CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Nepal is one of the countries in the world in terms of rich and unique in natural resources and attributes like it's bio-diversity, socio-cultural, cultural heritage, manifested in its architecture, temples, sculptures, monuments etc. Beside from this, it is also richly gifted with natural resources like world's tope's mountain Everest, green forests, many perennial rivers and source of minerals. Actually slow pace of developing of Nepal is due to illiteracy, lack, of finance, landlocked position, poor resources mobilization and its utilization, weak infrastructure development, institutional weaknesses, poor economic policy and unstable eco-political environment. For this to overcome, the process of capital accumulation among other perquisites should be enhanced. The economic development of nation is on initial stage. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade and transit policy.

Economic conditions show the actual value of any country. So bank and financial institution is the backbone of economic development. Bank and financial institution play vital role of developing economic condition under develop country like Nepal. Economic activities are guided by finance. Financial institutions provide capital to develop trade, industry and business. Bank, development banks, finance companies, co-operative societies, insurance companies, stock exchanges helps in the economic development of the country. The liberalization policy attracts foreign investor as well as national investor to invest financial sector & commercial sector, as well as Joint Venture Company. Which help to rises the life standard of people and boost up national prosperity.

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the upliftment and prosperity of its economy. The financial institutes act as intermediaries or catalyst to transferring the required financial resources and other services. A new organized financial institution including financial companies, commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. They are indispensable part of the development process. Therefore, a competitive and reliable banking is essential to the nation for the development.

Government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development and overcome the current pitiable economic situation. Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets. Financial institution, in this economy plays a role of catalyst in the process of economic growth of the country. Banking sector plays a vital role for the country's economic development opportunities to people. Such economy of the country secures proper growth. In this way, it is crystal clear that a sound banking system is must for the industrial development and creates employment and investment opportunities to people as well as overall economic development of the country.

1.1.1 Origin of Bank in Nepal

The words BANK was initiate form Latin words Bancus, French words Banque and Italian words Banca, which means refer that a Bench where sitting over there invest, exchange and keep record of money and cash. History tells us that initiation of bank in eastern side of world was mentioned in economics of Kautilya and Manusmirti. Likely in west banking system was started from 'Bank of Venice, 1157 Bank of Barcelona. Actually banking system was inaugurated after established of Bank of England.

The concept of the banking has been developed from the ancient history with the effort of ancient goldsmiths who developed the practice of storing people's gold and valuable treasures under such arrangement the depositors would leave their gold for safekeeping and given a receipt by the goldsmith. Whenever, the receipt was presented the depositors would get back their gold and valuable treasures after paying a small amount as fee for safekeeping and saving.

The Banking system in Nepal was developed gradually from the past. The history states that King Gunakamadev had received loans from the public in the 8^{th} century to renovate "Kathmandu City". The foundation of banking system in Nepal was established by a businessperson named Shankhadhar Shakha in 10^{th} century. He had paid back all the loans taken from the public and since then Nepal Sambat had stated in our country. This tells us that the system of lending money and paying back started long time back in our country. Later on in the 14^{th} century, King Jayasthiti Malla divided the people into 64 castes according to their occupation, amongst them 'TANKADHARI' one is that dealt with the lending of money to the public. Main objective of the 'TANKADHARI' was to earn profit by providing money as a loan to people and taking certain interest rate. Prime Minister Ranadeep Singh established 'TEJARATH ADDA' in the 1933 B.S In order to protect people from higher interest rate, The 'TEJARATH ADDA' was responsible for providing loans to the people working in the government offices based on the security and the public based on the collateral they deposited in the 'TEJARATH ADDA' was not to earn profit, it charged its creditors with a low interest rate of 5% per annum. It was only subjected to lend but did not accept deposits, hence it cloud not be counted as a bank. However, it can be said that 'TEJARATH ADDA' was the main financial institution that led to the development of modern banking system into the country.

The actual banking system of Nepal starts from the establishment of Nepal Bank Limited (NBL) as the first modern bank in our country Nepal in B.S. 1994 Kartik 30^{th} according to the Nepal Bank Act 1993. NBL was the first bank to be established in Nepal and prior to this, there was no such organized banking system in the country. Therefore year B.S. 1994 is said to be the Golden year for modern banking system in Nepal.

After two decade Nepal Rastra Bank established in 14th Baisakh, 2013 BS as a being central bank of Nepal under “Nepal Rastra Bank Act 2012” to perform the function of the central banking in Nepal. It established to promote, control, direct, supervision and manages banking activities and to in the country under the provision of Brussels International monetary conference (IMC). Main objective of Nepal Rastra Bank was to make economic assistance, issue and exchange of Nepalese note and currency, good govern of banking system etc. and use of own Nepalese note in whole country Nepal.

Nepal Industrial Development Corporation (NIDC) was established In 2016 BS under NIDC act 2016.it established for promote industrialization in Nepal. Main objective of NIDC was to provide technical and financial assistant for industry and commerce. Subsequently another fully state owned commercial bank “Rastriya Banijya Bank” was established on 10th Magh, 2022 BS under Rastriya Banijya Bank act 2021 which was the second commercial bank of Nepal. With the establishment of RBB, a noticeable progress could be seen in banking industry of Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries. Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by the government. In 2024 Magh 7th BS Agriculture Development Bank (ADB) was established under Agricultural Development Bank act 2024. ADB was established combined merge of cooperative bank and Bhumisudhar Bachat Corporation.

Nepal adopted the free economic policy privatization, liberalization and globalization. Liberal free economic policy allowed establishing Joint venture bank under collaboration with foreign bank as well as on private sector. In 2041 Ashad 29 Nepal Arab Bank limited was first joint venture bank established in Nepal which is known as NABIL Bank in today. After that investment bank (Nepal Indoswis bank), standard charter bank (Greenland bank), Himalayan bank, SBI bank etc instigate accordingly. As the time passed, a need for the more commercial banks arose. At the present time various commercial bank established and some are in process for operation. Today there are altogether 31 commercial banks, 73 Development Banks, 83 Finance Companies, 21

Micro Credit Development Banks and various cooperative firm are functioning in the our country in Nepal. Still many other commercial banks are in the process of opening in the market. Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry. In this way we know origin and development of commercial bank in Nepal.

1.2 Statement of the Problem

Commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to poor economic condition of the country, some of them arising due to confused policy of government and many of them arising due of default borrowers. The problem of the study will ultimately find out the reasons about the credit management. A study on the credit management of the commercial banks would be highly beneficial for pointing out their strength and weakness. Focus of the present study is on the credit policy and management of the joint-venture banks NABIL bank Ltd. The bank have been facing a very tough competition against one another fluctuating and low interest rates on deposits, poor deposit mobilization trade, commerce etc. have affected on the return of funds, total assets, total deposits and shareholders wealth position. Since the joint venture banks have been established gradually because of the liberal and market – oriented economic policy of Nepal. Bank have been facing though competition from other commercial banks and of course each other. Financial companies have been emerging rapidly and the bank has to compete with them. Since, finance companies are making investment in the same sectors where commercial banks typically invest. Commercial banks are more interested in providing loans on short -term projects due to safety and security of their loans. Thus, they are following conservative loan policy based on strong security. Similarly, these banks do not have a well-organized credit management. They rely much on the instructions and guidelines of Nepal Rastrya Bank. Even if they have formulated some guidelines, they fail to implement it due to poor supervision and lack of professionalism.

After liberalization of economy, banking sector has various opportunities. Lending in industries and production sectors are very risky projects. Banks are investing in house loan, hire purchase loan, for safety purpose. Nowadays banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays due to competition among banks, the interest rate change for loan is in decreasing trend. Non-performing assets have become a large problem in the commercial banks. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Lack of good lending opportunities, banks is facing problems of over liquidity. It has been able to control and capture a remarkable leadership of Nepalese banking sector. Project appraisal method followed by commercial banks is not scientific and appropriate. Granting loan against insufficient deposits overvaluation of goods pledged, land and building mortgaged, risk–averting decision regarding loan recovery and negligence in recovery of overdue loans are some of the drawbacks of unsound investment policy. Similarly, loan supervision and follow-up mechanism is lacking in many commercial banks. Due to 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, Nepal Ratra Bank has make certain criterion of loss provision of commercial bank.

- What is the lending portfolio of the Bank ?
- What is the impact of deposit and loan advance in liquidity?
- What is the proportion of Non-performing Asset on total loans and advances of the bank?
- Does credit efficiency of Nabil Bank influence the profitability?
- Does the bank analyze priority sector investments ?
- Is NABIL maintaining lending efficiency?
- Is the fund mobilizations and credit Management effective and efficient?
- What is the situation of total loans and advances with total deposit and its net profit?

1.3 Objectives of the Study

Each and every of the research study posses a certain objective. Research with out any specific objectives will be worthless. This research study entitled “Credit Management of Nabil Bank” highlights to attempt the following objectives.

- To examine the portfolio of lending of selected sector of banks.
- To evaluate various financial ratio of the Nabil Bank.
- To measure the impact of deposit in liquidity and its effect on lending practices.
- To examine position of the priority sector lending of selected banks.
- To offer suitable suggestions based on findings of this study.

1.4 Significance of the Study

Lending is one of the main functions of commercial bank where the whole banking business is rested upon. Study on joint venture commercial bank and especially their lending practices carry a great significance, to shareholders of the banks, to the professionals, to the students who wants to know about lending practices of commercial bank. Nabil bank Ltd. play significant role in lending procedures. This study has proposed to measure the efficiency of both banks in their lending procedures. This study adds new idea and findings about the concerned joint venture banks.

This study adds new idea and findings about the concerned joint venture bank.
This study no doubt will have importance to various groups but in particular is directed to a certain groups of people/organizations, which are:

- This study will provide importance information to those who are planning to invest in the study will give a clear picture of financial position of the company under study.
- Importance to shareholders.
- Importance to the management bodies of the bank for the evaluation of the performance of bank.

- Importance to "outsiders" which are mainly the customers, financing agencies, stock exchanges etc.
- Importance to the government bodies or the policy makers such as the central bank
- Interested outside parties such as- investors, customers (depositors as well as credit takers), and competitors, personnel of the banks, stockbrokers, dealers, and market makers.
- The study will help general public to know about the overall financial position of the Nabil Bank Limited.

So, this study helps to identify its hidden strength and weakness bank as well as regarding financial and credit condition of bank. Likely after the completion, this report will be kept in the library, which plays the role of reference to the students making the similar study in future.

1.5 Limitation of the Study

This study is done for the partial fulfillment of the requirement for the Master of Business Study MBS Degree of management faculty of T.U. So, this study has certain limitations and constraints and they are as follows.

- The study mainly concentrates on those factors related with credit and lending activities.
- This study is based on joint venture commercial bank.
- This study is based on primary & secondary data.
- Study is based on data of five years period.
- Some of the statistical as well as financial tools of comparison & analysis shall be used in the study.

Being a student, lack of the sufficient time resources are the major limitations. Therefore the study has been conducted.

1.6 Organization of the Study

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

Chapter – I: Introduction

This chapter describes the basic concept and background of the study, introduction commercial bank origin of bank in Nepal, introduction of Nabil bank, lending management, statement of the problems, objectives of the study, significance of the study and limitations of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter – II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. This chapter includes conceptual review, review of related study, different thesis, and review of journals, articles and research studies published by various authors.

Chapter – III: Research Methodology

Research methodology refers to the various sequential steps to adopt by researcher in studying a problem with certain objectives in view. It describes various source of data related with the study and various tools techniques such as statistical and financial employed for presenting the data. This chapter includes research design, data collection, methods and analysis and research variables.

Chapter – IV: Presentation and Analysis of Data

This chapter is the main part of the research. This chapter analyses the data related with study and presents the finding of the study. Data processing, data analysis and interpretation are given in this chapter.

Chapter – V: Summary, Conclusions and Recommendations

The last chapter contains the findings of whole study after which major conclusions and recommendations are provided. It also gives important suggestions to the concerned organization for the better improvement.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted or done. It is an integral mandatory process in research works. It is a crucial part of all dissertations. In other words it’s just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one’s chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

We study the review of literature in dividing two headings:

- Conceptual Review
- Review of related Studies

2.1 Theoretical/Conceptual Review

2.1.1 Concept of Bank

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

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

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

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

2.1.2 Concept of Commercial Bank

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

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

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

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

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

Commercial Banks function as an intermediary; accepting deposits and providing credits to the needy area. The primary source of funds for commercial bank are capital (shareholder equity) reserve (retain earning) and other main source of the commercial bank is current deposit issue of commercial paper bond etc. Commercial banks are restricted to invest their funds in corporate securities. They invest their funds in long term as well as short-term needs of any trade and industry. They grant credits in the form of cash credits and overdraft**.**

Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial Banks Apart from financing, they also render a variety of service like collection of bills and cheques, safe keeping of valuables, financial advising, agencies functions, keeping of guarantee etc to their value customers**.**

2.1.3 Joint venture Bank in Nepal

Join stock venture means two or more then two enterpriser, persons or countries mutually performing some specific venture in any area for common objective. . When two or more independent firm mutually decides to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture. When two commercial banks from different countries join hand to form an independent enterprise it is said as joint venture commercial bank. Joint venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing competitive advantages by performing joint investment schemes between Nepalese investors, financial and non- financial institution as well as private investors and their parents banks each supplying certain percent of investment.

Liberalization and globalization started after 70s. Many countries applied this policy. The government of Nepal also realized and starts to apply the policy with greater responsibility in fulfilling national goal and objectives. With this realization, the government mushroomed into a number of establishments like agriculture, industry, commerce, public works, transport etc. In this context, banking was seen as a major industry to uplift the economic condition of public and country as well. There for the government was forced to adopt a liberal economic policy regarding operations of banks. About the financial liberalization process it was said that "the interest rate deregulation, curtailment or elimination of directed credits, lifting entry and exit barriers for financial intermediaries, restructuring of banking system and institution for regulatory and supervisory mechanism is some of the key components of such liberalization" (Shrestha, 2051).

Liberal economic policy and Restoration of democracy and policy of the government led the opening of various joint ventures in Nepal. Nepal Arab Bank Limited (Nabil) was the first joint venture bank which was established in 2041 B.S. Its joint venture partner was Emirates Bank international Limited, (Dubai Bank). Similarly Nepal IndoSwiss bank ltd, Nepal Greenland bank ltd, Himalayan bank, Nepal Bangladesh bank ltd, SBI bank ltd etc accordingly. Establishing the join stock commercial bank makes tough competition to domestic bank and compels improvement in their services and technology. All the Nepalese joint venture banks established and operated under the rules and regulation and guidance under Nepal Rastra Bank (NRB).

2.1.4 Concept of Credit

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

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

1. Overdraft
2. Cash Credit
3. Direct Credit
4. Discounting of Bills

2.1.5 Types of Credit

Overdrafts

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

Cash Credit

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

Term Credit

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

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

Working Capital Credit

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

Priority or Deprived sector Credit

Commercial banks are required to extend advances to the priority and deprived sector 12% of the total Credit must be toward priority sector including deprived sector. Rs.2 million for agriculture cum service sector and Rs.2.5 million for single borrowers are limit sanctioned to priority sector. Institutional support to 'Agriculture Development bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes (Richard, 1996).

- Advances to poor/downtrodden/weak/deprived people up to Rs 30,000 for generating income or employment.
- Institutional Credit to Rural Development Bank.
- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs.30, 000.

Hire Purchase Financing (Installment Credit)

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

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

Housing Credit (Real Estate Credit)

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

Project Credit

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

Consortium Credit

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

Credit Cards and Revolving Lines of Credit

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

Off-Balance Sheet Transaction

In fact, bank guarantee and letter of credit refer to off balance sheet transactions of financial institution. It is also known as contingent liability. Contingent liability pinpoints the liability, which may or may not arise during the happening of certain event. Footnotes are kept as references to them instead of recording in the books of accounts.

