CHAPTER - I

INTRODUCTION

1.1 Background of the study

The basic purpose of a commercial bank is to maximize the shareholders' wealth by accepting deposits and granting loans in the society. In order to give maximum return to shareholders, the bank is required to invest most of its fund in loans and advances, risky assets. Banks are major institutions in financing. Bank involves in a process of collecting scattered money and to help its mobilization in different sectors according to the need of customers. Bank helps to develop saving habit of people, which in turn help to make other people to invest for their business. Banking loan helps to invest in industrial sector, commercial sector, production sector, trade & commerce. Bank also helps to develop international business by initiating as a mediator on export & import. This way banks help to strengthen the nation. 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.

The credit policy cannot be sound unless it is based on a clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

Banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Banks and financial institutions are investing in house loan, hire purchase loan for safety purpose. Lack of good lending opportunities, banks is facing problems of over liquidity. Nowadays, banks have increasing number of deposits in fixed and saving accounts but have decreasing trend in lending behaviors. So, this has caused major problems in commercial banks. Though, risk is inherent in all aspects of a commercial operation, however for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the bank's dealings with or lending to corporate houses, individuals, and other banks or financial institutions.

Till the date, all together there are 219 Banks and Financial Institutions (BFIs) licensed by Nepal Rastra Bank (NRB). There are 32 Commercial banks (Class A), 87 Development Banks (Class B), 79 Finance Companies (Class C) and 21 Micro Credit Development Banks (Class D). These BFIs are under the supervision of NRB.

1.1.1 Credit Management

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

Management is the system, which helps to complete the every job effectively. Credit management is also the system, which helps to manage credit effectively. In other words, Credit management refers management of credit exposures arising from loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in commercial banks and return on such investment is supposed to be main source of income.

Credit management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that a borrower will fail to meet its obligations in accordance with the agreed terms and conditions. Credit risk is not restricted to lending activities only but includes off balance sheet and inter - bank explores. 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 exist through out the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlement of transactions.

The Credit policy of a firm provides the framework to determine whether or not to extend credit and how much credit to extend. The Credit policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit information and methods of credit analysis.

1.1.2 Introduction of Sample Organizations

NABIL Bank Ltd. (NABIL)

The first commercial joint venture bank of Nepal, Nepal Arab Bank Limited, was established on July 12th 1984 partnering with Dubai Bank Ltd, through a technical service agreement. On 1st January 2002 with 50% equity investment Nepal Arab Bank Ltd was renamed as NABIL Bank Limited. NABIL B ank limited had the official name Nepal Arab Bank Ltd till December 31st 2001. In the beginning the authorized capital of the bank was Rs.100 million and paid up capital was Rs.28 million 400 thousand. The 50% share of NABIL owned by Dubai Bank Limited was transferred to Emirates Bank International Limited, Dubai by virtue of its annexation with the later. Later on, Emirates Bank International Limited sold its entire 50% share to NB International Limited. Now NB International Limited is managing the bank in accordance with the Technical Services Agreement signed between it and the bank on June 1995. The bank introduced an Automatic teller machine (ATM) first time in Nepal, in three places in the valley at Kantipath, New road and Lalitpur. The bank has its corporate head office at Kamaladi, Kathmandu. Nabil is the pioneer in introducing credit cards in Nepal. At present 48 branches are operated in different parts of the country.

Its present shareholding pattern is as follows:

Particulars	Percentage Holding
N.B International Limited	50%
Rastriya Beema Sansthan	9.67%
Nepal Industrial Development Corporation	6.15%
General Public	34.18%

Everest Bank Ltd. (EBL)

Everest Bank Ltd is a joint venture bank with Punjab National Bank of India established in 1993 A.D. It started its operation from 18th October 1994. Under the technical service agreement signed between two banks Punjab National Bank has been providing top management services and banking expertise to Everest Bank Ltd. The bank operates with the objective of extending professionalized banking services to various section of the society in the kingdom of Nepal and there by contributes to the economic development of the country. Its head office is in Lazimpat, Kathmandu.

Everest Bank Ltd. was registered under the Company Act 1964 in 19^{th} November 1993 (2049/09/03) and started banking transaction in 16^{th} October 1994 (2051/07/01). The promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of

India, having over 100 years of successful banking experience and known for its strong system and procedure. Now, the bank has 45 branches in Nepal.

On equity holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintain by Nepali investor. Nepalese promoter holding 50% and rest 30% held by General Public. The main purpose of EBL is to extend professional banking services to various sectors of the society in the kingdom of Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers:

Its present shareholding pattern is as follows:

Particulars	Percentage Holding
Promoter Share Holders	50%
Punjab National Bank	20%
General Public	30%
Total	100%

1.2 Statement of the problem

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

Credit are the most effective and sincere area in commercial bank. It is regarded as the heart of every commercial bank. But the banking sector is far from this fact. Thus, Credit management is considered as the heart issues in Nepalese commercial banking sector.

Credit management concept has appeared as a major research gap in Nepalese commercial banking sector. There is lack of such scientific and empirical research that could identify the issues of Credit management in

Nepalese commercial banks. In this regard, the performance of Nepalese commercial banks is to be analyzed in terms of their investment on Credit. Thus, the specific research questions regarding Credit management in Nepalese commercial banking sector are identified as follows:

1 What is the credit practice of the selected commercial banks?

2 What is the credit efficiency of the selected commercial banks?

3 Is there any relationship with loan and advances, total deposit and profit of selected Nepalese commercial banks?

1.3 Objectives of the study

Basic objective of the present study is to explore the credit efficiency or inefficiency and its management in commercial banks. It is also aimed to find out the relationship between practices on Credit and profitability situation. Moreover, the study has specified the following objectives.

1 To assess practices on Credit of selected Nepalese commercial banks

2 To observe the credit efficiency of selected Nepalese commercial banks

3 To examine the relationship with loan and advances, total deposit and net profit of selected Nepalese Commercial banks.

1.4 Significance of the study

Commercial banking sector is considered as successful area in financial sector of Nepal. In today's context, commercial banks have to be more organic and sincere to establish better creditability position due to vast competition among them. The present concept deals with how commercial banks managed Credit position and how do it affect to the organizational effectiveness.

Present study is very important from the point of view of bank management. The main strategy of every commercial bank is to establish the better creditability position, which has directly impacted the financial performance of an organization. Besides, it helps to build positive attitude and perception on customer that helps to make the organizational success in terms of better transaction, better turnover, and better profitability most of the earlier researches were focused on financial performance of bank but few researches were focused on creditability position of bank. From view point of bank credit is the most important in and sincere area. Thus, the present study is very important in viewing an organizational performance or position in terms of creditability.

1.5 Limitations of the study

The scope of the study is limited only in commercial banks because of time and resource constraints. Most of the analyses are descriptive in present study. This study is very basic attempt to address the research issues; therefore, it might not be able to show casual linkage or effect. Instrument used for data collection is not standardized questionnaire.

Present study could not address all the aspects of Credit position. The study is based on employees; self repeated response about their perception on primary analysis. It is, therefore, the response collected from the employees might not be valid measure. Some of the limitation of this study can be listed as follows:

a) Secondary analysis is based on published financial data on collected from stock exchange center and administration department of the concerned banks.

b) The secondary analysis covers time span of current five years. Various financial tools are used to know financial condition of the bank. However, the study tries to find out position of Credit and its importance in selected commercial banks.

c) Due to limitation of time and resources, only two commercial banks are taken as sample. Nevertheless, this study has tried to show the true picture and situation of Credit management in banking industry.

d) The evaluation is made through the analysis of financial statement published and presented by the banks. Therefore generalization of the whole banking industry cannot be made.

e) Inaccessibility of sufficient information has also limited the conclusion drawn from study.

1.6 Organization of the study

The study report is designed in five chapters. The first chapter of the study describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter. The second chapter of the study, ‘Review of Literature’, assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field. Similarly, the third chapter describes about the various source of data related with study and various tools and techniques employed for presenting the data. The fourth chapter analyses the data related with study and presents the finding of the study and also comments briefly on them. And finally, in the fifth chapter of the study, on the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization in terms of Credit management. It also gives important suggestions to the concerned organization for better improvement.

CHAPTER- II

REVIEW OF LITERATURE

This chapter deals with the literature, relevant to this study, this part of thesis is essential to know about the findings of other researchers which are appropriate to the study. The first part consists of conceptual framework and the remaining parts consists the review of reports, articles, journals and dissertation.

2.1 Theoretical review of Credit Management

"Banking is the business of collecting and safeguarding money as deposits and lending of same. The banker's business is then to take the debt of other people to offer his own in exchange and there by to create money. He may be a dealer in debts, but in distress is only observing of wealth and it would be equally permissible to describe the banker as liquefies of wealth." (Crowther, "An Outline of Money", p. 81)

A frequently neglected but increasingly of the total marketing package is the role of the provision of credit. Credit policy is sometimes, omitted entirely from an analysis of marketing mix by academics. This is despite empirical findings that although the credit package is unlikely to be the primary factor in determining overall patronage success. It may serve to clinch a contract when suppliers' offerings are otherwise equally attractive.

The study seeks first and like some other to examine the relative importance of credit policy in marketing decisions and, seconds, to assess the case for differentiating credit packages. It is also presented the result of an empirical survey into the credit policies pursued. In concept, the empirical study is similar to earlier studies.

The credit policy cannot be sound unless it is based on a clear knowledge of the cost of credit. The cost is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. Foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge, and by the interaction with the rest of the pricing mix.

A commercial Bank is business organization that receives and holds deposits of fund from others makes loans or extends credits and transfers funds by written order of deposits.

Commercial Bank is a corporation, which accepts demand deposits subject to check and makes shorts-term loans to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money and substitute for money such as cheques or bill of exchange. He also provides a variety of financial services.

Commercial bank Act 2031 B.S. of Nepal has defined that "A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank mean for cooperative, agriculture, industries for such specific purpose."

But, recently, the Bank and Financial Development Institutions Ordinance, 2060 has accumulated the five banking acts including commercial bank Act 2031, which defines the bank with respect to their transactions. This Act is trying to categories the banking institutions in two ways that I based on their transactions. According to this Act, "Bank is the institution which performs its transaction under the provisions mentioned on section 47 of this Act."

