CHAPTER – I

INTRODUCTION

This chapter concerned with introductory phenomenon of the study. It highlights the comparative study of Credit management of NABIL bank and Himalayan bank. It also explains why the research is carried out what it aims.

Background of the Study

1.1.1 General Background

The source of finance is the most essential element for the establishment and operation of any profit and not profits institutions. Profit oriented institutions usually obtain these sources through ownership capital, public capital through the issues of shares, and through financial institutions such as banks, in the form of credits, overdrafts etc. It is during these stages for the establishment and operations of any organization, the role of banks come into effect in providing these sources, in the form of credit, overdrafts and other related services *(Vaidhya, 1999)*.

Nepal is a developing country. Developing countries face lot of problems for its economic development. Nepal has to make expansion in financial sector. Financial market is very important for the economic growth of the country *(Economic Survey, 2004)*. The pace of development of the country is largely depends upon the economic activities. Economic activities are guided by finance. Financial institutions provide capital to develop trade, industry and business. Bank, finance companies, co-operative societies, insurance companies, stock exchanges helps in the economic development of the country *(Economic Survey, 2004)*.

Banks are major institutions in financing. Bank involves in a process of collecting scattered money and to help its mobilization in different sectors according to the need of customers *(Shekher & Shekher, 199)*. Bank helps to develop saving habit of people, which in-turns help to make other people to invest for their business. Banking loan helps to invest in industrial sector, commercial sector, production sector, trade & commerce. Bank also helps to develop international business by initiating as a mediator on export & import. This way banks help to strengthen the national development *(Economic Survey, 2004)*.

Banking is one of the most heavily regulated businesses in the world *(Vaidhya, 1999)*. Banks are among the most important financial institutions in the economy. They are the principal source of credit (loan-able funds) for millions of individuals and families and for many units of governments. Moreover, bank often act as a major source of credit to small local business ranging from grocery stores to automobile dealers for their stock. Banks are among the most important sources of short-term working capital for business and have become increasingly active in recent years in making long-term business loans for new plant and equipment *(Shekher & Shekher, 1999)*.

Banks are those financial institutions that offer the widest range of financial services especially credit, savings, payment services and perform the widest range of financial functions of any business firm in the economy. The most important functions are; lending and investing money (the credit function), making payments on behalf of customers for their purchase of goods and services (the payments function), managing financial assets and real property for customers (the cash management, risk and trust functions) and assisting customers in investing and raising funds (through the brokerage, investment banking, and saving functions) *(Vaidhya, 1999)*.

Lending is the most important functions of a commercial bank. 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.

Today no banker can survive for long run without proper standing of economy and no pace ahead without proper banking system. Moreover, the ability of banks to gather and analyze financial information has given rise to another view of why banks exist in modern society. Most borrowers and depositors prefer to keep their financial records confidential, shielded especially from competitors. Banks are able to fulfill this need by offering high liquidity in the deposits they sell. More people believe that banks play only narrow role in the country-taking deposits and making loans. The modern bank has to adopt new roles in order to remain competitive and responsive to public needs *(NRB, Smarika, 2004).*

Banks are expected to support their local communities with an adequate supply of credit for all legitimate business and consumer needs to price that credit reasonably in line with competitively determined interest rates. Bank loan support the growth of new businesses and jobs within the banks trade territory and promote economic vitality.

Banks made a wide variety of loans to a wide variety of customers for many different purposes from purchasing automobiles and buying new furniture, taking dream vacations or pursuing college educations, to constructing home and office buildings. Loans may be divided as; real estate loans, financial institution loans, agricultural loans, commercial and industrial loans, loans to individuals, miscellaneous loans, lease financing receivables etc *(NRB, Smarika, 2005)*.

1.2 Historical Background

A bank is an institution, which collects money from those who have it spare or who are moving it out of their income and lends this out to those who required it. According to Indian banking company act 1949, "Banking means accepting for the purpose of lenders and investment of, deposit from the public, repayable on demand or otherwise and withdraw by cheques, draft, order or otherwise."

When the word ‘bank’ is used, it is meant for commercial bank. Actually, word of bank was originated from Germany though some people think it to be of French and Italic origin. Before 1960, there was no such word as "banking". However, in the temple of Babylon, the practices of safeguarding and saving flourished as early as 2000 B.C. Chanakya in his ‘Arthashastra’ written in about 300 B.C mentioning about the existence of powerful guilds of merchant's bankers received deposits, advance loans and hundies (letter of transfer).

The establishment of the first modern banking institution called "The Bank of Venice" in 1157 AD with a view of finance the monarch in wars was a landmark in the history of Banking. Subsequently, the establishment of "The bank of England" in 1694 AD as the first central bank contributed a great deal to the history of banking. Many countries quickly followed England and established a central bank of their own. But as the central bank is endowed with special rights and authorities, it lacked a direct interaction with the mass. Consequently, soon after, every country felt a pressing need of commercial bank.
The next stage was the moneylenders. He started advancing the coins on loan by charging interest. He started to keep some reserve as a safeguard. In this way the goldsmith, moneylender becomes a banker who started performing the two functions of modern banking that of accepting deposits and advancing loans.

Table No: 1.1 Origin of Modern Bank

1157 AD	Establishment of bank of Venice
1401 AD	Establishment of bank of Barcelona
1407 AD	Establishment of bank of Genoa
1603 AD	Establishment of bank of Amsterdam
1619 AD	Establishment of bank of Haimberg
1694 AD	Establishment of bank of England
1770 AD	Establishment of The bank of Hindustan
1934 AD	Establishment of Nepal Bank Limited
1957 AD	Establishment of Nepal Rastra Bank

Origin of Bank in Nepal

Pre-modern banking system is found during the reign of Rana Prime Minister Ranoddip Singh in 1880 A.D. Towards the end of 14^{th} century, Tanka Dhari means money lender, were the owners of monitory transaction during the period of Prime Minister Ranoddip Singh established Tejarath. In 1938, state financial institute, which supply credit or loan against security.

Table No: 1.2 Establishment of Banking System

14^{th} Century	Introduction of "Tankadhari"
1938 B.S.	Establishment of "Tejarath Adda"
1994 B.S.	Establishment of Nepal Bank Limited
2013 B.S.	Establishment of Nepal Rastra Bank
2013 B.S.	Industrial development center
2016 B.S.	Conversion of Industrial development center into Nepal Industrial Development Corporation.
2022 B.S	Establishment of Rastriya Banijya Bank
2024 B.S.	Establishment of Agricultural Development Bank.
2041B.S.	Nepal Arab Bank Limited
2042 B.S.	Indosuez Bank Limited (Nepal Investment Bank)
2043 B.S.	Nepal Grindlays Bank Limited (Standard Chartered Bank)
2049 B.S.	Himalayan Bank Limited

Nepal Arab Bank limited (currently known as NABIL Banak) was the first joint venture bank of Nepal .It was the outcome of joint venture with Dubai bank Limited of United Arab Emirates. Nepal Indosuez Bank (currently known as Nepal Investment Bank) was the second bank was established under the joint venture .This bank is a joint venture between Nepalese and French partners. Another bank with a joint venture between Nepal and Habib Bank limited was Himalayan Bank limited. Habib bank was one of the largest commercial bank of Pakistan.

After the restoration of democracy in 2046 B.S. NRB adopted more liberal attitude in opening of commercial banks. It also followed market oriented liberal economic policy for competitive banking system to attract private sector as well as foreign investor with their capital / skill and technology in banking business. The process of registration, while opening new commercial banks were simplified and commercial banks were given the facilities to maintain the interest rate based on competitive according to open market policy.

Due to the liberal policy in establishing the commercial banks, other commercial banks came into existence during the 1990s under the foreign collaboration .At present there are altogether 31 commercial banks in operation in Nepal which are as listed below:-

Table No: 1.3 Commercial Banks in Operation in Nepal

Names	Operation Date (A.D.)	Head Office
1. Nepal Bank Limited	1937/11/15	Dharma path, Ktm.
2. Rastriya Banijya Bank	1966/01/23	Singhdarbarplaza, Ktm
3. NABIL Bank Limited	1984/07/16	Kantipath, Kathmandu
4. Nepal Investment Bank Ltd.	1986/02/27	Darbar Marg, Ktm.
5.Standard Chartered Bank Nepal Ltd.	1987/01/30	Naya Baneshwor, Ktm
6. Himalayan Bank Limited	1993/01/18	Thamel, Kathmandu
7. Nepal SBI Bank Limited	1993/07/07	Hattisar, Kathmandu
8. Nepal Bangladesh Bank Limited	1993/06/05	Naya Baneshwor, Ktm
9. Everest Bank Limited	1994/10/18	Lazimpat, Kathmandu
10. Bank of Kathmandu Limited	1995/03/12	Kamaladi, Ktm
11. Nepal Credit & Commerce Bank Ltd.	1996/10/14	Siddharthenagar, Rupandehi
12. Lumbini Bank Limited	1998/07/17	Narayanghat, Chitawan
13. Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biratnagar, Morang
14. Machhapuchhre Bank Limited	2000/10/03	PrithiviChowke, Pokhara

15. Kumari Bank Limited	2001/04/03	Putalisadak, Ktm
16. Laxmi Bank Limited	2002/04/03	Adarshanagar, Birgunj
17. Siddhartha Bank Limited	2002/12/24	Kamaladi, Ktm.
18. Agricultural Development Bank Ltd.	2006/03/16	Ramshahapath, Ktm
19. Global Bank Limited	2007/01/02	Birgunj, Parsa
20. Citizens Bank International Ltd.	2007/04/22	Kamaladi, Kathmandu
21. Prime Commercial Bank Ltd.	2007/09/28	New Road Katmandu
22. Bank of Asia Nepal Ltd.	2007/10/12	Tripureshwor, Katmandu
23. Sunrise Bank Ltd.	2008/06/24	Garirdhara, Kathmandu
24. Development Credit Bank Ltd.	2008/05/25	Kamaladi, Kathmandu
25. NMB Bank Ltd.	1996/11/26	Babarmahal, Katmandu
26. KIST Bank Ltd.	2009/5	Katmandu
27.Janta Bank Ltd.	2010	kathmandu

Source: www.nrb.org.np

1.3 Statement of the Problem

Based on the review of related literature it can be pragmatic that commercial banks in Nepal have been facing various challenges and problems. Some of them arising due to the economic condition of the country some of them arising due to confused policy of government and many of them arising due to default borrowers. After liberalization of economy, banking sector has various opportunities.

However, the financial institutions are increasing regularly; liquidity has been found maximum with in the financial institutions. Hence, the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Banks and financial institutions are investing in house loan, hire purchase loan for safety purpose. Lack of good lending opportunities, banks is facing problems of over liquidity. Nowadays, banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Nowadays, due to competition among banks, the interest rate charge for loan is in decreasing trend. 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, NRB has renewed its directives of the credit loss provision. Therefore, it is necessary to analyze the 'credit management' or credit disbursement recovery provision for loss and write off of the credit. As the sample of commercial banks, Himalayan Bank Limited and Nepal Arab Bank Limited have been selected.

The research problems may be stated in the form of following questions:-

- What is the volume of contribution on profit made by credit and advances
- What is the deposit collection and utilization trend?
- What is the volume of non – performing assets?

1.4 Objectives of the Study

The general objective of the study is how to manage credit of NABIL bank and Himalayan bank. The following are the specific objectives:

- To analyze the volume of contribution on profit made by credit & advances
- To analyze the deposit collection and utilization trend.
- To analyze the Non – performing assets and their impacts.
- To provide suitable and beneficial suggestions based on findings of this study

1.5 Significance of the Study

At present the joint venture banks are gaining a wide popularity through their efficient management and professional services and playing an eminent role in the economy. Lending is one of the main functions of commercial banks 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 bank, to the professionals, to the students who wants to know about lending practices of commercial banks. This study adds new ideas and findings about the concerned joint venture banks.

Moreover, this study may be important for researchers, scholars, banking sector, students, government and other parties. So, it will be helpful to those who want to study in further detail and widely in this field, similarly, the study encourages the general public where to invest further or not and depositors can take decision to deposit on their money.

1.6 Limitations of the Study

This study is simply a partial study for the fulfillment of Master Degree (MBS). This study is not far from several limitations, which weaken the hearth of the study, e.g. time period, reliability of financial and statistical tools used and other variations. This study is limited by the following factors:

The research study has some limitations. The main limitations of the study are as follows: -

- Though, there has been in operation of 31 commercial banks in Nepal, only two commercial banks are taken for the proposed study.
- This study concentrates only on credit management of selected commercial banks.
- The secondary data will be used for presentation and interpretation. Only a 5-years data will be considered.
- This study is only a case study; hence the conclusion drawn from the study does not ensure wide applicability in all types of enterprise running in different situations.
- Major portion of analysis and interpretation have been done on the basis of available secondary data and information. Thus, reliability of the study is based on trueness of collected data and information.
- In this study, only selected financial and statistical tools as well as techniques are used.

1.7 Organization of the Study

The whole study is divided into five different chapters. They are:

Chapter I is the introduction chapter. It includes background of the study, statement of the problems, objectives of the study, significance of the study, limitations of the study and chapter plan of the study.

Chapter II deals with review of literatures, which includes conceptual/theoretical review and review of related studies.

Chapter III is research methodology which includes research design, population and sample, sources of data, data collection techniques and data analysis tools.

Chapter IV deals with the various analysis and interpretations of data like analysis of deposits, loan & advances of Himalayan Bank Limited and NABIL Bank Limited, financial and statistical analysis. It also shows major findings of the study.

Chapter V includes summary and conclusion of the study. It also deals with recommendations suggested.

CHAPTER-II

REVIEW OF LITERATURE

This chapter basically concerned with review of literature relevant to the comparatives study of Himalayan bank limited and NABIL bank limited in relation to credit management. Every possible effort has been made to grasp knowledge and information that is available from libraries, concerned commercial banks, books, articles, journals, national and international publications and other information bureaus. This chapter is divided into following two parts.

2.1 Conceptual Review

This sub-chapter presents the theoretical aspect of the study. It indicates the concept of commercial bank, function of commercial bank, concept of credit, types of credit, lending criteria.

