CREDIT MANAGEMENT SYSTEM OF COMMERCIAL BANKS

(A COMPARATIVE STUDY OF NEPAL SBI BANK & BANK OF KATHMANDU)

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RECOMMENDATION

This is to certify that the Thesis

Submitted by:

SHRISHTI BHATTARAI

Entitled:

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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

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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 requirement for

Master Degree of Business Studies (MBS)

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DECLARATION

I hereby declare that the work reported in this thesis entitled **Credit Management System of Commercial Banks (A Comparative Study of Nepal SBI Bank & Bank of Kathmandu)** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (MBS) under the supervision of **Dr. Shilu Bajracharya** of Shanker Dev Campus.

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Needless to say, I am alone responsible for any deficiencies that may have remained in this work

Shrishti Bhattarai

Researcher

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ABBREVIATIONS

$\overline{X}$	Arithmetic Mean
ADB	Agriculture Development Bank
ADB/N	Agriculture Development Bank of Nepal
ATM	Automated Teller Machine
B.S.	Bikram Sambat
BOKL	Bank of Kathmandu Limited
C.V.	Coefficient of Variation
CIB	Credit Information Bureau
E-Banking	Electronic Banking
EPF	Employees Provident Fund
EPS	Earning Per Share
F/Y	Fiscal Year
HBL	Himalayan Bank Limited
i.e.	That is
L/C	Letter of Credit
Ltd.	Limited
MBS	Masters of Business Studies
MPS	Market Price Per Share
NBBL	Nepal Bangladesh Bank Limited
NEPSE	Nepal Stock Exchange Limited
NIBL	Nepal Investment Bank Limited
NIDC	Nepal Industrial Development Corporation
NPA	Non-performing Assets
NPL	Non-performing Loan
NRB	Nepal Rastra Bank
P.E.	Probable Error

PAN	Personal Account Number
r	Correlation Coefficient
RBB	Rastriya Banijya Bank
Rs.	Rupees
S.D.	Standard Deviation
SCBNL	Standard Chartered Bank Nepal Limited
SEBO	Security Board
T.U.	Tribhuvan University

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Financial Sector is related with the monetary and capital market, Banks and financial institutions are the major activist of financial market. Such financial institutions play a vital role for the effective and specific financial performance. Different types of institutions like financial companies, Commercial banks, micro financing institutions, provident fund, insurance companies, security market, citizen investment fund, and credit Security Corporation etc. are performing in their own way for the national financial strength. But in the context of Nepal specific institutions are still to be promoted and encouraged. There is scarcity of subsidiary institutions to support the economic stability in the country.

Nepal government has been implementing financial sector reform program as a major instrument of economic reform policy. Focus has been given on financial institutions as 75% of total financial assets are covered by the Nepal Rastra Bank and Commercial Banks.

The financial sector reform was initiated in mid 1980s under the liberal economic policy of Nepal government. Under the policy, Nepal government first opened the banking sectors to foreign investors. In July 1985, commercial banks were allowed for the first time to accept current and fixed deposits on foreign currency. On May 26, 1986 NRB (Nepal Rastra Bank) deregulated the interest rate regime and authorized commercial banks to fix interest rate at any level above its minimum prescribed levels.

The concept of fair competition in this sector is emerging. However financial institutions are facing problems like traditional style of work, poor information system and ineffective management. The countries implementing the open market policy emphasize on the role of private sector in order to get sustainable economic growth.

Making new credits and their management is a crucial part of credit management in financial institutions. Credit management has to focus on the risk analysis in the loan investment portfolio. While granting loan a no. of aspects have been taken in to account like credit status, credit records, cash flow or income, collateral, maturity and repayment schedule. Micro analysis of affecting factors for purposed loan seems very challenging.

Credit affects the overall development of the country. The volume of credit is directly related with the pace of development in a country, which would be mobilized through various commercial banks of the country itself. The mechanism of credit creation is used to expand the business. Fluctuation in the credit facilities granted by banks has an important bearing on the level of economic activity. Expansion of banks credit is followed by income in production, employment, sales and price. In a developing economy the banks offer more and more credit and increase the resources of the industries, there by causing faster economic development. The credit facilities extended by banks must be uniform and rational; otherwise there will be haphazard development of country. The flow of credit is very much like smooth and uniform throughout the organs of human body, so credit should flow steadily and evenly through various sectors of the economy. If credit flow is artificially plugged or arrasted, it would be irreparable harm to economy just as clotting of our blood vessels would lead to total results.

Banking industry has acquired a key position in mobilizing resources for finance social and economic development of a country. No function is important to the economy and its constituent part than financing. "Bank assists both the flow of goods and services from the products to the consumers and financial activities of the government .Banking provide the country with the monetary system of making payment and are 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: p-162)

"The importance of the banking as the nerve center of economic development can not be over emphasized and it is said that bank which are the need of and great wealth of country water irrigation good banks are for the country's industry and trade (Singhvi and Desai, 1971: p-120)

1.2 Historical Background of Bank

The Word "Bank" is orient in medieval age in 1971A.D. from and Italian word

"Banko". That means the place where people come together for different transaction. The "Bank of Venice" was the first bank which established in Italy in 1157 AD "Bank of Barcelona "is established in Spain, Bank of Geneva established in 1609 AD. But the credit of the development of modern banks goes to "The Bank of England" which was established in 1694 AD in London.

After the introduction of banking net 1883,in United Kingdom as it allowed opening join stock company Banks.

"The concept of banking development from the very beginning of the economic activities. First of all, the effort was made by the ancient gold and valuables. Under such arrangements, the depositors would have their gold for safekeeping and in turn were given a receipt was presented, the depositors would return bank their gold and valuable after receiving a small payment as fee"(Mandala: 1998 p-1)

The evolution of the organized financial system in Nepal has a very recent history unlike other countries of the world. In the 14^{th} century jayasthiti Mall classified people in 64 groups according to their occupations; "Tanka Dhari" was among them who used to lend money at a fixed rate of interest.

During the period of Ranodip Singh, the prime minister a government institution called "Tejarath Adda" was established around 1887 AD from providing easy and cheap credit at 5% interest to the public on securing of gold and silver. It is regarded as the father of the modern banking institution of Nepal.

The development of modern bank started from establishment of "Nepal Bank Limited" in 1973AD which put effort of government and public, as a commercial bank with 10 million authorized capitals. The authorized capital was contributed by the government 51 and remaining 49 by public. Is started to provide depositing and borrowing facilities to commercial as well as agriculture sector.

In 2013 B.S "Nepal Rastra Bank" established, which the central bank of Nepal it was established with the objective of supervising, protection, and directing the function of commercial bank. It played lending role development of banking in Nepal and controlled the monetary culture in the country.

Under the suggestion of NRB, "Rastriya Banijya Bank" was established in 2022 B.S as a fully government owned commercial bank. It was established under the Banijya Act 1964 AD, now it provides the service all over the country. A part from this, NIDC was established in 1964 AD, now it provides the service all over the country. Apart from this, NIDC was established in 1959 A.D. and other development bank and financial institutions were established and continue to establish and continue to establish and are contributing to the economy and banking tradition in Nepal.

The place of Financial sector development, in 1990 AD the government took the liberalization policy in banking sector since the various financial institutions have come in to existence to provide the financial need of the country and financial development of the country. Currently there are 25 commercial banks, 58 development bank,78 finance companies and 12 Micro Credit Development Banks till mid sep 2008 in our financial sector.

1.3 Commercial Banks

Commercial banks are those banks which perform all kinds of banking function as accepting deposits, advancing credits, credit creation, and agency function etc. They provided short term credit, medium credit, and long term to trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, letter of credit etc.

With out the development of sound commercial banking under developed countries cannot hope to join the ranks of advanced countries. 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. Besides, industrial development will be impossible without the existence of markets to depose of the goods produced.

Nepal Rastra Bank, the central bank of Nepal was established in 1956 (2014B.S.) under the Nepal Rastra Bank Act 1956 (2013B.S.).It has been functioning as the government's bank and has contributed to growth of financial sector. Central bank is the main apex body of the banking and financial institutions which controls the entire currency and credit of the economy. Nepal Rastra Bank, the central bank of Nepal regulation, inspects, supervise and monitor the whole function of bank and finance companies of Nepal. The second commercial bank, Rastriya Banijya Bank was established in 1965 A.D. The inception of Nepal Arab Bank limited (renamed as Nabil Bank Ltd.) in 1984A.D. is a first joint venture commercial bank proved to be a milestone in the history of commercial banking. Government of Nepal adopted a policy for allowing foreign joint venture commercial banks to operate in Nepal. This policy targeted to encourage the traditionally operated local commercial banks to enhance their capacity building, competitiveness and efficiency and modernize their functions to give prompt customer service. New commercial banks act and liberalization policy of 1980's,there are at present 25 commercial banks operating in Nepal with the objective to encourage efficient banking services to increase foreign investment in the country and to bring healthy competition in the banking sector.

Table no. 1

List of Commercial Banks

S.N.	Name	Operation Date	Head Office	Paid up Capital(Rs.in Lakhs)
1	Nepal Bank Ltd.	1937/11/15	Kathmandu	3804
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	11723
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	92780
4	Nabil Bank Ltd.	1984/07/16	Kathmandu	6892
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	12030
7	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu	6208
8	Himalayan Bank Ltd.	1993/01/18	Kathmandu	10135
9	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	8745
10	Nepal Bangladesh Bank Ltd.	1993/06/05	Kathmandu	7441
11	Everest Bank Ltd.	1994/10/18	Kathmandu	8314
12	Bank Of Kathmandu Ltd.	1995/03/12	Kathmandu	6031
13	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupendehi	12758
14	Lumbini Bank Ltd.	1998/07/17	Narayangarh, Chitwan	7500
14	Nepal Industrial and Commercial Bank Ltd.	1998/07/21	Biratnagar,Morang	7920
15	Machhapuchchhre Bank Ltd.	2000/10/03	Pokhara,Kaski	8217
16	Kumari Bank Ltd.	2001/04/03	Kathmandu	9000
17	Laxmi Bank Ltd.	2002/04/03	Birgunj,Parsa	7320
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	7900
19	Global Bank Ltd.	2007/01/02	Kathmandu	7000
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	5600
21	Prime Commercial Bank Ltd.	2007/09/24	Kathmandu	7000
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	7000
23	Bank Of Asia Nepal Ltd.	2007/10/12	Kathmandu	7000
24	Development Credit Bank Ltd.	2001/01/23	Kathmandu	3010
25	NMB Bank Ltd.	1996/11/26	Kathmandu	

1.4 Profile of Concern Banks

1.4.1 Nepal SBI Bank

Nepal SBI bank is the first Indo Nepal joint venture bank in the financial sector. Sponsored by three institutional promoters, namely State Bank of India, Karmachari Sanchaya Kosh (Employee Provident Fund) and Agriculture Development Bank through a memorandum of understanding signed on 17^{th} July 1992, the bank came in to operation on 8^{th} July 1993 within a period of less than one year. The bank received registration from registrar of companies of ministry of Industry Government of Nepal on 25^{th} April 1993 and commenced its first board meeting on 25^{th} may 1993.The bank received certificate of commencement of business on the 30^{th} June 1993.Moreover it received its license from NRB for all commercial banking transaction on the 6^{th} July 1993.

This bank has its corporate office at Hattisar Kathmandu. The bank is currently running its operation with branches in various part of Nepal.

Share Holding Patterns of the Bank

State Bank of India (SBI)	50%
Employee Provident Fund (EPF)	15%
Agriculture Development Bank (ADB)	5%
General Public	30%

Provided Services by Bank

1. Trade finance
2. Remittances
3. Expert credit
4. Bills purchase
5. Credit by ways of term loans as well as working capital
6. Tele banking services
7. Retail finance (Housing, Education, and Vehicle etc.)
8. SWIFT transfer facility, funds transfer
9. Sales and Purchase of Rs., Dollar, Travelers cheques.
10. Letter of credit, Bank guarantee
11. Clearing collection
12. E-Banking

13. ATM card etc.

<u>Present Capital Structure of Bank</u>

Authorized Capital	Rs. 1000000000
Issued Capital	Rs. 877500000
Paid Up Capital	Rs. 874527840

1.4.2 Bank of Kathmandu Limited (BOKL)

Bank of Kathmandu limited (BOKL) established on 1993. The bank came into operation on March 1995. At the time of establishment BOKL was established by a group of distinguished civil servants and renowned businessmen in collaboration with the SIAM Commercial Public co. limited (SCB) a leading bank of Thailand. The collaboration with SCB supported BOKL to bring in the technical and managerial expertise in the Nepalese banking sector with the well acclaimed capabilities of the Nepalese management team. BOKL has successfully enhanced its capital structure, profitability, reach to the customers and image in the market. It has created a positive in the industry in a shortest possible span of time. Nepalese managing team is handling the bank efficiently to increase the profit year by year.

Share Holding Patterns of BOKL:

General Public	58%
Nepalese Promoter	42%

Provided Services are:

1 Deposit A/C Services

2 Credit Facilities

3 Inwards\outwards remittance C

4 International trade centers

5 Business advices

6 Safe deposit locker

7 Foreign exchange center

8 ATM service

<u>Present Capital Structure of Bank</u>

Authorized Capital	Rs. 1000000000

Issued Capital	Rs. 606173300
Paid Up Capital	Rs. 603141300

1.5 Statement of the Problem

In the context of Nepal's financial sector, the number of commercial banks and other financial institutions are increasing day by day in recent time. With increasing these commercial banks also challenges and problems are arising. Credit management is one of the most important issues for the every commercial bank so; none of commercial banks in long run can survive without implementing effective lending policy and practice. Most of the commercial banks are focusing loan on housing, vehicle, educations, and consumer loan tec. But to develop the economic condition of Nepal, commercial bank should encourage exploring new sector for credit management but it should also be considered that industrial loan should be given important.

Credit policies are not systematic and no clear vision. In Nepal it has been found that loan approval and credit decisions are made flexible to favor to personal networks also. A new customer finds that credit providing process being very complicated. Due to the unhealthy competition among the banks, the recovery of the banks credit is going towards negative trends. Non-performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions, NRB has renewed its directives of the credit loss provisions.

Followings are the major problems that have identified for the purpose of this study

1 Is there any stability in fund mobilization activities of commercial bank?
2 Are they maintaining sufficient liquidity position?
3 What is the volume of contribution made by sample banks in credit and advances?
4 Whether the sample banks have maximum or minimum liquidity?

1.6 Objective of the Study

Every study is conducted for the achievement of certain purpose without the determination of certain objectives, desire goals cannot be achieved. Banks help in development of the country by providing credit to the necessary sectors. Therefore, the main objective of this study is to find out the credit management position of Nepal SBI bank and Bank of Kathmandu Limited.

The specific objectives of the study are be as follows:

1 To analyze the credit and advances provided by the two bank.
2 To examine lending efficiency and its contribution in profit
3 To compare the deposit, loan and advances and net profit of sampled the banks.

1.7 Importance of the study

In financial sector many commercial banks are gaining wide popularity through their efficient management and professional services. Not the many researchers in credit management of commercial banks in Nepal. Credit management is one of the most important functions of the bank. This study of "credit management of commercial banks with references to Nepal SBI bank and Bank of Kathmandu. Would be beneficial to the shareholders, so main importance of the study is to give some knowledge about the credit of concern bank. It helps to know about the credit management of commercial bank to banking professional, investors, teacher and students.

- Importance to Shareholders
- Importance to management bodies of the bank for evaluation of bank's performance
- Importance to "outsiders" who are mainly customers, finance agencies, stock exchanges etc.
- Importance to the government bodies or the policy makers such as central bank.
- Interested outside parties such as investors, customers (depositors as well as credit takers), competitors, personal of the banks, stockbrokers, dealers, market makers etc.

1.8 Limitation of the study

This study has certain limitations. Which are as follows

- This study concentrates only on those factors that are related with credit practice.
- This research is depending on published documents such as: balance sheet, profit and loss account statements which are circulated the close of the financial year.
- The study is associated only to the financial performance of Nepal SBI bank and Bank of Kathmandu.
- The study is based on the past five years periods, since 2004/05- 2008/09.
- The study deals secondary data
- The main limitations are time constraint, financial problem, lack of research experience and lack of recent information.

1.9 Organization of the Study

The whole study is divided in to five different chapters:

Chapter one:- Chapter one deals with the subject matter of study, consisting background of the study, profile of the company, statement of the problem, objective of the study, importance of the study, limitation of the study and organization of the study.

Chapter two: - Chapter two deals with the review of literature. It includes conceptual framework along with review of major books, journals, research works etc.

Chapter three: - Chapter three deals with the research methodology. It includes methodology used to achieve the objective of the study, sources of data, populations and sample and financial and statistical tools used.

Chapter four: - Chapter four deals with analysis interpretation of data by using financial and statistically models described in chapter three.

Chapter Five: - Chapter five deals with Summary, Conclusion, Finding and Recommendation of the study.

CHAPTER –II

REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem under study and what has not been done in the field of the research study being undertaken. For review study the researcher uses different books, reports, journal and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

2.1 Conceptual Review

The review of textbook and other reference materials such as: newspapers, magazines, research articles, journals and past thesis have been included in this topic.

2.1.1 Meaning of Commercial Bank

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to definition of H.L, a banker of bank is a person or company carrying on the business of receiving money and collecting drafts, for customer subject to the obligation of honoring cheque drawn upon them from time to time by the customer to the extent of the amount available on their customer (Shekher and Shekhar, 1999). Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore, commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creations and agency functions. They provide short-term credit medium term credits and long term credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit etc.

Commercial bank acts as an intermediately, accepting deposits and providing credit to the needy area. The main source of the commercial bank is current deposit, so they give more important 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 can not 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)

Commercial banks are organized as a joint stock company system, primarily for the purpose of earning profit. They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the united states where a bank operations are confined to a single office or to a few branches within a strictly limited area (Shekhar and Shekhar, 1999)

The commercial banks are those banks that pool together the saving of community and arrange for their productive use. They activate the idle money to the different productive areas. They supply the financial needs of modern business by various means. Most of the banks in the world are found established with a view to finance and help in developing trade, industry and commerce. In fact, commercial banks can be defined according to the function they perform. Commercial banks can accept deposits and also provide loan primarily to business firms thereby fascinating the transfer of funds in the economy.

2.1.2 Functions of Commercial Bank

i) Accepting deposits

The main objective of the commercial bank is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds. Therefore, accepting deposit by banks is the oldest function. A bank accepts deposit in the form of saving, current and fixed deposit.

ii) Advancing loans

The major functions of commercial banks is providing loan to the needy person. Bank advances the loan against the security to the customer. Advancing loan is also knows as the function of the deposit mobilization because bank gives loan to the people from the deposit that it collects from the public. There is various methods of advancing loans e.g. overdrafts, cash credit, direct loans, discounting bills of exchange etc.

iii) Agency services

Agency services are those services which are provided by the banks on benefit of its customer. A commercial bank under takes the payment of subscription, insurance premium, rent, etc and collection of cheque, bills, salaries, pensions, dividends, interest etc on behalf of the customer. The bank charges the service cost to do these functions to its customer. The commercial bank also arrange the remit money from one place to another by means of cheques, drafts, wire transfer etc.

iv) Credit Creation

Credit creation is one of the most important functions of the commercial banks. In order to earn profits, they accept deposits and advance loan by keeping a small cash reserve ratio for day to day transaction as prescribed by the central bank. When a bank advances a loan, it opens an account to draw money by cheque according to his need, by granting a loan, the banks create credit or deposit.

v) General Utility Services

The commercial banks perform certain utility function to its customer. Following are the general utility services provided by the commercial banks:

- Safe keeping of valuables
- Assist in foreign trade
- Making venture capital trade loan
- Investment banking and merchant banking system services.
- Security brokerage service

2.1.3 Concept of Credit

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration about the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weakness are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolio (Johnson, 1940:132)

Credit is the amount of money lent by the bank to the borrower (customer) either on the basis of security or without security. Sum of the money lent by a bank is the credit (Oxford advanced learners Dictionary, 1992: 279)

Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credit and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also effect profitability adversely (Varshney and Swaroop, 1994:6)

Credit is the vital and most important activity in the bank, next only to deposit mobilization. It is the activity that generates the main income stream for the bank. The activity should therefore be pursued with the utmost professionalism conservation and circumspection. Banks should develop and impalement policies and procedures to ensure that the credit portfolio is adequately diversified given the bank's target markets and overall credit strategy. In particular, such mix as well as set exposure limit on single countries parties and group of connected counter parties, particular industries or economic sectors, geographic regions and specific products. Bank should ensure that their own internal exposure limits imply set by the banking supervisors. Credit policies establish the framework for lending and guide the credit granting activities of the bank.