This Act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short-term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

Financial activities are necessary for the economic development of the country and commercial banking in this context is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the commercial bank and other financial institutions the sound knowledge of investment is the most because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institution, they must mobilize (i.e., investment in different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested, these information include as financial background, nature of business as well as its ability to pay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies is always taken in mind that “the greater the credit created by the bank, the higher will be the profitability". A sound lending and investment policy is not only prerequisite for bank’s profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

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

2.1.1 Financial Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm viz. owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expressions" and "as the relationship between two things" (Adhikari, "Evaluating the financial performance of NBL" p.40)

Ratio analysis is the process of determining and interpreting numerical relationships based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures.

Webster's new collegiate Dictionary defines a ratio as "The indicated quotient of two mathematical expressions and as the relationship between or more things". In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm. ("Websters, New Collegiate Dictionary", 8th Edition Supering Field Mass.)

Standard of Comparison

The ratio analysis involves comparison for a useful interpretation of financial statements. A single ratio in itself doesn't indicate favorable or unfavorable condition. It should be compared with some standard. Standard of comparison may consist of:

- Past ratios –ratio calculated from the past financial statement of the same firm.
- Projected ratio –ratio developed using the projected or financial statement of the same firm.
- Competitor's ratio –ratio of some selected firms, especially the most progressive and successful competitor, at the same point in time.

- Industry ratio- ratios of the industry to which the firm belongs.

Types of Ratios

Several ratios calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. Long term creditors or the other are more interested in the long-term solvency and profitability of the firm. Similarly owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of firm's performance. They have to protect the interests of all parties and see that the firm grows profitability. In view of the requirement of various ratios they may classify into following groups.

Credit practices ratio

- **Total Loan to total deposit ratio (Credit to Deposit Ratio)**

The main source of bank's lending depends on its deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposits on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits.

- **Loan and advances to total assets ratio**

Loans & advance is the major part of total assets for the bank. This ratio indicates the volume of loans & advance out of the total Assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

- **Loan and advances to current assets**

Loans & advances is the major component in total Assets, which indicates the ability of banks to canalize its deposit in the form of loan & advances to earn high return. If sufficient loan and advances cannot be granted, it should be pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan & advances in appropriate level to find out portion of current assets, which is granted as loan & advances.

- **Interest income to loan and advances**

Interest income to loan & advances is one of the major sources of income for a commercial Bank. The high volume of interest income is indicator of good performance of lending activities.

- **Loan loss provision to total loan and advances ratio**

It describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loan & advances into the category of pass, sub standard, doubtful and loss and to wake the provision of 1, 25, 50 and 100 percent respectively. NRB has classified the pass loan as performing loans and other three types of loan as non-performing loans. The provision created against the pass loan is called the general loan loss provision and provision created against sub standard, doubtful and loss loan is called specific loan loss provision. The amount of loan loss provision in B/S refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits.

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

- **Non-performing loan to total loan and advances ratio**

NRB has directed all the commercial banks to create loan loss provision against sub standard, doubtful and bad debts. To measure the volume of non-performing loan to total loan & advances the main indicator of NABIL and EBL has been used. This ratio shows the percentage of non-recovery loans in total loans & advances

Credit efficiency ratio

- **Interest expenses to total deposit ratio**

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

- **Total loan to liabilities ratio**

Banks create credit through loans and advances and multiply their Assets much more times than their liability permits. This ratio measures the ability of a bank to multiply its liability into Assets. The higher ratio of total Assets to total liability ratio is favorable as it increases overall capacity of the organization.

- **Interest expenses to total expenses ratio**

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly sources of funds.

- **Non-interest bearing deposit to total deposit ratio**

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits were managed affectively in the total volume of expenses. The banks need to manage the portfolio of the deposits i.e. it has to maintain certain proportion between interest bearing deposits and non-interest bearing deposits by administering the interest rate structure. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix of deposit liability.

- **Interest income to total income ratio**

Income is one of the most important factors of each & every organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measure the bank's performance on other fee based activities too. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending & investment and high contribution by other fee based activities in total income.

- **Interest from loan, advances and overdraft to total interest income ratio**

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence his ratio measures how efficiently the banks have employed their fund and loan and advances & overdraft.

- **Interest suspense to total interest income from loan and advances ratio**

Interest suspense means the interest due but not collected. NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in liability side of Balance sheet under the heading "other liability". This ratio, interest suspense to total interest income from loans & advances, measures the composition of due but uncollected interest in the total interest income from loans & advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loans & advances.

2.1.2 Statistical tools

Statistics is a body of methods of obtaining and analyzing data in order to base decision on them. It is a branch of scientific method used in dealing with phenomena that can be described numerically either by counts or by measurement. Thus the word statistics refer it a method of dealing with quantities information. Webster defined statistics as 'the classified facts represented by the condition of the people in state especially those facts which can be stated in numbers or in tables of number or in any tabular or classified arrangement'.

Regression and Correlation

Regression and Correlation Analysis are the techniques of studying how the variations in one series are related to the variation in another series. Measurement of degree of relationship between two or more variables is called correlation analysis and using the relationship between a known variable and an unknown variable to estimate the unknown one is termed as regression analysis. Thus, correlation measures the degree of relationship between the variables while regression analysis shows how the variables are related. Regression and Correlation analysis thus determines the nature and strength of the relationship between two variables. (Sharma and Chaudhary, "Statistical Methods", Pg 405.)

2.2 Nature of Certain Types of Credits

The basic nature of certain types of credit that the bank flows are in the form of:

1. Commercial credits

"Commercial credits generally mean credits to business enterprises for commercial or industrial purposes. Commercial credits usually comprise one of the most important parts of total assets of most financial institutions. They can be secured or unsecured and for short-term or long-term maturity. Such credits include overdrafts, long term loans, and loans to small businesses." (*Kiesel, Perraudin & Taylor; 2001: 253)*

2. Credits secured by real estate

"Credits secured by real estate are part of credit portfolios of most financial institutions, including credits for the purchase of real estate. However, real estate loans may also encompass credit extension for other purposes but with real estate as primary collateral.

The level of risk of credits secured by real estate depends primarily on the amount of credits and the collateral value, interest rate, and most importantly, the borrowers' repayment ability. Financial institutions' credit policy on credits secured by real estate must ensure that credits are granted with reasonable probability that borrowers will be able to meet the terms of repayment." *(Gupton; 2000: 186)*

3. Real estate construction credits

"Real estate construction credits are used for construction of a particular project within a specified period of time and should be controlled by restriction on predetermined fund disbursement.

Construction credits potentially have high risk. Majority of the risks arises from the necessity to complete projects within a specified cost and time period. These inherent risks can be limited by establishment of policy that specifies type and the level of financial institutions' involvement. Such policy should specify procedures to control fund disbursements and the difference between collateral value and credit outstanding, time of completion of the project and repayment periods." *(Boot & Milbourn; 2001: 281)*

4. Agricultural credits

"Agricultural credits are used to fund production of crops and livestock, or to purchase or refinance capital assets such as farmland, machinery and equipment. Production of crops and livestock has 2 types of risk factors outside the control of borrowers, namely, commodity price and weather conditions.

5. Credit card loans

Financial institutions can get involved in credit card business in 2 ways, namely,

a. Agent banks, which receive credit card applications from customers and sales slips from merchants and forward these documents to licensee banks, and are accountable for the process of receiving and forwarding the documents.

b. Licensee banks, which undertake transactions of credit card loans and merchants' accounts and may have their own centers for processing payments and sales slips, as well as undertake the roles of data processing and card issuing.

6. Syndicated loans

Syndicated loan is a sharing of loans between two or more financial institutions. Normally, financial institution that leads the loan will prepare all the documentation as an agent, service the loan, and directly contact the borrowers for the benefits of all participants.

When properly structured, syndicated loan helps to reduce financial institutions' burden on lending in the amount exceeding the legal limit, diversify risk, and adjust for liquidity. Participating in syndicated loans of financial institutions can compensate for low local demand for loans or high volume or loans without servicing burdens. However, if not properly structured or documented, syndicated loan project can incur unlimited risk to both lead and participating institutions." *(Asarnow; 1999: 130-138)*

2.3 Factors Affecting Credit Policy

Generally, the following factors are to be considered to make effective loan management. It is also called the factors of credit policy. It helps to get effective credit worthiness.

Industry environment:-

It determines the nature of the industry structure, its attractiveness and the company's position within the industry, structural weakness of a company which is disadvantaged, theaters first way out and security value.

Financial Condition:

It determines the borrower's capacity to repay through cash flow as the "First way –out". The strength of 'second way-out' i.e. through collateral liquidation is also assessed. Further the possibility to fall back on income of sister concerns in case of financial crunch of the company condition theaters repayment capacity.

Management Quality: -

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

Technical strength: -

It determines the strength and quality of the technical support required for sustainable operation of the company in terms of manpower and the technology used. Appropriate technical competence of the manpower, the viability of the technology uses, availability of after sales service, cost of maintenance and replacement need to be evaluated.

Security realization: -

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

2.4 Review of related studies

Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

2.4.1 Review of Articles and Journals

The effort has been made in this present section to examine and review the some related articles published in different economic journals, Bulletins, magazines and newspapers.

Unified NRB Directives (2068/69), Nepal Rastra Bank (NRB) has issued directives to all commercial banks and financial institution ensuring transparency during loan disbursement. As per provision, all commercial banks as well as financial institutions are now required to disclose the name of loan defaulters in every six months. The NRB directives have also barred the financial institutions from lending any amount to the blacklisted defaulter and his family members. Prior to extension or renewal, restructuring or rescheduling of loans of Rs. One Million or more, a licensed institution shall have to obtain credit information about the borrower/customer from the Bureau.

Once the situation referred to in NRB Directives prevails, the concerned licensed institution may recommend the Credit Information Bureau Ltd. To blacklist the borrower who have availed the credit, advances and facilities of whatsoever amount from that licensed institution but have not rapid that amount. The Credit Information Bureau Ltd. shall, within fifteen days, ascertain the name list recommended from the concerned licensed institution for blacklisting and put them in the blacklist.

Due to slowdown in the world economy and deteriorating law and order situation of the country, many sectors of the economy are already sick. When any sector of economy catches cold, bank start 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, 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 individual's as well as institutional investors. Large investors would like to select the best mix of investment assets.

Lamichhane (2007), In his article "Forty-six years of NRB" said that the investor or whether banks, financial institutions, individuals, private or government sector, most not took the proposal by making decision without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as well as through investment decisions to make its macro and micro level viability effective.”

