CHAPTER-I

INTRODUCTION

1.1 Background of the Study

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

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

Since the introduction of financial liberalization in 1980s we can noticeable changes in the financial sector. Work specification, increase in new banking services and excess to banking facilities for the general people are considered as positive signals in the financial market. The concept of fair competition in this sector is emerging. However, financial institutions are facing problems like traditional style of work, poor information system and effective management. The countries implementing the open market policy emphasize on the role of private sector in order to get sustainable economic growth. It realized that the government has to encourage private sector to upgrade the economic and social standard of general people by focusing its resources on employment generation, education, infrastructure development and social services. There is a concept that where assets of banking sector total is more than total domestic product, such country considered as developed. Nepal's total assets of banking system to total domestic product ratio is 60%.Where as 210% in China,74% in Indonesia,149% in Japan,154%in Korea,158% in Malaysia and 211% in Taiwan 1.

Financial sector includes a wide range of economic activities of the country. It recovers from national growth to individuals' savings. Financial sectors are basically administered by economic policy. Financial policy, monetary policy and policies for financial institutions are also equally important for balanced national economy. Nepal Rastra Bank has the authority to implement the monetary policy with different targets and tools. Financial institution reforms are one of the effective tools to reform the financial sector. Among the financial institution the commercial banks are the major components in implementing the reforms policy. A credit sector reform in the commercial banks is one of the important aspects in financial reforms practices. Making new credit and their management is a crucial part of credit management in the financial institutions. Credit management has to focus on the risk analysis in the loan investment portfolio. While granting loan a number of aspects have been taken into account like credit status, credit records, cash flow or income, collateral, maturity and repayment schedule. Micro analysis of affecting factors for purposed loan seems very challenging.

1.1.1 History of Bank

Bank of Venice, set up in 1157 in Venice, Italy is regarded as the first modern bank. Subsequently, bank of Barcelona (1401) and the bank of Genoa (1401) were established. The Lombard's migrated to England and other parts of Europe from Italy are regarded for their in the development and expansion of the modern banking. Bank of the Amsterdam set up in 1609 was very popular. The bank of Hindustan established in 1770 is regarded as first bank of India. These modern banks are gradually replaced goldsmith and moneylenders. Though banks of England was established in 1964,the growth of banks accelerated only after the introductions of the banking act 1833 in United Kingdom as it allowed to open joint stock company banks.

1.1.2 Origin of Bank in Nepal

The history of banking in Nepal starts right from the establishment of Nepal Bank Limited in 1937.Before the inception of this Bank. The traditional ways of banking seemed to be in existence. Even today, we find dominance of so called rich people in lending money. Despite of operation of many commercial banks, role of non banking system is equally significant particularly in rural areas. Realizing the importance of banking sector for economic development, Nepal Bank Limited set up as a commercial bank in 1937.Being a commercial bank NBL paid more attention to profit generating business. Having felt a need of central bank to control and direct the commercial banks and help the government formulate monetary policies, Nepal Rastra Bank was set up in 1956, since then it has been functioning as government bank contributing to the growth of financial sector. Speedly development of the country is possible only when competitive banking service reaches in hidden places and corners of the country. Being a central bank, NRB had its own limitation to go to the profitable sector .To cope with these difficulties, government owned commercial bank.

Since the introduction of RBB, the commercial banks are to carry out commercial transaction as well as the functions of development bank. However the need of bank particularly focusing on the agricultural sector was still missing despite of having agro-based economy in the country. To develop agricultural sector and to make necessary fund available for the farmers agricultural Development Bank was establishment in 1968.

1.1.3 Commercial Banks

Nepal commercial bank act 2031 B.S defines: A commercial bank which deals in money exchange, accepting deposit, advancing loan and commercial transaction except specific banking related to co-operative, agriculture, industry and other objective.

Nepal commercial banks pools together the saving of the community and arrange for productive use. It fulfills the financial needs of modern business. They accepts deposits from the public, which are repayable on demand or on short notice They cannot afford to invest their funds in long term securities or loan. Their business is restricted to financing the short-term needs. They provided the working capital required for trade and industry. They cannot afford to supply the block capital required for the purchase of fixed assets. They grant loans in the form of cash, credit and overdrafts. They also render a number of subsidiary services such as collection of bills, cheques and keeping of the valuables of their customer etc. They provide short term accommodation by discounting the bills of exchange. A no of commercial banks are running in Nepal including Agriculture Development Bank. They seem to be quite successful through government-owned banks are facing management problem particularly credit management.

Till end of July 2008, there are several commercial as well as development banks has been working smoothly in Nepal, They are as follows:

List of Licensed Commercial Banks

S. No.	Commercial Banks	Operation Date (B.S.)	Head Office
1.	Nepal Bank Ltd	1994/07/30	Kathmandu
2.	Rastriya Banijya Bank	2022/10/10	"
3.	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4.	Nabil Bank Ltd.	2041/03/29	"
5.	Nepal Investment Bank Ltd.	2042/11/16	"
6.	Standard Chartered Bank Nepal Ltd.	2043/10/16	"
7.	Himalayan Bank Ltd.	2049/10/05	"
8.	Nepal Bangladesh Bank Ltd.	2050/02/23	"
9.	Nepal SBI Bank Ltd.	2050/03/23	"
10.	Everest Bank Ltd.	2051/07/01	"
11.	Bank of Katmandu Ltd	2051/11/28	"
12.	Nepal Credit and Commerce Bank Ltd.	2053/06/28	Siddhartha Nagar
13.	Lumbini Bank Ltd.	2055/04/01	Narayangarh
14.	Nepal Industrial and Commercial Bank Ltd.	2055/04/05	Biratnagar
15.	Kumari Bank Ltd.	2056/12/21	Kathmandu
16.	Machhapucchre Bank Ltd.	2057/06/01	Pokhara
17.	Laxmi Bank Ltd.	2058/12/21	Birgunj

18.	Siddhartha Bank Ltd.	2058/09/09	Kathmandu
19	Global Bank Ltd.		Kathmandu
20	Citizens Bank International Ltd.		Kathmandu
21	Prime Bank Ltd		Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu
25	NMB Bank Ltd.	1996/11/26	Babarmahal, Katmandu
26	Kist Bank Limited		Anamnagar, Kathmandu
27	People's Bank Limited	Proposed	Shankhamul, Kathmandu

(Source: NRB Report Mid-July 2008)

1.2 An Introduction of Banks under Study

Nepal Bank Limited

Nepal Bank Ltd. is the first commercial bank in Nepal. It was established in 1994 under the industrial council and Nepal Bank Act 1993.This establishment had started the modern banking system in Nepal. In the initial stage, its main function was to perform the responsibility of Tejarath Adda. Apart from this its other functions were to provide the commercial service and to play the role of central bank of Nepal. But now, this bank is operating as a fully commercial bank. At the same time, NBL is surviving in the though competitive environment of banking sector.41 percent of the total capital is owned by the government and the rest 59 percent of which is owned by public and private shareholders.

Rastriya Banijya Bank

To develop the banking sector in Nepal and to make the financial system more competent, competitive and strong Rastriya Banijya Bank was established in 2022 B.S (1966 A.D) under the government ownership. At initial stage it had 212 branches in 14 Zones and 68 Districts. But because of the deteriorating security situation, steep competition from the joint venture banks and poor performance most of the rural branches were merged with its nearest branches. At this time 117 branches are providing banking services to the people. Rastriya Banijya Bank has 21 and 25 percent share in total deposits and total loan in the banking sector which was 31 and 25 percent in 2051 B.S.

1.3 Statement of the Problems

Financial sector reforms programs are not being able to achieve the expected target.

1. Poor loan categorization, diversification and risk analysis.
2. Amount of non-performing assets is increasing.
3. Government-owned banks are in critical condition, they are unable to recover the credit.
4. Performance on credit is poor in the government banks.
5. Generally, it is accepted that disadvantages sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words, such sectors in economy are not receiving the financial support as commercial banks hesitate to be involved in these sectors where they do not see adequate profit.

1.4 Objectives of the Study

The objectives of the study are as follows:

1. To examine & evaluate the credit management of Nepal Bank Limited and Rastriya Banijya Bank Limited.
2. To find out the relevancy of the financial sector reform program.
3. To assess whether the commercial banks follow the similar procedures or they do have different procedures while granting loans.
4. To provide suggestions for the future betterment of credit management system in the commercial banks.

1.5 Significance of the Study

This study basically helps to ascertain the financial performance and effectiveness of reforms program of NBL and RBB. Regarding the economy structure of the country, the banks do not have sufficient opportunity to grow efficiently. Banks and financial institution are the measure activities of financial market but the Nepalese Commercial banks and especially NBL and RBB are in distress because of the cumulative weakness of the parts. So, they are in serious trouble. Financial experts have been invited to sort out existing problems and run them as vibrant and sound banking institutions. As the apex financial institution of the country, NRB has big role to plays a crucial role in the economic growth of the country. It is regarded as the engine of growth. It works as the lubricator for the economic engine.

Therefore, this study is very significant to analyze improvement or success of reform program.

Commercial banks are the principal agents of the money market, which in turn, is the major instrument of the financial system. Thus, commercial banks and their lending transaction obviously affect the national economy. Moreover, lending and borrowing transaction that takes place through the commercial banks influence the daily living of each national. And at the same time from the government side, a great concern should be taken as the misleading by the commercial banks can violate the total economic system. Commercial bank's financial management system can contribute the economic growth too because these banks are the major variable of financial market. In this way, the relationship government financial policy and the commercial banks might be considered as a keen subject to study.

1.6 Research Questions

1. To learn the rules imposed by the government about credit management policy of commercial banks.
2. To learn the changes taken place from past to present about the credit management policy of commercial banks.
3. To learn about the research done before by a researcher in credit management policy.

1.7 Limitations of the study

1. Accuracy of data:

Main source of data collection is from the banks publications which may not be always reliable because they may publish the report according to their profit policy and market situation. And the personnel interviews and interactions may not be factual.

2. Availability of data:

There are some difficulties to get the sufficient information as bank hesitates to provide data easily. In the course of data collection, Nepal Bank Limited should provide the data of three financial years only because of the audit problem for many years.

3. Time limitation:

The basis purpose of the study is to fulfill the requirement for the Masters in Business Study, the study lacks sufficient time to collect information and analyze them.

1.8 Organization of the Study

This study entitled "Credit management of Nepal Bank Limited (NBL) & Rastriya Banijaya Bank ((RBB)" is analytical study. The study will be divided into five chapters:

Chapter-I: The first chapter is introduction part, which will contain general background, statement of the problem, focus of the study, objective of the study, importance of the study, limitation and organization of the study.

Chapter-II: The second chapter is the part of literature review in which articles; journals and abstract of the previous researches done on the related topic will be situated.

Chapter III: Third chapter of the study is research methodology in which the sources of the data, population, sample and statistical and financial tools used to analyze the data will be given.

Chapter-IV: Presentation and Analysis of Data: This chapter is one of the main chapters of the study. It includes almost data and graphs will be interpreted in such a way so that the objectives of the study can be achieved.

Chapter-V: Fifth chapter of the study is of summary and conclusion part in which the major findings of the study will be summarized from the fourth chapter of the major.

In the **Bibliography** part he brief introduction of the previous researches, journals and referred books used in this study are situated. Documents compile sheets, calculations etc are separately shown under appendices.

CHAPTER-II

REVIEW OF LITERATURE

The review of literature is crucial aspect because it denotes planning of the study. The main purpose of literature review it is to find out what works have been done in the area of research problem under study and what has not been done in the field of research study being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed. This part is divided into three headings:

- Conceptual review
- Review of different studies
- Research gap

2.1 Conceptual Review

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 (LC) etc.

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 can not finance in fixed Assets. They grant credits in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuable financial advising.etc. To their customers. (Vaidhya 1999).

The commercial banks are those banks that pool arranges 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 word 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 there by facilitating the transfer of funds in the economy.

2.1.2 Functions of Commercial Bank

Commercial banks can be defined from the function it performs. Generally, all commercial banks perform following functions:

i. Accepting deposits

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

ii. Advancing loans

The second major function of commercial bank is providing loan to the needy person. Bank advances the loan against the security to the customer. Advancing loan is also known as the function of the deposit mobilization because bank gives loan to the people form the deposit that it collects from the public. Here are various methods of advancing loans.e.g. Overdraft, cash credit, directs loans, discounting bills of exchange, etc.

iii. Agency services

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

iv. Credit creation

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

v. General utility services

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

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

2.1.3 Concept of Credit

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration about the people and system required for the evaluation and approval of loan requests, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such commercial , installment and mortgage portfolios (Johnson, 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, 2003: 170).

It is very important to be reminded that most of the bank failure in the world is due to shrinkage in the value of loan and advances. Hence, risk of non payment of loan is known as credit risk or default risk (Dahal, 2002: 114).

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 pull all the eggs in a single basket (Bhandari, 2004: 300).

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

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

Credit is financial assets resulting from the delivery of cash or other asset by a lender to a borrower in return for an obligation of repay on specified date on demand.
Banks generally grants credit on four ways: (Chhabra, and Taneja, 1991: 4)

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

The basic purpose of 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.

2.1.4 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

- **Term credit**

It refers to money lend in lump sum to the borrowers. It is principal from 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, 1996: 80).

- **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 of supporting production process. A natural process develops in funds moving through the cycle are generated to repay a working capital credit.

- **Priority or deprived sector credit**

Commercial banks are required to extend advances to the priority and deprived sector. 12 % of the total credit must be towards priority sector including deprived sector. Rs. 2 million for agriculture cum service sector. Institutional support to 'Agriculture Development Bank' and 'Rural Development Bank' are also considered under this category. Deprived sector lending includes:

- Advances to poor/ downtrodden/ weak/ deprived people up to Rs. 30,000 for generating income or employment.
- Institutional credit to rural development bank.
- Credits to NGOs those are permitted to carryout banking transactions for lending up to Rs. 30,000.

- **Hire purchase financing (Installment credit)**

Hire- purchase credits are characterized by periodic repayment of 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.

- **Housing credit (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.

- **Project credit**

Project credit is granted to the customers as per project viability. The borrowers have to invest certain proposition to the project from their equity and the rest will be financed as project credit. Construction credits are short- term credit 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, 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.

- **Consortium credit**

No single financial institution grant credit to the project due to single borrower limit or other reason and two or more such institutions may consent to grant credit facility to the project of which is baptized as consortium credit . It reduces the risk of project‘s assets.

- **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 process 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.

- **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 are not taken. Lets its two varieties be described separately.

- **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 credit.

- **Letter of credit (L/C)**

It is issued on behalf of the customer (buyer/ importer) in favor of the exporter (seller) or 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.

- **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.

2.1.5 An Overview of Credit Management

The credit policy of a firm provides the framework to determine whether or not to extend credit how much credit to extend. The credit policy of a bank has two brad dimensions: credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit information and methods of credit analysis. Credit management strongly recommends analyzing and managing the credit risks. Credit risk defined as the possibility that a borrower will fail to meet its obligation in accordance with the agreed terms and conditions. Credit risk is not restricted to lending activities only but also includes off balance sheet and inters bank exposures. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, Loan are the largest and most obvious sources of credit risk, However, other sources of credit risk exists through out the activities of a bank ,including in the banking book, and in the trading book, and both on and off balance sheet .Banks are increasingly facing credit risk(or counter party risk) in various financial instrument other than land, including acceptances; inter bank transactions, trade financing, foreign exchange transaction and guarantees and the settlement of transaction.