2.1.4 Types of Credit

a) Overdraft

It denotes the excess amount withdrawn over their deposits.

b) Cash Credit

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

c) Direct Credit

I. Term Credit

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

A bank credit with maturities exceeding 1 year is called term credits. The firm agrees to pay interest based on the bank's prime rate and to repay principal in the regular installments. Special patterns of principal payments over time can be negotiated to meet firm's special needs (Richard, 1996:80)

II. Working Capital Credit

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

III. Priority or deprived sector credit

Commercial banks are required to extended advances to the priority and deprived sector. 12% of the total credit must be towards priority sector including deprived sector. Rs.2 million for agriculture cum service sector and Rs.2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to agriculture Development Bank and Rural Development Bank are also considered under this category.

IV. Hire Purchase Financing (Installment Credit)

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

V. Housing Credit (Real State Credit)

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

VI. Project credit

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credits are short-term credits made to developers for the purpose of completing proposed projects. (Johnson, 1940:242). The basic guiding principal involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage of completion must be spelled in disbursement policy. Terms of credit needed for project fall under it.

VII. Consortium Credit

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

VII. Credit Cards and Revolving Lines of Credit

Revolving credit line lowers the cost of making credit since operating and processing cost are reduced. Due to standardization, centralized department processes revolving credits resulting reduction on administrative cost. Continued borrowing arrangement enhances cost advantages. Once the credit line is established, the customer can borrow and repay according to his needs and the bank can provide the funds to the customer at lower cost.

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

IX. Off-balance Sheet Transaction:

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event.

X. Bank Guarantee

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

XI. Letter of Credit (L\C)

It is issued on behalf of the customer in favor of the exporter for the import of goods and services stating to pay certain sum of money on the submissions of certain documents complying the stipulated terms and conditions as per the agreement of L\C. It is also known as importer letter of credit since the bank of importer do not open separate L\C for the trade of same commodities.

D) Discounting of Bills

It is the main function of commercial banks. Discounting of bills means made payment of bills, which are issued by commercial bank as well as central bank, before their expiration date or matured time. Therefore, payment should be less than total amount because of their uncertainty.

2.1.5 Principle of Credit Policy

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

a) Principle of safety fund

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

b) Principle of liquidity

Liquidity refers to pay on hands on cash when it needed without having to sell long-term assets at loss in unfavorable market (American institute of Banking, 1972;149). A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

c) Principle of Security

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

d) Principle of Purpose of credit

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

e) Principle of Profitability

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

f) Principle of Spread

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

g) Principle of national interest

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

2.1.6 Lending Criteria

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

1) Character

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

- Memorandum and Articles of Association
- Registration Certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank
- Reference of other lenders with sham the applicant has dealt in the past or bank A\C statement of the customer.

2) Capacity

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

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

3) Capital

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

4) Collateral

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

5) Condition

Once the funding company is satisfied with the character, Capacity, Capital and Collateral than a credit agreement (sanction letter) is issued in favor of the borrower stating conditions of the credit to which borrower's acceptance is accepted.

2.1.7 Project Appraisal

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

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

Generally, the project appraisal involves the investigation from the following aspects (Gautam, U.K.2004:258)

- Financial aspects
- Economic aspects
- Management\organizational aspect
- Legal aspect

Directives Issued by Nepal Rastra Bank (NRB) for the commercial bank (Related to credit aspect only)

a) Credit Classification and provisioning:

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

Those credits that have not crossed the time schedule of repayment and are within 3 months delay of maturity date fall under the classification topic "pass credit". It is also known as performing credit.

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

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

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

b) Limit of Credit and Advances in a Particular Sector

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

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

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

2.1.8 Steps of Lending Process

Commercial bank issue loans but before issuing loans, they follow some steps of lending process. Bank has certain process for providing loans. When an individual or organization needs capital for doing certain works, then they search for loans and bank is the only one reliable and economic source of loan and advances. So, bank imposes following process for providing loans**.**

a) Loan application

When a person need loan then he\she asks the loan procedure in the bank. If all the process and information is reasonable then he\she makes loan application. It is also called loan proposal. For big business loan, it is appropriate to talk with loan officer. Loan officer can also contact to big account holder possessing business organization and ask if they are in need of loan. In developed country bank, they search for probable debtors. Bank makes report of economic activities and when they found good customers they contact with them and ask for loan necessity.

b) Loan Interview

Second process involves the loan interview of applicants who apply for the loan. This interview helps to find out the loan applicants nature. I.e. habit, obedient. Bank also collects information about the purpose.

c) Loan documentation

-Once the approval of credit facility is received, the job of loan documentation starts.

-Checklist

-Offer letter/property valuation letter

-Security Documentation

For individual client

- Loan application form

- Personal record
- Personnel financial statement or records
- Account opening documents
- Loan agreement (loan deed)
- Guarantees
- Others

For corporate client

- Application form
- Certificate of incorporation
- Articles of association
- PAN
- Tax clearance certificate
- By-laws (Niyamawali)
- Board of directors
- Guarantee
- Demand promissory
- Loan agreement
- Financial statement of guarantor and parent company
- Others

d) Credit assessment

'**Interviewing the customers'**

- For an existing company it is important to know why the company has left the former bank connection or is thinking of leaving the presently associated bank?

  In case for a new project the credit officer should find out why the customer intends to avail credits from our bank if it is already associated with the other banks?
- What kinds of credit facility are required and why are they required? How much is needed?
- How and when will the loan be repaid?
- What are the possibilities that the plan of the customer will not work out?
- In case the plan does not work out, what will be situation of the company and how will it meets its commitment to the bank?

- What are the background, character and experience of the principals involved in the company?
- How old is the business?
- Is the company member of a group? If yes, then the credit officer should ask of an organizational chart of the group?
- How will the bank loan be insured?

‘Site visit’

Check the stock position

- Condition of the fixed assets (in case of a manufacturing company)
- Location and area
- Debtors position from the register
- Labor-management relationship etc

e) Credit appraisal

Format

A. The party
B. Objective /purpose
C. Assessment

1. **Performance:**

   Strength and weakness

   - Management
   - Background and history of development of the business
   - Activity
   - Financial health
   - Research and development

2. **Environment**

   Opportunities & Threats

   PEST Analysis

   P = Political

   E = Economic

   S = Social

   T = Technological

   Legislative

   Intra Company

D. Conclusion
E. Recommendation
   Yes/NO

If No = Give Reason

If Yes = Special Covenants (if any)

2.1.9 Types of lending policy in selected banks

There is a single combined credit policy as a whole and to have better control over the risk assets of the bank, the lending policy is sub divided into:

1) Business banking

Large and small-scale industries (i.e. large business houses and small houses) run by the individual come under business banking. The credit policies in this section are:

a) Corporate customer credit policy

b) Small business loan policy

2) Consumer banking

The loan provided to personal interest and benefits comes under consumer banking. The credit policies in this section are:

a) Home loan policy

b) Auto loan policy

c) Travel loan policy

d) Education loan policy

2.1.10 Need of credit policy in commercial banks

In bank fund management, the cost of handling is, of course, as important as the availability of funding. Competition, deregulation, economic conditions and increased sophistication in money management on the part of retail and wholesale depositors have increased the cost of bank fund tremendously.

Making an unsecured loan involves taking a risk and losses on some loans are to be expected. Commercial banks are increasingly facing credit risk (or counter party 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 settlement of transactions. Thus, the need of credit policy is the most, as the banks should always try to mitigate the risk related to the loan provided. Steps that banks can take to limit loan losses include obtaining sufficient information on loans and borrowers as well as establishing an internal system of loan review in addition to the loan reviews of regulatory agencies. Banks can also affect or offset credit risk in their loan portfolios by watching the business cycle, varying loan rates against the degree of risk and recognizing risk in loan concentration. Although specific credit risk policy and practices may differ among banks depending upon the nature and complexity of their credit activities, a comprehensive credit risk management program should address the following areas:

I. Establishment an appropriate credit risk environment

II. Operating under a sound credit process

III. Maintaining an appropriate credit administration, measurement and monitoring process

IV. Ensuring adequate controls over credit risk

Credit risk is a factor in all loans, but to varying degrees. Bank should recognize this variability by matching loan rates to risk. A bank that charges the same rates for many types of loan is not receiving adequate compensation for its riskier loans. In comparison a loan’s total yield to its risk, a bank also should consider any supporting deposit balances required in conjunction with the loan and may also want to consider other profitability generated from the customer’s relationship with banks (Base Committee Consultative Paper, 1999).

2.2 Review of Related Studies

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy has already sick. When any sector of economy caught cold, bank started sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, the portfolio management means to invest funds in various schemes of mutual funds like deposit, shares and debentures for 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 the best mix of investment assets (Shrestha, 1998:15)

In the article "placing RBB and NBL under management contracts: Rational and Opposition" agreed that the disappointing performance of these two banks has becomes serious concern to all the stakeholders. Further he mentions that they are having with huge level of NPA, which could be termed as the darkest sides of their operational inefficiency and undisciplined financial behavior (Basyal, 2000:4)

Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institutions ensuring transparency during loan disbursement. As per provision, all commercial bank as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The credit information bureau (CIB) can black list the firm, company clears the debt within the stipulated period. As per the set criteria for black listing, the CIB would monitors those individual and companies that have the principle loans of above Rs.1 million. If the creditor fails to clear the amount within time or is found missing the loan among others, the creditors can be black listed (Kathmandu Post, 2003:9)

In the article titled "Credit Sector Reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. Although the circumstances lending to financial problems of crisis in many Nepali banks differ in many respects, what are common areas of the most banks, which increased size of non- performing assets (NPA). To resolve the problem of the losses or likely losses of this nature facing the industry, NRB as the central bank, amended several old directives and issued many new circulars in the recent years (Ghimire, 2003:22)

Dr. Radhe Shyam Pradhan has done a research for which he carried out a survey of 178 enterprises. Through his research entitled "financial management practice in Nepal" he found some of the measures feature of the Nepalese financial management. According to him the most important one appeared to be maintaining good relation with stock holders. The finding revel that banks and retained earning are most widely used, financing sources. Most enterprises do not borrow from one bank only and they do switch between bank to banks whichever offers best invest rate. Most enterprises find that banks are flexible in interest rate. Among the bank loan, bank loan of less than one year more popular in public sector where as banks loan of 1-5 year are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector doesn't fell so similarly. He conclude that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non traded sector find that the some is one higher side. (Pradhan, 1994:50)

In an article published in New Business Age, entitled "Growth in Major Commercial Banks" has compared between the first six month of the fiscal year 2002-2003 and 2003-2004, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. There has been increasing in credit deposit ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only in recovery of the huge non performing assets (NPA). However, he pointed out that no matter what the size of NPA is and the circumstances are each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB, all banks have increment in deposit collection (Subedi, 2004:19)

2.2.1 Review of Previous Thesis

Chand (1998) has submitted his thesis entitled "Credit Disbursement and repayment of Agriculture Development Bank Nepal" and found (i) there is systematic relationship between credit disbursement and repayment. The coefficient of correlation values as calculated is 0.94, which shows that there are high and significance relationship between credit disbursement and repayment and (ii) repayment situation is satisfactory in production inputs and agro-based industry, warehouse and marketing percentage of repayment due to the farm mechanization and irrigation. Tea horticulture and livestock, poultry and fisheries are much less satisfactory.

As a recommendation given by chand, ADB should play a significant role in such direction to fulfill the credit demand of rural areas. For effective credit recovery from the borrowers or clients, credit should be channeled through the borrower groups.

Dhungana (2002), Conducted a study "A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Other Joint Venture Banks" concluded that NBBL has not good deposit collection. It has not made enough cash and negligible amount of investment in government securities. NBBL has higher loan and advances to total deposit ratio, loan and advances to total working fund ratio, lowest loan loss ratio and higher investment on share and debenture to total working fund ratio. NBBL has followed stable policy. NBBL is able to manage its assets regarding its on balance transaction. Lending position, investment position and net profit position of NBBL is not better in compare to HBL. But it has better position in comparison to NBBL. He suggested increasing the liquidity of NBBL to invest in government securities instead of keeping idle fund. He also suggested providing project oriented approach. He suggested NBBL for developing effective portfolio management. He also suggested developing innovative approach for bank marketing upgrades the banking facility, liberal lending policy and effective cost management strategy.

Dhital (2004) conducted a thesis. "A Comparative Study on Investment Policy of Standard Chartered Bank Nepal Limited and Bank of Kathmandu Limited". The main ratio of each cash and bank balance of total deposit ratio of standard chartered bank Nepal limited is lower in comparison to Bank of Kathmandu. SCBNL has better liquidity position than BOKL. The mean ratio of loan and advances to current asset of SCBNL is lower than that of BOKL. SCBNL ratios are less consistency in comparison to BOKL. The mean ration of loan and advances to total deposit of SCBNL is lower than BOKL. The mean ratio of total deposit of SCBNL is higher in comparison to BOKL and the ratios of SCBNL are less consistency than that of BOKL. In case of loan and advance to working fund ratio, the SCBNL mean ratio is less than that of BOKL. The mean ratio return on loan and advances of SCBNL is greater than that of BOKL. The ratios of SCBNL are more variability in comparison to BOKL. The mean ratio of return on total working fund of SCBNL is higher than BOK. The mean ratio of total interest paid to total working fund of SCBNL is lower in comparison to BOKL. The liquidity risk ratio of SCBNL is less than that of BOKL. The mean ratio of credit risk ratio of SCBNL is less than that of BOKL and SCBNL ratios are less variability in comparison to BOKL.

Tamang (2005) studied the comparative study of credit management in Himalayan Bank Limited (HBL) and NABIL Bank in his thesis entitled. "A comparative study on credit management in Himalayan Bank Limited and NABIL Bank Limited". To explore the credit management, he tried to assess the existing credit practices, examine the credit efficiency, analyze the industry environment and the relationship among loan and advances, non- performing loan and net profit. To meet the stated objectives, we used both secondary and primary information to analyze the data. Then, he applied different financial as well as statistical tools. Basically, Mr. Tamang used ratio analysis as financial tools and mean, standard deviation, correlation and regression analysis as statistical tools.

He found from the study that credit practices and credit efficiency was relatively better in NABIL bank ltd as compared to Himalayan bank ltd. for the reason that the ratio analysis designed for credit practice and credit efficiency scored relatively is better for NABIL bank ltd. He found that the correlation coefficient between non-performing loan and net profit in NABIL bank ltd. and Himalayan bank limited was found to be 0.157 and -0.716 respectively. He further concluded that trend of non performing loan did not have high implication in NABIL bank ltd. while there was a significant impact of non performing loan in net profit in Himalayan bank ltd.

He described in his primary information that industry environment as well as the management quality was relatively better in NABIL bank ltd. as compared to Himalayan Bank Ltd.

Lastly, he recommended to the bank management that proper level of portfolio should be maintained so that profitability position will be maximized with regard to credit practices. Similarly, the bank management of both banks recommended maintaining proper level of balance with regard to credit efficiency. He also suggested to the bank management of HBL to manage its loan more effectively so that the percentage of non- performing loan will be in minimum because the relation of loan and non-performing loan in HBL was found very high. Finally, he recommended to the future researchers to focus in to non financial indicators job satisfactions, customer satisfaction, stakeholders support, government rating, supervisors team work, human resource development, human resource planning, human resource management, job designation etc. as influencing factors for credit management.

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. He focused on the problem that 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 money lender resulting himself or herself as a land less person.

ADB\N is one of the major financial institutions supporting for the people for the different purposes like agro, industries, tea, coffee, livestock farming etc. ADB\N provides the credit for individual and co-operative sector to all region of the country. Credit outstanding among 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 don not receive sufficient amount of credit from ADB\N. So, Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB\N.

From the research, he has found out the following necessary facts.

- Actual credit disbursement, collection and outstanding are increasing in decreasing rate.
- Yearly increase in credit disbursement in higher than that of collection.
- Positive relation between credit disbursements is higher than that of collection.
- Targeted credit collection and disbursement fixed by planning and project department is not significantly different than the actual.
- Most of the customers are unaware of the policy of the bank.
- The use of fund towards, the hire purchase credit is decreasing rapidly.
- As the direct data of good and bad credit was not available, the credit loss provision used to analyze the credit quality. Credit loss is increasing every year significantly and should be controlled.
- The loss provision of some company is more alarming an individual analysis. The company having above average credit loss provision should rethink on their investment and repayment policy.

Khadka, (1998), has submitted a thesis named "A study on investment policy of Nepal Arab Bank Limited, in Comparison With Other Joint Venture Banks in Nepal." Has compared investment policy of NABIL with NGBL and NIBL, this study is based on five years period from 1992-1996. He has taken two banks to compare the investment policy of NABIL. Mr. Khadka has suggested the joint venture bank to be careful increasing profit in real sense to main depositors and customers. He has strongly recommended NABIL to utilizing risk assets and shareholders funds to gain higher profit margin reduces it expenses and collect cheaper fund more profitability.

Investing funds in different sector and administering various deposit schemes, gift cheques scheme, house building deposits schemes etc.

2.3 Research Gap

Most of the research works I have found, in this field, are basically deal with the single bank. The researches deal with the cost and capital structure, SWOT analysis, profit planning and control, capital adequacy and market position. There are few researches which dealt with the banks' credit management but they are found only dealing with the single banks credit management and there is the necessity of conducting such a research which can compare the two banks' credit management system. So, the present research is aimed to fulfill the research gap since the researcher rarely found few researches conducted on this field.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research is common parlance refers to a search for knowledge. The Webster international dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles diligent investigation in order to ascertain something (Saravanavel, 1990:1)

Research methodology is a way to systematically solve the research problem (Kothari, 1990:10). It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher studying his research problem among with the logic behind them. This chapter looks into the research design, nature and source of data, data collection procedure and tools and techniques of analysis.

This topic presents the short outline of the methods applied in the process of the analyzing the credit management of the selected joint venture banks. 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.

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

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance's to the research purpose with economy in procedure. For the analysis of credit management of selected banks, analytical as well as descriptive designs applied to achieve the objective of the research.

3.3 Data Collection

The researcher uses two types of data collection techniques.

a) Primary Data

Primary data are those collected by the researcher on the concerned topic, which are original in nature. In some cases, primary data are also taken as personal interview, face to face and telephone interview but the study is mainly based on secondary data.

b) Secondary Data

Secondary data are those collected by the researcher on the concerned topic, which are not original in nature or are originally collected for some other purpose. The main sources of secondary data were: statistical publication of Nepal Rastra Bank, websites, annual reports of bank, different journals, business magazines etc.

Major sources of Secondary data for this study are as follows:

- ❖ Annual reports of the bank
- ❖ Published and unpublished bulletins, reports of the banks
- ❖ published and unpublished bulletins, reports of the Nepal stock Exchange
- ❖ Previous studies and reports
- ❖ Unpublished official records
- ❖ "Banking and financial statistics" report of Nepal Rastra Bank magazines.
- ❖ Journals and other published and unpublished related documents and report for central library of T.U. and library of Nepal Rastra Bank.
- ❖ Various internet websites

3.4 Data Collection Procedure

This study is conducted on the basis of secondary data. The secondary sources of data are balance sheet, profit and loss account, concerned bank's annual reports, supplementary data and information are collected number of institution and regulating authorities like, Nepal Rastra Bank, Security Exchange Board, Nepal stock Exchange ltd. central library of T. U. different journals, ministry of finance budget speech of different fiscal years and other published and unpublished report documented by the authorities.

According to the need and objectives of this study, all the secondary data are complied, processed and tabulated in order to judges the data provided by the banks and other sources, they were complied with the annual report of auditors. Formal and informal talks to the concerned head of the department of the banks were also helpful to obtain the additional information of the related problem.

3.5 Population and Samples

A population in most studies usually consists of large group because of its large size. It is fairly difficult to collect detailed information from each member of population rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub-group. The sampling allows the researcher more time to make an intensive study of a research problem. The total commercial banks shall constitute the sample for so among the various commercial banks in the banking industry. Nepal SBI bank ltd. and Bank of Kathmandu is taken as sample for the study. Similarly, financial statements of those banks for 5 years from 2004/05 to 2008/09 have been taken as sample for the same purpose.

3.6 Tools for Data Analysis

Analysis and presentation of the data is the main part of every research work. To draw the strong conclusion and make the analysis more effective, convenience reliable and authentic, various financial and statistical tools have been used. To make the study more specific and reliable the researcher uses two types of tools for analysis.

I. Financial tools

II. Statistical tools

3.6.1 Financial tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis.

Ration Analysis

A ratio is a figure or a percentage representing the comparison of one-dollar account with some other dollar amount as a base (Roy, 1974, 97). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 1979, 97)

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

A. Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1999:693)

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution on the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1992, 140)

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

i. Cash and Bank Balance to Total Deposit Ratio

Bank's liquidity capacity can be measured on the basis of cash and bank balance which are the most liquid assets. Cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be shown as:

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Where, Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposit consists of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

ii. Cash and Bank Balance to Current Deposit Ratio

This ratio shows the percentage of most liquid funds over current deposit of the bank. Higher ratio indicates the banks sound ability to meet the daily cash requirement of their customer’s deposit. Low ratio is also dangerous. If banks maintain low ratio, may not able to make the payment against cheques. It can be shown as:

$$\text{Cash and bank balance to current deposit ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Deposit}}$$

B. Assets Management Ratio

It is also known as turnover or efficiency ratio or assets management ratio, assets management ratio measures how efficiently the firm employs the assets. Turnover means, how many numbers of items the assets flow through a firm's operations and into sales (Kulkarni, 1994: 138). 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. Loan and Advances to Total Deposit Ratio

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

$$\text{Loan and Advances to Total Deposit} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

Loan and advances includes short-term loan and advances, overdraft, cash credit, local and foreign bills purchased and discounted.

ii. Loan and Advances to total Assets Ratio

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

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

iii. Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its funds in different securities issued by government and other financial and non-financial companies. Effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice- versa.