The current volume of the total banking deposits is over 1550-folds higher than what used to be some 38 years ago whereas the Gross Domestic Product (GDP) of the country during the same period price, increased just by 62-folds. Central bank static’s shows that the total banking deposit in 1965 used to be just Rs. 129.8 million, but swelled to Rs. 202.13 billion by mid-Jan 2003. Similarly, the total loan and advances of the entire banking system in 1960 stood at Rs. 107 million, which was over 82 percent of them total deposit. However, total loans and advances went up to Rs. 127 billion, comparing almost 63 percent of the total deposit, during the period. As a result both deposit and lending of the banking system witnessed and increase of over 6-folds and 5 folds to Rs.21 billion respectively by 1990s. As a result of economic expansion and private sector development, the nineties witnessed a quantum jump in both deposit mobilization and lending. The deposit of banking system, by the end of 2002, touched Rs. 154.5 billion, which is 7-folds more than the deposit of the nineties. Loans and advances from the banking system touched Rs. 118 billion by June-end 2000 and the amount was double than what it used to be in 1985.

Ghimire (2008), in an article published in The Kathmandu Post 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 is common acres most of the banks is the increased size of non performing assets (NPAs), To resolve the problem of the losses or likely losses of this nature facing the industry NRB has, as the central bank, amended several old directives and issued many new circulars in the recent years.

As opined by him, since majority of the loans of most of the commercial banks of the country at present falls under substandard, doubtful and even loss categories, loan loss provisioning now compared to previous arrangement would be dramatically higher. The new classification and provisioning norms are very lent able as they help to strengthen banks financially. He added that we also must remember that the old system remained in force from 1991 to 2001, which was probably the most volatile decade of the business operation of the country. He has indicated that Loan loss provisioning as a percentage of total credit of April 12, 001 is 5.2% but as April 13, 2003, it has jumped to 18.39. If only private banks are considered, it is 2.12% of April 2001 where as it is 6.30 % as of April 13, 2003. The total increment in LLP is Rs 11,328.11 million and the total increment in credit is only Rs 7,976.70. He has also stated that tightening provisioning requirements on NPL is essential to ensure that banks remain liquid even during economic downturns.

In the conclusions he has mentioned that in the recent years NRB has worked for management and reform of the credit of the financial institution more seriously and NRB has adopted reforms aimed not just at dealing with problem banks but also at strengthening banking supervision to reduce the likelihood of future crisis,. “All prudential directives of NRB in connection of credit sector reform have been made revised on after April 2001. To adapt to such changes there can be some difficulties and for a better & harmonized reform NRB should continue to be supportive, proactive and also participative to take opinions of bankers for a change in regulation/policy taking place in the future."

Khatri (2008), in an article published in New Business Age, has analyzed the ordinance Pros and Cons, in general speaking termed as Umbrella Act. He has expressed his disagreement in the ordinance regarding the qualification of the Board of director’s composition. The qualification set is out of the total number of directors, two thirds have to be graduates in specified disciplines-management, commerce, economic, accounting, finance, law, banking and statistics. Another requirement is five years work experience either in banking or public limited companies or in a gazette level government posts. He argues why a science graduate or someone with engineering background cannot be the director, it is not justifiable to question on the capacities of the people with these background as the in the past some successful General Manager and Directors in Nepal Industrial Development Corporation (NIDC) were engineers. He further writes that activities like project financing and asset valuation require engineers and similarly that there cannot be any reason for the position of director in banks to be graduates in some specified fields only. CEO of the “Ka” category qualification required is Masters Degree in the chosen few subject and the term would be four year. The act however does not mention the renewal of the CEOs term. The Board or AGM of the institution should be decided the CEO’s tenure.

Shrestha (2009), In an article published in 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.

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, mo matter how lucrative and attractive it would be enter into their mind. It has created huge pressure in the labor 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 very limited and even qualified and competent people do not get job. The established very limited and even qualified and competent people do not get job. The established notion 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 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.

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 crowded market. However it’s essential that any government rules and regulations that inhibit the promotion of entrepreneurship in the country must be abolished.

Entrepreneurship development is one of the important conditions for the economic growth of a country. There must be the sprout of entrepreneurship activities in the country for rapid economic growth and progress. However it does not happen automatically. We must create necessary conditions and environment where people with skills, knowledge and hunger to make money by starting their own business and get easy access to capital.

The ordinance relating to banks and financial institutions has been promulgated that has been bought into existence effective February 4,2004. The banks and financial institutions Ordinance, 2004 has replaced the existing Agricultural

Bank Act, 2024. Commercial Bank Act, Development Bank Act, and Nepal Industrial Development Corporation Act and Finance Companies Acts and has bought all such institutions under the preview of a single Act. Though this ordinance came as an achievement in the financial sector reform program, it's being a matter of debate among the various finance experts that the ordinance having six months existence time should be enacted? It is obvious that the financial sector must go through uncertainty in the future. The ordinance, popularly called as Umbrella Act.

Silwal & Tiwari (2010) in their article, *"Managing Credit Risk in Financial Institutions",* have stated that credit risk management in financial institutions is improving and evolving, but much still needs to be done. Many of the institutions surveyed demonstrated success as measured by high overall rates of profitability, low delinquency rates in both general and agricultural portfolios, and sustained growth rates in agricultural portfolios over time. Nonetheless, the paucity of institutions active in rural areas and expressed desires for better risk management systems, the relatively small loan sizes, and restricted terms indicate that the situation is less than optimal.

Massive credit expansion has been due in large part to the introduction and wide diffusion of risk transfer techniques (insurance, securitization, derivatives, etc.) and the wider acceptance of different types of collateral (inventories, accounts receivables, warehouse receipts, etc.). In Nepal, the most common risk transfer instruments available are publicly financed loan guarantee funds; however, they are used only modestly. Historically, guarantee funds have been plagued with problems of high costs, limited additionality, and moral hazard. Recent work has shown that much of the positive impact is due to adequate regulation. In order to introduce some of the other risk transfer instruments more commonly found in developed financial markets, investments will be needed to reform and strengthen the insurance industry, capital markets, credit bureaus, commercial codes, secured transaction frameworks, and information disclosure rules.

Gautam & Khanal (2010), in their article, "*Managing Consumer Credit Risk",* have stated that the tools for improving management of consumer credit risk have advanced considerably in recent years as industry leaders and their advisors have focused on the development of increasingly sophisticated analytical tools.

Advances in data warehousing technology and overall computational efficiencies have greatly facilitated these developments. At the same time, application of these new methodologies varies substantially among firms and between industry segments. Generally speaking, a number of lending firms have developed highly refined portfolio segmentation designs and enhanced risk-based score-card schemes, but only a few have reached the level of fully integrated models that employ multi-variable regression analysis. Risk management practices in the consumer lending business are generally much stronger than in the early 1990s and the industry is far better positioned to weather the current economic downturn than it was a decade ago.

Shrestha (2011), in his article, *"Credit Management: A Survey of Practices",* have stated that credit risk arises from uncertainty in a given counterparty's ability to meet its obligations. The increasing variety in the types of counterparties (from individuals to sovereign governments) and the ever-expanding variety in the forms of obligations (from auto loans to complex derivatives transactions) has meant that credit risk management has jumped to the forefront of risk management activities carried out by firms in the financial services industry.

In a survey of the financial institutions, the study finds that identifying counterparty default risk is the single most-important purpose served by the credit risk models utilized. Close to half of the responding institutions utilize models that are also capable of dealing with counterparty migration risk. Surprisingly, only a minority of banks currently utilize either a proprietary or a vendor-marketed model for the management of their credit risk. Interestingly, those that utilize their own in-house model also utilize a vendor-marketed model. Not surprisingly, such models are more widely used for the management of non-traded credit loan portfolios than they are for the management of traded bonds.

Karnikar & Rana (2012), in their article, *"Managing Credit Risk for Commodity Producers",* have stated that commodity producers require robust systems, processes and a cross functional involvement in credit management to minimize credit risk at the customer and portfolio level. Despite the recent financial crisis, many exporting producers still lack the basic systems and processes required to actively manage credit risk. Managing credit risk has become increasingly difficult for commodity producers due to increased default risk from buyers, no internationally recognized credit rating, banking requirements tightening reducing ability of customers to arrange payment guarantees, widening variation in sovereign and sector risk profiles and poor credit risk culture within the marketing and sales groups.

However, many leading commodity producers have implemented robust controls and tools to manage the credit risk process. This study has sought to highlight five areas of focus to improve the management of credit risk; a) producers should develop an internal credit rating system for customers, b) internal credit limits should be used as the main control point in the export process, c) close relationships should be maintained with credit insurers and banks, d) a standard credit risk process and set of tools should be used by all marketing and sales personnel, and e) a portfolio view of credit risk should be reviewed regularly by a senior executive team.

2.4.2 Review of Previous thesis

Paudel (2005), in his Master's thesis, *"Credit Policy of Commercial Banks in Nepal",* has the objective to provide the credit practices in NIBL and SBI bank. The specific objectives are

a. To examine the liquidity and assets management of NIBL and SBI.
b. To evaluate the investment policy of NIBL and SBI.
c. To study the growth ratio of loan and advances.
d. To analyze the investment to total deposit and net profit NIBL and SBI.

The major findings of the study are

a. Both banks current assets have exceeded the current liabilities therefore the ratio is considered satisfactory. But the cash reserve ratios have fluctuated in high degree.
b. NIBL has maintained both current ratio and cash reserve ratio better than that of SBI.
c. The assets management ratio shows that deposit utilization of NIBL is less effective than SBI.
d. NIBL has invested lower amount of government securities and share and debenture than that of NIBL.
e. The growth ratio of total deposit, loan and advances, total investment and net profit of NIBL are less than that of SBI.

Bajracharya (2006), in his Master's thesis, *"A Study on Credit Management of Agriculture Development Bank Limited"* has the main objective to evaluate the lending procedure of ADBL. In addition to this main objective, the study has other specific objectives;

a. To evaluate the trend of loan investment, collection and outstanding.
b. To show the achievement of purpose-wise and term-wise loan disbursement, outstanding and collection of ADBL.
c. To study lending policy, loan recovery procedure, interest rate and discount of ADBL.

The major findings of the study are:

a. The total investment of development financing increased from Rs. 7.13 billion in FY 057/58 to Rs. 12.85 billion in FY 063/64 registering an annual average growth trend of Rs.0.82 billion or 10.43%.
b. The total collection of development financing increased from Rs. 5.34 billion in FY 057/58 to Rs. 11.84 billion in FY 063/64 registering an annual average growth trend of Rs. 0.93 billion or 14.22%.
c. The total outstanding of development financing increased from Rs. 12.89 billion in FY 057/58 to Rs. 22.18 billion in FY 063/64 registering an annual average growth trend of Rs. 1.33 billion Or 9.53%.

d. Actual loan investment/disbursement, collection and outstanding of short-term is gradually increased every year. The lowest percentage of loan collection to disbursement is 76.46% in FY 060/61 and the highest is 87.33% in FY 063/64.