It is non-funded based remunerative facilities but more risky than the funded until adequate collateral are not taken. Lets its two varieties be described separately.

Bank Guarantee

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

Letter of Credit (L/C)

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

2.1.7 Objectives of the Sound Credit Policy

The purposes of a written credit policy are: (Kulkarni, 1994)

1. To assure compliance by lending personnel with the bank’s polices and objectives regarding the portfolio of credits
2. To provide personnel with a framework of standards within which they can operate.

2.1.8 Lending Criteria

While screening a credit application, 5-cs to be first considered supported by documents. (Crosby and Oughton, 2007)

i) Character

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

- Memorandum and Article of Association
- Registration certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank.
- Reference of other lenders with whom the applicant has dealt in the past of bank A/C statement of the customer.

ii) Capacity

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

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

iii) Capital

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

iv) Collateral

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

v) Conditions

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

2.1.9 Principle of Credit Policy

Good credit policy is essential to carry out the business of lending more effectively. Some policies are as follows: (Kulkarni, 1994)

i) Principle of Safety Fund

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

ii) Principle of Liquidity

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

iii) Principle of Security

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

iv) Principle of Purpose of Credit

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

v) Principle of Profitability

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

vi) Principle of Spread

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

vii) Principle of National Interest

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

Every Bank should always follow the rule “Do not put your all eggs in the same basket”. So every bank makes appropriate portfolio in their investment the credit management would be excellent.

2.1.10 Lending / Credit Process

Commercial bank follows several steps to disburse loan to the borrowers. The lending policies might be different form one bank to another. In general, these steps can be pointed out of follows. (Mundul, 2008)

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

- Loan application
- Citizenship certificate of applicant
- Firm/ company registration certificate (if self employed)
- Income tax registration certificate (if self employed)

- Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company
- Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named.
- Letter of authority authorizing to sign loan deed and other relevant document paper which are deemed necessary while dealing with bank on behalf of firm/company.
- Feasibility report/scheme (for new project)

Lending appraisal and possessing

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

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

The bank tries to ascertain the following during loan processing:

- ➢ The cost of estimate us examined so that the appropriate estimate can be accepted. Under and over estimates are rejected. Similarly, the specification of machinery should be proper.
- ➢ Working capital projection has to be reasonable as compared to past performance and on the basis of target for future expansion.
- ➢ The return rates should be adequate like return on investment (ROI), internal rate of return (IRR) and debt service coverage ratio (DSCR).
- ➢ The capacity, competency, integrity and commitment of promoters / partners / proprietors / directors / personnel should be intact.
- ➢ SWOT (strength, weakness, opportunity and threat) analysis of the proposed project must give reasonable assurance.

2.1.11 Project Appraisal

Before providing credit to the customer, bank makes analysis of project from various aspects and angles. It will help the bank to see whether project is really suitable to invest. The purpose of project appraisal is to achieve the guarantee of reasonable return from the project. Project appraisal answers the following questions: (Gautam, 2004).

- 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

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

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

1. Credit classification and provisioning

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

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

Sub standard credit are those credit which are already crossed the repayment time schedule and are within 3-6 months delay of maturity date. Likewise, within 6-12 months from the time to be recovered are classified as doubtful credit. Those 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 whereas the credit loss provision for non- performing credit is termed as specific credit loss provision.

Auditor has to correctly rate the credit and ensure that accurate credit loss provision has been made. The auditor should examine whether the bank has obtained complete documentation so that banks interest is secured. In addition audit is made to inspect compliance of terms and conditions laid down. Credit audit is 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 weaknesses have been pointed out and to focus further on strengths. General guidelines whether to reject or renew the credit can be established with the help of credit audit.

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

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

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

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

Group of related customer:

- If a company takes 25% or more share of another company.
- Member of board of directors of company shareholders of private limited company and such members and shareholders with others in a single house, even if husband, wife, son, daughter, daughter in law, unmarried daughter, adopted son, adopted unmarried daughter, father, mother, stepmother, brothers and sisters whom be should look after. And the above members personally or combined take 25% or more share of another company.

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

2.2 Review of related studies

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

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

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

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

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

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

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

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

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

Ghimire, M (2009), “Comparative analyzes the role of RBB” is trying to analyze the role of RBB in the Nepalese banking industry. “He is trying to show the share of RBB in various aspect of Nepalese financial market such as in banking market, in the total deposit of commercial banks in Nepal, in loan market, in the capital fund and in the foreign exchange transaction.”

Sharma Radha, (2010) has presented with the objective to make analysis of commercial banks lending to the Gross Domestic Product (GDP) of Nepal .She has set hypothesis that there has been positive impact of lending of the commercial banks to the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending dependent variable and various sectors of lending viz. agriculture, industrial ,commercial service and social sectors as independent variables .A multiple regression techniques have been applied to analyze the contribution .

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

"A study on deposit and credit of commercial banks in Nepal concluded that the credit deposit ratio would to 51.30%, other things remaining the same. In Nepal that was the lowest under the period of review .Therefore, he had strongly recommended that the joint venture banks should to give more credit entering new fields as for as possible, otherwise they might not be able to absorb even the total expense.

2.3 Review of Thesis

This dissertation has been written after studying various books journals article website and previous thesis. I here comprise the some previous thesis review, which are mainly concerned about financial performance and fund mobilization policy, lending practices and investment policy, credit management and loan management of commercial bank.

Paudel, P. (2001) in his Thesis "A study on lending practices of joint venture commercial banks with reference to Nepal Bangladesh Bank Ltd (NBBL) and Himalayan Bank Ltd.(HBL)" has made comparative study of these two banks in different lending aspects and strategies.

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

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

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

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

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

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

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

Parajuli, S. (2003) in his dissertation "Credit management of joint venture banks" states that concept of financial reform emerged since 1980s with economic liberalization. Nepal Government and NRB published the economic and monitory policy to support such reform. As the result of these policies various jointed venture bank established in the private sector.

Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monitory control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July 1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which it's on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by NG in December 2000 such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non banking deposit institutions.

The main statement of the problem of the study is government owned banks are in critical condition they are unable to recover the credit. Financial sector reform programs are not being able to achieve the expected target. Performance on the credit is poor in the government banks. Amount of non - performing assets is increasing. Generally, it is accepted If bank maintain low ratio, bank may not able to make the payment of against cheque that disadvantage sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words such sectors in the economy are not receiving the financial supports as commercial banks hesitate to be involved in these sectors where they do not see adequate profit. The main objectives of his research are: procedures of granting loans, examine the level of non performing loan, relevancy of the financial sectors reform program, measure the comparative output of credit management in joint venture bank and government.

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

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

Karki, B. R. (2004) in his entitled "A Comparative Study on Financial Performance of NABIL Bank and Standard Chartered Bank Limited" dissertation found that the development of any country largely depend upon its economic development capital formation is the prerequisite in setting the overall pace of the economic development of a country. Well-organized financial system contributes to the process of capital formation by converting scattered saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of the nation. The financial institution play dominant role in the process of economic development. Banks are indispensable elements in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bank of the money supply as well as the primary means of facilitating the flow of credit.

The main statement of the problem of his research is various financial institutions have been established to assist the process of economic development of Nepal. Delivering efficient services to the common people by enhancing efficiency of the commercial banks and improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and financial institutions needs to be reduced through an appropriate investment policies. Equally important is the challenge to minimizing their intermediation cost. In order to help realize the goal of poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low-income people through micro and medium sizes loan needs serious attention in the days to come. It is also necessary to identify the activities that ensure quick return of investment. Thus, the present study seems to explore the efficiency and weakness of NABIL and SCBNL.

The main objectives of his research are to compare analyze the liquidity, profitability, operating efficiency, capital structure, capital adequacy leverage and operation, over all performance, analyze the relationship between DPS and EPS of NABIL and SCBNL bank. Here various financial accounting and statistical tools have been used to achieve the objective of the study.

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

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

Subedi, K.P. (2005) conducted a research title “Financial Performance of NABIL Bank Limited” states that deposit is the part of balance sheet which always remains the biggest in amount. It is the sensitive liability among al items. As like total liabilities and capital deposit also increase until 2057/58 and starts to fall down. The increment rate is satisfactory in first and second changing years, and then it has changed by negative digits therefore in two subsequent year’s. The business in peak where the value was Rs.15839.0077 millions. The proportion of debt over the total liabilities and capital is 83.35% in average. Fixed deposit is taken as a long-term debt in the banking business; it is key department factor to capital structure. The bank could collect the deposit is Rs.7667.8459 millions. In two subsequent years, it decreases and becomes Rs.2252.5464millions in the final study years. This items changes by in highly decreasing trend. The average change rate is 5.89%. The proportion over total liabilities and capital is 26.32% in average. The composition of paid up capital, reserve and surplus other reserves and undistributed profit is known as shareholders equity. Unlike other items mentioned above, shareholders equity is regularly increasing. The yearly change rate is in fluctuating trend varied from 8.97% to 24.63%.

The main statement of his research is the banking industry is one of the fast growing businesses in Nepal. After the liberalization policy was adopted by government this sector has been dramatically. Now, more then one and half dozen banks are in operation. Now too, new banks are being set up. Due to security, problem and political instability government could not be able to pay sufficient attention to business and industry sector. Regulation and monitoring by government has been weekend in the banking sector as like others free and fair competition is decreasing. Customers and stakeholders are too much sad to hear the news that banks have tried to cartel in taking treasury bills before some months other type non-business practices might have been occurred in this industry. Surely such types of practices will hamper the whole sector. Ultimately, the capital structure will be affected. We have been watching the type scenario where the capital structure is not so stagnant and continues progress. The main objectives of his research are to be familiar and analyze the composition of the capital, examine the existing financial position, profitability and overall trend analysis of NABIL bank. Its also provide the recommendation, suggestion for the development of an appropriate capital structure concern NABIL Bank limited.

Paudel, H. (2006) in his dissertation entitled “A Comparative Study on Nepal Siddhartha Bank Limited and Himalayan Bank Limited” states that interest income from loan and advances are the main sources of income, which will increases profit of commercial bank. The main ratio of interest income to total income of SBL is higher than that HBI. NRB has restricted the gap between the interest taken in loan and advances and interest offered in deposit. HBL have higher mean ratio of interest income to interest expenses and total income to expenses ratio than that of SBL. HBL has maintained high return in every reflect than that of SBL. Among the various measurement of profitability ratios return to equity and earning per share, reflects the relative measure of profitability. The performance of NBL is higher than that of SBL. Coefficient of correlation between deposit and loan and advances total income and loan and advances of both bank have positive value there is significant relationship between deposit and loan and advances total income and loan and advances. Coefficient of correlation between net profit and loan and advances of both bank have positive relationship. But the number of HBI is greater than number of SBL. There is no significant relationship between net profit and loan and advances of both banks. They are greater than number of both banks.

The main statement of the problem of his research is the present banking system is the result of liberalization of economy requirement and globalization in 1990s. The development of banking in both quality and quantity was satisfactory. How ever, subsequent development of commercial banks in quality has not been satisfactory; commercial bank in Nepal has been facing several challengers. The main objectives of the study are to know contribution made by both banks in lending. determine the impact of deposit in liquidity and in effect on lending policy, analysis the portfolio lending, ratio and volume of loans and advances made in different sector and documentation, legal procedure and practice loan of SBL and HBL.

Sedai, P. (2007) in his dissertation “An analysis on lending policy and strength of Nepal Investment Bank Ltd” highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder‘s equity indicate a good performance of NIBL in its lending activities.

Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio incate that bank is good enough to judgment in their value customer. The better activity ratio of this bank been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

The recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision, required proper market analysis, diversify the investment sector etc. finally however, performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, pe5rsonal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business new and attractive lending scheme would be launched to the customer.

The main objective and target of this study is to observe the loan disbursement of Nepal Investment Bank Ltd. its shows the actual lending position, strength and weakness. The specific purpose are study of loan and advances provided to customer, amount loan investing in industrial sector, trend of loan disbursement , process are according to NRB rules & regulation and position of bank and its profitability.

Misra, S. (2007) entitled her Thesis “Credit management of Everest Bank Limited” illustrate that liquidity position, cash reserve ratio shows the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain good financial condition. Cash and bank balance to current assets ratio shows that the bank’s sound ability to meet the daily cash requirement of their customers deposit. That is why liquidity position of the bank is the better.

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

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

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

Adhikari, I.P. (2008) in his Thesis "Credit management of Everest Bank Limited" highlighted that aggregate performance and condition of Everest Bank on undoubtedly, the role of commercial Bank in mobilizing and utilizing scattered resources of nation is praiseworthy one. The basis objectives of the study are to have true insight in to the credit management aspects. This aims to examine its efficient in effectiveness, systematization and sincerity in disbursing and recovery loan as well within the directives of NRB, financial institution act an its own policy.

The main objectives are as follows:

- To examine the impact of deposit in liquidity.
- To examine and evaluate the various stages of occurred in loan management procedure.
- To analyze the lending efficiency of the bank.
- To examine the assets management efficiency and portfolio ratios.

Major finding and conclusion of the study are as follows:

- EBL has sufficient liquidity. It shows that bank doesn't have investment sector to utilize their liquid money. Remittance has also help to increase the amount of deposit in bank. On the other hand due to political crisis economic sector have been damaged. Most of the projects have been withdrawn due to security problem. Therefore, banks have maximum liquidity due to lack of safety investment sectors.
- Operating income of bank is also in satisfactory position however, it is not in good condition. So, it should enhance its operating income.
- Provision for credit loss has been increasing year by year of EBL bank and decreases in the year 2006. Due to political disturbance in the country credit taker are not getting good return from their investment sector. On that situation credit customers do not return money of the bank in the stipulated time period. Therefore, the loan performing credit of the bank increases.

Bhandari, Neeru (2009) in her Thesis "Credit management of SBI Bank & Nabil Bank Limited" has concluded that liquidity position of Nepal Sbi Bank is high than Nabil bank. It means Nabil Bank applied more effort than SBI Bank. To increase the efficiency to meet the demand of current depositors. Non performing assets to total assets ratios of both banks are in decreasing trend indicating the good credit management. Both banks trends are decreasing but Nabil bank non performing ratios are decreasing very rapidly than SBI bank. It means Nabil Bank is obtaining higher lending opportunity than SBI bank. Thus analysis indicates that the banks are highly leveraged because the claim of the outsiders exceeding than those of the owners over the banks assets. The debt to assets ratio of these two banks are high that means they have excessively geared capital structure. The total profitability position of Nabil bank is better than SBI bank during the research period. but earning of the both bank out of the credit and advances is in decreasing trend.

Poudel (2010), in his thesis entitled "A Comparative Analysis of Financial performance between NBL and NGBL" , has drawn some major findings. The main objective of his study was to comparatively analyze the financial activities of the banks. He found that although the liquidity position of NBL was better than NGBL, in the whole the current assets of these banks were adequate to meet the current liabilities. NGBL had better credit position than NBL in terms of short term investment. NBL had better turnover and was highly leveraged than NGBL. Joint venture banks such as NGBL was fast growing and the overall profitability were higher shares, government owned commercial banks such as NBL had higher expenditure and the profit making capacity was lower and gradually decreasing . Financial scenario and effectiveness of the banks has been changed in due period of time because of increase of number of financial institution in Nepalese economy. And it is observed that is essential to study effectiveness of lending operation of commercial bank limited to support of two banks; NBIL Bank Limited and Standard Chartered Bank Limited to support in fulfilling research gap. The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There has been lots of article published in field of investment policy, loan and advances of commercial banks. There are various researches available on investment analysis and policy of commercial bank impact and implementation of NRB guideline in commercial bank but there are not sufficient researches available on lending aspect of commercial banks. In addition to this, though another person had done on "lending operation "with reference other commercial banks. I am doing with reference to NABIL bank Limited and Standard Chartered Bank Limited different from others .Therefore the research attempts to study in this area. To know the lending operation of these two banks will probably be the first study in this subject matter. So, this study will be fruitful to those interested person parties scholars. Professor Students, Businessman and government for academically as well as policy perspective.