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

C. Leverage Ratio

The use of finance is refers by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which create financial leverage (Brealy and Meyers, 1991, 677). These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long- term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weakness of the firm. Following ratios are included under leverage ratios.

i. Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, debt includes the amount of fixed deposits and credits of the bank and equity includes paid up capital, reserve and surplus and undistributed profit. The formula used to determine the ratio is:

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

ii. Total Debt Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as

$$\text{Total Debt to Total assets ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

D. Lending Efficiency Ratio

The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. The following are the various type of lending efficiency ratios:

i. Non-performing Loan to Total Loan and Advances Ratio

NRB has determined all the commercial banks create loan loss provision against the doubtful and bad debts. But both of our concerned banks have not provided data on non-performing loan in balance sheet and profit and loss account.

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

ii. Loan Loss Provision to Total Loan and Advance Ratio

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

$$\text{Loan Loss Provision to Total Loan and Advances} = \frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}}$$

E. Profitability Ratio

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

Profitability ratios are the indicators of degree of managerial success in achieving firms overall goals (Pradhan, 1996:41). It shows the overall efficiency of the business concern. The following ratios are calculated under the profitability ratios:

i. Net Profit\Loss to Total Assets Ratio

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

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

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

ii. Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio measures the gap between interest rates offered and interest rate charged. Nepal Rastra Bank (NRB) has restricted the gap between the interest taken in loan, advances and interest offered in deposits. The credit creation power of commercial banks has high impact on this ratio.

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

iii. Interest Income to Total Loan and Advances

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

$$\text{Interest Income to Total Loan and Advances} = \frac{\text{Interest Income}}{\text{Total Loan and advances}}$$

Other Ratio

i. Earning Per Share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of 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 share on issue. This decision will automatically after the earning per share. The profit available to the ordinary share holders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below.

$$EPS = \frac{\text{Net Income after Taxes}}{\text{Number of Common Stocks Outstanding}}$$

Limitations of Ratio Analysis

Ratio analysis is suffered from some inherent limitations that are direct inherited from financial statements. Some of the most common weakness of ratio analysis is as follows:

- Financial statement records transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST MORTEM' analysis rather than a guide for decision making.
- In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.
- The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.
- Some times ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Singh, 1993:10)

Although, various limitations of ratio analysis and doubt may arise about the valid measure of the financial performance but they are used widely to measure the financial performance of the firm.

Statistical Tools

For supporting this study, statistical tool such as mean, standard deviation, coefficient of variation, correlation coefficient, trend analysis have been used.

I. Arithmetic Mean ($\bar{\varepsilon}$)

Average is statistical constants, which enable us to comprehend in a single effort of the whole (Gupta, 2000:357). 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. It is calculated as:

$$\bar{\varepsilon} = \frac{\varepsilon}{\rho}$$

Where,

$\overline{\varepsilon}$ = Air thematic Mean

N = Number of observation

ε = Sum of observation

II. Standard Deviation (S.D)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or ($\pm$) (Shrestha, 1991:43). It is used as absolute measure of dispersion or variability. It is calculated as:

$$\sigma = \sqrt{\frac{\int \varepsilon \ Z \varepsilon \ ^{-} \AA^{2}}{\rho}}$$

Where,

σ = Standard Deviation

III. Coefficient of Variation (C.V)

The coefficient of variation (C.V) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (Shrestah, 1991:45). It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

$$\text{C.V.} = \frac{\pm}{\overline{\varepsilon}} \times 100$$

Where,

σ = Standard Deviation

$\overline{\varepsilon}$ = Mean

IV. Probable Error (P.E.)

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 value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Where,

r = Correlation coefficient

N = No. of observations

If the value of ‘r’ is less than 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.

V. Correlation of Coefficient (r)

Correlation coefficient is the important tool to analyze the degree of relationship between two or more variables. It is used to describe the degree to which one variable in the linearly related to other variables. It refers the closeness of the relationship between two or more variables.

It is the statistical measure of the relationship if any between series of numbers representing data of any kind, from returns to test scores. If two series move in the same direction, they are positively correlated, if the series move in opposite direction, they are negatively correlated.

The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively correlated series. Symbolically, correlation coefficient can be expressed as follows:

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

Where,

r = Correlation between X and Y

$N\sum XY$ = Product of X and Y

$\sum X$, $\sum Y$ = Product of sum of X and Y

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Data Presentation and Analysis

In this chapter, the data collected from various sources have been presented and analyzed to measure the various dimension of problems of the study and major finding of the study presented systematically.

4.1.1 Measuring Liquidity Position of the Bank

A commercial bank must maintain satisfactory liquidity position to satisfy the credit needs community, to meet demands for deposit withdrawal, pay maturity obligation in time, convert non-cash assets in to cash to satisfy immediate needs without loss of the bank, and without consequent impact on long run profitability of the bank. To measure the liquidity position of bank following measures of liquidity ratios have been calculated.

4.1.1.1 Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks in immediate funds to cover their deposits. Higher ratio shows higher liquidity positions and ability to cover the deposits and vice-versa.

Table no. 2
Cash and Bank Balance to Total Deposit Ratio of BOKL

Year	Cash and bank balance	Total deposit	Ratio (%)
2004/05	782882941	7741645424	10.11
2005/06	740520482	8942748598	8.28
2006/07	728697092	10485359239	6.49
2007/08	1315903941	12388927294	10.62
2008/09	1440466943	15833737799	9.09
Average	9		
S.D.	1.31		
C.V.	14.55		

Above table shows the cash and bank balance to total deposit ratio of BOKL over the five year study period from fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09. The ratio is 10.11%, 8.28%, 6.94%, 10.62%, and 9.09% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Mean ratio remains at 9% during the five year study period. Standard deviation is 1.31 and coefficient of variation is 14.55.

Cash and bank balance to total deposit of BOKL can be shown by following figure.

Figure no. 1

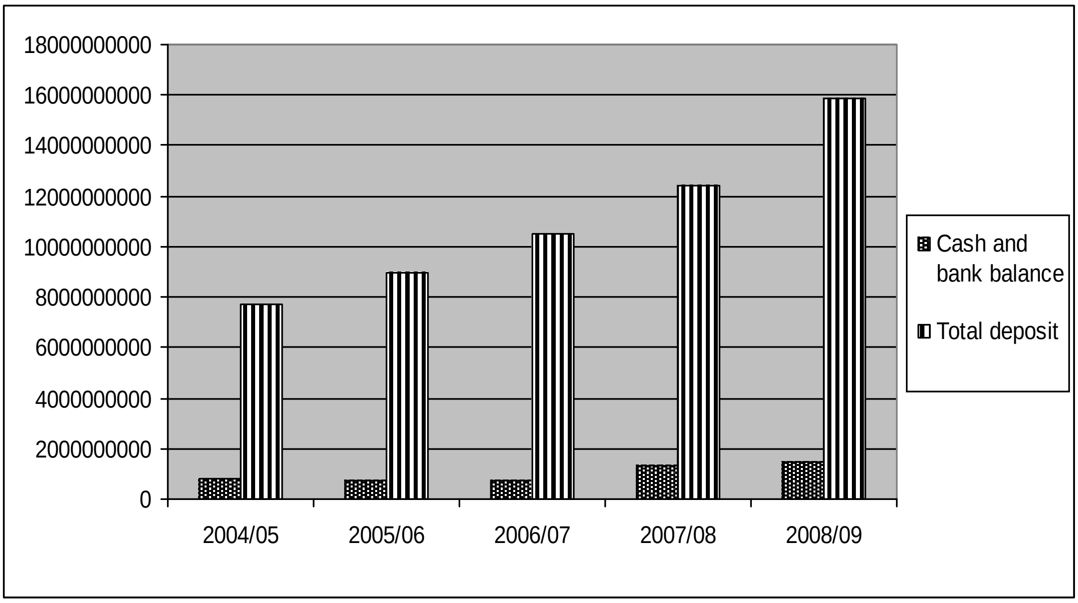


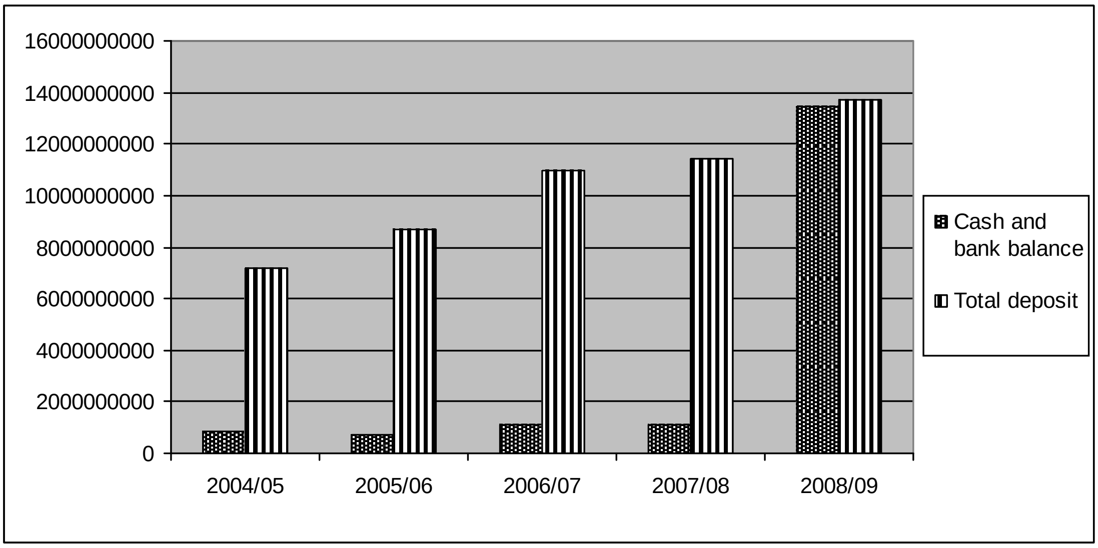
Table No.3

Cash and Bank Balance to Total Deposit Ratio of Nepal SBI Bank Limited

Years	Cash and Bank Balance	Total Deposit	Ratio (%)
2004/05	864426802	7198327428	12
2005/06	723745300	8654774214	8.36
2006/07	1118158408	11002040633	10.16
2007/08	1122690227	11445286030	9.80
2008/09	13429660326	13715394960	9.79
Average	10.022		
S.D.	1.165		
C.V.	11.62		

Above table shows the cash and bank balance to total deposit ratio of Nepal SBI bank limited over the five year study period from fiscal year 2004/05 to 2008/09. The ratio is 12%, 8.36%, 10.16%, 9.80%, and 9.79% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 10.022% during the 5 years study period. Standard deviation is 1.165 and coefficient of variation is 11.62%. Cash and bank balance to total deposit of Nepal SBI bank limited can be shown by following figure.

Figure no.2



Comparison

The cash and bank balance to total deposit ratio of BOKL is in a decreasing trend till the fiscal year 2005/06 and increased in the fiscal year 2006/07 then again decrease the ratio to last fiscal year 2007/08. Cash and bank balance to total deposit ratio of Nepal SBI bank limited is also decreasing trend till year 2004/05 then ratio increased in fiscal year 2005/06 and again ratio is decreasing trend up to last study period of year 2007/08. There is highest mean ratio of cash and bank balance to total deposit of Nepal SBI bank limited than BOKL. Ratio of BOKL is greater variation and less consistent than the Nepal SBI bank limited.

Though the ratio are not consistent, cash and bank balance position of BOKL as well as Nepal SBI bank with respect to deposit is better to serve the customer deposit withdraw depends. Commercial banks have to maintain their cash and bank balance in term of total deposit as directed by NRB time to time. Otherwise they are imposed penalty.

4.1.1.2 Cash and Bank Balance to Current Deposit Ratio

This ratio shows the percentage of most liquid funds over current deposit of the bank. Higher ratio indicates the banks sound ability to meet the daily cash requirement of their customer's deposit. Low ratio is also dangerous. If banks maintain low ratio, may not able to make the payment against cheques.

Table no.4
Cash and Bank Balance to Current Deposit Ratio of BOKL

Years	Cash and Bank Balance	Current Deposit	Ratio (%)
2004/05	782882941	997890548	78.45
2005/06	740520482	1302636216	56.48
2006/07	728697092	1409104116	51.71
2007/08	1315903941	1661775129	79.18
2008/09	1440466943	2092338375	68.84
Average	67		
S.D.	11.13		
C.V.	16.61		

Above table shows the cash and bank balance to current deposit ratio of BOKL over the five year study period from fiscal year 2004/05 to 2008/09. The ratio is 78.45%, 56.84%, 51.71%, 79.18%, 68.84% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09. Similarly mean ratio remains at 67% during the five year study period. Likewise, standard deviation is 11.13 and coefficient of variation is 16.61. Cash and bank balance and current deposit of BOKL can be shown by following figure.

Figure no.3

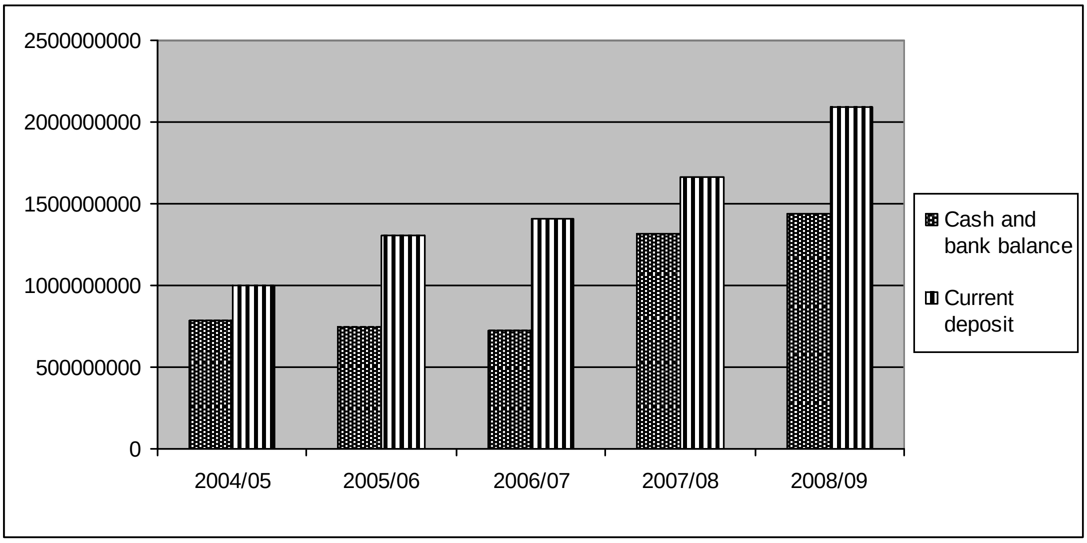


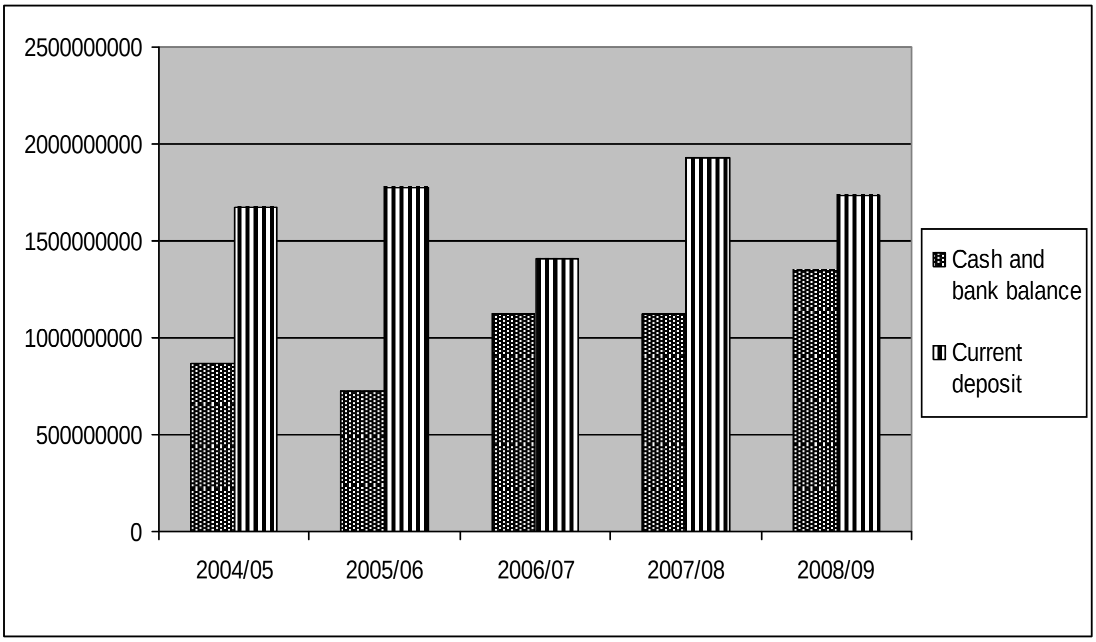
Table no.5

Cash and Bank Balance to Current Deposit Ratio of Nepal SBI bank limited

Years	Cash and Bank Balance	Current Deposit	Ratio (%)
2004/05	864426802	1672675772	51.67
2005/06	723745300	1773544418	40.80
2006/07	1118152408	1408297158	79.39
2007/08	1122690227	1930432984	58.15
2008/09	1342960326	1738101358	77.26
Average	61.45		
S.D.	14.86		
C.V.	24.18		

Above table shows the cash and bank balance to current deposit ratio of Nepal SBI bank limited over the five year study period from fiscal year 2004/05 to 2008/09. The ratio is 51.67%, 40.80%, 79.39%, 58.15%, and 77.26% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09. Similarly mean ratio remains at 61.45% during the five years study period. Standard deviation is 14.86 and coefficient of variation is 24.18. Cash and bank balance to current deposit of Nepal SBI bank limited can be shown by following figure.

Figure no.4



Comparison

Cash and bank balance to current deposit ratio of BOKL is decreasing trend except in the fiscal year 2007/08 during the five year study period. Similarly, the ratio of Nepal SBI bank limited is decreased in year 2005/06 then ratio increased in year 2006/07 then again ratio increased and decreased in last study period. Where the mean ratio of BOKL is highest than the Nepal SBI bank limited. Likewise the ratio of Nepal SBI bank has more variation and less consistency than BOKL.

It can be said that the BOKL has the high liquid assets in terms of cash and bank balance to current deposit ratio of than Nepal SBI bank limited.

4.1.2 Assets Management Ratio

This ratio measures the efficiency of commercial bank in its fund, mobilization. A commercial bank must be able to manage its assets properly to earn high profit, maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of bank to manage its assets in profitable way satisfactorily. Help of the following ratios, here analyzed assets management ability of BOKL as well as Nepal SBI bank limited.

4.1.2.1 Loan & advances to Total Deposit Ratio

This ratio measures to the extent that bank is successful to manage its total deposit on loan & advance for the purpose of income generation or not. A high ratio indicates better mobilization of collected deposit and vice-versa. But it should be noted that too high ratio might not be better from liquidity point of view.

Table no.6

Loan & Advances to Total Deposit Ratio of BOKL

Years	Loan & Advances	Total Deposit	Ratio (%)
2004/05	5336968123	7741645424	68.93
2005/06	5831069646	8942748598	65.20
2006/07	7239096426	10485359239	69.040
2007/08	9368586539	12388927294	75.62
2008/09	12408314980	15833737799	78.36
Average	71.43%		
S.D.	4.82		
C.V.	6.74		

Above table shows the loan & advances to total deposit ratio of BOKL over the five year study period from fiscal year 2004/05 to 2008/09. The ratios are 68.93%, 65.20%, 69.040%, 75.62%, and 78.36% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 71.43% during the five year study period. Standard deviation is 4.82 and coefficient of variation is 6.74. Loan & advances and total deposit of BOKL can be shown by following figure.