Sejuwal (2007), in his Master's Thesis, *"A Comparative Study on Credit Management of Commercial Banks; with Special Reference to NABIL and SCBNL"*, has the main objective to explore the credit efficiency or inefficiency and its management in commercial banks.

The specific objectives of the study are

a. To assess credit practice of selected commercial banks.
b. To explore the credit efficiency of selected commercial banks.
c. To explore the relationship with loan and advances, non-performing loan and net profit of selected commercial banks.

The major findings of the study are:

a. The credit practices of NABIL in terms of total loans to deposit ratio is found to be more than SCBNL (i.e. 0.6298 > 0.3660). It indicates that NABIL has been strong to mobilize its total deposit as loan.
b. In terms of interest income to loan and advances ratio, NABIL has mean score of 0.0932 and SCBNL has the mean score of 0.0858. From this point; NABIL Bank has the best performance in earning interest income.
c. Lending policy of SCBNL with regard to non-performing loan to total loans and advances was found to be the lowest with the mean value with 0.0351 as compare to NABIL Bank. The result indicates that if non-performing loan increases, the overall banking business will be negatively affected.
d. The ratio of loans and advances to total assets was found greater in NABIL in comparison with SCBNL which shows the good lending performance of NABIL, whereas in terms of loan and advances to current assets ratio, NABIL has highest mean than that of SCBNL, this

meant that NABIL has relatively better practice in short term lending.

e. Lending policy of SCBNL in terms of loan loss provision to total loans and advances was found relatively better than that of NABIL.

Adhikari (2008), in her Master's Thesis, *"Credit Management of Siddhartha Vikash Bank Limited",* has the main objective to analyze the credit management of the SVBL.

The specific objectives of the study are

a. To analyze the trends of deposit collection and credit lending.
b. To assess total amount of loan.
c. To evaluate the performance of SVBL in terms of liquidity, profitability, sector wise loan, and non-performing loan.
d. To analyze the capital adequacy of SVBL.

The major findings of the study are

a. Deposit collection of SVBL has significantly increasing trend. There is continuous increasing trend from 10 percent to 100 percent.
b. In all year total fixed deposit has more contribution than other deposit. Then more contribution of saving deposit than that of current and call deposit.
c. Correlation between deposit and loan disbursement is 0.99. This indicates that these two variables relation is highly positive.
d. Capital adequacy of the SVBL has sufficient against NRB standard. It indicates that the lending capacity of SVBL is high.
e. The highest risk of SVBL is in credit risk.

Neupane (2009), in his Master's Thesis, *"Credit Policy Analysis of Commercial Bank with Special reference to Everest Bank Limited"*, has the main objective to find out the credit management position of Everest Bank Limited.

The specific objectives of the study are:

a. To evaluate the various financial ratios of the EBL.

b. To determine the impact of deposit in liquidity and its effect on lending practices.
c. To analyze trend of deposit utilization towards loan and advances and net profit.

The major findings of the study are:

a. Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. Similarly, cash and bank balance to interest sensitive ratio of EBL is also in fluctuating trend.
b. Credit and advance to fixed deposit ratio of EBL is fluctuating trend. The mean ratio is 2.26 times in the study period. However, non-performing assets to total assets of EBL is in declining trend, whose mean ratio is 0.978%.
c. The debt to assets ratio of EBL is excessively high or in other words they have excessively geared capital structure. On an average 93% of assets is financed through debt capital that is outsiders cost bearing fund.
d. Return on loan and advances of EBL is also in fluctuating trend. The mean ratio is 2.2%. This shows the normal earning capacity of EBL.

Shrestha (2010), in his Master's thesis, *"Credit Practices: A Study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd."*, has the major objective of examining the credit management in the selected banks.

The specific objectives of the study are:

a. To determine the liquidity position, the impact of deposit in liquidity and its effect on credit practices.
b. To measure the bank's lending strength.
c. To analyze the portfolio behavior of credit and measure the ratio and volume of lending made in agriculture, priority and productive sector.
d. To measure the credit performances in quality, efficiency and its contribution in total income.

The major findings of the study are:

a. The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset.
b. SCBNL's tendency to invest in government securities has resulted with the lowest ratio of loans and advances to total assets ratio whereas NABIL Bank Ltd. has highest due to steady and high volume of loans and advances throughout the years.
c. The loans and advances and investment to deposits ratio has shown that NABIL Bank Ltd. has deployed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
d. The portfolio analysis has revealed that the flow of loans and advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of all the banks in industrial sector is appreciable. The contribution made by Himalayan Bank Ltd. in industrial sector is the greatest and that of SCBNL is the least.
e. The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47 % of its total credit in general use and social purpose.

Khadka (2011), in her master's thesis, *"Credit Practices: A Study on NABIL Bank Ltd., Nepal Investment Bank Ltd., Everest Bank LTD. and NIC Bank Ltd,"*, has the major objective of examining the credit management in the selected banks.

The specific objectives of the study are:

a. To analyze the volume of contribution made by commercial banks in loans and advances.
b. To analyze the mobilization of deposit in credit of commercial banks and the situation of non performing credit.
c. To provide valuable suggestions for effective credit management.

The major findings of the study are:

a. NIBL is most successful than NABIL, NIC and EBL to disburse highest average amount of credit and advances. However, NIC has more uniform policy than other sampled banks in credit and advances disbursement.
b. NIC has mobilized more of the deposit collection in providing credit and advances than other three sampled banks. Nonetheless, the credit and advances to total deposit of EBL is most consistent than that of others.
c. The interest income to credit and advances of NIC is comparatively highest that of other three sampled banks, thus it can be concluded that the credit and advances of NIC is most productive than that of others. NIC is most efficient in managing the credit and advances to yield highest interest in comparison with others.

2.4 Research Gap

Previous researchers analyzed the credit management by using secondary source of information in terms of credit practices or lending practices. So as to analysis the credit management and evaluating the strength of any commercial banks various types of ratios should be clearly analyzed which were not clearly presented by previous researchers. In the present context, only those banks which have maintained the standard ratios are not facing difficulties. 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

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It is necessary for the researcher to know not only the research methods but also the methodology. When we talk about the research methodology we not only talk of research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others. The study of research methodology gives the student the necessary training in gathering materials and arranging them, participating in the field work which required, and also training in techniques for collection of data appropriate to particular problems, in the use of statistics, questionnaires and controlled experimentation and in recording evidence, sorting it out and interpreting it.

This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words research methodology describes the methods processes applied in the entire aspect of the study. This chapter describes research design, population, sampling procedure, and sources of data and analysis of data.

3.1 Research design

Present study follows the descriptive as well as analytical statistics of the analysis to meet the stated objectives of the study. 'Descriptive studies are primarily concerned to find out 'What is'. The secondary data were analyzed from the data collected from the administration department of the related banks. Few financial statements of selected commercial banks were tabulated using spreadsheet.

3.2 Sources of data

The research is based on secondary source of data. For research purpose, published financial statements (i.e. Annual reports) of concerned banks were collected. Similarly, financial statement of selected commercial banks and various markets related information were collected and tabulated in spreadsheet. Such secondary information was gathered from the administration department of the concerned banks.

3.3 Population and Sample of survey design

A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The method of selecting for study a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made. (Sharma and Chaudhary (2058), “Statistical Methods”, pp 171-173)

Here only 2 sample commercial banks are taken out of 32 commercial banks. For selecting the samples, non-random sampling method is used here among different methods. The samples are taken only from commercial banks. Organization under study is as follows

1. NABIL Bank Limited

2. Everest Bank Limited

The general introduction and major objectives of the sample organization are presented in chapter one. Likewise, financial statements of five years (beginning from 2006/07 to 2010/11) are selected as samples for the purpose of it.

3.4 Tools and techniques employed

To meet the objectives of the study, the sources of secondary data of commercial bank are analyzed by using financial tools such as Ratio analysis.

The ratio analysis involves comparison for a useful interpretation of financial statements. The quantities judgment regarding credit Management of a firm can be done with the help of ratio analysis. The following ratios are calculated for the study purpose:

3.4.1 Credit practices Ratios

- **Total Loan to Total Deposit ratio**

  Total loan to total deposit ratio is a commonly used statistic for assessing a bank's liquidity by dividing the banks total loans by its total deposits. If the ratio is too high, it means that the banks might not have enough liquidity to cover any unforeseen fund requirements. Similarly, if the ratio is too low, banks may not be earning as much as they could be. This ratio is calculated as:

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

- **Loan and advances to total assets ratio**

  Loans & advance is the major part of total assets for the bank. This ratio indicates the volume of loans & advance out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity. The ratio is calculated as:

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

- **Loan and advances to current assets ratio**

Loans & advances is the major component in total assets, which indicates the ability of banks to canalize its deposit in the form of loan & advances to earn high return. If sufficient loan and advances cannot be granted, it should be pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan & advances in appropriate level to find out portion of current assets, which is granted as loan & advances. The ratio is calculated as:

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

- **Interest income to loan and advances Ratio**

  Interest income to loan & advances is one of the major sources of income for a commercial Bank. The high volume of interest income is indicator of good performance of lending activities. It is calculated as:

  $$\text{Interest income to loan and advances Ratio} = \frac{\text{Total Interest Income}}{\text{Total Loan \& Advances}}$$

- **Loan loss provision to total loan and advances ratio**

It describes the quality of assets that a bank is holding. NRB has directed the commercial banks to classify its loan & advances into the category of pass, sub standard, doubtful and loss and to wake the provision of 1, 25, 50 and 100 percent respectively. NRB has classified the pass loan as performing loans and other three types of loan as non-performing loans. The provision created against the pass loan is called the general loan loss provision and provision created against sub standard, doubtful and loss loan is called specific loan loss provision. The amount of loan loss provision in B/S refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits.