2.4 Research Gap

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

In this study of credit management of Nabil bank is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. Thesis of Sunita Misara, (2007) “Credit management of Everest Bank Limited” and Pradip Sadai, (2007) “An analysis on lending policy and strength of Nepal Investment Bank Ltd” and Ishwori Prasad Adhikari, (2008) "Credit management of Everest Bank Limited" also has not use correlation, probable error and trend analysis. On the other hand, study done by Neeru Bhandari, (2009) "Credit management of SBI bank and Nabil Bank" use correlation, probable error and trend analysis. This study tries to define credit management by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of credit management of Bank and financial institutions.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to solve the research problem systematically. It may be understood as a science of studying how research is done scientifically. The research methodology considers the logic behind the method used in research and explains why particular method or technique is applied.

Research methodology helps us to find out accuracy, validity and suitability of research. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. Research methodology describes the methods processes applied in the entire aspect of the study. This research methodology has primary sought the evaluation of the credit management and practices of the first joint venture bank Nabil Bank Ltd. Research methodology refer to the various sequential steps. This chapter describes research design, population and sample procedure, and sources of data and analysis of data.

3.2 Research Design

A research design is an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data-collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying.

A research design is a plan for the collection and analysis of data. If presents a series of guide posts of enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) Data analysis and (v) report writing. The Present study follows the descriptive as well as analytical design to meet the stated objectives of the study. The crux of the research is to analyze Nabil Bank Limited in relation to credit disbursement and recovery as well overall management.

3.3 Sources of Data

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

a) Primary Source:

The primary source of data is collected from the concerned bank. The way of data collection is by making questionnaire and distributed to the credit department of the concerned bank and also to the client of the bank. Some data and facet are only possible due to frequent inquire and asking to the concern personnel.

b) Secondary Source:

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

- Annual Report of NABIL Bank.
- Internet and E-mails.
- NRB directives.
- Economy survey of Government of Nepal and Ministry of finance.
- Newspaper, journals, articles and various magazines.
- Dissertation of Central Library of T. U. and Library of Lumbini Banijya Campus.

3.4 Population and Sample

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

Here, the total 28 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here Nabil Bank Limited has been selected as sample for the present study. Likewise, financial statements of five years (beginning from 2004/05 to 2008/09) are selected as samples for the purpose of it.

3.5 Data collection procedure

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

3.6 Method of Data Analysis

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

1 Financial method.

2 Statistical method

3.6.1 Financial Tool

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

3.6.1.1 Ratio Analysis

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

The relationship between two accounting figure, expressed mathematically is known as financial ratio. The technique of ratio analysis is part of the whole process of analysis of financial statement of any business and industrial company especially to tame output and credit decision. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Thus ratio analysis is useful to evaluate, judgment and taking appropriate decision.

A. Liquidity Ratio

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

i. Cash Reserve Ratio

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

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

ii. Cash and Bank Balance to current Assets Ratio

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

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{cash and bank balance}}{\text{current assets}}$$

iii. Cash and Bank Balance to Interest Sensitive Deposit Ratio

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

$$\text{Cash and bank balance to interest sensitive deposit ratio} = \frac{\text{Cash and bank balance}}{\text{sensitive deposit}}$$

B. Activity Ratio

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

i. Credits Advances to Fixed Deposit Ratio

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

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

ii. Credits Advances to Total Deposits Ratio:

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

$$\text{Credits and Advances to Total Deposits Ratio:} = \frac{\text{Credit and Advances}}{\text{Total Deposits}}$$

iii. Credit and Advances to Total Assets Ratios

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

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

iv. Non-Performing Assets to Total Assets Ratio

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

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

C. Leverage Ratio

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

i. Total Debt to Equity Ratio

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

$$\text{Total Debt} = \text{long term Debt} + \text{current liability}$$

$$\text{Total Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

ii. Total Debt to Total Assets Ratio

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

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

iii. Total Assets to Net worth Ratio

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

$$\text{Total Assets to Net Worth Ratio} = \frac{\text{Total Assets}}{\text{Net Worth}} \times 100\%$$

D. Profitability Ratio

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

i. Net Profit to Gross Income Ratio

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

$$\text{Net Profit to Gross income ratio} = \frac{\text{Net profit}}{\text{Gross income}}$$

ii. Interest Income to Total Income Ratio

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

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

iii. Operating Profit to Loan and Advances Ratio

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

$$\text{Operating profit to loan and advances ratio} = \frac{\text{Operating profit}}{\text{Loan and advances}}$$

iv. Return on Loan and Advances Ratio

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

$$\text{Return on loan and advances} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

v. Net Profit to Total Assets

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

$$\text{Net profit to total assets ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

vi. Earning per Share (EPS)

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

$$\text{Earning per share} = \frac{\text{Profit after tax}}{\text{No. of common share}}$$

vii. Price Earning Ratio

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

E. Lending Efficiency Ratio

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

i. Loan Loss Provision to Total Loan and Advances ratio

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

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

ii. Non-Performing Loan to Total Loan and Advances

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

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

iii. Interest Expenses to Total Deposit Ratio

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

$$\text{Interest Expenses to Total Deposit Ratio} \;\; X \;\; \frac{\text{Interest Expenses}}{\text{Total Deposit Ratio}}$$

3.6.2 Statistical Tools:

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

1. **Arithmetic Means (average):**

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

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

Where:

$\bar{X}$ = mean value or arithmetic mean

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

N = number of observation

2. Correlation Coefficient (r)

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

Formula

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

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product $X_1$and X_2

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

i. Coefficient of variation (c.v.)

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

$$\text{c.v.} = \frac{\acute{o}}{x} * 100$$

σ = Standard deviation

x = sum of the observation

ii. Probable Error

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

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

Here, r = Correlation coefficient

N = Number of pairs of observations

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

3. Times series Analysis

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

$$Y = a + bx$$

Here,

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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

4.2 Portfolio Analysis

4.2.1 Portfolio Risk and Return

i. Portfolio Return

The expected return for a portfolio is a weighed average of expected returns for securities making up that portfolio. Portfolio return depends on two factors.

a) Expected rate of return of each security contained in the portfolio

b) The amount inverted in each security.

$$E\,(Rp) = \sum_{j=1}^{N} R_j W_j$$

ii Portfolio Risk

a) Variation and standard deviation

The risk of the Portfolio is not the simple weighted average of the variance or standard deviations of the assets held in the Portfolio. The risk inherent in any single asset held in a portfolio is different from the riskiness of that asset held in isolation. The variance of the portfolio is influenced by not only the variance of return of each asset but also by the co-variance of the returns. Accordingly, the variance of two assets portfolio is calculated as

$$\sigma^2 (Rp) = w_A{}^2 \sigma^2 (R_A) + 2 w_A w_B \text{ Cov} (R_A, R_B) + w_B{}^2 \sigma^2 (R_B)$$

Where,

σ^2 (Rp)	= Variance of return of the portfolio
w_A	= Proportion of the investment in the first assets, A
w_B	= Proportion of the investment in the second assets, B
$\sigma^2 (R_A)$	= Variance of the return of assets A
$\sigma^2 (R_B)$	= Variance of the return of assets B
Cov(R_A, R_B)	= Covariance between the return of assets A and return of asset B.

The variance of the portfolio is affected by the risk of each asset included in the portfolio, proportion of each asset in the portfolio and the covariance of the return of assets.

b) Covariance and Correlation

The covariance of the possible returns of two assets is a measure of the extent to which they are expected to vary together rather than independently of each other. The covariance between the returns of project A and Project B , Cov (R_A, R_B) is

$$\text{Cov} (R_A, R_B) = \sum_{i=1}^{N} P_i [R_A - E(R_A)][R_B - E(R_B)]$$

The covariance measures how two variances covary. If two assets are positively correlated, their covariance is also positive. If two variables are independent, their covariance is zero, and if two variables are vary inversely, their covariance is negative.

The correlation also gives the same result. Further, the correlation coefficient standardizes the value of covariance in returns of the product of standard deviations of assets. Hence, the value of correlation coefficient ranges between +1(For perfectly positively correlated assets) and -1 (for perfectly negatively correlated assets) making the relationship more amenable for analytical use.

The relation between covariance and correlation is as shown in equation.

$$\text{Cov}(R_A, R_B) = \rho(R_A, R_B)\,(\sigma(R_A)\,\sigma(R_B))$$

or

$$\rho(R_A, R_B) = \frac{Cov(R_A, R_B)}{[(\pm(R_A)(\pm R_B)]}$$

Where,

$\text{Cov}(R_A, R_B)$ = Covariance between the return of A and return B

$\rho(R_A, R_B)$ = Correlation coefficient between the return of A & return of B

$\sigma(R_A)$ = Standard deviation of return of A

$\sigma(R_B)$ = Standard deviation of return of B

When the correlation between assets is perfectly positive, ρ(xy) = +1 the portfolio risk is the weighted average of the risk of the assets in the portfolio , and the portfolio plot along a straight line. There is no risk diversifying benefit of the portfolio when assets are perfectly positively correlated. When the correlation between assets is perfectly negative, ρ(xy)= -1, it is possible to eliminate all risk.

4.3 Financial Statement Analysis

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

4.3.1. Liquidity Ratio

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

i) Cash and Bank Balance to Total Deposit Ratio

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

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

Table No 4.1

Cash and Bank Balance to Total Deposit ratio (Amount in million)

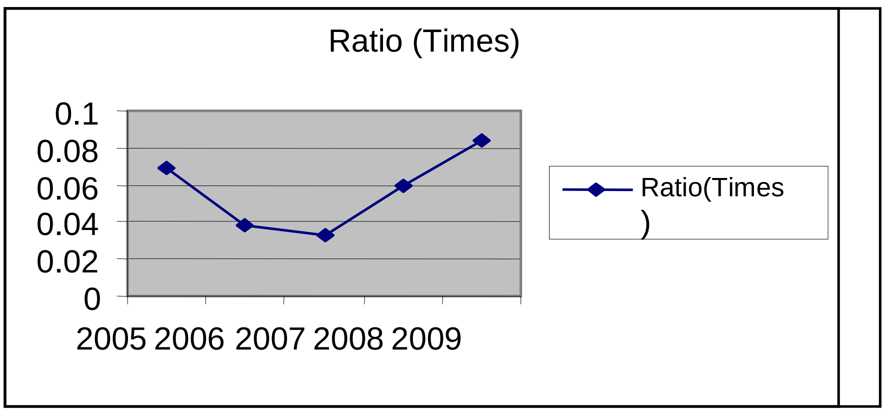
Year	Cash	Bank balance	Total Deposit	Ratio(Times)
2005	287	684	14119	0.06877
2006	146	413	14587	0.03832
2007	238	392	19347	0.03256
2008	270	1129	23342	0.05993
2009	511	2160	31915	0.08369
Mean				0.05666

Source: Annual report of Nabil Bank

In above table shows that the cash and bank balance to total deposit ratio of Nabil Bank is in constant trend. The ratios are 0.06877, 0.03832, 0.03256, 0.05993 and 0.08369 respectively. The average mean ratio is 0.05666 times in the study period. . The highest ratio is 0.0869 times in year 2009 and the lowest ratio 0.03256 times in year 2007. These all ratio shows that the bank is not maintain the good liquidity position of the bank. These ratios show low liquidity position of the bank. Therefore, it shows that the bank much utilization of resource. Cash reserve ratio in year 2009 is 8.37% and only 3.26% in 2007. It's show the optimum utilization of resource by Nabil bank. Cash & bank balance to total deposit ratio is shown in the following graph.

Figure No. 4.1

Cash and Bank Balance to Total Deposit ratio



i) Cash and Bank Balance to Current Deposit Ratio

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

$$Cash\ and\ Bank\ balance\ to\ Current\ Deposit\ \mathrm{X}\ \frac{Cash\ and\ Bank\ balance}{Current\ Deposit}$$

Table No 4.2

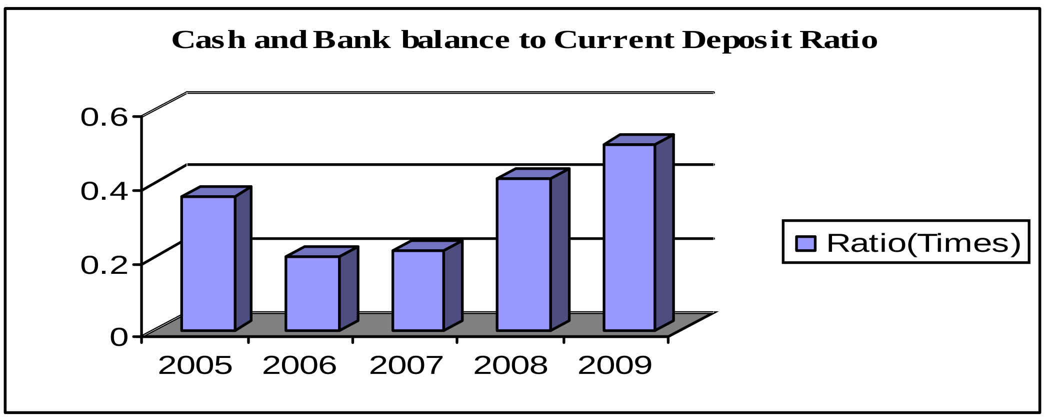
Cash and Bank Balance to Current Deposit Ratio

(Amount in Million)

Year	Cash	Bank Balance	Current Deposit	Ratio(Times)
2005	287	684	2689	0.3611
2006	146	413	2799	0.1997
2007	238	392	2911	0.2164
2008	270	1129	3395	0.4121
2009	511	2160	5284	0.5055
Mean				0.339

Source: Annual report of Nabil Bank

Figure No 4.2



Above table & figure shows the calculation of Cash and bank balance to current deposit of Nabil Bank. The ratios are 0.3611, 0.1997, 0.2164, 0.4121 and 0.5055 times respectively from the first year to last year of the research period. The mean average calculation is 0.339 times, which means consistency in this ratio during the research period. Cash and bank balance would not sufficient to meet the demand of current depositors. So here seems to be making more cash and bank balance to meet the current deposit. Otherwise the bank would lose its image from the viewpoints of customers if all current depositors demand their deposit. Here mean ratio is only 0.339 so more cash and bank balance is required to maintain the current depositor required.

iii) Cash and Bank Balance to Interest Sensitive Deposit Ratio

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

Table No 4.3

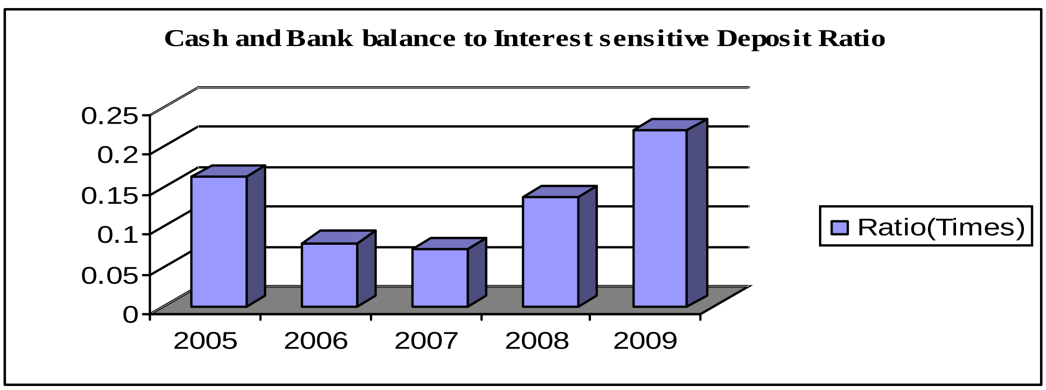
Cash and Bank balance to interest sensitive deposit Ratio