2.1.1 Meaning of Commercial Bank

Before defining the term commercial bank, let us define the meaning of bank and commercial. According to definition of H. L., a banker or bank is a person or company carrying on the business of receiving money and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amount available on their customer *(Shekher & Shekher, 1999)*.

Commerce is the financial transactions related to selling and buying activities of goods and services. Therefore, commercial banks are those banks, which work from commercial viewpoint. They perform all kinds of banking functions as accepting deposits, advancing credits, credit creations and agency functions. They provide short-term credit, medium term credits and long terms credit to trade and industry. They also operate off balance sheet functions such as issuing guarantee, bonds, letter of credit, etc.

Commercial banks are the heart of our financial systems. They hold the deposits of million of persons, government and business unit. They make fund available through their lending and investing activities to borrow individuals units and government.
Therefore a bank is an institution, which accepts deposits from the public and in turn advances loans by creating credit. Therefore, it should be different from other financial institutions, as they cannot create credit through they accept deposits. According to US law, any institution offering deposits subject to withdrawal in demand and making loans of a commercial of a business nature is a bank.

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

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

2.1.2 Concept of Credit

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

Book named "Banking Management" says that in banking sector or transaction, an unavoidable-ness of loan management and its methodology is regarded very important. Under this management, many subject matters are considered and thought. For example, there are subject matters like the policy of loan flow, the documents of loan flow, loan administration, audit of loan, renewal of loan, the condition of loan flow, the provision of security, the provision of the payment of capital and its interest and other such procedures. This management plays a great role in healthy competitive activities *(Bhandari, D. R., 2003: 170).*

Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. This method of managing credit risk is guided by the saying do not put all the eggs in a single basket. *(Bhandari, D. P., 2004: 300)*

Credit is the 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 the 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, N. P. and Swaroop, G., 1994)*

Banks generally grants credit on four ways: *(Chhabra, T. N., and Taneja, P. L., 1991)*

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

The basic purpose of a commercial bank is to maximize the shareholders' wealth by accepting deposits and granting loans in the society. In order to give maximum return to shareholders, the bank is required to invest most of its fund in loans and advances, risky assets. Consequently, a clear and sound loan credit policy is a must for the safety of depositors fund and adequate return to shareholders. Credit policy can be defined as the decision made in advance about the management of credit.

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

2.1.3 Types of Credit

a) Overdraft

It denotes the excess amount withdrawn over their deposits.

b) 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.

c) Direct Credit

i) Term Credit

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

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

ii) Working Capital Credit

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

iii) Priority or Deprived Sector Credit

The governments of Nepal and Nepal Rasta Bank (NRB) have considered deprived sector credit as an effective tool for reducing poverty. Previously, NRB has introduced the priority sector the priority sector credit program to make mandatory lending by the commercial banks in the sectors prioritized by the NRB.

This idea was initiated in 1990s when NRB introduced the "Deprived Sector Credit Program (DSCP)" in order to meet the micro credit demand of the poorer and weaker section of the society. The NRB, while introducing the DSCP, had segregated priority sector credit into two segments, i.e. 9 percent for the priority sector credit program

(PSCP) and 3 percent for DSCP, totaling 12 percent to the agriculture, cottage industry and services sector.

iv). Hire Purchase Loan (Installment Credit)

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

v) Housing Loan (Real Estate Credit)

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

vi). Project Loan

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proportion to the project from their equity and the rest will be financed as project credit. Construction credits are short-term credits made to developers for the purpose of completing proposed projects. Maturities on construction credits range from 12 months to as long as 4 to 5 years, depending on the size of the specific project *(Johnoson, E., 1940: 242).* The basic guiding principle involved in disbursement policy is to advance funds corresponding to the completion stage of the project. Hence, what percent of the credit will be disbursed at which stage of completion must be spelled in disbursement policy. Term of credit needed for project fall under it.

vii) Consortium Loan

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. Financiers bank equal (or likely) charge on the project's assets.

viii) Credit Cards and Revolving Lines of Credit

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

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

ix) Off-Balance Sheet Transaction

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

x) Bank Guarantee

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

xi) Letter of Credit (L/C)

It is issued on behalf of the customer (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.

D) Discounting of Bills

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

2.1.4 Principle of Credit Policy

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

a) Principle of Safety Fund: Banks should look the fact that is there any unproductive or speculative venture or dishonest behavior of the borrower.

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

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

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

e) Principle of Profitability: Profitability denotes the value created by the use of resource 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 credit to venturous project.

f) Principle of Spread: Portfolio of credit advances is to be spread not only among many borrowers of same industry. It across the industries in order to minimize the risk of lending keeping" Do not put your all eggs in the same basket" in mind.

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

2.1.5 Key Characteristics of Credit Policy

Every policy has its own characteristics. The credit policy has the following characteristics:

a) Approved by Top Management

The credit policy is always prepared by the top management of an institution and is approved by the board of directors. It may be revised time to time.

b) Practical and Manageable

The credit policy, prepared by the bank is not for theoretical rather it is for practical and manageable to apply.

c) Flexibility

Rigid credit policy is not practical. It has to be flexible according to the demand of customer.

d) Compliance

Credit policy is compliance with NRB policy as well as economic, political condition of the country.

2.1.6 Systems and procedures of credit policy

A sound credit policy interact all the areas of credit effectively that ultimately helps to operate the organization successfully. Basically, a bank has to follow the following systems and procedures in credit policy.

a) Credit origination

Banks must operate within a sound and well-defined criteria for new credits as well as the expansion of existing credits. The credits should be extended within the target markets and lending strategy of the institution. Before allowing a credit facility, the banks must make an assessment of risk profile of the customer transaction. This may include:

i. Credit assessment of the borrower's industry, and macro economic factors
ii. The purpose of credit and source of repayment
iii. The track record/repayment history of borrower
iv. Assess/evaluate the repayment capacity of the borrower
v. The proposed terms and conditions and covenants
vi. Adequacy and enforceability of collaterals
vii. Approved form appropriate authority

In case of new relationships, consideration should be given to the integrity and repute of the borrowers or counter party as well as its legal capacity to assume the liability. Prior to entering into any new credit relationship, the bank must become familiar with the borrower or counter party and be confident that they are dealing with individual or organization of sound repute and cordite worthiness. However, a bank must not grant credit simply on the basis of the fact that the borrower is perceived to be highly reputable, i.e. name lending should be discouraged.

While structuring credit facilities institutions should appraise the amount and timing of the cash flows as well as the financial position of the borrower and intended purpose of the funds. It is utmost important that due consideration should be given to the risk reward trade-off in granting a credit facility and credit should be priced to cover all embedded costs. Relevant terms and conditions should be laid down to protect the institution's interest.

Institutions have to make sure that the credit is used for the purpose it was borrowed. Where the obligor has utilized funds for purposes not shown in the original proposal, institutions should take steps to determine the implications on creditworthiness. In case of corporate loans where borrower own group of companies such diligence becomes more important. Institutions should classify such connected companies and conduct credit assessment on consolidated/group basis.

In loan syndication, generally the lead institution does most of the credit assessment and analysis. While such information is important, institutions should not over rely on that. All syndicate participants should perform their own independent analysis.

Institution should not over rely on collaterals/covenant. Although the importance of collaterals held against loan is beyond any doubt, yet these should be considered as a buffer providing protection in case of default, primary focus should be on obligor's debt servicing ability and reputation in the market.

b) Limit Setting

An important element of credit risk management is to establish exposure limits for single obligors and group of connected obligors. Institutions are expected to develop their own limit structure while remaining within the exposure limits set by the central bank (i.e. Nepal Rastra Bank). The size of the limits should be based on the credit strength of the obligor, genuine requirement of credit, economic conditions and the institution's risk tolerance. Appropriate limits should be set for respective products and activities. Institutions may establish limits for a specific industry, economic sector or geographic regions to avoid concentration risk.

Sometimes, the obligor may want to share its facility limits with its related companies. Institutions should review such arrangements and impose necessary limits if the transactions are frequent and significant.

Credit limits should be reviewed regularly at least annually or more frequently if obligor's credit quality deteriorates. All requests of increase in credit limits should be substantiated.

c) Credit Administration

Ongoing administration of the credit portfolio is an essential part of the credit process. Credit administration function is basically a back office activity that support and control extension and maintenance of credit. A typical credit administration unit performs following function:

i) Documentation: It is the responsibility of credit administration to ensure completeness of documentation (loan agreements, guarantees, transfer of title of collaterals etc) in accordance with approved terms and conditions. Outstanding documents should be tracked and followed up to ensure execution and receipt.

ii) Credit Disbursement: The credit administration function should ensure that the loan application has proper approval before entering facility limits into computer systems. Disbursement should be affected only after completion of covenants and receipt of collateral holdings. In case of exceptions necessary approval should be obtained from competent authorities.

iii) Credit Monitoring: After the loan is approved and draw down allowed, the loan should be continuously watched over. These include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.

iv). Loan Repayment: The obligors should be communicated ahead of time as and when the principal/markup installment becomes due. Any exceptions such as non-payment or late payment should be tagged and communicated to the management. Proper records and updates should also be made after receipt.

v) Maintenance of Credit Files: Institutions should devise procedural guidelines and standards for maintenance of credit files. The credit files not only include all correspondence with the borrower but should also contain sufficient information necessary to assess financial health of the borrower and its repayment performance. It need not mention that information should be filed in organized way so that external /internal auditors or NRB inspector could review it easily.

vi). Collateral and Security Documents: Institutions should ensure that all security documents are kept in a fireproof safe under dual control. Registers for documents should be maintained to keep track of their movement. Procedures should also be established to tack and review relevant insurance coverage for certain facilities/collateral. Physical checks on security documents should be conducted

2.1.7 Credit Monitoring and Control

Credit risk monitoring refers to incessant monitoring of individual credits inclusive of off-balance sheet exposures to obligors as well as overall credit portfolio of the bank. Banks need to enunciate a system that enables them to monitor quality of the credit portfolio of day-to-day basis and take remedial measures as and when any deterioration occurs. Such a system would enable a bank to ascertain whether loans are being serviced as per facility terms, the adequacy of provisions, the overall risk profile is within limits established by management and compliance of regulatory limits. Establishing an efficient and effective credit monitoring system would help senior management to monitor the overall quality of the total credit portfolio and its trends. Consequently the management could fine tune or reassess its credit strategy/policy accordingly before encountering any major setback. The banks credit policy should explicitly provide procedural guideline relating to credit risk monitoring. At the minimum it should lay down procedure relating to

i. The roles and responsibilities of individuals responsible for credit risk monitoring
ii. The assessment procedures and analysis techniques (for individual loans & overall portfolio)
iii. The frequency of monitoring
iv. The periodic examination of collaterals and loan covenants
v. The frequency of site visits
vi. The identification of any deterioration in loan.

a) Financial Position and Business Conditions

The most important aspect about an obligor is its financial health, as it would determine its repayment capacity. Consequently institutions need carefully watch financial standing of obligor. The key financial performance indicators on profitability, equity, leverage and liquidity should be analyzed. While making such analysis due consideration should be given to business/ industry risk, borrowers' position within the industry and external factors such as economic condition, government policies, regulation. For companies whose financial position is dependent on key management personnel and /or shareholders, for example, in small and medium enterprises, institutions would need to pay particular attention to the assessment of the capability and capacity of the management / shareholders.

b) Conduct of Accounts

In case of existing obligor the operation in the account would give a fair idea about the quality of credit facility. Institutions should monitor the obligor's account activity, repayment history and instances of excesses over credit limits. For trade financing, institutions should monitor cases of repeat extensions of due dates for trust receipts and bills.

c) Loan Covenants

The obligor's ability to adhere to negative pledges and financial covenants stated in the loan agreement should be assessed and any breach detected should be addressed promptly.

d) Collateral Valuation

Since the value of collateral could deteriorate resulting in unsecured lending, banks need to reassess value of collaterals in periodic basis. The frequency of such valuation is very subjective and depends upon nature of collaterals. For instance loan granted against shares need revaluation on almost daily basis whereas if there is mortgage of a residential property the revaluation may not be necessary as frequently. Incase of credit facilities secured against inventory or goods at the obligor's premises, appropriate inspection should be conducted to verify the existence the valuation of the collateral.

External Rating and Market Price of securities purchased as a form of lending or long-term investment should be monitored for any deterioration in credit rating of the issuer, as well as large decline in market price. Adverse changes should trigger additional effort to review the creditworthiness.

2.1.8 Lending Criteria

While screening a credit application, 5Cs to be first considered supported by document

a. 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 articles of association
- Registration certification
- Tax registration certificate (Renewed)
- Resolution to borrow
- Authorization-person authorizing to deal with the bank

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

b. Capacity

Describes customer's ability to pay 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.

c. 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.

d. Collateral

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

e. 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 Project Appraisal

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

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

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

- Financial aspect
- Economic aspect
- Management/Organizational aspect
- Legal aspect

Directives Issued by NRB for the Commercial Bank (Related to credit aspect only):

a) Credit Classifications and Provisioning:

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

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

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

The credit loss provision for performing credit is termed as general credit loss provision 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 weaknesses 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 establish with the help of credit audit.

b) Limit of Credit and Advances in a Particular Sector:

1. Fund based credit and advances can be issued up to 25% (upper limit) of core capital to a single customer, firm, company and a group of related customer.
2. Non-fund based (off-balance items) can be issued up to 50% of core capital to a single customer, firm, company and group of related customer.

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

2.1.10 Steps of Lending Process

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

a) Loan Application

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

b) Loan Interview

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

2.2. Review of Related Studies

No more researches were conducted in similar field in Nepalese context. Some previous researches were conducted in financial performance of commercial banks. Many other researches were conducted to assess the investment analysis, lending practices, credit practices and credit policy of commercial banks. However, many international researches were conducted in similar field; few researches were conducted to assess the credit management and its casual linkage on profitability situation.

The effort has been made in this present section to examine and review the some related articles published in different economic journals, bulletins, magazines and newspapers. Besides, it has also been described the findings of previous researches (i.e. both national and international), conducted in similar areas.

2.2.1. Review of Relevant NRB Directives about Credit Management

NRB is the leader of money market. It is the chief of all the banks operating in the country. It supervises, regulates and controls the functions of commercial banks and others financial institution. NRB has issued various directives to supervise and control commercial banks.

Directive No. 1: "Regulation to maintain minimum capital fund by the commercial bank as per NRB Directive."