2.1.6 Objectives of Credit Policy

The credit policy should be carefully established, properly communicated to the lending officers and implemented effectively by the lending officers. The basic objective of credit is to maintain effective credit management and control over it. Moreover, it is specified as follows:

a) To have a good assets

Loans are the risky assets though a bank invests the most of its resources in granting loans and advances. The increasing of non – performing loan causes the non-existence of banks. It is the very quality of assets that led bankruptcy of many banks in South East Asia. The objective of sound loan policy is to protect depositor's interest and maximize returns to shareholder by striking a balance between liquidity and profitability.

b) To contribute to economic development

A sound credit policy is required to ensure that the loans are given to the productive sector, which contributes to capital formulation and employment generation.

c) To give guidance to lending officials

A borrower should be assured that there would be no discrimination whether he deals with one officer or another. A sound credit policy is imperative to achieve a uniform standard procedure throughout the organization.

d) To establish a standard for control

Every policy requires periodic follow- up to ensure its proper implementation. A sound credit policy helps to determine the variance between actual performance and practices and to take corrective actions. A sound policy is always flexible and works as a guideline. If the variation between the practice and policy is observed, proper education to lending officer or amendment of the policy will become inevitable.

2.1.7 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 in favorable market (American Institute of Banking, 1972:149). A banker has to ensure that money will come in as on demand or as per agreed terms of repayment.

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

d) Principle of profitability: Profitability denotes the value created by the use of resources is more than the total of the input resources. Bank should provided to such project that can provided optimum amount of return. For such purpose bank should take a little bit risk by providing credit to venturous project.

e) Principle of purpose of credit: Profitability denotes the value created by the use of resources is more than the total of the input resources. Bank should provide to such project that can provided 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.

2.1.8 Key Characteristics of Credit Policy

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

1. **Approved by top management**

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

2. **Practical and manageable**

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

3. **Flexibility**

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

4. Compliance

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

2.1.9 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:

- Credit assessment of the borrower’s industry, and macro economic factors
- The purpose of credit and source of repayment
- The track record/ repayment history of borrower
- Assess/evaluate the repayment capacity of borrower
- The proposed terms and conditions and covenants
- Adequacy and enforceability of collaterals
- Approved from appropriate authority

In case of new relationships, consideration should be given to the integrity and repute of borrowers of 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 defaults, 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 institutions 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.

Some times, 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 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:

a. 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.

b. 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.

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

d. 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 also be made after receipt.

e. 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 borrower and its repayment performance. It need not mention that information should be field in organized way so that external/internal auditors or NRB inspector could review it easily.

f. 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 on a regular basis.

2.1.10 Managing Credit Problems

The institution should establish a system that helps to identify problem loan ahead of time when there may be more options available for remedial measures. Once the loan is identified as problem, it should be managed under a dedicated remedial process.

A bank's credit risk policies should clearly set out how the bank will manage problem credits. Banks differ on the methods and organizations they use manage problem credits. Responsibility for such credits may be assigned to the originating business function, a specialized workout section or a combination of the two, depending upon the size and nature of the credit and the reason for its problems. When a bank has significant credit- related problems, it is important to segregate the workout function from the credit origination function. The additional resources, expertise and more concentrated focus of a specialized workout section normally improve collection results.

A problem loan management process encompass following basic elements:

A) Negotiation and follow – up

Proactive effort should be taken in dealing with obligors to implement remedial plans, by maintaining frequent contact and internal records of follow-up actions. Often rigorous efforts made at an early stage prevent institutions from litigations and loan losses.

B) Workout Remedial Strategies

Some times appropriate remedial strategies such as restructuring of loan facility, enhancement in credit limits or reduction in interest rates help improve obligor's repayment capacity. However it depends upon business conditions, the nature of problems being faced and most importantly obligor's commitment and willingness to repay the loan. While such remedial strategies often bring of positive results, institutions need to exercise great caution in adopting such measures and ensure that such a policy must not encourage obligors to default intentionally. The institution's interest should be the primary consideration in case of such workout plans it needs not mention here that competent authority, before their implementation, should approve such workout plan.

C) Review of collateral and security document

Institutions have to ascertain the loan recoverable amount by updating the values of available collateral with formal valuation. Security documents should also be reviewed to ensure the completeness and enforceability of contracts and collateral guarantee.

D) Status report and review

Problem of credits should be subject to more frequent review and monitoring. The review should update the status and development of the loan accounts and progress of the remedial plans. Progress made on problem loan should be reported to the senior management.

2.1.11 Lending Criteria

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

1. Character

It 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.

2. Capacity

It describes customer’s ability to pay. It is measured by applicants past performance records and followed by physical observation. For this, an interview with applicant’s customers/suppliers will further clarity 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.

3. Capital

This indicant’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.

4. Collateral

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

5. 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.

2.1.12 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. 2004:258):

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

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

a) Credit Classification and Provisioning:

S.N.	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 termed as general credit loss provision whereas the credit loss provision for no - 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 known 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 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 capital+non-redemable preference share+ general fund+ accumulated profit (loss)-goodwill (If any included)

2.1.13 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.

2.1.14 Need of credit policy in Commercial Bank

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

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

1. Establishing an appropriate credit risk environment,
2. Operating under a sound credit granting process,
3. Maintaining an appropriate credit administration, measurement and monitoring process
4. Ensuring adequate controls over credit risk.

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

2.1.15 Types of credit policy in selected banks

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

a. Business banking

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

a) Corporate customer credit policy
b) Small business loan policy

b. Consumer banking

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

a) Home Loan Policy
b) Auto Loan Policy
c) Travel Loan Policy
d) Education Loan Policy

2.2 Review of Articles and Journals

Bodhi B. Bajracharya (1991), in his article "**Monetary policy and deposit mobilization in Nepal**" has concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sector of the economy.

Bhandari (2003) says that in banking sector or transaction, and 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, and audit of loan, renewal of loan, the condition of loan flow, and 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. It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non- payment of loan is known as credit risk or default risk (Dahal, 2002:114). Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. This method of managing credit risks is guided by the saying does not put all the eggs in a single basket.

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sector 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 (Shrestha, 1998:15).

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 (Ghimire, 1999: 21).

In the article "**Placing RBB and NBL under management contracts: Rationale 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 (Basyal, 2000:4).

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 (Chhetri, 2000: 17).

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 agrees 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 directives and issued many new circulars in the recent years (Ghimire, 2003: 22).

2.2.1 Review of Journals

In the article of New Business Age entitled "**Entrepreneur- Friendly credit Policy**" has reviewed the present credit policy with main focus of the credit decision being based on the collateral. He argues that only collateral should not be considered as the basis of the credit decision.

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

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

The ability of lending is identifying and investing a distinct competitive advantage in the crowed market. However it's essential that any government rules and regulations that inhibit the promotion of entrepreneurship in the country must be abolished.

Access to finance is vital element for entrepreneurship development in the country. Without it one cannot think of starting business of any sort. It's mainly due to this reason, most of the students after completing there single- mindedly look for employment opportunity. No other options. No matter how lucrative and attractive it would be entering into their mind. It has created huge pressure in the labour market. In the absence of entrepreneurial activities in the country, employment opportunity will be very limited and even qualified and competent people do not get job. The established nation of the Nepalese bankers that money lent to the wealthy people based on collateral is safe. But is not actually a safe assumption in the face of greater difficulty in loan recovery from these people. Also, this particular segment of market is already over- banked. With the worsening business performance of the Nepalese corporate sector mostly due to the poor management compounded by other factors like sluggish economic conditions and political instability, banks must now explore newer market segment for their sustained growth and success. Under this backdrop, Nepalese commercial banks must change their policy and must understand that event the people living in the low and middle level of economic pyramid can potentially be lucrative market. They can ignore them only at their peril, especially at the time when the competition in the market consisting of people at upper level of economic pyramid is very intense and has already saturated. In this context, potential entrepreneurs armed with skills, knowledge and readiness to take plunge in the business word can form a formidable market opportunity for the Nepalese banking industry-only if it can come out of the cocoon of traditional collateral driven lending approach.

2.2.2 Review of Previous Theses

Mr. Joshi (1999) has studied on "Lending Policy of Commercial Banks in Nepal." The main objective of this study is to examine the role of commercial banks in its functions as well as performance: to show the relationship between deposit and loan advance, to identify major weaknesses of lending policy to commercial banks and to suggest lending policy to process the utilization of the resources and they are still lazy to play active role to utilizes these sources collected from different sectors accordance with the need of the economy. He recommended that Nepal Rastra Bank have significant role in the overall economic policy of the country. NRB must safe of lending policy and role to solve various problems, which have been arising in the banking development.

Mrs. Thapa (1997) has studies on "**Deposit mobilization of commercial banks in Nepal**." The main objective is to impact of interest rate on deposit mobilization as well as credit ratio increase or decrease as the change in interest rate. Besides this, the objective is to know the efficient utilization of the accumulated deposits. She has found out that the commercial banks. It is because of the fact, the commercial banks have not able to motive and facilitate to their clients except at change in the rate of interest. The problems are to attracting the savings to maximum possible extent to channeling these savings into those sectors of the economy where there are most needed and to extending banking facilities in the country to unbanked areas. The change of interest rates in loan is also recommended commercial banks should extend long term and medium term credit in addition short term credit.

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.

In his study, he also compared investment policy of Nepal Bank Limited with other joint venture banks like NABIL, NGBL and NIBL. The conclusion drawn regarding the investment policy by comparing it with other three JVBs is inappropriate as NBL is a semi government, which will be different in terms like interference level of government. NBL is unexposed to the global market unlike other joint- venture commercial banks.

Panday (2002), in his thesis, **"NRB directives – their implementation and impact on commercial banks"** has observed that the change in NRB Directory have made the impacts on the commercial banks. Because of new directives, banks have to increase the operation cost and dividends to shareholders and bonus to employees are scaled down due to decrease in profits of banks. He has also observed about the protection of deposit of public because of reduction in the loan exposure. He further states that due to new directives, its foresight result lead to bank financially healthy and strong in future. Finally, he laid down about the change in directive will bring prosperity to the shareholders, depositors, employees and the economy to the country as a whole. He suggested, in his thesis, to NRB that the "NRB should issued directives after being proper homework. NRB must strength the functioning of its credit information Bureau. NRB should be practical and should issue directives to be applicable in the context of Nepal, not only to meet the international standard. Otherwise complaints from commercial banks may arise. However, in the present policies and NRB will take action as per NRB Act, 1955.

Presently, NRB has issued directive relation to banking regulations and prudential comprises then directives. The findings of above study may indicate the certain impact of the new directive to the commercial banks.

Aryal (2003) has submitted a thesis named "**An 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 purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and cooperative sector to all region of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However ADB/N has increased its effort to collect its credit. It is said that those people who really need do not receive sufficient amount of credit from ADB/N. So,

Mr. Aryal chose this bank to analyze the credit disbursement and recovery pattern of ADB/N.

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

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

Mr. Chand (1998) has submitted his thesis on "**Credit Disbursement and Repayment of Agriculture Development Bank Nepal.**" His research statements of problems are:

- The bank does not benefit small farmers (i.e. problem of balance development).
- The collection of credit is slow, so it hinders the flow of capital required to develop economic growth.

Objective of the Study:

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

Major Findings:

- There is systematic relationship between credit disbursement and repayment. The coefficient of correlation value as calculated is 0.94 which shows significance relationship.
- Repayment situation is satisfactory on production and agro- based industry, warehouses and farm mechanization, irrigation, tea horticulture, livestock, poultry and fisheries is less satisfactory.
- As recommendation given by Chand, ADB/N should play a significant role in such direction as to fulfill the credit demands of rural areas. For effective credit recovery from the borrowers or clients, credit should be channeled through the borrower groups.

2.3 Research Gap

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

CHAPTER -III
RESEARCH METHODOLOGY

3.1. Introduction

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

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

This topic presents the short outline of the methods applied in the process of analyzing the credit management of the selected public 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. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study in briefly mentioned below.

3.2 Rationale of the Selection of the study

Commercial banks are the principal agents of the money market, which in turn, is the major instrument of the financial system. Thus, commercial banks and their lending transaction obviously affect the national economy. Moreover, lending and borrowing transaction that takes place through the commercial banks influence the daily living of each national. And at the same time from the government side, a great concern should be taken as the misleading by the commercial banks can violate the total economic system. Commercial banks ‘financial management system can contribute the economic growth too because these banks are the major variable of financial market. In this way, the relationship government financial policy and the commercial banks might be considered as a keen subject to study.

3.3 Research Design

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. For the analysis of credit management of selected public banks, analytical as well as descriptive designs applied to achieve the objective of the research.

Thus, a research design is a plan for the collection and analysis of data. It presents a series of guideposts for the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements i.e. (a) Selection of problem (b) methodology (c) data gathering (d) data analysis and (e) report writing.

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 research and the remaining activities refer to the design, operation and completion of the research study.

A research design is the specification of methods and procedures of acquiring the information needed. 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.

3.4 Data Collection Techniques

The researcher used two types of data collection techniques. One is primary data collection and other is secondary data collection.

I. Primary data

Primary data are those collected by the researcher on the concerned topic, which are original in nature. While studying about the credit management, we came across primary data from different sources like: direct in-depth interviews with staffs' credit department unit of Nepal Bank Limited and Rastriya Banijya Bank Limited as well as concerned customers of Banks.

II. Secondary data

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

In some cases primary data are also taken as personal interview, face to face and telephone interview but the study is mainly based on secondary data. So, the major sources of secondary data for this study are as follows:

- Annual reports of the banks
- Published and unpublished bulletins, reports of the banks
- Published and unpublished bulletins, reports of the Nepal Stock Exchange
- Previous studies and reports
- Unpublished official records
- "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines

- Journals and other published and unpublished related documents and reports for Central Library of T.U.and Library of Nepal Rastra Bank
- Various Internet Websites
- Other published materials etc.

3.5 Data Collection Procedure

As the study will also be based on primary data, information will be collected developing a scheduled questionnaire and distributing these to employees of the banks and clients. Question on both, open-end and close-end will be included in questionnaire. Besides this, junior employees and clients are also being observed and responses have been drawn from them about relevant questionnaires.

3. 6 Populations and Samples

A population in most studies usually consists of large group because of its large size. It is fairly difficult to collect detailed information from each member of population rather than collecting information from each member, a sub –group is chosen which is believed to be representative of population. This sub-group is called a sample and sampling does the method of choosing this sub – group. The sampling allows the researchers more time to make an intensive study of a research problem. The total commercial banks shall constitute the population of data and two banks under the study constitute the sample for. So among the various commercial banks in the banking industry, Nepal bank limited and Rastriya Banijya Bank Limited is taken as a sample for the study. Similarly, financial statements of those banks for 5 years have been taken as samples for the same purpose.

3.7 Methods of data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research.

To make the study more specific and reliable, the researcher uses two types of tool for analysis:

1. Financial Tools and
2. Statistical Tools

3.7.1 Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, total deposit, total investment and total income analysis have been used.

- **Ratio Analysis**

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the relationship between two or more things (Webster's New Collection Dictionary, 1975:958).

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

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

- **Liquidity Ratio**

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

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

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

Current Ratio

Current ratio indicates the ability of bank to meet its current obligation. It measures the relationship between current assets and current liabilities. 2:1 ratio is the standard ratio, which is expressed as:

Current ratio = Current assets/Current liabilities

Current assets are those assets which can be converted into cash within a year and so it includes cash and bank balance, investment in treasury bills, bills purchased and discounted, customer acceptances liabilities, prepaid expenses, bills for collection, likewise current liabilities denotes current deposits, savings account deposits, margin deposits, bills payable, call deposits, bank overdraft, inter bank reconciliation account, provisions, customer’s acceptance liabilities etc.

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.