(Amount in million)

Year	Cash	Bank balance	Sensitive Deposit	Ratio(Times)
2005	287	684	5994	0.1620
2006	146	413	7026	0.07956
2007	238	392	8771	0.07183
2008	270	1129	10187	0.13733
2009	511	2160	12160	0.21965
Mean				0.1341

Source: Annual report of Nabil Bank

Figure No 4.3



Above table & figure shows that the cash and bank balance to interest sensitive ratio of Nabil bank is in fluctuating trend. The ratios are 0.1620, 0.07956, 0.07183, 0.13733 and 0.21965 respectively according to consecutive year 2005 to 09. The mean ratio is 0.1341 times. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 0.22 times in the year 2009 and lowest ratio of 0.072 times in the year 2007. In year, 2009 this bank mobilized deposits 0.22 times and it maintained good financial condition. In year, 2007 mobilized saving deposit 0.072 times and it indicates it does not maintain good financial condition. The sensitive deposit ratio is volatiles so the condition of sensitive of bank also fluctuating. Therefore, credit management neither good nor bad position of the Nabil Bank. Cash, bank balance and interest sensitive deposit are presented following diagram

4.3.2 Assets Management Ratio

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

i) Credit and Advances to Fixed Deposit Ratio

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

$$\text{Credit \& advances to fixed deposit} = \frac{\text{Credit and Advances}}{\text{Fixed Deposit}}$$

Table No 4.4

Credit and Advances to Fixed Deposit Ratio

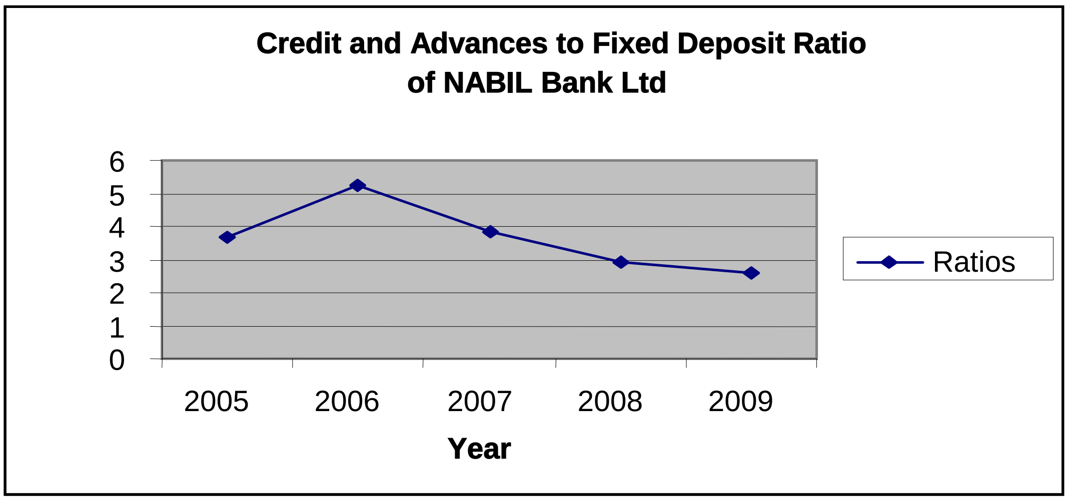
(Amount in million)

Year	Credit and advances	Fixed deposit	Ratio(Times)
2005	8549	2310	3.7
2006	10947	2078	5.27
2007	13279	3449	3.85
2008	15903	5435	2.93
2009	21759	8464	2.57
Mean			3.66

Source: Annual report of Nabil Bank

From the above table it is visualized that Loan and advances to fixed deposits ratio are increasing and decreasing trend in overall. The ratio of Nabil bank in 2005 was 3.7 and increased in 2006 year up to 5.27 after that the Ratio are decreasing trend i.e. 3.58 and 2.57 times in the following years respectively. The mean average of Nabil is 3.66 times at research period. Credit and advance to fixed deposit ratio is represented in figure as follow.

Figure No 4.4



ii) Credit and Advances to Total Deposit Ratio

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

$$\text{Credit \& advances to total deposit ratio} = \frac{\text{Credit \& advances}}{\text{Total deposit}}$$

Table No 4.5

Credit and Advances to Total Deposit Ratio

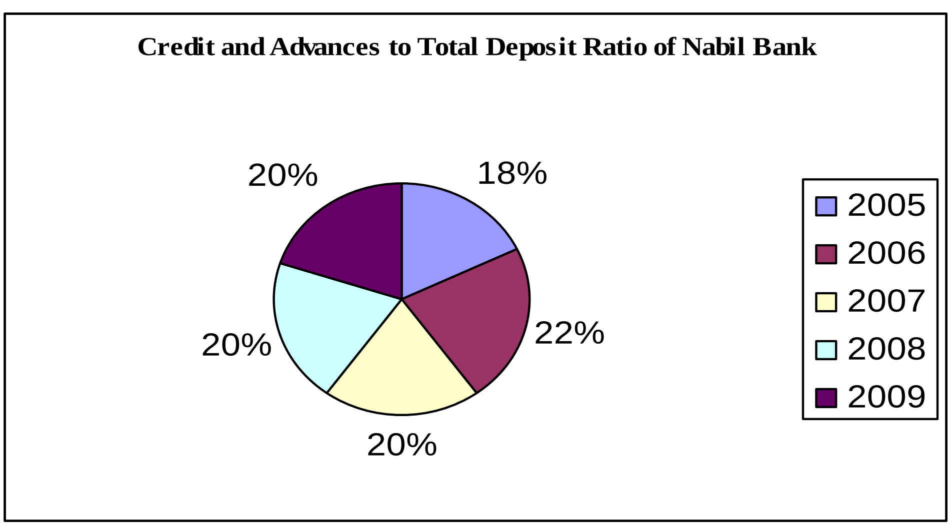
(Amount in million)

Year	Credit and advances	Total deposit	Ratio(Times)
2005	8549	14119	0.61
2006	10947	14587	0.75
2007	13279	19347	0.69
2008	15903	23342	0.68
2009	21759	31915	0.68
Mean			0.68

Source: Annual report of Nabil Bank

Above Table shows that the total loan advances to total deposit ratio of NABIL is in constant not more fluctuating trend. The highest ratio is 0.75 times in year 2006 and lowest ratio 0.61 times in year 2005. The average mean ratio of NABIL is 0.68 times in the study period. This means the bank is able to proper mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has tries to meet the NRB requirement or it has utilized its deposit to provide loan. This means that credit management is in good position of the bank. Loan advances and total deposit are presented in the line diagram.

Figure No 4.5



iii. Credit and Advances to Total Assets Ratio

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

$$\text{Credit \& advances to total assets} = \frac{\text{Credit \& advances}}{\text{Total assets}} \times 100\%$$

Table No 4.6

Credit and Advances to Total Assets

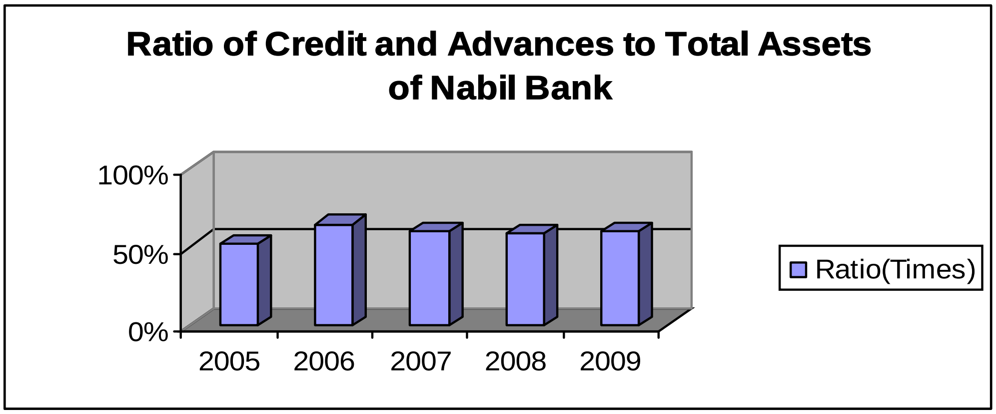
(Amount in million)

Year	credit and advances	Total assets	Ratio(Times)	Ratio (%)
2005	8549	16745	0.51	51%
2006	10947	17186	0.64	64%
2007	13279	22330	0.59	59%
2008	15903	27253	0.58	58%
2009	21759	37133	0.59	59%
Mean			0.58	58%

Source: Annual report of Nabil Bank

From the above table shows the Nabil bank has generally mixed or fluctuating trends of Credit and Advances to Total Assets ratio under the study period. The ratios are 51%, 64%, 59%, 58% and 59% in their respective year. The highest ratio is 59% in the year 2008 and the lowest ratio is 51 % year 2004. The average mean ratio is 58%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the fluctuation of the ratio is minimum. Loan and advances to total assets ratio is represented in figure as follow.

Figure No 4.6



iv) Non-Performing Assets to Total Assets Ratio

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

Table No 4.7
Non-performing assets to Total Assets ratio

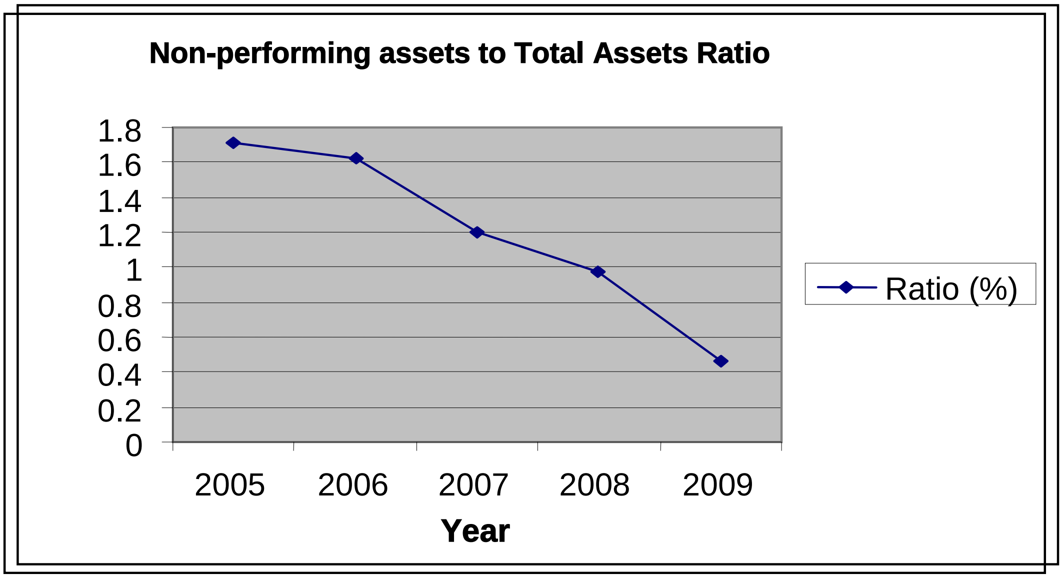
(Amount in million)

Year	Non-performing Assets	Total Assets	Ratio (%)
2005	287	16745	1.71
2006	279	17186	1.62
2007	268	22330	1.20
2008	265	27253	0.97
2009	172	37133	0.46
Mean			1.19

Source: Annual report of Nabil Bank

Table no 7 shows that the total non-performing assets to total assets ratio of NABIL is in decreasing trend. The highest ratio is 1.71 % in year 2004 and lowest ratio 0.46% in year 2009. The mean ratio is 1.19%. The bank is able to obtain higher lending opportunity. The decreasing trends of Ratios are 1.62%, 1.20%, 0.97% and 0.46% in year 2006, 2007, 2008 and 2009 respectively. These are able to obtain higher lending opportunity. Therefore, credit management is in good position of the bank. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be about 5%. However, referring to this table, Nabil bank is able to keep the level of non-performing assets at a satisfactory level, which is on an average 1.19%. Non-performing assets to total assets ratio is represented clearly in the figure.

Figure No 4.7



4.3.3 Leverage Ratio

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

i) Total Debt to Equity Ratio

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

Total debt = Debentures & Bonds + Borrowings + Deposits + Bills Payable + Proposed & Undistributed Dividends + Income Tax Liabilities

Total Equity = share capital + Reserve and surplus

$$\text{Total debt to equity} = \frac{\text{Total Debt}}{\text{Equity}}$$

Table No 4.8

Total Debt to Equity Ratio

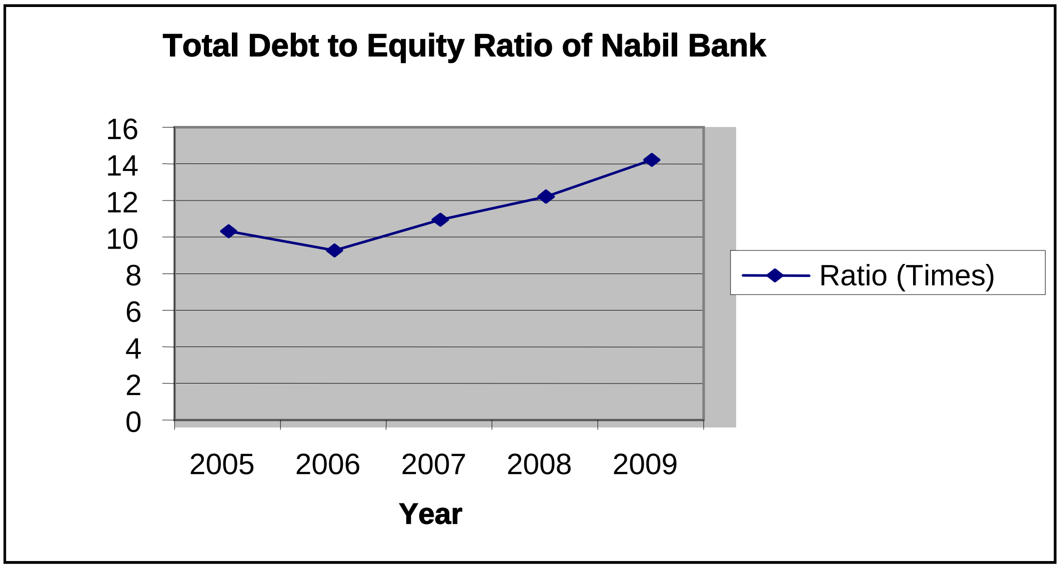
(Amount in million)

Year	Total Debt	Total Equity	Ratio (Times)
2005	15264	1482	10.30
2006	15406	1658	9.29
2007	20455	1875	10.91
2008	25196	2057	12.25
2009	34696	2437	14.24
Mean			11.38

Source: Annual report of Nabil Bank

Above table shows Debt to total equity ratio is decrease in 2006 and continuously incrassating trend till research period. The ratio is 10.30 times in the first year 2005, 9.29 times in the second year 2006, 10.91 times in the third year 2007, 12.25 times in the fourth year 2008 and 14.24 times in the fifth year 2009 of the research period. The average mean ratio is 11.38 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit. Ratio is represented in figure as follow.