Figure no. 5

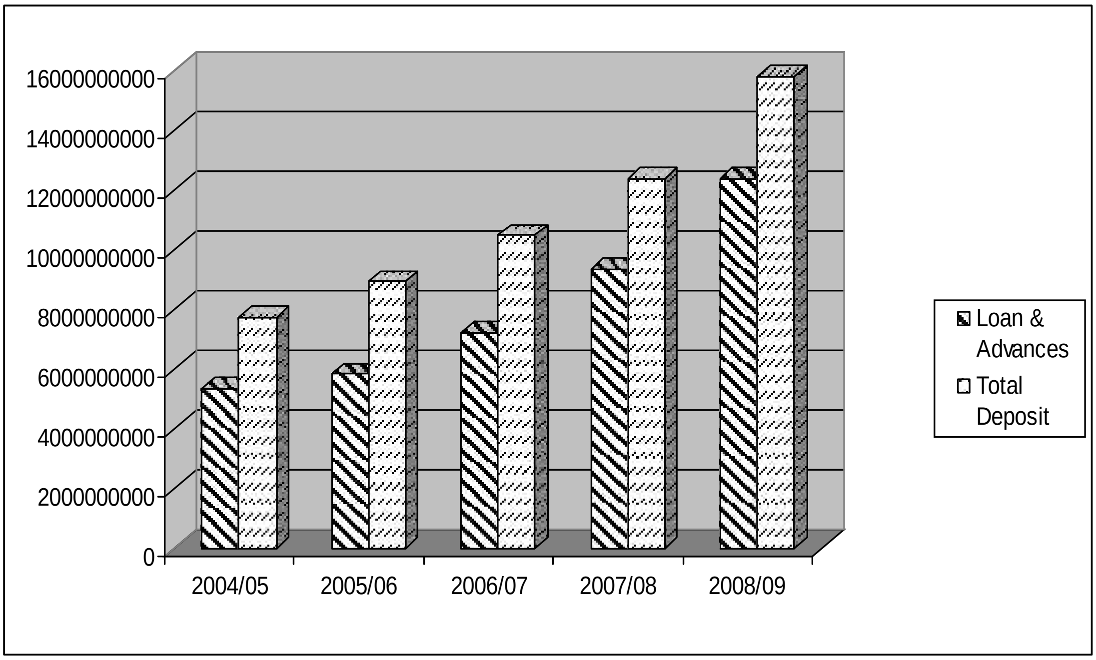


Table no.7

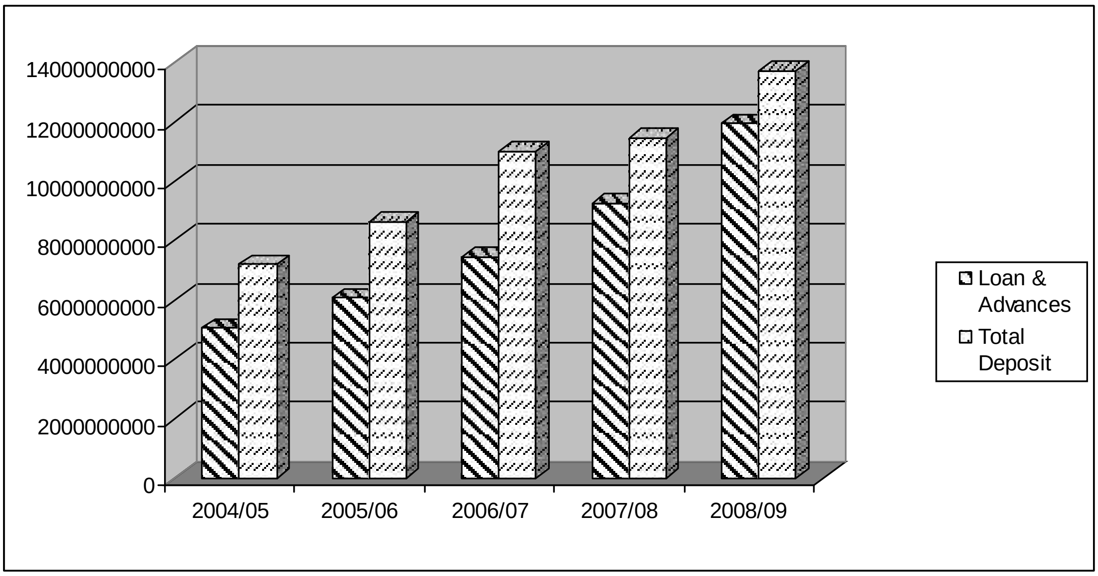
Loan & Advances to Total Deposit Ratio of Nepal SBI Bank Limited

Years	Loan and Advances	Total Deposit	Ratio (%)
2004/05	5043662078	7198327428	70.06
2005/06	6064602879	8654774214	70.07
2006/07	7457252399	11002040633	67.78
2007/08	9274335463	11445286030	81.03
2008/09	11948028432	13715394960	81.03
Average	73.99		
S.D.	5.79		
C.V.	7.82		

Above table shows the loan and advances to total deposit ratio of Nepal SBI bank limited over the five year study period from the fiscal year 2004/05 to 2008/09. The ratios are 70.06%, 70.07%, 67.78%, 81.03%, and 81.03% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 73.99%

during the five study period. Standard deviation is 5.79 and coefficient of variation is 7.82. Loan and advances to total deposit of Nepal SBI bank limited can be shown by following figure.

Figure no.6



Comparison

Loan and advances to total deposit ratio of BOKL is increasing trend except year 2005/06 over the five year study period. Similarly, the ratio of Nepal SBI bank limited is also increasing trend except fiscal year 2005/06 but the ratio of Nepal SBI bank is higher than the BOKL. The mean ratio of Nepal SBI bank limited is higher than that of BOKL during the study period. Likewise, the ratio of Nepal SBI bank has more variation and less consistency than the BOKL because of standard deviation and coefficient of variation of BOKL less than Nepal SBI bank limited.

From the analysis, we can say that Nepal SBI bank limited is in good form according to deposit mobilization point of view than BOKL. But it does not mean that Nepal SBI bank limited is investing more of its collected fund in high return sector but with low risk sector than BOKL. From this point of view, loan and advances to total deposit ratio of the bank is satisfactory.

4.1.2.2 Loan and Advances to Total Assets Ratio

Loan and advances of any commercial bank represent the major portion in the volume of total working fund. This ratio measures the volume of loan and advances in the structure of total assets. High degree of this ratio indicates good performance of the bank in mobilizing its funds by way of lending function. However, in its reverse side high degree of this ratio is repressed enactive of low liquidity ratio.

Granting of loan and advances always carries a certain degree of risk. Thus, this asset of banking business is regarded as risky assets. This ratio measures the management attitude towards risky assets. The low ratio indicates of low productivity and high degree of safety in liquidity and vice-versa. The interaction between risk and return determines this ratio. This ratio also shows the credit risk taken by the bank towards mobilizing its funds in to different types of assets. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation.

Table no.8

Loan and Advances to Total Assets Ratio of BOKL

Years	Loans and Advances	Total Assets	Ratio (%)
2004/05	5336968123	9496344672	56.20
2005/06	5831069646	9857130464	59.15
2006/07	7239096426	12278329302	58.95
2007/08	9368586539	14581394916	64.25
2008/09	12408314980	17721925187	70.016
Average	61.71%		
S.D.	4.90		
C.V	7.94		

Above table shows the loan and advances to total assets ratio of BOKL over the five year study period from fiscal year 2004/05 to 2008/09. The ratios are 56.20%, 59.15%, 98.95%, 64.25%, 70.06% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, and 2008/09 respectively. The mean ratio remains at 61.71% during the five years study period. Standard deviation is 4.90 and coefficient of variation is 7.940. Loan and advances to total assets of BOKL can be shown by following figure.

Figure no. 7

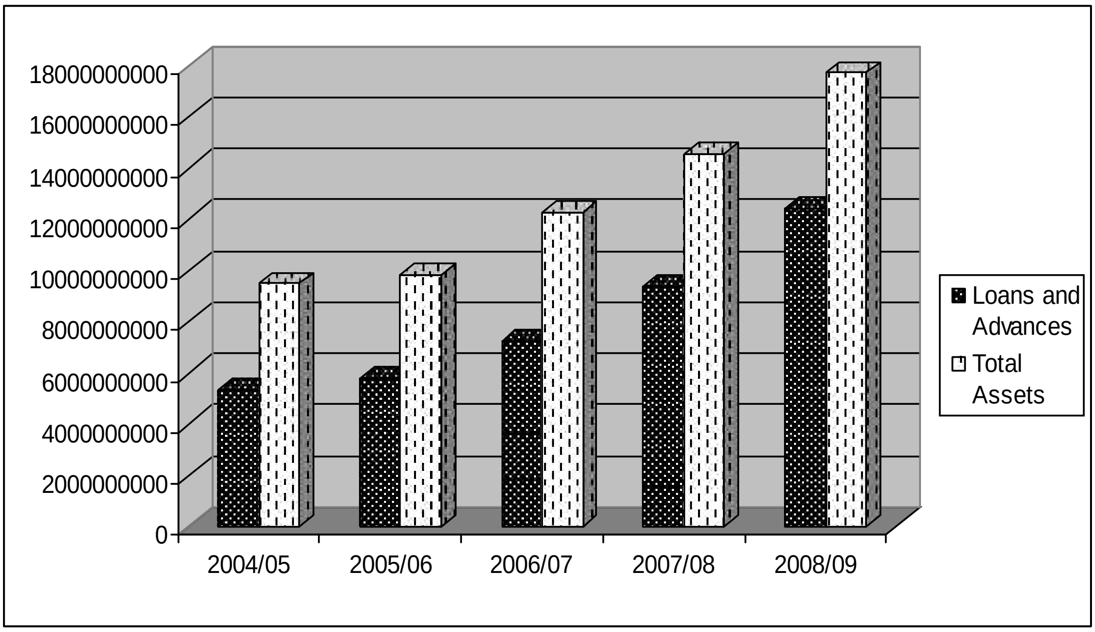


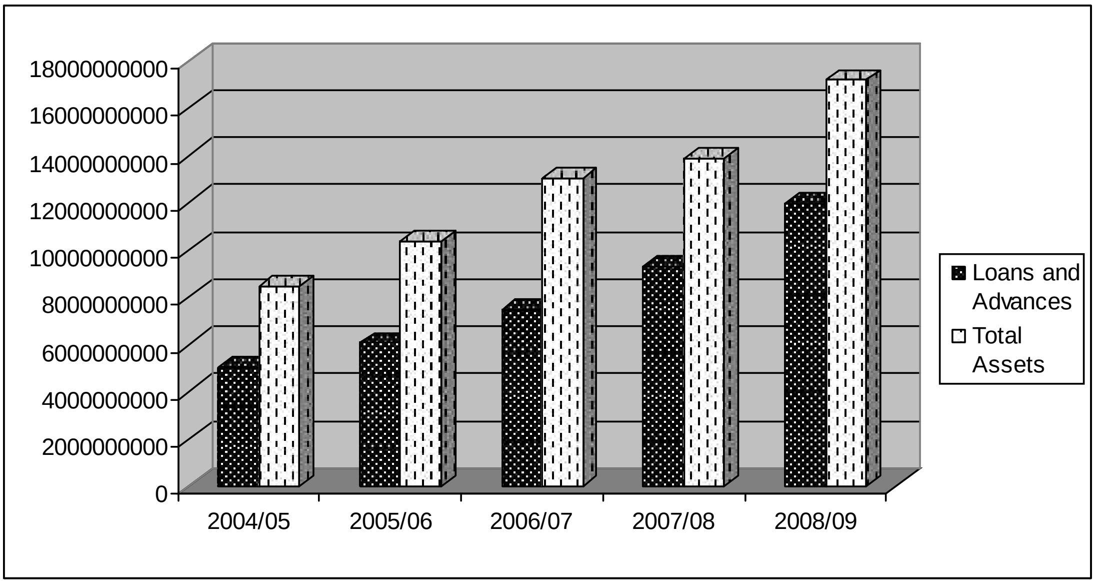
Table No. 9

Loan and Advances to Total Assets Ratio of Nepal SBI Bank Limited

Years	Loans and Advances	Total Assets	Ratio (%)
2004/05	5043662078	8440405808	59.75
2005/06	6064602879	10345373370	58.62
2006/07	7457252399	13035839124	57.20
2007/08	9274335463	13901200559	66.71
2008/09	11948028432	17187446174	69.51
Average	62.35		
S.D.	4.84		
C.V.	7.76		

Above table shows the loan and advances to total assets ratio of Nepal SBI bank limited over the five year study period from fiscal year 2004/05 to 2008/09. The ratios are 59.75%, 58.62%, 57.20%, 66.71%, and 69.51% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 62.35% during the five years study period. Standard deviation is 4.84 and coefficient of variation is 7.76. Loan and advances to total assets ratio of Nepal SBI bank limited can be shown by following figure.

Figure no. 8



Comparison

Loan and advances to total assets ratio of BOKL is in increasing trend except in the fiscal year 2005/06 over the five year study period. Where the ratio of Nepal SBI bank also is in increasing trend except fiscal year 2005/06 and 2006/07. Similarly, Nepal SBI bank limited has highest mean ratio than that of BOKL. Likewise, the ratio of BOKL has more variation and less consistency than Nepal SBI bank limited.

From the analysis, we can say that BOKL and Nepal SBI bank have sound lending policy so that they are able to mobilize its resources as loan and advances. The ratio shows the both bank like equal ratio no more different between two banks. We can say that assets management in terms of loan and advances of both banks are better because of above the fifty percent of total assets.

4.1.2.3 Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing in different securities issued by government and other financial and non-financial organizations. This ratio measures the extent to which banks are able to mobilize their deposits on investment in various securities. In the process of management of bank assets, various factors such as excess availability of fund, liquidity requirement, central bank norms etc. are to be considered in general.

This ratio indicates the proportion of deposit utilized for the purpose of income generation as well as for maintaining liquidity in appropriate level. A high ratio is the indicator of high success of mobilizes deposits in securities and vice-versa.

Table no.10

Total Investment to Total Deposit Ratio of BOKL

Years	Total Investment	Total Deposit	Ratio (%)
2004/05	2477409627	7741645424	32
2005/06	2598253410	8942748598	29.05
2006/07	3374711966	10485359239	32.18
2007/08	2992433866	12388927294	24.15
2008/09	3204067718	15833737799	20.24
Average	27.52		
S.D.	4.66		
C.V.	16.93		

Above table shows the total investment to total deposit ratio of BOKL over the five years study period from fiscal year 2004/05 to 2008/09. The ratios are 32%, 29.05%, 32.18%, 24.15%, and 20.24% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, mean ratio remains at 27.52% during the five year stud period. Likewise, standard deviation is 4.66 and coefficient of variation is 16.93. Total investment and total deposit of BOKL can be shown by following figure.

Figure no. 9

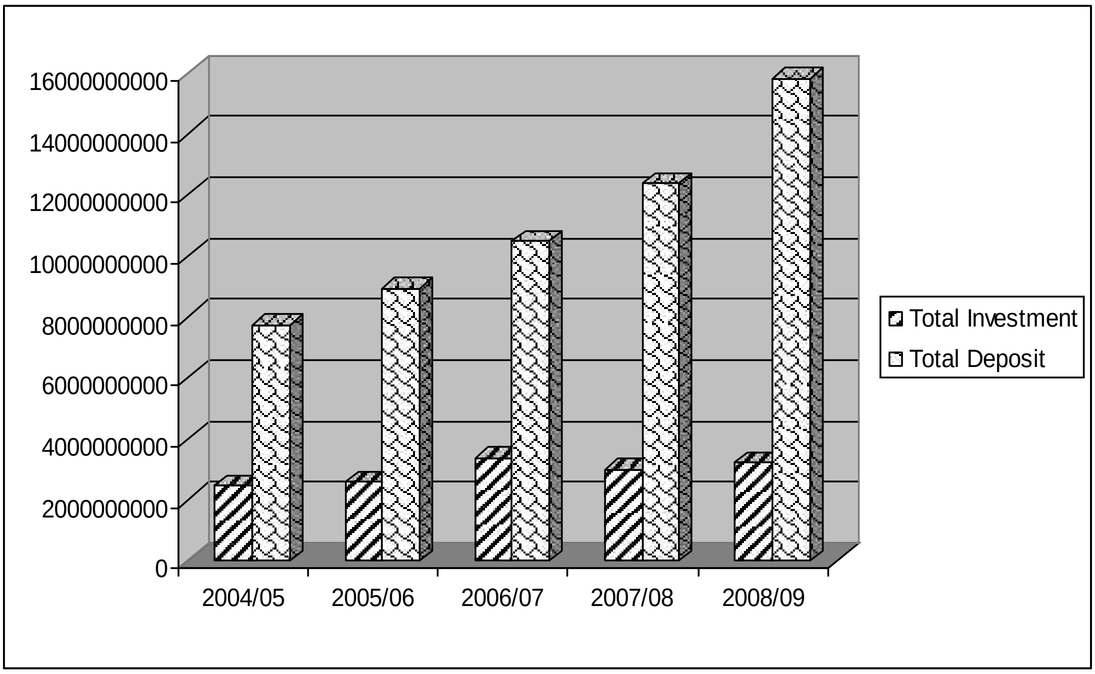


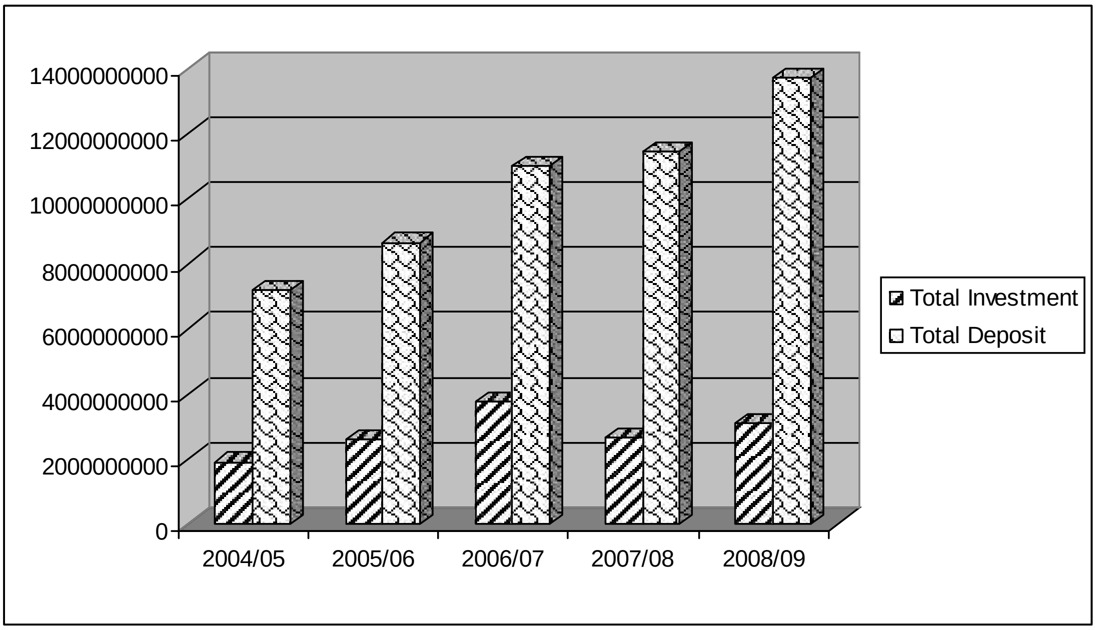
Table no. 11

Total Investment to Total Deposit Ratio of Nepal SBI Bank Limited

Years	Total Investment	Total Deposit	Ratio (%)
2004/05	1907520790	7198327428	26.50
2005/06	2607680003	8654774214	30.13
2006/07	3758975484	11002040633	34.17
2007/08	2659452919	11445286030	23.24
2008/09	3088886918	13715394960	22.52
Average	27.31		
S.D.	4.36		
C.V.	16.96		

Above table shows the total investment to total deposit ratio of Nepal SBI bank over the five years study period from fiscal year 2004/05 to 2008/09. The ratios are 26.50%, 30.13%, 34.17%, 23.24%, and 22.52% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, mean ratio remains at 27.31% during the five years study period. Likewise, standard deviation is 4.36 and coefficient of variation is 16.96. Total investment and total deposit of Nepal SBI bank limited can be shown by following figure.

Figure no. 10



Comparison

Total investment to total deposit ratio of BOKL is in decreasing trend except fiscal year 2006/07 over the five year study period. Where the ratio of Nepal SBI bank limited is increasing trend until the fiscal year 2006/07 then its ratio is in decreasing trend fiscal year 2007/08 and fiscal year 2008/09. Similarly, BOKL has the highest mean ratio than the Nepal SBI bank limited. Likewise, standard deviation of BOKL is higher than Nepal SBI bank limited and coefficient of variation of Nepal SBI bank is higher than BOKL.

During the five years study period, movement of ratio are first increasing, then decreasing and again increasing. It may be due to slack in the different sectors of economy due to which bank is unable to mobilize its fund in loan and advances and share\debentures of other companies properly.

4.1.3 Leverage Ratio

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

4.1.3.1 Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsiders and owner's fund employed in the total capitalization. Here, debt included all the credits (long term and short term) of the bank where, equity includes paid up capital, reserve and surplus and undistributed profit. Very high ratio is bad during the long run period and vice-versa.