Cash & bank balance to total deposit ratio = Cash & bank balance/Total deposit

Cash & bank balance to Current Deposit ratio

Cash & bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the current deposit. Higher ratio indicates the banks' sound ability to meet the daily cash requirement of their customer's deposit. If bank maintain low ratio, bank may not able to make the payment of against cheques. So bank has to maintain cash & bank balance to current ratio properly. This ratio is computed to disclose the soundness of company to pay total calls made of current deposits. It can be expressed as:

Cash & bank balance to current deposit ratio = Cash & bank balance / Current deposits

Cash & Bank Balance to Interest Sensitive Deposit Ratio

Saving deposit is deposited by public in a bank with an objective of increasing their wealth, interest rate plays important role in the flow of interest sensitive deposit. Fixed and current deposits are not interest sensitive .Fixed deposits have a fixed term to maturity and current deposits are not sensitive toward interest rate. The ratio of cash & Bank balance to interest sensitive deposits measure the bank ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

Cash & bank balance to Interest sensitive deposit ratio = Cash & bank balance/saving deposit

- **Activity/ Efficiency Ratio**

It is also known as turnover or efficiency ratio or assets management ratio, measures how efficiently the firm employs the assets. Turnover means, how many numbers of items the assets flow through a firm's operations and into sales (Kulkarni, 1994:138).Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

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 calculate by using following formula.

Loan & advances to total deposit ratio = Loan & advances / Total deposit

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

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:

Loan & advances to total assets ratio = Loan & advances / Total assets

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.

Total investment to total deposit ratio = Total Investment / Total deposit

- **Leverage Ratio**

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

Debt to Equity Ratio

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

Debt to equity ratio= Total debt/ Total equity

Total Debt to total Assets Ratio

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

Total debt to total assets ratio= Total debt/ Total assets

- **Profitability Ratios**

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

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

Interest Income to Interest Expenses Ratio

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

Interest income to interest expenses ratio = Interest income / Interest expenses

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.

Return on loan & advances= Net Profit/ Loan & advances

Net profit/Loss to Total Assets Ratio

The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher ratio indicates the higher efficiency in utilization of total assets and vice versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice versa, in this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank assets and is calculated by applying the following formula:

Net profit/ loss to total assets ratio= Net profit/ Total assets

Interest Income to Total Loan & Advances Ratio

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

Interest income to Total loan & advances ratios= Interest income/ Total loan & advances

Earning Per Share (EPS)

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

EPS = Net profit after tax/ Number of common stock outstanding

- **Lending Efficiency Ratio**

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

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 bank s have not provided data on non- performing loan in balance sheet and profit and loss account.

Non- performing loan to total loan & advances= Non- performing Loan/ Total loan & advances

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.

Loan Loss provision to total loan & advances = Loan loss provisions/ Total loan advances

Limitations of Ratio Analysis

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

- Financial statement records past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of POST-MORTEM analysis rather than a guide for decision-making.
- In the context of president price level changes, intra firm trends analysis losses much of its operational significance.
- The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.
- Some times ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Singh, 1993:101).

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

3.7.2 Statistical Tools

For supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, correlation , trend analysis and diagrammatic cum pictorial tools have been used under it.

Arithmetic Mean

Averages are statistical constants, which enable us to comprehend in a single effort of the whole (Gupta, 2000:357).It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$X = \sum x / N$$

Where,

X = Arithmetic mean

N = Number of observations

∑ x/N = Sum of observations

Standard Deviation (S.D.)

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

$$\sigma = \sqrt{(X \; Z \, \bar{X})^2 \big/ N \; Z1}$$

Where,

σ = Standard deviation

$\bar{X}$ = Average Mean, X = Sample Data, ∑ = Summation, N = No. of years

Coefficient of Variation (C.V.)

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

C.V. = **Standard Deviation** (±) **/ Mean** $(\bar{X})$

Correlation Coefficient (r)

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

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

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

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

Probable Error (P.E.)

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

P.E. = 0.6745

Where,

r = Correlation coefficient

N= Number of pairs of observations

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

Here, the researcher has been calculating the correlation coefficient between total deposits and total loan & advances as well as total loan & advances and net profit of Rastriya Banijya Bank Limited and Nepal Bank Limited to known the relationship of these variables. This relationship result helps the management for policy formulation in the coming days.

3.8 Limitation of the Research Methodology

To carry out the research work, various financial and statistical tools are used. Similarly, descriptive as well as analytical analysis of credit management has been carried out however these tools and techniques have some limitations.

For research purpose, the six- year data are used in analyzing the financial and statistical tools, which may mislead the research work, as it is not sufficient to make projections for future regarding the performance of the bank. As far as the financial tools concerned, only ratio and trend analysis has been carried out to known the performance of the bank however there are various financial tools to measures the financial performance of the bank. With regard to statistical tools, the researcher carried out different statistical tools to make the result more concise but it may not be the valid measurement. Similarly, the instrument used for primary data analysis is not a valid measurement. Although, there were certain limitations during the research work, it is not so crucial that it can weaken the basic findings of the study.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

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

4.1.1 The Relevancy of the Financial Sectors Reform Program

Nepal Rastriya bank has initiated the financial sector reforms program funded by World Bank and International Monetary Fund (IMF) in mid 1980s.In the first step of reforms program, management of the Rastriya Banijaya Bank has been handed over to foreign management team, ICC consulting group of bank of Scotland and Bruce F Henderson got the management of both banks completed two years in office. Government is expecting a better result from the contracting out and it is a matter of concern in financial sector as the success or failure of these banks will have significant impact on the management of the government owned bank.

Measuring Liquidity Position of the Bank

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

4.1.1.1 Current Ratio

Current ratio indicates the ability of bank to meet its current obligation. It measures the relationship between current assets and current liabilities.

Table 4.1

Current Ratio of Nepal Bank Limited and Rastriya Banijya Bank

(Rs in Million)

Fiscal Year	Current Assets		Current Liabilities		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	26500	21067	35766	40971	0.74	0.51
2004/05	29127	27400	37599	47274	0.77	0.58
2005/06	31420	31518	37648	50594	0.83	0.62
2006/07	37027	37467	40612	52627	0.91	0.71
2007/08	39299	44178	43630	57973	0.90	0.76
				Mean ($\bar{X}$)	**0.83**	**0.64**
				Standard Deviation ($\pm$)	**0.075**	**0.1002**
				Coefficient Variation (C.V)	**0.091**	**0.1566**

Source: Annual Report of NBL & RBB

Figure No. 4.1

Current Ratio of Nepal Bank Limited and Rastriya Banijya Bank

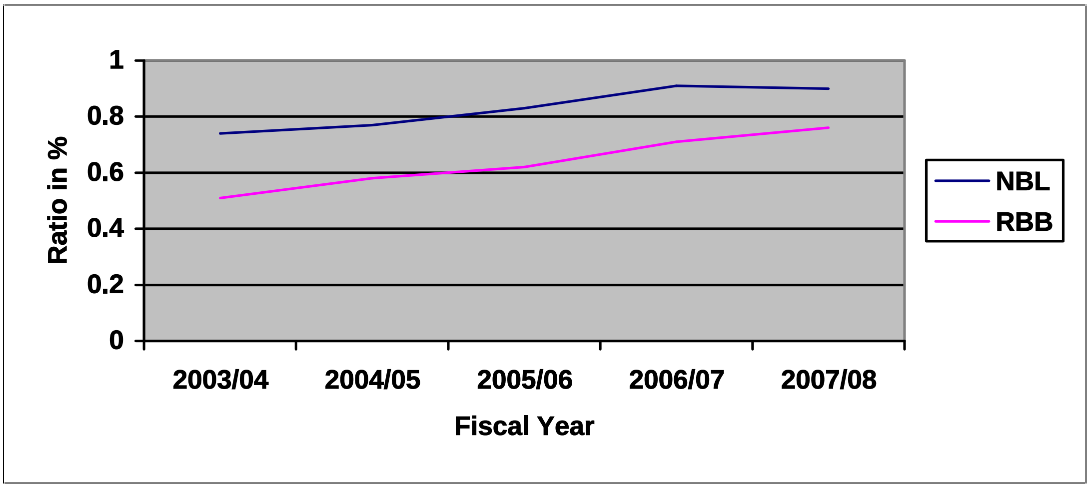


Table 4.1 shows the current ratios of NBL as well as RBB is in increasing trend except the NBL's current ratio in F/Y 2007/08. Above tables shows both of the bank could not maintain the conventional standard of 2:1. The higher mean ratio shows the highly liquid position of bank, which shows the banks, did not have proper investment plan. Above table shows the mean of current ratios of NBL were higher than RBB. Likewise, C.V of NBL is lower than RBB, which mean that RBB has more fluctuation in ratios compared with NBL. The standard deviation, which measures the

total risk of particular observation, is 0.076 and 0.1002 respectively of NBL and RBB for the study period. Therefore, the above current ratios analysis of the banks over the five years period indicates that the banks have little satisfactory liquidity position.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

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

Table 4.2

Cash and Bank Balance to Total Deposit Ratios of NBL and RBB

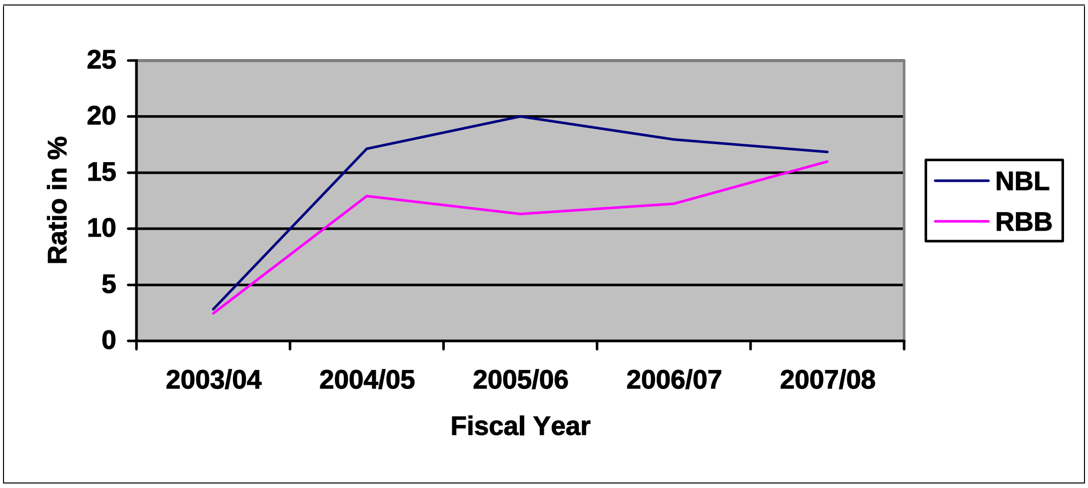
(Rs in Million)

Fiscal Year	Cash & Bank Balance		Total Deposit		Ratios %	
	NBL	**RBB**	**NBL**	**RBB**	**NBL**	**RBB**
2003/04	1010	1007	35735	40867	2.826	2.464
2004/05	6159	5553	35934	46016	17.139	12.909
2005/06	7174	5223	35830	46195	20.022	11.317
2006/07	7004	6151	39008	90346	17.955	12.217
2007/08	7117	9269	42200	57970	16.86	15.99
				Mean $(\overline{X})$	**14.96**	**10.98**
				Standard Deviation $(\pm)$	**6.89**	**5.074**
				Coefficient Variation (C.V)	**46.06**	**46.59**

Source: Annual Report of NBL & RBB

Figure No. 4.2

Cash and Bank Balance to Total Deposit Ratios of NBL and RBB



The large ratio shows the idle cash and bank balance in banks while small ratio shows the utilization of deposit from banking prospective. Cash and bank balance includes cash in hand, foreign cash in hand cheque and other cash items, balance with domestic bank and balance held abroad. The total deposit consists of current deposits, saving deposit and fixed deposits, money at call and short notice and other deposits etc.

Above table and figured show the cash and bank balance to total deposit ratio were 2.326%, 17.139%, 20.022%, 17.955% and 16.86% in NBL respectively years of the study period. Similarly the ratios in RBB came 2.464%, 12.909%, 11.317%, 12.217% and 15.99% in the respective year of study period.

Above table show the mean, standard deviation and C.V of the cash and bank balance to total deposit same 14.96, 6.89 and 46.06% of NBL and 10.98, 5.074 and 46.59% of RBB, The mean ratio of NBL was greater than that of RBB, which means that there was not uniformity in the ratios in CV of RBB, which signifies greater consistency in it the ratios of both banks were in fluctuating trend.

4.1.1.3 Cash and Bank Balance to Current Assets (CA) Ratio

This ratio is calculated dividing total cash and bank balance by current assets. Cash means the firm's holding of currency and demand deposits. It is most liquid assets because a firm disburses it immediately without any restriction. This ratio measures the total portion of cash and bank balance included in current assets. Current assets include cash and bank balance as well as other assets that can immediately converted into cash. So, the main reason for calculating the ratio is to find out the portion of cash and bank balance included in current assets.

$$\text{Cash and Bank Balance to CA Ratio} = \frac{\text{Total Cash and Bsnk Balance}}{\text{Current Assets}}$$

Table 4.3

Cash and Bank Balance to Current Assets Ratio

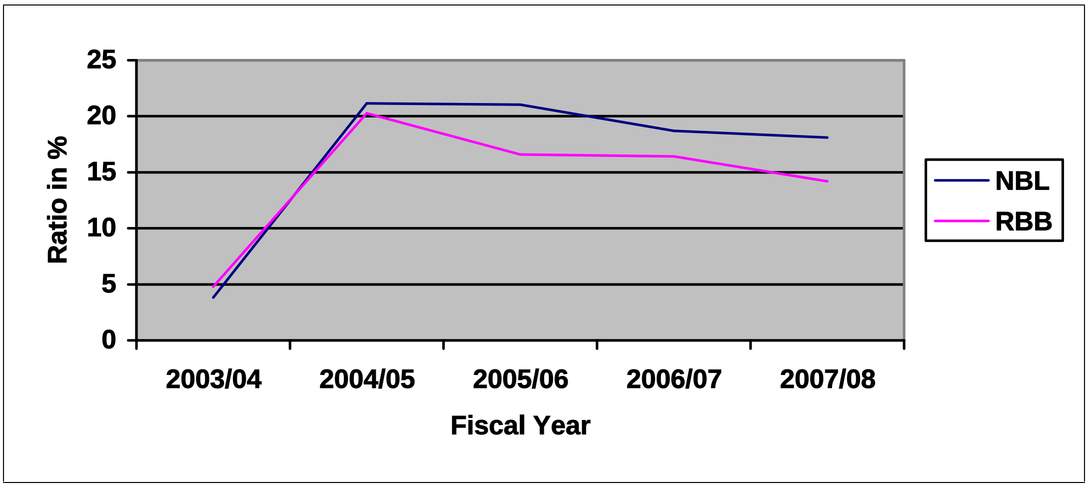
(Rs in Million)

Fiscal Year	Cash & Bank Balance		Current Assets		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	1010	1007	26500	21067	3.811	4.78
2004/05	6159	5553	29127	27400	21.145	20.266
2005/06	7174	5223	31420	31518	21.0726	16.587
2006/07	7004	6151	37027	37467	18.694	16.417
2007/08	7117	9269	39299	44178	18.11	14.19
				Mean $(\overline{X})$	**16.50**	**14.45**
				Standard Deviation $(\pm)$	**7.2537**	**5.8275**
				Coefficient Variation (C.V)	**43.80%**	**90.33**

Source: Annual Report of NBL & RBB

Figure No. 4.3

Cash and Bank Balance to Current Assets Ratio



Above table shows the cash and bank balance to current assets ratios of NBL and RBB. There should be certain percentage of current assets as cash and bank balance to have the liquidity. This ratio was fluctuating in both NBL and RBB. The ratios in NBL remained 3.811%, 21.145%, 21.026%, 18.694% and 18.11% respectively throughout the study period. Similarly the ratios in RBB came 4.78%, 20.266%, 16.587%, 16.417% and 14.19% in respective study period.

Mean standard deviation and C.V of cash and bank balance to current assets ratios of NBL came 16.56%, 7.2537% and 43.80%. Similarly, mean standard deviation and C.V of cash and bank balance to current assets ratio of RBB came 14.45%, 5.8275% and 4.33% respectively. The average ratio of NBL was higher than that of RBB which shows that NBL had strength liquidity position than that of RBB. These data shows that the RBB had undergone cash scarcity to meet short short-term payments during this fiscal year than NBL. C.V of RBB was lower which indicates that the ratios of RBB were less fluctuating than that of NBL during the study period.