Figure No 4.8



ii) Total Debt to Total Assets:

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

$$\text{Total debt to Total Asset} = \frac{\textit{TotalDebt}}{\text{Total Asset}}$$

Table No 4.9

Total Debt to Total Assets

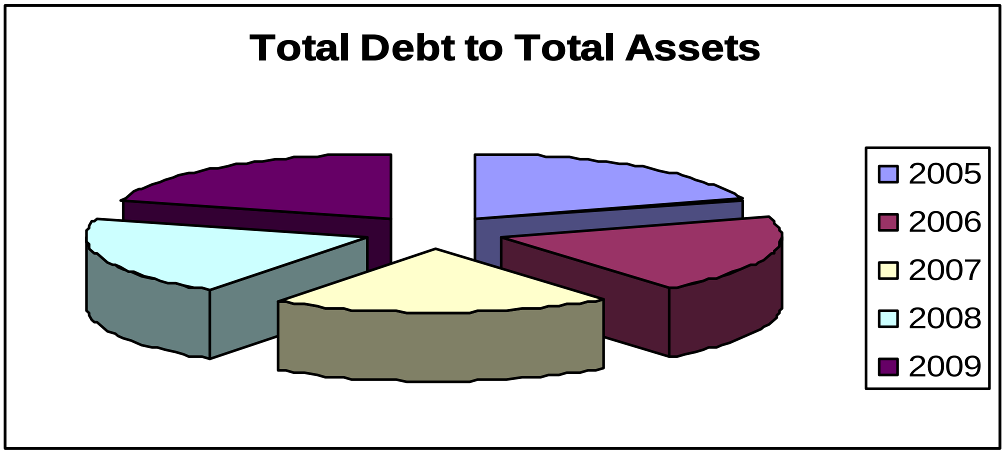
(Amount in million)

Year	Total Debt	Total assets	Ratio (Times)
2005	15264	16745	0.91
2006	15406	17186	0.90
2007	20455	22330	0.91
2008	25196	27253	0.92
2009	34696	37133	0.93
Mean			0.92

Source: Annual report of Nabil Bank

In above table the ratio is found as 0.91 times, 0.90 times, 0.91 times, 0.92 times and 0.93 from 1st to 5th year of the study period 2005 to 2009 respectively. The average mean ratio in 5 years research period is 92 times. It means almost 92% of total assets is financed by the outsider's' funds. It is seen that there is not much deviation in the ratio for the five years study period. It means no change in the policy on this ratio for the five years. Ratio is represented in figure as follow.

Figure No 4.9



iii. Total Assets to total Book Net worth Ratio

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

Table No 4.10
Total Assets to Net Worth

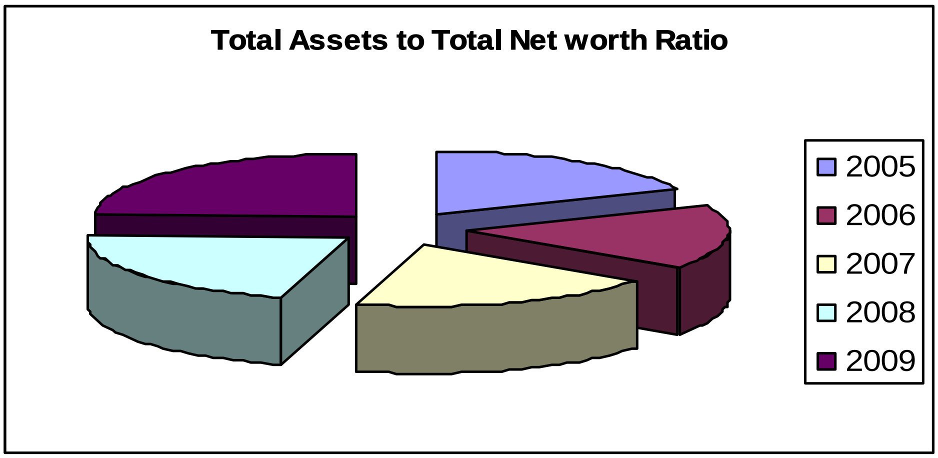
(Amount in million)

Year	Total assets	Net Worth	Ratio(Times)
2005	16745	1482	11.30
2006	17186	1658	10.37
2007	22330	1875	11.91
2008	27253	2057	13.25
2009	37133	2437	15.24
Mean			12.41

Source: Annual report of Nabil Bank

Above table shows Total assets to net worth ratio of the bank are decreasing in second year then increasing trend thereafter. It is lowest 10.37 times in the second year 2006 and 15.24 times in last year 2009. In over all the study period the average ratio at that time is 12.41 times. The ratio are 11.30 11.91 and 13.25 in consecutive year 2005, 2007 and 2008 respectively. It represents good condition of Total assets to net worth ratio. Here above table we see that total assets and net worth are increasing year by year on the study period. The figure show the clearly Total assets to net worth ratio of the bank

Figure No 4.10



4.3.4 Profitability Ratio

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

i) Net Profit to Gross Income Ratio

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

Table No 4.11

Net Profit to Gross Income Ratio

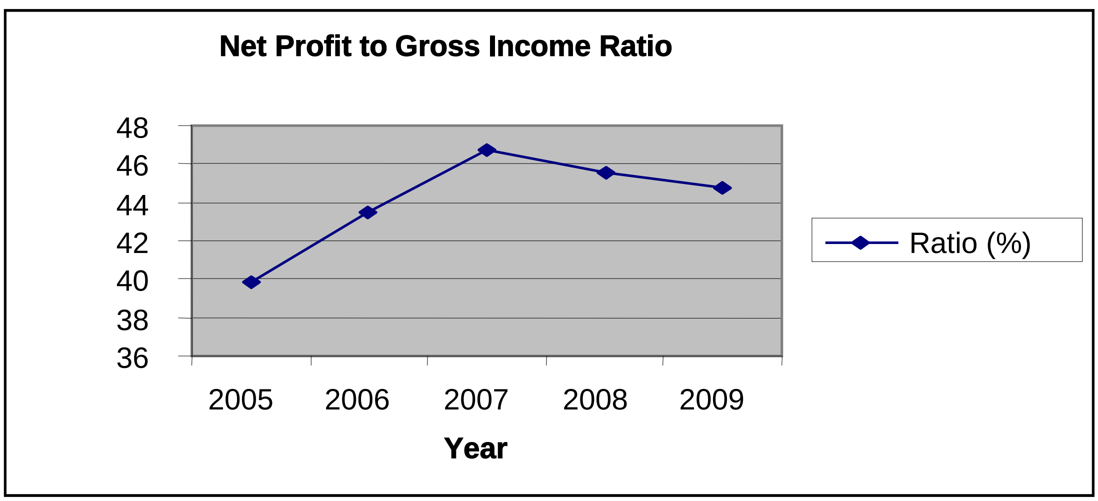
(Amount in million)

Years	Net profit	Gross Income	Ratio (%)
2005	455	1143	39.81
2006	520	1195	43.51
2007	635	1360	46.69
2008	674	1480	45.54
2009	747	1670	44.73
Mean			44.06

Source: Annual report of Nabil Bank

Table no11 shows that the total net profit to gross income ratio of NABIL is in increasing and decreasing trend. The highest ratio is 46.69% in year 2007 and lowest ratio 39.81% in year 2005. The mean ratio is 44.06%. The Ratios are 43.51%, 45.54% and 44.73% in year 2006, 2008 and 2009 respectively. These are able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. Net profit to gross income ratio is represented in figure.

Figure No. 4.11



ii) Interest Income to Total Income Ratio

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

Table No 4.12

Interest Income to Total Income Ratio

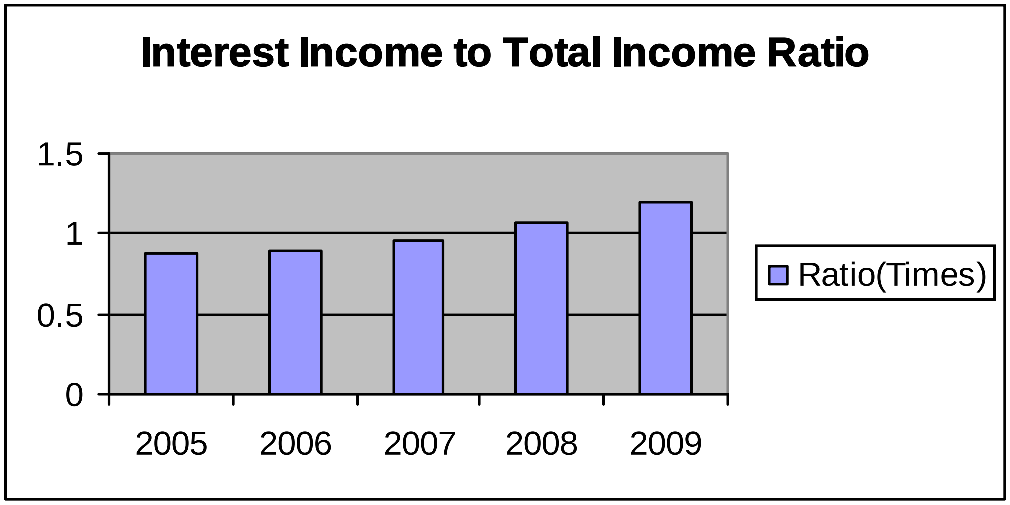
(Amount in million)

Years	Interest income	Total income	Ratio(Times)
2005	1002	1143	0.88
2006	1069	1195	0.89
2007	1310	1360	0.96
2008	1588	1480	1.07
2009	1979	1670	1.19
Mean			0.99

Source: Annual report of Nabil Bank

Table no12 shows that the total interest income to total income ratio of NABIL is in increasing trend. The ratios are 0.88 times, 0.89 times, 0.96 times, 1.07 times and 1.19 times in fiscal year 2005, 2006, 2007, 2008 and 2009 respectively. The highest ratio is 1.89 times in year 2009 and lowest ratio 0.88 times in year 2005. The mean ratio is 0.99 times in the study period. The ratio indicates the high contribution made by lending and investing activities. The total interest income to total income is continuously increasing trend. Therefore, credit management is in a good position of the bank. Interest income and total income are presented in bar diagram as follows:

Figure No. 4.12



iii) Operating Profit to Loan and Advances Ratio

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

Operating profit to loan and advance ratio = $\frac{Operasting\ \mathrm{Pr}\,ofit}{Loan\,and\ Advance}$

Table No 4.13

Operating profit to Loan and advances Ratio

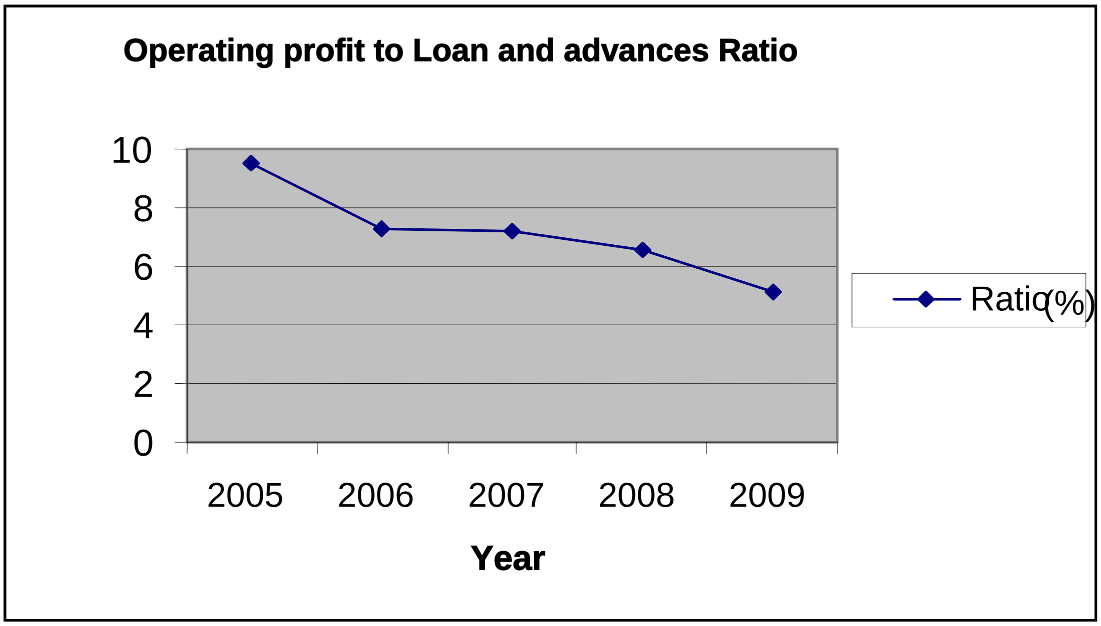
(Amount in million)

Years	Operating profit	credit and advances	Ratio (%)
2005	812	8549	9.50
2006	796	10947	7.27
2007	953	13279	7.18
2008	1038	15903	6.53
2009	1123	21759	5.16
Mean			7.13

Source: Annual report of Nabil Bank

Table no 13 shows that the operating profit to loan and advances ratio of NABIL is in decreasing trend. The highest ratio is 9.5% in the year 2005 and lowest ratio 5.16% in the year 2009.The average mean ratio over the period is 7.13%. This shows the high profitability in 2005 and low profitability in 2009 through loan and advance of the bank. Ratios are 7.27%, 7.18% and 5.16% in year 2006, 2007 and 2009 respectively. These show the fine profitability position of commercial bank, But there is a declining in operating profit to loan and advance ratio. Anyway credit management is in good position of the bank. Operating profit and loan advances are presented in the bar diagram as follows

Figure No. 4.13



iv) Return on Loan and Advances Ratio

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

Table No 4.14

Return on Loan and Advances Ratio

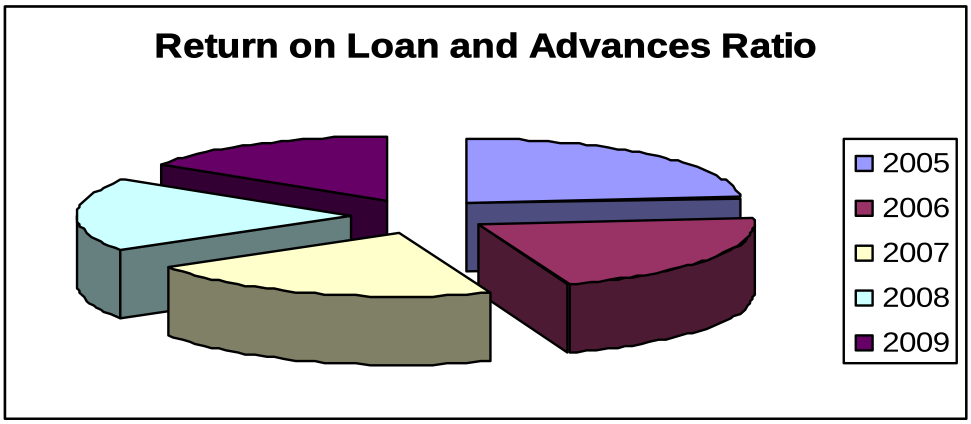
(Amount in million)

Years	Net profit	Credit and advances	Ratio (%)
2005	455	8549	5.32
2006	520	10947	4.75
2007	635	13279	4.78
2008	674	15903	4.24
2009	747	21759	3.43
Mean			4.5

Source: Annual report of Nabil Bank

Table no 14 shows that return on loan and advances ratio of NABIL is in fluctuating trend. The highest ratio is 5.32% in the year 2005 and lowest ratio 3.43% in the year 2009. The average mean ratio is 4.5%. The Ratios are 4.75%, 4.78% and 4.24% in years 2006, 2007 and 2008 respectively. These show the highest earning in 2005 and lowest earning capacity in 2009 from loan and advances. These show the little high earning capacity of Nabil Bank through loan and advances. Thus, credit management is in good position. Net profit and loan advances are represented in the bar diagram as follows.