Table no.12

Debt to Equity Ratio of BOKL

Years	**Total Debt**	**Total Equity**	**Ratio (times)**
2004/05	8845599442	650745230	13.59
2005/06	9136392648	720737816	12.68
2006/07	11438595421	839733881	13.62
2007/08	13588120072	993274844	13.68
2008/09	16379851399	1342073788	12.20
Average	13.15 times		
S.D.	0.60		
C.V.	0.046		

Above table shows the debt to equity ratio of BOKL over the five yea study period from fiscal year 2004/05 to 2008/09. The ratio is 13.55t, 12.68t, 13.62t, 13.68t, 12.20t in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, and 2008/09 respectively. Similarly, mean ratio remains at 13.15 times during the five year study period. Likewise, standard deviation is 0.60 and coefficient of variation is 0.46. Debt to equity ratio of BOKL can be shown by following figure.

Figure no.11

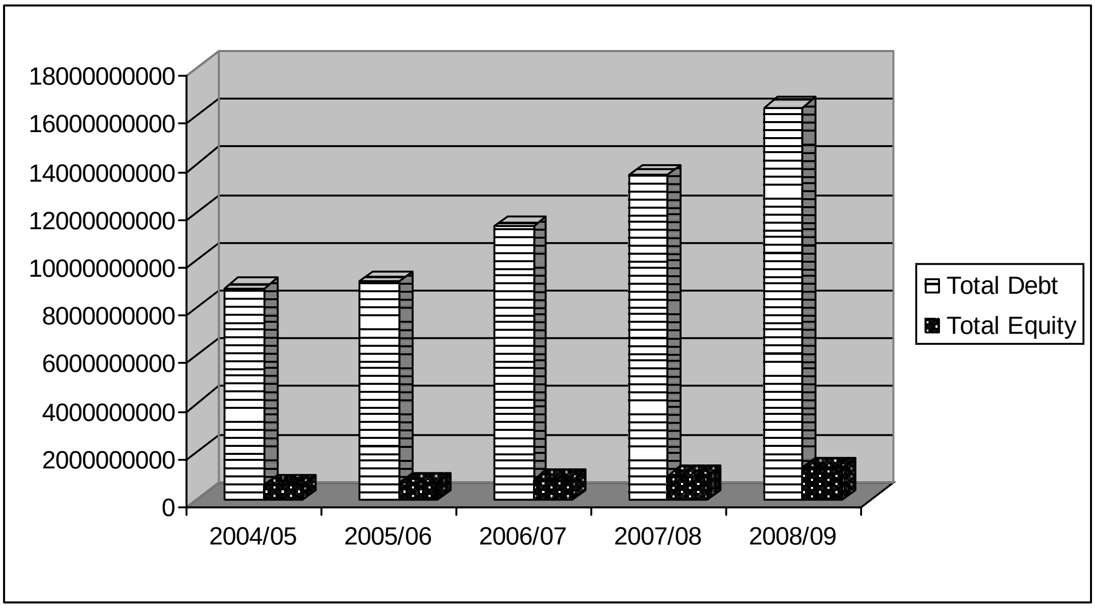


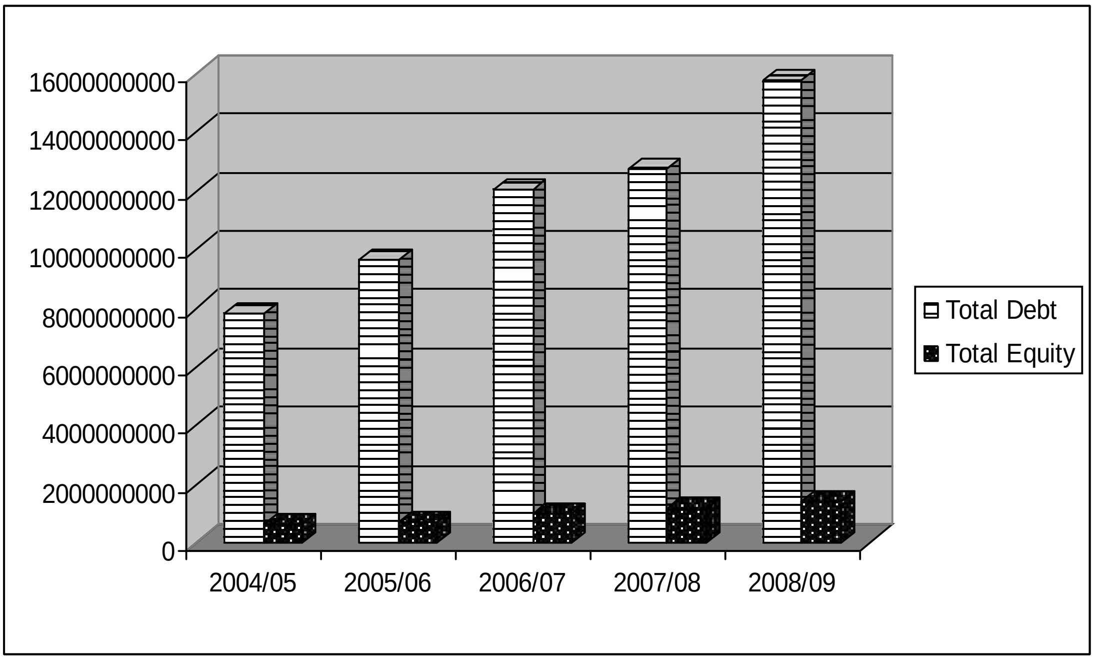
Table no.13

Debt to Equity Ratio of Nepal SBI Bank Limited

Years	Total Debt	Total Equity	Ratio (times)
2004/05	7813769082	626636726	12.47
2005/06	9656360310	689013060	14.01
2006/07	12053465396	982373728	12.27
2007/08	12737909708	1163290851	10.95
2008/09	15772801362	1414644812	11.15
Average	12.17 times		
S.D.	1.097		
C.V.	0.97		

Above table shows the debt to equity ratio of Nepal SBI bank over the five year study period from fiscal year 2004/05 to 2008/09. The ratios are 12.47t, 14.01t, 12.27t, 10.95t, 11.15t in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, mean ratio remains at 12.17times during the five study period. Likewise, standard deviation is 1.097 and coefficient of variation is 0.90. Debt to equity ratio of Nepal SBI bank limited can be shown by following figure.

Figure no.12



Comparison

Debt to equity ratio of BOKL is in increasing trend except fiscal year 2005/06 and fiscal year 2008/09 over the five year study period. Where the ratio of Nepal SBI bank limited is in decreasing trend except fiscal year 2005/06. BOKL has the highest mean ratio than the Nepal SBI bank limited during the five years study period. The standard deviation and coefficient of variation of BOKL is less than the Nepal SBI bank limited.

4.1.3.2 Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by suing more amount of equity on total assets.

Table no.14

Total Debt to Total Assets Ratio of BOKL

Years	Total Debt	Total Assets	Ratio (%)
2004/05	8845599442	9496344672	93.15
2005/06	9136392648	9857130464	92.69
2006/07	11438595421	12278329302	93.16
2007/08	13588120072	14581394916	93.19
2008/09	16379851399	17721925187	92.43
Average	92.92		
S.D.	0.31		
C.V.	0.33		

Above table shows the total debt to total assets ratio of BOKL over the five year study period from 2004/05 to 2008/09. The ratios are 93.15%, 92.69%, 93.16%, 93.19%, and 92.43% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, mean ratio remains at 92.92% during the five year study period. Likewise, standard deviation is 0.31 and coefficient of variation is 0.33. Total debt and total assets of BOKL can be shown by following figure.

Figure no.13

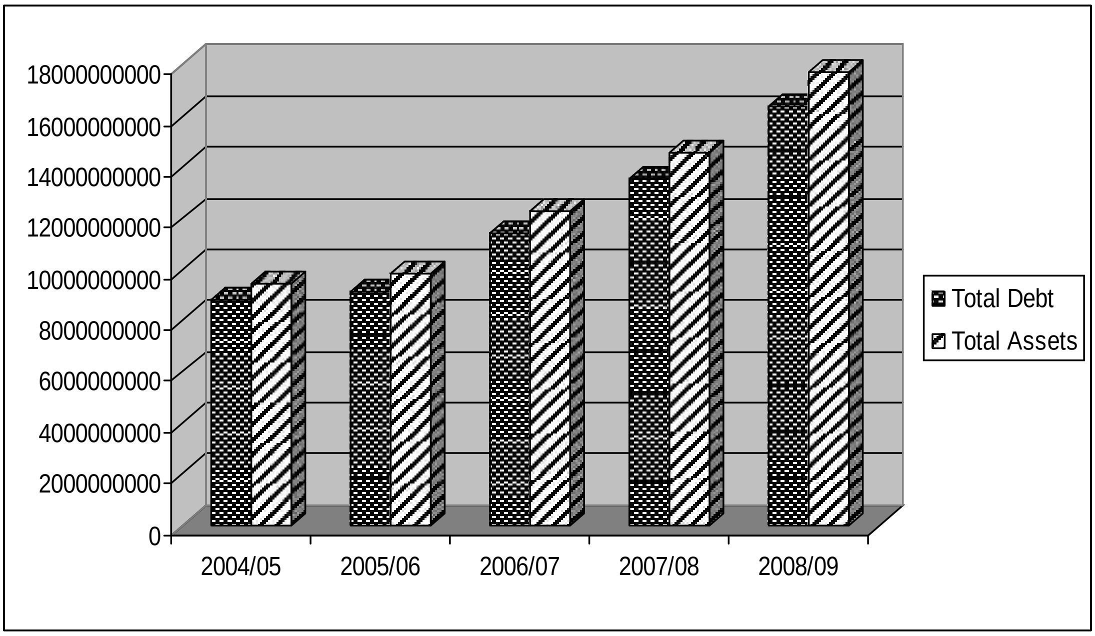
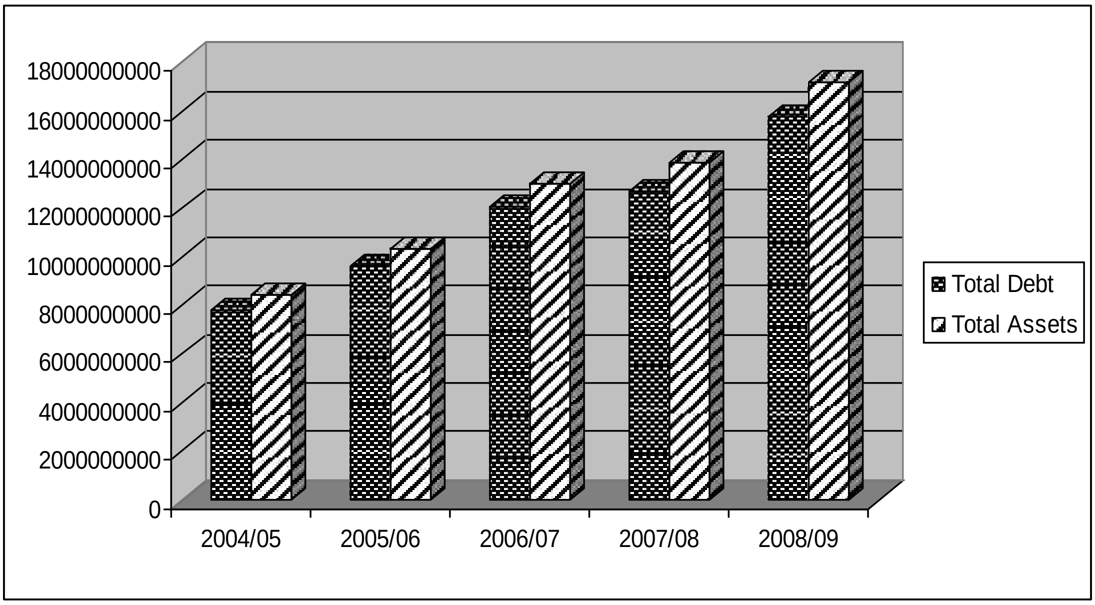


Table no.15
Total Debt to Total Assets Ratio of Nepal SBI Bank Limited

Years	Total Debt	Total Assets	Ratio (%)
2004/05	7813769082	8440405808	92.58
2005/06	9656360310	10345373370	93.34
2006/07	12053465396	13035839124	92.46
2007/08	12737909708	13901200559	91.63
2008/09	15772801362	17187446174	91.77
Average	92.36		
S.D.	0.62		
C.V.	0.67		

Above table shows the total debt to total assets ratio of Nepal SBI bank over the five years study period from fiscal year 2004/05 to 2008/09. The ratios are 92.58%, 93.34%, 92.46%, 91.63, 91.77% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, the mean ratio remains at 92.36% during the five years study period. Likewise, standard deviation is 0.62 and coefficient of variation is 0.67. Total debt to total assets of Nepal SBI bank limited can be shown by following figure.

Figure no. 14



Comparison

Total debt to total assets ratio of BOKL is in increasing trend except fiscal year 2005/06 and fiscal year 2008/09 during the five year stud period. Where, the ratio of Nepal SBI bank limited is decreasing trend except fiscal year 2005/06 over the five year study period. BOKL has the highest mean ratio than that of Nepal SBI bank limited.

According to the above analysis, we can say that BOKL used outsider's fund more than owner's fund during the formation of capital structure. But Nepal SBI bank limited has more variation and less consistency in ratios than BOKL. It is bad symptoms for the bank.

4.1.4 Lending Efficiency Ratio

Lending efficiency, quality of lending and its effect in measured in this topic. The efficiency of a firm depends to a large extent on the efficiency with which its assets are managed and utilized. This ratio also shows the utility to available fund. The following are the various types of lending efficiency ratios.

4.1.4.1 Non-performing Loan to Total Loan and Advances Ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. A lower ratio is preferable because lower ratio indicates the better performance on loan and advances.

Table no.16

Non-performing Loan to Total Loan and Advances Ratio of BOKL

Years	Non-performing Loan	Total Loan and Advances	Ratio (%)
2004/05	399937177	5336968123	7.49
2005/06	308506039	5831069646	5.29
2006/07	203624470	7239096426	2.81
2007/08	243296250	9368586539	2.60
2008/09	236898850	12408314980	1.91
Average	4.02		
S.D.	2.08		
C.V.	51.74		

Above table shows the non-performing loan to total loan and advances ratio of BOKL over the five years study period from fiscal year 2004/05 to 2008/09. The ratio are 7.49%, 5.29%, 2.81%, 2.60%, and 1.91% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, the mean ratio remains at 4.02% during the five year study period. Likewise, standard deviation is 2.08 and coefficient of variation is 51.74. Non-performing loan and total loan and advances of BOKL can be shown by following figure.

Figure no.15

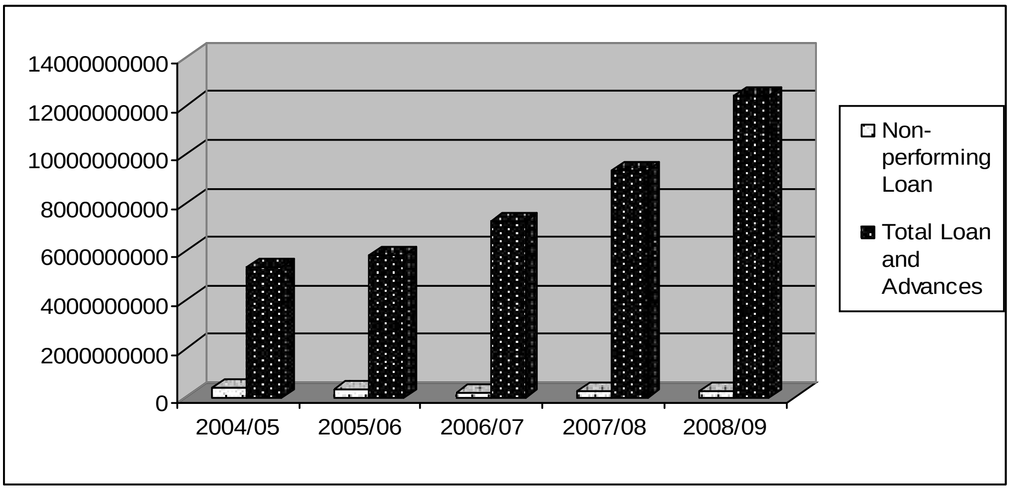
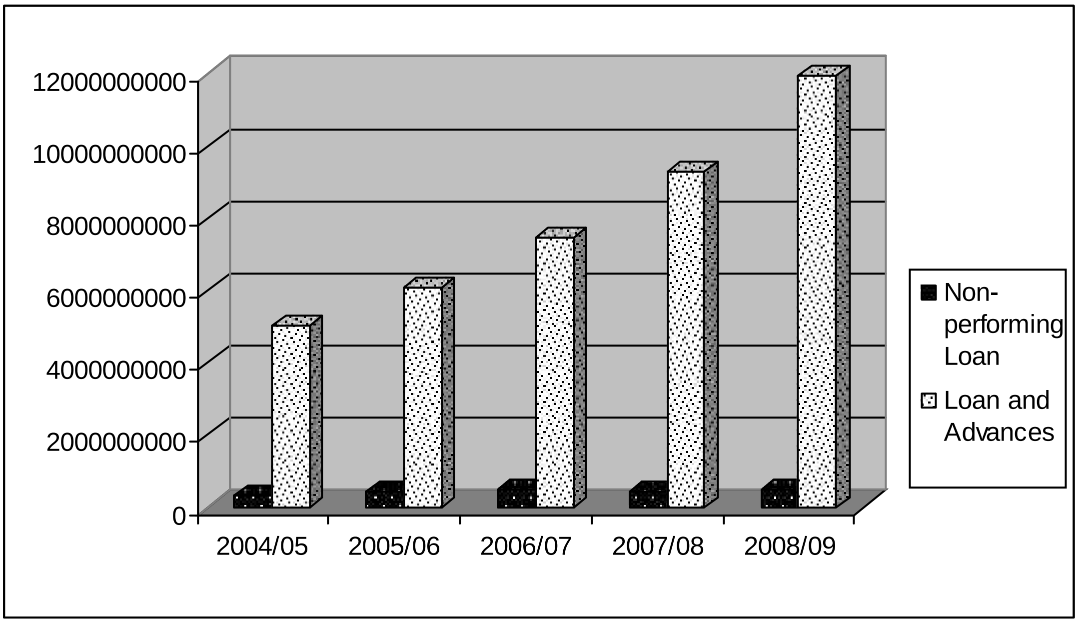


Table no.17
Non-performing Loan to Total Loan and Advances Ratio of Nepal SBI Bank Limited

Years	Non-performing Loan	Loan and Advances	Ratio (%)
2004/05	345821458	5043662078	6.86
2005/06	441017011	6064602879	7.27
2006/07	505336919	7457252399	6.78
2007/08	458755741	9274335463	4.95
2008/09	488410069	11948028432	4.09
Average	5.99		
S.D.	1.24		
C.V.	20.70		

Above table shows the non-performing loan to total loan and advances ratio of Nepal SBI bank limited during five years study period from fiscal year 2004/05 to 2008/09. The ratios are 6.86%, 7.27%, 6.78%, 4.95%, and 4.09% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly, mean ratio remains at 5.99% during the five years study period. Likewise, standard deviation is 1.24 and coefficient of variation is 20.70. Non-performing loan to total loan and advances of Nepal SBI bank limited can be shown by following figure.

Figure no.16



Comparison

Non-performing loan to total loan and advances ratio of BOKL is in decreasing trend. Where, the ratio of Nepal SBI bank limited is also decreasing trend except fiscal year 2005/06 during the five year study period. The mean ratio of Nepal SBI bank has higher than BOKL. It shows that the lending policy of BOKL is sound than that of Nepal SBI bank limited. Loan recovery process, efficient management and in depth study are the main causes of low NPL level of BOKL. Banking sector is seriously affected by the non-performing loan. Around 8% of non-performing loan indicate the bad performing of bank even though the decreasing trend shows the better improvement of the bank. If non-performing loan will increases that effect in overall banking business, provision amount will increase and profit will decrease. So we suggest the bank to be very careful while granting loan and to do effective follow up for recovery of loan.

4.1.4.2 Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non- performing loan. The provision of loan means the profit of banks will come down by such amount. Increase in loan loss provision, decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the banks by controlling the credit risk and reduced the risk related to deposit. So it can be said that banks suffer it only for short term while the good financial conditions and safety of loans will make bank’s prosperity resulting increasing profit for long term.

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

Table no. 18

Loan Loss Provision to Loan and Advances Ratio of BOKL

Years	Loan Loss Provision	Loan and Advances	Ratio (%)
2004/05	358484858	5336968123	6.72
2005/06	268642216	5831069646	4.61
2006/07	229416463	7239096426	3.17
2007/08	292774337	9368586539	3.13
2008/09	284535350	12408314980	2.29
Average	3.98		
S.D.	1.56		
C.V.	39.20		

Above table shows the loan loss provision to loan and advances ratio of BOKL over the five year study period. The ratios are 6.72%, 4.61%, 3.17%, 3.13%, and 2.29% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, mean ratio remains at 3.98% during the five years study period. Likewise, standard deviation is 1.56 and coefficient of variation is 39.20. Loan loss provision and loan and advances can be shown by the following figure.