Table No: 2.1 Funds Required on the Basic of Weighted Risk Assets

S.N.	Time Table	Core Capital in Percent	Capital Fund Percent
1.	F/Y 2058/2059	4.5	9
2.	F/Y 2059/2060	5	10
3.	F/Y2060/2061 onwards	6	12

Directive No. 2

"Loan classification and loan loss provision"

Loans should be classified into four categories.

Pass

Loans and advances whose principle amount are past due and past due for period up to three months should be included in this category. These are classified and as performing loans.

Sub-Standard

All loans and Advances that are past due for a period of three months to six months should be included in this category.

Doubtful

All loans and advance that are due for a period of six month to one year should be including on this category.

Loss

Loan and advance, which are due for a period of more than one year as well as advance, Which have least possibility of even partial of even partial recovery in future should be included in this category.

Loan Loss Provision

The loan loss provision on the basis of outstanding loans and advances and bills purchased classified as per this Directives. This is as follows.

Table No: 2.2 Loan Loss Provision

Classification Of Loans	**Loans Loss Provision**
Pass	1.0%
Substandard	25.00%
Doubtful	50.00%
Loss	100.00%

Bank can reschedule and restructuring loan if non-performing loan receiving submit the External/internal reasons. Insured priority sector credit and deprived sector credit will have to be provisioned at 25% of the provision percentage to loan loss.

Directive No.3

"Provision for single obligor limit; As per NRB Directives, bank should classified into fund based loan (overdraft, trust receipt, term loan etc) and non-fund loan (Letter of credit Guarantees, commitments etc.) The NRB has brought following limit"

Table No: 2.3 Provision for Single Obligor Limit

Loans and Advance	**P.C. (2001/2002)**	**P.C.(2002/2003)**onwards
Fund based	40% of core capital	25% of core capital
Non fund based	75% of core capital	50% of core capital

Banks should not maintain above limit, when loan provided under guarantees of fixed receipts. Bank deposits, government securities, NRB debentures and A+ rated national and international banks.

Banks need to be provision additional capital charge less than six months, in case banks provide loans and advances out of limit.

2.2.2 Review of Journals/ Articles

Under this heading, presents the review of the relevant studies and research articles published in different economic journals, dissertation papers, magazines, newspaper, websites and other related materials have been consulted.

Shrestha (1998), due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy has already sick. When any sector of economy caught cold, bank started sneezing. From this perspective, the banking industry as a whole is not robust. In case of investors having lower income, portfolio management may be limited to small saving income. But on the other hand, the portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individuals as well as institutional investors. Large investors would like to select the best mix of investment assets. Ghimire (1999). In the article "Efficiency indicators of commercial bank: A comparative analysis" saying that indicators of the bank may be viewed on the basis of amount allocated for loan loss provisioning against loan and investment Basyal (2000). In the article "Placing RBB and NBL under management contracts: Rational and opposition" agreed that the disappointing performance of these two banks has become serious concern to all the stakeholders. Further he mentions that they are having with huge level of NPA, which could be termed as the darkest sides of their operational inefficiency and undisciplined financial behavior.

Chhetri (2000), in the article entitled "None performing assets: A need for rationalization", has attempted to provide connect with the term NPA and its potential sources, implication of NPA in financial sector in the South East Asian Region. He had also given possible measures to contain NPA. Loans and advances of financial institutions are meant to be serviced either part of principal of the interest of the amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. Since the date becomes past dues, the loan becomes non-performing asset. The book of the account with lending institution should be effectively operated by means of real transaction effected on the part of the debtor in order to remain loan performing.

As stated by the writer, the definition of NPA differs from country to country. In some of the developing countries of Asia Pacific Economic Cooperation (APEC) forum, a loan is classified as non-performing only after it has been arrear for at least 6 months. Similarly, it is after three months in India. Loans thus, defaulted are classified into different categories having their differing implication on the asset management of financial institution. He also stated that NPA are classified according to international practice into 3 categories namely substandard, doubtful and loss depending upon the temporal position of loan default. Thus, the degree of NPA assets depends solely on the length of time the asset has been in the form of non-obliged by the loan taker. The more time it has elapsed the worse condition of asset is being perceived and such assets are treated accordingly. As per Chhetri's view, failure of business for which loan was used, defective and below standard credit appraisal system credit program sponsored by Government, slowdown in economy/recession, diversion of fund is some of the factors leading to accumulation of NPA.

He further said that there is serious implication of NPA on financial institution. He further added that the liability of credit institution dies not limit to the amount declared as NPA but extent to extra amount that required for provisioning depends upon the level of NPA and their quality. As per his view, rising level of NPA create a psyche of worse environment especially in the financial sector. He mentioned that by reviving the activities of the financial institution like waiving interest, rescheduling the loan, writing off the loan, appointing private recovery agent, taking help of tribunals and law of land etc, NPA can be reduced.

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

Nepal Rastra Bank (2003) has issued directives to all commercial banks and financial institution ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. Until now there was no such legal system of disclosing the loan defaulter's name. The new directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. The Credit Information Bureau (CIB) can blacklist the firm; company clears the debt within the stipulated period. As per the set criteria for blacklisting, the CIB would monitor those individuals and companies that have the principle loans of above Rs.1 million. If the creditor fails to clear the amount within time or is found missing the loans among others, the creditor can be blacklisted

Ghimire (2003), in the article titled "Credit sector reform and NRB" has tried to highlight the effects of change or amendment in NRB directives regarding loan classification and loan loss provisioning. Although the circumstances leading to financial problem or crisis in many Nepali banks differ in many respects, what are common acres of the most banks, which increased size of non-performing assets (NPA)? To resolve the problem of the losses or likely losses of this nature facing the industry, NRB as the central bank, amended several old directives and issued many new circulars in the recent years
In his conclusions, he has mentioned that in the recent years, NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis. All prudential directives of NRB in connection of credit sector reform have been made revised on after April 2001. To adapt to such changes there can be some difficulties and for a better and harmonized reform, NRB should continue to be supportive, proactive and also

participative to take opinions of bankers for a change in regulation/policy taking place in the future.

Subedi (2004), in an article published in New Business Age, entitled "Growth in Major Commercial Banks" has compared between the first six month of the fiscal year 2002-03 and 2003-04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Limited (NBL) and Rastriya Banijya Bank Limited (RBBL). There has been increasing in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only in recovery of the huge non-performing assets (NPA). However, he pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB, all banks have increment in deposit collection

2.2.3 Review of Related Dissertation

The study has review a number of studies related to the topic which are as follows

Shrestha (1990) has submitted a thesis named, "A study of industrial credit provided by NIDC in Sunsari district" to T.U. His research objectives are:

- To study the financial assistance provided by NIDC in different industrial sectors in Sunsari districts.
- To study the attitudes of industrialists in regard to the performance of NIDC.
- To give suggestions to improve the role of NIDC.

Major findings:

- One of the most important policy taken by NIDC was it invest its fund to the industries in security oriented rather than industrial development oriented.
- It seems that NIDC lack definite, systematic and clear-cut long term financing policy.
- Repayment and follow up activities followed by NIDC are not efficient, as not taken side by side.

Khadka (1998) compared the investment policy of NABIL with NGBL and NIBL in his thesis entitled “A study on the Investment Policy of Nepal Arab Bank Limited in comparison to other joint venture banks of Nepal”. He found out that the liquidity position and profitability situation of NABIL are comparatively worse than that of Nepal Grindlays Bank Limited (NGBL) and Nepal Indosuez Bank Limited (NIBL). It is also comparatively less successful in on-balance sheet utilization as well as off-balance sheet operation than that of NGBL and NIBL. On contrary, NABIL is more successful in deposit utilization. Finally, it fails to maintain high growth rate of profit in comparison with NGBL and NIBL.

He suggested that NABIL should increase cash and bank balance to meet loan demand because the loan and advances to total deposits ratios were found lower in NABIL than that of other JVB’s.

Shah (1998) conducted a thesis entitled ‘Investment of Commercial banks in Nepal’; recommended that commercial banks must mobilize its funds in different sectors such as purchasing of shares and debentures of other financial and non-financial companies. The banks should make continuous efforts to explore new competitive and high yielding investment opportunities to optimize its investment portfolio. Loan default in commercial banks is a result of various factors, i.e. political influences, lack of necessary skills, entrepreneurship attitude etc. He suggested that enacting loan recovery act is to be enhanced the function of recovery of loan.

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

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

Dhungana (2002) conducted a study “A Comparative Study on Investment Policy of Nepal Bangladesh Bank Limited and other Joint Venture Banks” concluded that NBBL has not good deposit collection. It has not made enough cash and negligible amount of investment in government securities. NBBL has higher loan and advances to total deposit ratio, loan and advances to total working fund ratio, lowest loan loss ratio and higher investment on share and debenture to total working fund ratio. NBBL is able to manage its assets regarding its on balance transaction. Lending position, investment position and net profit position of NBBL is not better in compare to HBL. But it has better position in comparison to NBBL. He suggested increasing the liquidity of NBBL, to invest in government securities instead of keeping idle fund. He also suggested providing project-oriented approach. He suggested NBBL for developing effective portfolio management..

Khadka (2002) has carried out research on “A Comparative Study on Investment Policy of Commercial Banks” an objective to find out the relationship between deposits, investment, loans and advances and net profit. She has made the following conclusion while comparing the performance of NBL with NABIL, SCBNL and NIBL. She concluded NBL is comparatively less successful in on balance sheet as well as off balance sheet operations than that of other CBs. It predicts that in the coming days if it could not mobilize and utilize its resources as efficiently as other CBs to maximize the returns, it would lag behind in the competitive market of banking. Profitability positions of NBL are comparatively worse than that of other CBs. It predicts that NBL may not maintain the confidence of shareholders, depositors and its all customers if it cannot increase its volume even in future.

Shrestha (2003) conducted a thesis entitled on “Impact and Implementation of NRB Guidelines (Directives on Commercial Banks - A study of NABIL Bank Limited and

Nepal SBI Bank Limited)" found out that both the NABIL and SBI have been fully implementing the NRB's directives.

Capital adequacy ratio of NABIL and Nepal SBI Bank are 13.40% and 12.86% respectively, which are more than 9%. Banks are following the directives but in some cases such like supplementary capital and balance at NRB there is shortfalls. The excess amount of core capital in supplementary capital and 1% excess amount of total deposits in balance at NRB can compensate this shortfall. The banks have categorized the loan amount in to four different categories as per NRB's directives. The increasing loan loss-provisioning amount decreases the profit of the banks.

In her thesis paper, impact and implementation of NRB guidelines (Directives on Commercial Banks - A study of NABIL Bank Limited and Nepal SBI Bank Limited) found out that both the NABIL Bank and Nepal SBI Bank have been fully implementing the NRB's directives.

Aryal (2003) has submitted a thesis named "A Evaluation of Credit Investment and Recovery of Financial Public Enterprises in Nepal" a case study of ADB/N. He focused on the problem that because of high interest rate of non-institutional sources, people are unable to pay their credit at fixed time. These institutions compel them to transfer their property to the moneylender resulting himself or herself as a landless person. ADB/N is one of the major financial institutions supporting for the people for the different purposes like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and cooperative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. So, Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB/N.

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

Tamang (2005) studied the comparative study of credit management in HBL and NABIL in his thesis entitled ‘A comparative study on credit management in Himalayan Bank Limited and NABIL Bank Limited’. To explore the credit management, he tried to assess the existing credit practices, examine the credit efficiency, analyze the industry environment and the relationship among loan & advances, non-performing loan and net profit.

He found from the study that credit practices and credit efficiency was relatively better in NABIL Bank Limited as compared to Himalayan Bank Limited for the reason that the ratio analysis designed for credit practices and credit efficiency scored relatively in better for NABIL Bank Limited.

Saud (2006) has submitted the thesis named "A study of financial performance of selected commercial banks, Himalayan Bank, NB Bank, Everest Bank in Nepal". He said that these banks have manly focused their investment especially in big cities and for big companies like multinational companies, large scale industries. Small enterprise has not been benefited significantly by their investment. So as a part of discharging their social responsibilities, these banks should support loans to small entrepreneurs also.

He also said that, these banks can do better if they do exercise to extant their loans to more and more foreign investor who wants to do business here in Nepal. The foreign investor and industries are unfamiliar with the indigenous rules and regulations, customers and other country specific situation. So the Banks can help foreign investors and industrialists in this regard who in turn create more productive assets, more employment opportunities and contribution to national development

Baral (2007) has conducted a research on, "Deposit collection and Investment Pattern of Machhapuchchhre Bank Limited (MBL)." The basic finding of this study was that total deposit collection percentage of MBL has been increasing trend followed by decreasing trend till-end.

- The percentage of saving deposit to total deposit sows rise sharply.
- The percentage of fixed deposit to total deposit is increasing trend.
- The current deposit and margin deposit has been also increasing trend.
- The call deposit of the MBL is sharply in increasing trend in starting year but finally it has been decreasing in fiscal year 2005/06.

Poudel (2009) has submitted her thesis named "Problems and Prospects of Nepalese Commercial Banks in Relation to Deposit Mobilization." she said that Commercial banks play crucial role in the task of capital formation, which is no doubt, a key variable in the economic development of the country. Scattered resources hold no meaning unless and until they are mobilized and utilized efficiently in some productive sectors.

Deposits are the obligation of the commercial banks. So commercial banks must allocate the funds in different loans & advance and investment. The main objective of her study is to examine the relationship between the total deposit and total credits. Besides this, her other objective is to examine the trend of deposit mobilization of HBL, EBL, NIBL, BOKL and to determine the utilization of the deposits of these banks. During her study period, the total deposits amount of all the sample banks were found to be in increasing trend. The amount of total deposit is highest in case of NIBL and the amount of total deposits is lowest in case of BOKL. The total amount of loan and advance of the entire sample bank is found to be in an increasing trend. Among the sample bank, NIBL was found to be the highest amount of lending and BOKL was found to be the lowest amount of lending.

There was unhealthy competition among the commercial banks. One bank's policy directly or indirectly affects another. In current situation, there are various unorganized financial sectors has been increased day by day which also brings challenges to the commercial banking sector.