Figure No. 4.14



V) Net profit to Total assets

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

Table No 4.15

Net profit to Total Assets

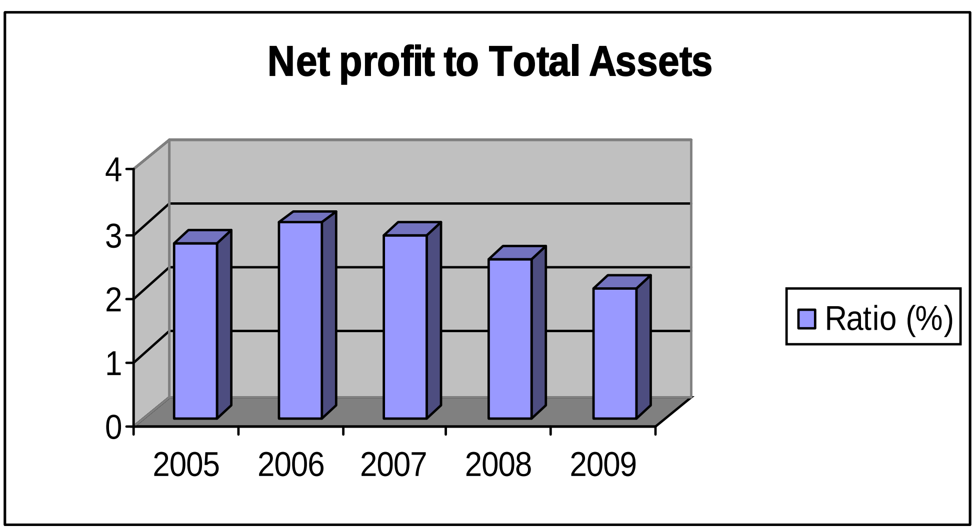
(Amount in million)

Years	Net profit	Total assets	Ratio (%)
2005	455	16745	2.72
2006	520	17186	3.03
2007	635	22330	2.84
2008	674	27253	2.47
2009	747	37133	2.01
Mean			2.61

Source: Annual report of Nabil Bank

In above table shows that the Net profit to total assets ratio of NABIL is in fluctuating trend. The ratio is 2.72% 3.03%, 2.84%, 2.74% and 2.01% in years 2005, 2006, 2007, 2008 and 2009 respectively. The highest ratio is 3.03 in 2006 and lowest ratio is 2.01% in the year 2009. The mean ratio is 2.61%. This shows the normal earning capacity through asset utilization. In above the five year research period net profit and total assets both are fluctuating trend.

Figure No 4.15



vi) Earning per Share

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

Table No 4.16

Earning Per Share

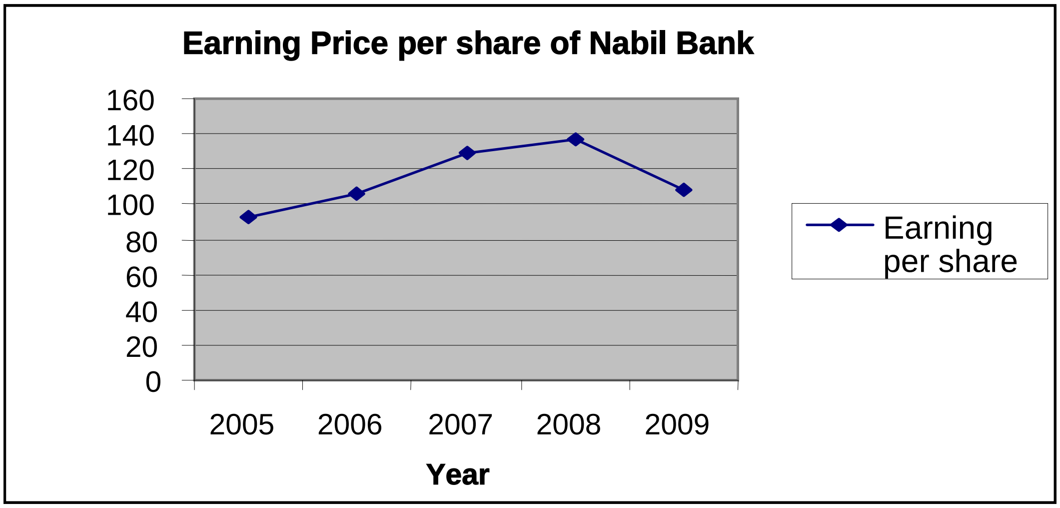
(Amount in million)

Years	Net profit	No. of equity shares	Earning per share (In Rs.)
2005	455	4916455	92.61
2006	520	4916455	105.49
2007	635	4916455	129.21
2008	674	4916455	137.08
2009	747	6892	108.31
Mean			114.54

Source: Annual report of Nabil Bank

Above table shows that Earning per share of NABIL is in increasing trend up to 2008. The highest EPS is RS 137.08 in year 2008 and lowest EPS Rs.92.61 in year 2005. The average means EPS of Nabil Bank is Rs.114.54 in the study period. This shows the better profitability in the coming last years. Earning per shares are Rs.105.49, Rs.129.21 and Rs.108.31 in year 2006, 2007 and 2009 respectively. These mean that the better profitability in the study years. In the year 2009 EPS 108.31 is lower due to increased number of shareholder. Aggregate profit is in increasing trends. Therefore, credit management and overall performance of company is in good position. Earning per shares is represented in the following diagram.

Figure No. 4.16



vii) Price Earning Ratio

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

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

Table No 4.17

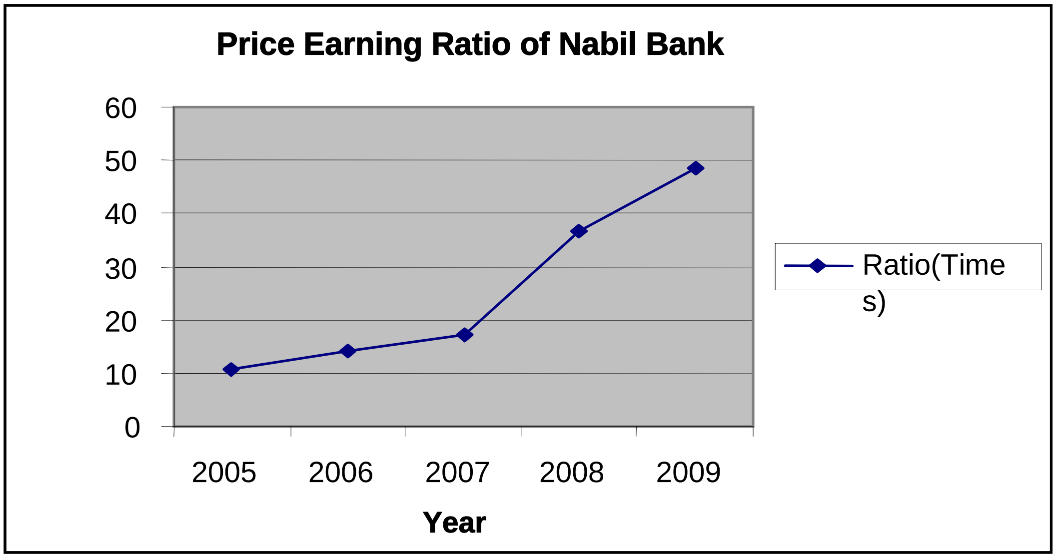
Price Earning Ratio

Years	Market price per share	Earning per share	Ratio(Times)
2005	1000	92.61	10.80
2006	1505	105.49	14.27
2007	2240	129.21	17.34
2008	5050	137.08	36.84
2009	5275	108.31	48.70
Mean			25.59

Source: Annual report of Nabil Bank

Above table shows that price earning ratio earning of Nabil Bank is in increasing trend. The highest price earning ratio is 48.70s in year 2009 and lowest ratio 10.80 times in year 2005. The average mean ratio of the Nabil is 25.59 times in the study period. This shows the better profitability in the last years. Ratios are 14.27 times, 17.34 and 36.84 times in year 2006, 2007 and 2008 respectively. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. But it is recommended to risk in invest in market price. Anyway creditability seems to be good position. Price earning ratios are represented in the diagram as follow:

Figure No 4.17



4.3.5 Lending Efficiency Ratio

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

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

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

Table No 4.18

Loan Loss Provision to Total Loan and Advances Ratio

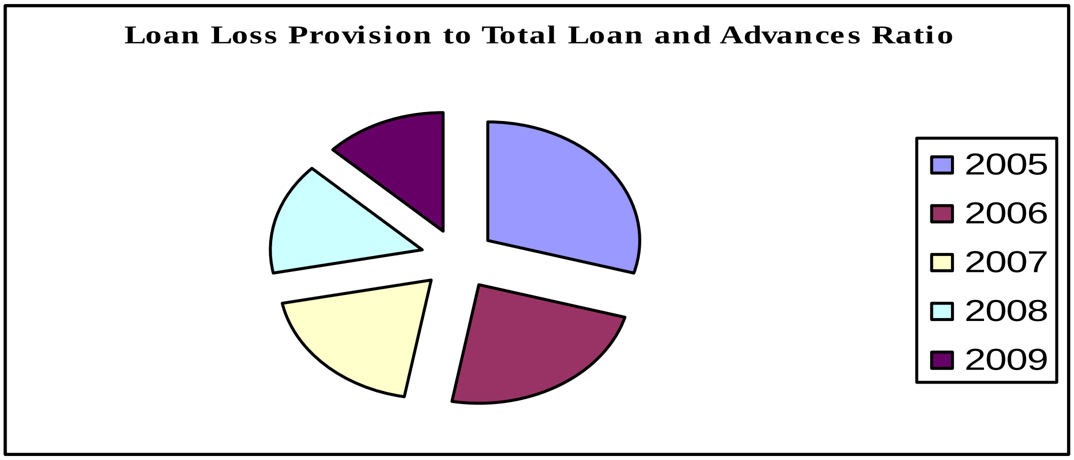
(Amount in million)

Years	Loan loss provision	credit and advances	Ratio (%)
2005	359	8549	4.2
2006	360	10947	3.3
2007	356	13279	2.7
2008	357	15903	2.2
2009	394	21759	1.8
Mean			2.8

Source: Annual report of Nabil Bank

Above table shows that loan loss provision to total loan and advances ratio of NABIL is in decreasing trend. The highest ratio is 4.22% in year 2005 and lowest ratio 1.8% in year 2009. The mean ratio of the study period is 2.8%. This shows that good quality of assets in total volume of loan and advances. Ratios are 3.3%, 2.7% and 2.2% in the year 2006, 2007 and 2008 respectively. These indicate the good quality of assets in total volume of loan and advances. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position. So all of the year, the bank has met the NRB requirement. Loan loss provision and total loan and advances are represented in the following diagram clearly.

Figure No 4.18



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

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

Table No 4.19

Non-Performing Loan to Total credit and Advances

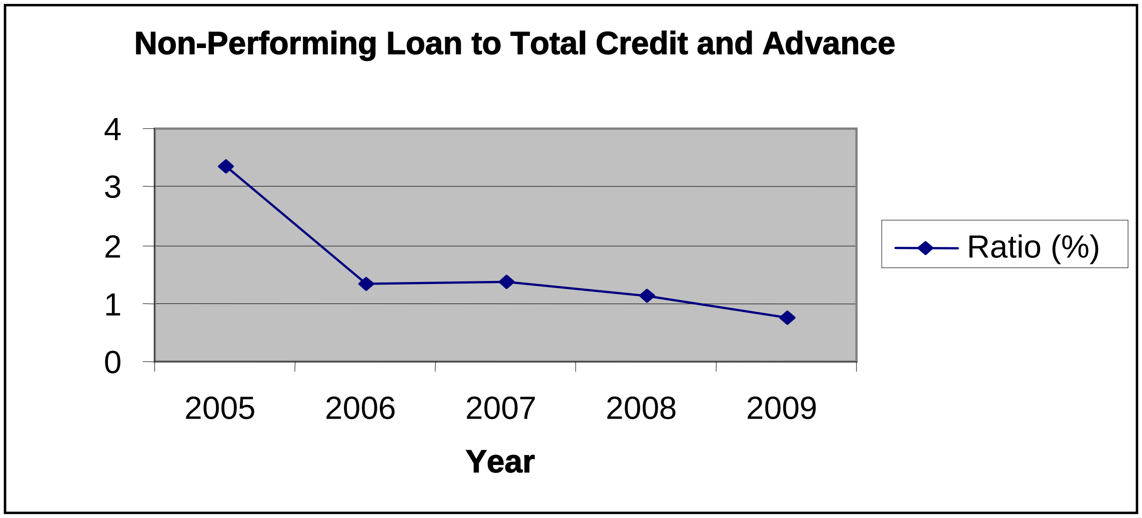
(Amounts in million)

Years	Non-performing loan	Credit and advances	Ratio (%)
2005	287	8549	3.36
2006	145	10947	1.32
2007	183	13279	1.38
2008	178	15903	1.12
2009	161	21759	0.74
Mean			1.58

Source: Annual report of Nabil Bank

Above table shows that None performing loan to total loan and advance of NABIL is in decreasing trend. The ratios are 3.36%, 1.32%, 1.38%, 1.12% and 0.74 in consecutive year 2005, 06, 07, 08 and 09 respectively. The highest ratio is 3.36 % in the year 2005 and lowest ratio is 0.74% in the year 2009. The average non-performing loan to total loan and advances ratio of NABIL is 1.58% during the study period. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicate the bank is decreasing the non-performing loan from total loan. Therefore, credit management is in a good position recently. Non- performing loan to loan and advances ratio present clearly in following figure.

Figure No 4.19



iii) Interest Expenses to Total Deposit Ratio

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

Table No 4.20

Interest Expenses to Total Deposit Ratio

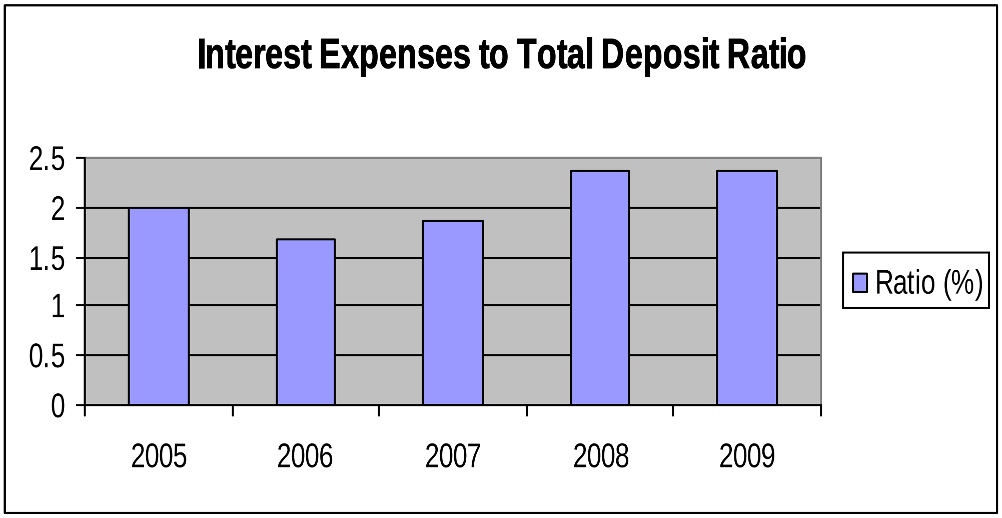
(Amounts in million)

Years	Interest expenses	Total deposit	Ratio (%)
2005	283	14119	2.00
2006	244	14587	1.67
2007	357	19347	1.85
2008	556	23342	2.38
2009	758	31915	2.37
Mean			2.06

Source: Annual report of Nabil Bank

Above table shows that interest expenses to total deposit ratio of NABIL is in fluctuating trend. The highest ratio is 2.38% in the year 2008 and lowest ratio is 1.67% in the year 2006. The average mean point of interest expenses to total deposit ratio is 2.06% during the study period. Ratios are 2.00% 1.85% and 2.37% and 3.92% in respective year 2005, 2007 and 2009. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. Interest expenses to total deposit ratio is represented in figure as follow

Figure No 4.20



4.4 Statistical Analysis

i) Correlation Coefficient

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

$$\text{Coefficient of Correlation (r)}\ X\frac{N\quad xy - (\quad X)(\quad Y)}{\sqrt{N\quad X^2\, Z(\quad X)^2}\sqrt{N\quad Y^2\, Z(\quad Y)^2}}$$

Here,

N = Number of pairs of x and y observed.

x = values of credit and advances.

y = values of total assets.

r = Karl Pearson's Coefficient of Correlation.

ii) Probable Error

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

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

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

Probable Error (P.E.) = 0.6745 × $\frac{1 Z r^2}{\sqrt{n}}$

Where r = coefficient of correlation

n = no of observations

The probable error is used to test whether the calculated value of correlation significant or not.