4.1.2 Assets Management Ratio

This ratio measures the efficiency of commercial bank in its fund mobilization. A commercial bank must be able to manage its assets properly to earn high profit, maintaining the appropriate level of liquidity. Assets management ratio measures the efficiency of bank to manage its assets in profitable way satisfactorily. Help of the following ratios have analyzed assets management ability of NBL and RBB.

4.1.2.1 Loan and Advance to Total Deposit Ratio

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

Table 4.4

Loan and Advance to Total Deposit Ratio

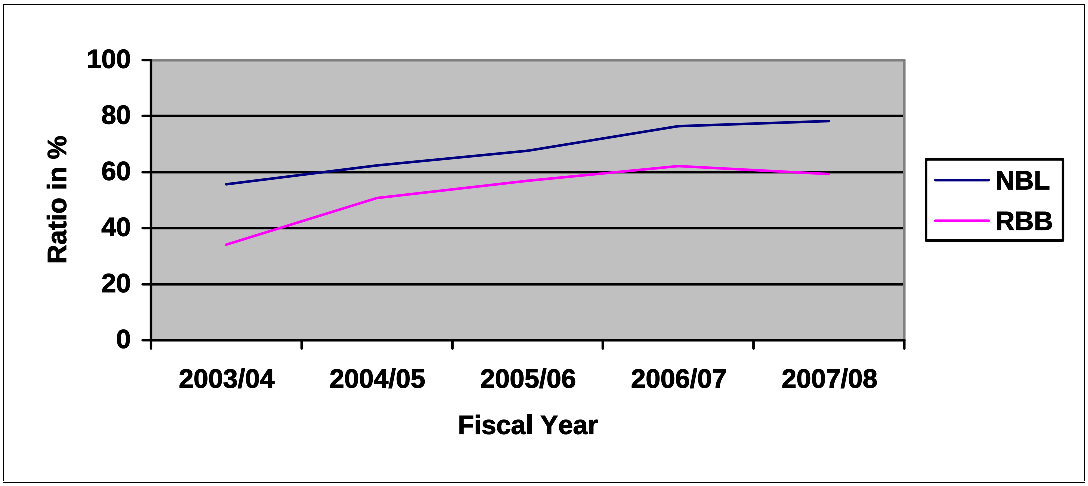
(Rs in Million)

Fiscal Year	Total Loan and Advance		Total Deposit		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	19887	13948	35735	40867	55.65	34.13
2004/05	22149	21847	35934	46016	62.39	50.79
2005/06	24246	26289	35830	46195	67.67	56.91
2006/07	29823	31306	39008	90346	76.45	62.18
2007/08	33009	34359	42200	57970	78.22	59.27
				Mean ($\bar{X}$)	**62.08**	**52.66**
				Standard Deviation ($\pm$)	**11.61**	**11.17**
				Coefficient Variation (C.V)	**18.71**	**21.21**

Source: Annual Report of NBL & RBB

Figure No. 4.4

Cash and Bank Balance to Current Assets Ratio



From the above table and figures shows the ratios in NBL came 55.65%, 62.39%, 67.67%, 76.45% and 78.22% for the study period. Similarly the ratios in RBB came 34.13%, 50.79%, 56.91%, 62.18% and 59.27% respectively in the study period. The ratios of NBL and RBB are in fluctuating trend. Mean standard deviation and C.V. for loan and advance to total deposit ratio of NBL is 62.08%, 11.61% and 18.71%.

Similarly these ratios are 52.66%, 11.17% and 21.21% respectively of RBB. Mean ratio of NBL is more successful in utilizing the resources in profitable sectors than RBB. CV of the ratios depicted that the ratio remained more consistent in NBL as compared to RBB.

4.1.2.2 Loan and Advance to Total Assets Ratio

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

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

Table 4.5
Loan and Advances to Total Assets Ratio of NBL and RBB

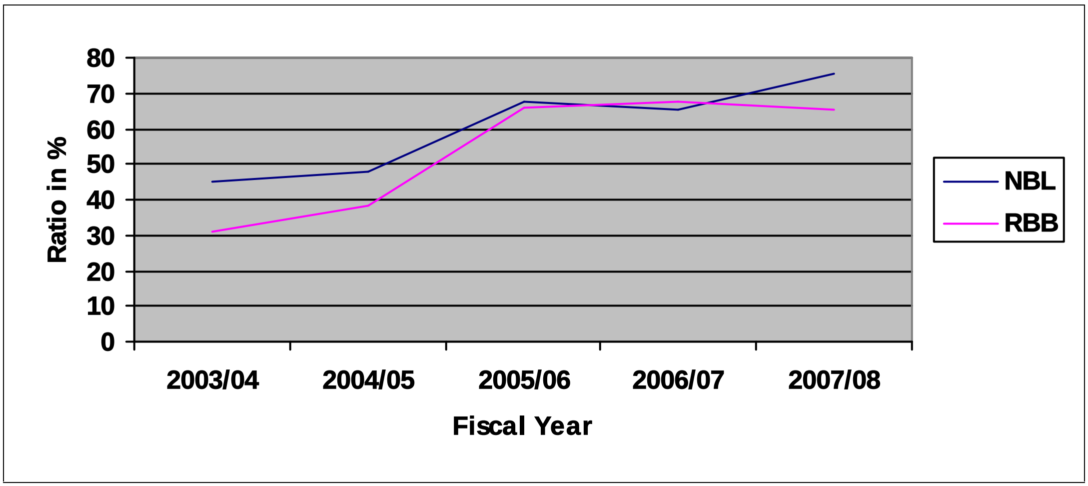
(Rs in Million)

Fiscal Year	Total Loan and Advance		Total Assets		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	19887	13948	44161	45056	45.03	30.96
2004/05	22149	21847	47045	56822	47.65	38.45
2005/06	24246	26289	35918	39880	67.50	65.92
2006/07	29823	31306	45599	46368	65.40	67.52
2007/08	33009	34359	43718	52455	75.50	65.50
				Mean $(\bar{X})$	**60.22**	**53.67**
				Standard Deviation $(\pm)$	**13.25**	**17.53**
				Coefficient Variation (C.V)	**22.00**	**32.66**

Source: Annual Report of NBL & RBB

Figure No. 4.5

Loan and Advances to Total Assets Ratio of NBL and RBB



Loan and advances to total assets ratios of both bank (NBL and RBB) are in fluctuating trend over the five years of study period. The loan and advance to total assets ratios of NBL are 45.03%, 47.65%, 67.50%, 65.40% and 75.50% respectively from the f/y 2003/04 to 2007/08. In which the highest loan and advance to total assets ratio is of RBB is 67.52% in f/y 2006/07 and the lowest is 30.96% in f/y 2003/04. Comparatively NBL has higher mean than that of RBB. Likewise, the ratios of NBL have more variation and less consistency than RBB.

From the analysis, we can say that NBL has sound lending policy so that it able to mobilize its resources as loan and advances than RBB. As well, NBL is risk taker bank than RBB. But assets management in terms of loan and advances of both banks are in satisfactory position because some ratios are above 50% of total assets.

4.1.2.3 Total Investment to Total Deposit Ratio

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

The ratio indicates the proportions 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.

Table 4.6

Total Investment to Total Deposit Ratio

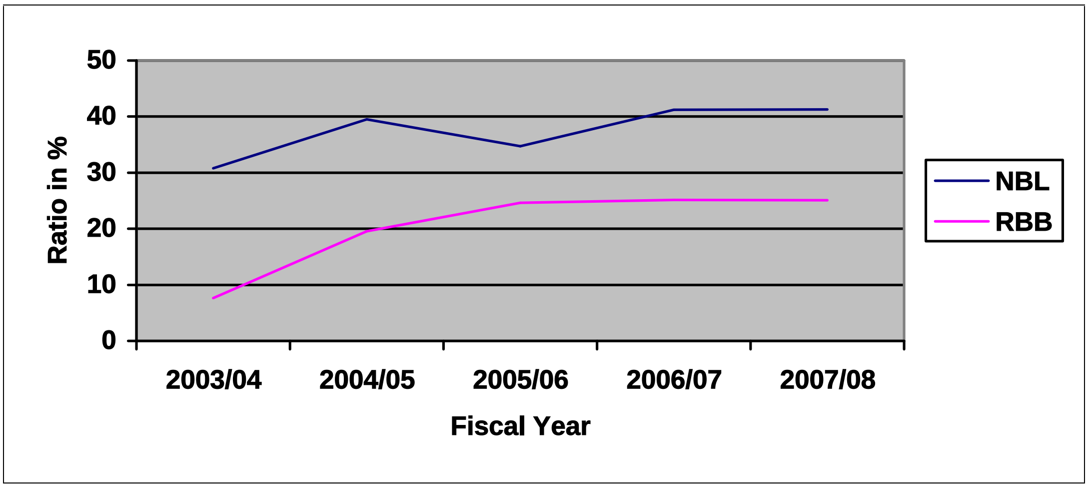
(Rs in Million)

Fiscal Year	Total Investment		Total Deposit		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	19887	13948	35735	40867	55.65	34.13
2004/05	22149	21847	35934	46016	62.39	50.79
2005/06	24246	26289	35830	46195	67.67	56.91
2006/07	29823	31306	39008	90346	76.45	62.18
2007/08	33009	34359	42200	57970	78.22	59.27
				Mean $(\bar{X})$	**60.22**	**53.67**
				Standard Deviation $(\pm)$	**13.25**	**17.53**
				Coefficient Variation (C.V)	**22.00**	**32.66**

Source: Annual Report of NBL & RBB

Figure No. 4.6

Total Investment to Total Deposit Ratio



Total investment to total deposit ratio of NBL is in increasing trend. The ratios of NBL are 55.65%, 62.39%, 67.67%, 76.45% and 78.22% respectively from f/y

2003/04 to 2007/08. In which the highest total investment to total deposit ratio of NBL is 78.22% in f/y 2007/08 and the lowest in f/y 2003/04 i.e. 55.65%.

Similarly the ratios in RBB came 34.13%, 50.79%, 56.91%, 62.18% and 59.27% respectively in the study period Mean ratio of NBL is more successful in utilizing the resources in profitable sectors than RBB. CV of the ratios depicted that the ratio remained more consistent in NBL as compared to RBB.

During the study period, movements of ratios are first increasing, then decreasing and again decreasing. It may be due to shack in the different sectors of economy due to which bank is unable to mobilize its fund in loan and advance and share/debenture of other companies properly.

4.1.3 Leverage Ratio

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

4.1.3.1 Debt to Equity Ratio

Debt to equity ratio measures the relative proportion of outsides and owners funds employed in the total capitalization. Here, debt includes are the credits (long term and short term) of the bank where equity includes paid up capital, reserve and surplus and undistributed profit very high ratio is bad during the long run period and vice versa.

Table 4.7

Debt to Equity Ratio of NBL and RBB

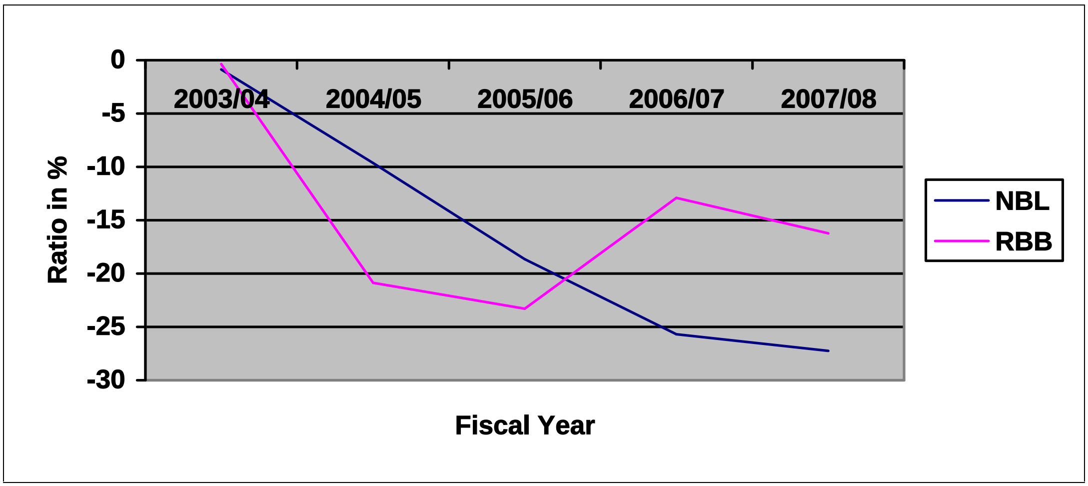
(Rs in Million)

Fiscal Year	Total Debt		Total Equity		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	81.54	80	-9394.91	-21437.90	-0.867	-0.37
2004/05	752	4218	-7805.98	-20199.44	-9.63	-20.88
2005/06	1247.065	4358	-6681.83	-18718.58	-18.66	-23.28
2006/07	1605	2220	-6247.52	-17197.22	-25.09	-12.90
2007/08	1717.44	2517	-6301.46	-15506.32	-27.25	-16.23
				Mean $(\bar{X})$	**-16.30**	**-14.73**
				Standard Deviation $(\pm)$	**11.14**	**8.98**
				Coefficient Variation (C.V)	**-68.34**	**-60.98**

Source: Annual Report of NBL & RBB

Figure No. 4.7

Debt to Equity Ratio of NBL and RBB



The table and diagram show the debt to equity ratio & the both bank (NBL and RBB) for five years. It also reveals that the period of five year has been analyzed. The total debt to total equity ratios of NBL are -0.867%, -9.63%, -18,66%, -25.69% and-27.25% respectively from f/y 2003/04 to2007/08. In which the highest and negative ratios are -27.25% and -0.867% respectively. Similarly, the highest negative ratio or RBB is -23.28% in f/y 2005/06 and the lowest in f/y 2003/04 i.e. -0.37%. The mean, standard deviation and co-efficient of variation of NBL and RBB are -16.30, 11.14 and -63.34% and -14.78, 8.98 and -60.98% respectively.

From the analysis, we can say that NBL is more levered firm than RBB during the five years of study period. Levered firm must bear more fixed expensed than levered. It may results bad impact on overall performance of the bank in the long term.

4.1.3.2 Total Debt to Total Assets Ratio

It examine the relationship between borrowed funds 0i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduce the distress of the creditors by using more amount of equity on total assets.

Table 4.8

Total Debt to Total Assets Ratios of NBL and RBB

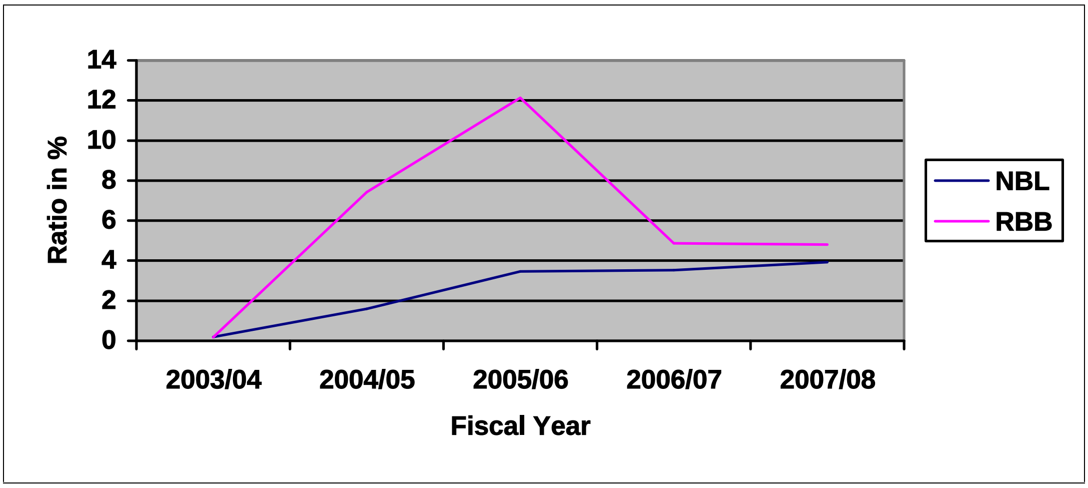
(Rs in Million)

Fiscal Year	**Total Debt**		**Total Assets**		**Ratios %**	
	NBL	**RBB**	**NBL**	**RBB**	**NBL**	**RBB**
2003/04	81.54	80	44161	45056	0.1846	0.1776
2004/05	752	4218	47045	56822	1.60	7.42
2005/06	1247.065	4358	35918	39880	3.47	12.13
2006/07	1605	2220	45599	46368	3.52	4.87
2007/08	1717.44	2517	43718	52455	3.93	4.80
				Mean $(\overline{X})$	**2.54**	**5.88**
				Standard Deviation $(\pm)$	**1.60**	**4.36**
				Coefficient Variation (C.V)	**63**	**74.15**

Source: Annual Report of NBL & RBB

Figure No. 4.8

Total Debt to Total Assets Ratios of NBL and RBB



Total debt to total assets ratio of NBL is in increasing trend over the five years study period. The total debt to total assets ratios of NBL are 0.1846%, 1.60%, 3.47%, 3.52% and 3.93% respectively from f/y 2003/04 to 2007/08. The highest ratio of NBL of total debt to total assets ratio is 3.93% where as the lowest ratio is 0.1846% in f/y 2003/04.