Figure no.17

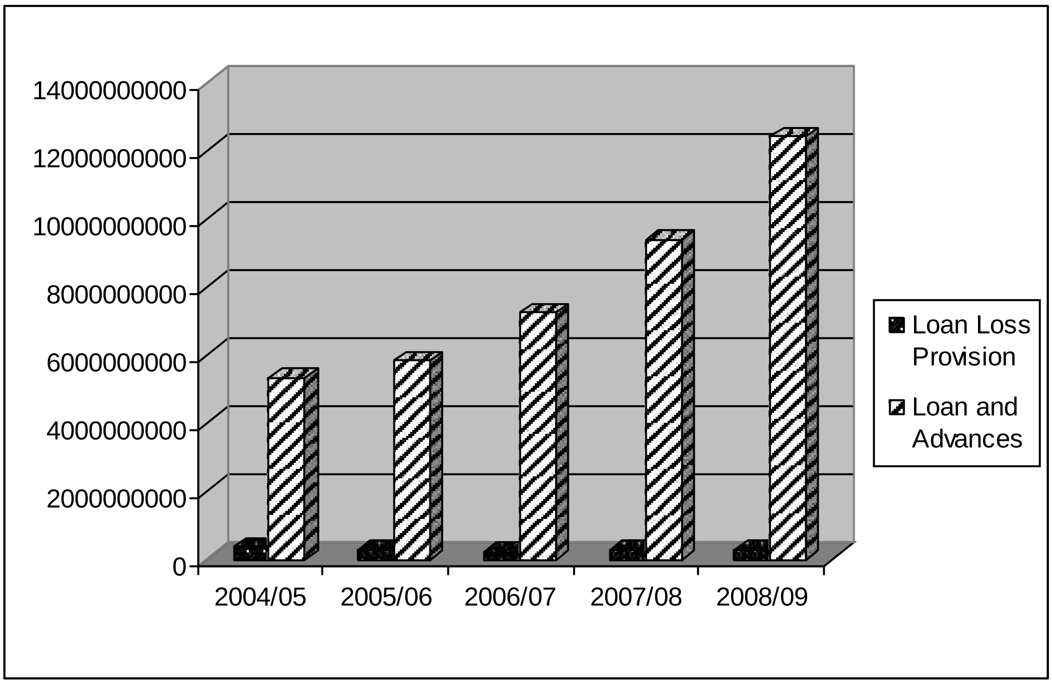
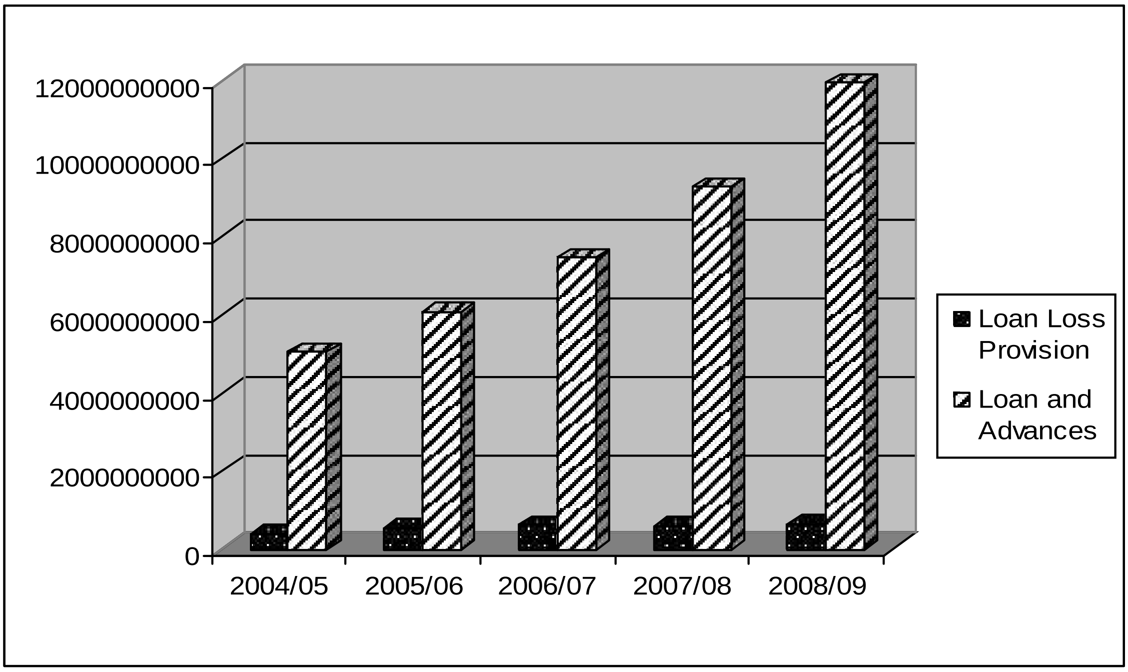


Table no.19
Loan Loss Provision to Total Loan and Advances Ratio of Nepal SBI Bank Limited

Years	Loan Loss Provision	Loan and Advances	Ratio (%)
2004/05	387571660	5043662078	7.68
2005/06	523960608	6064602879	8.64
2006/07	613520407	7457252399	8.23
2007/08	602721541	9274335463	6.50
2008/09	630844352	11948028432	5.28
Average	7.27		
S.D.	1.23		
C.V.	16.92		

Above table shows the loan loss provision to total loan and advances ratio of Nepal SBI bank limited over the five year study period. The ratios are 7.68%, 8.64%, 8.23%, 6.50%, and 5.28% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 7.27% during the five year study period. Likewise, standard deviation is 1.23 and coefficient of variation is 16.92. Loan loss provision to total loan and advances of Nepal SBI bank limited can be shown by following figure.

Figure no.18



Comparison

Loan loss provision to loan and advances ratio of BOKL is in decreasing trend during the five years study periods. Where, the ratio of Nepal SBI bank limited is increasing trend in fiscal year 2005/06 and 2006/07 then again ratio is decreasing trend in year 2006/07 and 2008/09. Nepal SBI bank limited has highest mean ratio than BOKL over the study period. But the ratio of BOKL is more variation and less consistency than Nepal SBI bank limited.

From this analysis, we can say that BOKL has low degree of provision over total lending than Nepal SBI bank. It indicates that BOKL has decreasing volume of non-performing loans during the study period than Nepal SBI bank limited. But the ratio or loan loss provision to total loan and advances of Nepal SBI bank is not satisfactory than BOKL.

4.1.5 Profitability Ratio

Profitability ratios are very helpful to measure the overall operation efficiency of financial institutions. In the context of banks, no bank can service without profit. Profit is one of the major indicators of efficient operation of a bank. The bank acquires profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are under the profitability ratio.

4.1.5.1 Net profit to Total Assets Ratio

The ratio is useful to measure how well management sues all the assets in business to generate an operating surplus. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa.

Table no.20

Net Profit to Total Assets Ratio of BOKL

Years	Net profit	Total Assets	Ratio (%)
2004/05	127473189	9496344672	1.34
2005/06	139529721	9857130464	1.42
2006/07	202440627	12278329302	1.65
2007/08	262386980	14581394916	1.80
2008/09	361496879	17721925187	2.04
Average	1.65		
S.D.	0.25		
C.V.	15.15		

Above table shows the net profit to total assets ratio of BOKL over the five year study period from fiscal year 2004/05 to 2008/09. The ratios are 1.34%, 1.42%, 1.65%, 1.80%, and 2.04% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 1.65% during the five years study period. Likewise, standard deviation is 0.25 and coefficient of variation is 15.15%. Net profit to total assets of BOKL can be shown by following figure.

Figure no.16

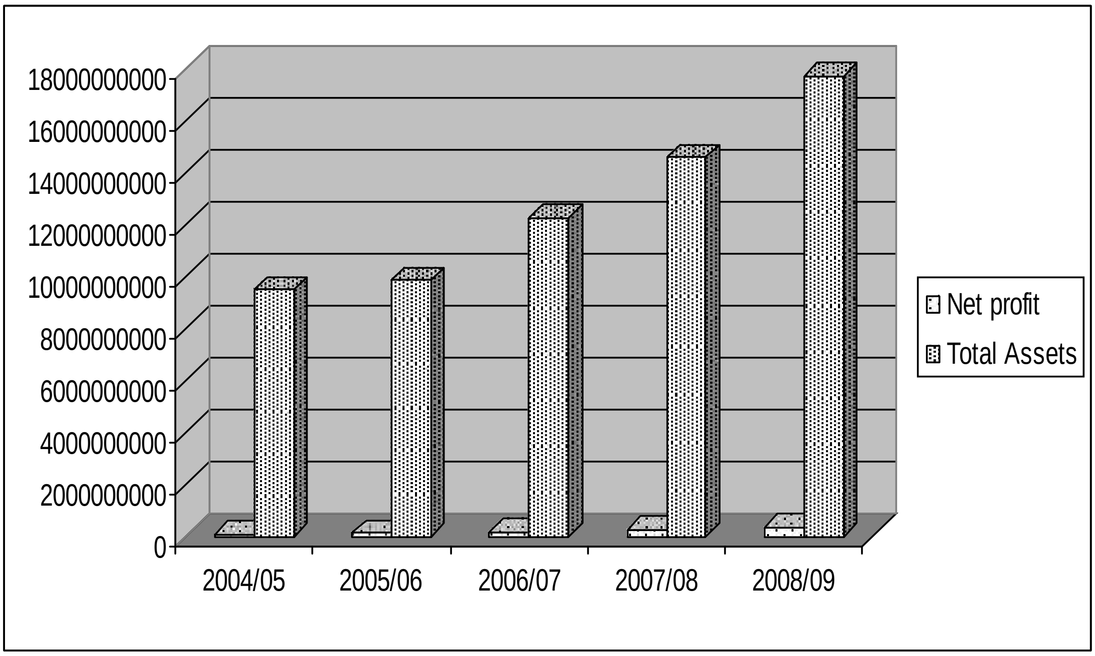
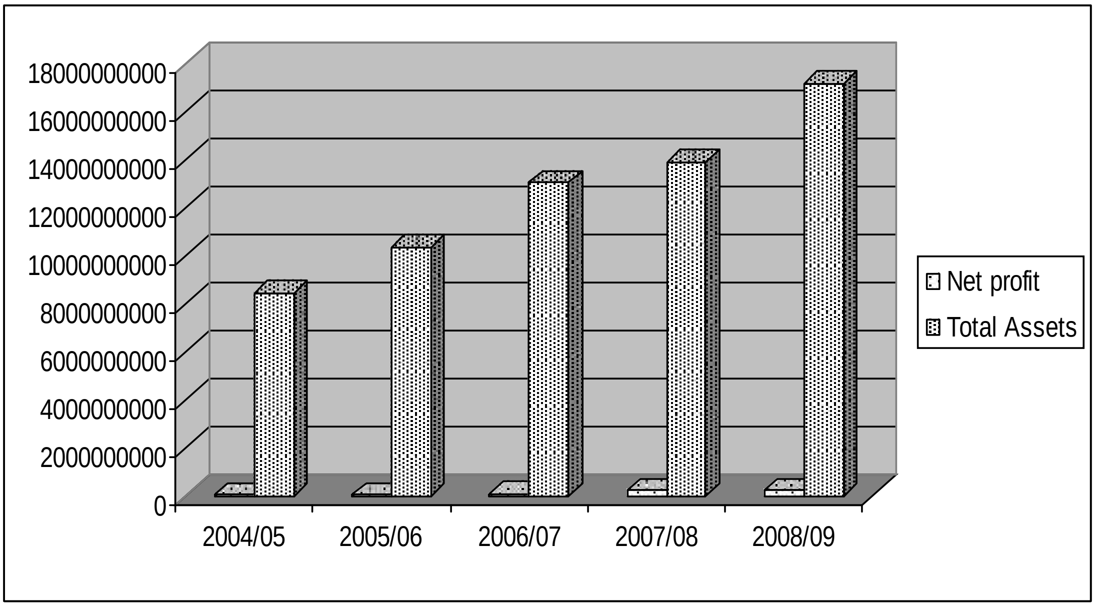


Table no.21
Net Profit to Total Assets Ratio of Nepal SBI Bank Limited

Years	Net Profit	Total Assets	Ratio (%)
2004/05	60851673	8440405808	0.72
2005/06	57386634	10345373370	0.55
2006/07	117001973	13035839124	0.90
2007/08	254908844	13901200559	1.83
2008/09	247770758	17187446174	1.44
Average	1.088		
S.D.	0.48		
C.V.	44.12		

Above table shows the net profit to total assets ratio of Nepal SBI bank limited over the five year study period from fiscal year 2004/05 to 2008/09. The ratios are 0.72%, 0.55%, 0.90%, 1.83%, and 1.44% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 1.088% during the five year study period. Likewise, standard deviation is 0.48 and coefficient of variation is 44.12%. Net profit to total assets of Nepal SBI bank can be shown by following figure.

Figure no. 20



Comparison

Net profit to total assets ratio of BOKL is in increasing trend over the five years of study period. Where, the ratio of Nepal SBI bank is in decreasing trend year 2005/06 and 2008/09 and other year is in increasing trend in the study period. Similarly, BOKL has the highest mean ratio than that of Nepal SBI bank during the study period. Likewise, ratio of Nepal SBI bank is more variation and less consistency than that of BOKL.

From the analysis, we can say that BOKL has better earning capacity than Nepal SBI bank limited. The highest ratio of BOKL is 2.04% where Nepal SBI bank limited has 1.83% over the study period.

4.1.5.2 Interest Income to Interest Expenses Ratio

Interest income to interest expenses ratio is the gap between interest incomes to interest expenses ratio is the gap between interest rate offered and interest rate charged. The credit creation power of commercial bank has high impact on this ratio.

Table no.22

Interest Incomes to Interest Expenses Ratio of BOKL

Years	Interest Incomes	Interest Expenses	Ratio (times)
2004/05	567096226	286297050	1.98
2005/06	607095662	241639164	2.51
2006/07	718121378	308155647	2.33
2007/08	819003947	339181011	2.41
2008/09	1034157874	417543432	2.48
Average	2.34		
S.D.	0.19		
C.V.	8.12		

Above table shows the interest income to interest expenses ratio of BOKL over the five year study period. The ratios are 1.98t, 2.51t, 2.33t, 2.41t, and 2.48t in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 2.34 times during the five years study period. Likewise, standard deviation is 0.19 and coefficient of variation is 8.12. Interest income to interest expenses of BOKL can be shown by following figure.

Figure no.18

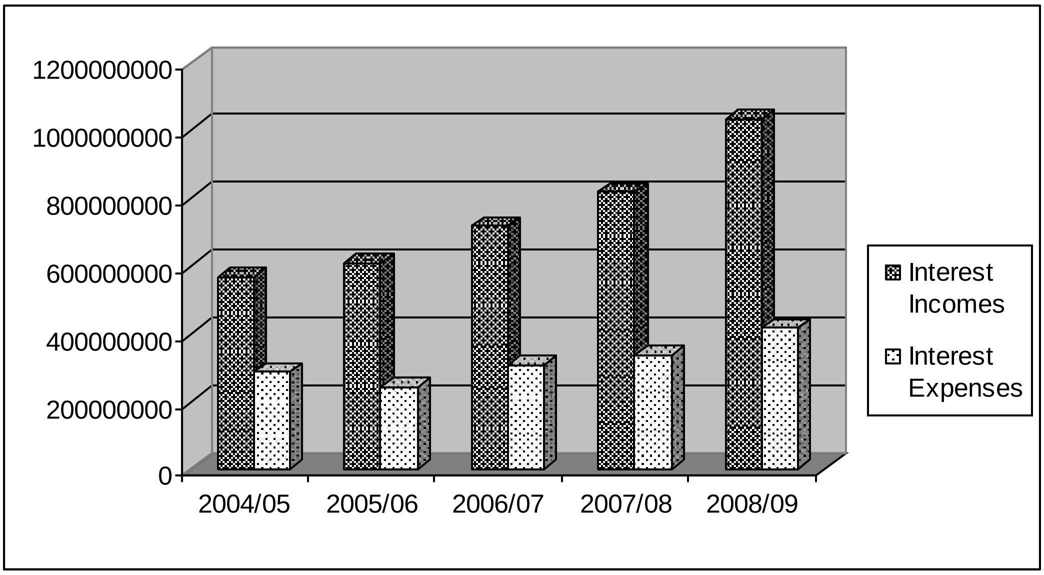


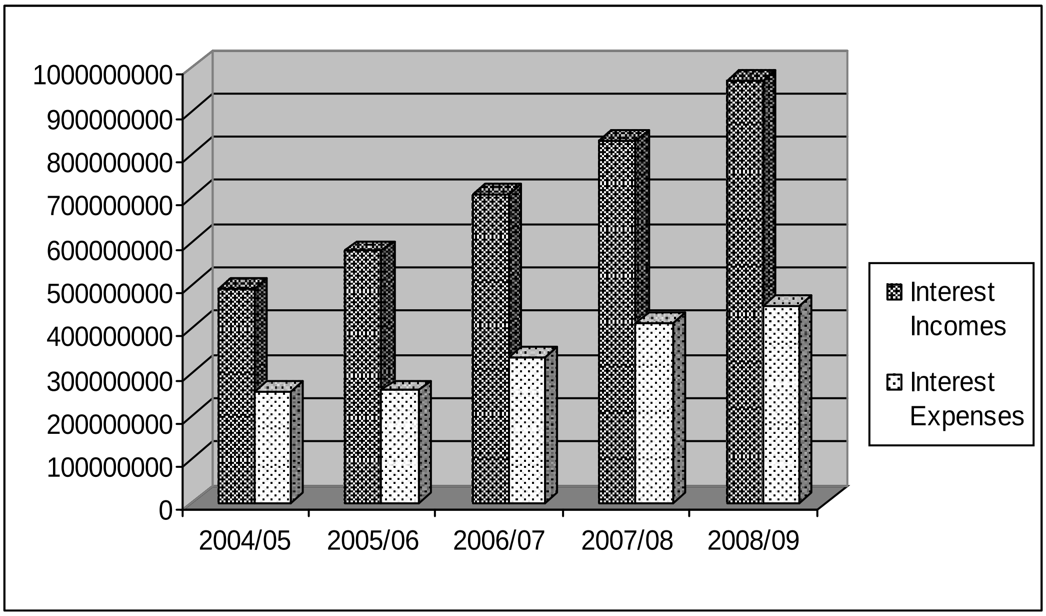
Table no.23

Interest Incomes to Interest Expenses Ratio of Nepal SBI Bank Limited

Years	Interest Incomes	Interest Expenses	Ratio (times)
2004/05	493598313	255919216	1.93
2005/06	578372070	258430003	2.24
2006/07	708718614	334770096	2.12
2007/08	831116781	412261744	2.02
2008/09	970512681	454917713	2.13
Average	2.088times		
S.D.	0.11		
C.V.	5.27		

Above table shows the interest income to interest expenses ratio of Nepal SBI bank limited over the five year study period. The ratios are 1.93t, 2.24t, 2.12t, 2.02t, 2.13 times in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The mean ratio remains at 2.088times during the five years study period. Likewise, standard deviation is 0.11 and coefficient of variation is 5.27. Interest income to interest expenses of Nepal SBI bank can be shown by following figure.

Figure no.19



Comparison

Interest income to interest expenses ratio of BOKL is in increasing trend during the five year study period. Where the ratio of Nepal SBI bank is in also increasing trend. Similarly, BOKL has the highest mean ratio than the Nepal SBI bank limited. Likewise, the ratio of BOKL has more and less consistency than Nepal SBI bank limited.

From the analysis, we can say that BOKL has high degree of gap between interest offered and interest charged than Nepal SBI bank limited. This shows that BOKL has charged high interest rate to borrowers and offering low interest rate to depositors.

4.1.5.3 Interest Income to total Loan and Advances Ratio

This ratio shows the income as interest from total loan and advances. It is useful to know the fact that whether the loan has given good return or not. We can increase interest income by taking good issuing and recovery credit policy. High return shows the soundness of credit policy and vice-versa.

Table no.24
Interest Income to Total Loan and Advance Ratio of BOKL

Years	Interest Incomes	Total Loan and Advances	Ratio (%)
2004/05	567096226	5336968123	10.63
2005/06	607095662	5831069646	10.41
2006/07	718121378	7239096426	9.92
2007/08	819003947	9368586539	8.74
2008/09	1034157874	12408314980	8.33
Average	9.61		
S.D.	0.91		
C.V.	9.47		

Above table shows the interest incomes to total loan and advances ratio of BOKL from year 2004/05 to year 2008/09. The ratios are 10.63%, 10.41%, 9.92%, 8.74%, and 8.33% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, mean ratio remains at 9.61% during the five year study period. Likewise, standard deviation of BOKL is 0.91 and coefficient of variation is 9.47. Interest income to total loan and advances of BOKL can be shown by following figure.