If $r < 6 \times P.E(r)$, then the value of r is not significant

If $r > 6 \times P.E(r)$, then the value of r is significant

In this course of study, correlation coefficient and probable error is used to measure sample the relation ship between.

- Total credit and Total assets

- Loan and advance and Total deposit

A. Total Credit and total assets

Table No 4.21
Correlation Coefficient between Total Credit and Total Assets of NABIL

Amount in 1000 million

Year	**Total Credit(X)**	**Total Asset(Y)**	**X^2**	**Y^2**	**XY**
2005	8.5	16.7	72.25	278.89	141.95
2006	10.9	17.2	118.81	295.84	187.48
2007	13.2	22.3	174.24	497.29	294.36
2008	15.9	27.2	252.81	739.84	432.48
2009	21.7	37.1	470.89	1376.41	805.07
N = 5	**∑x= 70.2**	**∑Y = 20.5**	**$\sum X^2$ = 4928.04**	**$\sum Y^2$ = 14520.25**	**∑XY = 8459.1**

Here,

N = 5, x = 70.2, y = 20.5, x^2 = 4928.04, y^2 = 14520.25 and xy = 8459.1

Now, Coefficient of correlation (r) $X \frac{N \quad xy - (\quad X)(\quad Y)}{\sqrt{N \quad X^2 \, Z(\quad X)^2}\sqrt{N \quad Y^2 \, Z(\quad Y)^2}}$

= 0.989

It seems the correlation between total credit and total assets is high degree of positive correlation

Computation of Probable Error (P.E.):

Probable Error (P.E.) = 0.6745 × $\frac{1 Z r^2}{\sqrt{n}}$

We have, r = 0.989 and n = 5

Then, P.E $= 0.6745 \times \frac{1 Z r^2}{\sqrt{n}}$

$=0.0066$

Now 6×P.E = 6×.0012

= 0.040

Since, 'r' is more than 6× P.E. the coefficient of correlation is considered as significant. In other words, the total credit and advances are significantly correlated to the total assets of Nabil Bank Ltd in the study period of 2005 to 2009.

B. Loan and advance (Total credit) to Total Deposit

Table No 4.22
Correlation Coefficient between Loan & Advances to Total Deposits

Amount in 1000 million

Year	Total Credit(X)	Total Deposit(Y)	X^2	Y^2	XY
2005	8.5	14.1	72.25	198.81	119.85
2006	10.9	14.6	118.81	213.16	159.14
2007	13.2	19.3	174.24	372.49	254.76
2008	15.9	23.3	252.81	542.89	370.47
2009	21.7	31.9	470.89	1017.61	692.23
N = 5	**$\sum x$ =70.2**	**$\sum Y$ = 103.2**	**$\sum x^2$ = 4928.04**	**$\sum y^2$ = 10650.24**	**$\sum xy$ = 7244.64**

Here,

N = 5, x = 70.2, y = 103.2, x^2 = 4982.04, y^2 = 10650.24 and xy = 7244.64

Now,

Coefficient of correlation (r) $= \dfrac{N\sum xy - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

$= 0.990$

Computation of Probable Error (P.E.):

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

We have, r = 0.990 and n = 5

Then, P.E = 0.6745 × $\dfrac{1 - r^2}{\sqrt{n}}$

= 0.00060

Now 6×P.E

= 6×.00060

=.0036

Since, 'r' is more than 6× P.E. the coefficient of correlation is considered as significant. There is high degree of positive correlation between loan & advances to total deposits. It seems increasing amount in deposit will helps to increase loan and advances and vice-versa.

iii. Trend Analysis:

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

Trend analysis is based on some assumptions;

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

a) Trend Analysis of Total Deposit

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method.

Y= a + bx

Where,

Y = dependent variable, a =Y- intercept, b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Table No 4.23
Trend of total Deposit

(Amount in million)

Year	Total Deposit
2005	11792
2006	16227
2007	20662
2008	25097
2009	29532
2010	33967
2011	38402
2012	42837
2013	47272
2014	51707

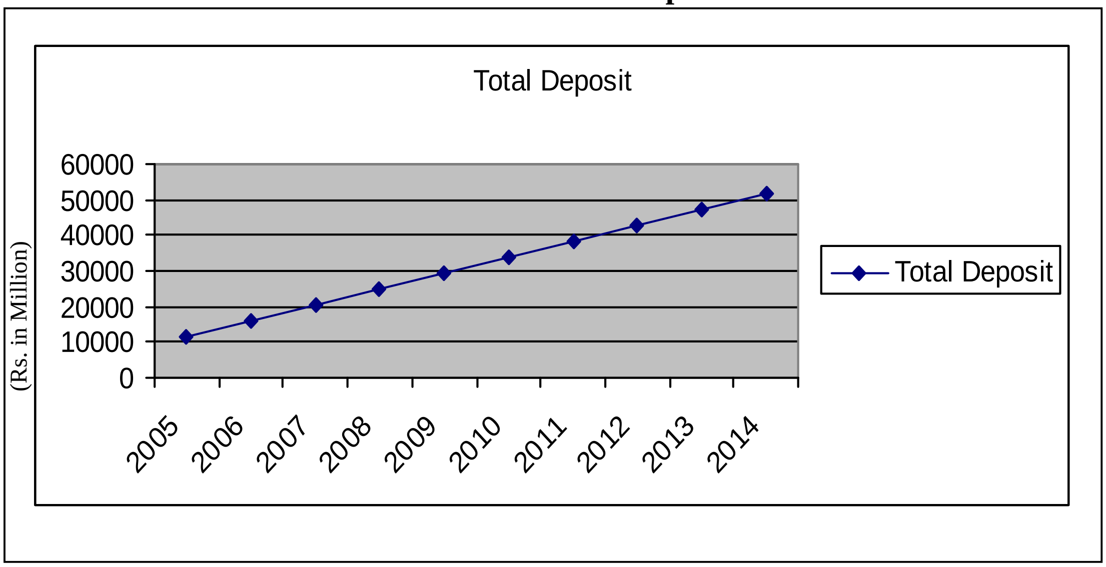
Source annul report of NABIL

Appendix II

The following graph helps to show the trend lines of total deposit for the projected five years. The equation is Yc = 20662 + 4435 x

Figure No 4.21

Trend of total Deposit



b) Trend Analysis of total Loan and Advance

Table No 4.24
Trend Analysis of total Loan and Advance

Year	Total Credit
2005	7811
2006	10949
2007	14087
2008	17225
2009	20363
2010	23501
2011	26639
2012	29777
2013	32915
2014	36053

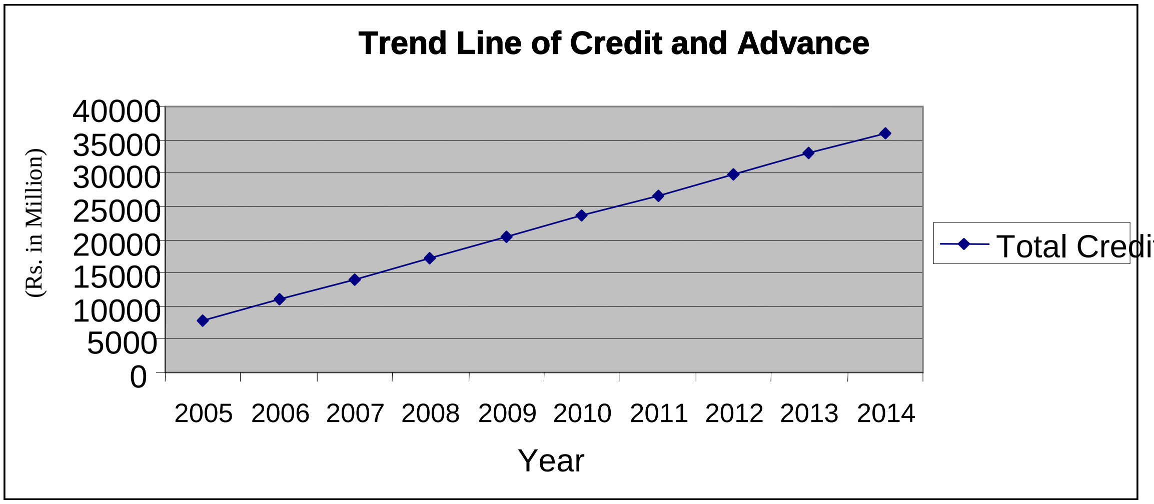
Source annul report of NABIL

Appendix III

The following graph helps to show the trend lines of Loan and advance for the projected five years. The equation is Yc = 14087+3138 x

Figure No 4.22

Trend Analysis of total Loan and Advance



c) Trend Analysis of Total Asset:

Table No 4.25

Trend Analysis of Total Asset

Year	Total Asset
2005	13961
2006	19045
2007	24129
2008	29213
2009	34297
2010	39381
2011	44465
2012	49549
2013	54633
2014	59717

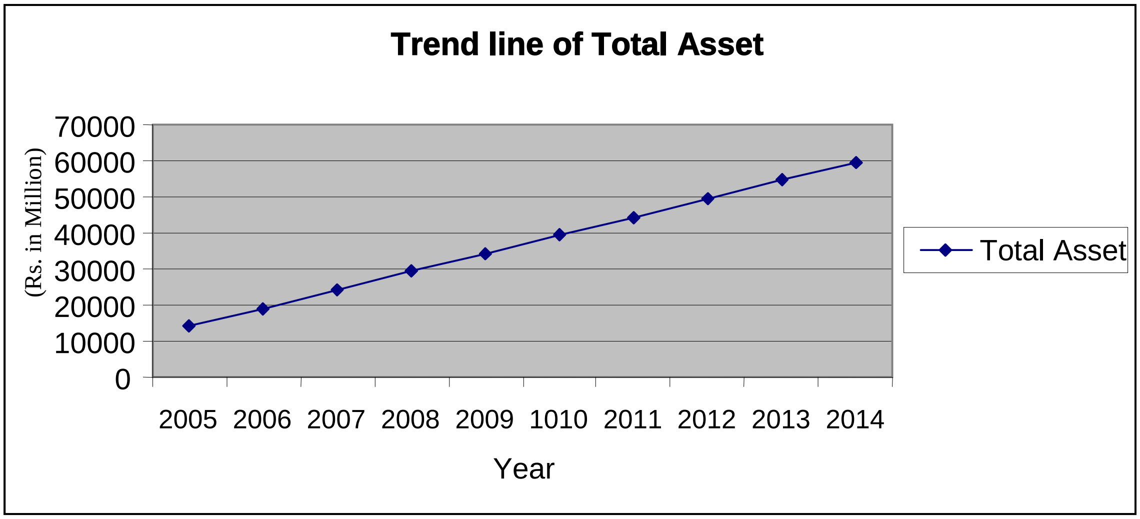
Source annul report of NABIL

Appendix IV

The following graph helps to show the trend lines of Total Asset for the projected five years. The equation is Yc = 24129+5084 x

Figure No 4.23

Trend Analysis of Total Asset



c) Trend Line of Net profit

Table No 4.26

Trend Analysis of Net profit

Amount in million

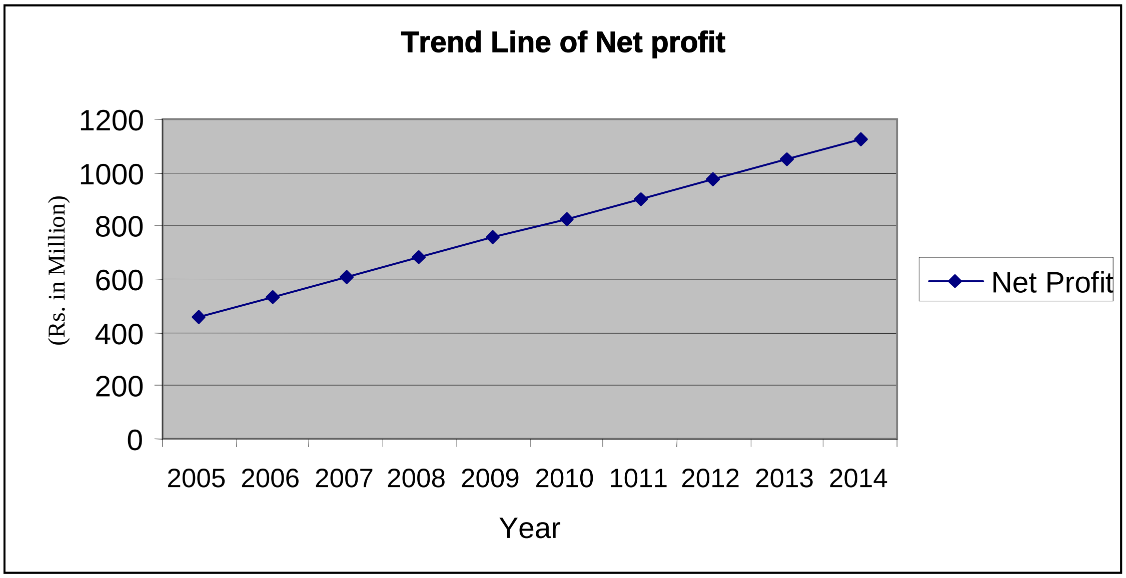
Year	Net Profit
2005	458
2006	532
2007	606
2008	680
2009	754
2010	828
2011	902
2012	976
2013	1050
2014	1124

Source annul report of NABIL

Appendix V

The following graph helps to show the trend lines of Net profit for the projected five years. The equation is Yc = 606 + 74x

Figure No 4.24



4.5 Major Finding

A. Liquidity Ratio

The cash and bank balance to total deposit of the Nabil bank shows the fluctuating trend during the study period. The mean ratio is 0.057 times in the study period. Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. The mean ratio is 0.339 times in the study period. This means that the bank is able to be maintained in the good liquidity position of the bank. Therefore, that credit management is in good position of the NABIL.

Cash and bank balance to interest sensitive ratio of Nabil bank is also in fluctuating trend. The mean ratio is 0.1341 times. In previous year the ratio is high and in mid year low and in the last year again high in aggregate study period. This means that the bank is able to maintain in the good financial condition.

B. Assets Management Ratio

Credit and advance to fixed deposit ratio of NABIL is Fluctuating trend. The average mean ratio is 3.66 times in the study period. Credit and advances to total deposit ratio is little fluctuating trend. The mean ratio is 0.68 times in the study period. Similarly credit and advance to total asset is not so fluctuating tends. The average mean ratio is 58% in the study period. The ratio indicates the high contribution made by lending and investing activities. Thus, credit management is in a good position.

Non-performing assets to total assets ratio of NABIL is in a declining trend which is good. The average mean ratio is 1.19%. This indicates that the bank has continuously decreasing their nonperforming asset. The bank is able to obtain higher lending opportunity. Thus, credit management is in a good position.

C. Leverage ratio

The Debt to equity ratio of NABIL is in increasing trend during the study period. The average mean ratio is 11.38 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increase if the debt cannot be repay in the time The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets.

The Debt to assets ratio of NABIL is high or in other words they have excessively geared capital structure. On an average 92% of assets are financed through debt capital that is outsiders cost bearing fund, which implies that the bank has riskier debt financing position. Total asset to net worth of NABIL is increasing trend. The average mean ratio is 12.41 times at the study period. It is good for company.