The total debt to total assets ratio of RBB is in fluctuating trend. Sometimes it up and sometimes it down, the ratio up to f/y 2005/06 are in increasing trend then it is in decreasing trend thereafter. The highest ratio is 12.13% in f/y 2005/06 and the lowest ratio is 0.1776 in first year of study period.

According to the above analysis, we can say that RBB used outsider's fund more than owner's fund during the formation or capital structure. But NBL is in satisfactory position by maintaining low total debt to total assets ratio.

4.1.4 Profitability Ratios

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

4.1.4.1 Interest Income to Interest Expenses Ratio

Interest Income to Interest Expenses Ratio is the gap between interest rates offered & interest rate charged. NRB has restricted the gap between interest taken in loan & advances and interest offered in deposit. The credit creation power of commercial bank has high impact on this ratio.

Table 4.9

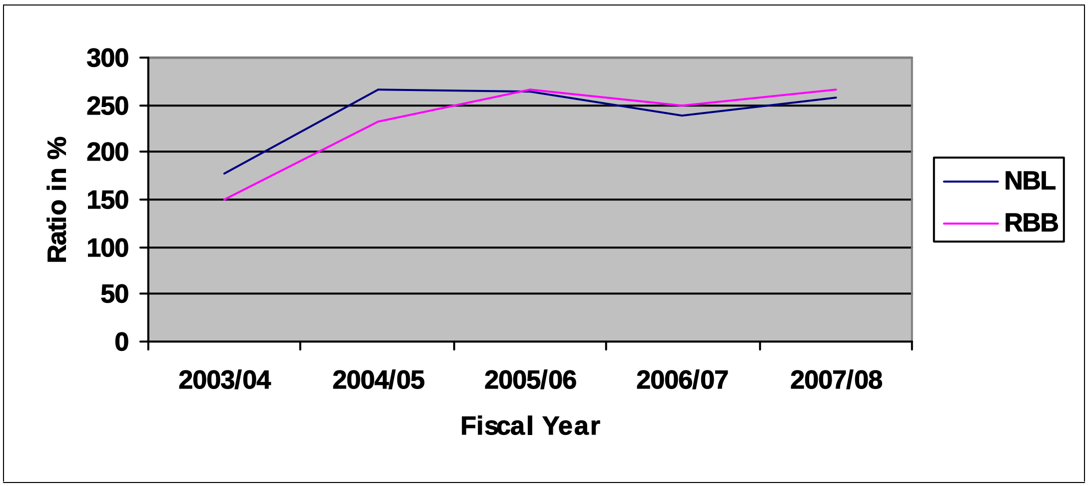
Interest Income to Interest Expenses Ratio of NBL and RBB (Rs in Million)

Fiscal Year	Interest Income		Interest Expenses		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	1825.04	2236	1025.53	1494.84	177.96	149.58
2004/05	1987.12	2329	748.95	1005	265.32	231.74
2005/06	2049.02	2283	774.30	850	264.63	268.59
2006/07	1849	2358	773.00	942	239.20	250.32
2007/08	2189	2704	850.00	1019	257.53	265.36
				Mean ($\bar{X}$)	**240.93**	**233.12**
				Standard Deviation ($\pm$)	**36.74**	**48.92**
				Coefficient Variation (C.V)	**15.25**	**20.99**

Source: Annual Report of NBL & RBB

Figure No. 4.9

Interest Income to Interest Expenses Ratio of NBL and RBB



Above table depicted the interest income to interest expenses ratio of NBL over the five year period from 2003/04 to 2007/08. The ratios are 177.96%, 265.32%, 264.83%, 239.20% and 257.53% in the fiscal year 2003/04 to 2007/08 respectively.

Similarly mean ratio remains at 240.98% during the five years period. Likewise, S.D is 36.74 and C.V is 15.25%.

Above table also depicted the interest income to interest expenses ratio of RBB over five years period from 2003/04 to 2007/08. The ratios are 149.58%, 231.74%, 268.59%, 250.32% and 265.36% in the fiscal year 2003/04 to2007/08 respectively. The mean ratio, standard deviation and CV are 233.12%, 48.92% and 20.99% respectively.

From the comparative analysis we can say that NBL has high degree of gap between interest offered and interest charged than RBB. This shows that NBL has changed high interest rate to borrower and offering how interest to depositors. The higher cost of deposit mix of NBL has caused up the gap between interest income and interest expenses to be least.

4.1.4.2 Return on Loan and Advance Ratio

This ratio measures the earning capacity of commercial bank through its fund mobilization as loan & advances.

Table 4.10

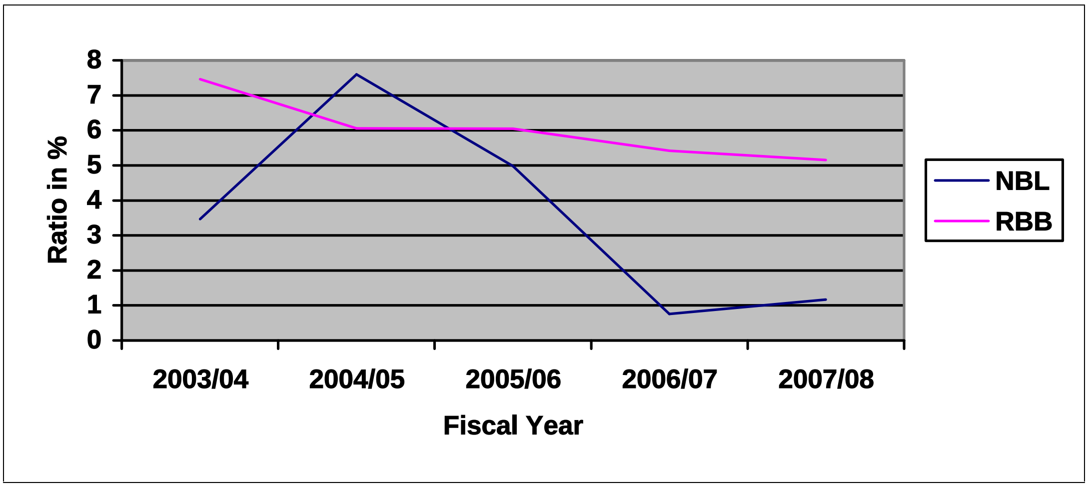
Return on Loan and Advance Ratios (Rs in Million)

Fiscal Year	Net Profit		Loan and Advances		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	689.56	1040.10	19887	13948	3.47	7.46
2004/05	1704.43	1322.89	22419	21847	7.60	6.06
2005/06	1207.26	1591.48	24246	26289	4.98	6.05
2006/07	226.95	1697.08	29823	31306	0.76	5.42
2007/08	336.12	1770.55	33009	34359	1.17	5.15
				Mean $(\overline{X})$	**3.60**	**6.03**
				Standard Deviation $(\pm)$	**2.82**	**0.89**
				Coefficient Variation (C.V)	**78.33**	**14.76**

Source: Annual Report of NBL & RBB

Figure No. 4.10

Return on Loan and Advance Ratios



Return on loan and advance ratio of NBL is in fluctuating trend. The ratios of NBL are 3.47%, 7.60%, 4.98%, 0.76% and 1.17% from the f/y 2003/04 to 2007/08. The highest ratio is 7.60% in f/y 2004/05 and lowest is 0.76% in f/y 2006/07. Similarly, the ratios of RBB are in decreasing trend during the study period of five years. The trend of ratios is 7.46%, 6.06%, 6.05%, 5.42% and 5.15% respectively from 2003/04 to 2007/08. The mean, S.D and C.V of NBL and RBB is 3.60%, 2.82% and 78.33% and 6.03%, 0.89% and 14.76% respectively.

From the analysis, we can say that return on loan and advances ratios of NBL and RBB is very low and fluctuating trend also. The highest ratio of NBL is 7.60% in f/y 2004/05and RBB is 7.46 in f/y 2003/04. It shows the normal earning capacity of NBL and RBB in loan and advances. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactory in the present economic situation.

4.1.4.3 Net Profit/Loss to Total Assets Ratio

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

Table 4.11

Net Profit/Loss to Total Assets Ratio of NBL and RBB

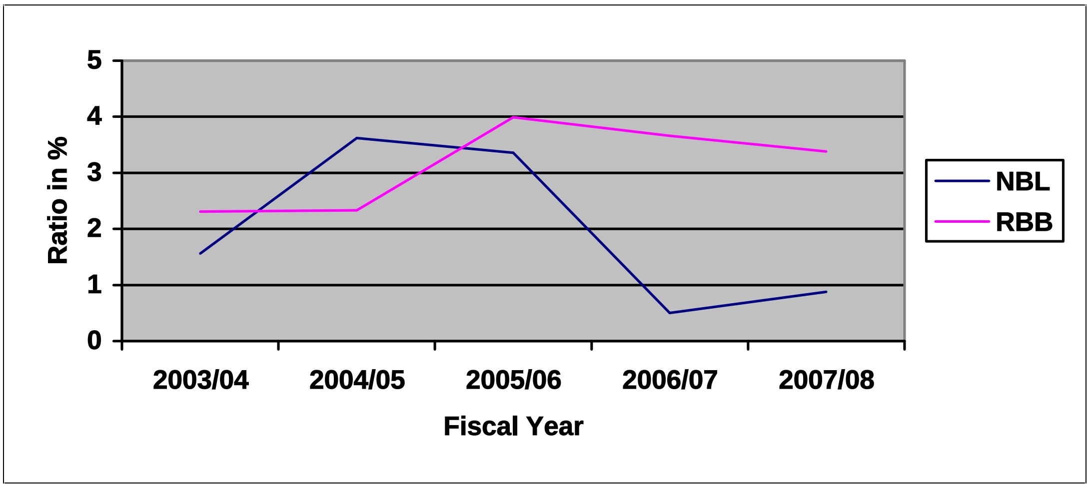
(Rs in Million)

Fiscal Year	Net Profit		Loan and Advances		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	689.56	1040.10	44161	45056	1.56	2.31
2004/05	1704.43	1322.89	47045	56822	3.62	2.33
2005/06	1207.26	1591.48	35918	39880	3.36	3.99
2006/07	226.95	1697.08	45599	46368	0.50	3.66
2007/08	336.12	1770.55	43718	52455	0.88	3.38
				Mean $(\overline{X})$	**1.98**	**3.13**
				Standard Deviation $(\pm)$	**1.43**	**0.77**
				Coefficient Variation (C.V)	**72.18**	**24.60**

Source: Annual Report of NBL & RBB

Figure No. 4.11

Net Profit/Loss to Total Assets Ratio of NBL and RBB



Return on assets ratios of both banks are in fluctuating trend. The ratios of BL are 1.56%, 3.62%, 8.36%, 0.50% and0.88% from the f/y2003/04 to 2007/08. In which the highest is 3.62% in f/y 2004/05 and the lowest is 0.50% in f/y 2006/07. The mean ratio remains at 1.98% and the S.D and C.V are 1.43 and 72.18% respectively.

From the analysis, we can say that RBB had better earning capacity than NBL. The highest ratio of NBL is 3.62% and the highest ratio of RBB is 3.99%. It means that RBB can earn 3.99% profit of the assets and NBL can earn only 3.62% profit of total assets.

4.1.4.4 Interest Income to Total Loan and Advance Ratio

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

Table 4.12
Interest Income to Total Loan and Advance Ratio

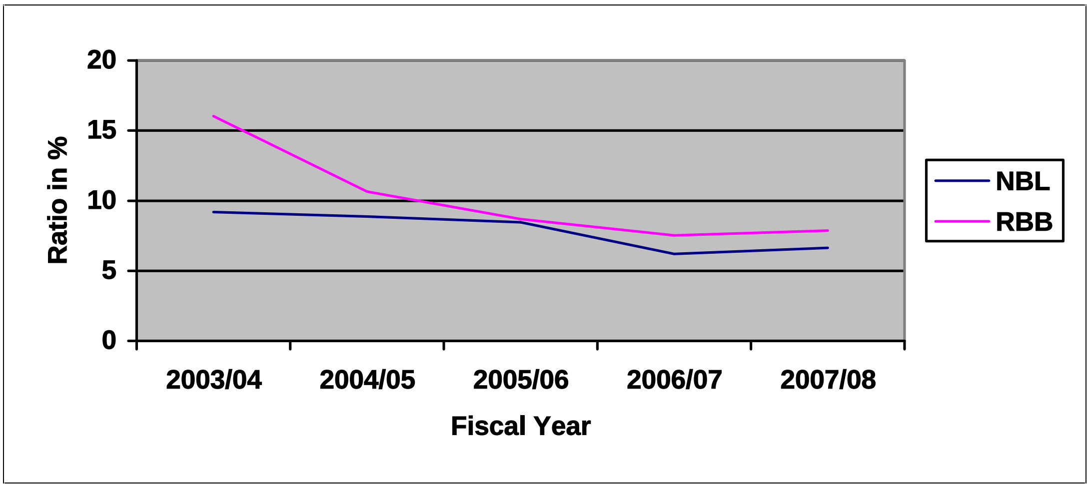
(Rs in Million)

Fiscal Year	Interest Income		Total Loan and Advances		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	1825.04	2236	19887	13948	9.18	16.03
2004/05	1987.12	2329	22419	21847	8.86	10.66
2005/06	2049.02	2283	24246	26289	8.45	8.68
2006/07	1849	2358	29823	31306	6.20	7.53
2007/08	2189	2704	33009	34359	6.63	7.87
				Mean ($\overline{X}$)	**7.86**	**10.15**
				Standard Deviation (±)	**1.36**	**9.50**
				Coefficient Variation (C.V)	**17.30**	**34.48**

Source: Annual Report of NBL & RBB

Figure No. 4.12

Interest Income to Total Loan and Advance Ratio



Interest income to loan and advances ratio of NBL is in continuously decreasing trend except in the f/y of 2007/08 during the five years of study period. The ratios of NBL are 9.18%, 8.86%, 8.45%, 6.20% and 6.63% from the f/y 2003/04 to 2007/08. The Mean, S.D and C.V of ratios are 7.86%, 1.36% and 17.30 respectively. Where the ratio of RBB is in same trend comparing NBL. The highest interest income to loan and advance ratio of RBB is 16.03% in f/y 2004/05 and the lowest is 7.53% in f/y 2006/07. The mean remains at 10.15%. The CV and SD of ratios are 34.48% and 3.50% respectively.

From the analysis, we can say that RBB has higher interest income ratio than NBL. That means RBB is able to grant its credit (Loan and Advance) in high interest area. But it will be risky lending because high interest rate carries high and low interest rate carry low risk.

