no other banks except NBL and RBB get this chance continually in future.

(17) Due to poor credit administration, the credit recovery process is slow as well as legal process in the recovery of credit is lengthy and ineffective. Clear-cut objective and policy of the credit management is lacking so that non-performing credit is going upward. To get better result in the coming future, bank should reduce the volume of non-performing credit.

(18) The banks should adopt efficient and modern management concept to make their activities quick and moving there by fulfilling the growing demand of current financial services.

(19) Total deposit is not correlated with the loan and advances. This is very serious matter and the main reason is the case of over liquidity that the bank has maintained so far. Thus, the bank should mobilize the deposit and try to bring the correlation between total deposit and loan and advance in an appropriate level.

(20) To meet customer's requirement the bank should focus on value added tasks like making front line decisions, making actions plans, improving process reviewing progress, analyzing successes and failures, providing feedback to suppliers, reducing costs etc.

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