2.3 Research Gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to credit management of Himalayan Bank Limited and Nepal Arab Bank Limited. Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. Credit Management [A comparative study of Himalayan Bank Limited and Nepal Arab Bank Limited]. Therefore, to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth. Previous researchers could not cover all the aspects of credit management in Nepalese context. They analyzed the credit management by using the terms of credit practices or lending practices. But actually, credit management covers many other areas such as total deposit collection, total lending, NPL level, loan loss provision and relationship between them which are very much important for credit appraisal. Present study tries to define credit management by applying those facts.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology describes the methods and process applied in the entire aspects of the study. It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives to review. Research Methodology is a way to systematically solve the research problem *(Kothari, 1990)*. A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The research design asks, what approach to the problem should be taken, what methods will be used, what strategies will be used, what strategies will be effective etc. Identification, selection and formulation of a research problem may be considered as planning stage of a research and the remaining activities refer to the design, operation and completion of the research study. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from which sources and what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected objective and economical procedures.

This topic presents the short outline of the methods applied in the process of analyzing the credit management of the selected joint venture banks. Research is a systematic method of finding out the solution to a problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view. A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. The research methodology used in the present study is briefly mentioned as follows.

3.2 Research design

This study adopts descriptive as well as analytical methods of research design. Descriptive method includes cross tabulation, percentage analysis and graphical presentation. For the analysis of credit management of selected joint venture banks, analytical designs have been applied to achieve the objective of the research. Analytical method includes Co-efficient of correlation analysis between different variables.

3.3 Source of Data

This research study is based on secondary sources of data. Secondary data are those collected by the researcher on the concerned topic, which are not original in nature or are originally collected for some other purposes. The secondary information is taken from the statistical publication of Nepal Rasta Bank, websites, annual reports of Himalayan Bank Limited and NABIL Bank Limited, different journals and business magazines etc. Some secondary data source for this study is as follows:

- Annual reports of the banks
- Published and unpublished bulletins, reports of the banks
- Previous studies and reports
- Unpublished official records
- "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines
- Journals and other published and unpublished related documents and reports for Library
- Bank official Website
- Various Internet Websites
- Other published materials etc.

3.4 Populations and Samples

There are 31 commercial banks working all over Nepal, out of them two commercial banks (i.e. HBL & NABIL) are taken as sample for the study through purposeful judgment sampling method. The total commercial banks shall constitute the population of data; among the various commercial banks in the banking industry, Himalayan Bank Limited and NABIL Bank Limited are taken as sample for the study to find out the effectiveness of credit management.

3.5 Selection of Enterprises

The present study has selected two banks in order to meet the objective of credit management out of 31 banks licensed and operated in the country. The banks selected for the study are: Himalayan Bank Limited & NABIL Bank Limited. While selecting the enterprises, this study has continuously screened data base of the banks in operation and finally selected a bank through purposeful judgment sampling method i.e. HBL and NABIL both of the reputed commercial banks. The current status of commercial banks in Nepal is:

Table No: 3.1 Status of the Bank

STATUS OF THE BANK	NUMBER
Government owned and semi Government owned bank	3
Joint venture	4
Domestic capital based banks	25
Total	32

3.6 Methods of Data Analysis

To achieve the objective of the study, various financial as well as statistical tools have been used for data analysis. The analysis of data was done according to pattern of the data available. Because of limited time and resources, some simple analytical statistical tools such as percentage change, coefficient of correlation and methods of least square are adopted in this study. Similarly, some accounting tools such as growth ratio analysis, loan and advance ratio, investment ratio, lending ratio, have been done for financial analysis.

3.6.1 Financial Tools

I) Percentage change

This ratio is calculated to measure the accelerated of any variable to the company in each year. This helps the bank to identify the degree how the variable is moving in each year. It also helps the bank to take the suitable direction. It is calculated in the following way:

$$\text{Annual percentage change} = \frac{\text{Amount of this year} - \text{Amount of last year} \times 100}{\text{Amount of last year}}$$

II) Growth Ratio

The growth ratio represents how well the bank is maintaining its financial and economic position for calculation of growth rate, the following formula used.

$A_n = A_o(1+g)^n$

A_n = Total amount in the year

A_o = Total amount in the initial year

g = Growth rate of amount during the study period

n = Total no. of years during the study period

To examine and analysis following growth ratios are calculated in this study:

1. Growth ratio of total deposit.
2. Growth ratio of total credit
3. Growth ratio of credit
4. Growth ratio of non- performing assets.

III). Cash & bank balance to total deposit ratio

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a bank maintains low ratio of cash, may fail to make payment for the demands of depositors. So, sufficient and appropriate cash reserve should be maintained properly. 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. It can be calculated by dividing 'cash & bank balance' by deposits. This ratio can be calculated using the following formula.

$$\text{Cash \& bank balance to total deposit ratio} = \frac{\text{Cash \& bank balance}}{\text{Total deposit}} \times 100$$

IV) Loan & advances to total deposit ratio

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

$$\text{Loan \& advances to total deposit ratio} = \frac{\text{Loan \& advances}}{\text{Total deposit}} \times 100$$

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

V) Loan & advances to total assets ratio

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

$$\text{Loan \& advances to total assets ratio} = \frac{\text{Loan \& advances}}{\text{Total assets}} \times 100$$

VI) Total investment to total deposit ratio

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

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}} \times 100$$

VII) Return on loan & advances ratio

This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan & advances. Higher ratio indicates greater success to mobilize fund as loan & advances and vice versa. Mostly, loan & advances include cash, credit, overdraft, bills purchased and discounted.

$$\text{Return on loan \& advances} = \frac{\text{Net profit}}{\text{Loan \& advances}} \times 100$$

VIII). Non – performing loan to total loan & advances ratio

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

$$\text{Non-performing loan to total loan \& advances} = \frac{\text{Non - performing Loan}}{\text{Total loan \& advances}} \times 100$$

IX). Loan loss provision to total loan & advances ratio

Loan loss provision to total loan & 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 provisions decrease in profit result to decrease in dividends but it's 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 bank's prosperity resulting increasing profits for long term. The low ratio indicates the good quality of assets in total volume of loan & advances. High ratio indicates more risky assets in total volume of loan & advances.

$$\text{Loan loss provision to total loan \& advances} = \frac{\text{Loan loss provision}}{\text{Total loan advances}} \times 100$$

3.6.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as coefficient of correlation analysis and least square liner trend have been used the basic analysis written in below.

a) Co-efficient of correlation between different variables.
b) Trend analysis of important variables.
c) Least square method.

3.6.2.1 Coefficient of Correlation

This analysis identifies and interprets the relationship between two or more variables. In the case of highly correlated variables, the effect on one variable may have effect on other correlated variable. Under this topic, Karl Person's co-efficient has been used to find out the relationship between the following variables.

1) Co- efficient of correlation between profit and loan and advance.
2) Co-efficient of correlation between total deposit and investment.

CHAPTER – IV

PRESENTATION AND INTERPRETATION OF DATA

In this chapter the analysis part is presented in detail. This chapter is mainly concerned with the presentation of collected data in suitable tables and figure as well as the analysis and presentation of those collected data in a suitable manner using various statistical and financial tools. Different types of ratios have been calculated to reach in the conclusion of the study.

4.1 Loan & Advance and Profit Position

Loans & advance are the major components in total assets which indicate the ability of banks to utilize its current assets in the form of loan and advance to high return. Increase in loan and advance in proper sector, it helps to increase in profit. If loan goes default sector profit decreases. Loan and advances are those part of banks it direct affect in profit.

4.1.1 Loan, advance and profit position of NABIL Bank Limited

The following tables show the amount of loan, advance and profit by NABIL Bank Limited throughout the study period of 2004/05 to 2008/09. The table also presents the percentage change in loan, advance and profit amount of NABIL during the study period.

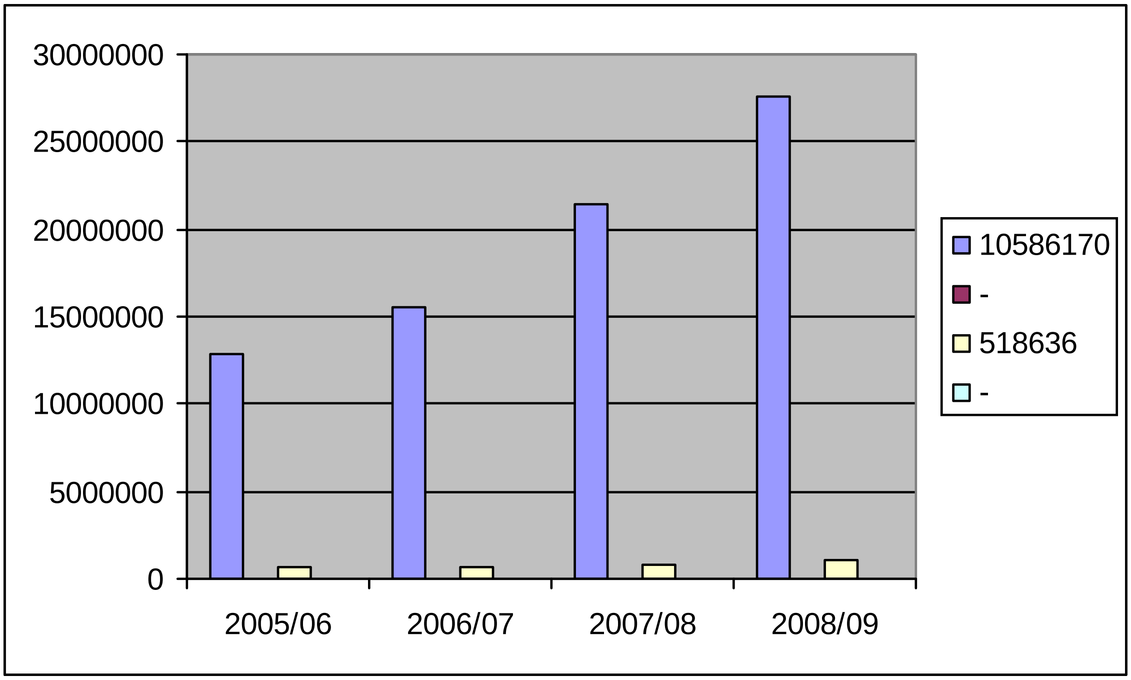
Table No.4.1 Loan, advance and profit position and change percentage of NABIL

In Rs (000)

Year	Total loan and advance	⁒change	Profit	⁒ change
2004/05	10586170	-	518636	-
2005/06	12922543	22.07	635262	22.49
2006/07	1554579	20.30	673960	6.09
2007/08	21365053	27.24	746468	10.76
2008/09	27589933	29.13	1031053	38.12

Source: Annual Reports of NABIL

Fig.No. 4.1 Loan, advance and profit position and change percentage of NABIL



The above table and figure shows the total loan and advance and profit amount of NABIL during the study period of 2004/05 to 2008/09. From the table and figure it shows loan and advance effect in profit. If loan and advance increase than profit also increases. In the year of 2006/07 percentage change in loan and advance decreasing so the percentage change in profit also decrease. The total loan, advance & profit of NABIL Bank are increasing in trend during the study period.

4.1.2 Loan, advance and profit position of HBL

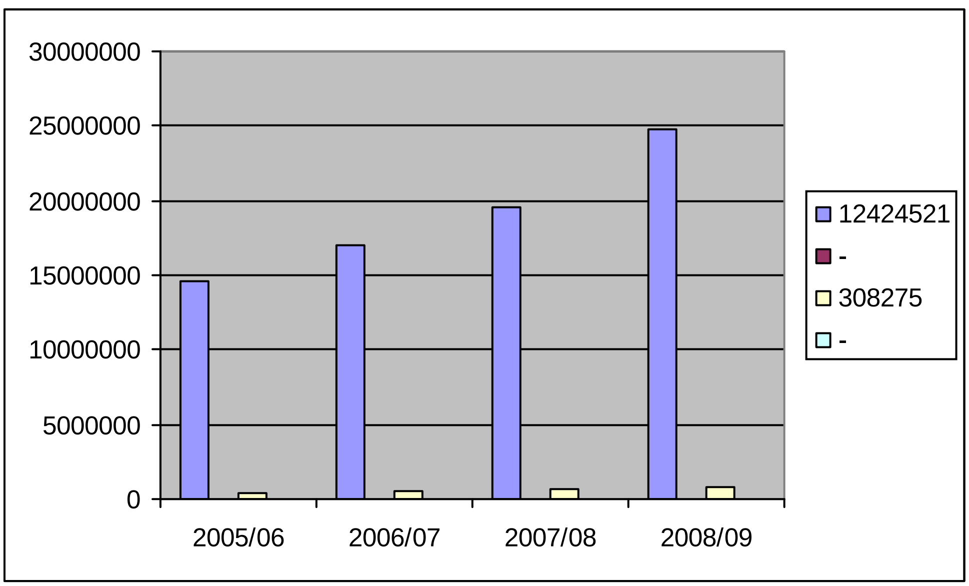
The following table shows the amount of loan, advance and profit by HBL throughout the study period of 2004/05 to 2008/09. The table also presents the percentage change in loan, advance and profit amount of HBL during the study period.

Table No.4.2 Loan, advance and profit position and change percentage of HBL Rs (000)

Year	Total loan, advance & profit	٪change	Total profit	٪change
2004/05	12424521	-	308275	-
2005/06	14642560	17.85	457458	48.39
2006/07	16997997	16.08	491823	7.51
2007/08	19497520	17.70	635869	29.29
2008/09	24793155	27.16	752835	18.39

Source: Annual Reports of HBL

Fig.No.4.2 Loan, Advance and Profit Position and Change Percentage of HBL



The above table and figure shows the total loan and advance and profit amount of the Himalayan Bank Limited during the study period of 2004/05 to 2008/09. The total loan, advance and profit of HBL are increasing in trend during this period. Change in loan & advance change in profit so the loan & advance direct effect in profit. Little change in loan & advance vast change in profit.