4.1.4.5 Earning Per Share (EPS)

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

$$\text{Earning per share} = \frac{\text{Net Profit After Tax}}{\text{Number of Common Stock Outstanding}}$$

Table 4.13

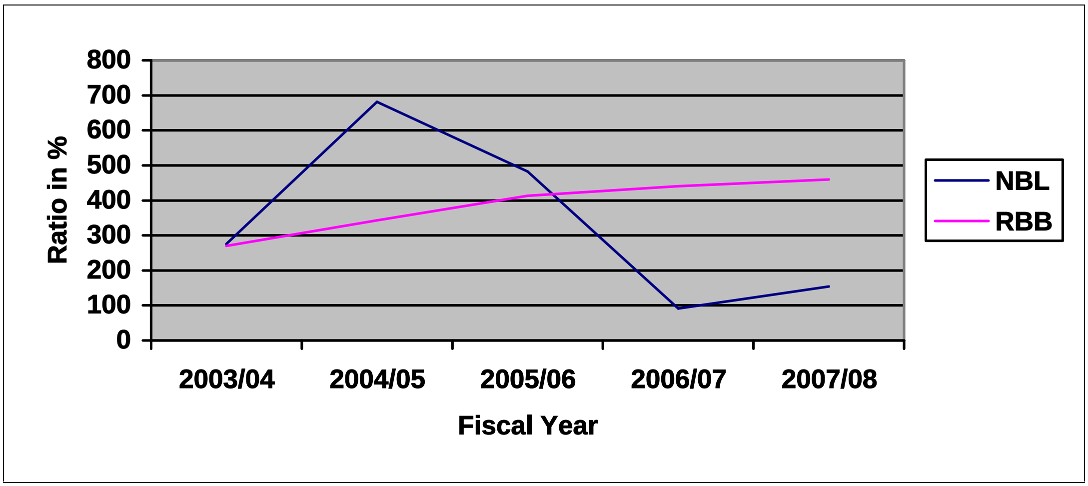
Earning per Share of NBL and RBB (Rs in Million)

Banks	Years				
	2003/04	**2004/05**	**2005/06**	**2006/07**	**2007/08**
RBB	269.94	343.34	413.05	440.46	459.53
NBL	275.82	681.77	482.90	90.78	154.45

Source: Major Indicator of Respective Banks

Figure No. 4.13

Earning per Share of NBL and RBB



Earning per share of NBL is in fluctuating trend. The EPS of NBL are Rs. 275.82, 681.77, 482.90, 90.78 and 154.45 respectively from the f/y 2003/04 to 2007/08. Where the highest is Rs. 681.77 in f/y 2004/05 and lowest is Rs. 90.78 in f/y 2006/07.

The EPS of RBB is in increasing trend over the study period. The EPS are Rs, 269.94, Rs.343.34, Rs.413.05, Rs.440.46 and Rs. 459.53 respectively from f/y 2003/04 to 2007/08. It shows that RBB is able to earn and provide good return to its shareholders than NBL over the study period.

4.1.5 Lending Efficiency Ratios

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

4.1.5.1 Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the profit of bank will come down by such amount. Increase in loan loss provisions, decrease in profit result to decrease in dividends but its positive impacts is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related to deposits. So it can be said that banks suffer it only for short term while the good financial conditions and safe increasing profits for long term.

Table 4.14

Loan Loss Provision to Total Loan and Advances Ratio

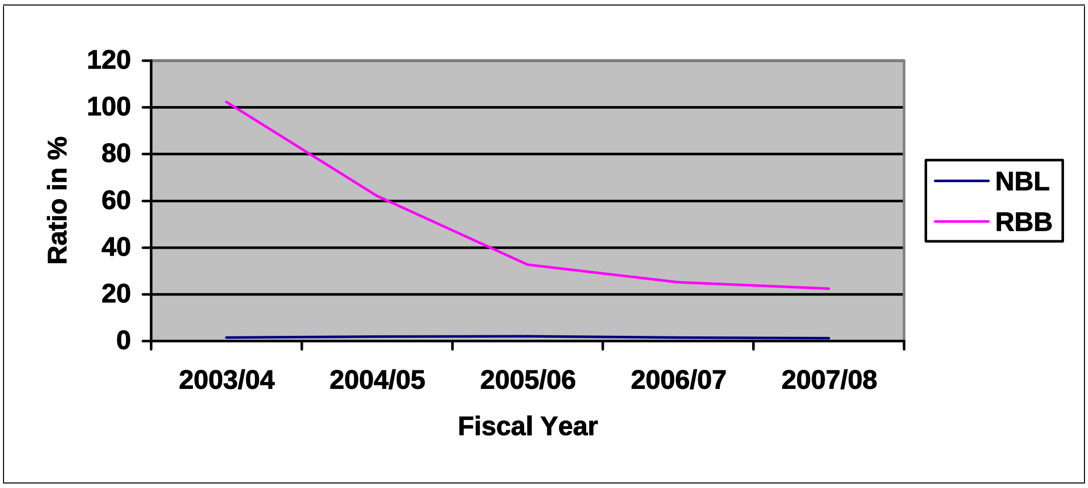
(Rs in Million)

Fiscal Year	Loan Loss Provision		Loan and Advances		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	312.22	14275	19887	13948	1.57	102.34
2004/05	419.23	13569	22419	21847	1.87	62.11
2005/06	492.19	8612.96	24246	26289	2.03	32.76
2006/07	465.24	7864.90	29823	31306	1.56	25.12
2007/08	389.51	7709	33009	34359	1.18	22.44
				Mean $(\bar{X})$	**1.64**	**40.91**
				Standard Deviation $(\pm)$	**0.33**	**16.99**
				Coefficient Variation (C.V)	**19.94**	**41.55**

Source: Annual Report of NBL & RBB

Figure No. 4.14

Loan Loss Provision to Total Loan and Advances Ratio



Loan loss provision to loan and advances ratios of NBL is in fluctuating trend. The ratios are 1.57%, 1.87%, 2.03%, 1.56% and 1.18% from f/y 2003/04 to 2007/08 respectively. The highest ratio is 2.03% in f/y 2005/06 and the lowest is 1.18% in f/y

2007/08. The mean of ratios is remaining 1.64% and CV and SD are 19.94% and 0.33% respectively.

Similarly, the loan loss provision to loan and advances ratios of RBB is in decreasing trend over the study period. The highest ratio of loan loss provision to loan and advances of NBL is 102.34% in f/y 2003/04 and the lowest ratio is 224.4% in f/y 2007/08. The mean S.D and C.V of ratios are 40.91%, 16.99 and 41.55% respectively.

From the analysis we can say that NBL has very low degree of provision over total lending than RBB. It indicates that NBL has decreasing volume of none-performing loans during the study period than RBB. The decreasing loan loss provision ratio indicates the better performance and effective credit policy of NBL than RBB.

4.1.5.2 Non-performing Loan to Total Loan and Advances Ratio

NRB has directed all the commercial banks create loan loss provision against the doubt full and bad debts. But of our concerned bank have not provided data on non-performing loan in balance sheet, profit and loss account. To measure the volume of non-performing loan to total loan and advances, the major indicators of NBL and RBB is used. This ratio shows the percentage of non-recovery loan in total loans and advance.

Table 4.15
Non-performing Loan to Total Loan and Advances Ratio

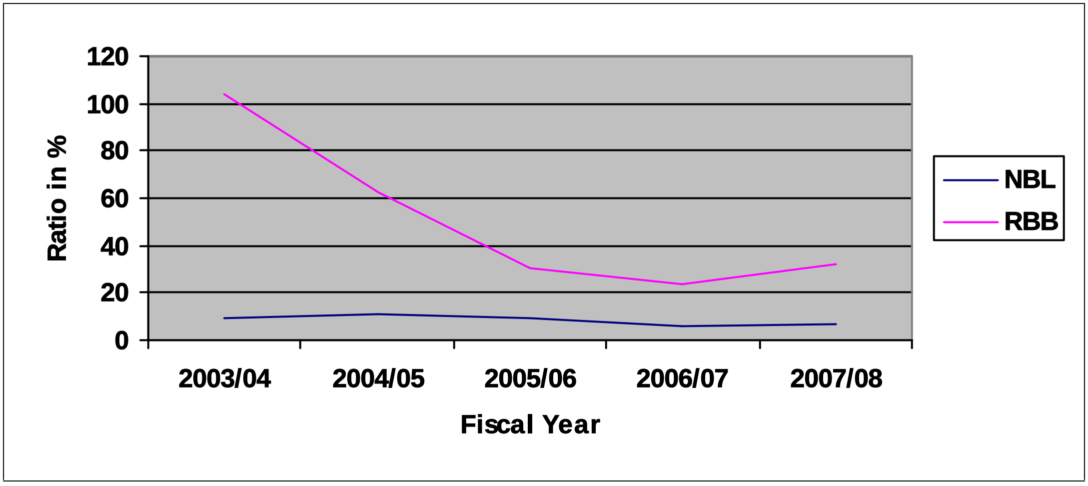
(Rs in Million)

Fiscal Year	Loan Loss Provision		Loan and Advances		Ratios %	
	NBL	RBB	NBL	RBB	NBL	RBB
2003/04	1863	14471	19887	13948	9.37	103.75
2004/05	2463	13689	22419	21847	10.99	62.66
2005/06	2262	8048	24246	26289	9.33	30.61
2006/07	1850	7405	29823	31306	6.20	23.65
2007/08	2350	10903.25	33009	34359	7.12	31.73
				Mean ($\overline{X}$)	**8.60**	**50.48**
				Standard Deviation ($\pm$)	**1.92**	**33.36**
				Coefficient Variation (C.V)	**22.36**	**66.09**

Source: Annual Report of NBL & RBB

Figure No. 4.15

Non-performing Loan to Total Loan and Advances Ratio



Above table depicted the non performing loan to total loan and advance ratio of NBL is in fluctuating trend. The ratios of NBL are 9.37%, 10.99%, 9.33%, 6.20% and 7.12% from f/y 2003/04 to 2007/08. In which the highest ratio is 10.99% in f/y 2004/05 and lowest is 6.20$ in f/y 2006/07. The mean, C.V and S.D of ratios of NBL is 8.60%, 1.92% and 22.36% respectively.

The table also depicted the non-performing loan to total loan and advances ratio of RBB is in decreasing trend except the f/y 2007/08. The ratios are 103.75%, 62.66%, 30.61%, 23.65% and 31.73% from f/y 2003/04 to 2007/08. Where the highest ratio is 103.75% in f/y 2003/04 and the lowest is 23.65% corresponding to f/y 2006/07. The mean, C.V and standard deviation of the ratios are 50.48%, 66.09% and 33.36% respectively.

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

4.1.6 Coefficient of Correlation Analysis

Under this topic, Karl Pearson's Coefficient of Correlation issued to find out the relationship between total deposit and loan and advances as well as net profit and loan and advances of Nepal Bank Limited as well Rastriya Banijya Bank.

4.1.6.1 Coefficient of Correlation Between Total Deposits and Total Loan and Advances

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

The calculation **(Appendix-III)** shows that there is positive relationship between total deposits and total loan and advances of NBL. That means, if the total deposits is increased absolutely the total loan and advances is also increased and vice versa. The co-efficient of correlation between total deposits and total loan and advances is 0.94 and probable error is 0.0527. Comparing the value of 'r' and 6 times P.E, we can say that there is significantly positive relationship between total deposits and total loan and advances of NBL because 'r' is higher than 6 times P.E i.e. 0.94>0.3126.

From the above analysis, we can conclude that NBL has positive and significant relationship between total deposits and total loan and advances. The relationship is significant, i.e. loan and advance is increase as the portion increase in deposits in relation to 0.94 and vice versa.

The calculation **(Appendix-IV)** shows that there is positive relationship between total deposits and total loan and advances of RBB. That means, if the total deposits is increased absolutely the total loan and advances is also increased and vice-versa. The co-efficient of correlation between total deposits and total loan and advances is 0.5923 and probable error is 0.2903. Comparing the value of 'r' and 6 times of P.E we can say that there is significantly positive relationship but not significant at all time between total deposit and total loan and advances of RBB because 'r' is less than 6 times of P.E, i.e. 05923<1.7419.

From the analysis, we can conclude that RBB has positive relationship but not significant at all time between total deposits and total loan and advances. The relationship is significant, i.e. loan and advances is increases as the portion increases in deposits in relation to 0.5923 and vice versa but not significant at all.

4.1.6.2 Co-efficient of Correlation between Total Loan and Advances and Net Profit

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

The calculation **(Appendix-V)** shows that there is negative relationship between total loan and advances and net profit of NBL. That means, if the total loan and advance is increased absolutely the net profit is decreased and vice versa. The co-efficient of correlation between total loan and advance and net profit is -0.6337 and probable error is -0.2676. From the analysis, we can conclude that NBL has negative and insignificant relationship between total loan and advances and net profit. The relationship is significant, i.e. reverse relationship between the total loan and advances and total net profit of Nepal Bank Limited.

The calculation **(Appendix-VI)** shows that there is positive relationship between total loan and advances and net profit of RBB. That means, if the total loan and advances is increased absolutely the net profit is also increased and vice versa. The co-efficient of correlation between total loan and advances and net profit is +0.99 and probable error is 0.0085. Comparing the value of 'r' and 6 times significant relationship between total loan and advances and net profit of RBB because 'r' is greater than 6 times P.E. i.e. 0.99>0.0534.

From the above analysis, we can conclude that NBL has positive relationship and all time significant relationship between total loan and advances and net profit. It means that profit is increase as the portion increases in loan and advances in relation to 0.99 and vice versa.

4.1.7 Primary Data Analysis

4.1.7.1 Different Procedures Adopted by Both Banks While Granting Loan

4.1.7.2 Steps of Lending Procedures

A) Nepal Bank Limited

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. Nepal Bank Limited following process for providing loans.

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.

After getting the receipt of the complete loan application form filled by the customers, the bank employee visit the borrower's in their places and inspect about the project site and security of assets, the suitability or the project and also gather information crucial to the economic analysis of the project.

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.

The bank advances loan given only to those borrowers, whose project seems to appear technically feasible and economically viable as per the decision made by the loan committee.

B) Rastriya Banijya Bank

Every bank has its own set of procedures to be followed before providing loan. Similarly, Rastriya Banijya Bank has also its own procedures to be followed while providing loan. Individuals, co-operative or corporate body willing to obtain the loan from Rastriya Banijya Bank should fill up the prescribed loan application provided by the bank. The application from should be accompanied with the supporting documents such as certificate of land ownership, receipt of land revenue payment, receipt of rent payment, or certificate of government registration for corporate and, cooperative organization.

After getting the receipt of the complete loan application form filled by the customers, the bank employee visit the borrower's in their places and inspect about the project site and security of assets, the suitability or the project and also gather information crucial to the economic analysis of the project.

The bank advances loan given only to those borrowers, whose project seems to appear technically feasible and economically viable as per the decision made by the loan committee.

Both Bank (NBL and RBB) are government owed bank so most of the procedures are similar except some rules and regulations determined by internal loan committee. Both bank have soundness credit policy and procedures while granting loan to customers. NBL has tight policy in evaluation of collateral and feasibility study as well than that of policies adopted by RBB.

The customers face negligible problems while taking and paying loan from Rastriya Banijya Bank than Nepal Bank Limited because NBL adopts some lengthy and irritating procedures in granting loan.