The low ratio indicates the good quality of assets in total volume of loan & advances. High ratio indicates move risky assets in total volume of loan & advances. This ratio is calculated as:

$$\text{LLP to Total Loan \& advances ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Loan \& Advances}}$$

- **Non-performing loan to total loan and advances ratio**

NRB has directed all the commercial banks to create loan loss provision against sub standard, doubtful and bad debts. To measure the volume of non-performing loan to total loan & advances the main indicator of NABIL and EBL has been used. This ratio shows the percentage of non-recovery loans in total loans & advances. The ratio is calculated as:

$$\text{NPA to total loan and advances ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loan \& Advances}}$$

3.4.2 Credit Efficiency Ratios

- **Interest expenses to total deposit ratio**

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

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

- **Interest expenses to total expenses ratio**

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly sources of funds. It is calculated as:

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

- **Non-interest bearing deposit to total deposit ratio**

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits were managed affectively in the total volume of expenses. The banks need to manage the portfolio of the deposits i.e. it has to maintain certain proportion between interest bearing deposits and non-interest bearing deposits by administering the interest rate structure. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix of deposit liability. The ratio is calculated as:

Non Int bearing Deposit to Total Deposit Ratio= $\frac{\text{Non Int bearing deposit}}{\text{Total Deposit}}$

- **Interest income to total income ratio**

Income is one of the most important factors of each & every organization. Interest income occupies a greater portion of the total income in a banking business. This ratio measures the volume of interest income in total income. It helps to measure the bank's performance on other fee based activities too. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending & investment and high contribution by other fee based activities in total income. It is calculated as:

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

- **Interest from loan, advances and overdraft to total interest income ratio**

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence his ratio measures how efficiently the banks have employed their fund and loan and advances & overdraft. The ratio is calculated as:

$$\text{Interest from LA \& OD to total interest income ratio} = \frac{\text{Interest from LA \&OD}}{\text{Total Interest Income}}$$

- **Interest suspense to total interest income from loan and advances ratio**

Interest suspense means the interest due but not collected. NRB directives do not allow the commercial banks to book due but unpaid interest into income. The increase in the interest suspense decreases the profit of the company. Such interest is shown in liability side of Balance sheet under the heading "other liability". This ratio, interest suspense to total interest income from loans & advances, measures the composition of due but uncollected interest in the total interest income from loans & advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loans & advances. The ratio is calculated as:

$$\text{Interest suspense to total interest from LA ratio} = \frac{\text{Interest suspense}}{\text{Total Interest from LA}}$$

3.4.3 Statistical Tools

A) Arithmetic Mean or Average ($\bar{X}$)

An average is a single value that represents a group of values. It depicts the characteristic of the whole group. It is a representative of the entire mass of homogeneous data, its value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is obtained by dividing the sum of the quantities by the number of items. Thus,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$ = sum of the sizes of the items

N= number of items

B) Standard Deviation (S.D.)

Standard deviation is the positive square root of the arithmetic average of the squares of all the deviations measured from the arithmetic average of the series. It is independent of the position of the origin. Generally, it is denoted by small Greek letter σ (read as sigma) and is obtained as follows.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

N = Number of items in the series.

$\bar{X}$ = mean

X = Variable

C) Coefficient of Variation (c.v.)

The series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. It is denoted by C.V. and is obtained by dividing the arithmetic mean to standard deviation. Thus,

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma \times 100}{\bar{X}}$$

Where,

σ = Standard Deviation

$\bar{X}$ = Mean

D) Coefficient of Correlation

The coefficient of correlation is a number, which indicates to what extent two things (variables) are related to what extent variations in one go with the variations in the other.

The value of coefficient of correlation as obtained shall always lie between ± 1, a value of –1 indicating a perfect negative relationship between the variables, of +1 a perfect positive relationship, and of no relationship when correlation coefficient is zero. The zero correlation coefficient means the variables are uncorrected.

It is defined by Karl Pearson as:

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

E) Coefficient of Determination

Coefficient of determination measures only the strength of a linear relationship between two variables. It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable. The R^2 is defined as the ratio of explained variance to the total variance. Thus,

$$\text{Coefficient of Determination } (R^2) = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

F) Regression Analysis

Regression is a statistical method for investing relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of relationship between two (Simple Regression) or more (Multiple regression) variables. It helps to predict or estimate the value of one variable when the value of other variable/variables is known. The regression line of dependent variable (Y) on independent variable (X) is given by;

$Y = a + bX$………………………..(i)

Where, a = constant

b = regression coefficient

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable form by using various tables, figures and sources.

Credit management is one of the most important factors that have been developed to facilitate effective performance of bank management. Credit management is the formal expression of the commercial banks' goals and objectives stated in financial term for specific future period of time. Credit is the very basic indicator for determining profit.

The main purpose of the objective is to assess the comparative credit management in selected commercial banks. Present chapter will discuss the various aspects of credit management and their actual accomplishment. Actually, credit management is a fundamental managerial tool, which is applied in commercial banks. For this respect, it will analyze the data by using various financial and statistical tools to meet the stated objectives of the study. It also compares the data between selected banks. Besides, it also presents the various funding generated from data analysis.

4.1 Comparative financial condition of selected Nepalese Commercial Banks

Financial analysis assists in identifying the major strengths and weaknesses of a firm. It indicates whether a company has enough cash to meet its obligations and ability to utilize properly their available resources. Financial analysis can also be used to assess the company's liability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risks return. Thus, comparative financial condition of the banks in terms of credit practices is necessary to find out the comparative credit practices in those banks.

For research purpose, financial conditions of both the banks in terms of credit practices, credit efficiency has analyzed the comparative credit position in selected commercial banks NABIL Bank and Everest Bank

Comparative credit practices show the comparative lending policies and practices adopted by the selected commercial banks during the study period. It measures the ability of the organization in terms of credit practices by using historical data.

i) Total Loans to deposit ratio

The main source of bank's lending depends on its deposit. This ratio is calculated to find out how successfully the banks are utilizing their deposits on loan and advances for profit generating activities greater ratio indicates the better utilization of total deposits. The ratios are presented in the following table.

Table 4.1

Total Loans to deposit ratio

Fiscal Year (FY)	Bank	
	NABIL	EBL
2006-07	0.6813	0.7744
2007-08	0.6818	0.7856
2008-09	0.7387	0.7343
2009-10	0.7117	0.7624
2010-11	0.7829	0.7698
Mean	0.7193	0.7653
SD	0.0428	0.0193
CV (%)	5.95	2.52

Table 4.1 shows that the ratio of credit deposit ratio in NABIL was 0.6813, 0.6818, 0.7387, 0.7117 & 0.7829 respectively. Whereas the ratio of EBL was 0.7744, 0.7856, 0.7343, 0.7624 & 0.7698 respectively. In overall comparison, NABIL has the highest ratio in F/Y 2010/11 i.e. 0.7829 and has observed the lowest ratio in F/Y 2006/07 with 0.6813.And also the coefficient of variation of

NABIL and Everest Bank is 5.95% and 2.52% respectively, indicating stable policy in granting credits from total deposit collection.

From mean point of view, EBL has maintained higher loan & advances to total deposit ratio than NABIL. In this way, it shows that EBL seems to be strong to mobilize its total deposit as loan & advances. It can be concluded that NABIL has lower position to mobilize its deposits as compare to EBL. However higher ratio does not mean it is always better from the point of liquidity. From the analysis EBL seems to be the best performer in utilizing its collected resources in the form of deposits much efficiently, which may definitely increase in income and profit for EBL.

ii) Interest income to loans & advances Ratio

Interest income to loan & advances is one of the major sources of income for a commercial Bank. The high volume of interest income is indicator of good performance of lending activities.

Table 4.2

Interest income to loan & advances Ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.0814	0.0687
2007-08	0.0804	0.0706
2008-09	0.0882	0.0757
2009-10	0.1041	0.0995
2010-11	0.125	0.1222
Mean	0.0958	0.0873
SD	0.0189	0.0231
CV (%)	19.69	26.40

Table 4.2 shows that the ratio of interest income to loan and advances ratio in NABIL was 0.0814, 0.0804, 0.0882, 0.1041 & 0.1250 respectively. Likewise, the ratio of EBL was 0.0687, 0.0706, 0.0757, 0.0995 & 0.1222 respectively. But in overall comparison, NABIL has both the highest ratio in F/Y 2010/11 i.e.

0.1250 and EBL has the lowest ratio in F/Y 2006/07 i.e. 0.0687.The coefficient of variation of such ratio is 19.69% of NABIL Bank and 26.40% of EBL.

Calculated mean value of NABIL is highest with 0.09582 as compared to EBL, which is 0.08734 respectively. From this point of view NABIL has the best performance in earning interest income.

iii) Non-performing loans to total loan and advances ratio

NRB has directed all the commercial banks create loan loss provision against the doubtful and bad debts. But our concerned banks have not provided data on non-performing loan in Balance sheet and profit & loss A/C. To measure the volume of non-performing loan to total loan & advances the main indicator of NABIL and EBL has been used. This ratio shows the percentage of non-recovery loans in total loans & advances

Table 4.3

Non-performing loan to total loan and advances Ratio

Fiscal Year (FY)	Bank	
	NABIL	EBL
2006-07	1.12	0.8
2007-08	0.74	0.68
2008-09	0.8	0.48
2009-10	1.48	0.44
2010-11	1.77	0.34
Mean	1.182	0.548
SD	0.4415	0.1874
CV (%)	37.35	34.20

Table 4.3 shows that from the NABIL point of view, the ratio in five yrs is 1.1200, 0.74, 0.8, 1.48 & 1.77 respectively. Likewise the ratio of EBL was 0.800, 0.68, 0.48, 0.44 & 0.34 respectively. In overall comparison, EBL has the lowest non-performing loan to total loan and advances (i.e. 0.34 in FY 2010-11) and NABIL has the highest ratio (i.e.1.77 in FY 2010-11)

From the mean point of view, it can be said that EBL has the lowest ratio than NABIL and the variation in ratio is 37.35% in NABIL and 34.20% in Everest Bank. Banking sector is seriously affected by the non-performing loan. Both banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease.

iv) Loans and advances to total assets ratio

Loans & advance is the major part of total assets for the bank. This ratio indicates the volume of loans & advance out of the total Assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

Table 4.4

Loans & advances to total assets ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.5704	0.6375
2007-08	0.5754	0.6755
2008-09	0.6289	0.647
2009-10	0.6196	0.6659
2010-11	0.6546	0.6717
Mean	0.6098	0.6595
SD	0.0361	0.0165
CV (%)	5.92	2.50

Table 4.4 shows that the ratio of loans & advance to total assets in five yrs for NABIL was 0.5704, 0.5754, 0.6289, 0.6196 & 0.6546 respectively. Similarly, the ratio of EBL was 0.6375, 0.6755, 0.6470, 0.6659 & 0.6717 respectively.