Figure no.19

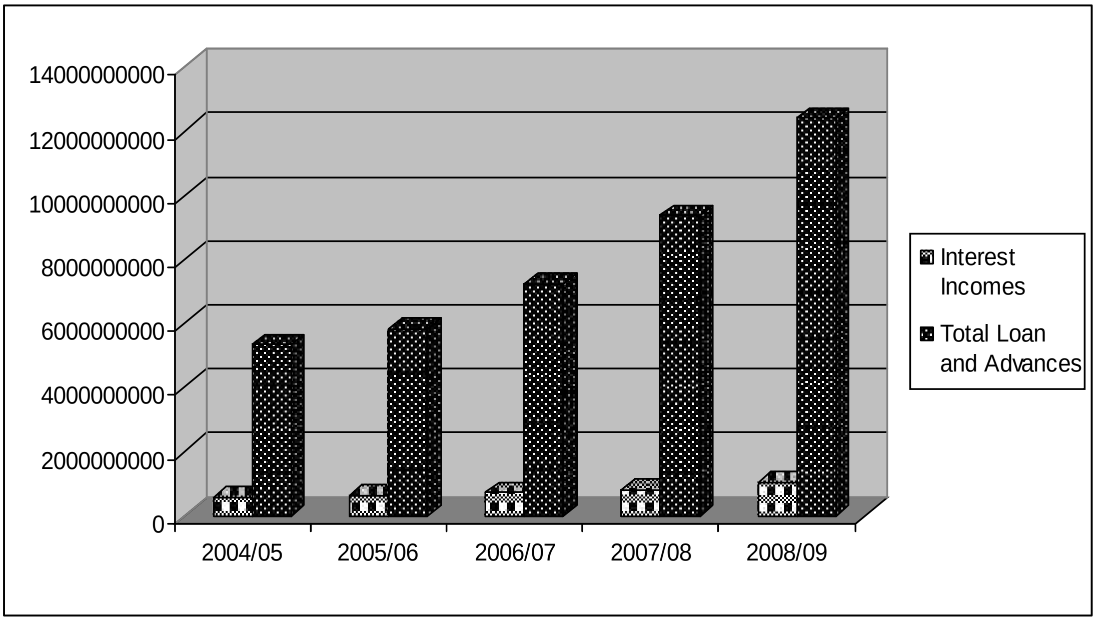


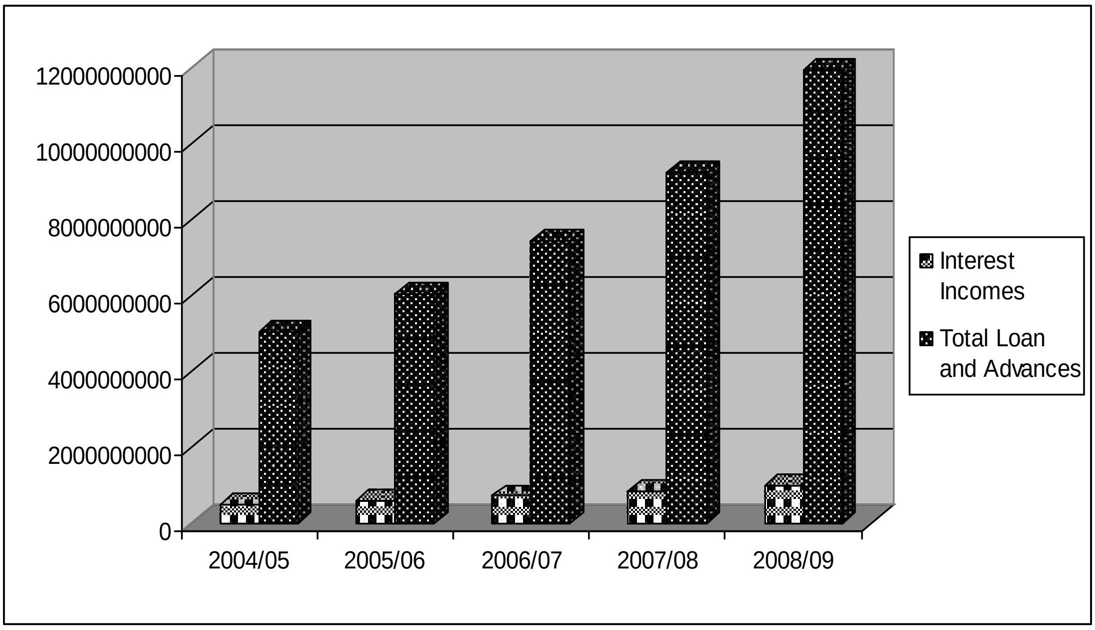
Table no.25

Interest Income to Total Loan and Advances Ratio of Nepal SBI Bank Limited

Years	Interest Income	Total Loan and Advances	Ratio (%)
2004/05	493598313	5043662078	9.79
2005/06	578372070	6064602879	9.54
2006/07	708718614	7457252399	9.50
2007/08	831116781	9274335463	8.96
2008/09	970512681	11948028432	8.12
Average	9.18		
S.D.	0.60		
C.V.	6.54		

Above table shows the interest income to loan and advances ratio of Nepal SBI bank limited over the five year study period from fiscal year 2004/05 to 2008/09. The ratios are 9.79%, 9.54%, 9.50%, 8.96%, and 8.12% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. Similarly, mean ratio remains at 9.18% during the five year study period. Likewise, standard deviation is 0.60 and coefficient of variation is 6.54%. Interest income and loan and advance of Nepal SBI bank limited can be shown by following figure.

Figure no.20



Comparison

Interest incomes to total loan and advances ratio of BOKL is in decreasing trend during the five years study period. Where the ratio of Nepal SBI bank is in also decreasing trend. Similarly, BOKL has the highest mean ratio than that of Nepal SBI bank limited. Likewise, the ratio of BOKL has more variation and less consistency than Nepal SBI bank limited.

From the analysis, we can say that BOKL has highest interest income ratio than Nepal SBI bank. This means, BOKL is able to grant its credit in high interest earning area. But it will be risky lending because high interest rate carry high risk and low interest rate carry low risk.

4.1.6 Other Ratio

4.1.6.1 Earning per share (EPS)

EPS is the one of 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 share to calculate the values 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 share on issue. This decision will automatically affect the earning per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend.

Table no.26

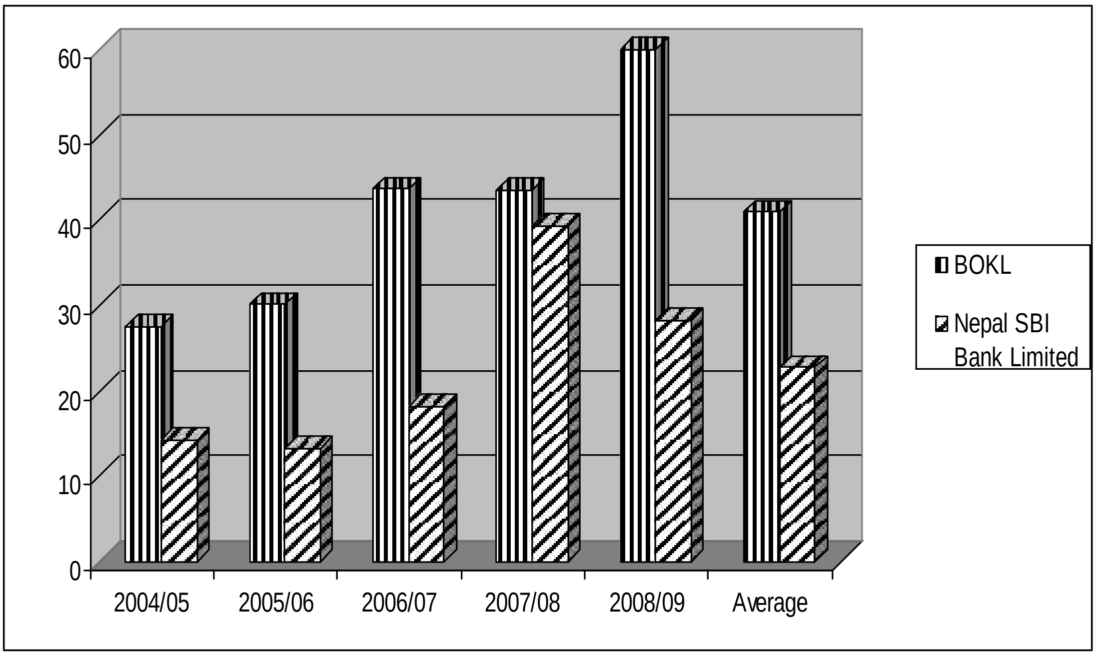
Earning per Share of BOKL and Nepal SBI Bank Limited (In Rs.)

Banks\Years	2004/05	2005/06	2006/07	2007/08	2008/09	Average
BOKL	27.50	30.10	43.67	43.50	59.94	40.94
Nepal SBI Bank Limited	14.26	13.29	18.27	39.35	28.33	22.70

Above table shows the earning per share of BOKL and Nepal SBI bank limited over the five year study period from fiscal year 2004/05 to 2008/09. The EPS of BOKL is rs.27.50, rs.30.10, rs. 43.67, rs.43.50, rs.59.94 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The average EPS of BOKL is Rs. 40.94

during the five year study period. Similarly, the EPS of Nepal SBI bank is rs.14.26, rs.13.29, rs.18.27, rs. 39.35, rs.28.33 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 respectively. The average EPS of Nepal SBI bank limited rs. 22.70 over the five year study period. Earning per share of BOKL and Nepal SBI bank limited can be shown by following figure.

Figure no. 25



Comparison

Earning per share of BOKL is in increasing trend where earning per share of Nepal SBI bank limited is decreasing trend in the fiscal year 2005/06 and 2008/09 during the five year study period but EPS is increasing trend in the fiscal year 2006/07 and 2007/08. BOKL has the highest mean EPS than the Nepal SBI bank limited. It shows that the BOKL is able to earn and provide good return to its shareholders than Nepal SBI bank limited over the five year study period.

4.1.7 Coefficient of Correlation Analysis

Under this topic Karl Pearson's coefficient of correlation is used to find out the relationship between total deposit and loan and advance, net profit and loan and advances and total investment and total deposit of BOKL and Nepal SBI bank limited.

4.1.7.1 Coefficient of Correlation between Total Deposits and Total Loan and Advances

Total deposit is independent variable and total loan and advances is dependent variable. The coefficient of correlation between total deposit and total loan and advances measures the degree of relationship between these two variables. The main objective of computing 'r' between these two variable is to justify whether total deposits are significantly used as total loan and advances in a proper way or not.

Table no. 27

Correlation between Total Deposits and Total Loan & Advances of BOKL

Years	X	Y	ε^2	ψ^2	XY
2004/05	7.74	5.33	59.91	28.41	41.25
2005/06	8.94	5.83	79.92	33.99	52.12
2006/07	10.48	7.23	109.83	52.27	75.77
2007/08	12.38	9.36	153.26	87.61	115.88
2008/09	15.83	12.40	250.59	153.76	196.29
N=5	ε =55.37	ψ =40.15	ε^2 =653.51	ψ^2 =356.04	$\varepsilon\,\psi$ =481.31

Where,
X= Total Deposits of BOKL

Y= Total Loan & Advances of BOKL

Total = Summation of the value from fiscal year 2004/05 to 2008/09

Now,

Correlation (r) = $$\frac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^2 Zf \quad \varepsilon \AA^2}\sqrt{\rho \quad \psi^2 Zf \quad \psi\AA^2}}$$

r = 0.99

The above calculation shows that there is positive relationship between total deposits and total loan and advances of BOKL. That means, it the total deposit is increased absolutely the total loan and advances is also increased and vice-versa. The coefficient of correlation between total deposits and total loan and advances is 0.99 and probable error is 0.006. Comparing the values of ‘r’ and 6 times P.E., we can say that there is significant positive relationship between total deposit and total loan and advances of BOKL because ‘r’ is greater than 6 times of P.E., i.e. 0.99>0.036

Table no.28

Correlation between Total Deposits and Total Loan & Advances of Nepal SBI Bank Limited

Years	**X**	**Y**	ε^2	ψ^2	**XY**
2004/05	7.19	5.04	51.6961	25.4016	36.2376
2005/06	8.65	6.06	74.82	36.7236	52.419
2006/07	11	7.45	121	55.5025	81.95
2007/08	11.44	9.27	130.87	85.9329	106.0488
2008/09	13.71	11.94	187.96	142.5636	163.6974
N=5	ε =51.99	ψ =39.76	ε^2 =566.3461	ψ^2 =346.1242	$\varepsilon\psi$ =440.3528

Where,

X = Total deposit of Nepal SBI bank limited

Y = Total loan and advances of Nepal SBI bank limited

Total = Summation of the value from fiscal year 2004/05 to 2008/09.

Correlation (r) = $\dfrac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^2 Z f \quad \varepsilon Å}\sqrt{\rho \quad \psi^2 Z f \quad \psi Å}}$

r = 0.97

The above correlation shows that, there is positive relationship between total deposit and total loan and advances of Nepal SBI bank limited. That means, if the total deposit is increased absolutely the total loan and advances is also increased and vice-versa. The coefficient of correlation between total deposit and total loan and advances is 0.97 and probable error is 0.0178. Comparing the value of ‘r’ and 6 times of P.E. we can say that there is significant positive relationship between total deposit and total loan and advances of Nepal SBI bank because ‘r’ is greater than 6 times of P.E. i.e. 0.97>0.1068.

4.1.7.2 Coefficient of Correlation between Total Loan & Advances and Net Profit

Total loan and advances is independent variable and net profit is dependent variable. The main objectives of computing ‘r’ between these two variables are to justify whether total loan and advances are significantly used to earn profit in a proper way or not. The value of ‘r’ explains whether a percentage change in total loan and advances contribute to change the same percentage of net profit or not.

Table no.29

Correlation between Total Loan & Advances and Net Profit of BOKL

Year	**X**	**Y**	ε^{2}	ψ^{2}	**XY**
2004/05	5.33	0.12	28.41	0.0144	0.6396
2005/06	5.83	0.13	33.99	0.0169	0.7579
2006/07	7.23	0.20	52.27	0.04	1.446
2007/08	9.36	0.26	87.61	0.0676	2.4336
2008/09	12.40	0.36	153.76	0.1296	4.464
N=5	ε =40.15	ψ =1.07	ε^{2} =356.04	ψ^{2} =0.31	$\varepsilon\,\psi$ =9.74

Where,

X = Total loan and advances of BOKL

Y = Net profit of BOKL

Total = Summation of the value from fiscal year 2004/05 to 2008/09.

Now, Correlation (r) = $$\frac{\rho \quad \varepsilon\psi\, Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^{2}\, Zf \quad \varepsilon\, \AA}\sqrt{\rho \quad \psi^{2}\, Zf \quad \psi\AA}}$$

r = 0.69

The above correlation shows that, there is positive relationship between total loan and advances and net profit of BOKL. That means, if the loan and advances is increased absolutely the net profit is also increased and vice-versa. The coefficient of correlation between total loan and advances and net profit is 0.69 and probable error is 0.16. Comparing the value of ‘r’ and 6 times P.E. we can say that there is positive relationship but not significant at all time between total loan and advances and net profit of BOKL because ‘r’ is less than 6 times of P.E. i.e. 0.69<0.96

Table no.30

Correlation between Total Loan & Advances and Net Profit of Nepal SBI Bank Limited

Years	X	Y	ε^2	ψ^2	XY
2004/05	5.04	0.06	25.40	0.0036	0.30
2005/06	6.06	0.05	36.72	0.0025	0.30
2006/07	7.45	0.11	55.50	0.0121	0.82
2007/08	9.27	0.25	85.93	0.0625	2.32
2008/09	11.94	0.24	142.56	0.0576	2.87
N = 5	ε =39.76	ψ =0.71	ε^2 =346.11	ψ^2 =0.14	$\varepsilon\ \psi$ =6.61

Where,

X = Total loan and advances of Nepal SBI bank limited

Y= Net profit of Nepal SBI bank limited

Total= Summation of the value from fiscal year 2004/05 to 2008/09

Now, correlation (r) = $$\frac{\rho\quad \varepsilon\psi Z\quad \varepsilon\quad \psi}{\sqrt{\rho\quad \varepsilon^2 Zf\quad \varepsilon\mathring{A}}\sqrt{\rho\quad \psi^2 Zf\quad \psi\mathring{A}}}$$

r = 0.87

The above correlation shows that there is positive relationship between total loan & advances and net profit of Nepal SBI bank ltd. That means, if the total loan and advances is increased absolutely the net profit is also increases and vice versa. The coefficient of correlation between total loan and advances and net profit is 0.87 and probable error is 0.074. Comparing the value of ‘r’ and 6 times P.E. we can say that there is significantly positive relationship between total loan and advances and net profit of Nepal SBI bank because ‘r’ is higher than 6 times of P.E. i.e. 0.87>0.44

4.1.7.3 Coefficient of Correlation between Total Investment and Total Deposit

Total deposit is independent variable (X) and total investment is dependent variable (Y). The coefficient of correlation between total deposit and total investment measures the degree of relationship between these two variables.

Table no.31

Correlation between total deposit and total investment of Nepal SBI bank limited

Years	X	Y	ε^2	ψ^2	XY
2004/05	7.19	1.90	51.69	3.61	13.66
2005/06	8.65	2.60	74.82	6.76	22.49
2006/07	11	3.75	121	14.06	41.25
2007/08	11.44	2.65	130.87	7.02	30.31
2008/09	13.71	3.08	187.96	9.48	42.22
N=5	ε = 51.99	ψ =13.98	ε^2 =566.34	ψ^2 =40.93	$\varepsilon\,\psi$ =149.93

Where,

X = Total deposit of Nepal SBI bank limited

Y = Total investment of Nepal SBI bank

Total = Summation of the value from fiscal year 2004/05 to 2008/09

Now, correlation (r) = $$\frac{\rho\quad \varepsilon\,\psi\, Z\quad \varepsilon\quad \psi}{\sqrt{\rho\quad \varepsilon^2\, Zf\ \ \varepsilon\, Å^2}\sqrt{\rho\quad \psi^2\, Zf\ \ \psi Å^2}}$$

r = 0.66

The above correlation shows that, there is positive correlation between total deposit and total investment of Nepal SBI bank limited. The coefficient of correlation between total deposit and total investment is 0.66 and probable error is 0.17. Comparing the value of ‘r’ and 6 times of P.E. we can say that there is positive relationship but not significant at all time between total deposit and total investment of Nepal SBI bank limited because ‘r’ is less than 6 times P.E. i.e. 0.66<1.02

Table no.32

Correlation between total deposit and total investment of BOKL

Years	**X**	**Y**	ε^{2}	ψ^{2}	**XY**
2004/05	7.74	2.47	59.91	6.10	19.12
2005/06	8.94	2.59	79.92	6.70	23.15
2006/07	10.48	3.37	109.83	11.36	35.32
2007/08	12.38	2.99	153.26	8.94	37.01
2008/09	15.83	3.20	250.59	10.24	50.66
N = 5	ε =55.37	ψ =14.62	ε^{2} =653.51	ψ^{2} =43.34	$\varepsilon\,\psi$ =165.26

Where,

X = Total deposit of BOKL

Y = Total investment of BOKL

Total = Summation of the value from fiscal year 2004/05 to 2008/09

Now, correlation (r) = $$\frac{\rho \quad \varepsilon\psi Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^{2} Z f \ \ \varepsilon \AA}\sqrt{\rho \quad \psi^{2} Z f \ \ \psi \AA}}$$

r = 0.69

The above correlation shows that there is positive correlation between total deposit and total investment of BOKL. The coefficient of correlation between total deposit and total investment is 0.69 and probable error is 0.16. Comparing the value of ‘r’ and 6 times of P.E. we can say that there is positive relationship but not significant at all time between total deposit and total investment of BOKL because ‘r’ is less than 6 times P.E. i.e. 0.69<0.96.

4.1.8 Primary Data Analysis

Analysis of credit practices provides the knowledge about the financial condition in terms of credit and credit efficiency of selected commercial banks. In this section, the researcher tried to focus on the important areas of credit policy. The researcher designed structured questionnaire to analyze the managing and importance of credit components.

In order to find out several of existing employees of the sample banks regarding their credit policy, 40 selected employees (20 employees from each bank) were approached randomly and asked to fill up the questionnaire as mentioned in the annex.