4.1.7.3 Interpretation of Questionnaire's Responses Given by Employees of the Nepal Bank Limited and Rastiya Banijya Bank Limited in Terms of Lending Policy and Procedures

Table 4.16

Analysis of response given by employees of NBL and RBB

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

Table 4.35 shows the responses given by employees of the and over structured questionnaires. According to the primary survey, followings results was obtained:

i. 100% survey employees of the both banks are agreed on that there exists credit related problems during the working time.

ii. 40% survey employees agreed that services charges taken by the bank is not sati factorable and quite more than necessary but 60% replied that it is sati factorable.

iii. Similarly, 37.5% sample employees replied that both banks do not grant the entire credit to same sector as specified at the time of policy formulation but 62.5% replied that entire credit is granted in same sector as specified in the time of policy formulation.

iv. Only 87.5%respondent agreed with the bank officer visited the project sits at the time of granting credit but 12.5% replied not.

v. 100% sample employees agreed with entire borrowers need to submit detail proposal in the bank for credit taking.

vi. 30% respondent replied that the relation with top authority sometimes influences the loan decision than the credit appraisal but 70% said does not influence in the loan decision according to the relation with top authority.

vii. 100% sample employees agreed on that the past record of the borrower is analyzed before floating loan as installment payment ability and regular income mechanism of the borrower is ensured while granting credit.

viii. 80% sample employees did not agree with that bank provides the loan to large parities without much analysis but 20% agreed because of high and regular transaction.

ix. 90%respondent agreed that sufficient collateral is the basis of floating loan but 10% respondent did not agree with that.

x. The entire sample respondent i.e. 100% employees of both banks said that bank has the system of periodic valuation of collateral as well as bank makes provision for loan loss to survive from future loss.

xi. Although all of matters are in positive side, only 60% sample employees are satisfied with the bank's credit policy and rest,ie40% are not satisfied because of availability of loan to large parities without much analysis, influences in loan decision by the relation to top authority, sufficient collateral to the base of floating loan, higher service charges etc.

4.1.7.4 Interpretation of Questionnaire's Response Given by the Credit Customers of Nepal Bank Limited and Rastriya Banijya Bank Limited in Terms of Lending Policy and Procedures

Table 4.17

Analysis of responses given by the credit customers of NBL and RBB

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

I. Only the 50% of total sample customers said that they are up to date with the bank's credit policies and remaining said 'No'.

II. 16 customers said. Out of 20 are dissatisfied with the bank interest rate. Only 4 customers said, "We are more or less satisfied".

III. 70% of the total sample customers of the bank received information of repaying credit from the bank, 20% of the total customers were uncooperative with the researcher, and remaining 10% said 'No'.

IV. 90% of the sample customers said that the bank officer visited their project site at the time of granting credit. 2 customers said ‘No’ because there was representative of the credit-taking group.

V. 14 customers, out of 20 respondents that they would take credit from the same bank in the near future, 2 said ‘No’ and the remaining 4 customers did not respond clearly.

VI. 90% of the sample customers said that they utilized the credit for the same sector as specified at the time of taking the loan.2 customers did not respond clearly. Nobody said ‘No’.

VII. 70% of sample customers of the bank said they are satisfied with the bank’s services and the remaining percentage said ’No’.

4.2 Major Findings of the Study

The major finding of the study is stated as follows:

From Liquidity Ratios:

- The current ratios of NBL as well as RBB are in increasing trend except the NBL’s current ratio in F/Y 2007/08. Above tables shows both of the bank could not maintain the conventional standard of 2:1. The higher mean ratio shows the highly liquid position of bank, which shows the banks, did not have proper investment plan. Above table shows the mean of current ratios of NBL were higher than RBB. Likewise, C.V of NBL is lower than RBB, which mean that RBB has more fluctuation in ratios compared with NBL. The standard deviation, which measures the total risk of particular observation, is 0.076 and 0.1002 respectively of NBL and RBB for the study period. Therefore, the above current ratios analysis of the banks over the five years period indicates that the banks have little satisfactory liquidity position.
- The cash and bank balance to total deposit ratio were 2.326%, 17.139%, 20.022%, 17.955% and 16.86% in NBL respectively years of the study period. Similarly the ratios in RBB came 2.464%, 12.909%, 11.317%, 12.217% and 15.99% in the respective year of study period. The mean, standard deviation and C.V of the cash and bank balance to total deposit same 14.96, 6.89 and 46.06% of NBL and 10.98, 5.074 and 46.59% of RBB, The mean ratio of NBL

is greater than that of RBB, which means that there was not uniformity in the ratios in CV of RBB, which signifies greater consistency in it the ratios of both banks were in fluctuating trend.

- The cash and bank balance to current assets ratios of NBL and RBB. There should be certain percentage of current assets as cash and bank balance to have the liquidity. This ratio was fluctuating in both NBL and RBB. The ratios in NBL remained 3.811%, 21.145%, 21.026%, 18.694% and 18.11% respectively throughout the study period. Similarly the ratios in RBB came 4.78%, 20.266%, 16.587%, 16.417% and 14.19% in respective study period. Mean standard deviation and C.V of cash and bank balance to current assets ratios of NBL came 16.56%, 7.2537% and 43.80%. Similarly, mean standard deviation and C.V of cash and bank balance to current assets ratio of RBB came 14.45%, 5.8275% and 4.33% respectively. The average ratio of NBL was higher than that of RBB which shows that NBL had strength liquidity position than that of RBB. These data shows that the RBB had undergone cash scarcity to meet short short-term payments during this fiscal year than NBL. C.V of RBB was lower which indicates that the ratios of RBB were less fluctuating than that of NBL during the study period.

From Assets Management Ratios:

- The loan and advance to total deposit ratios in NBL came 55.65%, 62.39%, 67.67%, 76.45% and 78.22% for the study period. Similarly the ratios in RBB came 34.13%, 50.79%, 56.91%, 62.18% and 59.27% respectively in the study period. The ratios of NBL and RBB are in fluctuating trend. Mean standard deviation and C.V. for loan and advance to total deposit ratio of NBL is 62.08%, 11.61% and 18.71%. Similarly these ratios are 52.66%, 11.17% and 21.21% respectively of RBB. Mean ratio of NBL is more successful in utilizing the resources in profitable sectors than RBB. CV of the ratios depicted that the ratio remained more consistent in NBL as compared to RBB.
- Loan and advances to total assets ratios of both bank (NBL and RBB) are in fluctuating trend over the five years of study period. The loan and advance to total assets ratios of NBL are 45.03%, 47.65%, 67.50%,

65.40% and 75.50% respectively from the f/y 2003/04 to 2007/08. In which the highest loan and advance to total assets ratio is of RBB is 67.52% in f/y 2006/07 and the lowest is 30.96% in f/y 2003/04. Comparatively NBL has higher mean than that of RBB. Likewise, the ratios of NBL have more variation and less consistency than RBB.From the analysis, we can say that NBL has sound lending policy so that it able to mobilize its resources as loan and advances than RBB. As well, NBL is risk taker bank than RBB. But assets management in terms of loan and advances of both banks are in satisfactory position because some ratios are above 50% of total assets.

- Total investment to total deposit ratio of NBL is in increasing trend. The ratios of NBL are 55.65%, 62.39%, 67.67%, 76.45% and 78.22% respectively from f/y 2003/04 to 2007/08. In which the highest total investment to total deposit ratio of NBL is 78.22% in f/y 2007/08 and the lowest in f/y 2003/04 i.e. 55.65%.Similarly the ratios in RBB came 34.13%, 50.79%, 56.91%, 62.18% and 59.27% respectively in the study period Mean ratio of NBL is more successful in utilizing the resources in profitable sectors than RBB. CV of the ratios depicted that the ratio remained more consistent in NBL as compared to RBB.During the study period, movements of ratios are first increasing, then decreasing and again decreasing. It may be due to shack in the different sectors of economy due to which bank is unable to mobilize its fund in loan and advance and share/debenture of other companies properly.
- The debt to equity ratio & the both bank (NBL and RBB) for five years. It also reveals that the period of five year has been analyzed. The total debt to total equity ratios of NBL are -0.867%, -9.63%, -18,66%, -25.69% and-27.25% respectively from f/y 2003/04 to2007/08. In which the highest and negative ratios are -27.25% and -0.867% respectively. Similarly, the highest negative ratio or RBB is -23.28% in f/y 2005/06 and the lowest in f/y 2003/04 i.e. -0.37%. The mean, standard deviation and co-efficient of variation of NBL and RBB are -16.30, 11.14 and -63.34% and -14.78, 8.98 and -60.98% respectively. From the analysis, we can say that NBL is more levered firm than RBB during the five years of study period. Levered firm

must bear more fixed expensed than levered. It may results bad impact on overall performance of the bank in the long term.

- Total debt to total assets ratio of NBL is in increasing trend over the five years study period. The total debt to total assets ratios of NBL are 0.1846%, 1.60%, 3.47%, 3.52% and 3.93% respectively from f/y 2003/04 to 2007/08. The highest ratio of NBL of total debt to total assets ratio is 3.93% where as the lowest ratio is 0.1846% in f/y 2003/04.The total debt to total assets ratio of RBB is in fluctuating trend. Sometimes it up and sometimes it down, the ratio up to f/y 2005/06 are in increasing trend than it is in decreasing trend thereafter. The highest ratio is 12.13% in f/y 2005/06 and the lowest ratio is 0.1776 in first year of study period. According to the above analysis, we can say that RBB used outsider's fund more than owner's fund during the formation or capital structure. But NBL is in satisfactory position by maintaining low total debt to total assets ratio.

From Profitability Ratios:

- The interest income to interest expenses ratio of NBL over the five year period from 2003/04 to 2007/08. The ratios are 177.96%, 265.32%, 264.83%, 239.20% and 257.53% in the fiscal year 2003/04 to 2007/08 respectively. Similarly mean ratio remains at 240.98% during the five years period. Likewise, S.D is 36.74 and C.V is 15.25%.Above table also depicted the interest income to interest expenses ratio of RBB over five years period from 2003/04 to 2007/08. The ratios are 149.58%, 231.74%, 268.59%, 250.32% and 265.36% in the fiscal year 2003/04 to2007/08 respectively. The mean ratio, standard deviation and CV are 233.12%, 48.92% and 20.99% respectively. From the comparative analysis we can say that NBL has high degree of gap between interest offered and interest charged than RBB. This shows that NBL has changed high interest rate to borrower and offering how interest to depositors. The higher cost of deposit mix of NBL has caused up the gap between interest income and interest expenses to be least.
- Return on loan and advance ratio of NBL is in fluctuating trend. The ratios of NBL are 3.47%, 7.60%, 4.98%, 0.76% and 1.17% from the f/y 2003/04

to 2007/08. The highest ratio is 7.60% in f/y 2004/05 and lowest is 0.76% in f/y 2006/07. Similarly, the ratios of RBB are in decreasing trend during the study period of five years. The trend of ratios is 7.46%, 6.06%, 6.05%, 5.42% and 5.15% respectively from 2003/04 to 2007/08. The mean, S.D and C.V of NBL and RBB is 3.60%, 2.82% and 78.33% and 6.03%, 0.89% and 14.76% respectively. From the analysis, we can say that return on loan and advances ratios of NBL and RBB is very low and fluctuating trend also. The highest ratio of NBL is 7.60% in f/y 2004/05and RBB is 7.46 in f/y 2003/04. It shows the normal earning capacity of NBL and RBB in loan and advances. That means, lending policy of both banks are not so sound and credits are not granted in profitable sectors but satisfactory in the present economic situation.

- Return on assets ratios of both banks are in fluctuating trend. The ratios of BL are 1.56%, 3.62%, 8.36%, 0.50% and0.88% from the f/y2003/04 to 2007/08. In which the highest is 3.62% in f/y 2004/05 and the lowest is 0.50% in f/y 2006/07. The mean ratio remains at 1.98% and the S.D and C.V are 1.43 and 72.18% respectively. From the analysis, we can say that RBB had better earning capacity than NBL. The highest ratio of NBL is 3.62% and the highest ratio of RBB is 3.99%. It means that RBB can earn 3.99% profit of the assets and NBL can earn only 3.62% profit of total assets.
- Interest income to loan and advances ratio of NBL is in continuously decreasing trend except in the f/y of 2007/08 during the five years of study period. The ratios of NBL are 9.18%, 8.86%, 8.45%, 6.20% and 6.63% from the f/y 2003/04 to 2007/08. The Mean, S.D and C.V of ratios are 7.86%, 1.36% and 17.30 respectively. Where the ratio of RBB is in same trend comparing NBL. The highest interest income to loan and advance ratio of RBB is 16.03% in f/y 2004/05 and the lowest is 7.53% in f/y 2006/07. The mean remains at 10.15%. The CV and SD of ratios are 34.48% and 3.50% respectively. From the analysis, we can say that RBB has higher interest income ratio than NBL. That means RBB is able to grant its credit (Loan and Advance) in high interest area. But it will be

risky lending because high interest rate carries high and low interest rate carry low risk.

- Earning per share of NBL is in fluctuating trend. The EPS of NBL are Rs. 275.82, 681.77, 482.90, 90.78 and 154.45 respectively from the f/y 2003/04 to 2007/08. Where the highest is Rs. 681.77 in f/y 2004/05 and lowest is Rs. 90.78 in f/y 2006/07.The EPS of RBB is in increasing trend over the study period. The EPS are Rs, 269.94, Rs.343.34, Rs.413.05, Rs.440.46 and Rs. 459.53 respectively from f/y 2003/04 to 2007/08. It shows that RBB is able to earn and provide good return to its shareholders than NBL over the study period.

Findings from Lending Efficiency Ratios:

- Loan loss provision to loan and advances ratios of NBL is in fluctuating trend. The ratios are 1.57%, 1.87%, 2.03%, 1.56% and 1.18% from f/y 2003/04 to 2007/08 respectively. The highest ratio is 2.03% in f/y 2005/06 and the lowest is 1.18% in f/y 2007/08. The mean of ratios is remaining 1.64% and CV and SD are 19.94% and 0.33% respectively. Similarly, the loan loss provision to loan and advances ratios of RBB is in decreasing trend over the study period. The highest ratio of loan loss provision to loan and advances of NBL is 102.34% in f/y 2003/04 and the lowest ratio is 224.4% in f/y 2007/08. The mean S.D and C.V of ratios are 40.91%, 16.99 and 41.55% respectively. From the analysis we can say that NBL has very low degree of provision over total lending than RBB. It indicates that NBL has decreasing volume of none-performing loans during the study period than RBB. The decreasing loan loss provision ratio indicates the better performance and effective credit policy of NBL than RBB.
- The non performing loan to total loan and advance ratio of NBL is in fluctuating trend. The ratios of NBL are 9.37%, 10.99%, 9.33%, 6.20% and 7.12% from f/y 2003/04 to 2007/08. In which the highest ratio is 10.99% in f/y 2004/05 and lowest is 6.20$ in f/y 2006/07. The mean, C.V and S.D of ratios of NBL is 8.60%, 1.92% and 22.36% respectively. The table also depicted the non-performing loan to total loan and advances ratio of RBB is in decreasing trend except the f/y 2007/08. The ratios are

103.75%, 62.66%, 30.61%, 23.65% and 31.73% from f/y 2003/04 to 2007/08. Where the highest ratio is 103.75% in f/y 2003/04 and the lowest is 23.65% corresponding to f/y 2006/07. The mean, C.V and standard deviation of the ratios are 50.48%, 66.09% and 33.36% respectively. Banking sector is seriously affected by the non-performing loan. Around 8% of NPL indicate the bad performing of bank. If non-performing loan will increase that affect in overall banking business, provision amount will increase and profit will decrease. So we suggest the bank to be very careful while granting loan and to do effective follow up for recovery of loan.

Findings from Correlation Coefficient:

- The above calculation shows that there is positive relationship between total deposits and total loan and advances of NBL. That means, if the total deposits is increased absolutely the total loan and advances is also increased and vice versa. The co-efficient of correlation between total deposits and total loan and advances is 0.94 and probable error is 0.0527. Comparing the value of 'r' and 6 times P.E, we can say that there is significantly positive relationship between total deposits and total loan and advances of NBL because 'r' is higher than 6 times P.E i.e. 0.94>0.3126.From the above analysis, we can conclude that NBL has positive and significant relationship between total deposits and total loan and advances. The relationship is significant, i.e. loan and advance is increase as the portion increase in deposits in relation to 0.94 and vice versa.
- The above calculation shows that there is positive relationship between total deposits and total loan and advances of RBB. That means, if the total deposits is increased absolutely the total loan and advances is also increased and vice-versa. The co-efficient of correlation between total deposits and total loan and advances is 0.5923 and probable error is 0.2903. Comparing the value of 'r' and 6 times of P.E we can say that there is significantly positive relationship but not significant at all time between total deposit and total loan and advances of RBB because 'r' is less than 6 times of P.E, i.e. 05923<1.7419.From the analysis, we can conclude that RBB has positive relationship but not significant at all time between total deposits and total loan and advances. The relationship is significant, i.e. loan and advances is increases as the portion

increases in deposits in relation to 0.5923 and vice versa but not significant at all.