From the mean point of view, it can be said that the mean ratio of EBL is higher than NABIL Bank. Standard deviation and coefficient of variation in ratios of

NABIL Bank is 3.61% and 5.92% respectively and similarly, standard deviation and variation in the ratio of Everest Bank is 1.65% and 2.50% respectively. It can be concluded that the higher mean ratio indicates the good lending performance. So EBL Bank has good lending performance than NABIL Bank.

v) Loan and advances to current assets ratio

Loans & advances is the major component in total assets, which indicates the ability of banks to canalize its deposit in the form of loan & advances to earn high return. If sufficient loan and advances cannot be granted, it should pay interest on those utilized deposit funds and may lose earnings. So commercial banks provide loan & advances in appropriate level to find out portion of current assets, which is granted as loan & advances.

Table 4.5

Loan and advances to current assets ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.5704	0.6426
2007-08	0.5848	0.6846
2008-09	0.6386	0.6546
2009-10	0.629	0.6734
2010-11	0.6654	0.6785
Mean	0.6176	0.6667
SD	0.0392	0.0175
CV (%)	6.35	2.63

Table 4.5 shows that, from the NABIL point of view, the ratio for five yrs was 0.5704, 0.5848, 0.6386, 0.6290 & 0.6654 respectively. Similarly, the ratio of EBL was 0.6426, 0.6846, 0.6546, 0.6734 & 0.6785 respectively. In overall comparison EBL has the highest loan and advances to current assets ratio (i.e. 0.6846) in F/Y 2007/08 and NABIL has the lowest ratio (i.e. 0.5704) in F/Y 2006/07.Thne standard deviation and coefficient of variation in the ratios of

NABIL and Everest Bank is 3.92%, 6.35% and 1.75%, 2.63% respectively, indicating consistency in the ratios.

From the mean point of view, EBL has the higher mean ratio in comparison with NABIL. It indicates that EBL has relatively better short term lending practices than NABIL.

vi) Loan loss provision to total loan and advances ratio

The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases in profit result to decrease in dividends. But its positive impact is that strengthens the financial conditions of banks by controlling the credit risk and reduced the risks related to deposits.

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

Table 4.6

Loan loss provision to total loan & advances ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.0009	0.0066
2007-08	0.0019	0.0054
2008-09	0.0017	0.0039
2009-10	0.011	0.0028
2010-11	0.0029	0.0032
Mean	0.0037	0.0044
SD	0.0042	0.0016
CV (%)	1.14	0.36

Table 4.6 shows that from the NABIL point of view, the ratio of loan loss provision to total loans & advances in five yrs is 0.0009, 0.002, 0.002, 0.011 &0.003 respectively, whereas the ratio of EBL was 0.0066, 0.005, 0.004, 0.003 & 0.003 respectively. In addition to this the coefficient of variation in the ratio of NABIL and Everest Bank has been observed to be 1.14% and 0.36%

respectively. From the mean point of view, it can be said that EBL has high loan loss provision in comparison with NABIL. From the above calculation, it can be said that the increase ratio indicates the increased volume of non-performing loans. The increasing loan loss ratio indicates the poor and ineffective credit policy and poor performance of the economy.

4.1.2 Comparative credit efficiency in NABIL Bank and Everest Bank

It measures the effectiveness or activity of the company through establishing the relationship between the various assets and credit of that respective organization.

i) Total assets to liability ratio

Banks create credit through loans and advances and multiply their Assets much more times than their liability permits. This ratio measures the ability of a bank to multiply its liability into Assets. The higher ratio of total Assets to total liability ratio is favorable as it increases overall capacity of the organization. The following table shows the ratio of Total assets to total liability of selected commercial banks during study period.

Table 4.7

Total Asset to Liability ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	1.0816	1.0594
2007-08	1.0702	1.0762
2008-09	1.0768	1.0635
2009-10	1.0795	1.0714
2010-11	1.0854	1.0722
Mean	1.0787	1.0685
SD	0.0057	0.0069
CV (%)	0.53	0.64

Table 4.7 shows NABIL Bank has the higher mean ratio than EBL.NABIL Bank has been able to utilize the fund more efficiently and effectively to the extend in

comparison with EBL. In addition to this the variation in ratio of NABIL and Everest Bank is 0.53% and 0.64% respectively.

ii) Interest expenses to total deposit Ratio

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

Table 4.8

Interest expenses to total deposit ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.0112	0.027
2007-08	0.0291	0.046
2008-09	0.008	0.0298
2009-10	0.0148	0.0418
2010-11	0.0177	0.0605
Mean	0.0162	0.041
SD	0.0081	0.0135
CV (%)	50.16	32.87

Table 4.8 shows that the cost of the deposit of both NABIL and EBL was found in increasing trend. NABIL has highest ratio in F/Y 2010/11 i.e. 0.0177 and lowest ratio in F/Y 2008/09 i.e. 0.008. Similarly, EBL also has the highest ratio in F/Y 2010/11 i.e. 0.0605 and lowest ratio in F/Y 2006/07 i.e. 0.027. The ratios are found in increasing trend. The standard deviation and coefficient of variation of the ratios of NABIL Bank has been observed to be 0.81% and 50.16% respectively. Similarly, the standard deviation and coefficient of variation of Everest Bank was found to be 1.35% and 32.87% respectively.

From mean point of view, it can be said that NABIL Bank has low interest expenses to total deposit ratio than EBL. Thus, it can be said that NABIL is successful to collect cheaper deposit than EBL.

iii) Interest Expenses to total expenses ratio

This ratio measures the percentage of interest paid against total expenses. The high ratio indicates the low operational expenses and vice versa. The ratio indicates the costly sources of funds.

Table 4.9

Interest expenses to total expenses ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.5647	0.6623
2007-08	0.6106	0.6176
2008-09	0.6559	0.679
2009-10	0.7363	0.731
2010-11	0.7742	0.7895
Mean	0.6683	0.6959
SD	0.0867	0.0662
CV (%)	12.97	9.51

A table 4.9 show that the interest expenses to total expenses of both the banks are in increasing trend and this shows that both the banks interest cost has increased. But in overall comparison NABIL Bank has lower ratio than EBL. The variation in the ratios of both the banks i.e. NABIL and Everest was found to be 12.97% and 9.51% respectively.

From mean point of view, it can be said that NABIL Bank has low interest expenses to total expenses ratio than EBL.

iv) Non-interest bearing deposits to total deposit ratio

This ratio measures the volume of non-interest bearing deposits to total deposit. The volume of interest expenses in total expenses represents a large portion of the total expenses. How efficiently the deposits were managed affectively in the total volume of expenses. The higher ratio is favorable but in practices, interest bearing deposits always plays a significant role in the mix of deposit liability.

Table 4.10

Non-interest bearing deposits to total deposit Ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.161	0.1076
2007-08	0.1795	0.1195
2008-09	0.1601	0.1559
2009-10	0.186	0.1278
2010-11	0.1302	0.1332
Mean	0.1633	0.1288
SD	0.0218	0.018
CV (%)	13.32	13.96

Table 4.10 shows that non-interest bearing deposits to total deposit of both the banks are in fluctuating trend. NABIL has highest ratio in F/Y 2000/10 i.e. 0.1860 and lowest ratio in F/Y 2010/11 i.e. 0.1302, whereas EBL has highest ratio in F/Y 2008/09 i.e. 0.1559 and lowest ratio in F/Y 2006/07 i.e. 0.1076. In addition to this the coefficient of variation of NABIL Bank was found to be 13.32% and that of Everest Bank was 13.96%.

From the mean point of view, it can be said that NABIL Bank has highest mean ratio than EBL. In this way, the deposit mixture of NABIL Bank carries the highest level of interest bearing deposits in its deposit mixture. This indicates that NABIL Bank is the most successful in collecting cheapest fund. The major portion of non-interest bearing deposit consists of current deposits and this deposit is particularly maintained by business enterprises.

v) Interest income to total income ratio

This ratio measures the volume of interest income in total income. The high ratio indicates the high contribution made by lending and investment whereas low ratio indicates low contribution made by lending & investment and high contribution by other fee based activities in total income.

Table 4.11

Interest income to total income ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.7799	0.8424
2007-08	0.8147	0.8405
2008-09	0.8294	0.8549
2009-10	0.8569	0.8862
2010-11	0.8751	0.9159
Mean	0.8312	0.868
SD	0.0371	0.0324
CV (%)	4.46	3.74

Table 4.11 shows that from the NABIL Banks point of view, the ratio of Interest Income to Total income in five yrs were 0.7799, 0.8147, 0.8294, 0.8569 & 0.8751 respectively whereas the highest ratio in F/Y 2010/11 i.e. 0.8751 and the lowest ratio in F/Y 2006/07 i.e. 0.7799. Likewise, the ratios of EBL in five years were 0.8424, 0.8405, 0.8549, 0.8862 and 0.9159 respectively with the highest ratio in F/Y 2010/11 i.e 0.9159 and lowest ratio in F/Y 2007/08 i.e 0.8405.The standard deviation and coefficient of variation of NABIL Bank was observed to be 3.71% and 4.46% respectively. Similarly, standard deviation and variation in the ratios of Everest Bank was 3.24% and 3.74 % respectively.

From mean point of view, it can be said that EBL has high interest income to total income ratio than NABIL Bank. This shows that in total income of NABIL Bank and EBL, interest income contributes 83.12% and 86.80% respectively.

vi) Interest from loan, advances and overdraft to total interest income ratio

This ratio measures the contribution made by interest from loan, advances and overdraft. Loan and advances generate the major portion of interest income. Hence his ratio measures how efficiently the banks have employed their fund and loan and advances & overdraft.

Table 4.12

Interest from loan and advances & overdraft to total interest income

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.7352	0.8451
2007-08	0.7562	0.8586
2008-09	0.7799	0.847
2009-10	0.8318	0.9029
2010-11	0.8525	0.8935
Mean	0.7911	0.8694
SD	0.0498	0.027
CV (%)	6.29	3.11

Table 4.12 shows that from the NABIL Banks point of view, the ratio in five years were 0.7352, 0.7562, 0.7799, 0.8318 & 0.8525 respectively, with the highest ratio in F/Y 2010/11 i.e. 0.8525 and the lowest ratio in F/Y 2006/07 i.e. 0.7352. Similarly, the ratios of EBL were 0.8451, 0.8586, 0.8470, 0.9029 & 0.8935 respectively with the highest ratio in F/Y 2009/10 i.e. 0.9020 and lowest in 2006/07 i.e. 0.8451.The coefficient of variation of NABIL and Everest bank was observed to be 6.29% and 3.11% respectively.