4.2 Deposit Collection and Utilization Trend

Commercial banks may mobilize its deposit by investing in different securities issued by government and other financial and non financial organization. Deposit of that amount of which is deposited by savers in commercial banks of other financial institution for safe keeping as well as for earning the interest from it. Deposits are the main source of resources to meet growing demands of financial existence. The existence of commercial banks basically depends upon the mobilization of deposits. The commercial banks may function when they have adequate deposits. Higher the volume of deposits, higher the investment higher will be the volume of profit. So commercial banks first of all try to mobilize as much deposits as possible. One of the main objectives of commercial banks is to safeguard of deposit of amount of deposited by the general depositors and its utilization in an effective manner. The following tables show the situation of commercial banks on relation of deposits collection and it's utilization in the recent year.

4.2.1 Deposits and Utilization Position of NABIL

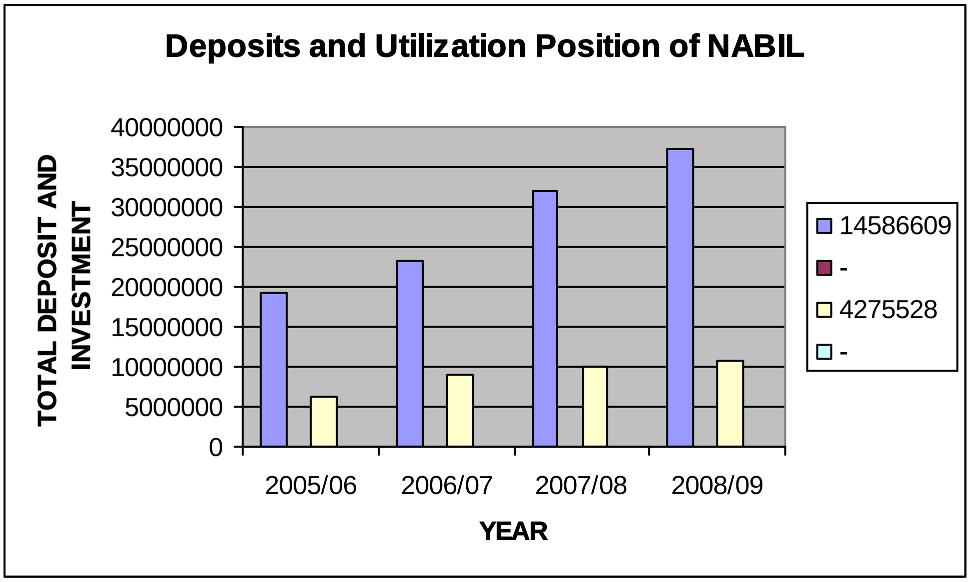
The following table shows the amount of deposit collection and investment by NABIL Bank Ltd. throughout the study period of 2004/05 to 2008/09. The table also presents the percentage change in deposit and investment amount of NABIL during the study period.

Table No 4.3 Deposits and Utilization Position of NABIL Rs (000)

YEAR	Total deposits	٪ change	Investment	٪ change
2004/05	14586609	-	4275528	-
2005/06	19347399	32.64	6178533	44.51
2006/07	23342285	20.65	8945311	44.78
2007/08	31915047	36.73	9939771	11.12
2008/09	37348256	17.03	10826379	8.92

Source: Annual Reports of NABIL

Fig No. 4.3



The above table and figure shows the total deposit and investment amount of NABIL during the study period. The amount total deposits and investment of NABIL during the study period is in increasing trend. If total deposits increase investment also increase. The percentage change in deposit is in decreasing trend, percentage change in investment also decreasing trend. The deposit amount of NABIL during the first year of the study period 2004/05 was 14586609 hundred rupees, which increase to 37348256 hundred rupees which is more than 150 percentages on it. Also the amount investment of NABIL during the study period 2004/05 was 4275528 hundred rupees, which increase to 10826379 hundred rupees which is more than 150 percentages on it. So from the above data it can be conclude that bank management is well capable in collecting deposits and utilize throughout the study period.

4.2.2 Deposits and Utilization Position of HBL

The following table shows the amount of deposit collection and investment by HBL Bank Ltd. throughout the study period of 2004/05 to 2008/09. The table also presents the percentage change in deposit and investment amount of HBL during the study period.

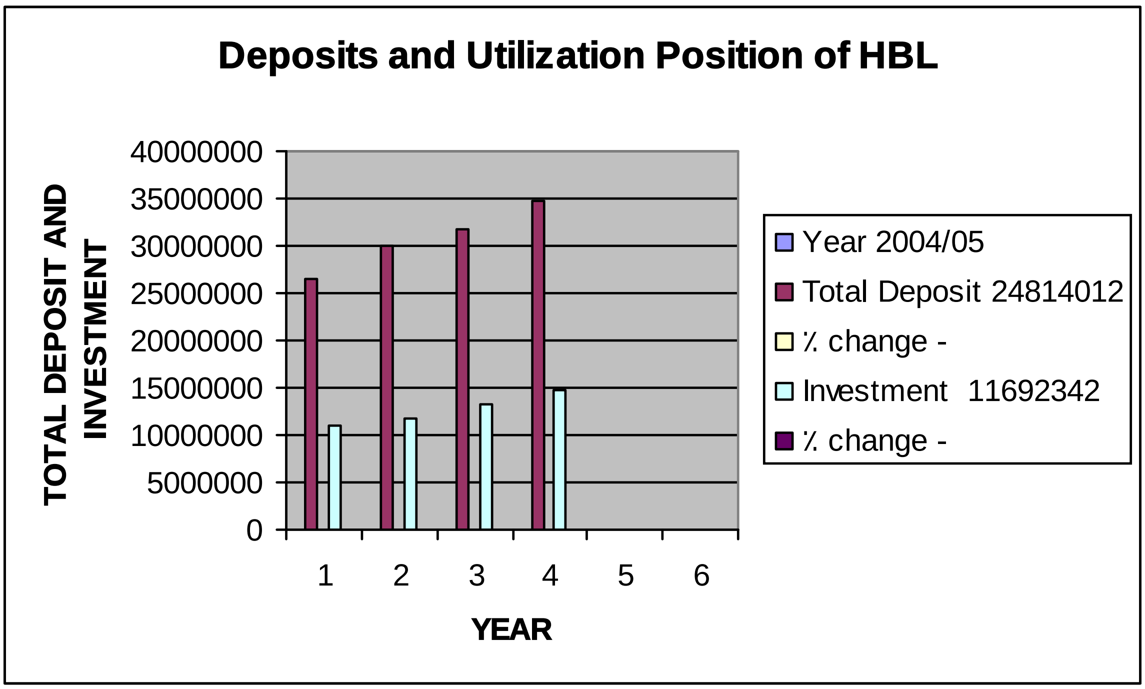
Table No.4.4

Deposits and Utilization Position of HBL In Rs (000)

Year	Total Deposit	⁒ change	Investment	⁒ change
2004/05	24814012	-	11692342	-
2005/06	26490852	6.76	10889031	6.88
2006/07	30048418	13.43	11822985	8.58
2007/08	31842789	5.97	13340177	12.83
2008/09	34681345	8.91	14710691	9.31

Source: Annual Reports of HBL

Fig No. 4.4



The above table and figure shows the total deposit and investment amount of HBL during the study period of 2004/05 to 2008/09. The amount of total deposit of HBL is increasing in trend but the investment is fluctuating in trend. The amount of investment of HBL in the year of 2005/06 is decreasing but the year of 2006/07, 2007/08 and 2008/09 is increasing in trend. The deposit amount of HBL during the first year of the study period of 2004/05 was 24814012 hundred rupees. The amount of deposit became 34681345 hundred rupees in the last year of study period. Similarly the investment amount of HBL during the first year of the study period of 2004/05 was 11692342 hundred rupees. The amount of investment became 14710691 hundred rupees in the last year. So from the above data it can be conclude that bank management is well capable in collecting deposits and utilize throughout the study period. The amount of deposit increase, amount of investment is also increase.

4.3 Ratio Analysis

The ratio analysis is to compare a firm financial performance for a specific period of time with the help of ratio analysis; quantitative judgment can be done regarding financial performance of firms. In the study, following ratios have been calculated and analyzed.

4.3.1 Cash and Bank Balance to Total Deposit

This ratio can be calculated by dividing cash and bank balance by total deposit. This ratio can be stated as:

$$\frac{\text{Cash and bank balance}}{\text{Total deposit}} \times 100$$

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

Table No 4.5 Cash and bank balance to total deposit ratio of NABIL in Rs (000)

Year	Cash And Bank Balance	Total Deposit	Ratio %
2004/05	559381	14586609	9.79
2005/06	630239	19374399	12.22
2006/07	1399826	23342285	8.41
2007/08	2671141	31915047	14.49
2008/09	3372512	37348256	10.51

Source: Annual Reports of NABIL

Above table shows the cash and bank balance to total deposit ratio of NABIL over the five years period from 2004/05 to 2008/09. The ratios are 9.79% 12.22% 8.41% 14.49% and 10.51% in the fiscal year 2004/05, to 2008/09 respectively. Commercial banks have to maintain their cash and bank balance in terms of total deposits as directed by NRB, otherwise they are imposed penalty. From the above table NABIL has maintained the NRB directives, so the bank has sound cash and bank balance position. It implies that better liquidity position of bank. In contrast a high ratio of cash and bank balance may be unfit which indicates the banks inability to invest funds in income generating area.

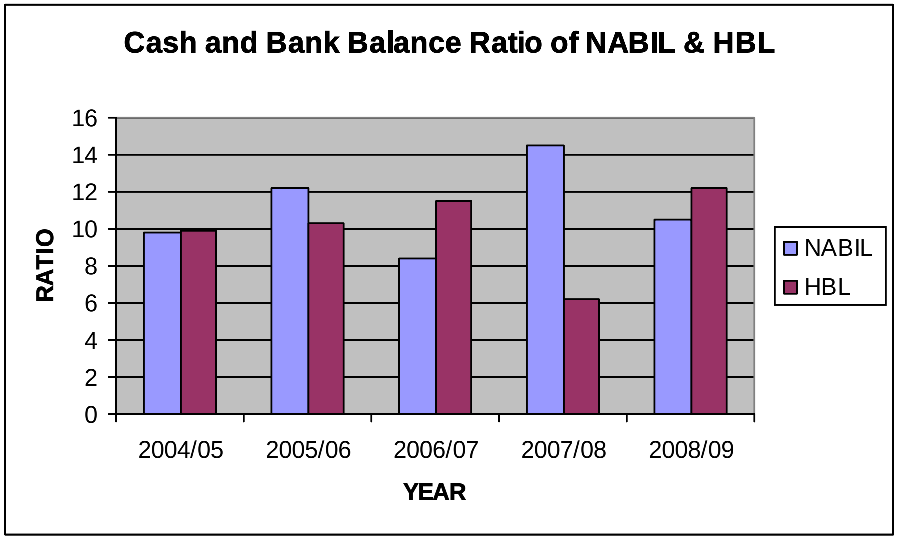
Table No 4.6 Cash and bank balance to total deposit ratio of HBL in Rs (000)

Year	**Cash and bank balance**	**Total deposit**	**ratio%**
2004/05	2455552	24814012	9.89
2005/06	2722632	26490852	10.27
2006/07	3467365	30048418	11.53
2007/08	1966672	31842789	6.18
2008/09	4219320	34681345	12.17

Source: Annual Reports of HBL

Above table shows the cash and bank balance to total deposit ratio of HBL during the study period of five years from 2004/05 to 2008/09.The ratios are 9.89 %10.27 %11.53% 6.18% and 12.17% in the fiscal year 2004/05 to 2008/09 respectively. HBL also maintain their ratio as per NRB directives except the year of 2007/08. The ratios are in increasing trend except the year of 2007/08 .It implies the better liquidity position of the banks. The following figure shows the cash and bank balance to total deposit ratio of NABIL and HBL

Fig. No. 4.5 Cash and bank balance to total deposit ratio of HBL



The above figure shows that ratio is fluctuating. In the year of 2004/05, 2005/06, 2007/08 the ratio of NABIL has more than HBL but in the year of 2005/07 and 2008/09 HBL has highest ratio than that NABIL. Through the ratios are not consistent, cash and bank balance position of NABIL as well as HBL with respect to deposit is better to serve the customers deposit withdraws demands. Commercial banks have to maintain their cash and bank balance in terms of total deposits as directed by NRB time to time .The standard of NRB directives of this ratio is 5.5% Higher this ratio is good form the view point of protection of depositor's fund but it is bad from the prospective of banks and shareholders as higher this ratio indicates idle funds, no effective use of capital less earning per share.

4.3.2 Loan and Advance to Total Deposit Ratio

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

Loan and advance to total deposit ratio= loan and advance ×100

Total deposits

Table No. 4.7 Loan and advance total deposit ratio of NABIL In Rs (000)

Year	Loan and Advance	Total Deposit	Ratio (%)	Year
2004/05	10586170	14586609	72.57	2004/05
2005/06	12922543	19347399	66.79	2005/06
2006/07	15545779	23342285	66.60	2006/07
2007/08	21365053	31915047	66.94	2007/08
2008/09	27589933	37348256	73.87	2008/09

Source: Annual Reports of NABIL

Above table shows the loan and advance to total deposit ratio of NABIL during the study period of 2004/05 to 2008/09. The ratios are 72.57%**,** 66.79%, 66.60%**,** 66.94% and 73.87% in the fiscal year 2004/05 to 2008/09 respectively.