- The above calculation shows that there is negative relationship between total loan and advances and net profit of NBL. That means, if the total loan and advance is increased absolutely the net profit is decreased and vice versa. The co-efficient of correlation between total loan and advance and net profit is -0.6337 and probable error is -0.2676. From the analysis, we can conclude that NBL has negative and insignificant relationship between total loan and advances and net profit. The relationship is significant, i.e. reverse relationship between the total loan and advances and total net profit of Nepal Bank Limited.
- The above calculation shows that there is positive relationship between total loan and advances and net profit of RBB. That means, if the total loan and advances is increased absolutely the net profit is also increased and vice versa. The co-efficient of correlation between total loan and advances and net profit is +0.99 and probable error is 0.0085. Comparing the value of 'r' and 6 times significant relationship between total loan and advances and net profit of RBB because 'r' is greater than 6 times P.E. i.e. 0.99>0.0534.From the above analysis, we can conclude that NBL has positive relationship and all time significant relationship between total loan and advances and net profit. It means that profit is increase as the portion increases in loan and advances in relation to 0.99 and vice versa.

CHAPTER-V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

In this chapter summary, conclusion & recommendation are included. We have done credit management of Nepal Bank Limited (NBL) & Rastriya Banijaya Bank ((RBB) by using financial as well as statically tools. After completing the basic analysis required for the study, little recommendation has made which would be beneficial for the management of the both banks is concerned persons.

Based on the presentation, interpretation & analysis of data, the major findings are summarized as follows.

i. Liquidity Ratio

NBL has kept higher mean of current assets to current liabilities ratio than RBB. But, the ratio of NBL has more variation and less consistency than RBB because of higher slandered or current ration should be for convention measure of liquidity. It is not appraisable on banking business. So analyzing over the study period, it indicated the satisfactory liquidity position with both banks.

The ratios of NBL have more variation &less constancy than RBB. The mean ratio (cash and bank balance to total deposit ratio) of RBB greater than that of NBL Bank. It indicates that RBB has relatively sound and better liquidity position. Commercial banks have to maintain their cash & bank balance in terms of total deposit as directed by NRB time to time. Otherwise they are Imposed penalty.

There is higher mean of cash & bank balance to current assets ratio of RBB than that of NBL over the study period. But the ratios of RBB have more variation and NBL consistency than NBL. It can be said that RBB has high liquid assets in terms of cash & bank balance to current assets RBB ratio than NBL but it does not mean that NBL has mobilized its more funds in profitable sectors than RBB. RBB has higher mean of cash & bank balance to saving deposit ratio than NBL. Similarly, ratio of NBL has more variation & less consistency than RBB. From the analysis of overall liquidity ratios of NBL & RBB we can say that RBB has high degree of liquidity assets, i.e. high liquidity position than NBL. High liquidity position is not so better because of interest expenses & it caused inverse impact in overall performance.

ii. Assets Management Ratio

NBL has higher mean of loan & advances to total deposit ratio than that of RBB during the study period. Likewise, the ratio of NBL has more variation& less consistency than RBB. From the analysis, we can say that NBL is good from according to deposit mobilized point of view than RBB. But it does not mean that NBL is investing more of its collected fund in high return but with low risk sector than RBB. NBL has higher mean of loan & advances to total assets ratio than that of RBB. Likewise the ratios of NBL have more variation& less consistency than RBB from the analysis, we can say that NBL has sound lending policy so that it is also able to mobilize its resources as loan & advances than RBB. But assets management in terms of loan & advances of both banks are not so good because of below the fifty percent of total assets.

RBB has high mean of total investment to total deposit ratio than that of NBL. Likewise,

The ratio of RBB has more variation & less consistency than NBL. During the study period movements of ratios are first increasing than decreasing & again increasing. It may be due to slack in the different sectors of economy due to which bank is unable to mobilize its fund in loan & advances & share/debenture of other companies properly.

iii. Leverage Ratio

RBB has the higher mean of total debt to total equity ration than that of NBL during the study period similarly, the ratios of RBB have more variation but more consistency than NBL. From the analysis, we can say that RBB is more levered firm than NBL during the six years of study period, levered firm must bear more fixed expenses than non-levered. It may results bad impact on overall performance of the bank in the long term.

RBB has the higher mean of total debt total assets ratio than that of NBL. But the ratios of NBL have more variation & less consistency than RBB. Accounting to the above analysis, we can say that RBB used outside and more than owners fund during the formation of capital structure.

iv. Profitability Ratio

NBL has the higher mean of interest expenses ratio than that of RBB. Likewise, the ratio of NBL have more variation and less consistency than RBB from the analysis, we can say that NBL has higher degree of gap between interest offered and interest charged than RBB. This shows that NBL has charged high interest rate to borrow and offering low interest rate to depositors.

NBL has the higher mean of net profit to loan and advances ratio than that of RBB. Similarly the ratio than that of NBL has more variation analysis, we can say that return on loan and advances ratio of NBL & RBB from the analysis, we can say that return on loan and advances ratio of NBL and RBB is very low and in fluctuating trend also. That means lending policy of both bank are not granted in profitable sectors but satisfactory in the present economic situation.

NBL has the higher mean of net profit to total assets ratio than that of RBB during the study period. Likewise, the ratio of NBL have more variation and less consistency nature than RBB from the analysis, we can say that NBL has better earning capacity than RBB.

NBL has higher mean of interest income to loan and advance ratio than that of RBB. Likewise, the ratio of NBL has more variation and less consistency than RBB. From the analysis, we can say that NBL has interest income ratio than RBB. That means NBL is able to grant its credit (loan and advance) in high interest earning area.

NBL has the higher mean of EPS than that of RBB. It shows that NBL able to earn and providing good return to its shareholders that RBB over the study period.

v. Lending Efficiency Ratio

RBB has higher mean of loan loss provision to loan and advances ratio than that of NBL over the study period. But the ratios of NBL have more variation and less consistency than RBB. From the analysis, we can say that NBL has very low degree of provision over total decreasing volume of non-performing loans during the study period than RBB.

RBB has the higher mean of non-performing loan to loan and advance ratio than that of NBL. It shows that lending policy of NBL is sound and effective than RBB. Loan recovery process, efficient management and depth study are the main cause of low NPR level of NBL.

vi. Co-efficient of Correlation Analysis

NBL has positive but not significant relationship at all time between total deposits and total loan and advances. The relationship is significant, is loan and advances in increased as the portion increases in the portion increases in deposits in relationship to 0.94 and vice versa but not significant at all.

RBB has positive with significant relationship between total deposits and total loan and advances. The relationship significant i.e. loan and advances is increased as the portion increases in deposits in relation to 0.5923 vice versa.

NBL has negative with in significant relationship between total loan and advances and net profit. The relationship is in significant, i.e. profit is decreased as the portion increases in loan and advances in relation to –0.6337 and vice versa.

RBB has positive but not significant relationship at all time between total loan and advance and net profit. The relationship is significant, i.e. profit is increases as the portions increases in loan and advances in relation to 0.99 and vice-versa but not significant at all.

vii. Primary Data Analysis

In order to find out various opinions of existing employees of the sample banks regarding their credit policy. 40 employees (20 employees from each bank) were convinced to fill up themselves and the rest responded verbally.

According to the primary data analysis, all of the sample employed of both banks agreed on that points, the banks have credit related problems borrowers need to submit the credit proposal in bank for loan, installment payment ability and regular income mechanism of the borrower is ensured white credit as well as a bank makes provision for loan loss. Less than 50% of the survey respondents are not satisfied with the sample banks because of high of service charges specified at the time of policy, formulation, relationship, with top authority influenced the loan decision rather than credit proposal as well as more than 50% of the survey respondents are not satisfied with the banks credit policy.

Likewise, to find out various problems facing by the sample banks in credit management. 20 credit customers (10 credit customers from each bank) were approached randomly and asked to fill up structured questionnaire. All of them were convinced to fill up and provided response.

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

5.2 Conclusion

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

- NBL has more current ratio than that of RBB.
- RBB has more cash and bank balance to total deposit ratio as well as cash and bank balance to current deposit ratio and cash and bank balance to saving deposit ratio than NBL.
- From the analysis of overall liquidity ratios of NBL and RBB, we can say that RBB has high degree of liquidity assets, i.e. high liquidity position than NBL.
- NBL is able to mobilize its resources in lending as loan and advance than RBB.
- RBB is able to invest its resources more in other companies shares, debentures, bonds as well as government treasury bill than NBL.
- From the analysis of overall efficiency ratio of NBL and RBB we can say that NBL has sound lending policy so that it is able to mobilize its resources more than RBB.
- From the analysis of overall leverage ratio of NBL and RBB, we can say that RBB more levered firm than NBL during the six years of study period. It means RBB is using outsider's fund more than owner's fund during the formation of capital structure
- NBL is able to earn more interest from total credit granting than that of RBB.
- NBL has high return on loan and advances ratio as well as return on total assets ratio than that of RBB.
- From the analysis is overall profitability ratio of NBL and RBB, we can say that NBL can earn more profit from its lending and investing activities than RBB during the six years period.
- NBL has high earning per share than RBB.
- RBB has positive but not significant relationship between total deposit collection and total lending. When RBB has positive with significant relationship between these two variables.
- NBL has positive with significant relationship between total loan and advances and net profits. Where RBB has positive but not significant relationship between these two variables.

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

So main findings of this study is that even Nepal Bank Limited (NBL) has less liquid assets, it is able to maintain daily cash requirement, high lending ratio, low leverage ratio low non-performing assets level low loan loss provision ratio, high profit ratio than that of Rastriya Banijya Bank (RBB), therefore, the management of RBB must revise the lending policy and invest in profitable as well as productive sectors rather than only to increases lending ratio.

5.3 Recommendations

Finding of the study may provide important information for those who are concerned directly or indirectly with the credit policy of commercial banks, with respect to NBL and RBB. On the basic of analysis and finding of the study, following suggestions and recommendation can be outlined.

The liquidity position of RBB is more positive than NBL. So, the management of RBB should search for new areas of investments as well as bank should strictly provided followed by NRB directives to reduce its surplus cash balance. Following of NRB directives will help to reduce credit risk arising from borrower's defaulter lack of proper credit appraisal, defaulter by black listed borrowers and professional defaulter. Government has established credit inebriation bureau, which will guide commercial banks. So the bank is suggested to follow project-oriented approach and avoid more risky area of lending.

RBB should adopt the sound credit collection policy. It helps to increase loan loss provisions and non-performing loan of the bank. Thus, the credit management of RBB must follow the policy as rapid identification of delinquent loan immediate contact with borrower and continual follow-up until a loan is recovered to decrease its non-performing loan and loan loss provision.

RBB must concentrate on decreasing ratio of returns on total assets as well as return on loan and advances and invest in productive as well as profitable areas only. This gives high return with low risk.

Most of the customers are dissatisfied with the service changes and interest rates of credit. Therefore, the banks management should consider on these variables more seriously.

Management should regularly follow the credit customers to confirm that whether the customer have utilized their credit for the same purpose or not, committed at the time of taking credits from the banks.

Looking a current trend of business, both banks i.e. NBL and RBB must be very careful on formulating marketing strategies to serve its customers. The marketing strategies should be innovative that would attract and retain the customers. Both the bank are recommended to develop an innovative approach of bank marketing for its well-being and sustainability in the market.

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

The new standards should be designed to make the bank management more accountable for credit policy. Besides, it should investigate what are the reasons of credit efficiency of inefficiency.

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APPENDIX –I

REQUEST LETTER

Dear Respondent/Participant

I am a student of Nepal Commerce Campus. ”**Credit Management of Nepal Bank Limited and Rastriya Banijya Bank** “is conducted in partial fulfillment of the requirements for the degree of Master of Business Studies. Your reply will be kept secrete and used for only research purpose. Your information is treated as confidentially in this research. Your participant will be as a volunteer.

This research is conducted to Credit policy, procedures and credit management of NBL and RBB. This academic research has findings of significance and value to society in general.

…………………………… ………………

Researcher's Name & Signature Date

SCHEDULED AND STRUCTURAL QUESTIONNAIRE TO OFFICIAL

Particulars
Is there credit related problem in your bank?
Does the service charges taken by bank is satisfactory?
Have you granted the entire credit to same sector as specified at the time of policy formulation?
Does any bank officer visit the project site at the time of granting credit?
Borrowers need to submit the detail proposal in the bank.
The relation to the top authority sometimes influences in loan decision rather than the credit appraisal.
The past track record of the borrower is analyzed before floating loan.
The installment payment ability and regular income mechanism of the borrower is ensured while granting credit.
This bank provides the loan to large parties without much analysis.
Taking sufficient collateral is the basis for the floating loan here.
This bank has the system of periodic valuation of the collateral.
Does your bank make provision for loan loss?
Are you satisfied the bank's credit policy?

APPENDIX-II

REQUEST LETTER

Dear Respondent/Participant

I am a student of Nepal Commerce Campus. " **Credit management of Nepal Bank Limited and Rastriya Banijya Bank**" is conducted in partial fulfillment of the requirements for the degree of Master of Business Studies. Your reply will be kept secrete and used for only research purpose. Your information is treated as confidentially in this research. Your participant will be as a volunteer.

This research is conducted to know effectiveness, problems and prospects of Credit management of NBL and RBB. This academic research has findings of significance and value to society in general.

………………………………… ………………

Researcher's Name & Signature Date

Scheduled and Structural Questionnaire to Credit Customers

Particulars
Do you have all knowledge about bank's credit policies?
Are you satisfied with the rate of interest on credit charging by the bank?
Have you received any notice before credit expiration date?
Does any bank officer visit your project site at the time of granting credit?
Do you want to make further credit from the bank?
Have you utilized the entire credit to the same sector as specified at the time of taking credit?
Are you satisfied with the bank services?

APPENDIX- III

CORRELATION BETWEEN TOTAL DEPOSITS AND TOTAL LOAN AND ADVANCES OF NBL

Fiscal Year	X	Y	X^2	Y^2	XY
2003/04	85.73	19.89	1276.63	395.61	710.67
2004/05	35.93	22.42	1290.96	502.66	805.55
2005/06	35.83	24.25	12863.79	588.06	868.88
2006/07	39.00	29.82	1521	889.28	1162.98
2007/08	42.20	33.00	1780.84	1089	1392.60
N = 5	$\sum X = 188.69$	$\sum Y = 129.38$	$\sum X^2 = 7153.22$	$\sum Y^2 = 3464.56$	$\sum XY = 4940.68$

Where,

X = Total Deposits of NBL

Y = Total Loan and Advances of NBL

Total = Summation of the Value from Fiscal Year 2003/04 to 2007/08

Here,

$\sum X = 188.69,\quad \sum Y = 129.38,\quad \sum X^2 = 7153.22,\quad \sum Y^2 = 3464.56,\quad \sum XY = 4940.68, N = 5$

Now, Correlation $(r) = \dfrac{N\sum XY - \sum X.\sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$

$$= \frac{5 \times 4940.68 - 188.69 \times 129.38}{\sqrt{5 \times 7153.22 - (188.89)^2} \times \sqrt{5 \times 3464.56 - (129.38)^2}}$$

$$= \frac{290.6878}{12.7351 \times 24.1581}$$

$$= \frac{290.6878}{307.6563}$$

r = +0.94