From the mean point of view EBL has highest ratio in comparison with NABIL Bank. It shows that EBL is strong to mobilize the loan and advances & overdraft to earn interest than NABIL Bank. Also EBL is able to earn high interest on its total interest income in comparison to NABIL Bank.

vii) Interest suspense to interest income from loans & advances ratio

Interest suspense means the interest due but not collected. This ratio measures the composition of due but uncollected interest in the total interest income from loans & advances. The high degree of this ratio indicates the low interest turnover and low degree of this ratio indicates high interest turnover. This ratio also helps to analyze the capacity of the bank in collecting the repayments of the loans & advances.

Table 4.13

Interest suspense to interest income from loans & advances ratio

Fiscal Year (FY)	Bank	
	NABIL	**EBL**
2006-07	0.0707	0.0862
2007-08	0.0647	0.0694
2008-09	0.0542	0.045
2009-10	0.0656	0.0245
2010-11	0.0608	0.0143
Mean	0.0632	0.0479
SD	0.0062	0.0301
CV (%)	9.74	62.81

Table 4.13 shows that, from the NABIL Banks point of view, the ratio in five years were 0.0707, 0.0674, 0.0542, 0.0656 & 0.0608 respectively with the highest ratio in F/Y 2006/07 i.e. 0.0707 and the lowest ratio in F/Y 2008/09 i.e.0.0542, whereas the ratio of EBL were 0.0862, 0.0694, 0.0450, 0.0245 & 0.0143 respectively. The highest ratio was in F/Y 2006/07 i.e. 0.0862 and lowest ratio in F/Y 2010/11 i.e. 0.0143.In addition to this the coefficient of

variation in the ratios of NABIL and Everest Bank was found to be 9.74% and 62.81 % respectively.

From the mean point of view, NABIL Bank has the highest ratio in comparison with EBL. If there is increasing trend of this ratio the volume of non-performing loans will increase resulting bad interest turnover, which will ultimately lead to failure of the banks. From the above analysis, EBL has the best performance than NABIL Bank.

4.2 Relationship of loans and net profit

Effective loans directly affect net profit volume of the organization. It is regarded as the most important profit indicator. It helps to increase the net profit volume of the company whereas weak level of loans is the signal of lower level of profit. Thus, it is logical to review the relation of loans and net profit.

To examine the relationship between net profit and loan and advances, the simple correlation coefficient and the regression line of net profit on total loan and advances have been analyzed. Let net profit (NP) be the dependent variable (Y) on total loan and advances (LA), independent variable (X). Then, the simple corrrelation coefficient and regression line calculated have been presented in the table below.

i) Correlation and Regression Analysis between Net Profit and Total Loan & Advances

Table 4.14

Correlation between Net Profit and Total Loan and Advances

Bank	R	r^2	Remarks
NABIL	0.9772	0.9548	Significant
EBL	0.9871	0.9744	Significant

Table 4.15

Regression Line of Net Profit on Total Credit & Advances

Bank	a	b	Regression Equation
NABIL	244.14	0.03	NP = 244.14 + 0.03 LA
EBL	-140.23	0.03	NP = -140.23+0.04 LA

Table 4.14 indicates that the relationship between net profit and total loans and advances in both the banks is perfectly positive, since the correlation coefficient between two variables is 0.9772 in NABIL bank and 0.9871 in EBL. Also the coefficient of determination (r^2) indicates 95.48% variation in net profit of NABIL and 97.44% variation in net profit of EBL is explained by change in loan and advances of respective banks.

Table 4.15 shows that the regression line of net profit on loan and advances has indicated that with per rupee increment in loan and advances, the net profit of NABIL increases by Rs. 0.03, if the variant 244.14 remains constant and net profit of EBL increases by Rs. 0.03, if the variant – 140.23 remains constant.

4.3 Relationship of Net Profit, Total Deposit and Total Loan and Advances

To examine the joint effect of total deposit and total loan and advances on the net profit of each sampled banks, the multiple correlation coefficient and the multiple regression line of net profit (NP) on total deposit (TD) and total loan and advances (LA) has been calculated.

Table 4.16

Correlation between net profit total deposit and total loans and advances

Bank	R	r^2	Remarks
NABIL	0.9898	0.9797	Significant
EBL	0.9874	0.9749	Significant

Table 4.17

Regression Line of net profit, total deposit and total loans and advances

Bank	A	b_1	b_2	Regression Equation
NABIL	320.57	-0.03	0.07	NP = 320.57 - 0.03 TD + 0.07 LA
EBL	-138.9	0.01	0.02	NP = -138.85 + 0.01 TD + 0.02 LA

Table 4.16 has revealed that there exists positive multiple correlation among net profit, total deposit and loan & advances in each sampled banks. The multiple correlation coefficients is 0.9898 in NABIL and 0.9874 in EBL. Also, the coefficient of determination has indicated that 97.97% variation in net profit of NABIL and 97.49% variation in net profit of EBL is explained by change in total deposit and loan and advances.

Table 4.17 has indicated that the multiple regression of net profit on total deposit and loan and advances has indicated that with per rupee increment in total deposit, the net profit decreases by Rs. 0.03 in NABIL and increases by Rs. 0.01 in EBL, if the respective other variable remains uniform. Also, with per rupee increment in loan and advances, the net profit increases by Rs. 0.07 in NABIL and increases by Rs. 0.02 in EBL.

On the basis of multiple correlation and regression analysis, it can be concluded that the joint effect of total deposit and loan & advances in net profit of each bank is statistically significant. Also, the multiple regression line has indicated that total deposit has positive relationship with net profit in EBL, and negative relationship with net profit in NABIL.

4.4 Major findings of the study

The present section deals about some meaningful results on credit management in selected commercial banks resulted from analysis of data. Primary objectives of the study were designed to assess the financial conditions of the selected banks in terms of their creditability. Similarly, it was also specified to explore the position of the banks at their environment. Both secondary as well as primary sources of information were used to meet the stated objectives of the study. Details of the findings are presented as below.

From the stand point of credit practice

- The credit practices of EBL in terms of total loans to deposit ratio was found the highest mean scores than NABIL Bank (i.e.0.7653>0.7193). It indicates that EBL has been strong to mobilize its total deposit as loan. In terms of interest income to loan and advances ratio NABIL has higher mean ratio i.e 0.09582 than EBL which has the mean ratio 0.08734. From this point of view NABIL Bank has the best performance in earning interest income.

- Lending policy of EBL with regard to non-performing loans to total loans & advances was found lowest mean value with 0.548 as compare to NABIL Bank. The result indicates that if non-performing loan increases, the overall banking business will be affected negatively.

- The ratio of loans and advances to total assets was found greater in EBL in comparison with NABIL Bank which shows the good lending performance of EBL, also in terms of loan and advances to current assets ratio EBL has highest mean than that of NABIL, this means that EBL has relatively better practice in short term lending.

- Lending policy of NABIL in terms of loan loss provision to total loans & advances was found relatively better than that of EBL. The mean score of NABIL was found lower than EBL, i.e. 0.0037<0.0044. The result indicates that the low degree of the ratio shows not only the strong and effective credit policy but also healthy performance of the economy.

- The cursory looking for these selected banks in terms of credit practices reveals that EBL has been able to mobile its deposit into loan as compared to NABIL, however NABIL is able to earn more interest income than EBL despite of lower loan and advances.

From the stand point of Credit Efficiency

- Efficiency measurement of selected banks in terms of total assets to liability of NABIL was found better than EBL. The Mean score value for NABIL and EBL were 1.0787 and 1.0685 respectively. The result indicates that NABIL bank was able to utilize its fund most successfully.

- Efficiency measurement reveals that the ratio for NABIL Bank with regard to interest expenses to total deposit was found relatively lower in comparison to EBL (i.e0.01616<0.04102). This implies that NABIL Bank is successful to collect cheaper deposit than EBL

- The ratio of non-interest bearing deposits to total deposits was found highest i.e. 0.1633 in NABIL Bank in compared with EBL. From this analysis NABIL Bank can be viewed as the most successful in collecting cheapest fund in the form of current deposit that creates from the deposit acceptance from business enterprises. However, high current amount deposit may adversely affect the bank at the time of adverse situation.

- The result of interest income to total income ratio for EBL was found higher than NABIL (i.e. 0.8680 > 0.8312). It indicates that the higher ratio of EBL shows its high dependency on fund-based activities. The ratio of interest from loan and advances to total interest income of EBL was also found higher than NABIL Bank (0.8694>0.7911), indicating that EBL is strong to mobilize the loan and advances to earn interest and also make more impact on total income.

- EBL has low degree of ratio of interest suspense to interest income from loans and advances. The low degree of ratio of 0.0479 shows that it has high interest turnover. The decreasing ratio is also the symbol of effectiveness.

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial results towards the NABIL Bank and EBL. The ratio of interest expenses to total deposits, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to be better for NABIL Bank whereas other ratios are more favorable to the EBL. It can be concluded that the efficiency of both NABIL Bank and EBL was found better. Furthermore, which ratio is better to measure credit efficiency depends upon the banks own policies.

From the stand point of Correlation and Regression analysis

- The relationship between net profit and total loans and advances in both the banks is perfectly positive, since the correlation coefficient between two variables is 0.9772 in NABIL bank and 0.9871 in EBL. Also the coefficient of determination (r^2) indicates 95.48% variation in net profit of NABIL and 97.44% variation in net profit of EBL is explained by change in loan and advances of respective banks.

- The regression line of net profit on loan and advances has indicated that with per rupee increment in loan and advances, the net profit of NABIL increases by Rs. 0.03, if the variant 244.14 remains constant and net profit of EBL increases by Rs. 0.03, if the variant – 140.23 remains constant.

- There exists positive multiple correlation among net profit, total deposit and loan & advances in each sampled banks. The multiple correlation coefficients is 0.9898 in NABIL and 0.9874 in EBL. Also, the coefficient of determination has indicated that 97.97% variation in net profit of NABIL and 97.49% variation in net profit of EBL is explained by change in total deposit and loan and advances.