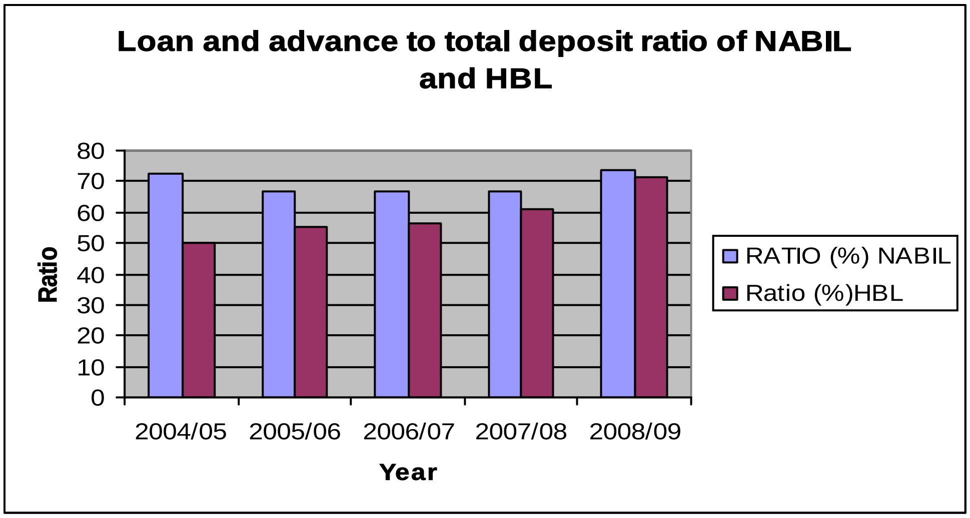
Table No. 4.8 Loan and advance total deposit ratio of HBL In Rs (000)

Year	Loan and advance	Total deposit	Ratio (%**)**
2004/05	12424521	24814011	50.07
2005/06	14642560	26490851	55.27
2006/07	16997997	30048418	56.57
2007/08	19497520	31842789	61.23
2008/09	24793155	34681345	71.49

Source: Annual Reports of HBL

Above table shows the loan and advance to total deposit ratio of HBL during the five years of the study period from 2004/05 to 2008/09. The ratios are 50.07%, 55.27%, 55.57%, 56.57%, 61.23% and 71.49% in the fiscal year 2004/05 to 2008/09 respectively.

Fig .No .4.6 Loan and advance to total deposit ratio of NABIL and HBL



The above figure shows the loan and advance to total deposit ratio of NABIL and HBL during the study period of 2004/05 to2008/09. The ratio of HBL is increasing trend where the ratio of NABIL is decreasing trend except the year of 2008/09.But the NABIL has highest ratio than HBL during the study period. From the analysis we can say that NABIL is in good from according to deposit mobilization point of view than HBL. But it does not mean that NABIL is investing more of its collected fund in high return, but with low risk sector than HBL. This ratio is up to 80% is good for NRB directives both banks did not maintain this ratio but satisfactory.

4.3.3 Loan and Advance to Total Assets Ratio

Loan and advance of any commercial bank represents the major portion in the volume of total working fund. This ratio measures the volume of loan and advances in the structure of total assets. High degree of this ratio indicates good performance of the bank in mobilizing its funds by way of lending function.

Granting a loan and advance always carries a certain degree of risk. Thus, this asset of banking business is regarding risky assets. This ratio measures the management attitude towards risky assets. The low ratio indicates of low productivity and high degree of safety in liquidity and vice – versa. This ratio also shows the credit risk taken by banks towards mobilizing its funds into different types of assets. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advance for the purpose of income generation. This ratio is calculated by following formula.

$$\text{Loan and advance to total assets ratio} = \frac{\text{Loan and advance}}{\text{Total assets}} \times 100$$

Table No. 4.9 Loan and Advance to Total Assets Ratio of NABIL in Rs (000)

Year	Loan And Advance	Total Assets	Ratio (%)
2004/05	10586170	17186331	61.60
2005/06	12922543	22329971	57.87
2006/07	15545779	27253393	57.04
2007/08	21365053	37132759	57.54
2008/09	27589933	43867398	62.89

Source: Annual Reports of NABIL

The above table shows the loan and advances to total assets ratio of NABIL over the five years of the study period of 2004/05 to 2008/09. The ratios are 61.60%, 57.87%, 57.04%, 57.54% and 62.89% in the fiscal year of 2004/05, 2005/06 to 2008/09 respectively.

Table No 4.10

Loan and advance to total assets ratio of HBL   In Rs (000)

Year	Loan And Advance	Total Assets	Ratio (%)
2004/05	12424521	27844695	44.62
2005/06	14642560	29460390	49.70
2006/07	16997997	33519141	50.17
2007/08	19497520	36175532	53.90

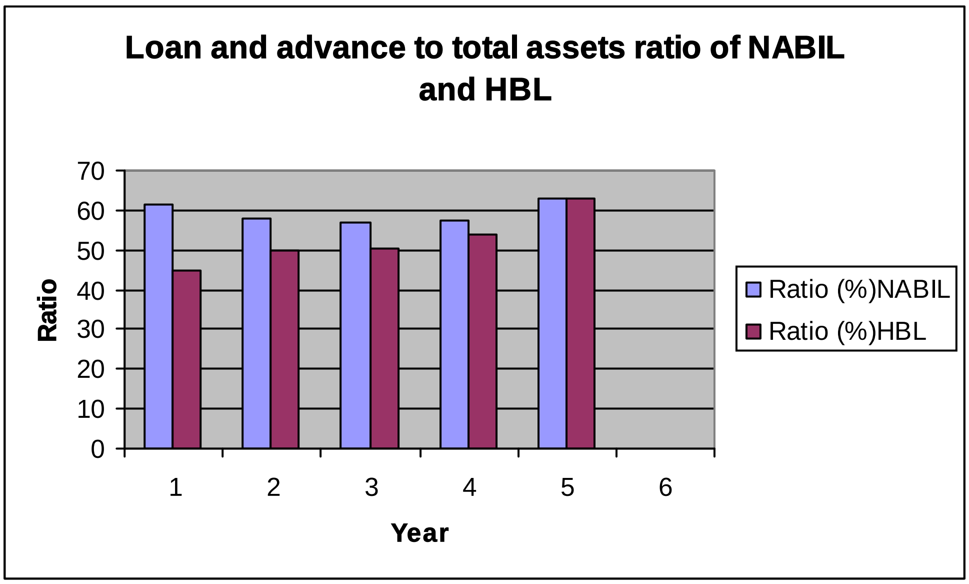
2008/09	24793155	39320322	63.05

Source: Annual Reports of HBL

The above table shows the loan and advance to total assets ratio of HBL during the study period of 2004/05 to 2008/09. The ratios are 44.62%, 49.70%, 50.17%, 53.90% and 63.05% in the fiscal year 2004/05 to 2008/09 respectively.

Fig .No .4.7

Loan and advance to total assets ratio of NABIL and HBL



The above figure shows the loan and advance to total assets ratio of NABIL and HBL. This ratio is increasing trend of HBL during the study period where the NABIL have fluctuated ratios but the NABIL has highest ratio than that of HBL except the year of 2008/09. From the analysis, we can say that NABIL has sound lending policy so that it is able to mobilize its resources as loan and advances than HBL. As well NABIL is risk taker bank than HBL. But the ratio of HBL is in increasing trend so it is good for the assets management in terms of loan and advances.

4.3.4 Total Investment to Total Deposit Ratio

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

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

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}} \times 100$$

Table No: 4.11 Total Investments to Total Deposit Ratio of NABIL in Rs (000)

Year	Total Investment	Total Deposit	Ratio (%)
2004/05	4275528	14586609	29.31
2005/06	6178533	19347399	31.93
2006/07	8945311	23342285	38.32
2007/08	9939771	31915047	31.44
2008/09	10826379	37348256	28.99

Source: Annual Reports of NABIL

The above table shows the total investment to total deposit ratio of NABIL during the study period of 2004/05 to 2008/09. The ratios are 29.31%, 31.93%, 38.32%, 31.44% and 28.99% in the fiscal year 2004/05 to 2008/09 respectively.

Table No: 4.12 Total Investments to Total Deposit Ratio of HBL in Rs (000)

Year	Total Investment	Total Deposit	Ratio (%)
2004/05	11692342	24814012	47.12
2005/06	10889031	26490852	41.10
2006/07	11822985	30048418	39.35

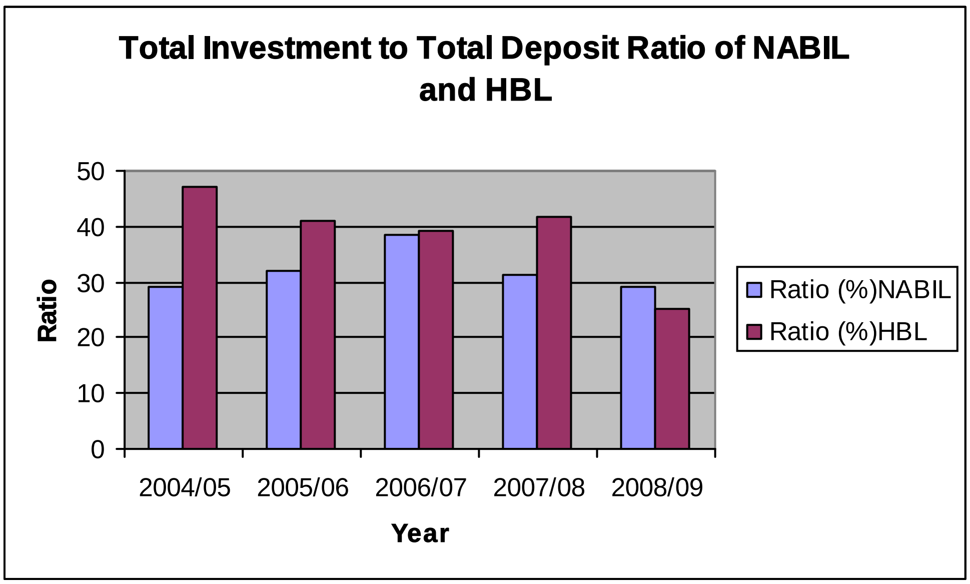
2007/08	13340177	31842789	41.89
2008/09	8710691	34681345	25.12

Source: Annual Reports of HBL

The above table shows the total investment to total deposit ratio of HBL during the study period of 2004/05 to 2008/09. The ratios are 47.12%, 41.10%, 39.35%, 41.89%, and 25.12% in the fiscal year of 2004/05 to 2008/09 respectively.

Fig .No. 4.8

Total Investment to Total Deposit Ratio of NABIL and HBL



The above figure shows the ratio of total investment to total deposit of NABIL and HBL during the study period of 2004/05 to 2008/09.The investment to total deposit ratio of NABIL as well as HBL is in fluctuating trend during the study period . Ratios of both banks have more variation and less consistency. Similarly, HBL has highest ratio than that of NABIL except the year of 2008/09. During the study period, movements of ratios are first increasing than decreasing and again increasing. It may be due to slack in the different sector of economy due to which bank is unable to mobilize its fund in loan and advance and share and debenture of other companies. Above figure shows the HBL has highest ratio than that of NABIL so the HBL able to mobilize their deposits on investment in various securities.

4.3.5 Return on loan and advances ratio

This ratio measures the earning capacity of the commercial banks through its fund mobilization as loan and advances. Higher ratio indicates greater success to mobilize fund as loan and advances and vice- versa. This ratio is calculated by following formula

$$\text{Return on loan and advance ratio} = \frac{\text{Net profit}}{\text{Loan and advance}} \times 100$$

Table No. 4.13 Loan and Advance Ratio of NABIL in Rs (000)

Year	Net Profit	Loan And Advance	Ratios (%)
2004/05	518636	10586170	4.90
2005/06	635262	12922543	4.92
2006/07	673960	15545779	4.34
2007/08	746468	21365053	3.49
2008/09	1031053	27589933	3.74

Source: Annual Reports of NABIL

The above table shows the return on loan and advance ratio of NABIL during the study period of 2004/05 to 2008/09. The ratios are 4.90%, 4.92%, 4.34%, 3.49% and 3.74 in the fiscal year 2004/05 to 2008/09 respectively.

Table No 4.14 Loan and advance ratio of HBL in Rs (000)

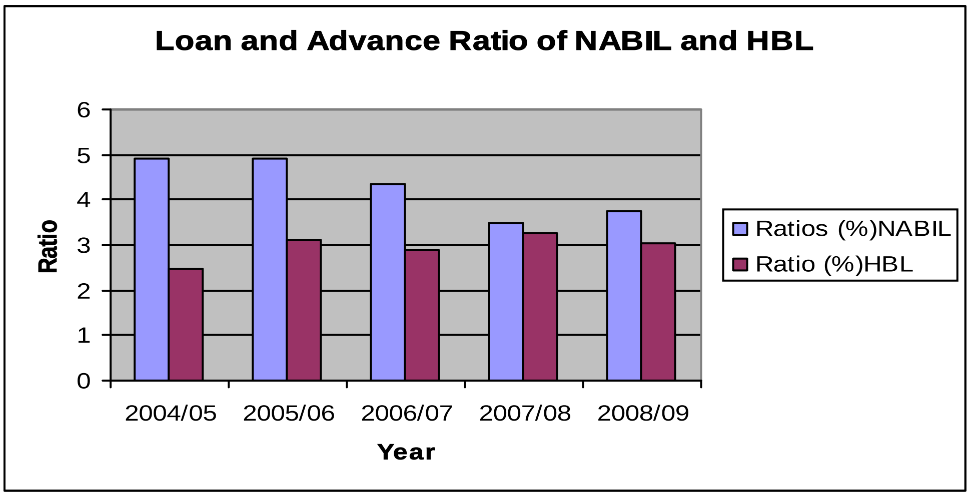
Year	Net Profit	Loan And Advance	Ratio (%)
2004/05	308275	12424521	2.48
2005/06	457458	14642560	3.12
2006/07	491823	16997997	2.89
2007/08	635869	19497520	3.26
2008/09	752835	24793155	3.04

Source: Annual Reports of HBL

The above table shows the loan and advance ratio of HBL during the study period of 2004/05 to 2008/09. The ratios are 2.48%, 3.12%, 2.89%, 3.26 and 3.04 in the fiscal year of 2004/05 to 2008/09 respectively.

Fig No: 4.9

Loans and Advance Ratio of NABIL and HBL



The above figure shows the return on loan and advance ratio of NABIL and HBL during the study period. Return on loan and advance ratio of NABIL is increasing in first two years than start to decrease where HBL also increase in first year than decrease in second year than start in increasing trend after second year. As well as NABIL has highest ratio than HBL during the study period of five years. From the analysis, we can say that return on loan and advance ratio of NABIL and HBL is very low and in fluctuating trend also. The highest ratio is 4.92% of NABIL and 3.26% of HBL during the five years of study period. It shows the normal earning capacity of NABIL and HBL in loan and advance that means lending policy of both banks are not so sound and credits are not granted in profitable sector but sati factorable in the present economic situation.