D. Profitability Ratios

Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Net Profit to gross income ratio of NABIL is in increasing and decreasing trend. There is highest ratio in 2007. The mean ratio is 44.06%. The bank is able to obtain higher efficiency. This means that credit management is in good position.

Interest income to total income ratio of NABIL is in increasing trend. The mean ratio is 0.99 times in the study period. Here interest income play dominant role in total income. The ratio indicates the high contribution made by lending and investing activities.

Operating profit to loan and advances ratio of NABIL is decreasing trend. The average mean ratio over the period is 7.13%. This shows the better profitability position of the bank.

Return on loan advances ratio of NABIL is also in fluctuating trend and stepping downward in ending study period. It indicates contribution in return is decreasing by loan and advance. The average mean ratio is 4.5%. Anyway this shows the normal earning capacity of NABIL in loan and advances.

Net profit to total assets ratio of NABIL is in fluctuating trend. The highest ratio is 3.03% in 2006 and lowest ratio is 2.01% in the year 2009. The mean ratio is 2.61%. This shows the normal earning capacity through asset utilization.

Earning per share of NABIL is in increasing trend. The highest EPS is RS 137.08 in year 2008. The average means EPS of Nabil Bank is Rs.114.54 in the study period. These mean that the better profitability in the study years. In the year 2009 EPS 108.31 is lower due to increased number of shareholder. Aggregate profit is in increasing trends. Therefore, credit management and overall performance of company is in good position

Price earning ratio of NABIL is increasing trend. The highest price earning ratio is 48.70s in year 2009 and lowest ratio 10.80 times in year 2005. The average mean ratio of the Nabil is 25.59 times in the study period. This shows the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.

E. Lending Efficiency Ratio

Loan loss provision to total loan advances ratio of NABIL is in decreasing trend. The mean ratio of the study period is 2.8%. This shows that good quality of assets in total volume of loan and advances. It indicates aggregate loan of bank are safe. Thus, credit management is in good position. So, the bank has met and maintained the NRB requirement in all year.

Non-performing loan to total loan advances ratio is also decreasing trend. The average non-performing loan to total loan and advances ratio of NABIL is 1.58% during the study period. This ratio indicates the more efficient operating of credit management. Ratios are decreasing trends it indicate the bank is decreasing the non-performing loan from total loan. Therefore, credit management is in a good position recently.

Interest expenses to total deposit ratio of NABIL is in fluctuating trend. The average mean point of interest expenses to total deposit ratio is 2.06% during the study period. Generally commercial bank generates low types of interest deposit. This ratio does not indicate higher interest expenses on total deposit.

F. Statistical tools

In statistical analysis, correlation analysis and trend analysis has been calculated. Correlation coefficient between total credit and total assets is 0.990, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.989. It is concluded that increasing total deposit will have positive impact towards loan & advances.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Average increasing trend is 20662 million. Trend analyses for loan & advance is done to see future loan & advances. Average increasing trend is 14087 million. Trend analyses for Total asset is calculate to see future total asset. Average increasing trend is 24129 million. Similarly, trend analysis of net profit is done to see future profit. Average increasing trend of net profit is 606 million per year.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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

In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. The average mean ratio is 0.05666 times in the study period. These all ratio shows that the bank is not maintain the good liquidity position of the bank. Cash and bank balance to current deposit is also fluctuating. The mean average calculation is 0.339 times. Cash and bank balance would not sufficient to meet the demand of current depositors. The average mean of Cash and bank balance to interest sensitive ratio is 0.1341 times. it shows the bank is able to maintain good financial condition

In the assets management ratio, credit advances to total assets ratio is decreasing trends. But in aggregate is shows the better performance but credit and advances to total deposit position in minimum than the averages. Whereas investment in credit and advances is done safely and not taking more risk. Non–performing assets to total assets ratio is decreasing trend the average mean ratio is 1.19%. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.

In leverage ratio Debt to equity ratio is in an increasing trend and the average mean ratio for total debt to equity ratio is 11.38 times Total debt to total assets ratio is 92 times, which means 92% of the bank’s assets are financed with debt, and only the remaining 8% of the financing comes from shareholder’s equity. High total debt to total assets ratio posses’ higher financial risk and vice-versa.

In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of NABIL is in increasing trend. The mean ratio is 0.99 times in the study period. The ratio indicates the high contribution made by lending and investing activities operating profit to loan and advances ratio of NABIL is in decreasing trend. The Price earning ratio of Nabil Bank is in increasing trend. The average mean ratio is 25.59 times in the study period. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.

After analyzing the lending efficiency of the bank, that loan loss provision to total loan and advances ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

In statistical analysis, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets is 0.989, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.990. It is concluded that increasing total deposit will have positive impact towards loan & advances.

5.2 Conclusion

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. NABIL has earned a net profit of Rs 747 million for the fiscal year 2008/09 and this comes to be 10.83% more as compared to the same period in the previous fiscal year. NABIL earned a operating profit of Rs 1122.7 million for the fiscal year 2008/09 and this comes to be 8.19% more as compared to the same period in the previous fiscal year. Similarly total deposit is Rs 31915 million for the fiscal year 2008/09 and this comes to be 36.72% more as compared to the same period in the previous fiscal year. Similarly total loan is Rs 21759 million which is increase by 36.8% compare as previous fiscal year.

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

Assets management ratio, credit advances to total assets ratio is decreasing trends. But in aggregate is shows the better performance but credit and advances to total deposit position in minimum than the averages. Whereas investment in credit and advances is done safely and not taking more risk. Non –performing assets to total assets ratio is decreasing trend the average mean ratio is 1.19%. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank

Loan loss provision to total loan and advances ratio of NABIL is in decreasing trend. This shows that good quality of assets in total volume of loan and advances. Total non-performing assets to total assets ratio is also in decreasing trend. It indicates proper mange of total asset. This ratio indicates the more efficient operating of credit management. Interest expenses to total deposit ratio of NABIL is increased in fiscal year 2008/09. That this ratio does not indicate higher interest expenses on total deposit.

In leverage ratio Debt to equity ratio is in an increasing trend and the average mean ratio for total debt to equity ratio is 11.38 times Total debt to total assets ratio is 92 times, which means 92% of the bank's assets are financed with debt, and only the remaining 8% of the financing comes from shareholder's equity. High total debt to total assets ratio posses' higher financial risk and vice-versa. Total assets to net worth ratio of the bank are decreasing in second year then increasing trend thereafter. The average ratio is 12.41 times it represent good condition of Total assets to net worth ratio

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Average increasing trend is 20662 million. Trend analyses for loan & an advance is done to see future loan & advances. Average increasing trend is 14087 million. Trend analyses for Total asset is calculate to see future total asset. Average increasing trend is 24129 million. Average increasing trend of net profit is 606 million per year.

Equity portion of the bank is slightly increasing in the recent years due to issue of directives by Nepal Rastra Bank (NRB) the entire bank to increases it's paid up capital. Every commercial has to meet 2000 million paid up capitals till 2070 B.S. Nabil Bank has currently Ordinary Shares of 6,892,160 Rs. 100 each 689,216,000 paid up capital. NRB has issued that direction to provide more safety to the customers. Therefore bank has continuously increasing their capital every year.

5.3 Recommendation

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

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

- NABIL should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records should be obtained for proper assessment of the proposal.
- NRB recommended following the NRB directives which will helps to reduce credit risk arising from defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So NABIL is suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.
- Nabil bank should be fulfilling some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantages group. In order do so; they should open their branches in the remote area with the objective to provide the banking services. The minimum deposit amounts should be reduced.
- The economic liberalization policy adopted by Nepal Government has created an environment of cutthroat competition in the banking sectors. In this context NABIL bank is suggested to formulate and implement sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.
- International relations of the Nabil bank are satisfactory in comparison to others banks. Due to tough competition the bank should make negotiation with the international banks to increase its transactions in the international areas.
- According to NRB directives, all the commercial bank should increase the capital up to Rs 2000 million by 2068 to 2071 B.S. NABIL is increasing the paid up capita to meet NRB directive. The increment in capital can be made either by capitalization of profit, declaration of Bonus share or right share issue.

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APPENDIX – I

1. Bank under Study: Nabil Bank Limited

Nepal Arab Bank Limited Nabil Bank, the 1st foreign joint venture Bank set up in the nation with an objective to introduce modern banking services, commenced its operations on 12th of July 1984 or 2041 Ashad 29 B.S. with Rs. 28 million capital. Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. The first Joint Venture Bank in Nepal with a 23 Year old journey of History.

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

Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, Credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele-banking system. Nepal Arab Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in the Kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the Bank of 1st Choice to all of its stakeholders and customers. Customers to think of Nabil Bank first to meet any financial need of theirs. Nabil Bank would like investors to choose the Bank's share as a blue-chip stock whenever they are in search of an investment opportunity. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, It wants to be an example for the regulators in terms of professionalism and transparency. Nabil wants to be an actively participating ‘good corporate citizen’ in all the Communities that the Bank works. It want to be the first choice as an employer with whom to build a career and finally the entire Nabil Team embraces a set of Values that acronym is referred to as ‘C.R.I.S.P.’ representing the fact that we consistently strive to be Customer Focused, Result Oriented, Innovative, Synergistic and Professional. By living these values, individually as professionals and collectively as a Team, Nabil Bank is committed to Surge Ahead to be the Bank of 1st Choice in Nepal.

NABIL bank is a full services bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank at Your Service'

Nabil Bank Limited was the first joint venture bank established in 1984 with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public. The shares owned by DBL were transferred to Emirates Bank International ltd (EBIL), Dubai. Later EBIL sold its entire holding go National Bank ltd, Bangladesh (NBLB). Hence 50% of equity shares of Nabil Bank ltd are held by NBLB and out of remaining, financial institutions have taken 20% and 30% were issued to general public of Nepal. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 28 points of representation across the nation and over 170 reputed correspondent banks across the globe.

Capital Structure of Nepal Arab Bank Limited (NABIL)

Authorized Capital 1,600,000,000

a) 16,000,000 Ordinary Shares of Rs. 100 each 1,600,000,000

b) ………...Non-redeemable Preference Shares of Rs……. each

c) …………Redeemable Preference Shares of Rs………... each

Issued Capital 689,216,000

a) 6,892,160 Ordinary Shares of Rs. 100 each 689,216,000

b) ………...Non-redeemable Preference Shares of Rs…..... each

c) …………Redeemable Preference Shares of Rs……….....each

Paid Up Capital 689,216,000

a) 6,892,160 Ordinary Shares of Rs. 100 each 689,216,000

b) ………...Non-redeemable Preference Shares of Rs….. each

c) …………Redeemable Preference Shares of Rs……. .. each

Figures in NPR

% Share Capital

Promoter	70 %	344,158,100
General Public	30%	147,496,300
Total	**100 %**	**491,654,400**

2. Lending Management

Lending is the most important functions of a commercial bank. Lending is regarded as the most income generating sources especially in commercials banks. Lending is the credit provided by financial institutions to their client. Lending is regarded as the heart of the commercial banks in the sense that; it occupies large volume of transactions; it covers the main part of investment; the most of the investment activities based on lending; it is the main factor of the creating profitability; it is the main sources of creating profitability; it determines the profitability. It affects the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides lending to retailer, it will make the customer status. Similarly it provides to corporation and industry, government will get tax from them and help to increase national economy. It is the security against depositors. It is proved from very beginning that lending is the shareholder's wealth maximization derivative. However, other factor is regarded profitability and wealth maximization but the most effective factor is regarded as lending. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of lending should seriously be considered.

The lending function is considered by the banking industry as the most important function for the utilization of funds. Since, banks earn their highest gross profits from loans; the administration of loan portfolios seriously affects the profitability of banks. Indeed, the large number of non-performing loans is the main cause of bank failure. With respect to performance, banks now use various measures to assess bank efficiency and related functions in the bank lending process. Traditionally, banks determined operating efficiency by using measures of bank profitability, such as return on equity, return on assets, and return on investment; also, banks used operational ratios, such as monetary output per staff member, and total operating expenses per unit of output.

Lending management is the system, which helps to manage lending effectively. In other words, lending management refers management of credit exposures arising from loans, corporate bonds, and credit derivatives. Lending exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income. For lending procedure, bank has to make some banking practices such as transferring property in bank's name. The transfer is temporarily made for a loan price & interest. Lending money is nowadays becoming main resources of revenue to the bank and also involves high risk too. Bank will not provide loan unless it has sufficient sources to the borrower that will be needed in case of future recovery. For being safe every bank or financial institution should be careful and make various analysis before extending and advancing loan.

APPENDIX – II

Trend Analysis of Total Deposit **(**Amount in million)

Year(x)	Total deposit(Y)	X = x - 2007	X^2	XY
2005	14119	-2	4	-28238
2006	14587	-1	1	-14587
2007	19347	0	0	0
2008	23342	1	1	23342
2009	31915	2	4	63830
N = 5	**∑Y = 103310**	**∑X = 0**	**$\sum X^2 = 10$**	**∑XY = 44347**

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{\phi Y}{N}$ $b = \frac{\phi XY}{\phi X^2}$

$= \frac{103310}{5} = 20662$ $= \frac{44347}{10} = 4435$

Substituting these values of a and b in eq (I) we get the required trend line

Yc = 20662+4435x

APPENDIX - III

Trend Analysis of (Total Credit) Loan and advance

(Amount in million)

Year(x)	Total Credit(Y)	X = x - 2007	X^2	XY
2005	8549	-2	4	-17098
2006	10947	-1	1	-10947
2007	13279	0	0	0
2008	15903	1	1	15903
2009	21759	2	4	43518
Total	**$\sum Y = 70437$**	**$\sum X = 0$**	**$\sum X^2 = 10$**	**$\sum XY = 31376$**

Let trend line be

Y = a + b x…………………….(I)

Where x = X-Middle year

Here,

$a = \frac{\phi Y}{N}$

$= \frac{70437}{5}$

= 14087

$b = \frac{\phi XY}{\phi X^2}$

$= \frac{31376}{10}$

= 3138

Substituting these values of a and b in eq (I) we get the required trend line

Yc = 14087+3138 x

APPENDIX – IV

Trend Analysis of Total Asset

(Amount in million)

Year (x)	Total Asset (Y)	X = x - 2007	X^2	XY
2005	16745	-2	4	-33490
2006	17186	-1	1	-17186
2007	22330	0	0	0
2008	27253	1	1	27253
2009	37133	2	4	74266
N = 5	**$\sum Y$ = 120647**	**$\sum X$ = 0**	**$\sum X^2$ = 10**	**$\sum XY$ = 50843**

Let trend line be

Y = a + bx…………………….(I)

Where x = X-Middle year

Here,

$a = \frac{\phi Y}{N}$

$= \frac{120647}{5}$

= 24129

$b = \frac{\phi XY}{\phi X^2}$

$= \frac{50843}{10}$

= 5084

Substituting these values of a and b in eq (I) we get the required trend line

Yc = 24129+5084 x

0.02
0

APPENDIX – V

Trend Analysis Net Profit

(Amount in million)

Years(x)	Net profit(Y)	X = x-2007	X^2	XY
2005	455	-2	4	-910
2006	520	-1	1	-520
2007	635	0	0	0
2008	674	1	1	674
2009	747	2	4	1494
N = 5	**$\sum Y = 3031$**	**$\sum X = 0$**	**$\sum X^2 = 10$**	**$\sum XY = 738$**

Let trend line be

Y=a + bx……………………. (I)

Where x = X-Middle year

Here,

$a = \frac{\phi Y}{N}$

$= \frac{3031}{5}$

= 606

$b = \frac{\phi XY}{\phi X^2}$

$= \frac{738}{10}$

= 74

Substituting these values of a and b in eq (I) we get the required trend line

Yc = 606 + 74x