- The multiple regression of net profit on total deposit and loan and advances has indicated that with per rupee increment in total deposit, the net profit decreases by Rs. 0.03 in NABIL and increases by Rs. 0.01 in EBL, if the respective other variable remains uniform. Also, with per rupee increment in loan and advances, the net profit increases by Rs. 0.07 in NABIL and increases by Rs. 0.02 in EBL.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Present study seems very successful to meet the stated objectives designed for study. The study has been designed to overcome the various issues relating to credit management in commercial banks. It was aimed to find out comparative credit management in NABIL Bank Ltd and Everest Bank Ltd. The prime components of credit management is the financial condition in terms of lending practices, and management quality in terms of lending practices, designed for study to meet the objectives. The study successfully explored the financial condition in terms of lending practices of selected banks and management quality to support credit management. It is clear evident that the bank having good financial position or condition has high quality of management.

5.1 Summary

Present study is very successful to meet the stated objectives designed for the study. The researcher highlights or introduces the meaning and importance of research paper and meets the objectives followed by various sequential steps.

First chapter of the study dealt about basic assumption of the study. Basically it highlights the concept and importance or significance of the study. It also presents research issues, research problems, basic objectives of the study, rationality of the study, limitation of the study, process of the study and introduction of the study. Lastly, it discusses about the organizational structure of the study.

Second chapter helped the researcher to provide knowledge about the development and progress made by the earlier researcher on the concerned field or topic of the study. It helped to know the research work undertaken by them. It also tried to know some concept used in this study. Moreover, it summarized the finding of the previous findings of the study to provide knowledge about the background of the work done by them and to step the duplicate of previous work. Lastly, earlier international research related to concept is also attempted to review the finding of the study.

Third chapter of the study discussed about various research methodologies used for the study. Basically, research methodology here signifies the research design, sources of data, population and sample of data, data collection procedure, data collection techniques, data collection methods and tools and techniques employed etc.

Fourth chapter of the study dealt about data presentation and analysis. It first presented the generated data in tabular form and analyzed it in systematically as per the objectives mentioned above. The researcher tried to analyze the comparative financial condition or position of bank in terms of credit practices, comparative industrial environment of bank with respect to credit and comparative management quality in terms of credit. Detail of the findings can be presented as below.

The cursory looking for these selected banks in terms of credit practices reveals that EBL has been able to mobile its deposit into loan as compared to NABIL, however NABIL is able to earn more interest income than EBL despite of lower loan and advances.

The overall evaluation of selected banks on the basis of credit efficiency measurements provides the controversial results towards the NABIL Bank and EBL. The ratio of interest expenses to total deposits, interest expenses to total expenses and non-interest bearing deposits to total deposits seems to be better for NABIL Bank whereas other ratios are more favorable to the EBL. It can be concluded that the efficiency of both NABIL Bank and EBL was found better. Furthermore, which ratio is better to measure credit efficiency depends upon the banks own policies.

The relationship between net profit and total loans and advances in both the banks is perfectly positive, since the correlation coefficient between two variables is 0.9772 in NABIL bank and 0.9871 in EBL. Also the coefficient of determination (r^2) indicates 95.48% variation in net profit of NABIL and 97.44%

variation in net profit of EBL is explained by change in loan and advances of respective banks.

The regression line of net profit on loan and advances has indicated that with per rupee increment in loan and advances, the net profit of NABIL increases by Rs. 0.03, if the variant 244.14 remains constant and net profit of EBL increases by Rs. 0.03, if the variant – 140.23 remains constant.

On the basis of multiple correlation and regression analysis, it has been observed that the joint effect of total deposit and loan & advances in net profit of each bank is statistically significant. Also, the multiple regression line has indicated that total deposit has positive relationship with net profit in EBL, and negative relationship with net profit in NABIL.

Finally, conclusion and summary and various suggestions were described in fifth chapter. It drew the conclusion from the findings of the study and explained the summary of the research paper. Besides, it also provides various suggestions to give further improvement.

5.2 Conclusion

Present study successfully explored the result to meet the stated objectives of the study and found meaningful. The result showed that a credit practice of EBL was found relatively better in comparison to NABIL Bank because the most of the ratio of credit practices scored the better position in EBL whereas, credit efficiency measurement provides controversial result towards the NABIL and EBL, however it was found better in EBL because most of the ratio designed for the study supported the EBL. The statistical analysis aid to conclude that the net profit of all the banks is highly dependent on the credit and advances disbursed. The relationship of net profit to credit and advances of all the banks is perfectly correlated with the credit and advances disbursed and the relationship is statistically significant. Also, the joint effect of total deposit and loan and advances on total credit is effective, and the relationship is statistically significant. Thus, it can be concluded that the net profit increases/decreases with the increase/decrease of both the deposit and loan and advances.

5.3 Recommendations

Present study can be a valuable piece of research works in credit management topic. It explored the existing situation and identified the various components for further improvement in credit management. Both primary as well as secondary source of information were used for fulfilling the objectives. It may be useful for academicians, practitioner, especially to bank management and/or any others who are directly or indirectly involved in banking activities. Based on the findings of the study, the researcher recommended highlighting the guidelines to put forward for further improvement.

1. A credit practice of EBL was found relatively better than NABIL Bank during the study period. It is suggested to NABIL banks management for better improvement. Similarly, interest income from loan and advances was found greater in NABIL Bank .The main source of income is based on loan and advances Thus, proper level of portfolio should be maintained so that profitability position will be maximized.

2. The credit efficiency measurement provides controversial result towards the NABIL and EBL, however it was found better in EBL because most of the ratio designed for the study supported the EBL. The analysis shows that the both bank used its funds in diversified sectors, is successful to collect cheaper deposit as well as successful to manage loan and advance. Thus, it is suggested to maintain proper level of balance for both Banks.

3. Future researchers are recommended to focus into non financial performance indicators such as job satisfaction, service quality performance, customers' satisfaction, stakeholders support, government rating, supervisor's teamwork, human resource development, human resource planning, human resource management, job designation etc.

4. The researcher felt to improve internal system more effectively and introducing of new strategies and major functions for effective existing credit management for all selected banks.

Bibliography

Adhikari, N. (2008). *Credit Management of Siddhartha Vikash Bank Limited* (Unpublished Master Thesis). Faculty of Management, Tribhuvan University, Nepal.

Altman, E.I. & Saunders, A. (1997). *Credit Risk Measurements.* New York: John Wiley & Sons.

Asarnow, E. (1999). *Managing Bank Loan Portfolios for Total Return.* Frankfurt: Honer und Grimm Gmbh & Co.

Bajrachayra, D.B. (2006). *A Study on Credit Management of Agriculture Development Bank Limited.* (Unpublished Master Thesis). Faculty of Management, Tribhuvan University, Nepal.

Belkin, B., Forest, L.R., Aguais, S.D. and Suchower, S. J. (1998). *Credit Risk Premiums in Commercial Lending.* New York: Carrol & Graf Publishers.

Bhandari, D.R. (2003). *Banking and Insurance.* New Delhi: Tata Mc Graw Hill Publishing Company Limited.

Boot, A.W.A. and Milbourn. T.T. (2001). *Credit Ratings as Coordination Mechanisms.* Amsterdam: Bookman International B.V.

Crowther. *An Outline of Money.* Thomas Nelson and Sons Limited.

EBL (F.Y. 2005/06 – F.Y. 2009/10). *Annual Reports.* Kathmandu: Everest Bank Limited.

Gautam, B. and Khanal, D. (2010). *Managing Consumer Credit Risk.* Journal of Economics and Finance. IV (5): 1-19.

Ghimire, B. (2008). *Credit Sector Reform and NRB*. Kathmandu Post.

Gupton, G.M. (2000). *Bank Loan Loss Given Default.* London: Banipal Publishing.

Hawley, D.D., Johnson, J.D. and Raina, D. (1990). *Artificial Neural Systems: A New Tool for Financial Decision-Making.* Athens: Kastaniotis Editions.

Hirtle, B.J., Levonian, M., Saidenberg, M., Walter, S. and Wright, D. (2001) *Using Credit Risk Models for Regulatory Capital: Issues and Options.* New York: Neal-Schuman Publishers Incorporated.

Kealhofer, S. (1993). *Portfolio Management of Default Risk.* San Francisco: KMV Publication.

Khadka, A. (2011), *Credit Practices: A Study on NABIL Bank Ltd, Nepal Investment Bank Ltd, Everest Bank Ltd and NIC Bank Ltd.* (Unpublished Master Thesis). Faculty of Managesnt, Tribhuvan University, Nepal.

Kiesel, R., Perraudin, W. and Taylor, A. (2001). *The Structure of Credit Risk: Spread Volatility and Rating Transitions.* Edinburgh: Harelquin Mills & Boon Ltd.Khatri, S. (2008). *One Umbrella Act's pros and cons*. New Business Age.

Karnikar, S. and Rana, P. (2012). *Managing Credit Risk for Commodity Producers.* Journal of Nepalese Finance. VI (4): 1-34.

Lammichane , N. (2007). *Forty Six Years of NRB.* Journal of NRB.

Maclachlan, I. (1999). *Recent Advances in Credit Risk Management.* Melbourne: Alto Books Pvt. Ltd.

McAllister, P.M. and Mingo, J.J. (1994). *Commercial Loan Risk Management, Credit Scoring, and Pricing.* London: The Brown Reference Group PLC.

NABIL (F.Y. 2006/07 – F.Y. 2010/11). *Annual Reports.* Kathmandu: Nabil Bank Limited.

Neupane, M. (2009). *Credit Policy Analysis of Commercial Bank with Special reference to Everest Bank Limited.* (Unpublished Master Thesis). Faculty of Management, Tribhuvan University, Nepal.

Paudel, S.R (2005). *Credit Policy of Commercial Banks in Nepal* (Unpublished Master Thesis). Faculty of Management, Tribhuvan University, Nepal.

Sejuwal, M.N (2005). *A Comparative Study on Credit Management of Commercial Banks; with Special Reference to NABIL and SCBNL.* (Unpublished Master Thesis). Faculty of Management, Tribhuvan University, Nepal.

Sharma, J.K. and Chaudhary, C.S. (1998). *Statistical Methods*. India: Pearson Education.

Shrestha, A. (2009). *Entrepreneur Friendly Credit Policy.* Business Age

Shrestha, P.R. (2011). *Credit Management: A Survey of Practices.* Financial Review. III .

Shrestha, S. (2010). *Credit Practices: A Study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd.* (Unpublished Master Thesis). Faculty of Management, Tribhuvan University, Nepal.

Silwal, P. and Tiwari, R. (2007). *Managing Credit Risk in Financial Institutions.* Journal of Credit Analysis. VI (3): 43-77.

Unified NRB Directives. (2068/2069). Kathmandu: Nepal Rastra Bank.