4.3.6 Net Profit And Loss to Total Assets Ratio

This ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher ratio indicates the higher efficiency in utilization of total assets and vice versa. In the study, net profit and loss to total assets ratio is examined to measures the profitability of all the financial resources in bank-assets and it is calculated by applying following formula:

$$\text{Net profit/loss to total assets ratio} = \frac{\text{Net profit}}{\text{Total assets}} \times 100$$

Table No 4.15 Net Profit /Loss to Total Assets Ratio of NABIL in Rs (000)

Year	Net Profit	Total Assets	Ratio (%)
2004/05	518636	17186331	3.02
2005/06	635262	22329971	2.84
2006/07	673960	27253393	2.47
2007/08	746468	37132759	2.01
2008/09	1031053	43867398	2.35

Source: Annual Reports of NABIL

The above table shows the, net profit/loss to total assets ratio of NABIL during the study period of 2004/05 to 2008/09. The ratios are 3.02%, 2.84%, 2.47%, 2.01%, and 2.35% in the fiscal year 2004/05 to 2008/09 respectively.

Table No 4.16 Net Profit /Loss to Total Assets Ratio of HBL in Rs (000)

Year	Net Profit	Total Assets	Ratio (%)
2004/05	308275	27844695	1.11
2005/06	457458	29460390	1.56
2006/07	491823	33519141	1.46
2007/08	635869	36175532	1.76
2008/09	752835	39320322	1.91

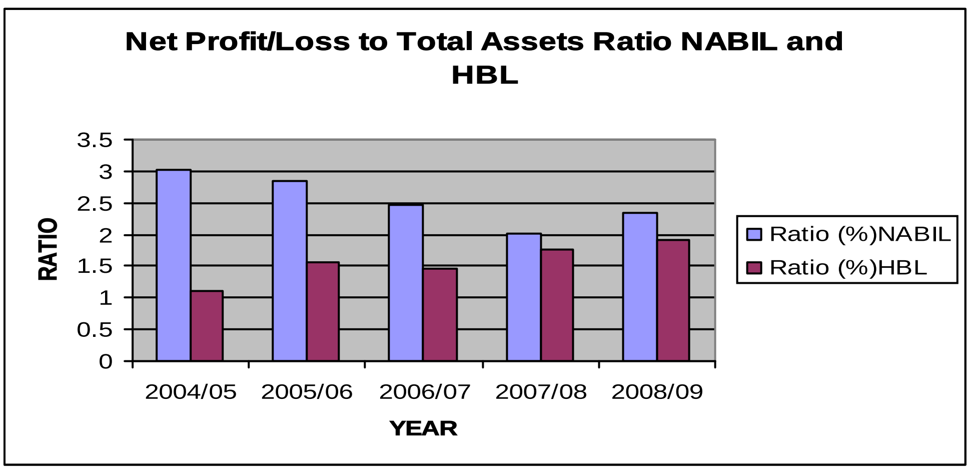
Source: Annual Reports of HBL

The above table shows the, net profit/loss to total assets ratio of HBL during the study period of 2004/05 to 2008/09. The ratios are 2.64%, 4.20%, 4.16%, 4.77% and 8.64% in the fiscal year 2004/05 to 2008/09 respectively.

The following figure shows the net profit/loss to total assets ratio NABIL and HBL during the study period of five fiscal years.

Fig No .4. 10

Net Profit/Loss to Total Assets Ratio NABIL and HBL



The above figure shows the net profit / loss to total assets ratio of NABIL and HBL during the study period of 2004/05 to 2008/09. The ratio of NABIL is decreasing trend except the year of 2008/09.Where the ratio of HBL is increasing trend except the year of 2006/07. But the NABIL has highest ratio than that of HBL during the study period. From the analysis we can say that NABIL has better earning capacity than that of HBL. The highest ratio of NABIL is 3.02% where HBL is 1.91 %over the study period. It means NABIL has earned 3.02% profit of the total assets and HBL can only earned 1.91% profit of the total assets. So the NABIL has well management to uses all the assets in the business to generate an operating surplus.

4.3.7 Loan Loss Provision to Total Loan and Advance 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 general loan loss provision. The provision for loan loss reflects the increasing profitability of non-performing loan. The provision of loan means the profit of banks will come down by such amount. Increase in loan loss provision, decrease in profit result to decrease in dividends but its positive impact is that strengthens financial condition of the banks by controlling the credit risk and reduce the risk related to deposits. So it can be said that banks suffer it only for shot- term while the good financial conditions and safety of loans will make bank's propensity resulting increasing profit for long time. It is calculated by following formula

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advance}} \times 100$$

Table No 4.17: Loan Loss Provision to Total Loan and Advance Ratio of NABIL In Rs (000)

Year	**Loan Loss Provision**	**Loan And Advance**	**Ratio (%)**
2004/05	8662	10586170	0.08
2005/06	3770	12922543	0.03
2006/07	14206	15545779	0.09
2007/08	64055	21365053	0.30
2008/09	45722	27589933	0.16

Source: Annual Reports of NABIL

The above table shows the loan loss provision to total loan and advances ratio of NABIL during the study period of 2004/05 to 2008/09. The ratios are 0.08%, 0.03%, 0.09%, 0.30% and 0.16% in the fiscal year of 2004/05 to 2008/09 respectively.

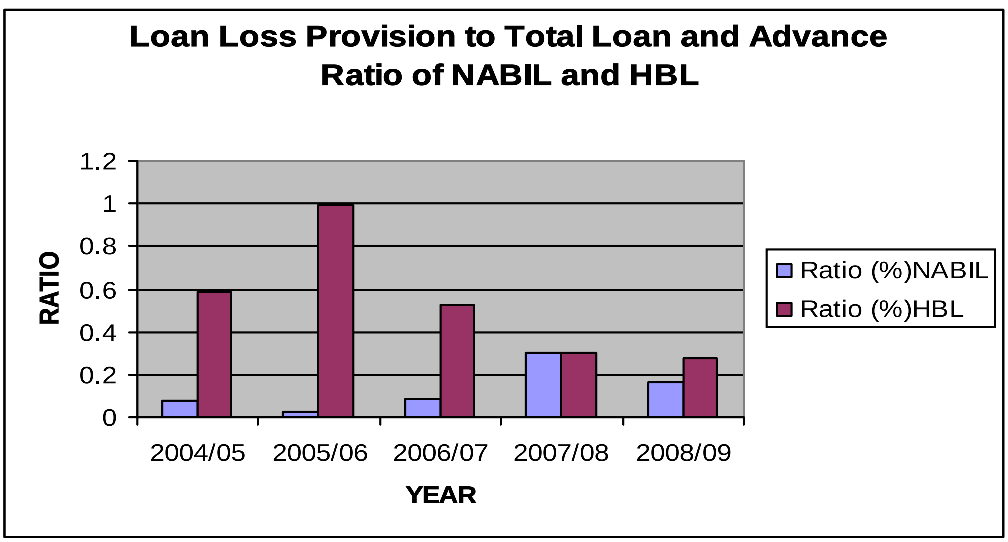
Table No: 4.18 Loan Loss Provision to Total Loan and Advance Ratio of HBL in Rs (000)

Year	Loan Loss Provision	Loan And Advance	Ratio (%)
2004/05	73898	12424521	0.59
2005/06	145155	14642560	0.99
2006/07	90689	16997997	0.53
2007/08	58431	19497520	0.30
2008/09	68806	24793155	0.28

Source: Annual Reports of HBL

The above table shows the loan loss provision to total loan and advances ratio of HBL during the study period of 2004/05 to 2008/09. The ratios are 0.59%, 0.99%, 0.53%, 0.30% and 0.28% in the fiscal year of 2004/05 to 2008/09 respectively.

Fig No. 4.11
Loan Loss Provision to Total Loan and Advance Ratio of NABIL and HBL



The above figure shows the loan loss provision to total loan and advance ratio of NABIL and HBL during the study period of 2004/05 to 2008/09.The ratio of HBL is decreasing trend except the year of 2005/06 .The ratio of NABIL is increasing in trend except the year of 2005/06 but the HBL has highest ratio than that of NABIL over the study period. From the analysis we can say that NABIL has very low degree of provision over total lending than HBL. It indicates that NABIL has decreasing volume of non – performing loans during the study period than HBL. The low degree of this ratio indicates the better performance and effective credit policy of NABIL than HBL.

4.3.8 Non – Performing Loan to Total Loan and Advance Ratio

Loan classified into four categories good loan, sub-standard loan, doubtful debt and bad debt. NRB has directed all the commercial banks create loan loss provision against the sub- standard, doubtful debt and bad debt. These three types of loan is known as Non – performing loan and good loan is known as performing loan. But both of our concerned banks have not provided data on non- performing loan in balance sheet and profit and loss account. To measure the volume of non-performing loan to total loan and advances, the major indicators of NABIL and HBL is used. The ratio shows the percentage of non-recovery loan in total loan and advance. This ratio is not exceed than 5%, this ratio is below the 1% is qualitative.

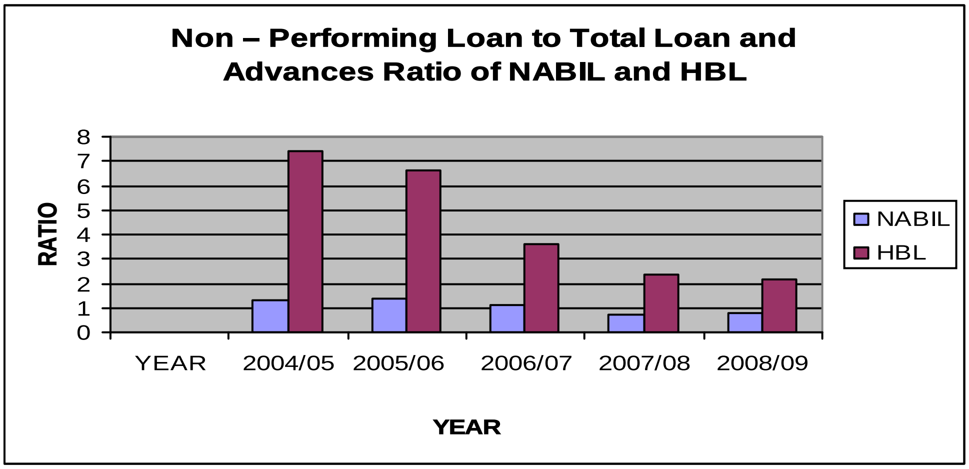
Table No: 4.19 Non – Performing Loan to Total Loan and Advances Ratio of NABIL and HBL (In %)

BANKS YEAR	2004/05	2005/06	2006/07	2007/08	2008/09	AVERAGE
NABIL	1.32	1.38	1.12	0.74	0.80	1.072
HBL	7.44	6.60	3.61	2.36	2.16	4.434

Source: Annual Reports of respective banks.

Above table shows the non-performing loan to total loan and advances ratio of NABIL and HBL over the five years period from 2004/05 to 2008/09. The ratios of NABIL are 1.32%, 1.38%, 1.12%, 074% and 0.80% in the fiscal year 2004/05 to 2008/09 respectively. Similarly, the non-performing loan to total loan and advance ratios of HBL are 7.44%, 6.60%, 3.61%, 2.36% and 2.16% in the fiscal year 2004/05 to 2008/09 respectively. Average ratio of Non-performing loan of NABI is 1.072 and HBL is 4.434. Non – performing loan and advances ratio of NABIL and HBL can be shown by following diagram.

Fig No. 4.11
Non Performing Loan to Total Loan and Advances Ratio of NABIL and HBL



The above figure shows the non-performing loan to total loan and advance ratio of NABIL and HBL during the study period. Non –performing loan to total loan and advance ratio of NABIL is decreasing trend except the last year of the study period over the five years. The ratio of HBL is in rapidly decreasing trend over the study period. But the HBL has highest ratios than that of NABIL. It shows that lending policy of NABIL is sound and effective than HBL .Loan recovery process, efficient management and in depth study are the main causes of low NPA level of NABIL. In the year of 2004/05 and 2005/06 HBL has the ratio more than 5% it is not good but the year of 2006/7 and 2007/08 its ratios are less than 5% so it is good but in comparison, NABIL has qualitative ratio than HBL because NABIL has less than 1% ratio in the fiscal year 2007/08 and 2008/09. In the average of this ratio NABIL has 1.072 and HBL has 4.434 which indicate NABIL has qualitative ratio than HBL.

Banking sector is seriously affected by the non-performing loan. Around 8% of non-performing loan indicate the bad performing of bank even though the decreasing trend shows the better improvement of the bank. If non-performing loan will increase that affect in overall banking business, provision amount will increases and profit will decrease. So we suggest the bank to be very careful while granting loan and to do effective follow up for recovery of loan.

4.4 Statistical Analysis

4.4.1 Coefficient of Correlation Analysis

This analysis identifies and interprets the relationship between two or more variables. Under this topic, Karl Pearson's Coefficient of Correlation is used to find out the relationship between total deposits and loan & advance as well as net profit and loan & advance of NABIL and HBL. Correlation analysis describes the relationship between variables is positive or negative. It helps to determine whether:

- A positive or negative relationship exists.
- The relationship is significant or insignificant and establishes causes and effective relation if any:

For the purpose of decision making interpretation are based on following terms.

If r=0, There is no relationship between variables

If r<0, There is negative relationship between the variables

If r>0, There is positive relation

If r=+1, the relation is perfectly positive

If r=-1, the relation is perfectly negative

4.4.1.1 Coefficient Of Correlation between Total Deposits and Total Loan & Advance

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

The below table shows the value of r and r^2 between deposit and loan & advances. In this analysis, deposit is independent variable (x) and loan & advance is dependent variable (y).

Table No 4.20 Correlation between Total Deposits and Total Loan & Advance of NABIL (Rs in 000 million)

Year	X	Y	X^2	Y^2	XY
2004/05	14.58	10.58	212.58	111.94	154.26
2005/06	19.34	12.92	374.04	166.93	249.87
2006/07	23.34	15.54	529	241.49	362.7
2007/08	31.91	21.36	1018.25	456.25	681.6
2008/09	37.34	27.58	1394.28	760.66	1029.8
N=5	**∑X= 126.51**	**∑Y=87.98**	**$\sum X^2$ =3528.15**	**$\sum Y^{2=}$1737.27**	**∑ XY=2478.26**

Where,

X= Total deposit of NABIL

Y= Total loan & advances of NABIL

Here, ∑X= 126.51, ∑Y=87.98, $\sum X^2$ =3528.15, $\sum Y^{2=}$1737.27, ∑ XY=2478.26, N=5

Now Correlation (r) = $\dfrac{NSXY - SXSY}{\sqrt{NSX^2 - (SX)^2} \times \sqrt{NSY^2 - (SY)^2}}$

r =+1

The above calculation it is found that coefficient of correlation between deposit and loan & advance is +1. It shows perfectly positive relationship between two variables. It revels that the movement of deposit and loan & advance is found in similar direction. If deposit increases, than loan & advance also increases and vice versa.