4.1.8.1 Interpretation of Questionnaire's Response Given by Employees of BOKL and Nepal SBI Bank Limited

Table no.33

Particulars	Yes (%) (NO)	No (%) (NO)	Total (%) (No)
Is there credit related problems in your bank?	100 (40)		100 (40)
Does the service charges taken by bank Is satisfactory?	60 (24)	- -	100 (40)
Have you granted the entire credit to same sector as specified at the time of policy formulation?	62.5 (25)	37.5 (15)	100 (40)
Does any bank officer visit the project site at the time of granting credit	87.5 (35)	12.5 (5)	100 (40)
Borrowing need to submit the detail proposal in the bank	100 (40)	- -	100 (40)
The relation to the top authority sometimes influences in loan decision rather than the credit appraisal	30 (12)	70 (28)	100 (40)
The past track record of the borrower is analyzed before floating loan	100 (40)	- -	100 (40)
The installment payment ability and regular income mechanism of the borrower is ensured while granting credit.	100 (40)	- -	100 (40)
This bank provide the loan to large parties without much analysis	20 (8)	80 (32)	100 (40)
Taking sufficient collateral is the basis for floating loan here	90 (36)	10 (4)	100 (40)
This bank has the system of periodic valuation of the collateral	100 (40)	- -	100 (40)
Is your bank makes provision for loan loss?	100 (40)	- -	100 (40)
Are you satisfied with the bank's credit policy?	60 (24)	40 (16)	100 (40)

Above table shows the response given by employees of BOKL and Nepal SBI bank over structured questionnaires. According to the primary survey, following results was obtained.

- 100% survey employees of both banks were agreed on that there existed credit related problems during the working time.
- 40% survey employees agreed that service charges taken by the bank was not satisfaction able and quite more than necessary but 60% replied that it was satisfactorily.
- Similarly, 37.5% sample employees replied that both banks did not granted the entire credit to same sectors as specified at the time of policy formulation but 62.5% replied that entire credit was granted in same sector as specified in the time of policy formulation.
- Only 87.5% respondents were agreed with that bank officer visited the project site at the time of granting credit but 12.5% replied not.
- 100% sample employees were agreed with entire borrowers need to submit detail proposal in the bank for credit taking.
- 30% respondents replied that the relation with top rather than the credit appraisal but 70% said not influenced in loan decision according to the relation with top authority.
- 100% sample employees agreed on that past record of the borrower was analyzed before floating loan as well as installment payment ability and regular income mechanism of the borrower was ensured while granting credit.
- 20% sample employees were not satisfied with that bank provided the loan to large parties with out much analysis but 80% were satisfied because of high and regular transaction.
- 90%respondents thought that sufficient collateral was the basis of floating loan but 10% respondents were not agreed with that.
- All of the sample respondents, i.e. 100% employees of both banks told that the bank has the system of periodic valuation of collateral as well as bank made provision for loan loss to survive from future loss.
- Although all of matters were in position side, only 60% sample employees were satisfied with the bank’s credit policy and rest, 40% were not satisfied because of availability of loan to large parties without much analysis,

influence in loan decision by the relation to top authority, sufficient collateral to the base of floating loan, higher service charges etc.

4.1.8.2 Interpretation of Questionnaire's Responses Given by Credit Customer of BOKL and Nepal SBI Bank Limited

Table no. 34
Analysis of response given by credit customer of BOKL and Nepal SBI Bank Limited

Particulars	Yes % (NO)	NO% (NO)	Not clear % (NO)
Do you have all knowledge about bank's credit policies?	50 (10)	50 (10)	- -
Are you satisfied with the rate of interest on credit clearing by bank?	20 (40)	80 (16)	- -
Have you received any notice before credit expiration date?	70 (14)	10 (2)	20 (4)
Does any bank officer visit your project site at the time of granting credit?	90 (18)	10 (2)	- -
Do you want to take further credit from the bank?	70 (14)	10 (2)	20 (4)
Have you utilized the entire credit to the same sector as specified at the time of taking credit?	90 (18)	- -	10 (2)
Are you satisfied with the bank service?	70 (14)	30 (6)	

- Only the 50% of total sample customer said that they were up to date with the banks' credit policies and remaining said 'NO'.
- 16 customers out of 20 were unsatisfied with the bank's interest rate only four customers said; we are more or less satisfied.
- 70% of the total sample customer of bank received information of repaying credit from the bank, 20% of the total customers was uncooperative with the researcher and remaining 10% said NO.
- 90% of the sample customer said that the bank officer visited their project site at the time of granting credit. Two customer said 'NO' because there is representive of the credit taking group.
- 14 customers out of 20 responded that they would take credit from the same bank in the near future. 2 customers said 'NO' and the remaining 4 customers did not respond clearly.

- 90% of the sample customers said that they utilized the credit for the same sector as specified at the time of taking loan. Two customers did not response clearly.
- 70% of the sample customers of the bank told that they were satisfied with the bank's services and the remaining percentage said not.

4.1.9 Major Findings of the Study

This topic focuses on the major finding of the five yea study period of BOKL and Nepal SBI bank limited. Based on the interpretation and analysis of data. The major findings are as follows.

I. Findings from the liquidity ratio

- Average ratio of cash and bank balance to total deposit reveals that Nepal SBI bank limited higher the ratio than BOKL. This show that the liquidity position of Nepal SBI bank limited quite good than BOKL. Coefficient of variation of Nepal SBI bank limited is less than BOKL. It shows that the ratio of BOKL has less consistency than Nepal SBI bank limited.
- There is highest mean ratio of cash and bank balance to customer deposit ratio of BOKL. It shows the liquidity position of current deposit of BOKL is better than Nepal SBI bank limited. BOKL has less variation and more consistency ratio than Nepal SBI bank, because of the S.D and C.V of the BOKL less than Nepal SBI bank limited.

II. Findings from assets management ratio

- Nepal SBI bank ltd. has the highest mean ratio of loan and advances to total deposit ratio than BOKL. It means Nepal SBI bank limited has mobilized the collected deposit in loan and advances more than BOKL. But Nepal SBI bank limited has more variation and less consistency than BOKL.
- The mean ratio of loan and advance to total assets explains that Nepal SBI bank limited has higher the ratio than BOKL. Likewise, the ratio of BOKL has more variation and less consistency than Nepal SBI bank limited. The movement of ratios are first increasing then decreasing and again increasing.
- BOKL has the highest mean of total investment to total deposit ratio than Nepal SBI bank limited. This shows that the asset management procedure of BOKL is better than Nepal SBI bank limited. Coefficient of variation of BOKL has more

than Nepal SBI bank limited and ratio of BOKL is more variation than Nepal SBI bank limited.

III. Findings from leverage ratio

- BOKL has the highest mean of total debt to total equity ratio than Nepal SBI bank limited. The ratio of Nepal SBI bank limited has more variation and less consistency than BOKL. From this, we can say that BOKL is more levered firm than Nepal SBI bank limited during the five years study period. Levered firm must bear more fixed expenses than non-levered.
- BOKL has the highest mean of total debt to total assets ratio than that of Nepal SBI bank limited. But the ratio of BOKL is less variation and more consistency than Nepal SBI bank limited. This shows that BOKL used outsider's fund more than owner's fund during the formation of capital structure.

IV. Findings from efficiency ratio

- Nepal SBI bank limited has the highest mean of non-performing loan to total loan and advances ratio than BOKL. It shows that lending policy of BOKL is sound and effective than Nepal SBI bank limited. Standard deviation and coefficient of variation of BOKL is more than Nepal SBI bank limited. From this we can say that the BOKL has more variation and less consistency than Nepal SBI bank limited.
- Nepal SBI bank limited has highest mean of loan loss provision to loan and advances ratio than BOKL. But the ratio of BOKL have more variation and less consistency than Nepal SBI bank limited. From this, we can say that BOKL has low degree of provision over total lending than Nepal SBI bank limited.

V. Findings from profitability ratio

- BOKL has the highest mean of net profit to total assets ratio than Nepal SBI bank limited. It shows that the BOKL has better earning capacity than Nepal SBI bank limited. The ratios of BOKL have less variation and more consistency than Nepal SBI bank limited.
- BOKL has the highest mean of total interest income to total interest expenses ratio than Nepal SBI bank limited. This shows that the BOKL has charged high interest rate to borrowers and offering low interest rate to depositors. The ratio of BOKL has more variation and less consistency than Nepal SBI bank limited.
- BOKL has the highest mean of interest income to total loan and advances ratio than Nepal SBI bank limited. This means BOKL is able to grant its credit in

high interest earning area. The ratio of BOKL has more variation and less consistency than Nepal SBI bank limited.

VI. Findings from other ratio

- BOKL has the highest mean of Earning Per Share (EPS) than Nepal SBI bank limited. It shows that BOKL is able to earn and provide good return to its shareholders than Nepal SBI bank limited over the study period.

VII.Findings from Coefficient of Correlation Analysis

- BOKL has significant positive relationship at all time between total deposit and total loan and advances. It means when loan and advances increases as the portion increases in deposits. The correlation between total deposits and total loan and advances of BOKL is 0.99

  Nepal SBI bank limited has also significant positive relationship at all time between total deposits and total loan and advances. It means when loan and advances increases then total deposits increases and vice-versa. The correlation between total deposit and total loan and advances of Nepal SBI bank limited is 0.97.
- BOKL has positive but not significant relationship at all time between total loan and advances and net profit. The correlation between total loan and advances and net profit of BOKL is 0.69. It means if loan and advances increased then net profit is also increased and vice versa.

  Nepal SBI bank limited has significant positive relationship at all time between total loan and advances and net profit. The correlation between total loan and advances and net profit. The correlation between total loan and advances and net profit of Nepal SBI bank is 0.87.
- BOKL has positive but not significant relationship between total deposit and total investment. It means when total deposits increased then total investment is also increases and vice-versa. The correlation between total deposit and total investment of BOKL is 0.66

  Nepal SBI bank limited has positive but not significant relationship between total deposit and total investment. It means if total deposit increased then total investment is also increased and vice versa. The correlation between total deposit and total investment of Nepal SBI bank is 0.69.

VIII. Findings from primary data analysis

In order to find out various opinions of existing employees the sample bank regarding their credit policy, 40 employees (20 employees from each bank).

All of the sample employees of both banks were agreed on that points, the banks have credit related problems, and borrowers need to submit the credit proposal in the bank for loan flotation. Past track record of the bank borrower was analyzed before floating loan, installment payment ability and regular income mechanism of the borrower was ensured while granting credit as well as bank makes provision for loan loss. Most of the survey respondents were not satisfied with the sample banks because of high service charges, credit was not granted to the same sector as specified at the time of policy formulation, relationship with top authority influenced the loan decision rather than credit proposal as well as they is not satisfied with the banks credit policy.

Likewise to find out various problems of credit customers in the sample banks, 20 credit customers (10 credit customers from each bank) were approached randomly and asked to fill up structured questionnaire.

According to the questionnaire survey of credit customers of sample banks, more than 50% customers were not up to date with the lending policy of bank, almost 80% customer were dissatisfied with interest rate charging by bank on loan and advances, nearly 70% credit customers received notice about the credit expiration date well as they want to take further credit from the bank, 90% sample respondents replied that bank officer visit the project site at the time of granting credit so that they utilize the entire credit to the same sector as specified at the time of taking credit. But almost 30% credit customers of the bank were not satisfied with the banking services.

CHAPTER-V

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

Banks are the backbone of the country's economic development. They are providing a foundation to develop country through economic ways. Nowadays there are 25 commercial banks operating in all over the Nepal. In this study two commercial bank, namely Bank of Kathmandu Limited and Nepal SBI Bank Limited is chosen. So I have done credit management of Bank of Kathmandu Limited (BOKL) and Nepal SBI Bank Limited by using financial as well as statistical tools for the fiscal year 2004/05-2008/09.

The data, which is used in this dissertation, are mainly secondary nature and also used primary. They were obtained from concerned banks annual report, publication, previous thesis report, different website, related books and booklets, journal and articles.

In this study liquidity ratio, assets management ratio, lending efficiency ratio, leverage ratio, profitability ratio and other ratio, mean, standard deviation, coefficient of variation, coefficient of correlation, probable error are used.

Average ratio of cash and bank balance to total deposit of BOKL and Nepal SBI bank limited have 9% and 10.022% respectively. Both bank have not consistency in ratio because of the ratio are increasing and decreasing trend over the five year study period. So liquidity position of both banks is o.k. but not very good.

The mean ratio of cash and bank balance to total current deposit of BOKL and Nepal SBI bank limited have 67% and 61.45% respectively. This ratio shows the liquidity position of both banks is quite satisfactory level. But BOKL has higher mean ratio than Nepal SBI bank limited, from this analysis we can say that the liquidity position of BOKL is better than the Nepal SBI bank limited.

Loan and advances to total deposit ratio BOKL is increasing trend over the five year study period but the ratio of Nepal SBI bank is not increasing as per the ratio of

BOKL. Over the five year study period the mean ratio of loan and advances to total deposit of BOKL and Nepal SBI bank limited have 71.43% and 73.99% respectively. The ratio shows that the disbursement of loan of Nepal SBI bank limited is higher than BOKL. It means Nepal SBI bank is able to investment its deposit excess than BOKL.

Loan and advances to total assets ratio of BOKL is increasing trend, where the ratio of Nepal SBI bank is decreasing trend and again increasing trend. It shows that the ratio of Nepal SBI bank is not consistent as a comparison of BOKL. The mean ratio of loan and advances to total assets of BOK and Nepal SBI bank limited is 61.71% and 62.35% respectively over the five year study period. This ratio shows that the average ratio of loan and advances to total assets of Nepal SBI bank has higher than BOKL.

Total investment to total deposit ratio of BOKL is decreasing trend where the ratio of Nepal SBI bank limited is increasing and decreasing trend at the end of study period over the five year study period. This ratio shows that the investment policy of both banks is just o.k. but not very good. The mean ratio of total investment to total deposit of BOKL and Nepal SBI bank limited is 27.52% and 27.31% respectively.

Average debt to equity ratio of BOKL has 13.15 times when average ratio of Nepal SBI bank has 12.17 times. This ratio shows that the BOKL has the less variation of ratio and more consistency ratio than that of Nepal SBI bank limited.

Average ratio of total debt to total assets of BOKL has 92.92%, where the average ratio of Nepal SBI bank limited has 92.36% during the five year study period. It shows that the BOKL uses outsider's fund more than owner's fund. But, Nepal SBI bank limited has more variation and less consistency in the ratio than BOKL.

Non-performing loan of Nepal SBI bank has more than BOKL over the five year study period. The mean ratio of non-performing loan to total loan & advances of BOKL is 4.02% where the mean ratio of Nepal SBI bank has 5.99%. From this ratio we can say that the lending policy of BOKL is better than Nepal SBI bank limited because of higher ratio of non-performing loan of BOKL is less than Nepal SBI bank limited.

Nepal SBI bank limited has the higher loan loss provision than BOKL. The mean ratio of loan loss provision to total loan & advances of BOKL is 3.98%, but mean ratio of Nepal SBI bank limited has 7.27%. This ratio shows that the Nepal SBI bank limited has more provision for loan loss than BOKL.

Net profit to total assets ratio of BOKL and Nepal SBI bank limited is increasing trend over the five year study period. The mean ratio of net profit to total assets of BOK has 1.65%, where the mean ratio of Nepal SBI bank ltd. has 1.088%. The ratio shows that the net profit of both banks is increasing. But the increasing ratio of net profit to total assets of both banks should be more than this.

Interest income of both banks is increasing trend over the five year study period. Average ratio of interest income to interest expenses of BOKL is 2.34times and average ratio of Nepal SBI bank limited has 2.088times. It shows that the both bank's ratio is not big different. But, the average ratio of interest income to interest expenses of BOKL is more than Nepal SBI bank limited.

Interest income and loan & advances of BOKL and Nepal SBI bank limited is increasing over the five year study period. The average ratio of interest income to total loan and advances of BOKL is 9.61% where, the average ratio of Nepal SBI bank limited has 9.18%. It means BOK is able to grant its credit in the high interest earning area.

Earning per share of the both banks is increasing trend in the five years study period. The average earning per share (EPS) of BOK is rs.40.94 and average earning per share (EPS) of Nepal SBI bank limited is rs.22.70. It shows that the BOK is able to earn and provide good return to the shareholders than Nepal SBI bank limited over the five year study period.

Coefficient of correlation between total deposits and total loan and advances of BOKL and Nepal SBI bank limited is positive. The correlation between total deposits and total loan and advances of BOKL is 0.99. The correlation is significant between total deposits and total loan and advances of BOKL. Similarly, the correlation between total deposits and total loan and advances of Nepal SBI bank is 0.97. The relation between total deposits and total loan and advances is significant.

Coefficient of correlation between total loan and advances and net profit of BOKL and Nepal SBI bank limited is positive. The correlation between total loan and advances and net profit of BOKL is 0.69 and the relation is not significant. But the correlation between total loan and advances and net profit of Nepal SBI bank limited is 0.87 and relation is significant.

Coefficient of correlation between total investment and total deposit of BOKL and Nepal SBI bank limited is positive. The correlation between total investment and total deposit of BOKL is 0.66, the relation is positive but the relation is not significant. Similarly, the correlation between total investment and total deposit of Nepal SBI bank limited is 0.69, the relation is positive but the relation is not significant.

All of the sample employees of both banks were agreed that the bank have credit related problems. Most of the survey respondents were not satisfied with the sample banks because of high service charges.

Almost 80% customer were dissatisfied with interest rate charged by bank on loan and advances, 90% sample respondents replied that bank officer visit the project site at the time of granting credit. Almost 30% credit customers of the sample banks were not satisfied with the banking services.

5.2 Conclusion

Present study is successful to explore the finding of the results designed for the study. Various financial as well as statistical tools were used as per requirement of nature of data. Mainly secondary data and primary sources of information are used for analysis of data. Based on the data analysis and finding of the result, the conclusion can be drawn as follows:

Nepal SBI bank limited has more cash and bank balance to total deposit ratio than BOKL. But, BOKL has more cash and bank balance to current deposit ratio than Nepal SBI bank limited.

From the analysis of overall liquidity ratios of BOK and Nepal SBI bank limited, we can say that both bank have the liquidity is o.k.

Nepal SBI bank limited is able to mobilize its resources in lending as loan and advances more than BOKL.

BOKL is able to invest its resources more in other companies share, debentures, bond as well as government Treasury bill than Nepal SBI bank limited.

From the analysis of overall assets management ratio of BOKL and Nepal SBI bank limited, we can say that BOKL is able to good well manage of assets than Nepal SBI bank limited.

From the analysis of overall leverage ratio of BOKL and Nepal SBI bank limited, we can say that BOKL is more levered firm than Nepal SBI bank limited during the five year study period. It means BOKL is using outsiders fund more than owners fund during the formation of capital structure.

From the analysis of overall lending efficiency ratio of BOKL and Nepal SBI bank limited, we can say that the lending policy of BOKL is better than the Nepal SBI bank limited.

From the analysis of overall profitability ratio of BOKL and Nepal SBI bank limited, we can say that BOKL can earn more profit from its lending and investment activities than Nepal SBI bank limited during the five years study period.

BOKL has positive high earning per share than Nepal SBI bank limited over the five year study period.

BOKL has positive with significant relationship between total deposit and total loan and advances. Where Nepal SBI bank limited has also positive with significant relationship between these two variables.

BOKL has positive but not significant relationship between total loan and advances and net profit. Where, Nepal SBI bank limited has positive with significant relationship between these two variables.

BOKL has positive but not significant relationship between total deposit and total investments. Where, Nepal SBI bank limited has positive but not significant relationship between these two variables.

All of the sample employees of both banks were agreed on that the bank have credit related problems. More than 50% credit customers were not up to date with the lending policy of bank and almost 80% customers were dissatisfied with interest rate charging by bank on lending.

5.3 Recommendation

Finding of the study may provide important information for those who are concerned directly or indirectly with the credit policy of commercial bank. On the basis of analysis and findings of the study, following suggestions and recommendations can be outlined.

The liquidity position of both banks is good but not better. So both banks should generate new strategy for maintain the strong liquidity positions. Deposit collection of both banks also should maintain in good ratio than this ratio.

BOKL should mobilize the collected deposit in performing area. The mobilized deposit of BOKL is less than Nepal SBI bank limited. For well manage of resources, BOKL should adopt the challenging strategy.

Nepal SBI bank limited should create the sound credit policy. By creating the sound credit policy, it helps to decrease loan loss provision and non performing loan of the bank. Thus, the credit management of BOKL must follow the policy as rapid identification of delinquent loans, immediate contact with borrower and continual follow up until a loan is recovered to decrease its non-performing loan and loan loss provision.

Nepal SBI bank limited must concentrate on low ratio return on loan and advances and invest productive sectors as well as profitable areas only, which gives high return with low risk. Also, BOKL should increase the profitability ratio more than this ratio.

Most of the customers are unsatisfied with the service charges and interest rates of credit. Therefore, the banks management should be considered on these variables more seriously.

Both bans should regularly follow up the credit customers to confirm that whether the customers have utilize their credit for the same purpose of not committed at the time of taking credit from the banks.

Looking a current trend of business, both banks (Bank of Kathmandu Limited and Nepal SBI Bank Limited) must be very careful on formulating marketing strategies to serve its customers. The marketing strategies should be innovative that would attract and retain the customers. Both the banks are recommended to develop an innovative approach of bank marketing for its well being and sustainability in the market.

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

The new standards should be designed to make the bank management more accountable for credit policy.

These banks should fulfill some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantage group. In order to do so, they should open their branches in the remote areas with the object of providing cheaper banking services.

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