Table No: 4.21 Correlations between Total Deposits and Total Loan & Advance of HB (Rs in 000 million)

Year	X	Y	X^2	Y^2	XY
2004/05	24.81	12.42	615.5361	154.2564	308.1402
2005/06	26.49	14.64	701.7201	214.3296	387.8136
2006/07	30.04	16.99	902.4016	288.6601	510.3796
2007/08	31.84	19.49	1013.7856	379.8601	620.5616

2008/09	34.68	24.79	1202.7024	614.5441	859.7172
N=5	**∑X =147.86**	**∑Y =88.33**	**$\sum X^2 =$4436.1458**	**$\sum Y^2 =$1651.6503**	**∑ XY =2686.6122**

Where,

X= Total deposit of HBL

Y= Total loan & advances of HBL

Here**,** ∑X =147.86, ∑Y =88.33, $\sum X^2 =$4436.1458, $\sum Y^2 =$1651.6503, ∑ XY =2686.6122

Now, Correlation (r) = $\dfrac{NSXY - SXSY}{\sqrt{NSX^2 - (SX)^2} \times \sqrt{NSY^2 - (SY)^2}}$

r = 0.98

The above calculation shows that there is positive relationship between total deposit and loan & advance of HBL. That means if the total deposit is increased absolutely the total deposit and loan & advances is also increased and vice- versa. It revels that the movement of deposit and loan & advance is found in similar direction.

4.4.1.2 Coefficient Of Correlation between Total Loan & Advance and Net Profit.

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

Table No: 4.22 Correlation between Total Loan & Advance and Net Profit of NABIL (Rs in 000 million)

Year	**X**	**Y**	**X^2**	**Y^2**	**XY**
2004/05	10.58	0.51	111.9364	0.2601	5.3958
2005/06	12.92	0.63	166.9264	0.3969	8.1396
2006/07	15.54	0.67	241.4916	0.4489	10.4118
2007/08	21.36	0.74	456.2496	0.5476	15.8064
2008/09	27.58	1.0	760.6564	0.01	2.758
N=5	**∑X=87.98**	**∑Y =3.55**	**$\sum X^2 =$1737.2604**	**$\sum Y^2 =$2.6535**	**∑ XY=67.3336**

Where,

X= Total loan and advances of NABIL

Y= Net profit of NABIL

Total = summation of the value from 2004/05 to 2008/09

Here, $\sum X$ = 87.98, $\sum Y$ = 2.65, $\sum X^{2}$ = 1737.2604, $\sum Y^{2}$=1.6635, $\sum XY$ =42.5116, N=5

Now, Correlation (r) = $\dfrac{NSXY - SXSY}{\sqrt{NSX^2 - (SX)^2} \times \sqrt{NSY^2 - (SY)^2}}$

r= +.97

The above correlation shows that there is positive relationship between total loan and advances and net profit of NABIL That means, if the total loan and advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan and advances and net profit is +0.97. We can say that there is significantly positive relationship between total loan and advances and net profit of NABIL.

From the above analysis, we can conclude that NABIL has positive relationship with significant between total loan and advances and net profit. The relationship is significant; i.e. profit is increase as the portion increase in loan and advances in relation to 0.97 and vice- versa.

Table No: 4.23

Correlations between Total Loan & Advance and Net Profit of HBL (Rs In 000 Million)

Year	**X**	**Y**	**X^2**	**Y^2**	**XY**
2004/05	12.42	0.3	3.726	0.09	3.726
2005/06	14.64	0.45	6.588	0.2025	6.588
2006/07	16.99	0.49	8.3251	0.2401	8.3251
2007/08	19.49	0.63	12.2787	0.3969	12.2787
2008/09	24.79	0.75	18.5925	0.5625	18.5925
N=5	**$\sum X$ = 88.33**	**$\sum Y$ = 2.62**	**$\sum X^2$ =1651.6503**	**$\sum Y^2$ =1.492**	**$\sum XY$ =49.5103**

Where,

X= Total loan and advances of HBL

Y= Net profit of HBL

Total = summation of the value from 2004/05 to 2008/09

Here, $\sum X = 88.33$, $\sum Y = 2.62$, $\sum X^2 = 49.5103$, $\sum Y^2 = 1.492$, $\sum XY = 49.5103$, N=5

$$\text{Now, Correlation (r)} = \frac{NSXY - SXSY}{\sqrt{NSX^2 - (SX)^2} \times \sqrt{NSY^2 - (SY)^2}}$$

$$r = 0.98$$

The above calculation shows that there is positive relationship between total loan and advances and net profits of HBL. That means, if the total loans and advances is increased absolutely the net profit is also increased and vice versa. The coefficient of correlation between total loan and advances and net profit is 0.98. From the above analysis, we can conclude that HBL has positive relationship but not significant at all times between total loan and advances and net profit. The relationship is significant, i.e. profit is increase as the portion increase in loan and advances in relation to 0.98 and vice- versa.

4.5 Major Findings of the Study

The major findings of the study are as follows.

- The total loan and advances and net profit of both banks were found to be positive. It shows positive relation ship between two variables. It revels that the movement of loan and advance and profit is found in similar direction. If the loan and advances increases, than profit also increases and vice versa.

- From the analysis, we can say that the return on loan and advance ratio of NABIL and HBL is fluctuating trend. The highest ratio is 4.92% of NABIL and 3.26% of HBL during the five years of study period. It shows the normal earning capacity of NABIL and HBL in loan and advance

- The liquidity position of both banks seems to be better condition. Both banks have sound cash and bank balance position it implies the better liquidity position of the sample banks
- The coefficient of correlation between deposit and loan and advance of both banks were found to be positive. It shows positive relationship between the two variables. It revels that the movement of deposit and loan and advance is found to be in similar direction. If deposit increases, than loan and advances also increase and vice- versa.

- The ratio of HBL is in increasing trend where the ratio of NABIL is decreasing trend except the year of 2008/09. But the NABIL has highest ratio than HBL during the study period. NABIL is good from according to deposit mobilization point of view than HBL. But it does not mean NABIL is investing more of its collected fund in high return but with low risk sector than HBL

- The loan loss provision of both banks is good. NABIL has very low degree of this provision over the total lending than HBL. It indicates that NABIL has decreasing volume of non- performing loans during the study period than HBL.NABIL has better performance and effective credit policy than HBL.

- The ratio of NPA of NABIL is decreasing trend except the last year of the study period. The ratio of HBL is rapidly decreasing over the study period. But the HBL has highest ratio than that of NABIL. This ratio is not exceeding than 5%, this ratio is below than 1% is qualitative. In the year of 2004/05 and 2005/06 HBL has this ratio more than 5% it is not good but in the year of 2006/07 and 2007/08 its ratios are less than 5% so it is good but in comparison, NABIL has qualitative ratio than HBL because NABIL has less than 1% ratio in the fiscal year 2007/08 and 2008/09. In the average of this ratio NABIL has 1.072 and HBL has 4.434 which indicate NABIL has qualitative ratio than HBL.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In this chapter, summary, conclusion and recommendation are included. We have done credit management of NABIL and HBL by using financial as well as statistical tools. After completing the basic analysis required for the study, little recommendation has made which would be financial for the management of the both banks and concern persons.

For the development of country's economic mobilization of saving in credit is very important. For this role commercial banks play crucial role in the task of capital formation, which is no doubt, a key variable in the economic development of the country. Scattered resources hold no meaning unless and until they are mobilized and utilized efficiently in the some productive sectors. Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investment in ordered to aid the nation. It is the institution which deals with other people's money. It should not be forgotten that the country could hardly achieves its goal of economic development by the way of deposit mobilization. It is true that a strong financial institution is the great need in the developing country like Nepal because all the economic conditions are based on the financial institutions and the development of the country depends upon the active participation of the banks in the different activities in the country.

Credit is very important part of the commercial banks. Management of the credit in effective way of the banks is an important task. Commercial banks must allocate the fund in different loan and advance and investments. The main objective of the study is to examine the relationship between total profit and total credits. Besides this the other objective is to examine the trend of deposit collection and utilization of NABIL and HBL.

During the study period, the total loan and advance and profit amount of both banks were found to be in increasing trend. This shows loan and advance effect in profit if loan and advance increases profit also increasing. The total deposits of both banks also in increasing trend. If the deposit increases investment also increases.
There was unhealthy competition among the commercial banks. One bank's policy directly or indirectly affects another. In current situation, there are various unorganized financial sectors have been increased day by day which also brings challenges to the commercial banking sector.

Both banks of this research have maintained satisfactory level of liquidity during the study period. NABIL has maintained 9.79% of total deposits as its liquidity in Fiscal year 2004/05 and 12.22%, 8.41%, 14.49%, 10.51%, in the fiscal year of 2005/06 to 2008/09 respectively. HBL has maintained 9.89%, 10.27%, 11.53%, 6.18%, and 12.11% in the fiscal year 2004/05 to 2008/09 respectively. So the above data the liquidity position of NABIL is well strong than HBL.

Loan and advance to total deposit ratio is measures to the bank is successful to manage its total deposit on loan and advance for the purpose of income generating or not. A higher ratio indicates better mobilization of collected deposit and vice- versa. NABIL has maintained these ratios are 72.37%, 66.79%, 66.60%, 66.94%, and 73.87% in the fiscal year 2004/05 to 2008/09 respectively. HBL maintained 50.07%, 55.27%, 56.57%, 61.23%, 71.49%, in the fiscal year 2004/05 to 2008/09 respectively. During the study period we can say that NABIL is in good from according to the deposit mobilization than HBL.

NABIL has the highest mean of net profit on loan and advances ratio than that of HBL. Similarly, the ratios of NABIL have more variation but more consistency than HBL. From the analysis, we can say that return on loan and advances ratio of NABIL and HBL is very low and in fluctuating trend also. That means lending policy of both banks are not so sound and credit are not granted in profitable sectors but satisfactorily in the present economic situation.

Banking sector is seriously affected by non- performing loan. If non- performing loan will increase that affect in overall banking business, provision amount will increases and profit will decreases. So we suggest the bank to be very careful while granting loan and to do effective follow up for recovery of loan.

5.2 Conclusion

There is positive relationship between total loan and advances and net profit of both banks. If the total loan and advances is increases absolutely the net profit is also increases and vice versa.

High ratio of cash and bank balance may unfit, which indicates the banks inability to invest funds in income generating areas. Higher this ratio is good from the view point of protection of depositors fund but it is the bad from the banks and shareholders as higher this ratio indicates idle money, no efficient use of capital less earning per share.

Loan and advance to total deposit ratio measures to the bank is successful to manage its total deposit on loan and advance for the purpose of income generating or not. A high ratio indicates better mobilization of collected deposit and vice versa. But it should be noted that too high ratio might not be better from the liquidity point of view. This ratio is up to 80% is good for NRB directives. Both banks did not maintain this ratio but satisfactory.

Loan classified into four categories, good loan, sub standard loan, doubtful debt and bad debt. NRB has directed all the commercial banks create loan loss provision against the sub-standard, doubtful debt and bad debt. These three types of loan is known as Non-Performing loan. Banking sector is seriously affected by the Non- Performing loan. Around 8% of Non-Performing loan indicate the bad performing of bank even though the decreasing trend shows the better improvement of the bank. If NPA will increases that affect in overall banking business, provision amount will increases and profit will decreases.

Economic liberalization policy of the government has encouraged the establishment and growth of commercial banks in the country within short period of time. In a situation when the existing financial institution especially government's commercial banks were unable to supply credit timely and carry capital market activities. Private joint venture commercial banks have contributed a lot. In Nepal up to now there are 31 commercial banks.

The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors. The deposits and its investment in productive sectors are not stable that's why they are not earning more profit.
Deposit is the major organ of the commercial banks. Higher the deposit higher will be the chances of mobilization of funds. The banks should be very careful while granting loans and advances because loan is life blood to the commercial banks for the survival.

In the study period it shows that there is positive relation between total deposit and loan and advance of both banks. It revels that the movement of deposit and loan & advance is found in similar direction. If deposit increases than loan and advance also increases and vice-versa.

It also analysis there is positive relationship between total loan and advances and net profit of both banks .If the total loans and advances is increases absolutely the net profit is also increased and vice-versa .

It is also observe that the problem of banking sector are unfair competition, not proper utilization of research and development, no uniform rules and regulations through which these problem create difficulties in performance of banks.

From the analysis of overall efficiency ratio of NABIL and HBL, we can say that NABIL has sound lending policy so that it is able to mobilization its resources more than HBL.

NABIL is able to earn more interest from total credit granting than HBL. NABIL has high return on loan and advance ratio as well as return on total assets ratio than HBL.

HBL has kept high loan loss provision than NABIL because of high non- performing to total lending ratio.

5.3 Recommendations

The problems related to credit management have been already discussed now at the end of the study the following recommendations can be advanced for the improvement of the credit management of both banks.

- Both banks should maintain the existing trend of increasing volume of profit to loan and advance. In this process bank should utilize its loan and advance to high return.
- Return on loan and advance ratio of NABIL should improved and make in upward trend. By comparing to NABIL, HBL should also improve this ratio.
- Both banks have high liquidity ratio. Higher these ratios indicate idle money, no efficient use of capital less earning per share so the banks should invest their excess funds in income generating areas. There should be a proper trade off between net profit and liquidity.
- Both banks did not have loan and advance to total deposit ratio up to 80% so both banks should maximize this ratio up to 80% to proper utilization of deposit collection. By comparing this ratio NABIL has higher ratio than that of HBL. So

HBL should maximize this ratio for better mobilization of deposit collection. For this bank should invest in productive sector.

- By comparing the result of NPA, HBL should adopt sound NPA management policy for minimizing the ratio of NPA. To reduce the percentage of NPL in HBL, the bank should analyses its loan portfolio and default loan status to identify the causes of high NPA as compared to NABIL

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